CEPS COMMENTARY
Thinking ahead for Europe

# Chronicles of a Disagreement Foretold

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That the negotiations on the Multiannual Financial Framework (MFF) for 2014-2020 ended on November 23rd without securing an agreement should not have come as a surprise to anyone. Still, there was something different in the air this time round, marked by the relatively amicable way in which the disagreement was handled, in contrast to the acrimony and angst of the failed negotiations seven years ago under the Luxembourg Presidency. At this stage, it is likely that no Head of State held any illusions that an agreement would be reached. Such good-natured discussions, however, may turn ugly in subsequent meetings when the pressure to reach agreement mounts. In 2005, the then UK Prime Minister Tony Blair warned that the EU should never again enter into such destructive negotiations, but the risk of repeating that painful experience – or an even a worse one – is high.

## Something missing in the Commission proposal…

It is convenient to blame the crisis for the breakdown in talks, but one must look further to explain the situation today. In 2005, Europe was basking in economic growth, but the criticisms levelled against the budget proposals were very similar. The issues raised then have not been adequately addressed. Are thus the Commission proposals so bad? Well, they are certainly not good enough, and we can trace the origins of their shortcomings to the budget review itself. It offered the perfect opportunity to analyse individual sub-budget lines and cut underperforming and obsolete lines with a view to streamlining operations. The opportunity was not seized, however, and the analyses and discussions remained at a very superficial and lofty 'Eurospeak' level. The largely undefined 'value added' of expenditure was used equally to criticise and defend the different EU policies.

This exercise brought us little new on budget reform, because large policies cannot be judged as a package – only the individual components can be. In the absence of a proper analysis of the benefits of individual actions financed through EU policies, the review lacked the groundwork and thus any solid grounds on which to propose a significant restructuring of the budget. As a consequence, rather than eliminating questionable interventions, the Commission just added a long list of actions related to its increasing competences in the areas of energy, transport, research, etc. In short, it created a bureaucratic compromise that made space for important new priorities, but at the same time protected the traditional agricultural and structural funds.

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The proposals also reflected current thinking within the Commission, selectively borrowing sentences from the budget review to pretend that the views of civil society had been taken into account. Among certain constituencies, in fact, the review process may have damaged the image of the Commission, as many felt that their opinions had not received serious consideration.

Tony Blair's speech of 2005 deserves a second reading today (good political speeches on the EU budget are rare). It was powerful and contained unquestionable truths. In summary, he said that the EU budget is out of touch with reality, disconnected from the needs of the European Union as an economic and political union facing an increasingly complex world. The difficulties the EU has had in coming to grips with the economic crisis and the evident uselessness of the budget as a tool to deal with these challenges should have sent a strong message to the European institutions and the member states on what has to be done.[1]

Unfortunately, the member states have placed a different construction on the crisis and its implications for the EU budget. For some, it simply confirmed their belief that the budget is a wasteful instrument. For others it is seen as a financial pot to cushion the crisis. Sadly, the idea that we need to fundamentally restructure the logic of the budget to make it a powerful long-term investment tool is not widely appreciated.

## Negotiating boxes and Herman Van Rompuy's surprise entrance

As the budget process proceeded, it slowly became clear that there was little chance that the Commission proposal would be found acceptable. Worryingly, the first Council compromise 'negotiating box' prepared by the Cypriot Presidency was far from satisfactory. Its proposals took a step backwards from the Commission proposal, reducing lines with a long-term investment objective, such as the Connecting Europe Facility, while protecting traditional expenditures. The proposals did not even touch the size of rural development funds.

But then, in a welcome and surprise development, Herman Van Rompuy, an additional 'technocratic' Council President, entered the fray. Realising that the Cypriot proposal was highly unlikely to succeed, and that it threatened to inflict damage on the most valuable areas of the budget, namely RDI and the Connecting Europe Facility, he magically launched a new proposal containing further cuts and an astonishing level of detail (suggesting that the work must have been started well before it was announced).[2] Van Rompuy's first negotiating box had many merits, not least for being the first to seek to cut expenditure where it makes sense, for example in the Common Agricultural Policy and the Cohesion Funds. It has served as a far more useful negotiating base than the Commission's proposal or the Cypriot compromise, and has probably contributed to the relative calm of the discussions.

## Where should we go from here?

Van Rompuy's strategy to protect core budget lines has been weakened by the insistence of some countries to protect the CAP and limit cuts to structural funds, including cuts to wealthier regions. France, as usual, insists on protecting the interests of the farm lobbies, and preserving a policy that suffers from a large deadweight loss. It is not that an agricultural

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[1] See, for example, J. Núñez Ferrer and D. Tarschys (2012), *Investing where it matters: An EU budget for long term growth*, CEPS Task Force Report, CEPS, Brussels.

[2] See annex for a review of the figures.

policy is not useful, but the present allocation of funding is far from optimal and regressive. Large, well-targeted reductions could be managed without significantly affecting the sector. France is worried that the cuts are occurring simultaneously with an increase in payments to new member states, which means that cuts would affect it proportionally more. Perhaps it is high time to resuscitate the concept of co-financing, particularly for wealthier member states.

More cuts are needed, but where? Apart from agriculture, there are a number of actions across the budget where the value-added is highly questionable. Approximately €50 billion are destined to go to richer regions in Europe, some of which may be directed into investments of European importance, but much can be reduced. It is telling is that the proposed cuts of these funds by Van Rompuy have now been reduced. If net contributors are so strongly committed to cutting the budget, then why not start with those?

Perhaps the time has also come to streamline the EU's operations. Granted, the Union is facing complex and difficult challenges, but its resources are spread across every imaginable domain. Furthermore, to please member states, over 30 agencies have been created and scattered across Europe, some of which are useful and important, such as the food safety agency or Eurocontrol, but others are much less so. For example, gender equality is undeniably an important goal and one worthy of promotion and regulation at the EU level, but can one justify the costs of devoting an entire agency to it? Or the agency for vocational training? Vocational training is to be designed by local authorities and based on national and regional needs. Is there a real need for a separate agency? The same questions are valid for other areas such as culture.

There is a need to bring refocus the attention of the EU institutions and policies on the core areas of the internal market, trade and energy, using some of the savings to expand the headings where common action creates savings at European level (something useful in times of crisis) and where joint action brings the highest long-term benefits for Europe. This is where a serious budget review would have been truly instrumental.

If there is a will, there is certainly a way to cut and to make the budget better and more effective, but all countries need to make concessions, with the largest costs falling on the wealthier member states. We also need to seize the opportunity created by the fact that net contributors are focusing strongly on the overall size of the budget and not, for once, constantly repeating the word net balance.

## Is there going to be an agreement?

It is likely that there is eventually going to be an agreement on the budget, but one that is far from satisfactory and probably with a bottom line slightly lower than the one rejected by the Council last week.

But what happens if there is no agreement or if the European Parliament vetoes the agreement? The figures for last year of this MFF (2013) would apply provisionally in 2014 for as long as there is no new agreement (plus an inflation adjustment of 2%). This would of course wreak havoc with regional policy planning, etc., but it is all the rest that would be rather ironical: all rebates, VAT concessions, etc. for net contributors would no longer apply… except for the UK rebate, which remains as a permanent feature. Not only would the rebate apply in full, but the ceilings and limitations imposed for this period would also end, giving the UK an even larger rebate. Is this a good reason for Cameron to cause the budget negotiations to fail? Unlikely, because perpetuating the budget dispute is not even worth the extra rebate and may completely alienate the UK from the rest of the EU, in particular if an agreement is reached to cut the MFF substantially. And will the EP veto the result? This move is also highly unlikely, because the agreement would reflect a very difficult compromise, and the European Parliament would not reap any benefit from reopening Pandora's box.

## When is this going to end?

The good news is thus that there is most likely going to be a budget agreement before the summer, and possibly even earlier.

The bad news is that the EU budget will probably remain largely disconnected from the fundamental needs of the European Union. The instrument will continue to please particular lobbies and interest groups, whose contribution to Europe's future wealth and sustainability can be seriously questioned. But it will not be able to respond to crises and will be useless as an instrument to address imbalances in the eurozone. It will continue to be financed through absurd, opaque and largely incomprehensible contribution mechanisms, as there is little chance to introduce more meaningful resources. And last but not least, it will continue to inspire more headlines about waste and corruption, further alienating citizens of many countries from the European ideal; in other words, 'business as usual'.

This grim prospect also explains the sudden idea to create a eurozone budget, a kind of EU budget that matters … as opposed to 'the budget that matters little'? Maybe it is high time to exchange the one we have with such a budget, but unfortunately, there are no takers among our leaders, whose ears are mostly attuned to the voice of organised lobbyists and interest groups. An EU budget that would benefit all of us in the long-term does not cultivate strong and politically meaningful support groups.

# Annex

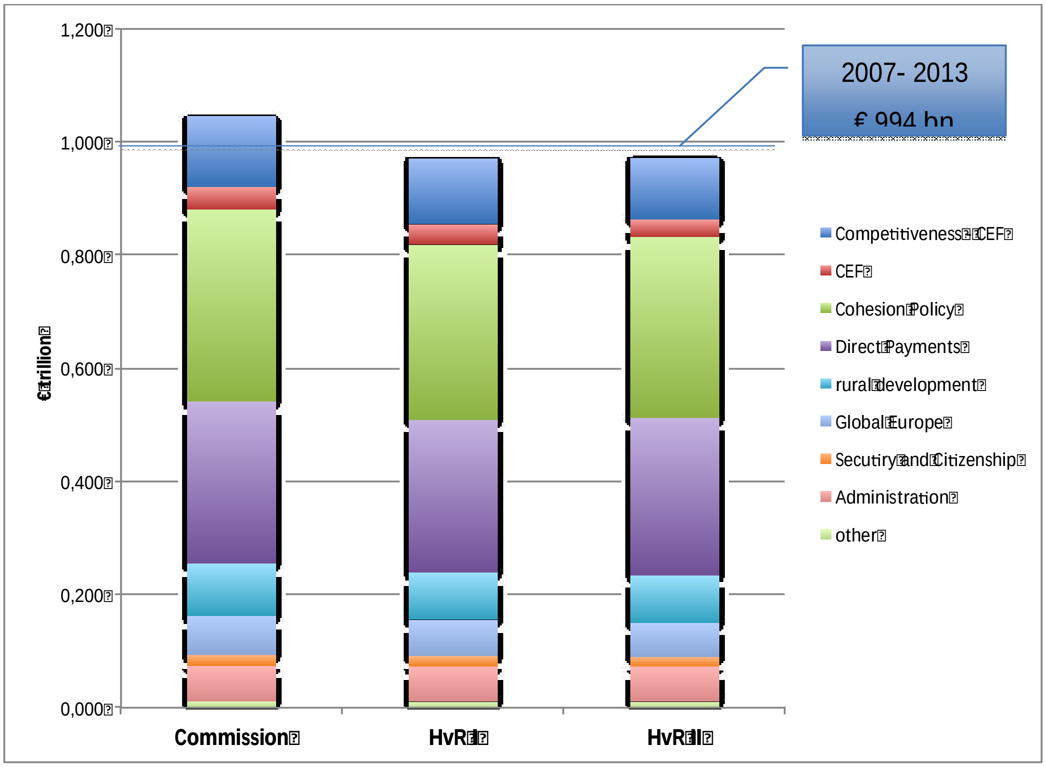
*The budgets compared: Commission and Van Rompuy's I and II negotiation boxes (€ million)*

| | 2007-2013* | Commission Proposal | HVR nego-box 13 Nov. | HVR nego-box 22 Nov. |
|---|---|---|---|---|
| **Competitiveness** | **91,495** | **164,316** | **152,652** | **139,542** |
| *Of which: Connecting Europe Facility* | 12,783 | 40,249 | 36,249 | 31,249 |
| **Cohesion Policy** | **354,815** | **338,994** | **309,495** | **320,148** |
| *Of which: for poorer regions*** | 195,744 | 162,600 | 156,236 | 161,427 |
| *Of which: for transition regions*** | 25,290 | 39,000 | 29,187 | 31,393 |
| *Of which: for richer regions*** | 53,867 | 53,100 | 47,505 | 50,872 |
| *Of which: Cohesion Funds*** | 67,921 | 68,700 | 65,928 | 66,341 |
| **Natural Resources** | **420,682** | **389,972** | **364,472** | **372,229** |
| *Of which: CAP Direct Payments and market related expenditure* | 304,830 | 286,551 | 269,852 | 277,852 |
| *Of which: Rural Development* | *95,741* | *91,966* | *83,666* | *83,666* |
| **Security and Citizenship** | **12,366** | **18,809** | **18,309** | **16,685** |
| **Global Europe** | **56,815** | **70,000** | **63,690** | **60,667** |
| **Administration** | **57,082** | **63,165** | **62,629** | **62,629** |
| **Compensations** | **0,920** | **0,027** | **0,027** | **0,027** |
| **TOTAL** | **994,176** | **1045,282** | **971,274** | **971,928** |
| **Other, outside MFF** | **40,838** | **46,268** | **37,582** | **36,883** |
| **TOTAL II** | **1,035,013** | **1,091,551** | **1,008,856** | **1,008,810** |

*Adjusted to 2011 prices.

** Author's adjusted figures for 2007-2013, represent similar categories. Table does not include all subcategories.

*Sources:* European Commission; www.europolitics.info, www.u4unity.eu (VR_NG_Analysis); and www.euractive.com




*Note:* Does not include figures outside the MFF.

*Source*: Author's own rendering.