

# President Charles Michel presents his proposal for the MFF and the recovery package

10 July 2020

One week from today, the 27 Leaders will come together here in Brussels. It will be our first physical meeting since the beginning of the crisis.

As you know, last May, on the request of the European Council, the Commission presented a package that combines the MFF and the recovery instrument Next Generation EU.

On June 19th, leaders had a first discussion on this proposal. These discussions revealed strong opposition to the package. As a result, I immediately began negotiations and bilateral meetings with all the leaders. And based on these discussions, today I propose my revised proposal for the European multiannual budget and the Recovery Plan.

It is firmly grounded in our EU priorities – climate transformation, digital agenda, European values and a stronger Europe in the world.

The goals of our recovery can be summarised in 3 words: first convergence, second resilience and transformation. Concretely, this means: repairing the damage caused by Covid-19, reforming our economies, remodelling our societies.

Last week, I concluded my bilateral discussions with the 27 EU leaders and I have also met with the European Parliament several times, both formally and informally. From these discussions, I have identified the six building blocks of a possible future agreement. And we need to find the right balance to reach a final political agreement.

The first building block is the size of the MFF. For the size of the MFF I propose 1,074 billion in order to fulfil the long-term objectives of the Union, and to preserve the full capacity of the Recovery Plan. My current proposal is largely based on my February proposal, which reflected two years of discussions between Member States.

The second building block: the rebates. Rebates, based on my proposal, will be maintained for Denmark, Germany, the Netherlands, Austria and Sweden. In real terms, on the basis of 2020, in a lump sum.

The third building block is the size of the Recovery package, the recovery fund. The Commission will be empowered to borrow up to 750 billion euros through an Own Resource Decision. These funds may be used for back-to-back loans and for expenditure channelled through MFF programmes. This is an exceptional and one-off tool for an exceptional situation.

The fourth building block, loans and grants. I propose to preserve the balance between loans, guarantees and grants to avoid over-burdening Member States with high levels of debt. This is also key for the future of the Single Market and to prevent more fragmentation and disparities.

The fifth topic: the allocation of Recovery and Resilience Facility (RRF). This proposal establishes a real link between the Recovery Plan and the crisis, and ensures the money goes to the countries and sectors most affected by the crisis: I propose that 70% of the Recovery and Resilience Facility will be committed in 2021 and 2022, according to the Commission's allocation criteria. 30% will be committed in 2023, taking into account the drop in GDP in 2020 and 2021. The total envelope should be disbursed by 2026.

The sixth building block is the question of governance & conditionality, with three important goals we need to reach. The first one, Reform and Resilience National Plans. On governance, Member States will prepare, based on our proposal, national recovery and resilience plans for 2021-2023 in line with the European Semester, notably Country specific recommendations. The plans will be reviewed in 2022, taking into account the final allocation key and the assessment of these plans will be approved by the Council, with qualified majority vote on a proposal by the Commission.

The second important goal that we need to reach is related to Climate change and for the first time we propose to target 30% of funding on climate-related projects. That is important for Europe's young generations and Europe's future ambitions. Climate transition remains our top priority and our recovery must also focus on the transformation of our economies. Expenses under the MFF and NextGenerationEU will comply with our objective of climate neutrality by 2050, the EU's 2030 climate targets, and the Paris Agreement.

The third important conditionality that I propose to support is the question of Rule of Law and the European values. We are taking a key step to anchor the rule of law and values in our European project and this is why I propose a strong link between funding and respect for governance and rule of law.

We have many instruments to address this issue: first a new budget conditionality: I maintain the February proposal? sanctions on funds to be adopted by Council with Qualified Majority Vote. We have also the Rule of Law monitoring under preparation by the Commission. In this context, I propose that the Commission and the Court of Auditors report on deficiencies in the rule of law that affect the implementation of the EU budget. We have of course also Article 7 of the Treaty and I propose to increase the funding for Rule of Law and values projects, through additional financing for the European Public Prosecutor's Office and the Justice, Rights and Values Program, with a special focus on disinformation and to promote media plurality.

Then I come to other essential topics: first on Repayments and Own Resources. Many Member States and the European Parliament expressed concerns over the repayment at the beginning of the next budget cycle. They also criticised the lack of own resources that would finance the reimbursement. In my proposal, repayments would start earlier in 2026, so two years ahead, and this commitment enhances the pressure on us to introduce new own resources.

First I propose to focus on three areas: plastic waste, carbon adjustment mechanism and the digital levy.

There will be a new own resource related to the use of plastic waste starting in 2021. And I invited the Commission to put forward a proposal in the first semester of 2021 on a carbon adjustment measure. And I will propose to introduce a digital levy with the view of introducing it by the end of 2021, based on the Commission proposal. Then I propose to invite the

Commission to come back with a revised proposal on ETS. And finally, we will continue to work on the project of a financial transaction mechanism.

You see, there is a very strong ambition to make important progress.

Brexit is challenging for all of us and that is why we propose a Brexit reserve of 5 billion. We would create this reserve in order to counter the unforeseen consequences in the most affected Member States and sectors.

Finally, it is essential to learn the lessons. The health sector is a fundamental sector, that is why for both RescEU and Health we will increase in line with the Commission proposal in order to respond to Covid-19 and the consequences of Covid-19.