ASSEMBLY OF THE PORTUGUESE REPUBLIC

EUROPEAN AFFAIRS COMMITTEE

OPINION

COM(2018)321
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PART I - INTRODUCTION

Pursuant to Article 7 of Law No 43/2006 of 25 August 2006 on the monitoring, examination and issuing of opinions by the Assembly of the Portuguese Republic on matters relating to the process of EU integration, as amended by Law No 21/2012 of 17 May 2012, and in accordance with the Guidelines for the Scrutiny of EU Initiatives approved on 1 March 2016, the European Affairs Committee has received the following proposals:

- COM(2018)321 - COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS - A Modern Budget for a Union that Protects, Empowers and Defends - The Multiannual Financial Framework for 2021-2027;

- COM(2018)322 - Proposal for a COUNCIL REGULATION laying down the multiannual financial framework for the years 2021 to 2027;

- COM(2018)323 - Proposal for an Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management;

- COM(2018)324 - Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of the Union's budget in case of generalised deficiencies as regards the rule of law in the Member States;

- COM(2018)325 - Proposal for a COUNCIL DECISION on the system of Own Resources of the European Union;

- COM(2018)326 - Proposal for a COUNCIL REGULATION on the methods and procedure for making available the Own Resources based on the Common Consolidated Corporate Tax Base, on the European Union Emissions Trading System and on Plastic packaging waste that is not recycled, and on the measures to meet cash requirements;

- COM(2018)327 - Proposal for a COUNCIL REGULATION laying down implementing measures for the system of Own Resources of the European Union; and

- COM(2018)328 - Proposal for a COUNCIL REGULATION amending Regulation (EEC, Euratom) No 1553/89 on the definitive uniform arrangements for the collection of own resources accruing from value added tax.

Given the subject matter involved, the above-mentioned proposals were forwarded to the Committee for the Budget, Financial Affairs and Administrative Reform, which examined them and approved the Report which is attached to this Opinion, forming an integral part of it.

PART II - BACKGROUND

A)

Objective of the proposals put forward by the European Commission:

1 - These proposals relate to the legislative package for which the common legal basis is the future 2021-2027 Multiannual Financial Framework (MFF 2021-2027) and which builds on the strategic priorities that were agreed by the 27 Member States in Bratislava on 16 September 2016 and included in the Rome Declaration of 25 March 2017.

It will be the first MFF for a European Union with 27 Member States, making it a crucial moment for the EU.

2 - On 2 May, the European Commission presented its proposals for the 2021-2027 Multiannual Financial Framework, explaining that: *‘Choices taken in the coming months will shape the Union for decades to come. The stakes are high. Technological and demographic change is transforming our economies and society. Climate change and scarce resources are forcing us to look hard at how we can ensure that our way of living is sustainable.*

Unemployment, notably amongst young people, remains high in many parts of Europe. New security threats require new responses. The refugee crisis, caused by war and terror in Europe's neighbourhood, has shown the need to reinforce our capacity to manage migratory pressures and to address their root causes. Geopolitical instability is increasing and the values and democratic principles on which our Union is founded are being tested’.

The Commission notes that the proposals for the 2021-2027 Multiannual Financial Framework will help respond to these opportunities and challenges.

3 - Furthermore, the Commission explains that it *‘is proposing a new, modern long-term budget, tightly geared to the political priorities of the Union at 27. The proposed budget combines new instruments with modernised programmes to deliver efficiently on the Union’s priorities and to rise to new challenges.’*

4 - The Commission notes that the proposals also respond in a realistic and balanced way to the budgetary consequences of the withdrawal of the United Kingdom:

‘The departure of an important contributor to the EU budget will have a financial impact and the future Financial Framework must take account of that.

Maintaining a level of support that matches the Union's ambitions across the priority areas will require additional contributions from all Member States in a fair and balanced way.’

5 - The Commission emphasises that Europe is in the midst of the biggest debate on its future for a generation.

This debate was kickstarted by the Commission's White Paper on the Future of Europe, published on 1 March 2017[1], and will culminate at the Informal Leaders' Meeting in Sibiu, Romania on 9 May 2019.

A few weeks before Europeans take to the polls, this will be a time for the Leaders of the 27 Member States and for the European Parliament to stand up for the Europe they want and to equip the Union with the means to deliver.

'Decisive progress on the future long-term budget by this time will send out a strong message of resolve and determination to move forward together.'

6 - In the context of the 2021-2027 MFF, the aim of the proposals under scrutiny is to:

- establish the formal structure of the budget around the main thematic priorities;

- set ceilings for commitments and flexibility mechanisms;

- ensure budgetary discipline and improve the annual budget procedure and cooperation between the institutions on budgetary matters;

- protect the Union's budget in the event of generalised deficiencies as regards the rule of law in the Member States;

- introduce a basket of own resources and modernise the current system of own resources.

7 -

B)

The European Commission's thematic priorities

i) Single Market, Innovation & Digital

This thematic priority covers programmes relating to Research and Innovation, Strategic Investments, the Single Market and Space.

Key programmes:

* Horizon Europe
* European Innovation Council
* InvestEU Fund
* Connecting Europe Facility
* Digital Europe
* Programme for the Competitiveness of Enterprises (COSME)
* Customs action programme (CUSTOMS)
* Action programme on taxation systems in the EU (FISCALIS)

ii) Cohesion and Values

This thematic priority covers programmes relating to Cohesion and Regional Development policy, Economic and Monetary Union and Investing in People, Social Cohesion & Values.

Key programmes:

• European Regional Development Fund

[1] COM(2017)2025

- Cohesion Fund
- Reform Support Programme
- European Social Fund+
- Erasmus+

iii) Natural resources and the Environment

This thematic priority covers programmes relating to agricultural policy (Common Agricultural Policy), maritime policy, environmental policy and climate-action policy.

Key programmes:

- European Agricultural Guarantee Fund
- European Agricultural Fund for Rural Development
- European Maritime and Fisheries Fund
- Programme for Environment & Climate Action (LIFE)

iv) Migration and Border Management

This thematic priority covers programmes relating to Migration and Border Management policy.

Key programmes:

- Asylum & Migration Fund
- Integrated Border Management Fund

v) Security and Defence

This thematic priority covers programmes relating to Security, Defence and Crisis Response.

Key programmes:

- Internal Security Fund
- European Defence Fund
- Connecting Europe Facility (military mobility component)
- Union Civil Protection Mechanism (rescEU)

vi) Neighbourhood and the world

This thematic priority covers programmes relating to External Action and Pre-Accession Assistance policy.

Key programmes:

- Neighbourhood, Development and International Cooperation Instrument
- Humanitarian Aid
- Common Foreign and Security Policy (CFSP)
- Pre-Accession Assistance

vii) European Public Administration

This thematic priority covers European Public Administration policy, specifically administrative expenditure, pensions and European schools.

8 - To support the Union's priorities in the context of an EU with 27 Member States, and to take into account the integration of the European Development Fund into the Union budget, the Commission is proposing for the MFF 2021-2027 a ceiling for commitments of EUR 1 134.6 billion in constant 2018 prices, which equates to 1.11 % of EU GNI, and a corresponding payment ceiling of EUR 1 104.8 billion in constant 2018 prices, which equates to 1.08 % of EU GNI.

9 - Therefore, for the next MFF, the Commission is proposing to (COM(2018)325, COM(2018)326, COM(2018)327 and COM(2018)328):

a) *Modernise existing own resources by:*

- *Maintaining customs duties as traditional own resources for the EU, but decreasing from 20 % to 10 % the percentage Member States retain as 'collection costs';*

- *Maintaining the own resource based on Gross National Income, and keeping it as the balancing resource;*

- *Simplifying the Value Added Tax-based own resource.*

b) Introduce a basket of new own resources consisting of:

- *A 3 % call rate applied to the new Common Consolidated Corporate Tax Base;*

- *A 20 % share of the auctioning revenue of the European Emissions Trading System;*

- *A national contribution based on the amount of non-recycled plastic packaging waste in each Member State.*

c) Eliminate rebates*, but phase them out over five years to avoid sudden increases in contributions for some Member States.*

d) Increase the own resources ceiling: *allow for a higher share of the Gross National Income of the EU-27 to be called on as own resources to cover EU budget expenditure.*

10 - The Commission states that it is not creating any new taxes for EU citizens.

The EU does not have the power to levy taxes. Therefore, the introduction of new categories of own resources fully respects national fiscal sovereignty. Existing tax instruments are mainly deployed at national level, although in certain areas the European Union lays down rules to harmonise the way taxes are applied. This improves fairness for citizens and companies in the different EU countries while also providing a means to obtain fiscal revenues which cannot be collected by national authorities. Attributing a share of certain, harmonised tax bases or other sources anchored in EU policies or legislation to the EU budget is a way to improve the synergies between EU and national economies.

11 - It is also worth noting the legal basis for these initiatives:

Articles 311, 312 and 322 of the Treaty on the Functioning of the European Union.

It should also be noted that the Commission’s proposals on the future Multiannual Financial Framework are the beginning of a process that will determine whether the Union has the means to deliver on the agenda agreed in Bratislava and Rome.

The final decision will fall to the Council, acting by unanimity, with the consent of the European Parliament.

12 - Lastly, it is important to emphasise that all of Portugal’s MEPs expressed their disagreement with the proposal presented by the European Commission for the 2021-2027 MFF.

PART III - OPINION OF THE RAPPORTEUR

We should begin by recalling that cohesion policy and the Common Agricultural Policy cannot be used as ‘adjustment variables’ for the next MFF, given that both have clear European added value:

- they produce results that far exceed what could be achieved by mobilising resources at national, regional or local level;

- they encourage action at national, regional or local level to fulfil the objectives of the EU Treaty, action that would not otherwise be possible;

- they support actions that can only be financed by pooling resources at EU level, given the amount of funding required;

- they help foster and support peace and stability in the EU’s neighbourhood and beyond.

We would emphasise that the main objective of cohesion policy is to achieve real convergence between Member States and regions.

Given the existence of regional imbalances, it is vital to promote the harmonious development of Europe’s regions. To achieve this aim, sufficient and stable funding must be allocated to cohesion policy.

As a result, it is our view that, in putting forward this budget proposal, the European Commission is making a fatal error: it is forgetting that new challenges do not remove the EU's longstanding objectives.

It is wrong, unwise and unfair to reduce investment in cohesion policy and the Common Agricultural Policy. It is not possible to increase responsibilities and leave levels of funding as they were. You cannot do more with less!

For this reason:

- we are proposing that Member States’ contributions be set at at least 1.2 % of GNI;

- we are in favour of maintaining the financial envelopes for cohesion policy and the Common Agricultural Policy so that in the next MFF they are not smaller than in the 2014-2020 budget;

- we will urge the European Commission to achieve the objectives in its Strategy for the Development of the Outermost Regions, so that those regions continue to receive support through the Union’s financial solidarity with a view to their continued development, as enshrined in the Treaty.

We are in favour of forging ahead with existing policies, particularly the EU’s longstanding policies enshrined in the Treaties, specifically the Common Agricultural Policy and cohesion policy, as they are the means by which the European project creates tangible benefits for EU citizens.

We therefore reject any attempt to renationalise these policies, since this would not reduce the financial burden on taxpayers and consumers, nor would it make it possible to achieve better results; instead it would create obstacles to growth, solidarity and the proper functioning of the Single Market, thereby continuing to increase inequalities and at the same time deepening disparities between geographical areas and sectors of the economy.

The Commission has cut the Cohesion Fund by 45 %. This is unacceptable. For Portugal, this means EUR 2.5 billion less by 2027.

It is strange that the Commission has still not explained this decision.

Of the three cohesion pillars (ERDF, the European Social Fund and the Cohesion Fund) only the Cohesion Fund has been cut drastically.

In terms of the synergies between the three clusters of cohesion policy, the Cohesion Fund ensures a balance by making appropriations to poorer countries with GDP well below the EU average. If the cuts made necessary by Brexit are focused on this pillar of cohesion, it is clear what the outcome will be: poorer countries, such as Portugal, will be penalised.

We would recall that under the ERDF, a pillar of regional development, thus far regions were categorised as so-called poor regions (below 75 % of the average), rich regions (above 90 %), and regions in transition (between 75 % and 90 %). In the Commission's proposal, the range for regions in transition is extended up to 100 % of the EU average. Once again, this encourages cohesion for those who have already achieved it, which clearly disadvantages the poorest regions, those which are far below the EU average.

We would also like to recall that the European Parliament analysed the Commission's proposed budget for the 2021-2027 MFF and did not agree with what it saw. Compared with the current financial framework, the cuts to the cohesion fund (a significant portion of the overall cohesion policy) could be as high as 45 %.

For Portugal, when all the cuts to cohesion policy are added together, the impact could be over EUR 2.5 billion, which is almost 10 % of the funding the country will receive by 2027.

Furthermore, in a document from the meeting of coordinators held on 16 May, the European Parliament's Budget Committee said that they have found 'results that contradict the European Commission's public statements'. And it went on to say: 'Despite the increase in contributions to the Erasmus programme (77 % increase) and Research (13 % increase) - headings that, even so, are lower than announced - agricultural aid is being cut by 15 % and cohesion funding by 10 %, including a 45 % cut in contributions to the European Cohesion Fund'.

We therefore take the view that the European Commission's proposal is a blow to solidarity. And obviously this is worrying for us.

PART V – OPINION

In the light of the information set out above and the report by the relevant committee, the European Affairs Committee is of the opinion that:

1 - The financial rules that govern the Union budget, in accordance with the TFEU, may not be adopted by the Member States. There is no need to assess compliance with the principle of subsidiarity or proportionality.

2 - The European Affairs Committee must continue to monitor the matter in view of its relevance and the political attention it deserves.

Palácio de São Bento, 29 June 2018

Rapporteur	For the Chairman of the Committee
Duarte Marques	(Miguel Tiago)

PART V - ANNEX

Report of the Committee for Budgetary and Financial Affairs and Administrative Reform

ASSEMBLY OF THE PORTUGUESE REPUBLIC

Committee for Budgetary and Financial Affairs and Administrative Reform

Report of the Committee for Budgetary and Financial Affairs and Administrative Reform

Rapporteur: Margarida Marques MP (PS)

COM(2018)322, COM(2018)323, COM(2018)324, COM(2018)325, COM(2018)326, COM(2018)327 and COM(2018)328

COM(2018)322 - Proposal for a COUNCIL REGULATION laying down the multiannual financial framework for the years 2021 to 2027.

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PART I - INTRODUCTION

In accordance with Article 7(1), (2) and (3) of Law No 43/2006 of 25 August 2006 on the monitoring, examination and issuing of opinions by the Assembly of the Portuguese Republic on matters relating to the process of EU integration, in view of their subject matter proposals COM(2018)322 to

COM(2018)328 were sent to the Committee for Budgetary and Financial Affairs and Administrative Reform to be examined and for this report to be drawn up.

The package of initiatives relating to the Multiannual Financial Framework comprises the following proposals:

COM(2018)322 - Proposal for a COUNCIL REGULATION laying down the multiannual financial framework for the years 2021 to 2027 - This proposal sets out the general provisions of the next MFF, including the ceilings for the MFF and the EU’s own resources, as well as changes to sector-specific policies.

COM(2018)323 - Proposal for an Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management - This proposal sets out the terms of institutional cooperation in relation to the budget process and financial management.

COM(2018)324 - Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the protection of the Union's budget in case of generalised deficiencies as regards the rule of law in the Member States - This proposal establishes the specific measures to be adopted in the event of deficiencies in relation to the rule of law that could affect sound management of the Union's financial interests.

Proposals COM(2018)325 to COM(2018)328 establish the categories of own resources as well as their ceilings, define how the Union’s various own resources should be accounted for and calculated, and set out provisions relating to their implementation and the system for collecting VAT-related resources.

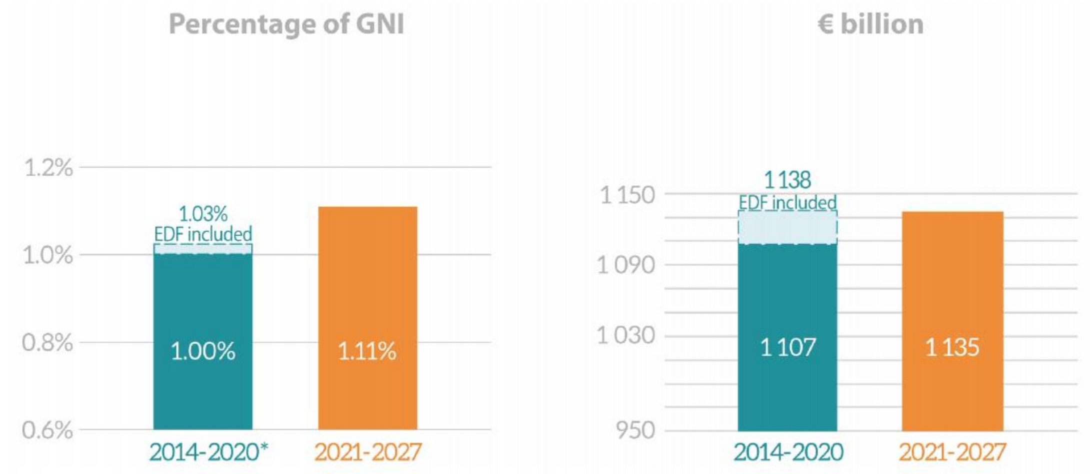
PART II - BACKGROUND

<u>Objective of the proposals put forward by the European Commission</u>

On 2 May, the Commission presented its proposal for the Multiannual Financial Framework for 2021-2027 (2021-2027 MFF), which sets out the structure of the EU budget and the EU’s political priorities for that period. It also presented proposals relating to the own resources that finance the budget and a proposal to link the EU budget to the rule of law.

The Commission has proposed that the 2021-2027 MFF should stand at EUR 1 135 billion in 2018 prices, which is 1.11 % of EU GDP. The previous MFF, in 2018 prices and including the European Development Fund, stood at around EUR 1 138 billion, around 1.03 % of EU GDP. This comparison does not take into account the various changes to the proposed programmes or the impact of Brexit. The number of headings is increasing under the 2021-2027 MFF and the aim of the Commission’s proposals is to align the budget with its priorities, simplifying the structure of the EU budget, reducing programmes and increasing flexibility in and between programmes.

Graph 1: Total commitment appropriations (in 2018 prices)



* Percentage of GNI for 2014-2020-MFF in 2011 prices.
Source: EPRS, based on European Commission data.

[Taken from: http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/621864/EPRS_BRI(2018)621864_EN.pdf]

The aim of the Commission's proposals is to bring the EU budget fully into line with the positive agenda of the European Union post-2020. They are based on a rigorous assessment of the resources needed to deliver on the European Union's goals, and of the efficiency and added value of spending in each area. The Commission is proposing a pragmatic approach, giving appropriate support to new and existing priorities and at the same time addressing the shortfall in national contributions resulting from the United Kingdom's withdrawal.

Programmes will be arranged around the main thematic spending priorities, corresponding to the headings in the formal budget structure. Within each priority, programmes will be grouped into policy clusters, which will be reflected in the titles of the annual budget. The new architecture will provide greater transparency regarding what the EU budget is for and how the different parts of the budget will contribute. It will also provide greater flexibility to respond to evolving needs and to unforeseen emergencies in areas such as security and migration.

Graph 2: Distribution of the 2014-2020 and 2021-2027 MFFs

Source: EPRS, based on European Commission data.

[Taken from: http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/621864/EPRS_BRI(2018)621864_EN.pdf]

The European Commission's priorities

- **SOUND FINANCIAL MANAGEMENT AND RULE OF LAW**

The EU is based on the rule of law. At national and EU level independent courts are responsible for ensuring compliance with rules and regulations agreed jointly and their implementation in all Member States.

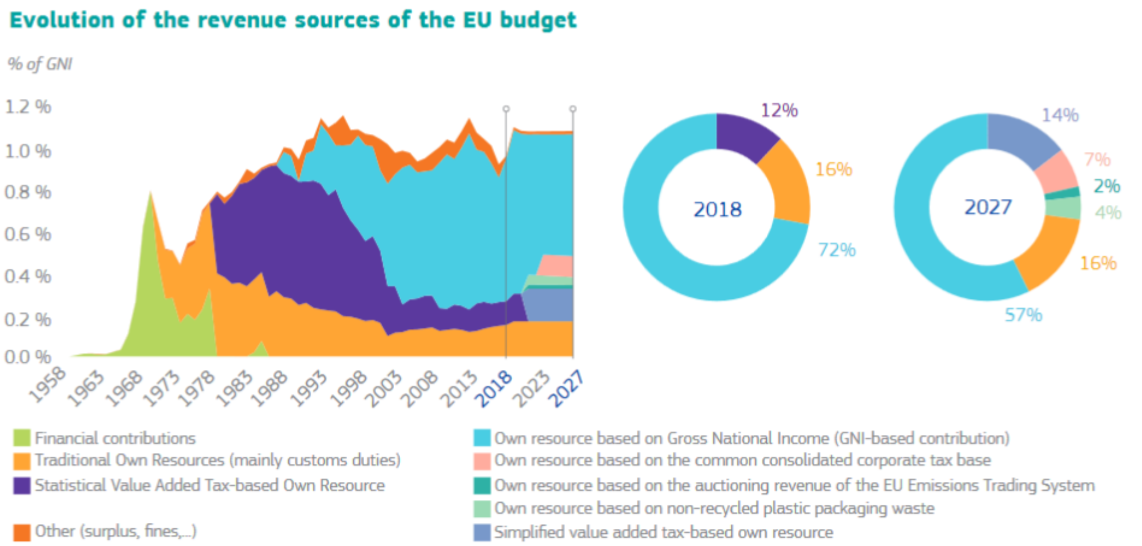
Under current rules, Member States are already required to show that their rules and procedures for financial management of EU money are robust and funding is sufficiently protected from abuse or fraud. However, no mechanism is currently in place to protect EU taxpayers' money in the event of deficiencies regarding the rule of law in a Member State.

An independent judiciary defending the rule of law and legal certainty in all the Member States is the only way of ensuring that funds from the EU budget are duly protected. In this regard, the Commission is proposing new rules to protect the EU budget against the financial risks associated with generalised deficiencies as regards the rule of law; these mainly involve payment-related penalties, such as suspending or stopping payments (COM(2018)324).

- **MODERNISING THE REVENUE SIDE OF THE EU BUDGET**

There are three revenue sources for the EU budget that have remained the same over the last few decades:

- Customs duties are levied on economic operators; they are collected at the external borders of the EU and go directly into the EU budget. Member States retain 20 % of the amount as collection costs.
- The current Value Added Tax bases of all Member States are harmonised through a complex statistical process before a uniform rate of 0.3 % is levied on each Member State, with some exceptions.
- The Gross National Income (GNI) own resource finances the part of the budget not covered by other revenues. The same percentage is levied on each Member State's GNI. The rate is fixed as part of the annual budget procedure.



[Taken from: https://ec.europa.eu/commission/sites/beta-political/files/budget-proposals-modernising-budget-revenue-side-may2018_en.pdf]

For the next MFF, the Commission is proposing to (COM(2018)325, COM(2018)326, COM(2018)327 and COM(2018)328):

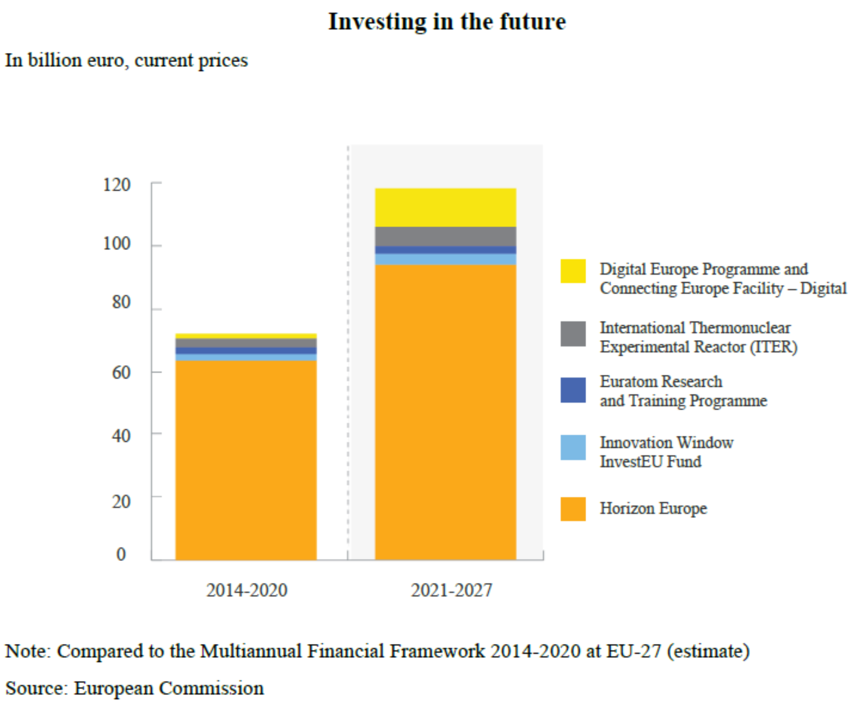
- Modernise existing own resources by:
  - maintaining customs duties as traditional own resources for the EU, but decreasing from 20 % to 10 % the percentage Member States retain as 'collection costs';
  - maintaining the own resource based on Gross National Income, and keeping it as the balancing resource;
  - simplifying the Value Added Tax-based own resource.

- Introduce a basket of new own resources consisting of:
    - a 3 % call rate applied to the new Common Consolidated Corporate Tax Base;
    - a 20 % share of the auctioning revenue of the European Emissions Trading System;
    - a national contribution based on the amount of non-recycled plastic packaging waste in each Member State.
- Eliminate rebates, but phase them out over five years to avoid sudden increases in contributions for some Member States.
- Increase the own resources ceiling: allowing for a higher share of the Gross National Income of the EU-27 to be called on as own resources to cover EU budget expenditure.

- **RESEARCH AND INNOVATION**

EU support for research and innovation adds value by encouraging cooperation between research teams across countries and disciplines, which is vital in making breakthrough discoveries. It allows the EU to deliver on priorities such as the Paris Agreement on climate change.

Building on the success of the EU's past flagship research and innovation programmes, the Commission proposes to increase investment in research and innovation by allocating EUR 114.8 billion from the future long-term EU budget.



[Taken from COM(2018)321]

- **INVESTMENT**

Europe's future depends on the investment decisions we take. The EU budget has always been a vital source of investment across Europe. Stepping up investment in areas such as research, strategic infrastructure, digital transformation of industry and the Single Market will boost growth and tackle shared challenges, such as decarbonisation and demographic change.

The EU's long-term goals regarding sustainability, competitiveness and inclusive growth require significant investments in new mobility models, renewable energies, energy efficiency, research and innovation, digitisation, education and skills, social infrastructure, the circular economy, climate action and above all in the creation and growth of small businesses.

- **DIGITAL TRANSFORMATION**

Digital transformation holds the key to unlocking future growth in Europe. Through specific programmes, the EU's future long-term budget will help bridge the EU's digital investment gap, including in remote and rural areas. It will tackle digital challenges, from artificial intelligence to the promotion of digital skills, from personalised medicine based on supercomputer calculations to the capacity to equip the EU against cyberattacks and cybercrime.

- **REGIONAL DEVELOPMENT & COHESION**

Cohesion policy is the EU's main investment policy, in that it helps create jobs, sustainable growth and innovation in Europe's regions, while at the same time supporting economic, social and geographical cohesion across the EU. Although Europe's economy is bouncing back, disparities remain between and within the Member States.

Today, Member States and regions need further support to tackle new and persistent challenges, such as harnessing globalisation, addressing industrial change, embracing innovation and digitalisation, managing migration over the long term and fighting climate change.

Managed in close partnership with the Member States and regions, cohesion policy funds will continue to boost economic convergence and social cohesion and improve the investment climate in Europe.

- **THE EU BUDGET AND THE ECONOMIC AND MONETARY UNION**

A stable euro area is the precondition for jobs, growth, investment and social fairness in the Union. The euro is the EU's single currency and economic convergence and stability are objectives of the Union as a whole. With the UK's withdrawal from the EU, the GDP of the euro area will account for more than 85 % of the EU's total GDP. This is why the tools to strengthen the Economic and Monetary Union must not be separate but part and parcel of the overall financial architecture of the Union.

In December 2017, as part of its roadmap for deepening Europe's Economic and Monetary Union, the Commission set out how new budgetary instruments could be developed within the framework of the EU's public finances to support stability and convergence inside and with the euro area for those committed to joining the single currency.

These proposals build on the vision of the Five Presidents' Report of June 2015 and on the Commission's Reflection Paper of May 2017, and deliver on the commitments made by President Juncker in his 2017 State of the Union Address.

In the new Multiannual Financial Framework, two new instruments are proposed: a Reform Support Programme and a European Investment Stabilisation Function.

The new instruments will help to support economic and social convergence and maintain macroeconomic stability by supporting reforms that foster resilience domestically and by helping to maintain investment levels in the event of large asymmetric shocks.

They will complement other EU funds, notably the European Structural and Investment Funds and the new InvestEU Fund which builds on the success of the Juncker Plan. The new instruments will also strengthen the link between the EU budget and the European Semester, the framework for economic policy coordination in the EU and euro area.

- **THE COMMON AGRICULTURAL POLICY**

Europe needs a resilient, sustainable and competitive agricultural sector to ensure production of high-quality, safe and affordable food for its citizens and a strong socio-economic fabric in rural areas. The global and cross-border nature of the challenges faced by the EU's agricultural sector and rural areas requires a common policy at EU level.

The Commission is proposing a modernised common agricultural policy (CAP) that will ensure access to high-quality food while maintaining a fully integrated Single Market for agricultural goods in the EU.

With a modernised CAP, it will be possible to place greater emphasis on the environment and the climate, support the transition towards a more sustainable agricultural sector and boost the development of dynamic rural areas.

- **MIGRATION & BORDER MANAGEMENT**

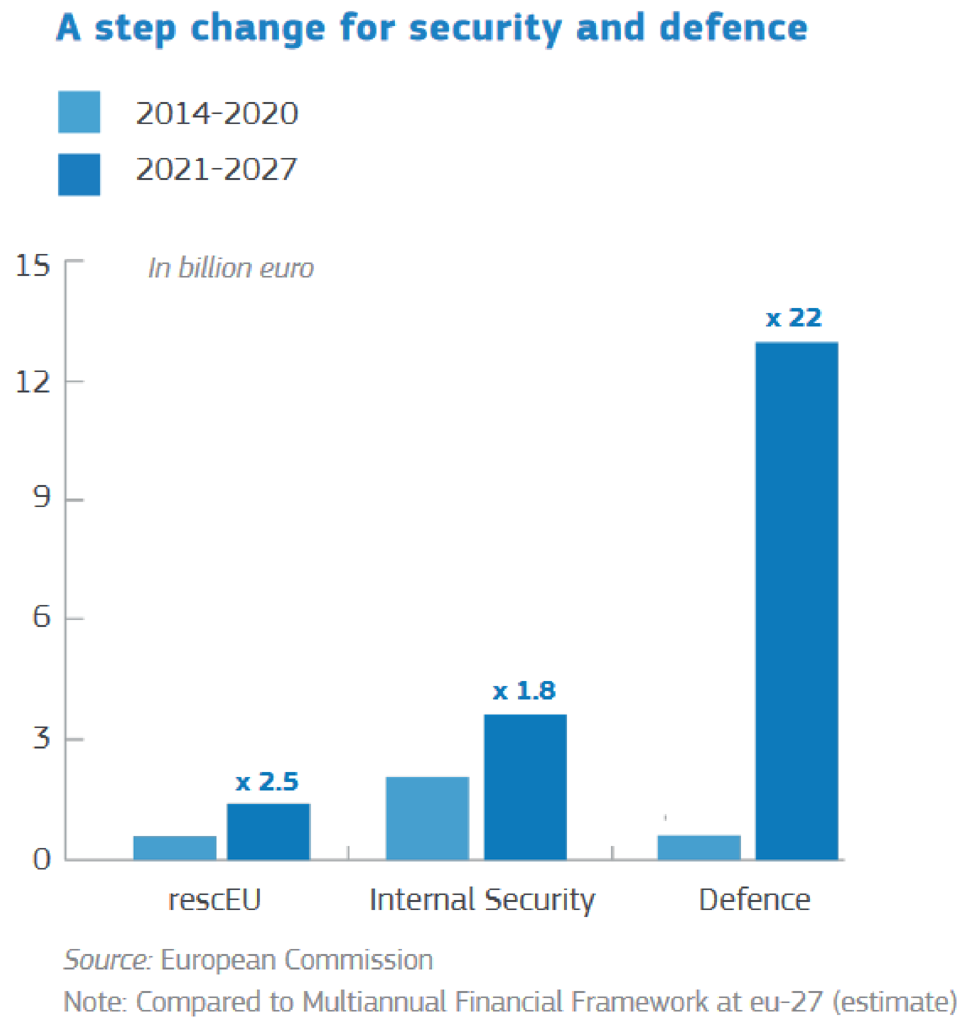
Irregular arrivals to the European Union dropped by 63 % in 2017; however, the trend for the years to come points to migration remaining a challenge for decades. This challenge can be better managed by Member States with the financial and technical support of the EU. The EU budget is a crucial means of supporting a future-proof migration and asylum policy, developing more efficient search and rescue capabilities that help save lives at sea, ensuring a humane and efficient return policy for migrants who are not entitled to stay in the EU, and providing a coordinated response to crisis situations that no Member State could manage on its own.

The effective protection of our external borders is a prerequisite for ensuring effective migration management and a high level of internal security while safeguarding the principle of free movement of persons.

- **SECURITY AND DEFENCE**

Security and defence are the most basic and universal of rights. The Juncker Commission made security a top priority from day one. In recent years, security threats have increased. The EU's Member States have already been working together to ensure an effective response to the diverse range of security threats - including new forms of terrorist attacks, radicalisation, new types of organised crime and ever-growing cybercrime and cybersecurity threats - and will need to continue to do so in the future.

In a world where geopolitical instability in our neighbourhood is increasing, the European Union needs to take greater responsibility for defending and protecting its citizens, their values and way of life. The European Union cannot substitute Member States' efforts in defence, but it can encourage their collaboration in developing the technologies and equipment needed to address common defence and security challenges. The European Union is stepping up its contribution to Europe's collective security and defence, working closely with its partners, beginning with the North Atlantic Treaty Organisation (NATO).



[Taken from: https://ec.europa.eu/commission/sites/beta-political/files/budget-proposals-security-may2018_en.pdf]

- **NEIGHBOURHOOD AND THE WORLD**

The European Union is the world's biggest donor of development assistance, the leading trading partner and the leading foreign investor for almost every country in the world. As a Union promoting peace, stability and exporting its values and rules, it is faced with many challenges as well as opportunities in an increasingly complex and connected world. Prosperity and peace in the EU's neighbourhood has a positive impact on the EU's own prosperity.

The EU budget helps the Union to implement its priorities globally, to rise to the challenges and opportunities and to promote its interests in the world, including through multilateral solutions. The new long-term budget will bring a significant modernisation of the external dimension of the EU budget. It will increase the effectiveness and visibility of the EU's external policies, strengthen coordination with internal policies and give the EU the flexibility to respond more quickly to new crises and challenges.

Principles of Subsidiarity and Proportionality

There is no need to assess the compliance of these proposals with the principle of subsidiarity or proportionality.

PART III - RAPPORTEUR'S OPINION

Communications COM(2018)322 to COM(2018)328 were analysed as a single package, the aim of which is to ensure that the EU can function properly from 2021 to 2027. As the same time, the financial framework being proposed [COM(2018)322] will also have to provide the necessary and sufficient funding to enable the EU to respond to priorities and address political challenges over that period of time.

The period of budget negotiations is now beginning, and the institutions' aim is for the complete budget package to be adopted before the end of the European Parliament's term i.e. before the end of May next year.

It is necessary to distinguish between two components of the budget package that will follow different legislative procedures: one of these is the budget itself, and the other is on own resources.

- The MFF will be adopted by the Council, acting by unanimity, once it has been approved by a majority vote in the European Parliament;
- Own resources: this process requires the approval of all the Member States.

These two components constitute a single and indivisible package. In its proposal, the Commission has a certain amount of own resources to feed into the budget.

The amount proposed by the Commission is clearly not enough. The Commission refers to a figure of 1.11 % of GDP, which is questionable, given that this amount takes into account the inclusion of the EDF, without which this figure would stand at around 1.08 %; given the need to address a number of priorities, this amount is insufficient. The European Parliament spoke about 1.3 %, the Portuguese government referred to 1.2 % and the Commission initially talked of 1.1 % and 1.19 %, meaning that the actual figure is lower than the amount accepted by the Commission itself.

Meanwhile, the Commission was not ambitious when it came to own resources, and its proposal falls short of what could have been expected, particularly following the approval of the EP's report on this subject (2017/2052(1NI)).

The so-called rebates remain, and the only proposal is that they will be gradually phased out over the period covered by the budget.

Making comparisons with the previous MFF is difficult, given that the structure of this budget is different. For example, it includes the EDF, which was not the case in previous periods.

This proposal from the Commission cuts investment in cohesion and rural development (CAP); the EU is not giving social matters, solidarity and territorial cohesion the funding they deserve. It is focusing on centrally managed programmes, which relate to well-defined priorities that are important for the future of the EU, but it is doing so to the detriment of funding for these other areas.

We would highlight the following proposals as positive:

- simplification of the MFF's structure, reducing the number of programmes from 58 to 37;
- increased investment in the Erasmus Programme and Horizon Europe;

- inclusion of an agricultural policy axis in the research programme;
- flexibility in terms of budgetary management;
- conditions relating to the rule of law;
- the reform-support instrument and financial instrument to respond to asymmetric shocks, although no improvements are made to either one;
- improved complementarity of EU funds.

The proposal is a cause for concern for the EU and for Portugal.

For Portugal in particular, there are a number of important battlegrounds: defending cohesion policy - there could not have been a more serious mistake than reducing investment in convergence; defending funding for rural development; exploring opportunities to introduce the two new instruments - the reform-support instrument and the instrument to respond to asymmetric shocks; ensuring equal access to centrally managed programmes and initiatives, such as Horizon Europe, while respecting a geographical balance.

Particular attention will need to be paid to a possible mid-term review of the MFF, as happened with the current MFF (2014-2020). If this review does take place, it must not jeopardise any financial envelopes already allocated to the Member States at the start of the budget period.

It is vital that the European Commission focuses on protecting - on all fronts - Europeans and people living in the European Union.

It is important to prevent backsliding, given that there is no guarantee that the Commission's proposal will be improved on, as there are already a number of obstacles in relation to national contributions, own resources and financial instruments.

PART IV - CONCLUSIONS

In the light of the information set out above, the Committee for Budgetary and Financial Affairs and Administrative Reform is of the opinion that the negotiations pertaining to the 2021 to 2027 Multiannual Financial Framework should be monitored closely.

Palácio de São Bento, 20 June 2018

Rapporteur	Chair of the Committee
(Margarida Marques)	(Teresa Leal Coelho)