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## A New Franco-German Tandem and the Multiannual Financial Framework 2014–2020

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*François Hollande has not yet presented France's official position in relation to negotiations about the new financial perspective, thus delaying the compromise conclusion between France and Germany in this area and, in consequence, agreement at EU level. For Poland and the group of "cohesion friends" it is an opportunity to further promote their postulates and consolidate this coalition.*

The result of the French presidential election in May, won by the socialist François Hollande, means that negotiation on the Multiannual Financial Framework (MFF) 2014-2020 may intensify significantly. During these talks, compromise between France and Germany will be crucial. However, at the last General Affairs Council on the financial perspective (29 May), France did not present its position following the change of government. Moreover, France has not signed the letter by seven Member States (Austria, the Czech Republic, the Netherlands, Finland, Germany, Sweden, and the UK), calling for a decrease in the EU budget in relation to the European Commission proposal, although France has so far been the initiator of similar actions. This is probably the result of French policy to keep its position flexible for as long as possible, as well as an attempt to avoid EU-related issues being raised during the current National Assembly election campaign. Talks aimed at reaching an agreement between Germany and France will take place in an atmosphere of sharpening debate between the opponents of a huge EU budget, and the supporters of high-level financing for a cohesion policy. The latter are the so-called group of "Friends of Cohesion" (Bulgaria, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovak Republic, Slovenia and Spain). During the GAC meeting, these countries also issued a letter, in which they indicated the pro-growth character of this policy.

**The Common Interests.** Despite the fact that France has not officially announced its new position on MFF, one should not expect that position to reflect significant changes, because of France's long-term interests. There are numerous similarities between the current positions of France and Germany regarding budget negotiations. Notably, both countries belong to the coalition of net payers, those Member States contributing more to the EU budget than they receive from it. French and German contributions cover about 36% of EU expenditures. Both countries call for the EU budget no more than 1% of EU GNI, and seek to reduce this in relation to the European Commission proposal (putting the budget at €1 trillion, that is 1.05% of EU GNI). In January, Germany proposed a €100 billion reduction to the new financial perspective 2014–2020. Former French president Nicolas Sarkozy also called for the EU budget to be cut as much as possible. Despite François Hollande's declaration about the need for an ambitious budget, it is doubtful if France would change its current assumptions. The most probable scenario is that France will support Germany on budget cuts, as it did before. Both countries disagree with the European Commission proposal to change current correction mechanisms for fixed lump sums. In relation to the British rebate, on the one hand, both France and Germany would like to decrease it by changing mechanisms; on the other hand, the alliance with the UK on the budget cuts means that both France and Germany are in a position to accept the rebate under the current MFF. This means that they would finally agree to maintain the status quo of the current structure of budget revenues.

Both France and Germany are interested in maintaining the level of direct payments in the scope of Common Agriculture Policy, in accordance with the European Commission proposal (€281.8 billion) – and both benefit significantly from this budget position. At the same time, they are not interested in increasing financing for rural development at the expense of direct payments. France and Germany cooperate in the area of CAP reform, and they have issued several common positions. François Hollande has declared that France will maintain its current position if it comes to direct payments and will be the main negotiation priority of France.

**The Differences Between France and Germany***.* The main differences between France and Germany concern the system of own resources, and the mechanisms for financing cohesion policy. Germany wants to maintain the current structure of the revenue side of the EU budget, with the contributions based mainly on EU GNI. They are against any EU-wide taxes being a part of EU budget. For that reason, the introduction of a financial transaction tax (FTT) is acceptable only on condition that this tax would not become a part of the EU budget – as France would prefer – but would, for instance form part of an anti-crisis mechanism. In this way, France hopes to reduce its contribution, and leads a group of nine countries (Germany, France, Italy, Spain, Belgium, Austria, Portugal, Finland, and Greece) supporting work on this tax at EU Council level.. For France, it would be a political success to introduce the FTT at European level, regardless of whether it becomes a part of the EU budget or of an anti-crisis mechanism. Therefore, French support for the German position is possible. What is important is that both countries are against genuine EU VAT as new own resource

Both countries call for a decrease in the cohesion policy budget (€376 billion, according to the EC proposal), but Germany is less radical in its claims. It is interested in maintaining high financing for the German lands which will no longer be part of the current “Convergency” goal of cohesion policy after 2013. For this reason, the disagreement between France and Germany concerns the level and mechanisms for financing such regions. Germany supports the introduction of mechanisms supporting those regions leaving the “Convergency” goal (the so-called “safety net”), but does not agree to the introduction of transition regions of GDP per capita between 75% and 90%, which was the solution proposed by the European Commission. France remains sceptical in relation to both options. François Hollande might have a more flexible position when it comes to the mechanism of financing the regions. The Socialist Party is a strong lobby with the potential to influence the French position on cohesion policy because it rules in the vast majority of French regions. This could be a factor facilitating compromise with Germany.

**Conclusion and Recommendation***.* The comparative analysis of the French and German positions in the scope of the Multiannual Financial Framework shows numerous similarities between their negotiation positions. Both countries would like to decrease the budget proposed by the European Commission, call for high financing of direct payments in the scope of the CAP, and postulate the abolition of the British rebate. The issues on which France and Germany disagree are rather secondary in nature – concerning the financing mechanism for the cohesion policy, and the introduction of a Financial Transaction Tax. From the Polish perspective, harnessing these differences for the purpose of minimising budget cuts will, therefore, be extremely difficult. The long process of adjustment of the Franco-German tandem to the political change in France may however delay negotiations about the MFF. This might help the group of “Friends of Cohesion” to further promote their postulates. Taking into account the scenario of rapid Franco-German compromise, a favourable solution for Poland would be that France and Germany agree on the financing mechanisms for the regions. This would help legitimise a larger cohesion policy budget. For this reason, Poland should try to reach agreement with France in relation to financing transition regions, before the official French position is published. Poland should support the current French position on FTT as the part of the EU budget. The new own resource increases the chances of maintaining the budget according to the EC proposal, and potentially decreases the Polish contribution to the EU budget. Moreover, Poland should use the official positions of France and Germany in relation to the British rebate, and propose the intensification of debate in this area. It may for instance start discussion about this during the next General Affairs Council that is devoted to the financial perspective.