

BULLETIN

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The EU's Multiannual Financial Framework 2014–2020: Current State of the Debate

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At the end of June, the European Commission will publish a proposal for a new multiannual financial framework for the years 2014–2020, and thus initiate negotiations on a new period of funding. The main elements of dispute are the size of the budget, funding for the cohesion and common agricultural policies and the system of own resources. As the country holding the presidency, Poland will have to take on the delicate role of intermediary in the negotiations, whose first phase will coincide with the Polish chairmanship of the EU Council.

New Context of the Financial and Fiscal Crisis. Negotiations on the multiannual budget are a long-standing ritual of EU politics and repeat regularly, as recently as seven years ago. The multiannual financial framework (MFF) for 2014-2020 will be elaborated in the new context created by the international economic and financial crisis. The crisis revealed problems with excessive deficits and public debt for EU member states, which meant that some eurozone countries such as Greece, Ireland and Portugal have been subject to special aid packages. The increasing indebtedness of some countries in the euro area has resulted in the virtually unanimous willingness of member states to reduce public expenditures, which will substantially affect the discussion about the size of the EU budget in the current financial perspective and, consequently, the size of the MFF 2014-2020.

Key Issues. The main issues dividing the stakeholders in the MFF negotiations are on both the revenue and expenditure sides. Among the most controversial and important topics is how to determine the total amount of the future MFF, which will be transposed to annual budgets for the years 2014-2020. There exists a significant conflict of interest between the net contributors (including Great Britain, France, Germany, Sweden and the Netherlands) and the net beneficiaries of the EU budget (mainly the member states that acceded in 2004 and 2007, Spain and Portugal). The former are eager to reduce the MFF. As net contributors, they have a negative balance of money transfers between their national budgets and the EU budget. This means that a reduction in the MFF will improve their net positions. As for the second group of countries, an increase in the level of the MFF might imply growth in benefits received from the common budget.

An important issue for negotiation is the common agricultural policy (CAP), in particular the direct payments. The CAP currently is the most funded EU policy with 42.5% of the MFF 2007–2013. France is the CAP's largest beneficiary and is under pressure by agricultural lobbies. With the prospect of presidential elections in 2012, France is determined to maintain the current level of EU subsidies. Among its allies, paradoxically, is the United Kingdom, for which its so-called "rebate" mechanism depends on, among other things, the expenditure of the CAP in new member states. The larger the CAP payments are the greater the United Kingdom's return on its contribution to the EU budget.

Another important issue is the member states' approach to the cohesion policy. The opinions concerning its relevance (and thus, the level of funding) are strongly divided. On the one hand, its opponents are countries that hardly use it (among others Great Britain, France, Sweden and the Netherlands). Apart from their doubts about the effectiveness of this policy, these countries postulate that the EU should influence its economic growth by improving the innovativeness of the European economy. This means *de facto* a transfer of funds from the cohesion policy to the EU budget instruments that promote economic innovation, and thus, activities in which the opponents of a cohesion

policy are leaders. On the other hand, supporters of the cohesion policy are mostly from new member states and former historical beneficiaries of this policy, namely Greece, Spain and Portugal. The latter countries definitely are not willing, however, to strongly support this policy because they would obtain many fewer resources in the next MFF.

On the revenue side of the EU budget, an important element of the discussion is the modification of the so-called own resources system, which is the source of EU financing. The vast majority of member states, the European Commission and European Parliament representatives (including influential French MEP Alain Lamassoure) believe that the current system of own resources based on Gross National Income and the existence of the British rebate and other correction mechanisms do not reflect the spirit of the treaties. Especially in Parliament are heard voices that say it is difficult to talk about the system of "own" resources since the member states transfer their national contributions in certain amounts. In addition, the current system is criticized for a high degree of complexity and, consequently, opacity, and that is why the issue of fundamental reform is raised. At the present stage of preliminary discussions about improvements to the system there are formulated the following proposals: a tax on air fuel, funds obtained from the trading scheme for greenhouse gas emissions, a tax on financial transactions and a modification of the own resources system based on VAT. These last two ideas, enriched by a proposal to tax carbon emissions, are the recommendations included in the latest report "*Europe for Growth. For a radical change in financing the EU*," published in April of this year and signed by the leaders of the three largest political groups in the European Parliament, Jutta Haug, Alain Lamassoure and Guy Verhofstadt.

One of the other hot points of the debate on the MFF will be the issue of the British rebate, but it does not appear that Britain is ready to make any concessions. The dispute also will concern the participation of the European Parliament in the negotiations on the new financial framework, which can overlap the just-started budget process for the next year, as it did last year.

The Multiannual Financial Framework and the Polish Presidency. At the end of June this year, the European Commission will publish proposals for just the MFF, while changes to each of its components (among others, the cohesion policy, the common agricultural policy and the system of own resources) will be published at a later date, probably by the end of this year. Thus it is expected that the main burden of budget negotiations will move to the next trio presidency country, Denmark.

Because discussions about issues relating to the EU budget will be held at meetings of the Council for General Affairs, successive presidencies, including that of Poland, will have some opportunity to impact the course of the discussions. However, the presidencies are expected to act as *honest brokers* of the negotiation processes. That means in practice they should attempt to limit the influence of the most powerful players in the EU, whose interests usually are different than that of the smaller member states.

The tone of the negotiations on the MFF will be determined by the three largest member states (Germany, France and Great Britain), which collectively pay into the EU budget almost half of its resources. Even with the presidency, Poland will not have as decisive an influence on policy within the EU as the largest contributors to the EU budget. Therefore, it would be understandable to seek an ally in another institutional honest broker, namely the European Commission, whose role as initiator will be significant, although that should not be overestimated. Within the EC, the position of the General Secretariat, whose role has steadily grown for several years, may be important. The key decisions probably will be taken there before a final position is issued by the whole College of Commissioners. The ambition of the Commission for its proposal is that it become the basis for negotiations and is not ignored, which is why the Commission must take into account the demands of all stakeholders. In terms of institutional capacity, Herman van Rompuy as permanent European Council President and a smooth negotiator, will be expected to participate actively in the process and could diminish the role of the presidency during the MFF negotiations.