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Commission's Proposals for the 2014–2020 Multi-Annual Financial Framework

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The Commission put forward its proposal for the European Union's new Multiannual Financial Framework (MFF) for the seven year period from 2014-2020 late in the evening of June 29, 2011. Introducing the Commission proposal so close to the summer holiday was perhaps not quite unintentional, as the Commission could expect somewhat less attention. But severe criticism and harsh reactions did not take long to emerge from big net contributors. For the German foreign minister, the 2014-2020 budget is too high, well over the level that could be seen as justifiable. In a common press release, several French ministries expressed regret over the fact that the Commission did not put the same effort into disciplining spending on other policies as in the case of the common agricultural policy (CAP). A spokesman for the British government suggested Brussels' proposals are unrealistic after five heads of states (that of Britain, Germany, France, the Netherlands and Finland), in a letter issued last December, urged the Commission President to ensure that the 2014-2020 budget grow more slowly than inflation.

The Commission has instead taken the views of the European Parliament (EP) into account which, in May 2011, on the basis of a special committee report, called for an increase of at least 5 per cent in the next MFF. In the Commission proposal, EU spending would rise to €972 billion in payments, with €1,025 billion pledged in commitments, both representing in real terms almost exactly a 5 per cent increase over the previous period. But if we measure these figures in GNI, there is practically no change at all. As with the current MFF for 2007-2013, appropriations for commitments represent 1.05% and those for payments a mere 1.0% of the member states total gross national income. A minuscule 0.0124% of GNI, however, has been added by the Commission, by placing some of the existing programs (where the costs were too large to be borne only by the EU budget, like ITER and GMES) out of and by introducing a new instrument to react to crisis situations in agriculture outside the MFF. Together with some other headings, for responding either to crises or emergencies (like the Emergency Aid Reserve, the European Globalisation Fund, the Solidarity Fund and the Flexibility Instrument representing 0.016% of GNI) and with the budget of the European Development Fund (another 0.031%), items which have always been financed outside the MFF, the total figure for potential EU spending *per year* has risen to 1.06% for payments and 1.11% for commitments. These changes are apparently too high for those striving to bring public finances under control and too low for those looking forward to a budget more in line with the goals of the Europe 2020 Strategy.

The Commission is trying to calm down both camps. In the first place, the increase is not that high if one takes changes on the revenue side into account. There are three main novelties:

* the simplification of member state contributions, i.e. the abolition of the current VAT-based own resource. Too complex and requiring significant administrative intervention in order to arrive at a harmonised base, its abolition will reduce the administrative burden;
* the introduction of two new own resources:
  - a financial transaction tax (FTT) which, in order to reduce the risk of market disruption, would be imposed at a very low rate on financial transactions (*e.g.* 0.1% for shares and bonds and 0.01% on derivative products);
  - a new, modernised VAT resource to be applied (*e.g.* at a rate of 1%) on only those goods and services which are subject to the standard rate in each and every member state;
* the reform of correction mechanisms:
  - the proposal puts an end to all country-specific corrections (including the one for the UK) and replaces them with a new system of lump sum gross reductions on yearly GNI

payments for Germany (€2500 million), the Netherlands (€1050 million), Sweden (€350 million) and the UK (€3600 million);

- o the proposal brings back, by means of collection costs, the rate of retention of the amounts of traditional own resources (almost entirely customs duties) collected by the member states, from the current 25% to 10% cent, its level in place until 2000.

By the Commission's calculations, all the above changes – apart from simplifying the contribution and reducing the administrative burden for member states – would considerably increase the revenues coming from traditional own resources, the VAT-based resource and the FTT-resource. All together, these revenues would rise from a yearly €33.8 billion in 2012 to €100 billion in 2020), thereby reducing the need for EU member states to complete the common budget by way of transferring money proportional to their GNI (by more than €30 billion a year). According to Commission's Proposal for a Council decision on the own resources system, this would give extra room for manoeuvre to the general budgetary consolidation effort.

Briefly summarizing responses to the Commission proposal, the following points emerge:

- ∗ First, to say that new taxes will reduce member states burdens is a mere smokescreen. Any euros will first be collected by governments and then handed over to Brussels, and hence will no longer be available for spending at home;
- ∗ Second, there is an old principle (laid down already in e.g. the Magna Charta) according to which there should be "*no taxation without representation*". However simple the new VAT-based tax may look, it can be seen as an extra EU burden, and will thus likely be very unpopular. In addition, the elimination of the current VAT-based resource entails that essential data for the calculation of the UK rebate will no longer be available which may affect the British approach to the new VAT-resource;
- ∗ Third, although taxing financial transactions seems very popular, a unilateral European initiative in this field could put big European financial centres (first of all the City of London) at risk. Thus it is questionable if not done globally;
- ∗ Finally, most member states are against any sort of correction mechanism, since they are seen as an obvious manifestation of the so much condemned "*juste retour*" mentality. Thus maintaining such mechanisms, even if in a simplified form, could trigger significant protest. Besides, the British, who have veto power over their own rebate and who have managed to get back a yearly average of €5400 million from the EU budget over the period 2003-2009, will not agree to reduce their money further, unless there is a radical change in (or even elimination of) the common agricultural policy... This is not the case. According to Commission proposal, the current two-pillar structure of the CAP, as well as the nominal value of its subsidies, will be maintained. In real terms, this means a reduction of circa 12% until the end of the next MFF, the year 2020. Thus the space for this change is far from being radical.

With this, we can turn our attention to the spending side of the MFF where the Commission also has proposed justifications intended to calm down those who are dissatisfied. The increase in MFF funds is not that large if one considers the following:

- ∗ the Commission intends to impose an austerity package on its own staff. It would involve the getting rid of (i.e. pensioned off or let go when contracts expire) 5 per cent of EU officials (circa 2500 functionaries) over a five year period from 2013 onward. The remaining staff would work longer (40 hours a week instead of the current 37.5), would only be able to retire later (at the age of 65 instead of 63) and would see the number of their special holidays disguised as official visits to their home countries reduced from 6 days a year to 2. The complete package could save an extra €1 billion, which could be put to good use elsewhere;
- ∗ With a view to reaching the headline Europe 2020 target of 3% of GDP, €80 billion is proposed to be dedicated to research and development within a newly created common strategic framework closely linked to key sectoral policy priorities (such as health, food security and the bio-economy, energy and climate change). This would bring together the existing three research and innovation instruments (the 7^{th} framework programme, the Competitiveness and Innovation Framework Programme and the European Institute for Innovation and Technology);
- ∗ Significant new money, a sum of more than €15 billion, will be spent to strengthen Community programs for education and vocational training;
- ∗ In order to provide better access to the internal market and put an end to the isolation of certain economic areas, a new subheading named the Connecting Europe Facility would be created with a budget of €40 billion. These monies are intended to fill persistent gaps, remove bottlenecks and ensure cross-border connections in

the field of energy, transport and information technology;

- Although the original concept of creating specific instruments dedicated to climate and the environment was eventually ruled out for fear of creating possible overlaps with such policies as the cohesion policy and the CAP, climate-related expenditure can easily amount to about 20 per cent of the next MFF expenditure. Policy actions of this type will be scattered across the budget and streamlined into all the major EU funding instruments.

Evaluating the proposition concerning the spending side of the MFF, some very interesting observations emerge. Most of the proposed changes favour the old and/or developed member states. For example:

- there is a significant increase of funds for research and education policy where the old members have comparative advantages, huge capacity and also the propensity for brain-drain from Eastern members;
- as for future infrastructural projects falling under the Connecting Europe Facility, most of the designing and construction capacity happen to be found in the hands of big Western European firms;
- in the case of old policies like cohesion and agricultural, which are more in line with the needs of new/underdeveloped members, there is a clear decline in real terms of these funds. What is more, in order to sharpen the focus on results rather than inputs, conditionality is to be introduced into programs. Hence the above mentioned funds are not only reduced but also more and more conditional on such things as performance or "greening". The most striking example is the would-be linkage of 30 per cent of CAP direct payments to the delivery of environmental and climate action objectives, beyond the cross-compliance requirements of the current legislation. It is easy to imagine that in old member states, where several decades of CAP subsidies have resulted in a sufficiently high technological level, farmers are closer to being able to satisfy such conditions than those in the new members states;
- the idea of capping CAP direct payments for the largest agricultural holdings also seems to do more harm to the new than the old members because of the dual structure of their agricultural sector inherited from the communist past. The only good news within the CAP is the planned progressive adjustment of the levels of direct payments (DPs): all members where DPs are below 90% of the EU-average will see the gap between their current level and the mentioned 90% level closed by one third by 2020. This convergence will be financed by members with DPs above the EU-average;
- in cohesion policy, the introduction of a new category of region – *"transition regions",* with GDP per capita between 75% and 90% of the EU-27 average – will replace the current phasing-out and phasing in system. This seems to favour the poorest regions in the old member states rather than the very few richest regions of the new member states. Comparing the support available under cohesion policy for the different categories of region, support for the poorest (convergence) regions goes from €30.7 billion in 2013 to €24.4 billion in 2020. The same figures for the two other categories are as follows: €2.0 billion and €5.6 billion for the transition regions and €6.3 billion and €7.6 billion for the competitive regions;
- the intention of the Commission to concentrate the available money onto the smallest possible number of big projects, claiming that they can deliver high European added value, principally penalises the smallest and poorest economies (i.e. the new member states). Since these projects need to be co-financed from the national budgets, they divert scarce national resources from the development of the still incomplete basic national infrastructure.

The Commission will lay out its legislative proposals in detail before the end of 2011. The member states will have time to agree with them by the end 2012. But the European Parliament also has a say. As for the MFF, the consent of the majority of EP constituent members is required, while for the ORS (the Own resources system) only EP consultation is called for. Very difficult negotiations lie ahead…

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