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THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

BULLETIN

No. 24 (964), 8 March 2017 © PISM

Multiannual Financial Framework Review: Implications for Poland

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Completed 7 March 2017, the mid-term revision of the EU's finances does not introduce profound changes to the common budget by 2020. However, it does affect other features of the financial framework, including increased flexibility and clearer links between EU finances and Community priorities. This signals deep reform of spending beyond 2020 and is likely detrimental to Poland's EU income. Drawing on previous experience with the MFF, the Polish government should use the period before the start of negotiations on the next financial perspective to minimise the risk of negative changes and to promote its budget agenda.

The mid-term revision of the EU's multiannual financial framework (MFF) is intended to adapt to unforeseen challenges (such as the mass-migration crisis) and adjust it to common priorities, including stimulating investment and increasing jobs. The obligation to revise the current MFF set to run through 2020 stems from Council Regulation 1311/2013. Even if the review was not mandatory, changes in the EU since 2014, when the start of the so-called "financial perspective" began, most likely would have led to adjustments in spending. Among them is the economic crisis, which lasted longer than expected and left the eurozone's southern members with sticky high unemployment. Another is the EU's payment backlog, which has risen to an unprecedented scale. And third, the mass-migration crisis escalated costs. The agreed original structure of the current MFF left only a small margin to resolve these problems.

Art. 2 of Council Regulation 1311/2013 concerning EU finances in 2014–2020 assumes the integrity of so-called "national envelopes" (i.e., funds for countries in the framework of structural or common agricultural policy, or CAP), any revision would have only changed the structure of spending to a limited extent. As well, the EC is reluctant to open to debate too many controversial issues, such as the size and structure of the budget, in the middle of the seven-year financial term. A renewal of discussions between members on these issues would likely decrease the chance of consensus.

In any case, the General Affairs Council of the Council of the EU reached consensus on the MFF review on 7 March 2017. The next step in the procedure is for the European Parliament to approve the draft revised financial framework. The last step requires unanimous adoption by the European Council.

The Direction of the Changes to the EU's Finances. The Commission, despite the EU's growing financial needs arising from the crises, did not propose an increase in the MFF. This satisfied mainly the net contributors, members who in case of expenditure growth would have incurred additional costs. The discussion on the review then did not concern the size of the budget and considered the distribution of funds on individual policy only to a small extent. The Council agreed changes of only about €6.01 billion in funds, or around 1% of what remains to be spent by 2020. These changes include adding €2.08 billion to growth-oriented programmes (such as Horizon 2020, Erasmus +, the Youth Employment Initiative, and others supporting the "Juncker Plan" of EU investment) and €3.94 billion for EU instruments dealing with the mass-migration and refugee crisis, including strengthening the EU Border Guard and support for the "external investment plan."

What debate there was centred on how the Community spends its money. The prioritisation of flexibility in EU expenditures was reflected in an increase in resources for the "Flexibility Instrument" by about €600 million (around one-third of what the EC wanted) and €100 million for the Emergency Aid Reserve. Member States did not accept the Commission's proposal to create a European Union Crisis Reserve. A tool to streamline spending was also created to facilitate the collective investment of common funds (wanted by several Member States).

There was no mention of conditionality on cohesion policy funds within the package, but prior to the review, the Netherlands proposed improving the link between the EU's finances and the effects of spending (for example, the amount of transfers could be dependent on the efficiency of the beneficiary state's administration). Also, the EC in the MFF review pointed to what it saw as a need in future budgets after 2020 to reinforce conditionality concerning EU economic governance, such as fulfilling recommendations of the European Semester.

Some politicians, including German MEP Ingeborg Grässle of the European People's Party and president of the budgetary control committee, as well as representatives of the Italian political class, including Matteo Renzi, postulated that any state refusing to accept refugees under the proposed quota system should have its EU funds slashed. As stated, it would be a new form of conditionality designed to stimulate solidarity among the Member States. It is a signal of the possible changes coming in the next MFF, although it was not the subject of discussion during the review procedure and appeared mainly in relation to the development of a common mechanism for the bloc's adaptation to the refugee crisis.

After the non-controversial revision was published, however, some difficulties in finalising the draft reform have arisen. In December 2016, Italy was hoping for significantly more resources to deal with the mass-migration crisis and opposed the deal, calling it unsatisfactory. That delayed the final consensus until this month. Even though the solo Italian manoeuvre resulted from a domestic political game, it can be assumed that other countries burdened with the effects of the mass-migration crisis in the future will more strongly expect solidarity from the EU budget in this respect.

Prospects and Conclusions. Although the MFF review is not the formal starting point for negotiations on the next one, its outcome and circumstances, such as the resistance put up by Italy and demands for linking transfers with compliance on refugee quotes, entails for Poland an unfavourable outlook for the next MFF. The next EU budget will most likely be designed to prevent future crises or at least weaken them. On top of that, maintaining total financing at about the same level indicates a lack of interest in an increase in the future. As a result, the growth of certain expenditures will diminish others, including important ones for Poland such as cohesion policy or CAP funds. For Poland, another change that would be less preferable would be an increase in flexible and *ad hoc* instruments because it may come at the expense of fixed expenditures, including structural funds.

The EC's call for enhanced conditionality and adjustment to EU targets may become an important tool for disciplining Member States on solidarity issues (e.g., refugee quotas) or in the framework of the European Semester. The emphasis on increasing the effectiveness of EU funds could also be unfavourable for Poland, as it may entail more guarantees and revolving instruments for investments (currently used only in promoting entrepreneurship and in meeting some areas of the EU's foreign policy) instead of the grants mainly used now.

These trends that run counter to Poland's current interests may be strengthened by new European Commissioner for Budget and Human Resources Günther Oettinger. On the eve of the negotiations on the next MFF, he may consider an increase in the multiplier effect of EU finances (or similar measures to better implement EU targets) based on an increase in Member State co-financing or increasing revolving instruments in the entire EU budget. The Commissioner also considers national envelopes to be too high, which suggests that the structural funds under his supervision could be reduced or made more flexible for distribution between countries. For Poland, the biggest beneficiary of EU funds, this would mean an increase in the cost of spending EU money and a reduction in transfers to the country's economy.

Poland should use the remaining time before the negotiations on the next MFF begin to prepare to counter these trends. Although the new concepts do not affect the current MFF review, they will begin to become familiar to Member States and EU institutions. Because the closest EU priority to the current Polish government's interest is promotion of growth, investment and employment, the most important feature of the common post-2020 EU budget should be the country's pro-growth profile. An important step would be to gradually change the image of Poland from beneficiary to an advocate of strong EU economic prospects. Poland could promote recapitalisation of national development funds, providing support for domestic businesses with Community means to emphasise the pro-growth role of the EU budget. It is possible this improvement in image would also mean the need for concessions, such as the acceptance of the growing importance of revolving instruments in the EU budget. Although they are rather unpreferable for Poland, they could help improve economic performance in countries where access to credit is difficult, such as in the southern Member States.