p-ISSN 0044-1600
e-ISSN 2392-3458

**Problems of Agricultural Economics**

www.zer.waw.pl

4(349) 2016, 3-22

*Translation from Polish*

# Articles

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## EU BUDGET NEGOTIATIONS IN THE SHADOW OF THE *JUSTE RETOUR* RULE

### Abstract

*This article characterises national preferences of the EU Member States in previous negotiations on the EU Multiannual Financial Framework (MFF) and analyses them in the context of both budget negotiations for the 2021-27 period and the future of the European integration.*

*It has been concluded that the EU Member States preferences concerning the shape and size of the EU budget after 2020 will remain differentiated. The changing balance of payments and receipts to and from the EU budget will determine how the EU Member States assess the need to finance specific measures and actions at the EU level. Recent EU budget beneficiaries, currently on the path to reach the level of wealth of the net payers, will join the group of countries wishing to freeze the EU budget. The worsening budgetary position of many net payers will also probably strengthen their reluctance to continue financing the EU activities. The growing Euroscepticism of European societies will certainly hamper negotiations directed towards increasing the effectiveness of the EU budget. As a result, political conditions and social preferences will build up the pressure to reduce the EU budget in the future. Also, it is hard to expect any significant transformation in the structure of the EU spending in the years to come. On the one hand, Member States recognise the importance of new funding priorities (e.g. to deal* *with new threats), on the other, they are against increasing the EU budget. Therefore, the scenario of financing new priorities, basically from national budgets, is quite possible. This, in the longer term, will negatively affect the position and role of the EU in the world.*

**Keywords:** national preferences, budget negotiations, Multiannual Financial Frame work.

## Introduction

Recently, along with deepening crisis and inability of the EU to overcome the socio-economic recession, the need to continue the EU integration is challenged increasingly more often. Solidarity between Member States is perceived in the context of their national interests. This is evidenced by the EU budget reductions in the last financial negotiations. The existing balance between the EU budget contributors and beneficiaries has been disturbed, which is why consensus in the EU decision-making process is crucial. Member States mostly assess the financial costs and benefits of their EU membership based on their net positions – how much they pay into the EU budget and how much is paid back to them. The *juste retour* rule is the leading indicator of support or opposition towards measures taken at the EU level. It should be expected that the above-mentioned phenomena will strengthen and play a major role in shaping the final results of budget negotiations on the next EU financial framework for 2021-2027.

This paper is to characterise the current preferences of the selected Member States in the negotiations of the multiannual financial framework (MFF) of the EU and to attempt at their assessment in the context of the next financial perspective for 2021-2027 and the future of the European integration.

## The preferences of Member States and budget negotiations of the EU from the perspective of the liberal intergovernmentalism theory

The national preferences of Member States are the key variable explaining the dynamics of interstate relations, including also the scope and character of cooperation under global and regional integration groups. Their weight in explaining and forecasting the cooperation processes between states is emphasised by the liberal intergovernmentalism theory. This theory was drawn up in the 1990s by Moravcsik, when analysing the integration processes under the European Union (Moravcsik, 1993, 1998). In his papers Moravcsik argued that the form of integration in Europe is decided solely by intergovernmental bargaining conditioned by internal preferences of nation states. Increased cooperation was not the result of measures of supranational institutions – as the first supporters of European integration theories would have it – but the effect of well-knit strategies and measures of nation states spotting in the integration processes a guarantee for advancement of their own national interests.

The national preferences, as captured by Moravcsik, are not a set of detailed political aims of countries strategically selected to specific negotiating situations in the international arena. They are a set of basic national aims involved, e.g., in increasing export, strengthening security towards a specific threat or executing selected ideological objectives (Moravcsik, 1998). Their shape in a specific area is determined by interests of these social and political groups, which have the greatest impact on the state apparatus in the national arena. States start intergovernmental bargaining with such a set of national aims, bargaining based on the lowest common denominator and guided by the principle of protection of national sovereignty. What counts in the negotiations are veto points of the largest Member States – their interests have major impact on the shape of the final agreement. In the course of the bargaining, smaller states win side-payments that guarantee support for the agreement. Paradoxically, medium-sized states are in the least favourable position. If their preferences are not concordant with the ideal points of the largest players, they may not only fail to get the preferred results but also face the risk of exclusion from the bargaining (Grimmel and Jakobeit, 2009).

The national preferences are usually studied with the use of the achievements of the school of public choice, which consists of theoretical works of such authors as: Arrow, Downs, Olson, Buchanan, Tullock and Niskanen. The socio-economic groups aim at influencing the political choices to maximise their benefits. Politicians and bureaucrats, addressing the pressures of interest groups, are most often guided by the will to win the next parliamentary elections to keep a specified position in the political system. Preferences in respective areas can be more or less clear, depending on the balance of powers of interest groups and their interests in specific problems. In the economic areas, directly linked to sectoral policies, a major activity of socio-professional groups representing a given sector or branch can be expected. For general macroeconomic policy or issues linked to public finances, the national preferences most often reflect the preferences of the ruling parties, which are the resultant of the efforts to ensure economic growth and a positive balance of public finances (Moravcsik, 1998; Schimmelfennig, 2015). Whereas as regards foreign policy issues, the factors deciding on the preferences are – apart from economic factors – also ideological ones, i.e. the vision implemented by the ruling parties that concerns the place of a given state in the system of international relations. Consequently, the configuration of national preferences of states, determined by countries, sets the bargaining space for agreements, which have the chances of being accepted at the international level.

The course and results of the negotiations, according to the supporters of liberal intergovernmentalism, can be predicted with the use of the game theory, including also the Nash Bargaining Solution. The key elements of the analysis based on game theory include: determination of the possible actions of the players (and their sequence), identification of players' strategies, assessment of the players' access to information and identification of the payoff functions (Druckman, 2007). The bargaining can be distributive or integrative. Distributive bargaining most often deals with confrontation, where one party wins and the other one loses. Such games are termed as constant-sum or zero-sum games. Integrative bargaining is based on win-win games and is variable-sum or positive-sum game. Players seek for common solutions and mutual benefits – in such cases value creation takes place. Negotiations of the multiannual budget in the EU are an example of a game which is dominated by distributive bargaining elements. The character of the game at a specific time is, however, determined by the very players and the possible win-sets.

According to liberal intergovernmentalism approach, states (governments) are always the players, thus only their strategies and measures are subject to research. In case of negotiations of MFF, states – as a rule – negotiate based on unanimity principle. This means that the results should be optimum in Pareto sense. The Treaty of Lisbon has, however, introduced some possibilities of adopting multiannual framework based on the qualified majority principle, as far as the European Council makes such decisions unanimously. Regardless of the formal decision-making procedures, though, the results of negotiations reflect the national preferences and bargaining power of respective states. Models based on the theory of games indicate that governments, for which agreement can bring more benefits than no agreement, have a tendency to offer greater concessions to reach the agreement. But then, the governments of states, which benefit little against the *status quo*, negotiate hard threatening to veto the entire agreement and even to leave the organisation (Moravcsik, 1998). Benefits and costs of states can be expressed in concrete figures, thus it is easier for players to address specific bargaining proposals and react to them. Everybody knows the rules of the game, negotiators have all the information and knowledge on the possible payments for respective players. The game spreads over time and is governed by specific procedures formulating action sequences.

The above-presented theoretical framework can be the starting point for formulation of a hypothesis on the probable set-up of national preferences of Member States in negotiations of the next multiannual financial framework of the European Union for 2021-2027. Enlargement of the EU with the former communist bloc countries resulted in unprecedented differences in interests within the EU. The number of net beneficiaries of the EU budget considerably increased, while the number of contributors to the common budget remained almost the same. Simultaneously, the financial crisis and crisis in the euro area clearly increased in the pressure on the national budgets of Member States. Hence, it can be assumed that the lessons learned from the last crisis, including the experiences involved in solving the problem of debt in some Member States, will have vital impact on the next negotiations of the multiannual financial framework of the EU, especially on the approach of net contributors to the EU budget structure and its size. But the debt crisis, especially of the southern European countries, will affect the cooperation perspectives of the beneficiaries of the EU budget. Already today, there is a rivalry between the so-called cohesive states (Portugal, Spain, Greece). These countries seek to secure funds and financial support of the EU and international financial institutions, simultaneously, fighting to keep as much as possible of the structural and cohesion funds. For the other, less wealthy Member States, special treatment of countries in debt may mean lower transfers from the EU budget. Different problems of poorer states and national interests related thereto will thus weaken the bargaining position of net beneficiaries of the EU budget. Consequently, a hypothesis can be made *that there will be further intensification and consolidation of preferences of net contributors to reduce the EU budget, simultaneously, dissipating the budget preferences of net beneficiaries*.

Net contributors include the largest Member States, which determine the dynamics of the bargaining game. Bearing in mind the clear preferences of contributors to reduce the multiannual budget of the EU, it can be assumed that the bargaining game will concern mostly the amount of budgetary funds, while to a much lesser extent it will concern the very budget structure. The final agreement will require unanimity, which means that each Member State can use veto. In reality, though, only states having a good alternative to the negotiated agreement will decide to drive a hard bargain and veto the agreements (Dür and Gemma, 2010). It is little likely for the net beneficiaries to apply such tactics, becouse in case of no agreement, these states will lose more than the net contributors. Moreover, it would be rather difficult for them to take efficient and coordinated efforts to make a coalition against net contributors because of the aforementioned differences in interests.

Contrary to the beneficiary states, the preferences of contributors are consolidated and more intensive. The intensity of preferences of contributors is additionally strengthened by the rising anti-European sentiments and growing social opposition to financial transfers for the less wealthy states. It can be also assumed that the governments of net contributors can be willing to accept the current EU budget structure, including the defined levels of financing for policies and measures important for beneficiary states, in exchange for beneficiaries' consent to reduce the total budget value. Players' consent to lower the budget in exchange for keeping the existing spending priorities (transfers for agriculture and Cohesion Policy) seems to be one of the possible points of Nash equilibrium.

## Identification of national interests in the last budget negotiations

Budget issues generated conflicts between Member States from the very beginnings of existence of the European Communities, later the European Union. Introduction, by way of the Council Decision of 1970, of the traditional own resources of the budget (income on customs duties, agricultural and sugar payments) and the VAT made the Community independent from determining payments with the Member States on a case-by-case basis. However, the growing expenditures, which were not covered by income, resulted in introduction of an additional source of income to the budget as of 1988, which were contributions of the Member States depending on the size of their Gross National Income (GNI). Consequently, each state aims to influence the policies and other EU measures to recover as much of the funds paid to the budget as possible (*juste retour* rule). Negotiations and actions taken in the EU as their result, become the resultant of the interest game of Member States (Grochowska, 2012).

Establishment of a group of countries – net contributors and net beneficiaries, disrupted the grounds of efficient spending of the EU public funds. The inability to reach an agreement regarding the structure of the EU budget resulted in corrections, such as the UK correction or similar solutions for other net contributors (the United Kingdom, Austria, Germany, Sweden, the Netherlands). Attempts at increasing the share of own income in the EU budget are so far inefficient. Keeping the *status quo* and relevant net position of respective Member States is a crucial priority for them. The European Monetary Union, complete with the introduction of a common currency – euro, was to bond the Member States. However, solutions holding good at the times of economic stability do not bring positive effects in crisis situations.

Already the budget negotiations for the 2007-2014 financial perspective had been held under a strong pressure of net contributors trying to limit their costs of the EU enlargement with the new Member States (EU-12). The compromise reached made it possible for the EU-12 to gradually secure greater envelope of funds in the most sensitive areas, i.e. direct payments and structural funds (Rollo, 2003). The net contributors managed to transfer full funding of the enlargement from 2004 to beyond 2006.

In 2002, the European Council decided to freeze direct payments to 2013. According to the decision, the first pillar of the Common Agricultural Policy (CAP) was to grow nominally by 1% per year in 2007-2013, relatively to its total amount in 2006 (Mayhew, 2003). Given the fact that the first pillar covered ca. 40% of the then EU budget, the 2002 agreement considerably restricted the possibility to restructure the budget in the budget negotiations for 2007-2014. In 2003, the above-agreement was supported by six of the largest net contributors to the EU budget (Germany, France, the UK, the Netherlands, Austria and Sweden), who propounded in a letter to the European Commission to restrict the EU budget expenditure in the subsequent financial perspective to 1.0% of the GNI of the EU. Additionally, they reckoned that the Council conclusions of 2002 on the amount of agricultural subsidies by 2013 should be respected.

Measures taken by the net contributors to keep the *status quo* of the EU budget were parallel to the attempts to reform the EU functioning. The Lisbon Strategy, passed in 2000, was to be an important stimulus because the EU budget played an important role therein as a catalyst to achieve its objectives. What is interesting, the structure of expenditures existing back then omitted the brand new priorities and could not be changed until 2006 (Mrak and Rank, 2010). It should be also mentioned that there was a group of experts, chaired by Sapir, who prepared the broadly discussed report indicating the challenges that the EU has to face. Among recommendations, the experts suggested a major CAP reform by partial re-nationalisation of the policy and restriction of support to agriculture from the EU budget and increase in the expenditure aimed at growth (especially research and development) as well as focusing the Cohesion Policy on narrowing down the development gaps between the old and the new Member States (Sapir et al., 2003).

The proposal of the European Commission of 2004 was a starting point for formal negotiations on the MFF for 2007-2014. The Commission considered full budgetary inclusion of the new Member States by 2013 (Bulgaria and Romania by 2016), major financial support for the Lisbon Strategy, according to the suggestions of the Sapir report, and positive reference to the arrangements of the Council of 2002 on agricultural subsidies. It also suggested increasing the EU budget to 1.14% against the existing 1.08% in its contemporary financial perspective (Greer, 2013).

The interinstitutional compromise reached in 2006 indicated continuation of the *status quo*. The amount of the EU budget commitments was finally reduced to 1.05% and expenditures to 1.00% of the GNI of the EU (Interinstitutional agreement, 2006). The structure of expenditures confirmed the existing preferences of Member States, i.e. agriculture financing (agricultural policy) and narrowing down the development gap (Cohesion Policy). The need to keep balance between the contributors and beneficiaries of the EU budget move to the background the need to conduct the necessary reforms of the EU functioning.

Net contributors implemented their strategic objectives. France kept in force the 2002 agreement on agricultural subsidies, the UK kept its correction. Whereas four other supporters of reducing the EU budget improved their net position by lowering their share in the EU budget. But then, the budget beneficiaries saved the reduction of funds provided for the Cohesion Policy (drop by 9% compared to the proposal of the Commission and by 16% against the total budget expenditure of the EU) (Mrak and Rant, 2010). This success is mainly attributable to forming a broad coalition termed as "friends of Cohesion Policy", covering mostly the new Member States and cohesion countries. Belgium and Ireland joined them as observers.

Contrary to Cohesion Policy, the dividing line between supporters and opponents of cuts under the Common Agricultural Policy was not so clear anymore. Despite the initiative on the part of the United Kingdom to reduce the envelope of funds for the first pillar, the 2002 agreement remained unchanged. The necessary reductions in the agricultural budget focused on the second pillar of CAP.

The last round of budget negotiations, completed in 2005, failed to satisfy both individual preferences of Member States and ambitions of the EU institutions. The essential reforms were hindered due to the need for a consensus between the key actors in the decision-making process.

The next budget negotiations for 2014-2020 in the context of difficulties, with which the Member States struggled back then, proceeded in even more difficult political and economic circumstances. Although the European Central Bank (ECB) and the EU stabilisation funds prevented the breakup of the euro area in 2011-2012, the fundamental problems were not solved. Despite an improvement in the condition of banks, monetary policy still bears the key burden of the stabilisation policy. A slight growth, interwoven with shallow recessions and real deflation threat, force the ECB to non-standard measures of indefinite consequences. It is hard to count on more active fiscal policy due to high public debt and reluctance to adopt structural reforms (Kulawik, 2015).

Already in 2010, the net contributors, including the UK and Germany, addressed a letter to the European Commission, in which they postulated to keep the expenditures from the EU budget at the level of 1% of the GDI of the EU, justifying it with difficult situation of the national finances. However, the proposal of the new multiannual financial framework for 2014-2020 – presented by the European Commission in 2011 – assumed 5% growth in the expenditures (EUR 1025 billion), justified by the need for support to measures helping the EU to overcome the economic crisis. In February 2013, as a result of difficult negotiations, the European Council made the final decisions on the size and structure of the EU budget, while in June 2013 the interinstitutional negotiations between the Council, the Commission and the European Parliament were finalised. The finally approved level was at EUR 960 billion (1.00% of the GDI of the EU) under the EU budgetary commitments and EUR 908 billion in payments (0.95% of the GDI of the EU) at 2011 prices (Council Regulation, 2013).

The budget negotiations for 2014-2020 resulted in the EU budget reduction, i.e. ca. 3% less than in 2007-2014 and ca. 12% less than proposed by the European Commission. Respective Member States played the game primarily to get a favourable net position, which was especially important for them in the light of increasing public finance debt. The traditional division into supporters and opponents of the CAP and Cohesion Policy was not so clear anymore.

France, Ireland and Greece consistently supported keeping the CAP budget at the existing level. At the beginning of 2011, President Sarkozy intended to defend the envelope of expenditure for agricultural policy to the last euro (Euractiv, 2011). Already in September 2010, France and Germany prepared a common position where they expressed their opposition towards any rationalisation of the CAP, support for keeping the current breakdown of CAP into two pillars and opposition to a major redistribution of direct payments under the external convergence. This position was backed during a meeting of the Council of Agricultural Ministers in February 2012, despite earlier postulates of the UK and Poland and some other countries on the need for a major CAP reform (Euractiv, 2012).

The UK's consent to uphold the *status quo* as regards the CAP was traditionally conditioned by keeping the UK correction. It was even suggested that there exists an informal agreement between President Sarkozy and Prime Minister Cameron in this field (Guardian, 2012). The next French President – Hollande, questioned the need for keeping the UK correction. Together with Italy and Spain he argued to reduce the EU budget, but maintaining the current level of agricultural subsidies. For Prime Minister Cameron success in the EU forum – as the protector of the UK businesses – was fundamental for securing support in the increasingly more Eurosceptical UK. It was in his interests, and in the interests of other net contributors, to reduce the EU budget because of more and more unfavourable net position. This resulted from gradual growth in direct payments for the EU-12 and a drop in the envelope of funds for more prosperous regions in the EU-15. An important factor affecting the final result of the negotiations was support of Chancellor Merkel for Prime Minister Cameron and the postulate to reduce the EU budget to 1% of the GNI of the EU. The success of the UK as regards reduction of the EU budget was the greater as the negotiations concerning the MFF are held, in line with the French tradition, in two categories: the EU commitments and payments. When the British negotiate at the level of payments, the others focus on commitments. Hence, in the payment category the actual budget reduction amounted to nearly 4% (Economist, 2013).

Finally, there was a slight reduction in the expenditures for CAP and Cohesion Policy. Analysing the results of budget negotiations for 2007-2013 and 2014-2020 it can be noted that the funds for the heading "Sustainable growth: Natural resources", which is funded primarily by agricultural policy was reduced by 11.3%, while direct payments by 17.5%. Then, the heading "Economic, Social and Territorial Cohesion" noted a drop by 8.4%. The very EU was once again the greatest loser of the last budget negotiations, because the funds to boost its economic development under the Lisbon Strategy, i.e. heading "Competitiveness for Growth and Jobs" were reduced under the EU budget cuts by 39% against the proposal of the Commission (Interinstitutional agreement, 2006; Council Regulation, 2013). This followed from the fact that respective Member States had under their preferences at least one objective more important than the Lisbon Strategy. For net contributors this was a reduction in the EU budget, for Cohesion Policy supporters – keeping the expenditures of the policy at as high level as possible.

Thus, it is clear that the process of determining the size and structure of the EU budget is much dependent on the narrowly defined national interests. Representatives of Member States are committed to defend the position of their country in the process of the EU budget negotiations, which consequently limits their negotiating mandate during bargaining in Brussels. Each of them is to ensure success, often reduced to a financial achievement, which is a good net position. The key priorities are national finances and not execution of common EU priorities. The pressure not to compromise easily is especially strong in the case of large Member States, whose share in the payments to the EU budget is especially high (Hagemann, 2012).

Therefore, the *juste retour* rule and the drive of Member States to obtain additional funds from the EU budget affects the reached agreement. As a result, the budget negotiations become zero-one game, in which larger envelope of funds for one country means its reduction for another, just like in the case of the EU policies – higher funds for one of them contributes to a drop in case of the others. The amount and structure of the EU budget binding in a given period are treated as a point of reference for the next negotiations of the MFF.

## Potential budget preferences of Member States after 2020

Assessment of potential preferences of the EU Member States as regards multiannual financial framework for 2021-2027 requires considering both the national context and political circumstances, in which respective Member States function and probably still will in the coming years as well as the forecasts concerning socio-economic development of the EU countries. What can also be used as indicators of the possible distribution of the budget preferences of Member States after 2020 are midterm reviews of the multiannual budget of the EU for 2014-2020 and possible reform of the system of own resources of the EU.

Review of the current MFF and the system of own resources were included into the agreement concluded in 2013. It committed the European Commission to present, by the end of 2016, a review of the functioning of the EU budget taking full account of the current economic situation and the latest macroeconomic projections[1]. It should be emphasised that the review is not only to assess the functioning of the budget but also the EU budget priorities. However, in line with the adopted regulations, the review cannot result in reduction of the envelope of funds allocated to individual countries. Possible changes in the allocations can result only from adjustments of the funds to the requirements of the Cohesion Policy (taking into account the difficult situation of Member States affected by the crisis, a case when a given country becomes eligible to apply for funds from the cohesion fund or stops being eligible thereto).

The above-quoted Regulation determines also the deadline for the European Commission to present legislative proposals concerning the MFF of the EU after 2020. According to the adopted schedule, these proposals should be presented before January 1, 2018. Hence, three years were set for the proper negotiation

[1] Article 2 of 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 347/884, 20.12.2013.

of the new MFF, including the negotiations on the system of own resources of the EU. Initial discussions on the budget after 2020 are already ongoing. The EU Member States and institutions are preparing also for a review of the functioning of the current MFF to introduce any possible correction for 2017-2020.

A review of the EU budget will be held under a strong pressure of Brexit, i.e. decision of the UK community to exit the European Union, made in a referendum of June 23, 2016. The weakening position of the EU has once again aroused the UK's aspirations to relax its ties with the EU. One of the key arguments for Brexit was the growing net contribution of the UK to the EU budget (in 2009 – GBP 4.3 million and in 2015 – GBP 8.5 million) (HM Treasury, 2015). The UK correction, secured in 1984 by Prime Minister Thatcher, was to offset the surplus deficit which the UK (new member of the European Communities since 1973) had in settlements with the common budget. Keeping the correction was up to date the key demand of the UK in the negotiations of the MFF. However, the growing Euroscepticism of the British community forced the Conservative Party to threaten that the UK will leave the EU if it does not get greater independence as regards regulations, legislations and financial commitments following from the membership in the EU. The results of the British referendum opened a new chapter in the history of the EU integration.

Research by Boulanger and Philippidis (2015) showed that lack of access to the Single European Market can cost the UK ca. EUR 14 billion per year, while the EU – ca. EUR 40 billion per year. Limiting the analysis only to agricultural trade and implications for the agricultural budget, the researchers stated that resignation of the UK from CAP and payments following from this policy will be beneficial for the UK, even if losses on account of worse access of the British agri-food products to the Single Market are taken into account. Brexit will be an interesting experience in establishing a new European agricultural policy outside of the CAP.

A difficult situation in the EU is also linked to the costs that the EU had to incur in relation to accession of several new Member States over a relatively short time. Currently, the representatives of the societies of some "old" Member States have a negative view on the idea of accepting new members to the European Union (Toshkov, Kortenska, Dimitrova and Fagan, 2014). Reluctance to integration with new countries is considerable enough not only to block attempts at further enlargement of the EU but also attempts at association of other countries with the EU (e.g. negative result of the Dutch referendum of April 2016 on ratification of the Ukraine-European Union Association Agreement). Therefore, it can be assumed that the presently experienced financial effects of the great EU enlargements combined with the still felt consequences of the economic, financial and debt crisis, will be one of the major factors determining the approach of states to the next MFF. The existing view on the EU budget, upholding the *juste retour* rule, may be strengthened.

Recovery of contributions paid to the EU budget and improvement of net position can be especially important for states in which macroeconomic indices have deteriorated recently. Comparing the GDP *per capita* expressed in the purchasing power standard against the EU average shows that a definite majority of the "old" EU states noted a clear drop in the last decade. Only Germany and Luxembourg showed a clear growth in the index, and Sweden and Austria saw only a minor increase. Whereas in the new Member States, except for Slovenia and Cyprus, there was an evident increase in the GDP *per capita* against the EU average (Fig. 1).

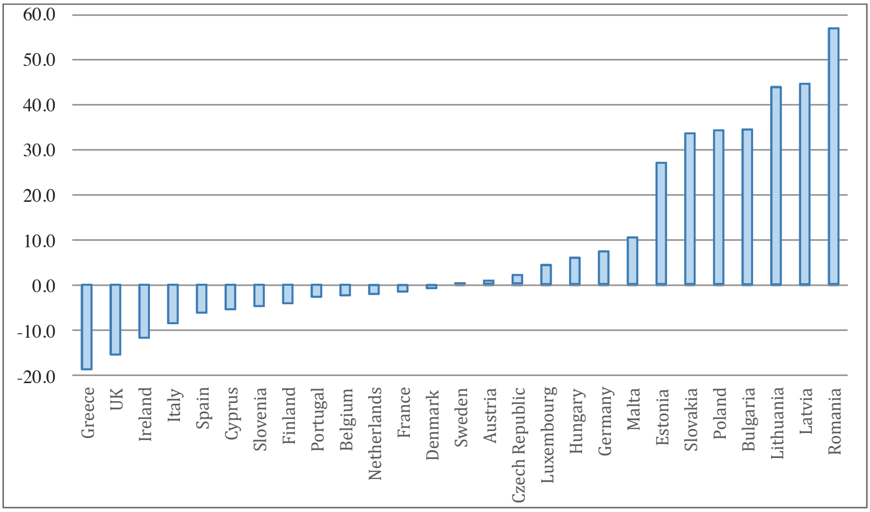


*Fig. 1.* Change in GDP *per capita* expressed in the purchasing power standard against the average for the EU-27 in 2013 compared to 2004 (%).

Source: own calculations based on Eurostat Database.

Although the GDP *per capita* in the states of the "old" EU in general continues to be higher than in most of the new Member States, but the process of gradual narrowing down of gaps between countries is still in progress. For instance, in Slovenia, the Czech Republic and Slovakia it exceeded the levels noted in Greece and Portugal. Therefore, the negotiations of the next MFF after 2020 will proceed in new circumstances – even if in the negotiations of the past financial perspectives of the EU the breakdown into the states of the "old" and "new" EU could have had some role, in the budget negotiations for 2021-2027 it will be no longer important. It can be also expected that some countries, which a few years back fought to increase the EU budget, will in the coming negotiations opt for keeping the budget at the current level or to decrease it. Their preferences can be changed primarily under the influence of the changing balance of payments to and from the EU budget (Fig. 2).

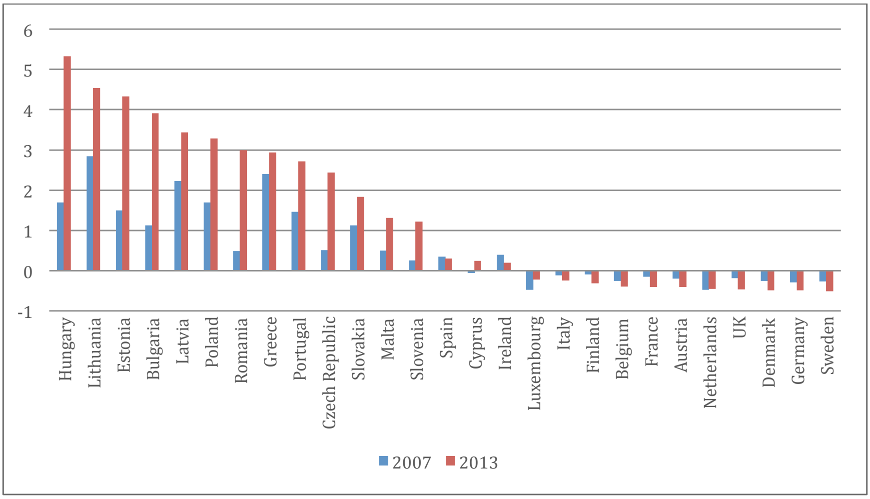


*Fig. 2*. Balance of payments to and from the EU budget as % of GNI (2007 and 2013).
Source: European Commission, http://ec.europa.eu/budget/figures/interactive/index_en.cfm.

In case of countries such as Spain and Ireland, a very prudent approach to the next budget negotiations should be expected. Although these countries in the past opted for an ambitious EU budget, by the end of the current perspective – given the growing burden linked to payments to and decreasing payments from the EU budget – they can be among net contributors (Business Post, 2015; Valera, 2015). At the same time, the existing net contributors can be expected to consolidate their preferences to reduce the EU budget. In 2014, France for the first time fell among the countries which paid extra to the agricultural budget. So far, France protected the CAP as despite the growing payments to the EU budget, it was the main net beneficiary of transfers to agriculture. Today, France's approach can change. Austria and Denmark are in a similar situation. But then, Germany – the main net contributor to the EU budget – is simultaneously one of the key beneficiaries of the economic integration in Europe. Despite deepening negative balance of payments to and from the EU budget (Fig. 2), GDP *per capita* in Germany against the EU average clearly increased in 2004-2013 (Fig. 1). The deepening negative balance of payments did not hamper the achievement of GDP growth also in Austria and Sweden. Thus, it should be assumed that despite the intensified drive of net contributors to reduce the burdens for the EU budget, the zone of possible agreement accepted by respective players in this camp in the next financial perspective can be different.

The dynamics of changes in preferences of countries as regards the future EU budget can be also determined by problems in the euro area. Because of the financial and economic crisis the requirements on compliance with the fiscal regime and on public debt are more stringent. Difficulties experienced when overcoming the crisis can strengthen the reluctance to incur additional costs linked to funding the EU policies. Additionally, the present problems of the euro area can increase the competition for the EU budget funds between the poorer and indebted Member States. The assumptions to the midterm review of the current MFF provide for adjustment of the allocation to the Cohesion Policy in relation to the difficult economic situation of countries overcoming the crisis. Therefore, the countries which – in line with the eligibility principle – should lose some part of co-financing can still be considered in the division of funds. Differences in the interests will then become especially clear between some cohesion countries (Greece, Portugal) and countries which accessed the EU in the last enlargements (Stenbæk and Jensen, 2015).

It should be emphasised that the next negotiations will occur under the conditions of growing Euroscepticism of the EU communities. Results of public opinion polls held in spring of 2015 in all Member States of the EU showed that the number of opponents of increases in the EU budget increased (Standard Eurobarometer 83, 2015). The majority of respondents from 17 Member States considered that further growth in the EU budget is unjustified (in spring 2011 such an opinion was expressed by majority of respondents from 15 Member States). The opposition to increases in the EU budget is the strongest in Austria (75%), Denmark (72%), the Netherlands (65%), the United Kingdom (60%), Slovenia (60%), Sweden and Finland (59% each) (Fig. 3).

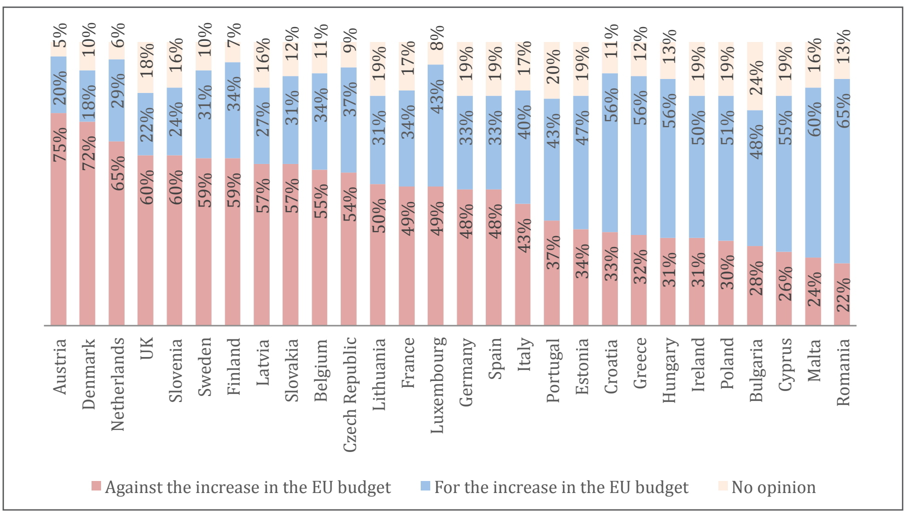


*Fig. 3*. Opinions of communities of the EU Member States on the amount of the EU budget.

Source: *Standard Eurobarometer*, no. 83, May 2015.

The above-mentioned opinion polls indicate that both communities of the "old" EU and those which accessed the EU relatively recently are against the increase in the EU budget. What is interesting, the last group includes apart from the Czech Republic, also the new Member States belonging to the euro area (Slovakia, Slovenia, Latvia and Lithuania). There are even more opponents of the growth in the budget in these countries than in, e.g., Germany or France. Consequently, it is clear that given the opinions of the EU communities the camp of opponents of increases in the EU budget strengthened.

Undoubtedly, the situation needs to be linked to a clear drop in the reliability of the European Union in the eyes of the EU-28 communities. So far, the EU institutions enjoyed a much greater support than the governmental institutions of Member States. According to the Eurobarometr survey (2015), in 2004 ca. 70% of respondents trusted the EU institutions, and ca. 50% of respondents trusted their national governments. In 2014, this support dropped radically, respectively, to 30% and 10%. Respondents do not believe that the EU and national politicians can tackle the problems of the last decade. This trend is very disturbing, mainly for the future of the EU and the political stability of Member States. It should be emphasised that the loss of trust to the EU is linked to the changes in the ideological self-identification of the researched respondents (breakdown into the Right, the Left and the Centre). Whereas there is an evident growth in the support for the extreme parties, both on the Right and the Left (Frieden, 2015).

Special changes in the opinion on the EU took place in the euro area countries. According to the political scientists, because of the crisis in the Economic and Monetary Union Euroscepticism turned from a marginal phenomenon to a mainstream one (Brack and Startin, 2015). Disillusionment deepens not only in wealthy countries forced to support institutions and countries experiencing financial difficulties, but also in poorer and indebted countries obligated to introduce restrictive measures to counteract economic recession. Some complain that they pay too much for the others, the others complain that they have to suffer too much (Frieden, 2015).

Although the macroeconomic projections for the EU countries for the coming years are optimistic (IMF, 2015), the European residents still anxiously look into the future. Among respondents surveyed by the Eurobarometr (2015), the issues of greatest concern include: migration (38%), economic situation (27%), lack of employment (24%), public finances of a given state (23%) and terrorism (17%). It seems that the issues involved in the need to ensure security in Europe will play an increasingly important role in the process of shaping the national preferences as regards the priorities of spending the public funds in subsequent years. Even today, the EU Member States react to the increased terrorist threat with higher expenditures on the fight against the threat in their national budgets. For instance, the German government plans to increase the budget intended for funding the security policy by over EUR 2 billion until 2020 (Stratfor, 2016).

The discussions on the future EU budget emphasise also the need to target the funds at new priorities. During the conferences of January 28, 2016 the Dutch Presidency proposed to combine all the funds into one, pan-European Investment Fund, which would support economic growth in the EU. The Presidency highlighted also the need for reduction of expenditures on inefficient policies and for targeting funds at new political priorities of the EU (innovations, migrations, partnerships with countries) (Speech, 2016). Taking into account the highly differentiated national preferences of countries, it is hard to expect that there might occur a major transformation of the EU expenditure structure in the coming years. On the one hand, the communities of the Member States are afraid of new threats but, on the other, they oppose to increase the EU budget. Therefore, it is possible to fund new priorities mainly from the level of the national budgets. This – in the long run – will weaken the position and prominence of the EU.

## Conclusions

In the negotiations of the MFF of the EU the game involves the breakdown of budget funds between objectives and priorities and between Member States. History shows that the past budget negotiations were dominated by distributive bargaining. A rather high reliability of the EU as a regulatory regime, the strengthening interdependence between the systems of national interests and the specific system of intensified intergovernmental contacts, rooted in the EU institutions, allowed for conclusion of agreements accepted to a greater or lesser degree by all the EU Member States. Each of the participants of the negotiations, despite differentiated interests and rigid divisions between contributors to and beneficiaries of the EU budget, finally left the negotiations with specific benefits, which could guarantee the acceptance of the EU agreements at the national level.

The performed analysis points to the fact that the preferences of Member States as regards the share and amount of the budget after 2020 will remain differentiated. The lowering balance of payments to and from the EU budget will affect how Member States assess the financial needs of the specified measures at the EU level. The group of countries aiming at freezing the budget will be joined by its former beneficiaries, i.e. countries, where the level of wealth is close to the level of countries of net contributors. The deteriorating budget position of many net contributors will most probably also strengthen their reluctance to further finance the EU measures. The growing Euroscepticism of the European communities will most certainly hinder negotiations aimed at increasing efficiency of the EU budget. As a result, political circumstances and social preferences will favour the pressures for lowering the EU budget in the future.

Negotiations of Member States, limited by the *juste retour* rule, prevent significant reforms as regards restructuring of the EU budget which translates into the future of the European integration. The dilemma on how should the future

European Union look like: should it be composed of several countries strictly abiding by the set standards or should it rather be enlarged with even more countries and lead to ever closer union – constitutes the core of further discussions at the EU forum. These questions were especially common during the attempt at saving the economies of the countries of southern Europe in the recent years. Both lenders and borrowers estimated the costs and benefits without thinking whether the EU integration process goes in the right direction or not. Breakdown of the countries into "good and bad" reincited the discussion on creating "multi-speed Union".

Concerns as regards the future of the EU are especially raised by confirmation of the special status of the UK at the meeting of the European Council of February 2016, which can lead to renegotiation of the EU membership by other Member States and demolition of the EU. Although the EU is already *à la carte*: Sweden is outside the euro area, France does not adhere to the budget deficit requirements and Austria has introduced one-sided restrictions for migrants. The case of the UK can, however, be favourable for organisation of referendums on membership in the EU in other countries or the use of this possibility as a negotiation tactics to force national preferences on the EU arena.

The present leadership crisis in the EU and helplessness of the EU states and institutions towards the growing socio-economic problems, which originated in both the very EU Member States and outside of them, undermines the confidence of Member States that the EU can be an efficient mechanism to implement national interests of all its members. The disillusionment can be the greater in the face of the common believe until recently that in the area of economic and social integration, the EU is the most efficient and effective international body worldwide. The sphere of political integration has always been beyond the reach of the European project. The current problem of the euro area, departure from the most important achievements of the European integration linked to the functioning of the single market, gradual withdrawal from the Common Space of Freedom, Security and Justice erode the initial fundaments of the EU. Deficits in the European integration in the areas assuming distribution of costs and benefits between Member States can have serious consequences for the future of the EU. Purely distributive bargaining will intensify processes of disintegration and re-nationalisation in Europe.

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# NEGOCJACJE BUDŻETOWE UNII EUROPEJSKIEJ W CIENIU ZASADY *JUSTE RETOUR*

## Abstrakt

*W niniejszym artykule przedstawiono dotychczasowe preferencje wybranych państw członkowskich w negocjacjach wieloletnich ram finansowych Unii Europejskiej oraz podjęto próbę ich oceny w kontekście kolejnych negocjacji budżetowych na lata 2021-2027 i przyszłości integracji europejskiej.*

*Należy przypuszczać, że preferencje państw członkowskich w odniesieniu do kształtu i wysokości budżetu po 2020 roku pozostaną zróżnicowane. Zmieniający się bilans wpłat i wypłat z budżetu UE wpłynie na to, w jaki sposób państwa członkowskie oceniać będą potrzebę finansowania określonych działań na poziomie unijnym. Do grupy państw dążących do zamrożenia budżetu dołączą jego niedawni beneficjenci, tj. państwa, w których poziom zamożności zbliża się do poziomu państw płatników netto. Pogorszenie pozycji budżetowej wielu płatników netto najprawdopodobniej wzmocni także ich niechęć do dalszego finansowania działań UE. Narastający eurosceptycyzm społeczeństw europejskich z pewnością utrudniać będzie prowadzenie negocjacji skierowanych na zwiększanie efektywności budżetu UE. W rezultacie uwarunkowania polityczne i preferencje społeczne sprzyjać będą naciskom na rzecz obniżenia budżetu UE w przyszłości. Trudno również oczekiwać, że mogłoby dojść w najbliższych latach do istotnego przeobrażenia struktury wydatków unijnych. Społeczeństwa państw członkowskich z jednej strony widzą konieczność finansowania nowych priorytetów (np. związanych z nowymi zagrożeniami), z drugiej sprzeciwiają się zwiększaniu budżetu UE. Możliwy w związku z tym jest scenariusz finansowania nowych priorytetów głównie z poziomu budżetów narodowych. To w długiej perspektywie osłabiać będzie pozycję i znaczenie UE.*

**Słowa kluczowe:** preferencje narodowe, negocjacje budżetowe, wieloletnie ramy finansowe.