

EU MONITOR

MFF Negotiations: What Czechs think of the latest development

Vít Havelka

- **The original goal of the previous European Commission – to finish the post 2020 Multi-Annual Financial Framework (MFF) negotiations by the end of the year – is shattered. The December European Council did not reach any final decision, so the earliest deadline is the March EC meeting, with a possibility of slipping into German presidency in the second half of 2020.**
- **This would leave a very little time for preparation of partnership agreements with the member states, thus potentially leading to disruption in utilization of EU funding. As of now, it seems that the EU has still a long way to go until it reaches agreement over the future MFF. Member states are negotiating not only about the total size of the future European budgets, but also allocations to various headings or system of resources.**



The latest Finnish proposal¹ presented at the December Council was a step forward; however, major disagreements remain in place. The following paper will therefore look at the latest development in the negotiations, specifically from the Czech perspective. The text should provide the reader with understanding of what is at stake for the Czech Republic, and why Czechs object certain aspects of the MFF. The article is divided into several sections, first briefly explaining Czech position on the MFF, subsequently commenting the Finnish proposal and conclusions reached at the December EC, and finally outline the expected further steps of the Czech government.

Main Czech Interests

Based on the framework position published by the Czech Government², and statements of senior Czech politicians, the main interest of the Czech Republic is reversing cuts in two traditional EU policies – the Common Agriculture Policy and Cohesion Policy. Limiting the reduction in allocations will therefore be focal points of the Czech effort. As far as the total size of the budget is concerned, the Czech Republic sits on two chairs. On one hand, it does not object to an increase, however, it would simultaneously support a smaller budget than stipulated in the Commission's proposal if this does not threaten the allocations into Cohesion Policy (CP) and Common Agriculture Policy (CAP).

Looking into details, there are more objections with respect to the proposed structure of the CAP and CP. Firstly, Czech administration strongly oppose caps in direct payments for agriculture companies. If the 100.000 € ceiling/farm was approved, the Czech agriculture industry would suffer since Czech agriculture business tend to concentrate into large firms, rather than being decentralized in small family owned firms. One might argue that similarly to Hungary, the creation of large enterprises and privatization of agricultural land might have been linked to

opaque transactions. Still, the reality is clear – only Czechs can decentralize their agriculture and the proposed capping would harm the Czech production. Secondly, Czech government objects the topical concentration of the Cohesion Policy, mainly focusing on "Smart Europe", and "Green Europe". According to the Commission's proposal, the Czech Republic should allocate at least 45 % of the total national envelope to the "Smarter Europe", and 30 % to "Green and low-carbon Europe". This goes against the plan of the incumbent Czech Government that would like to focus primarily on large infrastructure projects such as high-speed railways and highways. Simultaneously, Czechs fight over reallocation of funds between various programmes. The European Commission proposes that the states could transfer up to 5 % of the total amount made available³, however, Czechs would like to increase the threshold to 10%. According to them, this would allow more flexibility in allocating fund where they are actually needed. The "new priorities" as defined by the European Commission are supported by the Czech Republic, but the administration raises concerns if the EU has a sufficient absorption capacity. For example, the EU must guarantee that there are enough projects ready within the Heading IV. Migration and Border Protection.

As far as the new resources of the EU budget are concerned, the Czech Republic prefers limiting the income to member states contribution. It does not see any point in broadening the system of own resources, as it would make the whole system more complicated, and only contributing to 12 % of required funds. This position derives from the general Government policy of "more intergovernmental Europe". In this perspective, it is reasonable to limit the resources autonomy of the EU and ensure it remains further dependent on its member states.

Finally, the Czech Republic objects to the Rule of Law provision introduced by the Commission. It is not a principle resistance, but rather a technical one; Czech government

¹ <https://www.euractiv.com/wp-content/uploads/sites/2/2019/12/Finnish-Negotiating-Box-2-Dec.pdf>

² If not stated otherwise, the chapter draws on information written in the Czech Framework Position to the Commission's MFF

proposal See: <https://www.psp.cz/sqw/text/orig2.sqw?idd=136214>
³ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2018%3A375%3AFIN>

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acknowledges that the EU must protect core values of the EU and that there must be an effective enforcing system in place. On the other hand, the administration thinks that the regulation doubles measures already in place and would not bring significant improvements to the current situation. Secondly, Czechs object the reversed QMV voting in the Council that could revert Commissions decision. The Government thinks that the provision should follow the example of Art. 7 procedure, meaning that the Commission's decision should require approval of the Council by QMV. Such a stance can be perceived as a "tactical hesitance"; the Rule of Law provision is not something Czechs would eagerly oppose, but simultaneously do not support it. It is just another bargaining chip in the game.

Czech perception of the last Finnish proposal

The discussion during the last December European Council was based on a negotiation proposal by Finnish presidency, but due to the prolonged negotiations about Climate Neutrality Target, the time devoted to the draft was severely limited. As a result, the MFF agenda will slip into 2020, making the timeframe excessively tight. The responsibility for negotiations will also be transferred from rotating presidency to the President of the European Council Charles Michel.

This is good news for the Czech Republic, as the Finnish proposal was, from a Czech perspective, a far from desirable outcome. The main objections revolved around the Cohesion Policy and Common Agriculture Policy. The Finns ignored calls of the "Friends of Cohesion" group, sticking to decreased allocations in the Cohesion Policy and they further lowered the "safety net" for minimal decrease in national envelopes to 71 % of the current amount in MFF 2014-2020⁴. Simultaneously, they kept most of the objected requirements such as higher level of co-financing and

topical concentration. In this respect the Finnish proposal was a non-starter for the Czech Republic.

Certain improvements were made in the Common Agriculture Policy. The Finnish presidency increased the total allocations and mainly distributed them in the II. Pillar of CAP, which balanced the previous cuts proposed by the European Commission. On the other hand, the overall changes were unpalatable from a Czech perspective as the Finns retained capping of the direct payment at 100.000 € per farm in their proposal. A measure that Czechs will oppose until the very end.

Finally, the Finnish presidency strongly favoured linking the rule of law principle with EU funding⁵. They kept the original Commissions proposal, including the triggering mechanism, which would give the Commission a strong tool in fight against the democracy backsliding. The Commission could decide to stop money transfers if a systemic breach of rule of law is present in an EU member state. The Council would not be required to approve the decision, only giving it possibility to revert the ruling by reversed QMV. As explained above, such a proposal would be obstructed by the Czech Republic as they request at least mandatory agreement by the Council by QMV prior triggering the rule of law mechanism.

Further steps after the December Council

From the Czech point of view, the negotiations remain in their infancy as the Union has not managed to make any significant progress since the publication of the MFF draft in May 2018. The member states have remained entrenched in their original positions, making any progress nearly impossible. The President of the Council, Charles Michel, will have to invest unusual amount of energy in order to break the deadlock. In this respect, one must appreciate that he considers organizing an extraordinary meeting of the European Council in February, and simultaneously he will

⁴ See <https://www.euractiv.com/wp-content/uploads/sites/2/2019/12/Finnish-Negotiating-Box-2-Dec.pdf>

⁵ Ibid.

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very likely conduct consultations with national representations. Finding the middle ground will be excessively difficult.

As far as the future steps of the Czechs are concerned, they will probably concentrate on three main issues. Firstly, they will oppose the direct payments caps in the I. pillar of the Common Agriculture Policy. According to the Czech governmental officials, they might be able to revert the measure as the strongest proponent of capping are the European Commission and European Parliament. Member states will probably not sacrifice political capital in fight for caps and they will rather focus on maximizing their national envelopes. Secondly, Czechs can be expected to push hard for retaining the original 24 % safety net in decrease of the Cohesion Policy national envelopes. The number proposed by the Commission is very generous as it safeguards significantly more funding for the Czechs than they would receive if only calculated according to standard criteria (the

estimate is around 50 % of the current allocation). Finally, the Czech government will stress the importance of flexibility in Cohesion Policy topical concentration. The current administration will try to limit the minimal allocations into "Green" and "Smart" Europe as well as argue for a higher threshold in transfers between various programmes.

Overall, the Czechs are in advantage that, in most cases, their position lies somewhere between European extremes. There are obviously areas, such as those listed above, where the Czechs go directly against the European mainstream. However, as a country nearing the EU GDP average, their interests also lie approximately in the middle. In this sense, it is necessary to perceive Czech positions – and political statements – as tools for maintaining the compromise somewhere near to the original Commission's proposal.

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