POSITION PAPER

S&D STRATEGY ON THE REVISION OF THE MULTIANNUAL FINANCIAL FRAMEWORK (MFF) (2014-2020)

Out of the crisis - a better economic model for Europe

Financing a better Europe

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Group of the Progressive Alliance of Socialists & Democrats in the European Parliament

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1 INTRODUCTION

Parliament anticipated, Parliament warned

The S&D Group has continually raised concerns regarding the structural insufficiencies and scarcity of resources available under the current Multiannual Financial Framework (MFF). When negotiating the MFF for the period 2014- 2020, the S&D Group highlighted the implications of reduced resources. The European Parliament, and the S&D Group in particular, were strongly against a reduction of resources, and only accepted this after securing several successes including: <u>enhanced flexibility</u> *(for both commitment and payments appropriations)*; <u>an obligatory mid-term review of the MFF followed by a revision</u> (*to take into account forthcoming political developments*); <u>agreement on a roadmap to reform the system of financing of the EU</u> *(setting up a High Level Working Group on Own Resources*); as well as some <u>sectorial policy priorities,</u> such as dedicating resources to the fight against youth unemployment. However, not all of the S&D Group demands were fully met. The last two years proved us right and demonstrated how much more still needs to be done.

Since 2013, the EU has faced a growing number of crises which have not been fully addressed due to the weaknesses and low level of the EU budget. The investment shortfall in Europe, the high level of unemployment, especially of youth unemployment, the Russian embargo on agricultural products, the refugee and migrant crisis, and the reintroduction of temporary border controls in the Schengen area, have shown that solving crises like these can only be done at European level. A political commitment to address these crises must be followed by extra budgetary means. However, the MFF ceilings under the different political headings have proven to be too tight. The MFF has been pushed to its limits.

The EU must be ready to provide the necessary means for implementing its policies. A mandatory mid-term review accompanied by a proposal for a revision is due by the end of 2016. It is now the time to propose necessary changes to respond to the budgetary failures currently jeopardizing the credibility of the European Union. **The S&D Group**

strongly believes that the only way for the EU to live up to its responsibilities and protect its citizens, whilst also responding to the crises, is to raise the ceilings and enhance the flexibility of the MFF.

The MFF review and revision will be a testing time for relations between the European Parliament and the Council. In 2013, we conceded a political agreement to the other institutions in a spirit of fruitful cooperation. Any attempts, however, to further delay or even stop the revision would further weaken the credibility of the European Institutions.

2 AN ALARMING SITUATION AGGRAVATED BY CRISES

2.1) A budget too small to meet political commitments

Insufficient investment to secure growth, jobs and competitiveness

The level of investment in the EU has been too low for the last two decades. In 2014, it was 15% below the 2007 level. This is well below its historical trend. Only a partial recovery is expected in the coming years. Economic recovery, job creation, social, economic and territorial cohesion, long-term growth and competitiveness are being hampered as a result. The European Commission estimated that current investment levels in the EU are EUR 230 to 370 billion below the historical norm.

The European Fund for Strategic Investments - EFSI

Following a long campaign initiated by the S&D Group, EFSI was created as a core element of the Commission´s investment strategy in order to address the alarmingly low level of investment in the EU. EFSI has to comply with wider EU objectives of fostering growth, a sustainable economy, cohesion and competitiveness, especially working to strengthen SMEs (the backbone of the European economy), as well as promoting convergence and territorial cohesion. *The EU Guarantee Fund (GF) of EUR 8 billion, which acts as a liquidity cushion for the EIB in case of a failure of an EFSI operation, and which backs the EUR 16 billion EU Guarantee to be granted to the EIB to conduct riskier operations under EFSI - is financed from the EU budget.* Due to the urgency of the situation, funding for the GF was accepted without an upward revision of the MFF ceilings, but by redeploying some appropriations from the EU's financial programmes: Horizon 2020 and Connecting Europe Facility (CEF)**. During the EFSI negotiations, the S&D Group fought hard to ensure minimal cuts and redeployment of these appropriations, and is determined to ensure further funding increases for these two key programmes (Horizon 2020 and CEF) through the revision of the MFF.**

The lack of funds under Horizon 2020 has reduced the success rate *(the percentage of research proposals winning a grant)* from 20%-22% under the 7th Framework Programme (predecessor of Horizon 2020) to only 13%-14% for Horizon 2020. This means that **fewer projects are now receiving funding**. High-quality projects which could not be funded are lost opportunities for the EU to support and strengthen innovation**.** This is a loss to the knowledge-based, sustainable, and inclusive economic growth foreseen in the EU2020 strategy. Likewise, many high-quality applications under the CEF programme have been rejected due to insufficient funds.

The MFF revision should be used to fully compensate the cuts in Horizon 2020 and CEF funding, as well as to ensure sufficient funding for those programmes which boost growth, jobs and competitiveness.

EFSI - additional aspect:

The use of loans and guarantees under EFSI must comply with the principle of "additionallity". This means that EFSI must deliver genuine additional investments without jeopardizing existing flagship initiatives and democratic accountability. This needs both ex-ante and ex-post assessment by the Parliament. The governing body should be monitored and influenced as regards the evaluation of the "additionality" of projects and their capacity to push forward the political agenda of the EU. Further checks *are needed to assess if the nature of the investments undertaken is in line with S&D priorities.*

The refugee and migration phenomenon

Migration to the European Union escalated in 2015 with a sudden and massive increase in the numbers of refugees and migrants moving to the EU to seek asylum. Around 1 million refugees have entered Europe since January 2015, while many more refugees are expected in future years. This triggered a major financial response by the EU. In line with the European Agenda on Migration and other Commission initiatives, additional activities have been approved which have a major impact on the EU budget for 2015 and 2016, notably in headings 3 (Security and Citizenship) and 4 (Global Europe); an effect which will continue in future years.

The entirety of the Flexibility Instrument available for the years 2014-2016 (EUR 1 530 million) was mobilized in order to tackle this urgent situation, particularly given that funds under budget heading 3 were exhausted. With this mobilisation, additional resources for migration and refugee-related measures have been secured, such as topping-up of the Asylum, Migration and Integration Fund (AMIF) and the Internal Security Fund (ISF), as well as resources for the three migration-related agencies, namely *Frontex*, the European Asylum Support Office (EASO) and Europol. In turn, this entailed a de facto increase of the initial indicative amount foreseen in the multiannual programmes of AMIF and ISF as agreed in 2014. The increases for AMIF and ISF agreed for the years 2014/2016 should not negatively influence the budgetary envelope of these programmes for the years 2017-2020.

The MFF revision should be used to increase the envelopes of the relevant programmes, in particular with regard to the Asylum, Migration and Integration Fund, compared to the initial envelopes agreed in 2014, in order to meet the estimated needs.

The increased levels of migration to the EU also led to the launch of new projects and activities, such as the proposed *European Border and Coast Guard Agency* (with an overall budget of EUR 1.212 million for the remainder of this MFF period); a dedicated reallocation mechanism; and the new emergency support instrument (estimated impact of minimum EUR 700 million in 2016 - 2018). The need to finance these activities was impossible to foresee when the MFF 2014-2020 was finalised. These measures are considered as far from sufficient for the magnitude of the problem. Moreover, the European Commission predicts that up to 3 million migrants could come from conflict zones to the EU by 2017. In this event, even full use of the flexibility instruments available would be insufficient to address this situation.

The migration and refugee phenomenon also impacted spending levels in heading 4 - Global Europe. In 2015, reallocations in favour of migration and refugee-related actions were approved mainly through reshuffling resources under the Instrument for Pre-accession Assistance (IPA), the Development Cooperation Instrument (DCI), and the European Neighbourhood Instrument (ENI). Furthermore, the EU has established a set of new instruments (*The Madad Trust Fund, The Emergency Trust Fund for Africa, The refugee Facility for Turkey*)[1]. The introduction of trust funds brought a rapid and massive shift of EU funding to these instruments from different budget lines, and from the European Development Fund. Such a shift of funds was necessary due to the lack of resources in the EU budget. Furthermore, the decision making process for these funds lacks democratic accountability as there is no *complete parliamentary control over the expenditure*. Moreover, the two trust funds are experiencing a **shortfall of resources** because several Member States have not yet delivered on their pledged contributions. The Council, which decreased the size of the budget during the negotiations on the MFF 2014-2020 (and continues to do so in the annual budgetary negotiations), now expects the EU budget to finance most of the resources needed for the trust funds. Furthermore, additional pressure on the EU budget is expected due to other actions announced by the Commission, such as the 'London pledge' and follow-up to the EU-Turkey summit of 18 March 2016.

There is a mismatch between the fact that the European budget provides funds to each country on the basis of solidarity, while the same solidarity is not demonstrated by all Member States when contributing their share to tackling the migration and refugee

[1] The Madad Trust Fund has an estimated initial budgetary impact of EUR 570 million; the Emergency Trust Fund for Africa EUR405 million respectively. As for Refugee Facility for Turkey, EUR 1 billion is to be funded from the EU budget

phenomenon. That said, addressing the increased levels of migration to the EU should not come at the cost of the EU´s development policies in other areas. In a situation of protracted crisis, responses to humanitarian distress, migration policies and stabilisation must be delivered in parallel to continuing development programmes.

The MFF revision comes at the right time to increase the financial ceilings for Security and citizenship (heading 3) and Global Europe (heading 4) in order to address the refugee and migration phenomenon with sufficient funding.

Unemployment (in particular youth unemployment), poverty and inequalities in the EU

Between 2007 and 2013, youth unemployment reached record highs across Europe, dramatically increasing from 15.7% to 23.4%, according to Eurostat. In February 2016, 4.4 million young people were unemployed across the EU. The EU budget makes a significant contribution to the fight against unemployment, especially through the European Social Fund and the Youth Employment Initiative (YEI) thus contributing to the EU's priority objective for jobs and growth.

Youth Employment Initiative (YEI)

The YEI is managed in the same way as structural funds and the implementation process is judged to be lengthy. Despite the initial delays in the designation of national authorities and the implementation of the YEI, the current figures indicate full absorption capacity. YEI is likely to be up to speed by late 2016 and early 2017, even though commitment appropriations for this purpose have been exhausted as of 2016[2] because of the frontloading of these appropriations in 2014 and 2015. As from 2016, no funds are available for YEI because the entire financial envelope of this programme for 2014-2020 has already been used up in the first years of the MFF. **The S&D Group is committed**

[2] **In the voted budget for 2016 no commitment appropriations were foreseen for YEI, while the financial programming foresees no funds on line Youth Employment Initiative (specific top-up allocation) for the years 2016-2020**.
Still, MFF Regulation foresaw that *Global MFF Margin for commitments* (margins left available below the MFF ceilings for commitment appropriations for the years 2014-2017) are to be made available over and above the ceilings established in the MFF for the years 2016 to 2020 for policy objectives related to growth and employment, in particular youth employment.

to ensure continued and permanent funding for this programme, and insists on a funding level of at least EUR 21 billion for YEI until 2020.

Education and culture

In general, European funding for education should be at least maintained at the current level. In line with the European Youth plan, the multiannual 2014-2020 financial envelopes for Erasmus + should be increased. The S&D Group calls for a broader, EU-wide structured approach to culture, education, youth and sport. These programmes could play an important role when it comes to integration of migrants and refugees.

Child guarantee

Around 25.8 million children live in households which face a daily struggle due to low income and limited basic services, such as food supplies, housing, education or healthcare. Children who grow up in poverty and social exclusion are less likely to succeed at school, enjoy good health and realise their full potential later in life when they face a higher risk of becoming unemployed, poor and socially excluded. **The S&D Group calls for the establishment of a new specific fund dedicated to the European Child Guarantee**. It should, inter alia, improve every child's access to their right to healthcare, education, childcare, housing and nutrition, as well as for helping parents in escaping social exclusion and unemployment.

The European Social Fund (ESF) and the Fund for European Aid to the Most Deprived (FEAD)

The current design of the ESF and FEAD allows for a broad range of problems to be tackled, including those related to migrants and refugees. However, both the ESF and FEAD have limited financial resources which are not sufficient to address the rise of inequality and poverty, as well as unexpected crises such as the unprecedented flow of refugees and the most severe consequences of the economic crisis and austerity policies in the labour market, such as youth unemployment and long-term unemployment. **The S&D Group calls for an increase in funding for these programmes.**

Agriculture, food and the rural economy

The CAP must keep its value in real terms, and the same level of funding as in the current MFF period must therefore be maintained. Diminishing the CAP would bring a range of risks. We must prevent any movement towards re-nationalisation of agricultural policy, which could create distortion in the market and unfair competition on farmers. It is imperative for agriculture and the food sector that we maintain a fair single market and a level playing field for producers and consumers, thereby ensuring a strong position for EU agriculture on the international stage.

Internal security

In light of the recent terrorist attacks in Europe, the S&D Group calls for a more coordinated and reinforced response at EU level in order to ensure security in the EU. This will require additional resources from the EU budget.

Towards a sustainable economy

The agreement reached on 12 December 2015 in Paris by the 196 parties to the UN Framework Convention on Climate Change is a universal, binding, dynamic and differentiated agreement to face the challenge of climate change. However there is no clarity on how donor countries will meet the yearly USD 100 billion goal to support developing countries, or how they will agree on a common methodology to account for climate finance. Complementary policies, such as the circular economy, have strong potential to boost European economy and employment in a sustainable way

For more detailed analysis of social and economic challenges that need to be addressed, please check the S&D strategy document on EU 2020 strategy.

Payments backlog

By the end of 2013 (the end of the previous MFF 2007-2013), the backlog of unpaid bills amounted to an improbable sum of EUR 23.4 billion, thus putting the EU's credibility at risk. This backlog has spilled over into the current MFF period 2014-2020. A payment plan has been agreed by the three institutions in order to reduce the backlog of unpaid bills relating to cohesion policy (for 2007-2013 programmes) of EUR 2 billion by the end of 2016. However, this plan is only a partial solution and does not fully address the depths of the payment crisis.

The consequences of the payment crisis are severe. Beneficiaries of the EU budget (students, universities, SMEs and researchers, local and regional authorities) have been negatively impacted. For example in 2014, a dramatic shortage of payment appropriations for humanitarian aid reduced the EU's life-saving operations and therefore had a direct negative impact on our ability to save lives. The Commission attempted to handle the payment crisis (which impacted many programmes financed by the EU budget) by introducing various measures such as reducing pre-financing percentages or postponing calls for proposals and tenders. However, these measures caused an artificial slowdown in the implementation of new programmes such as Horizon 2020. Also penalties for late payments have been charged to the EU budget. This is not acceptable.

Unclear and unambitious solutions from the Commission

In response to increasing needs, the Commission came up with the concept of "**better spending"** *(performance based budgeting)* while also streamlining the idea of **"EU added value".**

- "**Better spending"** or **"performance based budgeting"**

The Commission´s proposal to improve European spending remains unclear. The principle itself cannot be contested, as the EU must make best use of taxpayers' money, but "better spending" should not be a technocratic exercise to cut budgetary support in certain policy areas, or to give preference to other types of financial instruments by reducing subsidies. "Use it or lose it" incentives should be applied selectively. By no means should "better spending" lead to budget cuts or transfer of fund. Likewise, "better spending" cannot solve the main problem facing the EU: allocating scarce resources while needs continue to grow. The concept of better spending should instead set the right incentives for responsible spending. "Specific, measurable achievable, relevant and timed objectives shall be set for all sectors of activity covered by the EU budget".

There is a danger of misusing this concept when managing programmes such as Horizon 2020, CEF and COSME. It should be noted that some vital projects can only be financed through grants. In these cases, any proposal to replace grant funding by financial instruments, justified by a focus towards results and value, is not acceptable. It would be very short-sighted to focus only on financial instruments (which are seen by many to have a natural results focus). *In addition, very little has been achieved in terms of **gender equality**. This should be addressed through Performance based budgeting and Budget for Results.*

- **"European Added Value" (EAV)**

This concept deserves more attention, but we are a long way from a common understanding of its meaning. Like the subsidiarity principle, the interpretation of this concept depends on the political background of the interlocutors, and the first debates with other political groups showed significant differences in interpretation of EAV. So far, there is no consensus on a clear definition of EAV.

It should be crystal clear that European Added Value can only be accepted through a broad political consensus about when and where EU action is needed and is useful.

2.2) Violation of the principles of a democratic, accountable and transparent EU budget

The main budgetary principles which have to be firmly respected are the unity of the budget, its universality (or the principle of non-allocation of resources) and budgetary balance.

Budgetary unity:

All operations must appear in a single budget. However, there is a multiplication of instruments financed in parallel to the EU budget (such as EU trust funds and coordination mechanisms). There is also a trend to rely to a great extent on the use of innovative financial instruments.

On the one hand, if an EU trust fund is chosen as a finance tool, it may allow the EU to meet its political demands without mobilizing additional funds (which is better than no funding at all), but on the other hand, this form of financing would still fail to adequately accommodate financing requirements, as well as to ensure democratic accountability. *It has been proven difficult to ensure that other players (Member States) keep their promises and contribute to these Funds. The European Parliament has been excluded from playing a full role in deliberations on the establishment and mobilisation of these funds.*

Budgetary balance:

The Treaty requires a balanced budget, prohibits deficit, and requires the EU to find its own resources to constitute its budget. Articles 323 and 311 TFEU state that the Union must provide itself "with the means necessary to attain its objectives and carry through its policies". Unfortunately those two articles are often not respected.

The payments crisis continues to be a structural problem with negative effects on beneficiaries of the EU budget, jeopardising and delaying payments to all stakeholders. A build-up of a new backlog of unpaid bills is expected to arise in the second half of the

MFF period *(caused inter alia by offsetting the Contingency Margin used in 2014, and due to the significant postponement of launching new programmers under shared management*). A new payment crisis must be prevented towards the end of the current MFF.

2.3) Own resources, a win-win solution

85% of the EU's budgetary resources are Member State contributions. "Juste retour" seems to prevail in the discussions between Member States when deciding on their position on the EU budget. To a certain extent, the "payment crisis" can also be considered as a consequence of the financial crisis and fiscal consolidation operated by most Member States.

The S&D Group calls for an in-depth reform of the system of financing the Union to make the EU budget more stable, more sustainable, and more predictable, while improving transparency for the citizens. This would also minimise direct contributions from national budgets.

Reduced national contributions to the EU budget would contribute to budgetary consolidation efforts in the Member States and would make the system of own resources more autonomous, transparent and fair. This can only be done by creating genuine EU own resources. All Member States also contribute to a number of international organisations and development programmes without the expectation of net financial returns. When it comes to the EU, this is not the case. An important principle of public expenditure, namely that expenditure is allocated independently of the origin of the funding, is clearly not followed in the case of the EU budget. <u>This is why the S&D Group calls for the establishment of genuine EU own resources</u>. The highest political importance is given to the High Level Group on Own Resources (HLG OR) created as part of the MFF 2014-2020 agreement while reform of the financing of the EU budget should be proposed for the period covered by the next MFF. The first report by the HLG OR was quite detailed in terms of where we are and which are the viable options, but it is still has a fundamental lack of vision: we expect the next papers to be far sharper in their proposals.

The best chance for reform of the own resources system would be that the HLG OR proposes new options for own resources.[3] *This would have to be followed by an agreement at the European Council during the preparation of the post-2020 MFF with a new Own Resources Decision for that period. First initiatives on a reformed system of own resources could already take place in parallel with the planned review and revision of the 2014-2020 MFF (by the end of 2016).*

No real innovations are possible without strong political commitment on the part of the European Commission. We do not believe that Member States should compete over tax rates. In this respect, the S&D Group stresses the importance of maintaining **the fight against tax fraud and tax evasion** with the aim of recuperating the money lost through tax havens, fraud and corruption. Measures against tax fraud agreed at European level would also contribute to better financial management of national budgets.

3 S&D POSITION

3.1) A better MFF for the remaining period until 2020

Article 2 of the MFF Regulation states that national envelopes "*shall not be reduced through a revision*". Therefore, reallocation of funds between headings would be legally

[3] *In 2011 the Commission presented proposals for the Financial Transaction Tax as a new own resource and a proposal for a reformed VAT own resource. However these proposals did not pass in the Council and were not introduced into the new OR Decision for 2014-20.*

challenging. New political priorities at European level should not come at the cost of previous political agreements to finance growth and jobs. Several special instruments allow for reallocation of unused funds from one year to the next, and this flexibility can be improved in order to maximize EU funding capacity.

The revision of the MFF must tackle the lack of resources already predicted and witnessed since 2013 (when an agreement was reached). It must also provide enough flexibility to respond to unexpected circumstances.

As Socialists and Democrats, we advocate preserving programmes and funding which are used for our political priorities. Moreover, when the need emerges, as shown in the first part of this document, additional steps must be taken to respond to citizens' expectations. Today's investments in energy transition, research, innovation, human capital, public health, a properly functioning common asylum and migration system, development, strengthening our common border will provide high-quality growth and employment for tomorrow

Therefore, the S&D Group considers it essential to:

- **<u>Revise upwards the MFF 2014-2020 ceilings for commitment appropriations</u>** in the MFF 2014-2020 to finance programmes which faced excessive constraints in the first two years and where further difficulties are anticipated, namely:

    - **Heading 1b (Cohesion for growth and employment)**: to ensure the financing of the Youth Employment Initiative until 2020 at the earliest.

    - **Heading 3 (Citizenship, freedom, security and justice)** and **Heading 4 (Global Europe):** to address the internal and external dimension of the migrant/refugee crises, to provide resources for the EU cooperation programmes with third countries (as well as the EU development agenda).

- **Heading 1a (Competitiveness for growth and employment)**: to compensate as far as possible EFSI-related cuts to H2020 and CEF, and to safeguard sufficient funding for growth, jobs and competitiveness, as well as to ensure the transition to a low carbon economy in line with the EU's climate goals and the Paris COP21 agreement.

All agreed increases in commitment appropriations have to be accompanied by a corresponding increase in payment appropriations[4]

- **Revise upwards the overall MFF 2014-2020 ceiling for payment appropriations:**

  The solution for resolving the backlog of payments is to agree on an upward revision of the MFF 2014-2020 payment ceiling, as it has proved to be too low.

- **Agree on a new payment plan until 2020** (to be approved by the institutions and included in the inter-institutional meetings on payments).

- **Revise flexibility provisions**:

  The flexibility provisions aim to make the EU budget agile enough to respond to unforeseen circumstances and crises. The Parliament's agreement on overall lower ceilings both in commitments and payments compared to the previous programming period was subject to the condition, among others, that the MFF ceilings could be used to their full extent when establishing annual budgets,

[4] This implies upward revision of the MFF annual payments ceiling

through the maximum use of flexibility allowed by the MFF Regulation. However, so far, the Council has interpreted this restrictively. The **S&D Group asks** for the following changes

1) Changing the rules for offsetting[5] of the Contingency Margin as this is unsustainable. (*Offsetting would only endanger the implementation of programmes, and would cause a pile-up of unpaid bills at the end of the period when cohesion policy interim payments are increasing.)* Furthermore, the maximum amount to be mobilised by the Contingency margin should be increased.

2) Widening the rules for the carry-over of appropriations of the special instruments. Other current limitations in the flexibility provisions should be removed[6].

3) Enhancing the provisions under the **Emergency aid reserve** -EAR[7], including an increase of the available amount to EUR 1 billion.

4) Increasing the **Flexibility Instrument** to cope with unforeseen circumstances up to at least EUR 2 billion.

5*) Making changes in the rules for flexibility*[8]

Encourage countries to take responsibility for delivering on specific issues, particularly the refugee crisis. We call for the EU budget to better reflect the principle of solidarity. In concrete terms, flexibility could take the form of a financial bonus for countries that demonstrate responsibility in tackling the refugee crisis and a penalty for those unwilling to implement commonly decided measures.

6) Creating a **permanent EU crisis reserve** within the EU budget, higher than the MFF ceilings, but below the GNI limit of 1.23%. This reserve would enable the EU to deal with unforeseen circumstances or to respond to significant and long-term changes to its political priorities.

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[5] Frontloading of appropriations in the first years of the agreed period is backloaded in the end of the agreed period.

[6] No restrictions on the carry-over of unused appropriations and margins.

[7] Emergency Aid Reserve provides rapid response to a specific aid requirement for third countries in case of unforeseen events.

[8] The aim is to ensure that MS assume full share of their responsibilities in the context of the migration/refugee crisis.

7) Payment appropriations of special instruments must remain outside the MFF payment ceiling. Any other decision would further squeeze an already inadequate payment ceiling.

- **Improving inter-institutional negotiations on MFF**

A more structured procedure with more detailed and specific modalities for parliamentary engagement in the next MFF negotiations should be agreed in the mid-term review and revision. In the negotiations, a longer period of time should be ensured for the Parliament to analyse and deliver its position. This will enhance transparency in the decision-making process.

- **Technical improvements**

We should also try to find ways to resolve the conflict inherent in the very design of the EU budgetary procedure. A number of strategies could be deployed to help steer the debate towards more productive cooperation. Firstly, the technical link between commitments and payments should be strengthened to prevent rising payment backlogs. Secondly, a mandatory budget justification following each Council decision could tackle the Council´s tendency to say one thing but do another.

- The S&D Group calls for the **activation of available 'passerelle' clauses** regarding both the MFF regulation, as established in Article 312 (2) TFEU, and the decision-making procedure on own resources, as provided for by Article 48 (7) TEU

3.2) Preparing the future MFF

Reform the Revenue side

- Possible candidates for new OR should demonstrate EU added value, created by the very existence of the EU (i.e. in the form of the single market) and respecting the subsidiarity principle.

- The advantages presented by new revenue should reflect our political priorities (such as combating tax evasion/ tax avoidance, money laundering, reducing the risk of financial speculation, addressing environmental issues -e.g " Climate Solidarity Tax", taxing certain activities - e.g. corporate taxation) to be tackled at European level.

- *The S&D Group calls for continued tax harmonization as intransparent and uncoordinated corporate tax policies present a risk for the internal market, leading to unproductive outcomes such as increased taxation of less mobile tax bases, and enabling companies to engage in aggressive tax planning which cannot be tackled by Member States individually.*

<u>Adjust the duration of the MFF</u>

- The financial framework should become more consistent with the institutional rhythms and match the mandate of Parliament and Commission for reasons of democratic responsibility and accountability. The elected representatives of the citizens should be responsible for the main financial decisions taken during their mandate, in order to be accountable towards their electorate. **Therefore, the MFF should be set for a five-year period, in order to match the EP and Commission mandate**. Multiannual programmes should be adapted to 10 years in order to match their mandatory mid-term revision to MFF cycles.

<u>Re-assess the increased use of Financial Instruments</u> as a way to finance growing needs

- The role of financial instruments in the EU budget has increased significantly in the MFF 2014-2020 programming period as regards both the share of appropriations and the policy areas involved. The S&D Group calls for an in-depth investigation on the extent to which these financial instruments have delivered the results envisaged in the EU's political objectives in terms of both quality and quantity. Financial instruments provide an alternative and complementary way of funding to subsidies and grants and should not be used for the areas/projects which can only benefit from the use of grants.

CONCLUSION

The S&D Group is determined to ensure the allocation of sufficient resources to properly address the internal and external crises facing the EU. This can only be done by raising the respective MFF 2014-2020 ceilings, and at the same time, enhancing the flexibility provisions of the MFF.

The necessary funding for programmes contributing to growth, jobs and competitiveness, such as Horizon 2020, CEF and youth unemployment initiatives, must be secured. In addition, programmes aimed at addressing the refugee and migration phenomenon must be strengthened.

Overall, this means an increase in the ceilings for commitment appropriations in the MFF 2014-2020 for headings 1a, 1b, 3 and 4, as well as increasing the overall MFF 2014-2020 ceiling for payment appropriations.

NEXT STEPS:

The INI report on post-electoral revision of the MFF 2014-2020 will be put to a BUDG committee vote on 27 June. The deadline for amendments has been set as 12/05. The plenary vote is scheduled for the July plenary session.

It is anticipated that the Commission will present its proposal for the Interim MFF review in July or September 2016. The Commission´s proposal for the Interim MFF revision would then be expected in autumn.

The 2017 EU Budget should already reflect the possible changes which will be proposed in the Interim Revision of the MFF. Therefore, the negotiations on the annual EU budget *for this year will be strongly connected with the discussions on the Interim revision of the MFF 2014-2020.*