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Position paper on the Multiannual Financial Framework

The Multiannual Financial Framework (MFF) is an essential strategic instrument for the European Union to deliver a more prosperous, cohesive and fairer Union. In this next MFF, we must achieve the right balance between innovation and continuity, forging consensus and avoiding a logic of division between net contributors and beneficiaries. The next Multiannual Financial Framework should live up to citizens' expectations and also contribute to a more equitable, transparent, accountable and democratic Union.

1. *The European context*

The negotiations of the Multiannual Financial Framework will take place under unprecedented circumstances:

- (i) The need to address the negative consequences from the 2008 financial crisis
- (ii) The need to respond to current and new priorities
- (iii) The budgetary impact of *Brexit*

The EU needs a budget which reflects its ambition and is able to effectively address its political priorities.

The next MFF should be more closely aligned with the process of the European semester and with the work on completing the Economic and Monetary Union, taking into account their specific nature and timeframes.

It is important to ensure an orderly and swift transition between periods and to be able to launch new programs without delays at the beginning of 2021.

2. *MFF role and dimension*

The MFF is the key policy tool to promote growth, competitiveness and convergence so that all Member States can equally reap the full benefits of the internal market and of the EMU. It also enhances the EU leadership as a global player.

We endorse the broad concept of European Added Value presented in the Commission Reflection Paper on the future of EU Finances and in the Monti Report.

The overriding goal of convergence should guide our choices in core projects of the Union and should be a key criteria of the European Added Value.

The resources and the stability of medium/long-term structural policies should be protected. These policies have proved their clear added value in deepening the internal market and in supporting the investment capacity of Member States, eroded during the crisis, especially in convergence countries and regions.

At the same time, we agree that new priorities should be tackled. If we consider that all priorities should be financed by the EU budget, and if we also take into account the decrease in contributions resulting from *Brexit*, we are bound to conclude that the limit of 1% of the EU-27 GNI (Gross National Income) will not be sufficient. Hence, we support a higher level, closer to the own resources ceiling (1,2% of GNI).

3. *Political Priorities*

Structural policies should maintain their key role as tools of convergence, cohesion, but also competitiveness in the EU. They need to be properly funded.

Challenges such as migration, climate change, security and defence, ageing also have to be provided with adequate means, in a continuous basis, and should not be treated as unforeseen events.

We should strive for the right balance between stability of long-term policies and the need to tackle new challenges. At the same time, some aspects of the new challenges can be addressed in an integrated manner in Cohesion and Common Agricultural Policies.

We recognize the need to invest in clearly identified priorities but those two structural Policies cannot be used as the single "adjustment tools".

Cohesion Policy

Real convergence among Member States and regions is the key objective of cohesion policy. To deliver on this goal, cohesion policy should be endowed with an appropriate and stable level of resources.

Greater flexibility should be allowed in the allocation of funds, to enable cohesion to play a more effective role in promoting competitiveness through innovation, qualification of human resources and the quality of public services, including in metropolitan areas.

At the same time, Cohesion Policy should be more focused on citizens' needs and expectations, including in the areas of demography, institutional capacity, labor market and inclusion, through a closer link with the European Pillar of Social Rights.

The link between Cohesion Policy and economic governance has been important to increase the focus on results, but it has been based on an exclusively negative and sanctioning conditionality. It is crucial to introduce positive incentives as proposed by the Commission.

Simplification through a single set of rules and a system based on trust are key both for the modernization and for a smooth implementation of Cohesion Policy.

New instrument to support investments for convergence

The need to promote convergence should be a key EU priority across the board in order to increase the coherence and effectiveness of the EU integration process. Moving forward in core projects, such as completing the EMU, requires the creation of a macroeconomic stabilization function for the Euro area coupled with an investment capacity to promote convergence and to increase our resilience in case of future crisis.

We acknowledge the Commission's effort to develop a pilot test for a new instrument supporting structural reforms. This new instrument should be designed in complementarity with and in addition to Cohesion Policy, and should operate in line with the National Reform Programs and the CSR. This instrument should be "*tailor-made*", multiannual and result-oriented, established on a contractual basis between each Member State and the Commission.

Common Agricultural Policy

Common Agricultural Policy must have a budget able to cope with current and future challenges. Evolution instead of revolution should be the motto, as the CAP continues to be the best available policy to guarantee food security and food safety for European citizens.

The relative share of CAP's two pillars should be preserved, highlighting the importance of rural development as an efficient tool to address investment needs, volatility of markets and innovation, but also climate change, protection of natural resources and biodiversity.

The new delivery model should not allow for subsidiarity to be taken to an extreme. This would lead to a less common CAP, with a risk of renationalization, thereby weakening the internal market. Subsidiarity should play a limited role, applying specifically to certain national decisions and CAP's new challenges.

On the first pillar, we must avoid co-financing and, at the same time, achieve more convergence between Member States.

Outermost Regions

Sufficient attention must be paid to the objectives of the Commission Strategy for the Development of the Outermost Regions. The continuity of appropriate support for these regions in the relevant policy areas is essential to ensure that the special treatment enshrined in the Treaty is enacted. Fully exploring the potential of the Outermost Regions will benefit the whole Union.

Level playing field and financial instruments

The current model of division of EU policy management responsibilities between the Commission and the Member States reflects a correct and balanced interpretation of the principle of subsidiarity and should be preserved in the future, in particular as regards Cohesion Policy and CAP, which by nature, are more effective if implemented by Member States in a shared management model.

The assumption that, in most situations, centrally managed instruments deliver more efficiently when compared to shared management tools is misleading because it ignores the huge difference between the rules that apply to each system. To rigorously compare the performance of the two management systems, a higher harmonization of rules is needed, namely concerning State aid and public procurement procedures.

Furthermore Member States should be able to choose the right mix of financing (grants, financial instruments) taking into account sectorial and national specificities. The instruments of support must be tailored to the specific problems addressed by each measure of the EU policy in question. One size fits all approach is not a solution.

4. Duration and Flexibility of the MFF

A seven year period is the most adequate timeframe for the MFF to guarantee predictability and enough stability for policy implementation.

At the same time, the EU budget must be flexible enough to deal with unforeseen circumstances. In the current MFF, flexibility mechanisms are still insufficient and difficult to trigger.

An explicit confirmation that all special instruments can be mobilized over and above commitment and payment ceilings should be included. Furthermore, they should be used in genuine special circumstances and not to respond to situations which should have been settled in the appropriate policies. This is the reason why they are now almost exhausted when we are still halfway of the programming period.

We must find the right balance between predictability and flexibility.

5. *Own resources and "net balances"*

The debate on the expenditure side should go hand in hand with the reform of the revenue side.

The system of own resources should be simpler, fairer and more transparent.

We have now a unique opportunity to introduce new own resources, stemming from new financing resources, taking into account the ideas presented in the Monti Report. Options could be based on a tax on digital services, on green taxation or on a financial transaction tax. We look forward to deepen studies on these options. New own resources may also be considered for the financing of a budgetary capacity for the Euro area.

We must abandon all national rebates and the logic of "net balances".

All Member States are net winners of the European project. The benefits of belonging to the European Union must be valued in a broader frame, largely exceeding the "net balances" rationale.

It is time to send a strong message of confidence and union to our citizens and to give a renewed impetus to the European project. This has to be boldly reflected in the next MFF.

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