

## EU Policy Update (EU2011.02):

### EUs Future Multi-annual Financial Framework (MFF)

Updated: 05 July 2011

#### Summary of main points in proposals

On 29 June the European Commission published its package of legislative proposals for the future **Multi-annual Financial Framework (MFF) for the EU<sup>1</sup>**, for the seven year period **2014-2020**.

The **MFF** fixes the ceilings on **commitments** and **payments** that must be respected in the annual EU budget negotiations during the seven-year period covered. The Commission has proposed an increase on the 2007-2013 budget, up from €976 billion to **€1,025 billion for commitments** (an increase of 4.8%), and up from €925.5 billion to **€972 billion for payments** ceilings (an increase of 5.0%), which is in line with the European Parliament's call for a minimum 5% increase in the budget.

A further **€58bn** of EU spending is identified for the period that falls outside the scope of the **MFF**, the largest element of which is the European Development Fund (aid to the developing world).

The main new elements proposed are:

- **EU Budget based on key principles focusing on:** key policy priorities; EU added value; impacts and results (including conditionality, leveraging investment); delivering mutual benefit

<sup>1</sup> EU Financial Framework 2014-2020 package of proposals

- **Connecting Europe Facility:** to support digital, energy and transport networks. Budget of €40bn plus €10bn ring-fenced from Cohesion Fund. This also includes use of "EU Project Bonds" to realise important projects
- **Two new EU taxes** ("own resources"): EU VAT and EU Financial Transactions Tax
- **Changes to "Correction mechanism":** UK rebate to be replaced by annual "lump sum" of €3.6bn

**Cohesion Policy** is allocated **€336bn**, a marginal decrease on 2007-2013 (€347.1bn) although the Connecting Europe Facility is considered as part of Cohesion Policy, taking the total up to **€376bn**. A new **"Transitions Regions" Objective** is proposed for all regions with GDP between 75%-90% of EU average. Minimum requirements for spending on European Social Fund (ESF), guaranteeing: at least 25% of the Cohesion funding for employability/training measures. Stronger **conditionality** in terms of ensuring the impact of the policy is underlined.

The **CAP budget (€372bn)** is also largely untouched, although CAP share of the overall budget reduces by the 2020 to around 35% whilst Rural Development (Pillar 2) takes an increased share(€90bn). The emphasis is placed on "greening" the CAP, including making 30% of direct support under Pillar 1 conditional on "greening" measures. The Commission also proposes to introduce a more equitable distribution of direct support across Europe and to introduce a cap on payment to larger farm businesses.

A new **Emergency Aid Reserve (€2.5bn)** is proposed for crisis situations (such as food safety) but this falls outside the **MFF**.

There are significant increases in the funding earmarked for a number of budget lines:

- Horizon 2020: **€80bn** earmarked for the new Research and Innovation Framework Programme
- Education, training and youth: **€15.2bn**

- Competitiveness and SMEs Programme: **€2.3bn**

These are of course draft proposals and the final agreed **MFF** may look very different, particularly in terms of the overall total and value of the individual budget lines and various funding programmes.

The negotiations will take place over the next 18-24 months in the Council of Ministers (and ultimately European Council) and European Parliament, with the Commission seeking to broker a deal.

## Background context to proposal

The Commission launched a debate on the future **MFF** in June 2008 with a public consultation, and this was followed in October 2010 with the publication of the **EU Budget Review**<sup>2</sup>, which identified a number of key objectives and principles to guide the preparation of the new **MFF**, to better equip the EU to address the new challenges that it faces.

This debate has taken place against the backdrop of the financial crisis, Eurozone crisis, a food security crisis during 2009 (in particular), growing concerns over energy security, immigration, as well as the focus on climate change and demographic change. The Europe 2020 Strategy (focus on Smart, Sustainable and Innovative Growth) and strengthened “Economic Governance” provide the strategic framework in which the Commission is seeking to “modernise” the budget, to meet the new “challenges” facing Europe.

## Relevance to Wales

The two largest lines of the current EU budget are the Cohesion Policy and the Common Agricultural Policy (CAP), and Wales currently benefits to the tune of

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<sup>2</sup> COM(2010)700. See **EU Budget Review web-site**, which includes a 36-page supporting “technical annex”. See also the Commission’s **Press Release** and **Frequently Asked Questions**

around €4.5 billion from these two budget lines for 2007-2013:

- around €2.1 billion from the EU Cohesion Policy going to Structural Funds programmes in Wales;
- around **€370m per annum** going to farmers as single farm payments under Pillar 1 of CAP, plus an additional **€340m over the seven years** under the Rural Development Programme (Pillar 2 of CAP).

In addition to this organisations in Wales are able to “bid in” to a host of EU funding programmes and initiatives, such as the Framework Research Programme and the Lifelong Learning programmes.

During the Third Assembly the European and External Affairs Committee (EEAC) undertook a long inquiry into the future of EU Cohesion Policy, which included discussions on the future of the EU Budget. In February 2011 they took evidence from EU Budget Commissioner Janusz Lewandowski<sup>3</sup>.

## UK Government position

***The UK Government will publish an Explanatory Memorandum (EM) in July setting out its reaction to the Commission’s proposals. This section will be updated accordingly. However, the new EM is likely to restate the position of the UK Government set out in its response to the EU Budget Review Paper, which is summarised below. References are also made to other relevant UK Government EMs.***

UK Government officials made an immediate response criticising the Commission’s proposals for being “too large” and defending the status quo on the rebate<sup>4</sup>.

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<sup>3</sup> **EUR(3)-02-11 : Transcript of meeting 1 February 2011**

<sup>4</sup> See <http://www.bbc.co.uk/news/uk-politics-14006951>

The UK Government EM<sup>5</sup> on the EU Budget Review identifies two objectives for the negotiations on the future **MFF**:

- “real terms” reduction compared to the 2007-2013 framework
- defending the UK rebate

It also expresses disappointment that the EU Budget Review does not focus more on prioritisation and identifying where savings can be made, calling for a greater proportion of the future budget to be spent on Europe 2020 priorities supporting growth and competitiveness, tackling climate change, and tackling global poverty. The UK Government also “flatly rejects” any notion of new EU taxes to finance the EU budget.

The UK position on the future of CAP differs with the three devolved administrations, who are defending maintaining a strong CAP, in particular Pillar 1, the direct payments to farmers<sup>6</sup>.

On Cohesion Policy the UK Government accepts an EU-wide policy until 2020, including Convergence funding for poorer regions in “rich” Member States (e.g. West Wales and Valleys in UK). However, it favours re-focusing resources on the poorest member states, and also significantly reducing the overall allocation to Cohesion Policy<sup>7</sup>.

## Welsh Government position

The previous Welsh Government submitted a response to the EU Budget Review in April 2008<sup>8</sup>

Given the significant funding that comes to Wales from CAP and Structural Funds this is the core focus of the

<sup>5</sup> EM 15285/10 – received by the Assembly 24 November 2010

<sup>6</sup> See **Devolved Rural Affairs Ministers joint position and UK Government EM on future of CAP**

<sup>7</sup> **UK Government EM on 5<sup>th</sup> Cohesion Report**

<sup>8</sup> See **Welsh Government web-site**

Welsh Government position.

Reference was made to the EU Budget in the Welsh Government response to the consultation on the 5<sup>th</sup> Cohesion Report (February 2011)<sup>9</sup>, which stated that that “Cohesion policy needs to be adequately and appropriately resourced to support the achievement of Europe 2020 objectives”, as well as underlining the Welsh Government support for an EU wide Cohesion policy for all regions, focused on poorest regions (including those in richer Member States), with provision of “fair transitional support to regions moving out of Convergence”.

As noted above the Welsh Government favours continuation of a strong CAP, with direct payments to farmers seen as an essential income stream in preserving farming activity across Wales.<sup>10</sup>

## Progress of dossier in EU Institutions

***This section will be updated as the negotiations take place in Brussels and the official positions of the EU Institutions become clear. For this update (1 July 2011) the various positions of the European Parliament etc. on the EU Budget Review are included.***

### European Parliament:

Initial reaction of Professor Danuta Hübner, Chair of the Regional Development Committee was positive: “This is a very good proposal that takes the European Parliament’s position on board”. The Parliament adopted its position in a resolution on 8 June<sup>11</sup>. This supports a strong EU-wide Cohesion Policy, a strong budget for CAP, refocusing on the Europe 2020 strategy, and an increase of the budget by at least 5%.

<sup>9</sup> See **WEFO web-site**

<sup>10</sup> See also Written Statement (23 June) by the Deputy Minister for Agriculture, Food, Fisheries and European Programmes, Alun Davies, following the Joint Ministerial Committee on the European Union held on 13 June.

<sup>11</sup> **Report by Spanish MEP Salvador Garriga Polledo**

## Council of Ministers:

Initial reaction from German Foreign Affairs Minister Guido Westerwelle, focused on the overall value of the budget, which he described as “clearly above” what Germany considered bearable. The Dutch have been equally critical, whilst France reacted by stating it would fight to defend a strong CAP budget.

The Polish EU Presidency has signalled its concerns to avoid the larger Member States (France and UK in particular) derailing the Commission’s plans by defending status quo with CAP and squeezing Cohesion Policy in order to reduce the overall budget. Poland favours reform of CAP which sees a more equitable allocation of funding across the EU (including in particular central and eastern European farmers), and staunchly defends a strong, EU-wide and well-financed Cohesion Policy, as an essential component in EU solidarity.

## Others:

The Committee of the Regions (CoR) and the Economic and Social Council (ECSC), both reacted positively to the Commission’s proposals:

- [Statement by CoR President](#)
- [Statement by ECSC President](#)

Below is a selection of links to EU press/media:

- [EU Observer](#)
- [Euractiv](#)
- [European Voice](#)

## Further information

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