Think Global – Act European

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The Contribution of 14 European Think Tanks to the Spanish, Belgian and Hungarian Trio Presidency of the European Union

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BUDGET

The Forgotten Reform

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Reforming the EU budget will be the next major reform after the settlement of institutional reform with the Lisbon Treaty. In the context of the financial framework 2007-2013, the Council of the European Union called on the European Commission in December 2005 "to undertake a full, wide ranging review" of how the EU funding system can be reformed and to present a report on this in 2008-2009. On the basis of this report the Council would then "take decisions on all the subjects covered by the review," which are to be taken into account in the negotiations for the next financial perspective.

The European Commission will present in early 2010 its long-awaited communication presenting proposals to make the European Union fit for the next decade and to tackle economic, demographic and social challenges. The aim of the revision debate will be a comprehensive and far-reaching reform of the EU's financial constitution, which examines both the spending and revenue sides. It is expected that the Commission will propose new spending priorities and a new own resource.

Although the member states mandated the European Commission to review the budget in depth, it seems that their resolve and the incentives to thoroughly overhaul the European budget have faded somewhat. Instead the member states are preparing to negotiate the next financial framework 2013-2020 as business as usual. Today it seems that they will miss the opportunity of the mid-term review.

But the next negotiation round will be different for two reasons:

- The Commission started the mid-term review of the financial framework in September 2007 with a broad public consultation. All member states submitted their position papers and national parliaments, regional and local authorities, Non-Governmental Organisations (NGO) and interest groups also took part and outlined their expectations. This broad public discussion, with close to 300 contributions discussing the priorities of European policies, equipped the Commission with some new ideas and with some public support to propose a complete refocusing of EU spending priorities.

- The Lisbon Treaty provides a different arena for the budgetary negotiations, with a new player. The new Treaty removes the distinction between compulsory and non-compulsory expenditure and this strengthens the European Parliament's role in European budgetary policy. In addition the prerogatives and sources of influence enjoyed by the European Parliament in the adoption of the annual budget have been reinforced too. This massive strengthening of the European Parliament means an upgrading of the parliamentarian dimension of European budgetary policy.

The European Parliament adopted in March 2007 a report on the future of the European Union's own resources, the so-called Lamassoure Report. It proposed a two-stage reform, with the first step being to abolish all exceptions and rebates by 2013 and to fund the EU budget through a uniform percentage of the gross national income of each member state. The second stage, starting in 2014, would be to introduce a system of genuine 'own resources' for which the European parliamentarians proposed the payment of a limited and clearly identifiable proportion of an existing national tax. A second resolution argues for a prolongation of the current financial framework as a transition to future financial frameworks of five years' duration. This means there is new player with its own interest and its own agenda – and the member states will have to respect this and include the new player in the game.

The budget review must bring together various contradictory aims:

- The interest of the member states to keep budgetary discipline, to limit the volume of the financial framework and to retain more or less the *status quo* of spending policies. The national policy-makers show little inclination to venture away from well-trodden negotiating paths. Any fundamental change to the negotiating framework at first brings only increased insecurity and reduced predictability, especially where the national net balance is concerned. So, as a rule, the member states stick to existing agreements and merely attempt to influence the outcome of the negotiations by tweaking existing controls.
- The interests of the European Commission and the European Parliament to obtain a higher degree of budgetary independence from the member states and to be able to decide autonomously on spending priorities.
- The interest of European citizens, who expect that the European Union will be prepared for the challenges of the 21st century and will have the financial means for efficient and purposeful European policy-making.

The member states conduct usually the budget negotiations strictly according to the outcome for their national net balance. This net balance logic has a number of negative consequences. Firstly, the negotiations regularly involve a large number of *quid pro quo* deals, which are mostly not the forward-looking compromises needed by the European Union to meet the challenges of diminishing cohesion and increasing competition in a globalised world. The net-balance logic and the dominance of national fiscal interests therefore prevent solutions orientated towards the common European interest. The result of this kind of behaviour is that necessary modifications are delayed and the results are often inadequate or come too late. Additionally, once compromises have been reached and exceptions agreed (and concessions made too), these tend to become entrenched. Because such compromises can subsequently only be altered by consensus they thus attain a binding status that is equivalent to European treaty law.

On the other hand it is obvious that the Commission's first proposal will touch on all dimensions and aspects of the EU budgetary policy – revenues, spending, institutional and procedural questions and some matters of principle:

- To steer the process, some principles or leitmotifs are necessary to balance the different aims and interests. The Commission, referring back to the public consultation, will underline the principles of generating European added value as a kind of yardstick to justify European spending policies. It will be difficult to define a common understanding of what European added value could or should mean and how it could be measured. Improved efficiency, economies of scale, cross-border or transnational improvements and measures integrating European markets are probable indicators for European added value. The principle will therefore be similar to the principles of subsidiarity and proportionality. However, these principles will not weaken the Community policies like Common Agricultural Policy (CAP) or cohesion policy. The leitmotif of European solidarity will remain.
- Nevertheless, the Commission is expected to propose a shifting of spending policies from the current CAP to new policies like research and innovation or climate and energy. This means the Lisbon Strategy for growth and jobs will serve as the guide for the financial framework 2013-2020, as President Barroso has already laid down in his guidelines for the new Commission.
- The current system of own resources, with the UK rebate and the other exceptions, is becoming increasingly complex and unfair. Abolishing the Value Added Tax (VAT) resource and linking national budget contributions more clearly to the wealth of individual member states would transform the system of own resources into a more conventional system of financing for international organisations. Therefore the Commission will propose to phase out all rebates and correction mechanisms, and it will probably also raise the possibility of introducing a new own resource.

It is thus the special format of the negotiations – and especially the net-payer logic – which defines the rationales of national positions. It is not the revenue or the spending side of the EU budget which structure the negotiations and the national positions; it is rather their interplay and the effect on the net-payment balance which national governments calculate. For that reason, it is important that the overhaul of the financial perspective explicitly links the revenue and spending sides as the two main components of reform.

The Trio Presidency will have to steer the debate in the Council between the member states. However, a format for the negotiating process has not been specified. The wording of the revision clause is extremely vague, not naming any key points or setting any objectives for the in-depth overhaul of the EU financial framework. For example, will the review lead to a definitive result, concrete proposals and targets for adapting the political and budgetary priorities for the next financial framework, and will those proposals be expressed in precisely calculated budgetary terms?

Only the timetable for the revision process is set. The Commission was asked to present a report in 2008-2009, but it decided to publish this report early in 2010. The current financial framework runs until the end of 2013, giving the EU a solid legal and financial basis. Negotiations on a new financial perspective will begin as usual with the publication of a communication by the Commission. In the Interinstitutional Agreement the Commission agrees to publish this communication no later than 1st July 2011. So the time frame for a thorough reform debate among the member states is limited to no more than one year.

The member states should use the revision process to discuss new principles, targets, and structures, and to agree upon them unanimously. Then these demands should gain the necessary political weight by a decision of the European Council. The review process should then enable a decision of the European heads of state and government in accordance with the European Parliament, containing the guiding principles and priorities to be respected by the Commission, European Parliament and the Council when negotiating the next financial framework. The revision can subsequently be implemented in the course of the regular negotiations in 2011-2012. The European Council will have to prepare the regular negotiations of the financial framework 2013-2020. A common understanding of reform necessities and an agreement on common policy priorities should be the first aim of the budget review. The member states will need to take the European Parliament's positions into account. This process will stand on two pillars: (1) the improved Lisbon Strategy for growth and jobs, to modernise the European Union and to make the Union fit for new challenges and global competition, and (2) the principle of solidarity and social justice to strengthen the cohesion and the stability of the Union.

The European Council will discuss the matter for the first time under the Spanish Presidency. This should be the occasion to agree on a negotiation framework, a timetable and the expected results of the process. The heads of state and government could connect the renewal of the Lisbon Strategy – which is on the agenda of the Presidency – with the identification of policy priorities for the budget. In addition, the European Council could mention the upcoming reform of European cohesion policy and the publication of the Commission's next cohesion report.

The Presidency conclusions could emphasise two key points for the budget review: the strategy for growth and jobs, including the focus on research, development and innovation, and the principle of solidarity expressed by European cohesion policy. These had been the two key points mentioned in the government's position papers for the consultation process.

Solidarity will remain a cornerstone of European integration. However, all member states should share the understanding that European solidarity has to be more than European cohesion policy or redistribution. The European Union cannot abandon compensation and redistribution instruments. However, if solidarity develops into a mere redistribution instrument and the Union changes into a Union of financial transfers, mutual understanding will be lost and the EU will lose one of its fundamentals. Hence, the principles of solidarity, efficiency and European added value must be brought together.

Using the revision clause to reform the EU's financial constitution depends on the common will of all participants to overcome the *status quo* and the net-payments logic. The revision process creates the opportunity to agree on a clear shift in the priorities of EU spending to allocative policies, and on the revenue side to give the EU greater autonomy. In the medium-term the multi-annual financial perspective could then be developed into an integration planning instrument where political priorities are given concrete financial backing.

It will be the task of the presidencies and the new President of the European Council to develop a revision debate orientated around these goals.