EUROPOLITICS

Multiannual financial framework

Hope for agreement in first half of 2013

By Gaspard Sebag | Tuesday 08 January 2013

Two actors will be involved in bringing the 2014-2020 multiannual financial framework (MFF) home: European Council President Herman Van Rompuy and the Irish Presidency. The former will aim to bridge the gap between all member states, with a lot of work to be done on the revenue side. The latter will be in charge of making sure the European Parliament is on board and advancing the negotiations on the 67 sector-specific legislative acts, which provide a legal basis for all programmes, such as research, cohesion and agriculture, as far as possible.

No long-term EU budget negotiation among heads of state or government has ever ended in success at the first attempt. The European Council of 22-23 November 2012 was no exception. EU leaders stumbled over the overall size – too high for the United Kingdom, the Netherlands, Sweden and Germany – and the revenue side. The failure also revealed the strain in the Franco-German tandem, which was unable to find a common position.

In a statement, EU leaders consider that the talks during the November 2012 European Council “show a sufficient degree of potential convergence to make an agreement possible in the beginning of next year”. The MFF could be on the agenda of the February summit or a special one could be convened in March. The general understanding is that anything beyond March is dangerous territory with the German federal elections scheduled in autumn 2013.

In the meantime, the European Council president, alongside his Commission counterpart, José Manuel Barroso, is tasked “to continue the work and pursue consultations in the coming weeks to find a consensus among the 27” on the MFF. The unanimity rule means that no member state can appear to be a massive loser.

Van Rompuy will therefore pick things up from where he left them. The starting point will be his second compromise (see box), which maintained the €81 billion cut in commitments to the Commission proposal – a cut in real terms of 2.5% compared to the current MFF – but pumped back up agricultural and cohesion spending ceilings (Headings 2 and 1b). Working from there the European Council president’s team will discreetly sound out the capitals, far from the eye of the media so as to avoid a public debate, which could potentially radicalise national positions and make the bridging work harder.

Van Rompuy believes “a large number of countries” would have been able to support the broad lines of his second compromise. Indeed, by boosting the ceilings for agriculture and cohesion, and by distributing what is known as “gifts” in that latter heading, the European Council president bought himself a lot of friends. Van Rompuy can count on the support of the 15-strong ‘Friends of cohesion’ group and to some extent large net payers, such as France and Italy, which want a bigger slice of the pie but are happy with the overall size. Extra gifts will have to be put together for Paris and Rome to get them fully on board.

Some net payers want the overall size to go down some more. Due to the relative fear that the UK would slam the door on the MFF (and the EU), Berlin outstretched its arm towards London on the expenditure side and sealed a deal, alongside Amsterdam and Stockholm, requesting €30 billion additional cuts to Van Rompuy's second compromise. This powerful alliance makes the downward trend appear unavoidable. In the end, the four countries might even get what they wish for but in gross terms rather than net. Van Rompuy could shave €30 billion gross but to keep everyone else on board he would then pump back up ever so slightly the agricultural and cohesion headings (2 and 1b). That would mean finding money in all other headings and outside the MFF. Indications point to the fact that the Connecting Europe Facility (CEF), research programmes, the European Development Fund (EDF) and administrative expenditure would be the ones to take a hit.

Van Rompuy's diplomatic skills will truly be put to the test when it comes to forging a compromise on the revenue side, where very little progress has been achieved so far. The battle here concerns first and foremost the net contributors. Only the British rebate is not limited in time. Germany, the UK, the Netherlands and Sweden want to keep the volume of their rebates unchanged, while France and Italy, which foot most of the bill for these correction mechanisms, want to limit their contributions. Denmark feels it is also entitled to a rebate. Austria's current correction mechanism is likely to disappear. For all these countries, the matter is of great symbolic importance.

If this minute bridging work is completed early this year, then the Irish Presidency will try to secure a deal with the European Parliament and roll up its sleeves to get the work among the legislators to progress on the sectoral legislation for each programme.

Second draft compromise proposal

The overall amount of cuts remained the same compared to the first compromise: 81 billion euro was shaved off the Commission's proposal, all outside elements included. This put the overall size of the MFF at about 1,010 billion euro.

To appease many angry voices, Van Rompuy boosted cohesion and agricultural ceilings. After cutting back 29.5 billion euro, he proposed to reinject 10.6 billion euro into Heading 1b (cohesion), which currently stands at 320 billion euro. The European Council president also channelled eight billion euro into direct payments to farmers and market-related expenditure under the CAP. This raises the agricultural heading (2) from 364 billion euro under his first proposal to 372 billion euro.

To compensate for the increases, Van Rompuy chopped 13 billion euro off the competitiveness heading (1a), with the Connecting Europe Facility bearing the brunt of the cuts. This heading, which has taken the biggest overall reduction compared to the Commission proposal, is still up 50% compared to the current MFF. In the foreign expenditure heading (4), the commitments ceiling was brought down by five billion euro to 61 billion euro. The other cuts were effected in the smallest envelope, Heading 3 (citizenship, freedom, security and justice), which loses 1.6 billion euro, and the outside-the-MFF EU Solidarity Fund, dropping 0.7 billion euro.

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