IP/10/1351

Brussels, 19 October 2010

Budget review: Lessons learnt for tomorrow's budget

The European Commission has published its communication on the budget review on 19 October 2010. Its main findings are that the current rules for the EU budget make it slow to react to unforeseen events while too many complexities hinder its efficiency and transparency.

European Commission President Barroso stated: "Today we present the Commission's ideas for the budget review. We encourage everybody to engage in an open debate without taboos, notably about the principles to underpin the future EU budget beyond 2013. At times where public spending is under pressure, we suggest ways to achieve a European budget that is up to the challenges we are facing collectively, not necessarily through increased expenditure, but by focussing on the right priorities, the added value, results and the quality of European spending. On the revenue side, it is high time to promote a fair and transparent system that is understood by citizens."

"Europe and the world are changing" said European Commissioner for financial programming and budget, Janusz Lewandowski, "we must make sure that the EU budget is shaped to serve 500 million European citizens. The budget review is not about giving figures for the next financial framework, it is about learning lessons of the past and suggesting ways to adapt the budget to tomorrow's requirements. The EU budget must help deliver key policy priorities for European citizens, it must intervene where a euro spent at EU level brings more benefits than if spent at national or regional level, and it must focus on programmes that have a real positive impact. Furthermore, it must become a toolbox for good economic governance".

The EU budget: effective but too rigid

The Commission’s communication states that the EU budget has been the cornerstone of the realisation of Europe's aspirations in key issues such as growth, solidarity or security; however when sudden new circumstances arise (food crisis, natural disasters...), it is too slow to react. Current rules make shifting funds, even in a very limited way, a long and cumbersome process.

Moreover, under the current system budgetary criteria focus too much on inputs instead of actual results. The Commission also stresses that negotiations on budget are too often guided by the need to give everyone the feeling they got their fair share rather than on giving European priorities the right funding.

Tomorrow's number one priority: smart, sustainable and inclusive growth

If Europe is to stand up to competition in a globalised world, it needs to foster smart growth. Therefore the EU budget must focus on added-value; in short, it must identify where one euro spent at the European level brings more benefit than at the national level. Costly research and innovation investment as well as key transnational infrastructures should be financed at EU level. Pooling our resources together on key issues will help Member States save money and will avoid duplications. The budget must also finance the European economy's drive into greener technologies and services. However instead of a new dedicated programme, this focus should apply across all EU policies.

The Common Agricultural Policy's (CAP) needs to evolve, if only because reference values for direct payments are now a decade old. Reforms of varying intensity are possible: from reducing current discrepancies in levels of direct payments to a major shift, away from income support and market measures to environmental and climate change objectives. In 1988, the funding of agriculture amounted to about 65% of the EU budget, these days it is about 40%.

Cohesion policy must also better support the overarching priorities common to the whole of Europe rather than focusing only on reducing the gap between poorer and richer regions. Funds should become a way to deliver on the Europe 2020 targets; the whole planning and management cycles should be recast to ensure that Europe 2020 objectives are translated into investment priorities and in line with national reform programmes. The Commission suggests creating a "development and investment partnership contract" based on a common strategic framework. The framework would outline an investment strategy on which Member States would present their development strategy addressing the priorities of EU 2020. This would consist of a development and investment partnership contract between each Member State and the Commission reflecting the commitments of partners at national and regional level.

Fostering EU citizenship

Citizens benefit from the opportunities offered by the EU's various cultural and citizenship programmes, but their visibility and their contribution to fostering unity in diversity across the EU could be increased by integrating them into one programme.

Solidarity with those facing crises is also a tangible sign of the EU's existence. The Solidarity Fund, currently limited to natural disasters, could be extended to all kinds of major disasters.

Europe on the world stage

Europe must remain a key international actor. It is committed to increasing development aid to 0.7% of GNI by 2015, while at the same time improving donor coordination and governance, for example through EU trust funds; delivering on our climate change financial commitments, either directly through the EU budget or through a dedicated instrument; and making sure we can build on our humanitarian aid to provide effective middle term rebuilding support, unhampered by excessive red-tape.

Being a reliable and generous donor must go hand in hand with striving to achieve our own objectives, be it in the field of trade agreements, energy security, migration policy and the like. The EU budget can provide incentives to our neighbours and partners to cooperate with us on these issues.

Looking at administrative expenditure

These days, administrative expenditure amounts to 5.7% of the EU budget. Part of the work on the next financial framework will be to search for increased efficiency and performance in administrative resources. The Commission will review its own administrative expenditure to identify ways of meeting new challenges within its existing resources.

Overall, the Commission suggests that a strict discipline be pursued by all EU institutions "to ensure that administrative expenditure is contained in the future".

Seeking creativity, flexibility and efficiency

The EU budget represents only 2.5% of overall public expenditure in Europe. However, by cooperating with partners such as the European Investment Bank and by using financing instruments such as EU project bonds, the EU budget could attract more financial resources without having to increase itself.

Reserves could be set aside and their release made dependent on the achievement by partners of key measurable objectives.

Flexibility could be fostered by agreeing to a 10 year financial framework with a major mid-term review (5 + 5)[1], with important reserves maintained for that purpose. Other tools would provide for reactivity in the face of unforeseen events, such as the possibility to transfer funds and unspent margins more easily, front- or backloading of multiannual programmes, and increasing the size and scope of various existing flexibility instruments.

Finding the right mix of resources

In 1988, Member States' contributions, based on their GNI, represented 10% of the EU budget, these days they amount to about 70%. Not only does this go against the spirit of the Rome and Lisbon Treaties but this gave birth to the bitter debates about "net contributors" and the complex concepts of rebates with the consequences of favouring instruments with geographically pre-allocated financial envelopes rather than those with the greatest EU added value. The Commission therefore puts forward the option of reducing Member States' contributions by abolishing the VAT-based own resource and progressively introducing one or several new own resources as a replacement. Possible candidates for new own resources could be a share of a financial transaction or financial activities tax, auctioning of green house gas emission allowances, an EU charge related to air transport, a separate EU VAT rate, a share of an EU energy tax or of an EU corporate income tax.

[1] The current multiannual financial framework plans maximum amounts of funding for each of the budget's five headings for seven years (2007-2013). According to the Lisbon Treaty, the future financial frameworks should be "at least" five years long.

Notes for the editors

- The budget review delivers on a request from the European Council summit of December 2005 to review "all aspects of EU spending, including the Common Agriculture Policy, and of resources, including the UK rebate". It represents a basis for discussion in the run-up to the proposals for the financial framework post 2013, due to be presented by the Commission by mid-2011.
- The communication was drafted based on findings of studies commissioned, the conclusions of a conference and workshops on this issue, the contribution of the European Parliament and a public consultation that generated some 300 contributions

The full text of the communication is available on the budget review website *http://ec.europa.eu/budget/reform/index_en.htm* or *MEMO/10/503.*