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The Agreement on the European Budget 2014/2020: the End of the (slight) Suspense over the Budget?

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Abstract :

The next European Council on 7th and 8th February 2013 is due to conclude with the multi-annual financial agreement 2014/2020. The agreement will bring 18 months of negotiations between the Member States to an end. In all likelihood the total amount of the future European budget will be very close to the conciliation proposal put forward by the President of the Council, Herman Van Rompuy in November 2012 (971.8 billion € instead of the 1033 billion proposed by the Commission). The imminent agreement had not been concluded to date because of last minute tensions. Germany and the UK asked for reduced spending. Given the political and budgetary weight held by these two countries the final compromise is therefore due to be below the pre-agreement in November ie slightly below 970 billion €.

Several lessons might be learned from this negotiation. >From a procedural point of view it reveals the growing role of the Presidency of the European Council. However the budget has been affected by the crisis.

The States have been especially careful not to increase the EU's overall budget in order to avoid increasing their participation. Budgetary rationale has won the day. The final result is in fact extremely close to the one that was originally put forward in December 2010, via a coalition of the main net contributors to the European budget. . These five States (Germany, France, UK, the Netherlands and Finland) representing 55% of the financing of the budget and 2/3 of the net balances have imposed their will. Could it have been otherwise? The same situation arose with the conclusion of the financial agreement 2007/2013. With this experience in hand the result of the negotiation was almost a foregone conclusion. France has been rather embarrassed by this negotiation because its goals have been so confused (stabilising the budget, defending the CAP, regional aid and revival). Budgetary rationale won the day there also.

In spite of the burden of budgetary inertia, with every State finally privileging the spending it enjoys today rather than opting for the possibilities it might have tomorrow – the budget is developing very slowly as the financial frameworks succeed each other. In 2020 the CAP will only represent one third of the European budget. The European Parliament now has to place its seal of approval.

INTRODUCTION:

The European Council of 7th and 8th February 2013 should lead to an agreement on the next multi-annual financial framework (MFF) for the period 2014/2020. This agreement will be the conclusion of 18 months of negotiations. What kind of comprise can we expect or is it a foregone conclusion? What lessons can we learn from these negotiations?

I. THE NEGOTIATION STAGES: WHAT TYPE OF COMPRISE CAN WE EXPECT?

This is the fifth time that this type of debate has occurred[1] and the procedure is now a matter of course. There are five stages:

1. The Commission's Proposal

The budgetary negotiation was officially launched by

1. After the financial perspectives – the initial name - of 1988/1992, 1993/1999, 2000/2006 and the multi-annual financial framework of 2007/2013.

a Commission proposal on 29th June 2011. It was adjusted in July 2012 after growth forecasts were modified and the upcoming accession by Croatia had been taken into account [2]. The Commission was more credible than when it was preparing the present MFF (2007/2013) [3], since it anticipated a level of spending, which was of course higher than the main budget contributors intended, but it was not excessive – slightly more than 1000 billion € over seven years (1033 billion € in commitment appropriations – CA's[4] - i.e. 1.05 % of the EU's GNI on a yearly average). This proposal went together with sharp increases in competitiveness spending, a slight increase in cohesion spending and a stabilisation in agricultural spending maintained at their 2013 level for the entire period, without re-aligning it against inflation.

The Commission managed to contain the CAs and maintain payment appropriations (PAs) at a symbolic level of 1% thanks to a skilful presentation comprising an increase in spending outside of the MMF, (in major investment programmes – GMES, ITER, etc. or the food aid programme for the most vulnerable[5]). Although the budget remains unchanged, the revision of growth forecasts in Europe has however led the Commission to raise the share of the budget in the European GNI A (from 1.05% to 1.08 % in PAs).

2. Budgetary negotiation between Member States

The budgetary negotiation takes place between States. It comprises three stages.

- A political positioning phase. In December 2010, and before the budgetary negotiation started, five States – Germany, France, UK, the Netherlands, Finland – adopted positions on the issue demanding that "*the overall level (…) of CAs be set at a level that was compatible with the necessary stabilisation of the Member States' budgetary contributions (...) with an adjustment (over the period) below the inflation rate.*" In spite of France wanting to set a cap below 1% of the GNI no figure was then quoted.

- An observation phase [6]. Before the political arbitration the national budgetary position takes on board the State's contribution to the European budget, of its net contribution, the spending it has benefited from to date, as well as the spending it might benefit from in the future and of course the State' budgetary situation. Without rejecting the necessary solidarity between Member States and the policies that have to be supported, each State tends to privilege the parts which guarantee it returns (the CAP in France, the Cohesion Policy in Poland, etc …) and to avoid a worsening of its budgetary balance in terms of the European budget [7].

- A budgetary positioning phase. After an observation phase in the summer of 2012 some States (after an updated Commission proposal) took up more divided negotiation positions, which were symbolic, untouchable "red lines". Some States categorically refused to reduce the spending which they had benefited from to date (Poland for example). Some, including some net contributors, asked either for cuts (100 billion €) in the total budget (request put forward by the UK, Sweden and Finland), or a limit on the budget in proportion to the GNI (request by Germany, Finland and Denmark). Germany then informally published its goal for the period: 960 billion € ("inclusive") instead of the 1033 announced by the Commission outside of the MFF.

3. Compromise Proposals

A compromise on the MFF aims to find balance between a European political goal on the one hand and coherence with public commitments – 2020 strategy, competitiveness, recovery, etc. and on the other the maintenance of historic spending deemed by the States as normal and budgetary constraints which apply to the Union, as they do to all States. Positions started to "freeze" with the "friends of cohesion" on one side, led by Poland and the "friends of better spending" on the other – a pleasant term for those who wanted to contain the budget led by Germany.

After the first attempt by the Union's rotating presidency (in this case Cyprus) the Presidency of the European Council tried to come to a compromise. This negotiation was marked by the decisive role played by the President Herman van Rompuy, the President of the European Council. The fact of being free of any national commitment allowed him to draw up a budgetary proposal that was coherent with political discourses. The

2. (COM (2011) 398 final) and its modification dated 6th July 2012 (COM (2012) 388 final.

3. The Commission then presented a proposal for a level of spending at 1.24% of the European GNI, ie theoretically the maximal ceiling set for own resources.

4. Commitment Appropriations – CA – authorisation for spending, that can be spread over several financial years. Payment Appropriations – PA- payment appropriations.

5. Spending outside of the MFF total 28 billion € excluding the appropriations of the European Development Fund which have always been outside of the budget.

6. This phase begins with technical exchanges between the Budget Ministries. The official position is presented during the General Affairs Council however by the European Affairs Ministers.

7. This is quite different from the idea of "fair return". No State asks for "budgetary balance" in terms of European spending – however the States do not want "excessive imbalance" either and watch each other carefully. They do not want an equivalently wealthy State to have more than they do. In the past France which enjoyed a privileged position because of returns from the CAP was often criticised. The decision on own resources in 2007 which meant that a major share of the budgetary rebates was assumed by France put an end to this discrepancy. Today France is amongst the main net contributors to the European budget.

first proposal (HVR1) brought the total budget down to 973.1 billion €, whilst it included a share of spending in the MFF that had been excluded to date. This proposal anticipated a rise in competitiveness spending compensated for by a slight decrease in agricultural spending (-20 billion in comparison with the Commission's proposal) and a massive decrease in cohesion spending (-70 billion). Given the protest by some Member States a further proposal (HVR2) brought spending in two chapters down to -10 and -60 billion for a total of 971.8 billion € over seven years.

4. The European Council's arbitration phase

On the sidelines of the official procedure planned for in the Lisbon Treaty (article 312) which anticipates a "special legislative procedure" - adoption by a unanimous Council after approval by the European Parliament – the agreement is based in fact on decisive arbitration at the highest level during a European Council devoted to this negotiation. The agreement is adopted by consensus i.e. with an explicit unanimous vote.

HVR2 proposal was the most recent of these to be debated and finally rejected at the European Council on 22nd and 23rd November 2012. There was also an element of bravado in this collective rejection. The States wanted to show that they would fight until the end - that they would not give in. It was an opportunity to select scapegoats and revive old budgetary debates (CAP against research, the British cheque, the funding of rebates etc ...) which were perfectly vain at this stage in the talks but useful for internal communication purposes. In reality agreement had nearly been reached – it was even imminent. But political logic was stronger. Agreement was not reached. Two countries – the UK and Germany –wanted further reductions to the budget.

The various stages are presented in the table in annex prepared by the French Senate's European Affairs Committee.

II. A PREDICTABLE AGREEMENT

1. What kind of agreement is possible?

The next European Council is to take up the negotiations where they previously left off. The base is still the HVR2 proposal adjusted according to the objections made in November 2012, notably on the part of Germany and the UK which highlighted mismanagement on the part of the Commission and a possible exit from the Union.

Agreement is imminent. Apart from a disastrous image for the European Union no State – except perhaps for the UK – has any interest in a stalemate – neither the beneficiaries of the budget, nor even the main contributors. This is particularly true of Germany because the rebate measure it benefits from ends with the present financial framework, and also of France because of the strong links between France and Germany on budgetary issues would be broken and Germany would then achieve a radical reduction in the agricultural spending so dear to France.

The agreement has every chance of becoming a reality based on the following.

- Overall the agreement will probably settle at between 965 and 968 billion €. Germany, the UK and several other contributor States are asking for a reduction in the draft budget (971.8 billion). They will achieve it. Conversely the 1% threshold of the GNI i.e. 960 billion € would show excessive German influence, which to avoid playing the policeman, has to be conciliatory. The agreement will settle between the two – at a level slightly believe 1.01% of the GNI.

- 5 to 8 billion € have to be saved. The UK will demand a reduction in administrative spending (-2 billion). The Connecting Europe Facility (CEF), which does not have much support, enjoying a budget of 41.2 billion within the competitiveness chapter, will be revised downwards. There is very little leeway in terms of cohesion expenditure. The total devoted to the converging regions cannot be altered – it would be a *casus belli* as far as Poland is concerned. However the money granted to intermediary regions will be discussed, likewise the sums allocated in the European funds for the most vulnerable, which is highly contested by several Member States. The margin on agricultural spending also seems to be almost zero and a possible reduction in the second pillar would be symbolic. The same applies to external spending.

- As for the MFF 2007/2013, the agreement will inevitably include some dispensations either over funding (the application of reduced VAT rates, etc.) or on spending with the specific allocation of funds. This is what unanimity costs. Pursuant to this "gift system" the MFF 2007-2013 agreement led to 40 dispensations.

- Regarding financing we can expect little change except for progress on the project to tax financial transactions via an enhanced cooperation agreement and a possible, totally modest adjustment in the calculation of the British rebate [8]. The revision of the various rebates (British rebate and "rebate on the rebate" for Germany, Sweden, the Netherlands and Austria) will not occur this time round.

2. The future

The MFF that results from the European Council is not the final framework however. According to article 312 of the Treaty on the Functioning of the European Union (TFEU) the adoption of the final settlement requires the approval of the European Parliament. To achieve this approval the Council will probably have to accept the addition of several billion (between 3 and 4 billion €). The same applied to the previous negotiation [9].

The European Parliament certainly had greater ambitions in the beginning. They demanded debate over the resources chapter making it a condition for its approval. The reform will be not be as extensive as planned, however the project for the taxation of financial transactions, even if it is just an enhanced cooperation agreement and with a deferred application, is the source of impetus. The European Parliament's influence over the spending chapter is still weak. This disillusionment which is inevitable given the primacy of a purely budgetary logic will be compensated for by the addition of measures that will help smooth over the Parliament's disappointment. We might expect that it will demand – and achieve – a review of the MFF mid-term or even a commitment – a firm one this time – on the part of the States on a reform of how the budget is financed.

After these budgetary adjustments the final settlement of the MFF should be adopted between April and June. The final agreement should lie at just over 1.01% of the GNI in commitment appropriations.

III. LESSONS IN NEGOTIATION

1. The Effects of the Crisis

The specific nature of the MFF 2014/2020 lies in the fact that the States have mainly debated the overall total of the budget and their gross contribution as well as the total of the CAs.

In times of crisis the overall total of the budget counts more than distribution itself. We must not forget that if the financing of the budget depends mainly on national contributions levied on Member States' fiscal revenues, all European spending, *a fortiori* any increase to the European budget firstly affects national accounts and budgetary balance. All European spending starts with the levy of fiscal revenues from the States. Hence even the beneficiary States, even those which receive a great deal, like Greece for example, have not opposed an austerity budget. Unlike the previous negotiation rounds that focused mainly on net balances, the States' attention has focused on their gross contribution.

Previous negotiations focused on the PAs – which led to levies on national fiscal revenues – much more than on the CAs, which are rather more a political show. The resulting gap – between the CAs, which are clearly inflated in comparison with the PAs – led to significant sums which still had to be cleared (240 billion €). This year the agreements will be made according to the CAs. The total of the PAs will be restricted, at around 0.98%, so that the Member States' real contributions will be stabilised. The negotiation of the MFF 2014/2020 undeniably heralds the victory of a budgetary logic defended by the Member States.

2. The Decisive Influence of Net Contributors

The idea of the compromise forms the core of European integration. In terms of the budget we have to be lucid enough to admit that the term is inadequate. Of course there is a share of compromise between the various States' expectations but mainly there is an imbalance between the parties involved in the negotiations. The influence of the main gross contributors and the main net contributors[10] is decisive. The path towards achieving a compromise does not lie as much in a mix of contrary ideas than in the way everyone comes to accept what has been requested – or decided? – by just a few.

This is a brutal, even unacceptable admission, but it reflects reality. Like a cabaret magician who puts a card into an envelope which he reveals at the end, anyone who knows who finance works in Europe could have written the figure down on paper in December

8. According to the HVR2 proposal the UK would help to finance its own rebate, by distributing the burden of the rebate between the 28 Member States – including the UK and not the 27 excluding the UK.

9. The agreement of the European Council of 19th December 2005 concluded at 862.36 billion € for 2007/2013. The inter-institutional agreement (Council/EP/Commission) of 11th May 2006 totalled 864,32 billion €.

10. The idea of net contributors is measured in volume according to the net amount paid (in Germany's case with a net balance of–9 billion in 2011, the biggest in the EU), ie in proportion to the country's wealth (in Finland or the Netherlands' case with a net balance of –0.36% of the country's GNI, the highest in Europe).

2010 even before the Commission had made its proposal. Why on this date? Because the main contributor States had stated their limit and this position had been agreed to. The same happened in 2005 during the MFF 2007-2013 negotiations.
Could it be otherwise? Who signed the letter on 18th December 2010? The countries involved were Germany (20% of the budget's funding in 2012, a net contribution of -9€ billion in 2011), France (respectively 16.7% and –6.4 billion €), the UK (12.1% and -5.5 billion €), the Netherlands (4.8%, and –2.2 billion) and Finland (1.6% and -0.6 billion). Hence in all, this comprised 55% of the budget resources and a total net contribution of 24 billion € (redistributed to the net beneficiaries via the European budget). In the beginning the limit was set by the States which financed more than half of the budget and which represented ¾ of the net contributors amongst the Member States. Is it possible to prevent them dominating the negotiation?

Although the almost total veto on the part of the UK is a known fact, Germany's determination to the control the European budget was extremely strong in the last stages of the negotiation. Germany, which was cautious at first, refusing to follow the French proposal for a ceiling of 1% at the beginning of the negotiation, was consequently one of the most determined countries with the German European Affairs Minister refusing "the improper use of their money".

3. A Certain Amount of Embarrassment for the French

If everything happens as laid out in this paper the two victors will be the UK and Germany. Both countries have had a clear goal: the first wants to maintain the rebate and the second limit the budget. They shall win. France will be embarrassed simply because it has lacked a sense of priority. When the old majority was in office France aimed to achieve two goals: limit the budget and maintain the CAP at its previous level as far as possible. The new majority has maintained these old goals and added two new more: raising the structural funds to the benefit of French regions (the so-called "intermediary" regions) and orienting the budget towards economic revival. In spite of appearances these priorities are contradictory. France cannot have as much for the CAP, more for the regions and even more for competitiveness and at the same time limit the European budget.

But in this list the priorities cannot all be weighted in same way. There are political, thematic, official priorities and a budgetary, almost accounting but more informal priority. France is the Union country whose net balance has declined the fastest: around -2 billion € at the beginning of the 2000's, -6.4 billion in 2011. If France can no longer renegotiate the way the rebates are financed – an extremely naive illusion that was held for a long time – France might above all fear an increase in its gross contribution Without saying this too openly France has been quite satisfied with the way the budgetary negotiations has developed. Firstly, France has not needed to "defend" the CAP as it had feared. It is far from standing alone against everyone else, as it did in the past. Also a budget limited to 1.01% in CAs, and even less in PAs, guarantees that its contribution to the European budget via levies on revenues will not rise (19.6 billion € in 2013). It already has the highest levies per capita in Europe (300€ per inhabitant). Even though it will not be spoken of a great deal, the informal, budgetary priority has taken precedence over the official priorities.

4. The Development of the European Budget – between inertia and slow transformation

The budgetary negotiation, which is now coming to an end, may leave all of those who thought it would provide an opportunity for innovation and change, with a bitter taste in their mouth. Hardly anything has changed.

The CAP has not been renegotiated. The CAP's budget was not challenged as much as we might have expected. The CAP is the Union's historical policy and the one which has been challenged the most historically. Pre-empted during the accession negotiations of 2004 it was not debated during the MFF 2007/2103 and France might have feared discussions about it this time round. But this has not happened: the new Member States support the CAP, European Commissioner Dacian Ciolos defends his budget (in the past some Commissioners responsible for agriculture have been much less entryist!) ; with the food crisis of 2007/2008 even the most liberal have admitted the usefulness of providing support to European agriculture; finally the Commission adopted an extremely reasonable position with the renewal of the CAP budget at its 2013 level in current euros, without an indexation against inflation. This proposal was satisfactory, even unexpected. Of course the Commission's proposal was cut by 10 billion (HVR2) but the CAP which was due to total 361.5 billion € over the period remains at more than 50 billion per year.

The second observation is that of incredible budgetary inertia. The chapters have barely changed. The declared discourse and ambitions have encountered inertia because all of the States have preferred to remain with their present spending rather than those they might commit to tomorrow. In other words the States have preferred to maintain the CAP and the cohesion fund since they know how this is distributed from the start, sometimes down to the last euro, instead of hypothetical spending on competitiveness, the beneficiaries of which are unknown. Of course more spending is required in research and competitiveness but not too much. A line of credit creates a political relationship between the European budget and the beneficiary. This relationship become a permanent feature and extremely difficult to change. This explains why the regions have a set focus and taste for the structural funds.

However the budget is gradually changing - without any disruptive revolution or conflict. A brutal cut in the CAP would have been unacceptable – a soft development, with the maintenance of the budget at its 2013 level, has been accepted. The lack of indexation is leading to a progressive decrease in the CAP in the total budget. By 2020 the CAP budget will only represent one third of the European budget. This is a level that can no longer be challenged. Accepting this reduction probably means the salvation of the CAP budget for ever. Conversely, spending on research and competitiveness, even if they rise sharply, are undeniably taking up their position in the European budget.

Very slowly with the successive MFF's the European budget is changing. This is very similar to European integration itself. What we often consider to be crises are but ones of growth.

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ANNEXE

THE BUDGETARY NEGOTIATION STAGES OF THE MFF 2014/2020 DEVELOPMENTS IN THE PROPOSALS (IN BILLION OF EUROS 2011, ROUNDED UP FIGURES)

Chapters	Contributors' Letter 18/12/2010	Commission's Initial Proposal 29/06/2011	Commission's Revised Proposal 6/07/2012	Member State's Position Summer 2012	Prop Cyprus Pres. 29/10/2012	Prop Council Pres. 13/11/2012	2nd Prop Council Pres. 22/11/2012	Agreement of the European Council Feb. 2013?	Final agreement after EP approval (May2013?)
1. Intell. Inclusive Growth		490,9	494,7		472,8	462,1	459,6		
1a Competitiveness		114,9	115,5		146,3 *	152,6	139,5		
1b Cohesion		376	379,2		326,5	309,5	320,1		
2. Sustainable growth and natural resources		382,9	386,5		379 *	364,5	372,2		
Of which direct payments		281,8	283		277,4	269,9	277,9		
Of which 2nd pillar		89,9			90,8	83,7	83,7		
CAP sub-total		371,7	372,9		368,2 *	353,5	361,5		
3. Citizen security		18,5	18,8		18,1	18,3	16,7		
4. EU in the world		70	70		64,6	65,6	60,7		
5. Administration		62,6	63,2		nd	62,6	62,6		
Total CA	Budgetary Stabilisation: renewal of 2013 level+ adjustment below inflation	1025	1 033,2	UK, SE, AT, NL : - 100 billion	997,5 **	973,1	971,8		
Annual Average CA in % GNI		1,05 %	1,08 %		1,04 %	1,02 %	1,01 %		
Total PA		972,2	987,6		np	np	np		
Annual Average PA in % GNI		1 %	1,03 %		np	np	np		
MFF and FED apart		28,3	28,3		10,4	10,6	11,8		
Overall Total		1 053	1 061		1 008	983,7	983,6		

Key: CA: commitment appropriations; PA : payment appropriations ; MFF : multiannual financial framework ; FED : European Development Fund ; GNI gross national income

Prop : Proposition ; ME : Member State

** a share of the appropriations outside of the MFF of the Commission proposal are included in the MFF*

*** on the basis of 63 billion in administrative funds*

Source: « Actualités européennes », French Senate's European Affairs Committee – 14th December 2012 Commission