



ISSN: 2036-5438

The Multiannual Financial Framework 2014–20 – Best European value for less money?

by

Mario Kölling*

Perspectives on Federalism, Vol. 4, issue 3, 2012





Abstract

The eurozone crisis has made budgetary issues the focal point of political and public debates about the European Union. Besides the pessimistic context and conflictive nature of the ongoing negotiation of the multiannual financial framework 2014–20, there seems to be a common ground to work towards an EU Budget that contributes to growth and employment in line with the Europe 2020 strategy. If this common understanding materialises, then this would not only be a major step to convert the budget into an instrument to overcome the crisis but also change the nature of the communitarian budget. In this article, I analyse the principal conflictive topics as well as the negotiation positions and proposals of the main actors in order to present the current state of the negotiation of the MFF 2014–20. I will specifically analyse the preferences of the main actors.

Key-words

multiannual financial framework; EU budget; Europe 2020 strategy; Common Agricultural Policy; Cohesion Policy



Introduction

The eurozone crisis has made budgetary issues the focal point of political and public debates about the European Union. These debates on transfers from national budgets to European crisis mechanisms and bailout funds have distorted the public perception of the financing of the EU and its spending policies. The EU budget is based on a multiannual financial framework (MFF), negotiated between the individual members and agreed upon at the level of European institutions. Traditionally the negotiations of the MFFs have been highlighted in the academic literature and media as tortuous battles where agreements are reached only at the last minute.¹ Since the EU budget represents only roughly 1 per cent of the Community Gross National Income (GNI), the question is why so much political drama? In fact, the negotiations of the MFFs are more than purely financial negotiations about budgetary costs and benefits of different Member States but determine the EU's financial resources and policy priorities for several years. In this sense the MFFs combine three complex elements: the debate on the budgetary exercise, the policy goals and the institutional influence of the different actors in the decision making process.

The euro crisis and conflicts among Member States on budgetary stimulus for growth or national cutbacks have affected the ongoing negotiations. The perceived decline in public support for the EU has added further tension, as has the fact that the Member States most affected by the crisis are the same that had received structural support from the EU budget over several decades.

Nevertheless, besides the pessimistic context and conflictive nature of the ongoing debate, there seems to be a common ground among Member States to work towards a MFF 2014–20 that contributes to growth and employment in line with the Europe 2020 strategy. If this common understanding materialises, then this would not only be a major step to convert the budget into an instrument to overcome the crisis but also change the nature of the communitarian budget. Even though the European Commissioner for Budget, Mr. Lewandowski, made it clear that the EU budget is not the “magic solution” to the crisis, the question remains open and crucial: How far can the MFF 2014–20 help to counteract the negative impacts of the crisis and the social impact of the austerity measures



implemented across Europe? What is the role of the current debate on the MFF 2014–20 for the present economic crisis?

While small and insufficient to address the crisis in Europe, the EU budget is the principal financial instrument for joint action by Member States to face common challenges. In relation to national budgets, the distinctive role of the EU budget lies in financing investments where important economies of scale can be reached, steering national policies, but also in co-generating investments from private and public sectors. In fact, the EU budget consists of up to 95 per cent of policy-related investment expenditure and only 5 per cent of administrative expenditure.

Historically, the EU budget has played an important role in the EU integration process, making it acceptable for Member States through specific financial compensations and financing major EU policies such as the CAP and Regional Policy. These “compensations” were locked into the EU budgetary resource structure and made the EU budget quite “inflexible” and resistant to reform. Nevertheless, the EU budget has evolved, adapting its financing and spending structure to the EU integration process as well as to specific challenges. This has progressively consolidated the budget as a main economic instrument.¹¹

In this article, I analyse the principal conflictive topics as well as the negotiation positions and proposals of the main actors in order to present the current state of the negotiation of the MFF 2014–20. I will specifically analyse the preferences of the main actors

- with regards to the budgetary exercise, i.e. the distribution of resources among the spending “headings” or policy areas compared to the MFF 2007–13;
- with regards to policy goals, i.e. the role that the MFF 2014–20 should assume in order to overcome the crisis as well as to contribute to the fulfilment of the objectives of the Europe 2020 strategy; as well as
- in relation to the institutional setting, i.e. the respective roles of the European Commission and the European Parliament in the budgetary decision making process.

In answering these questions, this article aims to give an insight into the complex negotiation of the MFF 2014–20 and contribute to the debate on whether the MFF 2014–



20 will reinforce the ongoing paradigm change in the perception of the EU budget, from a budget aimed at compensating Member States for their political compromises to a budget aimed at solving EU-wide problems.

1. The state of the negotiation

The budgetary negotiation process started some years ago with a broad public debate on the EU budget.^{III} Several new ideas came up, aiming at a refocusing of EU spending priorities and the financing of the EU budget (Haug et. al. 2011).^{IV} However, as a major difference to former negotiations, the negotiation of the MFF 2014–20 takes place in a context of economic crisis: the first major crisis of the euro and public debt markets. The negotiation is also complex for several other reasons:

- It is the first time that 27 Member States negotiate an MFF. The enlargements of 2004 and 2007 resulted in a significant shift in the balance of net contributors and net beneficiaries, especially in the cohesion policy where Poland became the largest recipient. Croatia will join the European Union on 1 July 2013 as its 28th Member State.
- The MFF 2014–20 must fulfil the objectives of the Europe 2020 strategy.
- The Lisbon Treaty has introduced new objectives for the EU which require financing, such as territorial cohesion, policies on migration and climate change as well as the creation of a European External Service.
- There will be a greater role for the European Parliament, which will have to adopt the Regulation before the Council makes its decision (co-decision procedure).
- There is no effective ongoing parallel negotiation on resources which would allow compensating Member States for some compromises.
- Negotiations are carried out in a political climate characterized by an increasing euroscepticism, not only among citizens but also among the political elite.

During the past months, the Polish and Danish EU Presidencies have undertaken efforts in order to narrow down Member States' positions. Although the Danish Presidency achieved some progress during the first months of 2012, it could not advance enough to have a first concrete debate on an outline of the MFF 2014–20 at the June



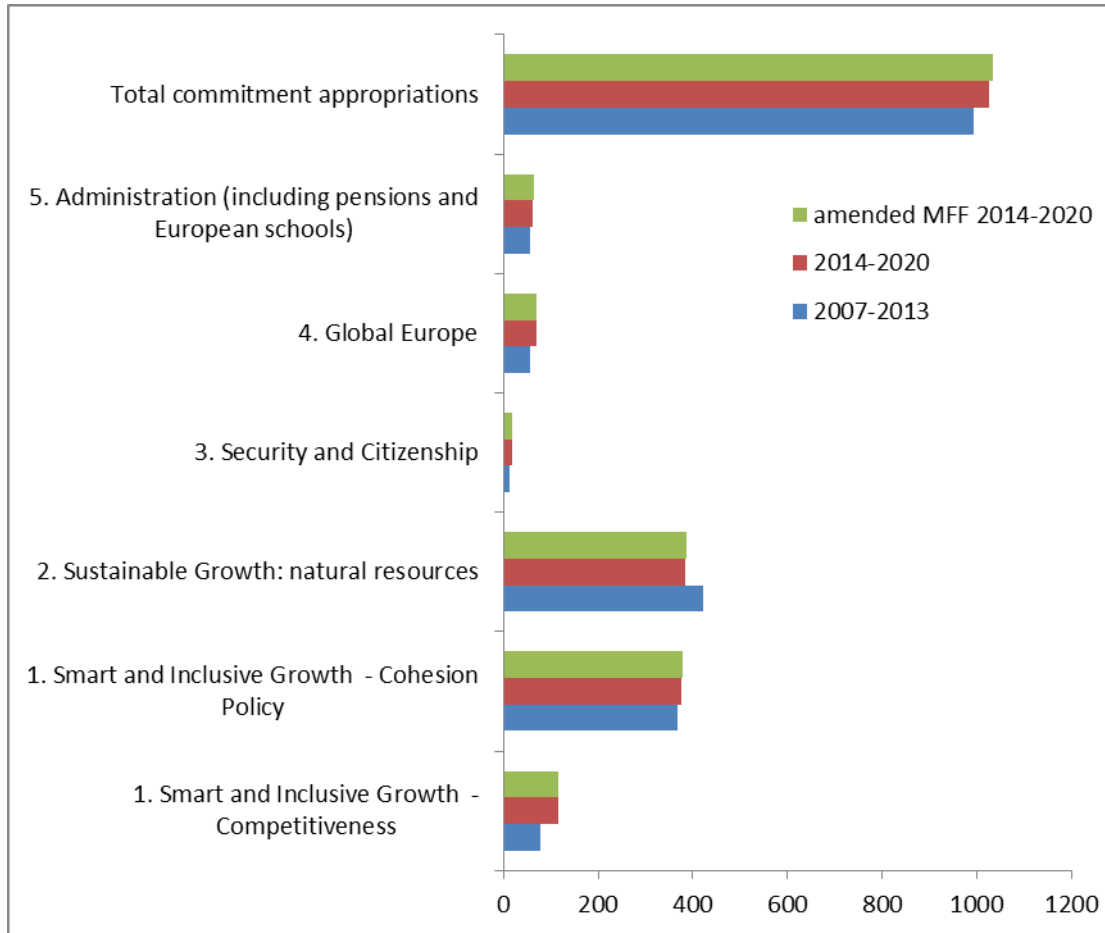
Council. Member States are still divided on several key elements of the European Commission's proposals and the discussion still concentrates primarily on the overall size of the MFF 2014–20 as well as on the decisive questions of the CAP reform and future Cohesion Policy (Kölling et. al. 2012a). Two broad groups of opinions can be identified: the “Friends of Cohesion Policy”^v on the one hand and the “Friends of Better Spending”^{vi} on the other. Although both groups agree that the EU should direct its efforts primarily at measures which significantly contribute to sustainable economic growth and employment, the first group focuses on the fact that the EC's budgetary proposal constitutes the absolute minimum for this task. The second insists on the need to limit public spending and considers that the quality of spending is key to creating additional growth. In this controversial debate, longstanding arguments on financial cost-sharing as well as about the added value of EU policies like the CAP and the lack of intervention in areas where spillover effects could be expected get mixed up with the debate on the future role of EU institutions in the budgetary decision making process.

Despite this conflict, the idea that the MFF 2014–20 should play an important role in stimulating growth has appeared to be gaining force. During the European Council at the end of June, Member States adopted the “Compact for growth and jobs” which will reallocate €60 billion of unused structural funds and €60 billion of capital from the European Investment Bank to fast-acting growth measures.^{vii} In addition, Member States stated in the Council conclusions that the EU budget must become a catalyst for growth and the creation of jobs across Europe^{viii}.

However, already at the General Affairs Council on 24 July 2012 this consensus seemed to have disappeared, and the two groups were facing each other again. During this Council the European Commission presented a revised proposal for the MFF 2014–20 which included the accession of Croatia as well as the most recent economic data. While the “Friends of Cohesion Policy” disapproved the revised proposal as not consistent with the message of the earlier European Council, the “Friends of Better Spending” criticised the proposal as based on over-optimistic economic forecasts and being too generous.



Figure 1: Comparing MFF 2007–13, the original MFF 2014–20 proposal and the updated proposal (in million Euros and 2011 prices)



Source: Own elaboration, based on COM(2012) 388 final; COM(2011) 500

After taking over the EU Presidency, the Cyprus government held a series of bilateral meetings with Member States and continued to work on the “negotiating box”. In addition, President Van Rompuy will start bilateral negotiations at the beginning of November in order to prepare the “endgame”. Finally, at the end of October the European Parliament is expected to adopt its revised position. Despite this tight schedule, Member States expressed their willingness to reach an agreement at a special European Council scheduled for 22–23 November and dedicated solely to the MFF 2014–20. The final agreement should be achieved during the European Council of 13–14 December since, according to budget rules, the Commission has to start preparing the 2014 budget in January 2013



(Kölling et. al. 2012b). If no agreement is reached by the end of 2012, the 2013 ceilings will be extended to 2014 with a 2 per cent inflation adjustment (TFEU, Art. 312.4).

2. The preferences of the main actors

2.1 The European Commission

The publication of the European Commission's proposal marked the starting point for negotiations. As we could see also during previous negotiations, the structure and the content of this proposal have implications for the way in which Member States develop their positions.

In general terms, the proposed structure and duration for the MFF 2014–20 represent a continuation of the MFF 2007–13. The EC tried to accommodate the austerity demands by some Member States in order to maintain a certain influence over the negotiation process and to avoid the risk of a stalemate in the negotiation. However, the proposal also included insights from the budget review as well as initiatives made by the EP. In this regard, the EC proposed several innovative elements and changes to the “rules of the game” on budgetary decision-making. The main innovations of the proposal can be summarised in the following way:

- Concentration on key policies, above all those of the Europe 2020 strategy, in order to prioritise spending on growth and employment policies to respond to the economic crisis in the EU;
- EU spending should clearly offer a “European added value”, meaning that there is a general budgetary constraint and choices have to be made;
- Simplification, i.e. reduction of instruments and administrative costs, especially as regards the structural funds and funding for research and innovation;
- Introduction of *ex ante* and *ex post* conditionality in regional policy, thus linking the use of structural funds to national budgetary management and fulfillment of the Stability and Growth Pact objectives;
- Flexibility within and across budgetary headings as a response to a traditional demand of the European Parliament;

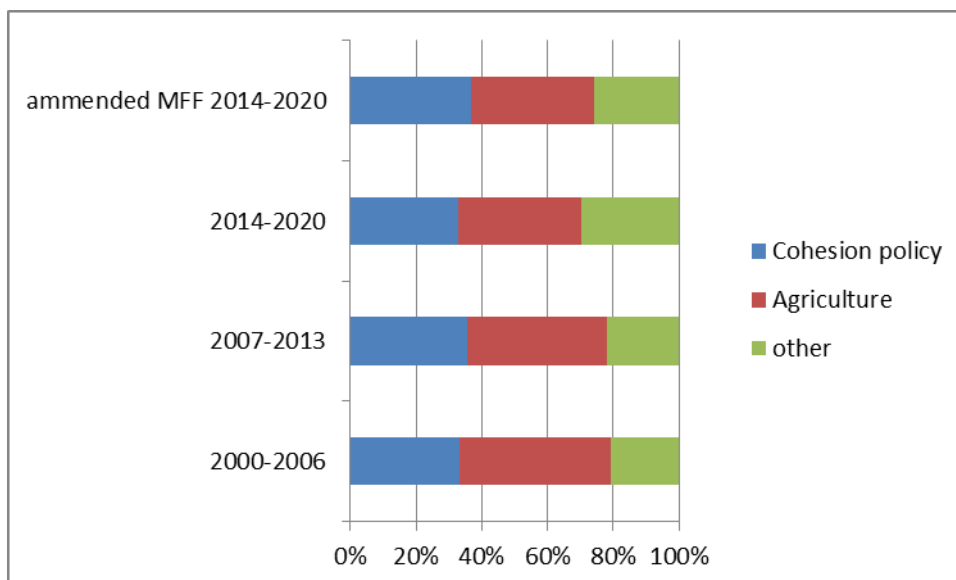


- An own resource system based on a new Financial Transactions Tax (FTT) and a reformed Value Added Tax (VAT) resource: this is indeed *the* main innovation in the proposal and tries to give the EU budget greater autonomy and a new source of income that is not linked to national GDPs; and finally
- Enhanced use of innovative financial instruments (Public-Private Partnerships and the European Investment Bank) in areas such as research, innovation and structural funds.

With regard to the overall ceiling, the Commission foresees an overall amount for the seven years of €1,025 billion in commitments (equal to 1.05 per cent of the EU GNI) and €972.2 billion in payments (1 per cent of EU GNI). This represents a 5 per cent increase of the EU budget with respect to the MFF 2007–13.

Regarding the specific spending headings, although all spending headings have been subject to dynamic reforms over the past decades, the two largest – the Common Agricultural Policy (CAP) and Cohesion Policy – are again the most hotly debated topics. Headings 3 (Security and Citizenship) and 4 (Foreign Affairs) and surprisingly also heading 5 (Administration), where smaller amounts are concerned, are less problematic.

Figure 2: Evolution of spending headings in relation to the total of the MFF



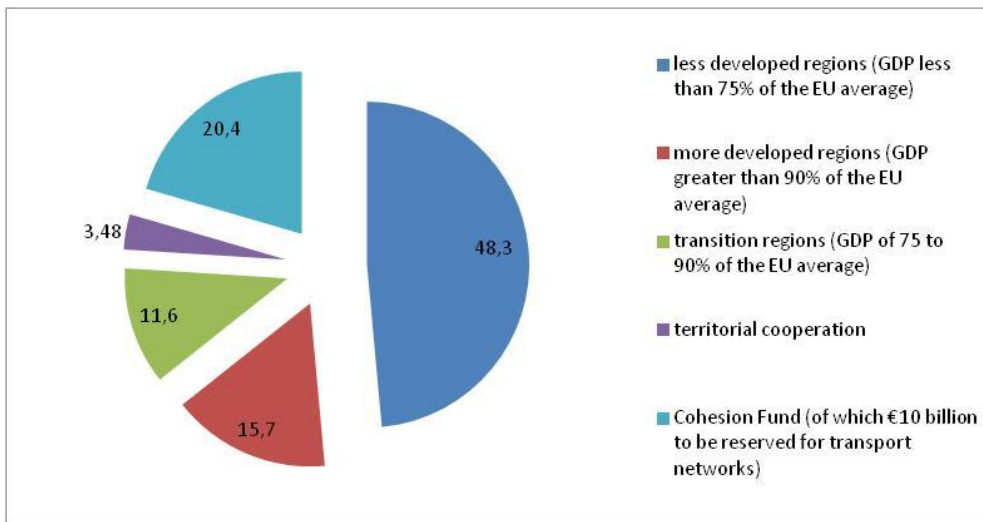
Source: Own elaboration based on COM (2011) 500.



Cohesion Policy

In general terms, the EC proposes €376 billion for Cohesion Policy, which in absolute figures means an increase over the 2007–13 allocation. However, this amount includes €40 billion reserved for a future infrastructure fund that would work completely differently from programs traditionally co-financed by the Structural Funds.

Figure 3: Allocation of resources for Cohesion Policy (in percentages)



Source: Own elaboration, based on COM(2011) 500

As a novelty, a specific amount of Cohesion spending would be earmarked according to the priorities of the Europe 2020 strategy (the most developed regions, for instance, will have to spend at least 20 per cent of European Regional Development Fund allocations on energy efficiency and renewable energy projects). Another new element is the creation of “Transition Regions” with a per capita GDP of between 75 and 90 per cent of the EU average. These regions will receive a “safety net” of structural funds money amounting to at least two thirds of their allocations during the MFF 2007–13. In general, the Commission proposed to reduce the absorption rate from 4 to 2.5 per cent of the GNI for cohesion allocations.

Common Agricultural Policy

In order to ensure that the reformed CAP contributes to the goals of the Europe 2020 strategy, the EC proposed a stronger conditionality of direct payments to farmers, which



means that 30 per cent of direct support will be made conditional upon environmentally supportive practices. Additionally, proposals regarding the capping and convergence of direct payments and the inclusion of the second pillar of the CAP (rural development) into a common strategic framework, together with the Structural Funds, are further elements of the CAP reform as proposed by the EC. In addition to that, after two decades of progressively decoupling CAP support from production, the EC proposed to support especially active farmers.

The amount of expenditure dedicated to the CAP continues to decrease with reference to the MFF 2007–13, and the share of the CAP of the total budget will be reduced from 41 to 36 per cent.

Research and Innovation

Taking into account the outcome of the budget review, the positions of the EP, as well as those of the European Council, the EC proposed a 46 per cent increase to reach €80 billion in spending for research and innovation. Research should be based on the principle of excellence and be business-oriented. In addition, the new Common Strategic Framework for research, innovation and technological development (Horizon 2020) will concentrate on areas that could stimulate economic growth and competitiveness, e.g. health, food security, bio-economy, energy, and climate change.

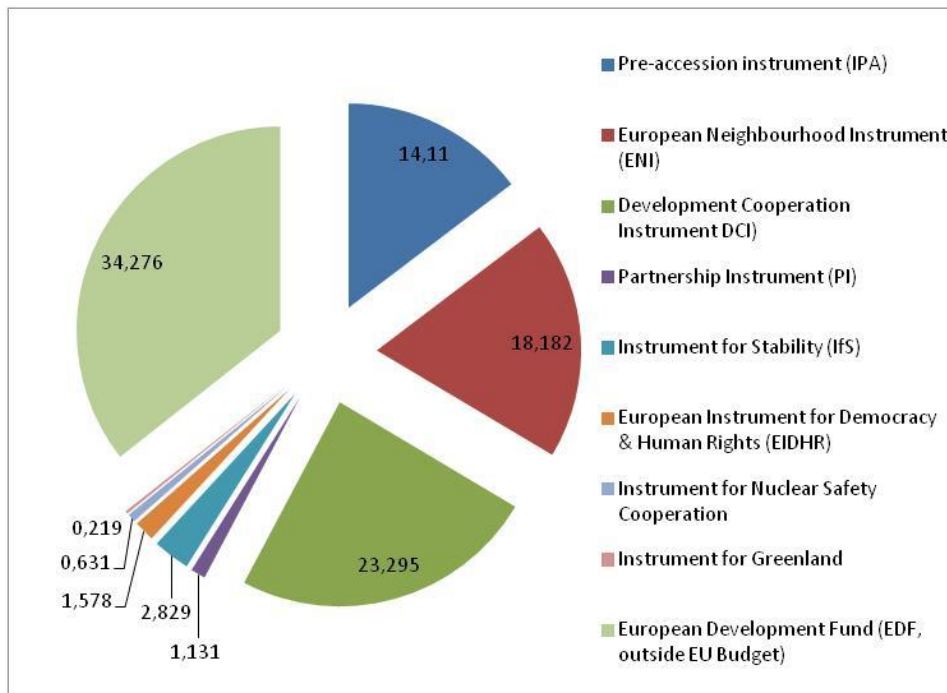
External Actions

Despite the sovereign debt crisis, the Commission proposed to increase the resources for its external actions to €96 billion, thus following the expectations brought forward during the budgetary review as well as the objectives for EU external actions defined in the Lisbon Treaty and the Europe 2020 strategy. The EC will focus its work on four policy areas: enlargement, neighbourhood, cooperation with strategic partners, and development cooperation. The proposal foresees nine financial instruments. Only one, the Partnership Instrument, has been newly created and is to replace the Industrial Cooperation Instrument. The main differences to the current framework lie primarily in policy-guiding principles: differentiation, conditionality, concentration as well as a renewed attempt to achieve simplification. Moreover, the increased conditionality related to the



implementation of EU external action instruments has redefined the geographic focus to further represent new elements.

Figure 4: Financial instruments for the EU external action and amounts proposed (in million Euros)



Source: own elaboration, based on COM(2011) 500

Administration

Administrative expenditure currently accounts for 5.7 per cent of spending, used for the European Parliament (20 per cent), the European Council and the Council of Ministers (7 per cent), the Commission (40 per cent) and the smaller institutions and bodies (15 per cent). For the next MFF, the EC proposes a 5 per cent reduction in the staff of each institution as well as measures to increase bureaucratic efficiency.

2.2 The European Parliament

The Treaty of Lisbon gave the European Parliament (EP) the power of consent as regards the expenditure side of the budget (TFEU Art. 312). Although the assent procedure does not formally grant a power of amendment to the EP, this is a fundamental change compared to the previous negotiations because Member States now have to



incorporate the opinion of the EP before reaching the final agreement. The experience of the first two years of the Treaty has also shown the enhanced political role of the European Parliament in annual budgetary negotiations.

During the current negotiations for the MFF 2014–20, the EP not only assumed a new formal role but has also been one of the major players from the very start of the process, for example:

- the EP did not wait for the Commission proposal before presenting its own position;
- the EP elaborated position papers on conflictive issues according to the negotiation steps of the Council;
- the EP representatives met with the Trio presidency ahead of the General Affairs Council; and
- the EP has increasingly become the contact point for national parliaments on a day-to-day basis and also, in a conceptual manner, at common conferences.

Traditionally, because of the lack of budget autonomy and responsibility, the European Parliament has had an incentive to propose expenditure programmes. In practice, however, differences in the incentives for Member States and the EP have been reduced, on the one hand, by a growing acceptance among MEPs of an austerity approach towards budgetary decisions and, on the other hand, by the interests of individual Member States in specific expenditure headings. In this sense the definition of a common position on specific spending headings, e.g. the Cohesion Policy, is increasingly complex.^{IX} In the same way, with regard to the CAP reform, MEPs have submitted more than 7,000 amendments to the draft proposals for reform,^X and the Agriculture Committee will have to work hard to find a common position which has to be voted upon by the end of November.

Nevertheless, an overwhelming majority of MEPs approved the report of the Special Committee on Policy Challenges and Budgetary Resources for a Sustainable European Union after 2013 (SURE), which called for an increase of at least 5 per cent over the 2013 budget for the next MFF. This would raise the size of the budget to 1.1 per cent of the EU GNI. According to the EP, this would not signify additional costs for the Member States. In this sense the European Parliament voted, on 23 May 2012, in favour of an FTT as a measure to generate additional own resources for the EU budget. This resolution



underlined the EP's position that it will not give its consent to the MFF without a political agreement on a reform of the own resources system. In addition, a further resolution on the MFF 2014–20, calling for more flexibility in shifting funds between the different areas of expenditure as well as between fiscal years, was adopted by an overwhelming majority in June 2012.

2.3 The EU Presidency

The mediation provided by the EU Presidency is indispensable to finding compromises and to the elaboration of a final package deal. Adopting a “European hat”, Presidencies keep the negotiations moving at various institutional levels and present compromise options on conflicting issues at critical moments in the negotiation. While the Polish EU Presidency pursued a “bottom-up” philosophy in order to clarify the EC proposals as well as to improve the understanding of individual negotiation positions, the Danish EU Presidency assumed a more proactive approach and presented, during its term, different versions of the “negotiating box”. Experience shows that small Member States make good EU Presidencies since they are cautious in their external behaviour, acting as honest brokers. However, until now no small country has ever been able to reach an agreement on an MFF. It has always been the bigger Member States that could subordinate certain national material interests to the benefit of reaching an agreement.^{XI} This could also be seen during the negotiation of the MFF 2007–13, where the excellent Luxemburg Presidency could not accomplish an agreement but the UK Presidency did, accepting a reduction of its “rebate”. Finally, the then only recently elected Chancellor Merkel helped with some additional resources to reach the package deal.

Whether Cyprus, which is now presiding over the EU for the first time, will fulfil both these expectations and its own ambitions has yet to be seen. Several observers consider that its limited administrative resources, the fact of being a minority government and the fragile economic situation are not the best conditions for a successful EU Presidency.^{XII} Nevertheless, Nicosia has confirmed its ambition to reach an informal agreement at the October European Council, a deal with the European Parliament in November and a final agreement in December. In January 2013, Ireland will assume the Presidency, again a small country but more experienced in chairing the Council.



2.4 The Member States

The Member States receive different amounts of financial resources from specific headings of the EU budget and contribute to a different degree to its financing. Although these national balance sheets or net returns do not reflect the benefits of EU integration, EU Member States have traditionally concentrated on these zero-sum terms in order to determine their negotiation positions.

The bargaining power of Member States and the unanimity rule, according to which each Member State has a veto and can thus block the final agreement, determine the outcome of the intergovernmental negotiation. Within this context, the top one or two priorities of each Member State have to be accommodated as far as possible, no matter the size of the country. Nevertheless, in the EU27 coalition building has become more important. As already mentioned, two broad groups can presently be identified: the “Friends of Cohesion Policy” and the “Friends of Better Spending”. Although the names have changed, both groups represent the traditional division between net contributors and net recipients. Additionally, these groups (with the exception of Italy) also reflect the existing conflict of opinion among Member States on EU anti-crisis measures as well as the tense relation and mistrust that persist between them.

With regard to the “Friends of Better Spending”, already in December 2010 the UK, France, Germany, The Netherlands and Finland sent an open letter to Commission President Barroso, demanding an increase of the MFF 2014–20 below the rate of inflation. Since then, around ten Member States have claimed the same austerity for the MFF 2014–20 as applied at the national level, as well as a concentration on “better spending” for “smart growth”. During the General Affairs Council on 24 April, a group of seven Member States, signing as “Friends of Better Spending”, issued a non-paper reiterating their demands for a limitation of public expenditure at the European level^{XIII}. In this sense the impact and not so much the amount of EU funds should be increased in order to reach sustainable growth and the economic governance objectives. In addition, the spending of EU funds should be planned, programmed, controlled, and evaluated in a more efficient way.

Similar concerns were raised on the amended MFF 2014–20 proposal. The group claimed it was still inconsistent with the current economic crisis and Member States’ fiscal consolidation efforts. The “Friends of Better Spending” represents those countries where



debate at the national level is highly politicised and where the EU budget has become an issue of political symbolism. National parliaments such as those of the Netherlands and the UK have approved negotiating lines for their governments, dictating a nominal freeze of the budget. In other countries, such as in Germany, debates among citizens and policy-makers backing the austerity position of their government have taken place, expressing concerns about their role as European paymasters.

The group of “Friends of Cohesion Policy”, on the other hand, was formed by the new Member States plus Portugal, Greece, and Spain in 2004 to secure the role of Cohesion Policy in the negotiation of the MFF 2007–13. The Polish government then re-activated the group, which presented its first joint declaration at the General Affairs Council in November 2011, defending the necessary resources for the Cohesion Policy and the CAP. On 24 April 2012, 12 Member States^{XIV} plus Croatia signed a communiqué in Luxemburg stating that the Commission’s proposal concerning the Cohesion Policy would represent the absolute minimum. In early June, the “Friends of Cohesion Policy” group adopted a further statement in Bucharest, signed by 14 Member States^{XV} plus Croatia, reiterating the important contribution that the Cohesion Policy makes in terms of growth and employment. The “Friends of Cohesion Policy” also adopted a negative view on the reduction of the Cohesion Policy budget by around €5.5 billion in the revised MFF 2014–20 and claimed that the revised proposal “is not consistent with the message of the [June] European Council”^{XVI}.

Besides the manifest conflict between the “Friends of Cohesion Policy” and the “Friends of Better Spending”, each group internally disagrees over which headings of the budget should be subject to spending restrictions, which headings should be prioritised, as well as over how the EU should be financed.

Overall Ceiling

Because of the general austerity debate, no Member State advocates an increase of the level of the EU budget as foreseen by the EC. However, among the “Friends of Better Spending” a debate has emerged on how much the budget should be reduced. While in January 2012 the UK, Germany, Austria, The Netherlands and Sweden demanded that the Commission’s proposal needed to be reduced by €100 billion, Finland claims a budget of less than 1 per cent of EU27 GNI.



After first supporting the austerity demands, Italy has since recently sympathised with the “Friends of Cohesion Policy”. France changed its position after the national elections and, together with the Czech Republic, has not specified what amount of reduction it seeks. However, there is a growing number of Member States demanding the inclusion of spending topics which have so far been placed outside the budget within the MFF structure, e.g. emergency tools for agricultural market crises. This could require cuts in other areas.

Cohesion Policy

Naturally, the cohesion countries try to ensure sufficient funding for the Cohesion Policy in order to approach the average level of development in the EU and to create beneficial conditions for economic growth in their less developed regions. In this context, several cohesion countries have criticized the new macro-fiscal conditionality for Cohesion Policy. Although the goal of conditionality, as favoured by the “Group of Better Spending”, is to punish misbehaviour on the national level, suspending funding will have the most direct negative impact in these regions. Some countries (Italy, Poland, Lithuania and Estonia, amongst others) have called for macroeconomic conditionality to apply to all EU policies, not just in the field of structural, rural development, and fisheries funds. The definition of the new category of “transition regions”^{xvii} has also been met with scepticism, and several Member States have argued that it would be best to concentrate resources on regions most in need. On the other hand, some French and German regions have opposed their government’s position and firmly support the new category of “transition regions”. The “Friends of Cohesion” have demanded not to include specific measures in the future Cohesion Policy for Member States with a significant decrease of their GDP between 2007 and 2009.^{xviii} This has been criticised by the Spanish government, which has only joined this group together with the Czech Republic in June 2012, after this demand had been excluded and the future role of Spain as net beneficiary clarified.

In addition, not all beneficiaries of the Cohesion Policy concentrate on this spending heading alone, in the sense that cuts under other headings in favour of Cohesion Policy are not supported by all Member States. Furthermore, several Member States, mainly the “Friends of Better Spending”, would like to cap spending in Cohesion Policy and create a “reversed safety net” or concentrate structural funds on tackling unemployment, in general,



and youth unemployment, in particular. These proposals could also divide the “Friends of Cohesion”, which all have different needs to meet.

Common Agricultural Policy

The proposals regarding the CAP reform also deeply divide the Member States. On the one hand, the proposals do not follow the preferences of those Member States (such as the UK, Denmark and Sweden) critical of the CAP, who have proposed to eliminate or substantially reduce direct aid. On the other hand, the proposals have not been welcomed by traditional beneficiaries of the CAP either, like France, Ireland and Spain, which amongst others criticize the cuts in the overall spending of the CAP and argue that the reform proposals go too far. A third group, comprising Poland and some other new Member States, demands a much stronger reform of this policy in order to achieve an equalisation of direct payments and fair competition for farmers in the EU market, as well as support for increasing the competitiveness of European agricultural products on the global market. In 2010, France was the biggest recipient of agricultural funds with 18 per cent, while Germany and Spain jointly occupy the second place, each receiving 13 per cent of overall agricultural expenditure.

Research and Innovation

Apart from discussions to omit certain projects – such as the International Thermonuclear Experimental Reactor – from the main headings of the MFF, overall Member State representatives tend to be satisfied and recognise the advantages of public-public and public-private partnership instruments put forward in the Commission’s proposal. Some conflicting points are related to the new financing rules proposed by the Commission. In addition, some Member States have criticised the concentration on excellence and demanded programmes which would help to reach the capacities needed in order to compete with those Member States who, traditionally, have been more successful in European R&D programmes.

External Actions

In general terms, the proposal to differentiate and concentrate external spending have been welcomed by the Member States, too. A key priority for Member States, the EC and



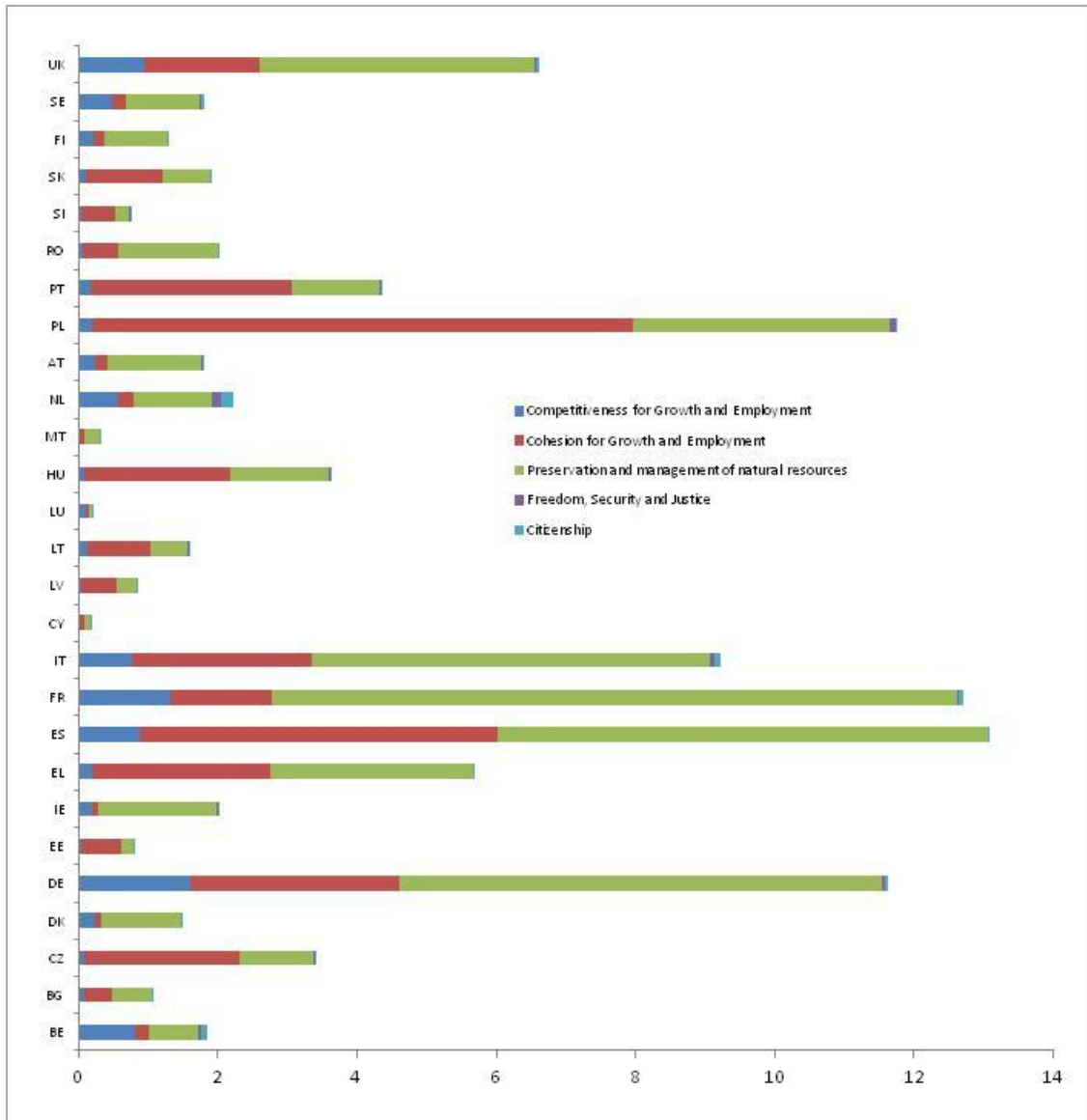
the EP is to respect the commitment to dedicate 0.7 per cent of GNI to the fulfilment of the Millennium Goals. Enlargement and the ENP are further priorities. Nevertheless, Member States looking to retain spending under specific headings (like PAC or the Cohesion Policy) would probably argue that cuts be made elsewhere (such as under heading 4). Moreover, Member States which advocate a reduction of the EU budget would accept cuts under heading 4 in order to achieve the final agreement. In addition, we can expect a heated discussion on the question of which specific regions will receive financial support and on how the new policy principles for EU external actions will be put in practice. The Spanish government has already argued that there should be an increase in funds for Latin America and expressed concern over the fact that the MFF 2014–20 will exclude bilateral agreements with eleven countries in Latin America.

Administration

While several Member States, such as Finland, Ireland, The Netherlands, Spain and Sweden, have demanded additional cuts under heading 5, Belgium, Luxemburg and Poland on the other hand support the Commission's proposals under this heading.



Figure 5: Funds received by Member State by spending headings (in billion Euros as of 2010)



Source: Own elaboration, based on: http://ec.europa.eu/budget/index_en.cfm

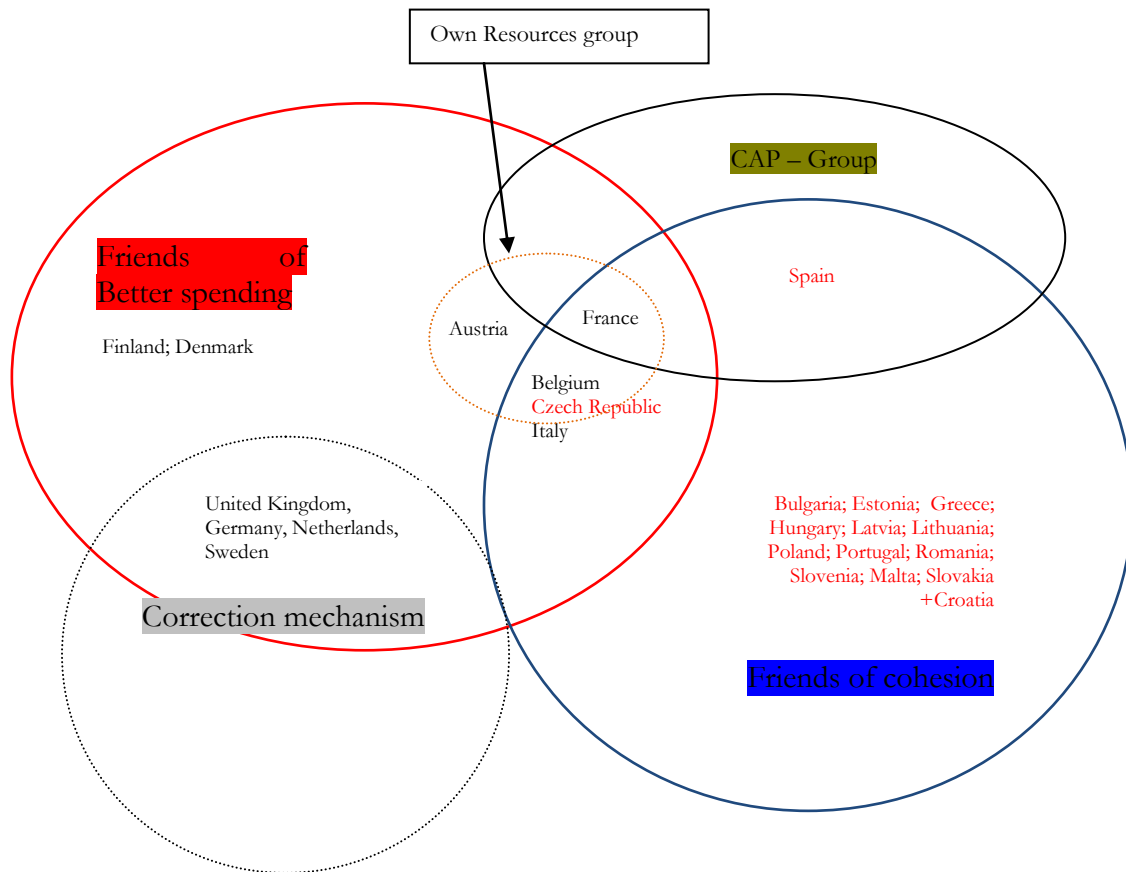
EU Own Resources

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 of how such a reform should be carried out is highly controversial. Belgium, Greece and Austria are in favour of introducing a Financial Transactions Tax (FTT) and consider allocating a portion of revenue from it to the EU budget. Especially France has



taken the lead in demanding new own resources in order to ensure coherence between the ambitions and capacities of the EU budget. Germany is also in favour of introducing an FTT but would like to collect it by itself and continue with the GNI-based resource. The UK has already firmly rejected all proposals regarding new own resources. “We’re not going to agree to some clever ways of raising additional funds through the back door”, said UK Europe Minister David Lidington during the General Affairs Council on 24 July.

Figure 6: simplified scheme on Member States positions on conflicting issues on the MFF 2014–20



Source: Own elaboration



Conclusions

In this text I have analysed the principal conflicting topics as well as the preferences of the main actors in order to outline the challenges which the Cypriot EU Presidency has to overcome in order to reach an agreement on the MFF 2014–20 by the end of this year.

In particular, with regard to the budgetary exercise and according to the EC proposals and reactions to it by the EP and Member States, I conclude that the MFF 2014–20 continues the evolutionary process of former MFFs within the logic of an EU budget according to which Member States are not willing to go beyond small incremental changes in the structure of the EU budget. Although both policies have been deeply reformed as to their internal operation, the CAP and Cohesion Policy remain the most important spending headings and represent the most important issues on the agenda. In this sense the current negotiation also reflects the longstanding conflict inherent in the logic of the budget structure. Since no Member State has claimed an increase of the EU budget, the question is: where to cut spending? There are strong positions regarding the Cohesion Policy and the CAP and cuts on spending of External Actions or for Competitiveness seem very likely to occur in order for a final agreement to be reached.

With regard to the policy goals, the strong consent of all actors to increase the conditionality of spending upon fulfilment of the objectives of the Europe 2020 strategy, as well as to use the EU budget as a tool to stimulate job creation and growth in areas where the EU can deliver an added value, can be confirmed. However, there is no consensus on how to stimulate job creation or on what exactly constitutes a European added value.

Although an increasing percentage of spending is earmarked for fulfilment of the Europe 2020 strategy and although other “horizontal” headings further increase their share in the total budget, the EC did not present a revolutionary budget. Its proposals thus reinforce the evolutionary paradigm in the perception of the EU budget, from a budget aimed to accommodate Member States preferences to an instrument meant to address common European interests.

In relation to the institutional setting, the establishment of a new system of own resources, which would represent a qualitative step towards EU fiscal autonomy, seems unlikely in the current negotiation. In addition, there is no consensus between Member States on how to give European institutions more flexibility for shifting funds, according to



their own criteria, between the different areas of expenditure. Nevertheless, the current negotiation has shown that the EP assumes a much more proactive and self-conscious role.

In sum, the current negotiation shows that we will not see a substantial change in the structure of the EU budget, but a clear redefinition of specific spending headings as regards investment in growth and job creation.

Finally, after so much political drama, agreement on the MFF 2014–20 cannot guarantee that the EU budget will become a solid financial instrument, since the MFF only specifies the overall limit for the spending headings. Expenditure of the annual budgets of the last two decades has always been lower than the MFF ceilings (Núñez Ferrer 2012).

* García Pelayo Fellow, Centro de Estudios Políticos y Constitucionales, Madrid. Email address: mario.koelling@cepc.es. I would like to thank Giuseppe Martinico and the two anonymous reviewers for their comments.

^I In this respect see (Laffan 2000), (Serrano Leal 2005); (Enderlein et al. 2005), (Lindner 2006), (Ackrill et al. 2006), (Núñez Ferrer 2007), (Dür et al. 2010), (Heinemann et al. 2010), (Kölling 2010).

^{II} The first MFF was agreed for 1988–92 (Delors I) in order to provide the resources needed for the budgetary implementation of the Single European Act and the single market. The MFF 1993–99 (Delors II) contained a significant increase of structural and cohesion funds as a basis for the preparation of Member States in view of the single currency. The MFF 2000–06 (Agenda 2000) secured the necessary resources to finance the enlargement process and the present MFF 2007–13 pursues the main objective of reducing the “gap” among new and old Member States.

^{III} European Council, Conclusions of the European Council, 15-16/12/2005.

^{IV} COM(2010)700, 19/10/2010.

^V Comprising Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Lithuania, Latvia, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, and Spain - Italy also sympathises with this group.

^{VI} Comprising Austria, Germany, Finland, France, Italy, The Netherlands, and Sweden.

^{VII} Member States agreed to increase the capital of the European Investment Bank by €10 billion, which will increase the Bank’s overall lending capacity by €60 billion. The other €60 billion come from the reallocation of unused structural funds (€55 billion) and the pilot phase of the Europe 2020 Project Bond Initiative (€5 billion).

^{VIII} European Council, Conclusions of the European Council, 28 – 29/06/2012.

^{IX} “EU kicks off negotiations over regional funding budget”, Euroactive, 13/07/2012.

^X 2,292 amendments to Direct Payments proposals, 2,127 amendments to Rural Development proposals, 2,094 amendments to Single Market proposals and 769 amendments to Finance and Cross Compliance proposals.

^{XI} 1988 Germany; 1992 UK; 1998 Germany; 2005 UK

^{XII} “Journey towards the unknown”, Europolitics, 13/07/2012

^{XIII} Non-paper of 24 April, signed by AT, DE, FI, FR, IT, NL, SE. France, has not signed the non-paper of the 29th of May (signed by AT, CZ, DE, FI, NL, SE, UK)

^{XIV} Bulgaria, Estonia, Greece, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovakia, and Slovenia.

^{XV} Bulgaria, Czech Republic, Estonia, Greece, Hungary, Lithuania, Latvia, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, and Spain.

^{XVI} “New proposal worries Friends of Cohesion”, Europolitics, 24/07/2012.

^{XVII} This category will include all regions with a GDP per capita between 75 per cent and 90 per cent of the EU-27 average.

^{XVIII} Friends of Cohesion Policy, Luxemburg communiqué, 24 April 2012.



References

- Ackrill Robert and Kay Adrian, 2006, 'Historical-institutionalist perspectives on the development of the EU budget system', *Journal of European Public Policy*, vol. 13, (1): 113 – 133.
- Dür Andreas and Mateo Gemma, 2010, 'Bargaining Power and Negotiation Tactics: The Negotiations on the EU's Financial Perspective, 2007–13', *JCMS*, vol 48, (3): 557–578.
- Enderlein H., Lindner, J., Calvo-Gonzalez O., Ritter R., 2005, 'The EU Budget: How Much Scope for Institutional Reform?', *Ocasional Paper Series*, European Central Bank, No. 27.
- Haug Jutta, Lamassoure Alain, Verhofstadt, Guy (et al.), 2011, *Europe for Growth: Towards a radical change in financing the EU*, Report, Centre for European Policy Studies, Brussels.
- Heinemann Friedrich, Mohl Philipp, Osterloh Steffen, 2010, 'Reforming the EU Budget: Reconciling Needs with Political-Economic Constraints', *Journal of European Integration*, 32(1), 59-76.
- Kölling Mario and Serrano Leal Cristina, 2012a, 'Austerity vs Stimulus: The MFF 2014-20's Role in Stimulating Economic Growth and Job Creation', Real Instituto Elcano, *ARI 24/2012*.
- Kölling Mario and Serrano Leal Cristina, 2012b, 'The Negotiation of the Multiannual Financial Framework: Budgeting Europe 2020 or Business as Usual?', Real Instituto Elcano, *ARI 68/2012*.
- Kölling Mario, 2010, 'La negociación del marco financiero plurianual de la UE 2014-2020: un balance entre necesidades y límites económico-políticos', Real Instituto Elcano, *ARI 160/2010*.
- Laffan Brigid, 2000, 'The Big Budgetary Bargains: From Negotiation to Authority'. *Journal of European Public Policy*, vol. 7, (5): 725-743.
- Lindner Johannes, 2006, *Conflict and Change in EU Budgetary Politics*, London: Routledge.
- Núñez Ferrer Jorge, 2012, 'Between a rock and the Multiannual Financial Framework', *Commentary*, Centre for European Policy Studies, no. 27.
- Núñez Ferrer Jorge, 2007, 'The UK Rebate and the CAP – Phasing them Both Out?', *Centre for European Policy Studies commentary*, Centre for European Policy Studies, Brussels.
- Serrano Leal Cristina, 2005, *El Presupuesto Comunitario: Problemas Presentes y Retos Futuros*, Dykinson, Madrid.