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The EU's Multiannual Financial Framework: Where Should Italy Stand?

by Simone Romano

Negotiations over the EU's new Multiannual Financial Framework (MFF) officially began last May, when the European Commission tabled its proposal for the next EU budget spanning the years 2021-2027.[1] The ball is now in the Council of the European Union's court, where member states are called to find a difficult but necessary compromise, give the need for unanimity to approve the regulation.

While easily dismissed as a rather technical and bureaucratic exercise, the negotiations retain key political relevance for EU member states and the Union as a whole. The MFF outlines the EU's strategic priorities, translates these commitments into figures and defines the limits of the EU's annual budget for seven years.

[1] European Commission, *A Modern Budget for a Union that Protects, Empowers and Defends. The Multiannual Financial Framework for 2021-2027* (COM/2018/321), 2 May 2018, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2018:321:FIN.

This is also the first time negotiations over the long term EU budget take place without the United Kingdom (UK). Moreover, and compared to the previous MFF (2014-2020), new issues and challenges have emerged, including migration management, border control, the terrorism threat and the digitalization of the economy, to name just a few.

In light of the spread of Euroscepticism and growing popular dissatisfaction with the European project in many member states, it is of paramount importance that EU institutions are seen as responsive to popular grievances, addressing citizen concerns and priorities in a credible and efficient manner.

EU leaders will need to overcome much of the path dependency that has traditionally characterized past MFF negotiations. The political environment is not particularly favourable, but proceeding with a business as usual

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approach while expecting to regain citizen trust and consensus would worryingly resemble Einstein's definition of insanity.

Many member states have developed structured positions and demands on a number of key issues in the negotiation, but Italy has thus far failed to outline a clear and articulate position. Instead, the present government has advanced a vague and ultimately counterproductive threat to veto the final budget unless its concerns on migration management are met at the EU level.[2]

While clearly an effort to strengthen Italian leverage in the negotiations, such approaches could not only be detrimental to Italy's national interests, but also self-defeating with regards to the need for consensus building and diplomatic balancing that have long been key to Italy's role and weight within the EU.

Against the backdrop of deep shifts in the international system, a new Italian government and a particularly convoluted summer in Italy-EU relations, what are Rome's key priorities in the current negotiations over the next MFF? What stance should Italian negotiators assume with regards to Italy's European partners and how should Italy act to ensure that its priorities and concerns are addressed in a satisfactory manner?[3]

The European Commission's recent proposals are by no means revolutionary, but they do represent a step in the right direction and can provide fertile ground for further negotiations. Italy should actively engage with these proposals, supporting most of their provisions. Furthermore, the Italian government should push back against the short-sighted view of the EU as simply the sum of its member states or a focus on the harmful dichotomy between net contributors and net beneficiaries to the EU budget which has generally dominated MFF negotiations.

Italy's "Government of change" should therefore push for innovations at the European level, helping to improve and reinvigorate the EU so as to bring it closer to its citizens, but by no means weaken the EU project.

In this context, a first problem to address relates to the budgetary shortfall facing the EU in the wake of the UK's withdrawal. Brexit implies a loss of around 12 billion euro a year from the European budget, a shortfall that will need to be filled by other member states. This challenge is even more significant considering the small size of the EU budget – standing at 1,279 billion euro –, which accounts for just 1.1 per cent of EU gross domestic product.[4]

[2] "Italy Threatens to Veto EU Budget Without Changes in Immigration Policy - Di Maio", in *Reuters*, 27 August 2018, https://reut.rs/2LvZRQv.

[3] The proposals that follow draw from the conclusions of a recent joint research project carried out by IAI and the Centro Studi sul Federalismo (CSF), analysing what position the Italian Government should take in the negotiating process. For more information see IAI website: EU *Multi-annual financial framework for 2021-2027. Resources, tools and possible developments*, http://www.iai.it/en/node/8957.

[4] Precisely, the Commission proposes a

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In this respect, instead of increasing national contributions based on each member state's gross national income, enhancing the system of own resources would be much preferable, allowing not only to increase revenues, but also to ease the *juste retour* logic. To this end, the Commission proposes a basket of new own resources that includes: the allocation of a share equal to 20 per cent of revenues from the Emissions Trading System; the relaunched Common Consolidated Corporate Tax Base and a national contribution calculated on the amount of non-recycled plastic packaging waste (0.80 euro per kilo).

The Commission has also proposed to restore the collection costs retained by member states from their traditional own resources (like custom duties) from 20 per cent to the original level of 10 per cent and, finally, to eliminate all rebates. The new own resources system shaped by these proposals could contribute on average 22 billion euro per year (corresponding to about 12 per cent of total EU budget revenue), helping to finance new priorities and policies.

The Italian government should strongly back these proposals as they are in line with the Italian national interest (elimination of rebates) and positive for the future of the EU (easing the *juste retour* logic and providing more resources to the budget).

Turning to expenditure, the two biggest spending blocks in the budget, the Common Agricultural Policy (CAP) and Cohesion Policy, will be moderately reduced, with more funds diverted to financing European common goods such as security, border controls and environmental protection. In particular, the external action, Horizon Europe and Erasmus+ programmes will be substantially increased, while migration and border management will see its funding doubled. Meanwhile, 13 billion euro will be dedicated to a brand new European Defence Fund (EDF).

Cuts to the two traditional pillars of the EU budget will impact Italy unevenly: a decline in the CAP budget will no doubt penalise it, but the revised Cohesion Policy will provide some respite, thanks to the distributional criteria based on each member state's recent macroeconomic performance (which has been worse in Italy than in many other member states).

Despite the negative impact of the CAP reform, which has indeed been officially condemned by the Italian government,[5] Italy should support these efforts not least given the proposed shift towards new European common goods will benefit both Italy and the EU, above all in the medium and long term.

Macroeconomic conditionality, always opposed by Italy, is likely to remain in place despite recent criticism that it has been anything but effective, above all when linked to the Cohesion funds.[6]

Multiannual Financial Framework of 1,279 billion euro in commitments over the period 2021-2027, equivalent to 1.114 per cent of the EU-27 gross national income.

[5] Aline Robert, "Cuts in the CAP: 'Unacceptable' for France", in *Euractiv*, 2 May 2018, https://www.euractiv.com/?p=1235126.

[6] Since Cohesion funds should help uplift poorer regions of Europe, conditioning them on ordered budget policies could end up having

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Engaging in a fierce diplomatic battle to change it would be useless and detrimental.

On the other hand, the Commission's proposal to strengthen the link between EU funding and respect for the rule of law seems to respond, at least in principle, to Italian desires. However, in its current formulation, this new conditionality is not designed to safeguard respects for fundamental European values or commitments, but rather the financial management and interests of the Union as a whole.

In this respect, the Italian government should strive to promote "real" conditionality based on the rule of law, aimed at defending EU core values (such as respect for human dignity and human rights, freedom, democracy and equality) and encourage member states to undertake the responsibilities that stem from them. This is crucial for the future of the European project as well as the relationship between EU institutions, member states and the wider public.

The proposal of three new funds, albeit small in size, should be welcomed. Building on the European Fund for Strategic Investments, the Commission proposes to launch the InvestEU initiative, a new investment fund aimed at mobilising private investments matched with a relatively limited amount of public funds (15.2 billion euro).

Meanwhile, a new European Investment Stabilisation Function – valued at 30 billion euro – will provide financial assistance to member states in crisis so as to avoid them having to cut strategic investments (such as infrastructure, education or the digitalization of the economy), thus helping to absorb asymmetric macroeconomic shocks in the euro area. Finally, a new Reform Support Programme – worth 25 billion euro – will offer technical and financial support for structural reforms at the national level.

While open to improvements, many of the proposed reforms do strengthen the EU and enhance its ability to deal with the looming challenges ahead. Italy, as a founding member of the Union and a key member state, needs to play an active role in these negotiations, working to safeguard its national interest but, above all, to steer the negotiation process in a direction that is beneficial for the EU as a whole.

If member states fail to bridge their differences and act in accordance with Union-wide interests, the consequences could be severe not only for the EU but also and increasingly for individual member states, ultimately even jeopardizing Union's own long-term survival and legitimacy.[7]

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the opposite effect as highlighted by Fabrizio Barca. See "Politica di coesione: tre mosse", in *Documenti IAI*, No. 18|08 (April 2018), http://www.iai.it/en/node/8928.

[7] Simone Romano, "The Germany Italy Wants: A More Daring Leader of a More United Europe", in *IAI Papers*, No. 18|04 (February 2018), http://www.iai.it/en/node/8802.

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