



European Council: Michel's proposal is ill-fated with its cuts to the long term budget and the structural change of the #recoveryfund's governance

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Statement by

The new proposal presented last Friday by the President of the European Council, Charles Michel, ahead of the European Council of 16-17 July contains highly critical issues, even though it maintains the initial volume grants/loans of the Recovery fund.

The Next Generation EU package (the modified Multiannual Financial Framework reinforced by the new Recovery Fund) and the incoming 'negobox', is a crucial document, which integrates several points of the European Commission's package of 27 May. The package is the extra-mile that Europe absolutely needs to effectively defend the European project and its citizens, particularly those who have been hardest hit. We need to show that the European project is more resilient than ever.

The EESC welcomes the maintaining of the volume of the Recovery fund, (2/3 in grants and 1/3 in loans), in connection with a progressive entering into force of new own resources.

However there are also some major concerns that need to be raised and addressed.

For the first time, we face a decrease, albeit a small one - from the €1.100 bn of the Commission's proposal of May 2020 to the current €1.074,3 bn - in the overall size of the MFF, not only in nominal, but also in real terms.

The Recovery Fund is of paramount importance, but it is a one-off financial tool adopted during a crisis, operational for a short and determined period. **Hence the need for a strong MFF in line with the pre-crisis EU priorities.**

The MFF as proposed by the Commission was in fact already a downgraded compromise, way below what was proposed in 2018 by the European Parliament and the EESC (1,3 % of GNI). This proposal reduces the financial means in the medium and long term of the EU and prepares the ground for a further reduction of the next MFF, as it establishes a further reduction of the starting point.

One cannot call for an increase of 40% of the EU political priorities, while at the same time call for a structural reduction of the European budget, which has remained stuck at 1% of the GNI for years.

We understand that at the same time, in the spirit of an overall compromise, the proposal of Mr Michel calls for maintaining the current rebates for certain net-contributor Member States. Once again, the EESC calls **for an end to all rebates.**

Also, **when looking at the governance** of the Recovery Fund, the Commission's proposal envisages the establishment of a "Recovery and Resilience facility" governed by a community regulation—a legislative act, proposed by the Commission and approved by the co-legislators (Council and Parliament), which entrusts the Commission with the main role of governing and monitoring expenditure in the Member States.

Instead, Michel's proposal, which largely takes up the concerns of those who resist this structural innovation, gives control and governance of the spending of funds to the Council of Finance Ministers (Ecofin), downgrading the role of the Commission to a simple technical evaluation and completely cutting off the European Parliament. A move reminiscent of the economic crisis, which led to the devastating austerity measures.

Not only can intergovernmental management not be accepted from funds deriving from the issuance of common debt and not from transfers, but this model separates the political management of the Recovery Fund from the management of the multi-year structural budget, thus weakening its overall impact capacity. **That would continue to further fragment the management of EU resources by placing more and more of them under intergovernmental control and reducing those under the primary leadership of the Commission and the Parliament**, de facto changing the very nature of the Union, as established by the existing Treaties.

This is therefore unacceptable.

On the plus side, we support the strengthening of health and climate change and we agree with the principle of conditionality, aimed at establishing a concrete link between the available funds and the respect of the rule of law and of the fundamental rights.

It is absolutely vital, as proposed by Charles Michel, that genuine own resources get a stronger role in the financing of the EU budget: We support the suggested levy on plastic-waste, the carbon border adjustment mechanism and digital levy as well as proceeds from the Emission Trading Systems.

We are looking with interest at the new proposal related to the Brexit Adjustment Reserve, aimed at countering adverse consequences in Member States affected by Brexit.

The EESC is utterly convinced that solidarity and economic and social cohesion are a must, as they are the pillars on which the EU is built.

There is no doubt that the way forward will depend on the EU capacity to successfully come out of the crisis through addressing the green and digital transition, properly balancing competitiveness, social inclusion and sustainability. This is the win/win agenda of Europe for the years ahead.

So the EESC's position has not changed, on the contrary: the €1.750 bn of the overall architecture proposed by the Commission has to remain the key starting point of this negotiation.

We are fully aware we need an agreement at EUCO as quickly as possible but without further reductions in the size of the MFF and also without further fragmenting the governance of the whole Next Generation EU.

We also need to remember that the European Parliament, the co-legislator, could, quite rightly, not budge.

It is therefore imperative not to weaken the extraordinary political momentum that the EU has generated in its response to the COVID-19 pandemic, making sure that those who have been hardest hit quickly receive the European support they need.

The European citizens need an agreement on Next Generation EU before the end of summer, proving once more that the EU is able to forcefully address the current challenges and look at the future, with confidence.

This was precisely the spirit of our founding fathers, always combining concreteness and vision. This is the approach that the European civil society intends to embrace.

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