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THE MID-TERM EU BUDGET REVIEW AND THE GROWING EU SUPPORT FOR THE WAR EFFORT

*Federico Fabbrini **

On 20 June 2023 the European Commission has proposed a mid-term revision of the European Union (EU) budget – the Multi-annual Financial Framework (MFF) 2021-2027 – with implications both for EU revenues and EU expenditures. The Commission package – which includes two communications [on the MFF](#) and [on the Own Resources Decision \(ORD\)](#) and four legislative proposals – departs from the awareness that the EU budget has come under enormous strains, mostly due to exogenous factors which were unpredictable 30 months ago when the MFF and the ORD were hammered out in summer 2020. To begin with, the Russian illegal invasion of Ukraine in spring 2022 has forced the EU to divert an increasing amount of financial resources to support its eastern neighbor. Moreover, international trade developments, and especially the massive United States' investments in favor of the green transition, have altered trade competition and forced the EU to strengthen investment in strategic technologies. Finally, transnational migrations have remained unabated, requiring growing spending to manage influx of third country nationals and strengthen cooperation with foreign partners.

To address these developments, the Commission proposed to increase the MFF by 75bn€ in the remaining three-year period, 2024 to 2027. At the same time, this higher EU budgetary expenditure would be matched by an adjustment of the ORD, expected to increase EU revenues by 36bn€ annually on average between 2028 and 2030. [In particular, the Commission proposed](#) to the Council to increase the income from the EU Emission Trading System (ETS), and simultaneously to increment the percentage accruing to the EU budget from the sales of the Carbon Border Adjustment Mechanism (CBAM), which was recently established by the EU. Furthermore, as an interim measure before the implementation of the OECD/G20 Pillar 1 agreement on global minimum taxation, the Commission rolled out a new statistical levy on company profits, based on the gross operating surplus of businesses operating in the internal market. Lastly, the Commission also proposed increasing its authority to issue common debt on behalf of the EU.

In the Commission's plan, the increase in the EU budget resulting from the mid-term MFF revision would be allocated according to a priority strategy. Most notably, the Commission envisaged establishing a brand-new [Ukraine Facility](#), worth 50bn€, to financially support the Ukrainian government in its war effort in the period 2024 to 2027. At the same time, the Commission proposed legislation setting up a new [Strategic Technology for Europe Platform \(STEP\)](#), reallocating funds already available under the cohesion and industrial policy, and increasing the corresponding budgetary allocation by 10bn€. Lastly the Commission proposed allocating additional funds to implement the new Pact on Asylum and Migration, while also setting aside resources to cover the growing financing cost of the emission of the Next Generation EU (NGEU) common debt, and to account for the effects of inflation on the EU administration's cost.

Clearly therefore, the winner in the MFF revisions appears to be the new Ukraine Facility, which alone receives 2/3 of the budgetary increase proposed by the Commission. The MFF mid-term revision, instead, does not take the step – originally envisaged by Commission President von der Leyen in December 2022 – to set up a European Sovereignty Fund. This initiative, which had received only a warm welcome in the European Council in February 2023, proved to be too controversial for some member states, including Germany, whose Finance Minister had openly

opposed it. As a more modest alternative, instead, the Commission proposed setting up STEP by re-organizing existing funds and adding only limited additional resources, in the form of marginal increases of 0.5bn€ for Horizon Europe, 5bn€ for the EU Innovation Fund and 1.5bn€ for the European Defense Fund, plus a larger guarantee for InvestEU.

Yet, the political difficulties that the EU faces in strengthening its internal sovereignty have apparently not prevented it from continuing in the path taken since the outburst of the war in Ukraine, which is leading toward the strengthening of the EU's external sovereignty. The new 50bn€ Ukraine Facility in fact is modeled on the Macro-Financial Assistance+ (MFA+) Instrument for Ukraine, which the EU approved in December 2022, with a budget of 18bn€ only for 2023. In turn, the Ukraine Facility builds on the European Peace Facility (EPF), an off-budget instrument which the EU established in 2021 with a plafond of 5.7bn€. Since the beginning of the war, the EU resorted to EPF funding 7 times to support the Ukrainian military, and consequently was required twice to increase the EPF budget, which now amounts to more than double the original amount: 12bn€. However, as I have explained elsewhere, while the EPF is based on member states financial contributions based on GDP, the MFA+ Instrument is funded through the issuance of common EU debt by the European Commission, as is the case in NGEU.

The new Ukraine Facility develops this model, empowering the Commission to now issue an additional 50bn€ of common EU debt to fund Ukraine's repair, recovery and reconstruction in a stable and predictable way between 2024 and 2027, with both loans and grants. Along the NGEU model, Ukraine is expected to prepare a national plan with milestones and targets, which the Commission will assess and the Council approve. Respect for the plan, and continuing abidance by principles of democracy and the rule of law, will condition funding, with the possibility however for the Commission to adjust support in light of the exigencies of the war. In its 29 June 2023 meeting, the European Council largely endorsed the Commission's plan, revealing – perhaps with the exception of Hungary and some frugal countries – broad consensus on the need to empower the Commission to raise financial resources to fund the war efforts. In conclusion, despite the rhetoric against common EU debt, the mid-term review of the MFF seems to confirm that war remains the strongest driver of fiscal and military capacity in federal unions of states.

** Full Professor of EU Law Dublin City University; Fernand Braudel Fellow, European University Institute*

(The opinions expressed here do not necessarily represent the CSF)

