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EU Budget Plan for 2021–2027: The European Commission's Proposals

Sebastian Płóciennik

The draft of EU budgets for the coming years prepared by the European Commission reveal three major goals: The Union is to at least maintain the existing financial potential, the Community level should be strengthened, and consider new objectives in expenditure. Disputes over these ideas between Member States are inevitable and it could be a long way to the final compromise.

Each of the Multi-annual Financial Frameworks (MFF) presented in the past was more than an accounting record: it was a political document showing approaches to new challenges and the evolution of European integration. It is no different now. At the beginning of May, the European Commission presented a plan for 2021–2027, meant as a response to Brexit, new external threats, changes in the global economy, social problems, as well as differences of interests between Member States. Its key points are maintaining the size of the budget, strengthening competences at the Community level and shifts in the structure of expenditure reflecting new political priorities.

More Europe. According to the Commission, the multiannual budget will reach €1.135 trillion (commitments, prices from 2018), which in real terms translates into maintaining the level of expenditure from 2014–2020. However, due to the UK leaving the EU, this amount means an increase in the ratio to the EU's gross national income from 1.03% to 1.11%. It is a political signal: despite Brexit, integration is moving on.

What should make the plan possible is, on the one hand, the gradual elimination of rebates in membership contributions, a reduction from 20% to 10% of the amount that countries retain in the collection of customs duties, as well as simplification of the current Value Added Tax (VAT) based Own Resource. The major input, however, comes from new sources: a 20% share in revenues from the CO_2 emissions-allowance trading system, a 3% corporation tax, as well as Member States' contributions calculated on the basis of non-recycled plastic packaging waste (€0.80 per kilogram). In total, they are expected to generate €22 billion a year and, at the same time, strengthen the Community's strength in integration.

The same intention is behind a new instrument of control over the Member States. The Commission aims at making access to funds dependent on adherence to the rule of law, for example, the existence of an independent judiciary. If a problem is recognized in one of the Member States, the EC may put forward to the Council a proposal to impose restrictions on taking advantage of EU money. The chances that such a proposal goes through will be high, as it can be blocked only by a qualified majority. The position of the European Commission towards the states will therefore be strengthened.

Shift in Expenditure. The draft of the new MFF signals gradual changes in the structure of expenditure. The dominant pools of agricultural and cohesion policies are to be reduced by around 5%. However, it is more than just quantitative changes. In cohesion policy, the criterion for the allocation of resources will be not only the level of GDP per capita but also the unemployment rate or problems with the integration of immigrants. This means that support will be available not only to the poorest regions of the Union but also to wealthier ones struggling with serious challenges.

Less money for traditional EU policies makes room for an increase in expenditures in other areas. They can be grouped around two areas: improving the competitiveness of the economy and increasing the security of the EU.

In the economic sphere, the Commission proposes 50% more resources for innovation and research by, e.g., allocating €100 billion to the Horizon Europe and Euratom programmes, and upgrading the digital economy by a €12 billion funding pool. The budget foresees new tools for the euro area. This includes a €25 billion programme to support structural reform, funds for accelerating preparations for membership of the monetary union and the European Investment Stabilisation Instrument (€30 billion), from which loans are to be granted to maintain investments in periods of economic downturn. The importance of climate change is growing: a total of 25% of the EU budget is to support energy transformation. The Commission decided also to send a strong message to young people by doubling means for the Erasmus+ programme to €30 billion.

In the second area—security and crisis prevention—particularly noteworthy is the threefold increase in expenditure for the protection of external borders and migration and asylum policy. The €33 billion budget will allow, for example, the employment of 10,000 border guards by 2027. Furthermore, the Commission wants to allocate 40% more resources to security policy (€4.8 billion) than in the current perspective, create a defence fund with €13 billion to support research into military technologies and defence capabilities, and a special pool to adapt transport infrastructure to troop mobility (€6.5 billion). The new financial perspective also increases expenditure on external actions (by 26% to €120 billion), which will allow the organisation of peace-and-stabilisation missions in third countries, and—this is new—building a financial reserve to mitigate the effects of crises, e.g., migration waves.

Conclusions. The proposal by the European Commission is the opening move in the negotiations. If the new MFF is to be applied from 2021, the final settlement should be made in spring 2019 at the EU summit in Sibiu, before the elections to the European Parliament and the establishment of a new Commission. The chances for this depend on whether Member States can accommodate their interests within the vision shown in the MFF draft. It does not have to be that way.

Maintaining the real level of expenditure will raise objections among some net payers of the EU budget. Although Germany and France accept higher contributions, others, like the Netherlands and Sweden, are already contesting the Commission's plans. In their opinion, the smaller Union does not need more resources and competences at the Community level, but effective structural reform. The instrument to enforce rule of law may also become an obstacle in the negotiations. Reservations can be expected mainly from Central European members (objections have been raised by Bulgaria and Romania, and Poland will join them if the Article 7 TEU procedure is not completed), which fear that the new procedure will weaken their position in disputes with EU institutions. They will seek allies among governments who are sceptical about the further strengthening of the European Commission's position vis-à-vis national states.

Long and difficult negotiations should be expected in the area of expenditure. Cuts with regard to agriculture and cohesion will certainly heat up the traditional dispute from previous rounds between the beneficiaries of these policies and countries demanding the transfer of funds for other purposes, or even the re-nationalisation of expenditures. An additional conflict provoked also by the MFF-draft will arise between the current main recipients of cohesion policy from Central Europe and the countries of the South. The former will insist on the application of the national income criterion while the others will stress the issue of growth and unemployment, high costs incurred in connection with the influx of immigrants, and that the countries of recent enlargements have developed so much that they no longer need cohesion support in its current form.

Disputes will also be provoked by other sectoral policies, such as energy and climate. Supporters of a more radical approach will expect not only a mere increase in spending in this area but also a withdrawal of support for carbon-energy projects contrary to the objectives of the Paris Agreement. This means conflict with, for example, Poland, whose energy policy still sees a strong role for coal. Difficult negotiations can also be expected in the area of the digital economy and innovation. Poorer countries are afraid that the bulk of these funds will go to the most-developed economic centres capable of co-financing large and expensive projects.

The disputes described above increase the probability of negotiations lasting longer than expected. It cannot be ruled out that they will be finalised only in the second half of 2020. This will be when Germany has the presidency of the EU and will try to avoid a fiasco in these crucial negotiations, which simply is not an option for the biggest Member State. Some countries have already included this moment in their calculations, hoping that Chancellor Angela Merkel will have to resort to a method well known from Helmut Kohl's time and "pay" for the final compromise from the German budget.