The Multiannual Financial Framework 2014–2020 and the Europe 2020 Strategy – Ambitions beyond (Financial) Capacities? Path Dependency and the EU Budget

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Abstract

It is a widely accepted fact that there are considerable advantages in funding research at the EU level, given that research becomes more efficient when it is undertaken on a larger scale. For this reason, the European Commission proposed the MFF 2014–2020 as a tool to contribute to the Europe 2020 Strategy. This new orientation of the EU budget, together with the lessons learned during the economic crisis, seemed to represent, at the forefront of the MFF negotiations, a critical constellation for change in the nature of the communitarian budget and its conversion into a policy instrument. In this paper, I will analyze both the preferences of the main actors in the negotiations and the negotiating process, as well as the design of the Multi-Annual Financial Framework 2014–2020, asking: How far will the MFF 2014–20 contribute to reaching the goals of the Europe 2020 strategy; is there a new direct political and policy link between the EU budget and the goals of the EU 2020 strategy?

Keywords: Multiannual Financial Framework 2014–2020; Europe 2020 Strategy; EU budget; EU negotiation

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1. Introduction

The negotiation of the Multiannual Financial Framework 2014–2020 (MFF 2014–2020) was carried out in a complex context dominated by the economic and financial crisis. The economic crisis exposed the weaknesses of the European economies and emphasised the need to boost competitiveness and interregional cooperation. In fact, the Europe 2020 strategy was designed to convert the EU into the most competitive region in the world. There is also broad public support for the EU to play a stronger role in several policy areas. During the "Reforming the Budget, Changing Europe" debate which took place in 2008 and 2009, governments of

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sub-national entities, civil society and national governments demanded reinforcement of the EU's R&D policy, as well as a strong commitment by the EU to promoting economic, social and territorial cohesion. While excessive deficits and public debt have resulted in a virtually unanimous commitment of Member States to reducing their public expenditures, the MFF 2014– 2020 was proposed to play a more prominent role in reaching the specific policy objectives of the Europe 2020 Strategy. But there have also been demands expressed by different levels of government that refocusing the EU budget should not affect the traditional objectives of the Cohesion Policy or the Common Agricultural Policy (CAP) institutionalized in the Lisbon Treaty.

This conflict related to the orientation of the EU budget, together with the lessons learned during the economic crisis, seemed to represent, at the forefront of the MFF negotiations, a critical constellation for change in the nature of the communitarian budget and its conversion into a policy instrument. However, after the European Parliament, the Council and the Commission signed the much expected MFF 2014–2020 agreement on 25 November 2013, questions remain: How far will the MFF 2014–2020 contribute to reaching the goals of the Europe 2020 strategy; is there a new direct political and policy link between the EU budget and the goals of the EU 2020 strategy? In other words: Could the MFF 2014–2020 move from a spending structure based on Treaty objectives and side payments to a budget based on specific policy goals or not?

In order to answer these questions, I analyse in this text the preferences and proposals presented by the main actors of the negotiation process with regard to their common preferences on the alienation of the Europe 2020 Strategy and the EU budget. Secondly, I will study the final outcome and review how the Strategy is embedded in the new MFF. On the basis of the research questions, the dependent variable will be defined using the structure of the budget as regards the EU budget's re-distributional policy (especially headings 1 and 2), while the independent variable will be the goals of the Europe 2020 Strategy.

In the first section, after presenting a concise theoretical framework, the basic concepts will be operationalized. Second, the preferences of the main actors in the budgetary process will be analyzed as regards the two major spending headings 1 and 2. Third, the negotiation procedure will be studied according to the different negotiation stages. And finally, in the fourth section, the final agreement on the MFF will be examined.

The paper aims to provide an initial overview of recent negotiations and is by no means an exhaustive study of the interrelation between the Europe 2020 Strategy and the MFF 2014–2020, which will only be amenable to examination later in the upcoming financial period.

2. Theoretical Conceptualisation

2.1. Brief Theoretical Framework

The analytical framework in this paper draws on key premises of historical institutionalism that offer adequate instruments for finding sequences of change across time. The article adopts a broad conception of institutions, which are seen as legal arrangements, routines, procedures, conventions, norms and organisational forms (Norgaard 1996: 39). In this sense, institutions structure and limit negotiation options and leave their mark on actor preferences, either constraining or empowering them, enabling actors to assume certain positions that might seem inconceivable in other circumstances (Aspinwall, Schneider 2000: 5).

According to historical institutionalism three interrelated factors materialise the change of institutions over time: critical junctures, lock-in and institutionalization (Laffan 2000: 727). The key premise of this text is based upon an appreciation of the fact that, while there is a high level of path dependency in institutional development, e.g., the EU budget structure, institutions may be transformed when a critical moment generates the opportunity for significant change and is transformed into a critical juncture (Bulmer, Burch 1998: 605). According to Bulmer and Burch, critical junctures create branching points at which institutional development shifts on to a new trajectory or pathway, which is then followed incrementally until a new critical moment arises (Bulmer, Burch 1998: 605). During critical junctures, actors may change their preferences; if these preferences (e.g., focus on the Europe 2020 Strategy objectives) are backed by the majority of actors, they could become locked-in during the negotiation process and finally embedded through institutionalization, e.g., a new budget structure will be established through the creation of specific spending headings and/or the creation of earmarked funds for specific objectives.

2.2. Path Dependency and the EU budget

According to the Treaty of Lisbon (Art. 312 TFUE), the MFF defines the policy priorities and budgetary objectives for the different categories of EU expenditure in order to ensure a controlled evolution of spending. The Lisbon Treaty institutionalized and increased the role of the MFF for budgetary decision-making as it integrated the MFF into the fundamental law of the Union. The annual budgetary procedure nevertheless remains essential for determining the specific amount of spending and its distribution, but these decisions must be taken within the ceilings and headings established by the MFF.

Historically, the EU budget has played an important role in the EU integration process, making it acceptable for Member States through specific financial compensations. These "compensations" were locked into the EU budgetary structure and institutionalised in the acquis. This made the EU budget quite "inflexible" and resistant to reform (Cipriani 2010). Moreover the budget became increasingly dependent on national contributions (as a percentage of the GNI), which increased the *juste retoure* logic and limited a policy-driven debate on the budget (Begg 2004; Sapir 2003).[1]

However, also the European Commission and increasingly the EP took advantage of openings in the political opportunity structures to capitalise on new opportunities (Ross 1995: 39). As Laffan demonstrated, budgetary discipline introduced by Delors I and the increasing control of EU spending had been included in the negotiation agenda by the EC, subsequently strengthening the EC's position in the budgetary process (Laffan 2000: 729). While the process management and control mechanisms have been progressively defined by the EC, the content of the MFF remained based on Treaty objectives and political agreements among Member States. But the spending structure of the EU budget has also evolved in keeping with the EU integration process, as well as in reaction to specific challenges. In this sense, the first MFF was agreed for the period 1988–1992 (the Delors I package) in order to provide the resources needed for the budgetary implementation of the Single European Act. The MFF 1993–99 (Delors II package) contained a significant increase in structural and cohesion funds as a basis for preparing the Member States for the single currency. In 1999, the MFF for the period 2000–2006 (Agenda 2000) secured the necessary resources to finance the enlargement process. Within this process, the CAP and the Cohesion Policy had played an important role in the development of a common policy, as well as in strengthening the economic, social and territorial cohesion among European countries and regions. Both policies still constitute the main spending headings today (Serrano Leal, Kölling 2009).

The Lisbon Treaty increased the role of the Cohesion Policy and introduced a third dimension: territorial cohesion (Article 158 TFUE). The Treaty also contains a broad catalogue of objectives for the CAP related to employment, rural development and competitiveness (Article 39 TFUE). Besides the increasing financial commitment of the Lisbon Treaty, during the past years there have been attempts to redirect the EU budget to more specific policy goals. The Lisbon Agenda 2000 added a new dimension to the MFF 2007–2013, underlining that the EU budget should provide adequate financing for initiatives in support of and in synergy, with actions by the Member States to contribute to the goals of the Agenda. In this sense, the Cohesion Policy for the financial period 2007–2013 has been designed to concentrate on the goal of achieving economic and social cohesion, as well as promoting the objectives of the Lisbon agenda. The Cohesion Policy also played a further role beyond its traditional objectives related to the response to the economic and financial crisis within the framework of the European Economic Recovery Plan (European Commission 2008). In addition, a debate arose within the EU sovereign debt crisis related to the fiscal stabilization function of the EU budget. In this context it was proposed that structural funds should have a secondary purpose of stabilizing national or regional business cycles. However Member States decided not to use the EU budget to support a permanent crisis resolution tool and the budget remained principally oriented towards its traditional objectives.

2.3. The Europe 2020 Strategy

The Europe 2020 Strategy was designed as the EU's ten-year growth plan for the period 2010–2020, following on the Lisbon Strategy (European Commission 2010a). On 26 March 2010, the European Council agreed on the key elements, now set for the EU to achieve by the end of the decade. These cover employment; education; research and innovation; social inclusion and poverty reduction, as well as climate/energy measures.[2] Basically the Strategy focuses on greater coordination of national and European policies. National policies are to be streamlined and coordinated within the European Semester.[3] As an integrated strategy, it calls on the contribution of virtually all EU policies to enhance action in key areas. The Commission estimates that if the Europe 2020 targets are achieved, the result could be an extra 4 per cent on EU GDP and 5.6 million new jobs by 2020 (European Commission 2010a).

According to these basic assumptions and to the central argument of this text, a major alienation of the Strategy and the MFF would mean major coordination efforts among the different spending headings and with the national programs in the new budget. In addition, increasing investments in employment, environment and R&D earmarked for the specific targets of the Europe 2020 Strategy would also reflect the new orientation of the budget.

3. Preferences of the Main Actors in the Negotiation Process of the MFF 2014–2020

3.1. The European Commission

The publication of the European Commission's proposal marked the starting point for the negotiations. Already the title of the proposal for the MFF 2014–2020: "A Budget for Europe 2020" made a clear commitment to the new EU policy strategy. In the foreword of the communication, EC President Barroso underlined this focus: "I invite you to look beyond the traditional headings and focus on how throughout the budget we will deliver the Europe 2020 goals [...]." (European Commission 2011a) Traditionally, the EC had used its long-term budget proposals as agenda setting tools, since the structure and content of these proposals at the beginning of the negotiation process have strong implications for the way in which Member States develop their positions. With its proposals, the EC sought to take advantage of the critical economic situation in the EU and the recent debate on the Europe 2020 Strategy to promote the budget as a policy tool. Especially after the budgetary review, the EC saw a clear window of opportunity to assume budgetary leadership, as well as to make the budget more policy-driven. The Commission's communication on the EU budget review (European Commission 2010b), the fifth Report on Economic, Social and Territorial Cohesion (European Commission 2010c), the communication: Regional Policy contributing to smart growth in Europe 2020 (European Commission 2010e); the communication: Regional Policy contributing to sustainable growth in Europe 2020 (European Commission 2010f) and finally the communication "A Budget for Europe 2020" (European Commission 2011a) established a strong direct political and policy link between the EU budget and the goals of Europe 2020.

In general terms, the Commission proposed for the MFF 2014–2020 that the headings used under the 2007–2013 framework should be reshaped to reflect the objectives of the Europe 2020 strategy and spending should be concentrated on these key objectives. Headings 1 and 2 had been renamed after facets of the Europe 2020 strategy ("smart and inclusive" and "sustainable"). In addition, according to the EC proposal, over 80 per cent of the proposed MFF funding targets would support the Europe 2020 objectives.

Regarding the specific spending headings, Heading 1a, Competitiveness for Growth and Employment, was designed to implement the Innovation Union, one of the seven Europe 2020 flagship initiatives. For this purpose, the proposals of the EC represented a substantial increase in comparison with the R&D policy for the period 2007–2013. Among other resources, the budget for the Horizonte 2020 programme would amount to 0.1 % of EU GDP, while these resources for the FP7 2007–2013 period were 0.07 % of EU GDP (see Table 1).

With regard to Heading 1b "Economic, Social and Territorial Cohesion" the Commission made clear that it views the Cohesion Policy as a primary vehicle for achieving the Europe 2020 objectives and pointed out, "cohesion policy and its structural funds, while important in their own right, are key delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions" (European Commission, 2010a). The EC proposed earmarking a specific amount of cohesion spending according to the priorities of the Europe 2020 Strategy. Concretely, a specific percentage of the European Regional Development Fund (ERDF) is to be invested according to the objectives related to energy efficiency and to research and innovation and competitiveness. In addition, the EC proposed to apply a new conditionality in order to create strong incentives for Member States to ensure the effective delivery of Europe 2020 objectives and targets through cohesion funds.

Furthermore, as part of Heading 1, the Commission presented proposals to invest public and private resources under the Europe Project Bonds in infrastructure projects such as the Connecting Europe Facility, helping to fill the missing links in Europe's transport, energy and digital networks.

With regard to Heading 2, "Sustainable Growth: Natural Resources", in order to ensure that the reformed CAP contributes to the goals of the Europe 2020 Strategy, the objectives of smart, sustainable and inclusive growth "will be woven into the next phase of development of the CAP"(European Commission 2011a). The EC proposed a stronger conditionality on direct payments to farmers, which means that 30 per cent of direct support should be made conditional upon environmentally supportive practices. In addition, resources for rural development would be distributed on the basis of objectives aligned with the Europe 2020 Strategy, such as innovation, climate change and the environment as cross-cutting guiding themes.

Moreover – and relevant for purposes of the text – the Commission proposed a Common Strategic Framework (CSF) which should improve synergies between the Structural Funds, the European Maritime and Fisheries Fund, and the European Agricultural Fund for Rural Development, and align these funds to the Europe 2020 objectives. This new "thematic concentration" should be defined at the EU level close to the objectives of Europe 2020 and set out in Partnership Contracts with Member States, with subsequent Operational Programmes for each fund at the regional level.

Besides the thematic alignment, the Commission also proposed an alignment of the MFF and the Europe 2020 Strategy with regard to the spending rules, e.g. co-financing and capping.

3.2 European Parliament

The European Parliament assumed a different role in the negotiation of the MFF 2014–2020 than it had during former budgetary negotiations. The Lisbon Treaty gives the European Parliament a new formal role in the adoption of the regulation which sets up the MFF. In this sense, the EP has the right to give its consent over the spending side, e.g., a majority of MEPs can approve or disapprove the agreement reached by the European Council. But the EP not only has a new formal role in the final phase, it has already been performing as a major player from the outset of the current negotiation process:

- the EP didn't wait for the Commission's proposal before presenting their own position and adopting a Resolution on the MFF,
- the EP elaborates position papers on conflictive issues according to the negotiation steps of the Council,
- EP representatives meet the Trio Presidency ahead of the Council of General Affairs.

Conscious of this new role the EP highlighted on several occasions during the negotiation process that the budget proposal debated by EU leaders didn't reflect the priorities and concerns of the Parliament. In this sense and in line with the EC, the EP had taken the view since the beginning of the negotiations that the Europe 2020 Strategy should be the main policy reference for the next MFF, demanding that the future Cohesion Policy and CAP should focus more intensively on the Europe 2020 priorities (European Parliament 2011). Summing up, the EP called for a budget structure to be organised around the Europe 2020 Strategy:

1. Europe 2020, including
    - 1a – Knowledge for Growth
    - 1b – Cohesion for Growth and Employment
    - 1c – Management of Natural Resources and Sustainable Development (Including Agriculture)
    - 1d – Citizenship, Freedom, Security and Justice
2. Europe Undivided:
3. Administration

But the EP made clear from the beginning of the negotiations that this new focus should be combined with more resources for the MFF 2014–2020. At the same, time the EP maintained that the Europe 2020 Strategy should not be seen as an all-inclusive strategy covering all Union policy fields and stressed that other Treaty-based policies pursuing different objectives needed to be reflected in the MFF 2014–2020.

3.3. Member States

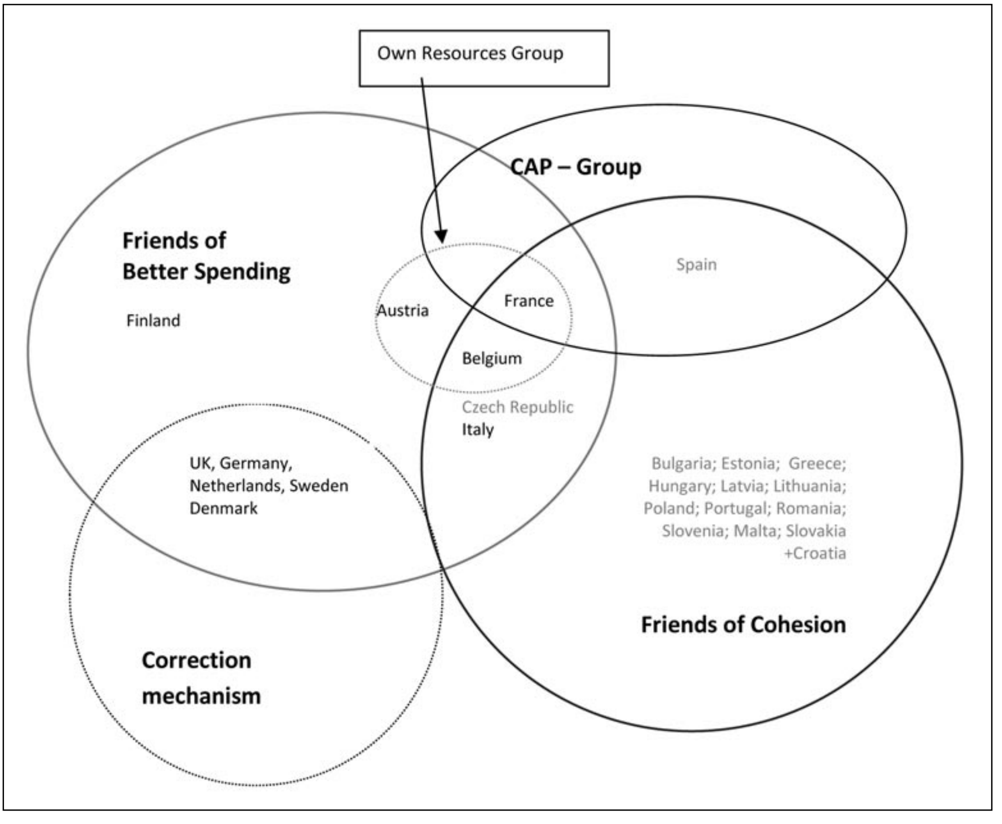
Although the Europe 2020 Strategy was designed first and foremost on the basis of existing coordination instruments, in the above mentioned public debate on the revision of the budget, heads of state and government underlined their support for a strong alignment of the MFF 2014–2020 with this Strategy. During the negotiation process, the national governments reiterated in the successive versions of the negotiation box[4] that within the future MFF, spending should be mobilised to support growth, employment, competitiveness and convergence, in line with the Europe 2020 Strategy. The first negotiation box already underlined that the Cohesion Policy and the CAP should be thoroughly integrated into the Europe 2020 Strategy. In this context, Member States largely supported the CE´s proposal to increase the budget for Horizon 2020. Besides this consensus, the debate concentrated on the question of where the money should come from. Since virtually no Member State demanded an increased budget for 2014–2020, the resources had to be found within existing budget headings. While the UK and the German government demanded concentrating existing resources on Heading 1a, the French and Spanish governments defended the resources for the CAP; in addition, the Member States most affected by the financial and economic crisis tried to obtain financial support in order to address social problems, mainly unemployment, caused by the crisis. The Polish government demanded that the EU objectives institutionalised in the Treaty of Lisbon, especially economic, social and territorial cohesion, be respected in the future MFF and insisted that the Cohesion Policy continues to benefit all EU member states but should focus mainly on less developed regions with less than 75 percent of the average GDP of the EU (Kölling 2013).

These lines of conflict find their equivalent in the conflicts between the "Friends of Cohesion Policy"[5] and the group called "Friends of Better Spending".[6] The "Friends of Cohesion Policy" is a group initiated by the Spanish government which was started in 2004 to defend the role of Cohesion Policy in regional development in the negotiation of the MFF 2007–2013. The Polish government re-activated the group in 2011, defending the necessary resources for the Cohesion Policy. In April 2012[7]and June 2012,[8] the ‘Friends of Cohesion Policy’ adopted statements focusing on the fact that the Commission’s budgetary proposals for MFF 2014–2020 constituted an absolute minimum and priority should be given to the Treaty objectives related to social, economic and territorial cohesion. In this sense the group understood the Cohesion Policy as an instrument which could help to deliver the objectives of the Europe 2020 Strategy but also stated that the policy should keep to the original purpose, meaning reducing regional disparities.

The second group, the “Friends for Better Spending”, had already sent a letter to the EC in December 2010 demanding an EU budget in line with the austerity applied to the national budgets and capping the budget at 1 % of EU GNI. The group insisted during the negotiation process on the need to limit public spending and considered that the quality of spending was key to creating additional growth, even within a limited budget, concentrating on the EU 2020 objectives: competitiveness and growth.[9]

Besides the marked conflict line among these groups, both disagreed internally over which headings of the budget should be subject to spending restrictions and which headings prioritised, as well as how the EU should be financed (see Graph 1).

Graph 1: Member States positions MFF 2014–2020



Source: Author.

4. The Negotiation Procedure

Several phases may be defined in the negotiation process. First, the preparation of the EC proposal from 2007 to 2011 – as already mentioned the budgetary negotiation process started with a broad public debate on the EU budget. The so called "EU budget review" followed the EU Council Conclusions of December 2005. Several new ideas came up aimed at a refocusing of the EU spending priorities and the financing of the EU budget. Some of these ideas (such as the concept of EU added value, a stronger role for the EU in R&D and a financial transaction tax) were later incorporated by the European Commission in its proposals for the MFF 2014–2020.

Second, the clarification phase from June 2011 to March 2012 – the European Commission presented and explained its proposals for the MFF 2014–2020 to the Member States, and national delegations expressed their own positions (Kölling, Serrano Leal 2012a). During this phase, the strong commitment to redefining the MFF 2014–2020 as a policy instrument was reaffirmed.

Third, the negotiating phase, from March 2012 to January 2013 – the EU Presidencies and the European Council President tried to narrow the gap between Member States on key issues (Kölling, Serrano Leal 2012b). This period was dominated by intergovernmental bargaining in which any Member State could veto an agreement, inherently biasing the process towards the status quo. A side-effect of this negotiation procedure has traditionally been that funding tended not to be directed towards areas where it could reach the most value; rather, resources have been used to defend entrenched interests, i.e., each government worries more about obtaining a significant share of EU money to be spent on its own territory than about being sure the money is spent on worthwhile projects (Sapir 2003). In this sense, the political agreement on the MFF 2014–2020 reached at the European Council on 7–8 February 2013 during the final negotiation phase reflects the complicated negotiations among the 28 Member States. The Council and the EP reached political agreement on the MFF 2014–2020 one 27 June 2013, but it took until 19 November 2013 to approve the ceilings in the plenary session of the Parliament. The EP gave its consent only until the conflictive issues related to the funding gaps in the 2013 budget could be resolved and the budget for 2014 was agreed in the Conciliation Committee on 12 November. On 25 November 2013, the European Parliament, the Council and the Commission signed the inter-institutional agreement (IIA) on budgetary discipline, on cooperation in budgetary matters and sound financial management. On 2 December, the Council adopted the regulation laying down the Multiannual Financial Framework 2014–2020 following the European Parliament's consent of 19 November 2013. Although during the final stage, the European Parliament could play an import role and amend the Council outcome, due to the pressure to adopt the final agreement and the uncertainty of the consequences of a rejection of the agreement, this impact was limited. An agreement could only be achieved which guaranteed the maintenance of the "acquired rights" of Member States due to an increased number of side payments.

5. An Analysis of the MFF 2014–2020

5.1. Short Overall Assessment of the MFF 2014–2020.

According to wording of the agreement reached between the Council and the EP, the main spending headings were oriented in line with the Europe 2020 Strategy. To Summarize, the main innovations of the MFF 2014–2020 are:

- The Youth Employment Initiative.
- The new macroeconomic conditionality for Cohesion funds.
- The revision clause, which will provide a mid-term review on all spending headings and the financing of the EU budget.
- Mid-term adjustment of the national allocations
- Greater flexibility in the use of the rural development fund
- More flexibility for transferring unused sums from one year to another.
- And finally, the priority given to the Europe 2020 Strategy in all spending headings.

However during the European Council of 7–8 February 2013, heads of state and government already agreed on an austerity budget in which the overall ceiling of the MFF 2014–2020 was reduced versus the previous financial period. The commitment ceilings were set at €960.000 million (–3.5 % or –€35,200 million versus the current MFF), which is 1 % of the EU gross national income. The payment ceilings were set at €908,400 million (–3.7 % or €–34,400 million versus the current MFF). The breakdown of appropriations for commitments can be seen in the following table:

Table 1: Comparison of spending headings of the MFF 2007–2013, the Commission proposal and the MFF 2014–2020

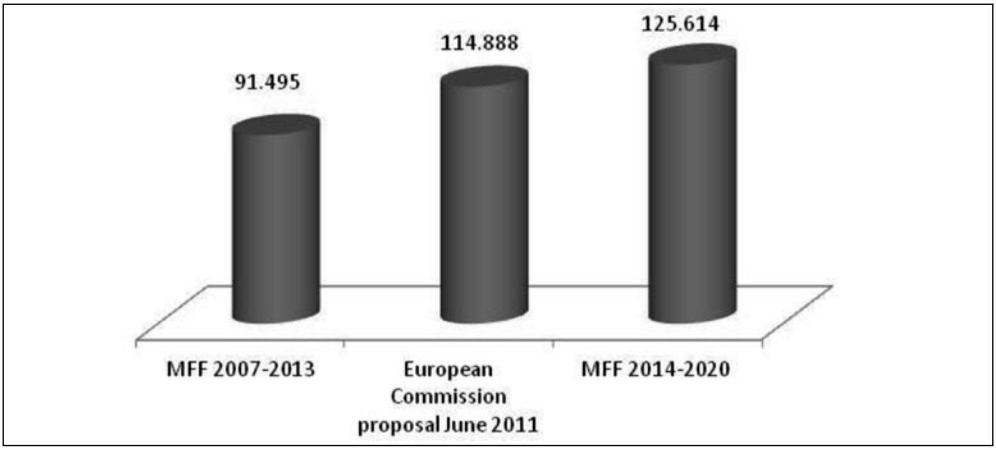
(EUR million – 2011 prices)	MFF 2007–2013	EC Proposal June/2011	MFF 2014–2020	Variation MFF 2014–2020 to MFF 2007–2013
1a. Competitiveness for growth and employment	91,495	114,888	125,614	+34.1 (+37.3 %)
1b. Economic, social and territorial cohesion	354,815	376,020	325,149	–29.7 (–8.4 %)
2. Sustainable growth: Natural Resources	420,682	382,927	373,179	–47.5 (–11,.3 %)
of which: market related expenditure and direct payments	304,830	281,825	277,851	–52,234
3. Security and Citizenship	12,366	18,535	15,686	+3.3 (+26.8 %)
4. Global Europe	56,815	70,000	58,704	+1.9 (+3.3 %)
5. Administration	57,082	62,629	61,629	+4.5 (+8 %)
TOTAL COMMITMENT APPROPRIATIONS	994,176	1,025,000	959,988	–35.2 (–3.5 %)
as a percentage of GNI	1.12 %	1.05 %	1 %	
TOTAL PAYMENT APPROPRIATIONS	942.8	972.2	908,400	–3.7 %
as a percentage of GNI	1.06 %	1.00 %	0.95 %	

Source: Author.

5.2. The Expenditure Side –- a Balancing Act between Treaty Objectives and Policy Goals

With regard to the spending headings, the spending block "Competitiveness for growth and employment" sees its funding go up by 37 % to €125.700 million compared to the current MFF. The Horizon 2020 programme will have a budget of around €70,000 million (€8800 million in 2014 rising to €11,600 million in 2020). This is a reduction from the €80,000 million initially proposed by the Commission, but is nevertheless a 25 % increase over the budget allocated to the current R&D framework programme.

Graph 2: Comparing the MFF 2007–2013, the Commission proposal and the MFF 2014–2020 on Heading 1a (in € million)



Source: Author.

According to the above, Cohesion Policy (heading 1b) was seen by all actors as an important vehicle for reaching the Europe 2020 Strategy as well as for the promotion of the economic, social and territorial cohesion enshrined in the Treaty of Lisbon. Nevertheless, the financial resources available for this sub-heading have been reduced for the next financial period by 8.5 % from the current €354,815 million to €325,149 million. Spending will be concentrated on the less developed regions and Member States, following the main objectives of the Cohesion Policy but focusing on "Investment for growth and jobs". In general terms, investments will be distributed as follows[10]:

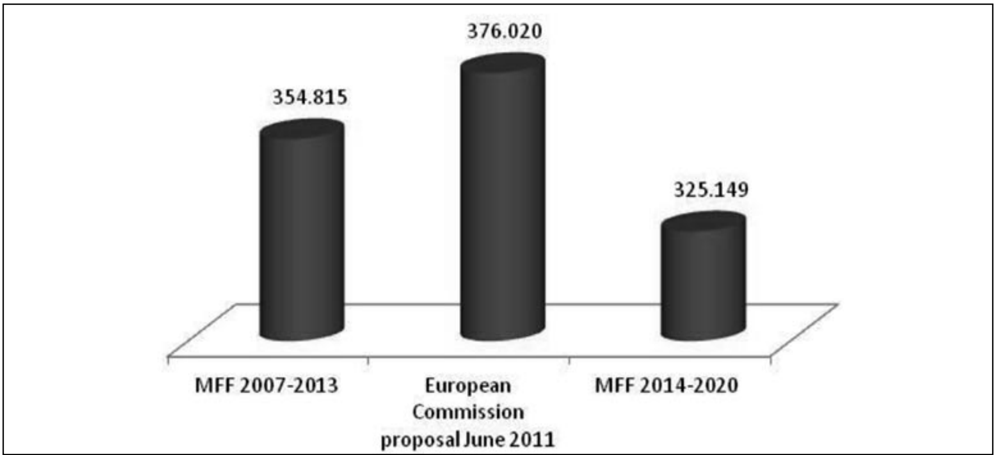
- a total of €164,279 million for less developed regions; (more than in the Commission's proposal of €162,600 million)
- a total of €31,677 million for transition regions; (less than in the Commission's proposal of €39,000 million)
- a total of €49,492 million for more developed regions; (less than in the Commission's proposal of €53,000 million)
- €66,362 million for the Cohesion Fund beneficiary states. (less than in the Commission's proposal of €68,700 million)

The concentration on less developed regions and on regions with high unemployment rates confirms the compromise with longstanding Treaty objectives. Also the establishment of safety nets for regions which will no longer qualify for the "least developed" category in 2014 underlines the objective to promote social and economic cohesion among European regions.[11] However an increasing percentage of Cohesion Policy resources will be earmarked for specific priorities of the Europe 2020 Strategy. Concretely, 20 % of the ERDF should be invested in more developed and transition regions according to the objectives related to energy efficiency and renewable energy measures and 60 % of the resources to research and innovation and competitiveness of SME targets. (Less developed regions 6 % and 44 % respectively). In this regard, the final agreement makes specific reference to the synergies between Horizon 2020 and the structural funds in order to create a "stairway to excellence", with the aim of enhancing regional R&D capacities and developing regional clusters of excellence.

Moreover, in order to create strong incentives for Member States to ensure effective delivery of the Europe 2020 objectives, the new conditionality will also be part of the new legislative regulations governing the Cohesion Policy.

Nevertheless, reflecting the overall reduction in the Cohesion Policy budget, most countries will see a reduction in their allocations. Some countries will see significant reductions in investments in less developed regions and associated allocations, notably Germany, Spain and Greece; and some Member States will especially benefit from the new "Transition Region" category, even where the regions concerned did not have "convergence status" in the MFF 2007–2013, notably Belgium, France and the United Kingdom.

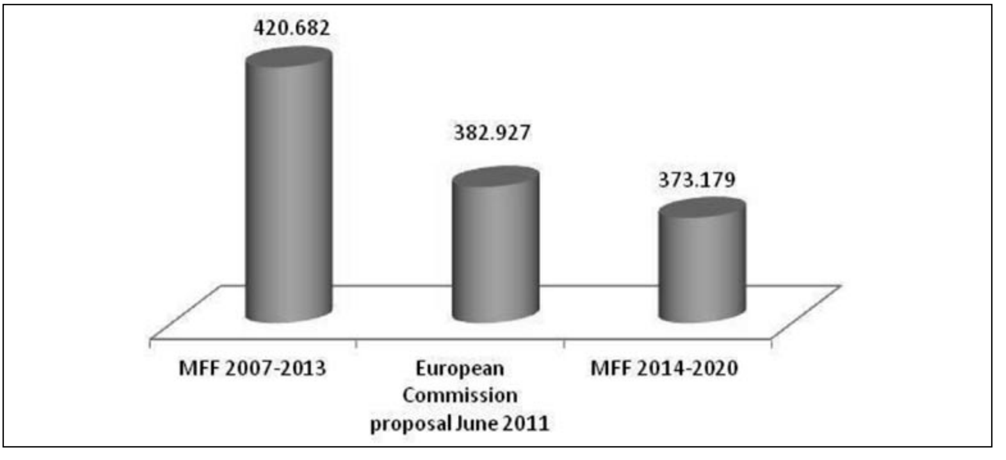
Graph 3: Comparing the MFF 2007–2013, the Commission proposal and the MFF 2014–2020 on Heading 1b (in € million)



Source: Author.

Heading 2 "Sustainable Growth: Natural Resources", which covers agriculture, rural development and fisheries, will have a budget of €373,179 million. The overall objective of the CAP 2014–2020 is to increase agricultural productivity by supporting active farmers and by promoting technical progress, as well as by ensuring the rational development of agricultural production. The CAP will therefore also be integrated into the Europe 2020 strategy. In general terms, of the overall amount budgeted, €277,851 million will be allocated to market related expenditure and direct payments (first pillar) and the budget for rural development (second pillar) will be €84,936 million. This represents a –13.1 % (–12.9 % for the second pillar) reduction compared to the current budget for the years 2007–2013. Additionally, there will be more flexibility to distribute the amounts (15 % of the total) between both pillars of the CAP. With regard to the proposed "greening" of the CAP, which has been considered an important contribution to the Europe 2020 objectives, the agreement was watered down. Although 30 % of the CAP budget for direct payments and rural development may be spent only if mandatory greening measures are carried out, these measures will be implemented gradually and linked to farm size.

Graph 4: Comparing the MFF 2007–2013, the Commission proposal and the MFF 2014–2020 on Heading 2 (in € million)



Source: Author.

The final agreement also confirms the Common Strategic Framework for all funds in concentrating them on the thematic objectives in line with the Europe 2020 Strategy.

Politically, and in a first analysis, the negotiations were a great success for the "Friends for Better Spending". Firstly, the group was satisfied with the limit of the MFF 2014–2020 fixed at 1 % of the communitarian GNP, which was considered in line with the austerity efforts of the national budgets. Secondly, the budget will be modernised and resources will be shifted from traditional spending headings to modern policies, e.g., for R&D, innovation and education, climate change and energy. Although the majority of spending will still go to the CAP and the Cohesion Policy, the group was satisfied that spending on heading 1a will be increased and the EU2020 strategy will also be supported by investments in the Cohesion Policy and CAP.

Thirdly, EU spending will be more efficient in the MFF 2014–2020. In this context, the government underlined the new macroeconomic conditionality between the allocation of Cohesion Policy funds and the fulfilment of the criteria of the stability and growth pact.

The group Friends of Cohesion could protect spending on Cohesion Policy and even the countries most affected by the economic crisis could interpret the final agreement as victory. According to initial figures, Poland will remain the leading budget beneficiary under the MFF 2014–2020 and will receive €106,000 million during 2014–2020, of which €73,000 million will be for Cohesion Policy, and €28,500 million for the CAP, whereas in the previous financial perspective, the figure was €95,000 million (€68,000 million and €27,000 million, respectively).

Finally, the agreement on the MFF 2014–2020 was especially important for Spain. According to estimates by the European Commission, Spain will receive the equivalent of 0.20% of its GDP from the community budget. Taking into account the growth forecasts for Spain, that figure could be around € 15.000 million. Moreover, taking into account the specific problematic of the Spanish labour market, Spain will get €924 million directly from the new Youth Employment Initiative. In addition Spain will receive extra funding for regions particularly affected by the economic crisis.

6. Conclusion

According to the European Commissioner for Budget, Lewandowski, the EU budget is not the "magic solution" to the challenges of the EU. In fact, the austerity of the MFF 2014–2020 may not contribute decisively to the defined challenges of the EU. The MFF 2014–2020 will contribute to both the Europe 2020 Strategy and the Treaty objectives, however in a moderate way. The Cohesion Policy 2014–2020 will concentrate resources on the neediest and most problem-ridden Member States and regions of the European Union in order to help reduce the development gaps. The future European R&D policy will contribute to increasing the competitiveness of the EU and its Member States and regions.

Although an increasing percentage of spending has been earmarked for the fulfilment of the Europe 2020 Strategy and the "horizontal" headings related to R&D, growth and employment have increased their share in the total budget, the MFF 2014–2020 is not a revolutionary budget. The common strategic framework for EU Funds could improve coordination by focusing the activities of national and regional authorities. A key element of the negotiation was also, at least rhetorically, the convergence of preferences around the Europe 2020 Strategy and the successful linkage established between this Strategy and the MFF 2014–2020. In addition, the negotiations produced deep reforms in the major policy areas, notably the CAP and the Cohesion Policy, led by the spirit of the Europe 2020 Strategy. However financial resources for both headings have been reduced. The negotiation did also demonstrate that the Europe 2020 Strategy has a very broad definition and could be integrated into virtually all demands.

The analysis of the MFF 2014–2020 confirms the pan-European logic, designed to drive the Europe 2020 growth strategy, but the question of whether the EU budget could truly match the ambition of the Europe 2020 Strategy can only be answered at a later point in the financial period. There are several "tensions": on the one hand between treating Cohesion Policy and

CAP spending as "delivery agents" of Europe 2020 and their "traditional missions" and on the other hand, between the reduction of resources for the MFF 2014–2020 and the increased targets. In this sense, the MFF 2014–2020 is not the financial translation of Europe 2020. In order to be successful the Strategy has to be supported by both national and European policies. In this sense, a reduction in spending at the national level cannot be subsidised by EU funding. The introduction of some 'key words' to ensure political visibility of EU priorities may not be enough to achieve an extra 4 per cent on EU GDP and 5.6 million new jobs by 2020. Moreover, budgetary reform should not only include a debate on the spending categories but also modifications to the financing of the budget. This question was abandoned at an early stage of the negotiation process. However, the political agreement between the Council and the EP on a budgetary review in 2016 could present an opportunity to readdress these issues. In addition, taking into account its importance, the Europe 2020 Strategy, similar to the Lisbon Strategy, did not take into account the role and contribution of sub-national governments, nor did European regions participate in the decisive stages of negotiations for the MFF.

To conclude, the adoption of the Europe 2020 Strategy and the economic crisis led to a critical moment which in the end was not exploited in the negotiation process. The negotiation procedure concentrated on the EU Council, which refocused the negotiation along the traditional conflict lines. Nevertheless the MFF 2014–2020 reinforces the evolutionary paradigm in the perception of the EU budget, from a budget aimed to accommodate Member States' preferences to an instrument meant to address common European interests. In this sense, the MFF 2014–20 follows the long-term trend of a shift away from the more traditional spending areas towards a focus on horizontal issues.

Notes:

1. Today, 2013, national contributions are responsible for about 86 % of the financing of the budget.
2. Europe 2020 Headline Goals.
    1. Aiming to raise to 75 % the employment rate for women and men aged 20–64, including through greater participation of young people, older workers and low-skilled workers, and better integration of legal migrants.
    2. Improving the conditions for research and development, in particular with the aim of raising combined public and private investment levels in this sector to 3 % of GDP, with further work on an indicator reflecting R&D and innovation intensity.
    3. Reducing greenhouse gas emissions by 20 % compared to 1990 levels; increasing the share of renewables in final energy consumption to 20 %; and moving towards a 20 % increase in energy efficiency.
    4. Improving education levels, in particular by aiming to reduce school drop-out rates to less than 10 % and by increasing the share of 30–34 year-olds having completed tertiary or equivalent education to at least 40 %.
    5. Promoting social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and exclusion.
3. The logic of the "European Semester" means that Member States have to translate EU guidance and rules in their annual policy and budgetary choices based on an iterative cycle of surveillance and peer review. This mechanism creates new bridges between the EU level and the national level, but there is scope to create stronger links to improve the coherence, transparency and efficiency of public spending.

4. Please see the different versions of the negotiation box at: http://www.consilium.europa.eu/special-reports/mff/documents#1.
5. Group of countries put together in 2004, defending the important role of cohesion policy, formed by the New Member States plus Portugal, Greece and Spain.
6. Friends of Better Spending: UK, Austria, Germany, Finland, France, Italy, the Netherlands; Sweden and Czech Republic.
7. Resolution dated 24 April 2012, signed by Bulgaria, Estonia, Greece, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovakia and Slovenia as well as Croatia.
8. Resolution dated 1 June 2012, signed by Bulgaria, the Czech Republic, Estonia, Greece, Hungary, Lithuania, Latvia, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and Spain as well as Croatia
9. Non-paper dated 24 April 2012 signed by Austria, Germany, Finland, France, Italy, Netherland and Sweden (supported by the United Kingdom and Czech Republic); and non-paper dated 29 May 2012 signed by Austria, Germany, Finland, Italy, Netherland, Sweden and the United Kingdom.
10. Three types of regions, defined on the basis of how their GDP per capita, measured in purchasing power parities and calculated on the basis of Union figures for the period 2007 to 2009 relates to the average GDP of the EU-27 for the same reference period, as follows:
    (a) less developed regions, whose GDP per capita is less than 75 % of the average GDP of the EU-27;
    (b) transition regions, whose GDP per capita is between 75 % and 90 % of the average GDP of the EU-27;
    (c) more developed regions, whose GDP per capita is above 90 % of the average GDP of the EU-27.
11. This means that they will keep at least 60 % of their allocation during 2014–2020. Another safety net will also apply at the national level whereby each state will keep at least 55 % of its present allocation. The flip side is that the aid each Member State can receive within subheading 1b has been capped. This “reverse safety net” means that no Member State will receive more than 110 % of the budget obtained during the 2007–2013 period. Moreover there is also a cap on the overall EU investments in each Member State of 2.35 % of the national gross domestic product, which is stricter than the cap in the previous period. Nevertheless, the mechanism is slightly increased (2.59 %) for Member States that have suffered the most from the crisis and where the GDP declined by more than 1 % between 2008 and 2010.

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