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NEW BEGINNINGS
AN EU BUDGET IN SUPPORT OF THE NEXT COMMISSION'S AGENDA

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This series is a cooperation between the Jacques Delors Institutes in Berlin and Paris and makes concrete proposals for the EU's next institutional cycle.

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While being largely absent of the European election campaign, the negotiations over the next Multi-Annual Financial Framework (MFF) will take up a prominent place in the EU agenda in the coming months. The European Council and the Parliament have just 18 months to reach an agreement on the next seven-year EU budget covering the 2021-2027 period and this has to be done in parallel to the finalisation of 45 regulations setting the legal basis of the various EU spending programmes.

A crucial question for the months ahead is how much leverage the new Commission will have to adjust planned EU spending for 2021-2027 to its own political agenda. This is not a minor issue. Supporting the new EU Commission's ambitions in various policy fields will require more or different EU funding. And in her "agenda for Europe", the president-elect Ursula von der Leyen has taken various engagements with clear budgetary implications. This includes, for instance, the launch of a "sustainable Europe investment plan" able to mobilise up to €1trillion of private investment over the next decade, the creation of a "Just Transition Fund" to support people and regions most affected by the energy transition, the promise to triple the Erasmus+ budget, to prioritise investments in Artificial Intelligence or to spend 30% more than we do today on external action investment.

This paper analyses the budgetary implications of the next EU Commission´s agenda and discusses the capacity of the new EU executive to align planned EU spending to its policy priorities. It formulates some general recommendations to the new EU Commission on how to work together with the Parliament to influence the ongoing MFF negotiations and specific recommendations on how to align the next MFF and related sectoral spending programmes to an ambitious EU policy agenda in the fields of energy and climate, digital, social, migration, EMU, security and defence and respect of democratic values.

1 ■ MFF 2021-2027 negotiations: where do we stand

The Union counts with different EU-level investment instruments but the EU budget remains the most important one at the hands of the Commission. It only accounts for 2 % of total public spending but has a significant impact on certain territories and policy domains. Besides, thanks to the increasing use of financial instruments and conditionalities, EU spending has a non negligible capacity to influence national investment choices and mobilise additional private investment in support to EU's objectives.

Agreeing on the Union´s multi-annual budget is always difficult but the ongoing negotiations of the next Multi-Annual Financial Framework (MFF), setting the amount and structure of EU spending for the 2021-2027 period, are particularly tough. The post-2020 budget has to adjust to the Brexit gap, a financial shortfall estimated €84-98 billion over seven years caused by the UK's departure. This needs to be compensated by unpopular cuts to cherished programs (agriculture, cohesion policies..), increases in Member States' contributions, the introduction of new resources or a combination of all these options. On top of that, the EU is confronted by new spending needs in areas such as migration and border control, security and defence and digital transformation, which require between €91 and €390 billion of additional resources between 2021-2027 according to the Commission[1].

The previous Commission did a good job in trying to "square the circle". The MFF proposal, presented in May 2018, offered an intelligent political compromise to Member States. Richer countries would agree to moderately increase their contributions to the EU budget to keep EU spending for the remaining 27 Member States roughly at the same level (at real terms) after Brexit. Poorer countries, in exchange, would consent to a certain degree of spending re-allocation, with significant increases in new spending priority areas (80% increase for security and defence, 160% increase for migration and border control, 60% increase in research, innovation and digital) and moderate increases or reductions in cohesion and agriculture (+6% and -4% respectively). This would be completed with the introduction of new sources of revenue (such as a small levy on corporate profits and a share of the proceeds from the EU Emissions Trading System) to make the numbers work and partially offset the impact of Brexit on member states net contributions.

Despite the Commission's balanced approach, MFF negotiations in the Council have followed the same old dynamics than in past budgetary negotiations. After roughly one year of discussions, various net payers have made clear their opposition to any increase of net contributions, countries benefiting most from agriculture and cohesion have built up coalitions to preserve the existing envelopes in these two areas and a majority of Member States continue to reject any reform of the system of EU own resources. There is thus a strong risk of ending with a Council compromise in autumn 2019 or early 2020 based on a EU budget close to 1% of EU GNI, no increases in new spending areas and heading (agriculture) largely preserved from cuts. One crucial factor is the new Parliament's reaction to the Council proposal. It should be remembered that the votes of an absolute majority of elected MEPs are required to approve the MFF. In a new and more fragmented EU Parliament, obtaining this absolute majority could be difficult, particularly if the Council comes up with a proposal much below the 1.3% GNI budget requested by the previous European Parliament.

2 ▪ How much scope to re-align EU spending with a new Commission´s agenda?

A particularity of the current MFF negotiation is that it coincides in time with a change in the EU executive. It is the first time this has happened since the creation of EU multi-annual financial frameworks in 1988, and offers an opportunity for the new EU Commission to try to align EU spending to its political agenda. The Juncker Commission did not get this chance. It took office in November 2014, less than one year after the adoption of the EU multi-annual budgetary framework covering its whole executive

1. Bruegel's calculus, based on European Commission's Communication 'A new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020 – The European Commission's contribution to the Informal Leaders' meeting on 23 February 2018', COM(2018) 98 final

term (2014-2020). As a result, it had very little capacity to influence EU spending and had to struggle to finance one of its flagship priorities, the Investment Plan for Europe (also known as "Juncker Plan").

The von der Leyen Commission cannot remake a MFF proposal from scratch but it can have some leverage on MFF negotiations. While playing its role of 'honest broker' and facilitator of the negotiations, it should actively support the Parliament on four basic horizontal MFF points that are important to secure an appropriate and well-functioning EU budget for the years ahead:

• **The maintenance of an adequate overall volume of EU spending** for the next seven years. The 1.3% GNI requested by the Parliament is not a realistic target but the Commission should make clear that going below the 1,11% GNI proposed by the previous Commission would require making difficult choices – either accepting significant reductions in real prices to EU cohesion and agriculture programmes or renouncing to increases in new spending priority areas. It should provide information on the consequences of these choices, both to the two EU budgetary co-legislators and to the wide public.

• **The introduction of new EU own resources**. Including new sources of funding is essential to maintain the overall size of the EU budget while avoiding a major increase of some Member States'net contributions. The Juncker Commission has proposed three new EU own resources[2] which, together, would finance up to 12% of the EU budget but nothing prevents the von der Leyen Commission to develop new proposals if the latter have more potential to reach consensus among the 27 Member States. This could be, for instance, the Carbon Border Tax proposed by President von der Leyen in her "Agenda for Europe", or an EU-wide aviation tax, which has been recently discussed in the Ecofin Council[3].

• Removing all corrections. The end of the 'UK rebate' offers **a formidable opportunity to eliminate all rebates and corrections** which are a source of distortion in the financing side of the EU budget. This has to be done carefully, as a sudden removal of corrections may entail a sudden and drastic increase of some countries' net contributions[4]. The Juncker Commission has proposed to phase-out all corrections in five years but there is strong opposition from the concerned member states. More time may be given to phase-out all corrections but the Parliament and Commission should not renounce to the principle of eliminating them all over time.

• **Providing appropriate flexibility**. The 2015 refugee crisis put into evidence the rigidness of the seven-year EU budgetary frameworks. In the following programming period, it is essential to bring more flexibility to the EU budget and make it easier to adjust EU spending to unforeseen events. The Juncker Commission has proposed a Union Crisis Reserve which would be financed, inter alia, by de-committed appropriations (that is, funds that have been programmed in

2. The three new own resources proposed are: 20% of the revenues coming from the European Emissions Trading System, a 3% call rate applied to a new Common Consolidated Corporate Tax Base and a new national contribution based on the volume of non-recycled plastic packaging waste in the country.
3. The Dutch government raised the proposal of creating an EU-wide aviation tax at an Ecofin Council in February 2019 and the Commission has prepared an analysis of the costs and benefits of setting such a tax ("Leaked EU report boosts case for jet fuel tax", Financial Times,13 may 2019).
4. Particularly of Austria, Germany, the Netherlands and Sweden, which are currently benefiting from a rebate on their financial contribution to compensate for the UK rebate.

previous years but ultimately not spent). So far this proposal is rejected by the Council[5] but the Parliament and Commission should insist on that. It could provide a sizeable amount of money[6] to react to unexpected circumstances.

In addition to these four horizontal points, the Commission and Parliament should work together to better align the MFF proposal and the thirty-seven sectoral programmes to a new, ambitious five-years political agenda. For some of these programmes (e.g. the EU's research programme for 2021-2027, Horizon Europe) there is already a partial agreement between the Council and the Parliament but as long as the regulation is not formally adopted the new Parliament is not legally bound by issues agreed by the previous Parliament and can always re-open the negotiated agreement. In other cases (e.g, the regulations setting the basis of the Common Agriculture Policy) neither the Parliament nor the Council has taken a position and thus there is still more leverage to change the original proposal.

In the following we will discuss in more detail how should EU spending be adjusted to an ambitious EU Commission's agenda in the fields of energy and climate, digital, social, migration, EMU, security and defence and respect of democratic values, as covered in this "New beginnings" series.

3 ■ Energy and climate: an EU budget fit for the "Green Deal"

As argued by Pellerin-Carlin (2019[7]), President von der Leyen has taken a clear commitment to make Europe climate-neutral by 2050[8]. To achieve this, she has announced her intention to launch a "Sustainable Europe Investment Plan" able to mobilise €1trillion over the next decade.

We do not yet know what will be included in the "sustainable Europe investment plan" but if roughly limited to "turning parts of the European Investment Bank into Europe's climate bank", as as her 'Agenda for Europe´ seem to imply, it will fall short of the ambition required.

- First, while increasing the share of EIB investment on low-carbon projects is important, it is equally important to make sure that the EIB no longer invests in fossil-fuel and high-carbon infrastructures which would lock-in the EU economy into the wrong long-term path.

- Second, investment needs are especially important in areas in which the EIB does not have a strong expertise, such as the improvement of energy efficiency of buildings (which are small-sized projects and require not only funding but a good knowledge of local markets and assistance to create project pipelines).

5. Not surprisingly, as from the point of view of national ministries of finance, the current system is preferable: at present, non-spent commitments translate into a reduction of the overall EU payments and thus a reduction of Member States' contributions to the EU budget.
6. The total amount of EU structural funds de-committed from the 2007-2014 was EUR 4.4 billion and this only includes de-committed amounts from cohesion policy (DG budget, Analysis of the budgetary implementation of the European Structural and Investment Funds in 2017, May 2018).
7.
8. Thomas Pellerin-Carlin et al., "The European green deal starts with the energy transition", New beginnings, Jacques Delors Institutes in Paris & Berlin, September 2019

- Third, ultimately the EIB lending policy depends on Member States not on the Commission, and it is already moving to the right direction according to recent news.

Greening the EIB's action is welcomed but if the new Commission wants to get serious on climate it should also focus on increasing the climate ambition of the next multi-annual EU budget. The proposed 2021-2027 MFF has a stronger focus on climate but there is still room for improvement[9].

- The climate mainstreaming target[10] has been increased from 20% to 25% and more ambitious climate targets have been set for some sectoral programmes and funds (see table 1). However, EU methodologies used for climate tracking are weak and climate targets in some programmes are aspirational, meaning that they are expected results rather than legally-binding criteria included in the planning process. As a result, there is a risk that all turns into an ex-post accounting exercise with little real impact.

- Support to fossil fuels has been explicitly excluded from cohesion policy but the new MFF can still continue to support high carbon projects through other programmes.

- Climate considerations are particularly weak in areas which are crucial from a climate perspective and are substantially supported by EU funds, notably agriculture.

A first step to strengthen the climate dimension of the next MFF would be to **rise the climate mainstreaming target for the whole MFF to 30%**, as requested by the Parliament. This would require adjusting all sectoral climate targets accordingly and making them legally-binding. The Commission and the Parliament should also work together to reinforce the green architecture of the new CAP[11], phase-out EU support to climate-harmful projects and improve climate tracking methodologies. They should also free significant resources to accompany those individuals and territories most affected by the energy transition, by creating new instruments or reforming the existing ones (see section 3.2).

Finally, one should not forget that public investment represents a minor percentage of total investment in Europe. A move towards a low-carbon economy requires changes in regulations and taxation aimed at re-orienting private capital from high to low carbon investments. To this end, the new Commission shall continue the implementation of the Juncker Commission´s plan to integrate sustainability elements into the financial system's regulations (the Action plan on Sustainable Finance) but should also work for the establishment of an appropriate carbon price for all economic sectors. A general EU carbon tax covering all economic activities is technically and politically unrealistic but the von der Leyen Commission could propose **a stronger coordination of national energy taxation schemes, a more specific tax on aviation or a EU Carbon Border tax** as proposed by President von der Leyen which could eventually serve to finance the EU budget (see above).

9. For a more in-depth discussion on the climate dimension of the MFF proposal see Giuli, Marco, "Paris-proofing the next Multi-Annual Financial Framework", European Policy Centre, Discussion Paper, 25 June 2019 and Trilling, Markus,"Climate mainstreaming and climate proofing: horizontal integration of climate action in the EU budget – assessment and recommendations", CAN Europe, August 2018.
10. The climate mainstreaming target sets the overall minimum amount of EU spending that has to be dedicated to climate action.
11. For an in-depth discussion on ways to greening the new CAP see Matthews, Allan, ¨the greening architecture in the new CAP¨, CAPreform.eu, 20 June 2018

TABLE ▪ Climate targets in selected EU programmes (2014-2020 and proposed climate targets for 2021-2027)

PROGRAMME	CLIMATE TARGET 2014-2020	PROPOSED CLIMATE TARGET 2021-2027
HORIZON 2020/HORIZON EUROPE	35%	35%
ERDF (EUROPEAN REGIONAL DEVELOPMENT FUND)	12-20%	30%
EAFRD (EUROPEAN AGRICULTURE FUND FOR RURAL DEVELOPMENT)	30%	30%
CEF (CONNECTING EUROPE FACILITY)	--	60%
EFSI/INVESTEU	40% for infrastructure window	30% the whole instrument, 50% for infrastructure window

3.1 Digital: More support to disruptive innovation and digital transformation

A powerful EU digital strategy requires changes in regulations but also significant backing from public budgets. Public spending is needed both to support the generation and market uptake of strategic disruptive innovations, which are too risky to be financed by the market, and to ensure a wide diffusion of digital skills and technologies across the whole society and economy.

As argued by Dittrich (2019[12]), public investment in support to digital transformation is even more important in the EU than in other parts of the world for at least three reasons:

- The lack of "tech giants" such as the GAFAs in the US (Google, Amazon, Facebook, Apple), able to make massive investments in advance software and technologies,

- The under-supply of private venture capital compared to the US or Israel, which play an essential role in helping high innovative start-ups both in the early and the expansion phase and

- The EU's strong attachment to a valued-based, inclusive capitalism, which implies a strong commitment to combat geographic and social digital divides.

Over the last years, the Juncker Commission has shown a commitment to strengthen the role of the EU budget in support to disruptive innovation and digital transformation:

- In 2017, the Commission created the European Innovation Council (EIC) a one-stop-shop providing tailor-made support to innovators that have the potential to develop market-creating innovations at EU and international levels. The EIC started as a pilot under the current EU´s research programme (Horizon2020) but it is supposed to receive a significant budget upgrade under the EU´s research programme proposed for 2021-2027, Horizon Europe, and to expand the range of products offered

- A new Digital Europe Programme has been proposed in the next MFF. With an envisaged budget of €9.2bn, the new Programme aims to scale up existing EU spending in support to advanced digital technologies and better coordinate all digital investment in a more strategic, mission-oriented approach. The programme will focus in particular on: a)

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increasing strategic investment in three key digital areas (High Performance Computing, Artificial Intelligence and Cybersecurity) and b) ensuring the wide use of advanced digital technologies and skills across the economy and society.

The von der Leyen EU Commission must maintain this commitment and consolidate the work of the Juncker Commission in this field. It should strive to avoid any reductions in the budget of these two new instruments (the EIC and the new Digital programme) during the MFF negotiations. It could also make proposals to improve the design and implementation of both the EIC and the new European Digital Programme in order to improve their impact:

• With respect to the first (European Innovation Council), it is important to reinforce the synergies and to ensure complementarity between the EIC and the Knowledge and Innovation Communities sponsored by the EIT (EIT KICs). It is also important to ensure complementarity between the EIC and the new EU Investment vehicle replacing the Juncker fund after 2020, the InvestEU Fund, which is also expected to support the market deployment of radical innovations.

• With respect to the second (the Europe Digital Programme), the programme largely relies on coordinated and strategic co-investments with the Member States through the so-called "Digital Innovation Hubs". These Hubs are deemed to play an important role to stimulate the uptake of Artificial Intelligence, HPC and Cybersecurity by all industry and public sector organisations in Europe and in supporting advanced digital skill training. The new Commission should make sure that there is a strong commitment by all Member States to set up these Hubs and co-finance the actions taken by these Hubs.

• Finally, the €700mn earmarked for advanced digital skills under the Digital Europe Programme should be complemented with more funding from ESF+ and the European Globalisation Adjustment Fund in support to basic digital skills. This would be in line with President von der Leyen´s commitment to the Parliament to "get Europe up to speed on digital skills" by updating the Digital Education Action Plan.

3.2 Social: increasing the overall coherence, flexibility and performance of EU spending

In the social field von der Leyen has taken various strong commitments with budgetary implications, such as tripling Erasmus+ budget (going beyond the Juncker Commission's proposal to almost double the envelope), creating a European Child Guarantee (also proposed by the European Parliament) or setting up a new "Just Transition Fund" to help individuals and regions most affected by the transition towards a low-carbon economy.

However, there is little leverage to expand the overall budget for EU social spending. The Juncker Commission's MFF proposal for 2021-2027 already envisages an increase by 11% in current prices of the EU funding for social, employment and health, which is more than the increase experienced in the last MFF period (+9% from 2007-13 to 2014-20)[13], and any further rise would have to be compensated with cuts elsewhere. **Rather than pushing for more resources,**

13. The Juncker Commission has proposed to merge the former ESF with other EU social programmes (the Youth Employment Initiative, the Fund for European Aid to the Most Deprived, the Employment and Social Innovation programme and the Health programme). The 11% increase in current prices is the difference between the budget for all these instruments in the MFF 2014-2020 (excluding UK transfers) and the new ESF+ budget, in current prices. Source: Darvas and Moes, How large is the proposed decline in EU agricultural and cohesion spending?, Bruegel blogpost, may 2018

as argued by Fernandes (2019[14]) the new Commission should aim to improve the policy coherence, pertinence, flexibility and performance of the various existing EU funding streams in support to cohesion and social investment. Concretely, the Commission should concentrate on four aspects:

• First, EU funds should be more used to support reforms at national level or the implementation of EU social legislation. The introduction of a Reform Support Programme (RSP) providing technical and financial support for the implementation of reforms and the establishment of more precise and better monitored conditionalities for cohesion policy, called "enabling conditions", are positive improvements in this respect. However, with a budget of €25bn for the whole 7-year period to cover all EU member states' reform requests, one should not over-estimate the potential of RSP to support reforms. The capacity of the new "enabling conditions" to induce change is also dubious, as the fulfilment of these conditions will be monitored by the same Member States.

Second, an increase of Erasmus+ programme shall be accompanied by **an extension of the scope of the programme**. In particular, the new Erasmus programme should reinforce the initiative "Erasmus pro" in support to long-term mobility of apprentices, an initiative launched in 2017 and inspired on a 2015 paper by the Delors Institute[15], and support "Erasmus teens".

• Third, the EU budget should allocate significant resources to accompany those individuals and territories most affected by the energy transition. Von der Leyen has proposed to this end the creation of an "**European just transition fund**", a project the Jacques Delors Institute has also called for. However, the capacity of this Fund may be very limited if reduced to a budget of €5bn as proposed by the Parliament. It is therefore advisable to accompany the creation of this new Fund by changes in the criteria for allocation and disbursement of all EU cohesion funding. In particular more prominence shall be given to climate indicators for the allocation of cohesion and structural funds and a minimum of ESF and ERDF resources shall be earmarked to actions helping regions and individuals losing their jobs as a result of the energy transition. This could be complemented by reforms in the scope and functioning of the European Adjustment Globalisation Fund in order to convert it into an effective European Transition Support Fund.

3.3 Migration: financing the new European Border and Coast Guard and re-aligning policy priorities

President von der Leyen has taken a strong commitment as regards the deployment of a European Border and Coast Guard Agency (EBCG). In her "Agenda for Europe", she committed to have a EBCG with the 10,000 border guards operational by 2024, instead of 2027 as envisaged by the previous Commission. She will have to convince the Parliament and the Council of endorsing this new target. In effect, there is already a partial agreement between the two legislative authorities on the EBCG regulation, which envisages a standing corps of 5,000 EU border guards being operational by January 2021 and a gradual increase until reaching the number of 10,000 EU border guards by 2027.

The new President of the Commission has also proposed a New Pact on Migration and Asylum, which would include the relaunch of the Dublin reform of asylum rules and a shift

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15. Delors, J. et.al., "Erasmus pro: For a Million young european apprentices by 2020", Tribune, Jacques Delors Institute,12 may 2015

from case-by-case to a more permanent solutions for burden-sharing of rescued migrants. Most of these actions require legislative reforms but the EU budget can also play an important role in supporting national policies on border management, asylum and migration integration. This support is provided by two funds, the Asylum and Migration Fund (AMF) and the Integrated Border Management Fund (IBMF).

The 2021-2027 MFF proposal envisages important increases for these two Funds (AMF and IBMF). Yet, the increase is more pronounced for the IBMF fund (+67% in constant prices) than for AMF (61%). Besides, whereas the resources for decentralised agencies in the area of border control would increase significantly to support the new EBCG, the MFF proposal does not foresee any significant reinforcement of the European Agency on Asylum (EASO)[16]. Altogether, this reflects the emphasis of current EU policy on border management rather than asylum and integration.

The new Commission should try to re-balance financial resources between these two Funds (border control and asylum/integration). In addition to that, **more EU funding is needed in support to national asylum and migration integration policies**. The tiny amount reserved for the Asylum and Migration Fund (AMF) for the whole seven-year period is clearly insufficient – it represents just around two thirds of what Germany currently spends, at federal level only, for the internal dimension of asylum management in a single year[17]. The AMF shall be complemented with funding from EU cohesion and structural funds. In particular, cohesion and structural funds should play a role in providing support to municipalities participating in the relocation of asylum seekers.

3.4 EMU: a pragmatic proposal of BICC, able to evolve in the future

In the field of the Economic and Monetary Union, the new President of the Commission committed to "help deliver a Budgetary Instrument for Convergence and Competitiveness for the euro area to support Member States' growth reforms and investment". This is arguably less ambitious than Juncker in his inaugural speech, who advocated for a "targeted fiscal capacity at Euro zone level", but this is understandable given the enormous political difficulties to make progress on this issue and the strong disagreements that persists between euro area members.

After difficult negotiations, the Eurozone leaders have recently agreed on a compromise that set out a number of parameters for the euro area budgetary instrument. The proposal currently under discussion (the so-called BICC, "Budgetary Instrument for Investment and Competitiveness") is far from being the sort of stabilisation function the euro area needs.

- The explicit objective is not to provide stabilisation but to support structural reforms and public investment projects in line with the priorities set out in the European Semester and selected under the guidance of the Euro-group

- The instrument is part of the MFF and there is no mention to other potential sources of revenue to fill it. As a result, it is expected to have a very small size, around the €17bn for seven years envisaged in the Commission´s MFF proposal.

- Disbursement of funds is not automatic and does not follow countries' short-term needs. It is made by the Commission upon analysis of Member States´reform and

16. Alessandro d Alfonso 2019, External border control and asylum management as EU common goods. A budgetary perspective, EUI Papers, RSCAS 2019/05 Robert Schuman Centre for Advanced Studies
17. D'Alfonso 2019, op.cit.

investment proposals. On top of that, "net returns"´ considerations are taken into account, meaning that the available funds per country are expected to be within an acceptable range of the contributions of that country to the EU budget.

While the instrument currently under discussion is disappointing, there is some scope for improvement. As noted by Guttenberg (2019[18]), unless other EMU reforms which are entirely intergovernmental (such as the reform of the European Stability Mechanism), the BICC proposal is part of the MFF package and, as such, shall be based on a Commission´s legislative proposal and be approved by the European Parliament together with the Council. Thus, the new Commission has some capacity to improve the current BICC proposal and, working hand-in-hand with the Parliament, to force member states accept some modifications. Following Guttenberg, at a minimum the Commission should make sure that the BICC includes two important features:

• Flexibility, that is, the ability to allocate money according to changing short-term economic needs. As long as BICC´s explicit objective is not supporting stabilisation but promoting structural reforms and specific investment projects, the allocation of funding has to involve an analysis of Member States 'specific reforms and investment proposals. However, when assessing Member States´ requests, the Commission shall take account of the country´s economic situation and there should be some margin to change allocations according to shifting economic circumstances. Finally, the money granted to countries should in any case be constrained by "net return" considerations.

• Scalability, that is, the potential to significantly increase the size of the instrument in the future. The BICC proposal shall allow for the inclusion of additional resources to the instrument in the future should the political context allow for more ambition. These extra resources can be in form of Member States´ contributions based on an intergovernmental agreement, an assigned revenue or a new EU own resource financed by contributions of the Member States participating in BICC.

3.5 Foreign policy, security and defence: strengthening the European Defence Fund

In the field of security and defence, over the last years we have witnessed the European Commission taking on a greater role in European defence cooperation. This development has led to the creation of the European Defence Fund (EDF). Established on pilot basis in 2017, the EDF constitutes the first-ever EU budget instrument providing support in the field of defence. Its goal is to finance joint defence research and capability development projects between Member States as well as to promote join public procurement. The EDF proposed budget for 2021-2027 (€13bn) is negligible when compared to the total defence expenditure at national level, but the new EU Fund can provide substantial economies of scale, reducing costly duplications and fragmentation in Member States' defence research and capability development and creating significant savings from joint procurement.

In her "Agenda for Europe", von der Leyen underlined her intention to strengthen the EDF but gave no specific indications on how to do it. Apart from making sure that there are no cuts in the financial envelope, as argued by Koening (2019[19]), an important step to strengthen the EDF would be to concentrate all the different tasks related with the implementation of the EDF into a new DG defence. At present, the EDF is implemented by various Commission's DGs- particularly DG Growth, in charge of the selection and

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management of EDF projects and DG Ecfin, in charge of its financial management. As noted by Koening, bundling these different tasks together is important to ensure an efficient functioning and give to the instrument the necessary political drive. It is also essential to clarify the relationship between the EDF and the European Defence Agency (EDA), which has a mandate from Member States to strengthen the industrial and technological base of the defence sector, including by fostering joint research and procurement.

3.6 A well-designed "rule-of-law" conditionality and stronger mechanisms to fight fraud and misuse of EU funds

In her "Agenda for Europe", von der Leyen underlined her intention to make the rule of law an integral part of the next MFF. There is now large consensus both in the Council and the Parliament to introduce this link between the EU budget and the respect of rule of law. However, the 'rule-of-law mechanism currently under negotiation, based on a Commission's proposal of May 2018, presents two important shortcomings:

- It gives wide discretion to the Commission to assess what constitutes a "general deficiency" in rule-of-law justifying the activation of the mechanism.

- While the regulation states that the suspension of payments to the government should not affect the obligation of the latter to make payments to final beneficiaries (farmers, regions, researchers..) in practice there is no mechanism to ensure that the sanctioned government will step in with its own resources to secure the payment of beneficiaries in full and on due time.

The Commission should work hand-in-hand with the Parliament to correct these two deficiencies. In addition to that, **it should reinforce the mechanisms to fight the fraud and misuse of EU funds** by strengthening the role of the Office European Union's Anti-Fraud Office (OLAF) and extending the competences of the forthcoming European Public Prosecutors' Office (EPPO) as argued by Chopin (2019[20]).

Conclusions

The von der Leyen Commission starts its mandate in the middle of the negotiations of the next Multi-Annual Financial Framework (MFF) which will set the amounts and type of EU spending for the 2021-2027 period. It cannot re-draft the MFF from scratch but has some leverage to influence the ongoing negotiations of the MFF and related EU spending programmes, particularly if working together with the new Parliament. Juncker did not have the same luck: he arrived in power in 2014, just after the adoption of the EU long-term budget covering its whole executive term (2014-2020). He could not influence major EU spending decisions and had indeed to struggle to finance its main flagship priorities, the Juncker Plan.

Ursula von der Leyen would be well advised to take lessons from the past and fight to adjust planned EU spending at the level of her ambitions. Indeed, MFF negotiations may be, together with Brexit, her first "litmus test". If she is capable of partnering with the new Parliament and delivering on her budgetary promises, she will demonstrate to her critics that she is not the "puppet" of the Council and that she has full legitimacy to head the Commission despite her contested nomination process.

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