EU multiannual financial framework (MFF 2014-20)

Overview

Summary of the European Council agreement on 8/02/2013

The deal reached at the European Council limits the **maximum possible expenditure** for a European Union of 28 Member States [1] to **EUR 959.99 bn[2]** in commitments, corresponding to 1.0% of the EU's Gross National Income (GNI). This means that the overall expenditure ceiling has been reduced by 3.4% in real terms, compared to the current MFF (2007-2013). This is to reflect the consolidation of public finances at national level. This is the first time that the overall expenditure limit of a MFF has been reduced compared to the previous MFF. The **ceiling for overall payments** has been set at **EUR 908.40 bn**, compared to EUR 942.78 bn in the MFF 2007-2013.

Preparing for the future

Despite the cut in the overall expenditure ceiling of around EUR 34 bn in both, commitments and payments, EU leaders agreed on a substantial increase of the financial means for future geared expenditure such as research, innovation and education, in order to promote growth and create jobs. In fact, the expenditure ceiling for **sub-heading 1a ("competitiveness")** amounts to **EUR 125.61 bn**, which is an increase of more than 37% compared to the MFF 2007-2013. In addition, they committed to increase the funding for the EU research programme "**Horizon 2020**" and the "**Erasmus for all**" programme in real terms. Heads of state and government also agreed to create a "**Connecting Europe" Facility**, a new instrument to bridge the missing links in Europe's energy, transport and digital infrastructure, for which EUR 29.30 bn have been earmarked - an increase of more than 50% compared to the current MFF.

Showing solidarity

The European Council confirmed its commitment to reduce disparities between the levels of development of the EU's various regions by setting the expenditure limit under **sub-heading 1b** ("**cohesion**") at **EUR 325.15 bn**. As a concrete example of the European Council's solidarity, the poorer Member States will receive a larger share **of the total Cohesion** p**olicy envelope** than in the current MFF. Under the same sub-heading a **youth unemployment initiative** has been created with an envelope of **EUR 6 bn** half of which will be financed out of the European Social Fund and the other half from a new budget line. The **food aid scheme for most deprived people** has been put on a sustainable basis and will be allocated **EUR 2.5 bn.**

[1] Croatia is expected to adhere to the EU on 1 July 2013.
[2] This and all other figures are given in 2011 prices.

Ensuring sustainability

As regards **heading 2 ("sustainable growth: natural resources"),** the European Council set the expenditure ceiling at **EUR 373.18 bn.** It also agreed on some guiding elements for the next reform of the **Common Agricultural Policy** (CAP) which should **become greener and fairer:**

- 30% of direct payments will be made conditional on "greening" to ensure that the CAP helps the EU to deliver on its environmental and climate action objectives.
- Direct aids will be more equitably distributed between Member States. All EU countries whose level of direct payments is currently below 90% of the EU average will see one third of this gap closed by 2020.

Providing added value

Concerning **heading 3 ("security and citizenship"),** the European Council agreed on an expenditure limit of **EUR 15.69 bn**. The measures under this heading include in particular actions in relation to asylum and migration and initiatives in the areas of external borders and internal security.

As regards **heading 4 ("global Europe"),** the European Council underpinned its determination to develop the role of the EU as an active player on the international scene. The expenditure ceiling under this heading has been set at **EUR 58.70 bn.**

Under **heading 5 ("administration"),** the agreement reflects Member States' efforts to consolidate their public finances. The expenditure limit has been set at **EUR 61.63 bn**.

Furthermore, EU leaders agreed on an expenditure limit of **EUR 27.00 bn** under **heading 6 ("compensation")** with the aim of ensuring that Croatia will not be a net contributor in the first years following its accession to the EU.

Ensuring flexibility

In addition, the European Council agreed to extend the following five existing instruments outside the MFF:

- The **European Development Fund** (EDF): It finances development assistance for African, Caribbean and Pacific countries (ACP countries), overseas countries and territories. The European Council agreed to allocate **EUR 26.98 bn** to the EDF for 2014-2020.

- Four instruments which are mobilised only in case of need. These are:

1. The **Emergency Aid Reserve**: It is used to finance humanitarian, civilian crisis management and protection operations in non-EU states in unforeseen events. **EUR 1.96 bn** have been agreed for the next MFF.

2. The **Flexibility Instrument**: It is mobilised for clearly identified needs that cannot be financed within the limits of the MFF ceilings. Its maximum amount has been set at **EUR 3.297 bn**.
3. The **Solidarity Fund**: It is designed to provide rapid financial assistance in the event of a major disaster occurring in a Member State or candidate State. The amount to be budgeted to the fund in the next MFF may not exceed **EUR 3.5 bn**.
4. The **European Globalisation Adjustment Fund**: It is intended to help workers made redundant as a result of major structural changes in world trade patterns in their efforts to find new employment. It will be possible to mobilise up to an amount of **EUR 1.05 bn** in the new MFF.

Comparative table (in 2011 prices)

	New MFF 2014-20	Last MFF 2007-13	Comparison 2014-20 v. 2007-13	
Commitment appropriations	*€mn*	*€mn*	€	%
1. Smart and Inclusive Growth	450.763	446.310	+4,5bn	+1,0%
1a. Competitiveness for Growth and Jobs	125.614	91.495	+34,1bn	+37,3%
1b. Economic, social and territorial cohesion	325.149	354.815	-29,7bn	-8,4%
2. Sustainable growth: Natural Resources	373.179	420.682	-47,5bn	-11,3%
of which: market related expenditure and direct payments	277.851	336.685	-58,8bn	-17,5%
3. Security and Citizenship	15.686	12.366	+3,3bn	+26,8%
4. Global Europe	58.704	56.815	+1,9bn	+3,3%
5. Administration	61.629	57.082	+4,5bn	+8%
6. Compensations	27	n/a	+27,0bn	n/a
Total commitment appropriations	959.988	994.176	-35,2bn	-3,5%
as a percentage of GNI	*1,00%*	*1,12%*		
Total payment appropriations	908.400	942.778	-34,4bn	-3,7%
as a percentage of GNI	*0,95%*	*1,06%*		
Emergency Aid Reserve	1960	1.697	+0,3bn	15,5%
European Globalisation Fund	1050	3.573	-2,5bn	-70,6%
Solidarity Fund	3500	7.146	-3,6bn	-51,0%
Flexibility Instrument	3297	1.429	+1,9bn	+130,9%
EDF	26.984	26.826	+0,2bn	+0,6%
Total Outside	36.791	40.670	-3,9bn	-9,5%
as a percentage of GNI	*0,04%*	*0,05%*		
Total MFF + Outside	996.779	1.035.031	-38,2bn	-3,7%
as a percentage of GNI	*1,04%*	*1,17%*		

The agreement includes a so-called contingency margin aimed at allowing flexibility within the multiannual financial framework for 2014-2020 to cope with unforeseen circumstances. The possibility for a review clause forms also part of the deal.

Opening new perspective

On the **revenue side**, the European Council opened the way for a simpler and more transparent own resources system. More concretely, work will continue to replace the current VAT based own resource by a new one, which should be made as simple and transparent as possible, and which should provide a stronger link with the EU VAT policy and the actual VAT receipts. The participants of the enhanced cooperation in the area of the new Financial Transaction Tax will examine whether the tax could become the basis for a new own resource.

Correcting budgetary imbalances

As regards corrections, the UK rebate and the rebates on the UK rebate are maintained.

A reduced VAT call rate of 0.15% (rather than 0.30%) will apply, for 2014-2020 only, to Germany, the Netherlands and Sweden.

Denmark, the Netherlands and Sweden will benefit from reductions of their national GNI payments for the period 2014-2020 of EUR 130 million, EUR 695 million and EUR 185 million respectively. The Austrian annual GNI contribution will be reduced by EUR 30 million in 2014, EUR 20 million in 2015 and EUR 10 million in 2016.

Last but not least, the member states will be allowed to retain only 20% (instead of 25%) of the traditional own resources to cover their collection costs.

The way ahead

Now negotiations with the European Parliament will be launched in order to allow the adoption of the around 75 legislative acts covered by the MFF package. Within this framework the content of the agreement reached at the European Council feeds into the legislative work:

- the part of the agreement relating to the MFF Regulation and the rules on own resources is translated into legislative acts. These are adopted by the Council after having obtained the consent or the opinion of the European Parliament, depending on the act;
- the part of the agreement relating to the financial aspects of the sector-specific acts provides the Council guidance for finalising the legislative work in co-decision with the European Parliament.