The Next Multiannual Financial Framework:

From National Interest to Building a Common Future

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Keywords
Budget – Cohesion policy – Common Agricultural Policy – Council – European Commission – European Parliament – Inclusive growth – Multiannual Financial Framework – Netherlands – Own resources – Poland – Smart growth – Sustainable growth

Executive summary

The Multiannual Financial Framework (MFF) is the budget of the European Union and the most important tool to finance common policy areas, actions and strategies. Upon a proposal from the European Commission, it has to be approved by the majority of the members of the European Parliament, before it can be unanimously adopted by the Council. Furthermore, the Own Resources Decision has to be adopted with unanimity within the Council and be ratified by all 27 Member States in accordance with their constitutional requirements.

Reaching an agreement between the three negotiating institutions will not be straightforward, as views on the development of the financial resources of the European Union diverge considerably. Nevertheless, a decision has to be taken by the end of 2012 in order to be able to implement the new MFF properly.

With this paper, the Centre for European Studies contributes to the debate. The paper describes the European Commission's proposal, the European Parliament's resolutions on the topic as well as the positions of two Members of the Council. In addition, the paper sheds light on where the positions differ and where there is common ground and room for compromise.

In June 2011, the European Commission issued a communication titled *A Budget for Europe 2020*, in which it proposed a new MFF 2014–2020 having an overall amount of €1,025 billion or 1.05% of the EU GNI in commitments and €972.1 billion or 1% of the EU GNI in payments. It suggested a decrease of the cohesion policy, concentrating on the poorer and the weakest regions, and also the introduction of a new category: transition regions. Market-related expenditure and direct payments within the Common Agricultural Policy (CAP) would decrease. Furthermore, resources should be reallocated to priority areas such as pan-European infrastructure, research and innovation (competitiveness), education and culture, securing the EU's external borders and external relations policy priorities such as the EU's neighbourhood policy (ENP). Last but not least, a proposal was put forward to simplify the current system of rebates and corrections.

The European Parliament set out its position and priorities on the next MFF in its resolutions from 2007 (own resources) and 2011 (MFF). It first of all strongly favours the introduction of own resources in accordance with the Lisbon Treaty; however, the Parliaments' resolution does not put forward a concrete proposal in this regard. The European Parliament furthermore opts for an increase of the total level of the Multiannual Financial Framework to at least 1.11% GNI, and emphasises the need to achieve growth and competitiveness within the EU. This is why areas like research and development should receive more resources.

Last but not least, the EP calls for a more efficient budget, to be achieved by simplifying rules, mechanisms and instruments of the different policy areas, and through more focus on result orientation.

The Polish view on the next MFF is to some extend similar to that of the European Parliament, as it acknowledges the need for a proper level of resources. Poland is against spending cuts, demanding that the size of the budget should not be less than 1.12% of EU GNI, or at least kept at the level of 2013, with the needed adjustments due to inflation. An ambitious cohesion policy is needed especially in times of crisis; therefore, the proposed capping at 2.5% of GNI is seen as too low. Poland opts for strengthening the second CAP pillar, restructuring rural areas, as well as a decoupling of the system of payments from historical production volumes. It also asks to avoid reducing the discussion on the budget to the particular interest-driven logic of balance of payments. Therefore, the EU needs to have its genuine own resources as required by art. 311 of the Treaty. Moreover, Poland considers the fairest decision to be that none of the Member States receives a rebate.

Decisive for the Dutch government during the upcoming negotiations will be the net position and the magnitude of correction the Netherlands will receive in net terms. The proposed gross annual reduction of €1,050 million for the Netherlands should be increased in such a way that the Dutch net position improves with €1 billion annually. In the

Dutch view, the MFF 2014–2020 should be nominally frozen at the 2013 level. Compared to the EC proposal there should be less spending on cohesion policy, which means that support should only be given to the poorest regions in the poorest Member States. However, this position is not shared by Dutch regional and municipal authorities, who are in favour of an EU-wide cohesion policy. Also, the introduction of new own resources is not needed, as the power to tax should stay a matter of national sovereignty, and all proposed off-MFF expenditure should be part of the MFF and therefore integrated into the annual EU budget.

It can be concluded that both the European Parliament and the Council accepted the Commission's proposal as the basis for the negotiation. However, only the EP has an official position at this time; therefore, it would facilitate the negotiation between the various institutions if the Council would formulate a clear and detailed opinion on the European Commission's proposal.

When speaking about the overall level of the budget, the European institutions (European Council, European Parliament and European Commission) should keep the long-term strategic objectives and interests of their citizens in mind in reflecting on an adequate level of funding for policies developed at the EU governance level.

The analysis shows that all parties agree that the current MFF needs to be changed to respond to new EU priorities and that the EU 2020 strategy for smart, sustainable and inclusive growth forms a good compass for this reflection. This reprioritisation will imply, though, choices between various headings as well as regions.

As there is also support for a more result-oriented approach towards projects and policies financed with the EU budget, the proposal of the Commission to conclude partnership contracts covering all EU funds under shared management should be used to the full. In the same context, one should implement strictly the proposed conditionality mechanism, which could give rise to the suspension of funding based on a comprehensive set of *ex ante*-defined results.

Last but not least, it is hard to explain to citizens that the EU institutions do not respect all the provisions of the Treaty. Therefore, the institutions might agree to introduce an own resource step by step.

1. General introduction

In the upcoming months, negotiations will take place on the next Multiannual Financial Framework (MFF) between the European Commission (EC), the European Council and the European Parliament (EP). To be implemented properly, the new MFF should be adopted before the end of 2012. The MFF 2014–2020 has to be proposed by the European Commission and unanimously adopted by the Council, after it has been approved by a majority within the European Parliament. The Own Resources Decision 2014–2020 also requires unanimity in the Council (after consultation with the EP), in addition to which it has to be ratified by all 27 Member States in accordance with their constitutional requirements.

Reaching an agreement between the three negotiating institutions will not be easy, as views on the development of the financial resources of the European Union diverge considerably. With this paper, the Centre for European Studies contributes to the debate on how the next MFF might look.

In the paper, different authors described the European Commission's proposal and the European Parliament's position. As the European Council has not yet decided a negotiating position, the paper brings forward the views of two Member States, the Netherlands and Poland, which could be seen as representative of a group of Member States. The authors of the different sections relied on official documents, statements and interviews for their research. The paper ends with general conclusions and recommendations which bring forward a view on what a compromise on the next Multiannual Financial Framework might look like.

2. The European Commission's proposal

Nico Groenendijk

In June 2011 the European Commission issued a communication on *A Budget for Europe 2020*, in which it proposed a new MFF 2014–2020.[1] This proposal followed on an extensive round of consultation,[2] and was supported by publications by EC working groups on the own resources system[3] and on the key options on the main horizontal and sectoral issues.[4]

Tables 1 and 2 give an overview of the EC proposal. Table 1 shows the amounts to be appropriated to the various headings for the years 2014–20. Table 2 compares the proposed MFF 2014–2020 with the current MFF 2007–2013. Both tables use 2011 prices, meaning that they show increases and decreases in real terms.

[1] European Commission, *A Budget for Europe 2020*, COM(2011) 500 final (29 June 2011), part I and part II.
[2] European Commission, *Reforming the Budget, Changing Europe. A Public Consultation Paper in View of the 2008/2009 Budget Review*, SEC(2007) 1188 final, followed by European Commission, The EU Budget Review, SEC(2010) 700.
[3] European Commission, Financing the EU Budget: *Report on the Operation of the Own Resources System,* Commission Staff working paper, annex to COM(2011) 500 final.
[4] European Commission, *A Budget for Europe 2020: the Current System of Funding, the Challenges Ahead, the Results of Stakeholders Consultation and Different Options on the Main Horizontal and Sectoral Issues*, Commission Staff Working Paper, SEC(2011) 868 final.

The overall amount proposed for 2014–20 is €1,025 billion or 1.05% of the EU gross national income (GNI) in commitments and €972.1 billion or 1% of the EU GNI in payments. In percentage of GNI the MFF 2014–2020 shows a decrease compared to the MFF 2007–2013 (from 1.12% to 1.05%). In absolute terms, compared to the current MFF, there is an overall real increase of 3.2%. Expenditure on cohesion policy will decrease, as will market-related expenditure and direct payments within the Common Agricultural Policy (CAP). The EC proposes to reallocate resources to priority areas such as pan-European infrastructure, research and innovation (competitiveness), education and culture, securing the EU's external borders and external relations policy priorities such as the EU's neighbourhood policy.

Table 1. European Commission's proposal Multiannual Financial Framework (EU-27)

EUR million - 2011 prices

COMMITMENT APPROPRIATIONS	2014	2015	2016	2017	2018	2019	2020	Total 2014–2020
1. Smart and Inclusive Growth	**64,706**	**66,588**	**68,138**	**69,957**	**71,594**	**73,763**	**76,163**	**490,909**
Economic, social and territtorial cohesion	50,468	51,543	52,542	53,609	54,798	55,955	57,105	376,020
2. Sustainable Growth: Natural Resources	**57,833**	**56,759**	**55,707**	**54,670**	**53,660**	**52,665**	**51,633**	**382,927**
Market-related expenditure and direct payments	42,691	41,854	41,304	40,229	39,400	38,667	37,909	281,825
3. Security and Citizenship	**2,532**	**2,571**	**2,609**	**2,648**	**2,687**	**2,726**	**2,763**	**18,535**
4. Global Europe	**9,400**	**9,465**	**9,845**	**9,960**	**10,150**	**10,380**	**10,620**	**70,000**
5. Administration	**8,542**	**8,679**	**8,796**	**8,943**	**9,073**	**9,225**	**9,371**	**62,629**
Administrative expenditure of the institutions	6,967	7,039	7,108	7,191	7,288	7,385	7,485	50,464
TOTAL COMMITMENT APPROPRIATIONS	**143,013**	**144,241**	**145,094**	**146,179**	**147,164**	**148,758**	**150,511**	**1,025,000**
as a percentage of GNI	1.08%	1.07%	1.06%	1.06%	1.05%	1.04%	1.03%	1.05%
TOTAL PAYMENT APPROPRIATIONS	**133,851**	**141,272**	**135,506**	**138,384**	**142,228**	**142,894**	**137,966**	**972,102**
as a percentage of GNI	1.01%	1.05%	0.99%	1.00%	1.01%	1.00%	0.94%	1.00%
Margin available	0.22%	0.18%	0.24%	0.23%	0.22%	0.23%	0.29%	0.23%
Own resources ceiling as a percentage of GNI	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%
Outside the MFF	**7,815**	**8,583**	**8,306**	**8,357**	**8,395**	**8,445**	**8,416**	**58,316**
As percentage of GNI	0.06%	0.06%	0.06%	0.06%	0.06%	0.06%	0.06%	0.06%
Total commitments appropriations + outside the MFF	**150,371**	**152,585**	**153,391**	**154,725**	**155,739**	**157,372**	**159,134**	**1,083,316**
As percentage of GNI	1.13%	1.13%	1.12%	1.12%	1.11%	1.10%	1.09%	1.11%

Source: European Commission, A Budget for Europe 2020, COM(2011) 500 final, 6.

Table 2. Comparison MFF 2007–2013/2014–2020

EUR billion - 2011 prices

COMMITMENT APPROPRIATIONS	2007 - 2013	2014 - 2020	Difference in %
1. Smart and Inclusive Growth	**445.5**	**490.9**	**10.20%**
Competitiveness	77.8	114.9	47.70%
Infrastructure	12.9	40.0	209.70 %
Cohesion policy	354.8	336.0	-5.30 %
2. Sustainable Growth:	**421.1**	**382.9**	**-9.10%**
Market-related expenditure and direct payments	322.0	281.8	-12.50%
3. Security and Citizenship	**12.4**	**18.5**	**49.90%**
Freedom, security and justice	7.6	11.6	53.00%
Freedom, security and justice	4.8	6.9	44.90%
4. Global Europe	**56.8**	**70.0**	**23.20%**
5. Administration	**56.9**	**62.6**	**10.10%**
Administrative expenditure of the EU institutions	48.4	50.5	4.20%
6. Comparison	**0.9**		
TOTAL APPROPRIATIONS	**993.6**	**1,025.00**	**3.20%**
In % of EU-27 GNI	1.12%	1.05%	

Source: European Commission, the MFF 2014–2020 (press conference presentation, 30 June 2011).

Below, the various headings are discussed in more detail.

Relating to the first heading, *Smart and Inclusive Growth*, the EC proposal introduces Horizon 2020 as the new framework for research and innovation. Existing programmes for small and medium-sized enterprises (SMEs), and in the fields of education and youth, will also be streamlined. As far as infrastructure is concerned, a new facility is introduced: Connecting Europe. In cohesion policy expenditure will be more concentrated on the poorer and weakest regions, that is, the less developed regions, with a GDP per capita below 75% of the EU average. A new category of regions is introduced: transition regions, with a GDP per capita between 75% and 90% of EU average. Cohesion support per Member State will be capped at 2.5% of the Member State's GNI, to keep support in line with absorption capacity.

Concerning the second heading, *Sustainable Growth: Natural Resources*, the EC proposes to refocus the Common Agricultural Policy on its core and new activities and to bring it more fully inside the Europe 2020 strategy. It takes out of the CAP some expenditure that belongs in other policy areas/headings. It retains the basic two-pillar structure of the CAP, but proposes changes to the system of direct payments, 30% of which will be made conditional on 'greening' (i.e. linking support to environment measures). In addition, the levels of direct support per hectare will be progressively adjusted to ensure a more equal distribution of direct support. Member States with direct payments above the EU average will contribute (proportionally) to this adjustment. Generally, the level of direct payments will be capped for large agricultural holdings. As far as rural development is concerned, the European Agricultural Fund for Rural Development will be included in the common cohesion policy framework for all structural funds. First-pillar expenditure (amounting to €282 billion for the 2014–20 period) will be nominally decreased compared to the current MFF (€322 billion).

Regarding the third heading, *Security and Citizenship*, the EC proposes to streamline current instruments into two new funds: one for migration and asylum and one for internal security and external border control.

As far as the fourth heading, *Global Europe*, is concerned, the EC proposes a significant increase in expenditure by making available (for the entire 2014–20 period) €70 billion from the EU budget and by drawing €30 million from the European Development Fund (EDF). It introduces a single, integrated pre-accession instrument, a new partnership instrument to replace programmes in industrialised and emerging countries, and a pan-African instrument to support the implementation of the joint Africa–Europe strategy.

In terms of *Administration* (the fifth heading), the EC proposes major changes to the current staff regulations, aimed at a reduction of the number of EU staff by 5%, combined with an increase in working time of staff of 2.5 hours per week (i.e. to 40 hours a week), without compensatory wage adjustments. Still, growth of administrative expenditure is foreseen for 2014–20, in real terms.

In addition, some expenditure will take place outside the MFF:

- Flexibility instruments which are not programmable (Emergency Aid Reserve, European Globalisation Adjustment Fund, Solidarity Fund, Flexibility Instrument) are not part of the MFF, but, if used, they will enter into the annual EU budget.

- The European Development Fund has a financing key that is different from the MFF and does not enter into the annual EU budget, although such integration of the EDF into the regular budget should be made possible after 2020, and the EC proposes to make the necessary preparations during the next MFF period.
- ITER (International Thermonuclear Experimental Reactor) and GMES (Global Monitoring for Environment and Security) are not included because of their large scale and the involvement in these projects of non-EU actors.

All expenditure outside the MFF could amount to a maximum 0.06% of the EU GNI.

As far as the financing of the EU budget is concerned, the EC proposes a reform of the own resources system, based on the elimination of the current VAT-based own resource and the introduction of two new own resources:

- an own resource based on part of the proceeds of a new EU-wide financial transaction tax (FTT); and
- a new VAT own resource, by which the current VAT is shared between the EU and the Member States, by combining an EU VAT rate and national VAT rates. This new VAT resource should more clearly link EU policies and the EU VAT revenues and should not have an impact on the current VAT levels.

Reduction of the direct contributions from Member State budgets is foreseen by reducing the scale of the GNI-based resource. The EC proposes to simplify the current system of rebates and corrections by going back to the Fontainebleau agreement of 1984, which limits contributions only of those Member States that would otherwise face a budgetary burden which is excessive in relation to their relative prosperity, rather than trying to balance Member States' payments to and receipts from the EU budget.[5] The current UK rebate and other corrections will be replaced by lump-sum gross reductions on GNI payments. Four Member States (Germany, the Netherlands, Sweden and the United Kingdom) will benefit from such a reduction for the period 2014–20.[6] The current correction that is hidden in the 25% retention of collection costs for traditional own resources will be restricted to 10%, as it was before.

[5] European Commission, Proposal for a Council Decision on the System of Own Resources of the European Union, COM(2011) 510 final.

[6] Annually, this gross reduction amounts to €2,500 million for Germany, €1,050 million for the Netherlands, €350 million for Sweden and €3,600 million for the United Kingdom. Because the loss of revenues due to these corrections has to be covered by all Member States (including those Member States that get a reduction) net reductions are lower (e.g. in the case of the Netherlands, €750 million annually).

3. The European Parliament's view

Corina Suceveanu

Introduction

The Special Policy Challenges Committee within the European Parliament prepared the Parliament's position on the next Multiannual Financial Framework in view of the negotiations with the Council.

The work of this committee was divided into three phases covering the period from July 2010 to June 2011. It concentrated mostly on discussions on technical and horizontal issues and on specific policy priorities within the budget.[7] It then ended with negotiations on a common EP position and the final vote on a European Parliament resolution of 8 June 2011, *Investing in the Future: A New Multiannual Financial Framework (MFF) for a Competitive, Sustainable and Inclusive Europe*.[8] The work of the European Parliament on some particular issues of the budget started even earlier, as demonstrated by the resolution on the future of the European Union's own resources,[9] prepared by the Committee on Budgets, which was adopted in 2007.

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7 'The Battle for the EU's Long-term Budget', *European Parliament/News*, accessed at http://www.europarl.europa.eu/news/en/headlines/content/20110429FCS18370/html/The-battle-for-the-EU%27s-long-term-budget on 1 February 2012.

8 European Parliament, Investing in the Future: A New Multiannual Financial Framework (MFF) for a Competitive, Sustainable and Inclusive Europe, Resolution (8 June 2011), accessed at http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2011-0266+0+DOC+XML+V0//EN on 1 February 2012.

9 European Parliament, On the Future of the European Union's Own Resources, Report (14 March 2007), accessed at http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A6-2007-0066&language=EN#title4 on 1 February 2012.

The EP's position on the next Multiannual Financial Framework, as well as on the Union's own resources, is of increased importance, as the entry into force of the Lisbon Treaty led to major changes of inter-institutional cooperation and decision making. As described in the introduction of this paper, the MFF will be a regulation adopted by the Council, with consent of the European Parliament.[10]

The short- and long-term challenges the EU is facing, like, for example, growth and competitiveness or climate change, influenced the preparation of the European Parliament's position. They represent, together with the fields of employment, research and development, energy, education and poverty reduction, policy priorities for the coming years. According to the European Parliament, these policy priorities demand additional financing, and this should be taken into consideration within the next MFF.

For the EP, the entry into force of the Lisbon Treaty and the additional EU competences derived from it will as well require additional appropriations. As an example, the EP highlights the field of common foreign and security policy, which includes both the European External Action Service and the European Neighbourhood Policy. Therefore, an adjustment of the budget becomes inevitable.

In addition to this there are several lessons to be learned from the current MFF, as the first budgets of the 2007–13 MFF have illustrated the capacity limits of the financial framework

[10] European Union, Treaty of Lisbon, art. 312, paragraph 2, accessed at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:0047:0200:EN:PDF on 1 February 2012, 183.

to respond to new commitments, like Galileo, ITER or the Economic Recovery Plan.

The economic crisis has also had a major impact, demanding a strong response and many measures not only from the Union but also from its Member States.

Last but not least, EU citizens have become more demanding, and at the same time more critical, about the actions taken by the Union.

Assessment of the European Commission's proposal from the European Parliament's perspective

Size and length of the MFF 2014–2020

Concerning the discussion on the size of the MFF, the European Parliament emphasises that the overall level of the budget, which consists at its current overall level of 1% of gross national income, is not able to cover all financial needs, especially the additional ones arising from the Treaty. Therefore, it is of the firm opinion that freezing of the budget at the 2013 level (1.06% of GNI) is not an option, and demands an increase of the resources of at least 5% compared to the 2013 level at constant prices (the proposal is for an increase of at least 1.11% of GNI).
When it comes to the length of the budget, the EP opts for

an alignment of the duration of the MFF with the five-year political cycles of both the Parliament and the Commission. However, the best solution for the moment remains the seven-year cycle, as it provides more stability, and it makes the link to the Europe 2020 strategy. The possibility of opting for either a five- or a ‘5 + 5’-year cycle should, according to the Parliament’s resolution, be considered instead for the post-2020 period.

Financing the MFF: own resources, corrections and rebate

A very important aspect for the European Parliament is the financing of the MFF. Here the institution emphasises that, according to the Lisbon Treaty (art. 311 of the Treaty on the Functioning of the European Union, TFEU), the budget should be financed wholly from own resources. Therefore, it strongly calls for an in-depth reform of EU resources.

The main aim of this reform should be the achievement of a financing system of the Union that can be at the same time autonomous, fairer, more transparent and also simpler and more equitable. In this context the EP demands an ending of existing rebates, exceptions and, last but not least, correction mechanisms.
It has to be mentioned that in its resolution from 2011 the Parliament emphasises the need of own resources, but does not put forward a clear position on its preferred option. However, it states that the financial transaction tax (FTT) could have a substantial contribution to the whole.

A change demanded by the Parliament regards also its own role in this matter. It underlines the fact that the European Parliament is the only one of its kind that has a say on the expenditure side, but not on the revenue side, a situation that has to change.

The various expenditure headings

1A. Smart growth

The next MFF should, as stated in the resolution, concentrate more on areas that stimulate both growth and competitiveness, for example, research and development (R&D) and other forms of innovation. The Parliament thinks, too, that increasing expenditure especially in this area could be of added value to the EU and would also be in line with the Europe 2020 agenda, where the target is to reach 3% of GDP expenditure on R&D. This would reinforce the creation of a European Research Area and of an 'Innovation Union'.

Other areas of importance are industry and SMEs. A strong and diversified industry is needed to achieve the EU's 2020 objectives. As SMEs are key drivers not only of economic growth and competitiveness but also of innovation and employment, they should also be considered a priority, and be strongly supported. The European Parliament demands, therefore, enhanced support in the next MFF for all programmes and instruments used for SMEs.

Furthermore, the Union's Digital Agenda should be executed, and the EU space policy should receive more attention and funding.

The focus should be on the citizens, as well, especially when it comes to helping them to achieve the right skills for jobs, taking into consideration the EU's failure to properly invest in education and life-long learning.

Last but not least, the EP refers in this part of its resolution to the financial needs to achieve a connected Europe. This concerns the areas of transportation and energy infrastructure, as well as tourism and maritime policy, where innovative financial instruments are needed to allow public and private investments in the long term.

1B. Inclusive growth: cohesion policy

For the European Parliament, cohesion policy is one of the most significant and successful policies of the EU. However, the EP acknowledges that for achieving a modern cohesion policy a number of structural reforms are needed.

First and foremost, the cohesion policy rules and procedures have to be simplified, as they are far too complex. Second, reform is needed to enable this policy to respond to the main challenges of the Union and to enable an increase in synergies with other policies and instruments.

With regard to simplification, the Parliament calls first for an improvement of the monitoring and evaluation system, as the implementation part of the cohesion policy has often been criticised as making use of unnecessarily complex rules. The EP stresses that to be successful in this respect, it is important to apply the partnership principle.[11] However it warns against the use of sanctions in the framework of macroeconomic conditionality.

To respond to the Union's main challenges, the EP calls for a stronger thematic concentration of cohesion funding according to the Europe 2020 priorities, for a smaller number of priorities, and for the possibility of cross-financing. In this way the policy could become more transparent and effective.

In line with all the above, suitable funding is necessary, which in the view of the Parliament means that the current level of financing for this policy area should be at least maintained for the next period and be available to all the regions of the EU. When it comes to unspent resources of this fund, the EP suggests keeping them in the budget, and not returning them to the Member States.

[11] The partnership principle in the European Parliament's resolution refers to the partnership contracts which have been proposed by the European Commission. These are contracts between the Commission and each Member State, and set out commitments within the cohesion policy for partners at both regional and national levels and the Commission. They would furthermore contain the strategies for territorial development, strategic investments and conditionalities. The progress would then be followed up in annual reports on cohesion policy.

2. Sustainable growth: natural resources

In stressing the important role of the Common Agricultural Policy, the European Parliament calls for the Commission to present proposals on how to reform the existing policy. It also asks for a simplification of the implementation mechanism. At the same time it supports the maintaining of a two-pillar system and insists all in all on keeping the amount allocated for the CAP during the next MFF period at the same level as for the 2013 budget.

Further areas that are considered to be important for sustainable growth are energy and the environment. Concerning the first, the European Parliament supports the idea of increasing energy's share in the next MFF and regards energy efficiency and energy saving, together with renewable energy technologies, as key priorities of the Union. The target should be to make sustainable energy available for all.

As for environmental policy, the EP stresses that the EU has a global responsibility to tackle climate change, and therefore it should be monitored whether the 20/20/20 climate and energy objectives have been achieved.

3. Security and citizenship

In the area of security and citizenship the EP notes that the share of funding is relatively small, an issue that has to be addressed and adjusted in the next MFF, so that the Union can carry out its activities and tasks in line with the Stockholm Programme[12] and the Lisbon Treaty. A special focus, according to the Parliament, should be on policies like immigration, asylum and security.

Moreover, there have to be better synergies between the different funds and the programmes, to be achieved by applying a simplification of the management of funds and by allowing cross-financing. In this context the EP welcomes the Commission's expressed intention to streamline current instruments used for Home Affairs in a two-pillar structure and, where the possibility is given, in a shared management.

4. Global Europe

The under-financing and the acute flexibility problems in the implementation of the EU's activities in the external policy area are of deep concern to the EP. Therefore, it stresses the need to address these problems by filling existing gaps between ambitions and resources, and by allowing more flexibility in the use of instruments.

[12] The Stockholm Programme is the successor of the Hague and Tampere Programmes, and sets out the EU's priorities in the areas of justice, freedom and security for the period 2010–14, which are, for example, fundamental rights and freedoms, the development of an area of justice accessible to all and at the same time favouring cooperation between judicial authorities and the mutual recognition of court decisions within the EU, the protection of citizens and the fight against organised crime and terrorism. The programme further aims to meet upcoming challenges and, at the same time, to strengthen the areas of justice, freedom and security. The actions of the Stockholm Programme especially focus on the interests and needs of citizens. The Stockholm Programme, accessed at http://europa.eu/legislation_summaries/human_rights/fundamental_rights_within_european_union/jl0034_en.htm on 6 February 2012.

5. Administration

The EP supports a restructuring of the administration, but only on the condition that the Commission presents a clear analysis of administrative expenditure post-2013, by also taking into account the public finances consolidation efforts, the new tasks and competences that arose from the Lisbon Treaty and, last but not least, an optimal use of human resources in the European institutions.

Outside budget expenditure

Concerning the off-MFF expenditure, the European Parliament has the following position: It calls for a budgetisation of the European Development Fund; however, this step should come along with an overall increase in the EU budget by the amount initially allocated to finance the EDF.

Overall, off-MFF expenditure is not discussed at length in the resolution.

Simplification/result orientation/conditionality

Throughout the European Parliament's resolution a lot of emphasis is put on the aspect of simplification. This can be seen, for example, in the demand of the Parliament to generally simplify the financing system of the next budget. Furthermore, it focuses on different areas, such as cohesion policy, where procedures and rules have to be simplified. It also mentions the need for changes within the implementation mechanism of the CAP, and within the management of funds for the areas of security and citizenship.

When it comes to macro-economic conditionality, the European Parliament warns against the use of this instrument, especially concerning the cohesion funds, as this would oppose the very objective of this policy, which is to reduce regional disparities. The Parliament therefore calls for a better surveillance of the use of cohesion funds.

All in all, one can read throughout the resolution that the Parliament is favouring the improvement of synergies between all funds of the budget and the development of more result-oriented policies. This is what an efficient budget would mean for the Parliament.

Summary

Through its resolution on the next MFF the European Parliament intends, as already mentioned in the Introduction, to set down its position and priorities for the upcoming negotiations with the Council.

It first of all strongly favours the introduction of own resources in accordance with the Lisbon Treaty. However, it does not present a clear view of how this should look, leaving possible avenues open.

As the EU is facing a lot of challenges in the short term and also in the long term, but also because of the additional financial needs arising from the changes brought by the Lisbon Treaty, the EU budget cannot remain the same. The European Parliament therefore opts for an increase in the total level of funding to at least 1.11% of EU GNI.

The emphasis lies furthermore on the achievement of growth and competitiveness within the EU, which is in line with the EU 2020 goals. This is why areas like research and development should receive more attention, as well as more money.

Last but not least, the European Parliament calls for a more efficient budget, which can only be achieved through a simplification of the rules, mechanisms and instruments of the different policy areas, and through an orientation more focused on results.

4. The Polish view

Paweł Tokarski and Patryk Toporowski

Introduction

It would not be an exaggeration to say that Poland's position on the next Multiannual Financial Framework is one of the most supportive of the proposals put forward by the European Commission, which represents the EU's interest.[13]

Poland fully supports the further deepening of European integration, taking part, as a non-eurozone member, in the Euro Plus Pact and the new 'fiscal compact' treaty. For Poland, Europeanisation of policy fields implies increased expenditure, and the development of new economic policy areas requires an adequate level of financing. For this reason, Poland recognises that the European integration process inevitably leads to an increase of the EU budget.

Poland also understands that EU institutions need financial autonomy and proper financial instruments in order to secure their independence from the Member States.

The ambitious goals of European integration require proper EU spending. However, Poland is also aware that the common

[13] See the Polish Presidency approach presented at the Informal Meeting of Ministers and State Secretaries for European Affairs 28–29 July 2011, Sopot, Dziś w Sopocie początek rozmów o przyszłym budżecie Unii Europejskiej, 28 July 2011, accessed at http://www.euractiv.pl/prezydencja/artykul/dzi-w-sopocie-pocztek-rozmow-o-przyszym-budecie-unii-europejskiej-002844 on 12 December 2011.

budget size and shape should be the outcome of ambitions, as well as limitations. Moreover, European Added Value (EAV), as well as growth orientation, is a crucial issue for Poland, which sees the EAV reflected in the EU 2020 strategy, a reference point for the next MFF proposed by the Commission.

Poland values highly the Commission's and Parliament's willingness to abandon the national interests and *juste retour* logic seen in previous MFF negotiations.

With the European Union experiencing one of the gravest economic crises in its history, Poland believes that the EU budget can be used to exit the downturn, thanks to a higher efficiency of EU-level spending as compared to national spending in certain areas. If the EU does not fund some actions, these will be ultimately funded with national or local money, most probably at greater cost. What is more, Poland sees the EU budget, because of its investment nature, as free from the austerity paradox (in which cuts in most pro-growth expenditure result from a necessity for quick budget reduction), and it should thus be more effective. Hence the arguments in support of minimising the EU budget in order to spend money more efficiently and effectively on a national level are inaccurate.

The significance of EU spending should not be overestimated, due to its small size; however, it induces investments and this is why it is important for growth.

Among the ideas hidden behind the EU budget, there should also be a level playing field for all regions.[14] Therefore, all policies and thus all funds for internal use ought to be accessible to all Member States and regions, not only to particular ones.

Additionally, in talking about the increasing role of the EU in the world, one should remember that the budget is also a suitable tool to take care of and improve relations with EU neighbours and partners.

Long before the announcement of the Commission's proposal, Poland expressed the need to create a budget that is simple, transparent and 'readable'[15] to citizens. This is important when the EU budget is seen to reflect the European integration process. The more obscure and complex the solutions on a budget, the more questions should be asked about the well-being of the integration. Is the process going forward or rather backward? Deepening the integration should be reflected via a more transparent and simple budget.

Assessment of the European Commission's proposal from the Polish perspective

Below an assessment is given of the main elements of the EC proposal from the Polish perspective, elaborated on the

[14] See the Polish Presidency approach presented at the Informal Meeting of Ministers and State Secretaries for European Affairs 28–29 July 2011, Sopot, Dziś w Sopocie początek rozmów o przyszłym budżecie Unii Europejskiej, 28 July 2011, accessed at http://www.euractiv.pl/prezydencja/artykul/dzi-w-sopocie-pocztek-rozmow-o-przyszym-budecie-unii-europejskiej-002844 on 12 December 2011.
[15] Ibid.

basis of interviews and available documents.

Size and length of the MFF 2014–2020

To understand Poland's position towards the size of the next MFF, one has to bear in mind that its position is influenced by the sovereign debt crisis in several Member States of the euro area, as well as the financial, economic and banking crises. Before these crises, Poland was calling for a higher budget for the European Union and its policies. As a result of the crises, Poland now defends, in financial terms, a status quo budget for the next MFF. This means that Poland does not want to see a decrease in the size of the Multiannual Financial Framework.

However, the devil is in the details. Particularly, the status quo could mean 1.12% of the GNI of the EU-27, or—as in the Commission proposal—it could mean a multiplication by seven of the last year of a current financial perspective (2013) with adjustment for inflation, or it could even mean no decrease in the total amount (which is €975.78 billion in current prices).[16]

As a response to the EU budget review communication,[17] Poland opts for a seven-year period. This is because it is

[16] European Commission, Financial Framework 2007–2013, accessed at http://ec.europa.eu/budget/figures/fin_fwk0713/fwk0713_en.cfm on 12 December 2011.

[17] European Commission, The EU Budget Review, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the National Parliaments, COM(2010) 700 final, Strasbourg, 19 October 2010, 6, accessed at http://ec.europa.eu/commission_2010-2014/president/pdf/eu_budget_review_en.pdf on 12 December 2011.

believed to be helping a proper implementation of EU policies. Particularly when discussing long-term projects of cohesion policy, supporting goals of the EU 2020 Strategy and others, the shorter period may not be sufficient. Thus, the seven-year period is the right balance between the duration and stability needed for programming.

Overall, Poland will maintain its position that the next MFF should amount to 1.13% of the GNI and cover a seven-year period, mainly because Poland would, without the crises, support a higher EU budget, and because Poland is convinced that EU-level funds are more efficient and have a long-term investment character.

Financing the MFF: corrections, rebate and own resources

Traditionally, the Polish position towards any corrections or rebates is also based on transparency, simplicity and fairness, rather than on financial terms only.

A simpler and clearer system of revenues would contribute to better spending of EU funds, which should not be neglected by those countries that stress maximising results gained from limited European money.

Looking into the collection costs of customs on the external EU borders, which is called a hidden rebate, dedicated also to the Netherlands, Poland makes the following analysis. Today all the Member States collecting customs in the name of the EU can keep 25% of the collected amount as the collection costs refund. The Commission proposed a reduction of that share from 25% to 10%. Poland supports the Commission's proposal, although it has external borders with Russia, Ukraine and Belarus. Poland supports the proposal because the level of 10% corresponds better with the real collection costs across the EU.

In the eyes of Poland, the entire system of rebates is unclear, complex and unfair not only to Poland but also to other poorer Member States who finance those corrections.

The annual cost of the British rebate, which varies from €3.5 billion to €6 billion,[18] is borne directly by less developed EU Member States. The British rebate was established in 1984, when the UK's GNI was around 80% of the EU average. Now, when UK GNI is above 100% of the EU average, it is not justifiable to ask Member States with a GNI amounting to 60% of the EU average to pay for this rebate.

For instance, in 2009 the additional cost of the British rebate for the Polish national budget was over €100 million. This represented around 10% of the Polish national budget deficit in 2010.

When discussing budget revenues, it is significant that the EU is not fulfilling its Treaty obligations in this respect. Article 311 of the TFEU indicates that the European Union is financed

[18] In 2010 the British rebate amounted to €3.5 billion; in 2009 it was €5.6 billion, EU Budget 2010 Financial Report, accessed at http://ec.europa.eu/budget/library/biblio/publications/2010/fin_report/fin_report_10_data_en.pdf on 12 December 2011.

by own (meaning independent and direct) resources.[19] Unfortunately, today less than 14%[20] of the annual budget is financed by traditional own resources, which are custom duties and sugar levies. The rest (over 86%) is a simple bank transfer from national budgets. This situation causes a headache to many ministers of finance among Member States. Therefore, Poland's position is that the majority of the EU budget should be financed by genuine own resources. The GNI-based national transfers, however, ought to be maintained for balancing the income and outcome sides of the budget. In this context, Poland supports the FTT as the EU budget revenue and is open to discussing the VAT-based resource.

The various expenditure headings

1A. Smart growth

Poland supports investment in innovation and education, acknowledging its importance for increasing economic growth. Yet, as with the other new Member States, Poland does not profit considerably from the former 1A heading, despite its very low level of general financing of the research and development sector. The data show that Poland is a relatively modest beneficiary compared to the other EU-15 countries, receiving less than 2% of funds.[21] This is due to a

[19] European Union, Treaty on the Functioning of the European Union, accessed at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:0047:0200:EN:PDF, 181, on 12 December 2011.
[20] Compare traditional own resources, accessed at http://ec.europa.eu/budget/library/figures/B2011_recap_by_MS_en.pdf, data for the year 2010, on 12 December 2011.
[21] European Commission, EU Budget 2010 Financial Report.

moderate participation in the Seventh Framework Programme, which accounts for about 70% of expenditure under the former competitiveness heading.

Therefore, Poland maintains that the next framework programme should be sufficiently adjusted to real needs. It should be focused not only on delivering excellence of research but also on eliminating the differences between the Member States in the field of research and development.

The small and medium-sized enterprises sector occupies quite an important place in the Polish economy, accounting for around 46% of the GDP.[22] Therefore, the government welcomes the further competitiveness orientation towards the SME sector. In this regard, Poland claims that increased use of repayable financial instruments will increase the effectiveness of the sector. These resources should be allocated to low-risk projects, unlike non-repayable grants, which should be allocated to high-risk projects. Poland also underlines the necessity of a proper information campaign directed to the SME sector to diminish the possible concerns of entrepreneurs about the repayable funds.[23]

There exist some doubts as to the merger of Lifelong Learning and Youth in Action into one programme, because of their different operating philosophies. This action should be discussed further. It is also worth considering the inclusion of Eastern

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22 Polska Agencja Rozwoju Przedsiębiorczości, *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce* (2010), accessed at http://www.parp.gov.pl/files/74/81/380/9282.pdf on 12 December 2011.
23 Poland, Ministry of Foreign Affairs, *Stanowisko RP w sprawie: Pakiet Wieloletnich Ram Finansowych UE na lata 2014–2020*, (Warsaw, 11 January 2012).

Partnership states to the ERASMUS programme and also adding a new action line dedicated to PhD students.

1B. Inclusive growth: cohesion policy

From the Polish perspective, cohesion policy is the most important component of the EU budget. For Poland the use of the cohesion policy instrument can make the EU budget a very efficient long-term investment tool.

There is also a widespread belief in Warsaw that cohesion policy is the ideal tool for achieving the Europe 2020 objectives. Therefore, the official position states with satisfaction that this policy was identified as one of the pillars of the Europe 2020 strategy.[24] It is also assumed that cohesion policy should be regarded as a general development policy, with a proven and well-established system of operations and a multisectoral approach to development issues, connecting social and territorial dimensions.[25] The Polish government argues that the previous experience proves that cohesion policy allows for better coordination at the EU and national levels, making actions more efficient and cost effective.

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[24] *Cohesion Policy as an Efficient, Effective and Territorially Differentiated Response to EU Development Challenges*, Position of the Government of the Republic of Poland on the Future of European Union Cohesion Policy after 2013, Adopted by the European Committee of the Council of Ministers on 18 August 2010, accessed at http://www.mrr.gov.pl/rozwoj_regionalny/Polityka_spojnosci/Polityka_spojnosci_po_2013/Debata/Documents/updated_official_position_of_pl_cp_after_2013.pdf on 14 December 2011.

[25] Ibid

In addition to achieving the EU 2020 objectives, cohesion policy could also play a role in overcoming the sovereign debt crisis. Poland supports the idea that, in times of crisis, a bigger share of spending should be funded with the EU budget. The EU budget could be more oriented towards enhancing the sources of growth, particularly through better and more long-term investments financed via cohesion policy. Unfortunately, however, the capping level proposed by the European Commission, 2.5% of GNI, is too low.

The positive economic effects of the EU's cohesion policy are often quoted in the Polish arguments. For example, the report of the Polish Ministry of Regional Development concludes that in 2009, when Poland was the only country in the whole EU to maintain positive economic growth, half of its GDP growth was produced as a result of the cohesion funding.[26] This is also supported by reports prepared for the European Parliament which concluded that an injection of 1% of GDP as cohesion expenditure generates at least 2% of GDP of return in the long run to net recipients.[27] Nevertheless, the benefits are not only limited to the net beneficiary countries. The EP experts showed that net contributors also benefit from this policy in an indirect way,

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[26] Poland, Ministry of Regional Development, *Wpływ funduszy europejskich na gospodarkę polskich regionów I konwergencję z krajami UE*, Report 2010 (Warsaw, 2010), 5, accessed at http://www.mrr.gov.pl/rozwoj_regionalny/Ewaluacja_i_analizy/Raporty_o_rozwoju/Raporty_krajowe/Strony/Wplyw_FE_na_gospodarke_polskich_regionow_i_konwergencje_z_krajami_UE_Raport_2010.aspx on 14 December 2011 .

[27] European Parliament, Directorate General for Internal Policies, Policy Department B: Structural and Cohesion Policies, Regional Development, *The Economic Return of Cohesion Expenditure for Member States* (May 2009), 8, accessed at http://www.europarl.europa.eu/meetdocs/2009_2014/documents/regi/dv/pe419106_ex_/pe419106_ex_en.pdf on 14 December 2011.

mainly via the trade channel; however, the positive impact varies across the Member States.[28] These conclusions are strengthened by the European Commission data contained in the budget review, stating that cohesion policy contributes to real economic growth in the EU.[29] These studies make the Polish argumentation stronger and more reasonable.

Additionally, when analysing the Polish support for cohesion policy, one cannot ignore its media effects. Information about the infrastructure investments is visible in Poland virtually at every corner—new roads, bridges, buildings and so forth are accompanied by information on the financing of the EU. This builds a very positive image of the European Union with the Poles, among whom support for the EU ranks at a fairly high level. But the image is not the only outcome. Thanks to the investments, many jobs have been created, access to new areas has been improved and many costs have been reduced (including travel time).

The importance of the cohesion policy in the priorities of the Polish foreign policy was also evident during the visit to Brussels in September 2010 of then newly elected President Bronislaw Komorowski. President Komorowski stressed the need to maintain the current level of cohesion policy financing.[30]

[28] Ibid. 10–11.
[29] European Commission, *The EU Budget Review*.
[30] A. Rettman, 'Polish President Airs Concerns on EU Budget', *Euobserver.com*, 1 September 2011, accessed at http://euobserver.com/18/30711 on 14 December 2011.

However, at the moment, there are still many uncertainties that need to be resolved in the course of the MFF negotiations. The question of the size of the EU budget is closely linked to cohesion policy. This is because Poland, as well as other net beneficiaries, fears that the rigid French position on the CAP, linked with the British on the rebate, would risk major cuts in the EU budget being made at the expense of cohesion policy.[31] A foretaste of such a threat was evident in October and December 2010. On the occasion of the European Council meetings, special letters were published opting for a net reduction of the overall size of the multiannual budget. In this case, Poland shared the concern of the European Commission as to the possible conclusion of an informal agreement between the biggest net contributors: France, Great Britain and Germany.

With regard to the implementation rules of the cohesion policy, one of the most important issues for Poland is rule 'n + x'. This rule sets the number of years in which Member States could spend money, starting from a particular year. For instance, under rule n + 3 for year 2007, Poland could have run projects in the years 2007, 2008, 2009 and 2010, whilst still using funds allocated for year 2007. This rule is necessary, especially in running big infrastructural projects. However, currently, the number after the 'plus' sign is under discussion. The European Commission asks in its proposal that all Member States follow the rule 'n + 2'. Poland's position will most likely be to demand to use the 'n + 3' rule in the first years of the new perspective.

[31] 'Secret Bid to Freeze EU Budget', *Financial Times*, 17 December 2010.

Regarding the territorial scope, Poland claims that cohesion policy should cover all regions of the EU and be addressed to the entire EU and not to a specific group of countries. It also means that Poland believes the cohesion policy can still be an effective tool in the EU-15. In these countries the policy could support different goals, such as acquiring new skills, promoting innovations or levelling regional differences. Poland hopes that enlarging the geographical range of the cohesion policy through the concept of transitional regions will weaken the demand of financing the cohesion instruments through national budgets. Such a view was previously put forward during negotiations of the current financial perspective for 2007–13.

As far as the distribution method is concerned, the Polish government supports the so-called Berlin method,[32] which is currently applied, stating that only this means of allocation could provide a sufficient level of investment where it is needed.[33]

Another question is the thematic concentration of the cohesion policy. A careful reading of the proposed solutions shows that the European Commission concentrates almost exclusively on so-called ring-fencing.[34] This cannot be supported by

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[32] Established in 1999 during the preparation of Agenda 2000, it calculates aid using a broad array of factors, including population of the eligible regions, regional prosperity, national prosperity and unemployment of the eligible regions, thus privileging less developed regions and countries.

[33] Poland, *The Government of the Republic of Poland Official Position on the Commission Communication 'Conclusions of the Fifth Report on Economic, Social and Territorial Cohesion'*, Approved by the Committee for European Affairs of the Council of Ministers on 25th January 2011, 10, accessed at http://ec.europa.eu/regional_policy/archive/consultation/5cr/pdf/answers/national/poland_national_government_2011_02_01.pdf on 14 December 2011.

[34] Securing funds for specific projects, such as the European Social Fund. This money cannot be spent on anything else.

the Polish government. Poland cannot agree to a top-down approach for all Member States to allocate fixed amounts (or percentages) of the national envelopes for the European Social Fund (ESF). That solution does not take into account national differences or needs and seems to be rather a guarantee of desired global allocation of the ESF than a real need of all 27 Member States. In this case, Poland probably will argue for the ESF's ring-fenced 'allocation'.

2. Sustainable growth: natural resources

Poland underlines that the Common Agricultural Policy and cohesion policy should complement each other, rather than compete. In that context, the CAP should recognise the differences in the economic development of agriculture in the EU-15 and EU-12. The new Member States should strive for the modernisation and concentration of farms, while in countries where agriculture is more developed, there is a need to focus on other challenges, such as environmental protection.

The CAP should also develop in the direction of renewable energy sources, promoting innovation and climate-friendly technologies. The system of direct payments must seek to align conditions of competition between Member States, rather than maintaining the current agricultural structure in the EU. However, no additional administrative burden should be imposed in introducing these conditions. The CAP must remain a policy implemented at the EU level. The renationalisation would lead to the end of the single market for agricultural products.

Poland claims the current spending ratio of the first pillar (direct payments) and second pillar (development of rural areas) of the CAP is not correct, because the further reforms of this policy should lead to enhanced focus on development in rural areas.[35] Besides, the Polish government positively notes the tendency to reduce differences in direct payments for farms, but the progress is unsatisfactory and largely dependent on the intensity of agricultural production, based on historical data.

Poland supports the idea of reducing support for the largest farms, creating effective action mechanisms in crisis situations and covering the second pillar under the Common Strategic Framework. This last point is important to ensure optimal multipath sustainable rural development, which requires a common use of the instruments of the CAP and cohesion policy. The allocation of additional funds for research and innovation in the field of food security and the bioeconomy in the Strategic Framework for Research and Innovation may also be backed up by the Polish government.[36]

[35] Poland, Ministry of Agriculture and Rural Development, *The Future of the EU Common Agricultural Policy beyond 2013*. (Warsaw, May 2009), 5–6, accessed at http://www.minrol.gov.pl/eng/content/view/full/4009 on 15 December 2011.
[36] Poland, Ministry of Foreign Affairs, *Stanowisko RP w sprawie*.

3. Security and citizenship

In this area Poland welcomes the reform of funds concerning migration management and internal security, especially because of its simplification and increased flexibility. Nevertheless, the Polish government is waiting for more detailed proposals concerning the management, implementation and means of allocation of Home Affairs funds.

4. Global Europe

Another argument for increasing the overall size of the MFF is that, with the entry into force of the Treaty of Lisbon, the EU has been given new tasks for which it must be provided with an appropriate level of funding.

Poland actively supports the development of the former second pillar, and calls for the allocation of adequate resources for the functioning of the External Action Service, in order to increase its effectiveness. Another area located in the orbit of Polish interest is the Neighbourhood Policy, especially its eastern dimension.

Poland raised some objections concerning the creation of a pan-African financial facility, asserting that the EU should engage itself also in other geographical areas, such as Central Asia. Creating such a facility will be at the cost of financing actions in other important extra-EU areas.

The European Endowment for Democracy, which could play a role as a long-term supplement to the existing EU external actions, is strongly supported by Poland.

Outside budget expenditure

Generally, Poland supports the Commission's proposal[37] to put large-scale programmes, such as ITER and GMES, outside the MFF. The Commission's argumentation that the costs are too high and unpredictable (e.g. they may unexpectedly expand) to be covered by such a small common budget is shared by Poland.

Also, the need to keep the European Development Fund outside the budget seems to be a normal consequence of the specific origin of this facility, and that is why the final outcome should be close to the current status quo in this respect (including the contribution key). On the other hand, Poland claims that the funds covering social policy should be better coordinated. For this purpose the European Globalisation Adjustment Fund, when concerning support for industry workers, should be incorporated into the European Social Fund.[38]

Simplification/result orientation/conditionality

Poland supports simplification in general, and in particular, for the cohesion policy. Nevertheless, the simplifications proposed by the Commission are cosmetic ones. In Poland's view,

[37] European Commission, *A Budget for Europe 2020*.
[38] Poland, Ministry of Foreign Affairs, *Stanowisko RP w sprawie*.

regrouping and renaming policies has nothing to do with real and deep simplification, which might be expected.

What is more, some solutions addressed in the EC's proposal are heading against the simplification process. One of the reasons Poland will not support a decrease in the cohesion funds to enhance the proposed Connecting Europe Facility is that this would establish a new central management with a new, additional and parallel implementation system. Establishing the Connecting Europe Facility partially by using the national allocations of the Cohesion Fund would not only deprive Member States' of part of their funds, but will as well oblige the Commission to hire new desk officers, and Member States to establish new and costly implementation and monitoring systems. To sum up, Poland is expected to support real simplification, which in fact is not addressed by the Commission.

Concerning the conditionality issue, the Polish government underlines that the possible use of the Structural and Cohesion Funds to strengthen the Stability and Growth Pact will create a 'disproportionate burden' for the new Member States. Therefore, the new conditionality mechanism should not generate new administrative burdens, and it should be applied equally to all Member States.

Poland has similar doubts about macro-conditionality, despite the fact that it would probably have no problems in fulfilling these conditions.

Linking EU financing with the transposition of EU directives is not a fair way to accelerate integration, as local authorities cannot be held responsible for actions that are not in their domain of competences. Nevertheless, the conditionality mechanism relying on positive incentives that were included in the Commission Communication of 29 June[39] was welcomed. Poland accepts the *'ex ante'* conditionality, but demands that the ultimate decisions should be taken at the Council level.

Poland will support the new proposed measures such as the performance framework and performance reserve, the new dimension of *ex ante* conditionality and *ex post* conditionality. Yet, there will be one reservation on 'no consent for any corrections or reduction of pre-allocated national envelopes'. However, this position stems from implementation and reprogramming difficulties, rather than from reluctance to cancel funds.

In general, there is clear consent on mainstreaming of the EU budget with horizontal issues (such as climate change, environment, consumer protection, etc.), provided it would not stiffen too much the EU expenditures. Moreover, climate-proofing cannot lead to burdening Member States with additional requirements in relation to the existing ones.

[39] EC MFF proposal, accessed at http://ec.europa.eu/budget/biblio/documents/fin_fwk1420/fin_fwk1420_en.cfm on 14 December 2011.

Summary

To sum up, the Polish view of the next MFF is similar to that of the European Parliament and the European Commission, mainly because Poland supports the European integration process and recognises that an ambitious European Union needs a proper level of resources, while at the same time ensuring real European Added Value and seeking long-term growth investments.
The bigger the EU budget, the more actions that are more effective at an EU level can be carried out. Thus, Poland is against spending cuts. The budget size must be no less than 1.13% of EU GNI or a multiplication of the last year of current perspective (2013) adjusted for inflation, and it should be designed for a seven-year period.

An ambitious cohesion policy, as a universal investment instrument of the EU, is needed, especially in times of crisis and to decrease the welfare differences between Member States, which lie at the root of the crisis in the euro area. In this context, the proposed capping at 2.5% of GNI is seen as too low. Poland opts for strengthening the second CAP pillar, restructuring of rural areas. The system of payments should be decoupled from historical production volumes. The greening of CAP should be mainly introduced by programmes from the second pillar.

New EU powers added by the Treaty of Lisbon, especially in the area of foreign policy, cannot be effectively implemented without an adequate level of funding, in particular, the European External Action Service and the Eastern Partnership.

In the history of European integration, the general tendency was to facilitate the difficult decision-making process between the EP and the Council. Therefore, Poland claims that one should separate the discussion of the budget from the pernicious logic of *juste retour*, which makes it difficult to talk about the budget and brings the discussion about the European Union to the particular interest-driven logic of balance of payments. Therefore, the EU needs to have its genuine own resources, which is also required by article 311 of the Treaty. Moreover, Poland sees that it will only be fair when no Member States receive a rebate.

5. The Dutch view

Nico Groenendijk

Introduction

In the mid-1990s the Netherlands joined the ranks of those Member States that increasingly felt discontent with their position as net contributors to the EU budget. In 1998 the Dutch Minister of Finance of that time, Gerrit Zalm, proposed the introduction of a so-called net limiter, intended to limit the extent to which Member States would be net contributors to the EU budget. Although such a net limiter has not been realised, in 2005 the Dutch government was able to negotiate, for the period 2007–13, a gross reduction of its annual GNI contribution of €605 million, in addition to continuation of its reduced contribution to the financing of the UK abatement. Although this outcome was looked upon favourably by the vast majority of political parties, the Dutch contribution to the EU budget has remained a much-discussed topic in Dutch national politics. It is fair to say that the commonly held view in The Hague is that the Netherlands should pay less to the EU budget and that the EU budget as such should be reduced rather than expanded.[40] To a large extent this 'Dutch view' is also representative of a larger group of Member States, as was shown in September 2011 when the Ministers of

[40] A brief analysis of election manifestos for the 2010 general elections shows that this is the view held by all parties, with the exception of the social-liberal party (D66) and the left-wing green party (Groen Links).

Finance of Austria, Denmark, Finland, France, Germany, Italy, the Netherlands, Sweden and the United Kingdom issued a position paper in which they argued for a scaling-down of the EC's MFF proposal.[41] This position paper built on an earlier statement made (in December 2010) by Finland, France, Germany, the Netherlands and the United Kingdom, in which they proposed a freeze—in real terms—of the EU budget for 2014–20.

The official Dutch central government position can be found in various documents. In April 2008 the previous government (led by Prime Minister Jan-Peter Balkenende), made up of Christian Democrats (from CDA and CU) and Socialists (PvdA), issued a response to the European Commission's consultation paper on the budget review.[42] In the same month it provided a response to an advisory report on the EU budget issued by the Dutch Advisory Council on International Affairs.[43] After the general elections in 2010, a new government came into power, consisting of Christian Democrats (CDA) and Liberals (VVD), led by Prime Minister Mark Rutte. This government is a minority government that is supported by the right-wing party of Geert Wilders (PVV). The VVD-CDA coalition agreement of September 2010 contained some general statements on the competences and tasks of the EU, on the EU budget and on a reduction (of €1 billion annually)

41 'EU Budget Skirmishes Begin as Eight Countries Attack Brussels' Proposals', *EU Observer*, 13 September 2011.
42 The Netherlands. Ministry of Foreign Affairs, *Dutch Priorities for a Modern EU Budget. Response of the Netherlands to the Issues Paper* (2008).
43 The Netherlands, Ministry of Foreign Affairs, letter to Parliament dated 11 April 2008 (DIE 529/08), in response to the Advisory Council on International Affairs (AIV), *De financiën van de Europese Unie*, 2007.

of the Dutch contribution to the EU.[44] In 2011 the central government's position was outlined in more detail in two official position papers.[45] In these documents the following basic principles for the MFF 2014–2020 are put forward:

- The EU budget should be an austerity budget, and for 2014–20 it should be frozen in real terms.
- The EU budget should be prioritised according to the objectives of Europe 2020. New priorities should be met in financial terms by spending less on old priorities.
- The EU budget should be financed in a transparent and fair way, that is, completely financed by contributions based on Member States' GNI.
- EU spending can only be justified if intervention on the EU level adds value and is in accordance with the subsidiarity principle.

Generally, the Dutch central government has shown appreciation for the EC proposal, but it has also indicated that it still has crucial objections.

It is important to point out that not only the Dutch central government has taken a position on the MFF 2014–2020, but also the regional and local authorities (represented by the Interprovinciaal Overleg, IPO, and the Vereniging Nederlandse Gemeenten, VNG) have issued position papers on the budget review and the EC's proposal. Although these authorities do not take positions on the size and financing of

44 *Vrijheid en verantwoordelijkheid. Regeerakkoord VVD-CDA* (September 2010), accessed at http://www.europarl.europa.eu/news/en/headlines/content/20110429FCS18370/html/The-battle-for-the-EU%27s-long-term-budget on 19 December 2011.

45 Parliamentary Paper 21 501-20, no. 529, (28 March 2011) and Parliamentary Paper 21 501-20, no. 553 (2 September 2011).

the EU budget, they have put forward views on specific parts of the proposed MFF, notably on cohesion policy and the CAP.

Assessment of the European Commission's proposal from the Dutch perspective

Below, an assessment is given of the main elements of the EC proposal from the Dutch perspective.[46]

Size and length of the MFF 2014–2020

Over the last years the Dutch central government has shifted its position on the level of expenditure in the next MFF. Initially (in 2008) it held the position that total EU spending should remain constant as a percentage of EU GNI. Later it argued in favour of a freeze of the absolute level of expenditure, in real terms, but recent developments show that this position has now changed towards a freeze in nominal terms. The Dutch central government stresses that the cutbacks Member States make in their own budgets should also be reflected in the EU budget. During a meeting with the Parliament, the Secretary of State for European Affairs recently referred to the common action of a number of Member States, including the Netherlands, that declared themselves in favour of a nominal freeze.[47] Moreover, this position is supported by a majority in the Dutch Parliament.[48]

[46] This assessment is based on the two most relevant Parliamentary Papers (21 501-20 no. 529 and no. 553), to which all statements in the text refer, unless indicated otherwise.
[47] Parliamentary Paper 32 833, no. 6.
[48] The Plasterk/Voordewind Resolution, Parliamentary paper 32 502, no. 19 (31 May 2011), urges the government not to accept an MFF that increases nominal expenditure.

The Dutch central government welcomes the shift of expenditure within the EU budget towards policy areas such as competiveness, innovation and cooperation in the field of justice (especially migration policies). It emphasises that expenditure on cohesion policy and administrative expenditure should be further reduced to make this shift possible.

The Dutch central government is reluctant when it comes to the possibility of shortening the MFF period from seven to five years (or 10 years with a major mid-term review). Although this would increase flexibility, it would also decrease the predictability of expenditure.

Dutch regional and local authorities do not have a position on the level of the MFF, as—according to them—this is primarily an issue between the EU and national governments. In their view, in some cases, new priorities require new budget lines; in other cases, it is merely a question of shifts within existing budget lines.

The Dutch regional and local authorities question the general seven-year planning period for European programmes, which is linked to the MFF period. They argue in favour of 10-year programmes with major mid-term evaluation.[49]

Financing the MFF: corrections, rebate and own resources

Rather than to the level of expenditure as such, the main concern of the Netherlands relates to its net contribution

[49] VNG/IPO, The European Union beyond 2013. Working Together on a Stronger and More Sustainable Europe (April 2008).

to the EU. During the 2001–6 period, the Netherlands was one of the main net contributors to the EU budget. The current position (under the MFF 2007–2013) has improved due to the reduction the Netherlands (and Sweden) receive (in addition to the UK rebate), which in the case of the Netherlands amounts to €605 million annually. Still, even after this reduction the Netherlands pays €5,614 million to the EU budget and receives €2,120 million, resulting in a net contribution of €3,494 million.[50]

The Dutch government wants its contribution to the EU budget to be decreased substantially for 2014–20, and as such, it welcomes the correction mechanism that the EC proposes. However, the coalition agreement aims at a net annual reduction of €1 billion and the gross annual reduction of €1,050 million that the EC has proposed for the Netherlands will be considerably less in net terms (approximately €750 million), the main reason being that the reductions that are envisaged for 2014–20 (for Germany, the Netherlands, Sweden and the United Kingdom) will be paid for by all Member States, including those Member States that get such a reduction. Moreover, the decrease of retention costs (from 25% to 10% of revenues to be transferred) for the levying of traditional own resources will worsen the Dutch net position by €250 million annually.

50 These are figures for payments in 2010, based on the 2010 annual report of the European Court of Auditors. There are different ways to calculate net positions (simple net position, net position excluding administrative expenditure, net position excluding traditional own resources). Furthermore, these net positions can be presented in absolute terms, as a percentage of GDP and per capita. In absolute terms Germany is currently the largest net contributor to the EU budget. Related to GDP and per capita, Denmark is the largest net contributor. See Deutsche Bank Research, EU Net Contributor or Net Recipient: Just a Matter of Your Standpoint? (May 2011).

The Netherlands is in favour of a funding system that is fully based on GNI contributions. It is against the introduction of new own resources and/or EU taxes, as this would only complicate the funding system and make it less transparent. More fundamentally, the Dutch position is that the power to tax is a matter of national sovereignty and should not be transferred to the EU level. A financial transaction tax should only be introduced on a global level and should not have as its primary aim the funding of a budget.

The Dutch regional and local authorities argue in favour of sufficient resources for the EU budget, without taking a position on the overall level of these resources. They advocate a transparent funding system, in which rebates and corrections for individual Member States should be avoided.[51]

The various expenditure headings

1A. Smart growth

Generally, the increased focus (in budgetary terms) on competitiveness and infrastructure is supported by the Netherlands. As far as competitiveness is concerned, the Dutch government welcomes the increased focus in this policy by means of the new strategic framework, Horizon 2020. The key themes that the EC mentions in this policy area largely coincide with Dutch priorities. Relating to infrastructure, the Netherlands supports the EC's ideas for Connecting Europe, but argues in favour of more clarity on

[51] VNG/IPO, *The European Union beyond 2013.*

the use of innovative financing tools (like EU project bonds), on how Connecting Europe relates to state-aid legislation and on how to fit Connecting Europe into the existing budget.

1B. Inclusive growth: cohesion policy

Support from the EU's cohesion policy should, according to the Dutch central government, be limited to the poorest regions in the poorest Member States (convergence regions). Therefore, it does not support the introduction of a new category of regions (transition regions). Total expenditure on cohesion policy should be further decreased. In principle, cohesion policy funding per Member State should be capped. This position of course implies that the Netherlands itself will not benefit anymore from cohesion policy funding, which, as such, will have a negative impact on the Dutch net position. However, limiting cohesion policy to convergence regions only will substantially reduce the overall contribution the Netherlands has to make to the EU budget. Such a reduction will probably be in excess of the €235 million of cohesion policy funding the Netherlands currently receives. Again, the main yardstick from the Dutch perspective is the impact of changes on its net position, with a €1˜billion decrease in net transfers as the preferred outcome.

This position is not shared by the regional and local authorities in the Netherlands. They are in favour of a cohesion policy that involves all regions in the EU, as this is in their view essential for reaching the Europe 2020 objectives, not only across the EU but also in the Netherlands itself.[52] Support from the EU structural funds oils the wheels of regional and local policies and acts as a catalyst/flywheel for reform.

Generally, the proposal to bring cohesion policy more in line with the Europe 2020 strategy is fully endorsed, but IPO/VNG argue in favour of some leeway for national, regional and local authorities to fine-tune the Europe 2020 objectives to the Member State's context. Recently, during a hearing organised by Dutch Member of the European Parliament (and cohesion policy *rapporteur*) Lambert van Nistelrooij, other stakeholders (companies and educational and R&D institutions) expressed their support for this view.[53]

2. Sustainable growth: natural resources

From the Dutch perspective, increased conditionality for direct payments within the CAP is a positive development. The Netherlands welcomes the EC proposal for 'greening' the direct payments, but is in favour of a more general move towards conditionality and targeted support, rather than generic support in line with the Europe 2020 strategy. The Dutch government endorses the adjustment towards

[52] Letter of the Interprovinciaal Overleg (IPO) to the Parliamentary Committee on European Affairs (19 September 2011); Letter of the Vereniging Nederlandse Gemeenten (VNG) to the Parliamentary Committee on European Affairs (26 September 2011). See also VNG/IPO, The European Union beyond 2013; VNG/IPO, *Van Europees cohesiebeleid naar een duurzaam Europees gebiedsgericht ontwikkelingsbeleid* (January 2010); VNG/IPO, *Reactie van de Nederlandse provincies en gemeenten op de conclusies bij het vijfde cohesieverslag* (January 2011).

[53] Hearing 'Hoe smart is Nederland?', Provinciehuis Zuid-Holland, 13 January 2012.

more equal distribution of direct payments and emphasises the importance of such adjustment being paid for by all Member States with direct payments above the EU average. As with cohesion policy, Dutch support for the adjustment will depend on the impact on the Dutch net position. Generally, the level of expenditure within this heading and its development in terms of a nominal decrease is acceptable to the Dutch central government.

The Dutch regional authorities generally find the EC proposal on the MFF 2014–2020 and the CAP acceptable. They do, however, argue that decreases in direct support for the Netherlands (estimated to be 8%) should be compensated for in the second CAP pillar. In addition, and in accordance with the position of the Dutch central government, they propose a wider use of conditionality and targeted direct support (going beyond greening).[54]

3. Security and citizenship

The Dutch government endorses the increased emphasis on cooperation in migration/asylum policies, as well as external border control, as long as European Added Value can be established, in terms of better implementation of legislation, enhanced sharing of know-how and increased cooperation on the operational level. It is against increasing the EU expenditure on civil protection, as this is a responsibility of national governments.

[54] IPO, *Gemeenschappelijk Landbouwbeleid na 2013* (November 2011).

4. Global Europe

The Netherlands stresses the importance of the EU's ambitions in its external policies, but it argues that these ambitions do not necessarily require (much) more expenditure. It puts forward three priorities for the 2014–20 period: (a) the European Neighbourhood Policy, (b) fighting poverty, especially in the poorest countries and (c) stability, security and crisis management. Emerging economies such as China, Brazil and India should no longer be supported by EU development programmes.

5. Administration

The EC's proposal to reduce the number of EU staff by 5% fits in quite well with the Dutch position. However, the Netherlands is in favour of a nominal freeze of administrative expenditure (whereas the EC proposal involves real growth of administrative expenditure). Such a nominal freeze should result from increased reforms of staff regulations, especially of salaries and pensions, and decreased expenditure on public relations, and also from opting for a single seat for the European Parliament.[55]

Outside budget expenditure

The Dutch government is in favour of integrating the EDF

[55] Although *de facto* a majority of the European Parliament's work is now geared to its Brussels site, it is legally bound to keep Strasbourg as its official home, meeting there for twelve sessions a year lasting about four days each.

into the regular EU budget, especially because this would make parliamentary oversight by the EP possible. It does, however, recognise that such integration of the EDF into the budget requires unanimity among Member States, which is not attainable right now. It is in favour of integration as of 2020 and welcomes the EC's efforts in that respect.

What goes for the EDF goes for all EU expenditure in general. The Netherlands is against off-MFF expenditure, as this decreases transparency of the EU budget, distorts proper horizontal allocation and may provide disincentives for budgetary discipline. This goes especially for expenditure that is part of the current MFF (like ITER and GMES).

Simplification/result orientation/conditionality

Generally, the Netherlands supports the EC in its proposals to simplify and improve delivery of EU policies, especially within EU cohesion policy. It supports the use of partnership contracts. The same goes for the Dutch regional and local authorities, who have been strong advocates of the partnership contracts, but they stress that regional and local authorities should be fully involved in these contracts.

As far as budgetary control is concerned, the Dutch central government is in favour of a Member State declaration (assurance statement) on the proper use of EU finances. Currently the Netherlands is the only Member State that issues such a statement. A single audit concept should be used to minimise the audit burden. This position is shared by the Dutch regional and local authorities.

Summary

In terms of negotiations, in all likelihood the net position, and the magnitude of the correction the Netherlands will receive in net terms, will be decisive for the Dutch position. The proposed gross annual reduction of €1,050 million for the Netherlands should be increased in such a way that the Dutch net position improves with €1 billion annually. In the Dutch view, the MFF 2014–2020 should be nominally frozen at the 2013 level. Compared to the EC proposal there should be less spending on cohesion policy and on administration.

According to the Netherlands, the EU budget should be fully financed through GNI-based Member State contributions. New EU own resources and/or EU taxes should not be introduced. The choice made by the EC to have a seven-year MFF is supported by the Netherlands. All proposed off-MFF expenditure should be part of the MFF and integrated into the annual EU budget.

Cohesion policy support should only be given to the poorest regions in the poorest Member States and not to richer regions (including the proposed transition regions), but it is important to stress that this position is not shared by Dutch regional and municipal authorities, who are in favour of an EU-wide cohesion policy.

Direct support within the framework of the CAP should be more targeted and less generic. The EC proposal to ‘green’ 30% of direct support should be enhanced and should include other policy objectives.

The EC should not increase its expenditure on civil protection, as this is a responsibility of national governments.

Administrative expenditure should be frozen nominally, and there should be a single seat for the EP.

Member States should be prepared to account for EU funds received by issuing an assurance statement on the spending of EU funds. The audit burden should be minimised by using the single audit concept.

6. General conclusions and recommendations

Stefaan De Corte

In this debate paper we looked at the positions both of the European Parliament and of two 'Council proxies' on the European Commission's proposals for the next Multiannual Financial Framework. The proposed MFF translates into financial terms the European Union's priorities for the next seven years. Expressed as a percentage of EU GNI, and excluding the items outside the MFF, the Commission's proposal represents a decrease compared to the MFF 2007–2013 (commitment appropriations represent 1.05% of EU GNI versus 1.12% EU GNI for the previous MFF). However, the proposed budget for items outside the MFF will increase as compared to the previous period.

Both the European Parliament and the Council accepted the Commission's proposal as the basis for the negotiation. When looking into the Council's and European Parliament's positions on the Commission's proposal in more detail, however, a first conclusion is that the Council does not (yet) have an official negotiating position, while the Parliament's position on the next MFF is detailed in two resolutions. In the debate paper, we overcame the lack of a Council position by presenting two representative, although diverging, Member States' views.

A first recommendation would therefore be that it would increase transparency of the decision-making procedure and facilitate the negotiation between the different institutions, if the Council were to formulate a clear and detailed opinion on the European Commission's proposal.

Broadly speaking, we conclude that the European Parliament as well as certain Member States demand an increase of the MFF compared to the 2013 level in real terms (1.06% of EU GNI) or at least an MFF of the same level of EU GNI compared to the previous MFF. On the other side of the spectrum are Member States demanding at least a nominal freeze at the 2013 level. The European Commission proposed, in our view, an astute compromise, as its proposal amounts to 1.05% EU GNI in real terms and 1.11% EU GNI when items outside the MFF are taken into account.

The most important arguments that are used to ask for an increase of the EU budget are as follows:

- It is necessary to recognise the importance of the process of European integration and accept that communitisation of policy fields implies increased expenditure at EU level. According to the same line of argument, additional competences derived from the Lisbon Treaty need adequate financing (e.g. Common Foreign and Security Policy).
- Additional financing needs, arising from short- and long-term challenges the European Union is facing (growth and competitiveness, climate change), must be met, as EU action in these fields is more efficient and effective than action at national level.

The main argument used to oppose any increase in the EU budget is that the budget should be an austerity budget, as many European countries are in a period of fiscal consolidation.

We would recommend that the European institutions (European Council, European Parliament and European Commission) keep the long-term strategic objectives and interests of their citizens in mind when reflecting on an adequate level of funding for policies developed at the EU governance level. In order to reach a compromise, it might be useful to bring other elements to the negotiating table (e.g. what policy priorities are financed at EU level, and what priorities at national level, own resources, etc.).

With regard to the length of the programming period, most institutions agree on a seven-year period. However, Dutch regional authorities as well as the European Parliament might favour a 10-year period with a major review after five years. However, we do not foresee that the length of the MFF will be a major breaking point.

As with the overall size of the MFF, one could conclude there are two opposing views with regard to own resource. In this respect, the European Commission did not propose an astute compromise, but a daring proposal to use a financial transaction tax as well as a new VAT own resource to replace the current GNI-based resource. Both the European Parliament and one of the two Member States examined in the paper favour the introduction of one or several genuine own resources as agreed upon with the adoption of the

Treaty of Lisbon. However, our analysis also shows that there is still room to manoeuvre in the choice of an own resource, as the Parliament does not pronounce itself too clearly on this. On the other side of the spectrum are Member States that oppose the idea of increasing the own resources of the EU. The main argument used is that the power to tax is a matter of national sovereignty and should not be transferred to the EU level.

The positions with regard to the rebates and corrections are similar to those concerning a system of own resources. With the argument of transparency and fairness, Member States and the European Parliament call for an end of the rebates and correction mechanisms, while the Commission proposes corrections only in cases where a Member State's contributions represent an excessive burden to the Member State. Those Member States benefiting from rebates or corrections clearly want to maintain them.

When it comes to own resources and rebates and corrections, we would conclude that both sides of the negotiation table take a hard stance on their position, and room for compromise is limited. One might think of phasing in a new own resource over a period of time. However, a decision on own resources is taken within the Council only (no co-decision) and requires unanimity. Nevertheless, this decision is part of the entire MFF negotiation package and cannot be adopted or rejected separately. In addition, the decision has to be validated by all national parliaments. Therefore, it might be useful for the European Parliament to strengthen its relationships and collaboration with national parliaments on this matter.

The European Commission called its proposal, formulated in follow-up to an extensive consultation round, *A Budget for Europe 2020*. The use of the term Europe 2020 is a reference to the EU 2020 strategy for smart, sustainable and inclusive growth. As a consequence of this strategic orientation, expenditure on cohesion policy will decrease, as will market-related expenditure and direct payments within the common agricultural policy. Instead, the Commission proposes to reallocate resources to priority areas such as pan-European infrastructure, research and innovation (competitiveness), education and culture, security of the EU's external borders and external relations.

Broadly speaking, both the European Parliament and the Member States we looked at in more detail support the proposed strategic reorientation towards achieving the EU 2020 objectives of smart, sustainable and inclusive growth. As well, they support the more 'result-oriented' approach, the introduction of new conditionality provisions and the attention given to simplification of the implementation rules. However, the European Parliament and a Member State express doubts about subjecting cohesion funds to sanctions in the framework of macroeconomic conditionality linked to the Stability and Growth Pact.

Looking into the positions on the different headings, one can draw the following high-level conclusions.

- Smart and inclusive growth: This heading and its priorities are seen as to be in line with the EU 2020 objectives. Therefore, the Commission proposal could count on overall support from both the Parliament and the Members States. However, not all Member States fully support the Connecting Europe Facility, as it will draw away funds from cohesion policy and implies a new management system, which will not bring simplification. The view that cohesion policy could be addressed to the whole EU is backed by some Member States and the European Parliament. According to other Member States, it should be limited to the poorest regions.
- Sustainable growth: Both Member States commenting in this paper welcome the EC proposals but with qualification. Some would favour more conditionality, while others would like to see a CAP that recognises and narrows even more the development differences in the agricultural sector between the Member States.
- Security and citizenship: The increased emphasis on migration and internal security are welcomed by both the Member States, as well as by the European Parliament.
- Global Europe: Both the European Parliament and the Member State that is in favour of an overall budget increase would agree with a higher budget as compared to the 2013 MFF level, to enable the EU institutions to effectively execute their new competences derived from the entry into force of the Lisbon Treaty. The Member

State opposing an overall budget increase argues that this does not require (much) more expenditure.

When it comes to items carried out in the name of the EU or as a consequence of EU priorities, but not financed within the MFF, the Member State, opposing an overall budget increase, calls for integrating all items within the MFF (European Development Fund, ITER, GMES). Although the EP's resolution did not discuss this at length, its position vis-à-vis the EDF is to integrate the EDF within the MFF. Both the Commission and the Member State in favour of an overall budget increase prefer to finance the items outside the MFF.

Generally, our analysis shows that all parties agree that the current MFF needs to be changed to respond to new EU priorities, and all parties also agree that the EU 2020 strategy for smart, sustainable and inclusive growth forms a good compass for this reflection. However, both on the overall envelope as well as on the own resources, there are opposite views.

If those who demand austerity were to focus on the evaluation of the effectiveness of each euro spent, and if those who claim that the integration process requires at least the same EU budget as well as a new own resource were to accept the gradual phasing in of some of their demands, there might be room to compromise.

Our analysis has shown that there is support for a more result-oriented approach towards projects and policies financed with the EU budget. Therefore, the proposal of the Commission to conclude partnership contracts covering all EU funds under shared management should be used to the full. The proposed conditionality mechanism, based on a comprehensive set of *ex ante*-defined requirements incorporated in the partnership contracts, could give rise to the suspension and cancellation of funding. In order to convince those who demand austerity, it might be necessary to strictly implement this proposed approach.

Next to strict application of conditionalities, those who support an important EU budget should demonstrate the added value of spending at the Community level. The EU objective of smart, sustainable and inclusive growth might be the convincing framework for this. However, this exercise will imply prioritisation of choices between various headings as well as regions.

It is hard to explain to citizens that the EU institutions do not respect all the provisions of the Treaty. Therefore, the institutions might agree to introduce an own resource step by step.

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