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EU budget – the next Multiannual Financial Programme (2014 – 2020): Member State Arguments for and against the proposal

Kálmán Dezséri

In June, the European Commission presented its proposal for the next Multiannual Financial Programme (2014 – 2020). The Commission' proposal limits spending over this period to 972 billion Euros, equal to 1% of the bloc's gross national income (GNI). In real terms, this amount is somewhat lower compared to the current multiannual budget from 2007 to 2013, which takes up 926 billion Euros and 1.05% of GNI. Spending however remains more or less the same, since some 58 billion Euros earmarked for specific projects such as the ITER nuclear reactor, Galileo and other security funds were kept off the balance sheet. The sum of the two amounts takes total EU spending to 1.03 billion Euros and 1.06% of GNI. In the eyes of many this fact undermines the claims of having achieved a real budget freeze.

After the presentation of the budget plan, the UK and some other member states immediately rejected the Commission's analysis, saying it had underestimated the degree of austerity being felt in European countries. Thus the EU budget increase that the Commission has proposed today is unrealistic and the EU must adopt the same tough measures national governments are taking across Europe to tackle public deficits.

Main features of the proposed multiannual budget

The proposed structure of the expenditures includes some modifications and changes. Agriculture and regional aid, which currently make up 75% of the total EU budget, can expect their allocations to be cut slightly, freeing up resources for research and innovation, migration and foreign policy. The share of regional funds going to poorer, eastern European EU members should increase from 51 to 55%. Countries under a bailout programme, such as Greece, Ireland and Portugal, should also receive a larger share of EU regional funds. A 50 billion Euro expenditure to finance transport, energy and internet infrastructure, likewise leveraging private investment, was also proposed.

a) CAP – the common agricultural policy

Resisting opposition to cuts to its farm budget in order to reduce costs and fund new EU priorities such as climate change, the Commission proposed freezing agricultural spending at 2013 levels until 2020. The UK, Sweden and others had called for deep cuts to the CAP budget after 2013. But a majority of EU governments led by France want farm spending to at least remain stable after the policy is reformed in 2014. Under the proposals, farm spending will total 371.7 billion Euros between 2014 and 2020, with a further 15.2 billion for new programmes, giving an average annual budget of about 55 billion Euros. That would ensure that the CAP budget continues to consume about 40 percent of the bloc's total spending, worth some 140 billion Euros a year. Some are disappointed by this outcome. Meanwhile others are satisfied as they consider it a good result for the future CAP in the current economic climate. They expect it is a budget that will permit a substantial reform of the CAP.

The budget proposals revealed several details about the Commission's CAP reform plans, including its intention to achieve more fairness by allocating direct subsidies more equally across farmers in the EU's older and newer member states.[1] In future, farmers in all countries will receive at least 90 percent of the EU average—currently about 270 Euros per hectare—although the requirement will be gradually phased in and only partially implemented by 2020. Moreover, 30% of farmers' direct

1 Farmers in the Netherlands currently receive about 470 Euros per hectare in direct aid, compared to less than a hundred Euros in Latvia.

payments will be made conditional on them meeting "a range of environmentally sound practices" in areas such as climate change and biodiversity protection, according to the budget plan. The Commission proposes that direct subsidies should only be paid to "active farmers," though it has yet to define the concept in detail. An upper limit will also be proposed on CAP subsidy payments to individual farms, though the level of the limit is not yet specified. With 75% of CAP subsidies going to only 17.5% of farmers in Europe, according to Commission figures for 2008, limiting the largest payouts is seen as a way of freeing up funds for new priorities. Among the new CAP budget lines proposed, up to 500 million Euros per year will go to address unexpected crises such as the recent E. coli outbreak, for which the EU approved 210 million Euros in aid for vegetable farmers whose sales were hit by crisis. In addition, a "globalisation fund" of up to 2.5 billion Euros over seven years will be created to help farmers deal with new challenges, including price volatility and future trade agreements that may increase agricultural imports to the EU.

b) Changes in the revenue side: own resources – financial sector tax, reform of the rebate system

The Commission also called for radical reform in the way the EU is financed, proposing that money for Brussels should be raised through a "financial sector tax," as well as by tweaking an existing system based on the national collection of value added tax (VAT). The financial transaction tax is expected to contribute some 37 billion Euros by 2020, covering almost 23 per cent of the EU budget.

The newly proposed system, which should be in place by 2018, aims at reducing the 75% share of spending covered by handouts from national capitals to about 40%. Currently, 75% of the EU's budget is covered by national contributions linked to each member state's GNI. The Commission would like to cut this share and raise money directly via a proposed tax on financial transactions, a tax on air travel and income derived from auctioning CO_2 emission permits.

Legislative proposals for VAT and transaction taxes will be put forward in October. The Commission announced that the new EU VAT charge would replace the current system under which states pay a part of their purchasing tax revenues to the EU budget. The VAT and tax on financial transactions could generate a combined 60 billion Euros a year for the EU's budget. To reduce the threat of financial institutions simply relocating to avoid paying the levies, the Commission will propose applying different tax rates according to the type of financial transaction.[2]

The possible reform of the infamous rebate system is also on the agenda. The proposed reform of "own resources" would allow the scrapping of the chaotic system of national rebates that, over decades, has been intended to reduce disproportionally high national contributions. In its place, four countries that would otherwise pay too much into the EU budget would receive "lump sum" discounts.[3] Richer countries' net contributions to the EU budget would have to increase to cover the cost of regional aid to the poorer members in the east. The UK will most probably continue defending its rebate because, without it, Britain's net contribution as a percentage of national income might be the largest across the EU, twice as large as France's and Italy's and almost one and a half times bigger than Germany's. The position will put the UK on a collision path with France, who declared that any "extension" of the rebate is "unthinkable."

The Commission’s budget proposal has been facing heavy criticism since the beginning. The EU's new "own resources" coming from VAT receipts and the financial tax would replace the rebate system—which also benefits Germany, Sweden and the Netherlands[4] and would harm vested interests in many other member states.

Diverging interests and disagreement

The proposal, as has always been the case with previous financial frameworks, has divided the Member States and generated critical debate among them and with the Commission. This time, those Member States primarily responsible for bankrolling the EU (i.e. the “net budget contributors”) have expressed their dissatisfaction first. These countries (Germany, France, the UK, Italy, Sweden, Austria, Finland and the Netherlands) actually rejected the proposed 5% nominal rise in the community's future budget. Their opinions can-

[2] For example, for global markets such as derivatives the proposed tax rate will be 0.01 percent, whereas the rate for government bond transactions would be 0.1 percent.

[3] Under the new system, Britain would get 3.6 billion Euros a year, Germany 2.5, the Netherlands 1.05 and Sweden 350 million.

[4] Germany is the EU's paymaster, with a net contribution in 2009 worth 6.3 billion Euros. Italy followed with 5.9 billion Euros and France with 5 billion Euros, while Britain's net contribution was 1.9 billion Euros. Poland, on the other hand, was the largest receiver of EU money that year, with a 6.3-billion-euro net surplus, followed by Greece's 3.1 billion Euros.

not be completely ignored because these countries already represent more than 60 percent of the EU population, and a very significant share of the total GDP of the EU as well as of the contribution to the community's budget. Moreover, they hope to bring more countries into their "like-minded circle" later this year.

As EU governments battling with cuts to their own spending, they have likewise demanded more austerity from the EU. Germany has claimed that the Commission's proposal aimed at an overall financing sum well over the level the German government regards as justifiable. Thus it demanded that the entirety of EU spending needed to come under the 1% of GNI level, or about 1,000 billion Euros. The UK called the plans "unrealistic," the Netherlands characterised the proposals as "very disappointing," pointing out that some spending is actually outside the budget. France, Germany, the UK, the Netherlands and Finland, had already written to the Commission in December asking for the EU budget increase to be capped to inflation. Denmark also criticized the "excessive spending level" of the Commission plan. Even Italy joined the critics, saying that it was indispensable for them that their national net contribution be reduced.[5]

A variety of other potential conflicts also await. France, for example, is the strongest advocate of agricultural spending. New member states in the east, led by Poland, plead for more regional aid. The UK can be relied upon to defend the special rebate it won in the 1980s, because at the time its payments into the EU's budget were disproportionate, etc.

First of all the UK publicly opposed the proposed new EU taxes, arguing that they would introduce additional burdens for business and damage EU competitiveness. This proposed new tax on the financial sector is seen by several countries as controversial. The UK and Sweden have vowed to oppose such a tax as long as no global agreement is reached on imposing it—a near impossible prospect at the moment. EU affairs experts question the likelihood the modification of the VAT system and financial transaction tax will ever be adopted, with the opposition of just one EU country such as the UK enough to block the unanimous agreement needed. It is clear there is strong ideological opposition to this project from several countries, including the UK.

[5] According to the latest figures dating to 2009, Italy was the second largest contributor to the EU budget, with 5.9 billion Euros, coming after Germany's 6.3 billion Euros.

Any effort by the Commission to introduce taxes is likely to meet stiff opposition in some countries, while the idea of a financial transaction tax has been criticised by the ECB, the UK and others. They will not support the introduction of a new European tax because, as they argue, taxation is a matter of national competence. The ECB also criticised the planned financial transaction tax. The ECB President told the EU Parliament that introducing such a measure in the EU would drive out investors—a "dreadful disadvantage" at a time when the economies of the EU member states needed “as much activity as possible”. The UK, Sweden, the Netherlands and the Czech Republic echoed that criticism, extending it to parallel suggestions to tweak VAT-based national contributions to the EU budget.

Some support for the Commission's planned financial tax was also expressed. France would support earmarking a portion of financial transaction tax revenues for the EU. This is an idea that France is ready to work on. Spain also hailed the financial transaction tax idea as courageous. The European Parliament, which called for the introduction of such a tax earlier this year, warmly greeted the proposal. Austria is also in support, as the Commission's proposed introduction of a 1% EU sales tax and a levy on financial transactions could help fund the budget increase.

Interest representation and quest for compromise

On 12 September, eight EU member states[6] held a meeting. After this consultation, they described the budget increase requested by the European Commission as excessive and said it failed to reflect the austerity cuts being made by national governments. The group declaration not only argued that the Commission proposal was too high, but also that the Member States were making considerable efforts to support Europe and at the same time undertaking tough consolidation efforts. Thus, European public spending should not be exempt from these national efforts. The representatives of this group of countries plant to meet again in the coming months to elaborate their own proposal.

Knowing the diverging interests of these eight countries, it is not particularly difficult to draw the conclusion that either a consensus among them or a joint proposal will not be achieved easily or soon. Significant differences exist, for example, between

[6] Germany, France, the UK, Italy, Sweden, Austria, Finland and the Netherlands.

countries such as France and Italy who want to maintain the EU's current 55 billion Euro per year farm subsidies, and others such as the UK and Sweden who want to divert spending from agriculture to research and innovation. However, this group is at a very early stage of their negotiations. It is obvious that the priority for all of them is to secure agreement on a generally tight budgetary ceiling.

The main advocate of budgetary freezing is the UK, who has already previously called for a real-term freeze in EU spending up to 2020. At the 12 September meeting, the question of a freeze was not seriously discussed as the different countries represented around the table have differing interests. However, the UK's position on a real term freeze has not altered and British representatives will certainly attempt to keep this issue on the agenda.

The prospect of a freeze in EU spending is a serious concern for the newer EU countries in Central and Eastern Europe, as they are the main beneficiaries of the EU's structural and cohesion funds. Any freeze of total spending will certainly have an impact on the budgets of these funds, because the number of spending areas has continuously been increasing. Adverse effects on the structure of the EU budget cannot be excluded, even if the old Member States promise that whatever the outcome of the eventual settlement on structural and cohesion funds, the new member states will be the prime beneficiaries of these funds. Of course, no guarantee of maintaining shares and/or nominal amounts can offset any decrease in real value of these funds for the new Member States.

It is still too early to speculate about the final version of the Multiannual Financial Framework. Discussions between EU governments and lawmakers to finalise the next long-term common budget are expected to take up to two years to complete. The commission's draft would be the basis for negotiations between EU governments who have to forge a deal by late 2012. The budgetary process is expected to lead to harsh battles within the EU and among various interest coalitions of countries. In the midst of the current mood of austerity gripping EU states, the Commission is under serious pressure to curtail community spending, or at least to cap budget rises to inflation, as was demanded by a group of member states[7]. The Commission is likely to heed calls for austerity—but is also going to push for more direct funding for the EU. The EU's budget could be frozen in real terms, while its resources should come from a new tax on the financial sector. As usual, EU budget talks are dominated by national considerations and are usually resolved in the 23rd hour through compromises in late-night summits. No doubt there will be long and complicated negotiations. And the consent of the EU assembly, which also has to be secured, will require additional effort.

It is obvious that it is already high time to define the basic Hungarian interests (short, medium and long term ones), form coalitions with other Member states and represent these interests effectively with other countries at the various EU fora. Short-term interests may however contradict long-term ones. For example, the larger the budget for CAP subsidies, the more likely the necessary structural changes in many member states will be slowed down. Instead of large scale direct subsidies to farmers, rather technological development, increasing productivity and the knowledge-based economy should be supported by budgetary means in the member states in order to improve the integration and global competitiveness of the European economies. These long-term interests should not be forgotten or ignored when budgetary items based on short-term interests are negotiated.

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[7] The UK, France, Germany, Finland and the Netherlands.