

COURTESY TRANSLATION

REPLY TO THE ISSUES PAPER ON THE POLICIES AND BUDGET REVIEW

With this document the Spanish Government replies to the Issues Paper of the European Commission, which constituted the basis for the period of consultation on the EU Policies and Budget review.

We stress the preliminary nature of this reply, as this initial position is subject to possible changes as a consequence of developments in the Spanish position. Hence, this position will become more definitive as the process advances.

Finally, the Spanish Government intends to carry out a series of consultations with different actors in society in order to enrich and reinforce its view on the proposed review of the Community budget.

1. PRELIMINARY COMMENTS

The consultation process on the review of the European Union Budget and Community policies, launched by the Commission with its Issues Paper, represents a valuable opportunity both to evaluate Community policies and their funding - within a changing context in which the European Union must address new challenges -, and to guide the Commission prior to the presentation of its future proposal on Financial Perspectives 2014-2020.

The present review process provides, for the first time, an appropriate framework in which the 27 Member States can openly debate on the basis and the future of the EU policies budgetary needs, without the rigid framework of financial negotiations. The mere possibility of having the chance to express diverse national views, represents in itself a valuable initiative.

As a first contribution, we now put forward some ideas aimed, both at consolidating the process of European integration and, in this respect, evaluating the different Community policies.

Firstly, Spain believes it is necessary to frame this review within the development and applications derived from the Lisbon Treaty. Secondly, and taking into account that this

discussion of the budget review and of Community policies is indeed a process of reflection, our debate should focus on defining the priorities to be applied in determining Community expenditure and designing our Community policies, in order to provide an adequate response to the challenges identified in the Commission document and, as a parallel action, focus on reviewing the current system of revenues.

However, this is not free of difficulty. It is no simple matter to introduce significant changes into the design of Community policies on the expenses side, without a corresponding in-depth review of the system of contributions and, especially, of the discount mechanisms, which are now hard to justify and accommodate within a 27-member enlarged European Union.

Therefore, a basic principle that should be taken into account refers to the necessary parallel debate of revenues and of expenditure, in order to reach a prior understanding on revenues as broad-based as possible, before addressing the issue of expenditure review. In addition, two other principles, should be considered crucial and complementary:

- Equity in revenues We must reach a broad understanding on creating a Community budget model that is as transparent, simple, objective and, especially, as equitable as possible. In this respect, our aim should be to ensure that the EU Own Resources system is in accordance with the economic importance and wealth of the different Member States, without exceptions or specific treatment.
- Quality in expenditures. Community policies should be grounded upon the added value and complementarity they are capable of providing, both for the EU as a whole and for its constituent Member States.

On these basis it would be less complex to address objectively the issue of expenditure.

2. COMMENTS ON THE MAIN QUESTIONS IN THE ISSUES PAPER

2.1. The added value of Community policies

In our view, although Community added value could constitute a general criterion for the European Union actions, it is a difficult concept to specify for the purposes of

resource allocation.

In any case, the following defining elements, among others, should be taken into account:

- The potential contribution of common policies to the Union's goals, as set out in the future Lisbon Treaty, including competitiveness, economic, social and territorial cohesion, solidarity and sustainable development.
- Positive externalities on the security of supply, external security or on the functioning of the internal market.
- The potential to promote the highest possible degree of participation by Member States in EU policies, especially in those policies which serve the different processes of convergence, competitiveness and sustainability.
- The generation of multiplier effects in national investment and of synergies with the resources employed by the Member States.

Thus, the Community budget must stimulate, through its planning and evaluation of expenditure, a business, organization and management-focused culture, aimed at promoting competitiveness and efficiency at all levels of the Union.

A more detailed discussion is needed on the principle of introducing a regular process into all Community policies, by which an evaluation is made of their impact and the degree of achievement of Community goals, on the basis of prior elements and criteria. This process of reviewing and evaluating results should, in turn, be complemented by increased requirements for transparency and should be applied to all common policies, especially as regards the future-oriented policies, linked to the Lisbon Strategy.

2.2. Revenues

The EU's system of own resources has not been subject to any deep review in recent years. In a 27-member Union that is more diverse, yet at the same time more convergent, it would be very useful, in the first place, to reflect seriously on the present assumptions underlying its revenue system, especially in terms of their fairness, this should be done before considering any in-depth review of current expenditure policies.

The scope for improving the fairness of the present system is not to be discussed, given the present factors in play that distort the system. Among these, one that stands

out is the existence of a complex system of discounts and compensations with respect to the contributions of the most prosperous Member States. This was introduced within a framework established for a Union of 9 Member States, but today significantly alters the relation between these contributions and the relative wealth of their beneficiaries, thus distorting the financial framework of a 27-member European Union.

Therefore, as regards EU's own resources, we should think about their sufficiency and on how to achieve greater simplicity and fairness. In this respect, it is difficult nowadays to explain to our citizens why Member States with a per capita income that scarcely reaches the level of the European Union average should contribute in a higher proportion of their GDP than other Member States -which enjoy a standard of living that is significantly higher than the average levels measured within the EU-. This has been highlighted in the report commissioned by the European Parliament¹ on the Community Revenue System.² Hence, it seems essential to think about the issue of moving towards a more balanced system of contributions, one that would involve the disappearance of the current system of compensations and discounts that contributes to budgetary complexity and thus prejudices efficiency and transparency. It is necessary for the resource system to be more fair and for it to respond to the wealth of the Member States, as well as other indirect extra-budgetary benefits of European Union membership, by means of a broad-based GNP resource and the removal of all kinds of regressive elements.

In this respect, the introduction of new resources should be examined with caution, and under the premises of simplicity, transparency, fairness and budgetary neutrality.

In conclusion, in the absence of a previous reflection on the present structure of the revenue system, it will be much more difficult to make progress on a substantial review of the main expenditure policies. As any reform with respect to the expenses side of the EU budget would involve modifying, to various degrees, the current Member States financial net balances, there should be a concurrent, parallel discussion of revenues and expenditure, and it is desirable that there should be a broad understanding on the revenue issue, before any more operative consideration of expenses is addressed.

¹ Report: "Future Own Resources".

² States like Portugal and Spain are the main contributors, in terms of the percentage of GDP, with 0.98% and 0.96%, respectively, while other States, that are economically more prosperous, like the United Kingdom and Germany, contribute 0.54% and 0.76%, respectively, as a consequence of the present system of refunds and discounts.

2.3. Expenditure policies

R&D&i policy

The policy on R&D&i is a strategic investment for the future of the European Union. Thus, it is a matter of fundamental importance to put forward Commission proposals that foster the process of “Lisbonization” within our economies, guiding Community expenditure towards innovation, human resources and improved competitiveness, as the main instruments for accelerating growth and convergence within the EU as a whole.

Therefore, future R&D&i Framework Programmes should serve to complement national efforts, orienting and stimulating them, and acting as a force to boost and disseminate knowledge, innovation, development and national investment in R&D&i.

At present, expenditure on R&D&i within the Framework programme is distributed under the criterion of excellence. While, in principle, this cannot be discussed, in practice, it favours access of the most competitive participants to the programmes. In order to increase competitiveness within the EU as a whole, it would be positive to reflect, too, on how we might expand the concept of ‘excellence’ within the framework of the Union, in order to make it applicable not just to companies and research centres that have already consolidated the highest levels of competence, but also to others that are making great efforts to reach this standard, via targets and other excellence-promoting measures established within the Community Framework Programme.

In this respect, the position of the Spanish Government is that of committing to the resolute promotion and improvement of Community actions in this sphere, on the basis of the following axes:

1. Increasing funds targeted at R&D&i that are allocated competitively, using criteria of quality and scientific excellence.
2. Increasing the allocation of the funds in section 1.a. to capacity-building in the field of science and innovation – both technological and non-technological – and to the technological needs of SMEs, with particular emphasis on:
 - Basic research
 - Mobility of human resources in R&D&i, in order to make the European

Research Area a reality

- Technological infrastructures
 - Innovation through an enhanced Competitiveness and Innovation Programme (CIP), which should be in importance similar to the R&D Framework Programme
 - R&D&i in SMEs, which require greater public support than do large companies
 - R&D&i in the sphere of the environment and energy, to promote eco-innovation.
3. Advancing towards a definition of an extended concept of excellence, one that is applicable to countries showing improvement in their scientific and technological capacity, and of the necessary instruments. This would encourage the growth of EU investment in R&D, would generate positive spill-over effects and would promote countries which are making the greatest efforts to build up their innovation and technological capacity, thus broadening the technological base within the EU.

The European Commission should play a key role in designing this renovated policy, contributing with new ideas and promoting thoughts on particular elements, in order to better adapt the Community research policy to the Lisbon Strategy and to the needs of a 27-Member enlarged.

Cohesion Policy

Spain has been one of the main countries promoting the European regional policy since its accession, and most especially since the first Financial Perspective, both at a regional and at a national level (creation of the Cohesion Fund). This has been one of the Union's key policies contributing to Spain's convergence process; Hence, Spain's commitment to this policy in the context of its growing responsibilities of solidarity within the Union.

In the framework of the forthcoming Financial Perspectives, the Cohesion Policy should continue ensuring favourable results for the beneficiary Member States, through the good use of financial resources, in a context of legal security, and by reinforcing its links with the Lisbon objectives, so that it increasingly becomes an ends-oriented policy, not intended to become permanent, and at the service of structural development throughout the European Union.

In this context, all the regions in the Union should be potential beneficiaries of the cohesion funds, for any region may present competitiveness problems, regardless of their income and economic prosperity levels, and may therefore receive EU assistance. In this respect, particular attention should be paid to regions with specific geographic handicaps which affect their competitiveness, as is the case of ultra peripheral regions. Cohesion and competitiveness are two of the Union's strategic policies that are increasingly end-oriented and closely linked.

For this reason, the good management of structural and cohesion funds and the added value of "good value for money" will play in the future a more relevant role, especially in the framework of a enlarged Union.

Common Agricultural Policy

Spain's position on the Common Agricultural Policy (CAP) is based on the following principles:

1. As concluded by the December 2005 European Council, any discussion about reforming the CAP beyond a 'medical check-up' must be linked to the British rebate and other compensations review.
2. In this sense, any reform should be applied in the following pluriannual financial framework.

The CAP is the only common policy that has undergone a continue reform and change process during these past twenty years in order to adapt it to the new challenges and realities of the sector, to reduce its budgetary weigh and to adapt it to international commitments. Unlike our other EU policies, the CAP has been subject to strict budgetary discipline, its process review has been continous in order to further modernize it. For this reason, todays CAP is very different from what it was originally: it has transcended traditional market limitations to become a policy clearly multi-functional, more effective, competitive, cheap in international relative terms, environmentally-friendly and which contributes to the conservation of the rural areas, biological diversity, public health and to the preservation of a recently increasing strategic value: high level of food self-sufficiency and quality. Today, the CAP guarantees the supply and functioning of the internal agricultural market, while, at the same time provides an appropriate incentive for the conservation of the environment

and of the rural world. In addition, the depth and persistence of the global crisis affecting the supply and prices of agricultural raw materials, and the uncertainty produced by food crises, especially in developing countries, make it necessary to continue to adapt the CAP instruments. Nevertheless, regarding CAP instruments, great caution is advisable, given the far-reaching effects that certain changes could have on Member States from a political, economic and social point of view.

For all these reasons, the CAP should continue to be a strategic policy and consolidated in the framework of the ongoing reform process of adaptation and modernization, ensuring its viability. In this sense, it would be very useful, for the European Commission to carry out a study of the cost of no CAP, in order to determine the costs, benefits and risks, resulting from any proposal to reform or change its orientation, and to analyze the international context in which we operate. This is an issue of prime importance, in which a high level of participation is required, and in which the concerns of our citizens must be taken into account.

Other policies

The global context that the European Union has to face has changed significantly in recent years. It requires new actions in areas that previously were only at very preliminary stages in the Community. This is the case of the challenges arising from climate change, energy, the aging of the population, or immigration and the management of the EU's external borders, to name just a few significant ones. Such actions, especially the first one, should be clearly reinforced in future, in order to offer a coordinated response to problems affecting all of our Member States, since it would offer clear benefits.

- As for the priority Freedom, Security and Justice common policy, it is essential to draft the new immigration policy, and more specifically, to define areas in the field of border control, and to lay down a common policy on repatriation and especially on integration. In particular, consideration should be given to how to advance in operative bilateral cooperation, including issues relating to the area of Freedom, Security and Justice (FSJ) in RELEX financial instruments, as well as in R&D&i, and in the operation and use of new technologies. Moreover, a new comprehensive European policy on immigration, in our view, will require profound reflection on the need to progressively set up an integrated

system for external border control, due to the growing needs in the fields of technology, sea, air and land surveillance, and the control of persons, as well as the interconnection among border services and among consular services, especially as regards visas and the training of staff in languages and technology.

- Education and Training are also a priority area for action, given their close relation to the Lisbon Strategy goals.
- In addition, in the field of the environment, climate change constitutes a priority, both for the EU and for its Member States. We must reflect on its interrelation with other Community policies, such as R&D&i, the CAP, the cohesion policy and the biodiversity policy, which are also priorities.
- Finally, another policy sphere that should have a relevant Community dimension is that of the EU's external action. Therefore, it will be necessary to respond to the growing needs of the Common Foreign and Security Policy (CFSP) and of the new EU external action service, as well as to address all our priorities in the Neighbourhood Policy, within the future Article 8 of the EU Treaty.
- Employment policies and policies for social protection and social inclusion, duly integrated within the framework of the revised Lisbon Strategy and of the Social Agenda (2008-2010), on the basis of the common principles of flexicurity and the employment guidelines, will require appropriate attention so that the ultimate goals of progress and improvement of the living conditions of European citizens may be met.