

The European Union Multiannual Financial Framework 2014-2020: How to do more for less?

Issue 2013/05 · May 2013

by Magdalena Sapala

Procedural and institutional context

This Policy Brief outlines some aspects of the negotiations on the EU Multiannual Financial Framework 2014-2020 (MFF) in the stage before the European Parliament's consent (15 May, 2013). The MFF legislative package includes much more than just a list of allocations for each heading. Apart from the basic MFF regulation laying down categories and size of the expenditures, there are: the Inter-institutional Agreement, five acts on the own resources system and seventy sector-specific legislative acts. In other words, the current negotiations cover budget revenues and expenditures, but also general and sector-specific implementation rules, which are as important as the figures and allocations alone. That is why the EP has all the more reason to remind us that the negotiation process was not over just by the successful conclusion of the meeting of the EU-27 in February of this year.

In this context it is noteworthy that several important changes introduced to the procedures by the Treaty of Lisbon could play a role in the course and outcome of the negotiations. First, the ordinary legislative procedure has been extended and, as a consequence, the EP has more responsibility for the EU policies and legislation which have budgetary implications and create new expenditures. Not surprising then that it does not want to agree for more responsibility with less resources. Second, while the financial perspective for 2007-2013 materialized as an Inter-institutional Agreement, the Treaty of Lisbon stipulates that the new MFF should be adopted in the form of a regulation and in accordance with the special legislative procedure requiring the consent of a majority of the EP members and unanimity in the Council (article 312 paragraph 2). On the one hand, this procedure does not allow the EP to introduce amendments to the regulation. On the other hand, the EP has the power

The European Council meeting on 7 and 8 February 2013 attracted an unusual level of attention from media and citizens. For a couple of days, Europe played a more important role in national politics and news. Sensation-frenzied media and excited politicians spouted notions of 'a battle', 'winners', 'losers' or 'striking deals', as if Europe had gone back to the time when its military powers still conflicted. After more than 24 hours of intense negotiations, the respective Member States leaders left Brussels with 'good news' for their citizens. However, those with more Euro-federalist feelings were left with a sense of non-accomplishment and missed opportunities, not only because the EU budget for the first time in history was set for a net decrease, but also because the European Council's conclusions did not contain any ground-breaking changes to this system. Nevertheless, the European Parliament (EP) immediately reminded Europe about its role and outlined its conditions for further negotiations. Thus, the supporters of a modern and stronger EU budget still see a chance in the consent procedure and hope to shift the focus of the debate from the *juste retour* spirit to the consideration of the European common good. Is there still a chance for such a shift? What issues are at stake?

of vetoing the outcome of the Council's negotiations. Therefore, without the EP's consent the conclusions of the negotiations in the Council are nothing more than a political agreement. And indeed, the Parliament has been very active in the debate from the

beginning and has been determined to take every formal and informal opportunity in order “to exercise its new powers to the full” (European Parliament, 2009).

Size of the MFF: how to make sense of the Council decisions?

Much has already been said about the overall size of the EU budget and many different comparisons have been presented. For some the total amount of the MFF is high, for some small. No doubt that for the first time the overall expenditure limit of the MFF has been reduced compared to the previous MFF. Already in the Commission’s proposal (presented in June 2011) a decrease of the budget expressed in percentage of the EU GNI¹ from 1.12% in 2007-2013 to 1.05% in 2014-2020 had been foreseen. Nevertheless, the Member States decided to decrease it even further to 1% of the EU GNI. This seems to indicate that, at least in terms of the budget’s size, the Member States value individual actions over EU common projects. However, at the occasion of other summits the same Member States have adopted declarations of a completely opposite character. Thus, there is a mismatch between a number of projects that have been recently agreed upon by the European Council and the tendency to limit the resources for their implementation. Examples of such commitments arising from the Treaty as well as from the European Council’s decisions include: the ambitious goals of the Europe 2020 strategy, new tasks in the framework of the European External Action Service and the European Neighbourhood Policy, financial assistance related to the crisis (i.e. the European Financial Stabilisation Mechanism and the European Stability Mechanism) and implementation of ‘The Compact for growth and jobs’. Moreover, the Member States pledged to pursue large-scale and expensive projects such as the ITER, Galileo and the European space policy.

The mismatch between the Member States’ commitments and the will to pay for them is also evident from the conflict that arose around the sum of outstanding bills in the EU budgets for 2012 and 2013 (€11.2bln)². An agreement on this issue and a firm commitment by the Member States to cover the overall amount this year was a precondition for the Parliament to start the negotiations on the MFF. This problem illustrates somewhat contradictory behaviour of the heads of state. Their ambitious programmes and declarations do not mesh with the financial capabilities. The fact that they are reluctant to pay even for agreed commitments and a general aversion to transfers for the EU common wallet leads to a distorted image of the EU budget among

citizens. It gives a signal that spending at the EU level does not produce any or little added value and contributes to a fundamental disbelief in EU policy management and in the positive role of the EU. Would such an outcome be in line with the Member States’ aspirations or expectations?

Flexibility and duration: more democratic responsibility?

‘Flexibility’ has become one of the key words of the debate and the Parliament’s main demand in the negotiations with the Council. It refers to different aspects of the MFF, such as the duration, the margins that are left for different resources and the spending ceiling, technical revisions (e.g. caused by inflation), reallocations of expenditures between years or headings, to the functioning of the special funds outside the MFF as well as to a possibility to recycle the surplus of the budget (which is now returned to the Member States).

As far as the MFF duration is concerned, Article 312 of the Lisbon Treaty states that the MFF shall be established for at least five years. In practice only the first long-term budget covered five years (1988-1992); all subsequent budgets lasted seven years. Although this aspect of the MFF may seem secondary, it has a political and practical significance. On the one hand, the five-year duration could easily be aligned to the EP and Commission mandates. There is no such synchronisation in the current, seven-year financial perspective. Therefore, the present EU institutions implement the budget that was negotiated and adopted during the previous term. In the EP’s words, “if no change is made to the timetable, some Parliaments will never be able to take fundamental budgetary decisions, since the financial framework adopted by their predecessors covers the entire parliamentary term in question” (European Parliament, 2009). On the other hand, longer and more predictable budgets are for the benefit of implementation of long-term projects and infrastructural investments. Taking this into account the Commission’s initial proposal - presented in the Budget review in 2010 - covered a ten-year period with a substantial mid term review (‘5+5’). Certainly, this solution would allow for alignment of the MFF with the EU institutions mandate and increase their democratic responsibility and accountability. However, it would require a strong review clause in order to ensure the MFF flexibility and a possibility to react to new challenges that may occur in several years. But as experience shows, the Council reluctantly agrees to change sums once negotiated. Therefore, the same seven-year period has been eventually proposed by the Commission and accepted

by the Council. The Parliament called this a “transitional” solution and, in the light of a vague declaration of the European Council concerning any review, demanded a compulsory and comprehensive mid-term revision of the MFF.

The Parliament’s strong position on the flexibility of the budget has its roots in the experience of harsh discussions with the Council about any adjustments to the amounts. Revisions are unavoidable, yet under the current legislation it is very difficult to introduce them. They are strictly regulated and require a joint decision of the EP and the Council. Revising the budget by more than 0.03% of the EU GNI moreover requires unanimous consent from the Council³. One of the ways to avoid this troublesome procedure and exceeding fixed ceilings is to keep several special funds outside of the MFF. In the Council agreement from February 2013, the latter amount to 0.04% (which is higher when compared to the previous period) and include: European Aid Reserve, European Globalisation Fund, Solidarity Fund, Flexibility Instrument and European Development Fund. Increasing these resources however, is questionable from the point of view of transparency of EU finances and procedures. On the one hand, these funds increase the financial means that are at the disposal of the EU institutions and allow them to react easier to unforeseen internal and external circumstances. On the other hand, they increase the Member States contribution, but being managed outside the MFF, they do not fall under the fully transparent and democratic procedures.

In brief, budget flexibility in all its different aspects seems a critical element for finding an agreement between the EP and the Council. The outcome of the current negotiations should ensure the right balance between strict budgetary discipline, predictability of expenditure and the flexibility needed to enable the Union to respond to unforeseen challenges. The overall goal of MFF flexibility should be to ensure that the available resources are used to the full and that they bring the ambitious European Added Value.

Structure: more transparency?

The MFF is presented in the form of a list of numbered headings and sub-headings. Its structure matters because it is a powerful communication tool about EU priorities. Therefore, in order to increase the visibility of the EU political priorities the structure was reshuffled and renamed each time a new multiannual financial plan was adopted. The most radical modification was introduced in the MFF for 2007-2013 when straightforward titles such as “Agriculture” and “Structural operations” were replaced by headings

that were more aligned with the Lisbon Strategy, but at the same time less clear, like “Preservation and Management of Natural Resources” and “Sustainable Growth”. Similarly, the headings of the MFF for 2014-2020 express the goals of the Europe 2020 strategy, i.e. “Smart and Inclusive Growth” or “Sustainable Growth: Natural resources”. While these changes introduce some ‘key words’ and ensure political visibility of EU priorities, they are unclear and less transparent for the average citizen. This added to the general complexity of the MFF makes it very difficult for the average citizen to grasp the value added the EU budget could provide.

Own resources: any changes?

Similar allegations concerning a lack of transparency and complexity also concern the revenue side of the MFF. For a long time the system for calculating and collecting Member States’ contributions to the EU budget has been criticised for its rebates and excessive dependency on national payments. Although the treaty states that the EU budget should be financed wholly from own resources (article 311 of the TFEU), and the Parliament hand in hand with the Commission call for an in-depth reform of the revenue system, the Council as a whole resists radical changes. And this is despite the fact that the reform proposal submitted last year by the Commission would not change the size of the budget; it would decrease national contributions based on GNI from 80% to 60% of the EU budget revenues. Whereas the European Council conclusion of 8 February 2013 suggests that there may be an agreement on a new VAT-related own resource, the perspectives for a financial transaction tax are not promising. A positive decision on budget reform in this sense is very unlikely, as it requires unanimity in the Council and ratification by all Member States. Some of the latter present a very rigid position against any EU-tax. Some hope for change resides however with the Parliament’s right to veto a regulation laying down implementing measures for the own resources system, and with its increasing cooperation with the national parliaments in this matter.

Conclusion

Despite more than two years of intensive debates, the three EU institutions have not agreed on any profound changes concerning duration, structure, flexibility or revenues for the MFF. There is a real danger that the EU will miss out on an important chance to reform and will enter the next financial period with a budget that is “a historical relic” in which “expenditures, revenues and procedures are all inconsistent with the present and future state

of EU integration” (Sapir, 2003). No doubt that while the Council is internally divided and unable to agree on any step forward, the drive for reform should come from the Commission, the European and national parliaments and, last but not least, from common sense with the EU citizens. To achieve this, the focus of all stakeholders (including the media) should dramatically shift from arguments over the budget size of 1.0% or 1.01% of the EU GNI to proposals on systems raising own budget resources, mechanisms ensuring budget flexibility and possibility to react to unforeseen challenges as well as creating more effective spending, such as project bonds or the European Growth Fund (Marzinotto, 2012). We should all realise that the EU budget is small compared to its announced objectives and its intervention becomes economically significant only if it is reinforced by national (private and public) expenditure at each level, national, regional and local (Sapir, 2003). Moreover, whereas the issues that are at stake at this stage of the negotiations are more complex than the overall size of the MFF, they are particularly significant for a smooth, efficient and successful implementation of the MFF. If the Parliament and the Member States are able to agree some radical changes in the EU financial system, the result may help to do more with less in Europe in the next decade.

Notes

¹The actual annual expenditures of the MFF have never reached the agreed ceilings.

²Budgets Committee backs two-track approach to talks on unpaid bills and the MFF, 7.05.2013. (<http://www.europarl.europa.eu/news/en/pressroom/content/20130506IPR08019/html/Budgets-Committee-backs-two-track-approach-to-talks-on-unpaid-bills-and-the-MFF>) [Accessed: 13.05.2013]

³Apart from the annual technical adjustments, the amounts of the

current financial framework have been amended seven times since it has come into force. Each amendment was made to find financial resources to face unforeseen expenses, such as increased spending for Galileo in 2007 or for ITER in 2010, and led to intensive inter-institutional arguments.

Selected Bibliography

Marzinotto B. (2012), The long-term EU Budget: Size or Flexibility?, Bruegel Policy Contribution 2012/20, November 2012

Sapir A. (2003), An Agenda for a Growing Europe. Making the EU Economic System Deliver. Report of an Independent High-Level Study Group established on the initiative of the President of the European Commission, July 2003

European Council Conclusions of 8 February 2013, EUCO 37/13

European Commission, COM(2011) 500, A Budget For Europe 2020 - Part I - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions

European Commission COM(2011) 500 final, A Budget For Europe 2020 - Part II - Policy Fiches - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Region

European Parliament Motion of 8 March 2013 for a Resolution to wind up the debate on statements by the Council and the Commission pursuant to Rule 110(2) of the Rules of Procedure on the European Council conclusions of 7/8 February concerning the Multiannual Financial Framework (2012/2803(RSP))

European Parliament Resolution of 7 May 2009 on the financial aspects of the Lisbon Treaty, 2008/2054 (INI).

European Parliament Resolution of 23 October 2012 in the interests of achieving a positive outcome of the Multiannual Financial Framework 2014-2020 approval procedure, 2011/0177(APP)

The Interinstitutional Agreement of 17 May 2006 on budgetary discipline and sound financial management (OJ C 139, 14.6.2006)

About the author



Magdalena Sapala holds a PhD in economics with a specialisation in European integration. She is an expert in EU cohesion policy and the EU budget. Mag-

dalena joined the IES in 2011, first as a Senior Associate Researcher and since October 2012 as a Postdoctoral Researcher and Lecturer in the Education Development Unit and European Economic Governance Cluster. She is also an associated lecturer at the European Studies Department of Poznan University of Economics

in Poland. As an expert and dedicated trainer Magdalena cooperates with think tanks, regional authorities and Members of the European Parliament.

Policy briefs are published by the
Institute for European Studies

Jean Monnet Centre of Excellence
at the Vrije Universiteit Brussel

www.ies.be

Pleinlaan 5

B-1050 Brussels

T +32 2 614 80 01

F +32 2 614 80 10

ies@vub.ac.be