The European Parliament as a Budgetary Extractor since the Lisbon Treaty

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Abstract

After the Lisbon Treaty came into effect, the European Parliament has seen its powers over the negotiations of the European Union's annual budget reduced. This article shows that, despite initial setbacks and a position of relative weakness in the budgetary negotiations, the Parliament can extract, through threat of veto, significant concessions in the three pillars of the budget: annual expenditure; long-term expenditure; and the revenue side. Through process tracing and interviews with key actors, the article evaluates the Parliament's successes and failures in negotiating the 2013 budget package and the circumstances under which the Parliament can maximise its limited power.

Keywords: EU budget; Multiannual Financial Framework; European Parliament; Own Resources, Council of the EU

Introduction

In 2013 the European Parliament (EP) successfully used its limited powers over the multiannual financial framework (MFF) of the European Union (EU) to ensure budgetary extraction across the fields of long-term expenditure, the annual budgets of 2013 and 2014, and the EU's revenue system, all under threat of veto. This article measures the EP's budgetary extraction in two important pillars of the budget. The first is the MFF approved in 2013 for seven years, which sets expenditure ceilings in total, annually, and by policy area or heading. The second is the budget's revenue system or Own Resources (ORs). The article does not provide detailed coverage of the EU's annual budgets since 2009, agreed within the limits of the MFF, which have already been the focus of work by Benedetto (2013; 2017).

In thinking ahead to the 2013 agreement on the MFF, Hagemann (2012) predicted a strong status quo bias due to the ability of any one Member State to veto the MFF and ensure roll-over of the pre-existing spending levels. Kroll (2015) and Rant and Mrak (2010) assume a lack of power for the EP in setting the MFF. Some of this was due to the Lisbon Treaty. Yet, the picture is more nuanced. Powers of the EP may have been reduced, but it was not uniformly in one direction, and it could still contribute to a package deal acceptable to all through judicious use of veto threat.

In the next sections, the article reviews what we know about the budget and the EP, then it presents some qualitative assumptions, before providing a history of package deals concerning the EP and the budget, briefly reviewing the significance of annual budgets, and then covering the negotiation of the MFF for 2014-2020 and the EU's revenue system during 2013. A discussion then presents the theoretical conclusions. Table 1 summarises the three pillars of the EU budget: the MFF, annual budgets, and the revenue.

[INSERT TABLE 1 HERE]

What we know about the EU budget and the European Parliament

Budget negotiations affecting the EP go back to 1969-70 when the Luxembourg Treaty was concluded. The EP could not agenda-set a constitutional change but was part of the 1970 package that created the EU's own resources (ORs), and led to the deciding of the annual budget by qualified majority vote (QMV) in the Council with a real power of amendment for the EP concerning non-compulsory expenditure[i] (Rittberger 2005: chapter 3).

Does the EP use such powers after they have been given?

While the Lisbon Treaty has reduced EP powers over the annual budget, it is not necessarily the case for the MFF, where the EP's power was always limited to that of a blunt veto with no amendment. Now that the sequencing has changed for the MFF in that the Parliament approves the MFF before the Council, and the MFF no longer requires ratification in all of the Member States' national parliaments, the EP's potential for influence increases (Benedetto 2013).

Although multiple veto-players always existed for the MFF and ORs, the revenue, the EP's veto can disrupt tenuous consensus on the Council, when the latter has had to decide unanimously on the MFF. Tsebelis (1994: 131) considers cases in law-making when the EP can make a proposal to the Council that the latter can accept more easily by qualified majority than it can to reject, which requires unanimity - a unanimity that the Council could use to strong-arm the EP until the rules changed in 1999. However, to approve the MFF, a unanimous Council has to agree with the EP, which can attempt to propose amendments. In the absence of agreement by either the EP or the unanimous Council, there is no new MFF. Other research on the EP's power of consent or veto (*c.f.* Paper 2)

on non-budgetary topics also finds that the blunt veto gives the EP some power to extract concessions when bargaining with the Council, but this is less successful when the EP makes demands on the Council that have financial effect.

For Lindner (2006: 171-2), package deals on the budget are easier when a previous package has started to break down. This was how an important reform to the budget was achieved in 1988 to replace that of 1970. By 1988, the original “Six” that had negotiated the 1970 agreement had seen their negotiating power reduced through three enlargements, the European Commission linked reform to different subfields in the budget like the internal market and growth in cohesion, the status quo was becoming more costly, and there was an inability to accommodate pressure for reform through only small changes. When the EP faces a unanimous Council whose internal divisions almost undermine unanimity, it has an opportunity.

For Citi (2017: 99), change can happen if there is division between payers due to diverse economic sectors with heterogeneous preferences. For payers, public opinion can demand a harder line at the domestic level. However, national actors cannot control spending and management of policy due to multiple preferences and veto players at national and European levels. This may help the EP to gain some influence over the process.

In the EU’s budget politics, additional new institutions [rules] are often layered on top when old institutions cannot deliver, instead of reforming them (Ackrill and Kay 2006). While path dependence could explain why certain rules survive, external crisis or division between actors can impel change. During 2013, when the 2014-2020 MFF was negotiated, the EP’s push for budgetary flexibility, a legally-constrained review of the budget, and a legally-enforceable investigation into new forms of revenue reflected the EP’s preferences and won support from the Commission and some national governments.

The result was the creation of new institutions [rules] for governing the new flexibility, review and revenue systems in the budget. Pre-existing structures remained intact.

Kardasheva (2013: 859) considers two types of package deal within EU legislation rather than budgets. First, she considers 'omnibus packages' inside a single legislative proposal, and second, she considers several legislative instruments that compose a package. The MFF is the latter since it is attached to a subsequent decision on ORs, as well as each of the expenditure regulations, and subsequent annual budgets. Once the European Council reaches internal agreement on the MFF, the EP can try to extract its price for approval. It can do this when the Council or its member governments are anxious to pass budgets or legislation quickly (Kardasheva 2013: 870). It is not just net receivers that want the money, the payers also want certainty and to have an agreement before anything is picked apart. [Paper 2] also find that the EP can extract concessions through delay or 'arena linkage' by bundling agreements into a package even when the EP's powers may be non-existent in some of them. The latter strategy tends to fail if part of the bundle includes financial costs for Member States.

Consistent with these financial limitations, Kroll (2015: 17) confirms a hypothesis that the MFF is closer to Member State preferences than to those of the EP with respect to actual expenditure. The question should be what the EP can get despite those limitations.

Package deals and European Parliament influence on budget

Following EP rejections of annual budgets in the 1980s, and the instability of annual budgeting amid British discontent, which had secured the United Kingdom (UK) rebate in 1984, a new package attached to the Single European Act was agreed in 1988, in which the EP played a role. National contributions via percentages of gross national income

(GNI) were introduced to provide for a budget 30 percent larger to finance the construction of the internal market (Official Journal of the European Communities 1988), and in which the European Regional Development Fund was doubled in size. The EP supported a larger budget and had used its veto power on annual budgets to signal concern at lack of resources. Member States accepted an improved and more nationally accountable form of financing based on ability to pay, but susceptible to later net balance fixations on getting back what they put in. Finally, the 1988 agreement established the MFF as a form of long-term spending package, more stable than only annual budgeting, and governed by an inter-institutional agreement to which the Commission, Council and EP each had to consent (Lindner 2006).

Until the Lisbon Treaty, non-approval of a new MFF resulted in continuity of the old one though individual spending programmes might have lapsed (Benedetto 2013). The new, post-Lisbon MFF governed by Article 312 Treaty on the Functioning of the EU (TFEU) requires that Parliament votes before Council, giving it greater influence through sequencing (Benedetto 2013: 367). Moreover, the MFF no longer requires ratification by national parliaments, making agreement easier. If there is no agreement, continuity of the previous MFF is the default. This could still be disruptive if individual spending programmes lapse so national governments would still have good reason to try to avoid non-agreement.

In 2013, David Cameron, the Prime Minister of the UK, led a group of net-contributor countries demanding cuts to the size of the EU budget (Traynor and Watt 2013). Recipient countries meanwhile wanted certainty about funds that they would achieve (Mahony 2012). Once the Council reached an agreement internally, the EP tried to extract concessions that did not affect actual amounts of money through flexibility of the budget, reviewing it, and looking at new revenue to try to escape national net balance

considerations. Cameron's objective was that the EU should make lower payments, and it is credible to think he would accept the EU doing more with less so long as it really was with less, regardless the level of commitments.[ii] According to one official: "Everybody was talking about commitments, only the Brits cared about payments. It's like driving on the left side of the road" (Pop 2013). Another referred to the difference between commitments and payments as "creative accounting" (Reuters 2013) that allows all sides to save face. There lay the Parliament's opportunity.

Although the Parliament lost on amounts of money in both the MFF and annual budgets after 2009, was there evidence of successful policy extraction under veto threat? This is more likely when previous package deals break down, when the Commission - and why not also the Parliament - can link budget proposals to other policy areas (Lindner 2006), and if divisions between governments and within member states create an agenda-setting opportunity for the Commission or Parliament (Citi 2017: 99).

The methods used in the rest of this article are based on process-tracing (Checkel 2006; 2008). First, I cover the relationship between the annual budgets of 2011-2014 and then the simultaneous agreements on the details of the post-2013 MFF. This will focus on amounts of money and then side deals on matters like flexibility and ORs.

Empirically, the evidence is gained from official documents, press coverage on government positions, and interviews with key advisors or officials in the European Commission, the Council of the EU, and the EP, who represent diverse institutional or ideological positions.

Annual budgets and the MFF

The agreements and disputes for the annual budgets of 2011-2014 related to the more significant negotiation in 2013 of the MFF for the years 2014 to 2020.

The Lisbon Treaty had a significant unintended consequence for the EP's budget powers (Benedetto 2013; 2017). Before 2009, the EP could overrule the Council on non-compulsory expenditure and the Council could do likewise on compulsory expenditure, whereas the Lisbon Treaty introduces a form of co-decision including a conciliation committee for all expenditure. This looks like an increase in power for the EP but it means that it and the Council must agree on everything or the budget fails. If there is no budget for the new year, monthly provisional budgets roll-over (Article 315 TFEU). These are set by the Council and the only power the EP has is to block (if it wishes) any increases in those monthly expenditures voted by the Council. This default outcome is a diminution of the EP's powers not because it will happen but because it "could" happen.

The 2011 annual budget was the first to test these powers, and the EP failed to set agendas by use of veto threat. The EP attempted to support the Commission's proposed increase in payments and to insert amendments to give it extra powers over the MFF and OR negotiations (Benedetto 2017: 642). The Council instead set its preferred level of expenditure. After the failure of the conciliation committee to agree a joint text, the EP accepted the Council's figures in preference to the worse option of going to provisional monthly budgets set by the Council alone (Benedetto 2013; 2017). As a Council official observed: "Because the MFF is decided unanimously but became the subject of EP initiative on the 2011 budget, only unanimity would therefore work to approve the budget for that year." (Interview #2).

In exchange for agreement of the figures for the 2011 budget, the EP gained only a political commitment for the Council presidency to meet representatives of the EP before and after Council deliberations on the MFF (Interview #4).

Though the EP failed to set agendas for the MFF and revenue when linking them to the 2011 annual budget, it successfully exploited the new sequencing advantage in 2013. The

Council position, based on fractious unanimity, involved pay-offs for individual Member States like an overall spending reduction and a new rebate for Denmark, such that the Council would agree on other policies to attain the Parliament's consent for the expenditure reductions. The Parliament's gains were concessions on the annual budgets of 2013 and 2014, greater flexibility within the budget and its global spending maximum over the seven-year period (2014-2020), and for the appointment of a High Level Group to investigate reform of the EU's revenue or own resource (OR) system. This shows that the EP can exert influence from a position of weakness if it links issues and uses the threat of veto against a fragile Council consensus both credibly and constructively. This is the subject of the next section.

Negotiating the MFF in 2013

This section traces the process of negotiating the deal on the MFF after the European Council had imposed the figures in February 2013. It covers firstly the background to the EP's rejection of the Council agreement in March 2013, before looking at agreement on flexibility, budgetary revision and OR reform, cases of successful policy extraction whose financial cost was less visible politically to Member States.

European Parliament policy and the rejection of the European Council's proposal

Across 2011 and 2012, the EP (2011; 2012a; 2012b) passed three motions calling for more flexibility in the budget meaning the transfer of funds between policies and financial years, a mid-term revision of the MFF, and, as a precondition for agreeing the new MFF, a reform to ORs with EU taxes to reduce the level of national contributions and make expenditure changes easier to agree in the future (EP 2012a, point 2), see Table 3.

The EP also demanded an increase in expenditure above the level of the 2007-2013 MFF with an emphasis on youth employment (EP 2012b, point 29) and a call to freeze agricultural and cohesion expenditure rather than to cut it.

These motions passed by majorities of 541 MEPs to 100 and of 517 to 105. Those MEPs opposing came from the parliamentary groups of the European Conservatives and Reformists (ECR) and European of Freedom and Democracy (EFD) on the right, and the European United Left/Nordic Green Left (GUE/NGL).

During the winter of 2012-2013, Herman Van Rompuy, the President of the European Council, proposed a compromise consisting of €80 billion of cuts compared to the European Commission (2011) proposal, though with increases for competiveness investment (Council of the EU 2013a) to reach agreement within the European Council in February 2013. Net contributors led by the UK had demanded spending reductions, so the February 2013 agreement reduced expenditure by 5 percent compared to the 2007-2013 MFF (see Table 2). Denmark delayed agreement until it secured a small rebate to mirror those of other net contributor Member States (Citi 2017: 89). Council unanimity was tenuous.

In the EP, the Socialists and Democrats (S&D), Greens/European Free Alliance (EFA) and the GUE/NGL groups were more opposed than the European People's Party (EPP) and Alliance of Liberals and Democrats for Europe (ALDE). Although investment in competitiveness increased by nearly 29 percent, this was below the 73 percent increase that the European Commission proposed (see Table 2). The near 7 percent cut for cohesion and 16 percent cut for agriculture and fisheries were steeper than what the Commission had proposed in 2011, but much less than the gap between the Commission proposal and the Council agreement for competitiveness, and within a smaller budget.

[INSERT TABLE 2 HERE]

The EP's resolution of March 2013 (EP 2013a), proposed by all the political groups except the ECR and the EFD on the right, criticised insufficient funds for economic growth (point 4). It rejected the Council's agreement of February 2013 by 477 to 172 votes (with only the ECR group and individual centre/centre-right MEPs from Ireland, Sweden, Finland, Poland, and Spain, all in government, voting against rejection) with the following words:

> '[The Parliament] takes note of the European Council's conclusions on the MFF, which represent no more than a political agreement between Heads of State and Government; rejects this agreement in its current form, as it does not reflect the priorities and concerns expressed by Parliament, … and disregards Parliament's role and competences as set out in the Treaty of Lisbon; considers that this agreement, which will bind the Union for the next seven years, cannot be accepted without the fulfilment of certain essential conditions.' (EP 2013a, point 1).

Below, I look at those conditions.

[INSERT TABLE 3 HERE]

Negotiations in May and June 2013 were held between the Commission, Parliament and Council, represented at the highest level by Commissioner Janusz Lewandowski and the Irish Ministers holding the Council presidency (Interview #3). The EP's political group

leaders selected as their key negotiators the two rapporteurs for the MFF, Reimer Böge of the EPP and Ivailo Kalfin of the S&D, the two rapporteurs for ORs, Jean-Luc Dehaene of the EPP and Anne Jensen of the ALDE, and the Chairman of the EP's Budgets Committee, Alain Lamassoure of the EPP. Besides these five, Martin Schulz, the President of the Parliament, appointed a contact group consisting of the chairmen of around nine spending committees in the EP (including Agriculture, Regions, Industry, and Employment). The EP's negotiators were permitted to attend one informal meeting of the Council. They also met with the Council's presidency before and after meetings of the General Affairs Council, as per the commitment made by the Council following the end of the procedure for the annual budget of 2011 (Interview #4).

The November 2012 European Council had been close to reaching an agreement but some of the receiving countries rejected expenditure reductions (Interview #1). The February 2013 European Council then concluded with over 100 policy points on the MFF, "containing gifts for all the Member States", which is why the Council could not decide earlier. Real negotiations between the Council and the EP began only after February 2013 (Interview #5).

In accepting the 5 percent expenditure reduction in the MFF (Table 2), "the EP made a judgement call to let the numbers go and to focus on other questions" (Interview #1). The Council was unanimous but with divisions that the EP could later exploit.

Flexibility in the MFF

After the Council decided on the figures, it mandated its presidency to agree flexibility with the EP. The rest, including amounts of money, was "window dressing" since the EP "doesn't really care about the figures if the Commission can deliver programmes and if there is some flexibility for the medium-term." (Interview #1). One view is that for the

EPP and ALDE parliamentary groups to continue to defend higher expenditure could put at risk the increases in investment in Heading 1a - Competitiveness for Growth and Employment that includes Research and Innovation (R&I) - and the flexibility that was achieved (Interview #7). A further source emphasised that agriculture and cohesion could not be touched due to their protection by Member States, but "at least we got flexibility… Our internal strategy was to extract flexibility so as to spend as much as possible beneath the ceilings. In 2015, the amounts for migration were insufficient but what we didn't get in 2013 through flexibility, we got in 2017 through the revision of the MFF." (Interview #8).

The EP by June 2013 obtained flexibility beneath the global ceiling for payments of €908 billion (in the prices 2011) over the full seven years of 2014-2020 (EP 2013b), see Tables 3 and 4. Whereas the MFF was normally capped year-by-year, payments could now be rolled-over so long as during the seven-year period they did not exceed €908 billion. For David Cameron and other net payers, "the 908 billion were essential" and little else mattered (Interview #1). Whereas in the previous MFF (2007-2013), the global payments ceiling was higher at €926 billion, much less of the budget was used in practice. Flexibility allowing commitments and payments to be made within their ceilings over the total seven-year periods could have the effect of cancelling the 5 percent cut. Just as annual budgets after 2011 saw more generous payments delivered late via amending budgets each year, in a way that was politically invisible in wealthier and budget-sceptic Member States (Benedetto 2017), flexibility was a less visible way for more resources to be paid.

The Parliament also held out until June 2013 for a second flexibility instrument – the global margin of commitments. This allowed unused commitments in the years 2014-2017 to be rolled-over to the years 2016-2020 in the fields of growth and employment, in

particular youth employment (Council of the EU 2013a). Since funding for agriculture was always guaranteed, this was the EP's achievement for it allowed real flexibility up to the commitments ceiling of €960bn over seven years for competitiveness, and migration and security (Interview #6). At the start of 2016, the European Fund for Structural Investments (EFSI) or the "Juncker Fund" was launched, generating economic investment up to €500bn by 2020, with a guarantee from the EU's budget of which €5 billion came from commitments in Horizon2020 and €3 billion from the Connecting Europe Framework (CEF) (Official Journal 2015: points 8 and 54). EFSI would not have been possible without the flexibility on commitments.

The Commission also wanted this flexibility. Following the rejectionist resolution of the EP (2013a) in March 2013, the Council allowed more specification on flexibility in order to avoid a revision of the MFF mid-way through, but the net contributors had also wanted to restrict flexibility in order to avoid more spending (Interview #1). Council members did this by limiting the size of the EU's Solidarity Fund (EUSF) from €1bn to €500mn per year though with the ability to roll-over more easily (Interview #5). Any excess need for that fund could be covered by other aspects of flexibility.

In the final 48 hours of the negotiations, the respective Presidents of the EP, Commission and Council, Martin Schulz, Jose Barroso and Enda Kenny, made an agreement, achieved for the EP by Schulz (a Socialist) consulting, from within the Parliament, only Lamassoure (of the EPP and Budgets Committee Chairman) (Interview #9). Kenny agreed to allow "maximum flexibility", which for the EP meant that payments could be made up to three years (rather than two years) after commitments and that commitments for Horizon2020 and Youth Employment could be frontloaded in 2014 and 2015 (Council of the EU 2013a; Official Journal 2013, Article 15; Kroll 2015: 19). The agreement also

capped investment in nuclear fusion (ITER), and satellites and earth observation (Galileo, EGNOS and Copernicus) so as not to eat into the rest of the budget.

Smaller funds for flexibility above the MFF ceilings were affected negatively (Table 4). The European Globalisation Adjustment Fund (EGAF), which compensates losers from globalisation, and the EUSF, which is deployed in the case of natural disasters on EU or candidate state territory, were both reduced though the latter was allowed to roll-over by a year. The Flexibility Instrument that can be drawn on as necessary above the ceiling was more than doubled (tripled from 2017), absorbing some of the losses from the other two funds. The Contingency Margin, which was a last reserve for emergency expenditure, continues to be worth 0.03 percent of GNI, approximately €4.5bn per year. Whereas it used to be available up to the OR ceiling of 1.31% GNI, it is since 2014 reduced to the level of the MFF ceiling of 1.00% GNI. These losses are small compared to the increase offered by the use of the global margins for payments and commitments, while the expanded Flexibility Instrument means that funds can be used more easily for ends other than compensating losers from globalisation or natural disasters.

The flexibility that the EP achieved was significant and shows the EP in an influential light.

[INSERT TABLE 4 HERE]

Revision of the MFF for 2016-2017

While a review of the previous MFF in 2008-2009 (Table 4) had only been "an intellectual exercise" (Interview #1), the revision of 2016-2017 was a legal requirement, including an obligation on the Commission to make a legislative proposal to amend the MFF in 2016. The EP's MFF rapporteur Reimer Böge of the EPP Group, as well as the

Greens/EFA in the EP pushed for a legally-enforceable review. The line taken was that the EP following its forthcoming elections in 2014 should have some rights over the MFF whose adaptation to changing circumstance is good management (Interview #7). The question was how to make it binding. Guy Verhofstadt, the leader of the ALDE group, had proposed inserting a sunset clause in the MFF agreement to make it lapse if no new revision occurred by 2017, while the S&D and Green/EFA groups wanted an automatic adjustment to the MFF ceilings in line with economic growth (Interview #9). Neither of these proposals was accepted; instead the EP made its approval of the new Commission in 2014 conditional on the Commission tabling the revision.

In the second half of 2013, the Lithuanian presidency of the Council finalised the legal text for the 2016-2017 revision of the MFF to the EP's satisfaction:

> 'By the end of 2016 at the latest, the Commission shall present a review of the functioning of the MFF taking full account of the economic situation at the time as well as the latest macro-economic projections. This compulsory review shall, as appropriate, be accompanied by a legislative proposal for the revision of this Regulation in accordance with the procedures set out in the TFEU.' (Official Journal of the EU 2013: Article 2).

The policy content within the MFF concerning flexibility and revision is reported in Table 4. In 2017, the review extended the flexibility that had been approved in 2013. It extended the Global Margin of Commitments from growth and employment to migration and security, allowing commitments from 2018 and 2019 to be rolled-over as well as those from earlier years. The Global Margin of Payments allowed, within the €908 billion ceiling, payments' increases from €9bn to €11bn in 2019 and from €11bn to €13bn in

2020. The Emergency Aid Reserve increased by €20 million per year. Underspends from the EGAF and EUSF, for up to one year, could be recycled into the Flexibility Instrument, which itself was increased from €471 to €600 million per year. The review had a significant impact within the limits of the global ceilings and shows that the EP exercised significant influence on the budget since the Lisbon Treaty. However, the migration crisis of 2015-2016 in creating a demand for extra expenditure undoubtedly had effect besides pressure from the EP (Interview #6).

Own resources reform

In June 2013, the Council (Council of the EU 2013a) accepted the appointment of a High Level Group on Own Resources to investigate new forms of EU revenue. The EP (2011: 2012a; 2012b; 2013a) had also been demanding ORs reform. In the early stages of the negotiations, some of the governments wanted a de-politicised review of ORs to be done by officials only. The June 2013 declaration on ORs was non-binding and the EP wanted the High Level Group's work to start immediately after approval (Interview #3). It took a few more weeks to agree the legal basis of the High Level Group whose political-technocratic nature was a compromise (Interview #3).

The High Level Group was to draw on advice from independent experts, produce a first assessment by the end of 2014, and prepare an inter-institutional conference on ORs with delegates from national parliaments before the end of 2016 (Council of the EU 2013b: 2). Its ten members included three Commissioners (for budgets, taxation, and institutional affairs), three MEPs (from each of the EPP, S&D and ALDE political groups), and three experts chosen by the Council. The Chairman, Mario Monti, was appointed by the three institutions.[iii]

The European Commission had also wanted the High Level Group on Own Resources and a few Member States accepted it, but its legally-enforceable appointment was an achievement of the EP (Interview #1). The Council accepted the High Level Group with more ease than flexibility in the MFF because its role was simpler to understand and raised fewer concerns (Interview #7). It sat from 2014 before publishing its recommendations in 2017 (Monti et al. 2017). The appointment of the High Level Group appears to have been a successful product of EP veto threat in 2013.

Closing the deal on the MFF

The Council under the presidency of Lithuania in the second half of 2013 also approved the final Draft Amending Budgets for 2013 and budget for 2014. The EP's refusal to give its consent to the MFF pending the legal enforceability of the existence of the High Level Group on Own Resources and approval of payments in the annual budget for 2014 was unexpected (Interviews #3, #7, #8, #9).

By the end of 2013, the EP was unsuccessful in three areas (Table 3): 1. in not securing unconditional use of the global margins for payments and commitments, for payments the annual increase of unused margins was capped for the years 2018-2020, while for commitments they were available only from 2016 and only for growth and employment, until the 2017 revision; 2. in failing to prevent the Council from cutting the EGAF and EUSF in total and from below the ceilings of ORs (1.31% GNI) to those of the MFF (1.00% GNI or €960bn) ; and 3. in asking for the European Council to implement the *passarelle* (a legal mechanism) to allow the MFF revision to be decided by qualified majority rather than unanimity. This would have allowed a minority of Member States to be outvoted.

That the EP played hardball had positive results, “since it gave us the report of the High Level Group on Own Resources”, which was “extremely well considered.” It also meant that delayed payments in 2013 were met in full. The Council was mistaken to limit payments in earlier years like 2011, because it created “an abnormal backlog” and “cost the EU considerable credibility in cohesion countries.” By 2013, Member States’ consent to revisit and approve those payments had increased for domestic reasons, not only to satisfy the EP in exchange for approval of the MFF (Interview #3).

The delay allowed the Parliament to make Council approval for higher payments in amending budgets for the 2013 financial year and in the first budget for 2014 conditional for its approval of the MFF (Benedetto 2017: 646; Interview #5; Kalfin 2013). Whereas total payments, including from amending budgets, amounted to €136 billion in 2012, due to the delay in approving the MFF this increased to €153 billion in 2013 before falling to €139 billion in 2014.

In amounts the EP lost on the MFF, but it gained in the 2013 and 2014 annual budgets. In other words, in those annual budgets, expenditure had to go up before it could go down. This is another product of the EP’s veto threat that enhances the EP’s ability to influence the budgetary package.

Discussion

The Lisbon Treaty reduced the power of the EP over budgetary amounts unless the EP could tie agreement to a wider package. The EP retains influence through a constructive veto threat on the MFF, particularly if the Council is divided, if Council members are apprehensive about the uncertainty of no deal in terms of all the financial programmes, and if the EP can build alliances with some national governments and with the European

Commission as Kardasheva (2013) or Lindner (2006) suggest as the ingredients of EU package deals.

The EP was successful in policy extraction during the negotiations of 2013 on the MFF, but only because it had something to trade: its acquiescence in the decision of the EU's governments to reduce expenditure by 5 percent. In considering ordinary legislation in which the EP negotiates with a qualified majority in the Council, Tsebelis (1994) places emphasis on agenda-setting and the making of proposals as being more significant than veto power. When the EP exercises a veto only, and does so against a Council that must decide unanimously, this article shows that how the EP uses that veto threat (its only instrument) can affect policy outcome. If the EP concedes a high price on its side (like expenditure reductions of 5 percent), it can agenda-set budget policy by supporting financial initiatives that are less visible but in line with its preferences. These include the extended flexibility in the MFF that allow for maximum expenditure over the seven-year period, though with important limitations. These concessions were not extracted from a unanimously unwilling Council, but were possible because the Council's unanimity on the MFF was tenuous and many Member States supported some of the aspects of flexibility. Their effect was to allow for extra expenditure that had potential to cancel the value of the 5 percent cut in the MFF, and was only possible because a cut was non-negotiable for the contributors led by the UK.

The EP's veto threat on the MFF was also linked to two side deals, which it could extract: the appointment of a High Level Group to investigate new sources of revenue for the EU budget, and agreement on higher payments in the annual budgets of 2013 and 2014.

Whereas [Paper 2] has shown that the EP can link issues to secure its preferences in areas where its formal powers are limited so long as there are no financial implications for the

Member States, this article has shown that the EP's extraction capacity can affect financial matters if it is part of an overall financial package.

Conclusion

This article presented what we know of budgetary politics and the EP in terms of influence and agenda-setting. It reviewed the history of the EP's involvement in package deals on the budget, before briefly reviewing annual budgets since the Lisbon Treaty, and then agreement on the MFF, its flexibility, its revision and its link to reform of ORs. In each case, it traced the process across time and used a variety of qualitative sources from original documentation to in-depth interviews with two Commission officials, six EP officials (including four from three political groups working on the budget and representing diverse ideological preferences), and with Council officials from two separate Member States. Finally, the theoretical implications of these findings were discussed.

Annual budgetary expenditure has increased since the Lisbon Treaty, but only because the Council accepts increases. When the Council and the EP disagree and the Council wants a lower figure, that is the outcome (Benedetto 2013). Higher commitments and payments tend to arrive later during the financial year in a way that is less visible politically to those who are budget-sceptics (Benedetto 2017: 641). Similarly, financial amounts for the MFF of 2014-2020 were reduced by 5 percent. However, the flexibility and revision that the EP secured as part of the price for consenting to those reductions had the *de facto* effect of restoring their value in later years, since commitments up to the ceiling of €960 billion over seven years for economic growth, job creation, migration and security became available, while payments of up to €908 billion were made available with annual increments capped at between €7 and €13 billion during 2018-2020.

If net contributors like the UK had not been obsessed with achieving cuts to the budget, the EP may not have achieved the changes that it managed. The EP found that there was something to trade and that the contributors would pay almost anything, in terms of procedural concessions with indirect financial effects, to get their spending reduction.

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[i] Until 2009, expenditure was deemed compulsory or non-compulsory. Compulsory expenditure was covered by the treaties as an obligation for the EU and pertained to agriculture and some expenditure outside the EU's borders. Nearly everything else was non-compulsory.
[ii] The EU budget uses a system of double accounting: commitments and payments. Commitments are the promissory notes issued for spending programmes. Payments are the real money, which follow during the next three years (the n+3 system) as recipients comply with conditions.
[iii] http://ec.europa.eu/budget/mff/Library/hlgor/group/hlgor-group-the-members.pdf

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#9. EP political group officials C and D, 11 July 2018

Table 1: The Pillars of the EU Budget

Budget Pillar	TFEU Article	Definition
The Multiannual Financial Framework (MFF) previously known as the financial perspectives	312	Sets expenditure ceilings for periods of at least 5 years in total and by policy area; divided into commitments (1.00% GNI) and payments (0.95% GNI); may include flexibility or conditions
The Annual Budget	314-5	Passed every autumn within ceilings established by MFF. Later amending budgets may also be passed during the financial year
Own Resources	311	The revenue for the EU budget: based on external tariff and 0.3% of VAT take, residual to meet financing needs of annual budgets in proportion to each Member State's GNI; total capped at 1.29% GNI for commitments and 1.23% GNI for payments; includes rebates

Sources: Official Journal of the EU (2013; 2014).

Table 2: Amounts agreed in MFFs of 2007-2013 and 2014-2020

All in prices of 2011 Heading	2007-2013 €millions	2011 proposal €millions	% +/-	2014-2020 agreed €millions	% +/-
1a. Competitiveness	89363	154888	+73.3	125614	+28.9
1b. Cohesion	348415	336020	-3.6	325149	-6.7
2. CAP/CFP direct payments	330085	281825	-14.6	277851	-15.8
2. Rural Development & Environment	82976	101102	+21.8	95328	+13.0
3. Citizenship, freedom, security, justice	12216	18535	+51.7	15686	+22.1
4. Global Europe	55935	70000	+25.1	58704	+4.7
5. Administration	55925	62629	+12.0	61629	+9.3
6. Compensations	862	0	-100.0	27	-96.9
Total Commitments	975777	1025000	+5.0	959988	-1.6
%GNI	1.13	1.05		1.00	
Total Payments	925576	972198	+5.0	908400	-1.9
%GNI	1.07	1.00		0.95	
Own Resources %GNI	1.24	1.23		1.23	
Margin %GNI	0.17	0.23		0.28	

Sources: European Commission (2011); Official Journal of the EU (2006; 2013).

Table 3: Parliamentary demands, gains and losses in the MFF negotiations for 2014-2020

In 2011-12	**Gain?**
Flexibility: Transfer of funds between policies and years	YES
Mid-term revision of the MFF	YES
MFF to focus on job creation, particularly for youth	YES, frontloading
MFF to focus on smart, sustainable and inclusive growth	YES, more for Heading 1a
Expenditure to increase	NO
Agricultural and cohesion expenditure not to be cut	NO
Reform to Own Resources by means of EU taxes	High Level Group
MFF to be conditional on reform to Own Resources	High Level Group
During 2013	
Earlier commitments to be matched in payments in the budgets of 2013 and 2014	YES
High Level Group on Own Resources: enforceable status	YES
Mid-term revision of MFF to automatically trigger proposal for MFF amendment	YES
Mid-term revision of MFF to be decided by qualified majority	NO
Losses	
MFF cut by 5% compared to predecessor	
EUSF and EGAF reduced	
Flexibility up to €960bn in commitments permitted but not unconditional	
Flexibility up to €908bn in payments permitted but not unconditional	

Sources: EP (2011; 2012a; 2012b; 2013a); Official Journal of the EU (2013).

Table 4: European Parliament policy gains in MFF (2014-2020) compared to MFF (2007-2013)

	2007-2013, prices of 2004	**2014-2020, prices of 2011**	**2017 revision, prices of 2011**
Mid-Term Revision	Commission to review MFF in 2008-2009, which the Council and the Parliament may consider	By end of 2016, Commission to review MFF. The Commission will propose a legislative revision of MFF. CAP allocation per country not affected	
Frontloading for youth employment, research, Erasmus particularly apprenticeships, and SMEs		For 2014 and 2015, additional commitments of €2543mn, must be offset from other headings within total annual ceilings of 2014 and 2015 or from the total for Headings 1a and 1b over 2014-2020	
Global Margin of Commitments		Commitments per heading may be exceeded for Youth Unemployment, Research, and Growth and Employment. Unused margin below commitment ceilings in 2014-2017 may be redeployed in 2016-2020 to Headings 1a and 1b, particularly for youth employment. Within total ceiling of €960bn	Commitments may also be exceeded for migration and security. Redeployment of unused margins to 2016-2020 also for migration and security. Redeployment of margins below the ceilings from 2014-2019 rather than just 2014-2017
Global Margin of Payments	Payments may follow commitments up to 2 years late (n+2)	Full rate of payments up to 7-year ceiling of 908bn may be used in 2015-2020, capped at an increase compared to year n-1 of €7bn in 2018, €9bn in 2019 and €10bn in 2020. Payments may follow commitments up to 3 years late (n+3)	Cap of increase in annual payment ceiling funded by compared to year n-1 increased to €11bn in 2019 and €13bn in 2020
Emergency Aid Reserve: humanitarian aid in 3rd countries	€221mn per year, no roll-over, within Own Resources ceiling (1.31% GNI)	€280mn, per year, may be rolled-over by one year (n+1), within MFF ceiling (1.00% GNI)	Increased to €300mn per year, rolled-over
European Globalisation Adjustment Fund	€500mn per year, no roll-over, within Own Resources ceiling (1.31% GNI)	€150mn per year within MFF ceiling (1.00% GNI), no roll-over	Underspend in year n-1 may be rolled-over to Flexibility Instrument (below)
EU Solidarity Fund: disasters in EU or candidate states	€1bn per year, roll-back (n-1) but no roll-over, within Own Resources ceiling (1.31% GNI)	€500mn per year, roll-over (n+1) and roll-back (n-1) within MFF ceiling (1.00% GNI)	Underspend in year n-1 may be rolled-over to Flexibility Instrument (below)
Flexibility Instrument: to finance identified needs that cannot be met under headings	€200mn per year, roll-over for 2 years (n+2) within MFF ceiling (1.05% GNI)	€471mn per year, roll-over for 3 years (n+3), within MFF ceiling (1.00% GNI),	Increased to €600mn per year plus underspends in year n-1 from the European Globalisation Adjustment Fund (max. €150mn) and from the EU solidarity fund (max. €500mn)
Contingency margin as last resort	0.03% GNI mobilised within Own Resources ceiling (1.31% GNI) offset elsewhere in MFF. Compulsory expenditure adjustments must not lead to reduction in non-compulsory expenditure; cohesion, fisheries, rural development also protected	0.03% GNI (c. €4.5bn) mobilised within Own Resources ceiling (1.29% GNI) and offset within MFF ceilings (1.00% GNI) over whole 2014-2020 period without protection for particular types of expenditure	

Capping of specific project expenditure to protect rest of budget		EGNOS and Galileo at €6300mn, ITER at €2707mn and Copernicus (European Earth Observation System) at €3786mn across 2014-2020	

Sources: Official Journal of the EU (2006; 2013a; 2017)