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Visegrad's Winding Road to the EU Multiannual Financial Framework 2014–2020

The Visegrad Group countries (V4) share a common history, geographical location and similar political priorities, something which has naturally led to attempts to coordinate their foreign and European policies. However, it is not only their common background that raises the need for closer cooperation but also the strict convergence of their economic interests in the European Union. At first glance, this convergence ought to contribute to strong, strategic cooperation on EU issues. Yet, this cooperation is not easy because of the different domestic political and economic contexts in all four countries and the difficulties connected with the negotiations themselves. Nevertheless, these countries have been attempting, with varying degrees of success, to bring their positions closer together.

The ongoing crisis in the euro area has become a major theme on the EU agenda, downgrading the debate of even politically important processes such as the negotiations of a new EU funding period, or the Multiannual Financial Framework 2014–2020 (MFF). However, for the V4 countries, the outcome of the negotiations, measured by allocations of EU funds, is of great importance to their economies. Therefore, it is worth examining the potential effects on V4 allocations of some of the variants of the MFF negotiations, how far Czech, Hungarian, Polish and Slovak interests coincide, and whether further coordination of their negotiating positions is realistic and feasible within the next few months.

Common Interests in the New MFF: Potential Financial Flows Analysis

Like every other country taking part in the negotiations, the V4 members wish to optimise their net positions. The current economic status of these countries makes them natural supporters of cohesion policy. This is because they gain from structural funds in two aspects: they are net beneficiaries of this policy and they are able to narrow the competitiveness gap with knowledge-based economies by such things as upgrading labour skills, boosting human capital and improving infrastructure.

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Table 1. Structure of possible allocations (in billion €) to the V4 in 2014–2020: EC proposal and scenario with smaller MFF[1]

	EC proposal				Budget cut by €100 bln, cuts in structural funds and Rural Development			
	CZR	HUN	POL	SLK	CZR	HUN	POL	SLK
Total allocations	*32.4*	*33.6*	*108.6*	*18.4*	*27.0*	*28.5*	*90.9*	*15.5*
R&D, innovation	2.2	2.1	4.5	2.7	2.2	2.1	4.5	2.7
Cohesion	22.4	20.7	71.4	10.5	17.7	16.4	56.5	8.3
Rural development	3.5	3.6	13.3	3.1	2.7	2.8	10.5	2.4
Direct payments and other market-related expenses	3.9	6.2	13.4	1.8	3.9	6.2	13.4	1.8
Freedom and security	0.2	0.3	1.5	0.1	0.2	0.3	1.5	0.1
Global Europe	0.1	0.4	4.2	0.1	0.1	0.4	4.2	0.1
Admin.	0.2	0.3	0.3	0.1	0.2	0.3	0.3	0.1

Source: own calculations, based on Eurostat, IMF World Economic Outlook, European Commission's financial report for 2010.

These countries are aware of the fact that the Commission's proposal is the maximum they can hope for in financial terms. Other known options could cost them about 15–30% of their allocations. In general, this is because the largest net contributors are not convinced of the EC's proposal, especially concerning the need for strong cohesion policy. Germany proposed, for instance, to cut the overall framework by €100 billion. France has moved to protect direct payments at their

[1] It is assumed that the countries benefit slightly less from cohesion policy due to the level of development of their regions, which would cause a phasing out of some actions in these regions. Also, the authors assumed that these countries gain more on "smart growth" budgetary lines, which are currently based on competition amongst the entire EU—the V4 countries would get more knowledge of how to correctly apply for grants and improve the networks of colleagues across Europe. The other projections are based on current allocations from the common budget.

current levels, which means, that the €100 billion cut Germany proposes would be drained from other elements of the MFF. And if other countries remain unconvinced that cohesion policy contributes to economic growth in the EU, then cuts would be concentrated there. Table 1 shows a comparison between the possible allocations for the Visegrad Group countries, according to the EC's proposal and likely allocations, and a scenario in which €100 billion in cuts are concentrated in cohesion policy and rural development. The cuts would affect Poland the most in absolute terms, erasing €17.7 billion from its allocations (a loss of about 16%). The least losses suffered in nominal terms would be by Slovakia, which would give up about €3 billion, but in relative terms it would nevertheless take a 30% loss.

Table 2. The structure of possible contributions (in billion €) made by the V4, 2014–2020: EC proposal and scenario with rejected FTT

	EC proposal				Budget €100 bln lower, FTT abolished			
	CZR	HUN	POL	SLK	CZR	HUN	POL	SLK
Total contributions	*11.7*	*7.6*	*29.2*	*6.1*	*13.0*	*8.2*	*32.8*	*6.7*
GNI	6.4	4.4	17.1	3.2	8.3	5.7	22.3	4.2
Customs duties	1.8	0.8	3.3	1.2	1.8	0.8	3.3	1.2
VAT	1.9	1.0	4.9	0.8	1.9	1.0	4.9	0.8
FTT	0.7	0.8	1.6	0.4	0.0	0.0	0.0	0.0
Corrections (including British rebate)	1.0	0.7	2.2	0.5	1.0	0.7	2.2	0.5

Source: own calculations, based on Eurostat, IMF World Economic Outlook, European Commission's financial report for 2010, ECB.

The Commission's proposal is also advantageous to the V4 countries in that it would reduce their contributions to the common budget relative to their allocations thanks to the suggested introduction of a new own resource—the Financial Transactions Tax (FTT). This relative gain would occur even if the overall size of the MFF were reduced by €100 billion. This is because the financial markets in the V4 states are not as large as in Western Europe, making this proposal for a new own resource highly attractive to the V4 at present.

Table 3. The structure of possible contributions (in billion €) to the EU budget of the Czech Republic, Hungary, Poland and Slovakia.

	EC proposal				Budget cut by €100 bln, cuts in structural funds and Rural Development, no FTT			
	CZR	HUN	POL	SLK	CZR	HUN	POL	SLK
Allocations	32.4	33.6	108.6	18.4	27.0	28.5	90.9	15.5
Contributions	11.7	7.6	29.2	6.1	13.0	8.2	32.8	6.7
Net position	*20.7*	*25.9*	*79.4*	*12.3*	*14.0*	*20.3*	*58.1*	*8.8*

Source: own calculations, based on Eurostat, IMF World Economic Outlook, European Commission's financial report for 2010, ECB.

Areas of Discord

In short, the V4's positions should logically coalesce around two issues, with the first being cohesion policy. The overall net position of the Visegrad Countries depends mainly on the magnitude of the structural funds and the other items linked with cohesion policy. Reductions in these budget lines would do most harm to their net positions, whilst cuts in other items would bring significantly fewer losses. The second—although a somewhat distant second to cohesion policy—is the FTT. It could help improve their net positions by as much as 5–10%. These results show clearly why the four countries support cohesion policy and why they should continue their efforts to maintain the significance and magnitude of this policy while also coming together to support the proposed FTT.

There are, however, a number of potential areas of discord arising from the economic outlook and their attitudes towards EU integration that may in turn impinge upon their behaviour in the MFF negotiations. For instance, each of the four countries enjoys a different set of relations with other EU Member States, whether this be bilateral, as with Germany, or to blocs of states, such as eurozone members. This not only means that their loyalties to one or another EU Member State may be stronger than their loyalties to their V4 partners but also that their hope of benefiting from special arrangements—for example, an FTT for eurozone members only—are higher. They differ further in their openness towards further EU integration, and this, coupled with a strong or weak economic position, can affect their readiness to accept whether the EU gains greater competencies in tax affairs or a new own resource. Another difference, and the most obvious, is that they each have different economic compositions, with some boasting large agriculture sectors or sectors with particular structural needs, while others may be on the cusp of a higher funding bracket. These differences give them very specific interests in the structure of the budget and render relative their common interest in its overall size. Finally, differences in domestic economic policy may see the V4 countries adopt different positions with regard to the austerity and growth debate currently driving the MFF negotiations.

In its European policy, the Czech Republic has distanced itself from seeking to deepen political and economic integration, and proposes an alternative vision of the European Union as a confederation of sovereign states. In spite of its general understanding of the primary ways of coping with the economic crisis, which is reflected in the Czech Republic's very good reputation amongst the financial markets, the country has opposed broader coordination of economic and fiscal policies and prefers to leave the decision on how to fight the crisis to the competences of national governments. The Czech Republic's position was presented as one of the reasons why the country rejected both the Euro Plus Pact in March 2011 and the so called fiscal compact in March 2012. According to the authorities in Prague, increasing the coordination of European economic policy will not necessarily have positive impacts, either for the EU or for the Czech Republic

The reason Czech Republic is able to maintain this distance in its European policy is its economic stability and relative monetary independence. Compared to the rest of the EU, the country's budget deficit (3.7% GDP in 2011), public debt (41.2% GDP in 2011), inflation (3.1% in August 2012) as well as unemployment (6.8% in the second quarter of 2012) are relatively low. However, these are not decisive factors. Much more important is the domestic background, namely the personal attitudes of decision-makers, the governing Civic Democratic Movement's (ODS) political programme and likely complications with the ratification of agreements (because of the veto power wielded by President Václav Klaus). Also in the government's favour, society is sceptical of the euro and support for the common currency in the Czech Republic is highly moderate (22% in January 2011).

Slovakia holds a noticeably different attitude in its policy on European issues. The authorities in Bratislava strive to maintain the country's place in the mainstream of the EU, which is something clearly seen in their acceptance of the anti-crisis proposals of the largest EU countries (fiscal union, aid for Greece, etc.). This agenda is mainly a result of Slovakia's very open economy (about 75–80% of GDP is generated by exports, mostly to EU Member States). But it also reflects its current domestic performance. Slovakia faces high levels of unemployment (13.4% in 2011), inflation (4.1% in 2011) and budget deficit (4.9% GDP in 2011).

Its membership in the eurozone since January 2009 is another important factor affecting Slovakia's European vocation. Among all the V4 countries, only Slovakia participates in aid programmes for Greece despite its previous doubts. The Slovak parliament refused in August 2010 to participate in the first Greek bailout, mainly due to internal political disputes.[2] As a eurozone member, Slovakia had to join the European Financial Stability Facility (EFSF). Although the unpopular decision to increase Slovakia's contribution to the EFSF from €4.4 billion to €7.7 billion was a direct cause of the collapse of Iveta Radičová's centre-right government in October 2011, it seems that it did not have an impact on either a shift in the country's European policy or the general pro-European attitudes of Slovakian society. This was proven by the landslide victory of strong EU supporter SMER-Sociálna Demokracia, headed by Robert Fico, in a parliamentary election in March 2012.

Unlike the Czech Republic, Slovakia's position is distinguished by large political consensus on the main directions of European policy. Among all the parties that crossed the threshold in the last elections, only the liberal Freedom and Solidarity (SaS) party refuses to strengthen political and

[2] The so called Greek Loan Facility is based on bilateral loans coordinated by the European Commission and a loan from the International Monetary Fund.

economic integration in the EU. However, SaS has only 11 deputies and is rather on the margins of the current public debate. In the programmes of all the other parties, including the governing left-wing SMER-SD and the conservative opposition, European issues are treated in a similar manner. After François Hollande took power in France, the Fico government declared its openness to Eurobonds, though it seems that it was to keep the country in the heart of the debate on the debt crisis rather than to significantly shift Slovakia's foreign policy. This was evidenced by the presence in the new government of EU experts who formerly had cooperated with the centre-right.

Hungary has a less-specific vision of European policy. In a country that since May 2010 has been governed by the centre-right party Fidesz, a large gap between the political elite's rhetoric and its activity has appeared. In their declarations, the authorities very often refer to the term "national independence," and declare their will to loosen political and economic ties between Hungary and Western institutions. This strategy can be explained by domestic factors, mainly by Fidesz's rivalry with the far-right Jobbik party for conservative and eurosceptical voters. Moreover, as a result of Hungary's controversial domestic policy, among all the V4 countries it has the worst public image in Europe nowadays. This is seen in its negotiating position in the EU as well.

Paradoxically, Fidesz's firm rhetoric very rarely is reflected in the country's activity at EU forums. During the last two years, the only example of Hungary's opposition to the EU was its refusal, along with Great Britain and Sweden, to join the Euro Plus Pact in March 2011 because of proposals for tax harmonisation. On other crucial issues, Hungary's standpoint has not been far from the views of the European People's Party, to which Fidesz belongs, unlike Czech Republic's governing party, ODS. Hungary's conciliatory attitude is also shown in its turbulent relations with the European Commission, which in 2011 and 2012 aroused doubts concerning changes in Hungary's legal system. From the very beginning of Viktor Orbán's government, it declared its will to cooperate with the EC, and afterwards included most of its suggestions. Its determination to actively form an EU agenda was proven during its EU Council Presidency (January–June 2011) when it finished accession negotiations with Croatia, pushed through a few new projects (Strategy on Roma, Danube Strategy) as well as coordinated works on EU economic governance ("six pack").

Hungary differs from the Czech Republic, which is able to have distance in its European policy, in its economy. The level of public debt in Hungary (80.4% GDP in 2011) is almost twice as high as in the Czech Republic (41.2%) and Slovakia (43.3%), and unemployment (11.1% in 2011) and inflation (3.9% in 2011) are rather high as well. Hungary's export-oriented economy increases its dependence on the EU, and its high debt and weak growth prospects have forced the country to look for financial assistance from both the EU and IMF, which has reflected in a negative way in its negotiating position.

Meanwhile, the foundation of Poland's European policy is its participation in decisions about the future of integration and cohesion in order to prevent a breakdown of the EU. For this reason, Poland is a participant in the Euro Plus Pact and the fiscal compact. However, due to the development of the euro crisis, Polish European policy is now at a crossroads. On the one hand, the country is trying to find a place at the negotiating table concerning the future of European integration, especially when it comes to the common currency, while on the other hand, the current situation does not offer a clear path for Poland's entry to the eurozone because of the systemic risk involved.

The Polish economy is tightly integrated with the EU. At the same time, Poland has managed to maintain economic growth during the economic and financial crisis. It is struggling to cut its public debt, which in 2011 amounted to 56.3% of GDP, and high unemployment, which still exceeds 10%. However, Poland's overall economic performance has allowed its arguments to be attuned to EU's growth-oriented agenda.

Despite obvious divergence in the V4 countries' European policies, there are strong reasons for building a common bloc not solely derived from history or experience, but rather from similarities in their current economic profiles. Importantly, they have a similar welfare levels compared to GDP: Poland's rate is €16,200 per resident (Purchasing Power Standard) and is the lowest of the V4 states, while Czech Republic has €20,000 per resident and is the highest. Labour productivity is still rather low because of the relative scarcity of capital, which is especially noticeable in agriculture. The most interesting is Poland, where about 17% of total labour is employed in agriculture and yet produces only about 4% GDP. This also incurs a political impact on the country's MFF position on agriculture issues because of strong lobby efforts by Polish farmers. A lack of labour productivity is also a result of rather weak infrastructure (including transport, energy, ICT and research bases).

MFF Negotiations: A Convergence and Divergence of Interests

These potential sources of division are already playing out in the negotiations. The internal conditions previously mentioned significantly affect the positions of individual members of the group during the negotiations. Moreover, the ongoing discussion in the General Affairs Council shows that the V4 countries do not have a coherent position regarding economic terms. Poland, Slovakia and Hungary are trying to counteract the demands of net contributors related to a demand for a reduction in the size of the next budget. For practical reasons, it is politically impossible to make any significant cuts in Common Agricultural Policy, thus the main pressure is put on cohesion policy, which is the main source of EU funds for the V4 countries. Poland, Slovakia and Hungary are against concentrating this policy on the poorest regions or on the poorest states because it would bring further demands for the re-nationalisation of this policy in the future. Thus they are pushing for maximum accessibility of this policy to all regions and countries.

The Czech Republic distances itself from the other Visegrad countries and pushes for a reduction in the overall budget. Along with Hungary it is opposed to the introduction of new own resources, claiming that it would complicate the current system. While supporting a postulate to limit the reduction of the MFF ceiling, the Czech Republic opposes reducing allocations under cohesion policy. As a result, the Czech Republic finds itself on two front lines, being both a member of "Friends of Cohesion" and the "Like Minded" group, which sometimes has led to the signing of non-papers created by both groups and presented during the same meeting of GAC—as was the case of a letter presented on 29 May 2012. At the same time, the Czech Republic fears marginalisation and actively supports initiatives for economic growth, such as a plan for growth in Europe signed on 20 February by 12 EU Member States. Czechs advocate the idea of stimulating growth by further liberalising the domestic market in the EU (mainly in energy, services and digitalisation) and stronger cooperation with non-European countries. The Czech willingness to support two conflicting demands—a lower budget and strong cohesion policy—means the country will try for as long as possible to conduct a twin-track policy and will only finalise its position after negotiations with other

countries. Nevertheless, the Czech Republic, although active in both camps, supports with Poland and Hungary the creation of a separate subheading for cohesion policy.

Slovakia is also a main net recipient of EU funds, and therefore remains very sensitive to the risk of EU budget cuts. Hence, as for the MFF 2014–2020, Slovakia would be equally interested in sustaining the high level of cohesion policy and in obtaining a quick compromise with other EU countries without unduly prolonging negotiations. Hungary's position is similar to the Slovakian position—both countries are beneficiaries of cohesion funds and they both react in an allergic way to any proposals that would lead to cuts in their allocations. Therefore, the authorities in Budapest will strongly oppose not only the idea of a reduction in cohesion funds but also the EC's proposal to cap funds to 2.5% GNI in allocations to Member States; if the latter were implemented, it would mean that Hungary would receive 25% less money than in MFF 2007–2013. Hungary seems to emphasise CAP funds more than the other V4 partners because of its large allocations under this policy and has argued that the payments proposed by the Commission are the minimum acceptable.

Poland is the largest beneficiary of the EU budget and has an interest in maximising its allocations, particularly in cohesion policy and the second pillar of Common Agriculture Policy. It is opposed to the current level of capping, and advocates reform of own resources, including the creation of a new source of income to the EU budget based on the FTT, which would lead to lowering Poland's contribution to the EU budget. In the course of negotiations, Poland has tried to build a common line with 12 to 15 net beneficiaries of the EU budget, mainly the countries of Central Europe, including the V4, the Baltic states and the Eastern Balkans, and has met with varying degrees of success. The difficulties lie in that the divergence of interests persists and the bloc is far from being as well organized as the "Like Minded" group.

These differences between the V4 countries offer plenty of opportunities to the net contributors to disintegrate the Visegrad cooperation in the negotiations, which could have a negative impact in the final allocations for these countries. An example of how well the "net contributors" can play the differences between the "Friends of Cohesion" was the Dutch proposal to introduce a new "reverse safety net" mechanism, which leads to a double-capping of cohesion funds to the net beneficiaries. It stipulates the means for each of the beneficiaries will be based on current allocations. This would place Poland and Hungary, the hardcore of the "cohesion coalition," on opposite sides of the table, because Poland obtained less funds in the current perspective than it should get, whereas Hungary was allocated with more. While this mechanism is no longer on the table, nevertheless it cannot be excluded that it will reappear in the nearest future.

Recommendations: Solving the Prisoner's Dilemma

The Czech Republic, Hungary, Poland and Slovakia have a strong common economic interest in coordinating their positions during the MFF negotiations. Nevertheless, the cooperation will not always be smooth, as several differences exist among them, not only concerning the details of the MFF allocations but also in their strategic views of the EU. These differences may be easily used by the main net payers to thwart attempts at a common position by the V4 countries. The greatest problem in terms of the MFF negotiations is the diverging interests of the V4 countries versus the organisation of the net payers club, who have one goal—top cut the EU budget while simultaneously protecting some other, rather minor issues, such as Horizon 2020. This makes it difficult for the V4 to cooperate as a group with countries outside the cohesion club and makes them vulnerable to such

proposals as the "reverse safety net," which favours some of the V4 states at the expense of the others. Hence, it is important to reinforce the links between the V4 group in order to strengthen the "Friends of Cohesion" club because it might still present a considerable power to influence the final outcome of the negotiations process.

The V4 thus face the typical "prisoner's dilemma": if they cooperate and maintain their allegiance they will be able to gain the deal that is most beneficial to all of them. However, if one of them breaks rank and pursues a narrow set of interests in order to achieve an even better net national position, everyone stands to lose. Other EU Member States, particularly in the group of net contributors, will thus seek to exploit the opportunity to pick off individual members of the V4.

Against this backdrop, two ways to improve cooperation among the V4 come to mind. The first is to seek to overcome internal differences of opinion about specifics in the MFF, to strengthen the "Friends of Cohesion" coalition (especially by intensifying ties with other Central European or Baltic States and cooperate on several aspects with Spain, Italy or Greece), and to seek points of convergence with net payers. Perhaps a good starting point would be a debate on the growth potential of direct payments with such countries as Great Britain, Germany or the Netherlands. It would of paramount importance that the European media followed the issue. It should also be pointed out that the proposal to introduce the FTT could create pressure to revise the current system of rebates, although any changes in the MFF 2014–2020 income structure are unlikely. In the face of the final negotiation phase, the V4 countries should continue to play an active role, reminding the parties that the main EU spending policies, such as cohesion, can contribute to economic growth not only in the new members' states but also in the net payers' economies. Also, these countries should point to the beneficial impact of structural funds on a region's competitiveness, which translates to higher long-term growth. It seems that in the current situation when the EU faces an economic slowdown, these are irrefutable arguments. With using such arguments, the "Friends of Cohesion," which includes the V4 group, should not make any concessions in any aspect of cohesion policy, unless these concessions are proven to be real growth factors.

The V4 also needs to strengthen its format as a whole. By doing so, should one of the members pursue its own economic interests at the expense of the partners it would risk more than momentary displeasure. That is why it is so important to increase the range of other areas that can be discussed within this format—the more areas coordinated, the more probability that the V4 format will survive a test of allegiance during the negotiations. So, it is in the V4's interest to meaningfully expand the areas to be discussed within the group.