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**When it comes to money, does the European Council decide? - The  
Influence of the European Council in the Negotiations on the  
Multiannual Financial Frameworks of the European Union**

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## **ABSTRACT**

This paper examines the outcomes of the negotiations on the multiannual financial frameworks (MFFs) of the European Union (EU). The key hypothesis is that the MFFs will be closer to the position of the member states than to the European Parliament's (EP). Although the EP's budgetary powers have been continuously strengthened, the MFFs strongly reflect the political agreements that are reached by the heads of state or government in the European Council. The European Council's construction of package deals that combine the often conflicting views of the member states leaves the EP with little room to change the final outcome according to its preference. The argument is tested empirically through a comparative case study on the Financial Perspective 2007-2013 and the Multiannual Financial Framework 2014-2020. The results indicate that the MFFs are closer to the negotiation position of the member states. Despite the EP's attempts to move the MFFs closer towards its position through rejecting the European Council's political agreements, the outcomes of the interinstitutional agreements between the Council, the EP and the Commission broadly confirmed the compromises struck by the heads of state or government.

## INTRODUCTION

This paper analyzes the impact of the member states and the European Parliament on the outcomes of the negotiations on the Multiannual financial frameworks of the EU. MFFs lay down the maximum annual amounts that the EU may spend in different political areas over a period of at least five years. Although budgetary decisions provide powerful insights into multiple questions (e.g. the power of the EU and its member states, the future integration of policy areas, the welfare distribution among groups or the solidarity within the EU), budgetary politics has been a largely understudied area.

Contributing to fill this gap the paper examines the impact of the member states and the European Parliament on the MFFs. I argue that the outcomes of the MFFs are closer to the negotiation position of the member states than to the EP's. Although Parliament's legislative and budgetary powers have increased over time, the EU member states are hypothesized to be the dominant player in budgetary decisions. Yet, since the Treaty of Lisbon gives the EP a stronger role in the negotiations on the MFFs, it is expected that its influence has increased in the period post-Lisbon, but nevertheless remains below the member states'.

Since budget negotiations come close to the ideal type of intergovernmental negotiations (Dür & Mateo, 2010, p. 558), particular attention will be paid to the European Council (EuC). Despite scholarly consensus on its key role for the conclusion of the MFFs, the EuC has only been subject to limited research. Furthermore, studies that examine the power of the EP and the member states are usually focused on the annual budgetary procedure (e.g. Benedetto, 2013; Crombez & Høyland, 2015) or restricted to single MFFs (e.g. Dür & Mateo, 2010; Schild, 2008).

The paper departs from this by analyzing the outcomes of the Financial Perspective 2007-2013 and the Multiannual Financial Framework 2014-2020 in a comparative cross-case study. In these cases the method of causal process tracing will be applied to reveal possible causal mechanisms linking the outcome to actors' negotiation positions and to take possible changes in actors' preferences during the negotiation process into account. Official EU documents and secondary literature are used as data sources to identify the positions of the EP and the member states. The empirical analysis shows that the final outcome was in both cases closer to the position favoured by the member states. In contrast, the expectation that the EP's influence on the MFFs that are concluded post-Lisbon is stronger is not supported. Instead, the outcome of the MFF 2014-2020 was almost identical to the European Council's political agreement. Thus, I draw the conclusion that the member states are the dominant actors in the negotiations on the MFFs. Although the EP has become a more self-conscious budgetary authority, it is still unable to fully utilize its formal rights. Decisions on the EU's multiannual financial frameworks are taken to large extents at European Council summits. In

the conclusion I briefly point out to the implications of this finding for the role of the Council of Ministers.

## **1. HISTORICAL OVERVIEW OF BUDGETARY POLICY-MAKING IN THE EU**

Whilst the Council of Ministers was given sole decision-making rights on the EU budget in the Treaty of Rome (1957), Parliament's budgetary powers were increased in the 1970s. Following the distinction between compulsory and non-compulsory expenditure introduced in the 1970 budget treaty, the power of the EP and the Council differed between the two classes of expenditure. While the Council maintained its dominant position on compulsory spending that arises from treaty obligations or acts adopted in accordance with it, Parliament was given the final say on non-compulsory spending. Non-compulsory spending was estimated to comprise around 3.5% (Rittberger, 2005, p. 136) till 5% of the total budget at that time (Ackrill & Kay, 2006, p. 119). According to Matthijs (2010, p. 6) Parliament's enhanced powers "democratised the budgetary procedure".<sup>1</sup>

The institutional framework on budget politics was reformed again in July 1975. Next to the creation of the Court of Auditors that conducts detailed audits of the accounts of all EU bodies and thereby increases public accountability, the EP was granted the right to reject the budget as a whole. The so-called 'power of the purse' strengthened the position of the EP by "allow[ing] it to promote its autonomous policy preferences" (Laffan & Lindner, 2010, p. 209). Yet, while the EP tried to use its newly acquired powers to influence the EU budget and to gain access to other Community policy areas, the Council wanted to limit parliamentary influence and preserve its strong position (Eiselt, Pollak, & Slominski, 2007, p. 80; Laffan, 2000, p. 728; Neheider, 2007, p. 83f.). Because of the links between budget policy and other policy sectors and the cumbersome decision-making procedure annual budget politics was characterized by intense institutional turf battles between the EP and the Council from the mid-1970s onwards. In addition, disputes arose on the Community's own resources system, the contributions of individual member states to the EU budget and the size of individual categories of expenditure, esp. the size of the Common Agricultural Policy (CAP). Thus, despite the reforms made in the budgetary treaties of the 1970s, multiple disputes hindered a smooth adoption of annual EU budgets in the 1980s. Overall, the Community "was plagued by budgetary crises" in the early 1980s (Nugent, 2010, p. 402).

Thus, the European Council instructed the Commission to develop reform proposals on budgetary policy-making in 1987. The reform should establish a permanent solution to the

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<sup>1</sup> An analysis of member states' reasons to bestow the Parliament with budgetary powers is given by Rittberger (2005, pp. 114-142).

problem of the Community's financing through balancing the objective of sufficient Community resources with the principle of budgetary discipline (European Council, 1987, p. 7). In response, budgetary politics was substantially reformed by the EuC in 1988. Besides upholding the principle of budgetary discipline the heads of state or government decided to embed annual EU budgets into the so-called multiannual financial frameworks.<sup>2</sup> MFFs consist of two elements: First, the total maximum annual amounts ("ceilings") that the EU may spend in the main categories of expenditure ("headings") for a period of initially five and now seven years is laid down in the financial perspective. Second, the objectives of the financial perspective are codified in an inter-institutional agreement (IIA) between the Council of Ministers, the EP and the Commission. The conclusion of the IIAs tied the hands of the three institutions in their negotiations on the annual EU budget and ensured their adherence to the previously agreed objectives (Giuriato, 2009, p. 74; Laffan & Lindner, 2010, p. 217). Since the MFF was constitutionalized only in the Treaty of Lisbon, the enforcement of MFFs prior to Lisbon depended on "the political willingness of actors to adhere to the jointly agreed institutional and distributive framework" (Lindner, 2006, p. 5).

The MFF aims to "ensure that Union expenditure develops in an orderly manner and within the limits of its own resources" (Article 312(1) TFEU). Following Lisbon the Commission submits a proposal on the MFF to the Council and the EP. After having obtained the consent of an absolute majority of the members of the EP (MEPs) the Council might adopt the MFF by unanimity (Article 312(2) TFEU). While the EP was granted the power to reject or adopt the MFF after the Council had decided on it since the IIA in 1988, Lisbon increased the EP's power of agenda-setting. As Benedetto (2013, p. 355f., original emphasis) states, "[t]he EP may be able to use this power of prior consent as a *de facto* power of proposal besides its veto." Whereas the position of the EP was strengthened by Lisbon, national parliaments lost their previously veto power, since they do not need to ratify the MFFs anymore. Although the European Council is formally no negotiating party in the MFFs, it might increase its speed of decision-making by authorizing the Council to adopt the MFF by qualified majority voting instead of unanimity (Article 312(2)) TFEU). Two further aspects were altered by the Treaty of Lisbon. First, the provisional twelfths that apply when the Council and the EP cannot find an agreement will remain in place for an infinite period instead of one year. Second, the flexibility of the ceilings of expenditure was reduced through abolishing the distinction between a maximum and actual rate of increase for non-compulsory spending. Comparing the Lisbon provisions with the IIA of 1988 Benedetto (2013, p. 357, original emphasis) concludes that Lisbon is status quo oriented, since the "EP wins with a *de facto* power of proposal, [but] (...) loses on the maximum rate of increase".

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<sup>2</sup> For a comprehensive analysis of the impact of the reform in 1988 on annual budget policy-making see Lindner (2006).

## **2. THEORIZING THE DISTRIBUTION OF POWER IN THE NEGOTIATIONS ON THE MFFs**

Existing research on inter-institutional decision-making in EU budget politics is dominated by studies looking at the distribution of power between the Council of Ministers and the EP. Despite academic consensus on the key role of the European Council in the negotiations on the MFFs (Ackrill & Kay, 2006b, p. 127f.; Laffan, 2000, p. 742; Laffan & Lindner, 2010, p. 214; Nugent, 2010, p. 406; Schild, 2008, p. 532), the body has been rarely the subject of research so far. As rightly criticized by Tallberg (2008, p. 686) research on the European Council is in general “dated, atheoretical and limited in empirical scope.”

The budgetary reforms of the EU have been traditionally seen to have strengthened the EP’s powers. Parliament’s right to have the final word on non-compulsory expenditures in 1970, is usually regarded as a key moment for the institution’s development. According to Rittberger (2005, p. 114) the change was a “‘stepping stone’ towards a parliamentary institution with ‘traditional competencies’”. Julie Smith (1999, p. 74) even states that the “The EP’s role in budgetary affairs is highly significant, since it has a much larger say than most national parliaments.” While this is disputed by some authors (e.g. Judge & Earnshaw, 2008, p. 198), most agree that the Parliament has acquired a stronger say on budgetary politics over time.

Since the MFF is concluded with an IIA between the Council, the EP and the Commission, the negotiations have been regarded as an opportunity for the Parliament to pursue its preferences (Giuriato, 2009, p. 74; Laffan & Lindner, 2010, p. 209; Lindner, 2006, p. 5; Schild, 2008, p. 543). According to Lindner (2006, p. 5) the EU member states offer two types of concessions to the EP in exchange for its consent to the IIA. First, member states revise the financial perspective and/ or second, change the rules of the budget-making procedure. Since the EP and the Council are subject to different time horizons, member states tend to offer institutional instead of distributive changes to the EP (Lindner, 2006). Moreover, it has been argued that the EP has used its financial powers to realize its preferences on ordinary EU legislation (Laffan, 1997, p. 83). Studying the construction of package deals in the EU Kardasheva (2013) finds that the EP gains in other legislative areas in exchange for its consent to member states’ budgetary preferences.

Although the negotiations over the IIA give the EP an opportunity to influence the MFFs and the EP has repeatedly announced its dissatisfaction with proposed as well as concluded financial perspectives, its “dominant strategy” has been agreement (Giuriato, 2009, p. 74). Giuriato (2009, p. 74f.) argues that the EP has refrained from blocking the enforcement of the IIA for fearing “the loss of reputation and of mutual reliance that non-compliance would entail in its interactions with the Council.” Moreover, she argues that the EP usually complies with the MFF proposed by the member states because of its “inability to radically change a

decision taken by Member States at unanimity” (Giuriato, 2009, p. 74). While she explains the limited impact of the EP by the voting rule in the Council of Ministers, Schild (2008, p. 543) sees the main reason in the sequence of the moves. Examining the MFF 2007-2013 he finds only a marginal influence of the EP on the final outcome. According to him the MEPs were unable to make significant changes to the MFF 2007-2013 because of their inability to reopen the package deal agreed by the European Council. Moreover, the EP faced strong time pressures to finalize the negotiations on the MFF 2007-2013, since the first attempt to reach agreement by the EuC had failed.

Like Schild (2008) Eiselt et al. (2007) find only a minor role of the EP in the negotiations on the IIA 1988-1992. According to them member states’ position determined the outcome, since the EU budget was stronger financed by national contributions than by the Community’s own resources at that time. Moreover, Eiselt et al. (2007, p. 87) point out that the European Council instead of the Council of Ministers is the dominant intergovernmental institution in the negotiations. The agreement reached by the EuC in practice overruled the institutional competencies of the EP and the Council. Thus, the institutions were restricted “to negotiating more or less predetermined budgetary figures” (Eiselt et al., 2007, p. 87). Nugent (2010, p. 406) even argues that “all final decisions ‘on the Council side’” are made by unanimity in the European Council. The tight mandate by the EuC on the Council of Ministers has also been found by Laffan (1997, p. 89f.). According to her the Council is left with little room of freedom when negotiating with the EP after the European Council has reached an agreement because of the difficulties of finding another common position amongst the EU member states.<sup>3</sup>

Besides being history-making events (Lelieveldt & Princen, 2011, p. 230f.; Peterson & Bomberg, 1999, p. 11) the main reason why the European Council is suggested to dominate the negotiations on the MFFs is its ability to construct package deals. Kardasheva (2013, p. 859) distinguishes between two types of package deals. First, “omnibus” package deals connect multiple issues within a single legislative proposal. Second, several legislative acts can be linked in so-called “multiproposal” package deals. In the case of the MFFs, the European Council’s package deals offer each member state an acceptable net utility gain from the financial framework through combining expenditures in different policy domains and adjusting member states revenues (Neheider, 2007, p. 3). A prominent example for

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<sup>3</sup> However, the Council of Ministers might also use the agreement of the European Council as a bargaining strategy vis-à-vis the EP. Tying its hands to the position of the EuC might be used as a strong signal of credible commitment to their position towards the other actors (cf. Fearon, 1997). Since member states’ positions in the negotiations on the MFF have been shown to be fixed after the European Council has reached a consensual decision, it is assumed that the position of the Council of Ministers that it represents during the negotiations with the EP is identical to the European Council’s agreement.

mechanisms adjusting member states' revenues to the EU budget is the British rebate agreed at the 1984 Fontainebleau European Council (*ibid.*).

In the literature it has been argued that the European Council offers a particular suitable environment for building such package deals (De Schoutheete & Wallace, 2002; James & Copeland, 2014, p. 528; Scharpf, 1999, p. 130). According to Fritz Scharpf (1999, p. 130) the political authority of its members allows the EuC to engage in negotiations that span across multiple policy sectors (see also James & Copeland, 2014, p. 528). Christiansen (2001, p. 146) argues that the Council of Ministers' horizontal fragmentation into policy sectors hinders its ability to build package deals. Furthermore, he points out that the European Council's package deals might override the Council's sectoral interests. Being complex and delicate compromises (Neheider, 2007) package deals cannot be easily altered in subsequent negotiations. Applied to the MFFs the political agreements struck by the European Council are unlikely to be significantly changed in subsequent negotiations on IIAs with the EP. Thus, it is expected that the final outcomes of the MFFs are closer to member states' negotiating positions than to the preferences of the EP.

*Hypothesis 1:* The outcomes of the negotiations on the multiannual financial frameworks of the EU will be closer to the position of the member states than to the position of the EP.

Since the Treaty of Lisbon gives the EP a stronger say on the MFFs, I expect that the outcomes of the MFFs that are negotiated post-Lisbon are stronger influenced by it. The EP should use its newly acquired power to the fullest extent to move the outcome towards its ideal position. Besides the change in the formal rules studies showed that the EP has adjusted its working to the European Council (Hix & Lord, 1997). Schild (2008, p. 542) finds that the EP had intensively prepared its common position before the meeting of the EuC on the Financial Perspective 2007-2013 to get a stronger grip on the final outcome. Moreover, the increased use of informal institutions in budget policy-making, like for instance dialogues, have favoured the EP (Giuriato, 2009, p. 75).

*Hypothesis 2:* Multiannual financial frameworks that are concluded after the Treaty of Lisbon are stronger influenced by the position of the EP than MFFs that have been concluded prior to Lisbon.



### 3. DATA AND METHOD

Since the comparatively small number of five multiannual financial frameworks that have been adopted in the EU so far does not allow for rigorous quantitative testing, a qualitative case study approach is conducted here (Gerring, 2007). The hypotheses are tested through causal process tracing of the negotiation process of two MFFs. Since process tracing "tries to uncover the intervening causal mechanisms between conditions and outcomes through an intensive analysis of the evolution of a sequence of events within a case" (Levy, 2002, p. 145), it allows to examine how the member states and the EP have reached a final outcome after a proposal has been submitted by the Commission. Agreements on MFFs are usually preceded by "protracted" and complex bargaining processes (Nugent, 2010, p. 406) making an in-depth study of the cases necessary. Furthermore, the focus of process tracing on the "temporal dimension of causality" (Blatter & Blume, 2008, p. 321) offers the opportunity to take changes in actors' positions during the negotiation process into account.

The negotiations on two MFFs have been selected for a cross-case comparison. While the first case study examines the bargaining process on the Financial Perspective 2007-2013 that started in February 2004 and finished in May 2006, the second case study analyses the negotiations on the last Multiannual Financial Framework 2014-2020 of the EU that was adopted in December 2013. Since the second case was adopted after the Treaty of Lisbon came into force and the first one before it, the selected cases allow for testing the second hypothesis on the change in the EP's influence in the aftermath of Lisbon. Furthermore, the cases have been selected for being successive MFFs to hold some potential confounding factors, like for example the number of member states, constant.

To identify actors' positions secondary literature and official EU documents are used. The preferences of the member states are measured through an analysis of European Council conclusions. This is justified by the assumption that the EU member states are forming a common position after the heads of state or government have found a political agreement on the MFFs. Whilst member states might engage in serious discussions about the financial framework before a deal has been made by the European Council, the outcome of European Council summits gives them a negotiation mandate when bargaining with the EP and the Commission on the IIA. The position of the Commission is measured through its legislative proposal on the MFFs. Parliament's preferences are identified through an analysis of its resolutions, its plenary debates as well as by the reports of the Committee on Budgets. Particular attention will be devoted to the reports of the parliamentary committee, since it plays a key role for forming a collective position on budgetary matters (Laffan, 1997, p. 74). The bargaining success of the member states and the EP is measured by comparing the

differences of their initial negotiation positions with the final outcomes of the MFFs that are codified in the IIAs (for a similar proceeding see Schild, 2008).

## 4. ANALYSIS

### *4.1 The Negotiations on the EU's Financial Perspective 2007-2013*

The negotiations on the EU's Financial Perspective 2007-2013 took place against the background of a period of low growth rates in most member states, the accession of ten new member states in 2004 and the agreement of the European Council on the Lisbon goals in 2000 (Laffan & Lindner, 2010, p. 220). In February 2004, the Commission submitted its first proposal on the new MFF in its Communication titled "Building our Common Future - Policy challenges and Budgetary means of the Enlarged Union" (cf. COM (2004) 101 final). The paper identified three key policy priorities for the EU in the future: the development of sustainable growth; the completion of the area of freedom, security and justice to strengthen the evolution of European citizenship and the development of a strong role of the EU at the global level. To meet these objectives the Commission proposed an overall level of expenditures of EUR 1.025 billion that would represent an average spending level of 1.14% of the EU's gross national income (GNI). Compared to the existing level of 1.09% of the EU budget 2006, the Commission envisaged more resources for the future EU budget. However, since its proposal remained below the own resources ceiling of 1.26% of the EU's GNI and envisaged lower budget growth rates than in previous MFFs, the Commission took a "rather cautious approach" (Schild, 2008, p. 538).

The EP broadly supported the Commission's drafted MFF in April 2004. Yet, because of the forthcoming EP elections in June 2004, it decided to not take any concrete decisions that might restrict its scope for decision-making in future negotiations at that time (European Parliament, 2004, point 6). Furthermore, it criticized that the Commission's proposal was undermined by "threats of budgetary cuts" that had been issued in a joint letter to the Commission by six heads of state or government (European Parliament, 2004, point 19).<sup>4</sup> Regarding the issue of agricultural spending the Committee of Budgets warned to treat the

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<sup>4</sup> In this letter Austria, France, Germany, Sweden, the Netherlands and the UK called for a "consolidation" of the EU budget and suggested that the average expenditure level should not exceed 1.0% of the EU's GNI (European Commission, 2003). Moreover, the heads of state or government argued that the agricultural spending ceiling that was set by the European Council in 2002 should be respected. In his response, Commission President Prodi said that the suggestions would be taken "seriously" into account, but that a 1% ceiling would be insufficient to meet the Union's objectives (European Commission, 2003).

CAP as fixed at the ceiling that had been agreed upon by the European Council in October 2002 (*ibid.*, point 14).<sup>5</sup>

After first discussions in the Council of Ministers, the Commission submitted more detailed policy proposals in July 2004 (cf. COM (2004) 487 final). Following preparatory meetings on individual headings by an *ad hoc* group in September and October 2004, the negotiations in the Council were intensified under the Luxembourg Presidency in the first half of 2005. Several issues emerged as contentious during the negotiations: First, the member states disagreed on the overall amount of spending with six governments arguing for a reduction to 1% of the EU's GNI and others, primarily the net beneficiaries Spain and Portugal, supporting the proposal of the Commission of 1.14%. Second, conflict arose on the amount of expenditures that the new member states should receive. In particular, old member states that had benefitted from regional structural funds in the past feared the loss of transfers and demanded adequate compensation. Third, member states disagreed on the re-negotiation of the British rebate and the CAP.

Despite the Presidency compromise of June 2005 that foresaw a total level of commitments of EUR 872 billion representing 1.05% of the EU's GNI (Dür & Mateo, 2010), the European Council did not reach political agreement in June 2005. Furthermore, the heads of state or government stressed "the need for clarity over the resources available to the Union in support of common policies over the future financing period" (Council of the European Union, 2005a, p. 1). In contrast to the member states the European Parliament (2005) adopted its common position in June 2005 (see Table 1). In comparison to the Commission's proposal the EP demanded a lower overall level of spending EUR 974.837 million that would be around 1.18% of the EU's GNI. Moreover, it argued for a shift in the expenditures from the category of sustainable growth towards the third heading of Citizenship, freedom, security and justice. Yet, overall, the position of the EP was quite close to the European Commission's.

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<sup>5</sup> At this meeting the European Council agreed on the spending for market related and direct payments in the CAP from 2007 until 2013. It was decided that the overall expenditure for each year should not be higher than in 2006 with a yearly increase of 1% (Council of the European Union, 2002, p. 5).

**Table 1: Overview of the Proposals of the Financial Perspective 2007-2013**

	European Commission (Feb 2004)	European Parliament (June 2005)	European Council (Dec 2005)	Interinstitutional Agreement (June 2006)
<b>1. Sustainable growth</b>	<b>477.665</b>	<b>459.035</b>	<b>379.739</b>	<b>382.139</b>
1a. <i>Competitiveness of growth and employment</i>	132.755	120.563	72.120	74.098
1b. <i>Cohesion for growth and employment</i>	344.91	338.472	307.619	308.041
<b>2. Preservation and management of natural resources</b>	<b>404.655</b>	<b>396.248</b>	<b>371.244</b>	<b>371.344</b>
<i>Of which Agriculture</i>	301.074	293.105	293.105	293.105
<b>3. Citizenship, freedom, security and justice</b>	<b>18.505</b>	<b>19.437</b>	<b>10.270</b>	<b>10.770</b>
3a. <i>Freedom, Security and Justice</i>			6.630	6.630
3b. <i>Citizenship</i>			3.640	4.140
<b>4. The EU as a global partner</b>	<b>95.59</b>	<b>70.697</b>	<b>50.010</b>	<b>49.463</b>
<b>5. Administration</b>	<b>57.670<sup>6</sup></b>	<b>28.620</b>	<b>50.300</b>	<b>49.800</b>
<b>6. Compensation (Bulgaria, Romania)</b>	<b>0.240</b>	<b>0.800</b>	<b>0.800</b>	<b>0.800</b>
Total commitment appropriations as a percentage of GNI	1025.035 1.26	974.837 1.18	862.363 1.045	864.316 1.048

Source: Own calculation.

Notes: Numbers are calculated in EUR million at 2004 prices. The figure for the European Commission is based on its Communication paper (cf. COM (2004) 101 final 2). The figures for the EP are drawn from the Annex of its Resolution (European Parliament, 2005). Figures for the European Council are based on its conclusion (Council of the European Union, 2005d). The figures for the interinstitutional agreement are laid down in the interinstitutional agreement between the Council, the EP and the Commission of June 2006 (European Union, 2006).

Discussions amongst the member states continued in the second half of 2005. On 5 December 2005, the British Presidency tabled a compromise that foresaw expenditures of EUR 846.754 million (1.03% of the EU's GNI) (Council of the European Union, 2005c). Yet, since the compromise strongly reflected the British position (Dür & Mateo, 2010, p. 560), a second compromise with a slightly higher level of expenditures (EUR 849.303 million) was issued a few days later (Council of the European Union, 2005e).

In December 2005, the European Council reached political agreement. Table 1 shows that the outcome set the overall level of commitments at EUR 862.363 million, amounting to 1.045% of the EU's GNI. Compared to the Commission's draft the member states suggested a reduction of around EUR 163 million. Thus, the outcome was "beyond any doubt (...) a political victory for the net contributing states" (Schild, 2008, p. 541). In absolute terms the

<sup>6</sup> Although the Commission demanded EUR 28.26 million for the administration in its Communication of 2004, the figure referred to policy fields. Thus, the number displayed here refers to the total amount of administrative costs (cf. Schild, 2008, p. 544).

European Council envisaged the biggest cuts in the first heading of sustainable growth and in particular for subheading 1a of competitiveness of growth and employment. Upon the five objectives of subheading 1a (i.e. research and technological development; European networks; education and training; promoting competitiveness in a fully integrated single market; social policy agenda) the largest increase was provided for the area of research and technological development (Schild, 2008, p. 541). The European Council's total level of expenditures was with a reduction of ca. EUR 112 million closer to the EP's than to the Commission's (reduced by ca. EUR 163 million). In comparison to the EP's negotiation position member states suggested lower levels of expenditures for each heading (except administration). Consensus between the EP and the European Council existed on two subheadings, i.e. compensation and agricultural spending. The latter finding is surprising given the EP's initial stance that the CAP ceiling should not be seen as pre-determined, but should be re-negotiated.

In January 2006, the EP rejected the political agreement of the European Council. In its resolution the EP criticized the strong focus on traditional distributive issues, the lacking reform of the Union's own resources system and the reduction of expenditures for the Lisbon areas of competitiveness, growth and employment (European Parliament, 2006c, point 2). Furthermore, it demanded stronger budgetary flexibility and better measures to implement and control the distribution of EU funds in the member states. The role of the European Council in the negotiations on the MFF was strongly criticized by the EP that

“[r]ecalls that the conclusions of the European Council – referring sometimes to very specific rules within spending programmes – cannot overrule the powers vested in the European Parliament as one arm of the legislative and budgetary authority and insists to play its full parliamentary role in the definition of policies, their reform and their budget.” (European Parliament, 2006c, point 3)

Although the rejection of the European Council's agreement was supported by a broad majority of MEPs (only 76 MEPs voted against the rejection), it was regretted by some Parliamentarians. Swedish MEP Cecilia Malström from the party group ALDE said that the EP should assume its responsibility instead of rejecting the financial perspective “because of power games between the institutions” (European Parliament, 2006b). Portuguese MEPs Francisco Assis, Luis Manuel Capoulas Santos and Edite Estrela from the party group of European Socialists expressed their skepticism towards the impact of that step, since “to re-open the financial debate, which as things stand is not feasible (...).” (European Parliament, 2006b)

After Parliament's rejection the EuC demanded a swift conclusion of the negotiations on the IIA “to implement the agreement of the December 2005 European Council” (Council of the

European Union, 2006, p. 2). Interestingly, the heads of state or government's called for the implementation of its decision rather than for further discussions. This can be interpreted as a signal of credible commitment towards their previously agreed position directed to the EP. After several dialogues meetings which were dominated by conflict on the overall amount of the budget (EurActiv, 2006), provisional agreement on the IIA was found in April 2006 (Council of the European Union, 2005b, p. 1). The IIA was formally adopted on 17 May 2006.

Table 2 shows the differences between the proposal of the EP and the European Council's political agreement with the final MFF. Overall, the final outcome of the negotiations is closer to the European Council's position than to the EP's, supporting hypothesis 1. The final total level of expenditures of EUR 864 billion deviates with around EUR 2 billion only slightly from the European Council's compromise. In contrast, the final outcome remains around EUR 110 billion below the level of expenditures that was originally demanded by the EP. Although the EP reduced its demand during the negotiations on the IIA to EUR 12 billion (EurActiv, 2006), the agreement remains far behind the demanded sum. In percentage, the total level of commitment appropriations of the financial framework deviated only by 0.23% from the position of the European Council, but 11.34% from the EP's. Considering the expenditures for the individual categories the highest increase in absolute terms between the EuC and the IIA occurred for the heading of sustainable growth with EUR 2.4 billion. Whereas the absolute level of funding was increased after the European Council's agreement for the majority of the headings, the expenditures for administration and external relation were reduced. Comparing the differences in percentage across the categories the final outcome diverged the strongest for the heading on citizenship, freedom, security and justice. In that heading, the EP's demanded expenditures of EUR 20.000 million were reduced by almost 45% to EUR 11.000 million. Yet, the heading is at the same time the category in which the distance between the European Council and the IIA is the greatest with around 5%. Since the IIA did not deviate from the European Council for the subheading of freedom, security and justice, the difference is solely caused by the increased expenditures for the category of citizenship that is a traditional core concern of the EP.

**Table 2: Comparison of the Proposals of the European Parliament and the European Council's Political Agreement with the Interinstitutional Agreement on the Financial Perspective 2007-2013**

	Difference IIA - EP proposal (in € million)	Difference IIA - European Council (in € million)	Difference IIA – EP proposal (in %)	Difference IIA – European Council (in %)
<b>1. Sustainable growth</b>	<b>- 76.896</b>	<b>+ 2.4</b>	<b>-16.75</b>	<b>100.63</b>
1a. <i>Competitiveness of growth and employment</i>	- 46.465	+ 1.978	- 38.55	102.74
1b. <i>Cohesion for growth and employment</i>	- 30.062	+ 0.422	- 8.99	100.14
<b>2. Preservation and management of natural resources</b>	<b>- 24.904</b>	<b>+ 0.1</b>	<b>- 6.28</b>	<b>100.03</b>
<i>Of which Agriculture</i>	0	0	0	0
<b>3. Citizenship, freedom, security and justice</b>	<b>- 8.667</b>	<b>+ 0.5</b>	<b>- 44.59</b>	<b>104.87</b>
3a. <i>Freedom, Security and Justice</i>		0		0
3b. <i>Citizenship</i>		+ 0.5		121.15
<b>4. The EU as a global partner</b>	<b>- 21.234</b>	<b>- 0.547</b>	<b>- 30.04</b>	<b>- 1.094</b>
<b>5. Administration</b>	<b>21.18</b>	<b>- 0.5</b>	<b>174.00</b>	<b>- 1</b>
<b>6. Compensation (Bulgaria, Romania)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total commitment appropriations as a percentage of GNI	- 110.521 - 0.132	+ 1.953 + 0.003	- 11.34	100.23

Source: Own calculation based on Table 1.

Overall, the analysis shows that the outcome of the MFF 2007-2012 was closer to the position of the member states than to the EP's. Although the EP's rejection of the European Council's political agreement send a strong signal to the member states, its demand to substantially renegotiate the MFF did not pay off in the end. The negotiations between the Council and the EP on the IIA led only to slight changes in the overall level of expenditure and the funding for individual headings. As stated by Spanish MEP Salvador Garriga Polledo from the European People's Party during the plenary debate on the IIA in May 2006, "the final round of interinstitutional meetings has led to a final result practically identically to that indicated by the European Council" (European Parliament, 2006a).

#### 4.2 The Negotiations on the Multiannual Financial Perspective 2014-2020

Against the background of the economic crisis the Commission submitted in June 2011 its proposal for a Council regulation laying down the MFF for the years 2014-2020 (cf. COM (2011) 398 final). The regulation foresaw a total level of commitment appropriations of EUR 1.025 billion that would amount to 1.05% of the Union's GNI. In July 2012 the Commission submitted an amended proposal (cf. COM (2012) 388 final) because of the accession of Croatia, new data for regional GDP and national GNI that led to estimated changes in the allocation of the Union's cohesion funds and more recent macroeconomic forecasts. In its proposal of July 2012 the Commission set up a higher total level of expenditures of EUR 1.033.235 million representing 1.08% of the EU's GNI (see Table 3). In general terms, the Commission's proposal represented a "continuation" of the past MFF because of the Commission's need to balance the austerity demands of some member states and to avoid the risk of deadlock (Kölling, 2012, p. 31). Yet, at the same time, the Commission included some reform proposals on budgetary policy-making that were traditional demands of the EP, such as budgetary flexibility (*ibid.*).

Like in the case of the MFF 2007-2013 the EP formulated a common position on the MFF 2014-2020. Yet, instead of waiting for the Commission's proposal, the EP had established a special committee on the matter already before. The so-called SURE committee was responsible for determining Parliament's budgetary priorities, estimating the financial resources necessary for the Union and for making proposals on the structure and duration of the forthcoming MFF (European Parliament, 2010). In June 2011, the European Parliament (2011) adopted its first of altogether four resolutions on the MFF. Several key challenges that the EU faced in the future were identified, e.g. the building of a knowledge-based society or the fight against unemployment. According to the EP the forthcoming MFF should primarily aim at fulfilling the objectives of the Europe 2020 strategy (European Parliament, 2011, point 130). Furthermore, the EP argued for more budgetary flexibility. It proposed to carry over the margins that are created by differences between payment ceilings and executed payments into a "global MFF margin" that could be activated in annual budget-making and to create a "reserve margin" for risks of defaults (*ibid.*, points 137 and 138). Other demands of the EP included a legally obligatory mid-term review of the MFF (*ibid.*, point 143) and a substantial reform of the Union's own resources system that should replace national contributions' to the budget with one or several genuine own EU sources (*ibid.*, point 166). Although a list on the distribution of expenditures across different headings was not attached to the resolution – in contrast to the case of the Financial Perspective 2007-2013, the EP made clear that expenditures for the areas of education, research and innovation, for the development of the Union's digital agenda and its space policy and for the support of SMEs should be increased. Regarding the overall level of expenditure the EP stated that the existing level of 1% of the



EU's GNI is insufficient to meet the current and future objectives of the Union. Being of the "firm opinion that freezing the next MFF at the 2013 level, as demanded by some Member States, is not a viable option", the EP argued that the resources for the next MFF should be increased by at least 5% that would amount to 1.11% of the EU's GNI (*ibid.*, point 163). Comparing this demand to the previous MFF it becomes clear that Parliament's initial position is in general closer to the Commission's than to the member states' political agreement (see Tables 1 and 3). Second, the EP demanded a higher total level of expenditures than the Commission had initially proposed.

In preparation of the European Council's summit the EP adopted a second resolution at the beginning of June 2012, but emphasized that its negotiation position was identical to its first resolution (European Parliament, 2012a, point 2). Parliament repeated its demands of more budgetary flexibility (*ibid.*, point 4) and made its consent conditional on a substantial overhaul of the Union's own resources system (*ibid.*, point 3). In addition, the resolution referred to the proceedings of the negotiations. First, the negotiations should focus on finding first agreement on the goals and priorities of the MFF instead of on total figures. Second, the EP pointed out that the political agreement of the European Council should not be treated as a fixed outcome by the Council, but as a guideline that could be altered during subsequent discussions (*ibid.*, point 5).

Despite discussions on the MFF at its meetings in June 2012 the EuC was unable to reach political agreement and postponed the decision towards the end of 2012 (European Council, 2012, p. 3f.). Moreover, the body stressed that measures strengthening "growth, employment, competitiveness and convergence, in line with the Europe 2020 Strategy" should play a key role in the forthcoming MFF (European Council, 2012, p. 12). Despite member states consensus on the role of the EU budget for boosting growth and employment, they were divided on the overall size of the budget, the CAP reform and the cohesion policy. Two groups of member states emerged in the negotiations. These groups reflected the traditional divide between net contributors and net recipients as well as member states' differences on the EU's anti-crisis measures. On the one hand, the 'Friends of Cohesion Policy' argued that the overall size of the budget and the funds of the cohesion policy should be maintained (Kölling, 2012, p. 29). The 'Friends of Better Spending', on the other hand, insisted that the level of spending is sufficient or should be even reduced and that the focus should instead be on a better management of EU spending (*ibid.*).

Following discussions in the Council of Ministers the European Parliament (2012b) adopted its third resolution on the MFF. This resolution confirmed broadly its previous stance. Besides repeating its demand of an overall level of expenditures above the level of the 2013 EU budget (*ibid.*, point 19), the EP "warn[ed]" the Council to reduce the level of expenditures that

was proposed by the Commission. While the expenditures for cohesion policy and the CAP should be maintained at the same level, the EP stressed the importance of providing adequate funding for youth-specific instruments (*ibid.*, point 29) and large-scale infrastructure projects (*ibid.*, point 34). Moreover, the EP linked its consent to the MFF to agreement on the reform of the own resources system (*ibid.*, point 73). According to the resolution the main reason for stalemate in the Council of Ministers was the divide between net contributors and net beneficiaries leading to a “accounting-based vision of ‘fair return’ which, in the end makes any agreement on the MFF conditional on an agreement on a long list of exceptions and compensations.” (European Parliament, 2012b, point 70) Furthermore, the EP repeated that the European Council is only allowed to provide the Council with a negotiating mandate for being no legislator (*ibid.*, points 78 and 79).

In November 2012, the European Council met for an extraordinary meeting to reach agreement on the MFF. The discussion centered on a compromise proposal of European Council’s President Herman van Rompuy. The proposal foresaw a reduction of EUR 80 million to the Commission’s original proposal, representing 1.01% of the EU’s GNI (Council of the European Union, 2013). Furthermore, van Rompuy suggested increases in agricultural and cohesion spending as well as an increase by 50% in the area of competitiveness and growth compared to the last MFF (*ibid.*). Despite the Presidency’s compromise the European Council reached agreement only at its meeting in February 2013.

Table 3 compares the European Council’s agreement with the Commission’s proposal of July 2011. Member states reduced the overall level of expenditures for the MFF 2014-2020 by around EUR 74 million. With the exception of the compensations category funding in each heading was cut. The strongest changes were made under the heading 1 Smart and Inclusive Growth in which the expenditures were cut by EUR 44 million. Yet, expenditures for the subheading 1a of Competitiveness for Growth and Jobs were slightly increased by EUR 10 million. Since the MFF 2014-2020 is the first budget that provides less money for the Union, the outcome was a victory for the net contributors. Moreover, the funds provided for several programmes outside the MFF shows a clear preference for the intergovernmental method. While the size the MFF represents in terms of EU’s GNI will decrease over the years - from 1.03% in 2013 to 0.98% in 2020 -, a contrasting trend is discernible for programmes outside the MFF (i.e. Emergency Aid Reserve, European Globalisation Fund, Solidarity Fund, Flexibility instrument and EDF) from initially 0.03% to 0.04% in 2020 (European Council, 2013a, Annex 1).

**Table 3: Overview of the Proposals of the Multiannual Financial Framework 2014-2020**

	European Commission (Jul 2012)	European Council (Feb 2013)	Interinstitutional Agreement (Dec 2013)	Difference European Council – COM Proposal (in € million)
<b>1. Smart and Inclusive Growth</b>	<b>494.763</b>	<b>450.763</b>	<b>450.763</b>	<b>- 44</b>
1a. Competitiveness for growth and jobs	115.52	125.614	125.614	+ 10.094
1b. Economic, social and territorial cohesion	379.243	325.149	325.149	- 54.053
<b>2. Sustainable Growth: Natural Resources</b>	<b>386.427</b>	<b>373.179</b>	<b>373.179</b>	<b>- 13.248</b>
of which: Market related expenditure and direct payments	283.051	277.851	277.851	- 5.2
<b>3. Security and citizenship</b>	<b>18.809</b>	<b>15.686</b>	<b>15.686</b>	<b>- 3.123</b>
<b>4. Global Europe</b>	<b>70.000</b>	<b>58.704</b>	<b>58.704</b>	<b>- 11.296</b>
<b>5. Administration</b>	<b>63.165</b>	<b>61.629</b>	<b>61.629</b>	<b>- 1.536</b>
of which: Administrative expenditure of the institutions	51.000	49.798	49.798	- 1.202
<b>6. Compensations</b>	<b>27</b>	<b>27</b>	<b>27</b>	<b>0</b>
Total commitment appropriations as a percentage of GNI	1.033.235 1.08	959.988 1.00	959.988 1.00	- 73.247 - 0.08

Source: Own calculation.

Notes: Figures are calculated in EUR million at 2011 prices. The figures for the European Commission are based on its revised proposal (cf. COM(2012) 388 final). The figures for the European Council are drawn from Annex 1 of its Conclusions (European Council, 2013a). The figures for the Interinstitutional Agreement are based on European Commission (2013, p. 7).

In March 2013 the EP rejected the European Council's agreement with a broad majority of 506 MEPs (161 MEPs voted against and 21 MEPs abstained). In general terms, the EP argued that the political agreement of the heads of state or government "does not reflect the priorities and concerns expressed by Parliament (...) and disregards Parliament's role and competences" (European Parliament, 2013a, point 1). Furthermore, it criticized the insufficient means that were provided for the implementation of the Europe 2020 strategy (*ibid.*, point 4) as well as the rollover of outstanding payments from previous annual budgets that "might lead the EU budget into a structural deficit" (*ibid.*, point 6). The EP formulated several demands that would be treated as an "overall package" in the negotiations (*ibid.*, point 8). Besides expenditure increases in several areas (e.g. innovation, research and development; infrastructure and youth) Parliament called for an agreement on the Union's

own resources system, increased budgetary flexibility and an obligatory mid-term review of the MFF (*ibid.*, point 8).

Three months later the EP and the Council of Ministers reached agreement on the IIA and the draft Council regulation laying down the MFF. The agreement was unanimously approved by the European Council on 27 June 2013 (Council of the European Union, 2013) and endorsed by the EP in November 2013.

Table 3 shows the IIA that was formally adopted in December 2013 and the political agreement of the European Council of 8 February 2013. Neither the overall level of expenditure nor the resources for individual headings of the MFF were changed in the IIA. Instead, it confirmed the ceilings that were set up by the European Council several months ago. Yet, while the MFF was not altered at first glance, member states included some key demands of the EP in the final outcome. First, it was agreed to carry over the unused margins under the payment ceiling of the previous year to the following years from 2015 onwards. Although budgetary flexibility was thereby increased in line with Parliament's demands specific time and size limits for the carry-over were established as well. Second, expenditures for some initiatives that were regarded as key priorities by the EP will be provided earlier than originally envisaged. At its June summit the European Council decided, for example, to speed up the implementation of the Youth Employment Initiative and provide the envisaged sum of EUR 6 billion already in the first two years of the MFF (European Council, 2013b). Moreover, the margins that are left unused below the commitment ceilings of the MFF in the years 2014-2017 will be paid into a global margin for commitments that is directed to foster growth and (youth) employment. Several initiatives in the areas of research and education (e.g. Erasmus, Horizon 2020) and programmes to foster the competitiveness of SMEs were also frontloaded. Third, the IIA laid down the maximum amount for some large-scale projects (i.e. ITER, Copernicus; EGNOS and Galileo) as has been demanded by the EP. However, the overall amount for these projects is rather low with around EUR 12 million.

Despite these changes the negotiations on the IIA did not lead to agreement on the reform of the EU's own resources system that was a key demand of the EP. Instead of concrete results the institutions agreed to establish a high level group on the matter. Furthermore, member states did not provide a higher overall level of expenditures. In its resolution of 3 July 2013 the EP criticized that the agreed ceiling "significantly reduce[d] any room for manoeuvre for Parliament in the annual budgetary procedures" (European Parliament, 2013b, point 6). Furthermore, Parliament had been deprived of its formal budgetary powers during the negotiation process according to the MEPs (*ibid.*, point 15). Overall, the analysis of the negotiations on the MFF 2014-2020 strongly support hypothesis 1. The final agreement was not only closer to member states' position, but also almost identical to the

European Council's political agreement. In exchange for Parliament's consent member states agreed to institutional changes on the budgetary procedure and on the implementation of individual programmes.

Comparing the negotiations on the Financial Perspective 2007-2013 and the MFF 2014-2020 with each other the analysis shows that the outcome was closer to the position of the member states in both cases as has been suggested in hypothesis 1. However, contrary to hypothesis 2, the outcome of the MFF 2014-2020 was not closer to the position of the EP than the outcome of the Financial Perspective 2007-2013. Although member states made some concessions to the EP for its consent to the MFF 2014-2020, the changes were primarily of a procedural form. Table 4 shows that the fixed ceiling of the MFF 2014-2020 is contrary to the negotiation outcomes of two other MFFs (the Financial Perspective 2007-2013 and the Agenda 2000). In these two cases the overall amount of the MFF was slightly raised during the negotiations on the IIA. Yet, the slight changes after the agreement of the European Council in the IIAs provide evidence that the outcomes of all four MFFs are closer to member states' position than to the preferences of the supranational bodies that are traditionally advocates of a higher total level of commitments. Although the EP has become a more proactive and self-conscious player in the negotiations on MFFs, in particular since its first rejection of the EuC's agreement on the Financial Perspective 2007-2013, its actual impact on the MFFs of the EU is still quite limited.

**Table 4: Comparison of the Political Agreements of the European Council and the Interinstitutional Agreements**

	<b>EuC</b>	<b>IIA</b>	<b>Difference IIA - EuC</b>
Delors II package (1993-1999)	529.885	529.885	0
Agenda 2000 (2000-2006)	702.78	704.26	1.48
Financial Perspective (2007-2013)	862.363	864.316	1.953
Multiannual financial framework 2014-2020	959.988	959.988	0

Sources: Own compilation based on Tables 1 and 3.

Notes: EuC = European Council; IIA = Interinstitutional agreement. Figures for the Delors II package (1993-1999) are calculated in ECU million, while figures for the other MFFs are calculated in EUR million. The figures for the Delors II package are based on the European Council conclusions of December 1992 (Annex 1 to Part C) and on the Annex of the Interinstitutional Agreement adopted in December 1993. Data on the Agenda 2000 are drawn from the European Council conclusions in March 1999 and from the Interinstitutional agreement of 6 May 1999. The figures for the Financial Perspective and the Multiannual Financial Framework are based on Tables 1 and 3.

## CONCLUSION

This paper analyzes the impact of the member states and the EP on the MFFs of the EU. Although the MFFs are widely regarded as key moments for the European integration process, its inter-institutional bargaining process remains an understudied subject. Focusing on the interplays between the member states and the EP for reaching a final outcome in the cases of the Financial Perspective 2007-2013 and the MFF 2014-2020, the paper aimed at contributing to fill this research gap. The comparative cross-case study broadly confirmed the expectation that the outcomes are closer to the negotiation position of the member states than to the EP's. It was shown that the Financial Perspective 2007-2013 was only slightly modified during the trilogue meetings between the EP, the Council and the Commission. The MFF 2014-2020 was almost identical to the European Council's political agreement. Although the member states made concessions in exchange for Parliament's consent, the changes were limited and mainly revised the procedure of budgetary decision-making.

The expectation that the influence of the EP would be stronger after the Treaty of Lisbon was not supported. The EU member states were not willing to increase the overall level of EU expenditures in times of national budget cuts. Against the background of the economic crisis the EP was unable to utilize its newly acquired procedural right as a bargaining advantage. Although the comparative case study showed that the EP raises its voice louder since the establishment of the MFFs in the 1980s, its influence on the actual outcome is still quite limited. The EP is far away from being an equal partner to the member states in the negotiations on the MFFs. The results of the negotiations amongst the member states in the EuC are still determining the EU's long-terms budgets.

Furthermore, the paper provided first evidence for the strong position of the European Council in the EU's institutional framework. Although the EP has repeatedly argued that the conclusions of the EuC are only a broad negotiating mandate for the Council of Ministers, the latter did not strongly deviate from the political agreement or sought its approval on potential changes. This supports the view that the interactions between the European Council and the Council follow a hierarchical top-down approach. Thus, I draw the conclusion that the European Council acts as the Council's principal in the negotiations on the MFFs of the EU. Furthermore, it confirms recent findings on the EuC that point out to its strong role in diverse aspects and areas of EU policy-making (Bocquillon & Dobbels, 2013; Eggermont, 2012; Puetter, 2014).

Since the paper aims to provide an answer on the influence of the member states and the EP on the MFFs in a general way, additional variables that might affect their bargaining success, e.g. the coherence of the member states or the composition of the EP, should be elaborated in more detail by future research. Furthermore, future studies might take the Commission

stronger into account. Whilst the Delors-I package is traditionally seen as a success story for the Commission, the institution has become rather a mediator in the past two MFFs. The empirical analysis of the Financial Perspective 2007-2013 showed that its agenda-setting power was tightly constrained by the preferences of some member states. The reduced agenda-setting power of the Commission is a tendency that has become in general stronger in recent years (Princen & Rhinard, 2006). Yet, since MFFs are adopted by the member states and the EP, I focused on their interplays in this paper. The findings clearly suggest that the MFFs of the EU are determined by large by the agreements of the European Council.

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