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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE EUROPEAN COUNCIL AND THE COUNCIL**

Time to decide on the Union's financial framework for 2021-2027

***The European Commission's contribution to the European Council meeting
on 17-18 October 2019***

TIME TO DECIDE ON THE UNION'S FINANCIAL FRAMEWORK FOR 2021-2027

1. Time to deliver

In June, Leaders confirmed their objective of reaching an agreement on the Union's future financial framework before the end of 2019. Since then, work has progressed under the leadership of Finland's Presidency of the Council. This work has highlighted areas of common ground, as well as areas where compromise will be necessary to finalise a balanced agreement that is fair for all.

An agreement on the future framework by the end of 2019 will provide the Union with a renewed sense of direction and resolve. It will help to avoid delays and blockages at least as severe as those experienced at the beginning of the current period, the effects of which were felt in all Member States in 2014 and 2015. This objective is within reach but will only be possible with strong political leadership and determination to find solutions in the general European interest.

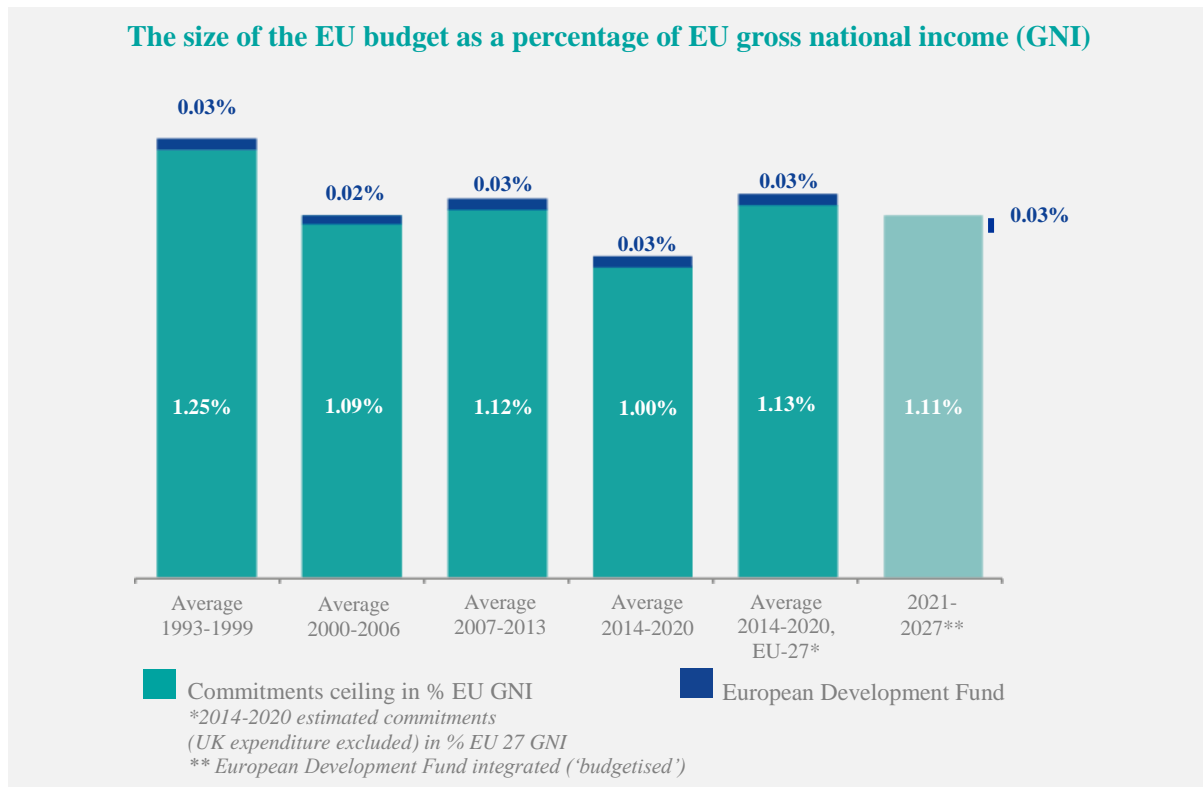
The October European Council will be an opportunity for Leaders to provide orientations on the key parameters of the future framework. These include the overall size of the budget, the balance between policy areas, the future financing of the budget, and the conditions attached to funding. The task for Leaders is to find a fair balance, combining ambition and realism. This should take full account of the position of the European Parliament, which continues to defend an ambitious future budget.

Throughout this final phase, the Commission will continue to make the case for the modern, streamlined and flexible budget that the Union needs. This is a time for the institutions to come together to equip the Union for success over the decade to come. Only 14 months remain before the launch of the new programmes and there is much work to do. It is time to deliver.

2. A budget that is up to the task

The financial framework for 2021-2027 must provide the resources necessary to drive forward the positive agenda agreed in Rome and Sibiu. This is a unique opportunity to translate into action the priorities identified in the Strategic Agenda of the European Council and the political guidelines of the Commission's President-elect Ursula von der Leyen. The overall level of the future framework must match the Union's ambitions, while also fairly reflecting the budgetary consequences of the withdrawal of the United Kingdom.

The Commission proposed a long-term budget equivalent to 1.114% of EU 27 gross national income. Some have argued for the budget to be limited to 1.00%, while others have supported the European Parliament's call for a larger budget of up to 1.3%. It is essential to view these figures in context. Today, the EU long-term budget for 28 Member States is equivalent to 1.03% of EU 28 gross national income, including the European Development Fund. However, removing spending in the United Kingdom brings this to 1.16% of EU 27 gross national income. This is the right point of comparison.



The level proposed by the Commission already represents a reduction compared to the current situation. This is a realistic response to the impact of the departure of a major contributor to the EU budget, but also provides an essential funding boost for new and emerging priorities.

A long-term budget of this size would not result in significant and unsustainable increases in Member States' contributions. The increase in national contributions of about a third by 2027 compared to 2020 levels is mainly a consequence of inflation and real growth, which will lead to similar increases in national budgets over the period. The remainder is partly a consequence of the withdrawal of the United Kingdom from the EU and partly driven by reinforced investment in common priorities such as research, digitalisation, climate, migration, security and defence, as well as the Union's external action.

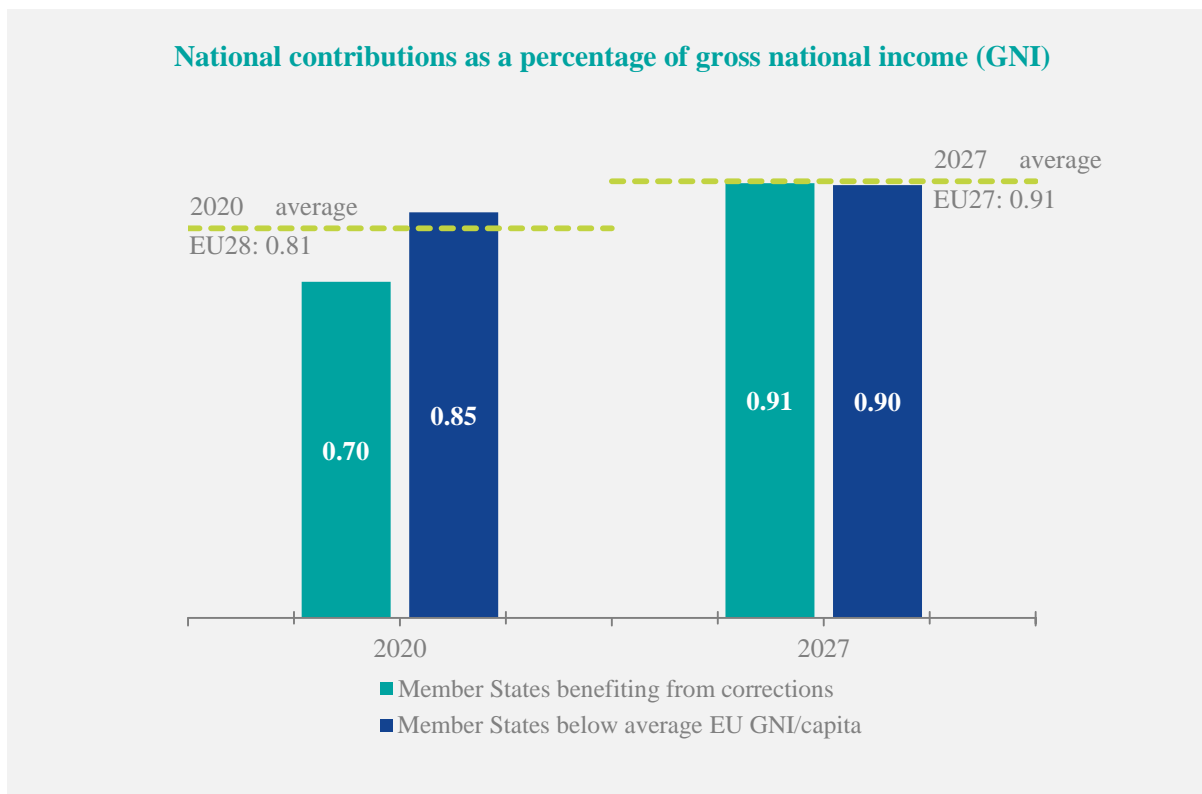
Further significant cuts would prevent the Union from delivering on its priorities and have an immediate impact on the level of EU support in the regions and for Europe's farmers, students, and researchers. It would open up a serious gap in relation to the Strategic Agenda agreed by the European Council in June 2019.

The European Council therefore needs to urgently define a realistic range of outcomes for the overall level of the EU budget. Departing significantly from the balance struck by the Commission proposal would have real consequences. A larger budget would allow the Union to achieve more together but would put additional pressure on national contributions, although reforming the system of financing the EU budget as the Commission has proposed would mitigate this effect. Conversely, a smaller budget would have a damaging impact on the Union's capacity to deliver efficiently on the Strategic Agenda and the Union's priorities. It would undermine the modernisation of our policies and our ability to address urgent new priorities.

3. A fairer approach to financing the EU budget

Successful programmes with strong EU value added benefit all, regardless of where the investment is made. Moreover, the benefits of Union membership extend well beyond budgetary receipts. This is why the narrow focus on 'net balances' is seriously flawed. This is a budget for all Europeans, investing in areas where pooling resources at EU level can deliver what national budgets cannot.

Today, the contribution that each Member State makes to the EU budget does not reflect solidarity or relative prosperity. The addition of rebates and corrections over time has resulted in a system that is opaque and unfair. Member States benefiting from rebates contribute a lower share of their income than the other Member States. The richest Member States pay least as a percentage of their gross national income per capita.



The withdrawal of the United Kingdom and expiry of other corrections will automatically bring an end to the current complex system of rebates and corrections. This is appropriate, not least because the logic that applied at Fontainebleau is no longer relevant today. In 1984, the United Kingdom was a relatively poor Member State and the budget was dominated by agricultural transfers. The situation is very different now: the Member States benefiting from rebates are among the most prosperous in the Union and EU expenditure has significantly evolved and become more diversified. The Commission has therefore proposed that rebates be phased out over a five-year period. **It is time for the European Council to agree on a fairer and more transparent system in which the same rules apply to all.**

The European Council should also provide the necessary impetus to the ongoing work on identifying new sources of financing for the EU budget. Introducing new sources of revenue has a dual benefit. It would help to forge a closer link between the budget and policy priorities, such as climate policy. It would also help to mitigate the increase in national contributions.

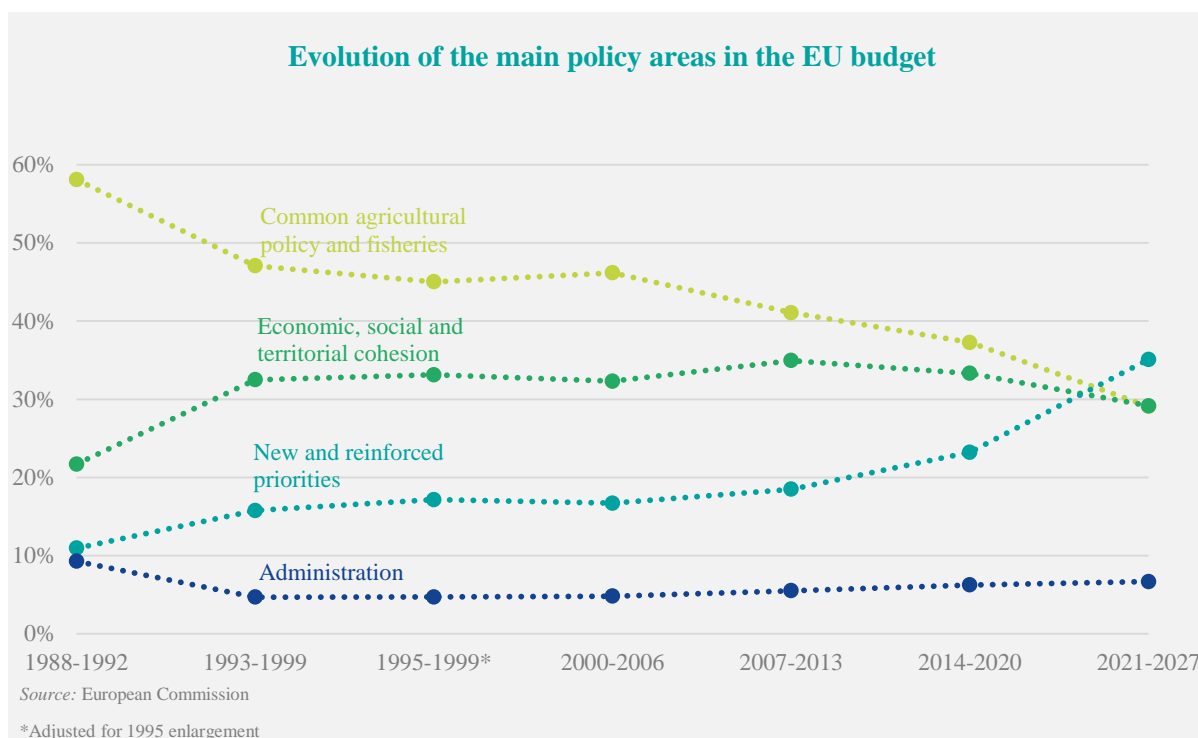
There is now broad support among Member States for a new own resource based on non-recycled plastic packaging waste. Support for a new own resource linked to the EU Emissions Trading System is gaining traction. The President-elect of the European Commission has also announced she would propose legislation to extend this system to the maritime sector and reduce free allowances allocated to the aviation sector over time. Other possible sources of revenue could also be explored.

It is widely recognised among stakeholders that the current situation is no longer sustainable. The European Parliament has made clear that reform of the own resources system and the diversification of revenue sources will be an essential factor in its decision to grant consent on the future financial framework. **Work should be completed swiftly to prepare the ground for the final decisions on new own resources as part of a balanced agreement.**

4. A modern, result-oriented budget for the future

Modernisation must be the hallmark of the future financial framework. This requires revisiting the balance between spending areas and redesigning programmes to maximise their effectiveness and the support they give to policy priorities. The debate on the size of the budget cannot be separated from its design: funding is only useful if it is well-targeted and efficiently implemented.

A modern budget means a new balance between spending policies. **The European Council must therefore ensure that the balance proposed by the Commission is maintained in the final agreement, with new priorities being given a more prominent weight.**



The European Council should also support the modernisation of cohesion policy and the common agricultural policy, which will continue to play a vital role in shaping Europe's future. The Commission has proposed to modernise these essential pillars of the EU budget so that they continue to evolve in line with new priorities – including stronger climate and environmental ambition – and the changing economic and social realities.

The next financial framework must moreover put strong emphasis on policy coherence, on reinforcing the link between funding and policy priorities, and on ensuring that the conditions are in place for programmes to deliver to maximum effect. This must be a modern, result-oriented budget.

The European Council should signal strong support for measures to help the budget deliver more effectively and to reinforce the link between programmes and the Union's policy priorities. Such stronger link should in particular be achieved through:

- **An ambitious approach to climate action:** a target of at least 25% of spending contributing to climate objectives is ambitious and can be credibly delivered through sectoral targets and the mainstreaming of climate action in all relevant financial programmes. In addition, credible climate proofing provisions are important to ensure policy coherence. Concentrating a critical mass of EU support on climate action and introducing a new allocation criterion in cohesion linked to greenhouse gas emissions will also allow the EU budget to contribute more fully to the Union's policy priorities. The 'Just Transition Fund' announced by the Commission's President-elect will further strengthen the focus on achieving a fair and efficient climate transition.

- **A comprehensive budgetary response to the challenges of migration:** this will require significantly increased resources both for internal and external instruments, strong support for Member States and regions facing the greatest challenges and pressure, and enhanced responsiveness so that funds are quickly targeted where and when most needed.
- **Putting the full weight of the EU budget behind essential national reforms and investment priorities** agreed through the European Semester process. Similarly, a strong link between cohesion policy funding and the economic governance of the EU should be maintained to ensure efficient budgetary implementation. New instruments like the budgetary instrument for convergence and competitiveness for the euro area will also catalyse essential structural reforms and investment.
- **Reinforced support for the implementation of the European Pillar of Social Rights** through an expanded European Social Fund Plus focused on investment in people and social cohesion.

In addition, a strengthened toolkit for **the protection of the EU budget in case of generalised deficiencies in the rule of law** is an essential feature of the future financial framework. This is a protective mechanism covering all expenditure areas to ensure that the EU budget is efficiently spent, and not a sanction directed against particular Member States.

5. Conclusion – the path to an agreement

The negotiations on the future financial framework are approaching the moment of truth. Technical work since the Commission presented its proposals in May 2018 has progressed at unprecedented speed and provides a solid platform for the final phase of work. However, time is now extremely tight. Many steps remain to be taken before the new programmes are due to be launched on 1 January 2021. Without a swift agreement in the European Council, delays to essential investments and projects could be even longer than at the beginning of the current period, with a real impact on the beneficiaries of EU funding throughout the Union.

The political objective of an agreement in the European Council by the end of the year is challenging, but achievable. The next step is for the October European Council to provide political guidance on the key issues outlined in this Communication. These issues are tightly interwoven: the key to success will be finding a fair and balanced package that combines:

- an overall level of funding commensurate with the Union's shared priorities;
- a modern budget with the right balance between policies and a strong focus on EU added value;
- a more transparent approach to financing the EU budget and the introduction of new sources of revenue to support priorities and reduce the burden on national contributions; and
- greater policy coherence, by tightening the link between funding and policy priorities and strengthening the toolkit for protecting the budget.

The Commission calls on the European Council to give clear orientations on these points, taking full account of the views expressed by the European Parliament.

In addition, the European Parliament and the Council should continue to take forward work on the sectoral financial programmes as swiftly as possible, building on the considerable progress already made.

The Commission remains fully committed to working closely with the European Parliament, the European Council and the Council to bring these vital negotiations to a timely and successful conclusion.