

## **MULTIANNUAL FINANCIAL FRAMEWORK: A STRATEGIC TOOL FOR MEETING THE GOALS OF THE EUROPEAN UNION**

*With the present paper, the Italian Government intends to draw its vision for the future Multiannual Financial Framework. After a few general principles, which should inspire the coming negotiations, the second part underlines the priorities for Italy. The third part explores the instruments that might allow for the improvement of the European budget. The document stems also from a wide consultation, at a national level, of the local authorities.*

### **1. A BUDGET CONNECTED TO THE PRIORITIES OF THE EUROPEAN UNION**

When looking at the future Multiannual Financial Framework (MFF) two key aspects should be mainly considered: the methodology to get to its definition and the goals to be achieved.

Under the first perspective, we should start from one consideration: the logic process for defining a budget should begin with the identification of the goals. The necessary appropriations should be quantified, consequently, only at a second stage.

The European MFF now follows a very different path for at least two reasons. First, because it is perceived as a zero-sum game, in which every Member State sees itself as directly competing with the others with the aim of improving its own net balance with regards to the EU budget. Second, because it is defined through a complex negotiation, aimed at an unanimous agreement. As a consequence, the definition of the MFF ends up inevitably being inspired by a compromise logic more than by a priority-based approach, with a strong leaning towards the so called path-dependence. This also explains why only very rarely the new MFF sensibly differs from the previous one, notwithstanding the constant evolution of the European and international context.

The Italian Government believes that it is necessary to reverse this approach. The European budget shall be a tool to pursue the priorities of the political agenda of the Union, not the result of a distributive negotiation among Member States. This requires, among other things, a profound revision of the own resources system, as explained in the final paragraph.

Concerning the objectives, we have to put at the center of our reflection the concept of "European public good". EU resources play an essential role in all those cases where market dynamics cause distortions that the single Member States are not able nor willing to correct. The EU budget

is then called to solve these “market failures” by producing European public goods. Many examples can be provided, such as: external borders control; management of migration flows; security; European material and immaterial interconnections; quality and mobility of human capital; markets’ integration; economic, social and territorial cohesion; employment and employability, especially of the disadvantaged; environmental sustainability and protection of the cultural and physical heritage; food safety. In the category we also have to include some immaterial goods which, under many points of view, constitute the main infrastructure of the European project. In a period of growing disaffection towards the Institutions and European integration, the most important of them is the strengthening of a “European feeling”, fostered by culture, education and mobility of people.

Italy is fully aware that the implementation of these principles will require a deep rethinking of the present EU budget, which will involve both the sides of revenues and expenditures. Italy is determined to provide its contribution to this reflection, which should lead to the definition of a MFF really able to cope with the challenges that Europe is facing.

## **2. ITALY’S PRIORITIES**

Bearing in mind the idea of “European added value”, Italy believes the next MFF will have to offer credible answers to the following four main issues.

### ***3.1 A Union up to its new challenges***

Management of migration flows is a vital challenge for the EU, which calls for full solidarity among Member States and a strong commitment in the relation with third Countries. The objective to be pursued is twofold. Internally, we need to increase resources for a shared management of incoming flows, including, on the one hand, the fight against illegal migration, and, on the other hand, integration policies and the management of asylum procedures.

Externally, we must strengthen our development cooperation instruments in order to improve third Countries’ capacity to manage migratory flows and to encourage their collaboration when it comes to return and readmission of illegal migrants.

Within the next financial period, the EU will also have to adopt a new and more effective approach to address the risk of natural disasters, to which some Member States are particularly exposed. Adequate resources will have to be provided to support Member States investing in risk-prevention activities, also by seeking innovative synergies among the different available instruments.

Consistently with the Declaration signed in Rome on the 25th of March by EU heads of state or government, cooperation among Member States in the field of defense and in combating terrorism and organized crime should be enhanced, by pooling national resources and better integrating industrial and research activities. To this end, projects for innovation and development in the field of defense may be included in the next Framework Programme for Research, also by establishing a specific financial instrument (European Defense Fund), as proposed in the European Defense Action Plan (EDAP).

More generally, adequate resources will have to be allocated to pursue a "stronger Europe on the global scene: a Union further developing existing partnerships, building new ones and promoting stability and prosperity in its immediate neighbourhood", as called for in the Rome Declaration.

### ***3.2 Economic, social and territorial cohesion***

The economic and financial crisis has amplified marginalization and exclusion, that have mainly affected regions structurally lagging behind and rural areas. Therefore, cohesion policy should remain a priority for the EU, and enough resources will have to be allocated for this purpose in the next MFF. Investments should be concentrated in less developed regions and in strategic sectors, in view of reducing inequalities among European citizens and promoting a balanced, sustainable and inclusive growth.

The result orientation of EU cohesion policy should be strengthened, to ensure that European Structural and Investment Funds (ESI Funds) and other EU financial instruments provide tangible benefits to our citizens. Allocation of resources should be further linked to the clear identification of results, their systematic verification in the implementation phase and their ex-post evaluation, encouraging transparency and the ability to communicate results, and promoting mobilization of partnerships and use of "open data" methods.

Macroeconomic conditionality will have to be reconsidered, so as not to endanger investments in those areas with greater structural difficulties. Any conditionality mechanism, in cohesion as well in any other EU policy,

should be linked, first and foremost, to the full respect of EU fundamental values, including the rule of law principles, which constitute the backbone of the European project.

### ***3.3 Exploiting the full potential of the Union: human capital and single market***

The growth potential of the European Union lies in its human capital and in the opportunities offered by a fully integrated single market. To these two priorities the next MFF should consequently devote adequate resources.

Considering that mobility of the youth within the EU is key, not only for their education, professional training and employment, but also for the development of a true sense of European citizenship and identity, the financing of a successful programme like Erasmus+ should be multiplied by ten, just like all other programmes favoring mobility should be duly reinforced. On the same logic, the Youth Guarantee and the Youth Employment Initiative should be adequately strengthened. In order to consolidate the social dimension of the EU, it will be necessary to bolster active employment policies and their connection with inclusion policies, by confirming and possibly increasing the resources devoted to the latter. This will ensure consistency with a model of inclusive, smart and sustainable growth such as that established by Europe 2020 Strategy. This model should also foresee actions against poverty and marginalization, especially aimed at supporting active inclusion (also through the strengthening of the social area services) and at integrating vulnerable groups (including migrants).

The single market has an unexpressed potential that should be fully exploited also through the EU budget. It is necessary to proceed in completing the internal market, starting from the implementation of the Capital Markets Union Action Plan and of the Digital Agenda, the fulfillment of the Energy Union, the creation of the new generation interconnections and the reinforcement of the European industrial base (Industry 4.0).

### ***3.4 Promoting a sustainable growth and a consistent use of natural resources***

The next MFF will have to guarantee enough resources for the fulfillment of the ambitious goals the EU and the Member States have set in terms of mitigation of and adaptation to climate change.

The 2030 Agenda encourages the balancing of the three dimensions of sustainable development – social, environmental and economic – in the

context of a green and circular economy. Its implementation is fundamental for successfully dealing with global challenges, such as poverty, climate change and environmental degradation. Sustainable development gains a strategic importance in connection with environmental and agricultural issues, both for the capacity of generating European added value and for the benefits deriving from interaction with other sectorial policies (cohesion, climate, energy).

It will be crucial to ensure coherence between these goals and the Common Agricultural Policy (CAP), to which an adequate funding must be devoted. The main tasks of the future CAP will be ensuring a quality food production and an adequate income to farmers, promoting a management of natural resources consistent with the objective of creating public goods and fighting climate change and favoring a territorial development respectful of socio-economic balances and of the diversities of agricultures and rural areas. To this aim, the criteria for the allocation of CAP resources will have to take into account the capacity of the sector to create employment and to invest in productivity and competitiveness, avoiding the use of the misleading parameter of extension.

### **3. TOOLS**

Improving tools and procedures linked to the MFF would facilitate pursuing the priorities of the EU.

#### ***3.1 Flexibility of EU budget***

Flexibility of the EU budget should be increased, notably by widening the possibility of using special instruments and of carrying unspent amounts over the years. It should be clarified once and for all that payment appropriations connected to special instruments are to be considered “over and above the ceilings” of the MFF.

The capacity of the EU budget to react quickly to new crises and evolving priorities should be reinforced, strengthening existing emergency instruments or creating new ones. The Crisis Reserve proposed by the European Commission in the context of the mid-term review of the current MFF could be reconsidered, providing for its financing through the other revenues of the EU budget (interests, fines and surpluses), at the moment given back to the Member States in the form of minor contributions.

### **3.2 Simplification of rules**

Another important goal is the further simplification of the financial rules of the ESI Funds and for the CAP, reducing the burden on the beneficiaries. Possible differentiations in the managing rules will have to be based on objective criteria, valid for all of the Member States, regardless of the financial dimensions of the programs and of the investment values. The setting of common rules for category of policies and intervention instruments, both at direct and shared management, will allow more synergies among ESI Funds and other EU instruments, with visible benefits for the recipients.

Also with regard to many other programmes (like Horizon 2020, EFSI, COSME, EaSI) the operational managing would largely benefit from a wider flexibility, combining different management modes (central or shared), rationalizing financing arrangements (direct, guarantees, fiscal measures) and reinforcing the evaluation criteria for investment.

### **3.3 The own resources system**

In order for the EU to effectively tackle its future challenges, it is essential to rethink the system to finance the EU budget, currently relying for about its 80 % on national contributions. The major role of the GNI-based resource largely explains the *juste retour* dilemma currently affecting negotiations among Member States on the MFF. Italy considers the Final Report of the High Level Group on own resources as a good starting point for future discussions on this matter, and shares the need to establish a more transparent system, based on "genuine" own resources. The establishment of a fairer system would eliminate the need for the present correction mechanisms, that in most cases have no economic justification and allow for regressive national contributions.

Traditional own resources should be maintained, while the GNI-based resource should return to its original residual role and effectively ensure that national contributions reflect the economic size of Member States. The current VAT-based resource should evolve towards a real European VAT, built on simpler calculation methodologies in a way that it can also provide for a sufficient revenue to the EU budget.

The time has come to explore the possibility of establishing new own resources, whose main characteristics should consist in providing stability and sufficiency to the revenue of the EU budget, and ensuring a fair burden sharing among Member States. An EU tax on carbon emissions or a common taxation systems within the Banking Union are options, among others, that are worth exploring.

In order to regain their confidence, citizens should be able to recognize the link between political goals and the financing of the instruments created to meet them. That is why the debate on the future of the revenue side of the EU budget is truly political and part of the more general reflection on the future of the EU and of the Euro area.

### **3.4 Towards a new institutional framework**

In the medium term we should reconsider the rule of unanimity for the adoption by the Council of the MFF Regulation. By granting a real veto power to each Member State, this rule inevitably crystallize the *status quo*, making it hardly changeable. A “reinforced qualified majority” rule, with adequate guarantees that no Member State will suffer an excessive deterioration of its financial position, together with the substitution of national contributions with authentically European resources, would be a way to provide the MFF with more flexibility and strategic depth.

In this context, the future European budget will also have to respond to the needs linked to an integration process which could progress, as stated in the Rome Declaration, “at different paces and intensity, where necessary”, though preserving the unity and indivisibility of the Union. We have to define instruments and procedures for the financing of the differentiated integration schemes that Members States will decide to set, keeping in mind the need to also regulate the rights and obligations of the Countries that will choose not to participate.

In some cases, in order to meet the needs of a Union “united in diversity”, we will have to demonstrate creativity and an attitude to innovation. A serious first test will be the consolidation of the efforts already initiated for the strengthening of the Economic and Monetary Union (EMU). In such a context we should also explore the possibility of coupling the “traditional” EU budget with specific tools aimed at reinforcing the Euro area, with countercyclical purposes or encouraging the implementation of reforms by the Member States.