POLICY BRIEF

The Czech perspective on the Commission´s MFF proposal 8 months

Vít Havelka

- **The Czech Republic declared the Cohesion Policy (CP) and the Common Agriculture Policy (CAP) as its key priorities in the post-2020 MFF negotiations. However, the current Czech position must be perceived as an initial stance for the negotiations.**
- **The Czech Republic must decide to what extent it will support the "New Priorities" and how far it is willing to proceed with cuts in the two traditional EU policies – the CAP and CP. The economic position of the Czech Republic in the EU is changing and Cohesion-oriented approach to EU budget will not be sustainable in the long-term perspective.**
- **Constructive position on Rule of Law Regulation might be an effective bargaining chip that might help the Czech Republic to be perceived as a moderate EU member state that does not question core European Values**
- **The Czech government should start internally discussing the problems linked to the high concentration of the Czech agriculture industry. While it might be successful in averting the capping in the post-2020 MFF, these types of discussions will return in the future and demand more concrete action.**

Introduction

More than eight months after the Commission published its first draft of the post-2020 Multiannual Financial Framework (MFF), the European leaders finally had the chance to discuss the proposal during their last December session of the European Council. The EC meeting went more or less according to expectations and the only significant conclusion was abandoning the Commission´s timetable that envisaged finishing MFF negotiations prior the European elections in May 2019. The EU leaders set a new deadline to autumn 2019.

As the negotiations are reaching a crucial phase, it is worth looking at the Czech position and assess how sustainable it is in the broader European context.

Traditional EU Policies Remain the Key Priority

The Czech Republic declared the Cohesion Policy (CP) and the Common Agriculture Policy (CAP) as its key priorities in the post-2020 MFF negotiations – the Czech Government ruled out any cuts in these two traditional EU policies. Simultaneously, it advocates a strengthened EU financial presence in the policy areas called "New Priorities"[1] and no increase in the member state payments into the EU budget. This approach might appear nonsensical; expecting the EU to do more without additional money. At a closer look, however, it seems that Czechs are aware of the fact that this overarching position is unsustainable, instead focusing their attention rather on the detailed conditions of EU funding.

Regarding the CAP, the main Czech objection is the Commission´s proposal to cap payments in the first pillar at 100.000€/year for every single beneficiary. If enacted, Czechs farms would have significantly limited access to EU funding, which would effectively hamper the competitiveness of the Czech agriculture as the average size of a Czech farm is 133ha compered to 15ha in the EU.[2] Therefore, the main goal in the negotiations will not be to maintain the total amount of allocated funds into the CAP, but the question of the threshold of capping.

Secondly, the proposed cuts in the Cohesion Policy are not particularly a concern for the Czech government. Although the Czech national envelope should shrink by ca. 24 % if compared to the current MFF, the Czech officials predominantly consider the numbers as more generous than expected. However, as in the case of the CAP, the devil lies in detail; the Czech Republic wants to have a greater say in how the European money will be allocated. The Government would for instance prefer more allocations in infrastructure and innovation than social projects due to the Czech Republic being in a very good economic situation manifesting itself in an extremely low unemployment rate (2,3 % according to the Czech Statistical Office[3]) and skyrocketing wages (8,5 % annual increase in the 3. quarter of 2018[4]). Thus, the Czech society and the political elite do not perceive any additional value in "soft projects" financed by the ESF. That being said, the Czech Government understands that full flexibility in regard to which programmes the EU taxpayer's money is allocated is unachievable, but they will try to promote at least the possibility to reallocate 10 % of the funds between the programmes without the Commission´s approval.

Finally, the Czech public administration slowly starts to think about "post-cohesion" era. If the Czech growth remains the same, it is very probable that the Cohesion revenues will dry out no later that during the post-2027 MFF. As a result, Czechs will have to shift their attention to EU-wide programmes such as Horizon. This, however, will present a challenge as the Czech Republic has historically been widely unsuccessful at accessing funding from these programmes. Czech research institutes, for example, do rarely obtain Horizon 2020 funding and are outperformed by most older EU member states and even Poland.[5] Pundits therefore suggest that the Multiannual Financial Framework 2021-2027 should be perceived as a chance to an extensive transformation from national-allocated funding to competition-based EU-wide programmes.

Provision on Rule of Law

As part of the MFF regulation dossier, the European Commission proposed a special Regulation on "protection of the Union´ s budget in case of generalised deficiencies as regards to the rule of law in the Member States." Under this regulation, the European Commission would regularly assess the state of the rule of law in its member countries (regarding independence of judiciary and auditing), and if deficiencies are discovered, it could suggest depriving the member state of funding from the EU budget. Commission´s rulings could be altered by the European Council voting by reversed qualified-majority. The proposed regulation evidently aims at some CEE countries (Hungary, Poland, Romania) that have been criticised for the quality

[1] Border protection, defense, research and innovation, digitalization.

[2] „Česko na rozdíl od většiny států EU trvá na podpoře velkofarem. Unie chce naopak zvýhodnit malé farmáře," Hospodářské noviny, accessible at: https://archiv.ihned.cz/c1-65869260-cesko-narozdil-od-vetsiny-statu-eu-trva-na-podpore-velkofarem-unie-chce-naopak-zvyhodnit-male-farmare-na-ukor-agroprumyslu

[3] https://www.czso.cz/csu/czso/zamestnanost_nezamestnanost_prace

[4] https://www.czso.cz/csu/czso/prace_a_mzdy_prace

[5] https://vedavyzkum.cz/politika-vyzkumu-a-vyvoje/politika-vyzkumu-a-vyvoje/program-horizont-2020-je-v-polovine-cesi-jej-zatim-vyuzivaji-jen-malo

of the rule of law, and, if enacted, it would provide the Commission with another leverage on ensuring compliance from the culpable member states. Contrary to Hungary or Poland, the Czech government has not issued its official comment on the Commission´s intention. The Czech Prime Minister Andrej Babiš only said that the Czech Republic does not show any deficiencies regarding its rule of law and therefore, the Czech government would probably not block the regulation. From the Czech domestic perspective, it truly does make sense not to object the bill; currently, the Czech Republic is not in the same position as Hungary, Poland or Romania. Although the Czech Prime Minister is under a Commission investigation as to what extent he can misuse his position to divert EU funding into programmes that companies parked in his trust could benefit from, there is hardly a general offensive of the executive branch to control judiciary, as has been happening in Poland, Romania and Hungary. The situation might obviously deteriorate in the future, but as of now, it is more beneficial for the Czech Republic not to involve itself in the discussion about the rule of law.

Conclusion

The final composition of the post-2020 MFF as well as the exact conditions for accessing the EU funding will be agreed on the highest level at a meeting of the European Council, probably in October this year. The MFF proposal must be enacted unanimously, meaning that all heads of states will be under an immense pressure to decide what positions their state will be willing to give up in exchange for its other priorities. The current Czech position must be therefore perceived as an initial stance for the negotiations.

First and foremost, the Czech Republic must decide to what extent it will support the "New Priorities" and how far it is willing to proceed with cuts in the two traditional EU policies – the CAP and CP. An important caveat that decision-makers should keep in mind is that the economic position of the Czech Republic in the EU is changing and that Cohesion-oriented approach to EU budget will not be sustainable in the long-term perspective. As of now, the Czech negotiators can build on partnership with traditional allies from countries labelled as "friends of the Cohesion", but they still must adopt a long-term sustainable perspective in respect to EU-wide programmes focused on innovation, research and development. It might well turn out that the Czech Republic would more profit from new programmes than the Cohesion Policy.

Secondly, the Czech government should start internally discussing the problems linked to the high concentration of the Czech agriculture industry. While it might be successful in averting the capping in the post-2020 MFF, these types of discussions will return in the future and demand more concrete action.

Finally, it cannot be understated that support for the proposed regulation on rule of law should be unequivocal. Constructive position on this issue might be an effective bargaining chip that might help the Czech Republic to be perceived as a moderate EU member state that does not question issues that many, especially older EU countries, perceive as one of the core European Values. While it is worth for now to stick to other CEE countries regarding Cohesion Policy, a radical position in the Rule of Law bill might backfire with immense political costs.

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