

EU Civil Society Contact Group

Briefing

Building a value based EU budget for the future The EU budget review consultation

19.12.2007

What priorities do you want the European Union (EU) to spend money on in the next decade and beyond? Which are the policies and activities that in your opinion need financial support from the EU? What are political objectives that can not be reached at national level and where the EU can play a meaningful role? What resources do you propose to secure sustainable finances for the EU? These fundamental and more technical questions are to guide a broad consultation on the future of the EU budget.

The present briefing aims to increase your understanding of the EU budget review, help you to find further information and to engage in the debate.

The briefing is structured in the following chapters:

1. Background on the EU budget
2. The consultation on the EU budget review
3. Practical information

The official website of the review is http://ec.europa.eu/budget/reform/index_en.htm.

1. Background on the EU budget

1.1 How is the EU budget decided?

The annual EU budgets are based on multi-annual financial frameworks agreed upon for 7 years. The European Council (composed of heads of state) agrees on the multi-annual financial framework which details are negotiated by the Council, the European Parliament and the European Commission. The financial framework sets out maximum amounts (ceilings) that can be spent by the EU for each policy area (headings). Based on that, the European Commission proposes annual budgets which are agreed by the Council of Ministers and the European Parliament. The European Commission is in charge of implementing the budget.

Find more details on the European Commission's website on the decision making process on the EU budget on http://ec.europa.eu/budget/budget_detail/deciding_en.htm

1.2 Where does EU money come from?

For the time being the EU has three kinds of resources:

- a percentage of the *gross national income* (GNI) of the member states accounting for 69% of the total revenue
- *duties* on imports bringing in about 15% of the total EU revenue (own resources)
- *value added tax* (VAT) bringing in about 15% of the total EU revenue
- taxes paid by EU staff, contributions from non-EU countries to certain EU programs and fines on companies that breach laws summing up to 1% of the EU revenue

In other words, the vast majority of EU activities are funded through member states resources. Due to this fact, various member states (most famously the United Kingdom) argued that their country receives less than it contributes. This led to the introduction of so called correction mechanisms whereby those countries are partly reimbursed by the EU. This has been particularly controversial since the enlargement of the EU because it concerns member states of the EU15 which are generally wealthier than the new member states, hereby creating a sense of injustice and lack of solidarity of the richer countries.

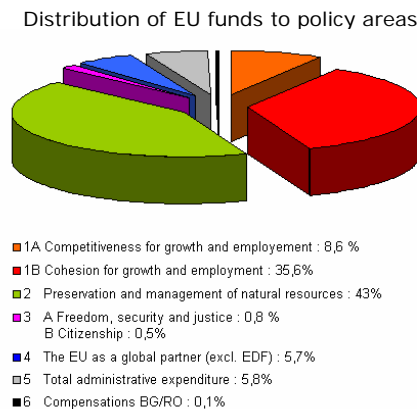
Find more details on the European Commission's website on the EU revenues on http://ec.europa.eu/budget/budget_detail/revenue_detail_en.htm

1.3 What is EU money spent on?

The current financial framework covers the period from 2007 to 2013 (European Commission information about the current framework can be found on http://ec.europa.eu/budget/prior_future/fin_framework_en.htm). It consists of four main thematic headings and an administrative component covering the running costs for all of the EU institutions (staff costs and pensions etc.). The budget headings are as follows:

- 1 *Competitiveness and cohesion for growth and employment (45%)*
covers research and innovation, education and training, EU networks, internal market policies, convergence of the least developed Member States and regions, EU strategy for sustainable development, inter regional cooperation
- 2 *Preservation and management of natural resources (43%)*
includes the common agricultural and fisheries policies, rural development and environmental measures
- 3 *Citizenship, freedom, security and justice (1%)*
covers a number of new policy areas such as justice and home affairs, border protection, immigration and asylum policy as well as more to a smaller extend policies of public health and consumer protection, culture, youth, information and dialogue with citizens
- 4 *The European Union as a global partner (6%)*
includes all external action such as pre-accession instruments for future EU members, development assistance and reserves for emergency aid and loan guarantees.

Over 70 % of current EU spending go to the Common Agricultural Policy (CAP big part of heading2) and regional policy (big part of heading 1).



(source: http://ec.europa.eu/budget/prior_future/fin_framework_en.htm)

1.4 How is EU money managed?

The member states authorities and the European Commission currently share the responsibility for the management of over 75% of the EU funds. 22% is managed solely by the European Commission, while the remaining 3% is managed by third countries or in cooperation with international partners.

The main rules governing the EU's spending are contained in the financial regulation. It is adopted by unanimity in Council after obtaining the opinion of the European Parliament and the Court of Auditors.

Find more information about the management of the EU budget on the European Commission's budget website http://ec.europa.eu/budget/sound_fin_mgt/index_en.htm.

1.5 Where can I find further information?

The European Commission's website on the Budget (<http://ec.europa.eu/budget/>) explains in more detail the issues touched upon in this chapter.

2. The consultation on the EU budget review

The EU budget 2007-2013 was only agreed after long and painful negotiations between member states in the Council and within the European Parliament. An (inter-institutional) agreement was reached in April 2006. The agreement asks the Commission "to undertake a full, wide ranging review covering all aspects of EU spending" and to report on it in 2008 or 2009. Find the relevant declaration (declaration number 3, annexed to the inter-institutional agreement) on http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/c_139/c_13920060614en00010017.pdf.

As part of this review the European Commission published on September 12 2007 a communication that launched a public consultation on the EU budget. The communication intends to serve as basis for the debate about future EU priorities, the management of the budget and the resources. You can find the document on http://ec.europa.eu/budget/reform/issues/issues_en.htm. Your organization is invited to take part and send in your contribution by April 15 2008.

After the consultation, ending on April 15 2008, the Commission will prepare a proposal for an EU budget reform. The Commission is at the time being expected to publish its proposal already during the French presidency in the second half of 2008.

2.1 Main areas for consultation

The Commission communication (http://ec.europa.eu/budget/reform/issues/issues_en.htm) opens three main areas for debate:

- What are the political *priorities* the EU budget shall serve?
- How shall the EU budget be *managed* in the future?
- Which *resources* should the EU rely on in the future?

The briefing outlines each issue by mentioning the content of the paper, raising questions for discussion (that can be used in brainstorming session to prepare your organisations contribution to the consultation) and finally listing the relevant consultation questions for each issue in a box (not all consultation questions are included).

2.1.1 Where should the EU money go to?

European added value – The European Commission underlines the importance of looking for the added-value of European spending when thinking about the EU priorities and budget: “European action should provide clear additional benefits compared to action by individual Member States”.

- Where do you think EU spending can achieve better results than national spending?
- What are the political priorities that you think can not be achieved without financial support from the EU?
- What are the challenges that you believe can best / only be addressed in cooperation between member states?

In the paper the Commission proposes two main criteria to decide upon the relevance of EU spending:

- *Subsidiarity*: “the union shall act only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the member states”
- *Proportionality*: “the content and form of Union action shall not exceed what is the least intrusive tool available to achieve a specific objective”

Consultation question

What criteria should be used to ensure that the principle of European value added is applied effectively?

2.1.2 How should the EU budget be managed?

Dilemmas in the budget management - The Commission in its paper raises a couple of issues linked to the management of the budget:

- *Concentrating or spreading* support: Do you think financial support by the EU should concentrate on a few or spread between a range of activities?
- *Centralized or decentralized* management: What experiences did you make with either centralized or decentralized management of EU budget? What form of management do think would be most adequate for what activity?
- *Simplify and strengthen*: How could delivery instruments at the same time be simplified for the end-user and the sound financial management strengthened?
- *Policy and management*: How can a balance between policy and management tasks be achieved? What is your experience with the executive agencies?
- *Accountability, transparency versus flexibility*: What possibilities do you see to ensure transparency and accountability in the management of the EU budget while in the same time allowing for more flexibility within and between budget sections?

Consultation questions

- How could the effectiveness and efficiency of budget delivery be improved?
- Could transparency and accountability of the EU budget be further enhanced?
- Could enhanced flexibility help to maximise the return on EU spending and political responsiveness of the EU budget?
- Has the EU budget proved to be sufficiently responsive to changing needs?
- How should the right balance be found between the need for stability and the need for flexibility within the multi-annual frameworks?

2.1.3 Where should the EU's money come from in the future?

Although the current most important mechanism for funding, the percentage of the *gross national income* (GNI) of the member states, has a number of advantages (easy to predict and equitable in the sense that each member state pays an equal proportion of its income) there are arguments for new solutions:

- the budget negotiations have become more and more focused on the 'return on investment' of each member state rather than on what policies the EU should fund and why
- it seems interesting to ask whether the interests that gain most from the EU policies should contribute more to the budget (e.g. 'companies gain the most of the from the single market, they can pay more')
- the fear that a member state will withhold its contributions as a political asset

The issue of a European tax or a range of European taxes has been raised as an alternative to the current funding mechanism. Several questions can be a basis for discussion:

- How can one ensure that a tax base is considered fair by member states?
- Would you welcome taxes to be linked to European policies (a tax on profits to finance single market policies, environmental taxes to finance the sustainable development strategy)?
- Do you think a tax/taxes would in a positive way contribute to increasing the visibility of the EU policies?¹

The Commission lists the following principles for judging if a source of funding can contribute to ensure the necessary funding of the EU policies: economic efficiency, equity, stability, visibility, simplicity, administrative cost-effectiveness, financial autonomy and sufficiency.

Consultation questions

- What principles should underpin the revenue side of the budget (...)?
- Is there any justification for maintaining correction or compensatory mechanisms?

3. Practical information

3.1 Where and how to contribute to the consultation?

The consultation lasts seven months and will end on the 15th of April 2008. A specific website http://ec.europa.eu/budget/reform/issues/submit_en.htm has been set up where you can submit your contribution and read other contributions. You are welcome to give a more general input without sticking to the questions. Long submissions should be accompanied by a summary.

¹ "The 2008/9 EU Budget Review" by Iain Begg, March 2007 on <http://www.eu-consent.net/content.asp?ContentId=1446>

3.2 Next steps

Find a list of the announced next steps by the Commission below:

24 January 2008	EU Civil Society Contact Group conference "Building a value based EU budget for the future – What role for NGOs?"
Until 15 April 2008	Consultation open for contributions
November 2007	Debates in the budgetary committees of European and national Parliaments
Spring 2008	Conference of the European Commission and the European Parliament on the initial analysis of the results of the consultation
	European Commission prepares reform proposal
2008/2009	European Commission presents the Reform proposal
2009/2010	Discussion and endorsement by EU institutions

3.3 Interesting links

To have a look how NGOs work on budgetary issues go to the following web pages:

Green 10 principles for the EU budget review <http://green10.org/>

CONCORD's work on the financial perspectives
<http://www.concordeurope.org/Public/Page.php?ID=70>

Friends of the Earth Europe monitoring of EU funds for the new member states
<http://www.foeeurope.org/billions/index.htm>

The International Budget Project on budget transparency and civil society involvement
<http://www.internationalbudget.org/>

Farmsubsidy.org looking at "who gets what from Europe's Common Agricultural Policy"
<http://www.farmsubsidy.org/>

Find an interesting synthesis paper based on a seminar organized by Notre Europe on <http://www.notre-europe.eu/en/axes/competition-cooperation-solidarity/works/publication/the-eu-budget-what-for-seminar-report/> and further information on Notre Europe's activities on the EU budget on <http://www.notre-europe.eu/en/axes/competition-cooperation-solidarity/projects/projet/the-european-budget/>

Find a publication on a "European budget for climate security" by Green Alliance a British NGO
http://www.green-alliance.org.uk/grea_p.aspx?id=2252

Find papers making available the recent scientific research insights related to EU budgetary issues on
<http://www.eu-consent.net/content.asp?contentid=1449>

A helpful paper that was also used to write this briefing is <http://www.eu-consent.net/content.asp?ContentId=1446>