Member states will inevitably reach a compromise on the EU budget, but there is little chance of necessary reforms being carried out.

by Blog Admin

Last month's European Council summit failed to secure an agreement on the next seven years of the EU's budget (2014-2020). Ahead of another Council summit later this week, **Jorge Núñez Ferrer** *writes that EU governments have the broad foundations for a compromise based around the proposals of Council President Herman Van Rompuy. He argues, however, that the eventual compromise will likely stop short of reforming important areas such as agricultural spending and structural funds.*

That the negotiations on the Multiannual Financial Framework (MFF) for 2014-2020 ended on November 23rd without securing an agreement should not have come as a surprise to anyone. At this stage, no Head of State held any illusions that an agreement would be reached. Still, the negotiations were surprisingly amicable, in contrast to the acrimony and angst of the failed negotiations seven years ago under the Luxembourg Presidency. Such good-natured discussions, however, may turn ugly in subsequent meetings when the pressure to reach agreement mounts. The fundamental disagreements on the EU budget run much deeper that a mere issue of economic crisis and austerity. In 2005, Europe was basking in economic growth, but the criticisms levelled against the budget proposals were very similar.

The Commission failed to address adequately those criticisms and also did not grab the golden opportunity the budget review offered to analyse individual sub-budget lines and offer to cut underperforming and obsolete lines. The Commission created instead a bureaucratic compromise that made space for important new priorities, but at the same time protected the traditional agricultural and structural funds, increasing the EU budget from €994 billion for 2007-2013 to €1,045 billion (excluding items outside the MFF).

The need for a fundamental reform should have been apparent for policy makers given the difficulties the EU has had in coming to grips with the economic crisis and the evident uselessness of the budget as a tool to deal with these challenges. The proposals and subsequent discussions in the Council seem, nevertheless, to be completely detached from these facts. Worryingly, the first Council compromise 'negotiating box' prepared by the Cypriot Presidency took a step backwards, proposing €50 billion in cuts by reducing lines with a long-term investment objective, such as the Connecting Europe Facility, while protecting traditional expenditures.

But then, in a welcome and surprise

But then, in a welcome and surprise development, Herman Van Rompuy, an additional 'technocratic' Council President, produced a counter proposal. It contained €75 billion cuts where it made more sense, for example in the Common Agricultural Policy (CAP) and the Cohesion Funds, while protecting core expenditure. It de facto reduced the budget to a level below the 2007-2013 MFF in real terms (to €972 billion), and as a share of the EU's Gross National Income (from 1.12 per cent to 1.01 per cent). It has served as a far more useful negotiating base and has probably contributed to the relative calm of the discussions.

Helle Thorning-Schmidt, Danish Prime Minister; Francois Hollande, President of the French Republic; Herman van Rompuy, President of the European Council Credit: President of the European Council (Creative Commons BY NC ND)

Nevertheless, Van Rompuy's strategy to protect core budget lines has been weakened by the insistence of some countries to protect the CAP and limit cuts to structural funds, including cuts to wealthier regions. France, as usual, insists on protecting the interests of the farm lobbies, and preserving a policy that suffers from a large deadweight loss. France is most likely worried that the cuts are occurring simultaneously with an increase in payments to new member states, which means that cuts would affect it proportionally more. If the problem is the level of support to farmers in France, perhaps it is high time to resuscitate the concept of co-financing, particularly for wealthier member states.

The Van Rompuy 'negotiating box' version II, however, still proposes to reduce the MFF by €75 billion, but more cuts are needed. Apart from agriculture, there are a number of actions across the budget where the value-added is highly questionable. Approximately €50 billion are destined to go to richer regions in Europe, some of which may be directed into investments of European importance, but much can be reduced. All countries need to make concessions, with the largest costs falling on the wealthier member states.

There is also a need to refocus the attention of the EU institutions and policies on the core areas of the internal market, trade and energy, using some of the savings to expand the headings where common action creates savings at European level (something useful in times of crisis) and where joint action brings the highest long-term benefits for Europe. This is where a serious budget review would have been truly instrumental. This includes scaling down and refocusing the European institutions *on core competences* this may entail winding down, for example, a number of the multitude of agencies created.

However, such reasonable restructuring and refocusing is unlikely to happen now. There will be enough cuts to eventually reach an agreement on the budget before the summer, and possibly even earlier. However, it will be one that is far from satisfactory and probably with a bottom line slightly lower than the one rejected by the Council last week. But the cuts will still dent some important long-term investment headings to protect inefficient farm payments and structural operations.

Is there a risk of a UK veto? It is unlikely that UK Prime Minister Cameron will cause the budget negotiations to fail, because an agreement to cut the MFF substantially will be reached. Perpetuating the budget dispute may completely alienate the UK from the rest of the EU. The European Parliament is unlikely to veto any agreement, because it would reflect a very difficult compromise, and would not reap any benefits from reopening Pandora's box.

The bad news is that the EU budget will probably remain largely disconnected from the fundamental needs of the European Union. The instrument will continue to please particular lobbies and interest groups, whose contribution to Europe's future wealth and sustainability can be seriously questioned. But it will not be able to respond to crises and will be useless as an instrument to address imbalances in the eurozone. It will continue to be financed through absurd, opaque and largely incomprehensible contribution mechanisms, as there is little chance of introducing more meaningful resources. And last but not least, it will continue to inspire more headlines about waste and corruption, further alienating citizens of many countries from the European ideal; in other words, 'business as usual'.

*This article originally appeared as the CEPS Commentary Paper, "*Chronicles of a Disagreement Foretold*".*

Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

Shortened URL for this post: **http://bit.ly/UzRYtk**

About the author

Jorge Núñez Ferrer – *Centre for European Policy Studies*
Jorge Núñez Ferrer is an Associate Research Fellow at the Centre for European Policy Studies. He is a former graduate from the London School of Economics and holds a PhD in Agricultural Economics from Imperial College London. He has written extensively on the EU budget, national budgets, and agricultural spending.

Related posts:

1. Five minutes with Richard Corbett "The only thing that some countries seem to be interested in is how much they put into the budget and how much they get out, not what it is actually used for." (11.6)
2. The EU budget process encourages deadlock and makes large reforms almost impossible. The best that reformers can hope for is gradual change. (15.6)
3. While public attention is focused on the eurozone crisis, EU Member States and the European Parliament are locked in a struggle over reforming the Common Agricultural Policy. (11.2)