

nr. 3/2003; Ł. Ambroziak i in., *Zmiany konkurencyjności przemyślu ...*, op. cit.

<sup>29</sup> Może ona być wyróżniona na podstawie kryterium popytowego lub podaźowego. W ujęciu popytowym o kwestii wyodrębnienia gałęzi stanowi produkcja dóbr, będących bliskimi substytutami ze względu na wartość użytkową danych produktów (np. czekolada gorzka i czekolada mleczna). Z kolei w ujęciu podaźowym o gałęzi stanowią produkty, wytwarzane za pomocą tej samej (albo prawie tej samej) liczby tych samych czynników wytwórczych (np. spirytus i denaturat).

<sup>30</sup> Dla przykładu, import samochodów używanych w Polsce w pierwszych latach po jej przystąpieniu sięgał nawet 1 mln sztuk rocznie. Por. Ł. Ambroziak, *The impact of the economic crisis on an intra-industry trade in the Automotive industry in the European Union*, (w:) *From Global Crisis to Economic Growth. Which Way to Take?*, B. Cerović, M. Jakšić, Z. Mladenović, A. Prašćević (red.), University of Belgrade, Faculty of Economics, Belgrade, 2012, s. 195-220.

## GOSPODARKA I FINANSE

### EU-BUDGET: LESS MONEY, LESS EUROPE? THE NEW MFF SEEN FROM THE NEW MEMBER STATES PERSPECTIVE

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The European Council, at its meeting of 8 February 2013, reached agreement on the next multiannual financial framework (MFF) which lays down the EU's budgetary priorities and ceilings for the period of 2014-2020. Although the European Parliament still has to consent to it, the agreement reflects our leaders' intention to retain more or less its current structure, with somewhat more money earmarked for research and development, infrastructure and education and less money saved for agricultural and cohesion policy. Does it mean politicians do not believe in European integration any more? Or is the agreement only an inevitable consequence of the intellectual and financial fatigue resulting from efforts having in recent years been undertaken to overcome the crisis and to stabilise public finances all over Europe? By reviewing both the revenue and the expenditure side of the future budget, the main aim of this paper is to present how the deal has changed vis-à-vis the Commission's initial proposals (of late June 2011), how, for the first time of MFF history, the financial resources available to the EU have been diminished vis-à-vis the current MFF 2007-2013 and how it could so happen that these changes favour the old and/or relatively wealthier member states rather than the new and/or less developed ones.

#### General overview – principles, process, levels

The new MFF will cover the period of 2014-2020 and be drawn up for an integration of 28 member countries on the working assumption that Croatia will join the EU in the course of 2013. The next MFF must ensure that the EU "budget is geared to lifting Europe out of the crisis"<sup>1</sup>. It is as a guiding principle that the above statement was

put forward in the introductory part of European Council's Conclusions of the 8 February 2013 summit. This means two things: first, the common budget must be a catalyst for growth and jobs, offering economies of scale, as well as positive transboundary spill-over effects in order to support competitiveness and convergence across Europe; second, the MFF must also reflect the consolidation efforts carried out by the member states in view of bringing public deficit and debt to a sustainable level<sup>2</sup>. In other words the MFF, by allocating more funds to such valuable topics as research or education, should enhance economic growth and employment, but by reducing the overall size of EU budget it should also help member states to save on public spending, or at least not to add too much to it.

Among the guiding principles of the MFF one can find subsidiarity, proportionality, conditionality, solidarity as well as the need for EU policies to provide a real added value. The latter means that all funding instruments have to be spent as effectively as possible, while efforts improving the quality of spending must include flexibility, concentration of funds on growth-boosting measures, and simplification<sup>3</sup>. While it is still far too early to judge whether the next MFF will allow for all these principles to be properly implemented, as for the simplification principle there is already some information: in the current MFF (2007-2013), there were 42 exceptions defined for discharging certain member states or regions from their obligations; in the next MFF (2014-2020), it would be 53<sup>4</sup>. These special arrangements negotiated behind close doors and orchestrated by Germany in close cooperation alternatively with the UK or France<sup>5</sup>, were intended to facilitate an agreement and compensate member states for either a decrease in certain budget lines (e.g. those for agriculture and cohesion, policies so dear to the new member states) or an increase in their net contribution to the budget (see the extension of the system of national rebates to Denmark). The huge number of country-specific deals may, however, discredit the principle of simplification and give to member states' citizens a bad image of Europe.

While lots of short-term and/or national priorities have dominated the negotiations, an important commitment has also been made in the field of fighting the climate change. As a general rule, climate action objectives should be integrated into sectoral policy areas assuring that 20 per cent of spending under the MFF, €27 billion per annum, be devoted to climate activities. Environmental priorities had never been so generously financed in earlier financial frameworks. It should, however, be remembered that climate policy is not only about spending huge sums on European environmental and climate actions, but also about ensuring that the remaining 80 per cent of spending be coherent with EU climate and environmental objectives (see later)<sup>6</sup>.

As for the level of the next MFF, it has evolved throughout the negotiation process very much like that of its predecessor, the MFF (2007-2013) in the middle of the first decade of this century. First, the leaders of some of the biggest net contributors (in our case those of Germany, the UK, Finland, the Netherlands and France) make it known in a common statement their wish to see the EU

expenditure to come to a halt<sup>7</sup>. Then comes out the Commission, backed by the European Parliament, with its proposals, in which it fixes the total budget at so high a level, as if it has been totally ignoring the wish of net contributors. As if it has been realistic for the Commission not to take into consideration this wish. Then the process develops into a stage when some authority, in a position to give an impetus to the negotiations (the British Presidency in 2005, Herman van Rompuy, President of the European Council nowadays), brings figures closer to reality by presenting a very economical budget. As this version is almost the good one, at a final summit, one or several of the wealthiest member states have to make a “generous gesture” in order to finalise and sweeten the deal. In 2005, it was London who gave up €10.5 billion of the UK rebate (from a total of 50-55 bn) for the sake of the deal<sup>8</sup>; today, the most developed countries seem to display similar generosity by renouncing a seemingly significant share of those headings and subheadings (mainly subheading 1a, but also headings 3, 4 and 5 – see Table 1) in which they have substantial interests.

**Table 1**

**The MFF (2014-2020) agreed by the European Council of 7/8 February 2013, current MFF (2007-2013), Commission’s proposal of July 2012 and H. van Rompuy’ proposal of 22/23 November 2012 (HvR-I. & HvR-II.)**

Commitment appropriations	MFF 2014-2020		HvR I.	HvR II.	MFF 2007-2013		COM (28)	% change of MFF 2014-20 from			
	bn €	%	bn €	bn €	bn €	%	bn €	HvR I.	HvR II.	MFF (07-13)	COM (28)
1. Smart and inclusive growth	450	46.9	462	460	446	44.9	495	-2.5	-2.01	0.93	-8.95
1/a Competitiveness for growth and jobs	126	13.1	153	140	91	9.2	116	-17.7	-9.98	37.29	8.74
1/b Economic, social and territorial cohesion	325	33.9	309	320	355	35.7	379	5.1	1.56	-8.36	-14.26
2. Sustainable growth: natural resources	373	38.9	364	372	421	42.3	386	2.4	0.26	-11.29	-3.44
of which: market related expend. & DP	278	28.9	270	278	337	33.9	283	3.0	0.00	-17.47	-1.84
3. Security & citizenship	16	1.6	18	17	12	1.2	19	-14.3	-5.99	26.85	-16.60
4. Global Europe	59	6.1	66	61	57	5.7	70	-10.6	-3.24	3.32	-16.14
5. Administration	62	6.4	63	63	57	5.7	63	-1.6	-1.60	7.97	-2.43
Total commitment	960	100	973	972	994	100	1033	-1.4	-1.23	-3.44	-7.09
as a percentage of GNI	1.00				1.12						
Total payment	908				943		988			-3.65	-8.02
as a percentage of GNI	0.95				1.06						
Total outside MFF	37		38	39	41		58	-2.1	-5.28	-9.54	-36.91
of which: EDF	27		27	27	27		30	0.0	0.00	0.59	-11.00
Total MFF + outside	997			1011	1035		1092		-1.38	-3.70	-8.68
as a percentage of GNI	1.04				1.17					-11.11	

COM (28): Commission’s amended proposal of 6.7.2012. taking into account Croatian membership; DP: direct payments.

Source: European Council, Financial transaction tax: Council agrees to enhanced cooperation, Brussels, 22 January 2013; [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ecofin/134949.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/134949.pdf) [10.2.2013]; CAP Reform.eu, No decision on MFF budget at first attempt, 23.11.2012; <http://capreform.eu/no-decision-on-mff-budget-at-first-attempt/> [6.2.2013]; European Commission, Amended proposal for a Council Regulation laying down the multiannual financial framework for the years 2014-2020, COM(2012) 388 final, Brussels, 6.7.2012; K. Medarova-Bergstrom, D. Baldock, K. Hart, A. Volkery, A Greener EU Budget in the Balance: the 2014-2020 MFF Deal, IEEP; [http://www.ieep.eu/assets/1169/IEEP\\_Policy\\_brief\\_European\\_Council\\_agrees\\_MFF.pdf](http://www.ieep.eu/assets/1169/IEEP_Policy_brief_European_Council_agrees_MFF.pdf) [10.2.2013]

But their generosity is not real. In December 2005, the British only gave up what had been hardly defensible: without accepting to fully participate in the financing of the costs of Eastern enlargement (except for CAP market expenditure) the UK rebate would have reached record levels (next to 7 billion euros a year instead of an average of 5.2 billion euros between 2003-2006), and the difference should have been financed by the new and relatively poorer member states. So for London, giving away that money was not a sacrifice, but a rather logical, practical solution, which met other member states' expectations and could save the rebate – this special correction mechanism, negotiated by Margaret Thatcher in 1984 and having by now lost all of its original justification – for another seven-year period.

Something very similar happened recently to the new MFF: the most developed member states – who are also the biggest net contributors to the budget – fed up with flooding the EU periphery with financial support through agricultural and cohesion funds, decided to reduce the total budget (hence their own burden) and increase, at the same time, their share of the cake (i.e. the funding of those common policies where they have better chances to regain their money). Naturally, the rules of the “game” had to be respected. In the first attempt (the so-called HvR-I.)<sup>9</sup>, Herman van Rompuy made a tremendous cut to both cohesion (-46 bn euros) and agricultural policy (-57 bn euros compared to MFF 2007-13) by transferring most of the saved money to subheading 1a “Competitiveness for Growth and Jobs” (+62 bn euros), but also to headings 3 (Security and Citizenship), 4 (Global Europe) and 5 (Administration) – a proposition immediately refused by the poorer member states. Even if the European President, only a couple days later, managed to come off with a somewhat softer version (HvR-II.) – by undoing circa one fifth of what he had done in HvR-I. – the heads of states and governments failed in adopting this new draft on EU's next MFF (HvR-II.) at their meeting of 22/23 November 2012: for some of them the total bill was still too high, for others the funding of traditional policies were too much reduced. And then, at their summit of 7/8 February – after 26 hours of negotiations on further undoing the HvR-I and arranging the already mentioned 53 exceptions – they finally reached political agreement on the maximum figures on EU-28 expenditure for 2014-2020<sup>10</sup>. As for the heads of state and government, they were full of smiles, none of them seemed to have lost face because of the reduced budget and all of them managed to portray the agreement as a victory for not only their home country but for all member states.

Are really the European Council's Conclusions on the next MFF a triumph for all? If one takes a look at the figures of Table 1, a different picture emerges. The overall ceiling of commitment appropriations is set at 960 billion euros (997 billion euros with instruments outside the MFF<sup>11</sup>), and the overall ceiling of payment appropriations at 908 billion euros. This represents a reduction of 3.44 per cent in commitments (-3.70 per cent with instru-

ments out of the MFF) and of 3.65 per cent in payments compared to the current multiannual financial framework. These rather modest changes in overall ceilings do, however, hide a significant reallocation of funds among the different headings. For all headings and subheadings, in which the new (East and Central European) member states have above-average interest, overall ceilings have shrunk: by 8.4 per cent for the cohesion policy (heading 1b) and by 17.5 per cent for the first pillar of the common agricultural policy (subheading within heading 2). For all other headings, ceilings have been raised: by 3.3 per cent for external policies (heading 4), by 8 per cent for administrative expenditure (heading 5)<sup>12</sup>, by 26.9 per cent for the heading 3 called “Security and citizenship”, and by as much as 37.3 per cent for “Competitiveness for growth and jobs” (subheading 1a). The above changes in the repartition of financial means among the various common policies have been a clear victory for the wealthiest net contributor member states.

### The expenditure side of the budget

The next Multiannual Financial Framework will follow the same structure as the current one; there are only slight modifications in the name of the headings and subheadings:

- ☞ Sub-Heading 1a “Competitiveness for growth and jobs” instead of “Competitiveness for growth and employment”;
- ☞ Sub-Heading 1b “Economic, social and territorial cohesion” instead of “Cohesion for growth and employment”;
- ☞ Heading 2 “Sustainable growth: natural resources” instead of “Preservation and management of natural resources”;
- ☞ Heading 3 “Security and citizenship” instead of “Citizenship, freedom, security and justice”;
- ☞ Heading 4 “Global Europe” instead of “EU as a global player”.

The names for Heading 5 (Administration) and Heading 6 (Compensations) do not change, but the former will include a new sub-ceiling for administrative expenditure of the institutions (excluding pensions and European Schools).

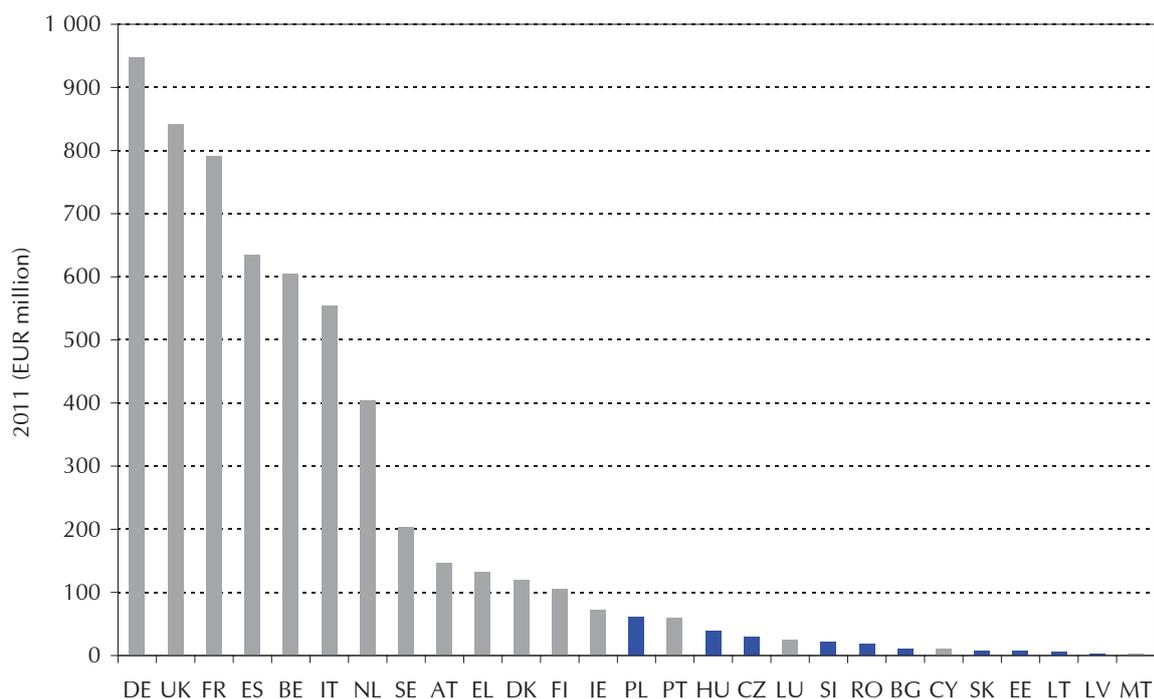
According to the words of the Conclusions paper<sup>13</sup>, the programmes under Sub-Heading 1a “*have a high potential to contribute to the fulfilment of the Europe 2020 Strategy, in particular as regards the promotion of research, innovation and technological development*”. In order to meet the headline target of the Europe 2020 Strategy whereby 3% of GDP should be dedicated to research and development, the Commission in their original proposals<sup>14</sup> intended to spend 80 billion euros on research – to be complemented by important support for R&I in the Structural Funds<sup>15</sup> – and more than 15 billion euros on strengthening Community programmes for education and vocational training<sup>16</sup>. Without revealing

the exact sum, the Conclusions paper asserts that the funding for Horizon and ERASMUS will represent a *real growth* compared to the 2013 level. Departing from the data available for 2013<sup>17</sup>, and considering the sums dedicated to other policies of the Sub-Heading 1a (the Connecting Europe Facility and the three large infrastructural projects – Galileo, ITER, GMES), there remains a mere €6 billion to support this *real growth*. Unfortunately, in case of this real growth does come true, chances to obtain big grants for the new member states (EU-10)

are very weak, since the old member states have undeniable comparative advantages, huge capacities and also a propensity to promote brain-drain from the EU-10, especially in the field of research and development (See Figure 1). This already poor performance of the EU-10 may deteriorate further, for there is a clear tendency in the EU – and this is also emphasised in the Conclusions paper<sup>18</sup> – to reinforce and extend the excellence of the Union’s science base; in other words, to concentrate the available funds into the so-called centres of excellence<sup>19</sup>.

**Figure 1**

**Allocation of EU expenditure under the Seventh Research framework programme for 2011 by Member State**



Note: EU-10 are marked in with blue (darker) bars.

Source: European Commission, EU expenditure and revenue; [http://ec.europa.eu/budget/figures/interactive/index\\_en.cfm](http://ec.europa.eu/budget/figures/interactive/index_en.cfm) [6.2.2013]

Two more remarks about Sub-Heading 1a:

- ☛ The budget line “Connecting Europe Facility” (CEF) – a tool which is intended to finance the missing links in energy, transport and information technology – has gone through ups and downs during the negotiation process. In their original proposals, the Commission earmarked 40 billion euros for it, to be completed by another 10 billion euros coming from another Sub-Heading and ring-fenced inside the Cohesion Fund. From this 50 billion euros, 9.1 billion euros would have been spent on energy, 31.6 billion euros on transport and 9.1 billion euros on ICT projects<sup>20</sup>. Even if the estimated cost of completion of the trans-European network is about 200 billion euros for energy, 540 billion euros for transport and over 250 billion euros for ICT, the proposals would

have increased the level of the European financing in this field from 1 in 2013 to 3 by 2016, and even to 5 by 2020<sup>21</sup>. In the Conclusions paper, the budget line for CET is established at 29.3 billion euros including the above-mentioned 10 billion euros coming from the Cohesion Fund. From this sum, 5.1 billion euros will go to energy, 23.2 billion euros to transport and a mere 1.0 billion euros to ICT programmes. This represents more 40 per cent less money available under this budget line than proposed by the Commission. Even if the famous 10 billion euros is to be spent in member states eligible for funding from the Cohesion Fund, large parts of the EU aid will inevitably go back to the net contributors, as most of designing and construction capacity are concentrated in the hands of big Western European firms;

☞ In contradiction to the Commission's idea to foresee for projects (like ITER and GMES), where the costs and/or the costs overruns have always been too large to be born only by the EU budget, their funding outside the MFF after 2013, all three large infrastructural projects (the above-mentioned ITER and GMES, plus Galileo) will be financed under Sub-Heading 1a, with an amount of 12.8 billion euros.

The Chapter on the cohesion policy of the Conclusions paper – practically Sub-Heading 1b, embracing economic, social and territorial cohesion – hastens to lay down that *“Cohesion policy is... the main tool to reduce disparities between Europe's regions and must therefore concentrate on the less developed regions and Member States”*<sup>22</sup>. Also, in a summary report on the European Council agreement, available on the Council's website, the following can be read: *“the poorer Member States will receive a larger share of the total Cohesion policy envelope than in the current MFF”*<sup>23</sup>. Even if this second statement may be true – but who cares of it when there

is a clear step down from the funding level to be reached in 2013 – none of the two is ever reflected in the MFF-agreement<sup>24</sup>.

As for the allocation of resources for the *“Investment for growth and jobs”* goal, representing 96.3 per cent of the Heading 1b, funds available for the less developed regions will be reduced by 23.5 per cent (vis-à-vis their level of 2013); while those earmarked for more developed regions will increase by 12 per cent. Moreover, a new category of *“transition regions”* with GDP per capita levels between 75% and 90% of the EU-27 average, will be introduced in order to replace the current phasing-out and phasing-in system, and which seems to favour the poorest regions of the old member states rather than the very few rich regions in the new ones. Finally, support coming from the Cohesion Fund as well as additional funding for the outermost regions and the northern sparsely populated ones will be cut by more than 20 per cent.

**Table 2**

**Annual funding available for the year 2013 and under the next MFF as agreed by the European Council of 7/8 February 2013**

	2013	MFF 2014-20	Change
	(billion euros, 2011 prices)		
Regional convergence	30.69	23.47	-23.5%
Transition regions	1.96	4.53	130.5%
Competitiveness	6.31	7.07	12.0%
Cohesion Fund	11.89	9.48	-20.2%
Outermost and sparsely populated regions	0.25	0.20	-20.5%

Source: European Council, *Conclusions*, Brussels, 8 February 2013; European Commission, *A budget for Europe 2020*, Brussels, 29 June 2011.

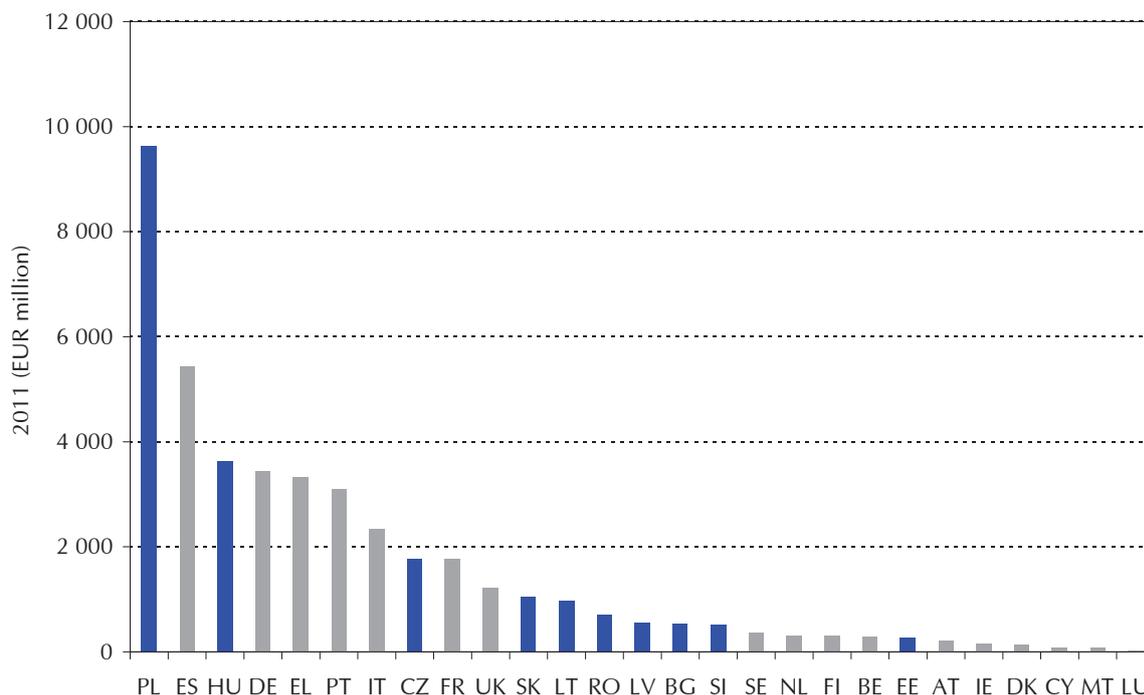
Increasing the capping of cohesion policy transfers is another unfriendly measure towards the EU-10. The maximum level of transfer to each individual member state will be set at 2.35 per cent of GDP, instead of between 3.24 and 3.79 per cent in the current MFF. For some new members (especially Hungary and the Baltic States) it will be increased by 10 per cent producing a capping of 2.59 per cent<sup>25</sup>. This is another element of the general picture whereby it seems that the old member states rather than the new ones may have a better position in the upcoming MFF compared to the current financial perspective. And all this happens in a policy where the EU-10 could obtain a significant part of the funds (See Figure 2).

Also, the intention of the Commission to concentrate the available money on the smallest possible number of big projects, arguing that they can deliver higher Euro-

pean added value than dispersing the money for a lot of small projects, principally penalises the smallest and poorest economies (i.e. most of the new member states). Since these projects need to be co-financed from the national budgets, they divert essential and limited national resources from bringing people out of poverty and from the development of the still incomplete basic national infrastructure. Lowering the cohesion policy funding for the relatively poorer regions of Europe is all the more regrettable as the cohesion policy has always been a win-win game, with beneficial effects for both recipient and net contributor countries. According to researchers' calculation, cohesion projects to be realised in Poland in the period of 2004-2015 may have important positive externalities, largely compensating for the costs incurred by the EU-15. In the longer term, beneficial effects may involve an increase of imports caused by

**Figure 2**

**Allocation of EU expenditure under the Cohesion for growth and employment programme for 2011 by Member State**



Note: EU-10 are marked in with blue bars

Source: European Commission, EU expenditure and revenue; [http://ec.europa.eu/budget/figures/interactive/index\\_en.cfm](http://ec.europa.eu/budget/figures/interactive/index_en.cfm) [6.2.2013]

the modernisation of the recipient country's economy and the rising wealth of its citizens<sup>26</sup>.

Finally, it is to be mentioned that two new tools could somewhat mitigate the effects of the above changes for the EU-10: the food aid scheme for most deprived people has been put on a sustainable basis with a budget of 2.5 billion euros for the period of 2014-2020; and an initiative to promote youth employment has been created (with an envelope of 6 billion euros) which will be open to all regions with levels of youth unemployment above 25 per cent.

As for the common agricultural policy, the immense cuts imposed on the first pillar of the CAP also hurt the relatively poorer new member states much more than the old ones. The order of magnitude of these funds is presented in Figure 3.

As the Commission's original proposals concerning the CAP reform deeply divided the EU-27, a somewhat modified, sweetened version was adopted as part of the Conclusions paper. It is a good news for most of the EU-10 (especially for the Baltic States) that a sort of equalisation of the per hectare direct payments (DP) will occur between 2015 and 2020: one third of the gap between their current DP level and 90 per cent of the EU average will be closed for those member states whose DP

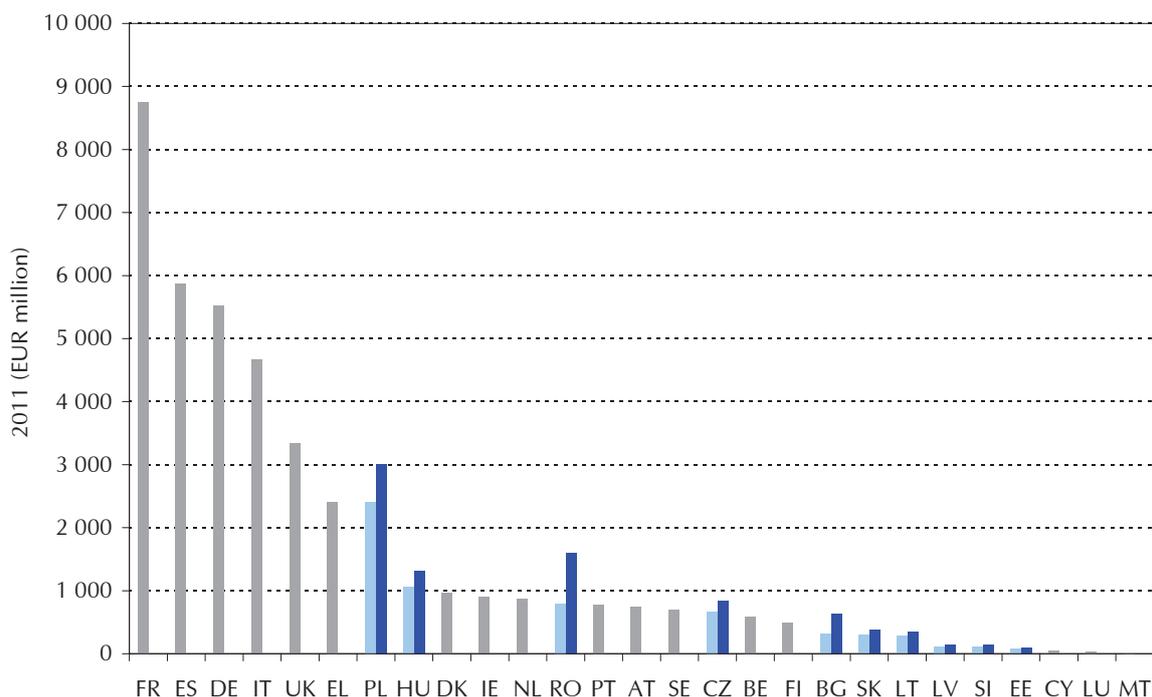
per hectare is below 90 per cent of the average. Moreover, all member states should attain at least the level of 196 euros per hectare in current prices by 2020. The measure will be financed by member states with DP level above EU average (like Slovenia). Hungary and the Czech Republic are not concerned with their DP per hectare being between 90 and 100 per cent of the average.

Some measures of further easing the austerity of the next MFF consist of that:

- ☞ the capping of the DP for the largest beneficiaries will be introduced only on a voluntary basis, a modification which is important to member states with high share of big holdings (like Slovakia or the Czech Republic);
- ☞ the financial discipline mechanism is maintained – conforming to which the level of the DP is adjusted when forecasts show that the sub-ceiling of Heading 2 is exceeded – but without the safety margin of 300 million euros<sup>27</sup>;
- ☞ although member states still have – in order to ensure CAP helps the EU to deliver on its environmental and climate action objectives – to make 30 per cent of the DP conditional on “greening”, the obligation to maintain at least 7 per cent of farmland as ecological focus area will be implemented in ways that do not require the land in question to be taken out of

**Figure 3**

**Allocation of EU expenditure under the CAP first pillar (market-related expenditure and direct aids) for 2011 by Member State**



Note: EU-10 are marked in with blue bars.

For the EU-10, the second (darker blue) bars mark the level of DP at the end of the phasing-in period.

Source: European Commission, EU expenditure and revenue; [http://ec.europa.eu/budget/figures/interactive/index\\_en.cfm](http://ec.europa.eu/budget/figures/interactive/index_en.cfm) [6.2.2013]

production<sup>28</sup>. Even if this easing is beneficial for such country as, for example, Hungary – where 400 thousand hectares of good agricultural lands could otherwise have been taken out of cultivation<sup>29</sup> – this means that valuable management practices for protecting water quality, soils and biodiversity, e.g. buffer strips along water courses or leaving areas fallow, may be excluded from the next CAP reform.

It is equally controversial from the environmental point of view that over 20 years worth of efforts to increase spending on ecological public goods in the framework of rural development policy (Pillar 2 of CAP) have been thrown into confusion with measures allowing member states to transfer, in the name of increased flexibility, a large proportion (between 15 and 25 per cent) of their rural development budget to fund farmers' DP in Pillar 1<sup>30</sup>.

Finally, one should not forget of two novelties:

- ☞ the creation of a new reserve for agricultural crises, which was originally placed outside the MFF by the Commission, but has at the end been included under Heading 2 with an amount of 2.8 billion euros;

- ☞ the establishment of a gradual macro-economic conditionality for all expenditure falling under the Common Strategic Framework where the structural and cohesion funds (including the European agricultural Fund for Rural Development and the European Maritime and Fisheries Fund) will be brought together. This means to link the use of structural funds to national budgetary management and the respect of the Stability and Growth Pact objectives.

Heading 3 ("Security and citizenship") does not mirror the impact of the economic crisis on the budget, as its funding will increase by almost 27 per cent compared to the current MFF. This heading – so dear to the wealthier member states - includes in particular actions in relation to asylum and migration and initiatives in the areas of external borders and internal security. Funds under Heading 4 ("Global Europe") serve to develop the role of the EU as an active player on the international scene. An interesting thing with Heading 5 ("Administration") is that in spite of the "austerity package" with such proposals as the reduction of the staff by 5 per cent in all EU institutions, between 2013 and 2017, to be offset by a longer working day (from 37.5 to 40 hours) without

salary compensation, an increase of the retirement age from 63 to 65, and that of the solidarity levy – a tax introduced during the 1970s oil crisis and maintained over time – on top of income tax of up to 45%, from 5.5 to 6 per cent, funds for it will raise by close to 8 per cent in real term compared with the current MFF. The Conclusions paper defends the system by arguing that the EU institutions must preserve their capacity to attract and maintain a highly professional and geographically balanced EU-administration<sup>31</sup>. There is also a Heading 6 (“Compensation”) so small (27 million euros) that it was not even mentioned in Table 1. Its aim is to ensure that Croatia will not be a net contributor to the common budget in the first years of its membership.

### The revenue side of the budget

In vain did the Commission put forwards far-sighted proposals for reforming the own resources system, almost everything remained untouched: no new own resource has been introduced; the UK rebate, and the rebates on the UK rebate are maintained; a reduced VAT call rate continues to apply to certain member states, while others will benefit from reductions of their national GNI payments. Only that part of the traditional own resources, which is allowed to be retained by the member states in order to cover their collection costs, will be reduced from 25 to 20 per cent, still twice as much as it was before the Agenda 2000. Also some vague promises have been made about continuing the work on Commission’s proposals for new own resources to be based on value added tax and financial transaction tax (FTT)<sup>32</sup>.

### The way ahead

The final agreement with the European Parliament (EP) is still needed for the new MFF to enter into force in January 2014. The MFF Regulation must be adopted by the Council after having obtained the consent of the EP. The latter may approve or reject the Council’s positions, but not adopt amendments<sup>33</sup>. But the EP wants to play a role: it has the right to do it ever since the Lisbon Treaty has been in force. In its Resolution of 13 March 2013, the EP rejected the MFF-agreement in its current form, as it did not reflect the priorities and concerns expressed by the EP and disregarded the EP’s role and competences<sup>34</sup>. The EP is in a very delicate situation: how to proceed, in order that neither it diminishes its own role in shaping the MFF, nor it overplays this role by putting the whole process at risk<sup>35</sup>. In its Resolution the EP made a lot of strong comments, e.g. by denouncing the lack of transparency in the way the political agreement on the MFF had been reached; or by firmly opposing to a financial framework which, on the basis of the current accumulation and rollover of outstanding payment claims, might, against the provisions of the Treaty, lead the EU budget into a structural deficit; or by stressing

the importance of reaching an agreement on an in-depth reform that reduces the share of GNI-based contributions to the EU budget to a maximum of 40 per cent and phases out all existing rebates and correction mechanisms. But as all these are very sensible questions, there is little chance for obtaining good enough results. A more realistic scenario for the EP would be to focus on that, e.g. maximum overall flexibility between and within headings, as well as between financial years is ensured; or that next European Parliament and Commission are in a position to reconfirm the EU’s budgetary priorities, initiate and carry out a comprehensive revision of the MFF 2014-2020 towards the middle of the period. If no agreement is reached between the Council and the European Parliament by the end of the current MFF (2007-2013), the 2013 ceilings (and other provisions) will be extended to 2014 (or until such time as the new MFF is adopted) with a 2 per cent inflation adjustment (TFEU, 312.4). This means that the existing ceilings are rolled over and annual budgets are negotiated on a year-by-year basis – with all the unpredictable political and economic consequences this would entail. This is when a political wisdom is needed.

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<sup>1</sup> European Council, Conclusions, Brussels, 8 February 2013, p. 2; [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/135344.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/135344.pdf) [10.2.2013]

<sup>2</sup> Ibidem, p. 2.

<sup>3</sup> Ibidem, p. 3.

<sup>4</sup> Counted by ALDE. See: Alliance of Liberals and Democrats for Europe (ALDE), *ALDE position on MFF*, p. 4; <http://www.alde.eu/key-priorities/budget-reform-rethinking-budget/> [6.2.2013]

<sup>5</sup> Les Vingt-Sept sur les grandes lignes d’un budget d’austérité, “Le Monde”, 8.2.2013; [http://www.lemonde.fr/europe/article/2013/02/08/les-vingt-sept-s-accordent-sur-les-grandes-lignes-d-un-budget-d-austerite\\_1829042\\_3214.html?xtmc=budget\\_europeen&xtcr=6](http://www.lemonde.fr/europe/article/2013/02/08/les-vingt-sept-s-accordent-sur-les-grandes-lignes-d-un-budget-d-austerite_1829042_3214.html?xtmc=budget_europeen&xtcr=6) [10.2.2013]

<sup>6</sup> K. Medarova-Bergstrom, D. Baldock, K. Hart, A. Volkery, *A Greener EU Budget in the Balance: the 2014-2020 MFF Deal*, Institute for European Environmental Policy (IEEP), p. 2; [http://www.ieep.eu/assets/1169/IEEP\\_Policy\\_brief\\_European\\_Council\\_agrees\\_MFF.pdf](http://www.ieep.eu/assets/1169/IEEP_Policy_brief_European_Council_agrees_MFF.pdf) [12.2.2013] and D. Baldock, K. Medarova-Bergstrom, *Mixed news for the EU’s environment from the MFF deal*, “IEEP Press release”, 8.2.2013; <http://www.ieep.eu/work-areas/climate-change-and-energy/climate-change-and-the-eu-budget/2013/02/mixed-news-for-the-eu-s-environment-from-today-s-mff-deal> [10.2.2013]

<sup>7</sup> See the joint letter of the five big net contributors submitted to the Commission President, José Manuel Barroso, in December 2010, in which they warned that appropriations for payments should not increase more rapidly than annual inflation while commitment appropriations should not exceed the level foreseen for 2013, adjusted with less than annual inflation for the whole MFF. (See: Common letter addressed to José Manuel Barroso, President

of EU Commission, British Embassy, Paris, 20.12.2010; <http://ukinfrance.fco.gov.uk/fr/news/?view=News&id=435210682> [6.2.2013])

<sup>8</sup> EU leaders hail new budget deal, "BBC News", 17 December 2005; <http://news.bbc.co.uk/2/hi/europe/4538100.stm>

<sup>9</sup> CAP Reform.eu, No decision on MFF budget at first attempt, 23.11.2012; <http://capreform.eu/no-decision-on-mff-budget-at-first-attempt/> [6.2.2013]

<sup>10</sup> European Council, Conclusions, op. cit.

<sup>11</sup> Outside the MFF are the so-called Flexibility Instruments (the Solidarity Fund, the European Globalisation Adjustment Fund, the Emergency Aid Reserve, the Flexibility Instrument) and the European Development Fund (for further details, see: [http://ec.europa.eu/budget/explained/budg\\_system/flex/flex\\_en.cfm](http://ec.europa.eu/budget/explained/budg_system/flex/flex_en.cfm) [14.2.2013])

<sup>12</sup> The additional administrative cost requirements (circa €536 million) resulting from the accession of Croatia are responsible for only 11.8 per cent of this growth. (See: European Commission, Amended proposal for a Council Regulation laying down the multi-annual financial framework for the years 2014-2020, COM(2012) 388 final, Brussels, 6.7.2012, p. 5).

<sup>13</sup> European Council, Conclusions, op. cit.

<sup>14</sup> European Commission, A budget for Europe 2020, 29 June 2011, [http://ec.europa.eu/health/programme/docs/maff-2020\\_en.pdf](http://ec.europa.eu/health/programme/docs/maff-2020_en.pdf) [1.2.2013]

<sup>15</sup> Ibidem, p. 11.

<sup>16</sup> The newly created common strategic framework for research (called Horizon 2020) would be closely linked to key sectoral policies such as health, food security and bio-economy, energy and climate change. (Ibidem, p. 10).

<sup>17</sup> Ibidem, p. 25.

<sup>18</sup> European Council, Conclusions, op. cit., p. 8.

<sup>19</sup> A centre of excellence is a structure where research and technological development is performed of world standard by a critical mass of high level scientists and/or technology developers. An outstanding European example is CERN, See: *CORDIS, Action for "centres of excellence" with a European dimension*, [http://cordis.europa.eu/fp7/cooperation/home\\_en.html](http://cordis.europa.eu/fp7/cooperation/home_en.html) [14.2.2013]

<sup>20</sup> European Commission, A budget for Europe 2020, op. cit., p. 15.

<sup>21</sup> Ibidem, p. 26.

<sup>22</sup> European Council, Conclusions, op. cit., p. 10.

<sup>23</sup> Council of the European Union, *EU multiannual financial framework (MFF) negotiations – Summary of the European Council agreement*, <http://www.consilium.europa.eu/special-reports/mff/summary-of-the-european-council-agreement> [4.2.2013]

<sup>24</sup> It is all the less fair to compare the next MFF to the current one, as for some of the EU-10 (like Romania and Bulgaria) the MFF

2007-2013 still constitutes a sort of phasing-in period when Cohesion Fund subsidies cannot be fully utilised.

<sup>25</sup> European Council, Conclusions, op. cit., p. 18; European Council, *Financial Perspectives 2007-2013*, Brussels, 19 December 2005, p. 16.

<sup>26</sup> P. Zerka, *Towards a smart cohesion policy*, demos EUROPA – Centre for European Strategy, 2011, p. 5; [http://demosservices.home.pl/www/files/P\\_Zerka\\_Smart\\_Cohesion\\_July\\_2011\\_pdf.pdf](http://demosservices.home.pl/www/files/P_Zerka_Smart_Cohesion_July_2011_pdf.pdf) [1.2.2013]

<sup>27</sup> The 2003 CAP reform introduced a financial discipline mechanism to ensure that the amounts for financing of the CAP under Pillar I (market-related measures and direct payments with a margin of €300 million) are not exceeded in any year. So, if there is danger of overspending, cuts in direct aids should be made. See: Council Regulation (CE) No.73/2009 of 19 January 2009, OJ EU L 30, 31.1.2009.

<sup>28</sup> European Council, Conclusions, op. cit., p. 26-27.

<sup>29</sup> Presentation of József Gráf, ex-Minister of Agriculture at EU Club of Budapest on 18 December 2012.

<sup>30</sup> D. Baldock, K. Medarova-Bergstrom, *Mixed news for the EU's...*, op. cit.

<sup>31</sup> European Council, Conclusions, op. cit., p. 39.

<sup>32</sup> Ibidem, p. 44. NB: on 22 January 2013 the EU Council adopted a decision authorising eleven member states (of which France and Germany) to go ahead with enhanced cooperation on a common system of FTT. (See: European Council, *Financial transaction tax: Council agrees to enhanced cooperation*, Brussels, 22 January 2013, p. 1; [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ecofin/134949.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/134949.pdf) [6.2.2013]) The money raised by the new tax in these member states as of 2014 could help them either to reduce other tax rates or increase their overall tax revenue. Anyhow, the FTT will indirectly appear among the EU own resources.

<sup>33</sup> Council of the European Union, *EU MFF Negotiations – The rules for adoption of the MFF package*, <http://www.consilium.europa.eu/special-reports/mff/decision-making-process> [2.2.2013] (See: art. 312(1) of the TFEU).

<sup>34</sup> European Parliament, *Resolution of 13 March 2013 on the European Council Conclusions of 7/8 February concerning the Multiannual Financial Framework (2012/2803(RSP))*, 13.3.2013, p. 1; <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2013-0078&format=XML&language=EN> [13.3.2013]

<sup>35</sup> K. Dezséri, *The dilemma of the European Parliament about the acceptance or the non-acceptance of the MFF 2014-2020 agreed on by the European Council of 7/8 February 2013*, IWE Institute of World Economics Blog, 13.3.2013; [http://vilaggazdasagi.blog.hu/2013/03/13/az\\_europai\\_parlament\\_dilemmaja\\_a\\_2014-20\\_kozotti\\_koltsegvetes\\_elfogadasanak\\_kerdese](http://vilaggazdasagi.blog.hu/2013/03/13/az_europai_parlament_dilemmaja_a_2014-20_kozotti_koltsegvetes_elfogadasanak_kerdese) [13.3.2013]