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BEST EUROPEAN VALUE FOR LESS (NATIONAL) MONEY? The negotiations of the EU's Multiannual Financial Framework 2014-2020

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The European Union (EU) works as a "negotiated democracy" with a hierarchy of horizontal negotiations between Member States and vertical negotiations within different levels of governance in which budget negotiations are, without any doubt, the most prominent. Negotiations about the European Union's budget and its Multiannual Financial Framework (MFF) have been crucial since the beginning of European integration, and have taken place amid bitter disputes, extended overnight battles and complex backroom deals.

Although they may appear to be a prime example of the defence of narrow national interests on the basis of short-term cost-benefit calculations, negotiations are much more complex than they appear. The EU budget has a symbolic value that extends over the real financial value of expenditure. Its structure reflects long-standing commitments to political and economic conflicts which emerged during the European integration.

Negotiations of the Multiannual Financial Framework for the 2007-2013 period was a central and very conflictive issue on the Union's agenda during 2005. The current negotiations of the MFF 2014-2020 are carried out in an even more complex context dominated by the economic and financial crisis, where excessive deficits and public debt have resulted in the virtually unanimous willingness of Member States to reduce their public expenditures. This impinges directly upon the discussion concerning national contributions to the EU budget, and consequently the size as well as the spending priorities of the MFF 2014-2020.

Although the EU budget is relatively small in comparison to the budgets of the Member States, and amounts to just 1 percent of the GDP of the EU, the budget is a key instrument for the EU to reach its goals. A reduction of the budget would undermine the potential role of the EU to help Member States out of the crisis and its capacity to respond to a wide variety of political, social, environmental and economic challenges. According to the Member of the European Parliament Jutta Haug, the MFF 2014-2020 will therefore be a "litmus test" of the EU's ability to respond to the economic crisis and global competition.

The outcome of the negotiations of the Multiannual Financial Framework 2014-2020 will define the potential role of the EU budget in responding to the economic crisis.

The persistence of several Member States on "red lines" which they are unwilling to cross seems to manifest once more the status quo of the European budget structure and allows little room for maneuver during the following months.

A strong commitment to reinforce and implement the EU2020 growth strategy in all spending headings can be confirmed.

The current crisis is an opportunity to discuss new own resources for the EU, such as a Financial Transaction Tax or a new VAT resource, which would not only mean a further step toward European integration but also connect the EU more closely with its citizens.

In this regard, at least three questions need to be answered:

- – What are the main areas of conflict in the negotiations concerning the Multiannual Financial Framework, especially regarding the main expenditure headings (Common Agriculture Policy – CAP -; Cohesion Policy; Research and Innovation, and External Action), and the financing of the next MFF (traditional own resources, GNI-based resource or possible new own resources)?
- – Which role will the EU budget assume in the future regarding the creation of jobs and growth, as well as the fulfillment of the objectives of the EU2020 growth strategy?
- – How could the European Commission and the European Parliament get more independence from national budgets and autonomy in order to decide their policy priorities?

The MFF 2014- 2020 - Budgeting Europe 2020

According to the Treaty on the Functioning of the European Union (Art. 312), the MFF defines the policy priorities and budgetary objectives for the different categories of EU expenditure over a period of at least five years in order to ensure a controlled evolution of spending. The annual budgetary procedure remains nevertheless essential in order to determine the specific amount of spending and its distribution, but these decisions will be taken within the ceiling and headings established by the MFF.

The proposals do not envisage a radical change in the structure of the EU budget, but the proposed system of own resources represents clearly innovative elements which have been widely demanded during the public consultation process.

The Lisbon Treaty institutionalized and increased the role of the MFF for budgetary decision-making as it integrated the MFF into fundamental law of the Union and changed it into a Regulation and not an Interinstitutional Agreement, as it was before. It reduced the gap between the Treaty provisions and budgetary practices; but it also made the challenge of reaching an agreement even greater, as the Lisbon Treaty envisages explicitly the option of a non-agreement. This might be seen as a safety net for some Member States, which would rather live with this provision than end up with what might be perceived at the national domestic level as a bad deal. Thus, the possibility of an automatic prolongation of the MFF reinforces the *status quo* of the existing EU budget structure.

It is worth recalling that the negotiations for the MFF for the current period 2007-2013 took place after the Eastern enlargement and the debate on the EU-Constitution in 2004 and 2005. Those who expected that the Enlargement would serve as an opportunity to significantly alter the structure of the EU budget experienced a disappointment, but the agreement was nonetheless significant because Member States successfully renewed the collaboration and agreed on the very sensitive budgetary issue in an EU of considerably greater heterogeneity than EU-15.

According to several observers, the negotiations for the MFF 2014-2020 will be even more difficult and complicated for several reasons: firstly, it will be the first time that 27 Member States have negotiated the MFF. The enlargements of 2004 and 2007 resulted in a significant shift in the balance of net contributors and net beneficiaries, especially in regional policy. Secondly, the negotiations will take place in a context of economic crisis and the first major crisis of the Euro and public debt markets. Thirdly, the MFF must lead to a financial framework in line with the EU2020 growth strategy, and will need to adapt to the new Treaty arising from the December 2011 European Council, which confirms the principle of budgetary consolidation. Fourthly, there will be a greater role for the European Parliament, which will have to adopt the regulation before the Council makes its decision. Finally, the new Lisbon Treaty introduces new objectives for the EU, such as territorial cohesion, policies concerning migration and climate change, as well as the creation of a European External Service (EEAS), which will also need financing in a context of the increasing scarcity of resources and austerity debates.

The starting point for the ongoing negotiating process of the MFF 2014-2020 was the European Council in December 2005, where an agreement on the current MFF 2007-2013 was reached. This agreement contained a mandate for the European Commission to initiate a Europe-wide debate on all aspects of the EU budget. After a broad and lively debate with outstanding participation from representatives of sub-national entities, civil society and national governments, the discussions on the MFF 2014-2020 intensified during the 2010 Spanish EU presidency following the presentation of the EU2020 growth strategy in 2010. Afterwards the debate concentrated on three key issues: linking the existing policies with the new EU2020 growth strategy, reformulating objectives and policy priorities according to this strategy, and the efficiency and simplification of existing policies in the context of the economic crisis.

On 19th October 2010 the EC published its first guidelines in relation to the post-2013 EU budget[1]. In this communication, the EC proposed to design the future budget in close accord with the objectives of the EU 2020 Strategy. This approach was considered innovative because it did not consider new budget headings and instruments for the financing of the current challenges, but mainly to improve the performance of the existing budget.

1. COM (2010) 700 final.

Finally, the Commission presented its proposals regarding the MFF 2014-2020 in the document: "A Budget for Europe 2020" in June 2011. The structure and duration proposed by the Commission is largely a continuation of the MFF 2007-2013. The two most significant changes were that certain items have been placed outside the MFF[2] and that the Commission implemented the principles outlined in the 2010 budget review.

The main points of the proposal could be summarized as follows:

- Delivering key policy priorities, above all those of the EU 2020 Strategy for smart, sustainable and inclusive growth.
- EU spending should only offer "European added value", compared with spending by individual Member States.
- Simplification – reduction of instruments and administrative burden on beneficiaries as well as on the Commission and Member States
- A results-driven budget - concentration on a limited number of priorities and actions as well as the introduction of conditionality to further the achievement of EU policy priorities.
- Reformed financing - a new own resource system based on a Financial Transactions Tax (FTT) and a new Value Added Tax (VAT) based resource, but also collaboration with the private sector on innovative financial instruments.

The proposals do not envisage a radical change in the structure of the EU budget, but the proposed system of own resources represents clearly innovative elements which have been widely demanded during the public consultation process. In other areas, the proposals attempt to accommodate the austerity demands of some Member States, even though the margins outside the MFF have been extended considerably. At the same time, the significant efforts of the European Commission to better concentrate the resources towards the Europe 2020 objectives must be recognized, as well as the focus on the added value and effectiveness of EU expenditure. After the presentation of legislative proposals for the main spending policies in October/ November 2011, representatives of the EU governments (during the Polish Presidency) exchanged their views on future policies. The working groups in the Council could be closer on less conflictive budget issues, but the main questions are still open (Cohesion Policy and the Common Agricultural Policy). During the Danish Presidency, the negotiations stage started, with the objective of narrowing the gap between the EC and Member States' positions on key issues (e.g. CAP and Cohesion Policy). Finally, at the end of 2012, during the Cyprus presidency, the final decisions will be taken.

Bones of contention

Size of the budget

The Commission proposal envisages a 5% increase in the EU budget. In terms of GNI, this represents 1.05% in commitment appropriations and 1.00% in payments appropriations. Including the new 'Outside the MFF' items, the total expenditure attains 1.11% of the total GNI of the EU.

However, in the context of the negotiations, the debate on the size of the budget is a much more complex issue, for various reasons: Firstly, the new conditionality mechanisms introduced in the proposals for regional funds link national budgetary performance to the reception of the funds. This means that respect for the Stability and Growth Pact and for the Commission's macroeconomic recommendations will influence the funds that a country receives. As a consequence, it will be much more difficult to make a projection of expected "returns" from the EU budget.

Secondly, the proposal to establish new own resources will introduce further uncertainty as regards the amounts which will have to be paid in to the EU budget. Therefore, under this climate of uncertainty it will be much more difficult to make accurate estimates of the expected net balances and of the results of the negotiations.

As regards the mechanisms envisaged 'Outside the MFF', these need the approval of the governments of Member States in order to be activated. This procedure could lead to major administrative burdens, which is seen as contrary to the demand of simplification and flexibility, and could eventually lead to delays in the reception of the specific funds. This could be the case in particular with regard to the European Globalisation Adjustment Fund (EGF) and the Reserve for Crisis in the Agriculture Sector. The EGF will be maintained outside the EU budget and will need its own financing, which also needs separate negotiations.

Finally, there will be a generally restrictive approach in the current situation of economic crisis. Several net contributors have repeatedly claimed that the ceiling proposed by the Commission is "too high" and have demanded a "top-down approach", which means that the overall ceiling should be approved before discussing spending priorities. Because of the general austerity debate, there is no Member State which advocates an increase of the level of the EU budget as envisaged by the EC. Among others, the Spanish and Polish governments stated on several occasions that they are against the freezing of the EU budget, but that they are satisfied with the overall size of the proposed budget. Other Member States demand an EU budget "of at least its present level" in order to face current challenges.

Spending Priorities

According to initial reactions and statements, there is a broad consensus among Member States and European institutions to incorporate the EU2020 growth strategy in almost all different headings of the budget. Although it is very likely that the EC proposals will be watered down during the negotiations, the proposals have been accepted by all Member States as a basis for negotiations, and we may not expect such drastic cuts as the ones witnessed during negotiations of the MFF 2007-2013.,

2. Such as the International Thermonuclear Experimental Reactor and the European Development Fund

Table I: Comparing the Commission proposal and the Council agreement on MFF 2007-2013

Global level of commitment for the 2007-2013 period, in MEUR, at 2004 prices	Commission proposal COM(2004) 101 final	Agreement December 2005*	Cuts vs. COM in %
1a. Competitiveness for growth and employment	121,687	72,120	41
1b. Cohesion for growth and employment	336,308	307,619	8.5
2. Sustainable management and protection of natural resources	400,294	371,244	7.3
of which: CAP	301,074	293,105	2.6
3. Citizenship, freedom, security and justice	14,724	10,270	30
3a Freedom, security and justice	9,210	6,630	28
3b Citizenship	5,514	3,640	34
4. The EU as a global partner (excluding EDF and Emergency Aid)	61,223	48,463	21
Total administration expenditure	57,670	50,300	13
Compensations BG/RO	800	800	-
Total commitments	992,706	860,816	13.3
In %of EU-27 GNI	**1.20%**	**1.045**	

* European Council, Presidency Conclusions, Brussels European Council, 15-16 December 2005.
Source: European Commission (2010), own calculations

Cohesion Policy

In general terms, the EC proposes €376 billion for the cohesion policy from 2014 to 2020, which in absolute figures means an increase over the 2007-2013 allocation. However this amount includes €40 billion that the EC reserved for a future infrastructure fund that would work completely differently from programs traditionally co-financed by the Structural Funds. All in all, cohesion policy would absorb just over 32% of the future EU budget (compared with just over 35% in 2007-2013). A certain amount of this spending will be earmarked according to the priorities of the EU2020 growth strategy (most-developed regions, for instance, will have to spend at least 20% of the European Regional Development Fund allocation on energy efficiency and renewable energy projects).

During the current negotiations, the cohesion countries will try to ensure sufficient funding, in order to approach the average level of development in the EU and create beneficial conditions for the economic growth and infrastructure development. Recently, 13 Member States signed a letter defending levels of financing similar to the ones in the current financial period for cohesion policy in the MFF 2014-2020. Furthermore, cohesion countries have criticized the new macro-fiscal conditionality for cohesion policy. The creation of "transition regions"[3] has also been met with skepticism, and several delegations have argued that it would be best to concentrate resources on regions most in need. Transition regions are a priority for some countries, such as Spain, France and Germany, and have the support of the European Commission; nevertheless, we can find discrepancies concerning the definition of the new category among their advocates.

Common Agricultural Policy

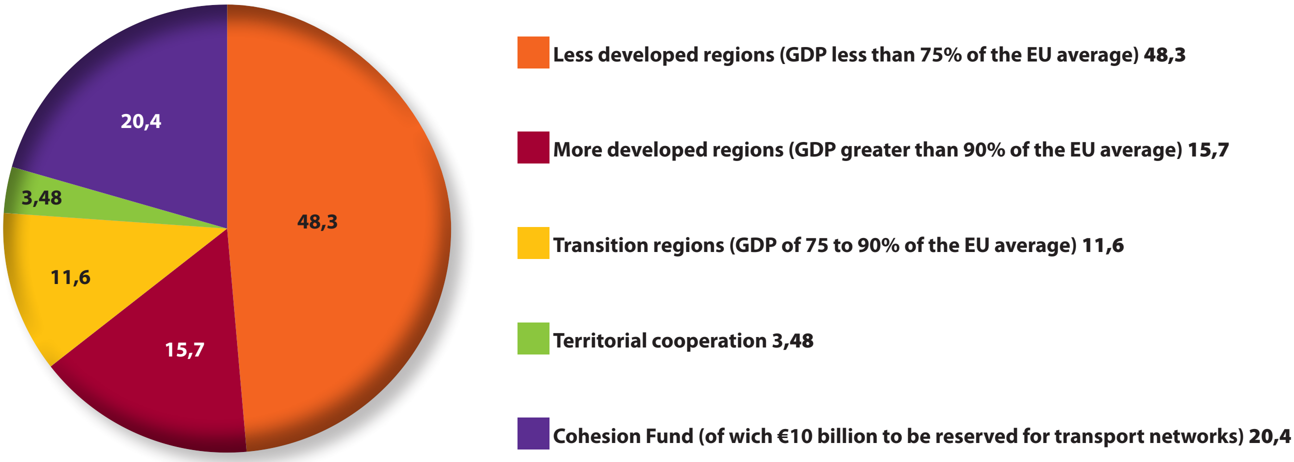
According to the Commission, the agriculture budget should not only be used to increase agricultural productivity and ensure a fair standard of living, it should also support the sustainable management of natural resources and climate action as well as a balanced territorial development throughout Europe. In order to ensure that the reformed CAP contributes to the goals of the EU2020 growth strategy, the EC proposed a stronger conditionality of direct payments to farmers, which means that 30% of direct support will be made conditional on environmentally-supportive practices. Additionally, the proposals regarding capping of direct payments, the definition of "active farmer" and the inclusion of the second pillar of the CAP (rural development) into a common strategic framework, together with the Structural Funds, represent further elements of the reform of the CAP as proposed by the EC. The amount of expenditure dedicated to CAP policy continues to decrease with reference to the MFF 2007-2013 period. The Commission proposes to freeze agricultural spending at the current level, which represents 36.2% (compared with 39.4% for 2007-2013) of the total budget[4].

The proposals regarding the CAP reform deeply divide Member States, and the current debate on the reform of this issue remains very open. On the one hand, the proposals do not follow the ideas of those Member States (such as the UK or Denmark and Sweden) which are critical of the CAP and have proposed to eliminate or substantially reduce the direct aids. On the other hand, the proposals have not been welcomed by traditional beneficiaries of the CAP (like France and Spain), which criticize points such as the cuts on overall spending on the CAP and the fact that proposals are too far reaching. A third group with different interests regarding the future of the CAP (namely Poland and some

3. This category will include all regions with a GDP per capita between 75 % and 90 % of the EU-27 average.

4. Out of this total, €281.8 billion would be earmarked during this period for direct support and agricultural market measures and €89.9 billion for rural development. These amounts would be complemented with an extra €15.2 billion outside the MFF.

Graph I: Allocation of resources for cohesion policy in %



Source: European Commission (2010), own calculations

other new Member States) demand a much stronger reform of this policy in order to achieve equal and fair competition for farmers in Europe's common market, but without any cuts on the amount of agricultural spending.

Research and Innovation

Taking into account the outcome of the budget review, the EC puts forward a greater concentration of budgetary resources in areas that could stimulate economic growth and competitiveness, such as research and innovation, based on the principles of European added value and excellence. Specifically, the EC proposes a 46% increase, up to €80 billion for research and innovation. The new Common Strategic Framework for research, innovation and technological development (Horizon 2020) will be more business-oriented and will favor research aimed at creating innovative products. Apart from some discussion concerning the transfer of certain projects out of the main headings of the MFF, such as the International Thermonuclear Experimental Reactor, Member States' representatives tend overall to be satisfied and recognise the advantages of the public-public and public-private partnering instruments put forward in the Commission's proposal for a regulation.

External Action

According to the Treaty of Lisbon, the EU aims to be an actor on the global scene that assumes responsibilities for global governance. In fact, the EU has a strong commitment to international development and provides more than half of all international development aid, the EU being the world's biggest donor of humanitarian assistance. In line with this commitment and despite the sovereign debt crisis, the Commission has proposed to increase its external action fund to €96 billion, focusing its work on four policy priorities: enlargement, neighborhood, cooperation with strategic partners and development cooperation. The main differences to the current framework are the policy principles rather than the instruments and structure of the heading. The proposal envisages nine financial instruments. Only the Partnership Instrument has been newly created and will replace the Industrial Cooperation Instrument.

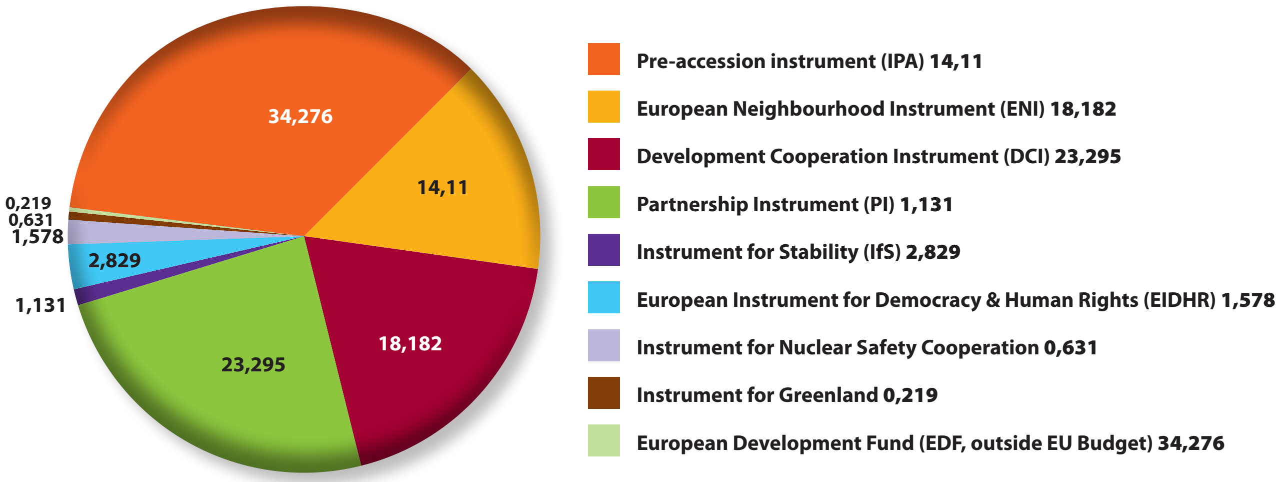
With regard to the principles, the EC puts forward an approach with different forms of cooperation. According to this principle of "differentiation," the EU will allocate a greater proportion of funds on the basis of a country's capabilities (good governance), commitments, performance, potential EU impact and in countries that are most in need. According to the principle of concentration, the EC proposes to concentrate external spending to avoid the inefficiency resulting from dispersion and fragmentation.

In general terms, the proposal to differentiate and concentrate external spending has been welcomed by the Member States. Nevertheless, we can expect a vigorous discussion on the question of which specific regions will receive financial support and how the aforementioned principles will be put in practice. The first disagreements over the future neighborhood policy have already been aired. Although all Member States stressed their solidarity with North African countries, some have expressed their fears that resources from the eastern neighborhood policy could be divested to the south.

EU Own Resources

The EU Treaty stipulates that the EU is financed from its own resources, but today the main resources of the EU budget come from contributions based on the GNI of Member States. In a context of economic crisis which may last for several years, any new proposal will have to be thoroughly analyzed in order to evaluate its financial consequences. Nevertheless, the current debate on the MFF 2014-2020 demonstrates once more the increasing dependency of the EU budget on national contributions. This also implies a dependency on national economic performance and the political willingness of national governments. In

Graph II: Financial instruments for the EU external action and amounts proposed in millions EUR



Source: European Commission

this sense, the current crisis should also be seen as a window of opportunity for a real reform of the EU budget, especially regarding the establishment of new own resources, as requested by the European Parliament and advocated by the Commission.

In the budget review, the Commission set out a non-exhaustive list of possible resources that could gradually replace national contributions as well as relieve the burden on national treasuries and proposed a new own resource system based on a Financial Transactions Tax and a new VAT-based resource.

Almost all Member States agree that the own resources system needs to be reformed and that the current VAT-based own resource should be abolished; nevertheless, the question on how a reform should be carried out is highly controversial. France and Austria are in favor of the introduction of a Financial Transactions Tax, and consider allocating a portion of its revenue to the EU budget. Germany is also in favor of the introduction of a FTT but would like to collect it by itself and continue with the GNI-based resource. The United Kingdom has already firmly rejected the FTT. Furthermore, the Own Resources Decision needs to be ratified by national parliaments and there is a risk that the processes may be complicated and slow. It will be therefore much easier to agree on elements of the expenditure side, leaving the adoption of the own resources until the last moment, but this approach clashes with the principle of "parallelism" in the negotiation of expenditure and resources which should inspire the process.

With regard to the system of correction mechanisms, the EC does not propose to abolish the existing rebates[5] or compensations. The EC proposes to introduce lump-sum compensations according to the 1987 Fontainebleau conclusions, when "the contribution is excessive compared to relative prosperity". This proposal is mainly rejected by the United Kingdom, which defended the system of corrections and by several Member States (Spain, and the new Member States), which consider that corrections are not justified.

Conclusions

After the Danish presidency took over in January 2012, a new stage in the negotiations for the MFF 2014 – 2020 began. It will culminate at the end of 2012 at the latest, with sufficient advance of the next programming period starting from January 1, 2014, in order to allow for proper planning and program implementation in the Member States.

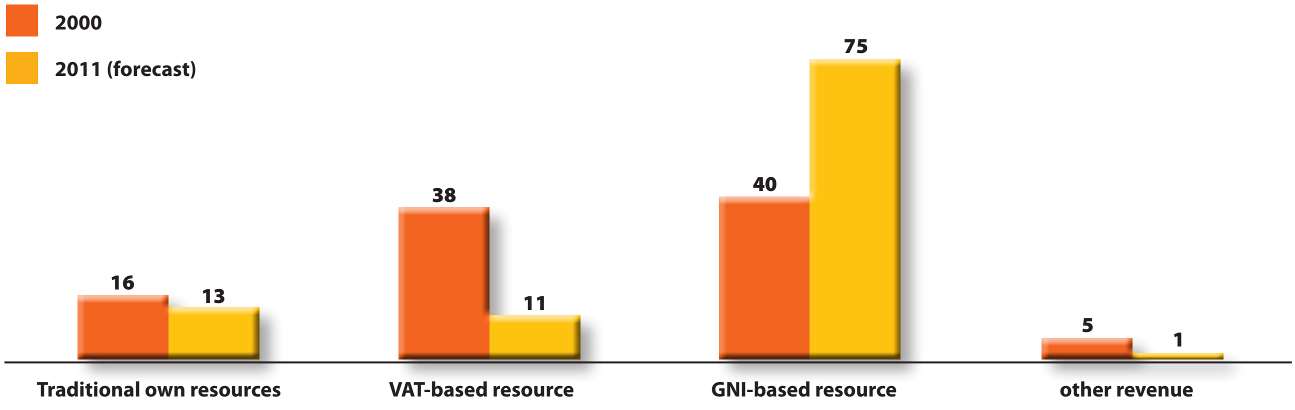
In our analysis we could confirm that the current austerity debates at the national level shape the negotiations of the MFF 2014-2020. At the same time, we can confirm a strong commitment to reinforcing and implementing the EU2020 growth strategy in all spending headings. The debate also contains some innovative proposals regarding a reformed system of financing. Nevertheless, apparently, the traditional conflict lines regarding the Cohesion policy and the CAP are still the most important issues on the agenda.

However, most actors agree that the EU budget should become a stronger instrument of economic governance in the current context. The EU will not survive simply with more austerity measures. By pooling resources and offering economies of scale, the EU budget can be more effective than 27 national budgets. The EU budget should at least provide the necessary resources to the EU in order to support the achievement of agreed common policy targets (e.g. EU2020 growth strategy) and to close the gap between its ambitions and resources.

An increased budget could improve the potential role of the EU to help member states out of the crisis, it could offer stimulus measures in line with the current top priorities (creating jobs and supporting growth) and respond effectively to the wide variety of political, social, environmental and economic challenges the EU is facing.

5. The British rebate, introduced in 1984, as well as the discounts for Germany, the Netherlands, Austria and Sweden included in their financing of this rebate, adopted since 2000.

Graph III: Own resources of the EU budget in % of total revenue



Source: European Commission

Furthermore the current crisis should also be seen as a window of opportunity for the establishing of new own resources. Genuine own resources at the EU level would not increase the overall tax load for citizens, but it would reduce the burden of Member States and also represent instruments which could be applied proactively. Genuine own resources would also grant substance to the EU Treaty provision that EU expenditure is to be financed by EU own resources. Additionally, the European Parliament could assume one of the crucial elements of parliamentary power - budgetary power, which would increase the transparency of the budgetary decision-making process, the democratic responsibility of the Parliament to the taxpayer and improve citizens' trust in it.