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German reactions to the proposal of the Multiannual Financial Framework for 2014–2020

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The European Commission on 29 June published a proposal of the Multiannual Financial Framework (MFF) for 2014–2020. On the one hand, the German government criticised the draft presented by the European Commission – claiming that the level of expenses is too high – and went on to reject the proposed change of the European Union's revenue structure which envisages a partial replacement of contributions from the national budgets with new taxes for the EU. However, on the other hand, representatives of the German government have appreciated the proposal as being realistic and see it as a good starting point for a compromise. This cautious support for the European Commission's concept from Germany, the largest contributor to the EU budget, increases the chances that the negotiations concerning the EU's new financial perspective will be conducted on the basis of this proposal unlike last time, in 2004–2005, when the European Commission's proposal was completely disregarded by key EU member states.

It is expected that Germany in the next few months will be putting pressure on the EU to cut expenses and repudiating any proposals for new sources of funds for the EU. A priority task for Germany is to restrain the unfavourable net balance of this country mainly by introducing a mechanism reducing Germany's financial obligations and by scaling down the expenses on the Cohesion Policy, which no longer offers significant support to German regions.

The European Commission's draft Multiannual Financial Framework

The MFF is a financial plan setting the limits for the EU's expenses and determining the structure of spending in particular areas. Annual budgets are determined on the basis of this financial perspective. The EC's present proposal envisages an increase in the EU's expenses by nearly 5% to 1,025 billion euros within a seven year timeframe, which will account for 1.05% of the Gross National Income (GNI) of all member states. The MFF proposal provides for cutting expenses on the Common Agricultural Policy mainly by reducing direct subsidies for farmers. More money is to be allocated for structural funds, i.e. aid for the poorest regions of the community, and the common foreign policy. The most important change put forward by the EC is the creation of the category of 'intermediate' regions, with a GDP per capita ranging from 75% to 90% of the EU's average, which could also receive more aid. So far the largest support has been offered only to those regions whose GDP per capita was below 75% of the EU average. This solution is designed to provide access to more funds for those regions which have managed to reach a higher indicator, thus offering greater

financial support also to the eastern federal states of Germany. Additionally, the European Commission wants to create a new fund to enable the implementation of cross-border investments in transport and energy infrastructure.
Furthermore, the European Commission also proposed new sources of revenues to the EU's budget based on receipts from the tax on financial transactions or share in VAT tax revenues. It expects that there will be fewer disputes with individual member states over the value of the financial perspective when a greater part of income to the EU budget originates directly from taxes in the member states and not the national budgets.

German reactions to the draft Multiannual Financial Framework

Germany has criticised the EC's proposal for the excessively high spending it envisages. The German government has emphasised that the scale of spending in practice will be higher than announced by the EC because some of the expenses have been classified as not covered by the MFF. Thus in fact the EU's expenses will reach 1.11% and not 1.05% of GNI. Germany wants the expenses as part of the MFF to be 8.9% lower, and the cuts must be made primarily in structural funds. This country is also sceptical about the new infrastructure investment fund. However, the German stance on this project may change if more funds for the development of energy transmission networks are guaranteed further in the negotiation process (which is important for Berlin, given its withdrawal from the use of nuclear energy). Germany is also not overly enthusiastic about the introduction of support for the 'intermediate' regions. Although this would guarantee more aid for its eastern federal states, it may at the same time limit the cuts of expenses as part of the MFF. Furthermore, the government coalition is upholding its objection against the introduction of new sources of revenues to the EU's budget believing that the present system based on transfers from the national budgets is the most efficient. The EC's proposal to impose a tax on financial transactions is especially inconvenient for Germany. The German government has been appealing for months to introduce this tax in the EU as a means of lowering the risk financial institutions are exposed to. However, it would like revenues from this tax to be partly allocated to the reduction of national budget deficits. In turn, the opposition SPD and Green Party support the introduction of this tax as a way of financing the European Community. These two parties have not criticised the level of the expenses envisaged under the MFF for 2014–2020.
Despite their reservations, the German Foreign Ministry, which is coordinating the negotiations regarding the new financial perspective, has deemed the European Commission's proposal realistic and acknowledged it as a good starting point for a compromise.

The German government's objectives

The German government's priority as regards the MFF is to restrict expenditure from its budget to the EU by reducing Germany's unfavourable net balance reaching 0.5% of GDP annually. According to the European Commission's data, in 2007–2009, Germany paid approximately 18 billion euros and received approximately 12 billion euros annually from the

EU budget. However, it is worth emphasising that this simplified calculation fails to take into account the benefits derived for example by German exporters or firms implementing the contracts funded by the Cohesion Policy from other member states which are net contributors to the EU budget. According to a report by the Polish Ministry of Regional Development, German firms are among the greatest beneficiaries of the Cohesion Policy in Poland. The value of estimated additional German exports generated owing to funds advanced under this policy is approximately 10 billion euros for 2009–2015.

In the next few months, Berlin will be torpedoing the proposal of new sources of funds for the EU, including especially the tax on financial transactions, which is supported by many other member states. According to the German government, this tax offers no chance for resolving the dispute over the limit of expenditures of the MFF and may instead increase costs for Germany. Frankfurt and London are the key financial centres of the EU. A great part of financial deals are struck in this city, which may increase the financial burden for Germany above the proportional level. Furthermore, Berlin is still expecting the European Commission to present an instrument which will allow a reduction in what in the German government's opinion are the excessive financial contributions of Germany.

The German government prefers to cut EU expenses and to offer higher support for investments in research and development. It will be probing for possibilities of reducing the spending on structural funds, which in Berlin's opinion bring no significant benefits. Additionally, Germany will insist on maintaining the expenditure on the Common Agricultural Policy at an unchanged level because this country alongside France and Spain is among the largest beneficiaries of this policy.