AN ALTERNATIVE EU BUDGET

How to Build a Better MFF Around the Single Market

Edited by Dr Christian Năsulea
May 2026

Commission MFF

National and Regional Partnership Plans (NRPP). €865bn
European Agricultural Guarantee Fund (EAGF) €295.7bn
European Regional Development Fund + Cohesion Fund + European Social Fund+ (ESF+) €372bn
European Competitiveness Fund (ECF) €409bn
Horizon Europe €175bn
Digital Leadership Window €51.5bn
Connecting Europe Facility (CEF) €81.4bn
Security, Migration and Border Management Heading €74bn
Social Climate Fund €34.2bn
EU Facility – Union Actions €63.2bn
EU Facility – Cushion €8.7bn
Global Europe, Neighbourhood, Development and International Cooperation (NDICI) €100bn
Enlargement and Neighbourhood East €43.2bn
Security Assistance for Europe (SAFE) €150bn
NGEU Debt Repayment €168bn
Corporate Resource for Europe (CORE) ~€15bn/yr
Tobacco Excise Duty Own Resource (TEDOR) ~€8bn/yr
Non-collected E-waste Own Resource ~€7bn/yr
ETS + ETS2 + Carbon Border Adjustment Mechanism (CBAM) Revenue Transfers ~€30bn/yr
European Public Administration and Pension Scheme for EU Officials (PSEO) €87bn

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Common trade policy and customs union enforcement
Cross-border energy infrastructure
Schengen external borders and common asylum
Revenue neutrality
Competitiveness through private investment

Total MFF: capped at 1% of GNI

EPICENTER
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How to Build a Better MFF Around the Single Market

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Introduction

Dr Diana-Florentina Năsulea (IES)

The European Union (EU) was not designed to be a fiscal union. The Treaty of Rome created a framework for economic integration – a set of rules, freedoms, and institutions within which individuals, firms, and capital could operate across borders. The EU budget follows from that design: It exists to finance what is necessary for the integrated market to function, not to replicate or supplement national fiscal systems at the European level. This founding logic has never been formally abandoned, but it has been progressively diluted. Each successive Multiannual Financial Framework (MFF) has expanded the EU's spending ambitions, introduced new revenue instruments, and absorbed policy functions that are only indirectly connected – if at all – to the operation of the European single market.

The Commission's proposal for the 2028–2034 MFF represents the most significant step in this direction to date.[1] Total commitments amount to approximately €1.763 trillion in current prices, equivalent to 1.26% of the EU gross national income (GNI) – a substantial increase over the current framework and the largest proposed budget in the Union's history. Excluding the €168 billion earmarked for the repayment of NextGenerationEU (NGEU) debt, the core spending proposal amounts to €1.595 trillion, an increase of approximately 32% over the 2021–2027 MFF (€1.211 trillion). The dominant delivery mechanism is a new consolidated instrument, the National and Regional Partnership Plans (NRPP), which merges fourteen previously distinct funds – including

1 European Commission (2025). A dynamic EU budget for the priorities of the future: The Multiannual Financial Framework 2028–2034. Brussels: European Commission (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025DC0570).

cohesion, agricultural, and home affairs programmes – into a single programming framework with a total funding of approximately €865 billion.[2] On the revenue side, the Commission proposes approximately €58 billion in new annual revenues drawn from a range of sources, including transfers from the EU Emissions Trading System (ETS), a Carbon Border Adjustment Mechanism (CBAM) levy, a new corporate contribution from large firms (Corporate Resource for Europe [CORE]), the Tobacco Excise Duty Own Resource (TEDOR), and an e-waste levy. These instruments are presented primarily as a means of servicing the liabilities incurred under NGEU and a debt of around €800 billion, but they also expand the structural revenue base of the EU in ways that go well beyond debt repayment.

The justification offered for this expansion is familiar: geopolitical uncertainty, competitive pressure from the US and China, the demands of the climate transition, demographic pressures, and the unfinished business of European defence. These challenges are real. They featured prominently in the Draghi and Letta reports, which provided important intellectual scaffolding for the Commission's proposal, and they reflect genuine anxieties shared by policymakers across the political spectrum. This publication does not dispute that these challenges exist. It questions whether an enlarged EU budget is the appropriate means for addressing them, and whether the revenue architecture proposed to finance it is coherent, transparent, or fiscally neutral. On both counts, we find the Commission's case is not persuasive.

This report sets out a systematic alternative assessment, organised around a single foundational test: EU-level expenditure is justified when, and only when, it is necessary to maintain or complete the single market and the free movement of goods, services, capital, and persons on which it depends. This test is not arbitrary. It reflects the EU's own constitutional foundation and the logic of subsidiarity, which requires that decisions be taken at the lowest level of governance capable of delivering effective outcomes. It also has a practical implication: The burden of proof falls on those who wish to spend at the EU level, not on those who question whether this spending is justified. Identifying a genuine problem and asserting that EU expenditure is the solution does not satisfy the test. The problem must be inherently cross-border and beyond the reach

2 European Commission (2025). A dynamic EU budget for the priorities of the future: The Multiannual Financial Framework 2028–2034. Brussels: European Commission (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025DC0570).

of individual member state action alone. Most of the remedies the Commission proposes to finance do not meet this requirement.

Chapter 1 of the report sets out the guiding principles in full: the spending test and its rationale, the case for a GNI ceiling of approximately 1%, the principle of revenue neutrality (under which any increase in EU-level revenue must be matched by an equivalent reduction in national contributions or taxation), the argument for developing non-tax revenue sources to reduce dependence on fiscal transfers, and the appropriate scope of rule-of-law conditionality. These principles are not merely analytical preferences. They present a structural diagnosis. EU member states already carry a tax burden that is significantly higher than that of their main competitors: Tax revenues across the EU averaged approximately 39% of GDP in 2024, some 5 percentage points above the equivalent figures for the UK and Japan and 13 points above that for the US.[3] In this context, expanding EU-level revenue – even if it is nominally offset against national contributions – poses real risks to competitiveness and household purchasing power. Citizens ultimately bear this burden as employees, consumers, and shareholders, regardless of which level of government formally collects it.

Chapter 2 applies the spending test to every major expenditure category in the Commission's proposal. Cohesion, agriculture, and maritime spending – now consolidated under the NRPP – account for the largest share of the budget and are assessed first. These instruments primarily serve redistributive and income support functions; they do not, for the most part, address cross-border market failures of the kind that would justify EU-level financing. Chapter 2.2 on competitiveness then examines each programme individually: Horizon Europe, the clean energy transition and industrial decarbonisation instruments, defence and space, the digital transition, health and bio-economy, Erasmus+, and the Connecting Europe Facility. These programmes vary considerably in how directly they relate to single-market functions; the analysis distinguishes between those that genuinely add value at the EU level and those that replicate or extend national industrial policy. Global Europe and administrative expenditure – including the substantial and under-examined question of EU pension liabilities – complete the spending assessment.

3 'Taxation trends in the European Union, 2024 edition', Eurostat, 2024. Comparison figures for the UK, Japan, and the US are drawn from Organisation for Economic Co-operation and Development (2024)., *Revenue Statistics* (https://www.oecd.org/en/publications/revenue-statistics-2024_c87a3da5-en/full-report.html).

Chapter 3 turns to the revenue side. The current own resources system has evolved significantly since the Own Resources Decision of 1970; the GNI-based contribution now accounts for approximately 67% of the total EU revenue, customs duties for around 10%, and VAT-based contributions for a further 10–12%, with the remainder drawn from the plastics levy introduced in 2021 and NGEU borrowing operations (European Commission 2023, 2024). The proliferation of new proposed instruments for the 2028–2034 period is assessed against the criteria of fiscal neutrality, administrative simplicity, economic coherence, and transparency. The structural implications of EU borrowing – in particular, the risk that the exceptional debt instrument created under NGEU may become a permanent feature of the EU's fiscal architecture – are examined in detail. The chapter closes with alternative approaches to financing the Union's legitimate functions, including the largely unexplored potential of non-tax revenue.

The findings across all chapters converge. The Commission's proposed MFF expands the EU's fiscal footprint without clarifying or narrowing its functional role. It introduces new revenue instruments without a principled basis for their selection. It risks entrenching joint borrowing as a structural rather than an emergency mechanism. And it consolidates an ever-wider range of policy objectives under an EU budget that lacks the democratic accountability typically associated with fiscal capacity of this scale. The alternative this report proposes is not austerity but coherence: a budget anchored in the EU's founding logic that is smaller in scope, more transparent in its financing, and genuinely accountable in its use of public resources – one that places greater confidence in the competitiveness and innovation that flow from an open, well-regulated single market than in the allocation of public funds by central institutions.

Guiding principles for EU revenue and spending goals

Bosco Aspe Maella (Fundalib), Petar Ganev (IME) & Dr Nicolas Marques (IEM)

The EU's original purpose

The EU was founded on a straightforward but profound idea: that removing barriers to trade and movement between European nations would generate prosperity and peace more reliably than any programme of public spending. The Treaty of Rome did not create a redistributive state. It created a framework for economic integration within which individuals, firms, and capital could operate across borders as freely as within them.

From this founding logic flows a clear and durable principle: The EU budget exists to finance what is necessary for that integrated market to function. It does not exist to substitute for national welfare states, correct market outcomes deemed politically undesirable, or fund current industrial preferences. When the EU budget expands beyond maintenance of the single market and the freedoms it depends upon, it does not deepen integration. It replicates – at greater cost and with less accountability – the kind of interventionist spending that member states already practise at home.

This distinction is not merely theoretical. The current Commission proposal for the 2028–2034 MFF projects expenditure of approximately 1.26% of the EU GNI, a significant increase over the current framework of 1.11%. The justification offered is familiar: geopolitical uncertainty, competitiveness challenges, the climate transition, and demographic pressures. These are real challenges. But the question this paper

addresses is not whether challenges exist but whether an expanded EU budget can adequately address them. In most cases, it cannot.

A simple test of legitimate EU spending

Rather than attempting to enumerate every legitimate and illegitimate use of EU funds – an exercise that risks endless, case-by-case debate – we propose a principles-based test that can be applied consistently across spending areas.

EU expenditure is justified when, and only when, it is necessary to maintain or complete the single market and the free movement of goods and people that the single market depends upon.

Strictly, two functional categories straightforwardly pass the principle test:

> **External border protection:** Free movement within Schengen presupposes collective management of the EU's external border.
>
> **Common trade policy:** The EU negotiates as a single entity; member states cannot maintain separate trade agreements while sharing a customs union.

The test intentionally shifts the burden of proof. The question is not 'Why cut this?' but 'Does this pass the test?' Identifying a genuine problem and concluding that EU spending is the answer is insufficient; the problem must be inherently cross-border and not addressable by member-state action alone.

Everything else – cohesion transfers, income support for farmers, climate subsidies, innovation grants, social funds, defence, and so on – fails the test. Not because these are unimportant policy goals, but because they are not inherently cross-border and are therefore the responsibility of member states to meet.

The deregulation alternative

A recurring theme in the Commission's budget justification is that EU spending is needed to address gaps left by 'market failure' or 'inadequate private investment'. Innovation is lagging; therefore, fund it. Renewable energy is not being deployed fast enough; therefore, subsidise it.

Strategic industries face competitive pressure from China; therefore, support them.

This framing treats the regulatory environment as fixed and asks only how much money is needed to achieve outcomes within it. But in many cases – arguably all – the reason for insufficient private investment is not market failure in the classical sense. It is a policy failure: regulations that make nuclear energy non-bankable; capital market rules that channel savings away from productive investments; permitting regimes that delay infrastructure for years; and taxonomies that distort private capital allocation in ways that require public capital to compensate.

However, the question is not whether a given policy goal is worthwhile or even whether EU spending in pursuit of it is efficient. Innovation matters. The energy transition matters. Regional development matters. The pertinent question is whether these are properly European-level functions – legitimately within the EU's scope – or national, regional, or local responsibilities that happen to have become centralised over time.

Fiscal restraint and the 1% ceiling

The proposal to cap the MFF 2028–2034 at approximately 1% of the EU GNI is not an arbitrary fiscal target. It reflects the view that the spending activities justifiable under the test of legitimate EU spending do not require more than this.

The Commission proposes spending 1.26% of GNI. The increase is presented as a response to new pressures: defence, competitiveness, and NGEU debt repayment. Each of these deserves examination:

> **NGEU repayment** is a real and unavoidable obligation, representing approximately €149 billion across the framework period. It is not new spending, but it does consume budgetary headroom. We address it directly in Chapter 3.
>
> **Defence** is a legitimate area of growing EU relevance, but the argument for a larger EU budget does not follow automatically from a larger defence requirement.
>
> **Competitiveness** spending – the proposed EU Competitiveness Fund and related instruments – does not represent a justified addition to the EU budget under our test. Competitiveness is better

served by completing the single market in services, capital, and energy than by tendering grants to selected industries.

A budget of 1% of GNI does not mean the EU should abandon its responsibilities. It is an initial ceiling that compels the EU to concentrate on such responsibilities.

Revenue neutrality

Any expansion of EU-level revenue beyond the MFF ceiling we propose would, in effect, increase the overall tax burden on European citizens and firms, even if it nominally replaces national contributions. This is because EU-level taxation typically involves less transparency, less democratic accountability, and less sensitivity to the fiscal conditions of individual member states than national taxation.

We therefore propose that the following principle be treated as a guiding constraint throughout the revenue chapter:

Any increase in EU-level revenue must be matched by an equivalent reduction in the national-level revenue, such that the overall tax burden on citizens and businesses is held constant.

This principle has two functions. It prevents the EU budget from becoming a mechanism for expanding the public sector as a whole. And it ensures that when the EU takes on functions previously performed by member states, it genuinely substitutes for them rather than adding to them.

In Chapter 3, the Commission's proposals for new own resources – CORE, TEDOR, CBAM, e-waste charges, and ETS revenue transfers – are assessed against this principle and against the broader revenue criteria of fiscal neutrality, administrative simplicity, and transparency.

The EU budget should be judged not by how much the EU spends but by whether what it spends on is necessary and appropriately European in scope. Measured against this standard, the case for the Commission's proposed expansion of the MFF fails. Suggesting a leaner, more focused EU budget – one grounded in the EU's founding logic rather than its most recent ambitions – is both principled and practical.

Increasing the EU's non-tax revenue should be a European objective

The EU has historically been financed by transfers of tax resources from member states and customs duties. It began supplementing its revenues with a sectoral contribution in 2021 (Chapter 3: The Current EU Revenue System), and it now seeks to develop other specific sources of revenue under the next MFF (Chapter 3: Assessment of Proposed New Revenue Sources). The EU's almost exclusive reliance on taxation to finance its operating expenses and public policies is a blind spot that needs to be addressed in the next MFF.

In a context of high economic competition, taxation is not neutral. Capital mobility and households' growing sensitivity to purchasing power should encourage a quest for fiscal moderation. Relying on an increase in fiscal transfers to EU institutions is problematic for competitiveness and purchasing power. The EU has much higher taxation than its competitors, with tax revenues representing 39% of GDP in 2024, which is 5 points higher than the equivalent figures for the UK and Japan and 13 points higher than for the US.

These high levels of taxation automatically affect households, which ultimately bear this tax burden as employees (with less attractive salaries), consumers (with more expensive products), or shareholders (with less attractive returns on capital). For all these reasons, relying on higher taxation to finance more ambitious policies is a mistake.

The EU administration has not yet developed meaningful non-tax sources of revenue to finance part of its operating costs. It has not adopted the good practices of other international institutions, such as the United Nations, and European institutions, such as the European Central Bank. These institutions have established capitalised financial structures to generate investment income, which allows them to partially cover their administrative expenses, particularly pension obligations, without relying solely on fiscal contributions.

If, however, a decision were made to increase EU revenue, the additional revenue would have to be invested. It should be allocated as a priority to covering non-provisioned commitments (in particular, the pensions promised to EU employees; see Chapter 2: Administration and Pensions).

Rule of law and conditionality

Conditionality in the EU budget is a central question with far-reaching implications for the future trajectory of the Union. In recent years, its scope has expanded significantly, encompassing both rule-of-law safeguards and reform-related commitments. If the EU budget is to remain anchored in its core function – supporting and safeguarding the single market – then the architecture of conditionality must be guided by the same principle and remain proportionate.

Rule-of-law conditionality is firmly grounded in the Union's foundational principles and serves a clear functional purpose: It protects the EU budget from risks such as fraud, corruption, and oversight deficiencies arising from rule-of-law breaches, while also ensuring the conditions necessary for smooth cross-border economic activity. As such, it represents a form of functional conditionality, underpinning both the operation of the single market and the mutual trust between member states. By contrast, reform-based conditionality – exemplified by instruments such as the Recovery and Resilience Facility – occupies a more ambiguous space, where the objective of enhancing competitiveness intersects with that of increasing the coordination of national economic policies.

The proposed partnership plans for investments and reforms represent a further step in this direction. While framed as a mechanism for enhancing ownership and tailoring interventions to national and regional contexts, they effectively introduce a structured form of **policy conditionality** by linking funding to pre-defined reform agendas and policy commitments. For such an approach to remain consistent with the principles of subsidiarity and proportionality, it must preserve a meaningful degree of national discretion. Member states should retain the capacity to define their policy priorities within a framework of broad European objectives, without being subject to detailed prescription of policy choices, sectors, or instruments.

In this context, partnership plan reforms should remain limited to market-relevant policies – those that support competitiveness and the effective functioning of the single market – without imposing an unnecessary, EU-level layer of regulatory requirements or centrally defined policy targets. In essence, such plans should be understood primarily as competitiveness-oriented frameworks, focused on removing barriers to economic activity, improving the business environment, and strengthening the conditions for investment and growth, rather than as instruments for broad policy coordination.

Spending

a. Goals and principles

Radu Nechita (IES) & Bosco Aspe Maella (Fundalib)

The spending test in operational form

Chapter 1 established that the EU budget is justified only to the extent that it maintains the conditions for a functioning single market – namely, free trade and the free movement of goods, services, capital, and persons. The spending chapter applies this as a two-part test to each major expenditure category:

1. Does the spending address a genuinely cross-border problem that member states cannot resolve individually – specifically, a problem arising from or necessary to the maintenance of the single market?

2. If so, is EU budgetary expenditure the right instrument, or could the objective be achieved through regulation, mutual recognition, or intergovernmental coordination?

A spending category must pass both parts of the test. Failing either is sufficient grounds for elimination from the EU budget, and the approach to achieve that elimination should be stated.

What this chapter does not argue

The chapter does not argue that the policy goals supported by EU spending are unworthy. Agricultural viability, regional development, climate adaptation, and social inclusion are all legitimate objectives. The question is whether they should be addressed at the EU level. In most cases, they do not. Member states should pursue such goals using their own resources and under their own systems of democratic accountability.

The Commission's approach, and how ours differs

The Commission presents the 2028–2034 budget as a 'strategic statement of the Union's collective political ambition'[4] and a 'policy-based budget'.[5] It begins from a set of political priorities – competitiveness, security, the green transition, and social cohesion – and works backwards to justify the spending required to deliver them. The result is that any political objective the Commission considers desirable becomes, by construction, a legitimate claim on the EU budget.

Our approach inverts this. We begin from the EU's constitutional foundation – the single market and the four freedoms (free movement of goods, services, capital, and persons) – and ask what expenditure is strictly necessary to sustain it. Political ambition is not a spending criterion. The burden of proof falls on those who wish to spend, not on those who question whether such spending is justified.

Decentralisation as the default response

Where a spending category fails the test, our primary recommendation is not reform at the EU level but the return of the competence to member states. The EU budget has expanded by progressively absorbing functions that were previously – and could again be – exercised nationally. The correct response to spending that fails the subsidiarity test is not to redesign the EU programme but to eliminate it – more

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4 European Commission (2025). A dynamic EU budget for the priorities of the future: The Multiannual Financial Framework 2028–2034. Brussels: European Commission, **p.1**. (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025DC0570).

5 European Commission (2025). A dynamic EU budget for the priorities of the future: The Multiannual Financial Framework 2028–2034. Brussels: European Commission, **p.3.** (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025DC0570).

progressively in some cases than in others – and reduce member states' contributions accordingly, allowing governments to fund these objectives domestically if they choose to.

We suggest that member states use the repatriation of competences as an opportunity to deregulate – to remove constraints that EU-level management has accumulated over time and that national subsidies or EU transfers were designed to compensate for. But this is only a recommendation, not a condition. How member states exercise repatriated competences is not within the scope of this project. The paper's spending test determines what should leave the EU budget, not what member states should do with the fiscal and regulatory space that opens up.

The 2028–2034 proposal in aggregate

The Commission proposes total commitments of €1.763 trillion in current prices, including €168 billion for NGEU debt repayment. Excluding legacy costs, the spending proposal amounts to €1.595 trillion – an increase of approximately 32% over the 2021–2027 MFF (€1.211 trillion). The dominant delivery mechanism is the new NRPP, which consolidates 14 existing funds into a single programming framework with a budget of approximately €865 billion.

The bundling problem

The NRPP architecture merges previously distinct policy areas – agricultural support, cohesion, social policy, migration – into a single instrument. The Commission presents this as a simplification. From a subsidiarity perspective, it is the opposite: Bundling makes it harder to identify which expenditures serve a genuine single-market function and which do not. This chapter disaggregates where the Commission consolidates, applying the test to each policy component individually.

What the chapter covers

The sections follow the Commission's own spending structure, applying the two-part test to each major category. First, the chapter covers cohesion policy, agriculture, and maritime and fisheries spending – including the NRPP and the Social Climate Fund, as well as other programmes under

this heading. The next section covers competitiveness – Horizon Europe, the clean energy transition and decarbonisation, defence and space, digital transition, health and bio-economy, Erasmus+, the Connecting Europe Facility, and other programmes in this category. This is followed by the section on Global Europe (external action). The concluding section deals with administration, including pensions.

The method, section by section

The sections have a common structure: (1) what the Commission proposes and at what cost; (2) whether it passes or fails the two-part test; (3) if it fails, what the recommended trajectory is – immediate elimination, phased reduction, or preservation; and (4) where relevant, what regulatory reforms member states should consider undertaking once the competence returns to the national level.

b. European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity and security

Introduction by Petar Ganev (IME)

The largest share of the proposed 2028–2034 MFF is allocated to economic, social and territorial cohesion policy, agriculture rural, fisheries and maritime, prosperity and security spending, now consolidated under the new NRPP. This represents a significant structural reorganisation of EU expenditure, bringing together previously distinct policy areas – most notably the EU Cohesion Policy and the Common Agricultural Policy (CAP) – into a single programming framework inspired by the Recovery and Resilience Facility. While presented as a simplification of delivery, this shift primarily affects how funds are managed rather than what they are intended to achieve.

Given their scale and long-standing role within the EU budget, these spending areas are central to any assessment of the Union’s fiscal framework. Together, they account for a substantial share of the total

expenditure and embody a model based largely on redistribution, income support, and targeted investment across member states. This raises a fundamental question regarding the appropriate scope of EU-level spending: To what extent do these instruments contribute to the functioning of the single market, and to what extent do they reflect policy objectives that could be more effectively addressed at the national level?

The following sub-sections assess the main components of this spending cluster individually, applying a consistent analytical framework grounded in the core functions of the EU budget. In particular, they examine whether the respective instruments are necessary to support free trade and free movement within the Union or whether they primarily serve redistributive and sectoral objectives that fall outside the Union's essentially economic role.

i. National and Regional Partnerships Plans

Bosco Aspe Maella (Fundalib) & Dr Christian Năsulea (IES)

The central structural innovation of the 2028–2034 MFF is the creation of the NRPP. The Commission proposes to consolidate fourteen existing funds – spanning agriculture, cohesion, social policy, migration, fisheries, and rural development – into a single programming process for each member state, with a combined envelope of €865 billion in current prices (€771 billion in 2025 prices). This represents close to half of the total proposed MFF expenditure and the vast majority of shared management spending.

The architecture is borrowed from the Recovery and Resilience Facility. Each member state designs a plan comprising national, sectoral, and (where relevant) regional chapters, aligned with EU-level priorities identified through the European Semester[6]. Payments are disbursed not against costs incurred but against the fulfilment of milestones and targets agreed with the Commission. The Commission describes the model as offering greater flexibility in *how* objectives are achieved, while being more demanding about *what* is achieved. In practice, this means Brussels defines the outcomes, and member states are given latitude

6 European Commission (2010) The European Semester (https://commission.europa.eu/topics/economy-and-euro/european-semester_en).

in implementation – a structure that centralises strategic control while devolving the administrative burden.

The shift from cost-based reimbursement to performance-based disbursement compounds this centralisation. Under cost-based systems, EU funds reimburse verifiable expenditure. Under the milestone model, 'payout values' – the sums released upon achieving a given target – are set through political negotiation between the Commission and each member state, untethered from any market price or objective cost benchmark. This creates incentives to design safe, easily measurable projects that satisfy bureaucratic verification rather than high-risk investments that might generate genuine economic returns. The result is a compliance culture oriented towards the appearance of results rather than substance.

The Commission presents this as simplification, and in narrow administrative terms, it may be so: fewer programming documents, shorter validation procedures, a single point of contact per member state. But simplification of the process is not the same as reform of the substance. The fourteen funds being consolidated retain their policy objectives, their distributional logic, and their budgetary weight. What changes is the delivery vehicle, not the spending itself. CAP income support remains. Cohesion transfers remain. The Social Climate Fund, migration funding, and other social spending accounts are preserved fully and channelled through the new framework.

From the perspective of the principles set out in the first section, the NRPP raises a structural concern that goes beyond any individual spending line. By bundling different policy areas into a single instrument governed by Commission-approved milestones, the model extends EU-level oversight into domains – regional development, social policy, agricultural support, and internal security – that are overwhelmingly national competences. The question is not whether this delivery mechanism is more efficient than the previous one, but whether spending that fails the competence test becomes more legitimate when it is re-packaged under a new label. It does not.

The treatment of regional governance illustrates this tension. The Commission emphasises that the Plans will accommodate diversity and respect each member state's constitutional structures, but member states may choose whether or not to include regional chapters at all. A framework nominally designed for place-based, regionally differentiated policy allows member states to bypass regional governance entirely,

concentrating programming authority in a single national coordinating body answerable to Brussels. The apparent remedy – requiring the EU to mandate regional chapters or legal checks on the internal distribution of competences – would itself be a further centralising intervention, with Brussels prescribing how member states should organise their own administrative structures. The objection is not that regional governance is insufficiently protected within EU programming, but that the programming itself extends EU authority into domains where it does not belong. How member states organise their internal governance is their own affair.

The sub-sections that follow assess the major components of the NRPP envelope individually, applying the same test to each: Is this spending necessary to maintain free trade and free movement – the conditions for a functioning single market? Where the answer is no, we argue for elimination – through either direct removal or progressive reduction – regardless of whether the underlying policy goal has merit.

CAP income support and fisheries

CAP is one of the largest single spending lines in the EU budget. In the 2021–2027 MFF, the European Agricultural Guarantee Fund received €291 billion in current prices, with a further €87.4 billion for rural development under the European Agricultural Fund for Rural Development, bringing the total CAP envelope to €378.4 billion. The dominant instrument is direct payments: an annual, decoupled, area-based transfer paid per eligible hectare, irrespective of what farmers produce or what public goods they deliver. Roughly 70% of the total CAP spending goes towards direct payments. The remainder covers market intervention measures – price stabilisation tools that now function as a residual safety net, targeted support for specific sectors such as wine and olive oil, and rural development programmes co-financed by member states.[7]

The Commission's 2028–2034 proposal changes the delivery vehicle but preserves the substance. Income support is ring-fenced at a minimum of €295.7 billion in current prices (€261 billion in 2025 prices), bundled with fisheries within the new Partnership Plans envelope. The structural architecture – hectare-based payments, member state–administered delivery, and the same distributional logic – is carried forward.

7 European Commission (2026). CAP funds. Available at: https://agriculture.ec.europa.eu/common-agricultural-policy/financing-cap/cap-funds_en.

Several features of the new model deserve attention. The co-financing regime will shift significantly: Under the current MFF, Pillar 1 direct payments are 100% EU-funded, whereas under the NRPP, most investments and agri-environment interventions will require 70% national co-financing. Mandatory capping is set at €100,000 per farm per year, with degressive payments applied above the lower thresholds, explicitly redirecting resources from larger, more efficient holdings to smaller ones. And the environmental conditionality framework is proposed to change: The existing Good Agricultural and Environmental Conditions are abolished and replaced by a 'farm stewardship' concept that shifts from objective compliance standards to discretionary, incentive-based practices.

Assessed against the principles-based test set out in the first section, CAP income support fails on straightforward grounds. The EU budget should finance only what is necessary to maintain free trade and free movement, the conditions for a functioning single market. Direct payments do not maintain free trade; if anything, they distort it by raising land costs, keeping marginal agricultural structures in operation, and shielding producers from competitive pressure. They do not maintain free movement. They are income transfers, delivered by governments to a politically organised sector, justified historically by path dependency rather than any coherent account of European public goods. The instrument has no principled basis for funding at the EU level.

Reducing CAP income support does, however, require an accompanying reform of the regulatory framework. EU farmers operate under extensive constraints – land-use requirements, environmental standards, and production rules – that raise costs and limit operational flexibility. These constraints were designed, in part, around the assumption of continued subsidies. A credible phasedown cannot, therefore, consist of budget cuts alone. The agricultural regulation competences that have accumulated at the EU level should be returned to member states, allowing each to decide how to regulate its own agricultural sector in light of its own conditions and priorities. Whether national governments then choose to maintain, simplify, or remove the inherited rules is their sovereign choice. What matters from the perspective of the principled test is that both the spending and the regulatory framework accompanying it should cease to be EU competences. Farmers must be free to adapt – to restructure, diversify, or exit uncompetitive activities – without being constrained by a centrally planned framework designed for a subsidised sector.

The co-financing structure shifts this logic. If member states are now expected to fund 70% of the investment and agri-environment interventions from national budgets, the case for Brussels defining outcomes and approving milestones is weaker, not stronger. A system in which national taxpayers bear most of the cost but the Commission retains strategic control combines the disadvantages of both arrangements: Member states lose fiscal autonomy without gaining the benefits of genuinely common financing, while Brussels exercises authority over spending it does not fund.

The 2028–2034 MFF offers the opportunity to establish a credible trajectory. A phasedown of direct payments over the framework period – not complete elimination but a meaningful reduction with a clear direction – combined with a parallel commitment to EU-level regulatory easing would bring EU policy in line with the principle of subsidiarity and the broader objective of a competitive, open European economy.

Economic, territorial, and social cohesion – including fisheries, rural communities, and tourism

Cohesion is the largest single component of the Partnership Plans. The proposed allocation is €452.9 billion in current prices (€404.9 billion in 2025 prices), absorbing what were previously the European Regional Development Fund (ERDF), the Cohesion Fund, the European Social Fund+ (ESF+), and elements of the fisheries, rural communities, and tourism budgets. In the current MFF (2021–2027), the comparable figure is approximately €372 billion across the ERDF, Cohesion Fund, and ESF+ combined. The headline number has grown, though much of the apparent increase reflects the consolidation of previously separate instruments into a single line.

The Commission describes cohesion as ‘strengthened and modernised’, with regions at its core. The proposal emphasises that cohesion will help less developed regions ‘catch up’ and ensure that no one is left behind. None of this represents a departure from the existing model. The objectives, the distributional logic, and the budgetary weight are carried forward; only the delivery vehicle has changed.

The new delivery model does, however, undermine the place-based logic that was the cohesion policy’s stated justification. Cohesion was historically the most regionally governed EU programme – ERDF and ESF+ were designed and implemented by regional managing authorities

with dedicated envelopes. The shift to a single national plan, combined with the optional nature of regional chapters, allows member states to centralise cohesion programming at the national level, stripping regional authorities of the role they held under the previous system. The milestone-based disbursement model compounds this: Cohesion projects – infrastructure, training, local economic development – are precisely the kind of context-dependent investments that fit badly into a standardised milestone framework, which pushes towards safe, measurable outputs rather than locally appropriate interventions.

The principled objection is the same as for CAP and equally straightforward. The single market does not require income equalisation between member states to function. Goods and people move freely across borders regardless of whether GDP per capita in Romania converges with that of the Netherlands. Regional disparities in income, employment, and infrastructure may be real challenges, but they are challenges for member states and their governments, not preconditions for free trade and movement. Cohesion spending does not maintain the single market. It redistributes income across it. That is a different function, one that belongs to national fiscal systems accountable to national electorates.

The Commission's own framing inadvertently confirms this. The proposal describes cohesion as ensuring that 'all Europeans, regardless of where they live, have access to economic opportunities and a higher quality of life'. This is a welfare state objective. It may be entirely desirable, but it is not a European public good in the sense required by the test set out in the first section. France can invest in Corsica from the French budget. Spain can address Extremadura's development needs through Spanish fiscal policy. The reason these transfers are routed through Brussels is not that cross-border coordination is necessary, but that doing so allows member states to fund domestic investment, in part, through the EU balance sheet, while the Commission extends its governance reach into areas that are national responsibilities.

The transition challenge is nonetheless real and must be addressed directly. For central and eastern European (CEE) member states, cohesion transfers represent a substantial share of national public investment. Poland's cohesion policy allocation alone is €76.5 billion for

2021–2027, the largest of any member state.[8] For countries that joined the EU in 2004 or later, these funds formed part of the implicit bargain of membership. Any proposal for a phase-out will face fierce resistance, and that resistance cannot be dismissed as mere rent-seeking.

Credible reform must therefore be phased. The 2028–2034 framework should establish a clear trajectory towards elimination in the following MFF, while national governments may accompany this with regulatory reforms at the member-state level to make recipient countries attractive destinations for private capital rather than dependent on public transfers. The goal is not to abandon poorer member states but to shift them from permanent fiscal dependency to competitive integration.

The case of Ukraine makes this redesign unavoidable rather than optional. Ukraine has a larger population than any current CEE member state and is substantially poorer, with a GDP per capita that is well below the threshold for cohesion eligibility. Full membership under the existing model would require a massive budget increase, crowd out existing CEE recipients, or compel Ukraine to accept inferior membership terms. The 2028–2034 MFF is the moment to begin the structural redesign that accession makes necessary, and the principled argument for doing so is not fiscal convenience but the recognition that cohesion transfers were never a legitimate EU budget item to begin with.

The proposed trajectory mirrors that of CAP: a meaningful reduction over the 2028–2034 framework, with a clear commitment to full elimination in the post-2034 MFF. Cohesion is potentially the single largest source of savings in any serious effort to bring the EU budget to or below 1% of GNI. The savings should be returned to member states in the form of reduced contributions, allowing national governments to invest in their own regions according to their own democratic priorities.

EU Facility – Union Actions

The EU Facility – Union Actions is the directly managed component of the Partnership Plans. The Commission proposes €63.2 billion in current prices (€56.3 billion in 2025 prices), with a separate EU Facility – Cushion

8 European Commission (2022). *Inforegio - EU Cohesion Policy: Commission adopts €76.5 billion Partnership Agreement with Poland for 2021 – 2027.* Available at: https://ec.europa.eu/regional_policy/en/newsroom/news/2022/06/30-06-2022-eu-cohesion-policy-commission-adopts-eur76-5-billion-partnership-agreement-with-poland-for-2021-2027.

of €8.7 billion set aside within the broader envelope for unforeseen events. Unlike the rest of the Partnership Plans envelope, which member states implement through their national plans, the Facility is administered by the Commission itself. Its purpose is to support actions that can be delivered 'more efficiently at Union level', complementing member state projects.

The Facility is an umbrella instrument bundling several sub-components under direct Commission management. It comprises the Unity Safety Net/ Agricultural reserve, which functions as the CAP's market intervention mechanism; the EU Solidarity Fund, which finances responses to natural and man-made disasters; the HOME Thematic Facilities, which fund migration, border, and internal security actions delivered centrally rather than through national plans; and a residual 'Other' category covering cities, employment, and social innovation grants. Alongside these sub-components, the Facility also supports actions in areas of exclusive EU competence, such as conservation of marine biological resources under the Common Fisheries Policy, ocean policy, and inter-regional and intercity cooperation. The Interreg programme for territorial cooperation (€10.3 billion in current prices) is a separate line within the Partnership Plans envelope.

The heterogeneity is itself revealing. By bundling an agricultural reserve, a disaster fund, a migration and security facility, and urban and social innovation grants into a single, directly managed instrument, the Commission makes it difficult to assess whether any individual component is justified. But the principle test does not require line-by-line disaggregation to deliver a verdict. None of these functions are necessary to maintain free trade and free movement. The single market does not require a centrally managed disaster fund, an EU-level urban policy instrument, or a directly administered migration thematic facility to function. The components that relate to genuine collective action problems – the external dimensions of migration and border management – are better addressed through the dedicated Partnership Plans migration allocation and the operational agencies (discussed in the next subsection, Migration and Border Management), not through a parallel Commission-managed envelope that duplicates and obscures accountability.

Where cross-border coordination in any of these areas is genuinely desired by member states, it can be organised through dedicated intergovernmental arrangements outside the MFF, as is the case with defence. The Facility reinforces the centralisation concern raised

above: It is spending administered from Brussels, in domains that are overwhelmingly national responsibilities, justified not by necessity but by the claim of superior efficiency.

The EU Facility – Union Actions should be reduced progressively over the 2028–2034 framework, with a clear commitment to complete elimination in the following MFF. The associated Cushion should be eliminated on the same trajectory. The savings should be returned to member states as reduced contributions.

Migration and border management

Migration and border management spending within the Partnership Plans is distributed across two instruments. The headline allocation of €34.2 billion in current prices (€30.6 billion in 2025 prices) is implemented by member states through their national plans. A further €25.3 billion in current prices is allocated within the EU Facility – Union Actions as the HOME Thematic Facilities, under direct Commission management. Outside the NRPP envelope but within the same MFF heading, the decentralised agencies – principally Frontex (€11.9 billion) and Europol (€3.0 billion) – add approximately €15 billion more. The combined migration, border, and internal security spending totals around €74 billion, roughly three times the corresponding 2021–2027 figure of €25.7 billion. The bundling of migration priorities within a single national plan alongside agriculture and cohesion means that migration spending competes with other sectors for programming attention, making it even harder to assess whether resources are directed towards functions that serve the single market.

The Partnership Plans allocation cannot be assessed as a single category. It contains functions with different relationships to the single market, and the principle test delivers different verdicts for each.

External border management and common asylum criteria have a defensible connection to free movement. The Schengen area abolishes internal border controls, making free movement of persons dependent on the integrity of shared external borders and on consistent rules for determining who may enter and remain. A failure of border control in one member state has immediate consequences for all others, and divergent asylum criteria create incentives for secondary movement across the Schengen space. These are genuine collective action problems that justify a common policy framework. Whether that framework requires

EU-level financing or can be implemented through coordinated national spending is a secondary question; common financing through the EU budget is acceptable, though not strictly necessary, given that member states could equally fund their share of a common border and asylum policy from national budgets.

The broader social dimensions of migration do not pass the test, however. Reception conditions, language training, labour market integration, social inclusion, and return procedures are national responsibilities that do not help maintain the single market. They address the domestic consequences of migration, which vary across member states and which each government is better placed to manage through its own fiscal arrangements. The Commission's bundling of border management and migrant integration within a single NRPP allocation obscures this distinction and makes it impossible to identify how much is spent on maintaining free movement and how much on subsidising national welfare functions.

The NRPP's migration allocation should be disaggregated. Spending that directly supports the operational integrity of the EU's external borders and the administration of common asylum criteria may be retained. All spending on migrant integration and social inclusion should be returned to the member states through reduced contributions.

Transitional recommendations

During the phase-down period, residual spending within the Partnership Plans should be subject to procedural safeguards that improve transparency and accountability. All expenditure data should be published in machine-readable, interoperable formats through a single gateway, enabling independent scrutiny by researchers, national parliaments, and citizens. The stricter N+1 decommitment rule proposed by the Commission – requiring committed funds to be used or requested by October of the following year – should be upheld to prevent the accumulation of unspent commitments. Where milestone-based disbursement continues to apply, payout values should be anchored in objective benchmarks, such as historical cost data, rather than set through political negotiation. These measures do not alter the paper's position that spending that fails the principle test should be eliminated. They ensure that any remaining spending during the transition is administered with discipline.

ii. Social Climate Fund

Carlo Stagnaro (IBL) & Radovan Ďurana (INESS)

The Social Climate Fund is described by the Commission as 'a new EU fund that will help make the green transition fair and inclusive' by supporting 'vulnerable people and small businesses'. The fund should have at its disposal €87 billion for the period 2026–2032. It should be financed from ETS2 revenues and contributions from EU countries.

The need to compensate the most vulnerable people and businesses arises from the short-term impacts of Europe's climate policies, which may result in higher energy prices and/or in making some industrial processes uncompetitive. This in turn may lead to layoffs from carbon-intensive firms or industries, as well as reduction in the buying power of salaries, especially in low-income social groups (Faiella et al. 2022).

A coordinated effort at the EU level might fail to address this problem because top-down criteria may not capture the complexities and peculiarities that can be observed only at the national or sub-national level. Moreover, these effects may manifest in very different ways, depending on a country's social composition, its demographics, physical and morphological characteristics, average temperatures, economic structure, and more.

Therefore – as we also argue in the section The Clean Energy Transition and Decarbonisation – we suggest that revenues from ETS and other carbon-pricing mechanisms (such as ETS2 and CBAM) should go to the member states, in the absence of any climate-or poverty-related earmark. In principle, the most efficient use of revenues from carbon allowances would be to offset more distortive taxes, such as labour taxes or energy taxes, but this choice should be left to the member states. At the EU level, the only meaningful use of revenues from carbon pricing, and more specifically from CBAM, which is a genuinely EU-wide source of income, would be to fund pan-European projects to develop cross-border energy interconnectors.

c. Competitiveness

i. Horizon Europe

Dr Ion Vallianos (KEFiM), Mateusz Michnik (FOR) & Dr Nicolas Marques (IEM)

The European Commission proposes to nearly double the budget for Horizon Europe, from €93.5 billion in the current MFF (2021–2027) to €175 billion in the 2028–2034 MFF, as part of a larger, €409 billion European Competitiveness Fund envelope. The stated rationale draws on the Draghi and Letta reports and the need to close Europe's competitiveness gap (European Commission 2024).

This brief argues that the proposed increase is not adequately justified by the evidence of past programme performance, and that significant portions of the programme overlap with national competences under the subsidiarity principle. The Commission's own interim evaluation reveals structural weaknesses that a larger budget alone cannot resolve: 70% of the proposals assessed as high quality by external experts cannot be funded; the co-investment leverage factor for the mainstream programme, excluding European Partnerships, stands at around 0.09; and the programme's own evaluators acknowledge that the follow-up phase from funded research to commercial deployment 'cannot be monitored adequately at present' (European Commission 2025c: 68). The priority for the next MFF should not be unconditional expansion but structural reform combined with a more targeted, evidence-based budget.

What is being proposed, and what does it cost?

On 16 July 2025, the Commission formally proposed €175 billion for Horizon Europe 2028–2034, describing the programme as 'twice bigger, simpler, faster and more impactful' (European Commission 2025b). This amount is part of the larger, €409 billion European Competitiveness Fund (European Commission 2025a: 8). The Commission describes this fund as 'replacing the current patchwork of overlapping programmes' and operating 'under a single rulebook' (European Commission 2025a).

The baseline for comparison requires some precision. The initial budget for Horizon Europe 2021–2027 was set at €95.5 billion, of which €5.4

billion came from the NGEU instrument (European Commission 2025c: 19). In February 2024, the Council unanimously agreed to, and the European Parliament approved, the first midterm revision of MFF expenditure ceilings, which included a re-deployment of €2.1 billion away from Horizon Europe, partially offset by €100 million in previously de-committed funds; the operative budget therefore currently stands at €93.5 billion (European Commission 2025c: 19). This is the figure used throughout this brief as the basis for comparison.

How did the previous budget perform?

The Commission published its formal interim evaluation of Horizon Europe on 30 April 2025 as Commission Staff Working Document SWD(2025) 110 final. The evaluation covers the period 2021–2024 and is based on 15,148 signed grants as of 6 January 2025, representing a committed EU contribution of €43.2 billion (European Commission 2025c: 21). Unless otherwise indicated, all statistical figures in this section are drawn directly from that document.

Scale and over-subscription: The average proposal success rate improved from 12% in Horizon 2020 to 16.4% in Horizon Europe (European Commission 2025c: 24). While this improvement is significant, over 83% of proposals are still rejected. Of all submitted proposals, 54.6% were assessed as high quality by external expert evaluators, yet only 30.1% of those high-quality proposals could be funded with the available budget (European Commission 2025c). That is, 70% of high-quality proposals could not be funded (European Commission 2025c: 20). To fund all of them, an additional €81.8 billion would have been required, equivalent to 1.9 times the budget allocated for the programme to date (European Commission 2025c: 24).

Leverage and private investment mobilisation: The evaluation reports a programme-wide leverage factor of 0.236: For every euro the EU invests, project participants contribute approximately €0.24 of their own resources (European Commission 2025c: 86). Private for-profit bodies contribute around €0.50 per euro of EU contribution, which is about the same as in Horizon 2020 (European Commission 2025c). The programme-wide leverage factor has not changed relative to Horizon 2020, which also recorded a factor of 0.236 (European Commission 2025c).

The picture is considerably weaker when the mainstream programme is examined in isolation. When European Partnerships are excluded, the co-

investment leverage factor for the mainstream programme falls to around 0.09, which is equivalent to €2.96 billion in co-investment (European Commission 2025c: 87). European Partnerships as a whole achieve a co-investment leverage factor of 0.62 (€7.22 billion in co-investment), and Joint Undertakings perform the best among all instrument types at 0.8 (European Commission 2025c). In a standard Joint Undertaking project, 55% of the total eligible costs are covered by the EU and 45% by the project participants; the direct co-investment leverage factor is therefore around nine times higher than for the mainstream programme (European Commission 2025c: 87). This finding has direct implications for programme design independent of the overall budget level.

Gaps in monitoring and deployment

The evaluation's lessons-learned section states that 'the lack of results indicators and targets makes it difficult to assess [the programme's] contribution to addressing global challenges and European industrial competitiveness' (European Commission 2025c: 102). It further acknowledges that the follow-up phase from funded research to commercial deployment 'cannot be monitored adequately at present: due to confidentiality concerns, little is known about the extent of these additional activities' (European Commission 2025c: 103).

This finding is consistent with the European Court of Auditors' (ECA) conclusion in Special Report 23/2022, which assessed the synergies between Horizon 2020 and the European Structural and Investment Funds. The ECA found that while measures to create upstream synergies were well implemented, measures to create downstream synergies – defined as mechanisms to fund the utilisation of research results – were 'hardly implemented' and the programme's synergies with the European Structural and Investment Funds had 'not yet been used to full potential' (ECA 2022: 33).

Geographic distribution: Entities in the 15 widening member states[9] accounted for only 19.8% of all applications, despite those states being home to 26% of the EU's population of scientists and engineers (European Commission 2025c: 25). Widening states have received 14%

9 According to Horizon Europe there are 15 EU member states which are considered to be less R&I advanced and are thus eligible to coordinate widening actions – European Research Executive Agency (2026) Horizon Europe Widening -Who should apply (https://rea.ec.europa.eu/horizon-europe-widening-who-should-apply_en).

of Horizon Europe funding to date, compared with 9% under Horizon 2020 (European Commission 2025c: 97–98).

On the Commission's GDP projections: The Commission's public communications assert that 'every euro of EU contribution is estimated to generate up to €11 in GDP gains by 2045' (European Commission 2025b). The primary evaluation document presents a more qualified picture: This estimate derives from three separate macroeconomic models, and the resulting GDP multiplier will span a range of 4–11 by 2045 (European Commission 2025c: 54). The figure €11 represents only the upper bound of this modelled range. The underlying model calculations are based on the €22.8 billion contributed by the EU to projects signed up to June 2023 – not the full programme budget – and project GDP effects over a 25-year horizon (European Commission 2025c: 54–55). These are long-range, model-dependent projections, not observed outcomes.

The subsidiarity question

Under Article 4(3) of the Treaty on the Functioning of the European Union (TFEU), research and technological development is a shared competence.[10] The EU may act only when the cross-border scale generates a value that national budgets cannot individually replicate. It may not crowd out or duplicate national action. Applying this principle to the proposed programme is a necessary step that the Commission has not taken systematically.

Where EU action is clearly justified: The evaluation provides direct evidence on the cross-border character of the programme: 81% of Horizon Europe grants are collaborative, involving an average of 11.3 participants (European Commission 2025c: 89). Beneficiaries consistently identify the following as the key elements of added value at the EU level: international cooperation and mobility opportunities for researchers; access to world-class research and technology infrastructure; support for topics not covered by national and regional research and innovation (R&I) programmes; and the drive for excellence stimulated by the EU-wide competition for funding (European Commission 2025c). The evaluation also found that the European Research Council 'plays an

10 Article 4(3) TFEU establishes research and technological development as a shared competence between the EU and member states. Articles 179–190 set out the specific legal basis for EU action in research and innovation.

important role in making the EU research system more attractive to both European and non-European researchers' (European Commission 2025c: 61). These findings support a strong subsidiarity justification for the Council, shared large-scale initiatives such as the European High Performance Computing Joint Undertaking, space programmes, and genuinely multi-country collaborative fundamental research.

Where the scope raises subsidiarity questions: The evaluation noted that 'the overall landscape of EU programmes supporting innovation and deployment of research is increasingly complex and difficult to navigate for the beneficiaries targeted' and that 'Horizon Europe is pursuing synergies with 20 EU programmes – up from 13 at the time of the ex post evaluation of Horizon 2020' (European Commission 2025c: 82). This expansion in programme interactions raises legitimate questions about whether all the programme components add genuine value at the EU level over national action, a concern that the Commission should be required to address, component by component, before the Council approves the new MFF envelope.

The core problem with the Commission's framing: The Commission uses 'competitiveness' as the overarching justification for the proposed budget increase. Competitiveness is a policy objective, not a subsidiarity criterion. The relevant legal question is not whether more EU spending would improve European competitiveness but whether there is a specific cross-border market failure or externality that member states cannot address individually.

Is the proposed doubling justified?

The Draghi report: The Commission presents the proposed budget increase as a response to the Draghi report. According to multiple official European Parliament legislative documents, the report estimated the combined additional investment needs in Europe to be €750–800 billion per year by 2030, with Capital Markets Union identified as a priority structural reform (European Commission 2024: 63). For the purpose of policy coherence, a diagnosis focused on private investment barriers and capital market fragmentation would point primarily to structural reforms rather than expansion of public research and development (R&D) grant budgets.

The leverage evidence: The evaluation's finding that the programme-wide leverage factor is unchanged from that of Horizon 2020 at 0.236

(European Commission 2025c: 86) is notable. The fact that contractual partnership models consistently outperform open grant calls on leverage – Joint Undertakings at 0.8 versus the mainstream programme at around 0.09 (European Commission 2025c: 87) – suggests that programme design matters considerably more than the overall level of funding in mobilising private co-investment.

What the evaluation says about budget level: The 2025 interim evaluation, which constitutes the primary evidence base for the programme's track record, makes no recommendation regarding the appropriate budget level for 2028–2034. The Commission's own evaluators explicitly acknowledged the lack of result indicators and the monitoring gap, which make rigorous impact assessment difficult.

Policy recommendations

Apply the subsidiarity test to each programme component: Resources should be concentrated in activities or initiatives with demonstrated cross-border added value: the European Research Council, shared large-scale research infrastructure, and genuinely multi-country collaborative fundamental research. Every other programme component should be assessed individually against the subsidiarity criterion before being included in the new MFF envelope.

Prioritise the Joint Undertaking model for applied programmes: Where EU support for applied R&I is warranted, the Joint Undertaking model, which achieves a co-investment leverage factor of 0.8 compared with around 0.09 for the mainstream programme, should replace open competitive grants as the primary delivery mechanism.

Establish binding, outcome-based key performance indicators (KPIs) before budget commitments are made: The programme's monitoring and evaluation framework should be reformed before the budget is approved. Proposed outcome indicators include the following: a private investment leverage ratio with defined minimum thresholds for each programme component; a commercialisation rate measuring the share of funded projects reaching market or licensing within a defined period; and a cross-border collaboration depth index. Sub-programmes failing to meet the agreed thresholds should be subject to mandatory independent review and potential reallocation.

Shift applied programmes towards repayable instruments: Where commercial viability exists, non-repayable grants should be replaced by loans, guarantees, and equity instruments channelled through InvestEU and the European Innovation Council. This preserves public support while restoring market discipline and recycling capital for future use.

Ground the budget level in demonstrated performance: A budget in the range of €120–130 billion for 2028–2034 would represent an increase in real terms on the current €93.5 billion[11]. Any increase beyond this level should be conditional on a demonstration that the structural weaknesses identified in the 2025 interim evaluation – namely the 70% funding gap for high-quality proposals, the 0.09 mainstream leverage ratio, the persistent deployment gap, and the absence of outcome-based result indicators – have been adequately addressed in the programme design.

Conclusion

The EU has a legitimate and important role in funding cross-border research and frontier science. The proposed near-doubling of the allocation for Horizon Europe to €175 billion, however, goes significantly beyond what the subsidiarity principle and the evidence of past programme performance can justify. The Commission's own interim evaluation documents a 16.4% proposal success rate, a co-investment leverage factor of around 0.09 for the mainstream programme, a persistent deployment gap that the evaluation acknowledges cannot be monitored, and a lack of result indicators, which makes impact assessment difficult. The evaluation itself makes no recommendation regarding the appropriate budget level. The priority for member state governments in the Council should be to insist on binding, outcome-based accountability mechanisms as a precondition for any budget increase, and to apply the subsidiarity test rigorously to each programme component. More spending is not the same as better spending.

11 The proposed budget range of €120–130 billion is an analytical proposal derived from the evidence reviewed in this brief. It is not drawn from any external source.

ii. The clean energy transition and decarbonisation

Carlo Stagnaro (IBL) & Radovan Ďurana (INESS)

Short description of the proposed budget

The proposed MFF is strongly intertwined with the EU's climate targets: About 35% of the overall spending is aimed at supporting 'climate and environmental objectives, climate mitigation, adaptation and resilience; sustainable growth, innovation and strategic independence'. To achieve these goals, the entire budget is grounded in environment-related principles. These principles include 'do no significant harm' (DNSH) (Stagnaro and Verde 2022) and 'climate resilience by design'. The MFF also aims to create 'enhanced system to monitor EU spending and results on green objectives'. This entails setting specific targets within the various EU programmes: the NRPPs (with a 43% threshold for climate-related programmes), the ECF (43%), the Framework Programme for Research and Innovation (40%), the Global Europe Instrument (30%), and the CEF (70%).

These internal goals may result in distortions in how the funds are allocated for a variety of reasons, the most important one being the way the EU applies the principles cited above. For example, the DNSH principle tends to be interpreted in a way that focuses on the absolute impact of investments rather than their outcomes relative to alternatives; thus, environmentally beneficial programmes may be regarded as non-compliant because they do not have zero impact. This is discussed more broadly in other chapters of this report, which describe the various programmes within the MFF.

The ECF is presented by the European Commission as a key structural component of the proposed budget. It dedicates hundreds of billions of euros to driving innovation in the European economy. The ECF aims to support companies and investors in choosing Europe – focusing on scaling up technologies such as artificial intelligence (AI), quantum computing, and clean tech manufacturing. One of its main missions is to turn the costly decarbonisation of the European economy into a competitive strength that will restore the Union's reputation for innovation and economic growth. The fund is presented as a response to the

criticisms in the Draghi and Letta reports[12] [13]; it is also intended to address the needs of the industrial sector, whose production is, at best, stagnating and, at worst, declining due to high energy costs (primarily decarbonisation costs) and excessive regulation.

The fund's total budget for the entire period is €409 billion; with the Innovation Fund included – which is not part of the MFF – it exceeds €450 billion.

In contrast to other programmes that, while having different goals, should also be inspired by the EU's climate targets, the sub-chapter Clean Transition and Industrial Decarbonisation within the ECF will receive €67.4 billion. The actual MFF spending for this chapter shall be €26.2 billion (6.3% of the ECF), as about two-thirds (€41.2 billion) will be drawn from the Innovation Fund.

One key component of this programme is the Industrial Decarbonisation Bank – a proposed financing vehicle designed to mobilise large-scale public and private investment in Europe's clean energy industrial transition.[14] Coming under ECF governance, it serves as the market-facing end point for clean energy technology under the Clean Transition policy window, ensuring that ECF-backed projects have the large-scale financing they need to move seamlessly from development to full industrial deployment and manufacturing. The projects will compete for ECF financing on the basis of excellence.

In contrast to other chapters within the MFF, Clean Transition and Industrial Decarbonisation spending is inextricably bound to its financing source, that is, the revenues from ETS, ETS2, and CBAM – the main European carbon-pricing programmes. The funds should be employed to invest in

> Europe's resilience and security, including by supporting projects in the least connected parts of the Union, such as islands and the

12 Letta, E. (2024) Much more than a market (https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf).

13 Draghi, M. (2024) The future of European competitiveness – A competitiveness strategy for Europe (https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf).

14 'European Competitiveness Fund (ECF)', Carbon Gap, n.d. (https://tracker.carbongap.org/policy/european-competitiveness-fund-ecf/).

> outermost regions. It will invest in cross-border interconnectors and grids, cross-border transport connections, offshore networks, renewable energy sources and storage and alternative fuels infrastructure, supporting the Union's climate ambitions. (European Commission 2025: 13)

Compared with the 2021–2027 budget of the CEF, the ECF's budget shows a sharp increase in the allocation of funds, almost double that of the previous MFF (€33.7 billion). In the case of the latter, most of the funds went to the transport sector (ECA 2026) and, to a lesser extent, the energy sector (ECA 2025). In both cases, the ECA sharply criticised the allocation of funds, as well as the cost overruns and delays in construction times (Ramella 2026). This also applies to the Innovation Fund, whose very creation was based on the idea that the lack of innovative firms in transition-specific industries (such as battery storage and photovoltaic panels) is due to insufficient capital. As discussed in the section Administration and Pensions, however, there is no shortage of capital in Europe: Capital can be mobilised by freeing up the enormous amount of pension funds (which are being used unproductively by government-run pension schemes). Moreover, it is over-regulation, not the lack of money, that hinders innovation.

These failures, extra costs, and distortionary industrial policies – which culminated in the bankruptcy of flagship projects such as Sweden's Northvolt, the alleged European champion in battery manufacturing – should be a severe warning in the process of designing the 2028–2034 MFF.

In summary, the resources within the ECF that are explicitly directed towards the clean energy transition are limited. The 35% requirement across the MFF (€0.7 billion) will have far greater impact. However, the clean energy transition has such a wide range of goals that it becomes a quasi-discretionary source of funding for whatever project can be labelled as 'green'. In fact, no KPIs or measurable goals are provided. The risk is that the scope of the funds is too broad, and their use may result in uneconomic or inefficient subsidies. Climate-related efforts within the MFF should follow a different route, providing the right incentives to private actors to decarbonise while not engaging directly in subsidising companies, technologies, or projects.

Policy recommendations

Climate goals are part of the EU's current identity. However, the tools adopted so far have proved inefficient and too costly, leading to disaffection among the people, who in some cases rejected Europe's environmental policies in popular votes. While climate ambition should be preserved, economic efficiency should also be considered. From this perspective, the focus of political action should be shifted from the spending side to providing the right incentives for decarbonisation (Andersen 2026) and revised intermediate goals in pursuit of climate neutrality (Ďurana et al. 2025). These changes should lead to a thorough review of climate-related goals (such as renewable energy and energy efficiency targets that come on top of emission reduction goals), the asymmetric treatment of low-carbon technologies (including nuclear energy, carbon capture and sequestration, and renewable energies), and the principles underpinning the transition (e.g., DNSH).

This broader revision has deep implications for the MFF and, more specifically, for the Clean Transition and Industrial Decarbonisation track.

Stagnaro et al. (2025) argued that an efficient climate policy should include carbon pricing. In EU member states, however, carbon emissions are priced differently depending on the source, the process, and the reasons for the emission (Booth and Stagnaro 2022), because of the partial coverage of Europe's ETS and the chaotic effects of energy taxes. In contrast, substantial resources are being spent in subsidising low-carbon technologies with little regard to their cost-effectiveness. The result is a draw on Europe's competitiveness: Carbon is often mispriced, carbon pricing increases the cost of goods and services, and much of the revenue is spent inefficiently. The proposed MFF would add to these issues.

It would be best to substantially reduce spending – at the EU as well as the national level – and redirect the revenues from carbon allowance auctions (within ETS, ETS2, and CBAM) to reduce other taxes, such as labour taxes or electricity taxes and levies. The decision on how to achieve this result should be left to the national governments, which have a clearer understanding of what is most urgently required for their citizens. The best way to achieve the decarbonisation of the economy, however, is not by financing flagship initiatives but by making the transition socially and economically sustainable, which in turn means minimising costs and offsetting the increased costs that households and

firms face because of their efforts to make energy cleaner. This should be the focus of the proposed MFF.

There is, however, an area in which EU funding might make a difference: the strengthening of cross-border infrastructure, particularly electricity grids. Improving the interconnections between member states would be consistent with two goals. On the one hand, it would make Europe's energy markets more integrated, allowing for more efficient use of the existing generating assets and thereby reducing both energy supply costs and CO_2 emissions; on the other, it would accelerate, and remove some obstacles to, the creation of an internal energy market. The benefits from greater integration far outweigh the costs. The case for using Europe's energy assets (including power plants and domestic sources of fossil fuels) more efficiently, and thereby reducing the exposure to external shock, becomes even stronger after the Third Gulf War in 2026 and the disruptions caused by the closure of the Strait of Hormuz. While self-sufficiency is not necessarily an efficient option – because it may entail greater costs and, in some circumstances, reduced security, as the UK experienced due to its over-reliance on domestic coal in the 1980s – making better use of existing assets should be seen as low-hanging fruit that has not yet been fully picked.

Also, funding is not necessarily the main obstacle to developing better interconnected grids. As the ECA noted, lengthy permitting procedures and, in some instances, opposition from national governments are at least as relevant (ECA 2025). Insufficient interconnections may result in price gaps between member states and less efficient use of generators, including those that run on fossil fuels. Creating physical interconnections is a necessary step to allow consumers in one country to be supplied by operators in another country. Competition would also receive a boost as a result. In this respect, a case can be made for providing EU finance – either grants or loans – for cross-border infrastructure.

iii. Defence and space

Dr Marius Strubenhoff (Prometheus)

The European Commission has identified defence as a spending priority for the next MFF, the EU's budgetary plan for the years 2028–2034. It proposed to increase defence spending five-fold to €131 billion (at current prices) compared with the previous MFF. Given the threat that

the Russian invasion of Ukraine poses not only to Ukraine but to all of Europe, it is sensible to attribute more resources to defence than was the case in the relatively peaceful years before 2022.

The need for increased defence spending should, however, not lead to budget policies that blindly sign off on anything that says ‘defence’ on its label. In fact, budget efficiency becomes even more urgent in the new situation that the EU finds itself in. The key is to ensure that the EU gets the most bang for its buck.

The EU has not traditionally been a notable actor in defence. While the European Defence Agency has existed since 2004, defence spending has long been the prerogative of member states. The Russian invasion of Ukraine in February 2022 has changed this situation, leading the EU to introduce several defence and armament initiatives. Documents such as the Niinistö report outline policy options. As part of the Readiness 2030 strategy, the EU has made available €150 billion in loans for member states for joint procurement through Security Action for Europe (SAFE), established in 2025, following the smaller EDIRPA[15] joint procurement programme launched in 2024. The European Defence Fund and, more specifically, the EU Defence Innovation Scheme within it finance defence R&D efforts. In the hybrid realm, the EU has instituted the Preparedness Union Strategy. EU military aid for Ukraine has been administered primarily through the European Peace Facility.

Some of these initiatives have raised objections, not the least concerning parallel North Atlantic Treaty Organization (NATO)/EU structures. Not only are parallel structures in themselves inefficient and costly to maintain, they also create potential coordination issues, leading to additional costs. What has to be avoided are ‘prestige’ projects whose main purpose is to enable the EU to claim that it is ‘doing something’ in an area as pressing as defence. The key question for the MFF is which defence matters the EU can address better than others.

SAFE still has to stand the test of time. On the one hand, joint procurement offers the opportunity to save costs, as the pooling of member states’ procurement means larger orders and increased leverage in negotiations with defence contractors; both factors should reduce procurement prices. Moreover, since the EU will raise the funds for SAFE on the capital market, its lower borrowing costs compared with those of many member states reduces interest payments. On the other hand, SAFE’s operation

15 European Defence Industry Reinforcement through Common Procurement Act.

involves multiple bureaucratic layers, as member states have to apply for funds and the EU has to then assess the applications. With procurement procedures already notoriously bureaucratic, adding an EU layer has put off larger member states such as Germany from making use of SAFE. On the industrial side, smaller suppliers in particular may be overwhelmed by the requirements of such procurement processes.

Moreover, SAFE risks duplicating joint procurement instruments already existing in countries both inside and outside NATO. NATO committed to increase joint procurement at the Vilnius and Washington Summits in 2023 and 2024, respectively, with its Defence Production Action Plan and the Industrial Capacity Expansion Pledge. The (non-NATO, non-EU) Organisation for Joint Armament Cooperation (OCCAR) pools armament purchases by the UK, Germany, France, Italy, and Spain and has opened participation in certain programmes to other European countries. It is debatable whether duplicate structures maximise procurement efficiency. While a case can be made for increasing EU/NATO procurement efforts to reduce European dependence on the US, this does not hold for EU/OCCAR efforts. While the EU and OCCAR cooperate in practice (the EU at times delegates procurement to OCCAR), as EU procurement activities increase, these parallel structures should be closely evaluated and revised if necessary. Reducing duplicate structures by integrating the (more nimble) OCCAR structures into the EU, however, does not seem advisable at this stage.

Like most other sectors, defence is undergoing a transformative change unseen in decades. The rise of AI and its military and dual-use applications, as well as cheaper, smaller unmanned systems that can be deployed in large numbers, is changing the strategic landscape of war. These innovations should also change the nature of defence spending. However, analysts observe that states still spend the vast majority of their defence funds on expensive legacy systems (from aircraft carriers to manned systems such as the Future Combat Air System, which will not be deployed until 2045 at the earliest) whose strategic value is increasingly being debated.

This debate over military utility will not be settled by the time the EU's MFF is passed. Indeed, it is likely to continue for the foreseeable future. Liberals face a dilemma here: While they are aware of the 'pretense of knowledge' that often enters government investment decisions, defence is the one area where state involvement in investment decisions is unavoidable. What is necessary, however, is to ensure that investment decisions are made in the most informed way and as independent of

vested interests as possible. As an institution that does not have its own military structure, the EU has a certain comparative advantage. The lack of vested interests associated with military branches that may become comparatively less relevant as a consequence of the current technological revolution gives the EU a degree of independence that member states' bureaucracies do not have. In the area of military R&D, this is potentially advantageous.

Given the need to spend EU resources as effectively as possible, the MFF should ensure that the EU makes use of its traditional strengths and avoids its weaknesses:

- Logistics capabilities are a vital aspect of deterrence. The EU has an important role to play in improving military mobility. As an institution that has experience in funding cross-border infrastructure projects, this is an area where the EU has a comparative advantage. EU budget planning should therefore prioritise this area.

- Innovation is key during periods of rapid technological change. Bureaucratic inertia and entrenched institutional interests can lead to top-heavy allocation of R&D funding for expensive legacy systems, sidelining novel ideas that drive down costs. Institutional interests do not exist at the EU level, as in member states and NATO. This makes the EU a unique player. Supporting disruptive defence innovation through measures such as the EU Defence Innovation Scheme and the recently announced AGILE programme should therefore be a priority in EU budget planning. Taking this approach could significantly drive down waste in defence spending.

- In the area of maritime cable security, the EU can play a role that NATO cannot, since the Republic of Ireland (a transatlantic cable hub) is only a member of the former and not the latter.

- Space remains a capital-intensive area in which it makes sense to pool member states' resources in order to offer defence and security-relevant capabilities (such as Galileo, Governmental Satellite Communications, and IRIS2) that most member states cannot run on their own.

- The EU is rightfully seeking to reduce European armament dependence and to boost its defence industrial base. The lack of industrial capacities to build crucial defence systems, or even just the potential threat of suppliers to stop spare part replacement

deliveries, creates a risk of blackmail. However, the EU should avoid undue defence protectionism, which is bound to drive up costs and thus reduce European defence capabilities. While the EU and its member states should reduce armament procurement from very large non-member states, procurement from smaller non-member states, which lack the capacity to blackmail, should remain a pillar of defence planning. The procurement rules for SAFE should therefore be revised upwards from the current 35% allowance for non-EU input. In addition, a 'friendly-nation clause' should be added to distinguish between friendly and unfriendly countries in order to better direct efforts to increase resilience.

- The EU should seek to minimise parallel structures to organisations such as NATO and OCCAR. While statements made by the Trump administration on NATO create a strong argument for boosting European independence, EU defence spending should reflect the fact that non-NATO, non-EU European procurement cooperation structures already exist. The case for reinforcing instead of duplicating joint procurement structures is strong.

- In areas where the EU does become a major player in defence spending and makes use of its comparative institutional advantage, member states should adjust their national defence budgets accordingly (military mobility). Division of labour between the national and union levels should become a more prominent principle of defence spending within the EU.

- **The EU should avoid functionalist temptations** (the idea that certain integration steps will necessitate additional ones) in its defence policies. An ultimate objective of an EU army should not lead to setting priorities for defence spending that make less sense before such an army actually exists. In order to improve European resilience and deterrence, the EU should start with more tangible steps first, such as pushing for the right of EU citizens to serve in the armies of the member states they reside in, in addition to the member state of which they are a citizen.

Taken together, these measures can ensure that the EU maximises what it gets in return for its defence spending. Doing so will increase Europe's ability to defend itself while preventing the need for even larger funds. As in most political matters, balance is of the essence. The threat that adversaries such as Russia and China pose to European freedom and democracy will likely not go away for quite some time. In order to sustain

credible deterrence for decades to come, Europe will require a strong and resilient economy as well as strong armies. This means that the need to boost defence spending has to be carefully calibrated against the need to create conditions in which European industry can thrive. It is this dual objective that should guide the MFF negotiations.

iv. Digital transition

Dr Christian Năsulea (IES), Christos Loukas (KEFiM) & Dr Nicolas Marques (IEM)

Introduction

The European Commission's proposal for the MFF 2028–2034 designates digital leadership as one of four core strategic priorities. It allocates €51.5 billion to this thematic area through the Digital Leadership window of the newly created ECF (European Commission 2025a).[16] The ECF consolidates fourteen existing MFF programmes under a single regulation and a common single gateway for funding applicants, with a total envelope of €409.3 billion.[17] The €51.5 billion digital allocation represents a five-fold increase over the combined budgets of the Digital Europe Programme and the CEF in the current MFF.[18]

This brief examines whether the institutional architecture and the scale of public expenditure proposed for the EU's digital transition are consistent with the evidence on market failures, subsidiarity, and the conditions for private investment. It argues that, across five dimensions – the industrial policy model embedded in the ECF, the scale of public digital subsidies, the supply chain exclusion framework, the cumulative regulatory burden on small and medium enterprises (SMEs), and the proposed AI Social

16 The Digital Leadership window is one of the four policy windows within the ECF.

17 'European Competitiveness Fund', European Parliament Legislative Train Schedule, 20 March 2026 (https://www.europarl.europa.eu/legislative-train/spotlight-MFF%202028-2034/file-european-competitiveness-fund). See also 'The 2028–2034 EU budget for a stronger Europe', European Commission, n.d. (https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/eu-budget-2028-2034_en).

18 'What's in the EU budget for digital skills? Commission proposes close to €2 trillion in 2028-2034 MFF, boosting funding for digital capacity', Digital Skills and Jobs Platform, 24 July 2025 (https://digital-skills-jobs.europa.eu/en/latest/news/whats-eu-budget-digital-skills-commission-proposes-close-eu2-trillion-2028-2034-mff).

Compact[19] – the Commission's approach substitutes administrative direction for market-led adaptation. The brief concludes with a set of recommendations for member states in the Council.

The ECF: Industrial policy by another name

The ECF constitutes a formal shift in EU budgetary logic. Rather than providing horizontal framework conditions for investment across the single market, it channels public capital into specific technology sectors identified as strategic: AI, semiconductors, quantum computing, and 6G communications.[20] This approach reflects a deliberate departure from market-led technology selection. The central policy question this raises is whether public authorities possess the information necessary to identify winning technologies and firms in advance, and whether centralised capital allocation on this scale is compatible with efficient market outcomes.

The evidence from comparable programmes is instructive. The Commission's own interim evaluation of Horizon Europe (2025) found that, despite the €43.2 billion committed under that programme, the co-investment leverage factor for the mainstream grant component stood at approximately 0.09 – meaning that each euro of public expenditure generated less than 9 cents in private co-investment. Joint Undertakings, which operate on a contractual rather than an open-grant basis, achieved a leverage factor of 0.8. The structural lesson – that programme design matters more than aggregate budget size in mobilising private capital – is not adequately reflected in the ECF's architecture.

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19 The AI Social Compact is a proposed, evolving framework of agreements designed to guide the development, deployment, and governance of Artificial Intelligence to ensure it benefits humanity, addresses economic disruption, and protects fundamental rights. It aims to align AI development with societal values to prevent catastrophic labor displacement, mitigate inequality, and ensure safety.

20 'AI investment: EU and global indicators', European Parliament Research Service, 4 April 2024 (https://www.europarl.europa.eu/RegData/etudes/ATAG/2024/760392/EPRS_ATA(2024)760392_EN.pdf). The US led private investment in AI at €44 billion in 2022; the EU and UK together attracted €10.2 billion. More recent data from *Euronews* places annual US AI venture investment at $60–70 billion versus approximately $7–8 billion for the EU. See 'The AI race: Can Europe catch up with the US and China?', *Euronews*, 27 January 2026 (https://www.euronews.com/my-europe/2026/01/27/the-ai-race-can-europe-catch-up-to-the-us-and-china). See also 'EU Competitiveness Report: Developments in AI and competition law', AI Accelerator Institute, 6 December 2024 (https://www.aiacceleratorinstitute.com/what-does-the-eu-competitiveness-report-say-about-developments-in-ai-and-competition-law/). According to Pitchbook, in 2023, EU AI venture investment was $8 billion, versus US investment of $68 billion.

The ECF's Digital Leadership window proposes state selection of priority technologies, which may not reflect actual market demand or commercially viable deployment paths. The history of technology policy offers limited support for the proposition that public bodies can reliably identify breakthrough sectors in advance of market signals. The risk is not merely that individual investments will fail but that sustained public commitment to designated sectors distorts price signals, delays exit from unviable positions, and crowds out private capital, which would perform this function more efficiently.

The subsidiarity question

Under Article 4(3) TFEU, research and technological development is a shared competence between the EU and its member states. EU action is warranted where cross-border scale or externalities generate value that national budgets cannot individually replicate. It is not warranted where it duplicates or crowds out national action that would otherwise occur. The Commission's legislative documentation has not applied this principle systematically to the ECF's Digital Leadership window.[21]

Where the subsidiarity case is strongest, the evidence is clear. The cross-border added-value argument for EU-level digital infrastructure standards and fundamental research is well established in the Horizon Europe interim evaluation: 81% of Horizon Europe grants are collaborative, involving an average of 11.3 participants across borders, and beneficiaries consistently identify cross-border cooperation, access to shared world-class research infrastructure, and funding for topics not covered by national programmes as the key elements of added value at the EU level (European Commission 2025b: 89). These findings make a strong subsidiarity case for the European Research Council, shared large-scale infrastructure such as EuroHPC, and genuinely multi-country collaborative fundamental research. The cross-border externalities are real, market failure is well documented, and national budgets individually cannot replicate the scale required.

However, where the subsidiarity case is weakest, the Commission's documentation is silent. The ECF's Digital Leadership window finances applied deployment and commercial scaling in AI, semiconductors, and 6G – activities that are, in principle, commercially viable and can be funded

21 See Articles 4(3) and 179–190 TFEU on the subsidiarity framework for research policy.

through private capital markets, provided the structural barriers identified in the Draghi report are removed. The Commission's MFF proposal does not provide a component-by-component subsidiarity analysis, and the legislative record does not supply the missing justification.

The Commission's use of competitiveness as the overarching justification for the proposed budget increase compounds this problem. Competitiveness is a policy objective, not a subsidiarity criterion. The relevant subsidiarity question under Article 5 TEU is not whether EU spending on digital deployment would improve European competitiveness but whether there is a specific cross-border market failure or externality that member states cannot address individually. Conflating these two questions allows the Commission to treat any expenditure that could plausibly affect competitiveness as self-evidently justified at the EU level – a framing that is not consistent with the subsidiarity requirement as a genuine constraint on EU action.

The scale of public digital subsidies and the private investment gap

The Commission proposes a €51.5 billion digital budget as the primary mechanism for closing Europe's technology gap. This framing deserves critical scrutiny. The venture capital (VC) gap between the EU and the US is structural and large: Annual AI VC investment in the US stands at approximately $60–70 billion, compared with roughly $7–8 billion in the EU. In 2025, VC investment in Europe was only 22% of that in the US, despite the two economies being of roughly equal size. Over the longer term, European VC funds manage roughly $44 billion in assets – approximately one-sixth of the $270 billion managed by their US counterparts.[22]

The Draghi report, which the Commission cites as the primary justification for the new MFF's competitiveness orientation, diagnosed this gap as a consequence of capital market fragmentation, insufficient pension fund participation in equity markets, regulatory barriers to scaling, and the absence of a fully-fledged Capital Markets Union (European Commission

22 'The venture capital challenge for Europe', *VoxEU* (CEPR), 20 February 2026 (https://cepr.org/voxeu/columns/venture-capital-challenge-europe). See also 'The AI race: Can Europe catch up with the US and China?', *Euronews*, 27 January 2026 (https://www.euronews.com/my-europe/2026/01/27/the-ai-race-can-europe-catch-up-to-the-us-and-china).

2024: 63).[23] Draghi's recommended corrective was structural reform of capital markets, not expansion of public grant budgets. As the Centre for Economic Policy Research noted, the VC gap between Europe and other regions has in fact widened since the Draghi report was published, driven by investment in AI. The proposition that €51.5 billion in state funding can substitute for the structural reforms required to unlock private capital is not consistent with either the Draghi diagnosis or the Horizon Europe performance record.

Large-scale public subsidies of designated technology sectors risk crowding out the private investment they are intended to catalyse. Where public funds flow into sectors on non-market terms, private investors tend to face distorted return signals and may rationally reduce their own exposure. This dynamic is distinct from the legitimate case for public funding of pre-competitive fundamental research – where market failure arguments are well established – and it applies with particular force to applied deployment and scaling activities of the kind targeted by the Digital Leadership window.

The trusted information and communication technology supply chain framework: Protectionism under a security rationale

The Commission's January 2026 proposal to revise the Cybersecurity Act introduces a binding, mandatory, phased exclusion of high-risk vendors of critical information and communication technology (ICT) infrastructure across eighteen designated sectors, formalising and extending the voluntary 2020 5G security toolbox (European Commission 2025c, 2026). Operators will be required to phase out designated equipment within 36 months of a supplier's formal designation. While the Commission has framed this as a security-driven measure, the policy raises distinct economic questions that have not been adequately addressed in the legislative record.

The cost of replacing existing high-risk supplier equipment runs into billions of euros across the EU's mobile network operator base. Estimates from Barclays and Oxford Economics, though differing in methodology, are consistent in identifying replacement costs of multiple billions of euros, which are ultimately borne by operators, their customers, or

23 The report estimated total additional investment needs at €750–800 billion per year, identifying Capital Markets Union reform as the primary structural priority.

both.[24] This constitutes a direct regulatory cost imposed on the private sector through a non-market procurement mandate. Nokia's CEO has publicly estimated that Huawei's European business in the sectors where Nokia competes is worth €2–2.5 billion in annual revenues – a figure that provides a rough lower bound for the market disruption involved in a mandatory phase-out, net of replacement investment.

A market-based approach to supply chain security would achieve equivalent or superior outcomes at lower cost. Clear and technology-neutral performance standards, independent technical testing, liability frameworks, and mandatory multi-vendor diversification requirements provide security assurance without foreclosing competition or imposing blanket exclusions on the basis of national origin. Firms operating within competitive networks are better positioned than central authorities to assess operational risk, cost, and quality across their own infrastructure. The current proposal replaces this decentralised risk management with a politically determined supplier framework that structurally favours European and aligned-country vendors – an outcome more consistent with industrial policy than with security policy.

The cumulative regulatory burden and SME exclusion

The ECF's access architecture: The Commission presents the ECF's consolidation of fourteen programmes under a single rule book and a single gateway as an administrative simplification. The practical effect on market access, however, requires more careful assessment. The ECF's architecture requires applicants to navigate the competitiveness coordination tool, engage with the Strategic Stakeholder Board governance structure, and satisfy the eligibility criteria of a multi-window fund operating under a complex, integrated regulation.

Large corporations with dedicated regulatory and grant management teams are structurally advantaged in accessing integrated funding

24 On costs, see 'The economic impact of restricting competition in 5G network equipment', Oxford Economics, 30 June 2020 (https://www.oxfordeconomics.com/resource/the-economic-impact-of-restricting-competition-in-5g-network-equipment/) (commissioned by Huawei in 2020); Barclays research note cited in 'The EU's "high-risk vendor" designation for Chinese 5G equipment suppliers', Lexology, 28 September 2023 (https://www.lexology.com/library/detail.aspx?g=656444e9-e0b8-4e33-9f7f-e2d16624bbc3) (replacement of existing radio access network infrastructure would run into billions of euros). On the geopolitical framing, see 'EU plan to phase out high-risk tech draws fire from China's Huawei', CNBC, 20 January 2026 (https://www.cnbc.com/2026/01/21/eu-plan-to-phase-out-high-risk-tech-draws-fire-from-chinas-huawei.html).

ecosystems of this design. SMEs and early-stage start-ups, which lack the administrative capacity to engage effectively with Brussels-level governance processes, face higher effective barriers to entry relative to incumbents. The paradox is that a fund explicitly designed to boost European competitiveness may in practice reinforce the market positions of existing large firms in designated sectors while increasing barriers for the entrepreneurial firms most likely to generate genuine technological disruption. The evidence from Horizon Europe is instructive: Widening countries, home to 26% of the EU's scientists and engineers, received only 14% of programme funding, despite improvements relative to Horizon 2020. Administrative complexity systematically disadvantages participants with lower institutional capacity.

The compounded effect of the AI Act and cybersecurity regulation: The access barriers embedded in the ECF architecture do not operate in isolation. They compound an already substantial and growing regulatory compliance burden on EU digital firms, driven by the simultaneous application of the AI Act,[25] the General Data Protection Regulation (GDPR), the Network and Information Security (NIS2) Directive, the Cyber Resilience Act, and the proposed revised Cybersecurity Act. Each of these instruments has individually justifiable regulatory objectives; their cumulative effect on smaller firms has not been systematically assessed.[26,27]

A February 2026 survey of EU, UK, and US technology firms found that EU and UK tech start-ups and SMEs lose on average between €94,000 and €322,000 annually per firm due to delayed AI model launches

25 The AI Act, Regulation (EU) 2024/1689, entered into force on 1 August 2024. The AI governance specialists needed to navigate the act are unevenly distributed across language regions, leaving small and medium-sized businesses in smaller language markets disproportionately disadvantaged. Over 30 European founders and VC investors signed an open letter arguing that the act risks creating a fragmented, unpredictable regulatory environment that will undermine innovation and discourage investment. See 'EU AI Act takes effect, and startups push back', Vestbee, 17 September 2025 (https://www.vestbee.com/insights/articles/eu-ai-act-takes-effect-what-you-need-to-know).

26 On the cumulative regulatory burden, see 'It's too hard for small and medium-sized businesses to comply with the EU AI Act: Here's what to do', *AI Policy Bulletin*, 19 May 2025 (https://www.aipolicybulletin.org/articles/its-too-hard-for-small-and-medium-sized-businesses-to-comply-with-eu-ai-act-heres-what-to-do).

27 On the disproportionate effect on SMEs, see the press release 'Commission strengthens EU cybersecurity resilience and capabilities', European Commission, 20 January 2026 (https://ec.europa.eu/commission/presscorner/detail/en/ip_26_105). NIS2 amendments will ease compliance for 28,700 companies, including 6,200 micro and small-sized enterprises, with a new small mid-cap category covering another 22,500 companies – figures that confirm the scale of the compliance burden on smaller firms.

attributable to regulatory compliance requirements; these losses rise to between €160,000 and €453,000 for directly affected small-tech firms.[28] Six in ten EU and UK tech start-ups reported delayed access to frontier AI models as a direct consequence of the regulatory environment. These are not marginal costs: For a seed-stage start-up with limited runway, a compliance-induced delay of several months can affect its viability.

The cybersecurity certification framework adds a further dimension. While the certification schemes managed by the European Union Agency for Cybersecurity, or ENISA, under the Cybersecurity Act remain formally voluntary, Bird&Bird has noted that certification may become de facto mandatory through procurement rules, market expectations, or national requirements.[29] Where public sector procurement authorities make ENISA certification a condition of contract – as is already the practice in several member states for cloud services – the voluntary designation becomes effectively mandatory for any firm seeking public sector business. Large incumbents with compliance infrastructure absorb this cost; SMEs and start-ups face a structural disadvantage that has no direct connection to the quality or security of their products.

The Commission's response to these concerns has been to propose proportionality adjustments, sandbox environments, and SME-specific guidance within each individual regulatory instrument. This approach treats each instrument's effects on smaller firms as a discrete calibration problem. It does not address the systemic issue: The cumulative compliance burden across multiple overlapping regulatory frameworks creates a fixed cost that scales with firm complexity in a way that structurally advantages scale. No instrument in the MFF package currently proposes a comprehensive regulatory impact assessment of the combined digital compliance burden on firms that are not large enterprises.

28 'The hidden cost of AI regulations: A survey of EU, UK, and U.S. companies', ACT | The App Association, February 2026 (https://actonline.org/the-hidden-cost-of-ai-regulations-a-survey-of-eu-uk-and-u-s-companies/).

29 'EU Cybersecurity Act proposal: Key provisions, scope, and implications for organisations', Bird&Bird, 27 January 2026. (https://www.twobirds.com/en/insights/2026/eu-cybersecurity-act-proposal-key-provisions,-scope,-and-implications-for-organisations). The Commission explicitly rejected making certification generally mandatory at this stage, but certification may become de facto mandatory through procurement rules, market expectations, or national requirements.

The European AI Social Compact: Labour-market rigidity as digital policy

Proposals to anchor a European AI Social Compact within the MFF – providing income assistance and state-managed reskilling for workers displaced by AI-driven automation – rest on an empirical premise that the historical record does not straightforwardly support. General-purpose technologies have historically augmented labour productivity and generated new categories of employment rather than creating permanent net displacement.[30] Treating AI as a structural shock requiring permanent state compensation schemes presupposes an outcome that remains contested in the economic literature.

The institutional design of the proposed compact raises additional concerns. Structured dialogues among member states and social partners formalise the interests of established labour unions and large incumbent employers as the primary interlocutors in shaping digital transition policy. This is a form of corporatist governance that systematically underweights the interests of dynamic start-ups, platform workers, freelancers, and workers in emerging roles – precisely the participants most likely to benefit from AI adoption. A state-mandated curriculum for digital reskilling is, moreover, structurally ill-suited for tracking the pace of AI development. Private certification, on-the-job training, and market-driven skill formation have consistently demonstrated greater responsiveness to actual employer demand than centrally designed retraining programmes.

The resource opportunity cost of integrating a social compact into the MFF is not trivial. Public investment in income assistance for workers in declining roles and in state-managed reskilling infrastructure competes directly for MFF resources that could instead be directed towards removing the regulatory and capital market barriers that constrain private AI investment. Given that the structural VC gap identified by Draghi remains the primary constraint on European AI competitiveness, this trade-off should be made explicit in the MFF negotiations. Subsidising the preservation of existing employment structures through state transfers also carries a secondary cost: It reduces the speed of labour-market adjustment to new, higher-value roles created by AI adoption, thereby slowing the very productivity gains the digital transition is intended to deliver.

30 The historical argument that general-purpose technologies augment rather than destroy employment is developed in Brynjolfsson and McAfee (2014).

Policy recommendations

Apply the subsidiarity test to each ECF component: Member states in the Council should require the Commission to conduct a component-by-component subsidiarity analysis of the ECF's Digital Leadership window before approving the final MFF envelope. Resources should be concentrated on activities with demonstrated cross-border added value: a strong subsidiarity justification for the European Research Council, shared large-scale research infrastructure, and genuinely multi-country collaborative fundamental research. Each applied programme component – AI deployment support, semiconductor manufacturing incentives, 6G rollout subsidies – should be assessed individually against the subsidiarity criterion under Article 5 TEU. Components that fail this test should be returned to the member state or eliminated from the MFF envelope.

Reorient the ECF towards horizontal deregulation: The Commission should abandon the ECF's sector-specific technology windows for applied commercial deployment and redirect MFF resources towards horizontal measures that lower the cost of doing business for all firms – such as regulatory simplification, reduction of administrative barriers to market entry, and completion of the Capital Markets Union. The case for EU-level expenditure on pre-competitive fundamental research is well established. The case for state selection of preferred commercial technologies in AI, semiconductors, and quantum computing is not. Where EU support for applied research and innovation is warranted, the Joint Undertaking model – which achieves a co-investment leverage factor of 0.8, compared with around 0.09 for the mainstream grant programme – should be the primary delivery mechanism.

Replace supply chain bans with performance-based security standards: The proposed mandatory exclusion of high-risk ICT suppliers should be replaced with a technology-neutral, performance-based security framework. Security requirements should be defined by measurable technical standards, enforced through independent testing and contractual liability, and supplemented by mandatory multi-vendor diversification requirements. Exclusion of specific vendors on the basis of country of origin, without demonstrated evidence of a specific security vulnerability that cannot be mitigated by performance-based means, is more consistent with trade protectionism than with a risk-based security policy. The Commission should be required to publish a full cost–benefit analysis of the mandatory phase-out regime, including the costs to

operators, consumers, and downstream digital services, before any designation list is adopted.

Commission a cumulative regulatory impact assessment for digital SMEs: No instrument in the current MFF or digital regulatory package provides a comprehensive assessment of the combined compliance burden on firms below the threshold of large enterprise, arising from the simultaneous application of the AI Act, GDPR, NIS2, the Cyber Resilience Act, and the proposed revised Cybersecurity Act. The Commission should be required to conduct and publish such an assessment before the MFF is finalised, with particular attention to the differential effect on firms with fewer than 250 employees. Where the cumulative burden is found to impose structural barriers to market entry or access to public funding, targeted exemptions or phased compliance timelines should be introduced at the framework level rather than separately for each instrument.

Reject the AI Social Compact, and reduce labour-market barriers: The EU should not embed a European AI Social Compact into the MFF. Labour-market adjustment in response to technological change is best achieved through decentralised mechanisms: flexible hiring and reskilling by firms, market-led certification and training, reduction of regulatory barriers to new business formation, and flexible work arrangements. Public policy should make adaptation easier rather than subsidising the indefinite preservation of existing employment structures. The goal should be the dynamic reallocation of labour towards higher-value roles enabled by AI adoption, not the administrative management of the decline in roles that technology renders less productive.[31]

Prioritise capital market reform over public subsidy: The primary policy lever for closing the EU/US VC gap is structural reform of European capital markets: completing the Capital Markets Union, removing prudential barriers to pension fund participation in VC, harmonising cross-border funding structures, and reducing regulatory fragmentation across the 27 national markets. These reforms address the structural causes of the investment gap identified in the Draghi report. Substituting €51.5 billion in public digital subsidies for these reforms does not attend to the underlying cause and instead risks aggravating the crowding-out effects on private capital.

31 The relevant policy literature on labour market adjustment is surveyed in OECD (2019).

Make cybersecurity certification strictly voluntary: Cybersecurity certification under ENISA frameworks should remain voluntary for private firms and not become an indirect market-entry requirement through procurement rules, sectoral mandates, or regulatory pressure. Certification should function as a market signal – used voluntarily where customers, insurers, investors, or procurement authorities assign value to it. Governments may define security requirements for their own procurement but should not extend mandatory certification to private markets. Where ENISA certification forms part of the public procurement criteria, the contracting authorities should be required to publish an assessment of the market access implications for SMEs and start-ups before such criteria are adopted.

Conclusion

The EU's digital transition agenda, as expressed in the MFF 2028–2034 proposal, represents a significant expansion of public authority over technological investment decisions that would, under alternative institutional arrangements, be made by private firms and markets. The €51.5 billion Digital Leadership window, the ECF's sector selection architecture, the mandatory exclusion of high-risk ICT suppliers, the proposed AI Social Compact, and the cumulative effect of the digital regulatory stack have a common design logic: administrative direction of economic adjustment in place 'of market-led adaptation.

The evidence base for this approach is weaker than the Commission's framing suggests. The Draghi report – the primary justification cited for the new MFF's competitiveness orientation – diagnosed Europe's digital gap as a product of capital market fragmentation and regulatory barriers to scaling, not of insufficient public grant expenditure. The Horizon Europe interim evaluation demonstrates that the mainstream grant model generates negligible private co-investment leverage. The mandatory exclusion of high-risk suppliers imposes direct multibillion-euro costs on private operators, without a demonstrated security justification that could not be achieved through a performance-based alternative. And the cumulative digital regulatory burden on EU SMEs – quantified in recent survey evidence as between €94,000 and €453,000 per firm annually in delayed AI adoption costs alone – has not been systematically assessed at the MFF level.

The priorities for member states in the Council should be to insist on a component-by-component subsidiarity test as a precondition

for approving the ECF envelope, to require a cumulative regulatory impact assessment for digital SMEs before the package is finalised, and to redirect the MFF's primary competitiveness mechanism towards structural capital market reform rather than public technology selection. More public spending will not address these issues as well as instituting a better digital policy. The EU possesses the institutional capacity to close the conditions for private digital investment, but the MFF 2028–2034, in its current form, does not fully use it.

v. Health and the bio-economy

Jan Brůna & Dr Michael Fanta (CETA)

EU competence in health care

At the level of primary EU law, according to Article 168 TFEU,[32] the EU's role in health care is primarily **supportive, coordinating, and complementary** rather than executive. In other words, the EU does not finance European health care as a single system; the main responsibility for the organisation of hospitals and the provision of health care services lies with the member states.

The EU does not pay member states for the operation of national health systems or doctors' salaries. The EU's role is rather to finance areas where there is clear added value at the EU level, in particular **the prevention of cross-border threats, joint preparedness, research, innovation, data sharing, coordination, and capacity building** (Quaglio 2020).

The principle of subsidiarity in health care means that the EU should only act when the objectives cannot be sufficiently achieved at the member state level and can be better attained at the Union level. This principle was tested and partially reinterpreted during the COVID-19 pandemic. Although it did not legally transform the EU into the main driver of health policy, it significantly shifted its role in the areas of coordination,

32 'Consolidated version of the Treaty on the Functioning of the European Union – PART THREE: UNION POLICIES AND INTERNAL ACTIONS – TITLE XIV: PUBLIC HEALTH – Article 168 (ex Article 152 TEC)', European Union, 2026 (https://eur-lex.europa.eu/eli/treaty/tfeu_2008/art_168/oj/eng).

preparedness, common tools, and crisis management. The European Health Union was created, a new Health Emergency Preparedness and Response Authority agency was established, and the mandates of the European Centre for Disease Prevention and Control and the European Medicines Agency were strengthened.[33]

This institutional evolution highlights a gradual shift towards a stronger EU role in managing cross-border health risks, while maintaining the core responsibility of member states for health care delivery.

What should the EU's role be?

The EU plays a meaningful role primarily in areas where individual countries cannot act alone – that is, where the problem is cross-border or requires large amounts of data, shared expertise, or coordinated investments. Its role is strongest in the areas of pandemics and health security, as uncoordinated action by member states can lead to duplication and competition over stockpiling. The EU has a clear function in the following areas:

- Rare diseases: A coordinated approach makes sense because no single member state can have experts on every type of disease. An estimated 27–36 million people in the EU live with a rare disease, and there are 6,000–8,000 such diseases.[34] The solution is the European Reference Networks – cross-border networks of specialised centers that facilitate consultation for complex cases, sharing of expertise, or training of specialists.

- Health data sharing: Thanks to the EU, data is not fragmented across countries, systems, and providers. The European Health Data Space aims to create a common framework for the exchange of electronic health data, improve patients' access to their own data,

33 'Timeline European Health Union', European Council, February 2025 (https://www.consilium.europa.eu/en/policies/protecting-against-cross-border-health-threats/timeline-european-health-union/).

34 'Rare diseases', European Commission, 2026 (https://health.ec.europa.eu/rare-diseases-and-european-reference-networks/rare-diseases_en).

and simultaneously enable the secondary use of data for research, policymaking, and the public interest.[35]

- Research and innovation: The EU's role here is to bring together research teams, share infrastructure, fund risky projects, and create a larger area for research.

- Bio-economy and biotech: The EU acts primarily as a strategic coordinator and regulator, supporting framework conditions for innovation rather than acting as a direct investor. The Commission links the bio-economy to competitiveness, reducing dependence on fossil fuels, biotechnology, and the commercialisation of bio-based solutions. The EU harmonises standards, reduces regulatory fragmentation, helps scale up innovation, and connects research, industry, and regions.

The final evaluation of the Health Programme for 2014–2020 (the third programme of its kind) is available on the European Commission's website (European Commission 2023). This was the Commission's main instrument for supporting and coordinating health policy in the EU, with a budget of €449.4 million. The programme is assessed according to five criteria: **effectiveness, efficiency, coherence, added value at the EU level, and relevance**. Overall, the programme can be considered successful, though the results were not without limitations:

Effectiveness: According to the indicators, the programme has yielded results across various areas. The number of states incorporating coherent approaches into their preparedness plans increased to 22; 24 states had initiatives to reduce saturated fats; the number of Health Technology Assessment (HTA) outputs rose to 41; and 23 states utilised the programme's tools and mechanisms. In the area of access to specialised care, 24 European Reference Networks were established. However, these indicators primarily capture outputs rather than measurable health outcomes, and the programme faced the challenge of limited resources and difficulties in stakeholder engagement.

Efficiency: The programme achieved its objectives within the allocated budget and operated efficiently. The Consumers,

35 'European Health Data Space Regulation (EHDS)', European Commission, 2026 (https://health.ec.europa.eu/ehealth-digital-health-and-care/european-health-data-space-regulation-ehds_en).

Health, Agriculture and Food Executive Agency was allocated €40.8 million. According to the stakeholders, the programme's output was of high quality. Benefits can be measured in terms of the use of evidence-based good practices. At the same time, administrative complexity remained a persistent issue, particularly for smaller or lower-capacity member states.

Coherence: The actions funded by the programme were consistent with its objectives and aligned with other instruments such as the European Structural and Investment Funds and Horizon 2020. The objectives were linked to the Commission's priorities and thus did not deviate from broader EU policy.

Added value at the EU level: This comprised not only funding but also the creation of common structures and standards. Added value lies precisely where national efforts alone are insufficient, and included the sharing of expertise, networks of experts, and coordination on cross-border issues. Nevertheless, the translation of these outputs into concrete policy changes at the member-state level remained limited.

Relevance: The programme was generally relevant, as most of the needs existing in 2014 (the launch year) remained relevant throughout the programme period. At the same time, however, relevance had its limits, with some issues perceived as falling outside the programme's scope or certain topics receiving less coverage than their significance warranted. In particular, preparedness for large-scale cross-border health crises proved insufficient.

From a subsidiarity perspective, EU intervention in health policy should be limited to areas where clear cross-border public goods, coordination failures, or scale effects exist. This implies that EU spending should not substitute for national health care systems but should focus on areas where member-state action alone is insufficient.

EU expenditure in the current MFF

EU4Health is the EU's main specialised health programme for the 2021–2027 period. It was established in response to the COVID-19 pandemic and aims to improve crisis preparedness, the resilience of health systems, the availability of medicines and medical devices,

disease prevention, screening, and the digitalisation of health care. The Commission currently reports a budget of €4.4 billion. Funded activities include preparedness for cross-border health threats, prevention, access to medicines, and digitalisation. As such, EU4Health represents a significant scaling-up of EU-level health spending compared with the previous programme period.

Horizon Europe is the EU's flagship programme for research and innovation. The Health Cluster, with a budget of €8.2 billion (including funds from NGEU), is the main research and innovation instrument for health.[36] Its goal is to generate new knowledge and solutions for the prevention, diagnosis, treatment, monitoring, and management of diseases, as well as for the transformation of health and care systems. Funded activities include, in particular, research projects, transformation, digitalisation, and the use of AI in health care. For the bio-economy, Cluster 6 is particularly relevant, as it supports the transition to the sustainable use of biological resources, the development of bio-based solutions, the circular economy, sustainable food systems, and the integration of the bio-economy with climate, agriculture, and the environment. This highlights the fact that a substantial share of health-related spending is embedded in broader research and innovation instruments rather than in dedicated health programmes.

In addition, the Commission lists the Digital Europe programme among the main sources of health care funding. Over €8.1 billion is allocated to digital infrastructure, cross-border data exchange, AI capacity building, and so on.[37] The European Health Data Space initiative facilitates the sharing and use of electronic health data across the EU. Its goal is to enhance patient access to data, cross-border data exchange, and the secondary use of data for research, innovation, and policymaking. Health spending is thus increasingly channelled through horizontal digital and innovation programmes.

A stronger EU role in health care is certainly a sound idea, but it need not be equated solely with a call for budget expansion in the next MFF. The key issue is not the volume of funding but its effectiveness and strategic coherence. For programmes such as EU4Health, Horizon

36 'Horizon Europe', European Commission, 2021 (https://research-and-innovation.ec.europa.eu/funding/funding-opportunities/funding-programmes-and-open-calls/horizon-europe_en).

37 'The Digital Europe Programme', European Commission, September 2025 (https://digital-strategy.ec.europa.eu/en/activities/digital-programme).

Europe, Digital Europe, and other initiatives in the field of health data, the most critical concerns appear to be the effectiveness of EU spending, the interconnectivity of these programmes, and their ability to generate measurable results. The current framework is characterised by fragmentation across multiple instruments, which increases the risk of duplication, overlap, and weak strategic alignment.

There also remains a weak link between the volume of funds spent and the outcomes actually achieved, as available indicators often capture spending, implemented activities, and immediate outputs rather than the longer-term impact on public health or systems' effectiveness. In other words, EU health spending is still largely input-and output-driven rather than outcome-based. This is also reflected in the setting of indicators (e.g., the number of HTA reports produced or the number of expert opinions involved in Reference Networks), which provide limited insight into actual improvements in health outcomes or system performance.

Geographical distribution of funding

The results for EU4Health as of September 2025 indicate that most of the funds are directed to countries with strong administrative and project capacities. It should be noted that a significant share of EU health-related funding is also channelled through Horizon Europe, where the concentration of high-capacity research countries is even more pronounced.

The EU Country Health Profiles 2025 website[38] lists the amounts allocated from the EU4Health programme for most EU countries. The top five beneficiaries received a combined 60% of the total €968.6 million allocated. These were Italy, France, Germany, Spain, and the Netherlands.

This distribution reflects the fact that these are countries with strong research infrastructure, universities, companies, and experience with EU programmes. More broadly, this suggests that EU health-related funding allocation is driven more by administrative and research capacity than by underlying health needs.

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38 'Country health profiles 2025', European Commission and OECD, 2025 (https://health.ec.europa.eu/state-health-eu/country-health-profiles/country-health-profiles-2025_en).

For Digital Europe and the European Health Data Space, the pattern is less transparent, as these initiatives often operate through multinational infrastructure and consortia rather than direct national allocations. Administrative capacity plays a significant role in drawing down grants. It is not only about the quality of research but also about the ability to prepare a competitive project, participate in international consortia, manage grants, and co-finance or follow up on other projects.

Outlook for the next MFF (2028–2034)[39]

In the new budget period 2028–2034, health and the bio-economy are no longer structured as stand-alone programmes but are integrated into the ECF, specifically within the health, biotech, agriculture, and bio-economy pillar. This merged area is to receive around €20 billion. This represents a shift from a dedicated health policy approach to a broader framework for competitiveness and innovation. Health policy is thus increasingly embedded within a wider agenda focused on industrial capacity, biotechnology, and the EU's strategic resilience.[40]

Research remains strongly funded through Horizon Europe, which is to receive €154.9 billion, while the digital and data dimension of health care is strengthened indirectly through the Digital Leadership window (~€51.5 billion). The amount applies to the entire Digital Leadership initiative, so for the health sector, it represents more of an indirect boost to the digital and data dimensions than a separate allocation for health care (European Parliament 2025).

In the area of health security and crisis preparedness, a further institutional change is proposed: The new EU Civil Protection Mechanism+ (~€9.5 billion) will merge EU4Health and rescEU to build capacity for emergencies across the health, climate, and security domains. This further reinforces the shift towards embedding health into broader horizontal instruments. The ECA questions whether the proposed expansion of the Civil Protection Mechanism is sufficiently justified, particularly due to the absence of a detailed cost analysis, an unclear allocation of funds, and the risk of overlap with other EU instruments.

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39 The amounts given in this subsection are in 2025 prices (taken from the European Parliament document on the Commission's proposal).

40 'European Competitiveness Fund', European Commission, 2026 (https://single-market-economy.ec.europa.eu/access-finance/european-competitiveness-fund_en).

The Commission proposes a new unified performance framework for the entire budget, intended to simplify the existing system and increase reliance on common output and result indicators. However, it remains unclear how performance in individual policy areas, including health, will be measured. The benefits of the unified performance framework will be limited unless there is a shift from measuring outputs to using KPIs that capture actual outcomes and health impacts.

The draft budget promises greater simplification, concentration of resources, and an emphasis on results in the areas of health and the bioeconomy. While this may reduce the fragmentation observed in the current MFF, it introduces a clear trade-off. On the one hand, integration may improve coordination and strategic alignment. On the other, it creates risks of reduced transparency, weaker visibility of health as a stand-alone policy priority, and more difficulty monitoring health-specific outcomes.

Conclusion and policy implications

EU health spending has expanded significantly in recent years, particularly in response to the COVID-19 pandemic. While this expansion has strengthened coordination, preparedness, and innovation capacity at the EU level, it has not been consistently matched by improvements in measurable outcomes and system-level impact. At the same time, the incorporation of health into broader competitiveness and innovation frameworks in the next MFF reflects a shift in policy priorities; but it also raises questions about visibility, accountability, and the effective targeting of resources.

From a subsidiarity perspective, the key challenge is to ensure that EU intervention remains focused on areas where it can deliver clear EU-level added value. Without such prioritisation, there is a risk that EU spending becomes fragmented, less transparent, and insufficiently linked to actual health outcomes.

Policy recommendations:

Apply a strict subsidiarity test to all EU health-related spending, focusing on cross-border public goods such as health security, data sharing, and research coordination.

Shift from output-based to outcome-based KPIs, ensuring that EU funding is evaluated based on measurable improvements in health systems and population outcomes.

Reduce fragmentation across programmes, improving coordination between EU4Health, Horizon Europe, and digital initiatives to strengthen strategic coherence.

Prioritise enabling conditions over direct intervention, including regulatory harmonisation, data infrastructure, and support for cross-border cooperation, rather than expanding EU-level financing of health care delivery.

vi. Erasmus+

Christos Loukas (KEFiM)

A narrower Erasmus+ in the 2028–2034 MFF: To preserve mobility, reduce mission creep, and fund only what can be measured

Erasmus+ is one of the EU's most visible and politically successful programmes. By 1 April 2025, Erasmus+ and its predecessor programmes had provided learning mobility opportunities abroad to 16.6 million people. The Commission reports that 99% of the participants benefited from their mobility experience and that 95% consider it strengthened their sense of belonging.[41] These results should not be dismissed. They show that cross-border learning mobility can create genuine European added value.

At the same time, its success should not obscure two structural problems. First, the programme has expanded far beyond its strongest and most defensible core. Erasmus+ currently covers education, training, youth, and sport; the Commission's proposal for 2028–2034 would raise the envelope from €26.2 billion to €40.8 billion and include the European

41 'Interim evaluation of Erasmus+ 2021–2027 and final evaluation of Erasmus+ 2014–2020', European Commission, 2025 (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52025SC0186).

Solidarity Corps into the same regulation.[42] Second, performance measurement remains weak. The ECA has warned that Erasmus indicators have not been sufficiently aligned with the programme's objectives and that too many qualitative indicators remain perception-based rather than outcome-based (ECA 2018, 2026).

The policy question for the next MFF is therefore not whether Erasmus+ should end. It should not. The programme clearly delivers value when it lowers barriers to study, training, and work across borders. The real question is whether the EU should finance a focused mobility instrument or continue to transform Erasmus+ into an ever-wider umbrella for youth, solidarity, sport, democratic participation, and humanitarian action. A restrained and fiscally viable MFF should choose the first option.

The empirical evidence supports a more selective approach. The Commission's 2025 evaluation found that Key Action 1, learning mobility, is highly cost-effective, with the cost of the programme estimated at around €16 per day for learners and €180 per day for staff in the 2014–2020 period. The same evaluation estimated that an additional €8.9 billion would have been required to finance more than 44,000 quality proposals rejected for lack of funds in 2014–2020. For 2021–2023, the monitoring data show that an increase of more than €5 billion could have financed more than 29,400 additional quality proposals.[43] In other words, the evidence does not show that Erasmus+ is useless; it shows that its most valuable core is over-subscribed while its broader architecture remains difficult to justify and to evaluate.

This is also where the proposed merger with the European Solidarity Corps becomes problematic. The current Solidarity Corps has its own legal basis and a seven-year budget of €1.009 billion. The ECA noted that merging the two programmes may simplify administration but may also reduce clarity for beneficiaries and weaken the visibility of the

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42 'Regulation (EU) 2021/817 establishing Erasmus+: the Union Programme for education and training, youth and sport and repealing Regulation (EU) No 1288/2013', European Union, 20 May 2021 (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R0817); 'Commission proposes new Erasmus+ beyond 2027', European Commission, 2025 (https://erasmus-plus.ec.europa.eu/whats-new/news/commission-proposes-new-erasmus-beyond-2027).

43 'Interim evaluation of Erasmus+ 2021–2027 and final evaluation of Erasmus+ 2014–2020', European Commission, 2025 (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52025SC0186).

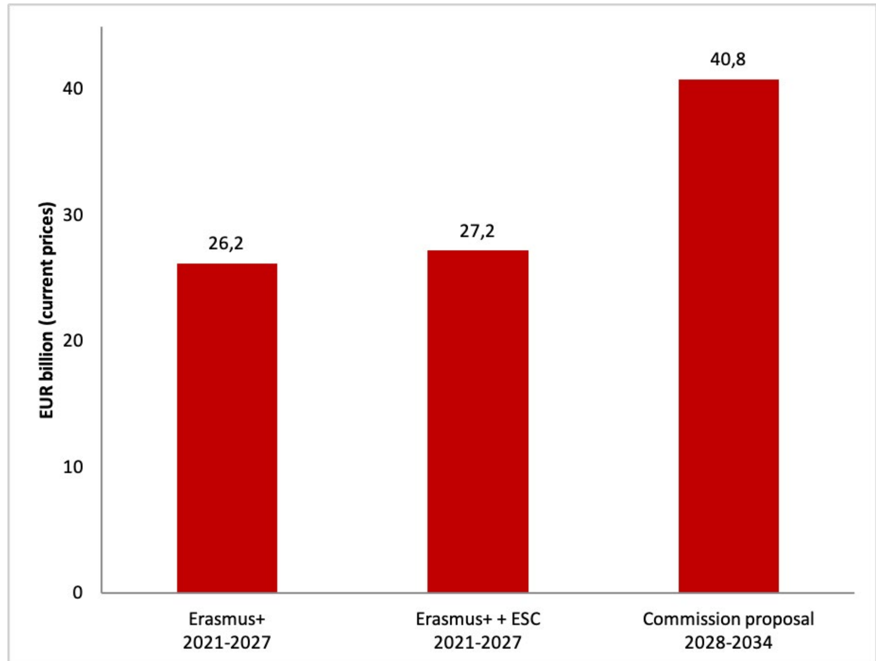
solidarity instrument itself (ECA 2026).[44] The Commission is therefore expecting the EU budget to pay more money for a broader and less clearly delimited programme precisely when the MFF debate is moving towards restraint, conditionality, and demonstrable added value at the EU level.

A prudent incorporation of Erasmus+ into the next MFF should therefore start from a narrower definition of the purpose of the programme. Erasmus+ should primarily finance semester-or year-long higher-education exchanges, vocational education and training (VET) mobility, traineeships, and a limited amount of staff mobility where the cross-border benefits are concrete and measurable. This approach is consistent with the view that Erasmus+ lacks robust outcome-oriented KPIs and should be confined mainly to longer-duration exchanges that directly support mobility and European identity. It is also consistent with the broader project line in favour of restrained, evidence-based spending and the use of 2025 prices for comparability.

A subsidiarity-based case for retaining Erasmus+ should nevertheless be stated more clearly. The ECA argues that Erasmus+ creates added value at the EU level when learning mobility, cross-border cooperation, and partnerships with third countries deliver results that member states, institutions, or individuals could not achieve to the same degree by acting alone. But the same opinion notes that the proposed 2028–2034 regulation drops the current dedicated article on European added value and that the concept is still not defined consistently across the next MFF. The next budget should therefore fund Erasmus+ only where this threshold is met: genuinely transnational mobility, mutual recognition, and cross-border institutional cooperation with measurable spillovers. Actions that do not pass that test should face tighter co-financing, separate ring-fencing, or exclusion from the core mobility envelope.

44 'European Solidarity Corps programme 2021–2027', European Union, 2021 (https://eur-lex.europa.eu/EN/legal-content/summary/european-solidarity-corps-programme-2021-2027.html).

Figure 1. Current and proposed Erasmus+ envelopes



Source: 'Regulation (EU) 2021/817 establishing Erasmus+: the Union Programme for education and training, youth and sport and repealing Regulation (EU) No 1288/2013', European Union, 20 May 2021 (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R0817); 'Commission proposes new Erasmus+ beyond 2027', European Commission, 2025 (https://erasmus-plus.ec.europa.eu/whats-new/news/commission-proposes-new-erasmus-beyond-2027)

Responsible management with regard to member states and taxpayers requires the following measures:

- Keep a core Erasmus+ budget line for long-duration learning mobility and traineeships, instead of treating every youth, sport, or solidarity activity as equally central to the programme.
- Require higher national, institutional, or private co-financing for short-duration exchanges, symbolic dialogue formats, and other activities with weaker evidence of durable value for money.
- Keep solidarity and humanitarian activities separate from the core mobility budget, or if political agreement requires a merger, ring-fence them with their own ceiling, eligibility rules, and reporting obligations.

- Make any budget increase conditional on a stronger performance framework that links appropriations to measurable outcomes rather than to raw participation counts and satisfaction surveys.
- Use Erasmus+ to complement, but not duplicate, Horizon Europe. Advanced research collaboration and innovation capacity should remain primarily under Horizon, while Erasmus+ should focus on mobility, skills formation, and institutional openness.

The right benchmark for the next MFF is therefore not whether €40.8 billion sounds politically ambitious but whether the additional money buys more high-value mobility or merely finances a larger catalogue of loosely related activities. The ECA noted that the proposed 2028–2034 Erasmus+ budget would be 49% higher at current prices and 30% higher at 2025 prices, including the Solidarity Corps, but the proposal does not sufficiently demonstrate how much of that increase is justified by inflation, by a broader scope, or by a larger number of participants and activities (ECA 2026). The burden of proof should lie with those who want a wider programme, not with those asking for fiscal discipline.

For that reason, the MFF should not abolish Erasmus+ but should re-organise it. Additional resources should first go to the over-subscribed parts of the programme with the clearest European added value and the strongest evidence of cost-effectiveness. Long-term mobility for students, apprentices, and trainees should be fully prioritised. Support for participants with fewer opportunities should be retained and better targeted. By contrast, activities with weaker measurable outcomes should face either stricter co-financing rules or explicit expenditure caps. This would preserve the programme's most defensible mission while making it more consistent with a restrained and single market–oriented budget philosophy.

A credible reform also requires a better KPI architecture. The next Erasmus+ should publish outcome indicators such as completed mobility months, recognised ECTS[45] or qualification units, graduation rates after mobility, cross-border employment or further study after participation, cost per completed long-duration mobility, and separate participation and completion rates for low-income beneficiaries and first-time institutions. It should also include a mandatory six-and eighteen-month follow-up module for participants in short-duration mobility, documenting whether the exchange improved access to internships, employment, further study,

45 European Credit Transfer and Accumulation System.

promotions, and the practical use of acquired skills. Satisfaction data should remain supplementary. The Commission should report separately on long-duration student mobility, short-duration mobility, youth and sport activities, and solidarity activities. Without that separation, future budget debates will continue to rely on a mix of very strong evidence for some actions and very weak evidence for others.

Current legal KPI architecture

The weakness of the current KPI architecture can be shown by the legal indicators still in force for 2021–2027. Most track participation volumes, the participating organisations, or self-reported benefits; very few capture durable learning, labour-market, or systemic outcomes. This is why the burden of proof for any expansion should rest not on abstract markers such as programme popularity but on a tighter measurement framework.

Table 1 classifies the current legal indicator set by indicator type. The recommended mix is an illustrative design target for a stronger 2028–2034 framework.

Table 1. Current legal indicators by indicator type

Category	Current legal indicators (2021–2027)
Key Action 1: learning mobility	Participants in learning mobility; participating organisations; participants in virtual learning; share of participants saying they benefited; share of participants saying their European sense of belonging increased
Key Action 2: cooperation	Participating organisations; share of organisations developing high-quality practices; users of programme-supported online platforms
Key Action 3: policy support	Participating organisations and institutions
Inclusion and diversity	People with fewer opportunities participating in learning mobility; newcomer organisations participating in programme actions
Simplification	Number of small-scale partnerships; share of organisations considering procedures proportionate and simple
Climate contribution	Share of mobility activities promoting climate-related issues; share of cooperation activities supporting climate-related issues

Source: Author's compilation

Proposed KPI structure for 2028–2034

The replacement framework should be organised around a small mandatory core shared across all actions, supplemented by action-specific annexes for higher education, VET, youth, and sport. Its purpose should be to move Erasmus+ from counting participation to measuring outcomes, European added value, and cost-effectiveness (Table 2).

Table 2.

Pillar	Mandatory KPIs	Why this pillar matters
Activity and reach	Completed mobilities; mobility duration mix (short/semester/year); share of first-time participants	Distinguishes delivered activity from approved projects and shows whether funds are drifting towards very short formats.
Learning and recognition	Recognised ECTS or qualification units; certification or traineeship completion; share of outcomes formally recognised by the home institution or employer	Measures concrete educational value rather than participation or satisfaction alone
Labour-market and tangible outcomes	Employment, internship, or further-study status at six and eighteen months; use of acquired skills at work or in study; mandatory short-term mobility follow-up module	Captures durable participant benefits and tests whether shorter exchanges produce measurable returns
Inclusion and grant adequacy	Share of disadvantaged participants; completion gap by socio-economic group; grant adequacy relative to host country living costs	Shows whether access is broad and financially realistic, especially for participants with fewer opportunities
EU added value and subsidiarity	Cross-border additionality score; durable cooperation after funding; portability and recognition gains	Keeps EU financing focused on what member states, institutions, or individuals could not achieve as effectively alone
Efficiency and transparency	Cost per completed mobility; administrative cost per beneficiary; time from application to grant or payment; downloadable project data and second-level recipient coverage	Links spending to value for money, auditability, and traceability

Source: Author's analysis

A particularly important addition concerns short-duration mobility. Participants in short-term Erasmus actions should be surveyed at six and eighteen months on internship access, employment status, further study, promotions or task changes, use of language, digital or technical skills,

and whether the mobility opened up a cross-border opportunity that otherwise would not have existed. Without this follow-up, the programme will continue to produce end-of-activity satisfaction data rather than evidence of tangible benefits.

Defenders of a broader Erasmus+ will argue that the programme's value cannot be reduced to narrow economic metrics. They are right that transnational exchanges can generate identity, language, civic, and diplomatic benefits that are difficult for national schemes to reproduce. But this does not justify treating every peripheral action as equally central to Erasmus+. If the programme's strongest EU added value lies in mobility and cross-border cooperation, the core budget should be concentrated there, while broader youth, solidarity, or symbolic actions should be either separately ring-fenced or required to meet a clearer subsidiarity and outcome test.

The right conclusion is therefore straightforward. Erasmus+ has earned its place in the next EU budget but not in an unlimited or all-purpose form. The next MFF should preserve the programme's mobility core, narrow its scope, protect targeted inclusion support, and tie any expansion to outcome-based evidence. In a period when Horizon Europe will remain the Union's main research and innovation instrument, Erasmus+ should not try to become a second Horizon, a second social fund, and a second solidarity programme all at once. It should remain a disciplined European mobility instrument.

vii. Connecting Europe Facility

Mateusz Michnik (FOR)

The CEF focuses on the challenges within the transport, energy, and digital sectors. Its goals include promoting the interconnectivity and interoperability of transport networks, cross-border energy infrastructure, and digital backbone projects. This programme will receive €81.4 billion, representing a €47.69 billion increase compared with the previous edition. This can be explained by the expansion of the budget for energy projects from €5.84 billion to €29.9 billion and the increase in spending on military mobility projects from €1.7 billion to €17.6 billion. Furthermore, the CEF will be more flexible and simplified; however, this

raises questions regarding accountability.[46] Although this programme can be considered successful, it faces serious problems with rising costs.[47] The main goal of the CEF for the coming years should be to rationalise its spending and create better funding mechanisms. We will analyse the CEF across three dimensions: transport, energy, and digital – to identify areas for possible improvement. Moreover, due to issues with certain projects financed by the CEF, it is worth examining a prime example of these shortcomings: Rail Baltica, a project facing enormous cost overruns and construction delays. This project serves as an excellent case study demonstrating why the CEF mechanism requires reform.

Transport

In the previous MFF, the CEF primarily focused on transport, with the goal of improving the Trans-European Transport Network. As the interim evaluation of this segment showed, the majority of the funds were allocated to railways – €15 billion out of €21 billion during 2021–2024 (European Commission 2025: 6–7). Waterborne transport, roads, air travel, and alternative fuels received less funding. Considering that air travel has become cheaper, it is often a better option than the railways.[48] Although railway transport is considered eco-friendly, it still carries both financial and environmental costs. Therefore, developing CEF Transport should involve a serious debate regarding the vision for the European transport strategy. From an economic standpoint, certain infrastructure projects may not be profitable, which opens the door to regulations such as the ban on air travel on shorter routes in France.[49] Obviously, air travel is associated with much higher emissions compared with rail. However, a more reasonable approach than direct intervention is carbon pricing (Stagnaro et al. 2025). Due to competition between

46 ‘Connecting Europe Facility 2028–2034: Financing EU infrastructure networks’, European Union, 2025 (https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/779264/EPRS_BRI%282025%29779264_EN.pdf).

47 ’Building Europe at any cost: Does EU-funded transport infrastructure deliver value for European taxpayers?’, Epicenter, 25 March 2026 (https://www.epicenternetwork.eu/wp-content/uploads/2026/03/Building-Europe-at-Any-Cost-Does-EU-Funded-Transport-Infrastructure-Deliver-Value-for-European-Taxpayers-EPICENTER-2026-1.pdf).

48 ’Building Europe at any cost: Does EU-funded transport infrastructure deliver value for European taxpayers?’, Epicenter, 25 March 2026 (https://www.epicenternetwork.eu/wp-content/uploads/2026/03/Building-Europe-at-Any-Cost-Does-EU-Funded-Transport-Infrastructure-Deliver-Value-for-European-Taxpayers-EPICENTER-2026-1.pdf).

49 ‘France bans short-haul flights to cut carbon emissions’, BBC, 23 May 2023 (https://www.bbc.com/news/world-europe-65687665).

different modes of transport, some projects may prove less profitable than expected. During times of geopolitical tension, certain projects are vital for sustaining security, even if they are not profitable. Consequently, increasing the budget for military mobility is a sound idea, especially for dual-use projects.

CEF Transport has a serious flaw: It acts as an umbrella fund that finances both small modernisation projects, or intermodal terminals, and mega projects known as transport flagship infrastructures (TFIs). What works for relatively cheap and small projects can be highly problematic for mega projects. As the ECA has shown, TFIs have largely been unsuccessful: Costs increased by 82% relative to the original proposals, and the projects faced significant delays (ECA 2026). Notably, seven mega projects consume a third of all CEF Transport funds (Rico and Enriquez 2025). It is difficult to find a good solution to this problem; while reducing their funding might unlock huge amounts of money for other projects, in some cases, these mega projects appear to be necessary. For example, Rail Baltica is dedicated to creating a standard-gauge railway across the Baltic states. Once again, Europe needs a debate regarding its priorities. CEF Transport can be a reasonable instrument, but misallocation renders it costly and inefficient. In the current proposal, Brussels aims to finance the connections between member states, while local networks are financed by national governments.[50] This plan poses a risk: EU-funded networks might not connect properly with local ones. Another problem is the inherent conflict between TFIs and standard modernisation. Should projects such as line electrification really compete with mega projects for the same funds? It might be helpful to divide CEF Transport funds into distinct categories, focusing separately on TFIs and key updates, with budget shares determined by a clear strategic vision.

Rail Baltica: Government failures

It is worth describing the largest project under CEF Transport: Rail Baltica. The main goal of this project is to connect the Baltic states with the rest of Europe using the standard gauge (1,435 mm), since Lithuania, Latvia, and Estonia currently use the Russian standard (1,520 mm).[51] This transition will decrease travel time and increase mobility.

50 ‘National projects or European corridors? The real stakes of the CEF’, Railway Pro, 18 February 2026 (https://www.railwaypro.com/wp/national-projects-or-european-corridors-the-real-stakes-of-the-cef/).

51 See the Rail Baltica website at https://www.railbaltica.org/about-rail-baltica/.

However, the initiative has serious drawbacks. The ECA found that costs increased by 291%, which was the result of a lack of project maturity and frequent changes in scope (ECA 2026). Furthermore, the national audit institutions of the three Baltic countries confirmed these findings.[52] The history of Rail Baltica should be studied carefully before funding any similarly massive project. Why has it struggled? Firstly, the Baltic countries are highly dependent on EU funding, which covers 85% of the eligible investment costs.[53] The problem is that this money cannot be used to acquire land and buildings as required, presenting a perfect example of a regulatory mismatch. Moreover, it serves as a perfect example of public choice theory in action: The project faces issues due to political conflicts both within and between the participating countries (Chmielewski and Bania 2024). How can these issues be avoided? Perhaps by assigning authority and responsibility to a single, centralised institution accepted by those countries.

Energy

In the next edition, CEF Energy will receive a huge budget increase, which is justified by studies showing that the EU needs to heavily increase spending on its power grids.[54] Between 2021 and 2024, CEF Energy allocated €2 billion for energy transmission out of a total funding pool of €3.5 billion (European Commission 2025: 11). As previously noted, cross-border energy infrastructure should be anticipatory and easier to build, while the nationalist ambitions of individual governments must be curtailed (Stagnaro et al. 2025: 39–41). As Sam Dumitriu illustrates, infrastructure now takes longer to build due to the increased regulatory burden.[55] As a Bruegel policy brief points out, upgrading the European grid requires not just money but also better rules and frameworks (Heussaff and Zachmann 2025). The brief recommends establishing a European independent system operator to help limit national political interference; in some cases, a top-down approach can significantly speed up the interconnection process. It is hard to criticise this policy. Therefore, we should recall Mario Draghi's ideas: The EU must shorten

52 'Review on the Rail Baltica Project', National Audit Office of Lithuania, 11 June 2024 (https://www.valstybeskontrole.lt/EN/Product/24260/review-of-the-rail-baltica-project).

53 See the Rail Baltica website at https://www.railbaltica.org/about-rail-baltica/finances/).

54 'Double investments in power distribution or lose Europe's race to net-zero', Eurelectric, 22 May 2024 (https://www.eurelectric.org/news/grid_investments_for_netzero/).

55 'Building back better', *Works in Progress 10,* 24 February 2023 (https://worksinprogress.co/issue/building-back-faster/).

permitting times for clean energy projects and electricity grid expansion. Although there have been attempts to do this, they remain insufficient.[56]

Digital

CEF Digital was the smallest component of the previous CEF, receiving just €1.5 billion. Most of the funds were spent on Digital Global Gateways to establish connections with other regions (European Commission 2025). It was also used to develop 5G infrastructure and increase coverage along major transport corridors.

Recommendations

European infrastructure does not simply need more money. It requires a better strategy and a stronger commitment from politicians – areas the EU should focus on more heavily. As Ezra Klein and Derek Thompson (2025) have pointed out, progress is a choice.

We should not just spend more; we must spend smarter. This means we need to identify bottlenecks, stop funding projects that are continually delayed, and create new opportunities. When analyzing CEF Transport, we see that the current funding mechanism may not be suitable for all the projects it covers, particularly given the possible inefficiencies of railroad transport. Here, a decision must be made: Do we want to primarily build mega projects, or do we want to update and maintain our existing transport networks? As the example of Rail Baltica demonstrates, existing regulations within CEF Transport may not be appropriate for projects of this scale. Therefore, if we want mega projects to be funded by the CEF, it would be better to create a special financial tranche with rules tailored specifically to their complexity. Another problem is the competition between modes of transport. Politicians tend to propose cures for symptoms – such as banning air travel on short routes – rather than real solutions, such as carbon pricing or actively decreasing train travel times. We must recognise the need to devise a coherent plan. CEF Energy shows political commitment to improving Europe's energy sector, but it remains overly focused on financial input. What is truly necessary in this case is the liberalisation of the permitting process and the creation of strong incentives for the effective development of transmission networks.

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56 'One year on from Draghi, where does EU energy policy stand?', Bruegel, 18 September 2025 (https://www.bruegel.org/first-glance/one-year-draghi-where-does-eu-energy-policy-stand).

Massive deregulation within member states could be highly beneficial by creating genuine opportunities to build.

d. Global Europe

Dr Marius Strubenhoff (Prometheus)

With its new MFF for 2028–2034, the EU is planning to go global. The Commission's proposal includes a 75% spending increase for 'Global Europe' compared with the previous MFF.[57] €100 billion is earmarked for non-military aid to Ukraine within the Global Europe part of the MFF. Other regions in the world that will see larger increases in spending are Sub-Saharan Africa (€60.5 billion) and the Middle East and Northern Africa (MENA) region (€42.9 billion). Global Europe also covers financial support to the EU candidate states: Albania, Serbia, Montenegro, Bosnia and Herzegovina, North Macedonia, Georgia, Moldova, Turkey, and Ukraine.

The world as it presents itself today requires global action. While this is the case, the EU should assess strategically how its funds can be best spent to protect freedom and democracy in Europe and the world and to protect European interests.

Providing non-military aid is indispensable to ensure the continuing functioning of the Ukrainian state. Given the vast amount of funds required for military spending, Ukraine cannot by itself provide for all the finance necessary in other areas. A Ukrainian defeat in the war against Russia would create a significant military threat to the rest of Europe that would require military spending immensely higher than what is required to support Ukraine today. Cutting support for Ukraine for financial reasons would therefore be self-defeating in the long run. However, continuing to support Ukraine requires a healthy and strong European economy, which in turn requires refraining from unnecessary expenditure.

This section analyses the ways in which the Global Europe part of the MFF for 2028–2034 should be streamlined to achieve these objectives.

57 However, it should be noted that the Global Europe headings of the 2021–2027 MFF and the 2028–2034 MFF cannot be compared one to one. For instance, the budget increase partly stems from the fact that non-military aid for Ukraine is included in the latter.

i. Discretionary spending

The Commission's proposal for the next MFF entails a larger sum of funds to be made available for discretionary spending. If the proposal is adopted, the Commission will be more of a *political* factor in EU external action between the years 2028 and 2034, by virtue of being able to decide where the money goes. This reflects the fact that EU funds are planned for seven years and allocated to very specific purposes, thus reducing leeway to respond to short-term crises, such as the COVID-19 pandemic or the Russian invasion of Ukraine.

While the intention is understandable, creating more discretionary spending power leads to accountability issues. Political logic also strongly suggests that flexible funds will be used irrespective of whether any unforeseen crises in fact emerge. Here, it should be remembered that for the crises that occurred during the 2021–2027 MFF, the EU did manage to raise additional funds outside the MFF when they were required. This shows that if and when the need arises, the EU has been able to respond. The drive to increase discretionary spending power for the Commission should therefore be treated with skepticism.

- The EU should not earmark funds for 'crisis spending' that can be used by the Commission without meaningful checks and balances. If and when a crisis arises, the EU should raise additional funds outside the MFF.
- The Commission's proposal to make it easier to shift spending from one pillar to another within Global Europe as needed should be welcomed, as this counterbalances crisis spending with reductions in other areas.
- The push to increase the thresholds for comitology procedures of the Commission by the Council and the Parliament should be rejected during MFF negotiations.
- In parallel, comitology procedures can be streamlined and committee sizes reduced by getting rid of the principle of including a representative from every member state.

ii. Instrument for Pre-accession Assistance

The EU has earmarked €43.2 billion for its Enlargement and Neighbourhood East programme to provide financial support for countries seeking to join the EU.

Offering EU membership to more countries, in principle, is a worthwhile endeavour to advance the benefits of the single market as well as increase political stability in the EU's neighbourhood. However, the way the Union currently finances accession should be questioned.

- Fundamentally, countries seek EU membership for their own benefit and can therefore be expected to shoulder the financial burden of access. In line with the general decrease in financial transfers within the EU in the Alternative Budget proposed here, candidate countries should also receive fewer transfers. EU membership should be a goal sought for the benefit of single-market membership and security, not for financial transfers before or after accession.

- The remaining IPA programmes should be geared at clear, discernible market reforms. Funds such as the Instrument for Pre-accession Assistance for Rural Development (€990 million in 2021–2027), which finances regional development, should be discontinued in the 2028–2034 MFF.

- Exceptions should be made in the case of countries that have been put under severe strain, such as Ukraine. Support could also be granted to countries transitioning towards a democratic system and/or that face exceptional financial difficulties, as financial aid could help implement economically necessary but painful reforms. However, such cases should constitute exceptions rather than the rule.

- In particular, the EU should impose a rule that if accession negotiations are manifestly deadlocked, financial support through the Global Europe accession instruments should end (as in the case of Turkey and Georgia). This could be achieved by imposing a time limit on financial support from the day a country starts accession negotiations (e.g., ten years). This would further incentivise reforms by candidate countries.

- If a candidate country changes political course in a way that demonstratively runs counter to the goal of EU membership, financial transfers should be stopped even before this deadline is reached.

- EU enlargement should go hand in hand with streamlining EU institutions and reducing the principle of proportionality (i.e., duplicating positions for the purpose of member state representation). The European Commission membership should be reduced to reflect policy areas rather than the number of member states.

iii. Foreign development and the Global Gateway initiative

In its current MFF proposal, the Commission proposes increasing funding for foreign development and humanitarian disaster relief. This includes spending on a wide array of programmes, primarily through the Neighbourhood, Development and International Cooperation Instrument (NDICI), with particular focus on the Eastern Neighbourhood and the Southern Neighbourhood. Partly financed through NDICI, the (more strategic) Global Gateway initiative funds a large number of development projects ranging from education to health to transport. This includes strategic trade projects such as the EU-Africa Transport Corridors or projects jointly developed with other countries, such as the India–Middle East–Europe Economic Corridor, which are partly motivated by the desire to provide an alternative to the Chinese Belt and Road Initiative.

- The EU is part of a group of nations in the world that stand for democracy and freedom, creating a strategic rivalry with countries that stand for dictatorship and oppression. The EU should seek to spend its funds in the most strategic manner possible to attain the goal of defending the European way of life.

- A good part of the EU's foreign development pursues goals at the micro level, such as projects focused on gender equality, racial equality, or conflict resolution. While these goals are worthwhile, the next MFF should focus on the macro level, following the principle that equality is best protected if the Western model of democracy and the rule of law prevail, which in turn requires a strong European economy. The EU should therefore abandon the spending target on foreign development of 0.7% of GDP and merge it with a target

on strategic infrastructure spending, with the latter receiving more funds than in the past.

- This requires prioritising the Global Gateway initiative and, in particular, the trade corridor projects within it to counter the Belt and Road Initiative pursued by the People's Republic of China.

iv. Helping Ukraine protect Europe

Helping Ukraine fend off Russian aggression is one of the (if not the) most important policy goals that decision-makers should set themselves in MFF discussions. However, as with every policy matter, the devil is in the detail. Arguably, the EU has fared better in this area than in others in terms of conditionalising its support: The bloc did not hesitate to threaten to cut off aid if Ukraine backtracked on its commitment to fight corruption when President Volodymyr Zelensky announced that he was putting the National Anti-Corruption Bureau of Ukraine and the Specialized Anti-Corruption Prosecutor's Office under the direct control of the prosecutor general, who is appointed by the president of Ukraine. The EU successfully managed to get Ukraine to abandon this course by threatening to withdraw financial support.

- The EU should continue to press for economic reforms in Ukraine in order to make the country ready for accession. The fight against corruption should remain a central pillar of these efforts. Financial support should continue to be conditional on this principle.

- While its membership in the EU is worthwhile for other reasons, Ukraine's accession offers a useful lever to reform CAP spending and make it more market-oriented and less subsidy-driven. Given the large role the agricultural sector plays in Ukraine and the dominance of large agriholdings in its market, EU membership will be financially prohibitive and politically divisive if CAP is not reformed.[58] Those seeking a more market-oriented agricultural policy should therefore double down on supporting Ukrainian membership and, at the same time, press for ambitious CAP reform.

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58 If unreformed, Ukrainian membership would result in large CAP handouts to agricultural companies, of which the largest ones are publicly traded.

In parallel to the MFF proposal submitted by the European Commission, starting in September 2025 with a proposal by German Chancellor Friedrich Merz, European leaders tried to find a solution that would finance Ukraine for the remaining two years until the next MFF starts. The German proposal entailed using immobilised Russian funds held in the EU, predominantly assets of the Russian Central Bank held by Euroclear in Belgium. Finding a solution was necessary since the funds in the MFF spanning 2021–2027 had been exhausted.

In the end, the European Council decided against the proposal, instead borrowing €90 billion on the financial market for a loan to Ukraine that will have to be repaid as soon as the country receives reparations from Russia. This became necessary because the Belgian government refused to support the proposal by the Commission and the German government unless the other member states agreed to share the financial risk arising from potential legal disputes. However, the question of using Russian assets is not off the table. Rather, it has been pushed back, with a decision pending two years down the line, when the raised funds will be exhausted. The decision also involved keeping the option of using immobilised Russian assets to recover the €90 billion raised for Ukraine.

The principle of protecting property (even if state-owned) and the need to retain trust in the euro have to be balanced against the need to find the funds required to support Ukraine. The downside of the model chosen by the EU in December 2025 is that it involves EU borrowing for a loan to Ukraine that will not be paid back if Russia does not pay reparations after the end of the war; this may or may not materialise depending on the outcome of the war. The upside is that the EU played it safe and reduced legal risks to a minimum.

The question of how to support Ukraine has very direct implications for the future institutional development of the EU. The option of borrowing on financial markets instead of using immobilised assets, along with measures such as NextGen, increases political pressure to make the EU a fully fledged fiscal union: The larger the interest payments become over time, the more the actors will call for increased own resources. Moreover, every time the EU borrows money, this process gets normalised.

In order to secure sufficient funding for Ukraine from 2028 onwards, the EU should be prepared to use immobilised Russian state assets held within its jurisdiction to reduce the financial burden on the European economy and taxpayers.

- All EU member states should share the (not significant but also not negligible) legal risk accruing from this step.

e. Administration and pensions

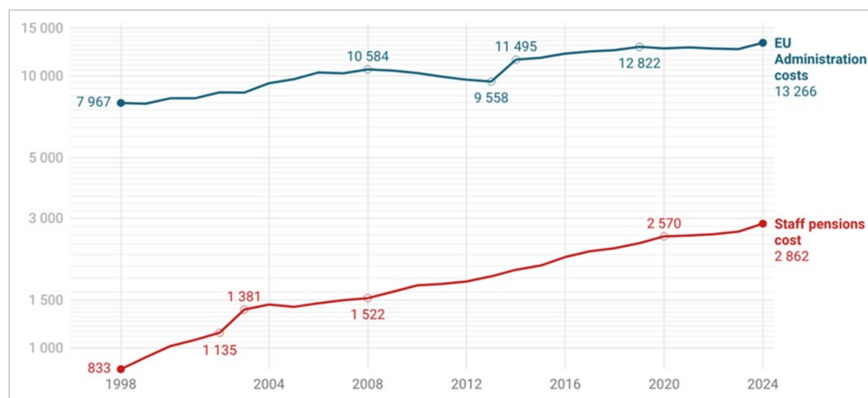
Dr Nicolas Marques (IEM)

The EU should pay closer attention to the trend in its administrative spending and freeze recruitment until the funding of pensions – which is driving the surge in administration expenditure – is reorganised through the creation of a pension fund, following the example of international institutions seeking to make savings (such as the UN and the European Central Bank).

Expenditure under the 'European Public Administration' head, which is largely linked to staff costs and pension expenditure for former employees and their families (spouses, children, etc.), is rising at a very significant rate.

The only period in which it decreased over the past quarter of a century was 2008–2013, and this was an unintended consequence of an unexpected rise in inflation. The 2007–2013 MFF set expenditure ceilings in nominal (current) euros. As inflation was higher than expected during this period, EU staff salaries did not rise in line with inflation, which explains why administration costs in current euros temporarily fell.

Figure 2. Evolution of the cost of EU administration and the 'staff pensions' component (1998–2024, € millions, 2024 prices)



Source: Calculations by the Institut economique Molinari based on the Consolidated Accounts of the European Union. Headings Administration (before 2021) then European Public Administration. Discounted to 2024 Euros using Eurostat's HICP series [prc_hicp_aind]. Logarithmic scale. Created using Datawrapper

Pensions alone account for 27% of the surge in administration costs. In 2024, they represented 22% of European Public Administration expenditure, compared with 10% in 1998 (Figure 2).

Contrary to widespread belief, the 2004 reform of the Pension Scheme for EU Officials (PSEO) was insufficient. The various measures adopted (reduction in the rate of pension entitlement accrual, improved actuarial monitoring, etc.) slowed the rate of increase in pension expenditure, but they failed to offset the shortfall resulting from the absence of pension funds (Figure 3).

The 2004 reform failed to prevent the additional costs associated with the PSEO scheme reaching maturity, with an increasing number of new beneficiaries. In 2023, there were 30,500 pensioners (including widows/widowers and orphans), representing an increase of 118% compared with 2004 (14,000 pensioners).

Figure 3. Unfunded pensions are increasing the EU's administration costs

Number of people	2004	2023	Change (2023 vs 2004)
Staff (PSEO scope)	47 800	67 400	41%
Pensioners (including widows/widowers and orphans)	**14 000**	**30 500**	118%
Total number of people funded by the EU budget	61 800	97 900	58%

Source: Institut économique Molinari, based on PSEO actuarial reports and the EU's consolidated accounts. Created using Datawrapper.

As the EU pension scheme has no invested assets to self-finance part of the pensions, the entire additional cost associated with an ageing population falls on the budget and, ultimately, on taxpayers.

The EU has not set aside funds for its staff's pension expenses. Although the High Authority of the European Coal and Steel Community (ECSC) had set up in 1956 a pension fund to self-finance the pensions of its officials, following the example of many international institutions (e.g., the UN), this provision was not replicated in 1962 when the European Economic Community structured the organisation of its staff.

The ECSC pension fund was liquidated (Andreone 2011), and the PSEO was set up. This is a pay-as-you-go pension scheme in the form of a notional defined-benefit fund. A commitment is made to EU employees, without any capital being accumulated to self-finance part of their pensions. Part of their salary is allocated to a pension contribution (13.1% since 1 July 2025 vs 6% in 1962). This contribution, which is not invested, covers only one-third of the pension expenditure. In 2024, contributions amounted to nearly €600 million, a fraction of the €2.9 billion in pensions paid by the EU institutions.

This zero-saving arrangement, which is similar to a pay-as-you-go system, has long been presented as a source of savings by its advocates within the EU institutions. This is only true in the short term. It is not so in the long term. Over time, the number of retirees has become significant, and the number of pensioners has continued to increase.

Far from generating savings, this short-term arrangement is proving to be particularly costly. In a quarter of a century, pensions for former EU staff have risen from €580 million in 2000 (€1 billion in 2024 prices) to €2.9 billion, representing an increase of +183% in constant euros.

Similarly, the value of the promise made to EU officials and pensioners rose from €12.6 billion in 2000 (worth €22.3 billion in 2024) to €87 billion in 2024, an increase of +287% in constant euros. At the end of 2024, these commitments represented 19% of the EU's administrative expenditure, compared with 12% in 2000.

Responsible management with regard to member states and taxpayers consists of

- setting aside the full amount of the commitments made to EU staff in a dedicated fund to avoid passing on the financial burden to future generations of taxpayers and

- investing this capital in financial markets to generate gains (dividends, capital gains, etc.) that can be used to self-finance EU staff pensions.

This is done in several international organisations (e.g., the UN) and even within the EU by the central bank (the European Central Bank and the national central banks have funds to self-finance pensions). The same result can also be achieved with traditional pension funds (such as the ABP, the Dutch civil servants' pension fund) (Table 3).

Table 3. Return of funds dedicated to financing civil servants' pensions (average percentage per year)

	Gross return				Net return (inflation deducted)			
	30 years	25 years	20 years	15 years	30 years	25 years	20 years	15 years
Canada : Public Sector Pension (PSP)	—	—	7.7%	9.8%	—	—	5.4%	7.3%
ONU : Joint Staff Pension Fund (UNJSPF)	7.4%	5.7%	6.3%	6.8%	4.6%	3.1%	3.7%	4.1%
Netherlands : Stichting Pensioenfonds (ABP)	6.6%	5.4%	6.0%	6.6%	4.2%	3.0%	3.6%	4.0%
Quebec : Fonds d'amortissement des régimes de retraite (FARR)	7.4%	6.0%	6.6%	8.1%	5.3%	3.9%	4.5%	5.8%
EU: ECB Pension Scheme	—	—	—	7.1%	—	—	—	4.1%

Note: Geometric average annual returns calculated over 30 years (1995–2024), 25 years (2000–2024), 20 years (2005–2024), and 15 years (2020–2024).

Source: Calculations by the Institut économique Molinari. Created using Datawrapper.

After claiming that the lack of provisioning and investment is a source of savings for European taxpayers, the Commission argues that the transition to capitalisation would be impossible and costly (European Commission 2012). This view is not supported by the facts:

- On the one hand, the EU has a significant budget. It expects €1,763 billion in revenue under the next MFF (constant 2025 prices). It plans to increase the staff by 2,500 administrative posts over the first three years of the new period (European Commission 2025a).

- A reasonable savings plan on its intervention and administrative expenditure (5%) between 2028 and 2034 (€87 billion) would enable the EU institutions to fully provide for their pension commitments. This would then result in annual savings of around €3 billion per year.

- On the other hand, in the unlikely event that the EU is unable to save part of its future budget to fund its staff pensions, it could introduce gradual provisioning (for new pension rights or for new recruits only) over a longer period or borrow to immediately fund its commitments, which would generate faster and more significant savings due to the difference in the return on dynamically invested retirement savings.

Furthermore, the EU should encourage all European states to do the same, by funding their public servants' pensions through dedicated funds or traditional pension funds. The potential savings are very significant in several countries, such as Austria, Belgium, France, Germany, Portugal, and Spain, where they range from 1% to 2% of GDP per year.

In countries with a primary surplus, the right solution is to use part of this surplus to fund pensions. In countries with a primary deficit, one solution is to borrow for a reasonable period (e.g., 35 years) to self-finance civil servants' pensions in the long term, as Quebec has done (Marques 2025; Yves et al. 2025).

Waiting for the accounts to be re-balanced before restructuring pension financing is not a winning strategy. First, it reverses causality, insofar as part of the structural imbalances in public finances are linked to the excessive cost of the pensions paid in administrations that have not set aside the money. Second, depriving oneself of leverage between the long-term return on long-term assets (equities and equivalents) and sovereign rates is a value-destroying approach.

Revenues

a. The current EU revenue system

Constantinos Saravakos (KEFiM) & Petar Ganev (IME)

The evolution of the EU budget's revenue side can be divided into several distinct stages (European Parliament 2024). Until 1970, the budget was financed primarily through fixed national contributions, complemented by customs duties that remained largely under national control. The Own Resources Decision of 1970 marked a turning point by introducing a system of 'own resources': traditional own resources (TOR), customs duties, and agricultural levies, along with a value-added tax (VAT)-based resource, where a share of a harmonised statistical VAT base was allocated to the European Community. This system, though, had clear limitations since the VAT was not a genuine EU tax but a calculated contribution, and customs revenues declined steadily with successive rounds of trade liberalisation.

From the late 1980s onwards, a fundamental shift occurred with the introduction of the GNI-based resource in 1988, designed to cover the residual gap between expenditure and other revenues. The GNI resource gradually became the dominant source of financing. Although formally classified as 'own resources' because it was governed by EU-level rules, in economic terms these contributions are not autonomous fiscal revenues of the Union; the bulk of EU revenue has effectively always been, and remains, a transfer from member states' national budgets.

Over subsequent decades, the EU consistently sought to expand its own resources, not merely to reduce reliance on national contributions

but more fundamentally to increase the overall size and capacity of the EU budget. The current proposal for the 2028–2034 MFF continues this trend, putting forward a package of new own resources, including revenues from the ETS, CBAM, e-waste levies, tobacco excise duties, and a corporate contribution. While formally presented as a means of alleviating pressure on national contributions, the broader objective is to enable a larger and more ambitious EU budget capable of financing expanding policy priorities. In practice, this represents a renewed attempt to appropriate parts of existing tax bases and to strengthen EU fiscal autonomy, despite the Union lacking traditional taxation powers.

Against this background, any systematic assessment of the revenue framework must apply a clear test: whether revenues (and the expenditure they enable) are genuinely linked to cross-border functions that cannot be delivered by member states acting alone, and whether any expansion of EU-level resources substitutes for, rather than adds to, the overall tax burden on citizens and businesses. The current framework, governed by Council Decision (EU, Euratom) 2020/2053 (Council of the European Union 2020), falls short of this test in several respects, as the total EU revenue in 2023 amounted to approximately €169 billion (European Commission 2024).

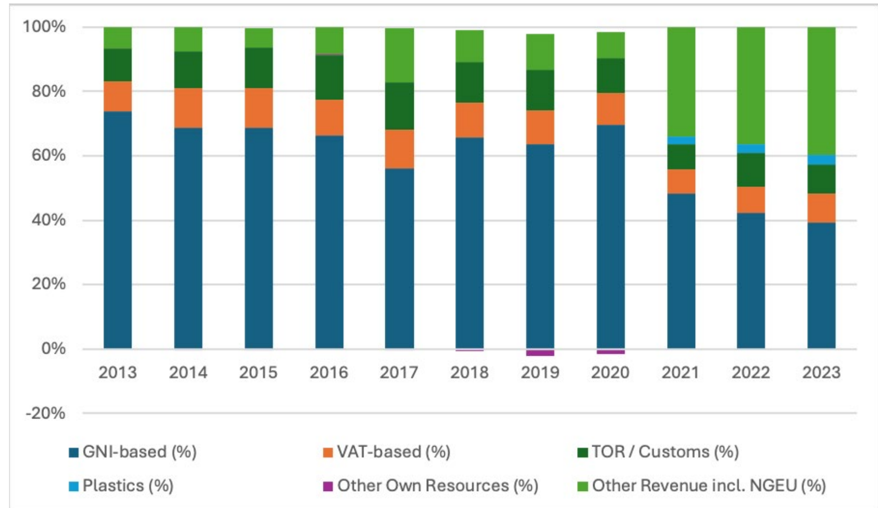
i. Traditional own resources

The oldest layer of EU financing consists of TOR, comprising customs duties on imports from third countries and sugar levies. These are the only revenues the EU collects directly at source, without the intermediation of national governments. In 2023, TOR accounted for roughly 10% of the total EU revenue (European Commission 2024). Member states retain 25% of the collected duties as a collection cost reimbursement, a share that was raised from 20% in 2021. The rationale for treating these duties as EU own resources is straightforward: They arise from the EU's common external tariff policy, making their assignment to the Union's budget economically coherent. From a free-market perspective, however, customs duties are a tax on trade that raises prices for consumers and distorts resource allocation. They exist primarily as a legacy of protectionist trade policy rather than as a principled basis for public finance.

Figure 4 shows how EU budget revenue has been financed over the past decade, broken down by source as a percentage of total revenue.

The dominant share throughout the period is the GNI-based contribution, whereby each member state transfers a uniform proportion of its GNI to the EU budget. VAT-based contributions and traditional own resources (customs duties) make up smaller but stable shares. The plastics resource, introduced in 2021 under Council Decision 2020/2053, appears from that year onwards. The marked expansion of the grey segment from 2021 reflects borrowing operations under NGEU, classified as other revenue, which temporarily more than doubled the total EU revenue.

Figure 4. Composition of EU own resources, 2013–2023 (% of total revenue)



Sources: European Commission, EU Budget Statistical Portal; Council Decision 2020/2053

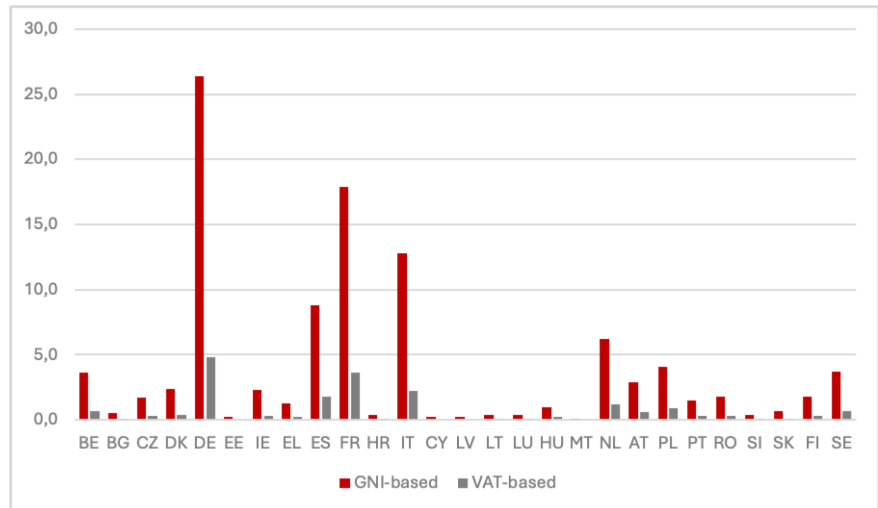
ii. VAT-based own resource

The second category is the VAT own resource. Rather than applying a uniform rate to actual VAT collected by member states, the EU applies a call rate – currently 0.3% – to a harmonised and capped VAT base. The capping rule limits the VAT base used for the EU contribution to 50% of GNI, a measure introduced to prevent large consumer economies from being disproportionately burdened. In 2023, the VAT-based resource contributed approximately 10–12% of the total EU revenue (European Commission 2024). Despite its name, this resource functions in practice as a statistical transfer from national treasuries rather than a direct levy on consumption: It is the national government, not the taxpayer

or business, that remits the contribution to Brussels. The complexity of the harmonised base, and the divergence between it and actual national VAT revenues, make this an administratively intensive and economically opaque instrument.

Figure 5 presents the breakdown of each member state's contribution to the EU budget in 2022, disaggregated by resource type and expressed in billion euros. Contributions are proportional primarily to economic size, with Germany, France, and Italy accounting for the largest shares. The GNI-based resource dominates in every country, while customs duties are relatively larger for member states with major ports or trade hubs. The figure illustrates the considerable variation in absolute contribution levels across the EU-27, ranging from Germany's €37.5 billion to Malta's €0.1 billion.

Figure 5. GNI-based versus VAT-based contributions by member state, 2022 (€ billion)



Sources European Commission, EU Budget Statistical Portal; Eurostat, National Accounts

iii. GNI-based own resource

The GNI-based own resource is the balancing item of the EU budget. It is calculated to cover the difference between the total authorised expenditure and the revenues raised from all other sources. A uniform call rate is applied to each member state's GNI, meaning that contributions

are roughly proportional to economic size. In 2023, the GNI-based resource accounted for approximately 67% of the total EU revenue; it was the dominant financing mechanism (European Commission 2024). This dominance reflects the structural shift that occurred after the 1988 Delors I reform, which introduced the GNI resource to replace the older, VAT-heavy system, which was considered regressive. Although GNI proportionality has a superficial fairness rationale, the GNI resource has deepened the EU budget's dependence on national treasury transfers, blurring the distinction between own resources and intergovernmental fiscal transfers. The result is that the EU has become, in revenue terms, less of an independent fiscal entity and more of a collective-spending vehicle funded by member states' contributions, a characteristic with important implications for accountability.

iv. New own resources: Plastics and NGEU contributions

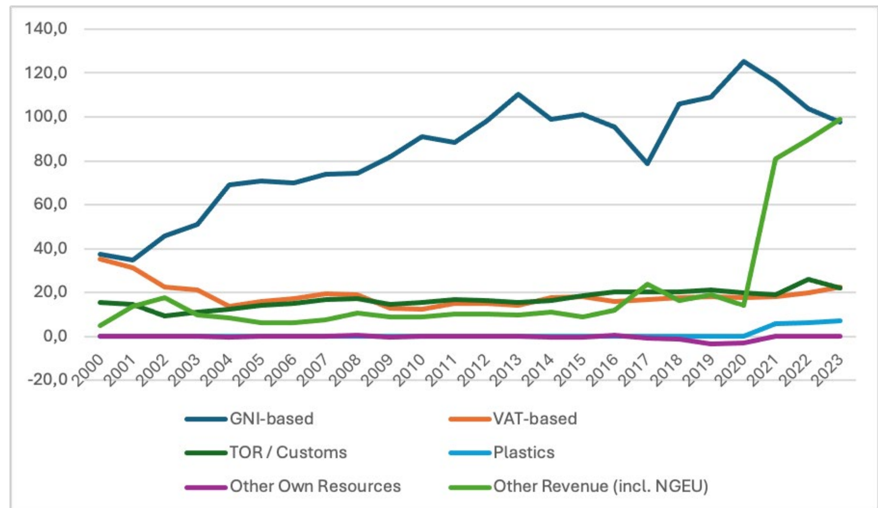
The Own Resources Decision of 2021 introduced a new plastic packaging waste contribution, levied at €0.80 per kilogramme of non-recycled plastic packaging waste. This is the first new own resource introduced since the VAT and GNI mechanisms were established. In 2023, it yielded approximately €7– 8 billion, under 5% of the total revenue, and is largely treated by member states as an additional GNI-type transfer, since most of them have simply adjusted their overall contribution without introducing new domestic charges on producers. Its environmental rationale is questionable on free-market grounds: It taxes a weight-based measure of a particular material without addressing the underlying incentive structures in waste management, and it creates arbitrary differentiation between plastic and other non-recycled packaging materials (European Parliament 2024 ; Lodefalk and Shepotylo 2022).

The European Commission has further proposed for the 2028–2034 period a set of additional new own resources linked to CBAM, EU ETS, a new corporate profit-based contribution, and a financial transactions tax, to provide revenue to reduce the debt burden under NGEU – the €750 billion recovery instrument established in 2020. Servicing the NGEU debt requires annual repayments of principal and interest to the tune of €20 billion by the late 2020s (European Commission 2025). This creates a structural link between the revenue system and the accumulation of

EU-level debt that did not exist under previous MFFs – a development examined in the section EU Borrowing and Debt.

Figure 6 tracks the evolution of total EU budget revenue over two decades, broken down by resource category in billion euros at current prices. The long-term shift from VAT-based financing towards GNI-based contributions is clearly visible, reflecting successive reforms of the own resources system. Traditional own resources (customs duties) have remained broadly stable in absolute terms but have declined as a share of the total. The sharp increase from 2021 onwards is driven by NGEU borrowing operations, which added between €81 billion and €99 billion per year in other revenue over 2021–2023.

Figure 6. Evolution of EU revenue by category, 2000–2023 (€ billion, constant 2023 prices)



Sources: European Commission, EU Budget at a Glance; European Commission, Consolidated Annual Accounts of the European Union, various years

v. Corrections, rebates, and the true incidence of contributions

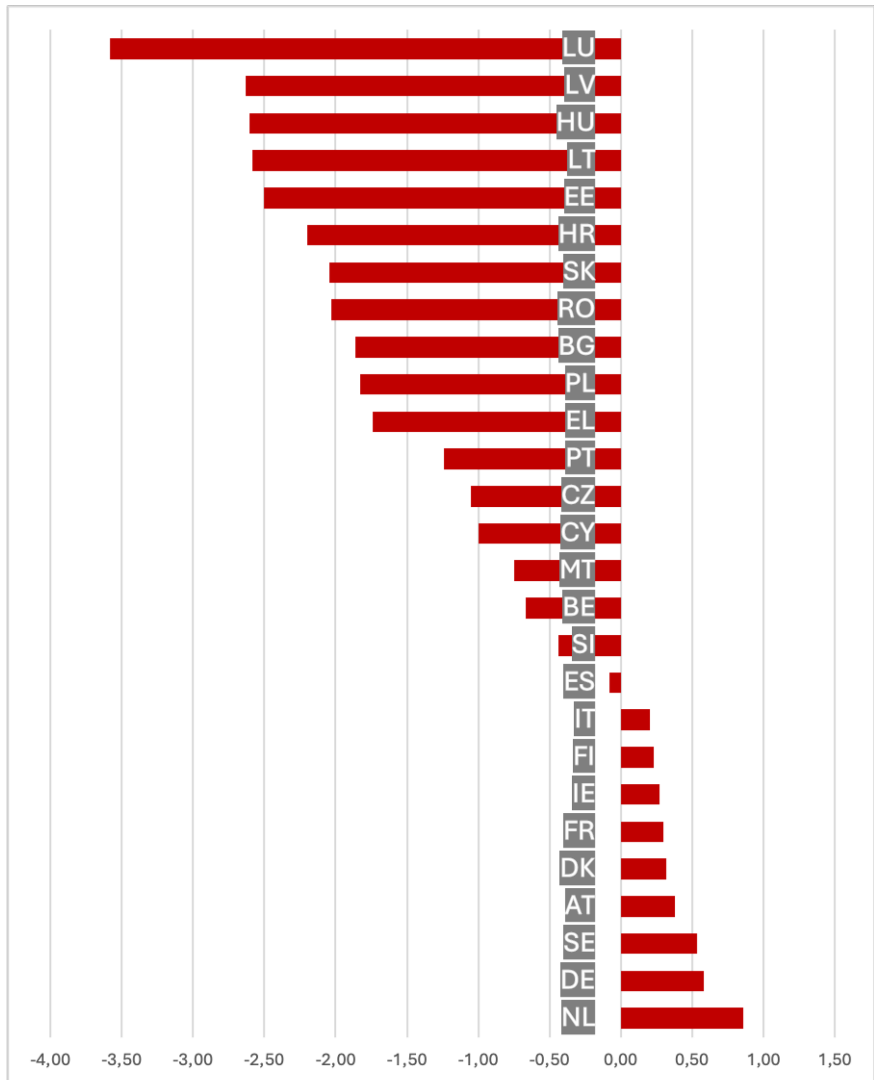
The headline revenue architecture is further complicated by a system of corrections and rebates negotiated bilaterally between member states and the EU. The UK's famous rebate, introduced in 1984, has been the most visible example, though it ceased to apply after Brexit. Equivalent

mechanisms – lump-sum reductions, reduced VAT call rates, and GNI adjustments – continue to benefit Austria, Denmark, Germany, the Netherlands, and Sweden, reflecting their status as net contributors. These corrections mean that the statutory structure of own resources does not accurately represent the actual distribution of contributions across member states.

The opacity of the corrections system is itself a governance problem as net contribution calculations depend on methodological choices regarding the attribution of EU expenditure, trade flows, and administrative costs. Different methodologies yield substantially different estimates of each country's net balance. This makes the overall framework resistant to transparent democratic scrutiny, which is a characteristic that sits uneasily with principles of sound public finance.

Figure 7 displays each member state's net budgetary position in 2022, calculated as total own resource contributions minus EU expenditure received, expressed as a percentage of GNI. Member states shown in red are net contributors, meaning they pay more into the EU budget than they receive back in expenditure. Those shown in green are net recipients. The Netherlands, Germany, and Sweden are the largest net contributors relative to their economic size, while Luxembourg's position reflects the distorting effect of EU institutional expenditure booked in that country rather than genuine economic transfers to its residents.

Figure 7. Net contributions to the EU budget by selected member states, 2022 (% of GNI)



Sources: European Commission, EU Budget Statistical Portal; Eurostat

vi. A system in structural transformation

The introduction of NGEU marked a qualitative change in EU public finance. For the first time, the EU issued debt on capital markets at scale and on its own account, with repayment backstopped by new own resources – some still to be legislated – rather than by existing national contributions. This has converted a previously pay-as-you-go revenue model into one with long-term debt service obligations, creating a precedent for permanent EU borrowing capacity that the proposed 2028–2034 MFF consolidates further.

From the perspective of a free-market think tank, the overall architecture of EU revenues exhibits several structural deficiencies. First, the heavy reliance on GNI transfers obscures the connection between EU spending decisions and the burden on citizens and businesses, undermining fiscal accountability. Second, the proliferation of earmarked revenues linked to climate and environmental policies – CBAM, ETS, and the plastic contribution – creates complex cross-subsidies between regulatory and fiscal policy, with distortionary effects on investment and competitiveness. Third, the progressive accumulation of new revenue instruments proposed at the EU level mirrors the pattern of tax expansion common in national administrations, without the corresponding democratic checks that national legislatures typically provide.

b. Assessment of the proposed new revenue sources

Petar Ganev (IME)

The Commission's proposal for the 2028–2034 MFF introduces a new package of own resources aimed at generating additional revenues of approximately €58 billion annually in 2025 prices (European Commission 2025). This amount is significant in scale, corresponding to roughly 25-30% of the current annual EU budget, which stands at around 1% of EU GNI. The proposed increase in revenue underpins the Commission's ambition to expand the overall size of the EU budget to approximately 1.26% of GNI, marking a clear departure from the current framework.

The package consists of five main instruments: a share of revenues from the ETS, the CBAM, a contribution based on non-collected e-waste, a tobacco excise-based resource (TEDOR), and a corporate contribution for large firms (CORE). In addition, the proposal includes adjustments to existing own resources and minor revenues, such as the fees related to the European Travel Information and Authorisation System.

Each of these instruments is designed not as a stand-alone EU tax, but as a mechanism to transfer a predefined share of revenues generated at national level or within existing regulatory frameworks to the EU budget. For instance, 30% of the revenues generated from existing ETS 1 and 75% of CBAM revenues would be redirected to the EU level, while other resources rely on statistical bases (e-waste) or harmonised minimum tax benchmarks (tobacco). The corporate resource (CORE) introduces a quasi-fiscal contribution from large companies operating in the EU, collected by national administrations on behalf of the Union.

The proposal also includes technical adjustments to the VAT-based own resource, which remains a statistical contribution derived from a harmonised VAT base rather than a genuine EU tax. While earlier reforms have simplified its calculation, the current changes largely aim at improving stability and predictability rather than altering its fundamental role. In parallel, ongoing reforms of the EU VAT framework – particularly the digitalisation of reporting and efforts to reduce the VAT gap – may indirectly strengthen the underlying tax base. However, the VAT-based resource continues to play a secondary role within the overall system, remaining conceptually and practically a proxy for national contributions rather than an autonomous source of EU revenue.

Taken together, the package reflects an attempt to draw on multiple existing national and sectoral revenue bases, effectively reallocating portions of revenues that would otherwise accrue to member states. This implies a transfer of fiscal capacity that is uneven in its incidence, depending on the underlying tax bases and economic structures across countries. At the same time, some instruments – most notably the corporate contribution (CORE) – point towards the introduction of quasi-EU-level taxation targeting specific economic actors, particularly large firms, beyond the traditional framework of national taxation. While formally presented as a way to reduce reliance on national contributions, the scale and design of these measures indicate that their primary effect is not substitution, but the expansion of EU-level revenue capacity.

This approach leads to an increasing concentration of fiscal instruments at the EU level, where revenue sources are selected less on the basis of a coherent fiscal logic and more on their political feasibility and the opportunity to extract revenues from existing policy frameworks. Rather than reflecting a coherent tax architecture, the package represents an incremental and opportunistic expansion of revenue streams linked to existing policy instruments. In this sense, the proposed system does not establish a stable or transparent fiscal base, but aggregates multiple partial mechanisms with different economic rationales and incidence.

Crucially, in the absence of a strict application of revenue neutrality, this expansion of EU-level revenues risks increasing the overall tax burden on European citizens and firms, rather than substituting national-level taxation. As a result, the proposed reform can be understood not as a structural improvement in the financing of the Union, but as a mechanism for expanding its fiscal capacity and, ultimately, for inflating the size of the EU budget beyond what is justified by its core function.

i. E-waste

Dr Diana-Florentina Năsulea (IES)

The European Commission's proposal for the 2028–2034 MFF introduces, for the first time, a levy on uncollected waste electrical and electronic equipment (WEEE) as a source of EU own resources. Set at €2 per kilogramme of non-collected e-waste, calculated against the average weight of products placed on the market in the preceding three years, the levy is projected to generate up to €15 billion annually. [59]

The Commission frames this as an environmental incentive aligned with circular economy objectives. The proposal is modelled on the plastic packaging own resource introduced under the current MFF. It requires unanimous Council approval and European Parliament consent, with negotiations expected to run well into 2027.

A levy projected to generate €15 billion per year is incompatible with a genuine incentive design. If the instrument succeeds in improving WEEE

59 'Proposal for a Council decision on the system of own resources, COM(2025)571, European Parliament, 16 July 2025 (https://www.europarl.europa.eu/legislative-train/carriage/nr-1/report?sid=10101).

collection rates, revenues collapse, creating an implicit fiscal interest in continued non-compliance. The Commission's own projection implies that, across the EU, a very large volume of e-waste remains uncollected annually on a sustained basis. The WEEE Directive already mandates collection of 65% of the average weight of EEE placed on the market in the preceding three years, or 85% of WEEE generated. [60] A fiscal instrument built on the assumption that this gap persists indefinitely is not an environmental policy; it is a revenue forecast dressed as one.

The uniform €2/kg rate takes no account of the structural differences in WEEE collection infrastructure. Collection rates across the EU vary significantly: While Nordic and western European states consistently meet or exceed targets, several central and eastern European member states report collection rates well below the 65% threshold. [61] A flat levy imposes proportionally higher fiscal burdens on precisely those member states with the least developed collection systems, without providing any mechanism to address the underlying infrastructure gap. The result is a regressive own resource that amplifies existing divergences in single-market capacity instead of reducing them.

The Commission cites the plastic packaging own resource (introduced under MFF 2021–2027 at €0.80 per kilogramme of non-recycled plastic packaging waste) as the template for the e-waste levy. This instrument has generated revenue but has demonstrably not driven the behavioural change it was designed to incentivise: EU plastic packaging recycling rates remain far below targets, and the levy has passed through to national budgets with minimal direct impact on producer behaviour or the collection infrastructure. For a review of the plastic own resource's limited behavioural impact, see BusinessEurope (2026) and Jacques Delors Centre (2025). Replicating a fiscally productive but environmentally weak instrument in a more complex product category is not a sound basis for policy design.

The e-waste own resource would sit on top of (and in potential tension with) an established regulatory framework. The WEEE Directive (2012/19/EU) has already instituted binding collection targets, extended

60 'Directive 2012/19/EU of the European Parliament and of the Council on waste electrical and electronic equipment (WEEE), Article 7', European Parliament, 4 July 2012 (https://www.legislation.gov.uk/eudr/2012/19/data.xht?view=snippet&wrap=true).

61 'WEEE: Collection rates across EU member states', European Environment Agency; see also 'Next long-term EU budget: 2028–2034 multiannual financial framework', EPRS BRI(2026)782646, European Parliament Research Service, January 2026.

producer responsibility (EPR) schemes, and enforcement obligations. The Critical Raw Materials Act addresses the recovery of strategic materials. Introducing a fiscal instrument at the member-state level, with revenues flowing to the general EU budget rather than to collection and recycling infrastructure, fragments the policy framework and dilutes producer accountability without adding regulatory coherence.[62]

Although the levy is formally a member-state contribution, its fiscal incidence will be transmitted through national budget mechanisms, most likely via increased EPR fees or regulatory costs on producers, and ultimately passed through to the consumer. SMEs operating in the electronics supply chain – already subject to expanding compliance obligations under the Ecodesign for Sustainable Products Regulation and proposed supply chain due diligence requirements – face additional indirect-cost exposure with no corresponding improvement in the regulatory environment they operate in.

The revenue logic undermines environmental logic

The contradiction between fiscal and environmental design is more fundamental than the Commission's framing acknowledges. Environmental levies can serve two distinct purposes: they can internalise externalities by raising the cost of a harmful activity, or they can generate stable fiscal revenue. These objectives are structurally incompatible when applied to the same instrument. A well-designed Pigouvian tax succeeds when behaviour changes and the tax base shrinks; a well-designed own resource succeeds when the revenue base is stable and predictable. The WEEE levy attempts to serve both functions simultaneously and cannot fulfil either.

The Commission's own projection of €15 billion in annual revenue is the clearest evidence of this failure. That figure is only achievable if a large and sustained volume of e-waste continues to go uncollected across the EU for the duration of the 2028–2034 MFF. If the levy actually induced the behavioural change it is ostensibly designed to encourage – improved collection rates, greater producer investment in take-back infrastructure, stronger national enforcement – revenue would collapse within a few years. The budget planning process would then require either a replacement revenue source or a downward revision

62 'Directive 2012/19/EU; Regulation (EU) 2024/1252 (Critical Raw Materials Act); Regulation (EU) 2024/1781 (Ecodesign for Sustainable Products Regulation).

of the expenditure commitments the levy was intended to finance. The instrument is therefore either fiscally unreliable or environmentally inert. The Commission's revenue projection implies it expects the latter.

This design flaw is not a marginal technical imperfection. It reflects a category error in the policy logic: the conflation of a regulatory compliance deficit with a durable own resource base. Unlike customs duties, which reflect a stable policy choice about trade, or GNI contributions, which track economic activity, the WEEE levy is calibrated to persist only as long as member states fail to enforce existing obligations. Treating regulatory failure as a revenue source institutionalises that failure rather than addressing it.

Structurally penalising lower-capacity member states

The distributional effects of a flat per-kilogram levy across member states with highly uneven collection infrastructure deserve analysis beyond the headline observation that collection rates vary. The variation is not marginal: WEEE collection performance across the EU-27 ranges from compliance and over-performance in several Nordic and western European states to rates substantially below the 65% WEEE Directive threshold in several central and eastern European member states. These differences reflect cumulative infrastructure investment over decades, geographic factors affecting logistics costs, and the relative maturity of extended producer responsibility schemes, none of which are within a given member state's power to correct in the short term.

A flat uniform levy imposed on this divergent baseline has an asymmetric fiscal impact. The member states that already perform well – those closest to or above the 65% threshold – face a very small or near-zero levy base, since their uncollected e-waste volume is low. Member states with the weakest collection systems face the largest levy base and therefore the largest transfer to the EU budget. In other words, the instrument extracts more from the member states least equipped to improve, and least from those already performing. This is the inverse of a convergence-promoting instrument.

The analogy with the plastics own resource is instructive here too but cuts differently from the Commission's framing. The plastics contribution, set at €0.80 per kilogramme of non-recycled plastic packaging waste, has also operated asymmetrically: member states with established industrial recycling infrastructure produce lower contributions, while those with

less developed systems contribute more. The difference is that plastic packaging waste generation and recycling rates are subject to direct policy intervention in ways that WEEE collection infrastructure is not in the short term, given the capital requirements of collection logistics. The e-waste levy therefore penalises a structural deficit rather than a policy choice, which is not a coherent basis for an EU own resource.

The plastic levy precedent does not support replication

The Commission's invocation of the plastics own resource as a template for the WEEE levy reflects a reasoning error that the Council should explicitly identify and reject. The plastics contribution is a statistical national contribution calculated on the weight of non-recycled plastic packaging waste, drawing on existing Eurostat reporting frameworks. It does not operate as a direct fiscal charge on individual producers or member state agencies; it functions as a national budget transfer calibrated to a statistical measure. Its introduction added a revenue line to the own resources system but did not alter the incentive structures facing producers or waste managers in any direct way, a limitation that the Commission itself has acknowledged in evaluations of its behavioural impact.

The WEEE levy is a different instrument in design and intention. It proposes to operate as a direct fiscal penalty on measured non-compliance with the WEEE Directive's collection targets, imposed at the per-kilogramme level on uncollected equipment. This is not a statistical transfer but a compliance-linked charge, closer in logic to a fine than to a contribution. It therefore requires a measurability infrastructure – accurate data on e-waste generation, collection volumes, and the weight of uncollected equipment at member-state level – that does not currently exist to the standard required. WEEE generation and collection data are notoriously difficult to measure, with significant methodological variation across member states in how equipment placed on the market, and therefore the baseline for collection rate calculations, is estimated.

If the levy is to function as proposed, the Commission must first establish the measurement framework on which it would be based. Proposing a €2 per kilogramme charge before the kilogramme figure is reliably known is to build a fiscal instrument on an uncertain statistical foundation. The plastics contribution can be tracked with reasonable accuracy through national packaging waste statistics; e-waste generation and collection

cannot. This is not a detail to be resolved in implementing legislation – it is a precondition for the instrument's basic legitimacy.

Layering fiscal instruments over existing regulatory obligations

The governance implications of adding a fiscal own resource to an existing binding regulatory framework are more complex than the Commission's proposal acknowledges. The WEEE Directive (2012/19/EU) already establishes a comprehensive system of producer obligations, including registration, reporting, financing of collection systems, and national enforcement. Member states have built national EPR schemes around these obligations, with significant variation in design – some operating with individual producer compliance schemes, others through collective take-back systems, and some with hybrid arrangements. These schemes have their own contribution structures, in which producers fund collection infrastructure in proportion to the volume of equipment placed on the market.

The proposed WEEE levy does not integrate with these EPR structures. It would be calculated at member-state level against the gap between actual and target collection, but the costs of achieving closer compliance – the infrastructure investment, logistics, consumer awareness, and enforcement required – remain within the EPR schemes and national enforcement budgets. The levy therefore creates a fiscal charge at the member-state level for a performance deficit whose causes lie with producers, consumers, national regulators, and municipal infrastructure operators, none of whom are directly subject to the levy. This breaks the accountability chain that EPR schemes are designed to maintain: the instrument that charges for non-compliance is disconnected from the actors responsible for it.

A coherent regulatory response to persistent WEEE collection deficits would target that accountability chain directly – through stronger national enforcement of EPR obligations, higher producer contribution rates linked to collection targets, or EU funding for collection infrastructure in underperforming member states through cohesion or LIFE instruments. A fiscal contribution to the EU general budget does none of these things. It extracts revenue from national budgets without creating any mechanism by which that revenue improves collection performance. There is no hypothecation, no feedback loop, and no design feature that connects the levy payment to the investment in infrastructure that would eliminate it.

Cost incidence falls on households and SMEs

The final incidence of the e-waste levy is unlikely to rest with the member state governments that formally remit it. The transmission mechanisms through which the levy's costs reach households and SMEs are multiple and operate at different speeds, but their combined effect is regressive and poorly distributed.

The most direct channel is through EPR fee adjustments. National EPR schemes, anticipating increased fiscal pressure from the levy, are likely to recalculate producer contributions upward to ensure member states can meet their combined WEEE Directive compliance costs and levy obligations. These contribution increases are then priced into the cost of electrical and electronic equipment, transmitted to retailers and ultimately to consumers. The goods covered by the WEEE Directive – household appliances, consumer electronics, lighting equipment, photovoltaic panels, medical devices – are not luxury goods. They are products with broad household penetration across all income levels, and in several categories, such as refrigerators, washing machines, and televisions, low-income households often face higher replacement frequency due to lower-quality initial purchases. The levy's consumer price effect is therefore mildly regressive in character.

The SME channel operates through supply chain cost transmission. Producers subject to EPR obligations include a significant number of SMEs that manufacture or import electronic equipment at smaller volumes. Large manufacturers can absorb EPR fee increases within diversified cost structures or recover them through pricing power; SMEs operating with thinner margins in competitive segments – consumer electronics, small appliance importers, specialist manufacturers – face more limited adjustment capacity. The Commission's impact assessment does not disaggregate the cost impact by firm size. This omission is particularly significant given the concurrent compliance burden that SMEs in the electronics sector already face from the Ecodesign for Sustainable Products Regulation, mandatory supply chain due diligence under proposed legislation, and increasingly detailed product passport requirements. Cumulatively, these obligations represent a significant and growing regulatory cost for smaller operators, and the WEEE levy adds to that burden without improving their regulatory environment.

Recommendations

Reject the e-waste own resource in its current form: The Council and the Parliament should decline to incorporate the WEEE levy into the own resources decision pending a rigorous assessment of its interaction with the WEEE Directive and EPR schemes. Revenue-raising and environmental policy should not be conflated in a single blunt instrument.

Prioritise WEEE Directive enforcement and infrastructure investment: The primary lever for improving collection rates is rigorous enforcement of existing binding targets, combined with targeted investment in collection infrastructure in underperforming member states – channelled through cohesion instruments rather than a general budget levy.

If a fiscal instrument is retained, hypothecate revenues: Any e-waste–related own resource should be conditioned on revenue recycling into WEEE collection and critical raw material recovery infrastructure, with differentiated rates reflecting member-state collection capacity. A flat uniform levy without hypothecation is indefensible on either fiscal or environmental grounds.

Expand ETS-and CBAM-linked own resources instead. Revenue instruments directly linked to verified emissions and carbon pricing provide a more coherent and proportionate basis for own resource expansion, without the structural distortions and enforcement conflicts inherent in the WEEE levy.

ii. Tobacco Excise Duty Own Resource

Petar Ganev (IME)

The harmonisation of tobacco excise duties in the EU was originally driven by the need to ensure the proper functioning of the internal market. With the completion of the single market in the early 1990s, significant differences in national excise regimes risked distorting competition and undermining the free movement of goods. As reflected

in the early directives, notably Council Directive 92/12/EEC[63] and subsequent legislation, the introduction of minimum excise levels was necessary to avoid such distortions and to support the 'proper functioning of the internal market' (Directive 92/12/EEC). In this sense, tax harmonisation was conceived not as a fiscal instrument but as a market-correcting mechanism aimed at preserving a level playing field across member states.

Over time, this framework was complemented by additional objectives, notably a high level of health protection and the need to address cross-border shopping and illicit trade driven by tax differentials (Directive 2011/64/EU[64]). However, these objectives remain anchored in the same underlying logic: reducing incentives for arbitrage and ensuring that national tax differences do not disrupt the internal market. Within this framework, tobacco excise duties have remained a stable and often significant source of revenue for national budgets, reflecting differences in consumption patterns and fiscal structures across member states. Crucially, this rationale does not extend to the centralisation of revenues. The fact that a tax base is harmonised at the EU level does not imply that the corresponding revenues should be partially reallocated to the EU budget, as harmonisation was never intended to create a supra-national fiscal resource but to safeguard market integration.

The ongoing revision of the Tobacco Excise Directive broadly follows this logic. It expands the tax base to include new products such as electronic cigarettes, heated tobacco, and other emerging nicotine products, reflecting changes in consumption patterns and potentially closing regulatory gaps.[65] It also envisages a gradual increase in minimum excise levels, as part of a broader effort to ensure more comprehensive coverage of the tobacco and nicotine market – an issue that has been under discussion for nearly a decade following the emergence of new products. In this sense, the evolution of the regulatory framework is largely to be expected, although its economic and public health effects remain subject to debate.

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63 'Council Directive 92/12/EEC (1992) on the general arrangements for products subject to excise duty and on the holding, movement and monitoring of such products', European Union, 25 February 1992 (https://eur-lex.europa.eu/eli/dir/1992/12/oj/eng).

64 'Council Directive 2011/64/EU on the structure and rates of excise duty applied to manufactured tobacco (codification)', European Union, 21 June 2011 (https://eur-lex.europa.eu/eli/dir/2011/64/oj).

65 'Proposal for a revised Tobacco Excise Directive', European Commission, 2025 (https://taxation-customs.ec.europa.eu/taxation/excise-duties/excise-duties-tobacco/revision-tobacco-taxation-directive-proposal_en).

However, the proposal to allocate a share of tobacco excise revenues to the EU budget represents a significant departure from this established logic. Under the Commission's proposal, TEDOR would entail a 15% call rate applied to revenues generated from the harmonised minimum excise rates on tobacco and related products. This mechanism would be implemented by national administrations and the amount transferred to the EU budget. The Commission estimates that this resource would generate approximately €11.2 billion annually over the 2028–2034 period.

The Commission explicitly argues that, given the harmonised framework for tobacco taxation and the need to address cross-border distortions such as tax-driven shopping, it is appropriate to assign a share of the revenues – set at 15% of the minimum harmonised rates – to the EU budget. Yet this reasoning does not follow from the original purpose of harmonisation. The coordination of excise duties at the EU level was designed to preserve the functioning of the single market, not to create a basis for supra-national revenue extraction. The fact that a tax base is harmonised does not, in itself, justify its partial centralisation.

Tobacco excise revenues vary substantially across member states, both in absolute terms and as a share of the total fiscal revenues, reflecting structural differences in consumption and taxation. As a result, redirecting a portion of these revenues to the EU would have uneven fiscal effects, disproportionately affecting countries with higher reliance on tobacco taxation.

More fundamentally, the proposal of the tobacco-based own resource illustrates a broader shift in the EU's approach to revenue generation: the use of politically feasible and administratively convenient tax bases to support expansion of the EU budget. While presented as part of a diversified and sustainable financing framework, it effectively repurposes a traditional national revenue source for supra-national financing, without a clear link to the core functions of the Union. In this sense, it reinforces the pattern identified above – an incremental extension of EU fiscal capacity through the partial appropriation of existing tax bases, rather than through a principled reallocation of responsibilities between the EU and member states.

Tobacco Taxation Directive

Dr Christian Năsulea (IES) & Constantinos Saravakos (KEFiM)

This section draws on a briefing prepared by Dr Christopher Snowdon (Institute of Economic Affairs) and Constantinos Saravakos (KEFiM).

The European Union has set minimum excise tax rates on tobacco since 1992, but there has been no major legislative change since 2011. The current minimum tax rate is €90 per 1,000 cigarettes (€1.80 per pack), and the tax is required to make up at least 60% of the weighted average retail selling price. Every member state taxes cigarettes at a higher rate than this and has done so for some time.

In July 2025, the European Commission proposed a fully revised Tobacco Taxation Directive (TTD), which will sharply increase the minimum tax rate on tobacco products and set minimum tax rates on what it calls “tobacco-related products” – specifically, e-cigarettes and nicotine pouches, neither of which contains tobacco. Under the current proposal, the minimum rate on cigarettes will rise from €90 per 1,000 to €200 per 1,000 (€4 per pack) by 2032. A minimum tax on e-cigarette fluid will be introduced in January 2028, at a rate of €0.20 per millilitre, rising to €0.30 per millilitre by January 2032. For nicotine pouches, the EU envisages a gradual increase to a full rate of €107 per kilogram by January 2032. Heated tobacco and waterpipe tobacco will also be subject to a minimum excise tax for the first time from 2032.

The stated objectives of the TTD are to ensure the proper functioning of the internal market and a high level of human health protection, alongside maximising tax revenue and reducing cross-border shopping for tobacco products by narrowing price disparities between member states.

Legislative relationship between TTD and TEDOR

The TTD and the Tobacco Excise Duty Own Resource (TEDOR) are two entirely separate legislative instruments that draw on the same underlying tax base. The TTD is a harmonisation directive under Article 113 TFEU, which sets minimum excise rates that remain entirely in national treasuries. TEDOR is a revenue assignment mechanism under Article 311 TFEU, which proposes that 15% of the revenues generated by those already-harmonised minimum rates be redirected to the EU budget. TEDOR has no independent tax base of its own and cannot

function without the TTD minimum rates. The Commission's July 2025 package uses the TTD revision as a vehicle to expand the harmonised base – notably by bringing e-cigarettes and nicotine pouches into the minimum rate structure – and then proposes TEDOR to capture a share of the resulting revenues. The two instruments travel through different legislative procedures: the TTD requires a qualified majority in the Council, while TEDOR requires unanimity and ratification by all member states. Member states could, in principle, reject TEDOR while accepting the TTD revision, or vice versa.

Critical assessment

Expert analysis of the proposed revision reveals a broadly critical view. The directive is widely perceived as a significant regulatory expansion rather than a targeted or proportionate fiscal adjustment. The central lines of criticism concern the extension of harmonised taxation to previously unregulated products, the introduction of an automatic indexation mechanism that locks in future rate increases, and the overriding of member state fiscal discretion in an area with strong subsidiarity arguments.

There is a fundamental conflict between the EU's objective of reducing smoking prevalence and its plans to tax safer nicotine products at rates that diminish their price advantage over combustible cigarettes. Far from acting as a gateway towards smoking, e-cigarettes and other novel nicotine products have been shown to be effective substitutes for smoked tobacco. Policies that discourage their consumption through taxation lead to more cigarette sales and more smokers – an outcome that is directly contrary to the directive's stated public health objectives. The Council of the European Union has itself acknowledged that it views safer nicotine products as rivals to cigarettes "from a fiscal perspective" – a rationale that prioritises revenue maintenance over harm reduction.

There is a statistically significant relationship between cigarette tax rates and the share of the cigarette market consisting of counterfeit and contraband products ($r = 0.68$, $p = 0.000069$). Raising minimum rates in lower-tax member states – particularly those bordering countries such as Belarus, Ukraine, and Moldova, which are major suppliers of illegal cigarettes – risks triggering a market shock in precisely the member states most exposed to illicit trade. The Council's only response to this risk is to recommend that member states "step up their efforts to fight illicit tobacco trade", which is not a policy answer.

The TTD takes no account of the very different levels of wealth among member states. A minimum rate of €4 per pack will have no impact in wealthier member states such as Denmark and France, where taxes already exceed that level, but it would cause prices to rise sharply in Bulgaria, Romania, and other lower-income member states. These countries do not maintain lower tobacco tax rates because their governments are pro-smoking, but because their per capita GDP is lower; after adjusting for income, their effective tax rates are not low. The TTD's flat minimum rate structure is therefore systematically more regressive in Eastern Europe than in the West.

Positive dimensions

Despite the predominantly critical assessment, several arguments in favour of the directive deserve engagement.

The directive's differentiated treatment of tobacco and alternative nicotine products is directionally sound from a harm-reduction perspective. The proposal subjects alternatives such as e-cigarettes and nicotine pouches to lower minimum rates than conventional cigarettes, reflecting their significantly lower health risks. Preserving a meaningful price differential between the two categories is essential to sustaining the substitution pathway away from combustible tobacco. The directive's critics are on stronger ground when arguing that the differential is insufficient than in opposing the principle of differentiation.

A further argument in favour of the TTD revision is its alignment with the EU's existing international commitments under the WHO Framework Convention on Tobacco Control (FCTC), to which the EU and all 27 member states are parties. Article 6 of the FCTC requires signatories to implement tax and price measures as a primary instrument of tobacco demand reduction, and the FCTC's technical guidelines specifically recommend that tax increases be sufficient to reduce affordability in real terms over time – precisely the function the TTD's indexation mechanism is designed to perform. Given this, the directive is not a novel regulatory expansion but the implementation of an obligation the EU has already accepted in international law. Proponents of the revision can therefore argue that the political question is not whether to raise minimum rates, but how to do so in a manner consistent with subsidiarity and harm-reduction principles. Critics of the TTD are on stronger ground when they engage with this argument directly – pointing, for instance, to the FCTC's silence on the treatment of reduced-risk products and the absence of

any international consensus on how nicotine pouches and e-cigarettes should be treated under Article 6 – rather than leaving the Commission's international legal justification uncontested.

A less remarked advantage of extending the TTD's minimum rate structure to novel nicotine products is the degree of regulatory clarity it introduces for operators active across multiple member states. Under the current framework, e-cigarettes, heated tobacco products, and nicotine pouches are subject to 27 divergent national classification and taxation regimes, which vary significantly not only in rates but in the legal categorisation of the products themselves – some member states treat nicotine pouches as foodstuffs, others as tobacco-related products, and others do not specify a classification at all. This fragmentation imposes substantial compliance costs on manufacturers and importers, generates classification disputes that create legal uncertainty, and in some cases has enabled regulatory arbitrage by producers seeking the most favourable national treatment. A harmonised EU-level framework can address genuine single-market dysfunction, irrespective of whether the specific rates proposed are the correct ones. Critics of the TTD are on firmer ground when arguing that the rates are set too high, or that the inclusion of reduced-risk products is counterproductive, than in opposing harmonisation of the classification framework itself – a distinction the directive's critics do not always make clearly enough.

Finally, the directive's provisions on raw tobacco traceability and illicit trade controls are a legitimate and proportionate regulatory intervention. Strengthening oversight of raw tobacco supply chains has genuine public policy value given the documented links between illegal cigarette markets and organised crime in several member states.

Recommendations

The revised TTD cannot meet all of its objectives simultaneously. It can attempt to maximise member state tax revenue by adding minimum duty rates to safer nicotine products, but this will undermine its public health objective of reducing smoking prevalence. It can attempt to reduce intra-EU cross-border shopping by forcing lower-tax member states to tax tobacco more heavily, but this is likely to fuel the market for illegal tobacco smuggled into the EU.

The most objectionable aspect of the proposal is the extension of harmonised minimum rates to e-cigarettes, nicotine pouches, and heated

tobacco – products that are substantially less harmful than smoked tobacco and have considerable potential as long-term substitutes. Most member states currently have no excise tax on nicotine pouches, and most of those that tax e-cigarette fluid do so at lower rates than the EU is proposing. There is no subsidiarity argument for why responsibility for taxing these products cannot remain with domestic governments, and there are strong health arguments for keeping such taxes as low as possible. The TEDOR instrument compounds this problem by creating a fiscal incentive at the EU level to maintain the revenue yield from a declining and harmful product category, rather than facilitating the transition to less harmful alternatives.

iii. Corporate Resource for Europe

Petar Ganev (IME)

The Commission's proposal also introduces a new corporate-based own resource (CORE), targeting large companies operating within the EU. The mechanism would apply to firms with an annual net turnover above €100 million, which would be required to make a fixed annual contribution collected by national tax administrations on behalf of the EU. Contributions are graduated based on turnover, ranging from €100,000 to €750,000 per year depending on firm size. The Commission estimates that this instrument would generate approximately €6.8 billion annually over the 2028–2034 period. Based on this threshold, the measure is expected to apply to approximately 25,000–30,000 companies across the EU. While this represents only a small share of all firms, it captures a broad segment of economically significant and medium-to-large enterprises.

The rationale behind this proposal is grounded in the argument that large companies benefit disproportionately from access to and integration with the single market, and should therefore contribute more directly to its financing. At the same time, this reflects a revival of an older idea: the attempt to establish a link between corporate activity and EU-level revenue. In this sense, the proposal can be seen as another attempt by the Commission to tap into corporate taxation as a source of EU funding, without full harmonisation of national systems. While presented in terms of fairness and economic integration, it raises broader questions regarding the role of the EU in direct taxation and the justification for targeting specific categories of firms.

From an economic perspective, the measure risks affecting the competitiveness of large firms operating in the EU, particularly in a global context where capital is mobile and corporate taxation remains a key factor in investment decisions. By introducing an additional layer of fiscal burden – however structured – it may diminish the relative attractiveness of the EU as a place in which to invest and operate, especially in comparison to jurisdictions where corporate taxation remains more closely aligned with profitability than with scale. Such a design ignores cost structures and can impose disproportionate burdens across sectors with different profit margins.[66] Moreover, the selective nature of the measure, targeting only large companies, introduces distortions within the corporate sector and departs from the principles of neutrality and equal treatment.

More fundamentally, the proposal illustrates a shift from coordination to direct taxation. This shift has been highlighted in recent analyses as a potential 'paradigm change' in the EU's fiscal architecture, moving beyond regulatory coordination towards revenue-raising at the supra-national level.[67] While corporate taxation has traditionally remained within the competence of member states, with EU action limited to coordination and anti-avoidance measures, CORE represents an attempt to establish a form of supra-national corporate levy. As such, it reinforces the broader pattern identified in the Commission's proposal: the gradual expansion of EU fiscal capacity through the creation of new revenue instruments rather than through a principled reassessment of the appropriate division of fiscal responsibilities between the EU and its member states.

Placed in a broader global context, the introduction of an EU-level corporate levy raises some fundamental concerns regarding the Union's competitiveness. Recent analyses, including the Draghi report on European competitiveness, have highlighted the structural challenges that the EU already faces, including a more complex and fragmented regulatory environment as well as less favourable conditions for investment and scaling compared with other major economies. Unlike profit-based corporate taxation systems, the proposed CORE contribution is linked to turnover and applies irrespective of financial performance,

66 'CORE concerns: Why a turnover-based levy is wrong for the EU budget', Bruegel, 22 July 2025 (https://www.bruegel.org/first-glance/core-concerns-why-turnover-based-levy-wrong-eu-budget).

67 'The Commission's foray into corporate taxation – a CORE problem for the EU budget?', *LSE European Politics Blog*, 28 August 2025 (https://blogs.lse.ac.uk/europpblog/2025/08/28/the-commissions-foray-into-corporate-taxation-a-core-problem-for-the-eu-budget/).

effectively taxing scale rather than profitability. Such an approach risks adding further distortions to the corporate environment and reducing the EU's attractiveness as a destination for investment, without a clear justification for it in terms of the Union's core economic functions.

If implemented, the CORE contribution would increase the overall tax burden on corporate activity in the EU. In practice, however, the economic impact of such a measure is unlikely to fall on firms alone. A substantial body of economic literature has shown that corporate taxes are not borne exclusively by shareholders but are shared across consumers, capital, and labour, depending on the market conditions (Harberger 1962; Smith 1776: Book V, chapter 2). In a context of high competition and mobile capital, firms have limited ability to pass costs onto prices or absorb them through lower returns, implying that a significant share of the burden is ultimately shifted to employees through lower wage growth or reduced employment.

This challenges the underlying premise that the measure would affect only large companies. In reality, the costs are likely to be transmitted along value chains to smaller firms and, ultimately, to households. This reflects a well-established pattern in taxation: The burden tends to fall on those with the least market power, as costs are passed from economically stronger to weaker actors (Laure 1956). Empirical evidence supports this pattern, with estimates suggesting that a substantial share of the corporate tax burden (around half in some cases) is ultimately borne by labour (Fuest et al. 2017).

iv. Carbon Border Adjustment Mechanism

Carlo Stagnaro (IBL)

CBAM, which entered into force on 1 January 2026, aims to price the carbon embedded in imported products in the same way as in domestic production. Importers of certain carbon-intensive and trade-exposed goods (including cement, iron and steel, aluminium, fertilisers, electricity, and hydrogen) are required to declare the carbon content of their imports and to purchase CBAM certificates corresponding to that amount, the price of which is linked to that of the EU's ETS allowances.

Epicenter has criticised CBAM for a variety of reasons, including the difficulty – if not impossibility – of providing a reliable assessment of

the carbon content of imported goods; the implicit incentive to import downstream (finished) products not covered by CBAM, for which CBAM-covered goods are inputs; and the potentially adverse consequences for European exporters of the same products, who would not be protected by CBAM while simultaneously losing access to free allowances (Stagnaro 2025). Implementing CBAM also entails additional administrative costs and regulatory complexity for European firms. For these reasons, CBAM should be suspended, and the allocation of free CO_2 allowances to carbon-intensive, trade-exposed sectors should be reinstated. In such a scenario, the expected revenues from CBAM would, by definition, not materialise.

Under the assumption that CBAM remains in place – or is even extended further down the value chain, as the Commission suggests – the mechanism will generate revenue. The Commission has proposed that 75% of these revenues be redirected to finance the EU MFF. There are arguments both for and against this proposal.

On the one hand, unlike revenues from the auctioning of ETS allowances, which accrue to the member state where emissions occur, the attribution of emissions embedded in imported goods to individual member states is inherently complex, if not infeasible. Given the free circulation of goods within the EU, and the fact that CBAM primarily covers intermediate goods that may be incorporated into final products produced, consumed, or exported anywhere in (or even outside) the Union, there is a reasonable case for allocating CBAM revenues to the financing of EU-wide public goods.

On the other hand, the considerations discussed in the section The EU's ETS regarding ETS revenues remain applicable. The primary driver of decarbonisation is the carbon price itself, rather than the use of the associated revenues. As such, these revenues need not be earmarked for climate-related expenditure; instead, member states should retain discretion in determining how best to offset the economic costs associated with higher energy prices. From a market-oriented perspective, the most efficient use of revenues from carbon pricing instruments (including CBAM) would be to reduce the more distortionary forms of taxation, such as labour or energy taxes.

Notwithstanding these considerations, given the nature and financing needs of the EU budget, the arguments in favour of partial centralisation may ultimately prevail as long as CBAM remains in place. A share of CBAM revenues could therefore be reasonably allocated to the MFF.

In particular, as argued in the section The Clean Energy Transition and Decarbonisation, a potentially high-value use of EU-level resources is the financing of cross-border energy interconnections, especially (though not exclusively) electricity transmission infrastructure. The proportion of CBAM revenues allocated at the EU level should therefore be explicitly linked to expenditure on such large-scale, pan-European projects.

v. Emissions Trading System

Carlo Stagnaro (IBL)

EU ETS is the world's largest cap-and-trade scheme to reduce CO_2 emissions. Originally introduced in 2005, it has been reformed several times (and may be further reformed in the next few years). From an MFF perspective, the most relevant reforms are the following:

1. The sectoral coverage has been gradually extended from the original group of emission-intensive sectors (electricity and heat generation and some energy-intensive industries) to aviation and maritime transport (where it covers 50% of emissions from voyages starting or ending outside the EU and 100% of emissions from voyages between two EU ports and when ships are within EU ports). More sectors (i.e., municipal waste above a certain threshold) may be added in the future. When ETS2 will enter into force in 2028, buildings, road transport, and some small industries not covered by the current ETS will also be included by a similar mechanism, although with some limitations and some transitional price caps on the cost of allowances.

2. The linear reduction factor (i.e., the pace of annual reductions of the ETS cap) has been accelerated from 1.74% per year until 2020 to 2.2% per year between 2021 and 2023 and 4.3% per year between 2024 and 2027. From 2028, it is expected to further increase to 4.4% per year unless a revision takes place.

3. While initially 100% of the allowances were allocated free of charge to emitters at the time of initial allocation, an increasing share (currently 57%) is now auctioned at the point of issuance. Current regulations stipulate that the proportion of free allowances must be phased out entirely by 2034, in parallel with the introduction of CBAM (see the section Carbon Border Adjustment Mechanism).

All these reforms resulted in increasing both the price of the allowances (which grew from well below €20 / total CO_2 [tCO_2] before 2018 to the current levels of €60-80 /tCO_2 or more) and the revenue from the auctions. Revenue from CO_2 allowance auctions was entirely allocated to the member states, according to predefined shares largely based on historical emissions and subject to the requirement that at least 50% be spent on climate-related projects. Under the new MFF proposal, the Commission proposes to retain 30% of the total revenue to finance the EU budget.

It is understandable that the European Commission may seek to retain a share of ETS revenues given that these resources originate from a European policy instrument. However, such a choice appears misguided.

First, the effectiveness of decarbonisation policies derives primarily from carbon pricing per se, irrespective of how auction revenues are ultimately used. Indeed, earmarking these revenues for climate-related expenditures may generate additional costs, inefficiencies, and distortions (Stagnaro et al. 2025). At the same time, the introduction of a price on emissions entails economic costs for European economies; it is therefore appropriate that the revenues generated from the sale of allowances be returned to the member states without significant constraints, including the current requirement to allocate at least 50% of such revenues to climate-related objectives.

Second, it can be readily shown that a ‘first-best’ climate policy, in addition to implementing the polluter-pays principle, is also revenue-neutral. Accordingly, member states should use these revenues to reduce distortionary taxation (including, where feasible, taxes or levies on energy consumption) rather than to finance additional public expenditure, particularly at the European level.

c. EU borrowing and debt

Constantinos Saravakos (KEFiM), Petar Ganev (IME), Dr Christian Năsulea (IES) & Dr Nicolas Marques (IEM)

An important element of the proposed revenue framework is its close connection to the emergence of common EU debt. This development originates from the NGEU instrument, through which the EU undertook

large-scale borrowing for the first time to finance post-pandemic recovery measures. The total liabilities incurred amounted to approximately €800 billion (in current prices), representing an unprecedented step in the evolution of EU public finances. This debt is to be repaid over a long-term horizon, from 2028 to 2058, with around €150 billion of principal expected to be repaid during the 2028–2034 period – equivalent to roughly 0.11% of EU GNI annually – alongside additional interest payments.

The integration of these debt repayments with the regular EU budget represents a structural shift in the budget's nature and function. Traditionally, the EU budget operated primarily as a system of transfers financed by national contributions; it now increasingly incorporates elements of a debt-backed fiscal framework. In this context, the introduction of new own resources is closely linked not only to the financing of new policy priorities but also to the need to service these common liabilities. However, this development raises broader concerns about the direction of EU fiscal policy. The accumulation of common debt creates long-term obligations that extend well beyond a single budgetary cycle, and risks normalising a tool that was originally justified as an exceptional response to an extraordinary crisis.

This development also raises deeper concerns related to the incentive structure created by common borrowing within an economic union. In such a setting, joint debt introduces a well-known 'commons' problem, as the costs of borrowing can be partially shared across member states but the benefits remain more concentrated at the national level. This weakens the incentives for fiscal discipline and increases the risk of excessive borrowing over time. While the EU framework was originally designed to prevent such outcomes through strict fiscal rules and the principle of no joint liability, these constraints have become less effective in practice, particularly in the context of recent crisis responses.

More broadly, the experience with common borrowing during the pandemic has demonstrated how instruments introduced as exceptional measures can gradually evolve into more permanent features of the EU's fiscal architecture. The continued discussion of additional joint borrowing – as well as the need to create new revenue sources to service existing debt – points to a potential shift from a decentralised system of fiscal coordination to a more centralised and debt-supported model. This evolution carries important economic and institutional implications, including the risk of increased fiscal interdependence and pressures for further expansion of the EU budget and own resources.

From this perspective, joint borrowing should remain strictly limited to clearly defined and temporary circumstances, instead of evolving into a permanent feature of the EU's budgetary architecture.

The borrowing Union

The onset of the Eurozone debt crisis in 2008–2009 revealed a structural weakness in European economies – their heavy reliance on debt to finance economic expansion through public spending. The result of this design was that numerous European economies were exposed to financial crises that they were unable to manage. Although this financial expansion model was almost disastrous, the EU budget continued to expand based on the same logic but with a different scheme.

The establishment of NGEU in 2020 represented a structural break in the fiscal architecture of the EU, since for the first time in its history, the EU borrowed at scale on capital markets, up to €750 billion at 2018 prices, on its own account and with joint backing from member states. Despite the fact that the Commission had framed this as a temporary, crisis-driven instrument, this mechanism was widely approved by the EU governments. The economic result of this political acceptance is that the proposed 2028–2034 MFF consolidates and extends the precedent; that is it continues to use the same financial logic. New own resources are required to service NGEU debt repayments of approximately €20 billion per year through the early 2030s (European Commission 2025a), and the proposed ECF, with a total budget of €409 billion, relies partly on the same logic of EU-level financial mobilisation (European Commission 2025a). Given the recent history of a model of disastrous financial expansion and the incompetence of governments in managing resources, the question is whether this trajectory is fiscally sound or whether it reflects an institutionalisation of borrowing as a substitute for the structural reforms and private capital mobilisation that Europe lacks, and needs.

The strategy of financing European policy priorities through EU-level debt is neither economically efficient nor fiscally sustainable. It displaces the private investment that should be driving Europe's growth, it adds a new layer of sovereign risk to an already over-indebted continent, and it obscures the true cost of EU spending from citizens and national parliaments.

The fiscal starting point is the fact that member states already carry unsustainable debt burdens

Any assessment of EU-level borrowing should be analysed in the light of the fiscal situation of the member states that ultimately backstop it. Since the introduction of the euro in 2000, the EU has experienced a structural increase in debt ratios that, based on current trends, risks escalating into an acute debt crisis. Almost half of the EU member states exceed the Maastricht Treaty debt ceiling of 60% of GDP; the corresponding deficit limit of 3% of GDP has been regularly breached, and fiscal requirements have been formally suspended for four out of the last five years, including partially for 2025 (Brøns-Petersen 2025).

Eurostat data show that, on average, debt ratios in high-debt countries increased by 27.7 percentage points between 2000 and 2023. Crucially, deficits exceeding the 3% Treaty limit accounted for 34.7 percentage points of that increase, meaning that, in the absence of excess deficits, the average debt ratio of these countries would actually have fallen by approximately 7 points over the same period (Eurostat 2024; Brøns-Petersen 2025). The debt problem is not primarily a consequence of slow growth or adverse shocks but persistent non-compliance with the fiscal rules that the member states themselves had agreed to observe.

The country-level picture is equally stark, and the deficit data tell a consistent story (Figure 8). The EU-27 aggregate deficit peaked at 6.1% of GDP in 2009, in the wake of the global financial crisis, and again at 6.7% in 2020 following the COVID-19 shock. The intervening years of apparent consolidation, during which the aggregate deficit fell to just 0.4% of GDP in 2018 and 0.5% in 2019, were enabled by an exceptional period of ultra-low interest rates and strong cyclical growth rather than structural adjustment. The return of higher interest rates since 2022 exposed the fragility of that consolidation: The EU-27 deficit stood at 3.4% of GDP in 2023 and 3.1% in 2024, still above the Treaty limit.[68]

Behind the aggregate, the dispersion across member states is wide, and the problem is concentrated in a small number of large economies. France recorded a deficit of 5.4% of GDP in 2023 and 5.8% in 2024, the worst performance of any large member state and one that has shown no credible path to consolidation over the entire period. Romania's deficit reached 6.7% of GDP in 2023 and an alarming 9.3% in 2024, by far the

68 'Government deficit/surplus, debt and associated data', Eurostat, 2024 (https://ec.europa.eu/eurostat/databrowser/view/gov_10dd_edpt1__custom_18824195/default/table).

worst in the EU. Hungary stood at 6.8% in 2023 and 5.0% in 2024. Italy, despite having narrowed its deficit significantly from the extraordinary 9.4% recorded in 2020, when the super-bonus tax credit scheme had inflated public expenditure, remained at 3.4% in 2024. Poland's deficit deteriorated sharply to 6.5% in 2024. Slovakia stood at 5.5%.[69]

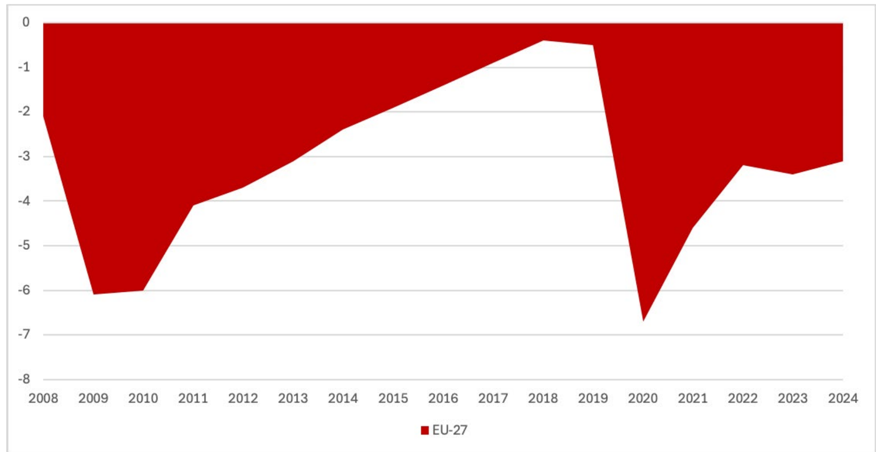
At the other end of the distribution, a small group of member states demonstrated that fiscal discipline is achievable even within the EU's institutional framework. Denmark recorded a surplus of 4.5% of GDP in 2024, Ireland 4.0%, and Cyprus 4.1%. Portugal, which had required an international bailout in 2011 and ran deficits exceeding 11% of GDP that year, achieved a surplus of 0.5% in 2024, a consolidation that stands as one of the most significant fiscal adjustments of the period. Greece similarly moved from a deficit of 15.4% of GDP in 2009 to a surplus of 1.2% in 2024.[70] These cases demonstrate that adjustment is possible, but they are the exception rather than the rule and were achieved under conditions of intense external surveillance, which the EU's revised fiscal framework no longer provides.

The overall picture, then, is one of modest average improvement that conceals persistent and, in some cases, worsening fiscal situations in several large member states. The EU-27 has not returned to the pre-crisis deficit norms the Treaty had envisaged, and the structural primary balances of France, Romania, Hungary, Italy, and Poland remain incompatible with debt stabilisation at current debt-to-GDP ratios and under realistic interest rate assumptions. Against this background, the proposal to layer additional EU-level borrowing on top of already unsustainable national fiscal positions is not a solution to Europe's investment deficit but, instead, amplifies its fiscal risk.

69 'Government deficit/surplus, debt and associated data', Eurostat, 2024 (https://ec.europa.eu/eurostat/databrowser/view/gov_10dd_edpt1__custom_18824195/default/table).

70 'Government deficit/surplus, debt and associated data', Eurostat, 2024 (https://ec.europa.eu/eurostat/databrowser/view/gov_10dd_edpt1__custom_18824195/default/table).

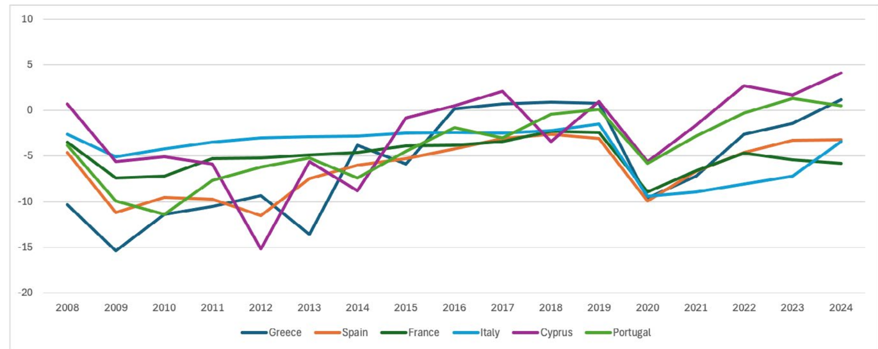
Figure 8. General government deficit, EU-27 aggregate, 2008–2024 (% of GDP)



Source: 'Government deficit/surplus, debt and associated data', Eurostat, 2024 (https://ec.europa.eu/eurostat/databrowser/bookmark/3a96b28a-1d4c-497e-af37-424b8eee1aec)

The experience of the eurozone crisis countries illustrates this point with particular clarity; Figure 9 makes the underlying pattern visible. Greece, Portugal, and Cyprus, all of which underwent international bailout programmes between 2010 and 2013, achieved the most substantial and durable fiscal adjustments of the member states over the period, moving from double-digit deficits to near-balance or surplus by the mid-2020s. Spain and Italy made partial progress but never achieved structural balance, and their deficits have proved persistent even in years of favourable growth. France stands apart as the most troubling case. It was never subjected to external surveillance, its deficit has oscillated between 3% and 6% of GDP for the entire period under review, and by 2024 it had deteriorated to 5.8% with no credible consolidation path in sight. The lesson learnt from the data is uncomfortable but inescapable: Fiscal adjustment in the EU has occurred where external pressure made it unavoidable but not elsewhere. The revised fiscal framework adopted in 2024, with its extended adjustment periods, reduced fines, and country-specific expenditure paths, provides none of the enforcement intensity that produced results in Greece, Portugal, and Cyprus. Proposing further expansion of EU-level borrowing in this institutional context – with France, Romania, Hungary, and Poland among the member states backstopping the debt – is to assume a degree of fiscal credibility that the evidence does not support.

Figure 9. General government deficit, eurozone crisis countries, 2008–2024 (% of GDP)



Source: 'Government deficit/surplus, debt and associated data', Eurostat, 2024 (https://ec.europa.eu/eurostat/databrowser/bookmark/3a96b28a-1d4c-497e-af37-424b8eee1aec)

The EU has recently revised its fiscal rules under the new Stability and Growth Pact framework. However, as Brøns-Petersen (2025) demonstrated, the new rules are effectively a watered-down version of the previous, already ineffectual framework. Fines for non-compliance have been reduced, adjustment periods have been extended to up to seven years, and the monitoring variable has shifted from structural budget balancing to a more flexible measure of nationally financed net primary expenditure. The previous requirement of an annual reduction of one-twentieth of the debt exceeding 60% of GDP has been replaced by country-specific paths that explicitly take into account 'investment needs', a formulation that, in practice, provides substantial room for continued non-compliance. Economic theory, as Brøns-Petersen (2025) showed, cannot justify maintaining government debt at the current levels. Almost all countries have technically unsustainable public finances with large, deferred generational burdens.

This is not a temporary post-pandemic overhang. Structural primary deficits persist across Austria, Belgium, France, Germany, Portugal, and Spain, where, as the Institut économique Molinari notes, public pension commitments paid on a pay-as-you-go basis generate recurring fiscal pressures of between 1% and 2% of GDP per year (Marques and Philippe 2025). The European Commission's own Ageing Report projects that pension and health care expenditure will rise by a further 1.9 percentage points of GDP across the EU between 2022 and 2070 (European Commission 2024a). Against this backdrop, the proposition that member states can provide a credible joint backstop for a rapidly expanding envelope of EU-level debt deserves more critical scrutiny than it has received in the current MFF debate.

The NGEU precedent and its fiscal logic

Proponents of EU borrowing argue that joint debt issuance generates a 'European safe asset', lowers borrowing costs relative to peripheral member states, and allows counter-cyclical spending at scale. These arguments have a superficial appeal but do not withstand close examination.

First, the borrowing cost argument conflates the rate at which the EU issues bonds, which benefits from the composite creditworthiness of its member states, including the most fiscally sound, with the actual fiscal burden, which falls on those same member states through their contribution obligations. There is no free lunch: The interest savings at the EU level are offset by the contingent liabilities assumed by the member states, which markets already price into sovereign spreads.

Second, the 'European safe asset' argument ignores the moral hazard created by mutualising debt without mutualising fiscal discipline. As Draghi himself noted in a different context, the EU suffers from persistent fragmentation in capital markets and investment patterns (European Commission 2024b). Adding a common borrowing facility without common fiscal rules or credible enforcement does not address these structural problems; it papers over them.

Third, and most fundamentally, the fiscal rationale for EU borrowing assumes that there is a shortage of capital for European investment. This assumption is empirically contestable, as Christine Lagarde, President of the European Central Bank, has demonstrated; if Europeans invested in the stock market at the same rate as Americans, €8 trillion would be available for productive investment in European capital markets, approximately ten times what Draghi estimates is needed annually from the public sector (Lagarde 2024; Reimers 2025). The capital is not missing but is trapped in inefficient, pay-as-you-go pension systems and fragmented national savings structures that direct household wealth away from equity markets and towards low-yielding bank deposits and government bonds.

Public borrowing crowds out private investment

The economic case against expanding EU borrowing rests on a well-established mechanism: When governments borrow heavily, they compete with private borrowers for the available pool of savings, driving

up real interest rates and reducing the private investment that would otherwise have occurred. This is the classical crowding-out effect, and it is particularly damaging in a European context where the primary diagnosis of the competitiveness problem is precisely a deficit of private long-term investment.

The EU's approach to competitiveness, as exemplified by the ECF, the NGEU, and the proposed MFF, rests on the assumption that 'public investment at the European level has a vital role to play as a catalyst for private investment' (European Commission 2025a). But this logic inverts the proper relationship between public and private finance. Historically, in the economies that have generated the most innovation and growth, private capital has supplied approximately four-fifths of productive investment, with public funding playing a supporting role in areas of genuine market failure, notably basic research and national security technology (European Commission 2024b; Reimers 2025). The US Defense Advanced Research Projects Agency model, which Draghi rightly highlights as a benchmark, is precisely not a model of government borrowing to finance broad industrial subsidies; it is a model of concentrated, competitively managed public funding for early-stage, security-relevant research, with private capital taking over as technologies mature.

The Commission's proposed ECF, by contrast, deploys hundreds of billions of euros through grants, loans, equity participations, guarantees, and blended instruments across a broad range of policy objectives, many of which are commercially viable without subsidy (European Commission 2025a). This is not a complement to private capital markets; it is a substitute for them and a costly one. As Reimers (2025) noted, the EU's innovative companies do not fundamentally lack capital because there is too little public money available; they lack capital because the EU's pension architecture locks enormous pools of household savings into pay-as-you-go systems that generate no investable assets, while regulatory constraints and market fragmentation further discourage equity participation.

The pension savings shortfall is the root cause, not the lack of public borrowing

This point deserves emphasis because it directly re-frames the policy debate. At the end of 2023, the EU was approximately €19.7 trillion behind the US in retirement savings. In Europe, pension assets represented

28% of GDP, compared with an average of 143% in the US, a shortfall equivalent to almost 115% of European GDP (Marques and Philippe 2025, 2026). A related calculation by Marques and Philippe shows a market capitalisation shortfall of €19.3 trillion between the EU and the US, with EU company capitalisation representing 65% of GDP against 177% in the US, a gap equivalent to 112% of European GDP (Marques and Philippe 2025).

These figures are not coincidental. There is a well-documented statistical relationship between the size of pension assets and the depth of listed equity markets, as well as between pension fund assets and the level of VC investment (Kukies and Noyer 2026). Countries with large funded pension systems, such as Denmark, Sweden, and the Netherlands within the EU, and the US and the UK globally, consistently show deeper capital markets, higher VC activity, and stronger innovative firm formation. As Kukies and Noyer (2026) noted, ‘ Pension assets are, in theory, the most suitable source of funding for innovation financing, notably through VC, due to their long investment horizon and predictable liability structure, which aligns well with the illiquid and long-term nature of start-up financing’.

The implication is straightforward. If the EU wants to close the investment gap that Draghi diagnoses, estimated at €750–800 billion annually, the most effective instrument is not EU-level borrowing but the structural reform of member states’ pension systems to generalise capitalisation and reduce dependence on pay-as-you-go schemes. According to the Institut économique Molinari, this would create wealth for both public finances and European companies simultaneously, without adding to the public debt burden (Marques and Philippe 2025). The Reimers (2025) analysis reaches the same conclusion: If Europeans were to save in equity markets at American rates, the resulting €8 trillion in capital mobilisation would dwarf anything achievable through EU borrowing.

The EU’s own unfunded pension liabilities compound the problem

The fiscal case against expanding EU borrowing is further strengthened by a consideration that has received almost no attention in the MFF debate: the EU’s own accumulation of unfunded pension liabilities. As the Institut économique Molinari documents, the EU institutions operate a pay-as-you-go pension scheme, the PSEO, under which no capital is accumulated to self-finance staff pensions. At the end of 2024, pension

commitments to EU staff amounted to €93 billion, or approximately 11% of the total EU liabilities and 16% of NGEU borrowings of €594 billion (European Commission 2025b). Annual pension payments to former EU staff reached €2.5 billion in 2024, up from €580 million in 2000, an increase of 143% in constant euros (Marques and Philippe 2025).

This zero-saving arrangement is being presented as fiscally responsible, but it is not. It transfers the cost of today's pension commitments to future taxpayers, in exactly the same way as the pay-as-you-go systems of member states impose growing fiscal burdens on younger generations. A prudent response – as demonstrated by the UN, the ECB, and the national central banks, all of which maintain funded pension arrangements – would be to capitalise these commitments, either through a gradual provisioning programme or, if necessary, through targeted borrowing, the returns from which would over time exceed the cost of public debt (Marques and Philippe 2025). A 5% savings programme on EU intervention and administrative expenditure between 2028 and 2034 would, on the Institut économique Molinari's calculations, be sufficient to fully provide for outstanding pension commitments, thereafter generating annual savings of approximately €3 billion per year.

The irony is that the EU is simultaneously proposing to borrow hundreds of billions of euros to finance industrial subsidies while refusing to capitalise pension liabilities, which represent a fraction of that amount, where the case for capitalisation is unambiguous from both a fiscal and an intergenerational equity standpoint.

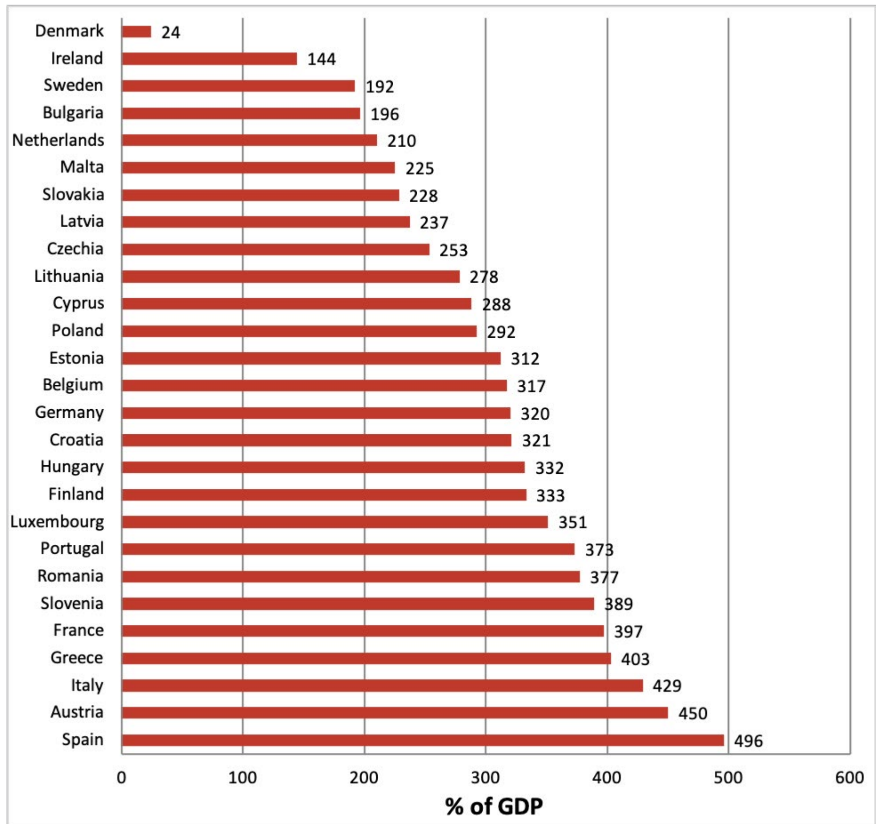
Implicit debt and the limits of Maastricht accounting

The fiscal problems documented above are, in fact, only part of the picture. Alongside the explicit debt captured by the Maastricht criterion, member states carry a second, largely invisible layer of fiscal exposure: the implicit liabilities embedded in unfunded pension promises. The Maastricht debt criterion, expressed as gross debt to GDP, does not include the debts implicit in pension commitments made by governments to their employees. While it is common international practice to exclude the pay-as-you-go pension rights of private citizens on the grounds that they are revisable, pension promises made to public employees are, under international accounting standards (IAS 19), treated as a commitment that is difficult to revoke and therefore recognised as a liability. The EU, however, departed from this approach when structuring the European accounting system, explicitly deciding not to classify

public employee pension promises as debt (Lequiller 2005). As a result, European public debt figures systematically understate the true fiscal burden and are not comparable with those of the US, Canada, or Australia (Saravakos et al. 2025).

The scale of the EU's true fiscal exposure only becomes visible once implicit liabilities are brought into the accounting framework. Figure 10 shows unfunded pension promises, combining pay-as-you-go liabilities with public sector employee plans, as a percentage of GDP in 2021. The figures are striking. Spain's total implicit pension debt stands at 581% of GDP, Austria's at 451%, Italy's at 434%, and Greece's at 409%. France, Slovenia, and Portugal all exceed 370%. Even Germany, often presented as a model of fiscal prudence, carries implicit pension liabilities of 326% of GDP. By contrast, countries with mature funded pension systems show substantially lower exposure : the US stands at 211%, Sweden at 191%, Ireland at 149%, and Denmark, which has one of the most developed capitalised pension architectures in the world, at just 24%. The contrast is institutional, as countries that have invested in funded pension systems have structurally lower implicit liabilities, deeper capital markets, and greater fiscal resilience. Countries that have relied on pay-as-you-go arrangements have accumulated obligations that dwarf their explicit debt and appear nowhere in the Maastricht accounting framework. None of these figures are captured by the gross debt criterion that governs EU fiscal surveillance. The EU's decision to depart from international accounting standards (IAS 19) by not recognising public employee pension promises as liabilities means that the published debt ratios of France, Italy, Spain, and Austria are not comparable with those of the US, Canada, or Australia, where equivalent commitments are recognised (Lequiller 2005). The Maastricht framework has not merely failed to raise awareness of this problem; by making implicit liabilities invisible, it has actively encouraged the complacency that allowed them to accumulate (Saravakos et al. 2025).

Figure 10. Unfunded pension promises not considered in public deficits, 2021 (% of GDP)



Sources: Ďurana et al. (2025) and Saravakos et al. (2025).

The implications are direct. When member states are presented as credible backstops for EU-level borrowing, the fiscal assessment must include not only their gross debt ratios, already alarming as documented above, but their total pension obligations, which dwarf the figures reported under the Maastricht criterion. For example, France with 109.9% of GDP in explicit debt and a further 300+% in implicit pension liabilities is not the same fiscal counterparty as a country with equivalent explicit debt but a fully funded pension system. Yet the EU's borrowing framework will treat them identically. This accounting blind spot is not merely a technical matter; it actively encourages complacency, as the EU's own approach to ageing has demonstrated. The EU has long recognised the challenge posed by the underdevelopment of retirement savings and has made general recommendations aimed at increasing the proportion of funded pensions, but it has not been proactive and has thus underestimated the

challenge of restructuring social protection systems in an ageing society (Saravakos et al. 2025).

Addressing this requires, as a first step, aligning European public accounting with international standards by recognising public employee pension commitments as liabilities. Beyond accounting reform, the structural solution is the one already argued in this section: the generalisation of pension fund capitalisation across member states, by reducing pay-as-you-go exposure and simultaneously mobilising long-term private capital for productive investment. As the Institut économique Molinari calculates, countries with primary surpluses should use part of that surplus to fund pension capitalisation directly; those with primary deficits should consider targeted borrowing over a defined long-term horizon – as the Québec government did successfully between 1993 and 2000 – to self-finance civil servants' pensions, generating returns that exceed the cost of public debt and thereby creating net fiscal value (Marques and Philippe 2025; Saravakos et al. 2025). This type of borrowing, unlike the EU's proposed MFF debt, is an investment that reduces off-balance-sheet liabilities rather than adding to them.

Structural failures of the EU's borrowing-based approach

Beyond the macroeconomic arguments, EU borrowing as currently structured suffers from several specific governance and design failures. The new own resources proposed to service NGEU debt – revenues from the ETS, CBAM, a corporate contribution, and others – are not yet fully legislated. As the IME analysis notes, this means the EU is committing to long-term debt service obligations on the basis of revenue streams whose political durability and yield are uncertain. ETS revenues, in particular, are structurally declining as the carbon price mechanism works as intended and emissions decrease; using them as a debt service resource creates a perverse incentive to slow decarbonisation. CBAM revenues depend on the continuation of a policy instrument whose compatibility with World Trade Organization standards remains contested. And a corporate contribution at the EU level represents, in effect, a new layer of supra-national taxation without the democratic accountability that national corporate taxes carry.

The proposed MFF also earmarks approximately 35% of total spending for climate and environmental objectives, applying the DNSH principle and the 'Climate resilience by design' standard to the allocation of borrowed funds (European Commission 2025a). These principles tend

to be interpreted in absolute rather than relative terms, measuring the impact of investments against zero rather than against available alternatives, with the result that environmentally beneficial programmes may be disqualified on technical grounds while the overall allocation is directed by administrative discretion rather than market signals. The bankruptcy of Northvolt, the Swedish battery manufacturer that received substantial EU-backed support and was presented as a flagship of European industrial policy, illustrates what happens when administrative capital allocation substitutes for market discipline (Reimers 2025).

Policy proposals: Towards pension capitalisation instead of a borrowing Union

Fundamental reform is required not at the level of EU borrowing instruments but at the level of member states' pension systems and capital market structures. The EU should pursue the following course.

First, the EU should abandon the strategy of financing broad industrial and competitiveness objectives through EU-level debt and should instead focus on generalising pension fund capitalisation across member states. Every member state should be provided with a toolkit to establish or expand funded pension schemes, covering both private-sector employees and, critically, civil servants. As the Institut économique Molinari has demonstrated, this is the most powerful lever available for mobilising the long-term capital that European innovative companies need (Marques and Philippe 2025, 2026). Countries with primary surpluses should use part of that surplus to fund pension capitalisation; countries with primary deficits should consider borrowing over a defined period, as Québec has done successfully over 35 years through the Caisse de dépôt et placement, to self-finance civil servants' pensions in the long term.

Second, the EU should capitalise its own pension liabilities before considering further borrowing for industrial policy purposes. Responsible management of EU finances requires setting aside in a dedicated fund the full amount of commitments made to EU staff, as is already practised by the UN, the ECB, and the national central banks (Marques and Philippe 2025). A 5% reduction in EU administrative and intervention expenditure over the 2028–2034 MFF period would be sufficient to achieve this without any additional borrowing.

Third, any EU borrowing that does occur should be strictly limited to cross-border infrastructure with genuine positive externalities and no viable private financing alternative, in particular electricity grid interconnections between member states, which have a documented case for public support and where benefits from greater integration clearly outweigh the costs (European Commission 2025a). The revenues from ETS and CBAM auctions should be recycled to reduce other taxes, particularly labour taxes and electricity levies, instead of being used as fiscal instruments to service debt or fund subsidies. As the IES analysis notes, the most efficient climate policy is carbon pricing, and the revenue-recycling route makes the transition socially and economically sustainable without locking the EU into dependence on carbon revenues, which diminish as the transition succeeds.

Fourth, the EU should complete the Capital Markets Union, not through public borrowing and equity participation but through regulatory integration. Transforming the European Securities and Markets Authority into a single regulatory body with powers equivalent to the US Securities and Exchange Commission, promoting a European savings standard based on Sweden's investment savings account model, and removing barriers to pan-European pension fund investment would together mobilise far more capital than any feasible envelope of EU-level borrowing (Lagarde 2024; Reimers 2025).

d. Pension capitalisation as an alternative to EU fiscal expansion

Dr Nicolas Marques (IEM)

The strategy to generate non-tax revenues can be coupled with a strategy to support the European economy and innovation through market-based mechanisms, instead of resorting to administratively managed instruments funded by tax revenue transfers to the EU.

The EU is falling behind in a whole range of innovative areas:

European business investments in R&D represent just 1.2% of the GDP, persistently less than half the rate recorded in the US,

where R&D claimed 2.4% of the GDP in 2021. Europe spends half as much on R&D as its principal competitor.

In 2023, the EU accounted for only 5% of all venture capital funds raised worldwide, against 52% in the US. European firms have access to barely one-tenth the venture capital available to their American counterparts.

The Digital Dependence Index score of Germany, France, the UK, and Italy – measuring reliance on the US for digital infrastructure and platforms – stands at 0.98, where 1.0 represents total dependence. Europe's four largest economies are, to all practical purposes, entirely dependent on the US for their digital infrastructure.

At the end of 2023, European stock exchanges listed only 14 companies under the age of 50 with a market capitalisation of $10 billion or more, compared with 241 such companies in the US. For every young technology leader Europe has produced, the US has seventeen.

The recent market capitalisation of those 14 European companies stood at $434 billion; their 241 American equivalents were valued at $29,566 billion, 68 times more. For every dollar invested in Europe's young technology firms, their US counterparts command $68.

The structural link between pension capitalisation and private capital mobilisation has already been examined in detail in the section EU Borrowing and Debt. It would be much more effective and much less likely to create economic distortions than the strategy currently pursued by the EU.

As of now, the EU prefers to develop specific policies to mitigate the effects of the lack of long-term capital (Horizon Europe, ECF, etc.). The MFF 2028–2034 proposes a toolkit comprising direct grants or donations, loans, capital instruments (equity or quasi-equity), blended instruments (combined public–private financing), guarantees, and public procurement.

The MFF is not designed to tackle the root cause of the lack of capital. The central idea of the MFF is that 'public investment at European level has a vital role to play as a catalyst for private investment' (European

Commission 2025a). It provides no answer to the fundamental question of how to address the shortfall in capitalisation and pension savings.

The EU's administrative approach will not enable Europe to catch up in innovation due to the shortage of long-term savings, particularly pension savings, as shown by independent studies (Marques and Philippe 2025, 2026) and some official studies. By way of illustration, a recent report (Kukies and Noyer 2026) pointed out that 'Europe's scaleup gap stems from a lack of deep capital pools, due in particular to Europe's pension architecture, institutional investors' risk aversion, regulatory constraints and internal market fragmentation'.

Europe's pension landscape remains largely dominated by pay-as-you-go systems, limiting the accumulation of large pools of investable assets. Indeed, pension assets in the EU represent just 25% of GDP, compared with 150% in the US. Only three EU countries, Denmark, Sweden, and the Netherlands, benefit from a developed funded pension system, as they combine a universal public pension – partly funded in the case of Sweden and Denmark – with large and well-established funded occupational and private pension schemes.

However, pension assets are, in theory, the most suitable source of funding for innovation financing, notably through VC, due to their long investment horizon and predictable liability structure, which aligns well with the illiquid and long-term nature of start-up financing. In this context, the presence of supplementary, funded pension schemes in a given country is statistically associated with a higher share of VC investments.

Retirement savings can also contribute substantially to innovation financing through listed equity, as a strong correlation has been observed between the size of pension assets and the depth of the listed equity market in most developed economies.

Instead of developing another technocratic approach, the EU should focus on the key priority: encouraging European countries to restructure their pension systems to increase the role of capitalisation; this will automatically improve the financing of European companies and support innovation.

The best policy is one that creates a framework that enables innovative companies to be financed through established market mechanisms, not one that creates administratively managed tools – based on grants,

loans, or equity participation – which will at best only marginally relieve financing constraints.

Sustainable and significant financing for the defence industry through pension funds

The EU has recently developed a policy that aims to strengthen Europe's defence industrial base. This policy makes sense in the light of current geo-strategic concerns, but it will take time to produce results; the situation would not have been so serious if the EU had adopted a less intrusive and more visionary approach.

The EU has weakened defence by reducing its corporate financing. The EU has established a European taxonomy designed to channel savings primarily towards sustainable and responsible activities. For years, this approach has, in practice, complicated and reduced institutional financing, with banks and insurers decreasing their lending and investment in the defence sector. This difficulty has mainly affected start-ups, SMEs, and small mid-cap firms, which do not have direct access to non-intermediated financing channels.

The case for pension fund capitalisation as a mechanism for mobilising long-term capital is set out in the section EU Borrowing and Debt. The defence sector stands to benefit directly from the same structural reform.

Financially, the operation would create wealth for public finances, as the borrowed sums would be invested entirely in the long term and would generate a return higher than the cost of the public debt, and create wealth for European companies, including defence companies, as pension funds often prioritise local investment, in addition to the investments they make internationally and in private equity (some of which could benefit European defence players).

e. An alternative revenue framework for a restrained EU budget

Petar Ganev (IME) & Dr Nicolas Marques (IEM)

The forthcoming MFF provides an opportunity to re-anchor the EU's budget in the principles of fiscal discipline, transparency, and institutional balance. At a time of economic uncertainty and elevated public debt and fiscal pressure across member states, the revenue side of the EU budget must evolve with a sense of responsibility. Reform should focus on improving clarity, predictability, and economic coherence, rather than expanding the system through new layers of complex and opaque revenue instruments.

The revenue side of the EU budget should follow directly from its overall purpose. If EU spending is to be limited to clearly defined, genuinely European functions – above all supporting and safeguarding the integrity of the single market – then its financing must remain simple, transparent, and economically neutral. The objective is not to expand the Union's fiscal capacity but to ensure predictable and proportionate funding aligned with the economic weight of member states.

The current structure – combining GNI-based contributions with VAT-based elements, sector-specific levies, and correction mechanisms – has become overly complex, reducing transparency and accountability. Reform should move towards a clearer, more proportional model based on economic capacity, while preserving fiscal neutrality and avoiding distortions within the single market. Where genuine EU own resources are maintained, they should remain anchored in areas of exclusive EU competence, notably external trade, rather than expanding into broad domestic tax bases.

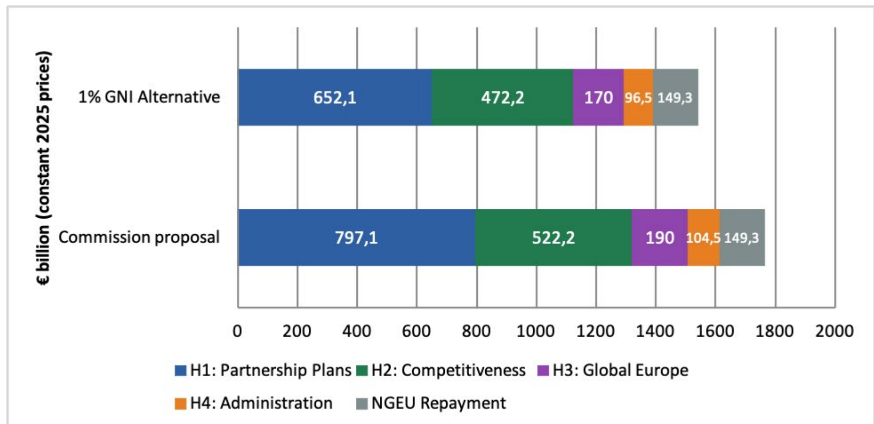
The Commission's proposal envisages a budgetary framework of close to €2 trillion for the 2028–2034 period, corresponding to approximately 1.26% of EU GNI. On an annual basis, this translates into a budget in the range of €270–300 billion, depending on the level of commitments. Within this envelope, around €55–60 billion per year would be generated through newly proposed own resources, including the corporate contribution (CORE), the tobacco-based resource (TEDOR), the e-waste contribution, and revenues from ETS and CBAM. Taken together, these changes imply a significant expansion of the EU budget, moving it

beyond the traditional ceiling of around 1% of GNI and marking a clear departure from its historical scale and function.

This raises the question whether such an expansion is necessary to achieve the Union's core objectives. An alternative scenario, grounded in the principles set out in this report, would be to limit the EU budget to approximately €1.54 trillion over the 2028–2034 period – equivalent to below 1% of EU GNI. This corresponds to an annual budget of approximately €220 billion.

Under this approach, removal of the most controversial new revenue sources – namely CORE, TEDOR, and the e-waste contribution – combined with reconsideration of the VAT-based resource would reduce revenues by approximately €220 billion annually. Even under these constraints, the EU budget can remain sustainable and functional within the 1% threshold, relying primarily on GNI-based contributions (broadly in line with current levels), complemented by traditional own resources such as customs duties and more limited, policy-linked instruments such as ETS and CBAM.

Figure 11. EU MFF 2028-2034: Commission proposal vs. 1% GNI alternative



Sources: COM(2025)570 final/2 (European Commission, 16 Jul 2025) | EPICENTER, Alternative MFF 2028-2034 (2025). All values: constant 2025 prices.

Figure 11 illustrates that the difference between the Commission's proposal and the reform within the 1% GNI–based framework amounts to approximately €220 billion over the 2028–2034 period. This gap is not the result of unavoidable financing needs but reflects a deliberate policy choice to expand the size and scope of the EU budget. The alternative scenario demonstrates that a more restrained

budget – focused on core EU functions and without relying on the most controversial new revenue sources – remains fully feasible within the traditional 1% threshold, without expanding the Union's fiscal capacity beyond its core economic rationale.

Conclusions and policy recommendations

Petar Ganev (IME)

The purpose of the EU budget and the test of legitimacy

The starting point for any assessment of the EU's budget must be a clear understanding of its purpose. The EU budget is not designed to replicate national fiscal systems or to act as a general redistributive mechanism across member states. The fundamental role of the EU budget should be to safeguard and support the functioning of the single market and the free movement of goods, services, capital, and people on which it depends. In this sense, EU-level spending should be limited to functions that are inherently cross-border and directly linked to the operation and integrity of the single market.

This implies a simple but demanding test of legitimacy: EU-level spending should be justified only where it demonstrably supports free movement, reduces cross-border frictions, or delivers outcomes that member states cannot achieve on their own. Policies that primarily pursue redistribution, income support, or sectoral intervention within national economies fall outside this core function and require a much stronger justification. Without such discipline, the EU budget risks expanding beyond its economic rationale and blurring the division of responsibilities between the Union and its member states.

The proposed framework: Expansion through revenues, debt, and scope

The Commission's proposal for the 2028–2034 MFF represents a clear shift away from this original logic. The proposed increase in expenditure – supported by approximately €58 billion in new annual revenues – aims to expand the EU budget from around 1% to approximately 1.26% of EU GNI. This expansion is not merely technical; it reflects a broader ambition to increase the scale and scope of EU-level fiscal intervention.

Crucially, this shift is closely linked to the emergence of common EU debt. The liabilities incurred under the NGEU instrument, amounting to around €800 billion, have created a long-term repayment obligation, which is now being incorporated into the regular budget. The need to service this debt is a key driver for the introduction of new own resources, which are presented as a way to reduce reliance on national contributions but, in practice, enable a larger and more autonomous EU fiscal capacity.

Taken together, these developments point to a structural transformation – from a budget primarily based on national transfers to one increasingly supported by new revenue instruments and debt. This evolution raises important questions about fiscal responsibility, transparency, and the long-term trajectory of EU economic governance. In particular, it risks normalising joint borrowing and expanding EU-level taxation without a corresponding reassessment of the Union's core functions.

The problem of expansion without a clear functional boundary

The proposed changes on the revenue side are mirrored by developments in expenditure. Across multiple policy areas – cohesion, agriculture, industry, and external action – the budget increasingly finances objectives that are only indirectly linked to the functioning of the single market. While many of these objectives are politically salient, they often reflect national policy domains that have been partially transferred to the EU level without a clear economic justification.

Across the main spending categories of the proposed framework, a common pattern emerges. Cohesion policy and agricultural support continue to account for a substantial share of expenditure, primarily serving redistributive and income support functions rather than addressing cross-border market failures. At the same time, newer policy areas – such as the clean energy transition, industrial policy, and external

action – extend EU intervention into domains that are only indirectly linked to the functioning of the single market. While these priorities may reflect legitimate political objectives, they often lack a clear justification for EU-level financing under a strict subsidiarity framework. As a result, the composition of EU spending increasingly reflects a broadening of policy scope rather than a targeted focus on areas with demonstrable European added value.

In addition, the proposed framework entails a continued increase in administrative expenditure at the EU level, including significant long-term liabilities related to staff remuneration and pension commitments. While such costs are inherent to the functioning of EU institutions, their scale and trajectory raise concerns, as they do not directly support the operation of the single market. In particular, the structure of the EU pension system embeds substantial long-term obligations within the budget, raising issues of sustainability, transparency, and intergenerational equity.

This creates a structural inconsistency: The EU budget expands in size, scope, and instruments but without a corresponding clarification of its role. As a result, the budget risks becoming a hybrid between a coordination mechanism and a centralised fiscal system, without the institutional safeguards or democratic accountability typically associated with the latter.

At the same time, the design of new revenue sources reinforces this trend. Rather than establishing a coherent and transparent fiscal base, the proposed system aggregates a range of heterogeneous instruments – environmental charges, excise-based contributions, corporate levies, and statistical resources – selected largely on the basis of political feasibility. This approach does not create a stable or principled financing model but, instead, entails an incremental expansion of EU fiscal capacity through the partial appropriation of existing tax bases.

An alternative approach: A restrained and function-based EU budget

A more coherent and economically grounded approach to the EU budget should begin by re-establishing a clear link between spending and the core functions of the Union. The expansion of EU-level borrowing and revenues has been accompanied by a corresponding expansion in expenditure, often without establishing a sufficiently clear connection to the functioning of the single market. Reversing this trend requires a

more restrained budget, focused on areas where EU-level intervention is both necessary and clearly justified by its potential impact on economic integration.

As a guiding principle, the overall size of the EU budget should remain limited, broadly anchored to 1% of the EU GNI, ensuring that it complements rather than substitutes for national fiscal policies.

In practice, this implies prioritising spending that directly supports the functioning and integration of the single market – such as infrastructure interoperability, energy interconnections, and targeted research collaboration – while scaling back or restructuring programmes that primarily serve redistributive or sector-specific objectives. Cohesion and agricultural spending, in particular, should be reassessed against a strict subsidiarity test. Where their objectives can be more effectively achieved at the national level, their scope should be reduced or refocused, ensuring that EU expenditure does not substitute for domestic policy choices.

A more disciplined approach to spending is also necessary to avoid misallocating resources associated with debt-financed public investments. Large-scale EU funding instruments, particularly those aimed at industrial policy or competitiveness, risk crowding out private investments and directing capital towards politically selected projects rather than economically viable ones. Instead of acting as a substitute for private capital, EU spending should remain targeted, limited in scope, and clearly linked to areas where coordinated action at the EU level delivers tangible added value.

Programmes with clear European added value, such as long-term learning mobility under Erasmus+, should be preserved but more narrowly defined, with stronger performance criteria and a focus on measurable outcomes. At the same time, large-scale funding mechanisms that lack clear accountability or demonstrable results should be subject to stricter conditionality and co-financing requirements as well as explicit expenditure limits. Conditionality should not serve as a tool for imposing uniform policy priorities at the EU level but, rather, as a framework that ensures the effective use of funds while allowing member states sufficient flexibility to design and implement policies in line with their national circumstances. This implies a shift away from centrally defined targets and towards outcome-based approaches that respect subsidiarity and national policy autonomy.

Administrative expenditure, including staff remuneration and pension liabilities, should be subject to stricter transparency, regular long-term sustainability assessments, and, where appropriate, structural reform. In particular, the current pay-as-you-go approach to EU pensions should be reconsidered, with a view to introduce elements of funded accumulation that would better align contributions with future liabilities. This would not only improve transparency and reduce implicit fiscal obligations but also address broader concerns related to intergenerational equity and the accumulation of hidden liabilities within the EU budget.

Recommendations on revenue: Simplicity, neutrality, and limits to centralisation

On the revenue side, a credible reform should prioritise simplicity, transparency, and fiscal neutrality. Rather than expanding the system by adding multiple new own resources, the EU should rely primarily on a limited number of clearly defined contributions, preferably linked to member states' economic capacity.

New revenue instruments should be assessed against strict criteria: They should not distort economic behaviour, duplicate national taxation, or disproportionately affect specific sectors or member states. In this context, the proposed Corporate Resource for Europe (CORE) should be reconsidered and ultimately withdrawn. Its design – based on turnover rather than profitability – raises fundamental concerns regarding economic incidence, competitiveness, and neutrality, while effectively introducing a new form of EU-level taxation without a clear link to the Union's core functions.

Similarly, the proposed TEDOR should not be pursued. While excise duties on tobacco products are harmonised at the EU level, their primary purpose is to support the functioning of the internal market and address cross-border distortions, not to serve as a basis for supra-national revenue. The partial centralisation of these revenues would represent a departure from this logic and would have uneven fiscal effects across member states, depending on their reliance on tobacco taxation.

The proposed non-collected e-waste based own resource should also be reconsidered. While presented as an environmental incentive, its design reveals a fundamental inconsistency: it is a revenue instrument that depends on continued failure to meet existing collection targets. This creates a misalignment between environmental objectives and fiscal

incentives. In addition, a uniform levy applied across member states would have uneven effects, disproportionately affecting countries with a less developed collection infrastructure. Finally, the measure risks adding a fiscal layer to an already complex policy framework, without improving outcomes.

Other proposed instruments, such as revenues linked to the ETS and CBAM, should be approached with caution. While these mechanisms are connected to EU-level regulatory frameworks and may have a clear link to common policy objectives, their use as budgetary resources risks transforming regulatory instruments into fiscal tools. Any allocation of such revenues to the EU budget should therefore remain limited, clearly justified, and designed so as not to undermine their primary policy function or impose additional burdens on the European economy.

Most importantly, the principle of revenue neutrality should be upheld. Any increase in EU-level revenues should be accompanied by a corresponding reduction in national contributions or taxation. Without such a mechanism, the expansion of own resources risks leading to a higher overall tax burden for European citizens and firms rather than a more efficient allocation of existing resources.

Debt and fiscal discipline: Preserving the exceptional nature of joint borrowing

The experience with NGEU demonstrates that joint borrowing can play a role in addressing exceptional crises. However, its integration with the regular EU budget – together with the incorporation of debt-servicing obligations over the 2028–2034 period – marks a significant shift in the EU's fiscal framework. The emergence of long-term liabilities of this scale, combined with the introduction of new own resources to finance them, creates a structural link between debt and revenue expansion, altering the nature of the EU budget from a transfer-based system to a more autonomous fiscal model.

This development raises deeper concerns related not only to incentives and fiscal discipline but also to the allocation of capital within the European economy. As highlighted above, common borrowing in an economic union creates a 'commons problem', where the costs of debt are partially shared among member states while the benefits remain largely national. At the same time, large-scale public borrowing risks crowding out private investment, particularly in the European context,

which is already characterised by insufficient long-term capital formation. The problem is not a lack of savings but their inefficient allocation, most notably through underdeveloped funded pension systems, which limit the availability of investable capital for innovation and growth.

By contrast, expanding EU-level borrowing risks addressing this structural weakness in the wrong way – by substituting public debt for private capital mobilisation. This not only weakens incentives for fiscal discipline but also diverts attention from the underlying reforms required to strengthen Europe's economic base. In this sense, the normalisation of joint borrowing would not resolve Europe's investment gap but could instead entrench a model of growth driven by public spending rather than private investment.

To avoid this outcome, joint borrowing should remain strictly limited to clearly defined, temporary, and crisis-related circumstances. Its use should be subject to strong governance, transparency, and clearly specified repayment mechanisms that do not rely on the continuous expansion of EU-level revenues or the creation of new tax bases. Allowing common debt to become a structural element of the budget would not only create long-term obligations that extend across generations but also weaken fiscal discipline, increase fiscal interdependence, and accelerate centralisation, without addressing the root causes of Europe's investment and competitiveness challenges.

Conclusion: Restoring coherence in the EU budget

The central challenge for the next MFF is not simply to adjust the size of the budget but to restore coherence between its objectives, instruments, and economic rationale. The current proposal moves in the opposite direction: It expands revenues, introduces new fiscal instruments, and broadens expenditure without a clear redefinition of the EU's role.

A sustainable and credible EU budget must instead be built on three principles: a clear focus on single-market functions, a restrained and transparent revenue system, and a firm limitation on the use of common debt. Re-establishing these principles would not only improve the efficiency of EU spending but also strengthen the legitimacy and long-term stability of the Union's fiscal framework.

The analysis presented in this report demonstrates that the current trajectory of budget expansion is not a structural necessity but a policy

choice. A credible alternative – grounded in the principles of fiscal restraint, simplicity, and subsidiarity – shows that the EU budget can be maintained within approximately 1% of the EU GNI, corresponding to around €1.54 trillion over the 2028–2034 period. This implies a difference of approximately €220 billion compared with the Commission's proposal. Crucially, such a framework remains fully capable of financing the Union's core functions, without relying on controversial new revenue instruments or expanding EU fiscal capacity beyond its traditional limits.

At the same time, the broader policy direction should place greater emphasis on strengthening Europe's competitiveness, not through an expansion of public spending but by reducing regulatory burdens, deepening the single market, and enabling a more dynamic business environment. In this context, improving framework conditions for investment, innovation, and cross-border activity is likely to yield more sustainable growth than further centralisation of fiscal resources at the EU level.

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