

Policy Brief

What the European Council's MFF/ Recovery deal tells us about the EU's global ambition

22 July 2020

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Introduction

After four days of intense negotiations, EU leaders have finally reached an agreement on the EU's long-term EU budget and post-Covid recovery fund. **The final compromise leaves mixed feelings.** It truly constitutes a historically ambitious package which almost doubles EU spending for 2021-2024 with money raised on the financial markets. Internal solidarity and economic recovery are key pre-conditions for wielding power externally and being resilient to external influence. The [contrast](#) between the initial lack of intra-European solidarity and China's so-called "mask diplomacy" underlined by targeted disinformation illustrates this point. At the same time, we saw a traditional pattern in the European Council's budgetary negotiations: the compromise has been reached by largely preserving spending pre-allocated to Member States – e.g. agriculture and cohesion spending, the new facility providing support to national recovery and resilience plans - and by drastically cutting key EU programmes financing EU-level public goods and thus delivering added value for all – in areas such as research and innovation, mobility, development aid or internal and external security.

This policy brief discusses **what the compromise tells us about the EU's global ambition**, by zooming in on joint spending on development cooperation as well as security and defence. We first focus on **development and humanitarian aid** as they stand for the contribution that the EU is willing to make to help others deal with the health-related and economic consequences of the pandemic. In a second part, we address joint spending for **security and defence** as it will determine the degree of autonomy the EU can have as a security provider as well as the amount of savings achieved through cooperation.

Development: cutting the budget despite rising challenges

Since its outbreak in China, the pandemic's epicentre has gradually shifted from Europe and the US to the Global South. Many of the now most affected countries already have poor public health systems while governments lack the fiscal space to address the pandemic's economic repercussions. In March, the UN [warned](#) that **developing countries would need a \$2.5 trillion support package in 2020** to face the pandemic's economic repercussions. In June, the World Bank [estimated](#) that the pandemic could push up to 100 million people into extreme poverty in 2020 with Sub-Saharan Africa and India being most affected. This is the first rise in extreme poverty since 1998.

As a major economic player and the world's largest collective donor of development aid, the EU has both a **moral imperative and a strategic interest to help other countries** tackle the crisis. This implies addressing short-term emergency needs but also longer-term structural impacts that the Covid crisis may have on societies and economies, thus reducing the risk of destabilisation.

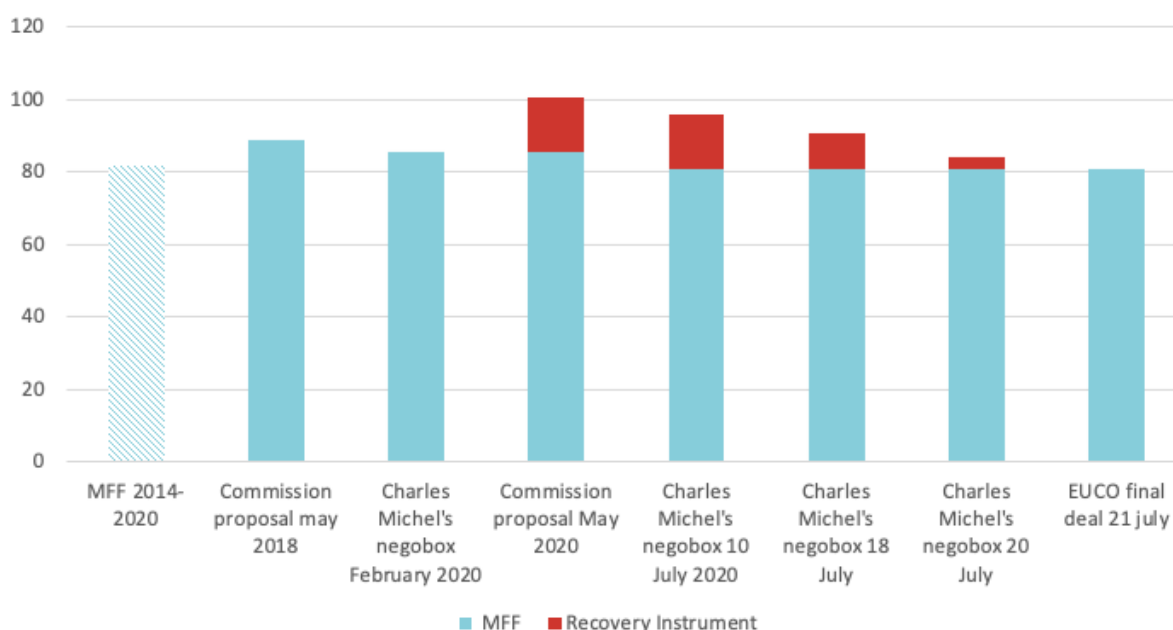
The Commission **was quick to respond to emergency needs**. Since April, [€15.6bn](#) have been repurposed from the current EU budget to help third countries fight the pandemic, putting a strong focus on Africa and the neighbourhood. Funds have been used to provide a rapid response to the health crisis and resulting humanitarian needs; strengthen partners' health, water and sanitation capacities; and address the immediate social and economic consequences. This has been done by adopting a "Team Europe" approach, which has allowed to combine EU budget funds with those of other EU level institutions – particularly the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) – and coordinate them with efforts from the Member States and their financial institutions.

In the coming years, the EU will have to continue dealing with the **longer-term impact of the pandemic** on developing and emerging countries. Particular attention will be required to prevent a severe economic fallout in third countries with high debt levels or strong dependencies on tourism and remittances. At the same time, according to some [experts](#) the re-purposing of funds to tackle the Covid-19 emergency needs has led other proposed investment programmes to be postponed the next EU's long-term budget for 2021-2027.

Against this backdrop, how do we assess the agreement reached by the European Council? In May 2020, the Commission had proposed to reinforce the Neighbourhood, Development and International Cooperation Instrument (NDICI) and the Humanitarian Instrument with a €15.5bn ¹top-up from the temporary post-Covid recovery instrument. This would have represented a 13% increase compared to the Commission's pre-Covid MFF proposal of May 2018 and a 24% increase compared to the amounts for development cooperation and humanitarian aid in the EU's current 2014-2020 long-term budget.

However, both the NDICI and Humanitarian Instrument's envelopes have been revised downwards in the successive "negotiation boxes" presented by European Council President Charles Michel just before (14 July) and during the summit (18 and 20 July). On the insistence of the "frugal countries" to further scale down the overall size of the package, the final compromise has eliminated the top-up for NDICI in the Recovery Fund. The EU's funds for development

**EU spending in development cooperation and humanitarian aid
2021-2027 (in €bn, 2018 real prices)**



¹ All amounts are indicated in 2018 real prices.

cooperation and humanitarian aid are now lower than in the pre-crisis Commission MFF proposal (-9%). **They are even slightly lower than the current 2014-2020 EU budget, while the challenges are clearly bigger.** All in all, this outcome reveals a lack of foresight. The number of Covid-19 cases is rising worldwide and the EU will not successfully recover from the crisis as long as the pandemic continues to rage on elsewhere.

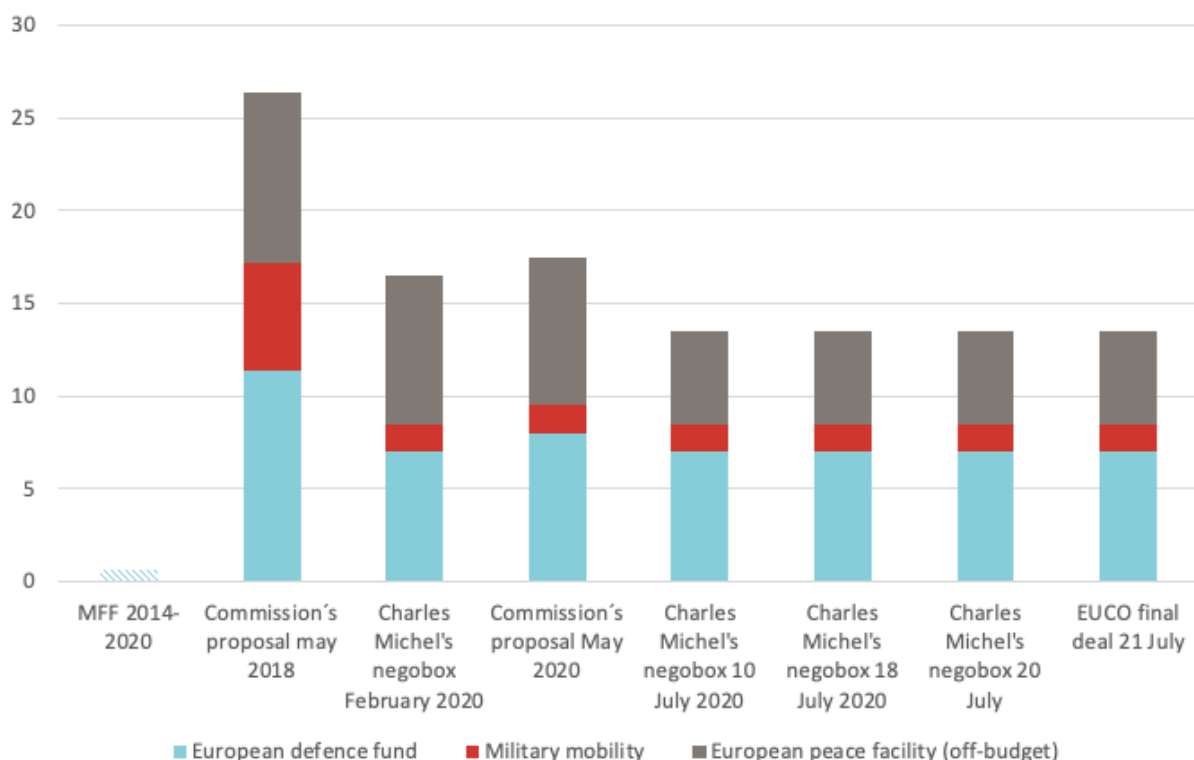
Security and defence: clear losers of the MFF negotiations

While the EU focus is on the health and economic crises, **none of the existing security threats and challenges have disappeared.** To the contrary, the pandemic and its economic fallout will likely amplify them by distracting authorities, disrupting ongoing peace operations and negotiations, exacerbating humanitarian crises, and increasing inequalities. Despite the call for a global ceasefire by UN Secretary-General António Guterres in March, [evidence](#) suggests that the number of violent incidents in fragile or conflict-ridden countries has rather increased. This includes, for instance, enhanced activities by the so-called Islamic State in Syria and Iraq, which, as a German Green politician once said, you cannot fight by sending yoga mats.

At the same time, **Europe cannot necessarily count on the US to step in.** The Trump administration has been shifting its attention away from the European continent and its neighbourhood. The decision to withdraw 9,500 troops stationed in Germany without prior consultation with NATO partners is a harbinger of things to come should there be a second Trump administration. Regardless of the electoral outcome, any US administration grappling with the economic consequences of the pandemic will ask for bigger European contributions to transatlantic burden-sharing. There is thus a strong case for greater European strategic autonomy and for more synergies through deeper cooperation.

This was also the rationale for including, for the first time ever, a substantial envelope for security and defence in the EU's next long-term budget. However, after several rounds of negotiations, **defence and security clearly stand out as losers.** The European Defence Fund, a new EU-level instrument that should foster synergies in defence research and development through collaboration and joint procurement, has been cut by 39%, from 11.4bn in the initial Commission proposal of May 2018 to €7bn in the final Council deal.

EU defence spending 2021-2027 (in €bn, 2018 real prices)



The European Peace Facility, an off-budget instrument that should cover the EU's operational actions with military and defence implications abroad, has been almost halved from 9.2bn to 5bn. The financial envelope for military mobility that should help upgrade existing infrastructure to allow for military transport across Europe has seen the starkest cuts (from €5.8 to €1.5bn).

These cuts will **impair the EU's role as a security provider** and undermine its ability to do more with less. The Commission [estimates](#) that the lack of defence cooperation between member states annually costs between €25-100bn. To what extent the European Defence Fund can mitigate these losses is still disputed but substantial cuts will certainly not help. Meanwhile, military mobility is a flagship initiative for EU-NATO cooperation and funds under the MFF were to be a major EU contribution. The stark cuts will further erode support for the EU's defence initiatives among Central and Eastern European members, which already tend to see them as undermining NATO.

Overall, **the EU will have to do more with less**. It might have to compensate for a potentially more inward-looking US. It will face increasing demands for military support to pandemic responses in Europe and abroad. Meanwhile, analysts [predict](#) that the EU-level cuts will be followed by important national defence budget cuts. Pooling resources at the European level would be the rational thing to do, but six years of uncoordinated defence budget cuts in the aftermath of the 2008 financial crisis indicate otherwise.

Conclusion

In 2019, EU leaders promised that the bloc would play a stronger role in the world. The Covid-19 crisis has shown how important internal solidarity is when faced with fierce geopolitical competition and targeted disinformation. Europe's economic recovery is a pre-condition for wielding geo-economic power. Yet the pandemic has also raised the demand for global solidarity and a more pronounced geopolitical role. Considering how connected our security and stability is to that of others, it is in the EU's enlightened self-interest help others deal with the consequences of the pandemic. It is also in its very own interest to enhance its ability to mitigate rising tensions and boiling conflicts. Security and development, as the EU has underlined on many occasions, are inextricably linked.

However, **the EU's promises of global solidarity and strategic autonomy are void without the necessary resources**. The European Council's MFF/Recovery Package agreement inflicts severe cuts to the EU external action budget. In the coming months, we will see if the European Parliament is able to allocate more funding for EU's external action. It will surely have the intention to do so but we know from the past that its political leverage in the MFF negotiations is very limited, particularly when it comes to challenging the figures agreed during a hard-fought battle in the European Council. If the European Parliament does not succeed, the alternative, second-best solution will be for member states to prevent a replication of cuts at national level and find innovative ways to pool their resources to face a world marked by even greater geopolitical turmoil.

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