European Commission - Questions and answers

Questions and answers on the adoption of the EU's long-term budget for 2021-2027

Brussels, 17 December 2020

Why is today's adoption in Council important?

Today's Council decision is the final step in the adoption of the EU´s next long-term budget. Following this decision, the multiannual financial framework for 2021-2027 of €1.074 [in 2018 prices] trillion becomes available for all beneficiaries of EU funding.

At the same time, work towards finalising NextGenerationEU, the temporary recovery instrument created to fuel Europe's recovery from the coronavirus crisis, continues. Once adopted, **the package of a total of €1.8 trillion** [in 2018 prices] will be the largest package ever financed through the EU budget.

With the combined firepower of NextGenerationEU and the long-term budget, the EU will support citizens, companies and regions most affected by the corona crisis. The package will also help rebuild a post-COVID-19 Europe, which will be greener, more digital, more resilient and better fit for the current and forthcoming challenges.

Why is this long-term budget different?

When proposing the 2021-2027 long-term budget in May 2018, the European Commission committed to a truly modern budget, capable of responding to the challenges of today and tomorrow.

Today, we have delivered on this commitment:

1. For the first time ever, the new & reinforced priorities have the highest share within the long-term budget, 31.9%. In comparison, funds under the Common Agricultural Policy account for 30.9%, while funds for economic, social and territorial cohesion make for 30.4%.
2. Taken together, more than **50% of the total amount** of the next long-term budget and NextGenerationEU **will support the modernisation** through policies that include research and innovation, via **Horizon Europe**; fair climate and digital transitions, via the **Just Transition Fund** and the **Digital Europe programme**; preparedness, recovery and resilience, via the **Recovery and Resilience Facility**, **rescEU** and a new health programme,
3. Finally, **30% of the EU budget, under both the long-term budget and NextGenerationEU, will be spent to fight climate change**, the highest share ever of the largest European budget ever. The package also pays specific attention to **biodiversity protection and gender-related issues**.

What happens next? When will NextGenerationEU enter into force?

For NextGenerationEU to enter into force, several elements are needed.

On the one hand, the relevant legislation needs to be put in place: the NextGenerationEU regulation as well as the sectoral acts for the instruments that it will fund: Recovery and Resilience Facility, REACT-EU, Just Transition Fund, Rural Development, InvestEU, rescEU and Horizon Europe.

The NextGenerationEU regulation was adopted by the Council on 14 December 2020. For some of the sectoral acts, preliminary or full agreement has already been reached between the European Parliament and the Council. For the rest, negotiations are ongoing. The Commission is doing its utmost to support the process.

For the Recovery and Resilience Facility, it is also necessary for Member States to present their national Recovery and Resilience plans.

On the other hand, the Commission needs to be able to start borrowing on the capital markets with a view to disbursing the funds under these instruments. To that end, the Own Resources Decision needs to be approved by Member States in accordance with their constitutional requirements.

Following its adoption by EU Member States in the Council on 14 December 2020, the Own Resources Decision now needs to be ratified by all Member States in line with their constitutional requirements.

The Commission urges Member States to proceed with the ratification as quickly as possible and remains fully committed to accomany the process.

When will funds under the next long-term budget start flowing to EU citizens?

For the European Commission to start committing the funds under the next long-term budget already on 1 January 2021, two factors are needed. On the one hand, the sector-specific legislation for the different programmes under the next long-term budget needs to be adopted. On the other hand, the adoption of the annual budget for 2021 needs to be finalised.

The negotiations on the sector-specific legislation have been progressing rapidly over the past weeks. For most of the sectoral acts, preliminary or final agreements between the European Parliament and the Council have already been struck and some agreements are pending finalisation in due course.

In any event, the Commission is already working hand in hand with beneficiaries to set the ground for a swift commitment of the funds, whenever possible, already as of 1 January 2021.

This also requires the adoption of the annual budget for 2021. Following the agreement on the long-term EU budget for 2021-2027 and NextGenerationEU at the European Council on 10 December, the European Commission put forward a second draft budget for 2021. The draft fully reflected the informal political agreement reached between the European Parliament and the Council under the steer of the Commission on 4 December 2020. The agreement is for commitments of €164 billion, and payments of €166 billion. The adoption procedure is currently being finalised by the European Parliament and the Council.

Once adopted, the budget would allow the EU to mobilise significant public funds for a continued EU response to the coronavirus pandemic and its consequences; to kick-start a sustainable recovery and to protect and create jobs. It would start investing in the future to achieve a greener, more digital and resilient Europe, already as of 2021.

How exactly will the Own Resources Decision enable the Commission to borrow?

To finance NextGenerationEU, the Commission will borrow up to €750 billion on the markets on behalf of the Union.

To that end, the Commission will use the headroom – the difference between the Own Resources ceiling of the long-term budget and the actual spending.

The headroom will serve as a guarantee that the EU will be able to make repayments under any circumstances. This will enable the EU to continue benefiting from its high credit rating.

To ensure a sufficient headroom, the Own Resources Decision which is currently pending its ratification by Member States in line with their constitutional requirements foresees a temporary increase of the Own Resources Ceiling (the maximum amount of funds that the Union can request from Member States to cover its financial obligations) by 0.6 percentage points.

The increase of 0.6 percentage points will be limited in time and will only be used in the context of the recovery from the coronavirus pandemic. This increase in the Own Resource ceiling will expire when all funds have been repaid and all liabilities have ceased to exist.

This increase will come on top of the permanent Own Resources ceiling - 1.4% of EU gross national income which is proposed on the account of economic uncertainties and Brexit.

With the EU budget headroom as guarantee, the EU will be able to issue debt on more advantageous market terms compared to many individual Member States.

The initial reception by the markets – including credit rating agencies – has been positive, which makes us optimistic about our capacity to raise funds on the markets.

What is the Own Resources ceiling? What is the headroom?

The Own Resources ceiling determines the maximum amount of own resources the Commission can call from Member States in any given year to finance expenditure. This gives certainty and predictability to Member States for their budgetary and financial planning. A sufficiently high ceiling allows the Union to cover all of its financial obligations and contingent liabilities falling due in a given year.

In the EU budget, there is also a payment ceiling – the maximum amount of payments to be made on past commitments.

The difference between the Own Resources ceiling and the payment ceiling under the long-term budget plus the amount of other revenue (e.g. taxes on the salaries of EU staff and competition fines) is referred to as headroom.

A sufficient headroom is necessary to ensure that the Union is able – under any circumstances – to fulfil its financial obligations, even in times of economic downturns. This is important for maintaining the high EU credit rating.

An increased Own Resources ceiling – as proposed by the Commission – would mean that, if needed, the Commission would be able to draw additional resources from the EU Member States.

In this way, it would be possible to preserve the high credit rating of the EU, reduce the borrowing costs and the subsequent repayment costs for Member States.

As of when will the regulation on a general regime of conditionality for the protection of the Union budget start to apply?

The conditionality mechanism has been negotiated as an integral part of the next long-term budget and NextGenerationEU.

On 16 December, the European Parliament adopted the regulation, thus taking the last procedural step needed for its adoption.

The regulation will now apply as of 1 January 2021. As underlined by President von der Leyen before the European Parliament, any breach that occurs from that day onwards will be covered by this regulation. **In other words, no case will be lost.**

The Commission will now proceed with adopting guidelines, which will set out how the Commission will implement the regulation.

Any breach occurring after 1 January 2021 will be addressed. The Commission will be working hand in hand with the other EU institutons in defending and applying the regulation.

How much does every Member States get out of the EU budget?

The EU budget is not a zero-sum game. Everybody is a winner from being part of the single market, addressing the challenge of migration and fighting terrorism and climate change together. For this particular budget, every Member State is a winner of the recovery effort, which will be financed by NextGenerationEU, allowing the Union to address the economic and social consequences of the coronavirus crisis together. It is therefore important to look at the added value of the EU as a whole and think about the EU budget as a win-win for all.

Nevertheless, some country-by-country breakdown of the funds for which coutry-specific envelopes are availale has already been published:

- **Within the MFF**, these include data on cohesion policy allocations, as well as on allocations under the Common Agricultural Policy, both direct payments and the European agricultural guarantee fund.
- **Within NextGenerationEU**, the Commission has published the grants allocation for all EU Member States under the **Recovery and Resilience Facility**, based on the methodology outlined in the European Council conclusions from July 2020.

The calculation of the 30% is illustrative – the real distribution will depend on the loss in real GDP observed over 2020 and by the cumulative loss in real GDP observed over the period 2020-2021, to be calculated by 30 June 2022.

For the loan component, the allocations will depend on the demand of Member States. As a rule, the maximum volume of the loans for each Member State will not exceed 6.8% of its GNI.

The Commission has also published the country allocations under **REACT-EU** and the **Just Transition Fund**.

As for the **rural development** component **under NextGenerationEU**, the money would be distributed across Member States in proportion to the 2021-2027 allocation as foreseen in the May 2018 Commission proposal.

Which will be the main sources of revenue to the EU budget?

The revenue sources of the EU budget have remained the same over the last decades: customs duties, contributions from the Member States based on value added tax (VAT) and those based on gross national income (GNI).

These will remain in place in the future, with the following modifications:

- **The own resource based on custom duties - Traditional Own Resources** – is being modified. In line with the European Council conclusions from 21 July 2021, Member States shall retain, by way of collection costs, 25% of the amounts collected by them.
- **The Value Added Tax-based own resource** is being simplificed, with a uniform rate of 0.3% which will apply to the VAT bases of all Member States in accordance with a refined methodology.
- **New national contribution based on non-recycled plastic packaging waste.** The new own resource will represent a national contribution calculated on the weight of non-recycled plastic packaging waste with a call rate of €0.80 per kilogram. In order to avoid an excessively regressive impact, lum sum reductions are applied to contributios of Member States with a GNI per capita in 2017 below the EU average.

As per the European Council conclusions of 21 July 2020, five Member States will benefit from a gross reduction in their annual Gross National Income-based contribution for the period 2021-2027.

All these moficiations will enter into force retroactively as of 1 January 2020, following the ratification of the Own Resources Decision.

In addition, the Commission will use the headroom of the budget to raise funds on the capital markets and finance the new and reinforced tools focused on fighting the crisis and its consequences.This will be an exceptional and temporary solution which will build on the existing capital-raising activities by the Union and its high credit rating.

To help repay the borrowing, new own resources will be introduced to complement Member States' contributions to the EU budget. The roadmap agreed on 10 November 2020 contains clear commitments regarding the type of these new own resources, the envisaged timeline for their proposal and introduction:

- The Commission has committed to put forward proposals on a carbon border adjustment mechanism and on a digital levy as new own resources by June 2021, with a view to their introduction at the latest by 1 January 2023.
- The Commission will also review the EU Emissions Trading System in spring 2021, including its possible extension to aviation and maritime. It will propose an own resource based on the Emissions Trading System by June 2021.
- In addition, the Commission will propose further new own resources, which could include a Financial Transaction Tax (taking into account developments in the currently ongoing work on the enhanced cooperation) and a financial contribution linked to the corporate sector or a new common corporate tax base. The Commission will work to make relevant proposals by June 2024.

How much will every Member State contribute to the next long-term budget?

The EU budget is not and has never been about giving and taking. It has always been about pooling resources, standing together against common challenges and creating an EU added value. It is therefore short-sighted to only look at how much each Member State is getting out of the budget versus how much they are contributing.

In line with standard practice, every year, the Commission makes estimates about how much each Member State will have to contribute to the budget of the year after. These estimates are then communicated to the Member States concerned. Later on, these estimates are updated, to take into account the latest economic developments.

The Commission will continue to follow this standard practice as Member States' national contributions will remain the main source of revenue to finance the MFF.

At the same time, NextGenerationEU will not require immediate additional national contributions by Member States. Repayment of the funds raised will follow over a long-time horizon from future long-term budgets.

To help repay the borrowing, new own resources will be introduced to complement Member States' contributions to the EU budget. These will be introduced based on the roadmap agreed between the European Parliament and the Council on 10 November 2020.

Is the Brexit Adjustment Reserve foreseen in the long-term budget also adopted today?

The **Brexit Adjustment Reserve** is one of the flexibility mechanisms within the 2021-2027 long-term budget that make it fit to address not only today's realities but also tomorrow's challengess. With an overall size of €5 billion, it is aimed to counter the adverse consequences of Brexit in

Member States and compensate sectors that are worst affected by the departure of the United Kingdom from the EU.

As mandated by the European Council in its conclusions from July 2020, the European Commission is currently working on a proposal which it will release in due course.

More information

Press release

MFF website

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