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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL**

**Consequences for the European Union's Budget 2018 and beyond in case the Mid-Term
Revision of the Multiannual Financial Framework 2014-20 is not adopted**

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The Commission's proposal for the 2018 Budget¹ of 30 May 2017 is presented as if the Mid-Term Revision of the Multiannual Financial Framework would be approved. This Communication looks at the consequences of the revision not being adopted.

1. Challenges for the European Union's budget

The European Union (EU) has a limited budget (around 1% of the EU Gross National Income) but this budget is a critical tool for the Union to achieve results for its citizens. It is mainly an investment budget, pooling resources in areas where EU action makes sense, such as: improving transport, communication and energy networks across EU countries, protecting the environment and the development of rural areas, making the economy more competitive, helping researchers to team up across borders and young people to study abroad, promoting cohesion between regions.

The EU budget is also a factor of stability and predictability. It is framed over five to seven years through the multiannual financial framework (MFF), which sets the maximum annual amounts which the EU can spend in various policy areas every year. Today, however, the design of the EU budget is faced with significant challenges in a world that has become more complex and unpredictable.

The European Union must cope with a range of significant long-term challenges. Faced with the effects of the worst economic crisis since World War II, it must durably return to growth and address exclusion and youth unemployment. The migration crisis has revealed the need for the EU not only to provide humanitarian aid and shelter for refugees but also the importance of protecting its borders and addressing the root causes of migration. Terrorist attacks have shaken our societies, calling for more effective security and intelligence cooperation. The EU budget should be able to not only to deliver on the initial plans of the MFF, but also to adjust swiftly to new challenges and to deliver results rapidly on the ground.

So far the EU budget has been stretched as far as possible to respond to changing circumstances: unused margins and available flexibilities have been intensely used notably to (a) set-up the European Fund for Strategic Investments (EFSI) under the Investment Plan for Europe; (b) respond to the migration, refugee and security crisis and (c) help finance new initiatives such as the Youth Employment Initiative, the European Solidarity Corps as well as the upcoming proposal to launch the European Defence Industrial Development Programme.

¹ Statement of estimates of the European Commission for the financial year 2018 (SEC(2017) 250, May 2017)

The capacity of the EU budget to respond to further unforeseen events over the period 2017-2020 has now been seriously reduced.

2. Broad political agreement on the Mid-Term Revision

The Commission proposed a Mid-Term Revision of the current Multiannual Financial Framework 2014-2020 in September 2016. The main objective was to increase funding and flexibilities available to continue to provide an appropriate budgetary response to the two main political priorities – growth and jobs and response to migration – and reinforce the flexibility and agility of the budget.

After intense negotiations between the three institutions, a unanimous agreement was reached in the Council on 7 March 2017 and the European Parliament gave its consent on 5 April to a compromise Mid-Term Revision package, including the revision of the MFF regulation as well as a number of political agreements concerning in particular the reinforcement of specific programmes.

In accordance with relevant procedures, the General Affairs Council of 25 April was supposed to give final approval to the Multiannual Financial Framework at its mid-term. However, upon last minute request from the UK, the point was removed from the agenda. The arguments invoked are linked to the *purdah* (the official pre-election period during which the Government is not allowed to adopt any major decisions).

The formal adoption in Council is expected to take place shortly after the UK elections on 8 June, when the UK government will no longer be constrained by the rules governing the pre-election period.

Given the broad political agreement in both the European Parliament and the Council, the Draft Budget 2018 already anticipates this formal adoption and incorporates the elements of the Mid-Term Revision package related to 2018.

3. What does the Mid-Term Revision provide?

The Mid-Term Revision will provide the EU with important room for manoeuvre to respond to new developments until 2020. Even though it does not increase the total budget ceilings, it allows an increase of expenditure and additional flexibility for certain areas that have been agreed between the European Parliament and Council.

Within the agreed global MFF ceiling, the Mid-Term Revision includes a potential increase of expenditure of around EUR 6 billion over the period 2017-2020, particularly in areas such as:

- Youth unemployment (EUR 1.2 billion for the Youth Employment Initiative to be matched by the European Social Fund)
- Security and the intra-EU dimension of migration (EUR 2.5 billion for programmes such as the European Border and Coast Guard, EUROPOL, the EU Agency for Asylum, the new entry/exit system and emergency support for refugees),

- Addressing the root causes of migration (EUR 1.4 billion mainly for the new Partnership Framework with African countries and European Fund for Sustainable Development (EFSD) as part of the external Investment Plan)
- Erasmus+ (EUR 100 million, also contributing to the new European Solidarity Corps),
- Reinforcing successful programmes fostering growth (EUR 775 million for Horizon 2020, Connecting Europe Facility (CEF), COSME, EFSI-2 and Wifi4EU).

Furthermore, the agreement would provide substantial additional flexibility for the financing of new emergencies (at least EUR 1.3 billion available immediately from 2017). This is a crucial point as without the increased flexibility the European Union response to any possible unforeseen developments in the coming three years would be extremely limited.

Finally, the Mid-Term Revision provides additional flexibility to shift unused payment margins to the years 2019-2020, which will provide an additional layer of security to ensure that the payment ceilings in those years will be sufficient to allow all invoices from the implementation of structural funds to be paid on time without creating a backlog of unpaid bills as was the case in the period 2013-2015, and which caused great anxiety with the European Parliament.

4. What happens if ever the Mid-Term Revision were not adopted?

Some elements of the Mid-Term Revision were agreed by the co-legislator and are already included in the 2017 budget (mainly the EUR 750 million for the Framework Partnership with African countries) or are soon to be incorporated via politically pre-agreed amending budgets for 2017 (the first tranche of EUR 500 million for the Youth Employment Initiative (YEI) and EUR 275 million for the European Fund for Sustainable Development).

However, all other elements of additional expenditure listed above related to the period 2018-2020 would be at risk, since they can no longer be assumed to be politically pre-agreed.

This concerns most prominently the remaining EUR 700 million for the Youth Employment Initiative - which would a negative signal from Europe to its youth in need of support - and other funds supporting education, research, investment and growth. Horizon2020, which supports collaborative research and innovative SMEs, and CEF-Transport, which delivers trans-European networks, would be affected. Wifi4EU, a proposal aiming to deliver free Wifi to communities across the Union would face a funding gap as well as new proposals such as the European Solidarity Corps and the Defence Action Plan. Also the funds needed for our response to migration and external border control, to the extent that certain Commission proposals have not yet been adopted by the European Parliament and the Council, could be questioned, in particular the Dublin regulation or the Macro-Financial Assistance capacity.

Furthermore, additional flexibility will not be available, which will seriously limit the capacity of the EU budget to provide a meaningful financial response to unforeseen events, particularly in the area of migration, for example in case the European Council were to decide on a prolongation of the Facility for Refugees in Turkey.

With regards to the Draft Budget for 2018, in case the Mid-Term Revision is not approved, the only flexibility available to fund additional expenditure for migration, security or the potential prolongation of the Facility for Refugees in Turkey would require a reduction of available margins in other policy areas, such as agriculture.

Another example of direct consequences of not having a Mid-Term Revision is the solidarity support for natural disasters asked by Italy to cope with the destructions following the 2016 earthquakes. Without the flexibility provided by the Mid-Term Revision, the EU would find itself with very limited financial means to act in this case or in case of any major natural disaster, another international crisis, or any other unforeseen event.

All these consequences would be perceived as a lack of European unity and capability to react to any sudden crisis.

5. Preparing the future

As outlined in the White Paper on the future of the EU, Europe has done a lot over the past 60 years for its citizens. While there is currently strong support for the European project and strong expectations that the Union can do more for the common good, there is also a growing gap between expectations and the ability for the EU to deliver, in particular because its financial means are limited.

A swift adoption of the Mid-Term Revision is a crucial step in the right direction. It will allow improving security, managing the migration flows, closing the investment gap resulting from the financial and economic crisis as well as promoting employment, in particular youth employment.

In contrast, a failure to adopt the Mid-Term Revision would require an immediate adjustment of the budget for 2018 and would reduce the ability of the EU budget to react to any new emergencies.