The next multiannual financial framework (MFF post 2020)
Preliminary position paper from Luxembourg

What should be the purpose of the next decade's EU Budget in a post-Brexit EU27? What financial means should we make available to serve which collective European policy ambitions? The responses to some of these questions can be found in the commitments to which our Leaders agreed in Rome in March 2017 and in Bratislava in September 2016.

In order for these commitments to be translated into concrete action, they require adequate financing. After a decade marked by economic downturn and financial crises, the EU needs to take advantage of the Budget's capability to act as a driving force in order to accompany the economic recovery instead of impeding it. Luxembourg also believes that we first need to focus on the sort of Europe we want to create together before locking ourselves in quantitative confines. Thus, form should follow function and not the other way around. The demonstration of unity among 27 will also, and mainly, manifest itself in a display of ambitious solidarity and the MFF is one way through which the latter can be reflected.

The EU has a relatively modest budget: 1% of the combined Gross National Income (GNI) of all its Member states and 2% of total European public expenditures are placed at the disposal of a 1000 billion euro spending framework spread over seven years. Compared to the previous MFF (2007-2013), the current MFF's global expenditure ceiling was reduced by 3.5 % in real terms.

Approximatively 73% of those funds are dedicated to cohesion and agriculture, 13% to research and competitiveness, 6% to external action, 6% to administration and 2% to security and citizenship. Member States' national contributions, either through GNI – or VAT-based own resources, account for over 80 % of the EU budget. Moreover, the European Budget needs to satisfy the principle of budgetary balance and hence total expenditures cannot exceed total revenues.

Member State contributions are largely considered national transfers that come at a transactional cost instead of investment vehicles destined to finance European public goods. This reasoning in terms of net balance erodes the links between European common policies and their funding which results in the establishment of pre-determined national financial envelopes.

This approach, coupled with the rebate system, ignores the notion of European added value. Our citizens have the right to expect the post-2020 MFF to be transparent, fair, efficient and effective. It is thus the right moment to revise the EU Budget financing structure and the individual rebate system.

Starting in 2018, European partners need to engage in a substantive debate about MFF modernization by adopting a more strategic approach with regard to the sources of financing, European added value and political programmes and instruments, with the objective of strengthening a competitive Europe that protects, defends and innovates.

Luxembourg stands ready to take its share of the responsibility and solidarity in the collective interest of a prosperous, modern and environmentally conscious Europe.

Without an ambitious and modern budget, the Single Market will remain fragmented and lack crucial financial backing thereby inducing a loss of market share against a global competition. Its enormous potential, particularly in social mobility, digital economy and development or in reinforcing the transport and energy infrastructure, remains largely untapped.

In the last ten years, Europe has only slightly increased its research and development funding. Today, the latter makes up 2.03% of GDP on average, against 2.79% in the US, 3.49% in Japan or 4.23 % in South Korea. As described by the Lamy Group in its July 2017 report, the EU excels at producing knowledge but struggles to transform this knowledge into innovation and growth. The EU’s innovation deficit does not root in a lack of knowledge or ideas, but is rather due to our insufficient capitalization thereon. It is imperative for Europe to act now and to act decisively. We need to make available the funding required to maintain a high level of knowledge production while transforming it more rapidly and more profoundly into innovations that generate value for the economy and society.

The next MFF, which will start in 2021, needs to be simpler, more flexible, better coordinated with Member States and other European policies and concentrate on results and objectives rather than modalities and administrative procedures.

The substantial expenditure programmes that are Cohesion policy and Common Agriculture policy need to be rendered more efficient and focused, as this is a necessary pre-condition for a more balanced redistribution of the next MFF.

As far as the structural and investment funds are concerned, one ought to adjust the architecture and the direction by reorienting their use towards more strategic goals. Cohesion policy’s priorities should focus on economic development, employment, social inclusion, research and innovation, migration and climate change.

More flexibility between the different MFF headings should be established. The multiplication of “appendices” outside the scope of the EU budget (funds, facilities) ought to stop, in accordance with the principle of budgetary unity. Finally, positive conditionality is worth exploring, which would require a balanced mix of pre-allocated funds as well as endowments linked to performance indicators.

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