An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office

Tithe an Oireachtais
Houses of the Oireachtas

The Multiannual Financial Framework of the EU

PBO Note 3 of 2018

Introduction

Since joining the European Economic Community (now the European Union) in 1973, the Irish Exchequer has received net receipts of €41.9 billion.[1] As a Member State, Ireland makes contributions to the Budget of the European Union, and receives the benefits of membership, including access to the Single Market.

The Multiannual Financial Framework (MFF) is a Regulation that establishes a seven-year framework which sets an overall ceiling for annual spending under the European Union's Budget. While it provides a high-level breakdown of the policy areas to be funded and the individual ceilings involved, it does not constitute the EU Budget. Each year, an annual budget is agreed between the European Commission, the Council and the Parliament.

Multiannual Financial Framework 2014-2020

Each Multiannual Financial Framework is split into two elements - Commitments and Payments. Commitments allow the EU to commit to spend money in future years - for example, by approving a multi-year project. The Table below sets out the payment appropriations for the MFFs in 2007-2013 and 2014-2020.

MFF	Payment Appropriations
2007-2013	€925,950 million
2014-2020	€1,023,954 million

Source: European Commission, MFF 2014-2020 and EU Budget 2014: the figures.

The Table below shows the position of the Irish Exchequer vis-à-vis receipts from, and contributions to, the European Union 2014-2017.

Year	Receipts*	Contributions*	Net*
2014	1,423	1,685	-262
2015	1,783	1,952	-169
2016	1,622	2,023	-401
2017	-	2,020**	-

*All figures in € millions. Figures for receipts do not include payments made directly to private beneficiaries in Ireland. Between 2010 and 2016, these averaged €110 million per annum.
**2017 payments are estimated as of December 2017, Receipts will be released with the 2018 Budget Statistics report.

[1] Budget Statistics Report December 2017, Department of Finance

The MFF after 2020

The current framework concludes in the year 2020. The future of the MFF is currently being discussed and one of the key items to be agreed is the future length of MFF periods.

The European Commission plans to publish its proposal for the Multiannual Financial Framework post-2020 in May 2018. Member States will then be given the opportunity to respond prior to tripartite negotiations between the European Commission, the Council and the Parliament.

Brexit and the EU Budget

There are two elements to the impact of Brexit on the EU Budget:

1. One-off effects – the 'Brexit Bill'
2. Structural Effects – the 'Brexit Gap'

The 'Brexit Bill'

The 'Brexit Bill' is the shortfall in the 2014-2020 MFF that will be caused by the UK's exit from the EU. This contains two different types of commitments: all currently outstanding budget commitments (which could fall post 2020) and specific commitments for years in the current MFF cycle when the UK will have exited the EU (2019-2020). There is no agreed-upon estimate of this cost.[2]

The 'Brexit Gap'

The structural gap that will be left in the EU budget after 2020 is expected to be ca. €10 billion per year. This shortfall must be addressed by either cuts to spending or increases in contributions. Commissioner Oettinger has given an opening position that this gap will be met 50/50 by increases to payments by Member States and cuts in EU spending. He has indicated a preference to increase the contribution of Member States to 1.1% of EU GNI.[3]

The MFF and National Budgets

The MFF affects national budgets in two ways:

1. The ceiling set in the MFF will impact the overall contributions required from EU Member States. The higher the ceiling, the higher the potential contributions which can be requested under each budget.

[2] 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.

[3] Gunther Oettinger, Press Release, European Commission.

2. The MFF sets out the priority given to the different policy areas of the EU.

The varying economic and demographic profiles of Member States means that the weighting of policy priorities in the MFF will impact upon them differently, e.g. as a Member State with a relatively high GDP-per-capita in both of its regions, and a relatively low population, Ireland's allocations under Cohesion Policy are relatively small whereas those for Eastern European Member States can be very significant.

The European Parliament's position on the MFF post-2020

The European Parliament's position on the MFF is to change its duration to 10 years, instead of the current 7 year period. This would align the MFF more closely with the terms of the Parliament and Commission, which are both elected with a 5 year mandate.

To increase the flexibility of EU finances, the Parliament are proposing that the next MFF should:

- Combine budget lines to reduce policy headings, which would make it easier to transfer funds from one area to another;
- Contain a Crisis Reserve funded by surpluses, sanctions and de-commitments from EU programmes. This would be used to provide funding in reaction to crises or major events with serious humanitarian or security implications;
- Introduce a mandatory margin (e.g. 5%) on EU budgets to act as a reserve for reacting to unexpected events or finance new priorities that arise. This could be either a line item to allow for unforeseen expenditure under specific policy headings in-year, or a general budgetary reserve to respond to in-year events in any area;
- Include mechanisms to make EU spending programmes more flexible, e.g. adjustable co-financing rates to allow Member States to change their co-financing rate to better reflect local economic conditions.

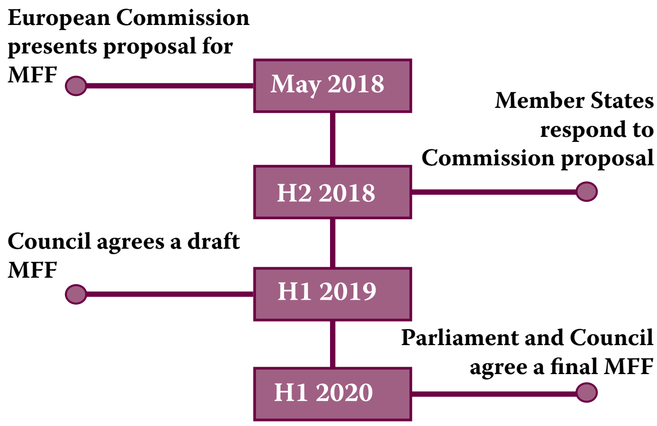
In proposing changes to the structure of the MFF, the European Parliament will be calling for both a change to the structure of the incomes the EU Budget receives and a re-balancing of the division of expenditure among different priorities. This will have to be negotiated between the Parliament, the Commission and the Council.

The Parliament is calling for a significant reduction in the expenditure allocated to Agriculture (currently around 1/3 of all EU spending). In addition, it also supports:

- Increased focus on research and innovation;
- Weighting cohesion policy further in favour of less economically developed Member States;
- Increased funding for cross-border infrastructure;
- Increased funding targeted at refugees and migrants.

Timeline for new MFF

The figure below sets out the high-level timelines for the agreement of the next Multiannual Financial Framework:



Note: "H" refers to half of a given year, e.g. H1 2019 is the first half of 2019.

Key Questions that arise for Ireland

1. Will the new MFF lead to reduced funding for the Common Agricultural Policy (CAP)? If so, what kind of reforms to the CAP are envisaged?
2. Will there be changes to the level of funding Ireland receives through other funding instruments?
3. Overall, how will the changes to the MFF impact Ireland's net contribution to the EU Budget?

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