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Delegations will find attached the abovementioned opinion. Please note that other language versions should be available at:

https://dm.eesc.europa.eu/EESCDocumentSearch/Pages/opinionsresults.aspx?k=(adoptiondate:2018/09/18..2018/09/21)(rapporteur:'DOZ ORRIT')

European Economic and Social Committee

ECO/460
Multiannual Financial Framework post 2020

OPINION

European Economic and Social Committee

Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions. A Modern Budget for a Union that Protects, Empowers and Defends. The Multiannual Financial Framework for 2021-2027
[COM(2018) 321 final]

Proposal for a Council Regulation laying down the multiannual financial framework for the years 2021 to 2027
[COM(2018) 322 final/2 - 2018/0166 (APP)]

Proposal for a Council Decision on the system of Own Resources of the European Union
[COM(2018) 325 final - 2018/0135 (CNS)]

Proposal for a Council Regulation on the methods and procedure for making available the Own Resources based on the Common Consolidated Corporate Tax Base, on the European Union Emissions Trading. System and on Plastic packaging waste that is not recycled, and on the measures to meet cash requirements
[COM(2018) 326 final - 2018/0131 (NLE)]

Proposal for a Council Regulation laying down implementing measures for the system of Own Resources of the European Union
[COM(2018) 327 final - 2018/0132 (APP)]

Proposal for a Council Regulation amending Regulation (EEC, Euratom) No 1553/89 on the definitive uniform arrangements for the collection of own resources accruing from value added tax
[COM(2018) 328 final - 2018/0133 (NLE)]

Rapporteur: **Javier DOZ ORRIT**

Referral	European Commission, 18/06/2018 Council of the European Union, 25/07/2018 and 05/09/2018
Legal basis	Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	07/09/2018
Adopted at plenary	19/09/2018
Plenary session No	537
Outcome of vote (for/against/abstentions)	140/3/7

1. Conclusions and recommendations

1.1 The EESC recognises the high European added value of the programmes where the Commission's proposal for the Multiannual Financial Framework (MFF) 2021-2027 concentrates the main increases in expenditure. However, the Committee questions the fact that these increases are made at the cost of strong cuts in cohesion policy (-10%) and the Common Agricultural Policy – CAP (-15%), due to the effort to reduce the EU budget, which goes from 1.16% of the gross national income (GNI) of the EU27 in the current budgets, to only 1.11% in the MFF post 2020.

1.2 The EU faces major challenges, including overcoming the negative social and political consequences of the crisis, and the external risks arising from geopolitical instability and economic nationalism. It should be aiming to deploy its considerable economic and political potential to promote advanced and growth-oriented economic, employment and social policies that ensure the fair distribution of growth gains, to the urgent need to combat climate change and to financing a transition towards a sustainable Europe (in the context of Article 3 of the TEU), and to harnessing the opportunities arising from the rise of artificial intelligence, digitalisation and Industry 4.0. All of this requires a greater budgetary effort. The EESC, in accordance with the European Parliament's position[1], proposes that the expenditure and revenue figure reach 1.3% of GNI. The proposed level of commitments of 1.11% of the EU's GNI is too modest to credibly deliver on the political agenda of the EU.

1.3 In line with the EESC opinion on the reflection paper on the future of EU finances[2], the EESC reiterates that Europeans need more (and better) Europe if the political crisis in the EU is to be overcome. The powers and financial resources currently allocated to the EU have been increasingly misaligned with the concerns and expectations of Europeans.

1.4 The EESC recognises the improvements that the Commission's proposal introduces in the structure, flexibility and capacity to promote synergies, as well as the increase in the percentage of revenue from the EU's own resources. However, the latter is insufficient. The revenues, in the Commission's MFF post-2020 proposal, only include a part of the proposals of the High Level Group on Own Resources (HLGOR) and the European Parliament (EP) that advocate a wider range of further sources of own resources.

1.5 While understanding the reasons for the Commission proposal, the EESC nevertheless expresses its disagreement with the reduction, at constant prices, of 12% of the amount of the European Regional Development Fund (ERDF) and 46% of the Cohesion Fund (CF) in the proposal for the MFF 2021-2027 with respect to current budgets.

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1 European Parliament´s resolution of 14 March 2018 on the next MFF: Preparing the Parliament's position on the MFF post-2020 - (2017/2052(INI)), co-rapporteurs: Jan Olbrycht, Isabelle Thomas, point 14.

2 OJ C 81, 2.3.2018, p. 131.

1.6 The EESC disagrees with the reduction in real terms of 6% in the proposed commitment for the European Social Fund (ESF+), especially given the recent inter-institutional proclamation of the European Pillar of Social Rights (EPSR) and the objective of quality job creation in November 2017. In line with its recent opinion on the Financing of the European Pillar of Social Rights[3], the EESC would have expected that the principles of the EPSR and the need for its implementation, especially concerning employment, should have constituted one of the guiding lines in the proposed allocation of planned commitments in the next MFF. A specific programme should be established to assist Member States to implement the Gothenburg Declaration on the European Pillar of Social Rights in order to support them in their efforts to pursue reforms to stimulate the creation of quality jobs in the context of sustainable development.

1.7 The EESC considers that the financing of cohesion policies (the sum of ERDF, CF and ESF) should be maintained in the MFF 2021-2027, at least with the same resources, at constant prices, as in the current financial framework.

1.8 The EESC welcomes the Commission's mentions of key strategic investments that hold the key to Europe's future prosperity and its leadership on the global Sustainable Development Goals (SDGs). Nevertheless, the EESC strongly believes that the SDGs and, more particularly, Agenda 2030 should have been mentioned in a more prominent manner, as Agenda 2030 is definitely an overarching strategy for the EU for the years to come.

1.9 The Committee recognises the substantial increases in commitments for Environment and Climate Action (+46%). However, the Committee, having endorsed the UN programme for sustainable development to 2030 and supporting the objectives of the EU to contribute to the transition towards a low carbon economy by 2050, also notes the lack of ambition in the share of the budget dedicated to the transition towards sustainable development and against climate change.

1.10 The EESC thinks that, although establishing an investment stabilisation mechanism for euro area members hit by country-specific shocks within the EU budget is a step in the right direction, the planned commitments both in terms of loan guarantees and in terms of subsidies towards interest payments for the above loans are far too low to make a difference during a crisis. This unique and limited programme of the possible budget for the euro area is not part of any EMU reform strategy that the post 2020 MFF mentions.

1.11 The EESC questions the proposed cuts (-15% in real terms comparing EU27 including the EDF between 2014-2020 and 2021-2027) in planned commitments for the Common Agricultural Policy (CAP). These cuts will make it impossible to implement a model of sustainable rural development, a global objective of the new reform of the CAP, and other objectives included in the Commission's recent communication on the future of food and agriculture.

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3 OJ C 262, 25.7.2018, p. 1.

1.12 The EESC commends the European Commission for the proposition of a basket of new own resources. However, it also thinks that the current proposals are not likely to result in sufficiently high autonomous, transparent and fair own resources. The EESC is, however, in favour of a speedy implementation of a coherent reform of the system such as to increase the share of revenue from own resources and to ensure that methods of raising revenue complement and reinforce the EU's policy objectives. This reform should be informed by the recommendations of the High Level Group on Own Resources and the European Parliament. The Committee draws the attention of the European institutions to the complexity of making all these own resources operational in the period 2021-2027.

1.13 The EESC hails the proposed elimination of rebates (or cheques), to countries that had been making large contributions to the financing of the EU budget.

1.14 The EESC supports the proposal to make the receipt of EU funds by the Member States conditional upon respect for the principle of the rule of law, a fundamental pillar of values of the Union according to Article 2 of the Treaty on European Union (TEU), and thinks that this conditionality could be extended to the other principles linked to the Rule of Law contained in the EU Treaties. It therefore asks the Commission and the EP to study this possibility.

1.15 The Committee welcomes the support for investment provided through the InvestEU guarantee and the envisaged involvement of other partners, such as national promotional banks and institutions or international financial institutions (e.g. the European Bank for Reconstruction and Development EBRD) but regrets that the level of resources is only sufficient to ensure a continuation of past levels of EIB[4] lending, and does not take into account the large EU investment deficit. The Committee also calls for the implementation of changes in the operation of InvestEU to ensure that relatively more funds are channelled towards the lowest-income countries. EU programmes should include promoting convergence, rather than divergence, as a clear aim.

1.16 The Committee expresses its concern that a rigid interpretation of the terms of the Stability and Growth Pact and other macro-economic conditions, as well as of the co-financing requirements for cohesion policy funds, makes it difficult for the EU Member States in most need to access this funding as necessary.

1.17 The Committee welcomes the proposed large increases in programmes for research and development of the digital economy and society and stresses the necessity for a well-defined strategy to connect innovation with a European sustainable industrial policy based on high quality jobs by, among other things, facilitating the collaboration between academic research, the industrial sector, the social partners and civil society organisations.

1.18 The EESC welcomes the proposed changes related to the significant increases in real terms for programmes under the Migration and Border Management and Neighbourhood and the World instruments. The adoption of a common asylum policy, based on compliance with international

4 European Investment Bank.

law and solidarity towards refugees and between States, is imperative and the establishment of an EU migration policy is also urgent. The EESC insists these issues be paid preferential attention in MFF implementation.

1.19 The Committee reiterates that the European Semester should be at the centre of implementing EU budgets, using as much as possible the flexibility of the new MFF. A reinforced participation of the social partners and civil society in the European Semester will be necessary for a more effective and democratic implementation of the Semester guidelines and for connecting the national and European spheres.

1.20 The Committee urges the EU institutions and the governments of the Member States to intensify the work in relation to the post-2020 MFF, so that it can be approved, according to the planned timetable, before the next European elections.

2. The European Commission's proposal for the Multiannual Financial Framework 2021-2027

2.1 This EESC opinion concerns the package presented by the European Commission on 2 May 2018. This included a communication on the MFF[5], four proposals for four Council Regulations[6] and a proposal for a Council Decision on the system of own resources[7].

2.2 The proposed commitments appropriations ceiling has been set at EUR 1.135 billion for 2021-2027 (in 2018 prices and including the European Development Fund (EDF)) or 1.11% of GNI, up from EUR 1.082 billion (excluding the UK contribution) or 1.16% of GNI (excluding the UK) for the period 2014-2020. The proposed payments appropriations ceiling for the same period has been set at EUR 1.105 billion (in 2018 prices and including the EDF) or 1.08% of GNI, up from EUR 1.045 billion or 0.98% of GNI.

2.3 Among the proposed changes, there are to be significant increases in real terms compared to the 2014-2020 (EU27 plus EDF) MFF for programmes under the headings Single Market, Innovation and Digital (+43% to EUR 166.3 billion and 14.7% of total budget, of which EUR 13.1 billion dedicated to the InvestEU programme), Migration and Border Management (+210%, to EUR 30.8 billion and 2.72 of total budget) and Neighbourhood and the World (+14% to EUR 108.9 billion and 9.6% of total budget). However, real cuts will be significant for Cohesion and Values (-12% to EUR 242.2 billion for the Regional Development and Cohesion policy cluster and -10% to EUR 330.6 billion for Cohesion Policy) and Natural Resources and Environment (-16% to EUR 336.6 billion and 29.7% of the total budget), most importantly for cohesion policy (-10%) and the CAP (-15%).

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5 COM(2018) 321 final.

6 COM(2018) 322 final/2, COM(2018) 326 final, COM(2018) 327 final, COM(2018) 328 final.

7 COM(2018) 325 final.

2.4 On the revenue side, the package includes proposals for additional elements to be considered in the Union's own resources system, while the proposal for a Council Decision suggests the ceiling will be increased for annual calls for own resources for payments to 1.29% of GNI and 1.35% of GNI in commitments, in order to meet the higher financing needs from the integration of the European Development Fund and the financing of new priorities, all while ensuring a sufficient safety margin for meeting financial obligations.

2.5 In addition to the proposed increase, the Commission has advocated changes in the structure of EU financing. The share of traditional own resources is to decrease slightly from 15.8% to 15%, and the national contributions from 83% to 72%, thanks to a planned reduction of gross national income-based contributions from 71% to 58%. A reform in the drawing of value added tax-based own resource is to result in an increase of its share from 11.9% to 14%. New own resources are to be introduced, including contributions from the Emissions Trading System, from the proposed new Common Consolidated Corporate Tax Base – once that can be phased in –, and a national contribution linked to non-recycled plastic packaging waste. These new resources could contribute 12% of the total EU budget.

2.6 The European Commission proposes that, in order to receive funds from cohesion policies, Member States have to comply with certain macroeconomic conditions, carry out structural reforms and comply with the requirements of the Stability and Growth Pact. Having completed the latter during the previous years is a condition for receiving aid from the new Investment Stability Function. Also, in order to mitigate the significant cuts advocated in the resources for cohesion policies and for the CAP, the Commission proposes that the percentage of co-financing of projects by the Member States should be increased.

2.7 The proposal for a Regulation on budget protection in the event of widespread deficiencies in the rule of law aims to sanction actions in a Member State that affect or threaten to affect the principles of good financial management or the protection of the financial interests of the Union, in particular those deriving from attacks on the independence of the judiciary. Sanctions may lead to the reduction and suspension of EU payments and financial commitments with the Member State concerned. The sanctions will be adopted on a proposal from the Commission, which the Council can reject by qualified majority.

3. General Comments

Political context and general objectives

3.1 Given the challenges and risks, internal and external, that the EU will have to face in the next decade, the EU needs a clear political strategy and a strong budget. In line also with its earlier opinion on the Reflection paper on the future of EU finances[8] and with the EP resolution[9], the EESC thus proposes that commitments for 2021-2027 should reach 1.3% of GNI.

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8 OJ C 81, 2.3.2018, p. 131.

9 European Parliament resolution of 14 March 2018 on the next MFF: Preparing the Parliament's position on the MFF post-2020 - (2017/2052(INI)), co-rapporteurs: Jan Olbrycht, Isabelle Thomas, point 14.

3.1.1 The financial and economic crisis and its management by European policymakers has left its mark in many European countries in terms of competitiveness loss, economic slowdown, poverty, inequality, rupture of social cohesion and, also, divergences between countries.

3.1.2 The citizens' distrust of national and European democratic institutions is leading to the growth of political movements that question democratic values and principles and the EU itself. Some of these political movements are now part of certain EU Member States' governments (or are likely to be in the near future) and have triggered the outcome of the Brexit referendum.

3.1.3 The neighbourhood of the European Union is severely affected, inter alia, by: a growing presence of undemocratic and/or authoritarian governments; the Syrian War and its regional and global implications; the serious political instability and armed conflicts in the Middle East and North Africa and the Sahel, and the African demographic pressure and the migratory movements towards Europe that it produces.

3.1.4 One of the consequences of these factors is the flows of refugees and migrants to Europe, through the Mediterranean. The adoption of a common asylum policy, based on compliance with international law and solidarity towards refugees and between States, is imperative. The establishment of an EU migration policy is also urgent. These issues and the strengthening of development cooperation, in particular with the countries of Africa, will require preferential attention from the MFF 2021-2027. It is largely reflected in the Commission's proposal, although with a predominance of aspects related to security.

3.1.5 The decisions and the unilateral rupture of very important international agreements by the current US government are contributing to global geopolitical instability and conflict with many European policies, including commercial policy, environmental policy and the fight against climate change, neighbourhood policy and the promotion of peace and prohibition of nuclear weapons, multilateralism in foreign relations and support for the United Nations system.

3.1.6 Europe has to face these risks by making the most of its capabilities and developing its potential, in fields such as research, innovation and technological development, its human capital, the competitiveness of its companies and its economy, and its exporting capabilities. It should also maximise and concretise, within the EU and towards the world, its democratic values and full respect for the rule of law, the values that characterise just, egalitarian and solidarity-based societies, and the defence of peace and multilateralism in international relations. For all of this, too, strong EU budgets are necessary.

3.1.7 The Commission and the EP have made proposals for reform of the EU and EMU that, in greater or lesser measure, promote greater integration. The end of this process is uncertain. The Single Market is not complete yet and this, together with a slowdown in innovations and the growing skills mismatches, puts European competitiveness at risk. The European Council approved, in Gothenburg, a Declaration on the European Pillar of Social Rights (EPSR). Reaching all these objectives will require a significant financial commitment from the EU and its Member States and political commitment in terms of effective and efficient investment of the

funds available. Success depends on the active involvement of the social partners and organised civil society in the decision-making process.

3.1.8 The main economic risk for the future of Europe is the investment deficit and lagging behind the world leaders in terms of innovations and their market introduction. The investment ratio, in relation to GDP, is far below its pre-crisis level.

3.1.9 Promoting investment to create sustainable, quality jobs, improving productivity and modernising the economy and companies, boosting industry and innovations, promoting convergence among the Member States; dealing with green and digital transitions; developing the Social Pillar, strengthening social cohesion and eradicating poverty; meeting the objectives and commitments of the Paris Agreements and the UN Sustainable Development Goals (SDGs): these should be the main objectives for achieving a European model of sustainable development. For this a strong 2021-2027 budget is needed with tailored programmes that contribute the maximum of European added value.

3.1.10 Taking these and other aspects into account, the EESC considers that the EU needs ambitious budgets that are instruments of policies that develop a clear strategy for strengthening the Union, with more integration, more democracy, stronger support for the social partners and civil society organisations both in the EU and outside, greater support for companies in facing environmental and digital challenges, a stronger social dimension and more support of rural life. Only in this way can the EU contain and overcome internal centrifugal forces and deal with external geopolitical risks.

The expenditure side of the new MFF

3.2 However, the Commission's proposal seems excessively geared towards preserving the status quo, embodying a mismatch between the nature and scale of the new challenges facing the EU, and its ambitions, and the resources available to achieve them.

3.3 Article 3 of the Treaty on European Union (TEU) stipulates that the EU must promote sustainable growth, respecting the environment. The climate emergency has now been made a top priority, including for the EESC, and it is a global framework for action not only for public authorities, but also for economic players, workers and citizens. As a result, a broad economic, social and environmental transition must be organised and, above all, financed[10].

3.4 The EESC welcomes the changes in the structure of the budget, with the re-organisation of headings and the consolidation of programmes, and the enhancement of flexibility mechanisms which will allow a more agile MFF while preserving the stability it offers.

3.5 While understanding the reasons for the Commission proposal, the EESC nevertheless expresses its disagreement with the reduction, at constant prices, of 12% of the amount of the European

10 See also EESC opinions NAT/735 European pact for climate financing, rapporteur Rudy de Leeuw and ECO/456 Action Plan for sustainable finance, rapporteur Carlos Trias Pinto. Not yet published.

Regional Development Fund (ERDF) and 46% of the Cohesion Fund, in the proposal for the MFF 2021-2027 with respect to current budgets.

3.5.1 Evidence suggests that the crisis has led to the re-emergence of divergence in income per capita, especially between north and south[11]. Although the share of the EU27 population living in "less developed" regions (with GDP per capita lower than 75% of the EU average) has been falling since 2010, that of the EU27 population living in "transition" regions (with GDP per capita between 75% and 90% of the EU average) has been rising. However, this is partly because the share of the EU27 population living in "developed" regions has been falling due to the effects of the crisis[12]. Thus, the convergence that has been taking place, is not all upwards income convergence. Further public investments in health, education and social inclusion, especially at the local and regional level, are needed and should be accommodated through the application of the golden rule that the Committee has recommended in several of its latest opinions: that the investment expenses, in particular those that promote long-term sustainable growth, are not counted as regards fulfilment of the deficit objectives of the Stability and Growth Pact, which will in this way still ensure the long-term sustainability of public finances.

3.5.2 In this context, the EESC notes that economic and social conditions vary significantly between regions with some diverging in recent years, even in relatively richer countries. Cohesion policy should reflect this, by introducing new alternative social indicators, such as employment and target groups' activity rate, as well as poverty and social inclusion measures, in addition to relative per capita GDP.

3.6 The EESC disagrees with the proposed real cuts in commitments for the European Social Fund Plus (-6% in real terms for the period 2021-2027 compared to 2014-2020). The real cut will be greater as the Youth Guarantee will be included in the ESF+. This fund should, in fact, remain at least stable in real terms to 2020 values given that it provides the core financial means through which the EU can support the implementation of the European Pillar of Social Rights, a key to strengthening the EU's social dimension and fostering upwards convergence in social standards. Minimum national co-financing rates should not increase, as that would prevent some Member States from investing in some regions, thereby wasting the opportunities of the European Added Value. The implementation of the EPSR can also promote greater resilience among euro area Member States and, consequently, the functioning of EMU. Joint actions of the social partners at European, national and regional level are an indispensable tool to that end. The EESC therefore regrets that these, unlike in the current programming period, are not explicitly mentioned in the draft Regulation and invites the EC to reinstall the provision.

3.7 The EESC considers that the financing of cohesion policies (the sum of ERDF, CF and ESF) should be maintained in the MFF 2021-2027, at least with the same resources, at constant prices, as in the current financial framework.

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11 ETUI/ETUC (2018), Benchmarking Working Europe, Brussels: ETUI.

12 Darvas, Z. and Moes, N. (2018), How large is the proposed decline in EU agricultural and cohesion spending? Bruegel Blog post, 4 May 2018.

3.8 The EESC, in line with its opinion on The future of food and farming[13], believes it necessary to proceed with a new reform of the CAP which, maintaining its two pillars, reorients them by channelling direct aid to a much greater extent to arable and livestock farmers, small and medium-sized enterprises and family farms, and that funds for rural development should be used to promote a sustainable model that takes into account the commitments of the Paris Agreements and the United Nations SDGs. Funding social infrastructure in rural communities through the European Agricultural Fund for Rural Development has been a very important aspect of the EU's active policies against rural depopulation and has served inhabitants of rural areas, farmers as well as small businesses and communities. The significant cuts that the Commission proposes for the CAP (-15%) make it difficult to advance in this direction or to achieve the objectives formulated in the Commission communication on the future of food and agriculture.

3.9 The EESC welcomes the proposal to create a stabilisation mechanism for the euro area within the EU budget. This mechanism will aim at protecting investment spending in euro area Member States in the event of country-specific shocks that put pressure on their public budgets. This is a necessary reform to render the EMU more resilient and to avoid setting off divergence dynamics among Member States.

3.9.1 However, the Committee believes that this mechanism, as proposed, will not provide sufficient stabilisation in the event of a crisis. It would only allow for limited back-to-back loans to affected Member States. The amount of EUR 30 billion is insufficient to allow lending to more than one country simultaneously[14]. Similarly, the subsidisation of the interest payments by an amount of up to EUR 600 million per year for these low loans would offer negligible relief to Member States and hence insufficient stabilisation in the euro area. A larger margin under the payment commitments, requiring a higher ceiling of contributions, would be a first step towards a stronger stabilisation capacity.

3.9.2 The EESC expresses its concern that the Commission's proposals on the next MFF do not contain provisions regarding the reform of the EMU and its governance and the budgetary implications of this, in particular with regard to the creation of the European Monetary Fund, or services or benefits that reach citizens such as unemployment insurance, complementary to that of the States, in times of crisis.

3.10 The InvestEU Fund builds on the previous European Fund for Strategic Investment (EFSI), with the same annual contribution and the same estimates for its effects on total investment. Its four Investments will come under four policy areas (sustainable infrastructure; research, innovation and digitalisation; small and medium-sized enterprises; as well as social investments and skills) that all go in the right direction. The EESC particularly welcomes the fourth one, since it can facilitate the financing of projects in crucial sectors such as skills, education, training, social

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13 OJ C 283, 10.8.2018, p. 69.

14 See Claeys, G. (2018), New EMU stabilisation tool within the MFF will have minimal impact without deeper EU budget reform, Bruegel Blog, 9 May 2018. According to this analysis, EUR 30 billion was about one third of the amount lent to Ireland during the crisis.

housing, social innovation, and integration of migrants, refugees and vulnerable people. This commitment to guaranteeing credits from the EIB, and possibly other public banking institutions, is to be welcomed, but it will only be enough to enable a continuation of previous levels of credit while some Member States with relatively low income per capita may still not benefit. A bigger effort will be needed in order to close the EU's investment gap.

3.11 The main objective of cohesion policies is to promote upward economic and social convergence between the Member States. Setting rigid conditionalities can hinder access to funds from cohesion policies to the Member States and regions that need them most, those of lower income or more indebted. What was said by the EESC in its opinion on the MFF 2014-2020[15], remains valid: "... the Committee is, however, opposed to the idea of applying macroeconomic conditionality to the disbursement of cohesion policy funds". However, the EESC advocates implementation of cohesion policy under the guidelines established by the European Semester, in which there is enhanced participation of the social partners and civil society organisations, both nationally and at European level.

3.12 The co-financing requirements of the ERDF, the CF and the ESF, rigidly applied, prevented their use during the policy of extreme austerity by some of the countries most in need of its financing, thereby promoting divergence. Today, they continue to limit, in some countries, access to these funds, and may do so more in the future, if the post-2020 MFF increases the co-financing percentage of the Member States. The EESC calls for the criteria for co-financing to become more flexible, so that the economic and financial situation of each Member State is taken into account and that what is stated above in this chapter on investment expenditure in relation to the objectives of the Stability and Growth Pact is also taken into account.

3.13 After the experience of some of the structural reforms imposed or promoted during the period of extreme austerity, it seems logical to be suspicious of making access to cohesion policy funds conditional upon the implementation of the aforementioned reforms in a generic way. The EESC does not oppose reforms, but considers it essential to specify what kind of reforms we are referring to. In several opinions, most recently the one on Euro area economic policy 2018[16], the EESC defends structural reforms that improve productivity growth, job security and social protection, while favouring investment and strengthening collective bargaining, based on the autonomy of the social partners, and social dialogue.

3.14 The Committee welcomes the proposals for large increases in programmes for Research and Innovation and development of the digital economy and society, as they can form the basis for sustainable and robust increases in productivity, wages and standards of living. It would be very important for there to be a well-defined strategy of connecting innovation with a European industrial policy, from which all Member States could benefit, in particular those with lower levels of development. The participation of social partners and civil society is essential for the framing and application of an efficient industrial policy that is well connected to innovation

15 OJ C 229, 31.7.2012, p. 32.

16 OJ C 197, 8.6.2018, p. 33.

systems. Furthermore, the current context also demands a solid and strong focus on research in societies, democracy, culture and social transformation.

3.15 It is also necessary to emphasise the 92% increase in the financing of Erasmus+ (to 26 368 million EUR for 2021-2027), one of the programmes that has contributed the most to European identity.

3.16 The EESC welcomes the increased funds for international cooperation and humanitarian aid, but expresses concerns over the reconfiguration of external action towards security and migration pressure – moving from a more long-term bottom-up, needs-driven and country-owned approach - and definition of priorities, which may leave out the most vulnerable regions. The EESC calls for a commitment to support partner countries' efforts to implement their own plans to pursue the Sustainable Development Goals (SDGs).

Financing and own resources in the new MFF

3.17 With the new MFF, the Commission is proposing some changes to the way in which the EU budget is funded, but these are modest when set against proposals from the High Level Group on Own Resources (HLGOR) and from the European Parliament and when set against the need to fund necessary expenditure. The new proposal provides for a gradual shift towards breaking the EU's dependence on contributions from the Member States and very gradually moving towards financial self-sufficiency. To this end, a small number of new sources of revenue are proposed.

3.18 The MFF proposal is modest and unambitious, when the need is for a determined effort around a coherent agenda. This should start from the HLGOR and European Parliament proposals for a wide range of further sources of own resources, leading to a significant shift towards reliance on own resources within the period of the coming MFF.

3.19 The EESC reiterates what was expressed in its opinion on the reflection paper on the "Future of EU Finances"[17], which expressed agreement with the analysis in the final report – "Future financing of the EU" – of the High Level Group on Own Resources (HLGOR)[18], chaired by Mario Monti. It is particularly important that in the MFF post-2020 new revenues consist predominantly of autonomous, transparent and fair own resources. These would reach the EU budget directly without going via the Member States but would not exacerbate the tax burden or further penalise either the most disadvantaged Europeans or SMEs.

3.20 As stated in its opinion on the reflection paper on the "Future of EU Finances"[17] some of the new resources proposed by the report of the HLGOR would provide European added value in terms of revenue, being levied at the most appropriate level both to act on transnational mobile tax bases and to counteract the global impact on the environment: taxing corporations,

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17 OJ C 81, 2.3.2018, p. 131.

18 Future financing of the EU. Final report and recommendations of the High Level Group on Own Resources, December 2016.

(CCCTB)[19] especially multinationals, financial transactions, fuels and carbon dioxide emissions.

3.21 As argued by the HLGOR, a corporate income tax based own resource has the "advantage of improving the functioning of the single market". At the same time, the Common Consolidated Corporate Tax Base simplifies and harmonises the rules across the EU and limits the scope of the harmful elements of tax competition.

3.22 A digital services tax could, if properly designed, reflect European value added, as the location used for taxation purposes can be quite separate from the location of transactions, but it is an interim solution.

3.23 The Committee draws the attention of the European institutions to the complexity of making all these own resources operational in the period 2021-2027.

3.24 Contributions that are linked to improved environmental standards and to combating climate change also promise European value added and are closely linked to the EU strategic objective of a sustainable development model. Moreover, only common taxes on energy and environmental damage can ensure fair competition within the single market. In this context the Commission is proposing contributions linked to non-recycled plastic waste and the emissions trading system (EU ETS). Sources of revenue should be sought in charges for other areas of environmental pollution that cause costs beyond a single Member State. Examples include road fuel and airline ticket taxes, as suggested by the European Parliament and the HLGOR and the introduction of a carbon tax. Progress towards deciding on and implementing such new sources of revenue, all consistent with the wider EU policy agenda, should be set in motion rapidly.

3.25 The Commission also proposes a simplification of the current Value Added Tax-based Own Resource, which is currently complex, reflecting differences in VAT rates between countries. Simplification to a single levy rate across all Member States would be welcome. The current proposal offers a small increase in revenue. However, the VAT contribution will remain essentially similar to that linked to GNI levels in that it reflects general economic activity within a Member State rather than specific EU policy objectives.

3.26 The UK leaving the EU gives an opportunity gradually to totally eliminate the system of rebates that grew up to also reduce payments from the UK and some other Member States. This is to be welcomed, as is the return to the EU budget taking 90% of customs revenue, in line with the reduced costs of customs collection in Member States. A small further addition could come from the profits of the ECB (seignorage). However, in total, these new forms of own resources remain too small and too uncertain to justify hopes that they will allow a significant reduction in GNI-linked contributions.

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19 Welcomed as far back as 2011 by the EESC in its opinion on a Common Consolidated Corporate Tax Base, OJ C 24, 28.1.2012, p. 63 and in 2017 in the EESC opinion on a Common (Consolidated) Corporate Tax Base, OJ C 434 of 15.12.2017, p. 58.

4. Specific comments

4.1 The EESC supports the proposal that makes the receipt of EU funds by the Member States conditional upon respect for the principle of the Rule of Law, a fundamental pillar of the values of the Union according to Article 2 of the Treaty, provided its implementation does not penalise citizens or individual firms currently benefiting from EU funds. Given that the budget is the main instrument for the implementation of all Union policies, the Committee considers that this conditionality could be extended to the other principles linked to the Rule of Law contained in the EU Treaties, and asks the Commission and the EP to study this possibility.

4.2 Flexibility should be used to the maximum to promote the interconnection of spending programmes for the mutual benefit of policies and funds. For example: CAP and Horizon for the technological modernisation of agriculture in vital rural areas and sustainable agrifarming; Research, Development and Innovation (RDI), universities, Erasmus+ and other programmes for young people; investment and cohesion policies, the European Social Fund and a new European Pillar of Social Rights development programme, that the EESC proposes in this opinion, to promote convergence between Member States; etc. The EESC therefore regrets the proposal to amend the rule N+3 rule to N+2[20] and invites the EC to reconsider.

4.3 Current evaluations of the implementation of the Juncker Plan (Investment Plan for Europe) cast doubt on claims of its effects in raising investment to the initially predicted levels, still less to levels required to reduce significantly the shortfall in investment compared with the pre-2008 period. Several lowest-income Member States still do not benefit sufficiently from the plan. Appropriate mechanisms must be established to correct this trend, which increases divergence between the Member States. The possibility of combining financing from different funds, for example the Cohesion Fund and InvestEU, should be promoted.

4.4 Strengthening social cohesion and restoring the trust of European citizens go hand in hand. The development of the European Pillar of Social Rights (EPSR) could be an important contributor for both purposes by, inter alia, supporting and giving guidance to the Member States pursuing reforms to create sustainable, high quality jobs of high value added. The EESC proposes establishing a specific EPSR programme within the MFF 2021-2027 on the basis of commitments by the Member States that developed the Gothenburg Declaration. The European Social Fund+ would help finance it, according to a system of indicators that would include, inter alia, unemployment and activity rates, schooling and school failure, GDP per capita, indicators of poverty and social inclusion, both those of a general character, as with regional indicators, and those referring to certain disadvantaged social groups.

4.5 The European Semester should play a leading role in the implementation of the EU budgets, making maximum use of the flexibility of the new MFF – for example, to ensure a strong relationship between cohesion policy and other policies, such as innovation, investment and job creation. To this end, the mechanisms for the participation of the social partners and civil

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20 A portion of the budgetary commitment is automatically decommitted by the Commission if it has not been used or if no payment application has been received by the end of the second year following that of the budgetary commitment (n+2). Source: Commission.

society in the European Semester must be properly implemented so that they know how to connect their national spheres with the European. By supporting the implementation of the European Semester, the Commission and the Council would become directly involved in national political issues. It has to be ensured that neither social rights, the rights of workers, nor those of consumers are curtailed through measures supported by EU-funds.

4.6 Priority is to be given to the efforts that the European institutions and national governments, accompanied by civil society organisations, have to make in order for the post-2020 MFF to have more funding and to rebalance their priorities in the way that the EESC proposes in this opinion. The EESC urges them to intensify their work so that it can be approved, according to the planned timetable, before the next European elections.

Brussels, 19 September 2018

Luca JAHIER

The president of the European Economic and Social Committee

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Appendix

Figure 1

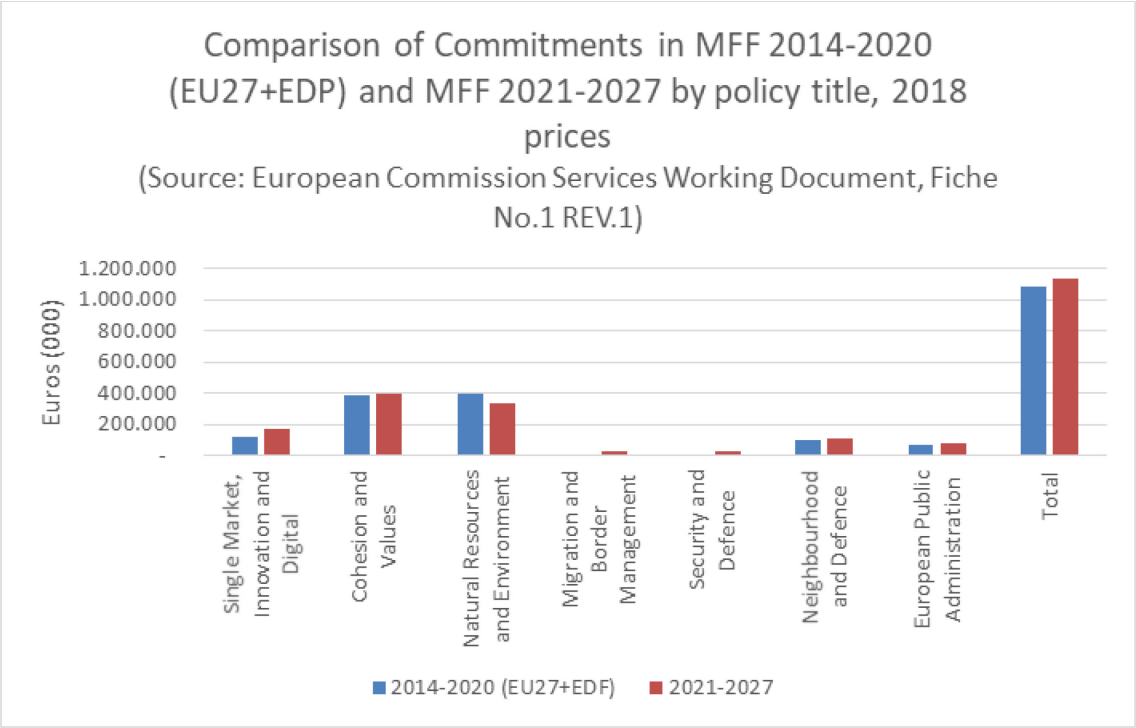
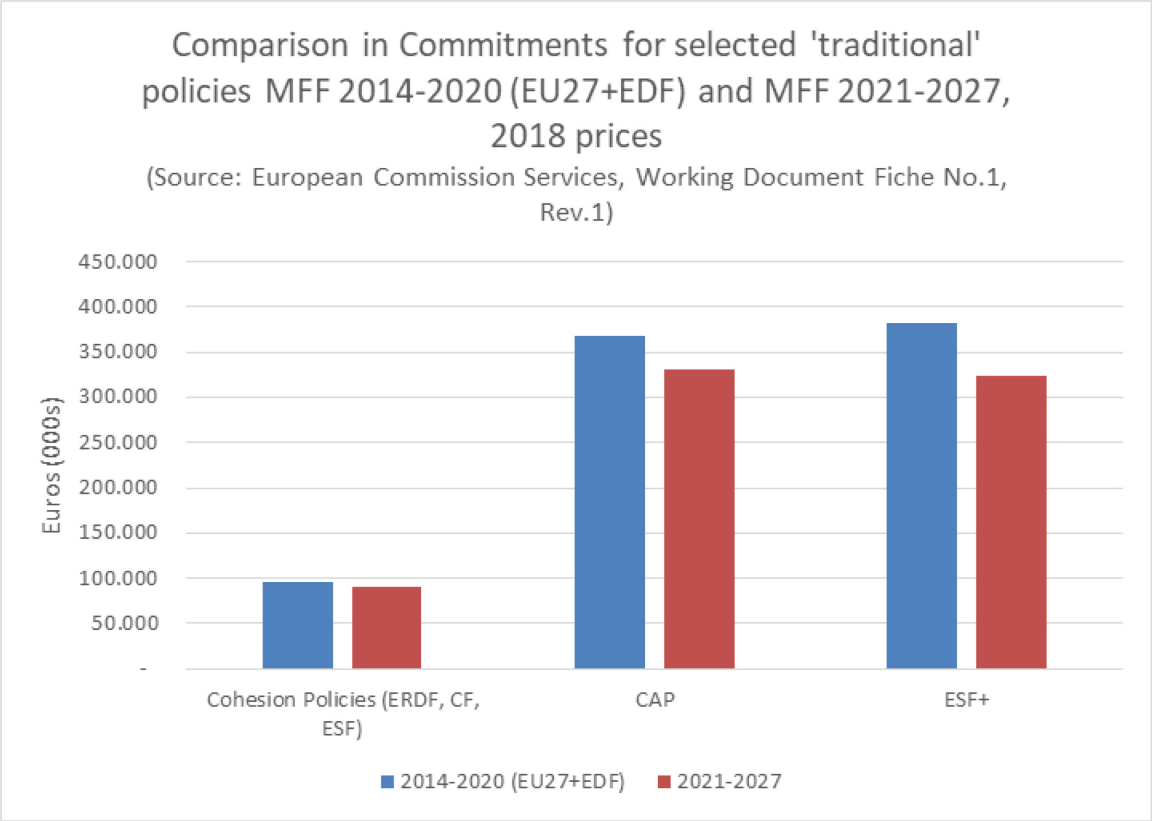
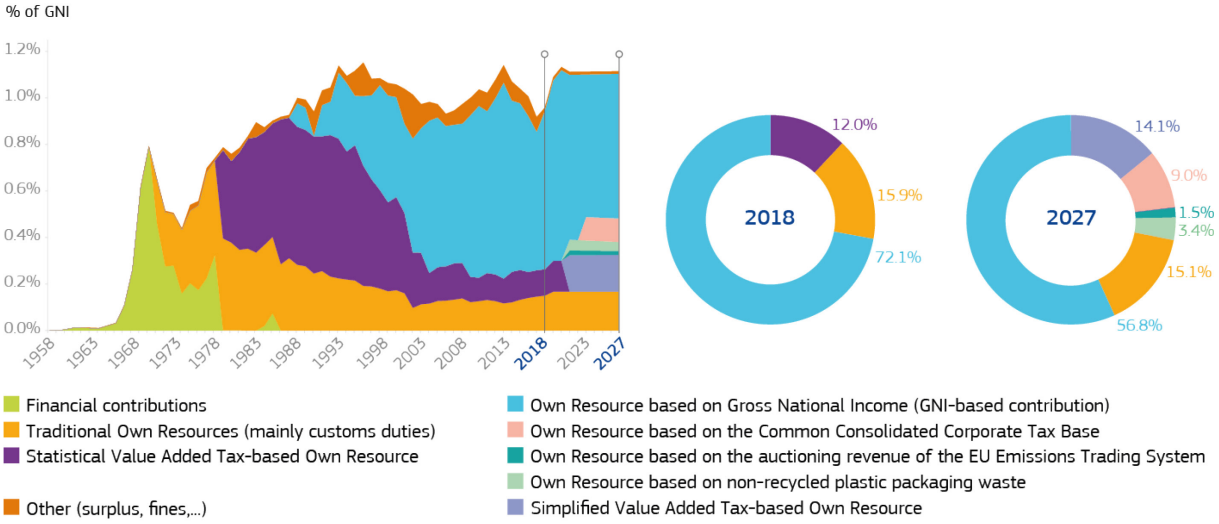


Figure 2



Development of sources for financing of the EU budget



Source: European Commission