An analysis of the agreement on the Multiannual Financial Framework 2014-2020

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(1) Introduction

After two and a half years of intense and complicated negotiations, the European Parliament, the Council and the Commission reached an agreement on the much expected Multiannual Financial Framework 2014-2020 (MFF 2014-2020). Though the MFF 2014-2020 focuses on growth and job creation, for the first time in the EU's history, the overall amount of the MFF will be lower (3.5%) than those in the previous financial period (2007-13). During the past months several governments of Member States, in particular the net contributors, fought hard to reduce the spending ceilings, arguing that national governments had also been forced to approve austerity budgets. Others, together with the European Commission and the European Parliament, considered the EU budget a tool to simulate growth and jobs in Europe's stagnant economy and argued for a stronger MFF.

Although the Lithuanian Presidency considered the agreement on the MFF 2014-2020 one of its main achievements, the final negotiations did not concern the overall ceiling and the content of the MFF, which had already been agreed at the European Council on 7-8 February 2013. Nevertheless, there were some important modifications which accommodated several of the European Parliament's demands. The agreement completed the last step in a long negotiation process, which comprised the following phases:

(1) The preparation of the EC's proposal, from 2007 to 2011. The budgetary negotiation process started with a broad public debate on the EU budget. The so called 'EU budget review' followed the EU Council Conclusions of November 2005. Several new ideas came up, aimed at refocusing the EU's spending priorities and the financing of the EU budget. Some of these ideas (such as the concept of EU added value and a financial transaction tax) were later incorporated by the European Commission in its proposals for the MFF

2014-2020. Moreover, in this pre-negotiation stage several Member States positioned themselves regarding the future EU budget, basically repeating the positions expressed in the previous MFF negotiations.

(2) The presentation phase, from June 2011 to March 2012, in which the European Commission presented and explained its proposals for the MFF 2014-2020 to the Member States, and national delegations expressed their own positions.[1]

(3) The negotiating phase, from March 2012 to January 2013, in which the EU Presidencies and the European Council President tried to narrow the gap between Member States on key issues.[2]

(4) The final stage, which started with the European Council of 7-8 February 2013, at which an agreement on the MFF 2014-2020 was reached by the Member States.[3] The Council and the EP then reached a political agreement on the MFF on 27 June but it took until 19 November 2013 to approve the ceilings at the plenary session of the Parliament. The EP gave its consent only until the contentious issues related to the funding gaps in the 2013 budget could be solved and the budget for 2014 was agreed at the Conciliation Committee on 12 November. The European Parliament, the Council and the Commission signed on 25 November 2013 the inter-institutional agreement (IIA) on budgetary discipline, on cooperation in budgetary matters and sound financial management. On 2 December the Council adopted the regulation laying down the MFF 2014-2020 following the European Parliament's consent on 19 November.

The formal adoption of the MFF regulation and the IIA allows the Council and the EP to conclude their work on the more or less 70 spending programmes, which have either been concluded or are in the process of being finalised. The legislative act on the revenue side, the Own Resources Decision, must be ratified by the Member States, in accordance with their constitutional requirements once adopted by the Council, after having received the European Parliament's opinion.

Although the agreement foresees a very tight budgetary framework for the EU and the MFF 2014-2020 will have less resources available than the MFF 2007-2013, it also includes new elements. This confirms the evolutionary character of the EU budget as well as the increasing role of the European Parliament in the financial decision-making process at the EU level. This paper presents the main figures of the agreement and its principal innovative elements, in addition to answering the

1 Mario Kölling & Cristina Serrano Leal (2012), '**Austerity vs Stimulus: The MFF 2014-20's Role in Stimulating Economic Growth and Job Creation**', ARI nr 24/2012, Elcano Royal Institute.
2 Mario Kölling & Cristina Serrano Leal (2012), '**The negotiation of the Multiannual Financial Framework – Budgeting Europe 2020 or Business as usual?**', ARI nr 68/2012, Elcano Royal Institute.
3 Mario Kölling & Cristina Serrano Leal (2013), '**The Multiannual Financial Framework 2014-20 from a Spanish Perspective: Net Beneficiary or Successful Balancing Act?**', ARI nr 7/2013, Elcano Royal Institute.

question: who are the winners and losers from the negotiation process? All figures should be treated with caution because the figures on the MFF represent only the maximum level of EU spending and could be modified by the annual budgetary negotiation –although, according to the final agreement, unspent money in one year could be passed on to the next financial year and should be prioritised for employment measures–.

(2) An analysis of the agreement on the MFF 2014-2020

(2.1) The agreement's main innovations

The fact that an agreement had been reached was already considered as a success, since nothing would have been worse than a failure on this important issue in a context characterised by the current economic crisis and the lack of a short-term institutional mechanism to address it. The agreement is not only positive because it allows EU spending to be predictable for the coming years but also because it is related to the reform of several key policies (eg, the Common Agriculture Policy, CAP). At the same time the heads of state and government and the EP have shown that they are willing to address some of the EU's most important problems as well as some serious shortfalls in the EU budget in the near future.

The main innovations of the MFF 2014-2020 can be summarised as follows:

- The creation of a specific fund for employment, to support the regions where the unemployment rate is above 25%. The European Council of 7-8 February 2013, based on an initiative of the German and Spanish governments, earmarked for this purpose €6.000 million. At the EU Council of 27-28 June the heads of state and government confirmed that the Youth Employment Initiative (YEI) would be fully operational by January 2014. The aid measures will be financed by the European Social Fund and €3.000 million will come from a specific dedicated budget line. The Council and the EP agreed to frontload these resources so that the funds are available in 2014-15, instead of being spread over the entire seven-year duration. Afterwards, margins left available below the MFF ceilings for the years 2014-17 will be used to finance measures for this purpose (for 2007-13 some €45 billion had not been spent and returned to the Member States). In addition, the European Social Fund, which could rise to €67 billion, will also be concentrated on supporting the creation of new jobs for young workers (eg, to support cross-border mobility schemes). Moreover, the European Investment Bank (EIB) will contribute to the fight against youth unemployment through the 'Jobs for Youth' initiative and the 'Investment in Skills' programme.

- The new macroeconomic conditionality aims to link the allocation of structural funds to good economic governance. This conditionality will be applied to all funds and may result in a suspension of part or all payments. However, macro-conditionality does not mean that a Member State would see its aid

automatically suspended for an excessive budget deficit procedure. Nevertheless, this could be the case if the government of a Member State does not react to a request from the Commission to adjust its programmes.[4]

- The priority given to the Europe 2020 Strategy in all spending headings. According to the final agreement, resources for 'competitiveness' will increase by more than 37% compared with the current MFF. EU spending will concentrate on fostering research, innovation and technological development, and on actions in favour of the competitiveness of small and medium-sized enterprises (SMEs), not only within the EU research programmes (Horizonte 2020 and COSME) but also within the CAP and Cohesion Policy. This complementarity will be essential for an improved outcome from the funds and actions.

- The revision clause, which was included in the European Council agreement of February 2013 and became binding after the consent of the EP, will provide a mid-term review on all spending headings and the financing of the EU budget. In this regard, the Commission will publish proposals so that the review can be made in 2017. The question of the designation of the members of the group charged with drafting a proposal is still open.

- The mid-term adjustment of the national allocations under the 'Investment for growth and jobs' goal of the Cohesion Policy (thus applicable to the period 2017-20) will be carried out on the basis of updated GDP statistics in 2016.[5]

- The agreement includes a so-called contingency margin aimed at allowing flexibility within the MFF 2014-2020 to cope with unforeseen circumstances.

- As regards the CAP, the MFF maintains its relevance while, at the same time, introducing elements of reform in an effort to modernise this common policy. Allowing greater flexibility in the use of the rural development funds is a step forward in narrowing the 'technological gap' between different regions, and addressing the specificities of different countries.

- Furthermore the MFF introduces a new instrument, the 'connecting Europe Facility', which will be finance infrastructures in the field of transport, telecommunications and energy.

4 The Commission may request a Member State to review and propose amendments to its Partnership Contract and the relevant programmes, where this is necessary to support the implementation of: recommendations under the broad guidelines of the economic policy; employment recommendations; specific measures addressed to euro-area Member States in accordance with Article 136(1); recommendations under the excessive deficit procedure; recommendations under the excessive imbalances procedure; union support under the medium-term balance of payments facility; union support under the European financial stabilisation mechanism; and financial assistance under the European Stability Mechanism.
5 It will adjust these total allocations whenever there is a cumulative divergence of more than +/-5%. The total net effect of the adjustments may not exceed €4.000 million.

- Regarding flexibility, the final compromise between the EP and the Council includes a formula for calculating the sums that can be carried over from one year to another, after 2015 the Commission will adjust the payment ceilings using unspent money from the previous year, but with a cap of €7 billion for 2018, €9 billion for 2019 and €10 billion for 2020.

- Besides the resources committed by the MFF 2014-2020, the European Investment Bank (EIB) could increase the money available through the co-financing of the structural funds or project bonds. The EIB will also assume a greater role within the new 'Investment Plan' in facilitating the financing of investment for SMEs in the EU.

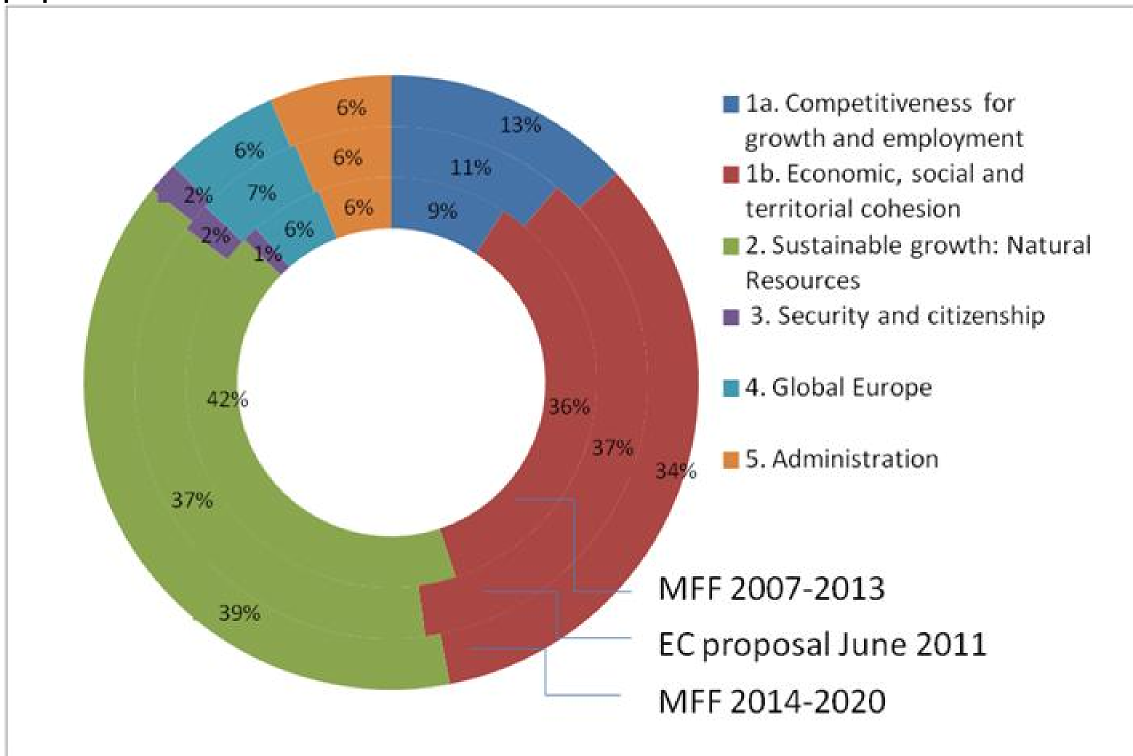
Table 1. The MFF 2014-2020

€ mn – 2011 prices	2014	2015	2016	2017	2018	2019	2020	Total
1 Smart and inclusive growth	60.283	61.725	62.771	64.238	65.528	67.214	69.004	**450.763**
1a. Competitiveness for growth and jobs	15.605	16.321	16.726	17.693	18.490	19.700	21.079	**125.614**
1b. Economic, social and territorial cohesion	44.678	45.404	46.045	46.545	47.038	47.514	47.925	**325.149**
2. Sustainable growth: natural resources	55.883	55.060	54.261	53.448	52.466	51.503	50.558	**373.179**
Of which: market related expenditure and direct payments	41.585	40.989	40.421	39.837	39.079	38.335	37.605	**277.851**
3. Security and citizenship	2.053	2.075	2.154	2.232	2.312	2.391	2.469	**15.686**
4. Global Europe	7.854	8.083	8.281	8.375	8.553	8.764	8.794	**58.704**
5. Administration	8.218	8.385	8.589	8.807	9.007	9.206	9.417	**61.629**
Total commitment appropriations	**134.318**	**135.328**	**136.056**	**137.100**	**137.866**	**139.078**	**140.242**	**959.988**
As a % of GNI	**1,03**	**1,02**	**1,00**	**1,00**	**0,99**	**0,98**	**0,98**	**1,00**
Total payment appropriations	128.030	131.095	131.046	126.777	129.778	130.893	130.781	908.400
As a % of GNI	0,98	0,98	0,97	0,92	0,93	0,93	0,91	0,95
Outside MFF								
Emergency aid reserve	280	280	280	280	280	280	280	1.960
European globalisation fund	150	150	150	150	150	150	150	1.050
Solidarity fund	500	500	500	500	500	500	500	3.500
Flexibility Instrument	471	471	471	471	471	471	471	3.300
EDF	2.952	3.868	3.911	3.963	4.024	4.094	4.174	26.984
Total MFF + Outside	**138.671**	**140.597**	**141.368**	**142.464**	**143.291**	**144.573**	**145.817**	**996.782**

Source: the authors.

The future structure of the EU budget will differ slightly from the MFF 2007-2013. It confirms the decreasing importance of the traditional spending headings (Cohesion Policy and CAP) and the increase in competitiveness and job creation expenditures.

Graph 1. Comparison of the spending structure between the MFF 2007-2013, the Commission proposal and the MFF 2014-2020



Source: the authors.

We will now look at the specific spending headings.

Overall spending

The commitments ceilings were set at €960.000 million (3.5% –€35.200 million– less than the current MFF), which is 1% of the EU gross national income, and the payments ceilings were set at €908.400 million (3.7% –€34.400 million– less than the current MFF). The breakdown of appropriations for commitments will be described below.

Table 2. Comparison of the spending headings between the MFF 2007-2013, the Commission proposal and the MFF 2014-2020

€ mn, 2011 prices	MFF 2007-13	EC Proposal June 2011	MFF 2014-20	% variation MFF 2014-20 to MFF 2007-13
1a. Competitiveness for growth and employment	91.495	114.888	125.614	+34.1 (+37.3)
1b. Economic, social and territorial cohesion	354.815	376.020	325.149	-29.7 (-8.4)
2. Sustainable growth: natural nesources	420.682	382.927	373.179	-47.5 (-11.3%)
Of which: market related expenditure and direct payments	304.830	281.825	277.851	-52.234
3. Security and citizenship	12.366	18.535	15.686	+3.3 (+26,8%)
4. Global Europe	56.815	70.000	58.704	+1.9 (+3.3)
5. Administration	57.082	62.629	61.629	+4.5 (+8)
Total commitment appropriations	994.176	1.025.000	959.988	-35.2 (-3.5)
As a % of GNI	1.12	1,05	1%	
Total payment appropriations	942.8	972.2	908.400	-3.7%
As a % of GNI	1.06	1.00%	0.95%	

Source: the authors.

(2.2) The expenditure side

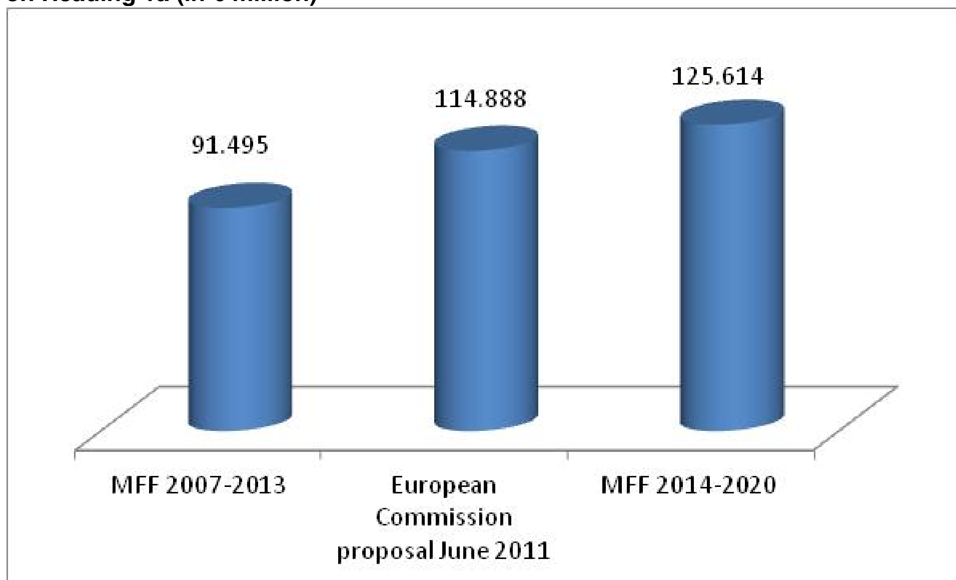
With regard to the spending headings, programmes under sub-heading 1a (Competitiveness for growth and jobs) will contribute to the fulfilment of the Europe 2020 Strategy, in particular as regards the promotion of research, innovation and technological development, as well as specific action in favour of the competitiveness of enterprises and SMEs. This spending block sees its funding go up by 37% to €125.700 million compared with the current MFF. The future Horizon 2020 programme will have a budget of around €70.000 million (€8.800 million in 2014, rising to €11.600 million in 2020). This is a reduction from the €80.000 million initially proposed by the Commission, but is nevertheless a 25% increase over the budget allocated to the current R&D framework programme.

Furthermore, the Erasmus programmes will also receive more financial resources. The new Erasmus programme merges existing initiatives (such as Erasmus, Leonardo da Vinci and Comenius). Three-quarters of the total budget will be used for actions in general education and training, 10% being for measures under the flagship initiative Youth in Action.

The cut in the budget for sub-heading 1a came from the pan-European infrastructure project, the Connecting Europe Facility (CEF) which is one of the European Commission's flagship projects to ensure cross-border interconnection for transport, energy and telecommunications networks. Resources foreseen by the EC for this programme have been reduced from €41.200 million to €29.300 million (including €10,000 million from the structural funds compared with the Commission's proposal). The sectors for infrastructure projects that have been affected include transport (from €26.900 million proposed by the Commission to €23.200 million) and energy (from €9.178 million proposed by the Commission to €5.100 million). Nevertheless the biggest cuts among the three infrastructure networks affected the telecommunications sector, which was cut by 86%. (from €9.242 million proposed by the Commission to €1.000 million).

Moreover, the three large infrastructure projects –Galileo, ITER[6] and GMES–[7] will be financed under sub-Heading 1a with an amount of €12.793 million. The nuclear fusion research project, ITER, will receive €2.707 million (the amount proposed by the Commission and by Van Rompuy) while €3.786 million has been awarded to GMES (the Commission proposed €5.841 million) and €6.300 million to Galileo (while the Commission proposed €7.000 million).

Graph 2. Comparison of the MFF 2007-2013, the Commission proposal and the MFF 2014-2020 on Heading 1a (in € million)



Source: the authors.

According to the Treaty of Lisbon the promotion of economic, social and territorial cohesion is an important objective for the EU with the aim of reducing the social and economic disparities between Europe's regions. Nevertheless, the financial resources available for reaching this objective will be reduced in the next financial

6 International Thermonuclear Experimental Reactor.
7 Global Monitoring for Environment and Security.

period, following the general trend of consolidation in EU and national expenditure. However, as already mentioned, the Cohesion Policy will also contribute to the Europe 2020 Strategy. In this respect and in addition to the objective of economic, social and territorial cohesion, the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF) have to pursue the goal of 'Investment for growth and jobs' in Member States and regions. Specifically, spending on the sub-heading 1b will be reduced by 3.5% from the current €336.000 million to €325.149 million, focusing on the less developed regions and Member States. In general terms investments in the Cohesion Policy 2014-20 will be distributed as follows:[8]

- A total of €164.279 million for less developed regions (more than the Commission's proposal of €162.600 million).
- A total of €31.677 million for transition regions (less than the Commission's proposal of €39.000 million).
- A total of €49.492 million for more developed regions (less than the Commission's proposal of €53.000 million).
- €66.362 million for Cohesion Fund beneficiary states (less than the Commission's proposal of €68.700 million).

As in the previous MFF, regions no longer qualifying for the 'least developed' category in 2014 will benefit from a safety net. This means that they will keep at least 60% of their allocation during 2014-20. Another safety net will also apply at the national level whereby each state will keep at least 55% of its present allocation. These measures are of great help at a time of economic crisis throughout Europe.

On the other hand, the aid each Member State can receive within the subheading 1b has been capped. This 'reverse safety net' means that no Member State will receive more than 110% of the budget obtained during the period 2007-13. Moreover, there is also a cap for the overall EU investments in each Member State of 2.35% of the national gross domestic product, which is stricter than the cap in the previous period. This mechanism is slightly increased (2.59%) for Member States that have suffered the most from the crisis and whose GDP declined by more than 1% between 2008 and 2010.

Besides the already mentioned initiative for youth unemployment, less developed regions particularly affected by unemployment will receive an annual premium of €1.300 (€ 1.100 for transition regions) per unemployed person.[9] This is much more than had previously been considered and also much more than what regions

8 With three types of regions, defined on the basis of how their GDP per capita –measured in purchasing power parities and calculated on the basis of Union figures for the period 2007 to 2009– relates to the average GDP of the EU-27 for the same reference period: less developed regions, whose GDP per capita is less than 75 % of the average GDP of the EU-27; transition regions, whose GDP per capita is between 75% and 90% of the average GDP of the EU-27; and more developed regions, whose GDP per capita is above 90 % of the average GDP of the EU-27.
9 Per unemployed person per year, applied to the number of persons unemployed in that region exceeding the number that would be unemployed if the average unemployment rate of all the EU less developed regions applied.

affected by high unemployment receive today, and will specially benefit countries such as Spain, Greece and Portugal.

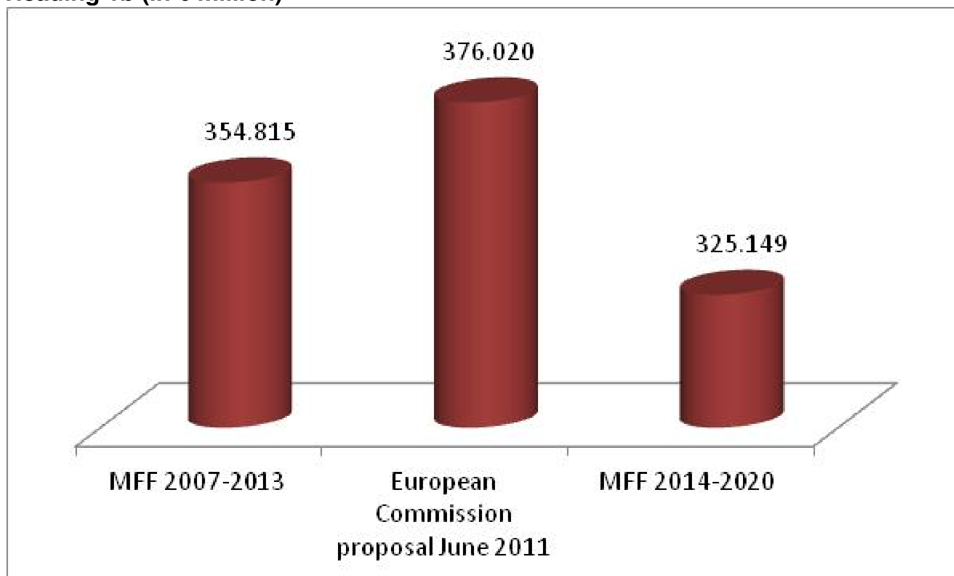
As in the previous MFF, outermost regions (the Canary Islands, Azores, Madeira, Martinique, Guadeloupe, French Guiana, Reunion, Saint-Martin and Mayotte) and the northern sparsely populated regions (in Finland and Sweden) will benefit from an additional special allocation of €30 per inhabitant per year. These regions will also receive a special bonus of €1.387 million. Thus, EU concerns in these specific areas and regions are met.

Territorial cooperation will have a budget of €8.948 million, practically identical to the amount it received for 2007-13 (€8.700 million). Resources will be distributed as follows, with little changes compared with the previous period:

- A total of € 6.627 million for cross-border cooperation.
- A total of € 1.822 million for transnational cooperation.
- A total of € 500 million for interregional cooperation.

Reflecting the overall reduction in the Cohesion Policy budget, most countries will see a reduction in their allocations. Some countries will see significant reductions in investments in less developed regions and associated allocations, notably Germany, Spain and Greece; and some Member States will especially benefit from the new category of 'Transition regions', even where the regions concerned did not have 'convergence status' during the MFF 2007-2013, notably Belgium, France and the UK.[10]

Graph 3. Comparing the MFF 2007-2013, the Commission proposal and the MFF 2014-2020 on Heading 1b (in € million)



Source: the authors.

10 'Cohesion Policy 2014-20: National Allocations - Who are the Winners and Losers from the 7-8 February European Council?', EPRC Policy Briefing, 25/II/2013.

After three years of negotiations between the European Parliament, the Council and the Commission, the reformed Common Agricultural Policy (CAP) has also been approved just in time. Heading 2, Sustainable growth: Natural resources, which covers agriculture, rural development and fisheries, will have a budget of €373.179 million for the next seven years.

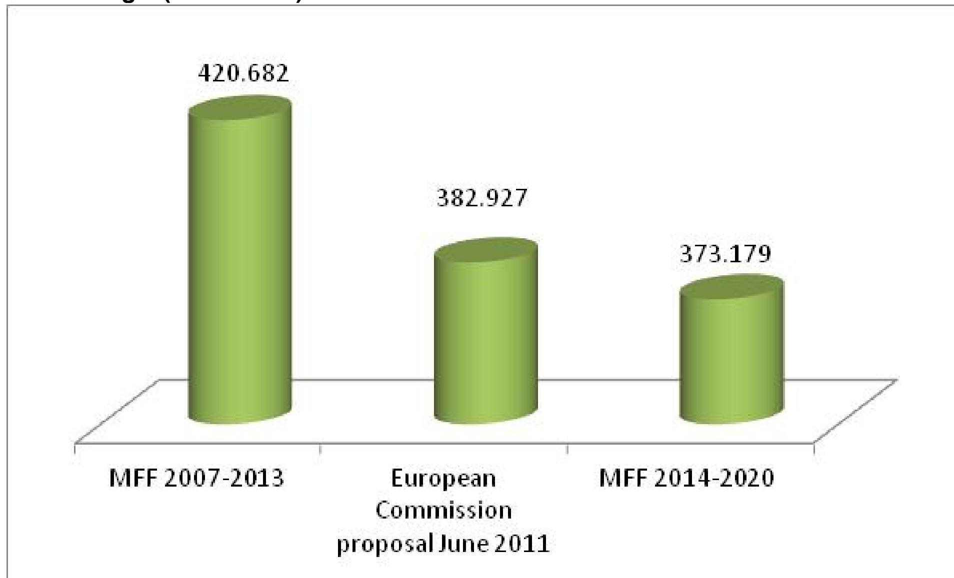
The overall objective of the CAP 2014-2020 is to increase agricultural productivity and sustainable growth by supporting active farmers and by promoting technical progress as well as by ensuring the rational development of agricultural production. The CAP will therefore also be integrated into the Europe 2020 strategy objectives. On 25 June the Council and the EP moved forwards towards a compromise on the reform of the CAP. In general terms, of the amount overall budgeted, €277.851 million will be allocated to market-related expenditure and direct payments (first pillar). The rural development (second pillar) budget will be €84.936 million. This is a 13.1% reduction compared with the current budget for 2007-13. The second pillar was slightly more reduced than the first (13.5% and 12.9%, respectively). Additionally, there will be more flexibility to distribute the amounts (15% of the total) between both pillars of the CAP. This is a risk, since it could lead to more reduction in the resources available for rural development and probably to less investment and thus less growth, but it also allows a better use of the funds according to national needs.

The agreement represents a further step towards a better and fairer targeting of direct payments. In this respect, Member States with direct payments per hectare below 90% of the EU average will close one third of the gap between their current direct payments level and 90% of the EU average by 2020. This convergence will be financed by all Member States with direct payments above the EU average, proportionally to their distance from the EU average. The convergence will be implemented progressively over six years from financial year 2015 to financial year 2020.

With regard to the controversial proposal of ‘greening’ the CAP, under the agreement, 30% of Member States’ budgets for direct payments and rural development may be spent only if mandatory greening measures are carried out. However, the measures will be implemented gradually and linked to farm size.

Furthermore, a new reserve for crises in the agricultural sector will also be included under heading 2 with an amount of €2.800 million to support major crises affecting agricultural production or distribution.

Graph 3. Comparison of the MFF 2007-2013, the Commission proposal and the MFF 2014-2020 on Heading 2 (in € million)

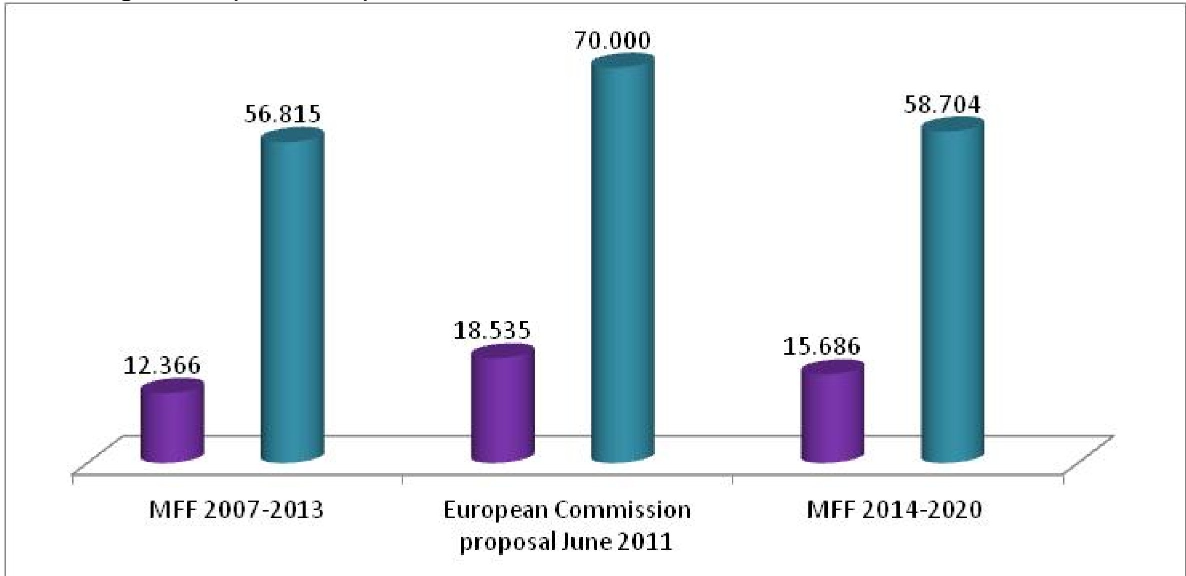


Source: the authors.

One 'victim' of the negotiation has been heading 3 –Security and citizenship–. Actions under this heading constitute a diversified range of programmes related to asylum and migration and initiatives in the areas of external borders and internal security as well as measures in the field of justice. In this respect, €3.300 million have been earmarked for the internal security fund and €2.700 million for the asylum and migration fund. Although the budget of this heading has been cut to €15.700 million, compared with €18.535 million in the EC's proposal, with regard to the current MFF a small improvement can be detected. Spending on heading 3 will give particular emphasis to insular societies, such as the Canaries Islands, which face disproportional migration challenges.

A further victim is heading 4, Global Europe, which was reduced from €60.667 million to €58.704 million during the Council negotiations. According to first calculations, the development cooperation instrument will have an envelope of €17.300 million, the neighbourhood policy of €13.600 million and the pre-accession instrument of €10.500 million. The final agreement on this heading represents an improvement with regard to the current MFF. This is in line with the reinforcement of external policies by the Lisbon Treaty and the creation of the European External Action Service (EEAS) and a new institutional framework for this policy field.

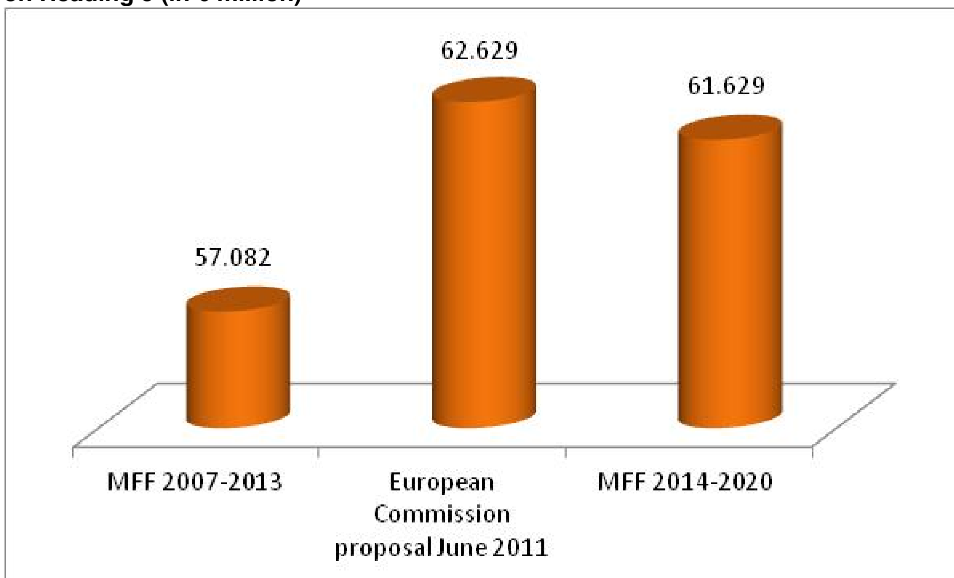
Graph 4. Comparison of the MFF 2007-2013, the Commission proposal and the MFF 2014-2020 on Heading 3 and 4 (in € million)



Source: the authors.

Heading 5, Administration, has been cut from €62.629 million to €61.629 million in answer to the concerns expressed by countries such as the UK. Nevertheless, compared with the current MFF, expenditure will go up by +9.1% due to increases in pensions and the creation of a new European External Action Service.

Graph 5. Comparison of the MFF 2007-2013, the Commission proposal and the MFF 2014-2020 on Heading 5 (in € million)



Source: the authors.

Side payments

As usual in the negotiation on the MFF, several ‘side payments’ or ‘envelopes’ were distributed to Member States that considered themselves disadvantaged. These came either in the last negotiation round or had already been confirmed during the November summit. With regard to the cohesion policy, there will be additional allocations for some countries affected by the economic crisis: Greece (€1.375 million), Portugal (€1.000 million), Ireland (€100 million), Spain (€1.824 million), Italy (€1,5million), Cyprus (€150 million) and Malta (€200 million). Additional payments have also been granted to Belgium (€100 million), Germany (€710 million), Hungary (€1.400 million), the Czech Republic (€400 million) and Slovenia (€75 million). In order to appease the countries that felt particularly affected by the cuts proposed for the CAP, the final agreement provided ‘specific’ allocations to Italy (€1.000 million), Austria (€700 million), Finland (€500 million), Slovenia (€150 million) and Luxembourg (€20 million).

Finally, Community aid for the decommissioning of obsolete nuclear plants remains the same: €400 million for Ignalina (Lithuania), €200 million for Bohunice (Slovakia) and €260 million for Kozloduy (Bulgaria).

(2.3) The revenue side

The negotiations on the EU’s own resources are still ongoing. Although the system will remain unchanged there will be some minor modifications with regard to the revenue side of the EU budget. In this respect, Member States can retain more collection costs on duties and levies.

All Member States with rebates battled hard to maintain them. At the other side of the spectrum, France and Italy in particular tried to keep the overall volume of these rebates in check so that their contribution to these correction mechanisms would not spiral upwards. The British rebate, which it was also decided to leave unchanged in the February summit, again became a contentious issue during the Council summit of 28 June after an attempt by France and other contributors to cut it by over €200 million a year because of the reform of the CAP. However, after strong resistance, the final agreement does not include a reference to a modification of the British rebate.

Germany and Denmark will receive a new annual rebate of €130 million. The Netherlands’ €1.150 million rebate is reduced to €695 million and Sweden’s €325 million has been reduced to €160 million. Austria will benefit from a reduction in its annual gross national income (GNI) contribution of €30 million in 2014, €20 million in 2015 and €10 million in 2016.

The agreed review after two years (2016) will contribute to determine whether the budget still needs to be adjusted. In this respect, Member State contributions which are based on gross national income could be revised taking into account more updated economic data.

Finally, as suggested by the EP, a high-level group will be created to propose a reform of the own resources system. On the basis of the results of this work, the Commission will assess if a new reform of the own resources system is appropriate.

(3) Preferences and results obtained by the main players in the negotiation process

The European Commission

The Commission presented its proposals, 'A Budget for Europe 2020',[11] in June 2011. The structure and duration proposed by the Commission was largely a continuation of the MFF 2007-2013, and a compromise solution between demands of net contributors and net beneficiaries of the EU budget, as well as the EP. The European Commission was also a facilitator, helping to reach an agreement during the negotiation between the European Parliament and the European Council. Although the role of the EC during the public debate and the preparation of the proposals was important, the EC has afterwards mainly been working in an informal manner. In this respect, the EP and several Member States criticised the EC for not defending its proposal more firmly. Indeed, its own initiative, the 'connecting European facility', was the main victim of the cuts.

The European Parliament

The European Parliament has assumed a new role in the negotiation of the MFF 2014-2020. The Lisbon Treaty gives the European Parliament a new formal role in the adoption of the Regulation which sets the MFF. The EP has the right of consent over the spending side, ie, a majority of MEPs can approve or not the agreement reached by the European Council, although formally it cannot negotiate it. But the EP has not only a new formal role in the final phase, since it has already been one of the major players from the very beginning of the current negotiation process:

- The EP did not wait for the Commission's proposal before presenting its own position and adopting a Resolution on the MFF.
- The EP prepared position papers on contentious issues according to the negotiation steps of the Council.
- The EP's representatives met the Trio Presidency ahead of the Council of General Affairs.

Conscious of this new role, the EP highlighted on several occasions during the negotiation process that the budget proposal debated by the EU leaders did not reflect the priorities and concerns of the Parliament.[12] After the European Council reached a political agreement on the MFF 2014-2020, the five leading political groups[13] in the European Parliament adopted on 7 March a joint 'Motion for Resolution', which rejected the long-term budget proposal, as agreed by EU leaders,

11 COM(2011) 500 final.
12 EP President Schulz, press conference, 25/I/2013.
13 European Peoples' Party, Socialists and Democrats, Liberal ALDE, Green/EFA and GUE/NGL.

and listed various 'essential conditions' for the eventual support of the EP. Finally, on 13 March, by a large majority of 506 MEPs, the European Parliament voted against the MFF 2014-2020 agreement 'in its current form'.[14] In this respect, the Parliament neither approved the European Council's agreement but nor did it reject it, pointing out the conditions under which it could accept it. This new informal procedure enabled the MFF 2014-2020 to be 'negotiated' between the Council and the EP.

The EP criticised the lack of transparency in the way the agreement was reached at the level of Heads of state and government, and expressed some concerns on specific issues which needed to be addressed:

(1) More flexibility. This means that unspent funds or margins should be transferred, by qualified majority, from one year to the next, and between spending categories of the MFP. Although the EP had not achieved total flexibility, it gained the alternative of postponing unpaid amounts to the following year.

(2) The EP feared that the large gap between payments and commitments during 2014-20 would result in deficit of payments and could commit the budget starting in 2021. Related to this, MEPs also claimed that the 2013 EU budget needed to be increased in order to cover the gap between payments and commitments of the present MFF. Finally, in November 2013 the Council agreed to cover this gap.

(3) The EP demanded the creation of new own resources, in order to progressively replace the current system based mainly on national GNI contributions. The EP asked successfully for a clear political commitment to return to the matter. According to the final agreement, the review will start with the establishment of a high-level group to examine an EU tax and a report to be presented by the Commission in 2016/17.

(4) The EP called for a compulsory revision clause that will allow the MFF to be revised within two or three years and, as mentioned above, this demand has been included in the final agreement.

(5) The EP archived additional finance of €1 billion for the Funds for the most disadvantaged, making it €3.5 billion in total (which will be financed by the European Social Fund).

Taking into account these results, it can be confirmed that the EP played a new crucial role in the negotiation of the MFF 2014-2020, above all during the final negotiation. The EP was flexing its muscles, first, because it is at the end of its term

14 European Parliament resolution of 13 March 2013 on the European Council conclusions of 7/8 February concerning the Multiannual Financial Framework (2012/2803(RSP)).

of office and was not happy to leave its successor an austerity EU budget for the next term. Secondly, the EP also tried to raise the awareness of Europe's citizens on this issue before the next elections. Third, the EP was assuming the risk of an institutional crisis in order to move to a new stage in European construction in which the newly elected parliament would restart the negotiation on a MFF which coincides with its term. Fourth, the vote on the resolution was aimed to position the EP as, according to EP President Schulz, a 'serious partner for the Council'. And, finally, the EP just used its new powers under the Lisbon Treaty, in words of Alain Lamassoure, the European Parliament's chief MFF negotiator: 'It is only since the Lisbon Treaty that the European Parliament has fully deserved to be called a parliament. It now has all the budget powers a parliament in a federal system has. It is the first time that these new powers can be exercised on a multiannual financial framework. If we abdicate these new powers, we will no longer deserve the name parliament'.[15]

However, the Parliament is not an actor on its own and cannot ignore the opinion of other actors. The Committee of the Regions spoke against rejecting the MFF because the regions cannot afford backtracking on the financing they are expecting. In fact, commitments for Cohesion Policy need to materialise in the years ahead. Additionally, the CAP reform needed the new financial framework in order to become operational. Moreover, the EP was put under pressure by the commitment of the heads of state and government to focus on measures to fight against the youth unemployment for which the agreement on the MFF was needed.

The European Council President

Since October 2012 the European Council's President Herman Van Rompuy assumed a prominent role in the negotiation. He was leading the negotiation in November and also backed the proposal for a new youth employment initiative. On 5 February, Van Rompuy asked Member States to 'not forget the bigger picture' of the budget. In this respect, he mentioned that the budget should reflect the savings efforts of Member States, but also that the debate should not only focus on cuts. During the council summit in February the European Council President was successful in balancing both positions, building progressively a consensus around the payment level of €908.000 million and convinced the British PM to accept it.

Although there has been criticism on the lack of transparency of the working method and the data used to draft the final agreement, nobody doubts the important role of the Council President in the final round of the negotiation.

EU Presidencies

The mediation provided by the EU Presidency is a basic element for finding compromises between Member States and for the final package deal. Adopting a

15 *'If we abdicate our powers, we no longer deserve our name', interview with Alain Lamassoure, the European Parliament's chief MFF negotiator,* EUROPOLITICS*, 1/III/2013.*

'European' hat, Presidencies have kept the negotiations moving and presented compromise options on contentious issues at critical moments in the negotiation. While the Polish EU Presidency pursued a 'bottom-up' philosophy in order to improve the understanding of the individual negotiation positions, the Danish EU Presidency assumed a more proactive approach and presented different versions of the 'negotiating box'. Nevertheless, the Danish Presidency was unable to make progress with the negotiation box and it was only the Cypriot Presidency which tabled specific figures for the first time. However, and taking into account that the Council President moved into the negotiation in October, no agreement could be reached at the November 2012 summit. The Irish Presidency put the adoption of the MFF 2014-2020 at the top of its agenda and reached, together with the Council Presidency, a political agreement in February and the final agreement in June. Moreover, the Presidency managed to conclude the complicated CAP reform. However, the ambitious Presidency also caused some irritation when the Irish Deputy Prime Minister Eamon Gilmore released a statement at the end of June saying that negotiations had been 'concluded' although the EP had not given its consent, which prompted the resignation of the rapporteur for the multi-annual financial framework, Reimer Böge. In fact, the negotiation continued into the Lithuanian Presidency, although the focus was mainly on the 2013 budget.

Member States

Politically, and in a first analysis, the negotiations were a great success for the UK. As in previous budget negotiations, the British position was heavily marked by the shadow of Margaret Thatcher, who in 1984, some years after the UK's accession, negotiated for the country the so-called British rebate. Although there was a strong demand by all Member States to abolish the rebate, the government managed to maintain it. Beyond safeguarding his country's rebate, David Cameron's focal point in the MFF negotiations was the payment level. That the payment figures were finally set at €908.400 million was also an important success for London. Additionally, the government avoided being isolated since it could present its preferences along with a group of other net contributors, known as the 'Friends of better spending',[16] which had already sent a letter to the EC in December 2010 demanding a budget in line with the austerity applied to national budgets and to cap the budget at 1% of the EU's GNI. Although most spending will still go to the CAP and the Cohesion Policy, the British government was satisfied that heading 1a remained intact, which has been considered a contribution to the modernisation of the EU budget on spending. Nevertheless, the UK was one of the four countries, together with Denmark, Sweden and the Netherlands, which did not accept the final agreement reached with the EP.

16 The signatories to the Friends of Better Spending Non-paper were Austria, Germany, Finland, France, Italy, the Netherlands and Sweden.

The German government followed a similar negotiation strategy to the MFF 2007-2013 and at an early stage of the negotiation launched the 'Friends of better spending' initiative in order to improve its position as a net-contributor. Since 2010 the German answer to all calls for increasing the volume of the European budget has been negative. Instead, the government demanded a greater efficiency in EU spending. In this respect, Chancellor Angela Merkel said on 21 February, during the presentation of the summit results in the German Bundestag, that the government could achieve its main negotiation objectives. First, the government was satisfied that the limit of the MFF 2014-2020 was set at 1% of GNP, considered to be in line with the austerity efforts of the national budgets. Surprisingly, in the summit's aftermath, the German government concentrated on the commitment level rather than on the payment level in order to sell the victory at home.

Secondly, the Chancellor underlined that the budget will be modernised and resources will be shifted from traditional spending headings to modern policies, ie for R&D, innovation and education, climate change and energy. Furthermore, and according to German preferences, spending on heading 1a will be increased and the EU 2020 strategy will also be supported by investments in the Cohesion Policy and CAP.

Third, EU spending will be more efficient in the MFF 2014-2020. In this context, the government underlined the new macroeconomic conditionality between the allocation of funds for the Cohesion Policy and the fulfilment of the criteria for the stability and growth pact. Furthermore, the German government underlined that all Member States will undergo an evaluation every two years in order to monitor whether EU spending is aimed at growth-oriented objectives.

And fourth, the German government was able to save its correction mechanisms, which help reduce the perceived excessive national contribution to the EU budget and to balance the burden among all contributors.

Additionally, the federal government secured significant funding for the East-German Länder. Although in general terms Germany will lose resources from the Cohesion Policy, the safety net for regions will benefit the economically weak Eastern-German regions.

The German Chancellor was also interested in respecting the British preferences. Therefore, reducing the budget more than the German government would have liked was probably not a big price to pay to strengthen the British Prime Minister's position at home. Losing such a major ally as the UK would have skewed the balance in the Council and the European Council in favour of the Southern and Eastern states.

Besides the positive signal that an accord had been reached, the agreement was perceived by some analysts as a defeat for the French President, François Hollande, who advocated an ambitious budget that could lead to growth and job creation. Although France had obtained its key objective, to preserve the level of EU subsidies for French farmers, President Hollande had to accept that the overall seven-year budget amounted to only €908.000 million in payments, as opposed to the €930.000 million he had been pushing for. However, after the EU Council in June President Hollande was happy to announce the measures adopted to finance the fight against youth unemployment. In addition, France was pleased that its demands relating to budget flexibility had been taken into account.

For Poland it was first and foremost essential to protect Cohesion Policy and the CAP, not considering other headings crucial. Cohesion Policy projects played a crucial role in the maintenance of Poland's economic growth during the economic crisis. After the EU summit, the Polish Prime Minister Donald Tusk said 'We succeeded in convincing our partners that Cohesion Policy drives growth, that this money can be very well used and that Poland is the best example of this'. According to initial figures, Poland will receive €106.000 million during 2014-20, of which €73.000 million will be for Cohesion Policy and €28.500 million for the CAP, whereas in the previous financial perspective for the years 2007-13, the figure was €95.000 million (€68.000 million and €27.000 million, respectively). Poland managed to negotiate that the VAT payable by local governments for projects funded by the EU can now be covered by EU funds (the so-called VAT eligibility). This gives Poland almost €7.000 million in additional funds. With an estimated €30.000 million contribution to the EU budget over seven years, Poland remains the leading budget beneficiary under the MFF 2014-2020.

Finally, the agreement on the MFF 2014-2020 was especially important for Spain and the country will remain a net beneficiary of the EU budget. During the final negotiation the outcome exceeded the expectations of both negotiators and analysts. According to estimates by the European Commission, Spain will receive 0.20% of GDP from the community budget: taking into account the growth forecasts for Spain, the figure could be around €15.000 million. This result is particularly important considering that the two main sources of European funding for Spain (CAP and Cohesion Policy) suffered cuts in relation to spending during the current MFF 2007-2013.

The Spanish government has been strongly in favour of giving more importance to unemployment criteria (especially youth unemployment). Taking into account the specific problem of the Spanish labour market, according to the Spanish government, Spain would obtain €924 million directly from the Youth Employment initiative. In addition, Spain will receive extra funding for regions particularly affected by the economic crisis. The breakdown of this envelope is as follows: €500 million for Extremadura, €624 million for the transition regions (Andalusia, Murcia, Galicia and Castilla-La Mancha) and €700 million for the rest of the regions. In accordance

with the Spanish government's traditional demands for a specific treatment within the Cohesion Policy for the Canary Islands, as an ultra-peripheral region (RUP), as well as for the enclaves of Ceuta and Melilla, as remote border towns, the former will receive an extra €1,387 million and the latter €50 million.

(4) Conclusions

The new EU budget for the period 2014-20 will, for the first time in history, be reduced in size, following the trend in national finances and at a time of deep economic crisis in Europe. The EU-28 will have an austerity budget up until 2020. This is a bitter result for all those who advocated an ambitious and modern budget that could be an active stimulus for growth and job creation and for those who demanded a stronger role for the EU in the world. Although some efforts have been made, the EU has let slip the opportunity during this MFF negotiations to set the budget on the path to expansion and to convert it into a tool to effectively help overcome the crisis. There are several innovations but the amount foreseen to finance them presages an uncertain outcome.

Furthermore, one can hardly consider the agreement a new EU budget since it largely replicates the structure of previous MFFs. It is nevertheless important that the spending for agriculture has been cut to 39% from 42% of total expenditure, while the growth-related heading 1a has risen from 9% to 13% of the total budget. Additionally, it is also positive that all spending headings will contribute to achieving the coherent objectives of the EU 2020 Strategy. Moreover, many innovations have also been introduced, such as alternative financial instruments and a greater role for the European Investment Bank, as well as macroeconomic conditionality, the frontloading of payments in strategically important policy fields and an increased flexibility to use unspent resources in other headings.

Nevertheless, the agreement is the maximum amount possible for EU expenditure, taking into account the characteristics of the MFF negotiation process. Decisions are taken unanimously by all Member States in a context marked by the financial and economic crisis, added to strong austerity demands from several influential Member States. The negotiations were also difficult because the final agreement required a delicate balance, especially since the approval was needed of not only the Member States but also of the European Parliament. Taking all these circumstances together the agreement represents a desirable result and opens the path to a foreseeable budgetary framework and to important multiannual expenses on key policies such as Youth Unemployment, Structural Funds and CAP.

In conclusion, the agreement on the MFF 2014-2020 can only be considered as a development and an improvement, but not really a revolution. This follows a long-term trend of moving away from the more traditional spending areas towards a focus on horizontal issues linked to competitiveness and innovation. The increasing percentage of resources earmarked for specific policy objectives also fosters the paradigm shift from a redistributive towards a more results-orientated budget.

Furthermore, it should also be stressed how important the role of the Parliament has become in these negotiations. The EP has been an important actor during the entire negotiation process. Its requirements and demands have been generally justified and can be considered largely positive for the future of Europe. During the years to come we will see an in-depth debate on the EU's future own resources as well as a revision of the MFF in 2016; in both debates, the EP will have a stronger say than in the past. Evolution in budgetary issues, where there is still room for more EU integration, will continue.

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