

# BULLETIN

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Editors: Marcin Zaborowski (Editor-in-Chief), Agnieszka Kopeć (Executive Editor),  
Łukasz Adamski, Beata Górka-Winter, Artur Gradziuk, Leszek Jesień,  
Beata Wojna, Ernest Wyciszkievicz

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## The Position of the European Parliament on the Multiannual Financial Framework 2014–2020

Patryk Toporowski

*On 8 June 2011, the European Parliament adopted a position as the first institutional player on the multiannual financial framework for 2014-2020. Parliament's point of view is in many ways consistent with the Polish approach to budgetary issues. The institution has not played a key role to date in the decision-making process in determining the shape of EU finances. However, following the entry into force of the Lisbon Treaty, the EP has strengthened its position, and its voice in the negotiations will be much more important.*

**Context.** The European Parliament (EP) delivered its long-term vision for the next financial period ahead of the publication of the European Commission's proposal, and in so doing officially started the negotiations on a new financial framework. The EP wanted to make certain the Commission takes into account its demands for the preparation of the negotiating basis for the multiannual financial framework (MFF). The content of the EP's position was worked out within a Special Committee on policy challenges and budgetary resources for a sustainable European Union after 2013 (SURE). Before finalizing the document, the committee held a number of consultations and prepared a comprehensive report regarding the new financial framework.

According to the EP, the goals of the "Europe 2020" strategy will not be realized and an economic downturn is likely to return unless there is sufficient progress in EU integration, especially given the frail system of economic governance. A tool that can greatly assist integration is the EU budget. The new financial framework should enable the EU to take on long-term challenges in demographics, energy and climate as well as increased global technological competition. In the short term, the EU budget could be used to remove obstacles to achieving sustainable economic growth, such as low productivity, budget deficits and public debt, structural unemployment, internal market barriers and low labour mobility.

The EP, as with other institutions and Member States, opted for the transformation of the EU towards a sustainable economy. The EP's position also is clearly "green" as seen by the horizontal character of the proposals for pro-environmental and climate-change actions that have become part of most EU policies, including its external policies. In this way, a large share of common financial resources would realize the objectives of climate and environmental protection.

**Parliament's Position.** In order to support the process of converging economies and preventing crisis, according to the EP, a part of Member States' current expenditures could be replaced by expenditures from the Union. This change, among others, would improve the fiscal sustainability of both the EU and individual Member States. The MFF should be increased by at least 5% because without adequate funding the EU will not be able to pursue its political agenda.

Concerning EU funding, Parliament wants to change the financing system, recognizing that the current system is not conducive to European integration. In the present negotiations, the EP is drawing attention to the need to reform the funding towards a more autonomous, equitable, transparent, simpler and sustainable method. This means that any correction mechanisms, including the British rebate, should be abolished. The EP also draws attention to the financial transaction tax, which apart from EU capital injections could provide a significant contribution from the financial sector to covering the economic and social costs of a crisis.

However, Parliament has little legal legitimacy on the revenue side of the budget, so most likely its proposals will not ultimately be voted on during the negotiations. Probably, there will be no reform of the financing system since Member States have extremely divergent interests and changes to the system are only possible with their unanimous support.

As for the main items of expenditures in the EU budget, the EP suggests they should be aligned with the priorities of "Europe 2020," which provides for increasing the share of funds for pro-growth and pro-competition actions through programs that lead to the creation of the EU knowledge economy. The EP also estimated that the cohesion policy should remain the main catalyst for an increase in investment in research and development, a key for sustainable growth. Apart from innovation and from the viewpoint of the EP, attention should be focused on industrial policy, in particular on small- and medium-sized enterprises, because this area is a source of innovation and competitiveness.

The cohesion policy is characterized by European added value,<sup>1</sup> meets the objectives of "Europe 2020," supports the convergence process and contributes to the achievement of sustainable economic growth, which translates into a high level of employment and is why the EP believes it should remain at a similar level of funding. In the EP's opinion, however, the policy should undergo a series of reforms, including a simplification of the procedures for disbursement as well as an intensification of synergies with other EU policies.

The largest budgetary spend is the Common Agricultural Policy. Apart from maintaining its current objectives, such as food security, protecting biodiversity, preventing the depopulation of rural areas and providing public goods (such as production on agricultural land in Europe and providing landscape diversity), CAP also should serve to implement the "Europe 2020" strategy. The EP proposes there be greater coordination of agricultural expenditures with other instruments of the EU budget and a more equitable distribution of direct payments while maintaining the current two pillars structure and the current level of allocations.

The EP calls for greater financing of EU external actions, so that the Union can effectively achieve its objectives. It includes strengthening its position in international institutions and achieving the aims of the EU development policy. The increase also is necessary because of the emergence of the European External Action Service.

**Conclusions.** By preparing its position on the new MFF before the official announcement of the Commission's proposal, Parliament wanted to make it clear that it expects full respect for its negotiating position, which was gained by the entry into force of the Treaty of Lisbon. Parliament will try, therefore, to prevent the marginalization of its role in the negotiations on the MFF, presumably by Member States. Limiting the negotiation role (and, therefore, its impact on the common budget) makes sense for countries that would prefer to share budgetary power with mainly the EC. In the name of solidarity, countries may try to ignore the suggestions of the EP to the greatest extent possible. Moreover, the biggest Member States have interests contrary to Parliament's proposal on such points as the size of the budget, the cohesion policy and the new own-resources items. Thus the publication of the position of the EP was a tactical action to induce the EC to take into account its demands, thus also forcing Member States to take into consideration Parliament's proposals.

The Presidency should not openly support the EP's position, even if it would be consistent with the interests of the country holding the EU Council chair, because such a position could set the presidency in opposition to other Member States and undermine its role as an honest broker. At the same time, however, one should not ignore Parliament's position because as a result of the entry into force of the Treaty of Lisbon this institution has become a serious player at the budget negotiations table (excluding the financing of the budget). Previously, Parliament only could accept or reject the final version of the MFF. Now, under the existing arrangements set by the Hungarian presidency, the president of the EU Council will hold talks with representatives of the European Parliament before the General Affairs Council meetings, during which the actual negotiations on finances take place. The detailed arrangements for cooperation will be developed during the Polish presidency.

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<sup>1</sup> The projects have a high European added value when their realization is more effective at the EU level than at lower levels (local, regional). In practice, these projects often have a significantly positive cross-border role, such as the construction of a transnational transport network. Within the discussions in the institutions increasingly one emphasizes the importance of the concept of European added value.