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Views on the Commission's Draft EU Budget:

Excessively ambitious or overly timid?

Arnout Mijs and Adriaan Schout

Abstract

The Multiannual Financial Framework (MFF) for the post-2013 period is one of the most sensitive topics presently under discussion in the European Union. Budget negotiations are always complex and divisive for the parties concerned, but an additional factor in the current round is the impact of the euro crisis, which is evident throughout the process. The reactions to the European Commission's proposal are mixed, with some finding it excessively ambitious and others finding it lacking in reform. This paper analyses the Commission proposal on the MFF and its reception by the member states. It argues that the Commission has put forward a well balanced proposal, which leaves enough room for reform. In the end, however, the outcome of the negotiations will strongly depend on the member states.

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Arnout Mijs and Adriaan Schout*

1. Introduction

The negotiations on the EU's multiannual financial framework (MFF) started in 2011 with the presentation of the proposals of the European Commission and they have to be finalised by the end of 2012.[1] The budget is one of the most sensitive topics in the European Union. It combines two elements that are difficult enough to handle on their own: the sensitive issue of distribution of income and expenditures, and the common view on the future of the EU to act as framework for the EU budget (the Europe 2020 strategy). The Europe 2020 strategy is aimed at the modernisation of national economies. As the MFF is the financial translation of Europe 2020, the negotiations on the MFF have to shift from 'defending the status quo' towards 'modernisation'.

Given the sensitivities, the negotiations may not be completed in 2012, as the budget divides the member states in many different ways and there are fears that little will change. One division concerns the debate between net payers and net receivers. In addition, debates vary per category. Countries with major stakes in agricultural and structural funds (together accounting for about 78% in the current MFF) are less inclined to accept major changes in the composition of the budget. Proposals to reform the calculation of the rebates will influence net positions. Similarly, the Commission's innovative suggestions for new own resources alter the stakes of the member states on the income side of the budget. Hence, it is not surprising that this Commission proposal was received with mixed feelings by the member states. Although some criticism was voiced, the reaction was less negative than to the budget proposal for 2007-13, when the 'Prodi-package' was cast aside as being overly ambitious.

In addition to the differences between the member states, another complication arises from the fact that the Treaty of Lisbon gave the European Parliament (EP) the power of consent as regards the expenditure side of the budget. This changes the negotiating arena compared to the previous multiannual budget because the member states have to incorporate the opinion of the EP, which received the budget proposal with mixed feelings.[2]

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[1] European Commission (2011), A Budget for Europe 2020, SEC (2011) 500 final, Brussels, 29.6.2011.

[2] European Parliament (2011), Mixed views on EU long-term budget proposals, Press Release, 6.7.2011.

penalise countries failing to restructure their budgets and economies, and the EU budget is one of the few instruments the EU has at its disposal to directly support growth in hard-hit countries.

This paper aims to assess the Commission proposal: Is it lacking in ambition? Is it clouded by obscurities or is it well balanced? It starts with the initial responses of the member states and the EP on the whole and on specific categories (section 2). Subsequently, we discuss the rationale behind the proposal from the perspective of the Commission (section 3). Section 4 speculates on in which direction the negotiations might be heading on the basis of current developments (section 4). The concluding section explores the function of the EU budget as a political instrument.

2. Reception and content of the proposal

As to be expected with any multiannual budget proposal, the Commission's plans met with some unwelcoming rhetoric within hours after its presentation on 29 June 2011. This seems to be at odds with one of the main tasks of the Commission proposal; to appease most parties involved. In particular, the more euro-sceptic and net-paying governments were especially outspoken. The British commented that it contained "completely unrealistic" proposals.[3] Berlin reproached that is was "far beyond the bearable".[4] The Dutch Minister of Finance Jan-Kees De Jager underlined that "taxation is a national competence."[5] National governments such as France, Sweden, and Italy underline however that it was absurd to increase the budget in times of austerity. Other countries reacted in milder ways. The Finnish Minister for European Affairs Alexander Stubb, said that "it is reasonable, it is balanced and I think it's rational."[6] Salvador Garriga Polledo, MFF-rapporteur of the European Parliament, criticised the freezing of the proposal and low ambition.[7] Others MEPs were happy to see an increase in the 1.11% of EU Gross National Income (GNI) in commitment appropriations, together with the 'Outside MFF' category and pointed to the importance of solidarity and EU approaches to the crisis and to the new tasks of the EU after 'Lisbon'. Either way, it was clear that the parties involved were flexing their muscles to show their electorates that they are ready to defend national interests. In the words of Polish Finance Minister Jacek Rostowski, the "fight will be long and bloody".[8]

The euro crisis, national cutbacks and the perceived decline in public support for the EU have compounded the ongoing negotiations. These differences have come to the fore on a wide range of policy issues including migration, asylum, energy, border control and foreign policy. As it seems, a number of countries have shifted away from their permissive approach to European integration towards, in the words of Barroso, more "intergovernmental and nationalistic" outlooks.[9] For example, the government in Germany is caught up in an internal conflict between the need to avoid being seen on the one hand as the European paymaster and the realisation on the other that the EU is a vital component in the country's external policy and that solidarity must be ensured, even at a price.[10] The Polish Civic Platform seems to be a rare example of a member state where elections can be won on a pro-European ticket.

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[3] "Britain attack Brussels spending plan", *Financial Times*, 30 June 2011.

[4] "Several countries raised against the proposal to increase the budget", *Economics News Paper.com*, 30 June 2011.

[5] ANP (2011), Europese Commissie wil ruimere EU-begroting, 29 June 2011.

[6] "Finland welcomes Commission's budget proposal", *Financial Times*, 18 July 2011.

[7] European Parliament (2011), "Mixed views on EU long-term budget proposals", Press Release, 6 July 2011.

[8] Radio Interview with TOK FM on 30 June 2011 (reported on www.wyborcza.biz).

[9] See among others Barroso's State of the Union, 28 September 2011.

[10] German contribution.

Although the EU budget is too small to be economically relevant, it is one of the most fiercely debated topics in the EU.[11] As can be seen from the table below, the main dividing line between member states is the line between net payers and net receivers.

Table 1. Member state reactions to the Commission MFF 2014-2020 proposal

	Level of Agreement with Commission Proposal							
	Expenditure			Size of the Budget		Own Resources		
	Cohesion Policy	CAP	R&I	Height of MFF	Outside the MFF	VAT	FTT	**Media coverage**
Czech Republic	+	+	++/-	+	+/-	-	+/--	Low
Finland	n/a	+	+	-	n/a	+	+	Low
France	-	+	+	-	+	+	+	Medium
Germany	+/-	+/-	+/-	-	-	-	+/--	Medium
Hungary	++/-	-	+/-	+	+/-	-	+/--	Low
Italy	-	-	+	-	+/-	+/--	+/--	Low
The Netherlands	-	-	+	-	-	-	+/--	Low
Poland	+	+/-	++/-	+	+	+/-	+/-	Low
Romania	++/-	+	n/a	+	++/-	+/-	n/a	Low
Spain	+	++/-	+	+	+/-	-	+/--	Low/Medium
Sweden	-	++/-	+	-	-	-	-	Low
United Kingdom	-	-	+	-	-	-	-	n/a

N.B.: Member state disagreement can be due to a lack of reform or too much reform

+ = member state agrees
++/- = member state largely agrees
+/- = not in favour, nor against
+/-- = member state largely disagrees
- = member state disagrees
n/a = not available

Source: The reactions recorded in this table are based on the answers received to the questionnaire in the Annex.

2.1 Expenditures

The most contentious issues on the expenditure side are evidently agriculture and cohesion policy, which together are responsible for approximately 74% of the MFF proposal. Major changes in the proposed EU budget concern the widely criticised agricultural budget. As concluded by Lejour & Molle, agriculture is mainly based on path dependency, and there are strong arguments for diminishing it.[12] The main fear of the MFF-watchers is that the Common Agricultural Policy (CAP) will prove to be a major stumbling block and that member states will defend the status quo. Modifications in the CAP relate to the 'greening' of direct payments. Some 30% of direct support will be made conditional on "greening" measures such as efforts to reduce the greenhouse gas emissions from agricultural activities. In addition the amount of direct support for a hectare of land differs quite substantially per member state. The gap in payment levels will be narrowed according to the proposal. Furthermore, direct payments will be capped. Countries that are traditionally sceptical about the CAP accuse the Commission proposal of lacking reform initiatives. This group includes Sweden, the United Kingdom, the Netherlands, Germany, and to a lesser extent, Finland. The group focuses especially on capping or even abolishing direct payments (income support for farmers).

The CAP also reappears – evidently – in the net balance discussion. France is the biggest receiver of agricultural funds with 18% of these funds or €9,854 million in 2010. Germany and Spain occupy second place (each receiving 13% of agricultural expenditure).[13] In 2010, per euro of the Spanish national contribution that is spent on agricultural, it receives €1.58 through EU

[11] I. Begg, A. Sapir and J. Eriksson (2008), *The Purse of the European Union: Setting Priorities for the Future*, SIEPS 2008:1op, Swedish Institute for European Policy Studies, Stockholm, p. 9.

[12] A. Lejour and W. Molle (2011), "The Value Added of the EU Budget: Subsidiarity and Effectiveness", in D. Tarschys (ed.), *The EU Budget: What Should Go In? What Should Go Out?*, Swedish Institute for European Policy Studies, Stockholm, May.

[13] European Commission (2011), EU Budget 2010: Financial Report, Luxembourg: Publications Office of the European Union.

expenditure on natural resources.[14] With a possible decrease of the agricultural budget, Spain fears the possibility of moving towards being a net contributor. This prospect also looms large for member states such as the Czech Republic and Ireland. Similarly, net contributors such as Italy and the Netherlands fear a deterioration of their net balance through the (lack of) reforms. One would suppose that a traditional agriculturally-oriented country such as Hungary would agree with the minimum of reform on this category. However, as can be seen from Table 1, Hungary disagrees with the Commission proposal. It fears a more complex access to funds, especially because of the 'environmental conditionality', which would result in a decrease of the real value of the CAP.[15]

The other major expenditure category in the budget is cohesion policy. Cohesion policy is an investment policy that supports job creation, competitiveness and economic growth in European regions, inter alia, to help deliver the objectives of the Europe 2020 strategy. In the proposal the regions are divided into three categories based on the GDP per capita of the EU-27 average:

1. Convergence regions (<75%),
2. Transition regions (75-90%) and
3. Competitiveness regions (> 90%).

The 'transition regions' category is new and is intended to serve as a stepping-stone for convergence regions towards competitiveness regions. The transition regions retain two-thirds of the previous allocation of funds. The main focus is on the convergence regions, as cohesion policy can be seen as a transfer of money from richer to poorer regions. So of course the total amount reserved for these regions is of importance to the less prosperous member states. In the proposal there is a small increase in funds for cohesion policy of up to €376 billion. Newer member states benefit the most from cohesion policy and agree with the amount of this proposal. Since this is their main source of EU income, this category is a top priority in their position. This may come at the expense of more reform-oriented positions on other categories, such as CAP and new own resources.

The main challenge is the overly broad use of cohesion policy, including in relatively rich countries. The funds for competitiveness regions are also available for regions that supersede the EU27-average. Based on the questionnaire, the net payers would like to stop the transfer of money to regions in 'rich' member states as this would result in an overall decrease of the budget (see section 2.2). However this is not as clear-cut as it appears. Germany has its Eastern regions to take into consideration, which would benefit quite substantially from the new 'transition' category.[16] French regions will probably benefit quite substantially from the new category as well. As can be seen from the table, however, the French government is against the proposal. It wants a reduction of the category and prefers to focus on the CAP[17] because of the French presidential elections and the large contingency in the agricultural sector.

Another much-debated topic in the proposal is the extended use of conditionality. Conditionality is composed of ex-ante, ex-post and macroeconomic clauses. The latter results from the euro crisis and involves enhanced control mechanisms on member state budgets. It accounts for all countries, although the (economic) impact of the suspension of payments and commitments will be taken into consideration. Receiving countries fear that it will become increasingly difficult to extract resources because of these conditionalities. This is especially the

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[14] Ibid.

[15] Hungarian contribution.

[16] European Commission (2011), Cohesion Policy 2014-2020: Investing in growth and jobs, Luxembourg: Publication Office of the European Union, p. 16.

[17] "French government, regions clash over EU budget", *Euractiv*, 15 July 2012.

case for the so-called PIIGS countries,[18] where the possibilities for co-financing are limited, because of their budget deficits. The reserved funds that will not be used will eventually be transferred back to the donor countries. There are plans, however to install a new fund from these reserves that will stimulate growth in ailing member states.[19]

The Commission wants to modernise the European economy via research, innovation and technological development, because of a widening innovation gap compared to developed and emerging economies.[20] The objective of a combined public and private investment level of 3% of EU GDP was already taken up in the Lisbon strategy, but only reached 2.01% in 2009.[21] It is also important for the EU economy to get back on its feet after the crises. The policy on Research & Innovation mainly consists of the Common Strategic Framework for Research and Innovation or 'Horizon 2020'.

Member states largely support the proposal to increase the budget for Horizon 2020 from €56 billion up to €80 billion for the period 2014-2020. As explained in interviews, it is difficult to oppose an increase in competitiveness and innovation from a political perspective. Based on economic arguments, there is a strong case for research & innovation funds to be transferred to the European level.[22] Also considering the current ratio of 7:93 between EU R&D spending and national R&D spending, this is relatively big.[23] This shows that country-specific needs and preferences can easily be covered via national budgets. The key issue, however, is that R&I funds are particularly used by the richer member states. This geographical divide is to a large extent reflected in the table, where one can see that affluent countries such as the United Kingdom, Sweden and Finland concur with the proposal.

2.2 Size of the budget

The budget has been reorganised into two parts: a MFF and an 'Outside the MFF'. In commitment appropriations, the MFF proposal amounts to €1,025 billion or 1.05% of GNI, compared to €976 billion or 1.12% of GNI for the current period 2007-2013. Together with the 'Outside the MFF' category, the 2014-2020 proposal would add up to €1,083 billion or 1.11% of GNI. The 'Outside the MFF' category consists of two types of funds:

1. Funds that previously fell under the MFF (e.g. ITER) and
2. Certain funds that have a different legal framework and were handled separately from the MFF (e.g. EDF).

The first type provokes opposition from the member states, because they are perceived as an underhanded way to increase the total budget. The second type is seen as a step towards more transparency in the budget.

Evidently, as can be seen from the table, net-paying countries focus especially on curbing the expenditures. Six months before the Commission proposals, the UK, France, Germany, the Netherlands and Finland wrote an open letter to Commission President José Manuel Barroso

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[18] Portugal, Ireland, Italy, Greece and Spain.

[19] "Germany wants new EU growth fund", *Reuters*, 29 December 2011.

[20] European Commission (2011), Innovation Union Competitiveness report 2011, Luxembourg: Publications Office of the European Union.

[21] European Commission (2011), Innovation Union Competitiveness report 2011, Luxembourg: Publications Office of the European Union.

[22] A. Lejour and W. Molle (2011), "The Value Added of the EU Budget: Subsidiarity and Effectiveness", in D. Tarschys (ed.), *The EU Budget: What Should Go In? What Should Go Out?*, Swedish Institute for European Policy Studies, Stockholm, May.

[23] European Parliament (2011), "TEN-T, Research and Innovation", SURE Committee Meeting report, 1 February, p. 207.

requesting that the increase in payment appropriations not exceed the inflation rate.[24] Sweden did not sign the letter because it found that the inflation rate increase was still too high. At a later stage, the group was expanded to nine (together with Austria, Italy, Sweden and Denmark).[25] These 'thrifty nine' represent mainly the Northern and Western parts of the EU. To limit their contribution, a majority of the 'thrifty nine' is also against the new 'Outside the MFF' category. The United Kingdom, the Netherlands, Sweden and Germany have made no secret of their aim to substantially reduce their contributions. In the Netherlands, this is even explicitly mentioned in the coalition agreement of the government.[26]

The net payers are also the countries where the debate is more politicised. The budget has become an issue of political symbolism. Discussions in national parliaments such as in the Netherlands and the UK have already resulted in negotiating lines being forced upon governments, dictating a nominal freeze of the budget. European scepticism has also come to the fore in the UK's parliamentary discussion on a possible referendum on EU membership. The motion was not passed, although 81 out of 302 Tory Members of Parliament voted in favour of a referendum – even against the instructions of their political leader, Prime Minister David Cameron.[27] The abstention from a new treaty on economic and monetary policy, as decided at the European Council of 9 December 2011, has probably not softened the UK's stance towards EU cooperation. Overall the net payers claim to be unhappy, but the actual increase in absolute figures is less than they probably expected, which portends a good starting point for negotiations.

Given their understanding of the reservations towards increasing the EU budget, the net recipients are largely satisfied with the current magnitude of the proposal. Net recipients tend to focus on an increase of the overall size of the budget but they know that this is not a realistic demand. As a result, countries such as the Czech Republic and Spain have underlined that they are satisfied with the current budget of 1.05% GNI in commitments. The Poles are also pleased that the Commission kept the budget at roughly unchanged levels.

Yet, the EP has demanded a substantial increase of the budget. On the road towards the present proposal, the European Parliament asked for an increase of 5% on top of the 2013 BNI level (1.06%), which adds up to 1.11% of BNI.[28] The reason for the increase lays in the EU's new responsibilities after Lisbon and its efforts to fight the consequences of the crisis – claiming that more EU coordination and centralised policies will allow member states to reduce their national budgets. With this budget, the European Commission has met these demands.

2.3 New own resources

According to the Treaty of Lisbon, the budget should be financed wholly through own resources.[29] In 2010, the three main types of revenue are: 1) traditional own resources or customs duties (12.3% of the budget), 2) own resources from value-added tax (9.8%) and 3) own resources based on GNI (71.2%).[30] The Commission has proposed two new own resources.

[24] D. Cameron et al. (2010), Letter from Prime Minister David Cameron and other European leaders to the President of the European Commission, London, 18 December.

[25] "Nine EU countries call for slim EU budget", *Euractiv*, 12 September 2011.

[26] "Vrijheid en verantwoordelijkheid: Regeerakkoord VVD-CDA" (2011), p. 7.

[27] "EU referendum: Rebels lose vote in Commons", *BBC News*, 25 October 2011 (http://www.bbc.co.uk/news/uk-politics-15425256).

[28] European Parliament (2011), "Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe", P7_TA(2011)0266, 08.06.2011, Art. 163.

[29] Article 311, TFEU.

[30] European Commission (2011), "EU Budget 2010: Financial Report", Luxembourg: Publications Office of the European Union, p. 60.

One is a new form of the value-added tax (VAT) aimed at harmonising the national VAT systems in order to develop the internal market.[31] Secondly, it proposed a financial transaction tax (FTT) of 0.1% on shares and bonds and 0.01% on derivatives.

For the Commission itself, its new 'own' resources have a strong symbolic element, based on the principle that 'those who benefit from a policy should also be those that should pay for it', referring to the bank bail-outs during the economic crisis. The interviews also indicate that the new own resources strike an emotional chord in the Commission. At the moment, member states see the GNI-based and VAT-based resources as contributions instead of the collection of resources on behalf of the EU. The Commission would like to have an 'own' budget, independent of payments by member states.

A vast majority of member states is sceptical – if not overtly hostile – towards the proposal concerning the own resources. Seeing the reactions, a new own resource based on value-added tax is not feasible. The positions of member states differ on the financial transaction tax (FTT). The United Kingdom leads the opposition against the FTT. The EU income and net payment positions would change substantially. Especially the UK would contribute relatively more compared to their share of EU GNI. The UK makes up 21.3% of the EU27 financial sector as opposed to 14% of the EU27 GNI.[32] Another opposing argument concerns delocalisation of the funds towards non-EU countries. Financial institutions will make their transactions via non-FTT countries. This would damage large financial centres such as London and Frankfurt. As argued by Matheson, a financial transactions tax is effective if applied on a global scale to limit delocalisation.[33] The Commission counters this argument by considering the FTT as a first tangible step for an FTT at the global level.

The majority of member states including Hungary, Poland, Italy, the Czech Republic, Spain and Romania are also likely to oppose new taxes, but they first want an impact assessment. Germany and the Netherlands are against EU taxes, but are not *per se* against an FTT. They do not believe that it would be an added value compared to existing instruments, and they fear the harm it would do to public support for the EU. However, in view of the poor reputation of the banking sector, they consider it reasonable to tax financial institutions particularly when the income can be used to beef up the EU's rescue funds (i.e. the European Stability Mechanism). France and Austria are in favour of the financial transaction tax. The leading parties in Finland also view the possibilities positively. As appears from the responses to Barroso's State of the Union address, the European Parliament is much in favour of the FTT.

2.4 Media coverage and content

Despite national sensitivities, the questionnaire shows that overall media coverage has been low. To the extent that the media reported on the budget, they tend to focus on specific policies/categories that are important to particular countries. The choice by the media to zoom in on particular topics makes it more imperative for governments to act on these topics, especially when there is electoral gain to be won.

The EU budget will affect French presidential elections in May 2012 and German federal elections in 2013. The next French president and German chancellor will both have to take their large rural populations into account, which are dependent on EU funds. That is why there is a sizeable amount of media coverage in these two countries. As reflected in Table 1, however,

[31] European Commission (2011), Council Decision on the system of own resources of the European Union, SEC(2011) 876 final.

[32] Calculations from the European Commission.

[33] T. Matheson (2011), "Taxing Financial Transactions: Issues and Evidence", IMF Working Paper, WP/11/54, International Monetary Fund, Washington, D.C., March, p. 35.

media coverage of the budget in the other countries is low, which can be attributed to the dominance of the euro crisis. Interviews show that more fireworks were expected on the budget, but attention was almost exclusively drawn towards the euro summits. Moreover, the real negotiations will not start until the second half of 2012. Moreover, the Polish presidency mainly collected positions and sounded out governments for possible flexibilities.

The content of reporting and member state reactions were milder in the net-receiving countries compared to the net payers. Harsh first reactions from net-paying member states were noted at the beginning of this paper. On the other hand, there were milder media reactions from net-receiving countries such as Romania and Czech Republic, but also Finland.[34] They see the proposal as a starting point for future negotiations. This viewpoint is backed by the Netherlands according to a parliament briefing,[35] which seems contradictory to the statement by the Dutch Finance Minister De Jager. Moreover, both the Netherlands and Finland are two of the five countries that signed the 'letter of five'. Apparently, governments as well as the European institutions know that these are just the opening bids.

We anticipate that the media will stay focused on country-specific categories. As a result governments could lose sight of the big picture. The media and the electorate will thus play a crucial role in the progressive nature of governments during the negotiations.

3. A realistic reforms proposal or sign of cowardice?

So far, the Commission's proposal has not been pushed aside as happened in 2004, and one can imagine that the Commission must have been quite nervous about finding a tone that would satisfy most sides from the start. The current budget proposal from Barroso has to be seen in light of the Commission's experience with the 'Prodi package' which played no role in the negotiations. With the mixed proposals it has put forward and the tricks it has employed, the Commission hopes to have struck an acceptable balance. Besides these considerations, it has also come up with a (realistic) reform agenda in terms of content.

The Prodi package from 2004 argued for a substantial increase in the Financial Perspectives up to 1.15% of EU GNI in payment appropriations.[36] This was unacceptable especially to the six net contributors,[37] which stated their view in a letter made public in December 2003 that the budget should be capped at 1% of GNI. This big discrepancy between the actual proposal and the preferences of the member states resulted in the sidelining of the Commission. And in the negotiations that followed, presidency plans were used instead. This was a traumatic experience for the Commission. Fighting yesterday's battle, the aim of the current Commission is to defend its seat at the table and remain a credible player in the intergovernmental dialogue. In addition, now with the EP being a major player, the Commission also had to come with a compromise between the Council and the EP.

The ambition to remain in the driver's seat can also be seen in the handling of the euro crisis. In his State of the Union speech, Barroso underlined that "we need more than ever the independent authority of the Commission, to propose and assess the actions that the Member States should take. Governments, let's be frank, cannot do this by themselves. Nor can this be done by negotiations between governments."[38] Having been accused of being invisible and a weak leader

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[34] "Finland welcomes Commission's budget Proposal", *Financial Times*, 18 July 2011.

[35] Kamerstukken II 2010/11, 21501-20, nr. 553.

[36] R. Prodi (2004), "Building our future together", SPEECH/04/67 before the European Parliament, 10 February 2004.

[37] "Budget plans please parliament but enrage member states", *EU Observer*, 10 February 2004.

[38] José Manuel Barroso (2011), "European Renewal – State of the Union Address 2011", Speech/11/607, 28 September 2011.

up to the point that MEPs have contemplated pushing him aside,[39] Barroso has had to ensure that he is relevant in the major EU debates, such as the MFF and the euro crisis.

In its role as mediator – rather than in its role as content leader – the Commission has tried to appease the European Parliament and the member states. One part of the member states asked for an increase of no more than inflation to safeguard net positions. The European Parliament asked for an increase of the budget up to 1.11% of GNI. [40] Caught between these extremes, the current budget proposal introduces a separate 'outside MFF' category. In this proposal, the commitment appropriations are set at 1.05% of EU GNI. Compared to the budget for 2013 (1.06%), this implies a *lowering* of the budget as a peace offering to the Northern countries. However, together with the 'outside MFF' category, the budget comes to 1.11% of EU GNI (pleasing the EP). Creative bookkeeping seems to keep everybody happy.

In this respect the Commission has adapted to the new *zeitgeist* of European cooperation, which is dominated by intergovernmental relations.[41] Where Prodi opted for a European leadership style by defending what he saw as needed in the interest of the EU, Barroso keenly chose a strategy to please all concerned – starting with the member states. The Commission seems to have taken up the role of mediator right from the start, instead of – more pertaining to the community method – offering content-related leadership. In doing so, the Commission has put forward a realistic MFF (reform) proposal. One can argue that the Commission opted for a weak approach and failed to provide direction to the reform debate. On the other hand and probably more realistically, the Commission may have been quite wise in acknowledging that the EU budget concerns very sensitive national (symbolic) interests. As demonstrated by the fate of the Prodi package, there is little room for ambitious communitary leadership in managing the EU's multi-annual budget.

The Commission has succeeded in coming up with a balanced proposal. As noted above, the reactions from the different players range from complaints about a lack of reform to being overambitious. According to the questionnaire, another argument heard in several member states such as Hungary, the Netherlands, and the UK is that the Commission has proposed an end deal instead of an ambitious starting point. Moreover, interviews with negotiators show that they find it hard at this stage to fight the balanced Commission proposal – instead, they now have a harder time finding consensus among themselves. As a result, the allegiances formed in 2004 are not that obvious anymore and member states ask their traditional partners to join in on particular subjects. This leaves the negotiation field dispersed, which makes it difficult to take a strong stand in the negotiations.

In its more subtle approach, the Commission now seems to be better able to push changes forward. At first sight, the budget looks in many ways similar to what already exists, but it contains several innovative elements such as macroeconomic conditionality, new own resources and a proposal ending the complex system of rebates via a generic system. Although views differ on this matter, there are reforms to the CAP and there is also an 'outside MFF' category aimed at making the whole system of expenditures more transparent. Almost all of the proposals are up for debate instead of being non-negotiable. Because the proposal seems in many ways reasonable to many member states, some countries have a hard time fighting for

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[39] "Des députés européens s'indignent de l'effacement de M. Barroso dans la crise", *Le Monde*, 24 September 2011.

[40] European Parliament (2011), Resolution of 8 June 2011, Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe, P7_TA(2011)0266, p. 156.

[41] A. Schout, M. van den Berge and R. Morée (2009), "Wordt de EU intergouvernementeler", *Internationale Spectator*, 63 (9), September, pp. 416-421.

their interests. Despite strong criticisms, no one has been able to definitively remove any of the Commission's proposal from the table.

Of course, a lot will depend on the details of the various budget lines. As always, 'the devil is in the detail', and there are many details that have to be incorporated into one package. Hence, a lot can still happen, but the negotiations got off on a good start.

4. Change or status quo?

It appears that the member states are heading towards an agreement reflecting the status quo, but the euro crisis will have a large influence on the final result. For a smooth transition between the MFFs, ideally the negotiations would reach an agreement by the end of 2012. If not, the budget of 2013 will be prolonged to 2014 with an inflation correction.[42] Some arrangements under the MFF 2007-2013 will expire, such as several temporary rebates.

There are many similarities in the negotiations process between the previous and current MFF. Take for example the letters of the thrifty member states in advance of the Commission proposal and the net-payer and net-contributor reactions to the proposal.

The media and the electorate have a considerable amount of influence on the positions of the member states in the Brussels arena. They focus on country-specific issues and want tangible results on these topics. This is reflected in member state positions. Other topics are not (that) important. National parliaments share this reflex. Part of the responsibilities of the national parliaments is to criticise their governments and provide alternatives. Instead their reflex is to protect previously achieved results, just as their governments do. This will lead to a budget similar to the status quo. In this manner the Europe 2020 strategy targets will have to rely on non-financial instruments instead of being supported by the EU budget. This would point in the direction of a repetition of the Lisbon Strategy debacle, which in its turn, could also result in a marginalisation of the EU budget.

The proposed Commission reforms also change the character of the EU budget. With the proposals for cohesion policy, the budget will be used as a sanctioning instrument. If national budgets derail or if a member state does not transpose European law into national law, subsidies will be put on hold. It would transform the EU budget from being a carrot to also becoming a stick. This cannot be seen apart from the 'Six-Pack', the new set of rules for economic and fiscal surveillance that entered into force on 13 December 2011.

Indeed, the euro crisis gives new impetus to significant reforms in the EU budget. To refer to the answer of Harold Macmillan when he was asked what the greatest challenge for a statesman, he answered; "Events, my dear boy, events". This also applies to the EU budget. The discourse used in the euro crisis shows many resemblances to that of the EU budget. The net-paying member states discuss the budget in terms of austerity and the transfer of sovereignty to Brussels. Net-receiving member states see it as a form of European solidarity and an opportunity for economic growth. The euro crisis is the event that has already changed the course of the negotiations and will progressively continue to do so. It can put certain items on the agenda such as a financial transaction tax, that would have been unimaginable a year ago. The Commission has provided a framework that holds out ample opportunities for reform, but it is up to the member states to seize them.

5. Conclusion

The negotiations over the EU budget are among the toughest in the EU. Moreover, the negotiations are complex due to the many dossiers involved and the linkages between the

[42] Article 312.4, TFEU.

budget lines. The Commission has put forward a realistic proposal with many opportunities for reform. It remains to be seen to what extent the reforms will be realised.

Although some member states attacked the Commission proposal, there is no cause for immediate concern. Critical statements of governments on the EU budget are directed towards the electorate, other member states, the Commission and their national parliaments. The media plays a role by focusing on specific topics and as a result setting part of the agenda of the respective governments. These governments do not want to lose their electorate and therefore copy these positions to a certain extent. In the end, member states are protecting their 'own' interests at the expense of the overall picture. However one can also look upon the process from another perspective. The EU budget does not go against the people or the states. It is preferable to explain the overall picture instead of hiding the MFF all together. If member states truly want to reform the EU budget and reach the Europe2020 strategy targets, they have to look beyond their own interests.

As it seems, member states' criticism will have no effect on the Commission proposal as a reference document in the negotiations. Generally, from an EU perspective, the EU budget seems to move into more acceptable directions: reduction and adaptation of the agricultural and regional funds. The Commission has learned from Prodi's 2003 mistake and adapted to the new zeitgeist of European cooperation. It has taken up the role of mediator instead of negotiating partner, which assured its seat at the table. It has put forward a realistic budget with enough room to manoeuvre for everyone. This may be an unsatisfactory strategy according to those who would like to see more ambition. In the current environment, however, the balanced approach may be a wise decision.

The euro crisis has become a key factor in the reform of the budget. It has already changed the character of the EU budget with a sanctioning system in the cohesion policy proposal on the basis of national budgets. It has also paved the way for a serious debate on the FTT. It is clear that this reformist role will expand as long as the crisis continues.

Annex I. Questionnaire 'First Reactions to the Commission MFF Proposal'

All questions refer to the position/assessment of your country's government, opposition, political parties, civil society organisations, pressure groups, press/media, and public opinion. Please name sources wherever possible.

1. National preferences
    a. What are the general reactions to the Commission proposal by all parties concerned? Especially, how does the press report the proposal?
    b. What are your governments' priorities in the negotiations concerning the Multiannual Financial Framework?
2. Size of the budget

    The Commission proposal foresees a 5% increase of the budget. In terms of GNI this is 1.05% in commitment appropriations and 1.00% in payments appropriations. With the new 'Outside the MFF' framework the total expenditures are 1.11% of GNI.

    a. How is the overall size of the budget perceived in your country?
    b. What is the general feeling on the increase of the 'Outside the MFF' framework.
3. Expenditures

    The EU has the intention to incorporate the EU2020 Strategy in almost all the different Heading of the budget. There is a €53 billion increase in Heading I 'Smart and Inclusive Growth'. The Common Agricultural Policy must also make a shift towards the goals of this strategy. Against this background:

    a. What are the reactions on the upgrading of expenditures on items such as research, innovation and technical development?
    b. What are the opinions concerning the achievement of the EU2020 goals through this budget?
    c. How is the reform of the CAP assessed in your country in terms of greening, less direct payments and ambition?
    d. How has the press presented the size of the compromises?
4. EU Own Resources

    In the budget review the Commission proposed several forms of new own resources. After research there are two remaining options.

    a. What are the various positions in your country on new own resources?
    b. The Financial Transactions Tax and the renewed VAT are the most likely options of new EU own resources. What is the view on these types of tax?
5. Other issues
    a. What are the leading views on the Commission's approach on the matter of juste retour?
    b. How is the increase in 'Global Europe' perceived in your country?
    c. What are the views on the role of the European Parliament?
6. What other salient topics and discourses in your country that are not covered by this questionnaire?

About EPIN

EPIN is a network of European think tanks and policy institutes with members in almost every member state and candidate country of the European Union. It was established in 2002 during the constitutional Convention on the Future of Europe. Then, its principal role was to follow the works of the Convention. More than 30 conferences in member states and candidate countries were organised in the following year.

With the conclusion of the Convention, CEPS and other participating institutes decided to keep the network in operation. EPIN has continued to follow the constitutional process in all its phases: (1) the intergovernmental conference of 2003-2004; (2) the ratification process of the Constitutional Treaty; (3) the period of reflection; and (4) the intergovernmental conference of 2007. Currently, EPIN follows (5) the ratification process of the Lisbon Treaty and – should the treaty enter into force – (6) the implementation of the Treaty.

Since 2005, an EPIN Steering Committee takes the most important decisions. Currently there are seven member institutes: CEPS, Clingendael (the Netherlands), EIR (Romania), ELCANO (Spain), HIIA (Hungary), Notre Europe (France) and SIEPS (Sweden).

Structure

Currently there are 34 EPIN members from 25 countries, also from countries outside of the EU. The 'hard core' work of the network is based on the cooperation of about 10 most active institutes. The member institutes are quite diverse in size and structure, but are all characterised by political independence and the absence of any predetermined point of view or political affiliation.

EPIN organises at least three events across Europe per year. The network publishes Working Paper Series and other papers, which primarily focus on institutional reform of the Union. The network follows preparations for the European elections, the EU’s communication policy, and the political dynamics after enlargement, as well as EU foreign policy and justice and home affairs.

Achievements

EPIN is a network that offers its member institutes the opportunity to contribute to the 'European added-value' for researchers, decision-makers and citizens. The network provides a unique platform for researchers and policy analysts to establish personal links, exchange knowledge and collaborate on EU-related issues. Members bring their national perspectives to bear on the issues tackled and through collaboration they contribute to establish a 'European added-value' (e.g. on EU communication, flexible integration). By doing so they strengthen a common European dimension in the national debates on Europe.

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