COMMISSION WANTS BIGGER POST-BREXIT BUDGET

- 26.04.2018

EU Observer (26 April 2018)

A week before the much-anticipated moment when it will present its ideas for the EU's post-2020 budget, the European Commission is now fine-tuning its proposals.

But the main message is not going to change: the EU executive will urge member states to endorse a message of strength and unity by investing more in Europe after the UK has left the club.

Commissioner Guenther Oettinger will roll out a framework and headline numbers for the next seven-year budget on Wednesday 2 May.

The commission plans to put forward a budget that is larger than the previous one, and is expected to propose that budget for the period of 2021 to 2027 should be between 1.13 and 1.18 percent of the EU's gross national income (GNI), compared to the 1.0 percent now.

Consequently the commission will put out specific legislative proposals on specific areas - such as agriculture, cohesion and research - by mid-June.

The final decision on the budget will be taken by national governments, that are being asked by the commission to foot the bill for at least half the gap left by the UK's departure, and new challenges, such as migration, terrorism or border security, which need extra funding.

Officials warn that four to five overall 'net payers' have entrenched in a tough negotiating position and do not want to pay a cent more into the EU budget.

Austria, the Netherlands, Denmark and Sweden are sceptical about a larger EU budget, even though the largest net payer, Germany, has pledged to chip in with more.

"Some net payers are very upset with Germany," said a senior EU source. With eurosceptic London out, and fiscally conservative Berlin supporting a larger budget, smaller member states are now being asked to play the 'bad guy' role in negotiations and stick to a 'no higher contributions' position.

But others say the 'net payer philosophy' is outdated, and argue for example that for every euro spent by net contributors on cohesion funds, 70 cents comes back to net countries as their companies are hired to carry out the work.

"We need 27 small winners," said another senior EU official, pointing to a possible amiable conclusion to the talks.

The commission plans to close the Brexit 'gap' by going half-half: a 50 percent cut and 50 percent more money from the remaining EU-27.

New responsibilities are planned to be covered to a rate of 80 percent by fresh money, and the commission is to add 20 percent by structural changes in the budget.

Cuts will come mainly from the two big EU policy areas, cohesion □ an average of about six percent compared to the current EU budget – and agriculture.

Research and the Erasmus student exchange program should not be touched, according to the EU executive.

The commission will propose to raise money at an EU level by transferring a share of the proceedings from the Emission Trading Scheme (ETS) from national level to European level and to introduce a plastic tax.

The EU executive also wants EU governments to contribute to the budget by allowing the revenue central banks get from issuing money to flow into the EU budget. The same would apply to the European Central Bank's profits.

"Brexit is a game changer, we are missing □□□□□□□□ [per year] after transition," the senior EU official said.

The new expenditures, such as hiring "thousands" of EU border guard officials, would amount to €8-10bn annually.

The commission will argue that the new priorities have a European 'added value', and that it is more effective to spend the money together.

There will be no special eurozone budget, but "several billions" will be earmarked to deal with asymmetric economic shocks, encourage reforms, and help countries that want to join the euro.

Rule of law check

But several tricky political issues could upset the commission's plans for a big budget.

The commission will propose a 'rule of law conditionality' in this next long-term budget that will focus on the independence of the courts in member states to protect investments and EU taxpayer money.

The issue is expected to be the most politically sensitive in the upcoming battle to negotiate the seven-year budget, which traditionally takes years of haggling among EU member states.

The precise mechanism on rule of law conditionality is still being fine tuned in the commission's corridors to make sure the plans are legally watertight.

The notion to tie EU funds to European values have gained traction recently as the commission raised rule of law concerns in Hungary, Poland, Romania and most recently Malta.

Some have argued for including the entire list of human rights as enshrined in Article 2 of the EU treaty to be linked to EU funds, but that would be on shaky legal foundations, officials admit.

Instead the commission is planning to put forward a proposal that would analyse the independence of the courts based on specific legislation in a member state to make sure EU financing and investment is properly protected.

"In the interest of our European citizens and taxpayers, we must have a guarantee that courts are independent, not pending on a government," said a senior EU official.

Some countries which benefit from the EU's cohesion funds (aimed to close the economic and development gap between EU members), worry that the link could be used for political pressure.

Poland and Hungary have already stated they reject the idea, and consider it "political blackmail."

"It is not a lex [law about] Poland, it is a general obligation," the senior EU official said, rebutting the assumption that the so-called 'conditionality' will be used for targeting specific member states.

The mechanism is not yet clear-cut however, and several options are being worked out. The commission has mulled the possibility of involving the European Parliament and member states in reviewing the independence of courts.

It is also still open whether the mechanism will be a pre-screening or an 'after the fact' probe. However, the commission aims to remove some programs from possible sanctions, such as research.

EU countries would have to unanimously agree on such a new mechanism however.

The senior official said several member states that are reluctant to pay more into the EU budget after Brexit might change their minds about additional contributions if they see their funding secured - which might then be an incentive for Hungary and Poland to agree to the conditionality.

"Without the commission's rule of law proposal, the [budget] deal would not be really balanced," the official said, but adding that not to propose anything would also be wrong.

The commission will also use its own economic analysis under the so-called European semester to adjust the cohesion funds.

New calculations

Another issue likely to cause a few 'three-shirter' summits □ EU diplomat jargon for all day-and-night meetings – is the proposal to introduce migration as an economic indicator.

Besides the GDP per capita indicator, migration will also play a role in calculating how much countries can receive as part of the cohesion funds. But to what extent is still undecided.

"It is not about sanctions, it is about if a member state does a lot, and has to pay a lot of money, it will play a certain role calculating his right to get cohesion funds," the EU official said.

EU countries that are reluctant to take in migrants, most vocally from central and eastern Europe (who are beneficiaries of the cohesion policy), are against the idea to link the fund for any migration policy.

Timeline

The commission want to pursue an ambitious timeframe, finishing the usual years of negotiations by the European elections next spring, and warning a deal could endanger financing programs.

"The political reality is that it is difficult to do so. Governments need time at home to sell a deal," a source said.

Kaynak/Source: