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Central Europe in the Negotiations of the EU Multiannual Financial Framework

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The common goal of Central European (CE) Member States in negotiating the multiannual budget of the European Union for 2021-2027 is to maintain the high level of financing under cohesion policy and the common agricultural policy (CAP). Reaching agreement with France and Germany, the most favourable towards increasing the EU budget among the net payers, will be crucial for effective defence of the region's priorities.

The draft of the EU budget for 2021-27 (multiannual financial framework, or MFF), presented by the European Commission (EC) in May amounts to a similar sum as the current one. The EC envisages an increase in expenditures on programmes that until now have been financed from European funds to a rather limited extent. These—referred to as new priorities—include: border protection, migration management, research, the digital sector, and cooperation among defence industries. At the same time, the EC proposes to reduce spending on CAP and cohesion policy, depicted as traditional policies that constitute a source of significant European funds for CE states. According to the European Parliament, the expenditures on these policies will be lower by 15% and 10%, respectively.

Budget size, Financing of Key Policies. Even before the announcement of the EC proposal, official and unofficial (non-papers) positions of CE states (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia) stressed the effectiveness of cohesion policy and CAP. It was emphasised that the process of reducing the gap in economic development between the Member States is not advanced enough to downsize these policies. Anticipating the push to spend more on new priorities, the CE countries have declared their willingness to consider a higher contribution to the common budget that would exceed the 1% of the EU's gross national income (GNI) established for the current MFF. This statement featured in the position papers of the Baltic states, the Visegrad Group, and Romania. The prime ministers of Poland and Slovakia, as well as several Hungarian politicians, suggested that the contribution could reach 1.2% of GNI.

The EC proposal partly reflects those requests: the MFF is equivalent to 1.11% of EU GNI. However, the cuts planned under cohesion policy and CAP are severe for most countries in the CE. In cohesion policy, a preliminary assessment of the so-called national envelopes shows that the Baltic States and the Visegrad countries (Czech Republic, Hungary, Poland, Slovakia) would see a cut of more than 20% in comparison to the current MFF. This is not only because of a reduction in the total amount allocated for cohesion but also the modification of criteria for the distribution of funds among the Member States. Consequently, Southern European countries still struggling with the effects of the economic crisis (Greece, Spain, Italy) are to receive more funds than in the present budget. Larger allocations of about 8% are also planned for Bulgaria and Romania. They avoided cuts thanks to the lower per capita GNI than other CE countries. The modification of criteria, and the fairly clear division between the winners and losers as a result, may undermine the unity of the Friends of Cohesion Group, which in previous MFF negotiations was a platform for cooperation between countries supporting a generous cohesion policy. The group has included the newer Member States (but not Cyprus), Greece, Spain, and Portugal.

The proposed changes to the CAP financing are beneficial for the Baltic states. To promote the gradual convergence of direct payments granted to farmers in the Member States, Estonia, Latvia, and Lithuania are to receive more funds for this purpose (more than 30% for the first two countries and more than 15% for Lithuania). In these countries, the average level of direct payments is the lowest in the EU. For the remaining CE countries, the EC foresees less funds from CAP than at present, although the reduction is not as severe as in the case of cohesion policy.

Attitude Towards New Priorities. The increased financing of new priorities, especially in the field of security, has met with positive reactions in the CE countries. Greater EU support for the protection of external borders, migration management, and cooperation in the defence industry corresponds with their demands. They are also supportive of larger funds for external actions of the Union, although the majority (the Baltic States, Poland, Romania, and Slovakia) have protested the abolishment of a separate instrument devoted to financing programmes in the neighbourhood. The CE representatives emphasise, however, that financing new priorities cannot take place at the expense of excessive reductions in spending on traditional policies. It can therefore be assumed that if it is not possible to negotiate an overall increase in the budget, the CE countries will advocate an adjustment of the distribution of funds between programmes in favour of cohesion policy and CAP.

Rule of Law and the Negotiations. The EC budget proposal provides for the creation of what is called political conditionality, i.e., the possibility of withholding payments of EU funds to Member States where violations of the rule of law have been reported. This proposal is supported by net payers, and statements by French, German, and Dutch politicians suggest they attach considerable importance to political conditionality. Reservations have been expressed by countries recently admonished by the EC on rule-of-law issues: Poland, Hungary and Romania. These countries' representatives claim a lack of clearly defined criteria for an assessment of the rule of law in a given country and that the EC has gathered an excess of power, in part because any sanctions proposed by the EC could take effect if not blocked by a qualified majority vote of the Member States. The remaining CE countries have an ambiguous position and, therefore, it can be assumed they may be willing to accept the EC's proposal in this area in exchange for concessions in other areas important to them.

Prospects. The changes to the financing of cohesion policy presented by the EC are favourable for Bulgaria and Romania, and in the field of agricultural policy for the Baltic states. These countries will be less determined to join a coalition demanding increased spending on both policies. It will be easier to unite the region around the defence against further cuts promoted by the "frugal four" (Austria, Denmark, the Netherlands, Sweden).

To increase allocations for cohesion and CAP while leaving the sums budgeted for new priorities untouched, the CE states will have to advocate an increase in the budget. This goal can only be achieved in collaboration with France and Germany, which have not excluded a larger contribution to the EU budget. Consent to the introduction of a political conditionality mechanism could be part of the bargain. France, like the CE countries, supports the abolition of rebates granted to the majority of net payers.

A strong alliance in defence of CAP is already in place. In June, a group of countries jointly protested reductions in the budget for this policy.[1] Building a similarly determined coalition in favour of cohesion will be more challenging, as most Southern European countries may consider the EC proposal sufficiently beneficial.

The lack of an unambiguous response from the majority of the CE countries to political conditionality suggests that building a regional coalition aimed at blocking this initiative will be difficult. It seems possible, however, to obtain support in this group of countries for shaping the procedure in such a way that the launch of sanctions would depend on the consent of a qualified majority.

Looking for gains in areas other than cohesion policy and CAP, the CE countries will attempt to negotiate mechanisms that will facilitate access to funds from centrally managed programmes (i.e., without national envelopes). Currently, in the case of programmes such as Horizon 2020, devoted to financing research and innovation, entities from CE countries struggle to compete for funds with scientific centres from Western Europe. A similar problem may arise in the case of a new programme supporting joint ventures in the defence industry.

[1] The motion was supported by Cyprus, Greece, Finland, France, Hungary, Ireland, Lithuania, Luxemburg, Poland, Portugal, Slovakia, and Spain.