BSC Webinar Policy on the EU recovery and MFF

In view of the webinar organised by the Baltic Sea Commission on 2 September on the EU Recovery instrument and the Multi-Annual Financial Framework (MFF) 2021-2027, this paper provides a brief state of play of the negotiations. It also puts together all recent CPMR analysis on the themes, to provide participants with an overall picture about the key issues at stake for regional authorities.

Context

- **Long lasting budget discussion for two years...** Although the European Parliament adopted its position on the EU budget for 2021-2027 back in November 2018, the European Council has been slow in adopting a position only in July 2020. On the Cohesion Policy regulations, negotiations are at the latest stage of the negotiations ("trilogues") between co-legislators with some files quite advanced and where compromise agreements have been reached as European Territorial Cooperation and some Common Provisions Regulation.

- **...But the Covid-19 outbreak is a game changer in the budget negotiations:** The economic downturn and the need to face unprecedented challenges caused by the global health crisis led the European Commission to present, on 27 May 2020 the EU Recovery Instrument “Next Generation EU” and a revised MFF for the 2021-2027 period setting up the EU plan for the recovery. This additional funding will be repaid over a long period of time through future EU budgets – between 2028 and 2058. EU leaders came to an agreement in July 2020 to help the recovery after the pandemic and should support investments in the green and digital transitions. The European Parliament has been critical of this agreement because of some key budgetary cuts to some programmes.

- **...Now, the key issue is the timely adoption of the new MFF to start EU programmes.** The European Council agreement will be scrutinised by the European Parliament whose consent is needed for the MFF regulation to be adopted. This is key for EU programmes to start on 1 January 2021 as planned.

1. Calendar and CPMR recent lobbying activities

May 2018: Presentation of the European Commission MFF proposal 2021-2027
November 2018: European Parliament interim report on the MFF 2021-2027
October 2019: Resolution of the European Parliament on the MFF 2021-2027 and own resources
October 2019: CPMR Statement to the European Council ahead of their meeting on the MFF
May 2020: CPMR analysis the revised EU budget and EU’s recovery plan: Ten questions from the CPMR General Secretariat
27 May 2020: Presentation by the European Commission of the EU Recovery Instrument “Next Generation EU” and a revised MFF for the 2021-2027 period setting up the EU plan for the recovery.  
June 2020: CPMR documents:

- CPMR analysis [the EU recovery Plan: “Next Generation EU” Recovery Instrument in a revamped MFF 2021-2027]
- CPMR analysis [Options or a place-based Recovery and Resilience Facility]
- CPMR [political statement in view of the June European Council on the MFF]

10 July: Publication of a revised MFF negotiating box by Charles Michel, President of the EU Council.

13 July: CPMR Meeting together with the Commissioner for Budget and Administration Johannes Hahn

17-21 July: Extraordinary European Council on the MFF. “Historical agreement” on the budget allocations of the EU recovery instrument “Next Generation EU”, the MFF 2021-2027 and key features of sectorial legislative proposals by the European Council.

23 July: Adoption of a [resolution by the European Parliament calling on the Member States to improve the EU long-term budget deal. MEPs are prepared to withhold their consent to long-term budget unless the deal is improved.

24 July: CPMR analysis of the European Council agreement: the EU recovery instrument and the MFF 2021-2027

28 October 2020: CPMR General Assembly, session on Cohesion Policy.

2. Key issues at stake for Baltic Sea Regions

2.1 Snapshot of the July European Council’s agreement

In July 2020, EU leaders agreed on a package of €1,824 billion comprising:

- the long-term EU budget (MFF) for 2021-2027, worth €1,074 billion. The budget will support investment in the digital and green transitions.
- an additional €750 billion recovery effort to help the EU tackle the crisis caused by the pandemic, of which €390 billion will be distributed in the form of grants to Member States and €360 billion in loans.

Lump sum rebates on the annual gross national income-based contribution will be maintained for Denmark, Germany, the Netherlands, Austria and Sweden.

2.2 CPMR reaction in brief

The CPMR

- welcomes the essence of the deal reached by the European Council on the Recovery Instrument and the MFF 2021-2027 in July, which will result in a financial package of €1.82tn to help Europe on its path towards recovery and long-term sustainability. Allowing the Commission borrowing funding on capital markets supposes a step further on EU integration, even though the share of the grants component of the recovery plan has been reduced compared to the initial proposal.
• regrets that the regular MFF budget size has been reduced as per the European Commission revised proposal (with even sharper cuts compared to the May 2018 proposal). With a long-term vision, the recovery plan should not be used to justify cuts to the MFF.

• positively notes that budget lines for key EU policies and instruments for local and regional authorities such as Cohesion Policy or the Connecting Europe Facility remain relatively preserved. The CPMR, however, deplores a lack of ambition in the deal which propose an 82% reduction of the EU’s health programme, and the Just Transition Fund being reduced from EUR 40bn to EUR 17.5bn.

2.3 Next steps

An agreement between the Council and the EP on the MFF is expected by end October. The negotiations between the European Parliament and the Council of the EU on the individual cohesion regulations (non-budgetary and non-politically controversial provisions) are quite advanced with the exception of the ERDF regulations. A political agreement on the specific cohesion policy regulations could be possible by end of the year but the formal publication of the regulations will be under the Portuguese presidency. This will of course have an impact on the timing of the adoption of programmes. For the moment, priority will be given to trilogues on REACT-EU – which concerns the current programmes – so as to achieve a political agreement and publication of the regulation in the official journal before the end of the year.

2.4 Key policy issues for Baltic Sea Regions

• The level of Cohesion Policy funding to face the EU recovery: ambition, financing and policy fundamentals;
• The allocation of Cohesion Policy funding allocations: Sharp cuts to the allocations for more developed regions (-22% compared to Commission’s proposal). The cohesion allocations for Member States with GDP 110% and 120% of EU average cannot be higher than 90% and 80% respectively of 14-20 levels. These two provisions may inevitably lead to a reduction of funding for many BS areas;
• The distribution of REACT-EU funding to current cohesion programmes: at this stage this is to be determined by the Member States (no objective criteria have been set). This could lead to imbalances especially in Member States where local and regional authorities have a weaker negotiating power vis-à-vis regions. Strong regional involvement is needed in the programming and the implementation of the funding;
• The role of regions regarding funds under shared management. At a time when partnership agreements are being drafted for the next programming period it is important to highlight that EU priorities should be delivered based on the principle of multilevel governance;
• Importance of the full application of partnership principle to “Next Generation EU”. A stronger territorial dimension is needed and the involvement of regions must be a clear requirement in the EU Recovery Instrument, and in particular in the Recovery and Resilience Facility;
• Financing a just and green transition for regions: Just Transition Fund and EU funding to implement the European Green Deal. Now the European Council has reduced the Just Transition Fund budget to EUR 17.5bn (€ 10 bn via recovery instrument) to be allocated in line with the Commission's proposal. The European Commission proposal in May reinforced the JTF with € 40 billion (EUR 30bn via the recovery instrument). A bigger budget would entail more territories in the Baltic area could be eligible for JTF funding.
• An ambitious European Territorial Cooperation should be preserved. Maritime cooperation should not be cut and all its current programmes should be kept in the Baltic Sea Area. European Territorial
Cooperation programmes should be eligible for the additional funding under REACT-EU as proposed by the European Parliament.

- Within European Territorial Cooperation, what about Component 5 – Interregional Innovation Investments? The budgetary proposal made by the EC (970 million €) has been cut in the MFF agreement (470 million €) to the instrument. The rest have been mainstreamed among the other ETC components. On this component, one key question is the management mode (direct/indirect) and the role of regions.

3. Lexicon

The “Next Generation EU” instrument is proposed to have a financial capacity of EUR 750 bn, which the Commission will raise directly on the financial markets. These extra resources are allocated to new temporary instruments and, to a lesser extent, to existing programmes. They are to be used by 2024 to respond to the most urgent challenges and will come in large part in the form of grants.

The revised MFF 2021-2027, which incorporates the Next Generation EU, will thus reach an overall size of EUR 1,850 BN and comprises a budget shuffle for key programmes as well as accommodating new ones.

Establishment of the Recovery and Resilience Facility. The main recovery instrument created under the Next Generation EU is the Recovery and Resilience Facility. The resources shall be used to implement investments and reforms with the aim of addressing the challenges identified under the European Semester, accelerating the digital and green transition, and pursuing economic, social and territorial cohesion. The plans shall be in line with the National Energy and Climate Plans, the Territorial Just Transition Plans, and the Cohesion Policy programmes.

Cohesion Policy “top-up” via REACT-EU. Additional funding will be allocated to cohesion policy current programmes via the REACT-EU instrument (i.e the second major component of Next Generation EU). These resources shall be committed in 2021, 2022 and 2023 and spent by 31 December 2023. Regarding the budget for REACT-EU, the Member States suggested a reduction to 47.5bn (down from 50bn) however legislative provisions have not been subject of modification by the agreement in relation to the European Commission proposal presented in May. A new cross-cutting thematic objective “Fostering crisis repair in the context of the COVID-19 pandemic and preparing a green digital and resilient recovery of the economy” is created to allow for an easier programming under a single separate axis.

The Just Transition Fund. In January 2020, the Commission presented the Just Transition Mechanism, an initiative with the aim to provide and leverage financial resources to guarantee support to those regions more affected by the transition to a carbon-neutral economy. The Just Transition Mechanism consists of three main sources of financing: A Just Transition Fund • A dedicated just transition scheme under InvestEU • A public sector loan facility with the European Investment Bank backed by the EU budget.

The Conference of Peripheral Maritime Regions (CPMR) represents more than 150 regional authorities from 24 countries across Europe and beyond. Organised in Geographical Commissions, the CPMR works to ensure that a balanced territorial development is at the heart of the European Union and its policies. One of these Commissions is the Baltic Sea Commission.