

BULLETIN

No. 130 (206) • November 3, 2010 • © PISM

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EU Budget Review: Background, Conclusions, Assessment

by Paweł Tokarski

On 19 October the European Commission published the mid-term review of the EU budget, evaluating revenues and expenditure and examining the management of EU finances. The Commission proposes to focus resources on the objectives of the “Europe 2020” economic strategy and analyses potential changes in financing the EU budget.

Background. In line with European Council conclusions of December 2005 and the interinstitutional agreement of 17 May 2006 between the European Parliament, the Council and the Commission, the latter was obliged to submit a review of the implementation of the current financial perspective 2007–2013. The idea behind drafting this report was to safeguard an in-depth, objective assessment of the EU budget in isolation from debates on the annual budget and the future financial framework.

While preparing to publish the review, in September 2007 the EC released a document “Reforming the Budget, Changing Europe,” which inaugurated consultations at the local, regional and national levels, as well as numerous seminars, conferences and workshops with the participation of experts. Active at the preparatory stage were the national parliaments and the European Parliament, which on 29 March 2007 adopted a resolution on the EU’s own resources, highlighting issues relating to the income side of the budget, namely the GNI-based payments of the member states.

Publication Environment. The Commission was to present the mid-term review at the end of 2009, but the publication was delayed for several reasons. Following the entry into force of the Treaty of Lisbon, European Commission President José Manuel Barroso decided not to start a serious discussion on the budget before his term was extended and a new Commission appointed. He was also careful not to discourage Irish voters by the prospect of curbing spending on the CAP, as this could exert an impact on Lisbon referendum results. The delay in publishing the review was also due to the disclosure of the document’s draft, which reached the media in October 2009 and was posted on the Internet, provoking a violent reaction from many member states. They criticised the Commission for failure to consult their representatives in drafting the document, which presented some bold proposals, such as reduced spending on the CAP along with the policy’s thorough modernization. Hence this year’s work was accompanied by unprecedented security measures, with debates held in a small group of commissioners and the final version of the document printed in a limited number of copies.

Conclusions. The review focuses on three issues: an assessment of the implementation of current EU financial perspectives, a reorientation of future financial frameworks to objectives the EU “Europe 2020” economic strategy adopted this year, with particular emphasis on cohesion policy, and the question of own resources. In assessing the current financial perspectives, the Commission concluded that they were not always flexible enough to respond to unexpected developments, such as the recent global financial crisis. The Commission criticised the “re-nationalisation” of the debate on the EU budget symbolised by the logic of *juste retour*, which consists of assuring the most favourable net position of the member states to the EU budget. Among other problems, the Commission mentioned the late adoption of the preceding financial perspective for 2006–2013, which resulted in implementation delays of some assistance programs. The latter additionally entailed excessive administrative burdens, with their assessment based on contribution rather than results.

According to the Commission, EU funding should first of all support the objectives of the “Europe 2020” economic strategy, including: improved education, enhanced innovation, investments in infrastructure, green technologies and sustainable development. Cohesion policy is one of the key elements of the review, with emphasis in particular on new proposals enhancing coordination between the different levels of governance (local, regional, national and EU) and transforming this policy into a tool strengthening the competitiveness of the member states. The European Commission is proposing the establishment of a Common Strategic Framework that would translate the new economic strategy objectives into investment priorities, reiterating that EU funds should bring an added value and be used only whenever better results cannot be achieved at the national level, as the EU budget accounts for only around 1% of member states’ GDP.

The review does not elaborate on the Common Agricultural Policy, merely suggesting a departure in the future from the criterion of granting direct payments based on income and market indicators in favour of support for objectives related to environment and climate change. More detailed proposals will be revealed on 17 November in the Commission’s communication on the future of this policy after 2013.

The problem of financing the budget is highlighted in the review. During the consultation phase, the EC received many statements critical of the current system of financing, in particular the British rebate and reductions from rebate financing enjoyed by Germany, Austria, Holland and Sweden. This means that the income side of the EU budget is far from being transparent, with the burdens distributed unevenly among the EU members. Hence the Commission is proposing a new system of own resources based on taxation of the financial sector, air transport or income from trade in greenhouse gas emissions quota. Own resources could also be derived from a special tax, such as an energy tax, VAT or corporate income taxes. Some member states, however, are reluctant to accept the introduction of taxation at the EU level and will settle for financing the budget from GNI-based payments, which currently account for some 76% of the budget revenue. In the review, the European Commission mentions a possible reduction of rebates, but in a much more balanced way than in last year’s unofficial version of the report.

The document takes into consideration the main postulate of the EP resolution on the budget review of 25 March 2009. In the resolution, the European Parliament suggested that the MFFs be shortened to five years and synchronised with the parliamentary term to enable the MEPs to work on just one financing period. According to the Commission, however, the best solution would be to adopt a ten-year perspective supplemented by a review after five years.

Assessment. Despite the important proposals outlined in the review, the document may be disappointing in parts as too general. It is less ambitious than the last year’s unofficial version, while the way it was published has not helped enhance its proper political significance. Debates on the review have also been simplified by the media, whose attention focuses on one element only: the proposal to introduce a “European tax”, which was bound to provoke adverse reactions in some European capitals.

From the Polish perspective, the document should be assessed positively, as the planned link between the cohesion policy and the “Europe 2020” economic strategy as well as proposed changes in the management system reflect Poland’s interests outlined in the position adopted by the Polish government on 18 August 2010.

It is difficult to speculate on the practical significance of the review, although the change in financing the EU’s own resources suggested in the report seems inevitable. This would not only boost the transparency of revenues and guarantee a more equitable level of contributions, but also safeguard against difficulties encountered in adopting the annual budget. An example of such a scenario is provided by the current test of strength between the EU Council and Parliament over the 2011 budget.

The next step in the development of the new EU financial framework for the years 2014–2020 will come with the publication of the Commission’s proposal expected in June 2011, during the Hungarian presidency of the EU Council. This means that the first stage of the discussion on the next financial framework will be held during the Polish presidency.