Visegrad Fund

The EU Budget seen from the V4

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The EU budget seen from the V4. A Czech view

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Introduction

The European Union budget, more specifically the EU Multiannual Financial Framework for the period 2014 – 2020 became subject of broad political and expert discourse in the Czech Republic. The European Commission introduced package of draft legislation in June 2011, however the discussions on the priorities of the country related to the EU budget started already in 2007 after publication of the European Commission paper "Reforming the Budget, Changing Europe". The country sent its contribution to the public debate in early June 2008, in which it set out its basic priorities for the future EU budget:

1. the size of the budget should be maintained at the same percentage of the EU GNI
2. the expenditure side should primarily focus on support the Union's competitiveness and to ensure its internal cohesion
3. the revenue side of the budget shall keep only traditional own resources (customs duties and agricultural levies) and the GNI-based resource. VAT resource should be deleted because it is not based on the principle of solidarity
4. correction for all Member States on the revenue side shall be canceled.

Czech government expected that the main discussion over the budget review would take place during the Czech Presidency in the Council of the EU in first half of 2009. Due to several reasons: starting economic and financial crises, ending legislative term of the European Parliament, second referendum on the Lisbon Treaty in the Ireland, the European Commission postponed the discussion over the revision of the budget to October 2010 when it presented communication containing main features of the proposed changes in the EU budget. Main discussion in the Czech Republic started after presentation of the legislative package related to the new Multiannual Financial Framework in June 2011. However main positions of the government presented already in June 2008 did not change.

Position of the Czech Republic

Position of the Czech Republic to the Multiannual Financial Framework (MFF) was drafted by a conservative government led by then Prime Minister Nečas. The same government also led negotiations on its final form that were concluded in December 2013. Government promoted strong financial austerity at the national level and this attitude was also reflected during the negotiations on MFF. On the other hand, the financial allocation per capita from the EU budget for the Czech Republic was in period of 2007 – 2013 the highest one among the EU member states. The government was thus under pressure to achieve similar success also for the period of 2014 – 2020.

Budget expenditures

Main Czech priority related to MFF was maintaining the level of spending for the Cohesion policy due to the fact that most of the public investments in the Czech Republic are co-funded from the European budget. It would be very difficult for the country to provide funding from national sources in case that the funding from EU budget would be substantially reduced. This aim was however in contradiction with the ambition to keep the overall level of EU budget in commitments at 1 per cent of the EU GNI. Czech government was prepared to support savings in all spending chapters except those for less developed Member States and regions (the Convergence objective under cohesion policy). The government was ready to sacrifice especially the Common Agricultural Policy (especially in the first pillar, particularly in market measures), Connecting Europe Facility (with the exception of cohesion), in the category of transition regions within the EU cohesion policy and in the area of EU administration.

The government also supported an increase in policies contributing to strengthening the competitiveness of the EU (especially research, development, innovation, SMEs), in line with the Europe 2020 Strategy, but again on the condition that allocation for Cohesion policy will remain the same. In the opinion of the government, the key added value of EU cohesion policy is development and higher competitiveness of the less developed regions of the EU.

The government was also against the creation of so-called transition regions (75-90 per cent EU GDP per capita average) and supported maintaining the current system of phasing-out regions. There was a fear that a new system of transition regions covering all regions in the above range would be very costly and it would reduce the allocation for the poorest regions and underdeveloped countries. Out of the eight NUTS2 regions in the Czech Republic, only Prague is above the 75 per cent of EU GDP per capita average (171 per cent in 2011). Other four regions have GDP above 70 per cent of EU average and it is probable that in the next financial framework will be in the category of transition regions. Hence, many as shortsighted considered this position of government.

The Czech Republic supported a stronger focus of EU cohesion policy on the results and agreed with the introduction of ex-ante conditionalities directly linked to EU cohesion policy. On the other hand it opposed the introduction of structural conditionalities for accessing EU funds linked to the implementation of structural reforms in the Member States and the fulfillment of Country specific recommendations.

Although, the capability of Czech entities to participate and benefit from the EU funding is still lower that in case of old EU member states, the government supported increasing of funding of research and innovation from the EU budget.

As mentioned above, the country requested reduction of the overall budget for the Common Agricultural Policy. It was even not satisfied with the European Commission proposal and asked for further reductions. The government has long supported the implementation of fundamental reform of the CAP, which would bring greater market orientation and strengthening the competitiveness of the agricultural sector, while ensuring the agricultural sector reduces dependence on public resources, including the EU budget.

Budget sources

The Czech Republic supported elimination of the VAT resource, because it considered it too complicated and putting unequal burden on different member states. It also strongly supported elimination of all corrections that lower contributions of several member states to the EU budget. The Czech Republic advocated the idea that the EU budget is financed only from the traditional own resources and income based on GNI. The government strongly rejected the idea of creation of new own resources based on EU taxes. This was in accordance with the general opposition towards any kind of tax harmonization. The country also refused to participate in the group of states supporting creation of Financial Transactions Tax arguing that this tax may encourage financial institutions to move their operations outside the EU.

Conclusion

If we evaluate the adopted Multiannual Financial Framework, in great extent it does not reflect the positions of the Czech Republic. The country was not able to preclude reduction of funds aimed at cohesion policy or creation of the Connecting Europe Facility. On the other hand, the EU budget does not exceed 1 percentage of the EU GNI as the country requested. The Czech Republic was not able to maintain its number one position in being the biggest beneficiary of the EU budget per capita and its allocation of funding from the EU cohesion policy declined from 26,540 billion EUR (2007-2013) to 21,630 billion EUR (2014-2020). Still, the final result of negotiations is considered as a success by the government. It is expected that during the negotiations of next financial framework, the position of the Czech Republic can differ a lot from the last round of negotiations. This will be caused mainly by the fact that most of the Czech regions will probably exceed the 75 per cent level of EU GDP and therefore will not be anymore fully eligible for funding from the EU Cohesion policy. Hence, the positions of the Czech government will most probably converge to the positions of the “richer” member states.

The EU Budget seen from the V4: a view from Hungary

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Introduction

The EU budget is a widely debated issue in all EU Member States, especially in the time of the negotiations on the multiannual financial framework (MFF). For the period 2014-2020, the MFF is a result of long and tough negotiations bringing the EU from the first European Commission proposal (A Budget for Europe 2020, 29 June 2011) to the agreement on the financial perspective at the European Council (7/8 February 2013). The road until the agreement was especially bumpy, not so much because of the debates themselves, but due to the serious economic problems in some of the Member States, causing also tensions in the Eurozone. Due to these problems, the issue of the EU budget was somewhat pushed to the background; however, after the end of negotiations (and also after the calming down of Eurozone turbulence) analysts have widely discussed the results.

Main changes

Compared to the 2007-2013 MFF, there are some changes in the new period that are well visible at first sight. The first thing catching the eye of those who were familiar with the previous MFF is a significant change in the structure of expenditure headings. New names appeared and some have disappeared, as well as there are also other changes (e.g. a heading becoming a sub-heading under a new, broader expenditure item).

At first glance, these changes are really big. However, looking at the structure more carefully, one can identify the "old" items in the new structure. Table 1, presenting a comparison of the MFF 2007-2013 with the MFF 2014-2020, makes use of this opportunity.

Regarding the changes in the individual expenditure items, we can identify a big "winner" and some "losers". The item with the biggest positive change (+37.3% (+EUR 34.1 bn) with regard to the previous period) is that of "Competitiveness for Growth and Jobs". The biggest "losers" are "Economic, social and territorial cohesion" (-8.4% (-EUR 29.7 bn)) and "Sustainable Growth: Natural Resources" (-11.3% (-EUR 47.5 bn)).

Table 1

MFF 2014-2020 vs. MFF 2007-2013 (in 2011 prices)

	New MFF 2014-2020	Last MFF 2007-2013	Comparison 2014-2020 vs. 2007-2013	
Commitment appropriations	*€mn*	*€mn*	*€*	*%*
1. Smart and Inclusive Growth	450,763	446,310	+4.5bn	+1.0%
1a. Competitiveness for Growth and Jobs	125,614	91,495	+34.1bn	+37.3%
1b. Economic, social and territorial cohesion	325,149	354,815	-29.7bn	-8.4%
2. Sustainable growth: Natural Resources	373,179	420,682	-47.5bn	-11.3%
3. Security and Citizenship	15,686	12,366	+3.3bn	+26.8%
4. Global Europe	58,704	56,815	+1.9bn	+3.3%
5. Administration	61,629	57,082	+4.5bn	+8%
6. Compensations	27	n/a	+0.027bn	n/a
Total commitmentappropriations	959,988	994,176	-35.2bn	-3.5%
as a percentage of GNI	*1.00%*	*1.12%*		
Total paymentappropriations	908,400	942,778	-34.4bn	-3.7%
as a percentage of GNI	*0.95%*	*1.06%*		

Source: http://www.consilium.europa.eu/special-reports/mff/summary-of-the-european-council-agreement

About the real importance of the changes

The above changes are regarded as important steps towards a new structure of EU budget expenditure. Especially the increase in spending on competitiveness is interpreted by EU decision makers as a big step forward in the spirit of Europe 2020. Sure, the demonstration effect is there. However, looking at the absolute value of this spending, and comparing it to the economic output of the EU, the real effect can be very limited. The total value of this expenditure item is expected to be EUR 325.1 bn for the period 2014-2020. This is 13.08% of the total commitments in the MFF for the period. As total commitments are exactly at the level of 1% of the EU GNI, it is easy to calculate that the efforts planned under this expenditure item between 2014and 2020 equal 0.1308% of EU GNI. Actions from this amount can be indicative, may generate further actions from other economic actors, but they cannot be expected as a decisive factor causing a rocketing of European competitiveness.

As we mentioned above, there were also important downward changes on the expenditure side. Both items showing a considerable decline have a specific importance for less developed territories, thus, they are of specific importance for cohesion within the EU. Of course, due to the limits of the EU budget, these effects are also limited if they are compared to the EU's total economic performance; still, for given regions, or even countries, the effectscan be considerable – a lot of experiences with regional and cohesion funds have shown it. A key aspect here – as also in the case of competitiveness – is the well-targeted concentration of efforts. Still, the increasing spending on competitiveness, and the decreasing spending on cohesion (to 33.87% of the EU budget, thus to 0.3387% of EU GNI) raises the question whether this change doesn't deteriorate the potential of balanced economic growth in the EU.

There are different theories about the linkage of cohesion and competitiveness. Some of them put the emphasis on the necessity of a certain degree of cohesion within an entity in order to be able to assure the possibility competitiveness improvement (if that latter occurs) for the whole entity. Other approaches emphasise the importance of the development of the (already strong) centres and the positive effect of such a development (with a time lag) on the peripheral territories. Whichever approach one chooses, the existence of a certain level of cohesion is crucial for the potential positive development effects.

Within the EU28, the territorial differences are bigger than ever; many Member States have to face considerable intra-country differences, as well. In such a situation, the decrease in the amount (and share) of spending on cohesion cannot be regarded as a positive step.

Potential messages of the MFF

Based on what we said above, one can reflect about the messages the MFF 2014-2020 may have – beyond the figures. It can be regarded as a "multi-speed Europe" in figures. On the one hand, the multi-speed Europe is – at least in some aspects – reality; in this sense, the figures reflect the reality. On the other hand, the existence of a multi-speed Europe cannot be regarded as an objective for ever – much more, it can be perceived as a temporary state, facilitating the achievement of a deeper integration process, first for the forerunners, and later on, for all those who wish and are able to participate in that deeper integration. In this second sense, the MFF 2014-2020 does not provide Europe with much positive impetus.

The figures also raise the – evergreen – issue of solidarity and efficiency. as we have already said above, there is no efficiency without a certain degree of cohesion – that makes solidarity (beyond ethical and political considerations) important from an economic point of view, as well. From this aspect, the decrease in the amounts concentrating on important solidarity aspects (cohesion) is not a positive phenomenon. Efficiency is important – especially if one takes into account the effects of the increasing global competitors -, but it cannot be positive for the EU as an entity, if solidarity aspects are pushed into the background.

One can also observe the figures as a result of the completion of a “compulsory task”. According to this view, it was necessary to agree on the MFF at the normal time. Before the debates, there were some proposals for radical changes that – as a rule, for many years – have been swept off the table; in the end, the steps forward have been small, and the step back – in the amounts – has been surprising, but the surprise hasn’t been a positive one. Despite the prospect of a budget review before 2020, this situation doesn’t promise much openness for substantial reform of the EU budget in the future, either.

Hungary and the MFF 2014-2020

Hungary has been one of the biggest beneficiaries of the EU budget in the 2007-2013 period. Logically, the objective of the country was to maintain this situation for the period 2014-2020 as much as possible.

In the period 2007-2013, total commitment appropriations for Hungary constituted EUR 38.3 bn. In the EC proposal for 2014-2020, the corresponding amountwas EUR 31.7 bn – this would have meant a radical decrease. during the negotiations, this situation could be improved, and the total commitment appropriations for Hungary in the period 2014-2020 have been fixed at EUR 32.9 bn (all figures in this paragraph are in 2011 prices).

Table 2

EU budget financing in Hungary 2014-2020 vs. 2007-2013 (in 2011 prices)

	2007-2013	2014-2020	
Commitment appropriations		*EC proposal*	*Final*
1a. Competitiveness for Growth and Jobs	1.3	1.2	0.9
1b. Economic, social and territorial cohesion	25.7	18.3	20.5
2. Sustainable growth: Natural Resources	11.2	11.8	11.3
Of which: direct payments	*6.3*	*8.1*	*7.8*
Of which: rural development	*3.9*	*3.5*	*3.1*
3. Security and Citizenship	0.2	0.3	0.3
4. Global Europe	0.0	0.0	0.0
5. Administration	0.0	0.0	0.0
Total commitment appropriations	38.3	31.7	32.9

Source: http://www.beszelgetnikell.hu/index.cgi?r=&v=&l=&mf=&p=-letoltes_az_europai_unio_koltsegvetesi_rendszere_eloadas.pdf.

Looking at the details (see Table 2), one can see that the most important decrease happened in the field of cohesion spending (sub-heading 1b), but a decrease took place also in directly competitiveness-related spending (heading 1a). Regarding agriculture, direct payments show a considerable increase (thanks to the end of the phasing-in of the country in 2013 in this respect), but rural development financing decreases considerably. All these changes – unfortunately – underline the dilemmas raised in a general form earlier in this paper.

Of course, despite the decrease, Hungary has remained one of the biggest net beneficiaries of the EU budget. The negotiations have brought – at least – a partial success. With the beginning of the new MFF, the task ahead is the best possible use of the available funding. This has two important aspects: absorption, and – beyond formal absorption – the maximisation of real value-added of the use of financing.

The Polish vision of the Multiannual Financial Framework – proposals to build a broader EU-wide consensus

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Introduction – Multiannual Financial Framework and the economic governance

Poland is perceived as the biggest winner of the negotiations of the Multiannual Financial Framework 2014-2020. Its possible allocation, that is a sum that comes from the EU budget to Poland from the national envelopes (within the Cohesion Policy, Common Agricultural Policy and other minor instruments) exceeds 110 billion euro in the 2014-2020 period (in current prices),[1] that is more than 11% of the entire EU budget. By gaining such a big portion of money Poland becomes a natural leader of the supporters of the bigger EU budget. This outstanding outcome within these negotiations is however a handicap to the Polish government in the negotiations for the next financing period as well as during the budget mid-term review. Still, there is an opportunity to present a common V4 (or in even broader format) bold and insightful contribution on the future design of the EU finances.

The circumstances of the future budget are changing fast since the beginning of the financial and economic crisis and tend to maintain the pace of this evolution. Among these circumstances the most important one is forging of the new EU economic governance. It have even an influence on the ongoing financial perspective, binding it with the arising new facilities or frameworks. An example of such bounds is a fact that the EU budget became a collateral for European Financial Stabilisation Mechanism (EFSM).[2] Also, even more important is a basing on the European Semester recommendations or macroeconomic conditionalities to access particular budget lines (notably the structural funds). These newly built mechanisms are designed to coordinate the member states' economic policies.

With new European Commission led by Jean-Claude Juncker, even deeper and more complex European economic governance could be forged. This would also influence the EU finances. A first such change would concern the issue of the so-called Eurozone budget, which Juncker supports.[3] The emergence of the Eurozone budget even if not officially, would decrease the EU-wide budget, as the states will not wish to pay twice (even if for different actions). A second change would

1 http://ec.europa.eu/budget/mff/preallocations/index_en.cfm (accessed 19.07.2014).
2 http://ec.europa.eu/economy_finance/eu_borrower/efsm/index_en.htm (accessed 19.07.2014).
3 http://euobserver.com/institutional/124898 (accessed 19.07.2014).

concern further linking the EU budget with conditionality or even with newly emerged facilities outside the multiannual financial framework (MFF) i.e. by co-financing.

Main elements of the Polish position towards the MFF

The government maintained its main priorities and narration since the negotiations for 2007-2013 period. During the negotiations for the financial perspective 2014-2020, Poland underlined its pro-European position, which in this respect was interpreted because of its supportive approach towards European Commission's proposal presented in the beginning of the negotiations,[4] but also the European Parliament's position was mostly accepted or supported by Poland. This pro-European approach was also highlighted in line with general Poland's positive approach to the European integration towards deepening the process (that date it included Euro Plus Pact, the so-called „fiscal compact". Poland also opted for strong and autonomous EU institutions. On top of that, a level playing field for the all EU regions was an important issue for Poland.[5] This approach affected position on particular elements of the MFF 2014-2020.

Regarding the size of the budget, Poland stated that challenges that face EU require substantial amount of means (via common budget). Additionally, Poland was convincing the other governments that the EU budget generates substantial European Added Value as well as – opposite to the national budgets – it has generally an investment nature, which is extremely important in times of crisis. On top of that, Poland did not wish to include the existing EU-wide financial facilities outside common budget (i.e. European Development Fund) as the government perceives it as a real decrease of the MFF. Poland's position, however was much milder than before the negotiations, because of the crisis and a high pressure to limit the national spending of the member states. Additionally, Poland as a Presidency of the Council of the European Union and thus as a honest broker could not forge a compromise that favoured this country. That is why the Polish ideas – especially these ones on the budget magnitude – were not expressed as strongly in the beginning of the negotiations process. At the end Poland wished to increase the size, but due to above mentioned conditions it could be satisfied even with maintaining the size proposed by the European Commission.

An expenditure side of the MFF consists of five main items: a „smart and inclusive growth" (which is divided into „competitiveness for growth and jobs" and „economic, social and territorial

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4 http://www.euractiv.pl/prezydencja/artykul/dzi-w-sopocie-pocztek-rozmow-o-przyszym-budecie-unii-europejskiej-002844 (in:) S. De Corte, N. Groenedijk, C. Suceveanu, P. Tokarski and P. Toporowski (2012), *The Next Multiannual Financial Framework: From National Interest to Building a Common Future*, Centre For European Studies, Brussels.

5 *Oczekiwania Polski wobec propozycji Komisji Europejskiej w sprawie nowych Wieloletnich Ram Finansowych UE*, Polish Ministry of Foreign Affairs, 16 February 2011.

cohesion”),[6] „sustainable growth: natural resources”, „security and citizenship”, „global Europe” and „administration”.

As for the „competitiveness for growth and jobs” (alternatively 1a sub-heading), Poland appeared to support its development, because the government perceives that it is extremely necessary to improve the EU competitiveness. However, Poland does not profit from this subheading, achieving relatively little amount of funds compared to the other member states.7 This is a consequence of a moderate participation in the 7th Framework Program, which accounted for about 70% of this heading8. Additionally, when Poland considered this heading it perceived that it should be more focused on the SME, as this sector represented almost 50% of the Polish GDP.[9] Poland also says, that the Horizon 2020 (which replaces 7th framework programme) should be a stairway to excellence, still however it underlined a necessity to eliminate differences between the member states in the field of research. Poland noted the benefits of the existence of the ERASMUS programme, although the small size of this programme, and it was interested in expanding the programme for Eastern Partnership countries. Also, it welcomed the Connecting Europe Facility, because it might facilitate connecting the East of EU with the rest. Poland, however opposed transferring money from the structural funds to this facility.

Poland, such as the other Visegrad Group (V4) countries strongly supported a considerable role of „competitiveness for growth and jobs” sub-heading. The main Poland's argument was that the financial instruments that serve Cohesion Policy assures a high level of investment within the EU as well it enables to achieve Europe 2020 goals. In line with Poland's positive approach towards deeper integration, the government also presented an argument, that the framework for Cohesion Policy offers efficient mechanisms that keep good EU-level coordination. Additionally, Poland stressed that the structural funds have a positive feature, that not only beneficiaries gain of it, but also firms – often from abroad10 – that win a contract thanks to regional programmes. Poland

6 European Council Conclusions, 7-8 February 2013, EUCO 37/13, Brussels.
7 EU Budget 2010 financial, European Commission http://ec.europa.eu/budget/revexp/index.cfm?language=en (accessed 19.07.2014).
8 S. De Corte, N. Groenedijk, C. Suceveanu, P. Tokarski and P. Toporowski (2012), *The Next Multiannual Financial Framework: From National Interest to Building a Common Future*, Centre For European Studies, Brussels.
9 http://www.parp.gov.pl/files/74/81/380/9282.pdf (accessed 19.07.2014).
10 The positive cross country effect of the Cohesion Policy is well documented by the EU or by particular member states or by independent research units. For instance Czech Republic government underlined that Czech firms often win contracts within structural funds used abroad but also many foreign firms gained from the funds allocated to Czech Republic (see: http://www.strukturalni-fondy.cz/getmedia/ade3fa5f-538b-4d90-8f56-e1b0dbda9c35/110120_EEIP_Evaluation_of_cohesion_policy-on-EU15_ENG.pdf (accessed 19.07.2014)).

opposed decreasing a capping level to 2.5% in Commission's proposal and to 2.35% in the final agreement, as it argued that it performed well in absorbing the Cohesion Policy linked means[11]. Regarding the introduction of the new categories of regions eligible to obtain structural funds, that is transition regions. This is because Poland considers Cohesion Policy as the Pan-European one, and that is why any geographic restriction to this policy is not supported by this country. Additionally, advocating for broad geographic scope of this policy (which enable to cover EU-15) was Poland's negotiation tactics. Thanks to increasing the number of the regions which could benefit from the structural funds, Poland could maintain allies (i.e. Spain) or even gain new ones (i.e. France or Germany) to strengthen the role of this policy within the MFF.

Regarding the „n+X" rule (which „X" determines a number of years the money from the structural funds could be spent since the reference year) Poland advocated for maintaining „n+3", contrary to the consecutive proposals being on the negotiations table (with „n+3" rule). It explained the preservation of 3 additional years by long-term character of investment contracts and by the necessity to increase the flexibility of the MFF.

Poland's position on the heading „sustainable growth: natural resources" is not as clear as in the case of the subheading „competitiveness for growth and jobs", as this budget line that funds the Common Agricultural Policy (CAP) is less profitable and brings lower development than the structural funds. The main, however, idea about this heading is that CAP and Cohesion Policy should complement each other. Thus funds within this heading should be spend in such way that include a specificity of each member state. Additionally, that is why Poland supported introducing the Common Strategic Framework, which enabled some flexibility and thus a synergy of effects in spending funds within the Cohesion Policy and Rural Development, that guarantees optimal a development of rural areas. Poland also might agree on possible research in the field of food security and bio economy.[12]

Contrary to the other V4 governments, Poland was supporting limits of payments to big farms, because of the structure of the Polish agriculture (a considerable share of small farms). Poland was against the renationalization of CAP, as it would strike the single market.

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11 Until 2014 Poland has already absorbed 67.9% of allocated structural funds from the Financial Perspective 2006-2013 (see: Jedlicka J., Rzentarzewska K. (2014), *Cohesion Policy and other EU assistance programmes in 2014-2020*, Erste Group). It can use the rest of these funds in 2015 and it is likely that the amount of means used that yer would be substantial, as generally the multi-years financing programmes start with relatively low sum of money, while the biggest spending items are settled at the end of such programmes.

12 *Stanowisko RP w sprawie: Pakiet Wieloletnich Ram Finansowych UE na lata 2014-2020*, Polish Ministry of Foreign Affairs, 11 January 2012.

A next heading – „security and citizenship" – is not a key heading for Poland. The government, however, accepted the changes proposed by the Commission and subsequent changes that took place during the negotiations process.

A heading „global Europe" was a difficult element for Polish government. On one hand, this heading does not provide any direct financial flows to the member states. But Poland, as the other member states, acknowledged that strong common foreign policy opens new wide opportunities to the particular member states. Additionally, Poland has an ambition to strengthen the Eastern Partnership and to take a leading position in forging and running a model of cooperation with the eastern partners. That is why, had no clear opinion whether this heading should be bigger or smaller compared to the proposals put on the negotiation table and generally Poland supported the existence of the instrument within this heading. However, Poland because of the above mentioned ambitions and because of the internal consensus, that developments outside the eastern border of the EU are crucial to the EU CEEC stability, stated that the division of means within the neighbourhood policy (which was directed in 70% to the south of the EU and in 30% to the east of the EU) should be changed in favour of the eastern partners.

During the negotiations for MFF 2014-2020 a new group of allies have been formed (however, the group mainly consists of the net contributors) and it was called the „friends of better spending" and mainly opposed a coalition supporting a big budget and a big cohesion policy (called „friends of cohesion"). Their claims concern the issue of the quality of spending and maximising the effects of the EU budget in respect of challenges that the EU faces while simultaneously limiting the MFF. A discussion on the better spending brought positive effects on thinking about the quality of EU financed projects. The idea of better spending was even accepted by EC President Barroso, who – still being an honest broker of these negotiations – encouraged the friends of cohesion to join the friends of better spending into one group, called by him „friends of growth".[13] In fact, the consensus on the pro-growth trait of the EU budget was forged.

While Poland as one of the most important net beneficiaries was in the beginning a sceptical to the idea of better spending, later it formulated somehow a more positive approach. Poland acknowledged that money should be spent more efficiently and effectively during entire financial programming stages (including preparations of the national and regional development programmes, identification of the regional needs, operationalisation of these programmes at the local level, implementation and post-project evaluation). Still, Poland remained sceptical about conditioning the realisation of allocations to the performance of the member states, especially

13 http://www.euractiv.com/euro-finance/barroso-preaches-better-spending-news-515234 (accessed 19.07.2014).

regarding the fiscal policy or conditioning to the stage of transposition of the EU law into the national legal system. Poland noticed, that in some cases such conditionalities may represent a disproportionate burden to the member states experiencing a slowdown.

When considering a revenue side of the budget, Poland has quite different position to the other V4 countries. Contrary to the other EU CEEC, Poland did not want to concentrate only on one resource (the GNI-based one), but rather said, that the system of own resources should be simple and transparent. Poland, contrary to the other V4 was relatively open to possible new own resources. Like the others it strongly opposed the new reliefs in contributions as well as the existing ones. Poland as a supporter of simplicity finally agreed on replacing the formulas to calculate the reliefs with the lump sums.

Instead of conclusions - proposals for a budget review

Poland attempted to present itself as constructive player, who wish to change the financial perspective into one serving entire EU and every member state. However, its extreme advantageous net gain from the EU budget undermines Poland's above mentioned image. Additionally, when a *juste retour* logic prevails during the negotiations, pro-European solutions proved to be insufficient to be chosen by the European Council.

Still, it is possible to present a new design which could accepted by the EU institutions. But this would be possible only when the gains from the allocations from the MFF are visible to the member states in short-term and in the long-term. Thus the pro-growth orientation of the MFF seems to be a reasonable direction of its development, even if the current political circumstances do not allow to fully re-shape the financial perspective. According to the priorities included in the Europe 2020, the EU budget should strongly focus on innovation and growth, while focusing on improving the competitiveness of the member states – depending on their level of development.

To improve the R&D area in the entire EU, not only in the most competitive member states. There is a need to stream fund into research in the less affluent member states. The problem is that the member states which are highly competitive in the field of innovation stress on the excellence of the research as an important factor in distributing the common funds. While the research units from the EU CEEC achieved much in many fields, they had limited chances to win funds from the Framework Programmes, because of lack of experience in processing the applications as the leaders of the consortium. They also experienced problems in convincing the European Commission that their research projects were important in terms of increasing the innovation in the EU. On top of that, the universities from the EU CEEC are far from the top position in the global rankings[14]. Also the research units in the EU CEEC were short of sophisticated research infrastructure which impeded a pace of the research.

That is why we propose to redesigning the MFF in respect to put more focus on research and implementation of innovation to the business in a way that assures excellence and enables level-playing field and fair competition for all main research units as well as enables evening the level of the innovation and research potential across the EU. The best option is to rearrange a current Horizont 2020 programme and partially mix it with structural funds. The Horizon 2020 should be divided into two parts: one would remain the same as currently, regarding the mechanisms and goals, the other part would be (like Connecting Europe Facility) be connected with a part of funds from the Cohesion Policy (with a magnitude. This second part would be distributed in national envelopes with shares basing on the distribution key from the Cohesion Policy. The goal of this part would be to minimise the differences in the quality of research base in the member states in order to increase competitive edge across the EU. Both element of new redesigned Horizon 2020 would supplement each other. If the member states wish to use the funds from this second part need to present a comprehensive development plan in the field of research. The Commission would assess it and its later progress in implementation.

The other important issue is to create genuine own resources system, as the discussion on the fully-fledged re-design of the financial perspective is possible only when the EU gain its own financing. The changes however in this respect are difficult as the decision on such change is unanimous. That is why there is a need to find such an own resource that is not contrary to the interest of any member state. So far none of such candidates met the expectations of the all member states. Perhaps, if the Commission finds a source of financing which is could be directly transferred to the EU without assistance of the member states, such own resources could be applied more easily. The only genuine own resource now is the contribution from tariffs. Such revenue could be a special tax on extra-EU corporations that operate on the internal market, as they gain from the unique advantages that the EU offers to businesses. The other option is to tax firms, that keep their books in the tax havens. And the last but not least, a controversial solution could be revenues taken from the businesses using the EU-funded transportation system.

14 The university from the V4 with a best rating is Charles University, which is at 233 position, University of Warsaw is on 338 position, Jagiellonian University is in 376 position, while University of Szeged and Eötvös Loránd University are in top 500 (according to QS World University Rankings 2013, http://www.topuniversities.com/university-rankings/world-university-rankings/2013#sorting=rank+region=+country=+faculty=+stars=false+search= accessed 19.07.2014).

The EU´s MFF 2014-2020 seen from the Slovak perspective

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Despite the overall substantial cuts in the European union´s Multiannual Framework 2014-2020, Slovak republic can be considered – using the *juste retour* logic - the big “winner” of the months-long negotiations about the new seven-year budget framework.

Of course, this apparent success can only be proven as such once the programming period is over, as the real position of Slovakia (and other countries) vis-a vis-the MFF 2014-2020 will depend on many different factors, most important among them being the abilities of the public administration on the national level.

Just to illustrate the scope of the problem, until the end of 2013, Slovakia was able to make us only of 51 % of the EU resources available. The public administration has been the neuralgic point of Slovakia´s capacity to withdraw the EU funds at its disposal for a long time. The European Commission has advised Slovakia to reform and stabilize the respective departments also within the European semester in Country-specific recommendations.

As the situation stand, Slovakia could get from the next EU budget 2014-2020 up to 20,3 billion euro. At the same time, Slovak contribution to the EU budget is set on 6, 8 billion, which represent a slight increase caused by relatively better economic performance.

The overall Slovak net position vis-à-vis the EU budget could reach 13, 5 billion euro, up from 11, 7 billion. Even the allocation for the Cohesion Policy increased.

Negotiation position

There has been coordination among the V4 group, at the level of expert (meetings and teleconferences) and the state secretaries, who have discussed before the General Affairs Councils. Within the V4, there have been some significant are differences, like – for example – the Czech push for the cuts in EU budget. The other level of coordination of the net beneficiaries of the EU budget was the informal group of Friends of Cohesion (a counterweight to Friend of Better Spending).

Slovak negotiators brought an overarching priority to the talks with them – to "optimize" the net position of the country. No innovative or more forward-looking priority emerged and the strategy focused on traditional dossiers.

As for the overall sum of the MFF 2014-2020, Slovakia was realistic at the beginning and expected that the decrease pushed for by net contributors, will worsen it's the net position. (As a matter of fact, that did not happen)

The government maintained, however, this should not affect the Cohesion package too much, which is obviously the source of the biggest EU budget income for Slovakia.
At the same time, within the discussion on new category of "transition regions", Slovakia argued less developed regions and countries should remain the priority.

It also upheld that the cuts - if have to be - should be distributed proportionally across all budget Headings, including chapters like Research & Development (R&D), Common Agricultural Policy (CAP) and Connecting Europe Facility. In the case of CAP, according to Slovakia´s preference, the horizontal cuts should not apply to countries that receive less than 90 % of the average direct payments in the EU.

The capping and reverse safety net

The originally proposed single capping for the overall allocation at the level of 2,5 % GNI – would meant for Slovakia a better position, together with countries like Bulgaria, Rumania and Poland. The looser of this proposal would have been Hungary and Baltic States, whom the differentiated capping suited more. Should the capping have been lowered to 2 % that would have resulted in the worst result for Slovakia, Poland and Bulgaria. In the end, the capping has been set at the level 2,35 % of GNI and Slovakia agreed not to oppose the increase of capping in case of countries that have faces significant economic downturn (more than 1 % between 2008-2010).

The other mechanism designed to cut national allocations proposed by net contributors, - the reversed safety net - ensured that the allocation for one state should not be higher than 110 % of allocation from 2007-2013. Slovakia opposed this mechanism from the beginning saying, it would affect it negatively as the national contributions to the EU budget are getting higher due to Slovak higher economic growth compared to EU average.

Om the other hand, Slovakia was successful in:

- opposing the proposal of increasing the national co-financing of EU-funded project from 15 to 20 %,
- securing the eligibility of VAT in the EU funded projects,
- its special demand (common with Romania) to extend the time for the use of EU funds from 2007-2014 by one year – so called “N+3” (for commitments).
- increasing the financial assistance for decommissioning of nuclear power plant Bohunice by almost 100 % (from proposed 100 millions to 200 millions). The decommissioning is a commitment Slovakia embraced in the pre-accession period. Other nuclear plants to be decommissioned are in Bulgaria and Lithuania. The argument went that the financial allocation for the cooperation in the area of nuclear safety with third countries is disproportionally high and that the internal safety comes first.

Connecting Europe

Slovakia had reservations towards the Connection Europe Facility(CEF) aimed at investments in diverse infrastructure within the EU. It was against the reallocation of 10 billion euro from the Cohesion policy envelope to CEF.

In Connecting Europe, the system of national allocation is only partially respected. Later on in the negotiations Slovakia corrected it’s the position to oppose Connecting Europe directly, as it could not fight the argument of direct European added value which became the pillar philosophy of the whole MFF.

Slovakia aims at incorporating some of its foreseen energy infrastructure projects into the list of projects of common interests within the EU, that could as such be eligible for EU funding (Bratislava-Schwechat-Pipeline and strengthening of the capacity of Adria pipeline).

The national allocation for Slovakia is only 743 millions and the country is exclusively entitled to it only until the end of 2016, then the allocation becomes part of the overall competition in funding under this Facility.

R&D

Since the beginning, Slovakia has only a very limited absorption capacity for the funds under the Research Framework Programmes of the EU. The level of excellence as one of the preconditions in the funding has not been sufficient, the research institutions have found it difficult to become part of already established research transnational consortia, which is another precondition.

The Cohesion chapter has been used to fill up this gap partly in Slovakia (no need for partnerships - easier access). Despite some changes in the setting of the Horizon 2020 programe which are supposed to help backtracking members to foster their research excellence and despite the fact that Slovakia just opened a Liaison Office for Research and Innovation in Brussels, Slovakia will most likely not be substantially more successful in applying for the grants under Horizon 2020.

CAP

The “discrimination nature” of CAP towards the new member states has been criticized in Slovakia for a long time by the agriculture and food sectors. However it has became a priority topic of the government only after the pressure and protest of these interest groups were brought to the broad daylight.

The proposed increase of the direct payments was deemed by Slovakia as insufficient. As a partial remedy, the possibility of transfers between the two CAP pillars (from rural development to direct payments) up to 25 % of national allocation has been introduced. Also, the idea of capping on payments for big farms – disliked by Slovakia - has been largely abandoned in the legislative process. Historically, big farms prevail in Slovakia as they do in other post-communist states.

Seen from the perspective of the payment per hectare, Slovak farmer gets 79 % of EU average – 211 euro, which is 24 euro less than weighted average of the neighboring countries (including Austria) and 7,6 euro per ha less than Poland.

Expectations

The government realizes that 2014-2020 MFF is most probably the last financial perspective, with such massive allocation for cohesion policy. It expects a drop in double digits % in the future. Also, Western Slovakia region is expected to become NUTS II region and would see a transform from the category of “less developed regions” to “transitional regions.” On top of that, further tightening of the rules is to be expected, official documents read.

Incomes

Slovakia supports the simplification of the own resources of the EU budget with the aim to make the system “more fair” and transparent. Simultaneously, it would like to see the resource based on VAT abolished together with the correction mechanisms.

Throughout the negotiations the government claimed to be open to discussion about the new own resources – without any specificities - while it refuses strengthening own resources based on VAT. Slovakia is one of the countries willing to join the enhanced cooperation on Financial Transaction Tax (FTT), it is not very keen to elaborate on more ambitious reform of EU budget income side, however.

Macroeconomic conditionality

Quite reserved position was observed also in the area of macroeconomic conditionality that was introduced in the MFF 2014-2020, in line with the new economic governance of the EU designed to bring the public finances under control and to ensure economic convergence.

Slovakia claimed this conditionality might negatively affect the effectiveness and efficiency of Cohesion Policy as the concepts concern different cycles – European semester operates on a yearly basis, while the Cohesion Policy relies on multiannual programming. The linking of CSRs and Cohesion Policy programs was deemed “contra productive”.

Rather, the government argued, conditionality must be simple, fair and preventative in nature and to be applied evenly and gradually among member states. Suspensions of funds must only be used as a possibility of last resort after the reprogramming of priorities fails and must only be used for commitments.

Conclusion

The European budget is responsible for approximately 75 % of public investment in Slovakia. The politicians make no secret of it. In the past, vital functions of the state – such as healthcare, schools and highways - have been covered by the solidarity principle of the EU. Sadly, looking at untastefully renovated main squares in every other village or small town with benches nobody sits on, many projects have clearly brought limited added value. Countries like Slovakia should embrace innovative approach to the funds at hand and welcome any push for measurable added value and conditionality on results. The chance - unique in several generations - should not be wasted, but with keeping in mind that the EU budget – as it now stands on 1 % EU´s GDP – can hardly be the sole source of the country´s brighter future.