SWP Research Paper

Peter Becker

A New Budget for the EU

Negotiations on the Multiannual Financial Framework 2021–2027

Stiftung Wissenschaft und Politik
German Institute for International and Security Affairs

SWP Research Paper 11
August 2019, Berlin

Negotiations on the EU's Multiannual Financial Framework (MFF) are always lengthy, complex and conflictual. This applies to the MFF 2021—2027, which is expected to have a financial volume of around €1.3 trillion. As usual, the negotiations revolve around political priorities, the expenditures determined for each of them, and the distribution of the financial burden among member states. This ongoing process is hampered by the forthcoming Brexit, as the UK has so far contributed substantial amounts to the Union's budget. Furthermore, there are new tasks for the EU which require additional resources, such as the establishment of a defence union, increased protection of the EU's external borders, and the stabilisation of the euro zone.

Since the European Commission presented its proposal for a pragmatic reform of the EU budget on 2 May 2018, the member states have been negotiating a comprehensive package. However, cohesion in the coalitions of net contributors and net recipients is dwindling. The delicate negotiation framework makes the course and results of the search for consensus more difficult to foresee, and the actors less predictable. Due to the increasing uncertainty, all participants expect Germany to play a balancing role. Many countries hope that Germany, as the strongest economy and the largest net contributor, will provide additional resources to facilitate a successful conclusion of the negotiations on a new MFF. The German government therefore needs clear and firm ideas about the fields in which it wants to modernise EU policies and to further Europeanise and communitise them.

SWP Research Paper

Peter Becker

A New Budget for the EU

Negotiations on the Multiannual Financial Framework 2021–2027

Stiftung Wissenschaft und Politik
German Institute for International and Security Affairs

SWP Research Paper 11
August 2019, Berlin

SWP Research Papers are
peer reviewed by senior
researchers and the executive board of the Institute.
They are also subject to fact-checking and copy-editing.
For further information
on our quality control procedures, please visit the
SWP website: https://www.swp-berlin.org/en/about-swp/quality-management-for-swp-publications/.
SWP Research Papers reflect
the views of the author(s).

SWP
Stiftung Wissenschaft und
Politik
German Institute
for International
and Security Affairs

Ludwigkirchplatz 3 — 4
10719 Berlin
Germany
Phone +49 30 880 07-0
Fax +49 30 880 07-200
www.swp-berlin.org
swp@swp-berlin.org

ISSN 1863-1053
doi: 10.18449/2019RP11

(Updated English version of
SWP-Studie 14/2019)

Table of Contents

5 Issues and Recommendations

7 Introduction

8 The European Commission's Proposal
8 The Expenditure Side: Budget Volume and Priorities
11 Budget Financing: New Sources, No Rebates
11 Difficult Evaluation with a New Point of Departure
12 First Reactions and Positioning

15 State, Course and Structure of the Negotiations
15 State and Course of Negotiations
16 Group Formations of Member States

19 What's New in the Current MFF Negotiations?
19 The UK's Withdrawal from the EU and the Consequences for the MFF Negotiations
22 New Reform Projects and Negotiation Topics
30 Changes in the Process Flow

32 Further Negotiations and the Role of Germany
32 Scenario for the Further Course of Negotiations
33 Germany's Role in this Scenario

34 Abbreviations

Dr Peter Becker is Senior Associate in the EU/Europe Division at SWP.

A New Budget for the EU. Negotiations on the Multiannual Financial Framework 2021–2027

Negotiations on the EU's Multiannual Financial Framework (MFF) are often as lengthy, complex and conflictual as those aimed at modifying the European Treaties. The new financial framework 2021—2027 will determine the priorities of European policy over the next seven years and therefore the ability of EU-27 to act. These already complex negotiations will be further complicated by the imminent departure of the large contributor United Kingdom (UK). At the same time, in their New Strategic Agenda 2019—2024, the European heads of state and government have given the EU new, additional tasks such as external border protection, strengthening the social dimension of the integration process, and stabilising the European Economic and Monetary Union. With these new tasks, the need for funding is also likely to increase. Conflicts over the distribution of EU funds have therefore become much more acute.

Since the European Commission presented its proposal for a pragmatic reform to modernise the EU budget on 2 May 2018, the member states have been negotiating this comprehensive package. The procedure usually follows a well-known script with a fixed distribution of roles, the traditional conflict between net contributors and net recipients, and a well-rehearsed drama to reaching a consensus. Not only thanks to Brexit and the changed international framework conditions, but also due to the changing structures of the negotiation process and the coalitions among member states, a tricky situation is emerging. The course and results of the negotiations are becoming more difficult to predict and the actors less predictable. This increases uncertainty amongst all participants, but also creates leeway for negotiations and new reform options.

It will therefore be important for negotiations by the German Federal Government to strike a balance between appropriate reform and modernisation steps on the one hand, and political pragmatism and realism on the other. Germany's MFF policy should therefore be geared towards stabilising and keeping the EU-27 together, while also modernising it at the same time.

It is laudable that the German government is prepared to pay more into the EU budget for these long-term European policy goals. In doing so, however, it must take into account the special rules and tactical specifics of the MFF negotiations. When it comes to Germany's additional financial contributions, it is especially a question of the right timing and the appropriate conditions. This needs to happen no later than when the decisive negotiations are held in the European Council and overall political solutions have to be found. Then, many member states will be expected to formulate their special requests and agree exceptions beyond their current familiar positions, and will make their approval of the overall MFF compromise dependent on this. In the final phase of the negotiations, the German Government will have to limit the financial and substantive scope of other member states' wish lists and tie them to its own objectives.

It will be crucial to prevent system failure as well as permanent exceptions and special services. The European partners will present their requests and hope that Germany, as the strongest economy and largest net contributor, will provide the additional resources required for a consensus. By then, the German government will need clear and firm ideas on the areas in which it wants to modernise EU policies and continue to Europeanise and communitise. The narrow focus of many member states on pure figures as well as on the change in their respective national net balance could be the starting point for politically substantive reforms. This does not mean pushing for a fundamental fiscal reform that would redistribute financial tasks at the political decision-making levels. Instead, the aim should be to reorient the content of policy objectives and tasks within the existing EU spending policies. Money from the EU budget should only be spent on achieving common (and commonly agreed) policy objectives.

At the same time, however, German negotiating tactics should be sufficiently flexible to be able to balance the distribution conflicts that will inevitably arise. The initial basis for this is its willingness to make greater contributions to the modernisation and Europeanisation of European policies. It perpetuates the German EU policy of linking the promise of higher German payments to the further development and consolidation of the integration process in the common interest. Currently, the European project could consist of strengthening and expanding the autonomy and political capacity of the EU to act in budgetary terms. This certainly includes the first tentative steps proposed by the European Commission to create a European security union with strong joint protection of common external borders and a genuine European defence union. Those using the MFF negotiations to deepen and consolidate the EU will probably not be primarily other member states, but rather the Community institutions and above all the European Commission.

Introduction

Public budgets are predictions for future challenges and demands as well as numerical definitions of political priorities and goals. "A budget, therefore, may also be characterized as a series of goals with price tags attached."[1] Negotiations on public budgets are always difficult because political priorities have to be defined and distribution conflicts settled. In the MFF negotiations, decisions are made not only on an annual budget, but also on political and fiscal priorities for the next seven years. Furthermore, a consensus must be reached between 27 equal actors, which then needs parliamentary approval. In view of these requirements, it is not surprising how complicated the European negotiations on the EU's next financial framework are. In addition, the United Kingdom, which has so far contributed substantial amounts to the EU budget, will leave the Union. Brexit will therefore have an impact on future financing and the expenditure side of the EU budget, and on the distribution of contribution burdens.

The MFF deals with a financial volume of around €1.3 trillion, and how this huge sum will be spent in the next decade. The negotiations therefore revolve around financial possibilities and burdens as well as their distribution among the member states. Other topics include the priorities of European policy, and the scope for policy-making, and the autonomy of the EU and its institutions.

The MFF 2014—2020 will expire on 31 December 2020. If the EU does not find consensus on a new financial framework, it will inevitably slide into a crisis. Article 312(4) TFEU stipulates that the ceilings for the MFF headings for 2020 would remain valid. However, the legal basis of the expenditure programmes would be missing in specific policy areas of the EU. The EU would therefore not be able to finance new programmes, as the legal acts for the current programmes limit their duration until 31 December 2020. Only direct payments to European farmers would not be affected, as the legal acts for the first pillar of the Common Agricultural Policy (CAP) do not include a limitation on their duration. It would, however, reinforce the sense of crisis in this scenario if only agricultural businesses in the EU did not have to fear direct and immediate losses, wheras European innovation and research policy support would be discontinued. All stakeholders therefore agree that such a development should be avoided. They have a common interest in adopting all legal bases for the MFF and the EU sector policies at an early stage.

Nevertheless, there are different, sometimes conflicting ideas about the scope and objectives of the adjustments to the MFF and the EU budget policy. External observers regularly call for fundamental reforms to both the expenditure and revenue sides of the EU budget. Conversely, the actors involved repeatedly point out that compromises are extremely difficult to negotiate, rendering far-reaching reforms impossible. Moreover, the current environment makes negotiations more difficult. With Brexit, and thus the withdrawal of a large contributor, the distribution struggles within the EU-27 are even fiercer. At the same time, there is increasing uncertainty about the course of the negotiation process and thus uncertainty among all actors. Yet the demands and challenges for the EU are growing. An important element of continuity and stability here is certainly Germany's balancing role as the largest contributor and the strongest economy in the EU-27. Germany thus faces correspondingly high expectations.

1 Aaron Wildavsky and Naomi Caiden, *New Politics of the Budgetary Process*, 4. ed. (New York, 2001), 1f.

The European Commission's Proposal

The official negotiation process on the MFF 2021–2027 began when Commission President Jean-Claude Juncker and Budget Commissioner Günther Oettinger presented the European Commission's proposals "for a pragmatic, modern and long-term budget" to the European Parliament (EP) on 2 May 2018.[2] This comprehensive MFF package included a Communication with a comprehensive annex to the Commission's ideas for a new financial framework, a working paper on the results of a wide-ranging expenditure and policy review, and regulation proposals for the new MFF after 2020 and on the reform of the own resources system. By mid-June 2018, the Commission had successively supplemented its initial reflections with 37 legislative proposals and accompanying working papers on all sector policies affecting expenditure.[3] With this "strategic concept" for modernising the EU budget, the Commission attempted to balance the conflicting interests among member states and also between the EU institutions. It called for a modern, more flexible and focused financial framework guided by the principles of prosperity, sustainability, solidarity and security.

The Expenditure Side: Budget Volume and Priorities

The MFF proposal provides for a total volume of commitments of €1.279 trillion in current prices and €1.135 trillion in constant 2018 prices. This would represent 1.11 percent of the EU–27 Gross National Income (GNI) and an increase of around 18 percent compared to the current 2014–2020 financial framework. In terms of payment appropriations, i.e. actual outflows, the new MFF would have a total volume of €1.104 trillion or 1.08 percent of GNI, an increase of more than 20 percent compared to the current MFF. Outside the financial framework, around €26 billion is to be added for special funds, such as an EU reserve for emergency aid, the European Solidarity Fund and the Globalisation Fund. What is new is that the European Development Fund (EDF), which was previously managed and financed outside the MFF, is to be included in the financial framework and could thus further increase the total MFF volume. In total, the EU budget would amount to €1.160 trillion, equivalent to 1.14 percent of GNI. The Commission thus positioned itself roughly in the middle of the range between 1.1 and 1.2 percent of GNI that was repeatedly mentioned by Commissioner Oettinger.

The Commission abstains from formulating a target and regulatory idea for the new MFF.

While the "Europe 2020"[4] strategy was still the target and the regulatory framework for the current 2014–2020 financial framework, the European Commission is now abandoning such a target and regulatory idea for the new MFF. According to the Commission, the MFF is oriented towards the agenda for the future of the EU-27, as decided by the European Council (EC) in Bratislava in 2016 and Rome in 2017, and is "tightly geared to the political priorities of the Union of 27"; it will be a budget "to deliver efficiently

2 European Commission, *A Modern Budget for a Union That Protects, Empowers and Defends. The Multiannual Financial Framework for 2021–2027*, COM(2018) 321 final (Brussels, 2 May 2018).

3 For all legislative proposals, as well as the Commission's communications and working papers see European Commission, *EU Budget for the Future*, https://ec.europa.eu/commission/future-europe/eu-budget-future_en.

4 On the strategy "Europe 2020" see Peter Becker, "Integration ohne Plan – Die neue Wachstumsstrategie der EU 'Europe 2020'", *Zeitschrift für Politikwissenschaft* 21, no. 1 (2011): 67–91.

on the Union's priorities".[5] In its proposals, the Commission repeatedly stresses that the future MFF must contribute to implementing the EU's political agenda for the future.

The Commission wants to create a new structure for the financial framework by increasing the number of MFF headings from five to seven. The specific expenditure programmes in the individual policy areas are to be allocated to these new headings and bundled into 17 "policy clusters". These clusters range from research and development, internal market, space and migration to external relations, pre-accession aid and administrative expenditure. They should be flexibly combinable or interlinked.

In the Commission's view, the main task is to find a good balance between new and traditional spending priorities. Firstly, the political priorities arising from new challenges must be adequately funded. This concerns migration and external border management; foreign, security and defence policy; and the promotion of research, innovation and digitalisation. On the other hand, the financing of all these new tasks must be brought into line with the existing priorities of traditional policies, i.e. the CAP and cohesion policy. In addition, there must be a compensation for the UK's contributions. In future, EU funding will be allocated in such a way that the CAP, cohesion policy and new priorities in internal research, security and foreign policy each account for around one third of total expenditure. Agricultural and cohesion policies will therefore remain priorities in the EU budget, but their share of the total will be gradually reduced. However, this is only reflected in relation to the total volume of the MFF, not in the nominal budget estimates. For the CAP, the nominal estimates are to fall from about €410 billion for the MFF 2014—2020 to about €372 billion for the new MFF 2021—2027. However, if the current MFF estimates are reduced by the UK expenditure, the estimates will only shrink from around €383 billion to €372 billion. In European cohesion policy they are even to be slightly increased, from €269 billion for the EU-27 (excluding UK) in the current MFF to €273 billion in the future MFF.

The biggest increase foreseen by the Commission for programmes is in the field of external border management and migration. The budget estimates for border management, migration and asylum are to be almost tripled to €33 billion. The funds for the Erasmus programme are to be doubled; considerably more money than before is also to be made available for digitalisation. In order to stabilise the euro zone, a reform aid programme totalling €25 billion is also to be set up in MFF heading 2 "Cohesion and Values" to help member states implement structural reforms. In addition, the Commission is planning a European Investment Stabilization Fund in order to support the investment volume in the affected countries with European money in times of crisis, and in the event of sharp slumps in growth. Loans to the member states are to be secured with a maximum of €30 billion from the EU budget. This investment fund could later be expanded with funds from the European Stability Mechanism and contributions from potential beneficiaries.

To finance previous and future priorities, the Commission advocates a combination of savings, redeployment and additional funding. Budget Commissioner Oettinger was quick to argue that new priorities should be financed mainly from new, additional budgetary resources and that the gap arising from Brexit could be half filled by savings and half by additional revenues.[6] With this linking of austerity measures and additional money, now known as the "Oettinger formula",[7] the Commission wants to meet the conflicting expectations and interests of member states. On the one hand, they demand far-reaching reforms to be initiated and new policies to be financed, but on the other hand they insist on perpetuating traditional policies unchanged, and are not prepared to increase the budget.

According to the calculations of the German Ministry of Finance, this increase in the total MFF volume would mean a considerable increase of more than €15 billion per year for the German contributions to the EU budget. Thus the gross payments from the federal budget would grow to an average of €45 billion per year.[8] At the same time, the payments that flow back

5 European Commission, *A Modern Budget for a Union That Protects, Empowers and Defends* (see note 2), 1—2.

6 Ibid., 24.

7 See also Günther Oettinger, "EU-Budget mit Europäischem Mehrwert", Speech at the Commission's conference "Shaping our Future", 8 January 2018, https://ec.europa.eu/commission/commissioners/2014-2019/oettinger/blog/eu-budget-mit-europaischem-mehrwert-rede-auf-der-konferenz-shaping-our-future-08012018_en.

8 Federal Ministry of Finance (BMF), *A Modern Budget for Europe*, Monthly Report of the BMF (Berlin and Bonn, October 2018), 8—14. 25 billion VAT and GNI-related own resource payments to the EU budget were reported in the German budget in the 2018 financial year.

Table 1

The European Commission's Proposal

Multiannual financial framework 2021–2027 (EU-27) *Resources for commitments (EUR million, fixed prices 2018)*								
	2021	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**Total**
Internal market, innovation and digitalisation	23,955	23,918	24,203	23,624	23,505	23,644	23,454	166,303
Cohesion and values	51,444	54,171	56,062	56,600	57,148	59,200	57,349	391,974
of which Cohesion	45,597	46,091	46,650	47,212	47,776	48,348	48,968	330,642
Natural Resources and Environment	50,323	49,580	48,886	48,097	47,326	46,575	45,836	336,623
of which market-related expenditure and direct payments	37,976	37,441	39,946	36,346	35,756	35,176	34,606	254,247
Migration and border management	3,076	4,219	4,414	4,647	4,719	4,846	4,908	30,829
Security and defence	3,154	3,229	3,183	3,281	3,517	3,743	4,216	24,323
Neighbourhood and the world	14,765	14,831	15,002	15,290	15,711	16,298	17,032	108,929
European public administration	10,388	10,518	10,705	10,864	10,910	11,052	11,165	75,602
of which administrative expenses of the institutions	8,128	8,201	8,330	8,432	8,412	8,493	8,551	58,547
Total resources for commitments	157,105	160,466	162,455	162,403	162,836	165,358	163,960	1,134,583
as percentage of GNI	1.12%	1.13%	1.13%	1.12%	1.11%	1.11%	1.09%	1.11%
Total resources for payments	150,168	151,482	160,631	160,631	160,631	160,631	160,631	1,104,805
as percentage of GNI	1.07%	1.07%	1.12%	1.10%	1.09%	1.08%	1.07%	1.08%
Available margin Own resources ceiling in percent of GNI (with the currently effective ceiling)	0,22%	0.22%	0.17%	0.19%	0.20%	0.21%	0.22%	0.21%
Outside of the MFF ceiling								
Special Instruments								
Reserves for Emergency Aid	600	600	600	600	600	600	600	4,200
European Globalisation Fund	200	200	200	200	200	200	200	1,400
Solidarity Fund	600	600	600	600	600	600	600	4,200
Flexibility Instrument	1,000	1,000	1,000	1,000	1,000	1,000	1,000	7,000
European Investment Stabilisation Function	to be decided	to be decided	to be decided	to be decided	to be decided	to be decided	to be decided	to be decided
European Peace Facility	753	970	1,177	1,376	1,567	1,707	1,673	9,223
Outside of the MFF ceilings in total	3,153	3,370	3,577	3,776	3,967	4,107	4,073	26,023
MFF + Total outside the MFF limits	160,258	163,836	166,032	166,179	166,803	169,465	168,033	1,160,606
as percentage of GNI	1.14%	1.15%	1.16%	1.14%	1.13%	1.14%	1.11%	1.14%

Source: European Commission, *A Modern Budget for a Union That Protects, Empowers and Defends* (see note 2).

to Germany from the EU budget would fall significantly, by up to 20 percent in the area of structural funds. As a result, the negative German net balance would rise considerably.

Budget Financing: New Sources, No Rebates

As with expenditure, the EU budget must also be reformed on the revenue side, according to the European Commission. The basic requirement for the Own Resources system has always been to ensure sufficient and secure revenues to cover expenditure on a permanent basis. In addition, the financing system should become simpler and more transparent and at the same time have a political steering effect. Therefore, "the Commission proposes to modernise and simplify the existing own resources system and to diversify the sources of revenue".[9] However, it does not propose a real EU tax and the fiscal sovereignty of the member states remains fully respected. "The EU does not have the power to levy taxes", the Commission notes.[10]

There will be a number of new sources of financing, but no EU tax.

In order to improve funding, diversification of revenue, and autonomy of the EU, the Commission intends to introduce a number of new own resources. The revenue from the emissions trading system should be increased and contributions on the basis of non-recyclable plastic waste[11] should be paid to the EU. In addition, the profits of the European Central Bank — the so-called seigniorage that has been paid out to the national central banks to date — should in future be used to finance the investment stabilisation function in the euro zone. Contributions will also be envisaged on the basis of a consolidated corporate tax base that has not yet been agreed on or introduced.[12] With this proposal, the Commission is drawing on earlier considerations on such a tax base. However, negotiations between member states concerning this idea have stalled and the chances of achieving an agreement are highly doubtful. Nevertheless, the Commission expects that with new sources of funding, the EU could raise around €22 billion per year for its budget. The Commission expects the proposed new own resources not only to generate revenue for the EU budget, but also to help the EU meet its climate change and sustainability policy objectives.

The Commission also wants to reform the traditional source of own resources, the customs duties. The Commission argues that the flat rate of currently 20 percent of the revenues granted as collection costs in favour of member states clearly exceeds the actual costs incurred. They seem to be a hidden form of contribution correction or a de facto participation of member states in the customs revenues of the EU. That is why this flat rate should be reduced to 10 percent of revenue. The extremely complicated VAT-related own resource should also be revised. Discounts and special rules in the Own Resources system should be abolished, though not immediately and in one step, but gradually until the end of the MFF term. The aim is to convert "all corrections on the revenue side of the budget [...] into transparent lump sum payments per Member State" until "the national contributions (measured in percent of gross national income) reach a fair level comparable to other Member States not benefitting from a rebate".[13]

Difficult Evaluation with a New Point of Departure

In order to evaluate the Commission's proposal, all actors generally use the current financial framework as a benchmark. On the basis of the deviations from the MFF 2014—2020 budget estimates, i.e. increases

9 European Commission, *A Modern Budget for a Union That Protects, Empowers and Defends* (see note 2), 29.
10 European Commission, *Proposal for a Council Decision on the System of Own Resources of the European Union*, COM(2018) 325 final (Brussels, 2 May 2018), 3.
11 Each kilogram of non-recyclable plastic is subject to a levy, which is then paid by national budgets to the EU. According to the Commission's proposal, the levy would be €0.8 per kilogram.
12 See European Commission, *Proposal for a Council Directive on a Common Corporate Tax Base*, COM(2016) 685 final (Brussels, 25 October 2016) and European Commission, Proposal for a Council Directive on a Common Consolidated Corporate Tax Base (CCCTB), COM(2016) 683 final (Brussels, 25 October 2016).
13 European Commission, *A Modern Budget for a Union that Protects, Empowers and Defends* (see note 2), 27. The Commission is obviously thinking of a system of degressive flat rate payments in favour of Germany, Austria, Sweden, Denmark and the Netherlands until a target margin to finance the EU budget of around 0.6 percent of the respective national GNI of the member states is reached.

and cuts, the member states try to deliberate whether the Commission's MFF proposal has set the right spending priorities for the next financial period that correspond to their own political priorities and national funding interests. This comparison is difficult, however, because the EU will shrink to 27 member states as a result of Brexit and the benchmark will therefore change. If the current financial framework for the EU-28 is to be compared with the proposed MFF for an EU-27, expenditure for the UK must first be excluded and a "virtual" EU-27 financial framework 2014—2020 calculated. In addition, the comparison is made more difficult as the financial framework is given a new structure. Previously separate expenditure programmes will be reorganised and bundled into more comprehensive new programmes. In addition, the European Development Fund, which was previously managed outside the MFF, shall be included in the financial framework.

Considering these difficulties of comparison, it is not surprising that the Commission's calculations of the volume of cuts and increases in expenditure have been questioned and heavily criticised. The Commission speaks of moderate cuts in agricultural policy of around five percent and in the Structural Funds of around seven percent. Depending on the calculation method and initial scale, the growth of new policy areas or savings in traditional policies may vary. Sometimes the nominal budget estimates are compared, sometimes the proposals are also compared in constant prices, i.e. adjusted to inflation. Some actors relate the budget estimates to the GNI of the EU-27, while others show them as a proportion of the total budget. In order to calculate the cuts in CAP and Structural Funds, the Commission uses the final financial year (2020) of the current MFF as a benchmark — a financial year in which high payments are expected and scheduled at the end of the funding period — and multiplies the relevant figures by seven. On the other hand, the member states calculate the average financial volume of the two policy areas over the entire funding period and thus come up with cuts of up to 30 percent in real terms for individual member states. In the case of the CAP, it is also significant that the Commission plans cuts that are mainly in the second pillar, i.e. in rural development co-financed with national funds. In the first pillar, i.e. direct payments to farmers, the Commission wants to reduce expenditure far more moderately. Furthermore, it will not use the opportunity to at least propose co-financing these direct payments from the national budgets of the member states. With regard to the increase in expenditure, indications came from the European Parliament that the doubling of funds for the Erasmus programme to promote student exchanges, which Commissioner Oettinger repeatedly emphasised, would barely be achieved.

Some commentators[14] and members of the European Parliament[15] accused the Commission of using "budget tricks" and "misleading figures"[16] in its proposal. Nevertheless, the Commission insists that its reform approach is heading in the right direction. In any case, it is undisputed that the share of the largest expenditure headings for financing the Common Agricultural Policy and the European Structural Funds in the overall budget is to be further reduced. At the same time, the share of other policy areas will increase significantly, i.e. expenditure on the common foreign, security and defence policy as well as on migration policy and external border management.

First Reactions and Positioning

The Commission has tried to draft a realistic and pragmatic proposal and has clearly drawn lessons from previous MFF rounds. In 2005, for example, it made ambitious but unrealistic proposals, which proved unsuccessful in the implementation.[17] Obviously, this time it wanted to determine the negotiating process of the member states as far and for as long as possible, and to earmark the key points for the next MFF 2021—2027. This search for a pragmatic pro-

14 Zsolt Darvas and Nicolas Moës, "How Large Is the Proposed Decline in EU Agricultural and Cohesion Spending?", *Bruegel* (Blog), 4 May 2018, http://bruegel.org/2018/05/how-large-is-the-proposed-decline-in-eu-agricultural-and-cohesion-spending/.

15 Alina Dobreva, *Multiannual Financial Framework 2021–2027: Commission Proposal. Initial Comparison with the Current MFF*, European Parlament Briefing (Strasbourg and Brussels, May 2018), http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/621864/EPRS_BRI(2018)621864_EN.pdf.

16 "EU-Parlament wirft Kommission Haushaltstricks vor. Haushaltskommissar Oettinger korrigiert Zahlen für den Finanzrahmen 2021 bis 2027" (EU Parliament Accuses Commission of Budgetary Trickery. Budget Commissioner Oettinger Corrects Figures for the Financial Framework 2021 to 2027), *Frankfurter Allgemeine Zeitung*, 24 May 2018.

17 See Peter Becker, "Fortschreibung des Status quo — Die EU und ihr neuer Finanzrahmen", *Integration* 29, no. 2 (2006): 106—21.

posal with a tentative claim to reform makes the Commission's package vulnerable to attack from many different angles. The assessment of the Commission's proposals by the governments of member states and by academic analysis can at best be described as cautious.

The member states positioned themselves early on along familiar lines of conflict.

Most member states had already formulated preliminary positions before the Commission published its proposal. On 25 January 2018, after long and difficult internal consultations, the German Government agreed on a paper[18] in which it generally advocated a modernisation of the EU budget and called on the Commission to present an ambitious proposal. Already by December 2017, the French government had presented its position paper[19]; many member states followed, such as the Visegrád group, Austria and the Netherlands[20] in February 2018. While the southern and eastern European member states pleaded to continue agricultural and cohesion policy at the same level and increase the overall budget, the net contributors urged limiting and modernising the MFF, i.e. changing its spending priorities. However, this time before the start of the negotiations, the net contributors had not quantified and tabled an upper limit for the MFF, unlike in the run-up to the previous MFF negotiations.

The European Parliament had similarly positioned itself before the Commission presented its legislative package. In a resolution adopted by a broad majority[21] on 14 March 2018, parliamentarians called on the Commission to significantly increase the overall volume of the EU budget. Too little funding in the budget would lead to cuts in agricultural, structural and cohesion policy. This should be avoided. Nevertheless, the EU should be provided with additional funds in order to be able to cope adequately with new challenges and future tasks. The additional money should be used for programmes and measures with European added value, especially for youth and training, the promotion of small and medium-sized enterprises, and for research and innovation. In a further resolution[22] on 30 May 2018, the Parliament reacted to the Commission's proposals and expressed its disappointment with what it saw as too low approaches, particularly in CAP and Structural and Cohesion Funds. These two "most important policy areas of the EU" should, in the opinion of the Parliament, be continued with at least the same financial envelopes as before. On the other hand, it welcomed the proposals on new own resources and linked its approval of MFF expenditure to a corresponding reform of the Own Resources system.

Academic observers and think tanks were predominantly sceptical in their analyses and assessments. Above all, they criticised the discrepancy between a necessary comprehensive reform of the EU budget, its structures and objectives on the one hand, and the Commission's pragmatic proposal on the other. The central accusation was that this proposal did not do justice at all to the reform requirements and was merely an expression of the search for a balance between conflicting interests.[23] The criticism was that

18 *Positionen der Bundesregierung zum Mehrjährigen Finanzrahmen der EU (MFR) post-2020* (Berlin, 25 January 2018), https://www.auswaertiges-amt.de/blob/2007894/4a6c510f226926e7217da2eeb9765c2b/180125-positionen-bureg-mfr-data.pdf

19 *Notes des autorités françaises, Perspectives et attentes françaises pour le prochain cadre financier pluriannuel de l'Union européenne* (Paris, December 2017), https://www.terre-net.fr/ulf/data/001-arno/180110-notegouvernementsurbudgetUE2020-2027.PDF.

20 *Dutch Position Paper on New MFF* (February 2018), https://www.rijksoverheid.nl/documenten/vergaderstukken/2018/03/02/dutch-position-paper-on-new-mff-february-2018-engelstalig.

21 European Parliament, *The Next MFF: Preparing the Parliament's Position on the MFF post-2020. European Parliament Resolution of 14 March 2018 on the Next MFF: Preparing the Parliament's Position on the MFF post-2020 (2017/2052(INI))* (Strasbourg, 14 March 2018).

22 European Parliament, *2021–2027 Multiannual Financial Framework and Own Resources. European Parliament Resolution of 30 May 2018 on the 2021–2027 Multiannual Financial Framework and Own Resources (2018/2714(RSP))* (Strasbourg, 30 May 2018).

23 Annika Hedberg, *The Next EU Budget: Firmly Rooted in the Past?*, EPC Commentary (Brussels: European Policy Centre [EPC], 7 May 2018); Jorge Núñez Ferrer and Daniel Gros, *The Multiannual Financial Framework, Where Continuity Is the Radical Response*, CEPS Commentary (Brussels: Centre for European Policy Studies [CEPS], 4 May 2018); László Andor, "A Budget without Lessons Learned", *International Politics and Society*, 6 June 2018; Iain Begg, *Plus ça change … the Commission's Budget Proposal for 2021–27*, ETUI Policy Brief no. 9/2018 (Brussels: European Trade Union Institute [ETUI], June 2018); Jörg Haas, Eulalia Rubio and Pola Schneemelcher, *The MFF Proposal: What's New, What's Old, What's Next?*, Policy Brief (Paris and Berlin: Notre Europe — Jacques Delors Institute, 21 May 2018).

although the European Commission had underlined the need to create European added value in its MFF proposal, it was clearly lagging behind expectations and what was necessary.[24] It lacked the political will for reform; the interests of defenders of the status quo were overpowering.[25]

24 On the European added value see Daniel Tarschys, *The Enigma of European Added Value. Setting Priorities for the European Union*, SIEPS Report no. 4/2005 (Stockholm: Swedish Institute for European Policy Studies [SIEPS], June 2005); Bertelsmann Stiftung, *The European Added Value of EU Spending: Can the EU Help Its member states to Save Money?* (Gütersloh, 2013); Eulalia Rubio, *The "Added Value" in EU Budgetary Debates: One Concept, Four Meanings*, Policy Brief no. 28 (Paris: Notre Europe, June 2011); Peter Becker, "The European Budget and the Principles of Solidarity and Added Value", *The International Spectator* 47, no. 3 (2012): 116–29.
25 Friedrich Heinemann, "Mehrjähriger Finanzrahmen: Die schwierige Transformation in Richtung europäischer Mehrwert", *ifo-Schnelldienst*, no. 12 (2018): 3–7.

State, Course and Structure of the Negotiations

The current European budgetary policy and the grown budgetary system are also characterised by the fact that the negotiation process for a multiannual financial framework follows an informal, but nevertheless well-established course. The negotiation phases and drama are predictable, and the allocation of roles is hardly questioned any more.

This routine and the proven working structures mean that it is already clear in advance at which point the actors will be dealing with each issue politically, i.e. when the process will be politicised. The culmination of politicisation and thus also of the visibility of the process is usually reached when consensus is sought in the European Council. Here, political compromises are made in the form of package deals and based on the principle of give and take (*do ut des*), i.e. by tying many individual issues together to form a large negotiating package.

State and Course of Negotiations

After the Commission had presented its MFF package on 2 May 2018 and subsequently the various sector directives for expenditure policies, the Council created the tried and tested working structures in which the MFF negotiations take place.[26] In line with the procedure during the previous MFF negotiations, and also in order to comply with the primary legal requirements for the involvement of the European Parliament pursuant to Article 312(5) TFEU, the EP representatives have since been informed about the progress of the MFF negotiations in the Council before and after each session of the General Affairs Council (GAC). As usual, the Commission first presented its proposals, which were then examined by the member states, who also asked for explanations and details. In its final report[27] on interim information for the European Council meeting on 28 June 2018, the Bulgarian Presidency listed only a few points of consensus but many points of disagreement at the end of its term.

In the second half of 2018, the Austrian Presidency greatly accelerated the MFF negotiations in the Council.

In the second half of 2018, the subsequent Austrian Presidency intensified activities at the working level and continued negotiations in the working groups without a long summer break. After this short phase, during which the general examination continued, the Presidency already in September began its work on the “negotiating box”, i.e. the draft of an overall political compromise for the next MFF in the form of conclusions of the European Council. The Austrian Presidency thus greatly speeded up negotiations and abandoned the general examination of the Commission’s proposals in order to begin concrete negotiations on a compromise package sooner than had previously been the case. The first draft of a negotiating box was sent to the member states on 30 November 2018 and discussed at political level in the GAC on

26 Initially, the Bulgarian Presidency set up an ad hoc working group on the Multiannual Financial Framework at the General Affairs Council, which was the lead negotiating body. In consultation with its Trio Presidency partners Austria and Romania, the Presidency drew up a programme on the approach of this working group. Furthermore, the Council Working Party on Own Resources examined, discussed and negotiated the proposals for reform of the Own Resources system, and the various specialised working groups examined, discussed and negotiated the proposals for new sector-specific legal acts.

27 Council of the European Union, *Multiannual Financial Framework (2021–2027) – Report on the Progress of Work within the Council in the First Semester 2018*, Doc. 10171/18 (Brussels, 21 June 2018).

11 December 2018.[28] This first box already contained all horizontal topics and substantive priorities that will also be included in the conclusions of the European Council at the end of the MFF negotiations. However, the financial estimates for the total volume of the future MFF, the distribution among the individual expenditure areas, the criteria and indicators for the distribution of the Structural Funds among the member states and their regions, and decisions on the fundamental reform of the Own Resources system were still absent.

The different, sometimes conflicting positions of the member states were inevitable and included in this negotiating box as bracketed formulations. Under Romanian and Finnish Council-Presidency in 2019 the member states will have to find common solutions for these more than 100 formulations. The second negotiating box, presented by the Romanian Presidency at the end of its term was not successful in bringing the conflicting positions closer together and dissolving some of these brackets. The Finnish Presidency announced a continuation of the negotiations with bilateral talks with each member state, and then tabling in September a new negotiating box which shall include maximum and minimum figures for all spending policies. If the number of contentious points is reduced to only a few fundamental points, the heads of state and government in the European Council will have to agree on compromise formulations for the final issues and specific figures for MFF.

Only then will the newly elected European Parliament be formally involved in the MFF negotiations on the member states' compromise solution. Just before the elections the EP has renewed its call for a significantly higher volume.[29] The members of Parliament continued to reject the cuts in the Structural Funds and the CAP proposed by the Commission. In its interim report of 14 November 2018, the EP demanded a total volume of around €1.363 trillion, equivalent to 1.34 percent of the GNI of EU-27. The EP also substantiated its demands with specific financial approaches for each individual funding programme. On the revenue side, Parliament wants new sources of own resources to be introduced and all rebates and correction mechanisms to be abolished. It sees the MFF as an overall package consisting of expenditure and revenue, elements of which cannot be adopted separately. The EP therefore insists that there will be no agreement on a new MFF "without corresponding progress being made on the Union's new Own Resources".[30]

Already in 2018, the European Council (EC) held initial discussions on the future multiannual financial framework, but without entering into an in-depth debate on the Commission's ideas. It became clear early on that it was not realistic to conclude negotiations before the EP elections as requested by the parliament and the Commission.[31] Already in the so-called Leaders' Agenda of the European Council of October 2017, Council President Donald Tusk declared that he was striving for an agreement only after the EP elections. The European Council in June 2019 decided to "hold an exchange of views in October 2019, aiming for an agreement before the end of the year".[32]

Group Formations of Member States

The real benchmark for a member state's positioning is still its national net balance. Thus, the net contributors Sweden, Austria and the Netherlands are opposed to any increase in the MFF volume, while the net recipients are in favour of a significantly larger financial volume for the next MFF. These positions have been specified in the initial reactions of the member states to the Commission's proposals and in the course of negotiations to date. Accordingly, the 27 member states can be roughly divided into three groups:

The Group of Status Quo Preservers

This group comprises the former net recipients from Southern and Eastern Europe and now also Italy. From their perspective, the proposed cuts in structural and agricultural funds are unacceptable. They call for agricultural and cohesion policy to be maintained at the same financial level and for the budget to be in-

28 Council of the European Union, *Multiannual Financial Framework (MFF) 2021–2027 – Progress Report*, Doc. 14346/18 (Brussels, 30 November 2018).

29 It wants the budget to be 1.3 percent of EU GNI or €1.324 trillion for commitments, or 1.27 percent of EU GNI or €1.294 trillion for payments (at fixed prices in 2018). In addition, it would provide €38.6 billion for flexibility instruments outside the MFF ceilings.

30 European Parliament, *Interim Report on the Multiannual Financial Framework 2021–2027 – Parliament's position with a view to an agreement, Resolution of 14. November 2018*, P8_TA-PROV(2018)0000449 (Strasbourg, 14 November 2018), here paragraph 11.

31 Peter Ludlow, "February: Institutional Issues, the MFF, Martin Selmayr", European Council Briefing Note 2018/1.

32 *European Council Meeting 20 June 2019, Conclusions*, EUCO 9/19, paragraph 2.

creased accordingly. The Commission's approach of increasing the budget volume only slightly would not be sufficient to prepare the EU for the challenges ahead and at the same time continue the successful traditional spending policies to the same extent. Consequently, the MFF ceilings should be significantly increased. Some states in this group, such as Hungary and Poland, were prepared in principle to make higher national contributions.

The Group of Moderate Modernisers

Alongside Germany, France, Belgium, Luxembourg, Finland and Ireland were in favour of modernising traditional expenditure policies and own resources. In a joint statement, the two German Ministers responsible, Olaf Scholz and Heiko Maas, advocated a fundamental modernisation of the EU budget immediately after the presentation of the MFF package by the Commission on 2 May 2018.[33] Spending policies, such as migration and the protection of external borders, must be focused even more consistently at European added value. The German Government reaffirmed its fundamental willingness to make higher contributions, although a fair burden-sharing between all member states was necessary.

France belongs to the moderate modernisers, although it rejects any cuts in the Common Agricultural Policy.[34] For the French government it is out of the question that support for French farmers would be reduced by up to 20 percent according to the Commission's proposal. France is in favour of increasing the MFF under certain conditions, including the immediate abolition of all rebates and the introduction of a new source of own resources in the form of a digital tax. These requirements on the revenue side are complemented by the French government's strong commitment to additional instruments to stabilise the euro zone. The French negotiating leadership thus combines demands for fundamental reforms and innovations with an unchanged level of traditional support for its own farmers. So far, Paris has avoided making a final and unambiguous decision on whether to promote traditional or new policies. A similar ambivalence characterises the German Government's position. But the willingness to increase the German contributions to the EU for the sake of a compromise solution seems to indicate that Berlin would rather increase the total MFF volume.

The Group of Rigid Savers

A group of net contributors consisting of Sweden, Denmark, Austria and the Netherlands clearly differs in their attitude from the somewhat ambivalent and relatively moderate position of modernisers. From the point of view of this group, the Commission is acting too hesitantly. The proposed savings in the CAP and Structural Funds are at best a minimum and should indeed be much higher, otherwise the necessary new policies could not be adequately financed. Sweden and the Netherlands, for example, after an initial examination of the Commission's proposal, calculated that it would result in up to 40 percent higher contributions for the two countries. The Netherlands could not accept this, its Prime Minister Mark Rutte said. The group argues that with one less member state, the EU should get by on a reduced budget. These states continue to insist on limiting the budget to one percent of EU-27 GNI.

The categories "net contributors" and "net beneficiaries" are slowly disappearing.

There are not only divergences between these groups, there are also signs of contradictions and contrasts within the groups. For example, the German government is sceptical about new sources of own resources and insists that the financial burden should be distributed fairly. The French demand to abolish discounts immediately and completely, in turn, stands in clear contradiction of the German position. The attitudes of other member states are not always coherent either. It is true that the Baltic states are calling for spending priorities to be shifted in future to the promotion of research, innovation and trans-European networks. At the same time, however, they reject cuts in structural and agricultural funds as well as a clear increase in the total MFF volume.[35]

The MFF negotiations are therefore facing a difficult situation which will have an impact on the familiar drama and the eventual course of the negotia-

33 BMF, *Gemeinsame Erklärung von Olaf Scholz und Heiko Maas zum Kommissionsvorschlag für den Mehrjährigen Finanzrahmen* (Berlin and Bonn, 2 May 2018), https://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Europa/EU_auf_einen_Blick/EU_Haushalt/2018-05-02-Gemeinsame-Erklaerung-Scholz-Maas.html.

34 Finland and Ireland have similar positions.

35 See the letter of 15 February 2018 from the three heads of government from Estonia, Latvia and Lithuania.

tions. Although the negotiation process was quickly integrated into the familiar structures and the usual distribution of roles, and conflicts between net contributors and net recipients were already apparent at the beginning of the negotiations on the MFF 2021–2027. However, a number of new developments make their course more difficult to predict and the positioning of the groups and actors less predictable. As a consequence, uncertainty is growing among all actors, which in turn influences their behaviour and negotiating tactics.

What’s New in the Current MFF Negotiations?

In addition to well-known problems such as climate change, sustainability and migration, the European Commission lists global political instability and new security threats as requirements for the future MFF.[36] However, the most serious change for the European budget is the imminent departure of the United Kingdom from the European Union.

The UK’s Withdrawal from the EU and the Consequences for the MFF Negotiations

When the UK, the EU’s second largest economy to date, leaves the Union, the GNI of the Union will shrink by around 15 percent. Moreover, the UK has always been the second or third largest net contributor to the EU budget in recent years. Brexit will therefore have an impact on the EU budget, both on the revenue side and on the expenditure side.

The UK’s withdrawal from the EU will inevitably create a financial hole in the EU budget. The Commission puts it at around 13 to 14 billion euros a year,[37] without specifying how it calculated this figure. The UK’s national payments to the EU budget — i.e. payments for VAT and GNI-based own resources, excluding traditional own resources — have always exceeded €10 billion per year since 2010. Yet since 2010, around €6 billion flowed back annually into the UK from the EU budget. Thus, when the British net balance is considered, i.e. the British payments less EU spending in the UK, the Brexit gap appears smaller. Since 2010, despite the special rebate, UK net payments have always exceeded the 5 billion euro mark; the European Commission’s latest financial report[38] shows the UK’s operational budget balance[39] for 2016 at around €5.6 billion. The final size of the gap will depend to a large extent on the form of Brexit, specifically on the terms of the exit and future relations between the EU-27 and the UK.

The form of Brexit will determine the extent of the Brexit gap.

In the course of the withdrawal negotiations, EU-27 and the UK have agreed on an arrangement. This withdrawal agreement[40] of December 2017 provides for the continuation of the EU financial framework until the end of 2020 without changes or adjustments. The UK will continue to make its contributions and payments to the EU budget as if it were still a member state of the EU. In return, EU programmes will continue in the UK. This means that British farmers and fishermen, the regions and universities that are supported will continue to benefit from European funding.

The British rebate is also to apply to the two annual budgets for 2019 and 2020. Part of the agreement are arrangements to refund the British share of the capital of the European Central Bank and the European Investment Bank, as well as unbundling and partial forward projection of its shares in other EU funds and instruments outside the EU budget. A solution has

36 European Commission, *A Modern Budget for a Union That Protects, Empowers and Defends* (see note 2), 1.
37 According to Oettinger, “EU-Budget mit Europäischem Mehrwert” (see note 7).

38 European Commission, *EU Budget 2017. Financial Report* (Luxembourg, 2018).
39 The European Commission has developed a calculation method called “operational budget balances” which does not take account of administrative costs and traditional own resources in the balance calculation.
40 European Commission, *Joint Report from the Negotiators of the European Union and the United Kingdom Government on Progress during Phase 1 of Negotiations under Article 50 TEU on the United Kingdom’s Orderly Withdrawal from the European Union, TF50 (2017) 19 – Commission to EU 27* (Brussels, 8 December 2017), 9ff.

Table 2

Net Balance of the United Kingdom 2014–2017

	2014		2015		2016		2017	
	mill. €	*% GNI*	*mill. €*	*% GNI*	*mill. €*	*% GNI*	*mill. €*	*% GNI*
National payments (VAT + GNI own resources, rebate)	11,711	0.54	18,193	0.72	12,760	0.55	10,575	0.46
EU Spending	6,985	0.32	7,458	0.30	7,052	0.30	6,326	0.28
Operating balance	−5,412	−0.25	−11,703	−0.46	5,585	−0.24	−5,345	−0.23

Source: European Commission, *EU Budget 2017. Financial Report* (Luxembourg, 2018).

also been found for payment obligations that continue after the withdrawal (so-called Reste à liquider, RAL). This applies, for example, to funding programmes, agencies or other EU instruments as well as pensions for EU civil servants to be paid well after the withdrawal. The EU is to send annual reports on these commitments to the British government, starting in 2022. The UK has agreed to subsequently pay the outstanding amounts.[41]

Until the end of the term of the current MFF, the UK should therefore remain at least a de facto budgetary member, with all rights and obligations. And even far beyond that, the country is to pay its obligations from the time of its EU membership on a pro-rata basis. However, the exact level of British payments has not been included in the text of the Treaty.[42]

The British government calculated the amount at 35-39 billion pounds, or €40-45 billion, according to the then British Prime Minister Theresa May in a question time on Brexit in the House of Commons on 11 December 2017.[43] However, as the payments extend far into the future, it is not possible to precisely determine the British contributions. According to calculations by the UK Treasury, this sum would consist of the amounts for the 2019 and 2020 financial years, the UK's share of the fulfilment of outstanding commitments and long-term outstanding payments, for example for pensions (see Table 3).

In addition to these payments, which settle the UK's EU membership obligations, additional UK financial contributions could be set in the negotiations on future UK-EU relations. The UK government[44] has always indicated its intention to participate in selected programmes (such as EU research funding) and EU agencies after Brexit.[45] It is therefore undisputed that the UK would have to provide funding for such par-

41 It was also agreed that all British payments would be settled in euros, so that changes in the exchange rate would not be a problem for the EU.

42 Various calculations were already made in the run-up to the withdrawal negotiations on the level of UK withdrawal payments, ranging from €15 billion to an extreme scenario of €109 billion. See Alex Barker, *The €60 Billion Brexit Bill. How to Disentangle Britain from the EU Budget* (London et al.: Centre for European Reform, February 2017); Iain Begg, "The Brexit Divorce Bill", *The UK in a Changing Europe*, 20 February 2017; Ewa Chomicz, *EU Budget Post-Brexit. Confronting Reality, Exploring Viable Solutions*, EPC Discussion Paper (Brussels: EPC, 7 March 2017); Zsolt Darvas et al., *Divorce Settlement or Leaving the Club? A Breakdown of the Brexit Bill*, Working Paper no. 3/2017 (Brussels: Bruegel, 30 March 2017); Jörg Haas and Eulalia Rubio, *Brexit und der EU-Haushalt: Gefahr oder Chance?*, Policy Paper no. 183 (Berlin: Notre Europe — Jacques Delors Institute, 16 January 2017); Jorge Núñez Ferrer and David Rinaldi, *The Impact of Brexit on the EU Budget: A Non-catastrophic Event*, CEPS Policy Brief no. 347 (Brussels: CEPS, 7 September 2016).

43 "Brexit Negotiations", *House of Commons Hansard*, vol. 633 (11 December 2017), https://hansard.parliament.uk/Commons/2017-12-11/debates/965E3010-41F6-4353-A2CC-2F5A6C31495F/BrexitNegotiations#contribution-FED59209-BBC6-45DD-AB71-F34C658398CC.

44 HM Government, *The United Kingdom's Exit from and New Partnership with the European Union*, Cm 9417 (London, February 2017), 49, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589191/The_United_Kingdoms_exit_from_and_partnership_with_the_EU_Web.pdf.

45 In her Lancaster House speech on 17 January 2017, British Prime Minister Theresa May had already signalled Britain's willingness to do so. "The Government's Negotiating Objectives for Exiting the EU: PM Speech", *GOV.UK*, 17 January 2017, https://www.gov.uk/government/speeches/the-governments-negotiating-objectives-for-exiting-the-eu-pm-speech ticipation. The models here are Switzerland and Norway, which contribute to the EU's Structural and Cohesion Funds in exchange for full or almost full access to the EU's internal market. The EU could also require separate payments for UK participation in specific EU programmes or agencies. According to a calculation by the House of Lords, a UK budget contribution of €2.7 billion a year could result if the same yardstick is used as for Norway.[46]

Table 3

Calculation of UK payments after Brexit

	Payment period	Billion €
UK participation in 2019 and 2020 annual budgets	2019 – 2020	17 – 18
RAL (Reste à liquider)	2021 – 2026	21 – 23
Other payment obligations	2019 – 2064	2 – 4
Total	2019 – 2064	40 – 45

Source: National Audit Office, HM Treasury, *Exiting the EU: The Financial Settlement* (London, 20 April 2018), table 1, p. 5.

If, however, the UK were to leave the EU without an agreement, so that London would then no longer pay into the EU budget at all, these calculations would be obsolete.[47] However, customs duties would then apply to the import of goods from Great Britain. These customs revenues would flow into the EU budget. According to a calculation based on British exports to the EU before Brexit worth €255 billion, the EU budget would benefit from about €4.6 billion in customs revenue per year, if an average 2 percent customs surcharge on British goods were applied and the collection costs, currently 20 percent, were deducted.[48] But whether trade between the EU-27 and the UK after Brexit would continue at the same level is questionable. At any rate, a decline in trade would also reduce the EU's revenue from customs duties. In any case, after Brexit, the EU will have to do without the revenue from customs duties levied on imports into Great Britain from third countries. After all, from 2015 to 2018 the UK was responsible for around 25 percent of the EU's total customs revenue.[49]

The Brexit gap can be closed by savings or a larger budget.

It is very difficult to quantify with any accuracy the financial hole in the EU budget caused by Brexit, nor the consequences for payments by individual EU-27 member states, nor for returns to member states. Too many factors and unforeseeable developments play a role here.

For the EU-27 negotiations on the next financial framework, however, the calculations of future British payments to the EU budget and the size of the Brexit hole are only of indirect importance. The EU's special Own Resources system for financing its budget stipulates that it must always be balanced and that the EU may not take on debt. As a matter of principle, by setting maximum ceilings for EU expenditure in the MFF, the EU's financial requirements and thus also the burdens on the national budgets of the member states are settled. The Brexit hole could therefore be compensated by savings on the expenditure side, or by higher payments by member states on the revenue side of the EU budget.

Some member states have signalled their willingness to pay higher contributions to the EU budget due to the departure of the UK. On the other hand, the so-called Hanse Group (Netherlands, Austria, Ireland, Sweden, Denmark, Finland and the three Baltic states), formed on a Dutch initiative, argued that in a Union reduced to 27 members, the budget would also have to shrink. In its position paper of February 2018, the Dutch government confirmed that "a smaller EU implies a smaller EU budget and, as a consequence, the post-2020 MFF will have to be adjusted accordingly."[50] Other net contributors, such as Sweden and Austria,

46 House of Lords, European Union Committee, *Brexit and the EU Budget*, 15th Report of Session 2016 – 17, HL Paper no. 125 (London, 4 March 2017), 46, https://www.publications.parliament.uk/pa/ld201617/ ldselect/ ldeucom/125/125.pdf.

47 In this case, the financing and support programmes of the last two financial years 2019 and 2020 of the current MFF would also be called into question. The negotiations on the budgets for these two years would be burdened with additional major uncertainties and fierce distribution conflicts in the EU-27.

48 Ferrer and Rinaldi, *The Impact of Brexit on the EU Budget* (see note 42).

49 The UK's customs revenue was about €4.3 billion or 24.8 percent of the EU-28's customs revenue in 2015, about €2.9 billion (25 percent) in 2016 and just under €4 billion (25.4 percent) in 2017. European Commission, *EU Expenditure and Revenue 2014–2020*, http://ec.europa.eu/budget/figures/interactive/index_de.cfm.

50 *Dutch Position Paper on New MFF* (see note 20).

joined this position: "When the UK's contribution is phased out and ends, expenditures will have to be reduced by the corresponding amount."[51] From the point of view of these two member states, the current financial framework is adequate and concentrates on the right objectives. They consistently call for the MFF's limitation to one percent of EU GNI to be continued. The Brexit gap initially gives some net contributors leverage for the MFF negotiations to demand cuts and shifts within the financial framework. Therefore, Brexit does not really raise any new questions or problems, but only intensifies the already existing distribution struggles between net contributors and net recipients.

Yet the UK's withdrawal will have consequences for the distribution of the funding burden. Brexit will end the UK's special budgetary status. This means that the special regulations linked to the British rebate in favour of other net payers will no longer apply. Already when the so-called British rebate was introduced in 1984, Germany was able to enforce a special agreement which limited the German share in the financing of the correction mechanism in favour of the UK. This rebate on the rebate initially amounted to one third of the originally calculated German share of the compensation mechanism, and was later extended to the Netherlands, Austria and Sweden. The rebates on the rebate must also be supported by the other member states, i.e. they must increase their payments. As a result of these agreements, since 2002 France, Italy and Spain have regularly had to contribute easily the largest share to financing the UK's rebate.[52] When the British rebate will be abolished, the financing burden and net contributions of Germany would therefore also increase significantly, because German rebates would cease to apply as well.

New Reform Projects and Negotiation Topics

The Commission's MFF proposal not only takes into account the consequences of Brexit but also includes some new spending priorities. This marks the Commission's response to changes in the European Union's international environment and economic framework.

The stabilisation of the euro zone

The debate on introducing instruments to stabilise the euro area is a new topic in the negotiations on the MFF 2021—2027. In 2012 and 2013, in parallel with the negotiation process for the current MFF 2014—2020, various possibilities were already discussed for introducing closer economic policy coordination in the euro area and stabilising the single currency. At that time, however, the focus was on economic policy coordination and convergence rather than on a direct link to the EU budget.[53] Since then, a multitude of different models, forms and functions for an additional automatic solidarity and stabilisation instrument in the euro zone have been proposed and discussed in the course of the economic and financial crisis.[54] French President Emmanuel Macron's proposal to create a separate budget to stabilise the euro zone with new sources of revenue, specific spending priorities and its own institutions, became the point of reference for the debates, especially in intensive Franco-German consultations.

In its "St. Nicholas-package" on EMU-reform[55] of 6 December 2017, the European Commission had already called for the establishment of a separate fiscal capacity for the euro zone within the European budget and the institutional framework of the Union.

51 Government Offices of Sweden, *Swedish Position Paper on the Future MFF*, 1 February 2018. The same position can also be found in the Austrian paper, see *Mehrjähriger Finanzrahmen (MFR) nach 2020 – Österreichisches Positionspapier*, 8 February 2018.

52 Nicolas-Jean Brehon, *The Budgetary Impact of the Brexit on the European Union*, European Issues no. 454, Policy Paper (Paris and Brussels: Fondation Robert Schuman, 5 December 2017).

53 Peter Becker, *Wirtschaftspolitische Koordinierung in der Europäischen Union. Europäisierung ohne Souveränitätsverlust*, SWP-Studie 19/2014 (Berlin: Stiftung Wissenschaft und Politik, November 2014).

54 Peter Becker, *Die EU auf dem Weg in eine "Transferunion"? Ein Beitrag zur Entdramatisierung*, SWP-Studie 8/2018 (Berlin: Stiftung Wissenschaft und Politik, June 2018).

55 European Commission, *Communication from the Commission to the European Parliament, the European Council, the Council and the European Central Bank. Further Steps towards Completing Europe's Economic and Monetary Union: A Roadmap*, COM(2017) 821 final (Brussels, 6 December 2017).

In its resolution[56] of 14 March 2018, the European Parliament also called for the creation of a fiscal capacity for the euro zone within the EU budget, followed by further expansion and financing with genuine own resources. The Parliamentarians referred to the Monti Group's report on the reform of the Own Resources system, which had also advocated a fiscal capacity with financing from genuine own resources.[57]

However, this proposal remained the subject of heated debate among the member states. In the run-up to the euro zone summit on 29 June 2018, the Hanse Group had already spoken out against additional financial instruments or even special budgets to stabilise the euro zone.[58] Other member states that are not part of the euro zone had also explicitly rejected a separate budget for the euro zone.[59]

A euro zone budget to be agreed as part of the MFF in June 2019.

On the other hand, in their bilateral government consultations Germany and France agreed in the Meseberg Declaration of 19 June 2018 on the proposal "to draw up a budget for the euro zone starting in 2021 within the framework of the European Union in order to promote competitiveness, rapprochement and stabilisation in the euro zone".[60] The intensive Franco-German negotiations continued, and in November 2018 the two finance ministers were able to present a joint proposal[61] for a euro zone budget. For the first time it was clearly formulated that this new instrument should remain limited to the members of the euro zone, but should be part of the MFF. In this way, the coherence of all EU policies could be guaranteed and all 27 member states could be involved in decision-making. Further details followed in a Franco-German non-paper dated 21 February 2019, in which Paris and Berlin emphasised the member states' special responsibility to reduce their public debt and thus prevent a further economic crisis. At the same time, however, the German and French governments emphasized that convergence and competitiveness in the euro zone must be increased. They therefore pleaded for support for national efforts towards structural reforms and public investment from a "Euro zone budgetary instrument as part of the EU budget".[62] Although this new instrument could remain part of the EU legal community and be adopted on a legal basis of EU primary law, France and Germany demand that only euro zone members should decide on the use of the instrument.

The reactions from other member states to the Commission's proposals and the Franco-German initiative have been sceptical to negative from the outset. At the euro zone summit in December 2018, the Hanse Group with the Dutch government as its driving force continued to fight to limit financial resources and the scope of the proposed budgetary instruments for the euro zone. Finally, in the declaration of the euro zone summit of 14 December 2018, it was stated that negotiations on the elements of the new budgetary instrument for the euro zone should be concluded in June 2019. However, a decision on the instrument's financial envelope is to be taken in the framework of the MFF negotiations, which will not lead to an agreement until the end of 2019. From the Dutch perspective, it was probably crucial that the budgetary instrument should be established "as part of the EU budget while maintaining coherence with other EU policies" and used "for convergence and competitiveness for the euro zone" instead of for economic policy cushioning and stabilisation. "The instrument will be adopted in accordance with the legislative procedure laid down in the Treaties on the basis of the relevant Commission proposal, which

56 European Parliament, *The Next MFF: Preparing the Parliament's Position on the MFF post-2020. European Parliament Resolution of 14 March 2018*, P8_TA-PROV(2018)0075 (Strasbourg, 14 March 2018), paragraph 11ff.

57 *Future Financing of the EU. Final Report and Recommendations of the High Level Group on Own Resources* (Brussels, December 2016), http://ec.europa.eu/budget/mff/hlgor/library/reports-communication/hlgor-report_20170104.pdf

58 Peter Ludlow, "June 28 – 29: Migration Policy, Security and Defence, Economic Policy, Brexit and the Future of the Euro", European Council Briefing Note 2018/4, 41ff.

59 See, e.g., the position paper of the Romanian government: *Preparing for the Post 2020 Multiannual Financial Framework (MFF) – Romanian Preliminary Position* (Bucharest, December 2017).

60 Press and Information Office of the Federal Government of Germany, *Erklärung von Meseberg. Das Versprechen Europas für Sicherheit und Wohlstand erneuern* (Berlin, 19 June 2018).

61 *Proposal on the Architecture of a Eurozone Budget within the Framework of the European Union*, German-French Non-Paper (16 November 2018).

62 *Eurozone Budgetary Instrument – Possible Ways Forward after the December 2018 Summit*, German-French Non-Paper (21 February 2019).

will be amended if necessary", said the heads of state and government of the euro area.[63]

The euro zone Summit thus referred to two legislative proposals presented by the Commission in its MFF package of 31 May 2018, namely an investment stabilisation function and a reform assistance programme. With them, it seeks a balance between the conflicting interests and positions that exist on the volume, financing, tasks and objectives of the new instruments.

In order to mitigate asymmetric shocks in the euro zone, the Commission advocates a limited investment stabilisation function.[64] This will finance loans to secure public investment, and issue limited interest rate subsidies to member states particularly affected. However, the supported member states would have to comply with the fiscal requirements of the Stability and Growth Pact as well as the economic policy recommendations of the European Semester, and pursue sound fiscal policies. The upper limit for loans is set at €30 billion. The interest subsidy is to be financed from national contributions and the so-called seigniorage profits, i.e. the interest gains of the European Central Bank on the issue of euro banknotes. Yet the Commission wants to promote an anti-cyclical financial policy by helping to maintain public investment in crisis situations; so this investment aid should not be offered unconditionally or as unbound financial transfers. The investment stabilisation function should be part of the MFF, but should not have to comply with its strict upper limits. The Commission therefore sees no need to create new institutions for the euro zone in order to be able to offer effective instruments of macroeconomic stabilisation. In addition, it assures the sceptics that this aid instrument will only be used on the basis of clearly defined trigger criteria and strict entitlement criteria.

The proposal for a second instrument to stabilise the euro zone, the reform aid programme,[65] is also much more modest and limited in scope than France's original demands. This incentivising and support programme is to be limited to a total volume of €25 billion and used for national structural reforms in the member states. The proposed financial and technical assistance is to be linked to the country-specific reform recommendations of the European Semester, i.e. also be conditional.

The Commission therefore takes a clear stance on the fundamental institutional issues. It advocates new but financially limited instruments within the structures of the EU-27, the MFF and its procedures. In contrast to France with its ambitious ideas, the Commission's proposals are rather reserved and cautious. However, it is clear that these form the basis for further negotiations on the equipment and scope of the new instruments to be created.

A New Security and Defence Union

The instability of the international environment and the new security threats in Europe prompted the European Commission to propose the establishment and expansion of a new European policy area, a European security and defence policy. It thus refers to the Rome Declaration of 25 March 2017,[66] in which the heads of state and government of the EU-27 and the Presidents of the EU institutions promoted a secure and protected Europe and called for "a more competitive and integrated defence industry".

Already in November 2016, the Commission had called in its European Defence Action Plan for increased cooperation in defence policy and investment in strategic defence projects "to maximise the output and the efficiency of defence spending".[67] It also stressed the European added value of joint efforts by the member states and an integrated European defence market. "In order to build common defence capabilities, greater solidarity is needed, including through the inclusion of the EU budget," the Commission said.[68] It proposed the creation of a European Defence Fund, set up on 7 June 2017. This has two legally separate components, one for joint funding of research, the other for joint development and acquisition of defence capabilities. In its communication

63 *European Council, Meeting of the Euro-Summit on* 14 December 2018 – *Conclusions* (Brussels, 14 December 2018), paragraph 4.

64 European Commission, *Proposal for a Regulation of the European Parliament and of the Council on the Establishment of a European Investment Stabilisation Function*, COM(2018) 387 final (Brussels, 31 May 201).

65 European Commission, *Proposal for a Regulation of the European Parliament and of the Council on the Establishment of the Reform Support Programme*, COM(2018) 391 final (Brussels, 31 May 2018).

66 *The Rome Declaration. Declaration of the leaders of 27 member states and of the European Council, the European Parliament and the European Commission* (Rome, 25 March 2017).

67 European Commission, *European Defence Action Plan*, COM(2016) 950 final (Brussels, 30 November 2016), 3.

68 Ibid.

of June 2017, the Commission recommended a "step change towards closer defence cooperation in Europe"[69] and to creating new financial instruments under the MFF 2021—2027.

The regulation proposed on 13 June 2018 aims to merge the two components into a single defence fund, which will also be significantly increased with a total volume of €13 billion. The fund will provide €4.1 billion for the "research window" and €8.9 billion for the "capacity window", i.e. for the development and procurement of military equipment as well as technologies and products relevant to armaments. The Defence Fund is intended to stimulate joint arms policy research and development projects, thus promoting the "competitiveness and innovative capacity of the technological and industrial base of European defence" and thus contributing to the "strategic autonomy" of the EU.[70] To achieve these goals, the fund is also to support defence policy-related armament projects within the framework of the Permanent Structured Cooperation (PESCO).

With its proposal, the Commission is attempting to expand the approaches to defence and armaments policy cooperation within the EU and to consolidate its own role in this area. Overall, these initiatives appear to be the first steps towards the Europeanisation and supranationalisation of this policy. However, despite large increases, the proposed expenditure is still low compared to other MFF spending priorities or national defence budgets.

A New Rule of Law Mechanism

The Commission's proposal to create a new rule of law mechanism to protect the EU budget caused great outrage in some Central and Eastern European member states, which had previously benefited from large sums of funding from the EU budget.[71] By endeavouring to measure the proper use of European funds with the yardstick of the rule of law, the Commission responded to the pressure, particularly from Western European member states, to introduce a "political conditionality" for receiving European funding. In its resolution of 14 March 2018, the European Parliament also called on the Commission "to propose a mechanism whereby Member States that do not respect the values enshrined in Article 2 of the Treaty on European Union (TEU) can be subject to financial consequences".[72]

Rule of law in the member states is to become a precondition for correct financial management.

The Commission is in favour of a restrictive sanction mechanism, which in principle applies to all subsidies from the EU budget. It justifies this by stating that compliance with the rule of law and the separation of powers, accountable, democratic and pluralistic legislation, an independent judiciary and the guarantee of legal certainty are basic prerequisites for the protection of the EU's financial interests. If these conditions are called into question in a member state, the Commission should be able to propose stopping the disbursement of European subsidies. The final decision as to whether a country can be deprived of funds due to a systematic weakening of the judiciary should then be taken by the Council with reverse qualified majority.[73] In contrast to the existing ex ante conditions in cohesion policy, the new rule of law conditionality should be applicable at all times, also ex post. This should enable the EU to react to political changes in the member states. However, sanctions should not be imposed on final recipients of European funding, such as Erasmus students, but only on government agencies in the EU country that does not adhere to the rule of law. In practice, this could mean that cohesion policy programmes and support from the Structural Funds are primarily affected. Unlike the procedure under Article 7 TEU for suspending the rights of a member state, this new procedure would make it possible to sanction infringements of constitutional principles much more quickly, simply and effectively.

69 European Commission, *Launching the European Defence Fund*, COM(2017) 295 final (Brussels, 7 June 2017), 17.

70 European Commission, *Proposal for a Regulation of the European Parliament and of the Council on Establishing the European Defence Fund*, COM(2018) 476 final (Brussels, 13 June 2018).

71 European Commission, *Proposal for a Regulation of the European Parliament and of the Council on the Protection of the Union's Budget in Case of Generalised Feficiencies as Regards the Rule of Law in the member states*, COM(2018) 324 final (Brussels, 2 May 2018).

72 European Parliament, *The Next MFF: Preparing the Parliament's Position on the MFF post-2020* (see note 56), paragraph 119.

73 Thereafter, a Council decision is deemed to have been adopted unless a qualified majority of the member states decide within one month to reject the Commission's proposals for sanctions.

This mechanism seems to have been the result of the difficult search to develop a political instrument with a high symbolic impact, without too obviously applying it to individual member states. Nevertheless, the thrust against Poland and Hungary, which are also subject to proceedings for serious violations of European fundamental values under Article 7 of the Lisbon Treaty, cannot be overlooked. That is why the choice of the legal basis for this regulation proposal, namely Article 322 TFEU adopting the EU's Financial Regulation, is particularly important, since it allows budgetary provisions to be amended by qualified majority voting in the Council.

However, this legal basis is highly controversial. In an opinion, the Council's Legal Service points out that the Commission's draft regulation is very close in its functional objective to the objectives of the Article 7 procedure, and less clearly oriented towards the protection of the EU budget. The proposal did not sufficiently demonstrate to what extent "generalised deficiencies in the rule of law" could jeopardise sound financial management and the EU budget. The Legal Service therefore recommends that clear and precise criteria for establishing generalised deficiencies in the rule of law be included in the Regulation, including an explanation of how such shortcomings could threaten the EU budget. For their part, Poland and Hungary are pressing for a different legal basis that could guarantee unanimous decision-making by all member states and thus their veto.

In addition to the obvious overlap in content with the Article 7 procedure and doubts about the proposed legal basis, criticism has also been levelled at the fact that the Commission's assessment has been overemphasised in this procedure.[74] It is precisely this enhanced role of the Commission that raises fundamental questions, since it would make the Commission the judge of the existing different forms of the rule of law in the member states. So far, this task has been the responsibility of the European Court of Justice. Such a mechanism would undoubtedly resolve the cumbersome steps of the Article 7 procedure, and provide the EU with a more feasible and considerably more effective set of sanctions in the event that individual member states violate fundamental values and the principle of the rule of law.

For the adoption of a regulation and its practice, it will be crucial to first make specific the relatively broad and vague criteria from the Commission's draft, against which the violation of the rule of law and its consequences for sound financial management would be assessed. Otherwise, linking specific budgetary issues with the fundamental values of the European Union could prove to be an impediment or even a stumbling block. The politically symbolic effect of the proposal, and the support of mainly Western European governments, still seems to outweigh its actual applicability for the Commission.

The Reform of the Own Resources System and New Own Resources

On the revenue side, the Commission's proposal to create additional own resources for the EU is not a real innovation. Already during the negotiations on the current MFF 2014—2020, the Commission had promoted new own resources and worked out concrete proposals. The European Parliament also regularly calls for additional own resources to be generated to finance the EU budget. At Parliament's insistence, the High Level Group on Own Resources (HLGOR) was set up in February 2014 under the leadership of former EU Commissioner and Italian Prime Minister Mario Monti to review the Own Resources system. In its final report, the group also called for the development of new sources of own resources to co-finance the EU budget and provide political guidance.[75]

The Commission's proposal to modernise the revenue system, diversify sources of finance with new own resources and gradually abolish all rebates and special arrangements is not genuinely a new initiative. However, there is some evidence that the alliance of supporters of such reforms is greater this time than in previous MFF negotiations. A number of administrative proposals are also unusual and at first sight seem less significant, but could lead to far-reaching changes.

74 See European Court of Auditors, "Opinion No 1/2018 (pursuant to Article 322(1)(a) TFEU) concerning the proposal of 2 May 2018 for a regulation of the European Parliament and of the Council on the protection of the Union's in case of generalised deficiencies as regards the rule of law in the member states", *Official Journal of the European Union* C 291/1 (17 August 2018): 1—7.

75 *Future Financing of the EU. Final Report and Recommendations of the High Level Group on Own Resources* (see note 57).

The Deletion of Special Arrangements and Rebates

With the exit of the UK from the EU, the British contribution rebate and, consequently, the special arrangements in favour of Germany, Austria, Sweden and the Netherlands to finance the British rebate no longer apply. This increases the political pressure to get rid of all rebates and special regulations. After Brexit, it will be much more difficult to justify them and legitimise them politically. It is with good reason that Commissioner Oettinger often speaks of the British contribution rebate as the "mother of all rebates" and of the unique opportunity to now establish a transparent and fair financing system.

However, if all special regulations are abolished, this will raise again the question of fair burden-sharing among net payers. Germany, the Netherlands and Sweden are currently benefiting from the reduced rate call of 0.15 percent for VAT-based own resources to the EU budget instead of 0.3 percent, which applies to all other member states.[76] In addition, Austria, Denmark, Sweden and the Netherlands were able to negotiate lump sum deductions on their GNI-based contributions at different levels.[77] In addition to the British rebate, a number of rebates and special arrangements have thus emerged in the course of the development of the Own Resources system since 1984 in favour of some member states. These regulations were created successively in order to compensate for a distribution of the financial burden of the EU budget which was understood as unfair in terms of net balances. If all these rules are deleted, the distribution conflict between net contributors and net recipients and between large and small net contributors will erupt again. It will therefore be important to find a new balance. At least some net contributors — the Netherlands, Sweden, Austria, Denmark, but also Germany — are pushing for a new solution and compromise.

The Increase of the Own Resources Ceiling

Of particular importance is the Commission's proposal to increase the own resources ceiling of the new MFF in order to widen the margin for unforeseen expenditure between this ceiling and the payment obligations included in the MFF. Most recently, the ceiling was increased in the early 1990s during the negotiations on the second multiannual financial framework. Currently, the own resources ceiling for payment appropriations is 1.2 percent and for commitment appropriations 1.29 percent of EU GNI; the two ceilings are to be increased to 1.29 percent and 1.35 percent of EU-27 GNI respectively.

The UK's withdrawal from the European Union will reduce the EU's GNI by around 15 percent. Because the MFF ceilings will be set as a percentage of EU GNI, they will automatically decrease in nominal terms in the future. The Commission estimates that Brexit will reduce the own resources ceiling by around 16 percent. The margin between the budget estimates for EU payment commitments on the expenditure side and the ceiling will inevitably shrink if the total MFF volume in nominal terms remains roughly at the current level, or is even increased by the inclusion of the European Development Fund in the MFF and if the own resources ceiling remains unchanged at 1.2 percent of EU GNI. This would noticeably reduce the EU's scope for budgetary flexibility. It could result in margins insufficient to cover EU expenditure in crisis situations without lengthy adjustment of the own resources ceiling. According to the Commission, however, a certain margin would be needed in order to be able to adequately continue with flexibility instruments outside the MFF and to establish new instruments. In the Commission's view, there must also be sufficient financial leeway for those budgetary financing instruments that have recently been increasingly used to cover financial liabilities in the form of loans and financing facilities. Particularly if such new financial instruments were to be used to a greater extent to stabilise the euro zone, it would be vital that the EU could meet its financial obligations "even in times of economic downturns".[78]

The proposed increase in the own resources ceiling would not imply that member states would have to make additional financial resources available to the EU. The overall volume of the MFF will be determined in the negotiations that will set the financial en-

76 "Council Decision of 26 May 2014 on the System of Own Resources of the European Union (2014/335/EU, Euratom)", *Official Journal of the European Union* L168/105 (7 June 2014), article 2, paragraph 4.

77 Ibid, paragraph 5: According to the current Own Resources Decision, Denmark's annual GNI contributions will be reduced by €130 million, the Netherlands' by €695 million and Sweden's by €185 million. Austria's annual GNI was initially reduced by €30 million in 2014, by €20 million in 2015 and by €10 million in 2016.

78 European Commission, *A Modern Budget for a Union that Protects, Empowers and Defends* (see note 2), 28.

velope for the EU spending and support programmes. However, an increase in the own resources ceiling would increase the financial leeway for EU flexibility instruments outside the fixed limits of the MFF. This would increase the EU's responsiveness in the event of unforeseen challenges arising, or necessary expenditure not included and planned in the MFF.

The Horizontal Issue of Budgetary Flexibility

Not a completely new topic, but unusual in its weighting, is the demand to make European budgetary policy much more flexible. In its MFF proposal 2021–2027, the European Commission calls for a more flexible and agile budget: what is needed is "increasing flexibility within and between programmes, strengthening of crisis management tools and creating a new 'Union reserve' to tackle unforeseen events and to respond to emergencies in areas such as security and migration".[79] To date, the headings of the MFF and their financial endowment have been fixed initially for the entire duration of the financial framework and largely independently of developments in the political environment. This definition of political and fiscal priorities can only be changed and adapted to new conditions by consensus of all member states and EU institutions. In its reflection paper on the future of EU finances[80] of 28 June 2017, the Commission had already called for additional efforts and new elements to gain more budgetary flexibility. In its contribution to the informal meeting of the European Council on 23 February 2018, it also stressed the importance and urgency of it: "[Flexibility] will be essential to adapting to new needs and unstable geopolitical and domestic conditions".[81] The European Parliament also expressed this view in its resolution of 14 March 2018 and called for flexibility instruments to be strengthened.[82]

The intention is to make the MFF more flexible with new instruments and thus strengthen the EU's ability to respond to crises.

Attempts to make the EU budget more flexible are as old as the MFF itself. Since the financial perspective for 1988–1992, also known as the Delors I package, various elements of flexibility have been successively introduced into the financial framework, such as a separate flexibility instrument in 1999 and a Solidarity Fund and revision clauses in 2002. The current MFF 2014–2020 also contains instruments "to allow the Union to react to specified unforeseen circumstances, or to allow the financing of clearly identified expenditure which cannot be financed within the limits of the ceilings available for one or more headings as laid down in the MFF".[83] These include global margins for payments and commitment appropriations, a flexibility instrument providing funding for specific expenditure, the emergency aid reserve to finance specific humanitarian aid and civilian crisis operations in non-EU countries, the Solidarity Fund to provide financial assistance following a major disaster in a member state and the European Globalisation Adjustment Fund.[84] Some of these instruments, such as the Globalisation Fund and the flexibility instrument for specific expenditure are used for special expenses which cannot be planned within the ceilings set and are therefore outside the limits of the MFF. In addition to these agreed instruments, some crisis instruments to stabilise the euro area, such as the European Financial Stabilisation Facility (EFSF) and the European Stability Mechanism (ESM), have been added since 2011. Regional Trust Funds for specific foreign policy tasks, such as the Emergency Aid Funds for Africa and for the Peace Process in Colombia, as well as the Madad Trust Fund for European aid in response to the consequences of the Syrian civil war in the region, have also been estab-

79 Ibid., 4.

80 European Commission, *Reflection Paper on the Future of EU Finances*, COM(2017) 358 (Brussels, 28 June 2017).

81 European Commission, *A New, Modern Multiannual Financial Framework for a European Union That Delivers Efficiently on Its Priorities Post-2020*, COM(2018) 98 final (Brussels, 14 February 2018), 19.

82 European Parliament, *The Next MFF: Preparing the Parliament's Position on the MFF post-2020. European Parliament Resolution of 14 March 2018* (see note 21), paragraph 26ff.

83 "Council Regulation (EU, EURATOM) No 1311/2013 of 2 December 2013 Laying Down the Multiannual Financial Framework for the Years 2014–2020", *Official Journal of the European Union* L 347 (20 December 2013): 884–91 (884).

84 See Eulalia Rubio, *The Next Multiannual Financial Framework (MFF) and Its Flexibility* (Brussels: Policy Department for Budgetary Affairs, Directorate General for Internal Policies of the Union, November 2017); Jorge Núñez Ferrer et al., *Study on the Potential and Limitations of Reforming the Financing of the EU Budget* (Brussels, June 2016).

lished.[85] In addition, there were funds to finance measures in the wake of the so-called refugee crisis, such as the fund for refugees in Turkey.[86]

Especially the experience with the current MFF, its low adaptability and the inadequately funded flexibility margins had made it clear that additional instruments and scope were needed. The flexibility of the Union budget had been put to a hard test, the Commission stated.[87] In its reflection paper on the future of EU finances, the Commission admitted: "This extended financial architecture has allowed the Union to mobilise additional funding but it has also added to the complexity of EU finances".[88]

By now, there is broad agreement among the actors in the MFF negotiations that more budgetary flexibility is indispensable. It is the means to achieve it and the instruments to be used that are controversial. First and foremost, the member states are interested in ensuring that the predictability and binding nature of the MFF are not undermined or called into question. As a rule, they therefore try not to endow the instruments with too much money, and also to restrict their use by defining the potential areas of application in detail.

The Commission is now proposing changes to the structure and composition of the MFF, as well as administrative and technical issues relating to expenditure headings and programmes and the financial allocation of margins and ceilings. It wants to create new instruments as well as expand and redesign existing ones. It wants to achieve greater flexibility between and within programmes, between headings and during the lifetime of the MFF.

A new feature is the proposed "Union reserve",[89] which shall be financed from unused commitment appropriations below the MFF ceilings. These appropriations are to be carried over to the next financial year in order to make maximum use of financial margins. "This Reserve is a powerful new tool to tackle unforeseen events and to respond to emergencies in areas such as security and migration", the Commission explains its proposal.[90] The intention is also that the overall margin for payments should be extended. In the current MFF 2014–2020, unused payment appropriations during the last three years of the current MFF period can only be carried over to the next financial year to a limited extent. This limit shall be removed in the future.

Separate margins and flexibility instruments outside the MFF's strict ceilings will be increased and their use expanded. This applies, for example, to the Solidarity Fund, the Emergency Aid Reserve and the Flexibility Instrument. In future, it would be made easier for the member states to reallocate funds between support policies and programmes and thus to deviate from the MFF appropriations.

Additional possibilities for adjustment and redeployment can also be found within individual expenditure programmes, particularly in the case of the European Structural Funds and the second pillar of the CAP. Since the number of specific expenditure programmes is to be reduced from 58 to 37, and the financial volume of the individual programmes will increase as a result, the amount of possible deviations from the MFF specifications will also increase automatically.

With broader objectives and funding priorities within the programmes, funding policies will in any case become more flexible, as this offers the recipients of European funding greater freedom to define specific needs and their own priorities. Thus, the eleven thematic objectives of European cohesion policy that have been pursued to date will be changed to five very basic policy objectives.[91] It remains to be seen, however, to what extent the Commission will actually grant these freedoms in practical implementation to the regions, an extent that will only become

85 Richard Crowe, "The European Budgetary Galaxy", *European Constitutional Law Review* 13, no. 3 (2017): 428–52.

86 Sergio Carrera et al., *Oversight and Management of the EU Trust Funds. Democratic Accountability Challenges and Promising Practices* (Brussels: Policy Department for Budgetary Affairs, Directorate General for Internal Policies of the Union, May 2018).

87 European Commission, *Proposal for a Council Regulation Laying Down the Multiannual Financial Framework for the Years 2021 to 2027*, COM(2018) 322 final (Brussels, 2 May 2018), 3.

88 European Commission, *Reflection Paper on the Future of EU Finances* (see note 80), 9.

89 European Commission, *Proposal for a Council Regulation Laying Down the Multiannual Financial Framework for the Years 2021 to 2027* (see note 87), paragraph 12.

90 European Commission, *A Modern Budget for a Union That Protects, Empowers and Defends* (see note 2), 26.

91 European Commission, *Proposal for a Regulation of the European Parliament and of the Council Laying down Common Provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund and Financial Rules for Those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument*, COM(2018) 375 final (Strasbourg, 29 May 2018), article 4.

apparent in the planning and preparatory work for the next funding period.

EU funds that have not been spent should remain in the Union budget and be used for other tasks.

With these proposals, the Commission aims to maximise the resources allocated to the EU by the member states during the MFF negotiations. Any unused resources will remain in the Union budget and can be used for other tasks. At present, these funds are returned to the member states or offset against their payments to the EU budget. The Commission therefore wants to take the member states at their word and be able to use the financial resources promised in principle even if the original objective of expenditure planning has changed or has been abolished. In future, it would be easier to use the money for current tasks on the political agenda. Within the large expenditure blocks, where the member states insist on binding allocation of funds from the EU budget at the beginning of the MFF's term, the Commission wants to expand the flexibility in terms of content and function in the design of the respective spending policy. The financial resources of the policies and their allocation to the member states are to remain unchanged. Funding objectives and priorities, however, could be adjusted, at least to some extent, to changing framework conditions and new challenges.

Changes in the Process Flow

The current MFF negotiations started with the knowledge that in 2019 after the elections to the European Parliament, both the internal structures of the European Parliament and the new European Commission will have to be established and that the leading positions of EU institutions will have to be selected and named. This congruence of institutional and personnel intermediate phases has not been the case in the previous five negotiation processes on a multiannual financial framework.[92] The new situation could cause some delay in the negotiations on the MFF 2021–2027, since it may take some time until all structures are adapted and all personnel decisions within the institutions are made.

Erosion of Groups and New Negotiation Structures

Also new for the negotiations in the Council is the fact that the clear grouping and classification of member states into net contributors and net recipients seems to have softened. The group of member states that do not belong to either category is growing. This "neutral" group includes old net-paying member states such as Belgium and Luxembourg, but also countries such as the Czech Republic and Spain, which could become net-contributors in the course of negotiations, and depending on economic developments.

Furthermore, new groups are emerging which, depending on the negotiating aspect, cannot be clearly assigned to net contributors or net recipients. The so-called Hanse Group, which has come together primarily against the Franco-German considerations on a separate euro zone budget, comprises both longstanding net contributors, such as the Netherlands and Sweden, and net recipients, such as the Baltic States. This group includes members of the euro area as well as non-members such as Sweden and Denmark.

As the coherence of the negotiating groups dwindles, uncertainty grows.

The dissolution of the fixed group membership could have the consequence that the often practiced and well-trodden negotiation paths and processes open up. This somewhat unclear and confusing tableau leads to increasing uncertainty for all involved. As a result of the decreasing congruence of interests, the coherence of the groups seems to be dwindling and at the same time so does their negotiating power. In any case, prior to these MFF negotiations, the net contributors group did not write a joint letter to the European Commission in which they

92 Only during negotiations on the so-called Agenda 2000 in 1998/99 was there overlap with staff issues. After the European Commission and its President Jacques Santer resigned on 15 March 1999 on the grounds of allegations of corruption against the French Commissioner Édith Cresson, a successor for Santer was sought in parallel with the budget negotiations. The European Council in Berlin on 24/25 March 1999 then agreed on Romano Prodi as the new President of the Commission and on Agenda 2000, the financial framework for the years 2000–2006.

could have pointed out their objectives and demands at an early stage. This had been the case in the run-up to the last two multiannual financial frameworks.[93]

The withdrawal of the United Kingdom from the EU will also have consequences for the strength and conduct of negotiations of the net contributor group. In the European budget negotiations, the UK has traditionally positioned itself as an advocate of a modernisation of the budget, i.e. greater EU support for research and innovation policies. At the same time, London has always argued for significant savings and cuts in the traditional categories of expenditure, particularly in the CAP. During the 2005 and 2011 rounds of negotiations, the UK took a radical stance. In 2005, the UK government would only agree to a compromise on the 2007–2013 financial framework if a comprehensive review and reform process was agreed at the same time, explicitly considering a CAP reform. London was even prepared to sacrifice the British special rebate for this purpose — the "British cheque" in exchange for the "French cheque" in agriculture was the British demand at the time. In the 2011 round of negotiations on the current MFF 2014–2020, the then Prime Minister David Cameron early on set an upper limit for the total volume of the MFF: under no circumstances should it exceed the total amount for payment obligations of €960 billion. With the help of other net contributors, Cameron was also able to enforce this MFF ceiling.

The other members of the net contributor group will now lack precisely these stringent negotiating tactics, and British arguments in the budget negotiations. In the past, the hard British positions and the preference for reforms and radical savings had ensured that in most cases the focus was not on German interests as the largest net contributor, but on London's demands. Germany's negotiation and positioning, which was predominantly mediatory and sought a balance, but nevertheless was determined by its own interests, almost automatically developed into the center of a compromise solution in the dispute between net contributors and net recipients. The lack of a stubborn, uncompromising and sometimes radical British negotiating style will make German negotiations in particular more difficult.

However, solidarity among the "Friends of Cohesion",[94] i.e. the net recipient group, could also erode. Some member states in Central and Eastern Europe may have to accept major cuts in the financing of their Structural Fund programmes if the new eligibility criteria proposed by the Commission are applied to the Structural Funds, in particular the inclusion of refugees. Poland and Hungary are expected to lose more than 20 percent compared with the previous spending period. Initial calculations for the southern European recipient countries such as Greece and Spain, as well as the new member states Bulgaria, Romania and Croatia, suggest, however, that the volume of their support programmes will increase slightly.[95] These different interests within the group of net recipients may also cause the coherence of the group to crumble, or ensure that more efforts are necessary to keep it together.

New coalitions are emerging, with some members changing, and — depending on the negotiating topic — a loosening of group ties. These unclear constellations can produce new results, but could also make it difficult to reach agreement on them. In any case, the negotiating constellation within the circle of member states becomes more complex and ambiguous.

93 In their joint letter of 18 December 2010 to the President of the European Commission, José Manuel Barroso, the five heads of state and government from Germany, France, the Netherlands, Finland and the United Kingdom, for example, pointed out that they are aiming for an MFF volume of 1 percent of EU GNI. In the negotiations, they succeeded in pushing through this reduction in real terms in the MFF.

94 Like the net contributors, the representatives of the countries receiving money from the European Structural Funds meet regularly. This group, called "Friends of Cohesion", includes Poland, Hungary, the Baltic States, the Czech Republic, Slovakia, Slovenia, Romania, Bulgaria, Portugal, Greece, Cyprus, Malta and Croatia. In the run-up to the MFF 2014–2020 negotiations, Poland has taken over the unofficial leadership of the group from Spain. Like Ireland, which received considerable sums from the European Structural Funds in the 1980s and 1990s, Spain is no longer taking part in the current meetings of the "Friends of Cohesion".

95 See Melchior Szczepanik, *Central Europe in the Negotiations of the EU Multiannual Financial Framework*, PISM-Bulletin no. 128 (Warsaw: Polski Instytut Spraw Międzynarodowych [PISM], 19 September 2018).

Further Negotiations and the Role of Germany

Scenario for the Further Course of Negotiations

With the presentation of the negotiating box in November 2018, the Austrian Council Presidency significantly accelerated the process and set in place the first cornerstones. Further topics or completely new positions on the familiar conflict issues will barely be possible — and if they are, then only at high political cost elsewhere. For the negotiations, this means that the existing points of contention must now be worked through until an agreement can be reached. On the one hand, therefore, the member states must define red lines for themselves. On the other hand, it is a matter of finding avenues for compromise, linking different positions and exploring package or compensation solutions. The Romanian Presidency of the Council did not have enough experience or political weight for this diplomatic fine-tuning. It will be the main task for the Finnish Presidency to table possible solutions and compromises and thus prepare the ground for the deliberations in the European Council. Finland has already signalled that it will present a revised negotiating box with initial financial proposals directly after the summer break.

In doing so, the pace of negotiations, combined with a sense of good timing for compromise, is an important tactical tool. The pressure on the net recipients to reach a compromise increases with the danger that delays in the negotiations will interrupt the flow of subsidies from the EU budget. The final negotiations on the MFF 2014—2020 and those on the new legal basis for the new funding instruments were also concluded only a few days before the end of the MFF term. If the current process is similarly sluggish, this could mean that negotiations would have to be conducted and concluded in 2020 under the Croatian and German Council Presidencies. Some countries receiving funding from the European Structural Funds are speculating that during its presidency, Germany, as the largest net contributor, could be more willing to accept additional payments in order to avoid a delayed start into the next funding period.

Central actors in this negotiation phase are the Finnish Presidency and the President of the European Council. His assessment is decisive for the course and conclusion of the negotiations. It is up to him how to assess the state of the negotiations and when to put the dossier on the European Council's agenda.[96] A first discussion in the European Council is planned for October 2019, when the Still-President Donald Tusk will have to begin to search for paths of agreement for the negotiations between the heads of state and government. These will deal with substantive political issues, i.e. overall volume, priorities and distribution of resources and burdens. However, it is questionable whether Tusk will then still have the necessary political persuasiveness to achieve a consensus among the heads of state and government. In previous years, the heads of state and government only agreed on a new financial framework for the EU at the second attempt in the European Council. It is therefore likely that Tusk's successor Charles Michel will have to make the decisive attempt to reach a consensus in the European Council, in the best case scenario in December 2019 or more likely in February 2020.

Uncertainty about the role and possibilities of the Council President and about the timetable increases the tactical uncertainties in negotiations amongst all actors. Thus it remains unclear to member states when the decisive agreement attempt will start and when they will have to draw their red lines, while at the same time avoiding revealing their negotiating position too early to the gain of other member states. But it is not only this procedural openness that causes

96 This decision could also depend on Tusk's ambitions to return to Polish domestic politics.

problems. Previous mechanisms and institutions that have so far been able to mediate a consensus have become increasingly dysfunctional, such as the clear attribution and coherence of the groups among the member states. All these factors influence the negotiation scenario and the tactics of member states. The remaining anchors of stability are all the more important, and expectations on their mediation capabilities are rising.

Germany's Role in this Scenario

When the decisive negotiations are conducted at the highest political level in the European Council, it will be a question of balancing sometimes contradictory positions to reach consensus. Then member states will also present their special requests in return for their willingness to agree to the overall package. This list of special requests and extra payments is by now an integral part of the discussions in the European Council. In the course of the MFF negotiations to date, this list has become longer and more expensive. This time special payments for Ireland or the Irish border regions with Northern Ireland are conceivable to cushion the economic impact of Brexit. Southern European member states could also receive extra payments to help them bear the burden of high migratory pressures.

At the latest when the most difficult blockades have to be removed by promising additional contributions, all eyes and great expectations will be on Berlin. The governing parties have already made it clear that the German Government is in principle prepared to pay more into the EU budget. Berlin is thus abandoning the more restrictive line it took at earlier rounds of negotiations. In their coalition agreement,[97] CDU/CSU and SPD have stipulated that the German government should strengthen the EU financially. The very fact that the United Kingdom is leaving the EU, and thus the tough British position will not be part of the negotiations, increases the pressure on Germany to allow for a compromise in the European Council in the final phase of the MFF negotiations. This time, Berlin will no longer be able to argue that it must take into account an extreme British position. Therefore, savings, redeployments and fundamental reforms of the EU budget could become more difficult. It is easier for other member states to demand that a conflict of interest be resolved with additional funds, especially if these are raised by third parties. In contrast, reallocations could trigger new distribution battles in domestic political arenas.

It will be important for the German Government to negotiate a balanced combination of financial commitments and effective measures to modernise the EU budget. It will also be important to find a balance between efforts to limit its own burdens and, simultaneously, to get the necessary MFF reforms under way. While uncertainty in the negotiations among member states is growing, expectations about Germany's ability to solve problems and its willingness to compromise as a central member state and engine for economic growth are rising. Therefore, the German Government should be prepared for its decisive role. On the one hand, the openness of the process enables the potential for further reforms and modernisation impulses. On the other hand, it requires a willingness to assume greater burdens for such reforms. In the emerging negotiation situation, therefore, firmness and clarity in defining goals and fundamental positions are first and foremost required. However, sufficient flexibility and the ability to compromise are also needed to resolve the less fundamental negotiating conflicts.

Two guidelines should determine German negotiations in this MFF negotiation endgame:

Unity and cohesion: During the crises of recent years, there has been a tendency in the EU budgetary policy to create intergovernmental extra budgets and trust funds to equip the EU with instruments for a rapid, limited and targeted response. This trend should end and the number of such emergency instruments be reduced to an absolute minimum. The existing special budgets should be largely integrated into the Union budget and consequently negotiated and adopted with the community method. Ideas for new instruments — such as a large special budget for the euro zone with its own institutions that far exceeds the actual EU budget — would contradict the objective of consolidating unity, consensus and internal cohesion of the EU-27. It is undoubtedly more difficult to agree on how the new euro zone budget should be integrated into the MFF. However, it would serve the fundamental objective of unity and cohesion of the EU-27 even more. Yet the European Parliament's demand to increase the size of the EU budget to more than 1.3 percent of EU GNI seems excessive.

97 *Ein neuer Aufbruch für Europa. Eine neue Dynamik für Deutschland. Ein neuer Zusammenhalt für unser Land. Koalitionsvertrag zwischen CDU, CSU und SPD* (Berlin, 7 February 2018), 8.

This would not be appropriate to dispel the reservations of net contributors against too rapid an increase in expenditure and against less efficient and target-oriented spending policies. The goal of strengthening cohesion and unity of the EU as a whole requires a minimum of realism and pragmatism from all EU actors and institutions.

Stabilisation and modernisation: The development of new European policies can stabilise the EU as a whole and in the medium term. This applies, for example, to internal and external security, external border protection and the plan to prepare national economies for digitalisation. Such a reform, whereby priorities are set anew and instruments of the EU budget policy are adapted, can only succeed if the Union's budget is modernised simultaneously. The budget, however, can only be reoriented step by step in order to overcome as far as possible the resistance of those member states and interest groups that find themselves on the losing side of these reforms. Modernising and reorienting the EU budget should strengthen the EU's ability to act and react, and thus also help to stabilise the Union as a whole as well as the integration process. A pragmatic reform of European budgetary policy could demonstrate that the EU is capable of responding adequately to a changing political environment.

On the basis of these guidelines, policies should be selected and specified whereby Germany is prepared to throw its political weight into the balance and invest financial resources. Here the Europeanisation of security and defence policies and external border protection would be an appropriate choice. The negotiating tactics of the German Government should then be determined by combining its fundamental European policy goals and reform interests with the net balance perspectives of other member states and the demands for new, reform-oriented conditions.

These tactics would avoid making payment flows and net balances a starting point for reforms, but rather the content, objectives and functionality of the European spending policies. It should be the German Government's overriding concern to cohere the wish list of European partners in MFF negotiations with steps towards a further deepening of the European Union, and to consolidating the existing structures. For example, additional European special assistance could be granted to alleviate migration pressure if the countries concerned agree to Europeanise the protection of the EU's external borders and to reform European asylum policy. It would also be conceivable to continue the European support policy with the help of the Structural and Cohesion Funds if the respective member states modernise their national economic structures and actually implement necessary structural reforms. Finally, the new instruments for stabilising the euro zone and offering further risk-sharing and additional aid in the event of crises could only be agreed if the respective countries more conscientiously abide by the Community stability criteria.

Abbreviations

CAP	Common Agricultural Policy
EC	European Council
EDF	European Development Fund
EFSF	European Financial Stabilisation Facility
EMU	Economic and Monetary Union
EP	European Parliament
ESM	European Stability Mechanism
EU	European Union
GAC	General Affairs Council configuration
GNI	Gross National Income
HLGOR	High Level Group on Own Resources
MFF	Multiannual Financial Framework (of the EU)
PESCO	Permanent Structured Cooperation
RAL	Reste à liquider (outstanding payment obligations)
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
UK	United Kingdom
VAT	Value added tax