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The European Commission's Proposal for the Multiannual Financial Framework 2014–2020: More, for the Same

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The presentation of the Commission's proposals for the new multiannual financial framework for the years 2014–2020 are the formal start of negotiations on the EU's next financing period. The negotiations will be difficult given the scale of fiscal problems in the euro area and because of the many issues that divide Member States concerning the shape of the future financial framework. Being aware of the pressure budgets, the Commission has proposed only a cosmetic increase in the size of the next funding period while maximizing the benefits of EU spending. Despite criticism from some net contributors, the commission's proposal can be considered as a balanced basis for further negotiations.

Context. In accordance with the provisions of the Lisbon Treaty, the EC formally launched negotiations on the multiannual financial framework (MFF) when it published a communication on the general outline of the new funding period. But before the proposal was published on June 29, several attempts to influence the shape of the next financial perspective emerged. In October, some Member States signed a letter that called for reducing the amount of funds in the next financing period. In addition, the European Council's conclusions stated that the future EU budget must be in line with the consolidation efforts of Member States. In December, the European Council again tried to impose restricting the size of the MFF through a letter to net contributors.

The European Parliament also attempted to influence the shape of the MFF before the formal beginning of negotiations by publishing its position a few weeks earlier than the Commission's plan. Due to the lateness of its release, though, Parliament's position could not have had a big impact on the work of the Commission. However, as a consequence of the ongoing informal consultations between Parliament and the Commission, the documents of both institutions were similar on a number of issues.

The Commission's aim was to reflect the priorities of the EU economic strategy "Europe 2020" in the MFF. According to those priorities, financial expenses should serve to promote smart, sustainable, inclusive and sustainable growth. In addition, the pressure by Member States on the EU to reduce its budget caused the EC to strongly emphasize more efficient, pro-environmental spending items that have high European added value. In practice, this will mean tightening the existing conditions and the introduction of new (*ex ante* and *ex post*) ones for the disbursement of EU funds.

Major Proposals. The proposed size and structure of the next financial perspective has not changed. The next MFF, along with elements located outside the EU budget, in total will not exceed 1.11% of the gross national income of the European Union (GNI), just as the current financing period. The Commission also designed what is basically an identical five-category expenditure system to the one now in place: cohesion (almost 37% of the total EU budget), competitiveness and innovation (11%), agriculture (more than 37%), home affairs (2%), external actions (approximately 7%) and administration (6%).

One of the major changes with regard to cohesion policy is the concept of transitional regions, which can be used to redirect a share of the resources to older EU member states to make the proposed size and shape of this policy acceptable to them. Its maintenance is so important that cohesion constitutes one of the main tools for implementation of "Europe 2020." The adoption of this change will not affect the size of the allocation for Poland. It is estimated to be €80 billion over the course of the financial perspective.

The Common Agricultural Policy also remained virtually untouched, despite the critical voices of independent experts. The criticism focused mainly on direct payments that include discrimination against smaller farms and the prevention of the formation of proper market mechanisms in agricultural markets. In the communication, the Commission proposed to link the direct payments to "green" actions and, thus, payouts should meet ecological standards. However, it is assumed that this condition will be blurred during the negotiations. The communication included the demand by new Member States to equalize opportunities for farmers in both the "new and old Union," which basically means levelling the amounts of direct payments across the EU. The Commission has proposed a partial compensation of payments to countries that are below the EU average, at the expense of countries to which payments are higher than average. The communication from the Commission in this regard surely will be convergent with a document devoted only to the CAP that will be published this autumn.

Important issues include putting resources for infrastructure investments into transport and energy interconnections and for digital technologies. The Commission also proposed a new framework for investment in research and development that is more flexible than in the current financial perspective.

The Commission's proposals, if adopted, could significantly change the financing of the EU budget (the so-called "own resources" system). The EC noted the large scale of the dependence (at almost 75%) of the EU budget on the direct contributions of Member States. This dependency means the EU budget, instead of concentrating on economic objectives, becomes a hostage to Member States' net position. Therefore, the Commission proposed a tax on financial transactions and a new source-based VAT that could replace a certain amount of contributions from national budgets.

At the same time, recognizing that the logic of the net position will be less important under a new construction of the "own resources" system, the EC proposed the abolition of all relief in contributions. However, the Commission's proposals are far reaching and unlikely to be adopted either in the case of new funding sources or in reducing discounts.

Member State Reactions. The EC proposal was almost immediately criticized by the British cabinet spokesman as unrealistic. The position of the UK is not flexible and often is used for the purposes of internal policy, which may seriously hamper further discussion of the EU 2014–2020 financing plan. Germany criticized some item in the proposals, but considered it to be a possible basis for further talks. France expressed its opposition to any changes in the CAP. Meanwhile, during a recent visit to Brussels, Finnish European Minister Alexander Stubb described the Commission's proposal as reasonable. Given that Finland was one of the signatories of the letter of five in December 2010, it could mean a breach in the wall of the net contributors' position. The communication from the Commission met with a positive assessment in Poland and in new Member States.

Prospects and Evaluation. The ambition of the Commission was to present the proposals to be adopted as a viable basis for further negotiations (as opposed to the Commission's proposal in 2005 regarding the negotiation of the current Financial Perspective 2007–2013). It can, therefore, be regarded as a fairly well-balanced proposal and a moderate success for the EC. The communication from the Commission was officially presented to the General Affairs Council on 18 July. This is the formation of the Council that will be responsible for conducting negotiations amongst Member States. So far, the tone of the countries that have expressed responses suggests that the most important elements of the Commission's proposals were consulted in advance with key players in the negotiations. In the autumn, the Commission will present further details about the CAP, cohesion policy and new sources of funding. Discussion of the MFF will be continued during the Danish presidency, but it is unlikely that an agreement will be reached in the first half of next year. At the end of May and June 2012, presidential elections will be held in France, where it is not conducive to compromise because of the importance of the French agricultural lobby to the candidates. Compromise in the Council must, however, be achieved by December 2012, otherwise many programs to be funded by the EU budget may be delayed, as they were at the beginning of the current financial perspective.

The Presidency of the EU Council should play the role of honest broker in negotiations. It will not be easy for Poland because it is the biggest beneficiary of the EU budget, in particular through the cohesion policy. Therefore, the optimal solution seems to be to adopt a strategy focused on toning down disputes and allowing a precise analysis of the Commission's proposals during the presidency's period. Due to the difficult situation in the euro area, it is likely that negotiations over the MFF will be overshadowed by discussion of the fiscal situation in Greece and possible variants of a solution.

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