BUSINESSEUROPE

POSITION PAPER

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Multiannual financial framework post-2020 proposals

KEY MESSAGES

1 The next long-term EU budget post-2020 should have a greater emphasis on competitiveness, growth and support member states in implementing reforms. Whilst we welcome that the Commission's proposal clearly reflects new priorities such as migration, security and defence, and proposes increased spending on developing essential energy and digital capabilities, we would like to see even more ambition regarding spending on research, development and innovation, and cross-border transport capabilities. The overall budget needs to be of a size adequate to address such common challenges.

2 National contributions based on the size of member states' economies will remain the main way to fund the budget. Additional budgetary space can be developed through further efficiency gains and costs savings, and a greater use of financial instruments. We do not believe that the newly proposed own resources offer a helpful way forward in resolving the funding discussion. Furthermore, some of these proposals would place a disproportionate burden on companies and risk damaging competitiveness and job creation.

3 Failing to agree on the proposal before the European elections would imply serious delays in the start of programmes in 2021, and a lost year of investment from the EU budget. To avoid delays in powerful investment incentives, we strongly urge all relevant decision-makers to make swift progress in adopting the post-2020 MFF.

BUSINESSEUROPE a.i.s.b.l.
AVENUE DE CORTENBERGH 168 – BE 1000 BRUSSELS – BELGIUM
TEL +32 (0)2 237 65 11 – FAX +32 (0)2 231 14 45 – E-MAIL main@businesseurope.eu
WWW.BUSINESSEUROPE.EU – Follow us on Twitter @BUSINESSEUROPE
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Multiannual financial framework post-2020 proposals

Background

On 2nd of May the European Commission published proposals for a multiannual financial framework (MFF) post-2020, including a new mechanism on the rule of law, as well as for a new system of own resources (OR) to equip the EU with the means to finance its annual budgets.

This package laid the foundation for proposals for new spending programmes ("legislative sectoral proposals for spending programmes") which the Commission started publishing in different sets as of 29 May.

In our BusinessEurope reaction to the Commission's proposals, we look at five issues, namely: 1) areas of spending, 2) budget size, 3) financing, 4) conditionality, 5) timing.

1. The budget must concentrate efforts on improving the EU's competitiveness

We believe that the EU's post-2020 budget must concentrate efforts on boosting growth, investment and job creation, as well as supporting member states in implementing reforms.

While we acknowledge the Commission's efforts to increase spending on research, development and innovation activities, we like to see even more ambition. In 2017, the Lamy Group report "LAB-FAB-APP – Investing in the European future we want" called for a doubling of the overall budget of the EU post-2020 Research, Development and Innovation programme. We call for matching the strong policy ambition with an equally ambitious budget of at least €120 billion.

Regarding trans-European infrastructure, it is positive to see that the Commission proposes an increase in spending on energy and digital capabilities. It is also important that we increase transport capabilities given its importance to the functioning of the Single Market.

We welcome that the Commission's proposal clearly reflects new priorities in the areas of migration, security, and defence. Increased action at EU level in these areas to support existing action in member states can lead to more efficient spending and better results.

Furthermore, the EU should ensure an adequate financial framework to support a more cohesive Europe and to develop cohesion policy by turning it into an integral part of a European investment strategy to support competitiveness, growth and convergence, for all European regions. The new financial framework must also be adequate to ensure increasing thematic concentration of the funds on research and innovation, digitalisation, smart specialisation and competitiveness, and we wish an adequate weight to infrastructure. We also welcome the proposed new flexibility within the structural funds that allow for better synergies between different programmes (e.g. ESIFs, Horizon

Europe, InvestEU). We disagree with the limitation of support for large enterprises and we call for the **maintenance of support to the extent of the 2014-2020 framework**. Support to large enterprises should be more selective and focused on projects in the public interest that would otherwise not be realized.

In addition, we would like to see a budget which supports the delivery of education and training as well as labour market reforms and active labour market policies, notably through a more result-oriented use of resources in the context of the European Social Fund. The next EU budget should prioritise growth-enhancing social investments, such as investment in skills that help better match labour market needs and contribute to increase productivity growth, and investment in more and better childcare services allowing more women to work, as well as upskilling and reskilling employees and youth.

In the forthcoming negotiations we urge all political decision-makers to prioritise and build on the Commission's increased emphasis on EU competitiveness, especially regarding research, development and innovation.

2. The Budget needs to be of a size adequate to address common challenges

As a general principle, we believe that the size of the next MFF must be dependent on the needs required to face common challenges ahead. While it is important not to create unrealistic expectations on how much the budget can deliver at around 1% of EU's GDP, it is also clear that the EU budget can provide for important long-term investments and help finance public goods.

Objectives with a clear EU-added value (i.e. in areas where spending at EU level leads to a higher value compared to separate national actions) have to be prioritised. We also believe there is further scope to identify efficiency gains and cost savings in some areas in order to mitigate the negative budgetary impact of the UK leaving the EU, as well as to address the need for the upcoming MFF to clearly reflect new priorities such as migration, security, and defence.

These principles should lead to the implementation of a new and modern structure building on synergies, simplification of the policies and lower administrative burden, which increases the EU's overall functionality.

3. Efficiency gains and greater use of financial instruments can help increasing budgetary space

A clear focus for the new MFF on priorities which deliver genuine EU value added can help reduce the focus on what we see as an unhelpful net contributor/net receiver debate.

In terms of funding, national contributions based on the size of member states' economies will continue to remain the principle way to fund the budget. We believe that, to adequately fund the budget, further efficiency gains and costs savings need to be identified. Grants remain fundamental for certain types of projects such as, for example, very innovative and high-risk ones. However, a greater use of financial instruments could help to mobilise public and private investment and leverage the EU budget. The InvestEU proposal that will centralise all existing instruments under one roof is welcome, but we must ensure its correct set up and additionality of the investment projects.

We do not believe that the proposed own resources offer a helpful way forward in resolving the funding discussion. Furthermore, some of the proposals would place a disproportionate burden on companies and risk damaging competitiveness and job creation. We believe that the use of ECB seigniorage as an own resource could be explored.

4. Ex-ante conditionality can help in terms of effective and efficient use of resources

In general, we believe that conditionalities in the use of funds should be of a positive nature and linked to achieving specific objectives, in order to create the right incentives, work effectively, and ensure a results-oriented use that leads to clear EU added-value and improved competitiveness. Enabling conditionalities should be maintained and instruments such as revolving subsidised loans should be enhanced as these have proved a very helpful tool in terms of effective and efficient use of resources.

We welcome efforts to improve the European Commission's ability to increase the implementation of competitiveness- and growth-enhancing reforms through the creation of the Reform Delivery Tool and the proposed link between cohesion policy and the European Semester, where there is a clear link to cohesion policy objectives. The Commission is now also proposing a new mechanism linked to the respect for the rule of law, which "would allow the Union to suspend, reduce or restrict access to EU funding in a manner proportionate to the nature, gravity and scope of the rule of law deficiencies". We support the Commission desire to strengthen the link between EU funding and the respect for the rule of law, and the aim of this newly proposed mechanism. Respect for the rule of law is an important precondition for sound financial management and key for long-term sustainable economic development and social progress.

However, it is important, as the Commission foresees, that such a mechanism would not affect individual beneficiaries of EU funding on the ground, with member states obliged to make up for any shortfall in the event of a rule of law breach. We look forward to further clarifications regarding the legal basis for the introduction of such a mechanism, and in particular its relationship with the already existing rule of law procedure under Article 7 (1) of the TEU.

5. Agreement before the European Parliament's elections is key

It is essential that all parties work towards reaching agreement on the MFF post-2020 before the European Parliament's elections in May 2019.

Failing to agree on the proposal by the time of the European elections will entail serious consequences. A later deal means serious delays in the start of programmes in 2021, and a lost year in investment by the EU budget.