Area: Europe
ARI 90/2012
Date: 19/12/2012

Divergence and Convergence: A Preliminary Analysis of the European Council of 22-23 November 2012

Mario Kölling and Cristina Serrano Leal[*]

Theme: This paper analyses the positions of –and main cleavages between– the leading players that led to the failure of the November EU summit, highlighting the questions that must be solved to enable an agreement on the MFF 2014-20 to be reached in the coming months.

Summary: The failure of the EU summit of 22-23 November 2012 has been the object of diverse interpretations, with some observers considering that there was insufficient pressure to forge an agreement, while others underline that the pressure was too great for a common position or compromise to be achieved on the Multiannual Financial Framework 2014-20 (MFF 2014-20). This paper analyses the positions of –and main cleavages between– the leading players that led to the summit's failure, highlighting the questions that must be solved to enable an agreement on the MFF 2014-20 to be reached in the coming months.

Analysis:

Introduction

No Multiannual Financial Framework (MFF) negotiation has been successful at the first attempt, and the negotiation of the MFF 2014-20 is no exception to this long-standing rule. However, there have been various interpretations of the 22-23 November summit. Symbolic elements are a key feature in these negotiations, as is the fact that no EU leader wants to be perceived by public opinion afterwards as 'having lost face'. In this respect, some observers consider that the pressure during the summit was insufficient to make an agreement possible, while others underline that the pressure was too great for a common position or compromise to be achieved.

Expectations for the EU Council were in any case high and the negotiation of the MFF 2014-20 finally appeared on the front-pages of the European media that covered the negotiation. The Council President Herman Van Rompuy had made preparations to keep the EU leaders and their interpreters in Brussels until the evening of 24 November and some insiders mentioned that since everyone was unhappy with the proposals tabled they had the impression that a compromise would be possible. However after pushing certain spending headings downward and others upwards and offering side payments to some member states, the EU leaders only needed until the late afternoon of 23 November to decide to break off the negotiations and postpone them to another summit.

[*] *Mario Kölling, García Pelayo Fellow, Centre for Political and Constitutional Studies*
Cristina Serrano Leal, PhD in Economics.

In a statement published shortly after the European Council, the Heads of State and government gave the Council President the mandate, along with the President of the European Commission, to continue the work and pursue consultations in the coming weeks in order to find a consensus. The Heads of State and government also underlined that the European budget is important for the Union's cohesion and for jobs and growth in all countries, a message aimed at reinforcing expectations for the forthcoming February summit, which should see the final deal being struck.[1]

Despite the fact that it was labelled the US$1 trillion negotiation, the EU budget is small, at around only 2% of the Union's total public expenditure and 1% of its GNI. However, the MFF 2014-20 will determine the EU budget's role in responding to the economic crisis and global competition. Europe urgently needed a signal that the EU is capable of reaching agreements on such an important issue. The fact that the summit produced no results has made scepticism and disappointment rise and kept yet another conflictive topic on the agenda.

This paper will analyse the main positions of –and cleavages between– the leading actors that have led to the summit's failure, highlighting the questions which must be resolved in order to reach an agreement on the MFF 2014-20 over the coming months.

The Prelude to the European Council

The negotiation of the MFF 2014-20 started after a broad public debate during the EU budget review, which took place from 2007 to 2009. On 29 June 2011 the European Commission presented its proposals for the MFF 2014-2020. By the end of 2011, 57 proposals relating to the legal basis for European spending programmes had been submitted in almost all policy areas. Finally, an amended version of the MFF 2014-20 was published on 6 July 2012. This version foresees a total volume of €1,033 billion (at constant 2011 prices), or around 1% of the EU-27's GNI.

The proposals presented no radical changes in the structure of the EU budget, but made a serious attempt to improve the quality of strategic planning and policy implementation, aligning expenditures with the Europe 2020 objectives. The end of the negotiating process was intended to lead to a compromise acceptable to all the member-states and the three EU organs: the European Commission, the European Council and the European Parliament.

Over the past months the Polish, Danish and Cypriot EU Presidencies made an effort to narrow down the Member States' positions. After taking over the EU Presidency, Nicosia confirmed its ambition of reaching an informal agreement at the October European Council, a deal with the European Parliament in November and the final agreement in December. The Cypriot government held a series of bilateral meetings with Member States and at the General Affairs Councils on 24 September presented a first revised version of the negotiating box. Although the box did not yet contain any figures for the expenditure ceiling or spending headings, the Presidency already considered that the Commission's proposal would 'have to be adjusted downwards'. It was not until the end of October 2012 that a revised proposal with concrete figures for the MFF 2014-20 was presented. The revised negotiating box contained cuts amounting to at least €50 billion compared with the European Commission's original proposal.[2] The revision immediately

[1] Statement by the Members of the European Council, 23/XI/2012, Brussels.
[2] 29 October 2012: Negotiating box (15599/12)

heated up the debate, being criticised by the European Commission, the European Parliament and the Member States. In the debate three broad opinion groups can be identified: the 'Friends of Cohesion Policy',[3] the 'Friends of the CAP'[4] and the 'Friends of Better Spending'.[5] While the first group focuses on the fact that the EC's budgetary proposal constitutes the absolute minimum for Cohesion policy and the second defends spending on CAP, the third insists on the need to limit and reduce EU spending and considers that the quality of spending is the key to creating additional growth.[6]

Despite the tight schedule proposed by the EU Presidency and the President of the EU Council and the manifest conflict, the Member States expressed their willingness to reach an agreement at a special European Council scheduled for 22-23 November and solely devoted to the MFF 2014-20. Some days ahead of the Council the debate between the net payers and the net beneficiaries of the EU budget was further complicated by the position of the British Prime Minister, David Cameron, who received a strict mandate from Parliament to defend acquired rights such as the British rebate and insist on additional cuts. Not only did the British Parliament exert pressure on these issues, but an opinion poll, released a week before the summit, showed that in the event of a referendum 56% of the UK's citizens would vote for withdrawal from the EU.

The EU Council

In order to prepare the European Council, President van Rompuy released a proposal with cuts of around €80 billion to the budget proposals presented by the European Commission This implied 2% (€20 billion) less than the current 2014-20 framework. The paper raised fierce protests among the Friends of Cohesion and the main beneficiaries of the CAP as it included cuts of around €30 billion in Cohesion funding and of €25 billion in agricultural expenditure. Taking into account the pressure from the Friends of Better Spending and the debate on Cohesion and CAP, it was already clear that the Council would concentrate on these two main spending areas and that a compromise would only be reached by applying 'savings' in the remaining headings.

With the aim of downplaying expectations, already on 20 November the German Chancellor Angela Merkel announced that there was no rush to reach an agreement and that an agreement in 2013 might be more likely: 'Positions are too far apart, but as I said before, it would not be dramatic if we need to come back next year'.[7]

On the morning of 23 November Van Rompuy presented a new compromise proposal which offered €972 billion in global expenses, 7% less than the Commission's proposal. In an attempt to reduce tension, spending on Cohesion Policy and the CAP was increased without changing the MFF 2014-20's overall ceiling. Van Rompuy proposed to restore €10.6 billion to Cohesion and €8 billion to the CAP at the expense of investments in competitiveness and external affairs.

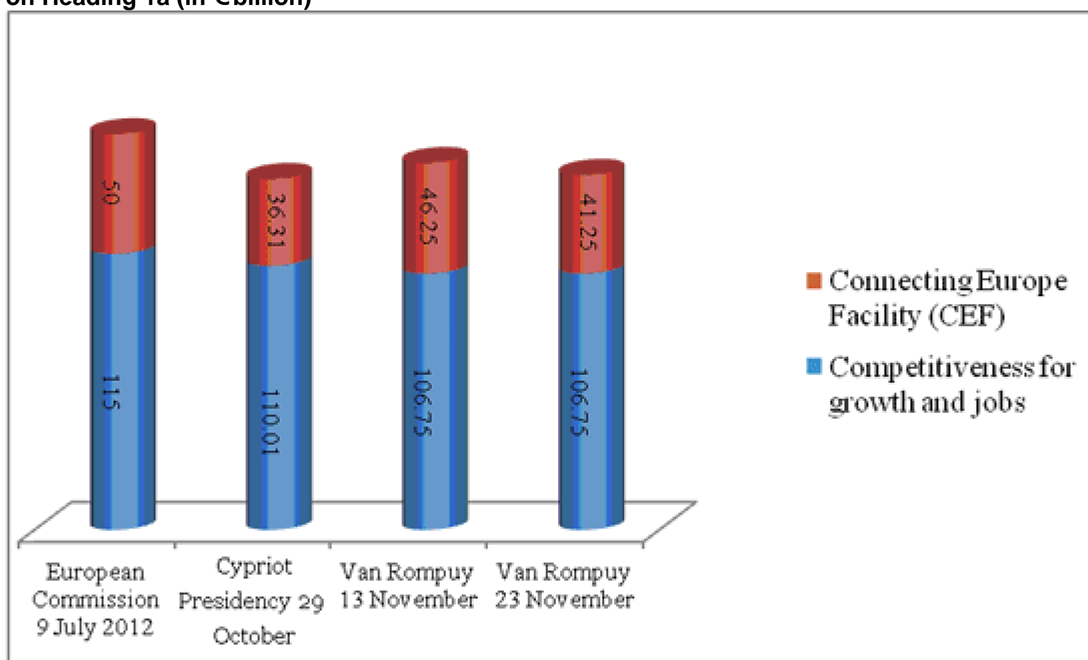
The following paragraphs analyse the different spending headings and the position of each Member State.

[3] Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Lithuania, Latvia, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and Spain
[4] France; Spain, Italy and Ireland.
[5] Austria, Germany, Finland, France, Italy, the Netherlands and Sweden.
[6] M. Kölling & C. Serrano Leal (2012), 'The Negotiation of the Multiannual Financial Framework – Budgeting Europe 2020 or Business as Usual?', ARI nr 68/2012, Real Instituto Elcano.
[7] 'Leaders Break off EU Budget Talks', *EU Observer*, 23/XI/2012.

Overall volume: in terms of the overall volume the majority of Member States could sign up to the last proposal presented by Van Rompuy. Four countries were pushing for more cuts: the UK, Sweden, the Netherlands and Denmark. Germany and Poland seemed to be relatively satisfied. Other Member States, including France and Italy, had directly or implicitly threatened to use their veto if spending were to be further reduced.

Heading 1a Competitiveness: the last proposal re-established expenditure for Cohesion and the CAP, mainly through cuts in the Competitiveness Heading and the Connecting Europe Facility. The latter, which will finance major transport, energy and telecommunication infrastructure was the target of the largest part of cuts in the first round of negotiations. The latest proposal reduced it again by €5 billion, setting a maximum allocation of €41.25 billion. Of that total, transport would receive €26.95 billion (of which €10 billion from the Cohesion Fund), energy €7.13 billion and telecommunications €7.17 billion. Nevertheless, the Competitiveness Heading was set at €139.54 billion, up by 50% compared with the current financial framework.

Graph 1. Comparing the Commission, the Cypriot Presidency and the Council President´s proposals on Heading 1a (in €billion)



Source: the authors.

Heading 1b Cohesion Policy: in a context of economic crisis, the Cohesion countries tried to minimise the cuts in Cohesion, one of the policies with the greatest impact on growth and recovery prospects.

Although the last proposal presented could be considered an increase, the overall budget of €320.15 billion for Cohesion is nearly €20 billion less than the European Commission's proposal.[8] Accordingly, the Cohesion Fund would receive €66.34 billion with an increase in aid intensity. Moreover, outermost regions, such as the Canary Islands, Azores, Madeira, Martinique, Guadeloupe, French Guiana, Reunion, Saint Martin and newcomer

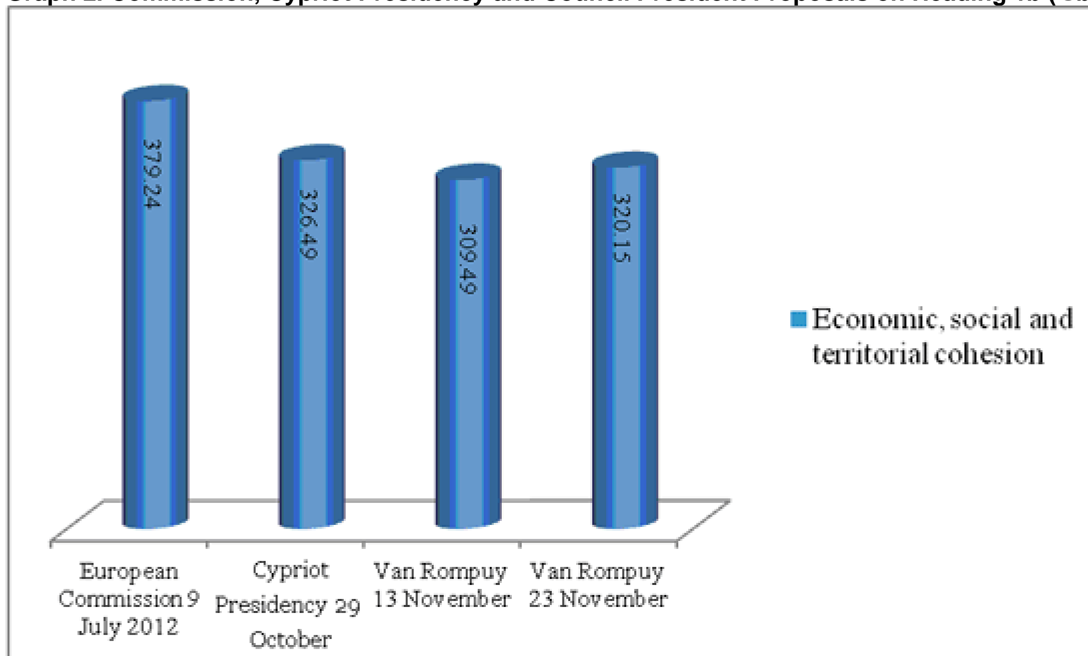
[8] The funds would break down as follows: €161.427 billion for the less developed regions; €31.393 billion for the transition regions; and €50.872 billion for the more developed regions.

Mayotte, would receive €1.39 billion, more than in the Commission's initial proposal thanks to specific aid of 30€ per inhabitant.

Furthermore, and answering the concerns of Spain and France, the safety net for the regions set to leave the 'less developed' category in 2014 was also raised slightly. Accordingly, these regions will be able to keep at least 60% of their current allocation. The Council President proposed establishing the absorption limit at 2.35% of national GDP, a slight reduction which left some funds available for other countries in need (Greece and Portugal). The mechanism is adjusted for states that have been hit the hardest by the crisis: in this respect, in states where GDP fell by more than 1% from 2008 to 2010, the absorption limit would be set at 2.59%.

After the summit, the Cohesion countries seemed to be satisfied, as they were also offered some additional side-payments, including €1 billion for Spain, Italy, Portugal and Greece and €1.2 billion for Hungary. Furthermore, the method proposed to calculate aid for the less developed regions was more advantageous than in the first Van Rompuy proposal: for instance, the unemployment premium rose from €800 to €1,300 per year per person and from €300 to €500 in transition regions. According to first calculations, Spain would get an extra €2.75 billion and Ceuta and Melilla, with strategic interest, €50 million, following the precedent of the last negotiations in 2005.[9]

Graph 2. Commission, Cypriot Presidency and Council President Proposals on Heading 1b (€bn)



Source: the authors.

Heading 2 Common Agricultural Policy (CAP): one of the main issues at stake in the European Council negotiations was the financing of the CAP, a policy strongly criticised by the UK and the Netherlands but strongly defended by France and Spain as the only real common EU policy.

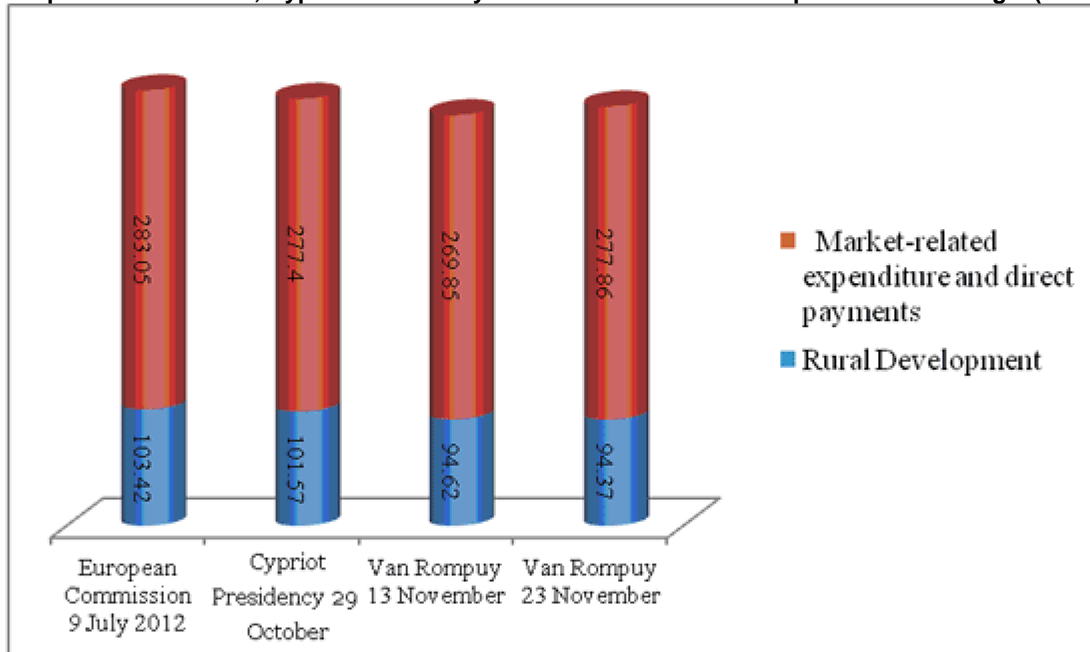
[9] 'Multiannual Financial Framework/European Council, 30/11/2012', *Europolitics.*

The latest version of the negotiation box contained cuts of up to €17.5 billion compared with the European Commission's proposal and set the CAP ceiling at €372.23 billion. It allocated €277.85 billion to market-related expenditure and direct payments, accounting for an increase in the CAP envelope of €8 billion compared with the last proposal. The increase was aimed at France, which had consistently defended expenditure in agriculture, as well as at Spain. Despite this, the French President François Hollande, backed by Spain, Italy, Ireland and Romania, pushed for a further €6 billion to be re-injected into the CAP budget. As a concession to the new Member States, the proposal maintained the system of rebalancing direct payments across the EU so that in this respect the latest version of the draft conclusions set a minimum level for direct payments to be reached by 2020 (€196 per hectare).

Under pressure from Member States faced with growing budgetary constraints, greater flexibility between the two CAP pillars was included. This could negatively affect Pillar 2 (rural development) expenditure. Van Rompuy's latest paper proposed allowing all Member States to shift up to 15% of their rural development money to Pillar 1. As a result, the reduction in rural development spending could reach 23% compared with the Commission's proposal, although side payments were foreseen for Italy and Austria.

The failure to adopt MFF 2014-20 has pushed back the agenda for CAP reform, placing the whole process in stand-by. For the coming negotiation, agriculture will be the decisive item to be unblocked in order to secure an agreement.

Graph 3. Commission, Cypriot Presidency and Council President Proposals on Heading 2 (€bn)

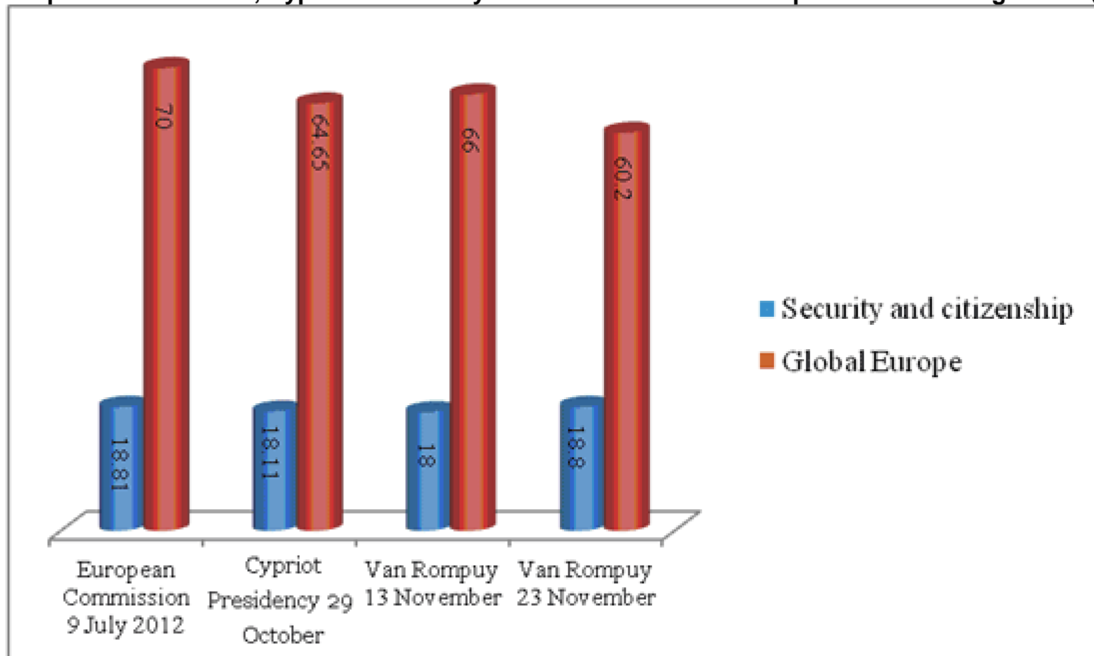


Source: the authors.

Headings 3 Citizenship, freedom, security and justice and 4 External expenditure: in general terms, Member States approved the structure of headings 4 and 3 and up until the October council almost no Member State had asked for a reduction in the overall ceiling for the two headings. Nevertheless, in the current negotiating situation, Member States are seeking to keep specific spending categories (such as CAP and Cohesion Policy) at a high level, demanding that cuts be made elsewhere. Other Member States

advocate a reduction in the EU budget independently of where. In this context, headings 4 and 3 were the most affected by cuts in the last proposal, in order to increase or maintain spending on the CAP and Cohesion, and were set at €60.6 billion and €16.6 billion, respectively.

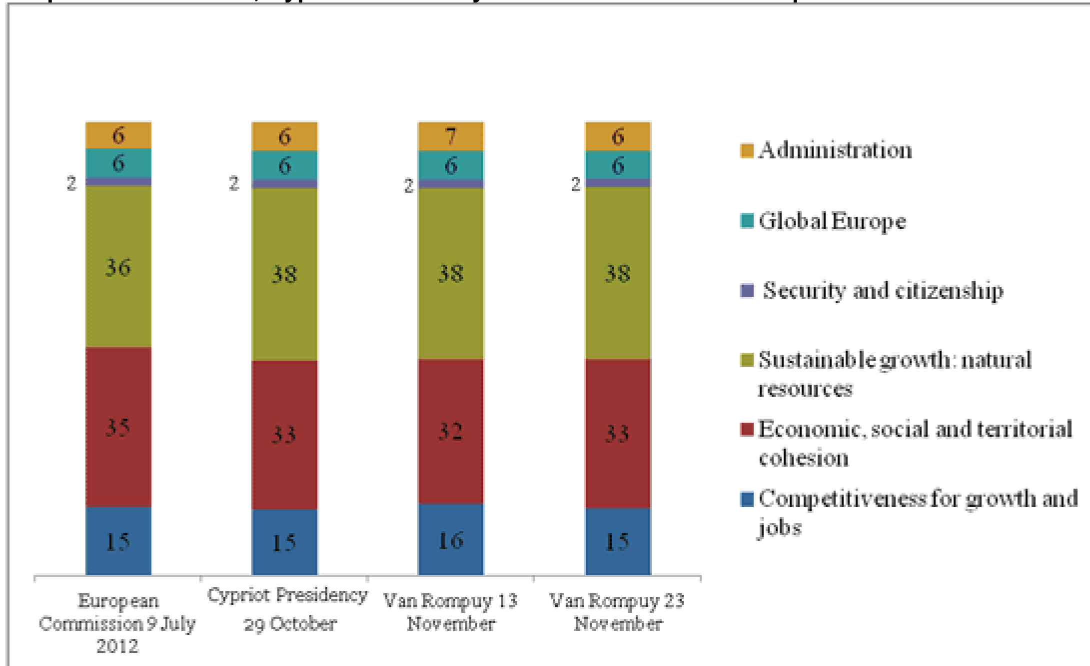
Graph 4. Commission, Cypriot Presidency and Council President Proposals on Headings 3 & 4 (€bn)



Source: the authors.

Heading 5 Administration: the proposed reform of the status of EU civil servants in December 2011 is aimed at saving €1 billion by 2020, mainly through a 5% staff reduction and increasing the number of hours worked per week. Nevertheless, the proposal did not satisfy some Member States, such as the UK, which seek more radical cuts. In the past months Van Rompuy has backed the idea of maintaining spending in administration at nearly the same level as the Commission's proposal, €62.6 billion, with a slight cut of €536 million.

Graph 5. Commission, Cypriot Presidency and Council President Proposals on the MFF 2014-20 (in %)



Source: the authors.

Table 1. Commission, Cypriot Presidency and Council President Proposals on the MFF 2014-20 (€bn)

	European Commission 9 July 2012[10]	Cypriot Presidency 29 October[11]	Van Rompuy 13 November	Van Rompuy 23 November
1a. Competitiveness for growth and jobs	165.00	146.32	153.00	148.00
of which Connecting Europe Facility (CEF)	50.00	36.31	46.25	41.25
1b. Economic, social and territorial cohesion	379.24	326.49	309.49	320.15
2. Sustainable growth: natural resources	386.47	378.97	364.47	372.23
of which market-related expenditure and direct payments:	283.05	277.40	269.85	277.86
3. Security and citizenship	18.81	18.11	18.00	18.80
4. Global Europe	70.00	64.65	66.00	60.20
5. Administration	63.16	63.16	63.00	62.60
Side payments				Italy (€1 billon) Portugal (€1 billion) Spain (€2.75 billion) Greece (€1billion) Austria (€700 million), Finland (€500 million), Slovenia (€150 million) Luxembourg (€20 million)

Source: the authors.

Correction mechanisms: these are among the most sensitive issues which come up in the negotiations regarding EU resources to the budget and are often left for the last moment. The British position is heavily marked by Prime Minister Margaret Thatcher, who in 1984,

[10] COM(2012) 388 final.
[11] 29/X/2012: Negotiating box (15599/12).

some years after the UK's accession, negotiated the so-called British rebate, which accounted for €3.6 billion in 2011. Although there is a strong demand from all Member States to abolish the rebate, the British cheque seems safe considering that it would take the unanimous agreement of the 27 Member States to eliminate it, including the agreement of the British Parliament, which is very difficult to imagine. Even the failure of the negotiation of the MFF 2014-20 would not mean cancelling it and this leaves the UK in a strong position. Its stance has been reinforced by the fact that Germany, the Netherlands, Sweden and Austria have also got their own rebates, introduced in 2000 at the Berlin European Council, and are determined to defend them. Moreover, Denmark requested very strongly that it would also need a correction mechanism in order to improve its net balance. The debate on the correction mechanisms hindered the discussion on new ways to finance the EU budget –such as the introduction of a Financial Transaction Tax– but this issue will need to be discussed at the next European Council as it is one of the main demands of the European Parliament, which must give its consent to the financial framework.

Conclusions: The insistence of several Member States on red lines which they are unwilling to cross has shown once again the 'status quo' character of the European budget structure and allowed little room for flexibility during the past European Council negotiation. In this respect, the Council Presidency and the EU Presidency had to propose from the beginning additional cuts in spending. The strategic decision to reduce the CAP and Cohesion Policy was, nevertheless, strongly opposed by France, Spain, Italy, Greece, Portugal and the new Member States and did not last long. The EU budget's limited resources, again mainly concentrated on the CAP and Cohesion policy, will therefore leave insufficient funding available for financing European policies such as R&D and the EU's external action. It would not be fair to blame the 'Friends of Better Spending' alone for the summit's failure, since other Member States had also requested the maintenance of EU spending in their respective countries and had shown no flexibility on further cuts in the 'traditional spending headings'.

As in previous negotiations, the tension between austerity demands and national necessities has again arisen with force at a time of economic crisis and growing unemployment in Europe. It is clear that a volume of around 1% of the EU's GNI for the budget is too small to achieve a true steering effect in such a complicated context. Moreover, the numerous correction mechanisms and growing number of side payments will make the MFF 2014-20 again highly complicated and less transparent.

Additionally, according to the negotiation agenda no increase in EU budgetary autonomy can be expected. The debate on a reformed own-resources system which started in the public consultation process during the EU budget review failed to mature and was postponed at an early stage of the negotiation process.

It is now very difficult to say who will get the best agreement because many factors come into play (aid intensity by type of region, premiums granted in terms of unemployment, special allowances, individual perks, etc.). However, it can be assumed that Spain's position can be improved, as well as the net balance of France and the countries most hit by the crisis.

The EU Council on 22-23 November has again brought to the fore the limited political ambition and vision for Europe among the EU's leaders. The focus on national net balances, once again, has ignored the impact the EU budget could have in overcoming the crisis, as well as the MFF 2014-20's role in supporting growth, employment, competitiveness and convergence in line with the Europe 2020 Strategy.

The Council has confirmed the long-standing argument that no multiannual financial framework negotiation ends in success at the first attempt. A new European Council devoted to achieving a deal on the MFF will be convened in early 2013, probably in February or March. Experience also shows that small Member States make good EU Presidencies, since they are cautious in their external behaviour and act as honest brokers. However, so far no small country has reached an agreement on a MFF. It has always been the larger Member States that have been able to subordinate certain national material interests in order to reach an agreement. In 2013 Ireland will assume the Presidency for the seventh time since joining the EU in 1973. It will again be a small country, but experienced, in chairing the Council. Ireland is also a member of the 'skinflint club', made up of countries which neither belong to the 'Friends of Cohesion' or to the 'Friends of Better Spending' –this could be a first condition to reach a final agreement–. The Irish government has already identified as the first priority of its Presidency the achievement of an agreement on the MFF 2014-20, a goal which is necessary not just for the success of its Presidency but especially for the EU's own cohesion and growth.[12]

Mario Kölling
García Pelayo Fellow, Centre for Political and Constitutional Studies

Cristina Serrano Leal
PhD in Economics

[12] Declarations by President Durão Barroso and other European leaders after the European Council can be found in *Bulletin Quotidien Europe*, 24/XI/2012, Agence Europe, Brussels.