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Visegrad Fund

POLICY PAPER

The Multi-Annual financial framework: a picture blurred by the fine details

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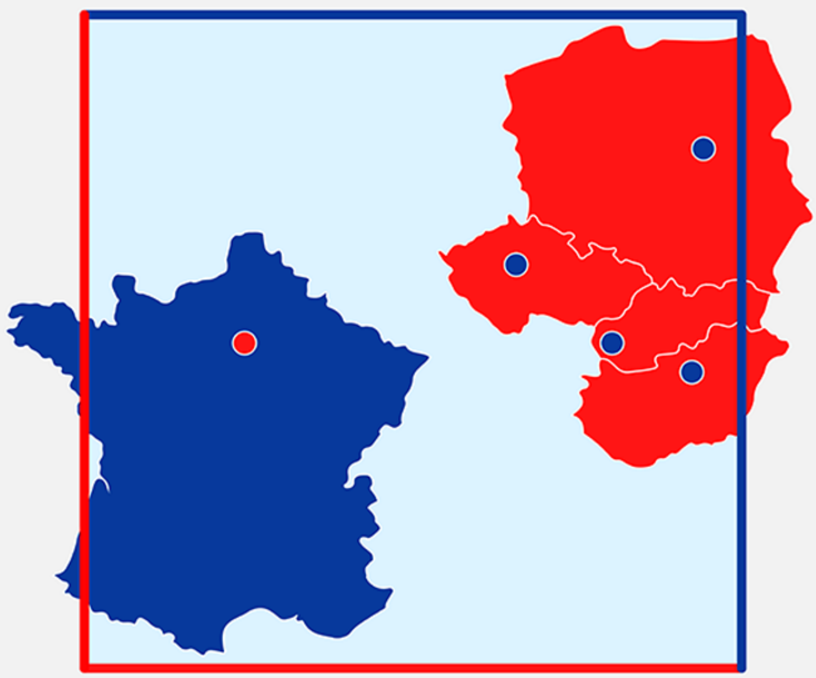
- **The German budget commissioner of the EU, Guenther Oettinger presented the overall figures and the basic structure for the period 2021-2027 on May 2 2018. The plan was described by Commission President Jean-Claude Juncker as "an ambitious but balanced budget, one that is fair for all". The self-confidence of the EC went quite far when leading executives stressed their aspiration to conclude negotiations and approve the budget before the upcoming European Parliamentary elections, which ended up being far from possible.**

- **The political stakes are high. Power dynamics within the EU are in rapid change. While the traditionally strongest European People's Party (EPP) and the Progressive Alliance of Socialists and Democrats (S&D) are weakening, the liberals and eurosceptic are strengthening, not to mention the unpredictable impact of a possible new pro-European platform created by Emmanuel Macron along the traditional party lines of ALDE.**



Introduction

Restarting negotiations under a new Commission with a structurally different Parliament where new coalitions should be established seems to be a lengthy and bumpy project.

At this point, despite the Commission having made an enormous job to simultaneously handle the impact of Brexit, political and economic crises of the southern member states, migration crises , changing structure of employment, competitiveness or even environmental challenges of the following decades, it is almost impossible to translate all these priorities in a consensual document.

The UK's departure will create a funding gap of €11 billion and many believe that Commission's proposal to raise contributions to the 1,11% of the Union's GNI is by far not ambitious enough or sufficient to implement the proposed reforms, which explains why net contributors are campaigning for a smaller budget for a future smaller EU.

The outgoing European Parliament president Antonio Tajani reminded the Commission that the majority of the EP was asking for a 1,3 % GNI level budget, a plea backed by a majority of member states. The Visegrad Countries have consistently supported the increase of national contributions in a number of communiques thought the last months. Obviously, a larger increase for them would be highly important, as they understand that the money received from EU funds will seriously decrease, but their nominal loss could be significantly decreased by the proposed budget increase.

The harshest opponents are obviously the smaller net payers, many of them were already unsatisfied with the present budget structure. Following the presentation of the budget the largest critics were Denmark, Netherlands and Austria. This could potentially be good news as well: the silence (or silent approval) of German politicians and the support of the French are the two most important keys for striking a deal. Germany understands the need for a greater contribution if they want to keep the European project alive, even if selling increased expenditure to the German public is extremely hard for the politically wounded CDU/CSU- SPD coalition.

Another big issue is the future budget of the Common Agricultural and Cohesion Policy fields. As these two budget categories are likely to suffer the biggest cuts, political lobbying from the beneficiaries was highly expected. Interestingly, the traditional recipients of Central Europe have mainly focused their criticism on the proposed changes to the Agricultural policy. The V4, together with Romania, have already formed a coalition, but obviously France's position will also be crucial when drafting the final deal, especially looking back at the French-Polish deal on CAP that unlocked the previous MFF.

Political instability throughout the EU is very unhelpful for the process. The impacts of the financial, then the migration crises have shaken Europe and changed its political map. On top of that, some countries in Central Europe, such as the Czech Republic or Slovakia, have shown a higher level of instability and political weakness that question their position.

The balance seems to be far away, but the current equation will be even harder to solve if the conditionality clause will divide the member states.

According to the proposed plans, which have been confirmed by the incoming Finnish presidency of the Council, a rule of law conditionality to the allocation of cohesion funds will be introduced in the next MFF. The stated goal is to protect investment and European taxpayers' money and for that, it needs to guarantee that courts across the bloc are independent of government pressure. Details are still being worked out and the Commission is preparing several options, but it is clear this new condition is tailored to Budapest and Warsaw.

The V4 is prepared to play an active role in the negotiations and has planned to harmonize its positions ever since the beginning of the Polish Presidency of the V4 in July 2016. Still, many believe that Brexit simplified negotiations and that a final agreement will be found between Paris and Berlin. This is dangerous for Central Europe. According to the analyses of the Polish OSW, "The costs of Berlin's concessions to Paris may be paid by Central Europe, if the funds from the cohesion policy as part of the new multiannual financial framework are shifted for the benefit of the southern member states of the eurozone."[1] The proposal of the Commission seemingly plans accordingly, and certainly V4 negotiators have planned to point this out.

The French interests versus Visegrad

At first glance, the position of Paris and the V4 is not distant at all. When it comes to the increase of the budget, the future of the CAP, the support of the European Defence Fund, the protection of external borders and increased spending to tackle migration crises, there are a number of shared interest between the parties. However, when examining the details of the French position, the differences are much more visible.

The overall budget

France is the second biggest contributor to the EU budget.[2] President Macron confirmed his support for the Commission's initiative to raise contributions of the member states to 1,11% of the Union's GNI. As Germany lost its main ally to keep the funding level around 1%, there is a strong chance that the future budget depends on an agreement between Germany and France. Although the V4 was seeking for an ever bigger increase of the budget, there is no chance that major countries such as Italy, France or Germany would support that. Therefore, the best tactical option for the V4 is actually to support and strengthen French positions.

It is much harder to forecast the outcome of negotiations if the French President insists on creating new own resources for the EU, by introducing a digital tax or removing the rebate system. Visegrad countries would also be in a tougher position. On the one hand, these plans would be highly beneficial for them, but on the other hand this would question their positions in the sovereignty debate by transferring further rights from the Member States to the EU. As such a plan would require an authorization by national parliaments, Macron might already calculate with the failure of his proposal with the ultimate goal of using it for PR purposes, showcasing the fact that his proposals are squashed by member states unwilling to share his progressive ideas.

Many believe that one the most significant clash points is the rule of law conditionality, that is quite often linked to Poland and Hungary. At a recent discussion, the Hungarian State Secretary for EU Affairs confirmed his support to creating such a conditionality. Budapest and Warsaw might already have recognized, that they won't be able to stop such an initiative, but the devil is in the details, and there is a very limited chance that EU leaders will be able to create such a strict condition that would seriously threaten them.

The Euro-zone budget

If there is a dividing issue, then the proposed separate euro-zone budget is surely one. The euro zone budget supposes a separate governance and a European Finance Minister, which would be a strong symbol of a multi-speed Europe and further federalization at the same time. Germany is loudly opposing the initiative and as in a number of other issues, non-eurozone member V4 countries will support the position of Berlin.

The CAP

Whenever common interests between France and the V4 are discussed, Common Agricultural Policy is mentioned immediately. As CAP is the main target of the planned budget cuts, it seems that both parties should share the same platform. However, French farmers have been lobbying for a number of years to create new mechanisms limiting competition created by Central European farmers[3].

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[1] Germany towards France: superficial compromises and structural differences https://www.osw.waw.pl/en/publikacje/analyses/2018-04-25/germany-towards-france-superficial-compromises-and-structural

[2] http://english.eu.dk/en/faq/net-contribution

[3] France's Positions in the MFF 2021–2027 Negotiations https://www.pism.pl/publications/bulletin/no-76-1147

The question here is whether Macron is ready to start a new internal battle with French farmers, by supporting a smaller CAP budget in order to fulfill his visions of the new EU budget. This internal fight should be closely followed by Central European politicians, as it will determine whether the French administration can be the ally of the V4 in this crucial fight.

Food quality and safety

When the V4 presented its vision on creating European legislation to improve food safety and quality standards, the proposal was met with a bit of skepticism outside of the region. The proposal is still on the table and Agricultural Ministries of the V4 did a lot to keep it on the EU agenda. The French are extremely positive on this line, and if the parties could agree on a single item in the CAP budget line, the development of such an institution would be definitely win support.

A stronger and more visible EU

While so far we have focused on common interests in preventing major changes and cuts, the new budget prioritizes a number of fields where France and the V4 share interests. According to the plans, there will be a 120% increase in tackling migration and protecting borders, 80% increase in defense spending and 30% increase on external action. Although this is a substantial increase, the total cost of increased spending would be around 60 billion euro. France is traditionally an active player in the foreign policy of the EU, while with the biggest military industry it would be by far the biggest beneficiary of any investments into security and the defense industry. President Macron also introduced a tougher policy on migration and protecting the borders of the EU. Seemingly, parties therefore share the same interests, but once the parties go down into the nitty-gritty of the distribution of funds, it seems that the Eastern focus of the majority of V4 states will collide with the Southern focus of France. That will mainly concern migration policy; however, as mentioned above, there are still fields where V4 interests are closer to the French then the German. Once again the main problem is potentially not a budgetary but an institutional issue. The Commission would like to couple the increased spending on migration with the establishment of a Common European Asylum System. Budapest is fighting against such a system with an effective V4 support for the last 3 years. If France insists on establishing such an institution by supporting the Commission on this issue, this budget line could become easily a divisive factor rather then a uniting one.

There are signs that MFF negotiations have already a strong impact on defence procurement, with the Hungarian decision to procure Airbus helicopters out of the blue easy to analyze as part of negotiating package with France on the next MFF. This could potentially be an important bargaining chip for Budapest whenever Article 7 conditionality will be discussed with French counterparts.

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