

The next MFF negotiations: this time is different?

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General context for the next MFF

- Double challenge**
 - || Adjusting the EU budget to the permanent **gap left by Brexit**
 - || Increasing EU spending in **new priority areas** (migration, internal and external security, EMU instruments)
- Desirable scenario**
 - || Shift in EU spending priorities
 - || Intelligent reforms in big policies (**Cohesion and Agricultural policy**) to reduce their size while enhancing effectiveness and ‘added value’
 - || Major reform of the **Own Resources System**
- Possible scenario**
 - || **No major changes in EU budget structure**
 - || **Horizontal haircuts** to all EU spending, with some deeper cuts to CAP and (maybe) Cohesion
 - || No changes in the system of Own Resources, **introduction of new corrections**

||| Impact of Brexit on the next MFF

- || **Quantitative effect:** Budgetary shortfall of ca. €10-13 billion per year during the next MFF
- || **Qualitative effect:** UK exit may change dynamics of negotiation in the European Council
- || **Impact on Own Resources:** elimination of UK rebate and the related corrections, possibility to abolish VAT-based Own Resource
- || **Relative size effect:** increase of the EU budget in relative terms (as % of EU GNI)

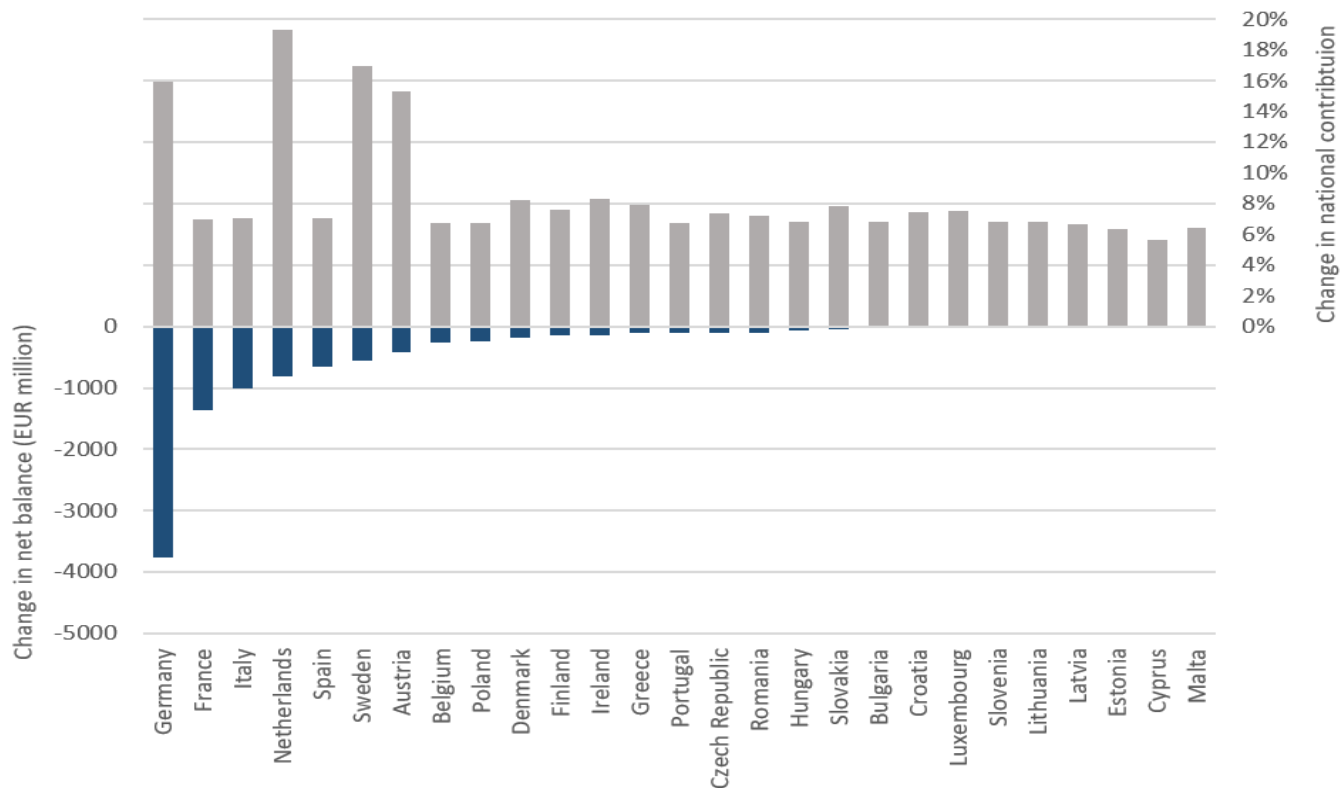


Different scenarios to adjust to Brexit

SCENARIO	SIZE EU BUDGET (in €bn)	AS % OF EU GNI	EFFECT
<i>Average EU spending (2014-2016)</i>	144,69	1%	----
Increase contributions to fund Brexit gap	137,53	1,14%	8% increase in contributions (avg.)
Cut spending to adjust to Brexit gap	127,03	1,05%	-10.5 €bn budget cut
Keep EU budget at 1% EU GNI	121,16	1%	-16,4€bn budget cut
Maintain current level of spending	144,69	1,19%	17,6€bn additional funding for EU27

source: Haas J, Rubio E, 2017, Research for AGRI Committee – Possible impact of Brexit on the EU budget and, in particular, CAP funding, European Parliament, Brussels

Adjustment through contribution increases



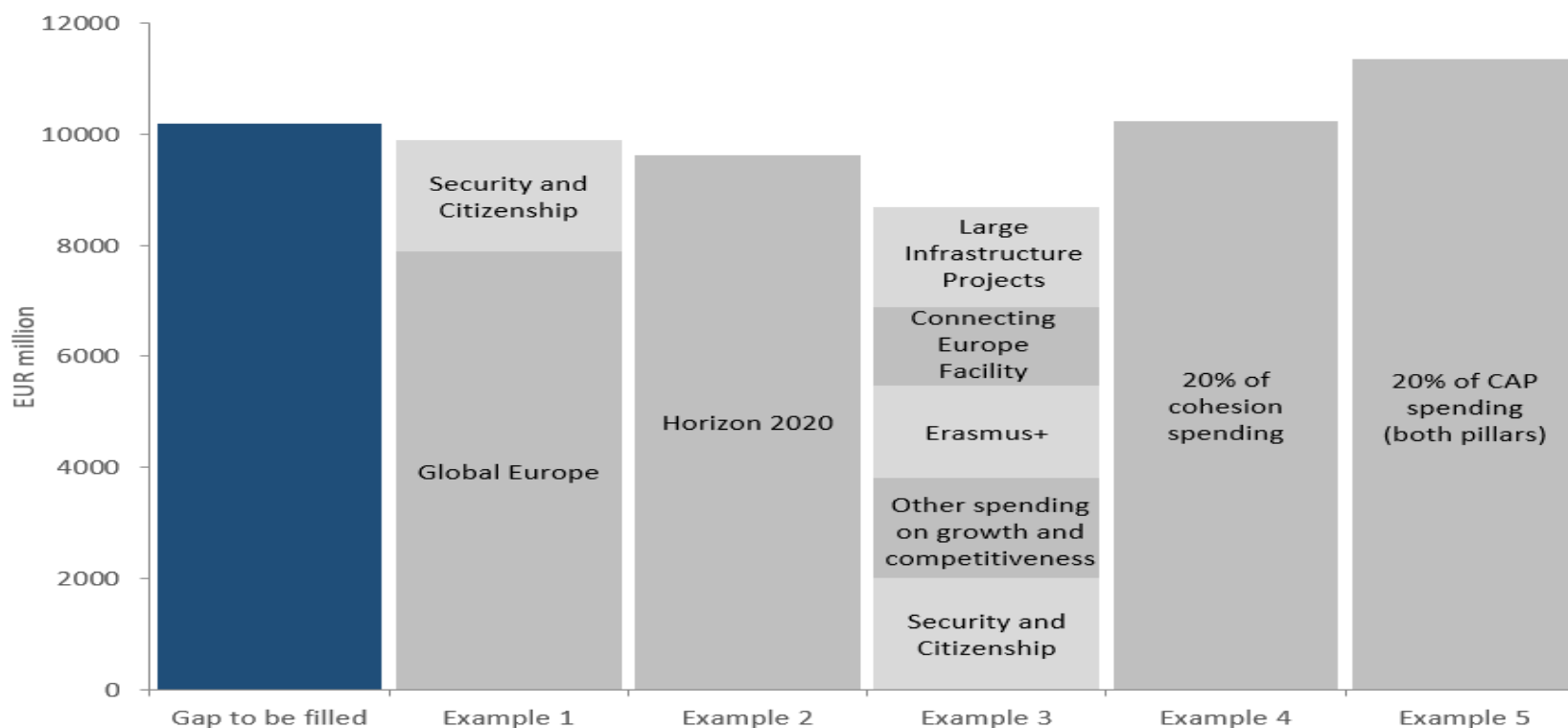
Burden of adjustment mostly borne by net contributors

Large contribution increase for Austria, Germany, Netherlands and Sweden as 'rebate on the rebate' ceases to apply

source: Haas J, Rubio E, 2017

Adjustment through cuts: difficult choices

€10 billion Brexit gap in comparison



source: Haas J, Rubio E, 2017

||| The default scenario

- || If no agreement on post-2020 MFF at the end of 2020, the ceilings for the 2020 EU annual budget will be extended (Art. 312.4 TFEU)
 - higher contributions to cover the gap
- || This would be a **bad outcome for everyone**: Net contributors would be particularly penalised, but net recipients could be blocked from receiving funds if legal acts are not extended

Will Brexit be a catalyst of reforms?

Some positive elements...

- || COM's balanced approach to adjust to Brexit gap
- || Many MS have expressed their agreement to increase GNI contributions
- || Commission doing an effort to 'put policies first' and illustrate EU spending choices



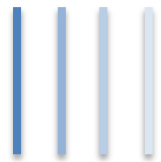
Will Brexit be a catalyst of reforms?

But worrying aspects...

- || Very tight calendar, other big items in the EU agenda (Brexit)
- || Some MS fiercely opposed to any increase in GNI contributions
- || Some options seem to be out of the table (e.g. radical reform of CAP)
- || No reflection on transitional periods and phasing out measures
- || Marginal attention to Own resources

Beyond the big figures, room for incremental reforms

- || A key issue: flexibility.
 - || Strengthening existing flexibility provisions
 - || More in-built flexibility in EU spending programmes
 - || More use of financial instruments
 - || More trial and error, more experimentation
 - || Allow for re-use of de-committed appropriations (€21-28 bn available over 7 years)



Thank You For Your Attention

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