One week before heads of state and government are to convene a special summit in Brussels to discuss the 2014-2020 budget, Council President Herman Van Rompuy tabled a €950-billion proposal that is €75 billion less than the Commission's initial recommendation.

Under the proposal, first published by EurActiv France yesterday (14 November), severe cuts are foreseen in agriculture, which may anger France, and in cohesion, which would certainly antagonise the new EU members from Central and Eastern Europe.

The proposal foresees keeping the UK rebate, but introduces a new system under which the country would pay partly for its own refund.

“We do not accept the proposal to reduce by €25 billion the money for the Common Agricultural Policy, which we consider a policy for growth,” Bernard Cazeneuve, France's European affairs minister, told his country’s parliament yesterday.

On the other extreme, Sweden asked for more cuts. “The revised proposal means some small steps in the right direction but it's not enough,” Swedish EU Minister Birgitta Ohlsson said, adding: “We need a clear model for reducing agriculture subsidies.”

Rejection in mild terms

The Commission rejected Van Rompuy’s proposal, albeit in less strong terms than it did with the previous version, presented on 30 October by the Cypriot presidency (see background).

While it appreciates the fact that the Van Rompuy's proposal “preserves the balance and order of priorities of the Commission proposal,” the EU executive dislikes the proposal as it foresees “significant reductions in the overall amounts allocated.”

“We all agree that the future European budget must be a catalyst for growth and jobs. We need the right balance between investing in the right policies for growth and jobs and a shared commitment to better spending,” said Pia Ahrenkilde Hansen, spokeswoman for Commission President José Manuel Barroso.

Although the cuts proposed by Van Rompuy appear to be too big for the Commission, it is unlikely that they will satisfy Britain, which asks for cuts of €200 billion, and Germany, which wants a reduction of €130 billion. Eastern countries generally oppose massive cuts to the EU budget, as they are net recipients of EU funds.

Connecting Europe Facility gets €10 billion from Cohesion

While overall cuts prevail, some figures in the Van Rompuy proposal are higher than those proposed by Cyprus:

Under the subheading “Competitiveness for growth and jobs”, Van Rompuy puts the commitment figure at €152.652 million, up from €146.317 million in the Cypriot proposal.
On the Connecting Europe Facility (CEF), aimed at accelerating the infrastructure development in transport, energy and ICT, the overall figure is €46.249 million, compared to €36.314 million in the Cypriot proposal. From this amount, €29.660 million is for transport, of which €10 billion will be transferred from the Cohesion Fund.
For energy, the proposed amount is €8.266 million, up from €7.077 in the Cypriot proposal.
For telecommunications, Van Rompuy proposes €8.323, up from €7.015 according to the Cypriot proposal.
New figures emerge

For the first time, figures appear for the financing of the Galileo, ITER and GMES programmes. Those will be financed under the competitiveness for jobs subheading, while until recently the programmes were not part of the EU long-term budget. Under the Van Rompuy proposal, Galileo is would get €6.645 million, ITER €2.707 million and GMES €4.941 million.

Funds under the subheading “Economic, social and territorial cohesion” are cut under the Van Rompuy proposal, to €309.495 million. In the Cypriot proposal, they were €326.494 million.

For the first time, details emerge as to the subdivision of this category:

€156.136 million for the less-developed regions;
€29.187 million for the transition regions;
€47.505 million for the more developed regions;
€65.928 million for member countries supported by the Cohesion fund
€925 million for the outermost regions.
For “European territorial cooperation”, figures are published for the first time as well. The total commitment is of €9.814 million, sub-divided as follows:

€7.256 million for cross-border cooperation;
€2.058 million for transnational cooperation;
€500 million for interregional cooperation.
New coefficients

The Van Rompuy proposal brings some changes in the methodology of calculating the allocation of aid for the less-developed regions. Each member state allocation for its eligible regions is calculated by multiplying the population of the region concerned with this coefficient. Overall, the changes would result in less funding, according the Van Rompuy proposal.

For regions in countries whose gross national income (GNI) per capita is below 82% the EU average, the coefficient to be used in the calculation is at 3.15%, down from 3.35% in the Cyprus proposal:

For regions in countries whose GNI is between 82% and 99% of the EU average, the coefficient is at 2.05%, down from 2.30% in the Cypriot proposal;
For regions in countries whose GNI is over 99% of the EU average, the coefficient is at 1.65%, down from 1.80% in the Cypriot proposal.
The capping, or the limit to the aid receivable by individual member states, is set according to the Van Rompuy proposal at 2.4% of GDP. For member states whose average GDP growth in 2008-2010 was lower than 1%, there would be a higher level of capping, yet to be determined.

Cuts for agriculture

In the budget heading “Sustainable growth: Natural resources”, which comprises agriculture, rural development, fisheries and a financial instrument for environment and climate action, the Van Rompuy paper puts the total commitment at €364.472 million, of which €269.852 million will be allocated to market-related expenditure and direct payments to farmers. By comparison, the Cypriot proposal mentioned €378.972 million and €277.401 million, respectively.

According to the Van Rompuy proposal, capping of the direct payments for the large beneficiaries will be introduced by member states on a voluntary basis. The Cypriot proposal stipulated a variety of options.

The overall support for rural development, according to the Van Rompuy paper, is at €83.666 billion. In comparison, the Cypriot paper mentions €90.816 million.

Security and Global Europe

Heading “Security and Citizenship” is barely affected by the Van Rompuy proposal. The sum under the Cypriot proposal is €18.109 million, compared with €18.309 million in the new document.

The same goes with the heading “Global Europe”: €65.650 million in the Van Rompuy paper, compared to €64.650 million in the Cypriot negotiating box. The funding under the heading is supposed to support the European External Action Service, as well as development and humanitarian aid to third countries.

In the heading “Administration”, figures appear for the first time: a total commitment of €62.629 million.

No new funds for nuclear decommissioning?

Bulgaria, Slovakia and Lithuania, which had to close nuclear power reactors as part of their accession treaties, will apparently receive no new funding for their decommissioning.

According to the Van Rompuy proposal, Bulgaria will receive €185 million for the decommissioning at the central of Kozoduy; Slovakia, €105 million for Bohunice; and Lithuania, €210 million for Ignalina. Apparently, these are figures already committed and will be met in the respective capitals with bitter disappointment. Lithuania estimates it will need €770 million in EU support until 2029 to top its own funding. The total sum for decommissioning Ignalina has been estimated at €2.3 billion.

Penalties

For the first time, figures appear in terms of penalties imposed on countries in breach of their commitments under excessive deficit or under bailout.

A capping of a maximum 50% of the funds due under cohesion or agricultural funds is foreseen as punishment for insufficient action in the first case of an excessive deficit procedure, and up to 25% in the first case of an excessive imbalance procedure. In line with the seriousness of the breach, the funding can be suspended completely.

Revenue side: What's new?

On the revenue side, the major novelty appears to be the financial transaction tax, which 11 member states decided to put it into place through the mechanism of enhanced cooperation.

Under the Van Rompuy proposal, as soon as FTT become effective, it will become the base for a new “own resource” for the EU budget. The GNI-based contribution of the respective member states will be reduced correspondingly, the paper says.

Rebates

“The existing correction mechanism for the United Kingdom will continue to apply,” the Van Rompuy paper says. In addition, “temporary corrections” in terms of lump sums in annual contributions will be granted to Germany (€2.800 billion), the Netherlands (€1.150 billion) and Sweden (€325 million). All corrections, including the British rebate, will be fully financed by member states.

Denmark, which threatened to veto the EU budget talks unless it doesn’t get a rebate, is not mentioned in the text.

Positions:
The proposed cuts to the European Commission’s 2014-2020 budget blueprint include 11 percent off the European Development Fund, which mainly targets Sub-Saharan Africa, according to the anit-proverty group ONE. The external spending within ‘Heading 4’ of the main budget is also facing a 9 percent cut. These reductions are higher in relative terms than all other areas of the budget.

Responding to the new proposals, Eloise Todd, Brussels director of ONE said: “There is one week to turn this around. Leaders need to listen: cuts must never cost lives. EU aid saves lives, has the overwhelming support of the public and, as new research has shown this week, is good for the EU economy too – there is no good reason to cut it. Many member states have spoken out in support of EU aid in recent weeks. Next week leaders must be prepared to stand up and fight for these lifesaving funds.”

Speaking in the European Parliament, MEP Alain Lamassoure (EPP, France), chairman of the Parliament's budget committee, said the EU was “not credible” by starting to negotiate the long-term budget for 2014-2020, before having agreed current payments. He referred to the stalemate on the correction budget for 2012, which also paralysed talks for the 2013 budget. Indeed, EU leaders will meet to agree the budget for 2014-2020 in absence of a correction budget for 2012 and of a budget for 2013.

The World Wildlife Fund (WWF) welcomed the proposal by Van Rompuy, which it says includes a 20% climate spending commitment. This means that at least a fifth of all EU funds would be dedicated to reducing climate change.

“If accepted at next week’s EU Summit, it will strongly increase the ability of the Multiannual Financial Framework (MFF) to combat global warming,” WWF's statement reads.

But WWF is concerned that Van Rompuy’s proposal is cutting well targeted EU funds like rural development, external dimension and even the tiny LIFE programme for the environment.

Deputy Prime Minister Nick Clegg reiterated yesterday (14 November) that Britain was prepared to veto a new EU budget that increases spending in real terms.

Speaking after a meeting with French Prime Minister Jean-Marc Ayrault in Paris, Clegg said any increase in EU spending at a time of austerity would not be approved by Britain's parliament.

“It is very difficult to imagine the British parliament ratifying a deal that includes budget increases well above the rate of inflation. […] That would be very difficult for MPs facing constituents who are having to deal with much bigger cuts,” he said, as quoted by AFP.

Next steps:
22-23 Nov.: Extraordinary summit to discuss EU budget for 2014-2020