2014-20 Multiannual Financial Framework (MFF)

Setting the maximum allocation of resources for each major category ("heading") of EU spending, the MFF gives a budgetary overview of priorities. The political agreement on the next MFF includes provisions to increase the flexibility of the system and to prepare reforms of the own resources system. A review of the MFF by the end of 2016 is also provided for.

Context and legal basis

EU multi-year financial planning was first introduced in 1988 with a view to overcoming crises in the annual budget procedure due to frequent disagreements between Parliament (EP) and Council. The main objective is to ensure the orderly development of expenditure in line with EU priorities and within the limits of the Union's own resources (OR). The current OR Decision sets the OR ceiling at 1.23% of the EU's gross national income (GNI). The MFF is linked to the concept of budgetary discipline: EU acts likely to have significant budgetary implications must comply with the MFF (Article 310(4) TFEU).

For each major category of EU expenditure, the MFF details the maximum annual amount that the EU can commit. Being legal pledges to provide finance once given conditions are met, commitments do not necessarily lead to payments in the same financial year. An annual ceiling for overall payments is also set. The first framework ran for five years (1988-92), while subsequent ones have each covered seven years (1993-99, 2000-06 and 2007-13). Annual budgets must comply with the ceilings set in the relevant MFF. Historically, actual spending has been below the MFF ceilings.

The current MFF is an annex to an Inter-institutional Agreement (IIA) between the EP, the Council and the European Commission (EC). The Lisbon Treaty has formalised the practice of multi-year financial planning, introducing specific requirements regarding the establishment of an MFF (Article 312 TFEU), which is now to be laid down in a Council Regulation for a period of at least five years. A special legislative procedure applies, with the Council acting unanimously after receiving the consent of the EP (absolute majority). However, the European Council may authorise the Council to act by qualified majority. If by the end of an MFF no agreement on a new one is reached, ceilings and other provisions in place for the final year of the expiring MFF will apply automatically until a new MFF regulation is adopted. But the lack of an agreement, says the EC, would hamper the adoption of related EU operational programmes, resulting in legal and financial uncertainty for most of them.

MFF: advantages and difficulties

In its Budget Review of 2010, the EC noted the advantages of MFFs, such as long-term consistency and predictability, budgetary discipline and the smooth functioning of the budgetary cycle. On the other hand, the document notes the difficulty of striking the right balance between flexibility and predictability. Excessive rigidity can hinder the EU's response to new circumstances that may require different needs and priorities.

In addition, according to several analysts, the adoption mechanism now set in the Treaty is likely to lead to continuity and little reform in the structure of EU spending, with the need for unanimity making veto threats credible.

2014-20 MFF: negotiations

In June 2011, the EC put forward its proposal for the 2014-20 MFF, together with the draft of a new IIA on cooperation in budgetary matters. The proposal froze budgetary ceilings at their 2013 level, decreasing the percentage of GNI devoted to the EU budget from the 2007-13 MFF. While remaining a significant share of the budget, expenditure on both cohesion and agriculture would be reduced. Increases were proposed for areas such as research and innovation, external relations and energy, transport and telecoms infrastructure projects.

The February 2013 European Council agreed its position, following negotiations between Member States (MS). It reduced the overall ceilings for 2014-20 to €959.9 billion (i.e. 1% of

Author: Alessandro D'Alfonso
Contact: alessandro.dalfonso@ep.europa.eu

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EU GNI) for commitments and €908.4 billion (i.e. 0.95% of GNI) for payments. Most headings were cut, compared to the EC proposal.

In March 2013, an EP resolution rejected the European Council's conclusions, calling for changes such as more flexibility (e.g. transfers between and within headings, and between financial years) to encourage full use of available funds. In addition, the EP called for a fully fledged revision of MFF spending at a later stage so that the next Parliament and Commission can have their say on the budgets under which they will have to work. The EP insisted on the unity of the EU budget as well as on the need for reform of the OR system. It also stressed the importance of solving the issue of unpaid payment claims from the current budget in order to avoid transferring this burden to the next MFF.

Following intensive negotiations, Parliament and Council reached political agreement in June 2013. The deal includes more flexibility for payments and commitments, including the possibility to bring forward expenditure in areas such as youth employment, research, Erasmus and SMEs. It also requires a review of the MFF by 2016, in which the Commission will propose revision. The Council committed to ensuring that outstanding payments for 2013 will be settled. In July 2013, the EP endorsed the outcome of the negotiations, recalling that its consent vote (together with that for the new IIA) can be granted only if the outstanding 2013 payment claims are fully honoured. It set two other conditions: political agreement on the relevant multiannual programmes, as well as setting up the high-level group on OR.

2014-20 MFF: structure and figures

The updated draft MFF contains five main categories of expenditure, some of which have sub-categories. Relevant headings are:

- *Smart and inclusive growth*. With maximum commitments of €450.7 billion, it represents 47% of the total. Cohesion policies get three quarters of the amount. Areas in the other sub-heading include research & innovation, infrastructure, Erasmus, space and SMEs.
- *Sustainable growth: natural resources*. Total commitments can amount to €373.1 billion (38.9% of the MFF), three quarters of which are devoted to market-related expenditure and direct payments in agriculture. Other policies include rural development as well as environment and climate action.
- *Security and citizenship*. €15.6 billion (1.6%) will be available for programmes in this area (for example, on internal security, asylum and migration, and food safety).
- *Global Europe*. Up to €58.7 billion (6.1%) go to activities in the field of external relations.
- *Administration*. The ceiling for this category of expenditure is set at €61.6 billion (6.4%).

A sixth heading, *compensations*, relates to the latest enlargement, with €27 million for Croatia. The EC website presents a table of key figures, with adjustments to allow comparison with the 2007-13 MFF (see annex).

Special instruments for flexibility

The agreed MFF text contains provisions for a number of "special instruments". These tools, giving the EU flexibility under certain conditions to deal with unforeseen events or finance clearly identified activities on top of the MFF ceilings, include: the Emergency Aid Reserve, the European Union Solidarity Fund, the Flexibility Instrument, the European Globalisation Adjustment Fund and the Contingency Margin. Specific flexibility was introduced to bring forward spending on youth employment and research, and unused margins for commitments will be available for spending on growth and employment in later years.

European Parliament

Before the EC proposal, Parliament presented its view on EU priorities after 2013 in a 2011 resolution. The EP said that the new MFF should support the Europe 2020 objectives of smart, sustainable and inclusive growth, while duly reflecting other Treaty-based policies. In addition, it called for more flexibility. On the duration of the new MFF, the EP deemed a seven-year cycle to be a transitional solution until 2020, recalling its conviction that a five-year MFF aligned with EC and EP terms of office would increase democratic responsibility and accountability. A 2012 resolution reiterated the EP position, with the aim of contributing to a positive outcome of the MFF procedure. This and the March 2013 resolution, served as a basis for EP negotiators. The EP's July 2013 resolution endorsed the agreement, on the conditions noted above, but expressed concern that the overall ceilings set by the

Author: Alessandro D'Alfonso
Contact: alessandro.dalfonso@ep.europa.eu

European Council might not provide the EU with sufficient means to achieve its objectives.

In parallel, new EU operational programmes are being negotiated.

Annex

Commitment appropriations in million euros (2011 prices)	2007-13 MFF	2014-20 MFF EC proposal	2014-20 MFF agreed	2014-20 agreed vs 2007-13 MFF		2014-20 agreed vs EC proposal	
				million euros	%	million euros	%
1. Smart, inclusive growth	**446 310**	**503 310**	**450 763**	**4 453**	**1%**	**-52 547**	**-10%**
1a. Competitiveness for Growth and Jobs*	91 495	164 316	125 614	34 119	37%	-38 702	-24%
of which: - Connecting Europe Facility (CEF)	12 783	40 249	19 299	6 516	51%	-20 950	-52%
- Galileo, ITER and GMES	8 047	15 548	12 793	4 746	59%	-2 755	-18%
1b. Economic, social and territorial cohesion	354 815	338 994	325 149	-29 666	-8%	-13 845	-4%
of which: - Investment for growth and jobs	345 935	327 116	313 197	-32 738	-9%	-13 919	-4%
- Territorial cooperation	8 880	11 878	8 948	68	1%	-2 930	-25%
- Contribution to CEF			10 000				
2. Natural resources	**420 682**	**389 972**	**373 179**	**-47 503**	**-11%**	**-16 793**	**-4%**
of which: - market related expend./direct payments**	318 820	286 551	277 851	-40 969	-13%	-8 700	-3%
- rural development	95 741	91 966	84 936	-10 805	-11%	-7 030	-8%
3. Security, citizenship	**12 366**	**18 809**	**15 686**	**3 320**	**27%**	**-3 123**	**-17%**
4. Global Europe	**56 815**	**70 000**	**58 704**	**1 889**	**3%**	**-11 296**	**-16%**
5. Administration* **	**57 082**	**63 165**	**61 629**	**4 547**	**8%**	**-1 536**	**-2%**
of which: - Admin. expend.	46 247	51 000	49 798	3 551	8%	-1 202	-2%
6. Compensations******	**920**	**27**	**27**	**-**	**-**	**0**	**0%**
Total commitment appropriations	**994 176**	**1 045 282**	**959 988**	**-34 188**	**-3%**	**-85 294**	**-8%**
as a percentage of GNI	**1.12%**	**1.09%**	**1.00%**		**-0.12%**		**-0.09%**

* For comparison purposes, the Commission proposal is increased for the amount for ITER and GMES (the EU Earth Observation programme, now called Copernicus) that have been integrated in Heading 1a by the European Council.

** For 2007-13, the net ceiling for pillar I of the Common Agriculture Policy (CAP) is taken into account which is after deductions of the modulation and other transfers to rural development. This net ceiling is then adjusted to comply with the structure of the 2014-20 sub-ceiling (i.e. without market interventions in fisheries markets – to be financed under EMFF, and Food Safety – to be financed under Heading 3; the voluntary modulation from rural development is added.) For comparison purposes, the Commission proposal is increased by the amount of the agricultural reserve integrated in Heading 2 by the European Council.

*** For comparison purposes, the ceiling for Heading 5 for 2007-13 is increased by the amount of staff contributions that are currently outside the MFF.

**** Compensations: Bulgaria and Romania for 2007-09; Croatia for 2014.

Data source: European Commission

Author: Alessandro D'Alfonso
Contact: alessandro.dalfonso@ep.europa.eu