Preparation of the General Affairs Council on 20 November

COREPER - Preparation of the European Council on 22/23 November: Draft Conclusions

The Head of Cabinet of the President of the European Council, Mr Seeuws, participated in the COREPER meeting to explain the reasoning behind the Conclusions and the next steps towards the European Council. He referred to the bilateral meetings between 5 and 9 November with the MS and the EP, in the presence of the Presidency and the Commission. The European Council will be prepared on Monday, when the President of the European Council will have a dinner with GAC Ministers. The GAC will have another discussion on the same version of the draft Conclusions and only after that there will be a revision. There will be no Sherpa meeting before the European Council, which will de facto start on 22 November in the morning with a series of bilateral meetings with all Heads of States or Government. These meetings will be political and in restricted format (1+1). At 20h00, there will be the usual exchange of views with President Schulz. At the beginning of the first working session, the European Council will briefly address the nomination of a member of the ECB Executive Board. This brief item will be followed by a first discussion on the MFF and the subsequent consultations.

On the substance of the Conclusions, Seeuws underlined that the European Council Presidency had carefully listened to the different positions of MS. The bilateral meetings had confirmed that a reduction beyond the EUR 50 billion foreseen by the CY Presidency was necessary and the compromise proposed therefore foresees a reduction around EUR 75 billion (plus EUR 6 billion outside the MFF) compared to the Commission proposal. As far as the distribution of cuts is concerned, the Conclusions now follow mostly the logic of the Commission proposal. Cuts concern Heading 1A) (EUR 11 billion, EUR 4 billion for the CEF), Cohesion (EUR 25.5 billion less + EUR 4 billion less in flexibilities outside the MFF), i.a. through the introduction of limits in the increase of allocations, Agriculture (EUR 25.5 billion) where some mitigating factors are put in place (flexibility between pillars, top-up of direct payments, slower convergence of direct payments). On Heading 3, cuts are small (EUR 500 million) and EUR 6.8 billion in Heading 4. The additional cut in Heading 5 amounts to EUR 530 million. The Conclusions had kept a number of flexibilities and instruments outside MFF and in order to allow for flexibility in a very tight budget, the contingency reserve was included. Seeuws added that he did not see any scope for changes in the text of the Conclusions (i.e. with the exception of the figures) at this stage in the process, unless a very substantial group of MS would insist to make such changes. The Conclusions do not address the long list of specific and particular concerns of MS, which have however been noted and some of which will be addressed at the European Council itself.

On revenues, he stressed that a very significant number want to eliminate the statistical VAT resource, but the reintroduction of a real VAT resource was not ripe and should happen later (2021). An option for an FTT own resource was kept. The Conclusions foresee a reform of the system of corrections in order to avoid a proliferation of demands for corrections. The UK correction will continue with one technical change and the lump sums system proposed by the Commission will be used. The corrections would be financed by all MS according to GNI key.

Seeuws concluded by insisting that a deal in November is in the interest of all MS. He dismissed any idea that any relevant aspect will change in the coming months that will facilitate a deal (no "game-changer" in sight). On the contrary, if a deal is not reached, many problems will arise with legal bases, expiry of corrections and a bad political calendar. He warned that the cost of failure will be huge and might pollute other files. He asked MS to take into account the broader political context.

The Commission insisted on the need to get an agreement on the MFF in November. While objecting to the significant cut foreseen in the Conclusions, the Commission appreciated that the balance had followed the main lines of its own proposal, which it continued to prefer. The reduction foreseen is substantial, as it is EUR 20 billion lower than the present MFF. An effective budget for the EU will require a figure closer to the Commission's proposal. In this regard, the Commission recalled that the purpose of the MFF is to ensure that the EU delivers its objectives, in particular its objectives on growth and jobs. The Commission appreciated the section on own resources, as it keeps the FTT as an option, opens the prospect of a new VAT own resource and introduces at least some order and transparency in the system of corrections.

In general terms, there continues to exist a division between delegations that have welcomed the reductions but ask for further cuts in the overall levels (DK, SE, DE, UK, AT, NL, FI) and those MS that consider that cuts are excessive in Cohesion (PL, HU, SI, ES, PT, BG, EE, CZ, MT, SK, LV, IT, EL, LT) and/or agriculture (BE, SI, ES, FR, PT, BG, AT, EE, MT, IT, IE). BE and LU considered that the cuts were going too far but that the distribution between the Headings was more balanced. There exists a nuance as well between MS that indicated that the Conclusions are a good basis to start negotiations (DK, DE, FI) and those that reject it (most vocally SI, FR, ES, PT, RO). Most interventions pointed out that we are far from a compromise. Some MS asked why the review clause was included (SI, MT, EL), were sceptical on its utility (DE, ES) or supported it (LU, IE). HR asked that the financial provisions in its Accession Treaty are fully respected.

On Heading 1A), BE, LU and FI welcomed the increase while a number of countries see still potential reductions in the overall Heading (HU, PT, DE, UK) and specially on the CEF (CZ, FR, FI, IE, UK). PL, HU, CZ, RO, LV continued to oppose the transfer from Cohesion. EE supported the CEF and argued in favour of the transfer, CZ and BG could accept it with conditions. FR defended the ITER budget while RO continued to demand to get ITER and GEMS out of MFF. BG, SK and LT considered that the amounts and timing proposed for the de-commissioning of nuclear plants was not enough.

On Cohesion, some of the opponents to further reductions (PL, HU, RO, BG, EE, LT and LV) criticised the new rules on capping while others considered that a lower figure for capping was still possible (DK, ES, FR, FI, DE). Certain MS (DE, FR, FI, ES, IE, LU) criticised that the cuts were concentrating on more developed regions. DK, SE, DE, UK continued to oppose transitions regions while BE defended the category. ES, SI, DE, MT and EL defended that safety nets for regions are kept at 2/3 of the current allocation.

On the criteria for the distribution of funds, PT, CZ, IT, EL, IE criticised the national prosperity coefficient used, others (ES, PT, IT, IE) asked for an increase of the unemployment premium while LV, CZ and PT asked for an increase of the Cohesion fund aid intensity. PL, ES, CZ, PT, RO, BG, EE, SK, LV, IT, EL and LT criticised the reduction in pre-financing and co-financing levels while CZ, BG, EE, SK, LV ,IT and LT asked to keep the VAT eligibility. FR, ES and FI criticised the low figures for outermost and northern sparsely populated areas respectively and MT demanded a similar treatment for island MS. HR asked specifically to keep the N+3 rule guaranteed in its Accession Treaty for half a year while others pointed out that more flexibility in de-commitment rules would create conditions for better absorption of the Funds (PL, CZ). While FI, NL and DE preferred the Commission proposal on macro-economic conditionality, HU, RO, PT, BG continued to oppose. HU and BG indicated that a discrimination would emerge between Eurozone and non-Eurozone MS in the implementation of the rules.

On Agriculture, while some MS (ES, FR, IE) heavily criticised the reduction in direct payments, others (HU, AT, FI, RO, SK, LV, LU) considered that cuts were hurting too much rural development. Several MS (PL, PT, RO, BG, EE, SK, LV, LT) criticised that reductions had been made at the expense of convergence of payments while others welcomed slower convergence (BE, ES). IT insisted that reductions were not evenly distributed. On rural development, several MS asked for the figures on national allocations before the final deal (FR, UK, IE, LV). The flexibility between pillars was requested (UK, LU, IE) by some MS while others continued to oppose capping to large farms (FR, UK, IE) and others advocated abandoning greening (PL).

Several MS (DK, ES, SE, FR, PT, FI, BG, DE, UK) continued to affirm that further cuts on Heading 5 were necessary (UK: "you must be kidding") and that measures foreseen for savings were insufficient. LU warned against considering Heading 5 as "variable d'ajustement".

A number of MS opposed the contingency reserve (SE, UK, LV, IE, DE). DK suggested keeping this issue out of the Conclusions temporarily in view of negotiations with the EP. RO, EL defended the reductions in EDF and RO and DE criticised the distribution key. SE and DE demanded abolition of the Globalisation Adjustment Fund.

On own resources, some MS supported the use of the FTT as a potential own resource (BE, EL) while SE, CZ, UK, LV opposed and LU showed scepticism. The continuation of the VAT own resource was supported by IT and EL and opposed by SE, CZ, LV, while BE and LU supported to study a new VAT for 2021 and DE opposed. Several delegations found 15% TOR collection costs a reasonable compromise, while BE, LU and NL insisted in its continuation.

Finally, on corrections, SE, UK, AT and NL defended the continuation of their own correction. DK insisted in its demand for a correction of EUR 150 million annually. A number of MS (PL, EL) continued to oppose any kind of corrections, others (BE, ES, FR, FI) pointed to the need to change the unfair system and adapt it. IT and FI indicated that they could end up asking for their own correction if the final result was unsatisfactory. While agreeing to the principle that everyone should contribute to the financing of corrections, DE argued that if there are special correction arrangement, special arrangements in relation to these arrangements need to be continued as well. IT was alarmed by this statement.

President Van Rompuy's Head of Cabinet concluded that an agreement was needed and MS choices would need to be more consistent while taking note of all the concerns. He said that on the size there had been a substantial move and that we were close to the landing zone. On the distribution, he insisted on the effort that had been made to maintain the modernisation of the MFF proposed by the Commission and the same relationship between the CAP and Cohesion policy allocations as in the previous period. On the process, he asked for MS flexibility for the bilaterals, especially on timing. On the review clause, he indicated that it had been inserted in order to update later the economic data from certain MS and for a situation when the crisis is over. He considered this aspect a good issue for discussion at the GAC. He finally insisted in the need to review own resources and corrections in order to make the system fairer.
The President concluded this last COREPER discussion on the MFF and declared the issue from now on as "Chefsache".