



ANALYSIS

## WINNERS OR LOSERS?

THE BALTIC STATES IN THE EU'S MULTIANNUAL FINANCIAL FRAMEWORK NEGOTIATIONS

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## INTRODUCTION

The current European Commission proposal for the Multiannual Financial Framework (MFF) for 2021–2027 proposes a decrease in cohesion funds and instead puts forward additional funding into new priorities and areas. The Baltic states are likely to receive less funding through their traditional channels, e.g. regional funds. This offers a good opportunity for the three Baltic states to think about their role in the EU and what kind of Union they would like to see in the future.

The MFF negotiation is one of the most challenging endeavours in the EU. The framework sets the limits of the EU's annual budget and provides funding for large and long-term investments. The difficulty of the exercise

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comes from the number of actors engaged in the process. A Commission proposal must undergo scrutiny by the European Parliament and the 27 member states, who need to agree unanimously on the framework. Each country and institution represents different interests and limits.

## MFF NEGOTIATIONS FOR 2021–2027: A DIFFICULT TASK IN HAND

The upcoming budget negotiations have been dubbed some of the most difficult that the Union has gone through. To begin with, the UK's departure from the EU puts extra pressure on the budget. As a former net contributor, the UK's exit leaves a hole of 91 billion euro in the

seven year-budget. Secondly, the Commission has proposed an ambitious agenda, focusing on new areas such as security, migration and securing external borders, youth, digital development, and the external service. Finally, the Commission wants to conclude the negotiations before next year's European Parliament elections.<sup>1</sup> The combination of these three factors means that the Commission is proposing to do more with less money, and to agree on it in a very short time.

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The Baltic states have been net beneficiaries of the MFF and will continue to be so from 2021 to 2027. It is estimated that for every euro that Estonia, Latvia or Lithuania pay into the EU, they receive back four euros on average.<sup>2</sup> Most money comes from the MFF's two biggest funds: the Common Agricultural Policy (CAP) and Regional Development & Cohesion, which respectively support farmers in the Baltic states and regional development. In addition, EU funds have supported infrastructure developments such as the modernisation of Tallinn, Riga and Kaunas airports.<sup>3</sup>

## NEW PRIORITIES: IS IT THAT BAD?

The Commission proposal foresees a decrease of 5% for the CAP and 7% for Cohesion Policy. These two policies are an essential source of EU funds for all three Baltic states. At the same time, the Commission proposal foresees more funds going into new areas: digitalisation, security and defence, securing the EU's external borders, research and development, youth, and

<sup>1</sup> David M. Herszenhorn and Lili Bayer, "[Commission wants bigger budget for smaller EU](#)", *Politico Europe*, 5 April 2018 (accessed 3 May 2018).

<sup>2</sup> European Commission, "[Estonia](#)", last update 7 February 2014 (accessed 5 May 2018).

<sup>3</sup> European Commission, "[Latvia](#)", last update 7 February 2014 (accessed 5 May 2018); European Commission, "[Lithuania](#)", last update 7 February 2014 (accessed 5 May 2018).

external action service.<sup>4</sup> Of these priorities, digitalisation and security and defence are important issues for the three countries, who have been advocating more funding. Now it is happening.

It is not yet clear how much money the Baltic states will lose through the Regional Fund. However, for the three countries—whose GDP is below the EU average—the regional cohesion fund is an important tool for further integration and convergence with the rest of Europe.<sup>5</sup> On the CAP, the Baltic states share a common position on harmonising direct payments to EU farmers across the 27 member states. This is not in the Commission’s proposal. But the Commission has suggested that direct payments to Baltic farmers be increased. While the Baltic states may lose funds via the regional Cohesion Policy, they will gain on direct

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payments to farmers. However, against the backdrop of decreasing funds for agriculture, the Baltic states are not likely to get the full EU-wide harmonisation on direct payments to farmers they desire.

The Commission has proposed extra funding for digital integration. The digital agenda is one of the most important domestic and foreign-policy objectives for Estonia. Together with the Nordic countries, Latvia and Lithuania, there are initiatives in the pipeline to make the Baltic Sea area the most digitally integrated region, which will serve as an example for the rest of Europe. Increased EU funding to existing and future initiatives should be embraced.

Regional security and defence are the most pressing issues for the Baltic area. Increased

funding for EU security and defence cooperation is therefore welcome. All three countries are supporters of the PESCO military mobility project and greater cooperation between the EU and NATO.

Migration is less important for the Baltic countries than for those in southern Europe. However, reform of the EU migration system and strengthening the Union’s external borders is an important issue for all three countries. Given the domestic backlash to the Commission’s involuntary “quota policy” in 2016, the three countries should see the increased funding for external border management as indirectly benefiting them.

Public investment in research and development is relatively low in all three Baltic countries due to lack of available national funds. Additional EU funding for innovation and the young offers new opportunities for the Baltic states to develop education, research and innovation to become the much-needed drivers of the economy.

Finally, the Baltic states are active advocates and proponents of the Eastern Partnership. Extra funding for the EU’s external services may therefore support their policies in the eastern neighbourhood.

The decrease in regional and agricultural funds is offset by increased funding for new policy areas. The Commission’s proposed new priorities coincide with many of those of the three Baltic states. The externally and, at times, self-imposed “loser” narrative is therefore not justified since the Baltic states have an opportunity to gain EU funding and support through different channels in policy areas important for the region.<sup>6</sup>

<sup>4</sup> European Commission, “[A Modern Budget for a Union that Protects, Empowers and Defends The Multiannual Financial Framework for 2021-2027](#)”, COM(2018) 321 final, 2 May 2018 (accessed 2 May 2018).

<sup>5</sup> Ministry of Foreign Affairs of Latvia, “[On the European Commission’s proposal concerning the European Union budget for 2021–2027](#)”, 2 May 2018 (accessed 3 May 2018).

<sup>6</sup> Alex Barker, “[EU budget revamp set to shift funds to southern states](#)”, *Financial Times*, 22 April 2018 (accessed 28 May 2018).

## THE FUTURE OF THE UNION

The current MFF negotiations are somewhat different to previous ones in other respects too. The Commission proposal is tied to a wider debate on the future shape of the EU. A Commission communiqué published in February 2018 quotes Commission President Jean-Claude Juncker as saying, “Budgets are not bookkeeping exercises—they are about priorities and ambitions”.<sup>7</sup> The message from

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Brussels is that the MFF is member states’ commitment to Europe and it must reflect the EU’s priorities and objectives.

What kind of EU we want is one of the driving questions in current EU politics. Member states have differing opinions, most notably France, which advocates a more efficient and, in some respects, more supranational EU, and northern countries, notably Denmark, Sweden and the Netherlands, which believe that EU institutions should be leaner with member states having a greater say in the running of the Union.

The Baltic states are undecided on this issue and have not revealed their positions. In general, they tend to balance between supporting further integration on some issues and being against integration on others.

This paper argues, however, that greater clarity on what kind of Europe the Baltic states want would allow them to develop coherent positions on the budget proposal. Moreover, greater clarity would also allow a narrative to citizens to be developed on the membership of

the EU and thus would help to legitimise Baltic states’ EU policies, which have come under increased scrutiny by their domestic populations. A clear and coherent vision would also feed into finding similarly minded member states and partners in the EU with whom to pursue future cooperation and partnership.

## CONCLUSIONS

While the Baltic states are likely to lose funds through the Cohesion Policy, more funding for digitalisation, security and defence, and research and development open up new opportunities that coincide with the countries’ interests. It is therefore less of a loss than portrayed in the media.

As the Commission’s message is that the forthcoming MFF negotiations are about the future of the EU, this is a good time for the Baltic states to have a broader discussion about their EU policy. The key question is whether the aim is to be active contributors and shapers of the European community or will the three countries simply follow a path defined by the bigger players?

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<sup>7</sup> European Commission, “[A new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020](#)”, COM(2018) 98 final, 14 February 2018 (accessed 3 May 2018).

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