

Key policy challenges for the EU in 2017

OVERVIEW

The European Union has had no shortage of challenges in recent years. Huge efforts have been made to overcome them, thus avoiding the catastrophes predicted by the more pessimistic observers. Yet there is no room for complacency, with much remaining to be done. Serious issues persist, and in a period of rapid economic, social and global changes, it is essential that the EU prepares well for new challenges and new disruptions in the future.

A few months before the European Commission arrives at the mid-term of its present mandate, and presents its new annual work programme, it is appropriate to seek a broader overview. Are the existing priorities and measures still valid, or should they be supplemented by additional ones? Where are new challenges likely to emerge? And how can we identify new trends quickly enough to prepare appropriate responses?

A number of major policy challenges can be identified for 2017 and beyond, in five areas: 1) security, 2) migration and cohesion, 3) competitiveness and jobs, 4) citizens' participation and democratic accountability, and 5) the role of the EU budget in underpinning the resultant tasks.

As the European Commission prepares its work programme for 2017, this publication aims to identify key policy challenges facing the Union. It is a natural next step, following on from the recent EPRS paper on the [state of play](#) of the Commission's ten policy priorities, published in May 2016.



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Introduction¹

The European Union has not lacked challenges in recent years. The huge efforts made to overcome them have meant the catastrophes predicted by the more pessimistic observers have been avoided. Yet there is no room for complacency, and much remains to be done. Serious problems persist, and in a period of rapid economic, social and global changes, it is essential that the EU prepares well for new challenges and new disruption in the future.

A key framework for action during the current parliamentary term is the set of [ten policy priorities](#) set out by Jean-Claude Juncker in 2014, prior to his election as President of the European Commission. The Commission's political programme translates these priorities into specific initiatives through its [annual work programmes](#). The work programmes for 2015 and 2016 were based on these policy guidelines, and work is ongoing to make progress across their range of actions.

The European Parliament (EP) has endorsed the Commission's approach, and closely tracks the progress being made towards shared objectives. Regular, critical evaluation has an important role in the drive to deliver tangible benefits for EU citizens. An analysis of the [state of play](#) has recently been published by EPRS.

The role of the European Parliament

The European Parliament, as co-legislator, is a unique forum in which all these issues can be discussed and proposals to address them put forward. The debate on the EU's political priorities benefits from the fact that the EP represents all the major political orientations found across the EU, thereby transcending national boundaries.

[Surveys](#) repeatedly show that European citizens expect the EU to provide solutions to today's most pressing problems. The paradox is that in many cases, the Union lacks both the legal instruments and the financial means to tackle the challenges at hand. It is important to be able to identify and tackle difficulties before they become crises, and also to be able to recognise and grasp opportunities arising in a period of rapid economic, technological and social change.

Security in an unstable and changing environment

The regional environment of the European Union has never been more troubled since the end of the Cold War. Out of 76 crisis studied by the [International Crisis Group in May 2016](#), 20 are in the EU's neighbourhood, less than 5 hours by plane from Brussels.

The external poly-crisis

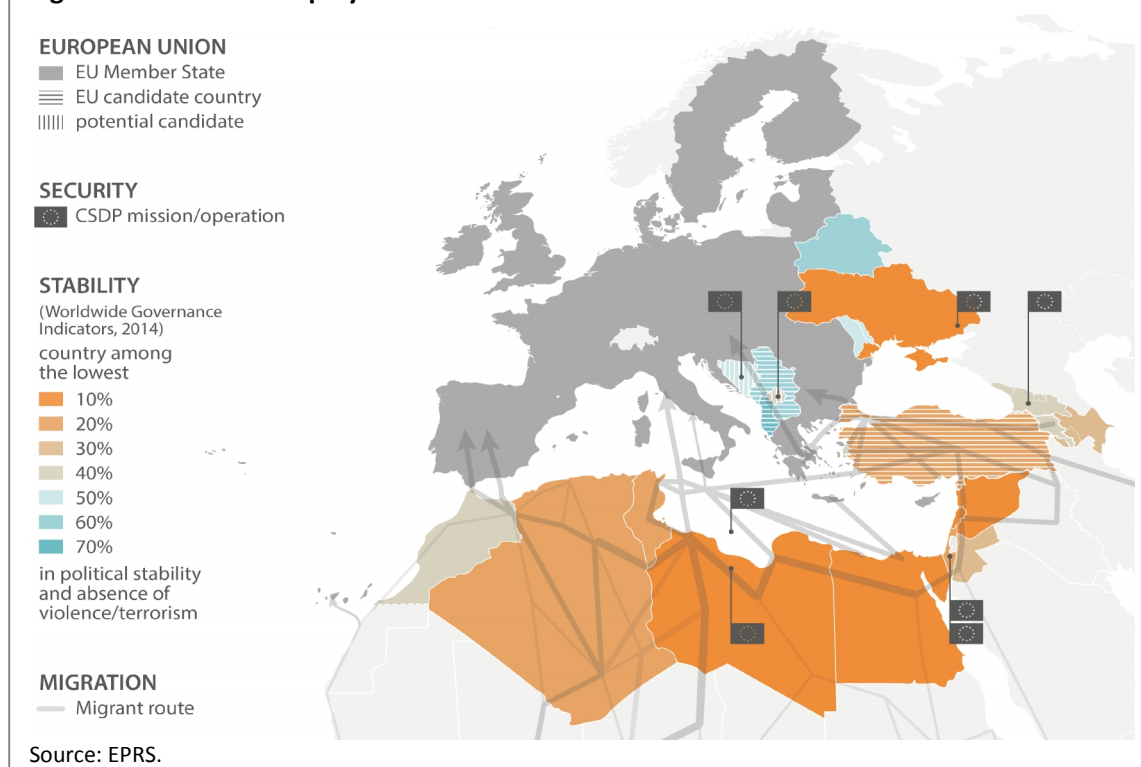
Referring to the challenges facing the EU, Commission President Jean-Claude Juncker coined the expression '[poly-crisis](#)' (euro-area stability, global economic crisis, irregular migration). This also describes the external crises the EU has to handle:

Governance and internal crises

In its regional environment, the EU has to address a number of crises of governance and challenges to democracy in countries such as [Turkey](#), [Belarus](#) and [Azerbaijan](#). In Turkey, the EP has [criticised](#) the recent political developments threatening freedom of speech. The Freedom House '[Freedom in the World](#)' index shows that, in the European neighbourhood, freedom remains very low – 7 out of 8 countries are classified as 'not free' – and is assessed positively in only two countries (Israel and Tunisia) which are classified as 'free'. In the last five years, only Tunisia [improved](#) its record, following the Arab spring. In countries like Turkey, democracy is also challenged by deadly attacks by

the PKK and police counter-terrorist [measures](#), leading to a quasi-internal war. In another case of internal security concerns, the Egyptian military is [fighting](#) ISIL/Da'esh-affiliated insurgents in Sinai. These security operations in several countries neighbouring the EU also raise concerns in terms of respect of human rights or [violence](#) of state services.

Figure 1 - The external poly-crisis



Frozen conflicts

The EU also faces the challenge of several 'frozen conflicts' in the European neighbourhood. Some of them involve a partner country and a secessionist region ([Moldova/Transnistria](#); Georgia/Abkhazia and South Ossetia) or two partner states (Azerbaijan – Armenia/Nagorno-Karabakh). The principal feature of these conflicts is that they are reactivated from time to time and are subject to unexpected escalation. In all these conflicts, Russia plays a key [role](#) and its relationship with the EU has deteriorated in the past two years, leading to the likelihood of [military escalation](#) and possible new conflicts.

Open conflicts

The neighbourhood is also subject to a variety of bloody open conflicts, both civil and transnational. They can be characterised as civil wars with transnational dimensions. In [Eastern Ukraine](#), in [Syria](#) and in [Libya](#), external actors are part of the conflict ([Russia](#), [Iran](#), [ISIL/Da'esh](#)). Local populations are the first victims of these conflicts and in Syria and Libya, religious [minorities](#) are persecuted systematically.

Transnational consequences

The different conflicts in the European neighbourhood all have consequences on the capacity of the EU's partner states to make democratic, economic and social reforms. Additionally, victims of these conflicts are leaving the zones affected, or even the country, as in the case of Libya and Syria. It is [estimated](#) that 9 million Syrians have left their homes since the outbreak of civil war in 2011, of which [half](#) have fled to neighbouring countries. These countries, like Lebanon or Turkey face an important challenge in terms of social, medical, economic and democratic inclusion of the Syrian refugees. Migrants from Libya

or Syria have been joined by migrants from other regions (such as Afghanistan and the Horn of Africa) in their attempts to enter the European Union using [different routes](#): across the Mediterranean or through Turkey and Greece and then through the Western Balkans.

Such internal and international migration from the neighbourhood or from the neighbours of the neighbourhood (Iraq, Afghanistan, Sahel, Horn of Africa) has military, but also social, economic and even environmental roots. Thus, the European answer has to include conflict prevention, military missions, as well as socio-economic dimensions.

The coherence of European external action

The new European neighbourhood policy

In its [review](#) of the ENP, the Commission insists on differentiating between the partners in setting priorities with regard to trade, security, connectivity, governance, migration and mobility. Given that the EU's neighbours differ and do not all share a desire for a closer relationship with the EU, the Commission is willing to apply a more flexible approach through a wider range of instruments, while stressing the need for balanced cooperation between partners and for a focus on democracy promotion.

The articulation of the ENP and the Global Strategy

The review of the 2003 European Global Security Strategy, to be finalised in June 2016, will be built on several [priorities](#): strengthening global governance, supporting regional architectures, strengthening state and social resilience, rethinking the EU's approach to conflict and crises, and responding to the 'integration choice' of its near neighbours.

The articulation of EU external and internal policies

There is a need for better articulation of external and internal policies. The migration issue revealed the importance of the coordination of foreign policy to [contributing](#) to a peace settlement, [financial assistance](#) and reconstruction policies to raise opportunities and well-being in countries of origin, [EU border management](#) and readmission agreements with third countries like [Turkey](#), EU [support](#) for Member States like Greece in facing high numbers of migrants and providing integration [support](#) for refugees. The fight against terrorism is also a field where internal and external dimensions need to be addressed. Terrorism is an international phenomenon: in 2014, 73% of all victims were in [five](#) countries (Iraq, Syria, Nigeria, Afghanistan, Pakistan). The EU and candidate countries like Turkey also [experienced](#) more and more deadly terror attacks in recent years. To address this, the EU has to take into account both external and internal dimensions, in [coordination](#) with the Member States.

Migration and social cohesion

Why integration matters

In Europe, the year 2015 will arguably be remembered as the year of the 'refugee crisis' (see Figure 2). More than [1 200 000](#) people, including over [100 000 children](#), entered the EU in search of safety and a better life, with over 136 000 more arriving since the beginning of 2016. The effective integration of recently arrived and long-standing immigrants is a complex multidimensional process with educational, labour-market and social facets. Successful integration matters, not least because it is an economic necessity and a pre-condition for democratic stability and social cohesion.

How EU countries respond to migration will ultimately have a substantial impact on the economic and social wellbeing of all citizens, whether they have an immigrant background or not. This begins with providing shelter and information for further

administrative steps. It goes in parallel with ensuring that children have a place at school. It extends to assessing the capacities of adult migrants, validating their prior learning, and helping them to integrate into the labour market.

First steps towards integration – reception and housing

As Commissioner Creţu [noted](#) recently, migration is largely an urban reality, with a growing number of cities having to contend with migration challenges on a daily basis. One urgent problem facing local authorities is how to house new arrivals, a situation compounded by a difficult budgetary context and, in many cases, years of under-investment in social housing. A range of short-term solutions have been rolled out such as the provision of temporary accommodation or the creation of reception centres, with the financial burden for such projects falling on local municipalities. The EU's [Asylum, Migration and Integration Fund](#) can provide emergency funding to help with migrant reception, while the [Fund for European Aid to the Most Deprived](#) can also fund measures to provide food and basic material assistance. However, these funds are managed at national level, giving local areas little say in how aid is distributed, and making quick access to funds difficult. For instance, though funding for the renovation of social infrastructure for migrants is available under the [European Regional Development Fund](#), many local authorities are unaware of how to access EU support.

Figure 2 - First time asylum claims in the EU, 2015



Source: Eurostat, [Asylum in the EU Member States](#), 4.3.2016.

Making education work

[Practitioners](#) agree widely that migrant children and youth need targeted support as they enter the school system, such as through intensive language and general induction programmes to allow them to participate in [mainstream classes](#) as quickly as possible. This also includes ensuring that students are not segregated in schools on socio-economic grounds, promoting early childhood development and education programmes, making their parents part of the education process and equipping teachers with the tools to provide support for students with multiple disadvantages. Most importantly, students must feel welcome at school. Today, this is not the case everywhere in Europe: while in Spain, Finland or the Netherlands more than 80% of first generation immigrant students [reported](#) that they felt they belonged at school, only 60% did so in Belgium, and less than 50% in France. Research [shows](#) that in the EU, first-generation immigrant students perform less well than national students, while second-generation immigrant students score somewhere between the two. This, however, is encouraging and suggests that policy has an important role to play in reducing, if not eliminating entirely, the disadvantage that accompanies displacement.

Raising the game for migrants

The [validation of prior learning](#) is instrumental in facilitating migrants' integration. This includes, for instance, speeding up mechanisms for [assessment of capacities and recognition](#) of formal (school, university), non-formal (courses) and informal (family)

[learning](#) of arriving migrants. Recognition of the qualifications of displaced persons and refugees is coordinated at EU level by the network of National Academic Recognition Information Centres ([ENIC/NARIC](#)). The Commission has also published lists of existing initiatives on facilitating the integration of refugees in European [schools](#) and [universities](#), [meeting their basic needs](#), and [recognising their skills](#).

Market integration measures

Employment is widely recognised as one of the key factors for the successful integration of new arrivals to the EU. Finding a job is not only beneficial for migrants themselves, it has an economic benefit for the host society, too: the sooner migrants can work, the faster they can contribute to the public purse. Research suggests that early intervention is vital, with a recent OECD [report](#) recommending that activation and integration services should be provided as soon as possible for migrants and asylum-seekers.

Yet integration and, in particular, the issue of access to the labour market, remains a national competence, and approaches differ widely across EU countries. While, under EU law, asylum-seekers must gain entry to the labour market within nine months of their arrival, irrespective of whether or not their application has been approved, some countries such as Germany open their labour markets after just three months while others apply the full period. The picture is further complicated by differences in national rules on access to vocational training and varying levels of financial resources available for activation programmes. The [European Social Fund](#), which identifies asylum-seekers and refugees as eligible for support, can help by funding vocational training programmes and campaigns to combat discrimination, yet not all countries allow asylum-seekers to follow such training before their claims have been approved.

While integration falls within the remit of the Member States, the EU can play a coordinating role by providing guidance in terms of policies and best practices. In view of the current lack of guidance in this area, the European Commission's April 2016 [communication](#), Towards a reform of the Common European Asylum System, put forward plans to draft an EU Action Plan on Integration, which will set out actions for the policy areas most closely related to integration such as education, labour-market integration (including entrepreneurship), social inclusion and non-discrimination, in order to support the Member States, and outline the EU budgetary resources available.

Competitiveness and job creation

Despite first signs of economic recovery and modest growth forecasts of [1.8% in the EU](#) (euro area: 1.6%), the ramifications of the financial and economic crisis since 2007/2008 are still visible today. Not only does overall economic recovery remain modest, it is unevenly distributed across the Member States too, threatening the promise of [economic convergence](#) in the EU. In response, the Commission's [Annual Growth Survey 2016](#) lists three economic priorities: (i) to 'relaunch investment', (ii) to 'pursue structural reforms to modernise our economies', and (iii) to engage in 'responsible fiscal policies'. To induce the private sector to invest and create job opportunities, (public) investment, enhancing competitiveness and particularly labour market efficiency are key.

Investment gap

One lasting effect of the financial crisis is the subdued investment level in almost all EU Member States. Investment activity ([gross fixed capital formation](#)² in relation to GDP) declined in the euro area by about 15%. It fell from a peak of 23.2% (2007) to 19.6%

(2014). In 2004, investment activity in the euro area was 21.7% (EU-28: 21.1%). In 2015 the level was 19.8% (EU-28: 19.6%).

Weak investment figures should be also viewed against the backdrop of exuberance and the build-up of [massive macroeconomic imbalances](#) prior to the financial and economic crisis. At the same time, the Commission's in-house think-tank, [EPSC](#), finds that investment in the EU is still well below its pre-crisis level, even if benchmarked against a ten-year average.³ The advisory body estimates a shortfall of about €61.4 billion (euro area: €50.4 billion) at the end of 2015. Expressed in terms of foregone GDP, this 'investment gap' amounts to 1.7% of GDP for the EU (and 1.9% for the euro area).

However, aggregate values cover disparities across countries: While Ireland (31%) and Greece (26%) witnessed above-average rates in 2006/2007, rates in both countries fell substantially thereafter. Ireland dropped to 17.2% in 2011 but has seen improving rates since then. Investment activity in Greece halved by 2014 (11.6%) and seems to have stabilised in 2015 (11.7%).⁴ Data for Portugal suggest less cyclical variation but a similar decline in activity. After peaking in 2014 (23.4%) the country witnessed continually decreasing values until 2013 (14.8%) but appears to have stabilised since then. In 2015, no euro-area country had returned to the pre-crisis heights of 2006-2008. However, Austria, Belgium, France, and Germany witnessed comparatively less change in investment activity over the past ten years, indicating a more stable investment environment.

For the EU as a whole, the public investment-to-GDP ratio has reached the same level as before the crisis. However, countries that had to undergo sizable fiscal adjustments witnessed deteriorating rates, threatening to entrench weak growth paths. Therefore, in July 2015, the EU launched the [European Fund for Strategic Investments \(EFSI\)](#) as an effort to 'stimulate private, market-based investments, not to replace them' (up to €315 billion in 2015-2017). Up to May 2016, a total of [249 finance agreements](#) have been signed, amounting to approved funds of €12.8 billion, of which 9% targets small and medium-sized enterprises (SMEs). According to [Commission estimates](#), some 140 000 SMEs are already benefiting (out of [19 million](#) SMEs currently operating in the EU).

Competitiveness gap

This relates ultimately to the costs of doing business in relation to others. In this context, the ubiquitous structural reforms come into play: For instance, making labour markets more adaptable and responsive, liberalising service sectors, or improving the overall business environment. One way to approach this is the use of compound indicators or indices, such as the [Global Competitiveness Index](#) of the World Economic Forum. Last year's best performing country was Germany (rank 4) and the worst Greece (rank 81) out of 144 countries under scrutiny. Three non-euro area Member States Sweden, the United Kingdom, and Denmark scored 9th, 10th and 12th respectively. Last year, Estonia (30) and the Czech Republic (31) were considered to be more competitive than Spain (33), Portugal (38) or Italy (43).

However, tracing long-term trends is more revealing than snapshots in time: During the ten-year period of 2006-2015, EU countries have developed quite differently: Bulgaria, Romania, Portugal, Luxembourg and Belgium were the five countries which most improved their relative positions on the ranking. By contrast, the situation worsened in Slovakia, Hungary, and Slovenia: they lost 39, 30 and 20 places respectively. Even more worrying, the cohesion within the EU, the spread between the different ranking positions, has widened by a third since 2006. The relative gaps among the euro area Member States even doubled, albeit they are starting to narrow slowly.

Regarding structural reforms,⁵ the EU's monitoring instrument, the country-specific recommendations (CSRs), does not offer too much optimism. [Data for the 2015-2016](#) cycle finds only 4% of these to be 'fully' or 'substantially' implemented. By contrast, 52% of the CSRs have not been implemented at all or only in a limited manner (47% in 2014).

Labour market efficiency

When it comes to the performance of labour markets as a sub-set of competitiveness, Member States usually score worse than overall. For instance, in 2015 Spain ranked at position 35 overall but only 92 in term of labour market efficiency. The same holds true for Italy: ranked 49 overall but only 126th regarding labour markets. The Netherlands rank 8th and 17th respectively.

In 2015, the employment rate in the EU-28 almost matches pre-crisis levels, at 70.1% (70.3% in 2008), and since 2013, only AT, BE, FI, and LU did not progress towards their [EU 2020 employment rate targets](#). However, a total of 21.2 million men and women in the EU-28 are still unemployed (unemployment rates range from CZ 4.1% to EE 24.2%). In this regard, the Commission's social scoreboard reveals different country clusters. In 2014-2015, policies for those 'not in education, employment or training' (NEETs) were regarded as best in Denmark, the Netherlands, Sweden, and Germany (see Table 1).

Table 1 – Scoreboard results of key employment indicators 2014-2015

	Unemployment	Youth unemployment rate	NEET rate
Best performers	DE	DK, DE, AT, EE	DK, NL, SE, DE
Better than average	EE, CZ, DK, HU, NL, UK, LU, MT, RO, BG, IE, LT, PL, SK	LV, CZ, NL, UK, SK, MT	CZ, LT, SI, HU, PT
On average	LV, SI, SE	IE, PL, SI, BE, LT, HU, SE, RO, BG, LU	LV, UK, BE, FR, PL, SK

Source: European Commission, [Draft Joint Employment Report 2016](#), COM(2015) 700 final, 26.11.2015, p. 52.

In the framework of the European Semester, employment is measured with several indicators. As such, a decrease in the relative unit labour cost index is regarded as an improvement in a country's competitive position relative to their trading partners in the euro area. During 2002-2008, Germany has been able to improve its relative position just as [southern European Member States](#) such as Greece and Spain saw significantly rising relative labour costs. Since 2011, unit labour costs within the euro area show [initial signs of convergence](#), thereby countering past imbalanced wage developments.

Citizens' participation and democratic accountability

A long-standing claim against the EU is that it suffers a deficit of democratic legitimacy. One of the major, and persistent, challenges before the Union is therefore the need to strengthen the input legitimacy of its institutions and decision-making processes, i.e. 'the EU's responsiveness to citizen concerns as a result of participation by and representation of the people'.⁶

Further parliamentarisation of the EU decision-making process

Further democratisation, it is widely suggested, requires further parliamentarisation of the EU decision-making process. In this context, criticism has been voiced against increasing transfers of executive competences to the Union level and to Member States' governments acting through intergovernmental agreements circumventing the 'Community method', for instance on economic governance. This approach, often justified by the need for prompt action and strong political leadership, is said to evade the constraints imposed by representative democracy at national level, without, however, putting in place the necessary parliamentary scrutiny at EU level.⁷ Experts, and

the EP itself, have therefore repeatedly demanded a more active role in those fields for the only directly elected EU institution, representing EU citizens.⁸

European elections and the political link between Parliament and Commission

European electoral reform

Elections to the EP are to a great extent governed by national rules, which makes European elections in practice a collection of national elections. EP election campaigns focus mainly on national issues. Citizens vote for domestic candidates, belonging to national parties. There is little, if any, visibility of the candidates' affiliation to European parties and, very often, voters are unaware of the stance their preferred candidates would take on important EU matters.⁹ There is thus a mismatch with the underlying goal of European elections, which is to elect a parliamentary chamber representing Union citizens and their preferences on EU politics and thereby to provide EU decision-making with more democratic legitimacy. As a result, low turnout and the 'second-order character' of European elections have been often used to question the democratic legitimacy of EU decision-making, whilst the design of truly European elections through electoral reform¹⁰ has proven to be a challenging undertaking.

Spitzenkandidaten process

The nature of the EU as a consensus-style democracy (as opposed to a majoritarian democracy), characterised by agreement-seeking bargaining in a complex environment of multiple competing interests,¹¹ has also been [criticised](#) for lacking the traditional antagonism between partisan positions, typical of most national democracies. The increasing politicisation of EU decision-making, instead of a more technocratic approach, blends precisely into these efforts for further parliamentarisation of the EU democratic system. In this sense, the ***Spitzenkandidaten process***, that preceded the election of Commission President Jean-Claude Juncker by Parliament, sought not only to create a common European political space by 'Europeanising' the elections to the EP, so that voters could make an informed choice about the different political options based on a 'European' political discourse instead of exclusively national communication by national political actors. It also created a stronger political link between the Parliament and Commission, strengthening the democratic legitimacy of the latter.¹² However, despite this potential of the *Spitzenkandidaten* concept, its consolidation has proven to present a major challenge, with Member States having [announced](#) their opposition to it, as included in [Parliament's proposal for a reform of the European electoral law](#).

The inconsistency between the wide calls for further democratisation of EU decision-making through parliamentary involvement on the one side, and the rejection by some national executives of fully implementing the mandates in the Treaties for strengthening **Parliament's scrutiny powers** (e.g. right of inquiry, Article 226 TFEU)¹³ and to Europeanise the rules for its election (Article 223 TFEU) is a major challenge.

Agenda-setting and better law-making

An important step towards further democratisation through parliamentarisation is the involvement of Parliament not only as co-legislator in the legislative process itself, but prior to the legislative initiatives being determined, during the process of **agenda-setting**. Backed by the Lisbon Treaty, providing that the Union's annual and multiannual programming is agreed in an interinstitutional negotiation between Commission, Parliament and Council (Article 17(7) TEU), Parliament has increasingly enabled itself to efficiently exercise its powers to co-design the EU's political priorities through its own impact and EU added value assessments. Furthermore, the strengthening of its **scrutiny**

powers in order to feed in experience drawn from legislative implementation into the shaping of new policies has been one of Parliament's priorities. Moreover, efficient integration of deliberative instruments of decision-making, such as evidence-gathering from stakeholders and experts on the social and economic impact produced directly or indirectly by EU legislation, remains a major requirement and a challenge at the same time. In this regard, the [Interinstitutional Agreement on Better Law-Making](#) offers the long-needed legal framework for a more democratic shaping of the Union's political priorities, and putting it into practice will be one of the great challenges for the coming years.¹⁴

Participative democracy: European Citizens' Initiative

The disengagement of European citizens from politics in general, and from European politics in particular, as well as the need for a true European political space,¹⁵ have prompted calls for increased use of instruments of participatory democracy, such as consultations and citizens' initiatives. In this sense, the European Citizens' Initiative (ECI) has proven to raise great interest from Union citizens although the functioning of the mechanism needs to become more efficient and user-friendly. The EP adopted in October 2015 [a resolution on the European Citizens' Initiative \(ECI\)](#) calling inter alia for the revision of the ECI Regulation. Whilst the Commission considers that it is too early for a legislative revision of the ECI framework, further improvements in the areas highlighted in Parliament's resolution are being discussed in order to render the use of this instrument more inclusive and efficient.

Transparency

Democratic accountability and citizens' involvement in decision-making are intrinsically related to the transparency of the decision-making process. Whilst on the one side informed political choices require consultation of interested parties, public scrutiny over the deliberative process is only possible if this process is as transparent as possible. In this context, Parliament has called in several resolutions, including [on the 2016 Commission Work Programme](#), for the current non-obligatory Parliament-Commission transparency register for interest representatives to be replaced by a **joint mandatory transparency register**, also including the Council. While the Commission is [examining](#) the possibility of introducing such a joint mandatory register on the basis of an interinstitutional agreement, the EP is calling on the Commission to present a [legislative proposal on a mandatory transparency register](#) in order to put it on a firm legal basis. Parliament's Committee on Constitutional Affairs (AFCO) is currently preparing a report on ['Transparency, accountability and integrity in the EU institutions'](#).

Providing the means: reviewing the Multiannual Financial Framework

Background and scope

The current Multiannual Financial Framework (MFF) covers the 2014-2020 period, and is the EU's fifth consecutive multiannual financial plan. However, it is the first to take the form of a regulation, and the first to contain provisions providing for a mid-term review that may lead to its revision. [Article 2 of the Regulation laying down the MFF](#) obliges the Commission to present, no later than the end of 2016, a **review** of the functioning of the MFF and, as appropriate, a legislative proposal for **revision** of the MFF Regulation. This dual requirement is known as '**the mid-term review/revision**' and should: (i) take into account the updated economic situation and macroeconomic projections; (ii) allow the newly elected EU institutions to reassess the EU's political priorities; and (iii) not result in a reduction of the 'national envelopes'.

Furthermore, according to the [Commission's political declaration](#), particular attention will be paid to the functioning of the global margin for payments, the global margin for commitments and the requirements of the Horizon 2020 programme. The appropriate duration for the subsequent MFF in order to align it with the political cycles of the EU institutions will also be considered.

Procedure

The MFF Regulation states that the Commission must present **the review** before the end of 2016, accompanied, as appropriate, by a proposal for **revision of the MFF Regulation**. This would come under **the special legislative procedure**, which requires a unanimous vote in the Council, unless the European Council authorises the Council to act by qualified majority, and the consent of Parliament by a majority of its Members. It is important to stress that the Council, the Parliament and the Commission are to cooperate throughout the procedure leading to the adoption of the revision.

Key issues

For a number of reasons, implementation of the 2014-2020 MFF has already proven to be challenging in its first two years. The resources agreed for the current MFF were substantially lower than the Commission's proposal and below those of the 2007-2013 period. This reduced MFF had to absorb the [abnormal backlog of payments](#) that had built up in the EU budget since 2011 and a number of recent political and economic crises. The decisions and actions taken by the EU in response to the refugee crisis, the increased threat of terrorism, agricultural sector crises and the protracted economic crisis in Greece, have major budgetary consequences. The heaviest pressure for increased spending has been exerted on heading 3, 'Security and citizenship', and heading 4, 'Global Europe'. Resources in these areas have been completely exhausted.

In order to accommodate these needs the budgetary authority has already had to resort to almost all the special, 'last-resort', margins and flexibility instruments in the MFF:

- €3.2 billion from the Contingency Margin to reduce the backlog in payments in 2014;
- €1.53 billion from the Flexibility Instrument to finance support for measures for managing the refugee crisis, under headings 3 and 4;
- €2.4 billion from the Global Margin for Commitments to finance EFSI;
- €150 million from the Emergency Aid Reserve.

It should be noted that most of the adjustments made to the MFF so far do not increase the overall MFF ceilings; they merely shift amounts already allocated and will have to be offset in full against margins in future financial years. This raises questions about the consequences of these measures for the functioning of the MFF through to 2020.

The European Parliament role and position

An obligatory and genuine post-electoral mid-term review and revision of the MFF regulation was one of the EP's most important demands during the negotiations leading to the adoption of the MFF. Therefore, the Parliament's ambition is to set the agenda and to be at the forefront of the debate. In May 2016 the Committee on Budgets discussed a **strategic, own-initiative report** 'on the preparation of the post-electoral revision of the MFF 2014-2020: Parliament's input ahead of the Commission's proposal'. The co-rapporteurs, Jan Olbrycht (EPP, Poland) and Isabelle Thomas (S&D, France) concluded that the circumstances of the implementation of the 2014-2020 MFF are exceptionally difficult, the MFF ceilings having proven to be too tight in some headings and that the MFF has 'essentially been pushed to its limits'. Therefore, they see the revision of the

MFF, including the figures, as 'absolutely indispensable if the Union is to effectively confront a number of challenges while fulfilling its political objectives'.¹⁶

Main reference

É. Bassot and W. Hiller, [The Juncker Commission's ten priorities. State of play in mid-2016](#), EPRS, May 2016.

Endnotes

- ¹ This briefing has been compiled from contributions by authors across EPRS – Ivana Katsarova, Eamonn Noonan, Philippe Perchoc, Eva-Maria Poptcheva, Magdalena Sapala, Andrej Stuchlik, and Christiaan Van Lierop.
- ² Net increase in physical assets (capital stock such as equipment, buildings and other intermediate goods; investment minus disposals) within the measurement period.
- ³ Data refer to 1995 Q1 – 2006 Q2, see European Political Strategy Centre (EPSC), [The European Fund for Strategic Investments \(EFSI\)](#), EPSC Strategic Notes, Brussels, April 2016, p. 1.
- ⁴ Data quality is an issue since Eurostat considers values for Greece since 2011 to be 'provisional'. Gross fixed capital formation (investments), source Eurostat [[tec00111](#)].
- ⁵ Part of the European Semester package in November 2015 has been the proposal for a ['Structural Reform Support Programme'](#) (approximately €142.8 million over 2017-2020).
- ⁶ V. A. Schmidt, Democracy and legitimacy of the European Union, The Oxford Handbook of the European Union, E. Jones, A. Menon and S. Weatherill (eds.), Oxford, 2012, p. 66, see F. Scharpf, Governing in Europe, Oxford, 1999.
- ⁷ See for instance D. Curtin, Challenging executive dominance in European Democracy, Modern Law Review, Vol. 77 2014, pp. 2-3; P. Lindseth (ed.), Power and legitimacy: reconciling Europe and Nation-State, Oxford, 2010.
- ⁸ See for instance D. Curtin, 'Democratic accountability of executive power: a reform agenda for parliaments', F. Fabbrini, E. Hirsch Ballin and H. Somsen (eds.), What form of government for the European Union and the Eurozone?, Hart Publishing, 2015, pp. 171, 183 et seq. Notably, Parliament is preparing a report on ['Improving the functioning of the European Union building on the potential of the Lisbon Treaty'](#) (rapporteurs Mercedes Bresso, S&D, Italy and Elmar Brok, EPP, Germany) as well as on ['Possible evolutions and adjustments of the current institutional set up of the European Union'](#) (Guy Verhofstadt, ALDE, Belgium) that include possible improvements and further parliamentarisation of EU decision-making.
- ⁹ D. Schleicher, What if Europe Held an Election and No One Cared?, Harvard Int. Law Jn., 52(1), 2011, p. 138.
- ¹⁰ S. Hix and S. Hagemann, Could changing the electoral rules fix European parliament elections?, Politique européenne, No 28, 2009, pp. 27-42.
- ¹¹ A. Lijphart, Patterns of Democracy: Government forms and performance in thirty-six countries, Yale University Press, 1999, pp. 42-47.
- ¹² S. Hobolt, ['A vote for the President? The role of Spitzenkandidaten in the 2014 European Parliament elections'](#), Journal of European Public Policy, 20(10), 2014, pp. 1528-1540.; T. Christiansen, *'EU-Spitzenkandidaten- neue Impulse und ihre Folgen für das politische System der EU'*, Integration, 2015, No. 1, pp. 25 et seq.
- ¹³ E.-M. Poptcheva, [Parliament's committees of inquiry and special committees](#), EPRS, June 2016.
- ¹⁴ The improved follow-up to parliamentary legislative initiatives (Article 225 TFEU) also falls under efforts to increase parliamentary input into legislative formation.
- ¹⁵ C. Marxsen, 'Participatory democracy in Europe: Article 11 TEU and the legitimacy of the European Union', What form of government for the European Union, op. cit., pp. 151, 165 et seq.
- ¹⁶ The vote on the report in the BUDG Committee is scheduled for 27 June and in plenary in July. The formal start of the procedure will depend on when the Commission presents the review and any proposal for revision.

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