CENTRE FOR EUROPEAN POLICY STUDIES

Thinking ahead for Europe

The EU Budget – Is this the moment for reform?

CEPS Commentary

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At the launch of a public consultation on the EU budget last month, Commission president Barroso explained the need to reform the budget in terms of a need to "focus EU spending on the right areas". But have we not heard this before?

The past 20 years have seen a series of unsuccessful attempts to reform the EU budget. Despite a growing consensus that the budget does not correspond to the realities of the EU, it has proved extremely difficult to reach a political agreement among the member states on how to improve it.

This is partly because, at a time when the EU is increasingly being criticised, national governments feel the need to demonstrate to their citizens that they are extracting the maximum benefit from the EU for their own country. Therefore their focus at the negotiating table is not on improving the EU budget, but rather on decreasing their net contribution to (or increasing their net gains from) that budget. This reasoning has so far made it impossible to reach agreement on a restructuring of the EU finances.

But perhaps the moment has finally arrived. 2008 could be the year when the EU budget is finally reformed. Why is that?

Firstly, the political situation is now favourable: the heads of state of the three member states with the most weight at the EU negotiating table, France, Germany and the UK, are all reformers who have expressed their desire to improve the functioning of the EU. Most importantly, French President Nicolas Sarkozy has made it clear that he is willing to tackle the main obstacle to a reform of the budget: the Common Agricultural Policy (CAP). In a speech last month, President Sarkozy said that he wanted "a new CAP" after 2013.

Secondly, the agreement on the 2007-2013 budgetary framework discreetly paved the way for a reform. Under pressure to avoid a crisis following the Dutch and French 'no's' to the constitutional treaty, and unable to make real progress due to previous French President Chirac's obstinate stance on agriculture, the member states then agreed to a budget that did not make significant changes to the previous 2000-2006 framework. A

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subtle modification was made however: the budget was structured under five headings, which were intended to "reflect the Union's political priorities":

- Heading 1a) competitiveness for growth and employment;
- Heading 1b) cohesion for growth and employment;
- Heading 2: preservation and management of natural resources;
- Heading 3a) freedom, security and justice;
- Heading 3b) other internal policies;
- Heading 4: the EU as a global partner;
- Heading 5: administration.

Although the actual spending was not significantly changed, this restructuring makes it easier to reform the budget, as the notion that the expenditure of the EU should correspond to the main priorities of EU action is one that is now entrenched in the budget. All that is left to do is to rebalance the size of the five headings: Heading 2 (which includes agriculture) should receive considerably less of the funding, whilst headings 1a, 3 and 4 should receive more. The structure of the budget would then correspond to what is advised by most analysts.[1] But given the unfavourable political climate, this was left to be done later. A clause was therefore added to the final agreement, specifying that the European Commission would propose a review of the budget in 2008 or 2009, with a view to the next budgetary framework.

A parallel can be drawn with the 'Fishler Reform' of the CAP in 2003, when the member states were finally able to agree on a significant change to this politically sensitive policy. While the negotiations on the Financial Perspectives for 2000-2006 (known as 'Agenda 2000') had not been very successful, they did lay the ground for a Mid-Term review in 2003, when the real changes took place. It appears that member states find it easier to agree on reforms if they are presented in the shape of a harmless 'review', instead of being under the pressure of actual 'negotiations'.

The next months will be crucial: on 12 September the Commission opened a consultation on the reform of the EU budget, and the results of that consultation will serve as input for its proposal for a budget review, to be issued at the end of 2008 or at the beginning of 2009. The Commission appears confident that this time its efforts will pay off: President Barroso said that "this budget review is unique, a once in a generation opportunity to make a reform of the budget and in the way we work".

To ensure that it does not miss out on this opportunity, the Commission will need to strike a delicate balance with this review. On the one hand, the proposal will need to be sufficiently diplomatic as to be acceptable by the Council of the Member States. But at the same time it should not be too diplomatic and cautious, to avoid wasting this opportunity for reform.

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[1] See for example Gros, Daniel and Micossi, Stefano (2005), *A Better Budget for the European Union: More Value for Money, More Money for Value*, CEPS Policy Brief, February.

The next few months will be followed with great interest by all the academics and analysts who have penned countless articles urging the EU to reform its budget. If this finally happens, it will allow the EU to increase its effectiveness, as it will be able to back its policies with the appropriate funding instruments. Moreover, this will boost the EU's popularity, as the budget, although small, is highly visible and well-covered by the national media - so having a budget that makes sense will no doubt improve the way in which it is viewed by citizens all over Europe. It is therefore in the interests of all those concerned to finally make this work.