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The New EU Multiannual Financial Framework in the Shadow of the Eurozone Crisis

Paweł Tokarski

The European Council summit of 22-23 November, the first major test of the political will to set the new EU funding period 2014-2020, showed that the discussion is dominated by an agenda concerned with the sovereign debt crisis in the eurozone. This mirrors the asymmetry of priorities among EU members: for the EU15 the crisis is the top priority, while new EU members have high expectations concerning large financial transfers from the next EU multiannual budget. Future developments in the euro area are unlikely to create a good climate for talks at the beginning of 2013.

A Summit That Ended Too Early: Expectations of an agreement on the shape of the new EU Multiannual Financial Framework 2014-2020 (MFF) were low even before the launch of the summit talks, chaired by the Permanent President of the European Council, Herman Van Rompuy. After a series of bilateral meetings with all the delegations, Van Rompuy presented a new proposal for the negotiation package. It set the ceiling for commitments at €973 billion (1.01% of the EU's GDP), roughly €81 billion less than the original Commission proposal of 29 June 2011. Spending on the Cohesion and Common Agricultural Policies was increased by €10.6 billion and €8 billion respectively, compared to Van Rompuy's proposal of a few days earlier. The new proposal was positively assessed by France and the "friends of cohesion" group. The summit ended in the afternoon of 23 November, earlier than expected. The next round of summit talks will probably take place at the beginning of February. In case of failure, the system of provisional twelfths (a year-by-year continuation based on the 2013 budget) would be introduced—an unattractive option for all parties involved due to its level of expenses and technical and legal uncertainties.

Evaluation and Prospects. The changes to the various MFF proposals have had a marginal impact on the fiscal position of net-payer countries. These changes, however, constitute a sensitive political issue, particularly in the UK, where European issues are traditionally an element of domestic bargaining, but also in Austria, Denmark, Finland, the Netherlands and Sweden. Germany is also in favor of reducing the overall level of spending in the Commission's proposal. However, it treats the CEE's demands with greater understanding. This is due to the fact that the German economy benefits indirectly from cohesion policy spending across the border. But there are broader political reasons behind this stance: Germany considers the region to be a counterbalance to the French-driven southern bloc.

This indicates that the outcome of the summit was due to more than the usual division between net contributors and beneficiaries. For net contributors the problem of the MFF is lightweight given the scale of the challenges stemming from the sovereign debt crisis in the euro area, but it might provide a useful leverage in these parallel negotiations. There, the discussion on the establishment of an Integrated Financial Framework of the Economic and Monetary Union, the so-called banking union, has accompanied difficult talks on the next tranches and on easing the conditions of financial assistance to Greece.

In this case, Germany chose not to build bridges to the CEE. Berlin's position was motivated above all by a desire to mitigate the isolation of the United Kingdom. Germany views the UK as the same kind of counterweight to France as the CEE, and is afraid of Brexit. It also needs the UK if it is to push through the current political and economic agenda of the EU. By the end of the year, an agreement on the single supervisory mechanism (SSM) must be reached, and, with its large financial sector and the possibility to veto the agreement, the UK's consent is particularly crucial. The early end of the MFF talks allowed London to avoid taking responsibility for its failure, while Cameron was still able to portray himself as a defender of the interests of British taxpayers. Of course, no one can guarantee that the SSM negotiations will be completed as scheduled at the 13-14 December summit, meaning that the British could still have a strong hand; nevertheless, the possible extension of the SSM talks could trigger negative reactions on financial markets. A delay or a lack of agreement on the new MFF would have a negative impact on the EU's image although it seems that its significance for financial markets is considerably lower.

There are thus contradictory sentiments as to the chances of a positive outcome at the next MFF summit. Although the latest proposal from Van Rompuy includes a margin for possible cuts, it is not known whether these cuts will be sufficient. What is clear is that any reductions would affect spending designed to bring high value added—mainly priorities such as "Competitiveness for growth and employment," including the Connecting Europe Facility, and "Global Europe." Cuts would also be made in administrative expenses, the number one target for the United Kingdom. As a result, rational economic thinking has been entirely supplanted by political posturing. Although the latest version of the negotiating box contained a tax on financial transactions as a source of partial funding for the GNI-based contributions of the 11 EU countries that expressed an interest in it, it is doubtful whether this can be implemented before 2016.

The summit again raised questions about the role of the UK in the EU. Although British membership is in the vital interest of the EU, it cannot be excluded that the MFF issue will mark a further step towards the Brexit, with David Cameron expected to commit, before Christmas, to the principle of a referendum on the EU after the 2015 general election. At the next summit, he will have to be more flexible to avoid isolation.

Poland's Perspective. In contrast to the EU15, for which the eurozone crisis is the most urgent point on the political agenda, for Poland and other CEE members, the discussion on the long-term budget is a real and urgent priority. Transfers from the EU budget are an important impetus for the development of their economies, though they have a limited influence on political decisions concerning the eurozone crisis. After the November summit, Poland may therefore feel disappointed that Germany did not exert stronger pressure on the net contributors to clinch a budgetary deal, but instead focused on priorities linked with the negotiations on the single supervisory mechanism and on the problems of the Greek bailout.

The 22-23 November summit was only the beginning of the final phase of the negotiations, and Van Rompuy's second proposal is nothing more than a reference point for further negotiations. Because of the current agenda concerning the creation of the first pillar of the banking union, the MFF negotiations will probably lose momentum by the beginning of next year. It seems that the most difficult phase of the talks has just begun. The net contributors are likely to propose further cuts, which may affect Poland's net position and underline the importance of the "friends of cohesion" group. In the next few weeks new attempts to break that coalition will probably take place. In addition, further rescue packages for Cyprus, Spain and Slovenia, coupled with poor economic data, will create a poor background for talks in 2013.

Poland's negotiating tactics, so far rather conciliatory, should be hardened on the basis of the 22-23 November allocations for the EU's cohesion policy. Poland's position is reinforced by its congruence with the demands of the EU institutions. Particularly important is the role of the European Parliament, which will have to give its consent to the outcome of the negotiations. Therefore it is important to strengthen the activity of Polish and other CEE MEPs, in order to better communicate the message that the EP does not have to approve just about any agreement negotiated by the member states. Although the "provisional twelfths" arrangement would put into question the proper programming of cohesion policy spending and lead to an increase in the EU's political instability, such a scenario cannot be entirely excluded by the Polish side. This would see spending continue at a high level beyond 2013, which would be hard for net contributors to sell to their electorates.

Although rational economic arguments lost weight in the MFF negotiations a long time ago, Poland should highlight the fact that the EU's enlargement has brought huge benefits to not only the new member states but also EU15 economies.