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WORKING DOCUMENT

on financing the 2020 Agenda despite the budgetary crisis

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Some twenty European countries have been unable to adhere to the Stability and Growth Pact criteria. Several of them have a budget deficit higher than 10% of GDP, others a national debt that exceeds 100%. Throughout the Union, all public authorities will have to launch austerity plans on a scale not seen since the last World War. How, in this situation, will it be possible to finance the European policies that the Union requires, the new powers that it has been given by the Lisbon Treaty and, looking forward, the common ambitions in the 2020 Agenda?

This unprecedented situation should give us the opportunity to **tackle the question that has never been debated regarding relations between national budgets and the European budget**. The purpose of this note is to explain some of the facts.

I. The freezing of the Community budget and its consequences

1. The financing of European policies is at a dead end. Having failed to equip the Union with genuine own resources, even though this is laid down in all the European Treaties, the Member States have condemned themselves to being its sole contributors as it is national budgets that finance 80% of the European budget. This system, which is basically anti-Community, obviously encourages each Finance Minister to demand a "fair return" on his or her contribution. The result is that twenty-five years down the line, and despite four new treaties which have substantially increased the competences of the Union and three waves of enlargement which have doubled the number of "poor" Member States, the Community budget remains stuck at 1% of GDP, 0.25% lower than the ceiling set in 1988. The national parliaments, for their part, are finding it increasingly difficult to understand why they should raise their taxes or increase their country's debt to finance policies that are decided elsewhere without their consent.

2. Yet this is the very moment when Europe can no longer keep tightening its belt. In accordance with the Lisbon Treaty, a European diplomatic service, to be placed under Lady Ashton's authority, is being set up to conduct a common European policy, and this will need a minimum of administrative and operating appropriations. The Treaty also increases the Union's responsibilities in the fields of energy, research, space policy and immigration. If there is no money, we might as well stop right now. Even more worryingly, there is a risk that key large-scale industrial programmes that were decided upon years ago, such as the Galileo satellite network (the European GPS system) and the world centre for fusion energy research (ITER), might be disrupted if no further funding is provided. The first draft of the 2020 Strategy makes provision for several other programmes of this type, under the headings of green growth and the knowledge economy.

3. Nevertheless, in order to combat the crisis, governments can find the means of financing new policies decided at European level. The last European Council decided to allocate no less than 2.4 billion a year, from 2010 onwards, to helping developing countries combat the greenhouse effect. This sum will be mustered through contributions from each Member State using an ad hoc allocation formula that differs from the normal Community scale. Similarly, the assistance to Greece will be financed by loans granted by certain Member

States without using either the Community budget or even a Community financial institution such as the EIB.

4. We have heard the argument: given that it is the national taxpayer anyway who will have to pay, or act as guarantor, why bother going via the Union budget? **Well there is a very simple way to avoid calling on national budgets, and that is for Europe to be given some new own resources.** The resolution adopted by the European Parliament on 29 March 2007 gives an initial assessment of this topic, which has long been considered taboo. Since then, protection of the environment and the prevention of financial crises have led to ever more fanciful ideas about taxation – with one limitation that is common to all these deliberations: these resources are conceived as contributions either to the national budget or to a hypothetical global fund, but never to the Community budget which remains the black hole of European political debate.

5. The decision lies with the governments. If they prefer to rule out all new expenditure or all new taxes in their crisis exit strategies, the Union has no choice but to help apply these austerity measures. If, however, they consider it necessary to launch new budgetary initiatives, then the Union should be involved.

6. One key consideration that is ultimately overlooked is the fact that the budget anywhere is the true instrument for measuring the spirit of solidarity. And the European budget is also a measure of the trust placed by its stakeholders in this joint venture, the societal bond or *affectio societatis* that unites the European family. **To cap the EU budget is to cap faith in Europe, and to slam the brakes on solidarity between Europeans.** The unedifying squabbles about the very principle of helping Greece are, alas, a sad example of this.

II. The interest of a common European approach for national budgets: the "European dividend"

7. The European dimension can help Member States emerge from the crisis better equipped to balance and maximise the efficiency of their finances.

   All that is basically required is simply to apply the principle of subsidiarity in financial matters. Each time the Union exercises a power in the place of a Member State, this should not only be done without imposing a new fiscal burden on the taxpayer but, all things being equal, it should also help <u>reduce</u> total expenditure. This is exactly what large industrial groups do: **they pool common services to benefit from economies of scale.**

8. There are then two approaches to designing the Union's new external action service, but a wide range of intermediate solutions exists between the options of creating a 28th diplomatic network and merging the existing 27 national networks within a unified European service. Whilst it is understandable that all Member States want to be represented in Washington or Peking, the presence of 4 EU Member State embassies, in addition to the EU embassy, in Botswana is at least three too many. The same applies for consular services, as the Schengen agreements and European Treaties establish the principle of unlimited consular cooperation between Member States.

9. Whilst the savings made may be relatively modest in the case of diplomatic and consular services, they can be much more substantial in other areas, either through the transfer of similar competences to Brussels, or quite simply through the systematic comparison of actions by the different parties with a view to avoiding the duplication of effort. In the field of research, for example, the Union allocates substantial funding of around 8 billion euros each year to a framework programme. On top of that, however, comes national expenditure, the bulk of which is decided without knowing what neighbouring countries are doing, leading to duplication and fruitless competition. The same applies to development aid. When the national budgets are added up, the figure produced is ten times that of the Community budget, which itself is duplicated by the intergovernmental budget of the European Development Fund. Out in the field, Member States' representatives and those from the various competent Commission services are unaware of, and compete with, each other to the detriment of sound management and, more importantly, good diplomacy. When times are hard, this type of waste can no longer be tolerated.

10. The defence sector may be taboo, but it is an even more promising area for making savings. The risk of overlap between the European Union and NATO that our American friends constantly go on about should bring a wry smile to the face compared to the scale of the redundancy that exists between our national armed forces. Our 27 armies have a combined total of 2 million personnel in uniform. Less than 5% of them are capable of carrying out a "high-intensity action", as it is euphemistically known - i.e. fighting. How, in 2010, can we justify this piling up of disparate resources – which are sometimes modern, often outdated and always redundant – the cost of which is disproportionate to their potential effectiveness which, in any case, will never be measured? The Afghan battlefield provides a cruel illustration of the true scale of comparative military capacity of all NATO members.

11. It is now twenty years since the Cold War ended, and we have barely benefitted from the "peace dividend". On this side of the Atlantic, the "European dividend" has been lacking. The unprecedented crisis in all our national budgets offers a unique opportunity to finally do what common sense dictates, what public opinion expects (opinion polls show support throughout the continent for the pooling of defence resources) and what our own military staff advise, having been freed from the bonds of international cooperation for twenty years, and that is for NATO and Europeans to share the role of defending Europe in the world of today. True European cooperation is the only way for us to make substantial savings in defence without jeopardising our security.

III. The vast complexity of funding European policies

12. Contrary to what people might think, the Union budget is far from being the only instrument for financing European policies and, by extension, actions related to common European objectives. **In fact, there are no less than seven categories of sources, each of which obeys different rules.**

13. *The European budget* itself. Since the introduction of the Lisbon Treaty, this is adopted by agreement between the Council and Parliament under a specific

codecision procedure. In 2010, it amounts to 123 billion euros. Since 1988, the annual budget has been locked into a multiannual framework which places a ceiling on expenditure in 5 categories. The current framework covers the years 2007-2013 and will be subject to a mid-term review in 2010.

14. *The European Development Fund (EDF),* finances aid to ACP countries. This is an inter-state fund but is managed under the fairly close political control of the European Parliament. Everyone agrees that it should eventually come under the Community budget, but each successive rotating Presidency quickly gives up on the idea: the formula for allocating funding between the Member States is different from the Community formula, and it can only be renegotiated as part of a general overhaul of European finances.

15. Governments are tempted to replicate this type of formula: they made use of it, almost surreptitiously, at the European Council of March 2010 to finance the aid promised by the EU to developing countries to combat climate change. Unlike the EDF, however, this is not currently a fund that has a statute, operating rules and democratic control. The governments have quite simply reached agreement on the principle, the amount involved and the contributions by Member State – without making use of the Community budget.

16. *Official contributions by the Member States to financing European policies or institutions.* This is a fairly broad and diverse area encompassing:

    - the national co-financing of Community programmes requiring such funding, such as the structural funds, cohesion policy, or the research framework programme;

    - national funding that supplements Community programmes or is supplemented by the latter: the financing of ESA space programmes, and financing for the operation of most European agencies, for example;

    - expenditure committed by the Member States to actions that parallel Union actions are a variant of this category, as in the case of peacekeeping operations where the civil expenses are borne by the European budget, following the appropriate procedures, whilst each Member State remains responsible for its expenditure on military operations. It is worth noting that Member States that agree to take part in such operations pay twice over (in their national budget and in their contribution to the common budget), on top of the human losses incurred: this is an area in which there is some room for improvement in Community solidarity.

17. *National expenditure contributing to the achievement of common European objectives.*
    This is undoubtedly the largest category by size, but also the most difficult to pin down accurately. "Common European objectives" should be interpreted as areas in which the legal and financial competence basically remains in national hands, but in which the Member States agree to assign themselves the same objectives: the Lisbon Strategy, the climate and energy package, and the European Security Strategy are the best examples of this.

18. Identifying and quantifying this expenditure is very important for two reasons. On the one hand, faced with the extreme difficulties involved in increasing the European budget, it is the only way of verifying that these major objectives can be financed. Secondly, the proper use of these funds poses a problem in terms of democratic control, and thus for coordination between the national parliaments that use the funds and the European Parliament, which is responsible for monitoring the achievement of the objectives set.

19. *Expenditure committed by Member States for the benefit of EU citizens who have come to their country to make use of their public services.*
This radically new problem has not been the subject of any studies in a Community context, even though it is already five years since the Watts judgment by the Court of Justice triggered the situation. The Court obliged the NHS in the United Kingdom to pay a French hospital the costs of an operation for the treatment of a British national who had not been able to obtain appropriate treatment in her own country. This validation by the Court of the "right to health tourism" has had implications, with Spain, whose hospital services are particularly valued by its neighbours, opposing the draft directive intended to implement it. The problem cannot, however, be avoided for ever, especially since it is not restricted to the field of health. With Community law now doing away with means testing for a European citizen to live in another Member State, sharing of the social welfare burden will need to be negotiated between the Member States – bilaterally, multilaterally or at Community level. Some form of clearing house will no doubt be needed. It would be better to give thought to this matter and reach agreement before being submerged by the number of cases.

20. *EIB loans,* which finance Community projects, often alongside European funds. The EIB is a unique institution which was created by the Treaty of Rome, but whose sole shareholders are the Member States, and is a powerful financer of investment decided in Brussels. Its role can only get stronger during a period of very poor budgetary performance.

21. There is now *one other category of loans granted by some Member States to others experiencing financial difficulties.* The Treaty made provision for a Union mechanism to provide financial assistance to Member States experiencing exceptional difficulties (Article 122). Since the Greek crisis, there is also now the possibility for certain governments to grant public loans, even to a eurozone country, using an allocation formula decided on a case-by-case basis. The legal and political validation of this decision is a matter for the national parliaments but, since it relates to a display of European solidarity and the functioning of the eurozone, their actions should not exclude the European Parliament, making this is another new area for interparliamentary cooperation.

IV. An interparliamentary conference as the instrument of coordination

22. In the eurozone, the most widespread parliamentary practice on budgetary matters is to separate the orientation debate, which is generally held in the spring, from the vote itself, which takes place in the autumn.

23. Why not **ask the national Parliaments to hold a common debate before their own individual orientation debates**? This could be held by video

conference: each party would feel more at ease in its own surroundings, and it would also be easier to mobilise the national press.

There would be three significant advantages in such a debate even taking place.

- It would obviously have to be based on common economic assumptions: the forecasts on GDP, interest rates, the euro exchange rate, oil prices, etc. should be identical. This would be a major step forward from the current practice in which each Member State chooses the forecasts that suit its choices.
- The opening of a national debate on budget guidelines that takes account of the European dimension and the outlook for each of its partners would form a formidable bulwark against the allure of isolationism.
- Finally, this would obviously provide an opportunity to take stock and draw mutual comparisons about the way in which each country is honouring its European commitments with respect, for example, to the Stability and Growth Pact or policies relating to the 2020 Strategy, the main sanction and the main incentive being how that country is viewed by its peers.

24. It is worth remembering that the idea of making these national comparisons was at the very core of the Lisbon strategy, but that governments objected to any publication – unless classified as confidential – of individual performances that would not have flattered certain national egos. This benchmarking is, however, an essential tool, and mobilising parliaments is one of the best ways of ensuring that the media and public opinion get to hear about it.

25. A debate of this nature would be a first step towards restoring order in the way that the financing of European policies is broken down between the Community budget, the national budgets and EIB-style funding. At the same time, it would offer an opportunity to reflect on the introduction of genuine democratic control over co-financed actions.

26. Let us take a specific example. The Union is involved in a peacekeeping operation. Armed with the powers conferred upon her by the Lisbon Treaty, the High Representative coordinates the action by the military forces – paid for by the Member States that were willing to take part –, the means of cooperation provided by the Member States, and those of the different Commission services involved. If necessary, she can suspend aid negotiations and even trade negotiations conducted by the Commission with one of the parties involved in the conflict. The Union can now take action on all fronts, and this action should therefore be monitored and judged on that basis. As things stand, neither the national parliaments nor the European Parliament are in a position to do so: each is restricted to looking at how its own appropriations are being used.

27. Looking at another example, the increasing number of natural disasters has prompted the Commission to look into setting up a European civil protection force, and the Commission is working on this dossier. Here too, there will be a combination of national and Community resources: who will control what?

28. And if some Member States embark on cooperation with each other, in

whatever field, some means will need to be found of combining control by the national parliaments with a Community vision.

V. Towards a European financial conference

29. The urgency of the post-crisis period will obviously mean that a certain number of pragmatic initiatives have to be taken without waiting for global negotiations. These negotiations will, however, quickly become necessary if we are to avoid becoming tangled up in a web of funds, mechanisms, partial agreements and allocation formulae that slip out of the control of those who devised them and, obviously, out of the reach of any form of political or media supervision.

30. Long, complex and extremely delicate political negotiations will be required to give the Union its financial status, but we know from experience that there is a method for dealing with complex issues in the European context. That method is the Convention formula: i.e. convening a meeting between representatives of national governments and parliaments and those of the Community institutions.

31. The last Belgian Presidency took the initiative of calling the Convention on the Future of Europe and got its mandate adopted. It took almost ten years, but the Union now has its new institutions. **The upcoming Belgian Presidency could convene a European financial conference that has a similar composition.** Its task would be to come up with a comprehensive political agreement on the division of roles between the national and Community budgets regarding the financing of Community policies, the arrangements relating to the Union's budgetary resources, and democratic control over the whole apparatus.