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The big budgetary bargains: from negotiation to authority

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ABSTRACT This article explores the evolution of the European Union (EU) as a 'negotiated order' from the perspective of the grand budgetary bargains of 1988, 1992 and 1999. The analysis of budgetary negotiations in the EU since the mid-1980s highlights two important linkages, between the budgetary bargains and constitutional change, on the one hand, and between budgetary grand bargains and institutional change, on the other. A fundamental characteristic of EU negotiations is the connection between agreement on policy and agreement on 'rules of the game'. The article sets out to analyse four factors, from an institutionalist perspective, that highlight the evolution of the Union as a 'negotiated order'. These are: the significance of crucial junctures, lock-in, institutionalization and embeddedness in the *acquis*. All four factors were identified as significant in the evolution of EU budgetary negotiations since 1988.

KEY WORDS Budgetary politics; distributional bargaining; institutional embeddedness; integrative bargaining; socialization.

INTRODUCTION

The focus of this article is the way in which the European Union (EU) negotiates a medium-term financial perspective. The history-making budgetary negotiations are highlighted in the media as tortuous and lengthy battles, as indeed they are, to extract the last ECU or euro from the European purse. The emphasis is on wheeling and dealing, informal backroom deals and threats of exit. Budgetary negotiations are high decibel ones vested with considerable political drama and last-minute agreement. The purpose of the article is to examine how, notwithstanding the central role of national preferences in budgetary matters, the practice of budgetary negotiations was fundamentally altered in the decade after 1988. EU negotiations produced 'order' or authority by embedding new institutional mechanisms, practices and norms in the budgetary domain.¹

FROM 'GRAND BARGAIN' TO AUTHORITY

The centrality of negotiations to the governance of the EU is widely accepted. In fact, negotiation is the predominant policy mode and some would argue that the EU is a model of a 'negotiated democracy' (Wallace 1996: 32; Smith 1997; Pfetsch 1998: 293). The segmented and fragmented nature of the Union's policy process has led to the view that there is a hierarchy of negotiations in the EU. Peterson offers a distinction between:

- 1 history-making decisions or the grand bargains;
- 2 systemic level or policy-setting decision-making;
- 3 meso-level policy-making or policy-shaping decision-making (Peterson 1995: 71).

A distinction between the history-making decisions and everyday decision-making pervades scholarly writing on the Union. Moravcsik argues that 'the most fundamental task facing a theoretical account of European integration is to explain these bargains' (Moravcsik 1993: 473). The core of his liberal institutionalist account of integration is to argue that these celebrated bargains rest on intergovernmental bargaining and the preferences and power that each state brings to the negotiating table. Moravcsik accepts that EU-level institutions may have a significant role in the day-to-day policy processes of the Union, but the history-making decisions are the preserve of national governments (Moravcsik 1993: 508–17). According to Moravcsik, there is a very neat sequence of policy-making in the Union: national preference formation, negotiation and institutional choice. A case study of budgetary negotiations in the Union over the last decade suggests, by contrast, that there is no neat delineation between history-making decisions, on the one hand, and policy-setting decisions, on the other hand. Each of the negotiations covered in this article included 'grand bargains' on the future financial perspective, policy-setting decisions in relation to two key policy areas (structural funds and the common agricultural policy (CAP)) and the framework for meso-level policy-making by establishing rules about substance and process. Nor is there a neat delineation between national preference formation, negotiations and institutional choice. Negotiation in the Union is characterized by interactive processes between different levels of governance, varying institutions, multiple levels of decision-making and agenda issues. The grand bargains include deliberation on major policy issues, framework rules and procedural issues. There is thus a direct link between negotiations on substantive policy issues and institutional change (Wallace 1996: 26). The celebrated grand bargains themselves emerge from a highly institutionalized and embedded set of processes and norms about negotiations in the budgetary domain.

This article addresses the nature of the Union as a negotiated order from the perspective of budgetary politics in the Union over the period 1987 to 1999. It will explore how the outcome of iterative processes of negotiations on budgetary matters became embedded in the *acquis*, which in turn established

the framework for subsequent negotiations. In this way the evolving *acquis* represented the reach and modalities of EU governance. For the purposes of this article, the *acquis* includes not just policy output but the changing rules and norms of the negotiation process. While fully accepting, in the words of a newspaper headline, that there is 'Nothing like EU budget talks to bring out national interests' (*Irish Times*, 12 October 1998), the article seeks to explain how the 1988 budgetary deal resulted from 'integrative negotiations', which in turn had considerable influence on subsequent rounds of budgetary negotiations (Hayes-Renshaw and Wallace 1997: 259). 'Integrative negotiations' are understood as negotiations that are creative and positive-sum, rather than zero-sum, for the system as a whole. There was, of course, a significant distributional component to these negotiations, but this element was contained within an 'integrative' framework.

The framework of analysis in this article draws on historical institutionalism as an additional lens that offers novel insights into the character of the Union as a 'negotiated order'. However, historical institutionalism is not seen as an alternative to 'exchange' explanations of EU negotiations, rather as a supplement that highlights characteristics of EU negotiations that are now drawn out as sharply by an exchange perspective. The argument is built on a number of key premisses found in 'historical institutionalism'. Four interrelated factors highlighted by 'historical institutionalism' – critical junctures, lock-in, institutionalization and embeddedness – are analysed in this article. The central hypothesis of the article is that at certain critical junctures in negotiations, EU actors may achieve an 'integrative bargaining' mode, the results of which become locked-in and embedded in the *acquis* through institutionalization.

The article adopts a broad conception of institutions to encompass formal constitutional and legal attributes but also wider rules, roles and norms (March and Olsen 1995: 28–40). Its argument is based on an appreciation that while there is a high level of path dependency in institutional development, institutional process may be transformed when a critical moment is transformed into a critical juncture (Bulmer and Burch 1998: 605). For Bulmer and Burch, a critical moment occurs when an opportunity arises for significant change. If exploited, a 'critical moment' becomes a 'critical juncture'. Critical junctures 'create branching points at which institutional development moves on to a new trajectory or pathway which is then followed incrementally until a new critical moment arises' (Bulmer and Burch 1998: 605). A key argument in this article is that, given the importance of institutionalization to the dynamic of public policy-making in the EU, the analysis of EU negotiations should pay adequate attention to critical negotiations that produce a critical juncture in terms of a new trajectory or pathway. Once a 'critical moment' becomes a 'critical juncture', the outcome becomes institutionalized – locked into the *acquis* (Pierson 1996). An important dimension of 'lock-in' is that future action is based on a shift in the 'logic of appropriateness' within that policy domain. Action based on a 'logic of appropriateness' depends on roles, routines, standard operating procedure and practice (March and Olsen 1995: 30). In

order to explore the dynamics of critical junctures, embeddedness, lock-in and changes in the 'logic of appropriateness', it is important to analyse negotiations over time, rather than one set of negotiations. Hence the article adopts a focus of analysis with a time span of a decade rather than a singular round of negotiations.

UN PEU D'HISTOIRE

The 1970 and 1975 budget treaties endowed the EU with an embryonic federal financial system by establishing an autonomous resource for the EU budget in the form of 'own resources' and by granting the 'power of the purse' to the European Parliament (EP). Both these developments were federal in character, and were intended to enhance the supranational element of the Union. However, from 1975 onwards budgetary politics in the Union were characterized by continuous deep-rooted conflict about the size of the Union's financial resources, decision-making processes, institutional powers, and the budgetary costs and benefits to different member states. The complex budgetary processes established in the Treaties inevitably led to contention between the EP and the Council on issues of substance and powers. The EP set out to maximize its influence in budgetary politics and used its budgetary powers to influence substantive policy areas. The Council, on the other hand, in an attempt to protect its control over the allocation of the Union's financial resources, sought to contain and minimize the Parliament's budgetary powers. Because the Union was an evolving set of governance structures, conflict about rules and decision-making procedures became embroiled in negotiations about substantive areas of policy.

Inter-institutional conflict at EU level was mirrored by continuous conflict about the financial resources of the budget and its spending priorities. The 1970 Budget Treaty was agreed before British membership of the Union and was designed to present the British with a *fait accompli*. The predominance of agricultural expenditure exacerbated the 'British problem' because of its small agricultural workforce. The prospect that the UK would end up as a major contributor to the budget was apparent from accession. It had to battle to get the budgetary issue on to the agenda and to ensure that the distributional consequences of the budget would be taken seriously by its partners.

By 1978, the Commission concluded that the budget faced a resource problem and that it might not be able to meet its budgetary commitments. As a horizontal measure, the budget affected a wide range of EU policies and a lack of budgetary resources limited the ability of the Union to develop new policy areas in the 1970s and early 1980s. The explosion in CAP expenditure, which represented 70 per cent of total spending in 1979, meant that the Union was constantly faced with a shortage of financial resources. The automatic nature of price support made it impossible to plan and control agricultural spending.

These inter-linked budgetary problems dominated the EU agenda from the mid-1970s to the mid-1980s and contributed greatly to the prevailing sense of stagnation and malaise in European integration. Budgetary agreements, where possible, represented lowest common denominator bargaining. The yearly confrontations about the budget sapped the political energies of the European Council and did much to poison the relationship between the UK and her partners. Endemic inter-institutional rivalry between the Council and the EP undermined the credibility of the Union and its ability to foster collective solutions among its member states. The budgetary battles of this period highlighted the absence of agreed frames among the member states and the limits of collective agreement. Budgetary negotiations were characterized by a 'joint-decision trap' or gridlock (Scharpf 1988). By 1984, President Mitterrand, in his attempt to relaunch formal integration, managed to dampen budgetary conflict by getting agreement to an increase in the resource base of the budget and to budgetary rebates for Britain. The Fontainebleau agreement (1984) tamed budgetary conflict but did not establish a long-term budgetary regime for the Union; the resource increases agreed in 1984 were insufficient to absorb the costs of the Iberian enlargement. A new budgetary deal had to await the resurgence in formal integration that accompanied the Single European Act (SEA) in 1987. This was the 'critical moment' when an opportunity arose to find a new pathway for negotiations in the budgetary domain. Could the EU move from confrontation about the budget to a more integrative mode?

A 'CRITICAL MOMENT' BECOMES A 'CRITICAL JUNCTURE'

Notwithstanding the budgetary conflicts described above, the Union managed to introduce fundamental changes to the budgetary regime in 1987/8. This article rejects a realist interpretation of change in the budgetary *acquis*, which would focus predominantly on the evolution of state preferences and subsequent intergovernmental bargaining and negotiation. This is not to deny the importance of state preferences and intergovernmental bargaining, rather to argue that such bargaining should be seen in its wider political and institutional setting. Moreover, the article rejects traditional regime theory which regards supranational institutions as 'a passive structure, providing a contractual environment conducive to efficient intergovernmental bargaining' (Moravcsik 1993: 508). Rather, it claims that supranational institutions, in this case the Commission, had clear preferences and negotiating strategies of their own about budgetary matters, which made it a highly purposeful actor in these negotiations.

The Commission adopted an approach based on 'purposeful opportunism', which led it to exploit the strategic opportunities in its political environment following the successful negotiations of the SEA (Cram 1997). In doing so, it sought to build on the integrative climate in the Union in this period, taking advantage of the political slack in the system to propose a package of solutions,

which would enhance the Union and the supranational elements therein. The budgetary agreement was central to what insiders in the Delors cabinet called the 'Russian doll' strategy of 'iterated episodes of strategic action to seize upon openings in the political opportunity structure, resource accumulation through success and reinvestment of these resources in new actions to capitalise on new opportunities' (Ross 1995: 39). This was achieved through subtle agenda-setting, policy engineering and the preparation of a comprehensive series of proposals that were presented as a total package from which no element could be detached.

The office of the Presidency, held by different member states, was also crucial to the deliberations because of their control of the work programme and the agenda of meetings. Adopting a 'European' hat, successive Presidencies kept the individual dossiers in these negotiations moving through the various institutional layers and injected Presidency papers as potential compromises at critical points in the negotiations. The critical role played by successive Presidencies in budgetary negotiations highlights the fact that the Presidency is an office of the Union with a responsibility to construct package deals. The role of the Presidency is thus a central one in the Union's negotiated order, and the mediating role of the Commission has over time been taken by the mediating role of the Council Presidency.

Agenda-setting

The Commission President, Jacques Delors, sought to take advantage of the opportunity structure created by the signing of the SEA to stabilize and regularize budgetary politics in the Union. He was convinced that the SEA needed financial and budgetary underpinning. The Commission's document *Making a Success of the Single Act* and its proposals in the *Report on the Financing of the Community Budget* established a direct political and policy link between the budget and the primary goal of completing the internal market (European Commission 1987a, 1987b). The changed political environment in the Community and the political cement provided by the shared goal of the internal market, encouraged the Commission to adopt a comprehensive and radical approach to the reform of EU finances. It was the opportunity they had been seeking since the May Mandate 1980. The Commission was prepared to be creative and innovative in the budgetary domain. The Delors proposals were designed to respond to four interrelated problems:

- the Budget's chronic resource problem, exacerbated by the dominance of CAP expenditure;
- the 'economic and social cohesion' articles in the SEA;
- the need for budgetary discipline;
- endemic institutional competition between the Council and the EP on budgetary matters.

The package had to confront a number of material and procedural issues of major importance to the member states. The objective of the Commission in framing its budgetary proposals was to transform the budget from a series of discrete financial instruments dominated by the CAP to a coherent instrument that would enhance economic and political integration, and to embed structural budgetary reform in the *acquis communautaire*.

Framing a package

The Commission proposals were designed to deliver a sizeable increase in budgetary resources, changes to the 'rules of the game' on financial discipline and budgetary decision-making, and an enhancement of the Union's provision for economic and social cohesion. The package demanded much larger financial resources to be distributed according to new rules of the game. The overall package, based on the rationale contained in the political communications cited above, was submitted to the Council as four separate sets of detailed proposals on:

- budgetary discipline and reform of the CAP;
- own resources;
- the UK rebate;
- reform of the structural funds.

Taken together, these four dossiers represented major change in two key policy regimes, agricultural and structural funding, in addition to increases in budgetary resources and new ways of financing the Union. The Commission, in the context of considerable internal wrangling between Directorate-General (DG) VI, which sought to defend agricultural spending, and DG XVI which wanted a larger budget, produced the package. President Delors and his cabinet imposed order and priorities on the internal Commission wrangling. The Commission strategy was to establish a political link between the internal market and the budget, on the one hand, and to establish a negotiating link between the different elements of its overall proposal. The Commission was determined to present the proposals as a package from which no element could be detached, which in turn forced the member states to negotiate a global agreement rather than enabling them to adopt an *à la carte* approach. By using its right of initiative, the Commission succeeded in framing the subsequent negotiations as negotiations on a 'grand bargain' in terms of the future financial perspective and policy-setting decisions on the structural fund and the CAP.

Negotiating the package

Agreement on the Delors I package took one year from the initial Commission launch in February 1987 to the special Brussels European Council in February 1988. It was described by the *Financial Times* as the European Council's

superhuman agenda (*Financial Times*, 28 October 1987). It involved negotiations in working parties, high-level groups, the Committee of Permanent Representatives (COREPER), different Council configurations and three European Councils. There was an interactive process of negotiations between policy-setting decisions and the grand bargains. In fact, agreement on the grand bargain, the Delors I package, depended on building agreement in all four dossiers. The Commission's proposals were supplemented by Presidency working documents, papers from the member states and Commission clarifications. As the negotiations progressed, key issues emerged in all four dossiers, many of which were highly technical in nature. For example, an *ad hoc* group was established to examine the comparability and uniformity of gross national product (GNP) statistics as part of the negotiating process on 'own resources', since Heads of Government were unwilling to deal with the 'own resources' issue without agreement on the technical terms. The negotiations on the reform of the structural funds boiled down to issues relating to the geographical concentration of aid, decision-making on grants and the financial allocation between the member states. Running through the Presidency papers and non-papers on the negotiations was their determination 'to keep constantly in mind the close link existing between budgetary discipline and other key parts of the Copenhagen decisions' (Denmark Presidency Paper, 15 October 1987). The Presidency thus took on the mantle of delivering the package framed by the Commission.

National preferences on the Delors I package were very predictable given the distributional consequences of the proposed package. The UK registered its opposition to the proposals relating to economic and social cohesion as soon as the package was unveiled, since British leaders did not believe that the SEA cohesion provisions carried this price tag. Both Germany and France, determined to protect their farmers, hotly disputed the proposals on the CAP, while the Italian government objected to the move from a VAT system of 'own resources' to a GNP-based one because of its implications for Italian contributions to the budget. All the net contributors, especially the UK, France and Germany, held out against a doubling of the funds for the poor states right up to the final negotiations in February 1988. The UK wanted increases limited to 35 per cent and France and Germany were prepared to go only to 50 per cent.

In the latter half of 1987 the Danish Presidency had the task of getting agreement at Copenhagen in December to the overall package. However, an intensive series of preparatory meetings at bilateral and Union level, including a conclave of Foreign Ministers the weekend before the Summit, failed to produce an agreement. Consequently, the meeting was adjourned to a special European Council under the German Presidency in February 1988. By February pressure was intense for an agreement because of the forthcoming French Presidential election, *Land* elections in Germany and the fact that the EU had entered the year without an agreed budget. The key to the success of the Brussels Summit in February 1988 was the role played by Chancellor Kohl as

President of the Council. The Chancellor felt that the EU could not afford the luxury of continuing a decisive debate on budgetary matters and was concerned that the political impetus for the Single Market might be dissipated. To avoid this, he was willing to delve deep into German coffers to pay for a larger and more distributive budget. This took UK negotiators completely by surprise because they were sure that the German Economics Ministry was in the austerity camp. The Delors I package corresponded to what the Commission wanted to achieve in broad outline and was a major negotiating success for it. The success of the Commission in 1987/8 stemmed from Delors' status with the member states at that time, the political cement provided by the SEA and the fact that the member state treasuries had not experienced the distributional consequences of the new deal. The 'net contributors' club', which was to become an important feature of budgetary politics, was muted at this stage. Delors I was further consolidated by an inter-institutional agreement between the Commission, the Council and the EP on the implementation of the package.

From negotiation to authority

The successful negotiation of the Delors I package in 1987/8 altered the budgetary *acquis* in a manner which has had a lasting impact on EU decision-making in this domain. A critical moment, the success of a single act, was transformed into a critical juncture that altered the 'logical of appropriateness' in this domain. The highly conflictual bargaining of the 1970s and 1980s was replaced by a more predictable, consensual and rule-bound system. Confrontational bargaining on the budget was contained within an integrative mode. The member states, acting collectively, proved capable of upgrading the budgetary *acquis* by constructing a pathway towards integrative solutions. This represented a move from bargaining to authority, from budgetary chaos to order. What were the dimensions of this shift?

- A key element of the change was the move from annual budgetary bargaining to a system based on a medium-term (five years) financial perspective. The establishment of medium-term time frames with in-built review and evaluation processes is central to the search for authority in the Union's governance structures. The five-year time frame (1988–92) in the Delors package enabled the Commission to plan its annual budgetary proposals within agreed political priorities, secure in the knowledge that there were sufficient budgetary resources to meet those priorities. The Council was no longer confronted with the spectre of wearisome annual budgetary negotiations and Council/EP conflict was more muted thereafter. The principle of an agreed financial perspective was established.
- The new agreement was backed up by law in the form of a regulatory framework that established the rules of budgetary discipline. Budgetary

discipline, notably agricultural budgetary discipline, meant that the additional resources in the budget went towards cohesion expenditure and not the CAP. The regulatory regime with monthly monitoring of expenditure and the introduction of stabilizers for different products began the difficult process of controlling CAP expenditure. Hard law rather than unenforceable political commitments backed budgetary discipline by agricultural ministers. The latter were brought into a broadly based Union framework, which reduced their room for manoeuvre.

- The reform of the structural funds, with the emphasis on greater concentration on objective one regions and on new approaches to programming, enabled the Commission to implement new principles of EU governance, such as partnership, and to enhance its links with regional governments. While cohesion policy in macro-terms might be viewed as a side-payment to Europe's poorer regions, the policy-setting decisions that accompanied the agreement enabled the Commission to experiment with new policy instruments and modes of governance.
- The inter-institutional agreement between the Commission, the Council and the EP was essential to the search for authority. It provided the cement that kept the financial perspective on track. The three institutions agreed on the application of the budgetary procedures, although there were differences in the interpretation of some parts of the agreement. The agreement included finding a reference framework for revenue and expenditure for the six agreed categories of activity.

Once the negotiations had concluded, the member states accepted the authority of the outcome and budgetary politics evolved within the constraints of the agreement over the next five years. The budgetary conflict of the early 1980s was replaced by relative budgetary peace during the life of the Delors I package. The budget was passed into law each year on time and the system proved capable of absorbing the budgetary consequences of German unification without undue strain.

How then was the conflict of the 1970s and early 1980s transformed from zero-sum bargaining into a new budgetary regime which altered the rules of the game, decision procedures, and the relative gains to different member states? A key element in the change was the convergence of preferences around the 1992 project and the successful linkage established by the Commission President, Jacques Delors, between the internal market and a new budgetary deal. The search for authority included a focus on an agreed time frame (five years) which corresponded with the calendar for the 1992 project. In addition, the negotiations produced macro-reform of major policy areas, notably the CAP and the structural funds. The agreement included new provisions, policy-shaping decisions, for the implementation of structural spending. The commitment to cohesion in the SEA proved useful to the Commission in its search for resources for this policy area. The value of cohesion, proclaimed in the SEA, carried a price tag for the member states. The inter-institutional agree-

ment between the three budgetary institutions on the implementation phase of the process improved institutional relations and held the reform together. The reform was further strengthened by a new financial regulation. By bundling such a broad range of issue-areas into one package to be negotiated at the same time, the Union succeeded in achieving macro-reform. It also managed to contain the fragmentation and problems of co-ordination of the Union's policy process by negotiating the grand bargain across a wide range of interrelated policy items.

EMBEDDING THE NEW *ACQUIS*

The impact of the Delors I package on the budgetary *acquis* was quickly felt after the signing of the Treaty on European Union (TEU). The Commission published its budgetary proposals, *From the Single Act to Maastricht and Beyond: The Means to Match Our Ambitions*, within five days of the signing of the TEU in an attempt to make the link between constitutional change and the financial perspective (EU Commission 1992). These proposals deliberately built on the Delors I *acquis* by proposing a five-year medium-term strategy including a further commitment to structural fund spending, a new Cohesion Fund, budgetary discipline for the CAP, and a range of internal policy measures to enhance competitiveness. In addition, the Commission sought a major increase in external spending. The proposals envisaged the growth of EU spending from 1.2 per cent of GNP to 1.37 by 1997. Once again the Commission was attempting to gain additional financial resources for the Union budget as part of consolidating the Union.

From a Commission perspective, the negotiations proved far more difficult and tortuous than the original Delors I negotiations. This time round the budget was not in crisis and there was even some scope left within the existing 'own resources' ceiling for budgetary growth. The net contributors, of whom there was now a growing number, were hostile to the Commission proposals from the outset. This allowed the UK government to argue with some merit that the package was too ambitious. The German government was struggling under the weight of unification which made them less likely to endorse a larger budget. As 1992 progressed, the West European economies slipped into recession, which further reduced the enthusiasm for spending given the problems in the national finances. The Danish 'no' in June 1992, followed by the French '*petit oui*' in September, unleashed a crisis of confidence in integration. This meant that, unlike the situation in 1987/8 when the crisis was a budgetary one, this time round the crisis was political in nature.

The negotiations on the new financial package waxed and waned during the Portuguese Presidency in the first half of 1992, and it fell to the British Presidency in the latter half of the year to reach a conclusion. These negotiations posed a number of tricky issues for the Presidency because of their long-standing commitment to containing the EU budget and because the British budgetary rebate was being questioned by a number of member states. During

the Portuguese Presidency the Commission had conceded on its time frame by agreeing to a seven-year financial perspective rather than five years, but had decided to 'tough it out' on the rest of the proposals. The UK Presidency, in an attempt to contain budgetary increases, scheduled a number of Eco-Fin meetings to deal with the issues in an attempt to reduce the influence of the Foreign Ministers. The Presidency put forward a compromise package to the special conclave of Finance and Foreign Ministers in November, which represented a significant dilution of the Commission proposals. Jacques Delors reacted to the proposals by sending a letter to all the delegations reinforcing his arguments about the proposals and rejecting the Presidency compromise. The final negotiations were left to the Edinburgh European Council in December.

The UK Prime Minister needed a success at Edinburgh because growing dissension in his party about the TEU and the exchange-rate mechanism (ERM) crisis in September bedevilled the UK Presidency. Failure to reach agreement on Delors II at Edinburgh would have greatly enhanced the sense of drift in the Union and would have delayed the opening of accession negotiations with the European Free Trade Association (EFTA) states which depended on agreement to a new financial package. In the run-up to the meeting, the member states remained deeply divided. The UK had the support of Germany, the Netherlands and, to a lesser extent, Italy for its Presidency conclusions. France, Denmark, Luxembourg and Belgium were prepared to compromise between the UK Treasury line and the cohesion states. In the lead up to the meeting, it became apparent that the cohesion states, led by Spain, were prepared for nothing less than a doubling of cohesion finance. The Spanish Foreign Minister said, days before Edinburgh: 'better no agreement at Edinburgh than a bad one. There are plenty of other cities and lots of other dates' (*Financial Times*, 8 December 1992). The Spanish Prime Minister, Felipe Gonzalez, appeared willing to veto the Danish agreement on the TEU unless he received satisfaction on the budgetary side. A breakfast meeting between Chancellor Kohl and President Mitterrand on the morning of the second day of the Summit led to agreement to a far larger budget than the UK Presidency proposed.

The difference in the outcome of the Delors I and II negotiations from a Commission perspective highlights an important distinction between the material and procedural dimensions of EU negotiations. The Commission was less successful this time round in getting its budgetary proposals through. It failed to get the budgetary increases it sought; its proposal for revenue to a ceiling of 1.37 GNP over five years was reduced to 1.27 per cent of GNP over the longer timescale of seven years. The cohesion countries once again succeeded in getting a sizeable increase in financial transfers and a new policy instrument, the Cohesion Fund. The member states were unwilling to grant increases in expenditure for research and development, transport networks and telecommunications. External expenditure was another matter; here the mem-

ber states, responding to the collapse of communism, endorsed an effective doubling of EU finance over the seven-year period.

The institutional and procedural changes introduced by Delors I endured through the Delors II negotiations. This underlines the fact that it is extremely difficult, albeit not impossible, to unravel institutional and procedural arrangements in the EU system. The thickening of procedures and norms in the budgetary domain during the life of the Delors I agreement established the context for the Delors II negotiations. None of the member states at that stage challenged the appropriateness of a medium-term perspective, legally based budgetary discipline or the need for an inter-institutional agreement. Nor did any of the member states succeed in unravelling the commitment to cohesion contained in the SEA and the TEU. The Delors II package was accompanied by a reform of the structural funds, budgetary discipline for agriculture and an inter-institutional agreement between those responsible for the budget. Whereas the negotiations of the Delors I agreement demonstrated the ability of the Commission to gain political and policy leverage in certain circumstances, the negotiations of Delors II demonstrated the limits to purposeful opportunism in less benign political circumstances. However, the core elements of the new budgetary *acquis* were preserved, notably, in a medium-term financial perspective, decisions on budgetary priorities, the continuing commitment to cohesion and budgetary discipline, and an ability to adjust to changing demands, especially additional demands for external spending.

SUSTAINING THE BUDGETARY *ACQUIS*

The budgetary regime established by the Delors I agreement in 1988 faced its sternest test in the search for a budgetary agreement to take the Union to 2006. The 'shadow of enlargement' and the clamour of the 'net contributors' club' raised the prospect of a return to zero-sum bargaining on EU finances. Each enlargement of the Union has shifted the budgetary priorities and the costs and benefits to individual member states. Enlargement inevitably undermines the existing budgetary bargains in the Union. The next enlargements cannot be accommodated without a restructuring of the existing regimes and a larger pool of resources. Just how far that restructuring should go, was the dilemma facing the member states and EU institutions. The existing net contributors and the beneficiaries from the budget faced difficult choices about budgetary reform.

Faced with the competing concerns of the member states and the applicants, the Commission had the task of establishing the broad outlines of a budgetary framework for the period 2000–06. From the outset, the Commission sought to reassure the member states that the costs of enlargement could be absorbed and limited. A key Commission priority was to maintain the budgetary *acquis*. Its proposals, *Agenda 2000: For a Stronger and Wider Union*, were published in July 1997 following the conclusion of the Intergovernmental Conference (IGC) at Amsterdam. In addition to giving its opinions on the applicants, the

proposals covered the reform of the CAP and structural policy and the future financing of the Union. Unlike the Delors Commission, Santer adopted a cautious position by arguing that the present resource ceiling of 1.27 per cent of GNP did not need to be increased, thereby avoiding a new 'own resources' decision and national parliamentary ratification.

The Commission was clearly influenced by the debate in a number of member states about the budgetary costs of the Union. The proposal in Agenda 2000 that member states would only receive up to 4 per cent of their GDP in the form of the structural funds was an attempt to reduce the costs of extending this policy to the new member states. The July 1997 framework was followed by detailed proposals in March 1998 on the policy-setting decisions in relation to regional policy and the CAP. The agricultural proposals included revised Council regulations for the common market organization for cereals, arable crops, beef, milk and olive oil in addition to a revision of the European Agricultural Guidance and Guarantee Fund (EAGGF) financing regulation and measure covering rural development. The proposals in relation to the structural funds included a general regulation for all the funds, vertical regulations for each fund, and a revised regulation for the Cohesion Fund. Taken together the proposals amounted to an extensive legislative package that would set the framework for the new policy areas to 2006. Subsequently, the Cardiff European Council (June 1998) set March 1999 as the deadline for agreement on the package. The stakes were very high for each of the member states, for EU institutions and for those states waiting for a seat at the table. The key question was whether the budgetary *acquis* established by the previous two package deals could be sustained or whether it would 'unleash a bruising debate on burden-sharing, reminiscent of the debilitating battle fought by Baroness Thatcher, which brought most other decision-making to a standstill for several years' (*Financial Times*, 20 October 1998).

The Commission's proposals in March 1998 established the boundaries of the subsequent negotiations. The Commission, as noted above, was cautious in its pitch for additional resources. Without an increase in the 'own resources' ceiling, additional financial resources would have to come from growth. A key feature of the Commission's proposals was that, unlike Delors I and II, structural spending would cease to grow as a proportion of the EU budget and existing objective one regions would bear the brunt of the reductions as a proportion of structural fund monies was set aside for the applicants. On agriculture, the Commission sought to build on the policy line adopted by MacSharry in 1992 with further reductions in price supports (30 per cent in beef, 20 per cent in cereals and 15 per cent in dairy) and an increase in compensation payments to farmers.

Once the Commission's proposals were on the table, the Council was the arena for negotiating the deal. Given the complexity and inter-connectedness of the dossiers, the formal Council framework was augmented by a number of additional high-level groups. The General Affairs Council had the co-ordinating role in the negotiations but it was clear from the beginning that the

striking of a deal would fall to the Heads of Government in a European Council. The Eco-Fin Council had the task of preparing the financial aspects of the future financial perspective. The Agricultural Council dealt with the CAP reforms. In addition to the three Councils, COREPER I and II, the Special Agriculture Committee and the Economic and Financial Committee all played a role in negotiating the deal. As the negotiations intensified, a Friends of the Presidency Group, a Structural Actions Group and a group of the heads of the national agricultural ministries were established to enhance the negotiating capacity of the formal Council process. The negotiating framework in Brussels was mirrored in all the national capitals, as these negotiations were accorded the highest priority by all the member states. Two Presidencies, Austria (second half 1998) and Germany (first half 1999), acted as the managers of the negotiations, working to a timetable established by the European Council. All the participants accepted that the final deal, if negotiable, would go right down to the European Council, scheduled by the German Presidency for 25–26 March.

The member states were deeply divided about the desired outcome at Berlin. During the life of the Delors II package, a vocal 'net contributors' club' emerged in the Union. Germany, determined to reduce its payments to the EU budget, led the club. In 1988 and 1992, Chancellor Kohl was willing to act as paymaster in order to get agreement. German contributions rose as a result from 4 billion ECU in net contributions in 1987 to 11.5 billion ECU in 1995 (*European Voice*, 11 September 1997). In reaction to the Commission's Agenda 2000 proposals, the Kohl government clearly signalled that it was unwilling to pay the bills on this occasion because of the consequences of paying for unification and the fact that it had fallen in the EU wealth league. The prospect of a general election in September 1998 added urgency to German demands. The Netherlands, which had moved from the net beneficiary club to the net contributors' club in the 1990s, supported the German position. In 1996, it moved ahead of Germany to become the largest contributor in per capita items to the budget. Austria and Sweden, two newcomers, were also part of the growing number of states concerned about the financial burden of the EU budget. The UK found itself in a distinctive position in that it was not at one with the other net contributors as it sought to protect its rebate. In order to placate the net contributors' club, the Commission promised to produce a report on the 'own resources' system by October 1998.

The cohesion countries, particularly Spain, supplied the counter-argument. The attitude of the Spanish government was that it would be unlikely to benefit economically from enlargement, and was thus unwilling to pay the costs of enlargement by suffering a reduction in its receipts from the budget. The Aznar government was adamant that it would not accept a reduction in cohesion fund monies although it had met the criteria for joining the euro. Greece and Portugal supported the Spanish line, although in a less strident manner. The fourth cohesion country, Ireland, was attempting to minimize the loss of structural funding as high economic growth lifted it above the objective

one eligibility criteria. The key cleavage between north and south was augmented by additional cleavages on CAP reform and on the question of a generalized rebate mechanism.

The negotiations did not begin to gain momentum until October 1998 when the Commission published its report on 'own resources'. The report did not contain formal Commission proposals; rather, the Commission sought to provide a reasonably objective account of the position of each member state in terms of contributions to and receipts from the EU budget. The Commission report identified Germany's role as the paymaster of the Union, followed by Sweden, Austria, the Netherlands and the UK. France and Italy emerged as relatively minor contributors. It was never intended as a basis for negotiation, because the Commission argued that a review of the own resources should wait until the next enlargement. It did, however, suggest that if the member states were concerned about burden-sharing, a simple solution would be to reduce the EAGGF subvention from 100 per cent to 75 per cent. In other words, the CAP could be partly renationalized. The German government reacted enthusiastically to the proposal which in turn brought it into direct conflict with the French, who were determined to protect their privileged position in relation to farm expenditure.

By December 1998, the Austrian Presidency reported to the European Council that it had not managed to reach many areas of general agreement, except on how to finance enlargement for a union of twenty-one member states. Rather than presenting agreed conclusions about the state of the negotiations, the Presidency presented a 617-page document to the European Council. It was thus left to the new German government under Gerhard Schröder to attempt to deliver agreement by March 1999. The government was immediately confronted by the tension between its role as President of the Council and the strong national position it was taking in the Agenda 2000 negotiations.

The German Presidency established a very intensive negotiating calendar with continuous meetings on the dossiers at different levels in the hierarchy. The tone of the negotiations moved from considering all national positions to the search for a deal by establishing how the different positions of the majority of member states could be accommodated. The more radical proposals for a partial renationalization of CAP payments or a generalized corrective mechanism failed to attract support, and as a result attention turned to budgetary stabilization as the means of containing or reducing what were considered as excessive contributions by a number of member states.

In an effort to put pressure on the member states, the Germany Presidency deployed a number of different negotiating strategies in late February. The member states were presented with eleven questions, which were then debated at a conclave of Foreign Ministers in the lead up to an informal European Council on 26 February. The Agricultural Ministers held a week-long meeting before the Summit but emerged without agreement. The Heads of Government were sharply critical of the way in which the Agricultural Council had

gone about its business. In his letter of invitation to the informal Summit, the German Chancellor suggested that the numbers accompanying the Prime Ministers should be reduced to four, thereby increasing pressure on the individual Prime Ministers to begin to fashion a final deal. The compromise discussion paper presented by Chancellor Schröder to his fellow Heads of Government did not find sufficient favour to form the basis for the final deal. At the end of the meeting, the Chancellor accepted that 'There is no denying there are still deep differences on spending discipline and revenues' (*Financial Times*, 27 February 1999). Yet within one month, at Berlin, the Heads of Government had agreed the future financial package. This was achieved by watering down the CAP reform proposals and finding enough to keep the cohesion states happy.

The pattern of the Agenda 2000 budgetary negotiations followed the pattern established by the earlier 'big package deals'. The procedures established by Delors I, namely a multi-annual financial perspective, an inter-institutional agreement, and policy-shaping decisions on the CAP and the structural funds endured. Again we see the crucial role of the Presidency in acting as an agent for compromise and decision-making and the role of the Commission in framing the negotiations. During the Amsterdam IGC, there was some discussion about giving the financial perspective a constitutional/legal basis in the treaty. Although the member states were not prepared to agree to this constitutional change, none of them was prepared to break ranks on the budgetary *acquis*. The institutionalization of Delors I proved robust.

CONCLUSIONS

The analysis of budgetary negotiations in the EU since the mid-1980s highlights two important linkages: between the budgetary bargains and constitutional change, on the one hand, and between budgetary grand bargains and institutional change, on the other. A fundamental characteristic of EU negotiations is the connection between agreement on policy and agreement on 'rules of the game'. The article set out to analyse four interrelated factors, from an institutional perspective, that highlight the evolution of the Union as a 'negotiated order'. These were: the significance of critical junctures, lock-in, institutionalization and embeddedness in the *acquis*. All four factors were identified as significant in the evolution of EU budgetary negotiations since 1988. The February 1988 agreement on Delors I represented an integrative outcome for the EU. The Commission adopted a creative and experimental approach to framing budgetary discussion in an integrative mode. The member states at that time, acting collectively, found sufficient agreement to produce an integrative outcome. The changes introduced in 1988, both in terms of substance and process, proved enduring although the member states were unwilling to constitutionalize the medium-term framework in a treaty. A number of key features were locked into the *acquis* at this stage. These were a medium-term financial perspective, macro-reform of major policy areas,

budgetary discipline and an inter-institutional agreement. The process of segmented bargaining within an overarching framework facilitated agreement by providing ample opportunity for coalition-building, issue linkage and diffuse reciprocity. The 1988 agreement was thus able to alter the budgetary *acquis* in a fundamental manner.

In addition to altering the dynamics of budgetary negotiations, the conduct of negotiations also changed. The changing 'logic of appropriateness' in the budgetary domain meant that subsequently there was strong pressure to reach agreement on future financial perspectives and to avoid a return to the zero-sum bargaining of the 1970s and 1980s. No one member state could press its claims in a manner that would lead to the collapse of subsequent negotiations. Although a number of states threatened exit in subsequent negotiations, none actually left the table. The distributional conflict about budgetary outcomes was contained within set time frames and embedded norms about the conduct of the negotiations. There were strong pressures to reach a certain kind of budgetary agreement. Member states accepted that budgetary negotiations would encompass negotiations on the future financial perspective, 'own resources', and the CAP and structural funds. EU institutions accepted that each budgetary agreement would be accompanied by an inter-institutional agreement. The embeddedness of the 1988 agreement led to 'ready solutions' for subsequent negotiations.

The budgetary negotiations underline the robust nature of the Union as a negotiated order. The Commission's role of establishing the boundaries of macro-negotiations is highlighted in this article. Depending on the prevailing political climate, the Commission is more or less ambitious in its agenda-setting role. The Council's capacity, notwithstanding the complexity of these negotiations, is also highlighted. The crucial role of the European Council as a source of political authority and an arena of final agreement is identified in all three budgetary negotiations. So too is the role of the Presidency in constructing the final package deals. The Council system generates negotiating capacity by augmenting the formal Council hierarchy with a plethora of ad hoc groups. The budgetary *acquis*, both in terms of substance and process, will face another critical test when confronted with framing a post-2006 financial perspective for an enlarged Union. On the basis of the evidence and argument in this article, we would expect a medium-term financial perspective and reform of regional policy and the CAP to form the core of the next budgetary agreement, notwithstanding enlargement.

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NOTE

- 1 The material for this article was gathered from interviews with officials involved in budgetary negotiations in the Union in addition to in-depth analysis of

Commission papers and Presidency papers. Analysis of the budgetary framework in the Union can be found in Laffan (1997).

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