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PRESIDENCY ISSUES NOTE
Multiannual Financial Framework
2021-2027

INFORMAL ECOFIN
Bucharest, April 5-6, 2019

- Working lunch, April 5 -

Introduction

In December 2018, the European Council called on the Romanian Presidency to continue the work on the Multiannual Financial Framework 2021-2027 (MFF) and to develop an orientation for the next stage of the negotiations, with a view to achieving an agreement in the European Council in autumn 2019.

Although the main discussion on the MFF takes place in another Council formation (the General Affairs Council), Presidency sees the merits of generating a debate on some elements of the MFF package on which the ECOFIN has particular interests and competencies, such as the European Semester process, the Stability and Growth Pact, and the financing of the EU budget.

1. Economic policy coordination and EU funding

The EU budget provides for the means to achieve the EU policy objectives. Its seven-years programming should encompass carefully assessed and coordinated priorities at EU and national level, while taking full stock of the economic cycle conditions.

Of particular interest to the finance ministers is the link between funding and EU semester, as well as SGP. It should also be borne in mind that any link could be sanctions-oriented or incentives-oriented.

The current MFF already contains provisions to ensure that EU funding generally serves the overall objectives of the EU and is not undermined by unsound economic and fiscal policies.

In May 2018, the Commission proposed to strengthen the focus of EU funding on policy reforms agreed upon in the framework of the European Semester process. This should be done by means of old instruments like the enabling conditions (the former ex-ante conditionality) or new ones like the reform support programme.

Investment-related guidance alongside the annual Country-Specific Recommendations, both ahead of the programming process and at mid-term, aim at providing a roadmap for using EU funding in support of priority investment areas. The proposed process should pay due attention to the subsidiarity principle and should match the strategic approach of the European Semester with the multi-level governance (regional) and structural bottom-up pattern of the programming process of EU funding.

The mid-term review mentioned above, which might be relevant for the possible reform support programme as well, hints to the importance of flexibility in the allocation of funds. This might be addressed by means of the (already existing) reprogramming of funds or by building flexibility among the pre-allocated resources in order to better respond to changing priorities.

As regards the link with the SGP, the Commission proposes to continue with the current sanctions-based system (macroeconomic conditionality).

Overall, the proposed horizontal conditionalities in the MFF 2021-2027 must be seen as a package and should be established by the most appropriate mechanisms, in order to ensure effective implementation of EU wide policy objectives, while taking national/regional specificities into account.

Following the general considerations above, Presidency would like to offer a few **questions** to facilitate the discussion:

a) **Is the system of incentives-sanctions proposed by the Commission complete as a range of instruments?**

b) **Does the system strikes the right balance between incentives and sanctions?**

c) **Is the system simple and flexible enough to respond to changing priorities?**

2. New Own Resources

Most of the revenue of the EU is currently provided by the Own Resources. Since 1988, the EU has developed a financing system –mostly based on GNI-based contributions – which provides sufficient and stable revenues. However, the revenue side of the EU budget is unrelated to EU policies.

The proposal for the next MFF includes a modification of the current system of Own Resources. Building on the conclusions of the High Level Group on Own Resources, chaired by Mr. Mario Monti, the Commission has proposed three new Own Resources. The proposed diversification of own resources aims at aligning the EU budget more closely with national economic cycles and EU policy implementation.

These are the main features for each one of them:

1. A **Common Consolidated Corporate Tax Base-based Own Resource (CCCTB)** would be calculated by applying a 3% call rate on the value of the taxable profits of those companies for which the CCCTB is compulsory, as apportioned to each Member State. This own resource would start to be collected in 2023 and it is expected to generate €11 billion per year on average over 2021-2027.
2. An **Own Resource based on the Auctioning revenue from the EU Emissions Trading System (ETS)** would be calculated by applying a 20% rate to the revenue generated by the emission allowances to be auctioned, and by the free allowances for modernisation of the energy sector, under the current EU directives in the field. This own resource it is expected to generate between €1.2 billion and €3 billion per year.
3. A **Plastic-based Own Resource** would be calculated by applying a rate of 0.8 €/ kg to the weight of plastic packaging waste that is not recycled. This own resource is expected to generate an average of €6.6 billion per year.

These proposals have been examined and discussed at different levels in the Council's preparatory bodies also during the previous Presidencies. The introduction of new own resources is among the essential elements to reaching an agreement with the European Parliament on the overall MFF package.

The Presidency considers that an informal discussion at ministerial level on these new options for the financing of the EU budget at this stage, could feed the future. Therefore, the Presidency would like to hear your views on the following **issues**:

a) Do you agree that we need an ambitious diversification of revenue sources?

b) Among the new own resources proposed which ones could you support or be the least problematic for you? What would be the most significant obstacle to introducing a new own resource?

c) **Besides those proposed by the Commission, do you consider any other possible candidate for a new own resource including those which would bring "fresh" money[1]?**

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[1] For instance, based on user-pays principle for services provided by the EU.