

# BULLETIN

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## Romania in Negotiations on the Multiannual Financial Framework 2014–2020

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*The eurozone crisis is overshadowing negotiations on the Multiannual Financial Framework 2014–2020 (MFF), reducing the focus of debate to the size of the budget. Romania's interests on that issue are mostly congruent with the large but loose grouping of net beneficiary states that includes Poland. Therefore, despite Bucharest's relatively weak negotiating position, Romania is an obvious partner for Poland. Yet the serious need for reform in Romania shows that this group needs to reach a new consensus on the purpose and effectiveness of the budget, especially if negotiations are to be concluded before the end of 2012.*

**Overall Stance of Romania in the MFF Negotiations.** Since negotiations on the MFF were officially launched in June 2011, there has been little advance. The polarised debate around solving the eurozone debt crisis (austerity measures versus growth stimulation) has so far led to a focus on the size and form of the budget, rather than its purpose. The Common Agricultural Policy (CAP) and Cohesion Policy, which together constitute the bulk of spending, have emerged as the two major points of contention. By contrast, the initially hot debate regarding new sources on the revenue side, as proposed by the Commission, has gradually waned due to inconsistent support from Member States. This leaves the 27 nations in heated debate about the size of a budget which, in the context of the current financial crisis at least, is comparatively small and which they actually have little scope to either increase or reduce.

Against this background, Romania finds the Commission's June proposal, calling for a moderate overall cut in spending and the maintenance of the structure of the CAP and Cohesion Policy, quite acceptable. However, the overall shift of emphasis from support for agriculture towards research and development is less desirable, as are the initiatives to relocate funds from the least developed regions towards more consolidated areas of the net contributor states. With regard to the introduction of an EU-wide Financial Transaction Tax (FTT) as a new source of budgetary revenue, Romania shows no particular support (domestic moves towards the introduction of a similar tax have recently been broken off). Bucharest would not, however, block the FTT so long as this was collected EU-wide, with revenue flowing into the EU budget and redistributed among all Member States – a long-term vision of the FTT in contrast to alternative proposals to utilise it as a crisis-stabilisation mechanism useful to indebted, individual states.

**Position on the Common Agricultural Policy.** The main characteristics of the Romanian agricultural sector are a high degree of rurality (30% of the active population is employed in agriculture, compared with an EU-27 average of 5.6%) and an even higher degree of bipolarity (small farms with a broad product spectrum coexist with large farms with intensive and modernised production). This means that out of the 4 million farms, only 8% are economically viable and sell their products on the open market (mainly large agro-industrial farms), the rest being subsistence farms. Many of the latter are not formalised, let alone fiscalised, so they are not eligible for EU funding.

Understandably, therefore, Romania would welcome greater transferability of funds between pillar 1 of CAP (direct payments to farms for production support) and pillar 2 (application-based rural development). This way it could ask for 5% of the total sum allocated for rural development to complement direct subsidies, although this might have negative effects for rural modernisation. Regarding domestic reforms, the main priorities of the government are to fiscalise small farms, to encourage them to form associations, and to set up a funding consultancy network for them.

Among the further sensitive issues from the Romanian perspective are the proposed leveling of subsidies across the EU (it supports the suggestion of making direct payments to farms in new Member States equal to those in the old) and to general simplification of CAP procedures (it rejects the proposed introduction of multiple payments). As for the initiative of making direct payments dependent on green issues, Romania is supportive of the specific inclusion of the provisions of the Water Framework Directive in the ecological conditions, because this could lead to the much needed efforts to improve river channels for flood prevention and control.

**Position on the Cohesion Policy.** On quantitative questions, Romania's stance is very similar to that of the other "Friends of Cohesion" (Bulgaria, the Czech Republic, Croatia, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and Spain) – an informal grouping of net beneficiaries supporting, as the absolute minimum, the €376 billion cohesion fund proposed by the Commission. Like these states, Romania backs the maintenance of the higher EU co-financing rate of 85% (the savers' group insists on reducing it to 75%) for both CAP and Cohesion Policy, and categorically refuses to double the ceiling to add supplementary conditions to the existing limitation of 2.5% of GDP. Romania is also defiant as regards the establishment of so-called transition regions. This would re-orient considerable sums from poor Romanian areas to the more developed regions in other Member States with a GDP per capita of between 75% and 90% of the EU average.

As an independent initiative, Romania forwarded two proposals at the informal European Council meeting in May: to extend the execution period of current funds by two years, and to simplify procedures for the re-allocation of funds from low performing operational programmes to others with sufficient projects. These requests were endorsed at the European Council meeting in June, giving Romania a last chance to benefit from as much of the funds available for 2007–2013 as possible.

**Factors Influencing Romania's Negotiating Position.** Romania has the lowest rate of absorption in the EU, despite improvement since the establishment of the Ministry of European Affairs in September 2011. From 3.72% at that time, it had reached 9.17% by the end of June. The reasons for such inefficiency are multiple: inadequate administrative capacity, lack of motivation and information from civil servants, corruption, and a mismatch between funding priorities and local needs (for instance, the focus on environmental issues and recycling in regions with problems of basic infrastructure). Irregularities in spending the funds also saw the Commission block payments to Romania for certain Regional Operational Programmes between July and December 2011. Reimbursements were partially frozen again following new audits by the Commission, which started in July. Depending on the conclusions of these evaluations, certain programmes may be suspended indefinitely.

Since the European Parliament (EP) has only the right of approval or rejection in the MFF negotiations, Romania's seats in the EP bring no advantage. In the European Council, therefore, the country can only rely on its arguments and alliances. Taking into account the extremely low rate of absorption and opaque use of funds, as well as overall corruption problems and the slow pace of judicial reform, the Romanian bargaining position has certain weak points. To these can be added the current internal political instability (the impeachment of President Traian Băsescu, the upcoming November parliamentary election, and disagreement over who should represent the country internationally).

**Conclusions and Recommendations.** The best option for Romania is to work together with the "Friends of Cohesion" and particularly with Poland, the foremost advocate of EU budgetary spending amongst the newer Member States. While Romania and Poland have different approaches, for instance on relatively peripheral issues such as the introduction of the FTT, they do both seek to maximise allocations in the Cohesion Policy and the CAP (even though, for Poland, pillar 2 carries more weight, while Romania has, in practice, so far concentrated on pillar 1). The precedent set by the Visegrad Plus format (in this case, the Visegrad Four countries plus Bulgaria and Romania), involving repeated meetings of Ministers of Agriculture, would provide one possible means to help these six countries streamline their positions.

Nevertheless, given the challenges of reform in Romania, Poland should also emphasise the qualitative aspect of the budget. For one thing, this is because optimising the current system can serve as common ground for negotiation with the net-payer Member States, whose primary concerns are presently crisis-motivated savings. For another, this is because Poland has a strategic interest in ensuring that the EU budget supports governance and modernisation processes in receiving countries, especially as economic growth causes its own relative contribution to the budget to increase over time. By stressing its domestic best practice as a possible model for EU-wide conditionality and reform mechanisms, Poland would avoid its own, too high, adaptation pressures.