POSITION PAPER

The Future of EU finances

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Financing a better Europe

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INTRODUCTION

In three years' time, a new Financial Framework will shape the budget of the Union. A debate on the future financing is impossible without taking into account the balance sheet of the Multiannual Financial Framework (MFF) for 2014-2020. The fragile state of the EU's finances today reflects its current political shortfalls. The Union's finances are characterised by several structural failings and weaknesses, such as the €25bn of unpaid bills in 2 014 or the multiplication of external funds, as well as underfunding due to the lack of resources.

WHERE DO WE STAND?

The S&D Group has been raising these issues for years, but the situation has dramatically deteriorated since the onset of the economic and financial crisis in 2009, the year in which a series of challenges, transformations and crises emerged and could not be resolved due to the EU's lack of resources and its dramatic underfunding. In order to tackle this severe underinvestment, Europe had to settle for a guarantee fund and accept that the funding of flagship programmes, including in the area of research and innovation, had to be reduced in order to finance it. The growing socioeconomic cleavage between the EU's political centre and its peripheral regions, the high level of youth unemployment, the refugee and migration challenges, the need for development aid, the fight against terrorism and increased border controls - all these issues were not foreseeable when the current MFF was negotiated in 2013. They all required new funding, budgetary cuts or new financial instruments, and the midterm-revision of the MFF was acutely necessary to cope with these challenges.

Besides the lessons learnt from the stock-taking exercise, the future MFF should build upon an agreed common strategy at the European level in line with the UN sustainable development goals. In this sense, the five scenarios presented in the Commission's White Paper cannot serve as a basis for the preparation of the future MFF. Therefore, the S&D Group will take its proposal for a 6th scenario as a baseline. The Group's priorities, as described in this document, should be reflected in the EU budget. The fight against climate change and its consequences for the energy policy, as well as transformations in numerous sectors, such as digitalisation, the food industry, work patterns, geopolitics and its consequences for the defence policy, a deteriorating socioeconomic situation in the EU's peripheral regions, the budgetary impact of Brexit - all these issues are enormous challenges that cannot be addressed with the current level of EU funding. Thus, the S&D Group is committed to fight for an ambitious EU budget with a higher Multiannual Financial Framework to assert that the current ceiling for expenditure, which is set at 1 % of EU GNI, is far too low and has to be exceeded. Furthermore, a crucial step to reach an ambitious MFF is to increase the amount of real own resources available to the EU. The higher the revenues through real own resources are, the less dependent the EU is on contributions by the Member States such as the GNI own resource.

I. A NEW BUDGET FOR A NEW EUROPE

What we need is a new mechanism for EU financing aligned with the priorities of the citizens in the context of a new, sustainable and inclusive development model.

What if we started to find a solution for the resources?

- **Prioritising own resources as the primary revenue stream instead of the annual contribution by Member States**

The "Founding Fathers" warned us: EU financing must not depend on the Member states, which could lead to budgetary deflation. Thus, the MFF 2014-2020 was reduced in 2013 for the first time compared to the previous one. Until the 1990s, own resources amounted to 70% of the EU's revenue and the Member states' contributions amounted to 30%. Today, the structure of the European budget is reversed: 80% of national contributions versus only 20% of own resources. Since the contributions from the Member states to the revenue are so predominant, the Union's budget is left at the mercy of the Member states and thus weakened. Every year the Member states have to choose during the budgetary discussions to either reduce the Union's budget or to reduce their national budgets. They have a choice between the devil and the deep blue sea. One cannot blame them for too often defending their national budgets. However, one can blame them for wanting to maintain a system where the contribution of the Member states is the primary revenue stream and for refusing to go back to the system prevailing in the 1990s. For all these reasons, we cannot understand that they refuse to return to a system where the own resources are predominant in the EU budget.

An in-depth reform of the EU revenue system, as proposed by the High Level Group on Own resources (HLGOR) in December 2016, is essential in order to make future EU financing more stable, more sustainable and more predictable, while at the same time guaranteeing a higher level of transparency for EU citizens.

- **Incentives instead of sanctions**

Concerning the rest of the national contributions, the EU should encourage and not deter the Member states to invest in the European project. Therefore, contributions to the EU Budget shall be excluded from the deficit calculations under the Stability and Growth Pact (SGP).

- **Abandon the "juste-retour" narrative to achieve a win-win situation**

The national "juste-retour" logic derives from this distribution of revenue to the detriment of own resources. It lead to a system of rebates, which has been introduced in order to calculate the UK's rebate. About fifty rebates have been introduced and negotiated with no transparency. The withdrawal of the UK from the EU should not be used as an excuse to reduce the MFF. On the contrary, the discontinuation of the "British cheque" should be an opportunity to phase out 'the rebates on the rebate'.

The S&D Group has three priorities for the EU budget revenues:

- A reform of the own resources system with the introduction of new genuine own resources and an increase of the own resources share to at least 50% of the EU budget. We need a fully- fledged reform of this system - a simple, fair and transparent reform that respects its guiding principles.
- The abolition of all rebates.
- Contributions to the EU Budget shall be excluded from the deficit calculations under the Stability and Growth Pact (SGP).

An MFF at an adequate level

When it comes to article 311 the Treaty is crystal clear: "The Union shall provide itself with the means necessary to attain its objectives and carry through its policies." The S&D Group will be the guarantor for the application of this article. The S&D Group will defend a sufficiently-funded budget in order to achieve the EU's policy objectives and will report those who make promises but refuse to honour them.

The ceiling to cover annual payment appropriations, which is set at 1 % of EU GNI, is far too low and has to be exceeded, especially to address additional political issues, for instance in the field of the Common Security and Defence Policy. The same applies to the maximum ceilings for every MFF, which have been set by the Member states at 1.23 % for payments and at 1.29 % for commitments.

Respecting the budgetary principles that have been violated far too often

The budgetary principles, in particular sincerity and unity, are essential in order to ensure a comprehensibility, transparency and democratic scrutiny of the EU budget by the citizens.

- **Budgetary sincerity as a core principle**

The last years have demonstrated the unparalleled damage that has been done to the EU budget's sincerity. The payments crisis in 2014 and its €25bn of unpaid bills have created a hidden deficit in the European budget, despite the fact that the Treaties do not allow for it. At the same time, the numerous reallocations show a persistent underfinancing with budgetary cuts, for example the €5bn for Horizon 2020 and the Connecting Europe Facility (CEF) for the creation of the EFSI fund. The EU Commission is constantly forced to rob Peter to pay Paul. These examples demonstrate the lack of sincerity which characterizes the EU budget. Too often, the Member states announce new and legitimate policies in the Council but they are not accompanied by sufficient funding. This leads to a disastrous scissors effect with low resources, high expectations and unpaid bills that undermine the credibility of the whole European Union.

The S&D Group emphasises that any new priority requires additional and equivalent financial means.

- **Budgetary Unity as a key condition for transparency and democracy**

In recent years, the unity of the EU budget has been crumbling. EU citizens are no longer able to understand the budgetary priorities of the EU and the European Parliament to control this budget. Today, we have a plethora of instruments, also called the "budgetary galaxy" and composed of Trust funds, external instruments and Facilities. Even though the option to use such mechanisms should remain available, the S&D Group reiterates strongly its commitment to the unity of the EU budget as a core budgetary principle.[1] Since 2014 the number of financial instruments which are outside of the European budget (Trust funds and facilities) has multiplied and this weakens the "Community"

[1] Article 310 TFEU

method due to the governance of these instruments at the intergovernmental and Commission level. This trend jeopardises the democratic accountability as the Parliament is excluded from the process.

This budgetary galaxy has become opaque for European citizens and the system lacks both democratic oversight and budgetary transparency.

The S&D Group calls for a reintegration of all these “satellites” into the EU budget, wherever possible and for a limited duration. The S&D Group recalls that budgetary unity is the rule and the creation of instruments outside the budget should remain the exception.

Increased efficiency

In times of scarce public resources but growing financial needs, the future financing of the EU must become more efficient. The right tools must be applied at the right place, in order to avoid overlaps and competition between different financing instruments. Hence, financial instruments shall be considered as an alternative and a complementary way of funding and should not be used for projects that can only benefit from grants. Besides overlapping financial instruments, corruption represents a great threat to the most efficient use of EU funds. Therefore, in order to ensure the best use of the EU budget, active monitoring must be maintained on all levels and at all times. In a programme, a switch to a financial instrument (for instance a guarantee fund) is not the appropriate measure in all policy areas and could even be dangerous by benefiting projects that are more financially profitable. This is particularly the case for policies that are not entirely market driven, and for areas where financial instruments will not have the same impacts as grants.

The S&D Group does not favour one budgetary tool over another but endorses the principle of the “right tool at the right place” in order to achieve the pursued aim.

II. A NEW TOOL BOX FOR A NEW MFF

Duration and democracy

The duration of the MFF should be aligned with the political cycle of both the European Parliament and the Commission, in order to make the European elections a forum for discussions on future spending priorities. However, one should bear in mind that certain programmes, especially those under shared management, for instance in the field of cohesion policy and rural development, require long-term predictability. Thus, certain elements of the MFF should be, in our opinion, agreed for 5 years, while others should be agreed for a period of 5+5 years with a compulsory as well as politically and legally binding mid-term revision.

Headings and democracy

The right use of budgetary nomenclature[2] enables the citizens to understand the different elements of a budget, and consequently helps voters to hold governments accountable. It should show the EU's priorities clearly. However, the current nomenclature of the EU budget with six headings, two sub-headings and several special instruments does not enhance comprehensibility. Moreover, it allows for dangerous overlaps, for example between security and migration aspects. Furthermore, headings 1a (Competitiveness for growth and jobs) and heading 1b (Economic, social and territorial cohesion) are sometimes overlapping.

Therefore, there is a need for more clarity. The future budgetary nomenclature should reflect the priorities of our 6th scenario for the EU's future.

Flexibility

Flexibility instruments provided for by the regulation were intensively used during the first half of the MFF 2014-2020. The S&D Group recalls its steadfast position: a long-term plan, such as the MFF, requires sufficient flexibility to cope with new challenges and priorities that arise during its implementation. The current flexibility instruments or the special instruments must be reinforced in the next MFF.

As the purpose of those instruments is to provide additional means to new challenges, the S&D Group supports, together with a large majority, that the payment of those instruments is over and above the MFF payment ceiling. The next MFF will need to state this clearly.

Moreover, the S&D group calls for a reform of the automatic decommitment rule, which means: if the sums committed to a programme have not been claimed by the end of the second year following the programme's adoption, any unpaid money ceases to be available to that programme. The S&D Group considers that a sum committed and thus attributed to the EU budget should stay available in this budget. The S&D Group recalls

[2] i.e. terminology

its support for the decommitments mechanism to supply an EU crisis reserve as proposed by the Commission in its draft proposal for the revision of the MFF 2014-2020.

The Parliament must be fully involved in the decision-making process

The manner in which the procedure leading to the adoption of the MFF regulation for 2014-2020 was conducted is worthy of criticism. Since the adoption of the future MFF requires the Parliament's consent, we reiterate our demand: the Parliament must be fully involved in the relevant negotiations from the outset. The EU institutions should formalise the modalities for the next MFF procedure, taking into account the shortcomings of the previous negotiations and fully safeguard the Parliament's role and prerogatives. The S&D Group demands a fair decision-making process and the Parliament's involvement at each stage with the same level of information as the Council.

The unanimity requirement for the adoption of the MFF regulation in the Council represents a real impediment to the process. The S&D Group calls on the Member states to activate the passerelle option[3] in order to allow for the adoption of the next MFF regulation by qualified majority.

The current MFF regulation stipulates that the Commission should present a proposal for a new Multiannual Financial Framework before 1 January 2018.[4] We need a timely post 2020 MFF agreement, which allows for a swift adoption of all multiannual sectorial financial regulations. The legislative proposals on those programs shall be presented by the Commission at a later stage in order to allow a full concentration on the negotiations of the MFF regulation.

THINK OF THE FUTURE OF THE UNION

Brexit was a powerful warning, a wake-up call to defend the European project. These crises and transformations require a new budgetary chapter for the future of the European Union.

[3] Article 312 (2) TFEU
[4] Recital 14, Regulation of the MFF 2014-2020