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briefing note

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Commission proposal for the EU budget post-2013: the good, the bad and the ugly

On June 29th, the European Commission tabled its proposal for the shape and size of the EU's long-term budget, set to run between 2014 and 2020. The EU budget is set in seven year cycles (although this can in theory vary) with member states and MEPs having the possibility to make limited adjustments to the budget every year. The long-term budget is decided by unanimity (meaning that every country has a veto) with the European Parliament having to give its consent to any deal. The annual budget, however, is decided through a majority vote, again with MEPs having to consent.

Below we compare the current long-term EU budget with the new proposal from the Commission. We also explain how we think the EU budget should reform to reflect the changing economic realities in Europe.

On its most fundamental level, the EU budget has failed to keep up with the economic change in Europe since the early days of European integration in the 1960s and 1970s. For example, in 2006, services in the EU-27 economies accounted for 74% of total gross value added; agriculture and manufacturing 2% and 17% respectively. This compares to the EU-15 in 1970 where services accounted for 53% of total gross value added, agriculture 5% and manufacturing 22%.[1]

Overall size of the new budget

The European Commission has not published any figures comparing overall EU expenditure under its new proposal with the previous budget period, making a comparison very difficult – this is another step backwards for transparency in Europe.

In addition, the European Commission has sought to disguise the total size of its expenditure by moving several items 'off the balance' sheet, keeping them outside the official EU budget. For example, large scale projects such as ITER and GMES, which were previously part of the budget are now outside it, distorting the Commission's alleged limited increase.

2007-13 budget: **€975.8bn** in commitments (1.12% of EU GNI) and **€925.6bn** in payments (1.06% of EU GNI).[2]

[1] *HM Treasury*, 'Global Europe: vision for a 21st Century budget', 2009, p9; http://ec.europa.eu/budget/reform/library/contributions/pgs/20080619_PGS_89.pdf
[2] *European Commission*, 'Financial Framework 2007-2013'; http://ec.europa.eu/budget/figures/fin_fwk0713/fwk0713_en.cfm#cf07_13

2014-2020 proposal: worth **€1,025bn** in commitments (1.05% of EU GNI) and **€972.2bn** in payments (1.00% of EU GNI).[3] Overall, this represents a 5% above-inflation increase to the EU budget.

In addition, a further **€58.3bn** of EU spending has been committed outside the official EU budget, which takes overall funding to 1.11% of EU GNI. The largest element of this is the European Development Fund, an EU aid programme. The UK Treasury claims that this amounts to a 10% increase overall and £10bn in extra UK contributions over the 2014-2020 period, using 2011 annual budget payments as a baseline.

The Commission has not published comparable figures including budget and non-budget items, so it is incredibly difficult for taxpayers to understand the increases. However, **we estimate that, including budget and non-budget items, overall 2007-13 funding will increase by at least 7% from €1013.8bn to €1083.3bn in 2014-2020 under the Commission's proposal.[4]**

€bn	**2007-13[5]**		**2014-2020[6]**
Emergency aid reserve	1.5		2.5
European Globalisation Fund	3.5		3.0
Solidarity Fund	7.0		7.0
Flexibility Instrument	1.4		3.5
Reserve for crises in agriculture	N/A		3.5
ITER	N/A		2.7
GMES	N/A		5.8
EDF 2008-13	22.7	EDF ACP	30.0
EDF 2007 *(€13.5bn between 2000-7)*	1.9	EDF OCT	0.3
Sub total	38.1		58.3
MFF Commitments	975.8		1025.0
Total	**1013.8**		**1083.3**

[3] *European Commission*, 'A Budget For Europe 2020 - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions', COM(2011)500; available at http://ec.europa.eu/budget/biblio/documents/fin_fwk1420/fin_fwk1420_en.cfm

[4] Our methodology differs from the Treasury because we have compared commitments for the entire 2007-13 budget period with the entire 2014-2020 period. The Treasury has used 2011 annual payments as its baseline, comparing it with the average annual payments under the 2014-2020 proposal. 2007-13 MFF commitments are €975.777bn plus €38.1bn in funds outside the budget (EDF, Emergency aid reserve, European Globalisation Fund, Solidarity Fund, Flexibility Instrument). 2014-2020 MFF commitments are €1025bn plus €58.3bn outside the budget (Reserve for crises in agriculture, ITER and GMES have been newly created or moved outside the budget).

[5] Interinstitutional Agreement and financial framework (2007-13); http://europa.eu/legislation_summaries/agriculture/general_framework/l34020_en.htm

[6] *European Commission*, 'A Budget For Europe 2020 - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions', COM(2011)500; available at http://ec.europa.eu/budget/biblio/documents/fin_fwk1420/fin_fwk1420_en.cfm

So, **under the Commission's proposal, the EU's annual budget will increase from €112.2bn** (payments) **in 2000 (in today's prices) to €138bn** (payments) **in 2020 (in today's prices) – a 23% increase in real terms.**[7]

The Common Agricultural Policy

2007-13 budget: €413bn or 42% of the current budget is earmarked for the CAP, rural development and Common Fisheries Policy. €330bn (34% of the EU budget) is for interventions in the agriculture market and direct subsidy payments to farmers.

2014-2020 proposal: The Commission has proposed an 8% cut in absolute terms to agriculture spending to €383bn or 37% of the overall budget. Distorting market interventions and subsidy payments have been reduced by 17% to €282bn, but still account for 74% of the overall CAP budget.[8]

Open Europe's proposal: While the 8% cut in overall agricultural expenditure proposed by the Commission is certainly welcome, to reflect today's economic realities, the CAP should be radically reduced in size. Apart from the irrationality involved in having such a large chunk of the EU budget spent on such a tiny part of the European economy, the CAP even fails to achieve some of its own key objectives, which include:

- boosting farmers' income (which in real terms has dropped considerably over the last two decades)

- boosting food security (as around half of the subsidies are paid out under the Single Farm Payment which has nothing to do with actual farming, leading to sup-optimal use of land)

- redistributing wealth between rich and poor (as noted below, the biggest farms receive most of the subsidies. The biggest losers are small tenant farmers that don't qualify for the SFP)

All direct subsidies should be phased out starting in the next EU budget period. Pillar II of the CAP (the part supposed to promote 'rural development' as opposed to farming) should be moved to the structural funds, where it should be focussed on rural *economic* development in Europe's genuinely poor regions. By 2028, the CAP should be downsized to a funding stream geared only towards agri-environment (the current Axis 2 of Pillar II). More money should be spent on developing more efficient food production under a newly boosted EU R&D scheme.

CAP – the facts:

- The EU spends 42% of the budget on agricultural and fishing subsidies, despite the fact that these sectors make up less than 2% of the EU's GVA.[9]

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[7] The EU budget was €89.4bn in 2000 prices; http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2000:040:0007:0124:EN:PDF

[8] *European Commission*, 'A Budget For Europe 2020 - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions', COM(2011)500; available at http://ec.europa.eu/budget/biblio/documents/fin_fwk1420/fin_fwk1420_en.cfm

[9] *Eurostat*, 'GVA Agriculture, hunting, fishing', 2010; http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00003&plugin=1

- The distribution of farm subsidies among British farmers is highly unequal. In fact, a small circle of 'elite farmers' – the top 9.2% of farms and businesses – receive 48.8% of total CAP payments in the UK. At the opposite end of the spectrum, the bottom 45.4% of farmers only share 4% of the total UK CAP payments.

- Across the entirety of the EU inequality is worse, with the top 11.5% of farmers receiving over 75% of the total payments, whereas the bottom 62% of farmers receive only 5% of total CAP payments.[10]

- The UK Government estimated that in 2005, the CAP cost consumers £3.5bn through higher prices.[11] In a separate study, the UK Cabinet Office estimated that, as a result of the CAP, every household pays an average £268 extra a year in higher food prices.[12]

- Approximately 50% of EU farm subsidies are paid out under the so-called Single Farm Payment (SFP).[13] Under the SFP, the definition of a 'farmer' does not require the recipient of subsidies to be actively producing food, or other agricultural products but simply to own land – with many people therefore being paid *not* to farm.[14]

- A recent privacy ruling from the European Court of Justice has prevented the publication of recipients of farm subsidies since 2010, but former recipients include:

  - In 2010 a luxury golf-course estate in Ireland owned by the Slazenger family, founders of the famous sportswear brand, received direct aid worth €20,326.95.[15]

  - Since 1995, when Sweden joined the EU, roughly €1.6 million (SEK14.7 million) in subsidies have been given to the King of Sweden for a farm estate he leases in the region of Flen in Sörmland. In 2009 alone, he was given €209,000 (SEK 1,934,866).[16]

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[10] *European Commission*, 'INDICATIVE FIGURES ON THE DISTRIBUTION OF AID, BY SIZE-CLASS OF AID, RECEIVED IN THE CONTEXT OF DIRECT AID PAID TO THE PRODUCERS ACCORDING TO COUNCIL REGULATION (EC) NO 1782/2003 AND COUNCIL REGULATION (EC) NO 73/2009', 2009, Annex 4.1, p6; http://ec.europa.eu/agriculture/fin/directaid/2009/annex1_en.pdf
[11] *OECD*, 'International Dialogue on Rising Food Prices', 2005; http://www.oecd.org/document/3/0,3343,en_2649_33727_40507331_1_1_1_1,00.html
[12] *Cabinet Office*, 'Food analysis', 2008;
[13] Total agriculture and rural development appropriations were €57,780,438,369 and SFP appropriations were €28,480,000,000; see *European Commission*, 'budget online'; http://eur-lex.europa.eu/budget/data/D2010_VOL4/EN/nmc-titleN123A5/index.html and http://eur-lex.europa.eu/budget/data/D2010_VOL4/EN/nmc-titleN123A5/nmc-chapterN50452281343-265/index.html#N50452281343-265
[14] *House of Commons Environment, Food and Rural Affairs Committee*, 'The Common Agricultural Policy after 2013', April 2011, p37-9; http://www.publications.parliament.uk/pa/cm201011/cmselect/cmenvfru/671/671i.pdf
[15] *Irish Department for Agriculture*, CAP recipients; http://www.agriculture.gov.ie/agri-foodindustry/euinternationalpolicy/commonagriculturalpolicycap/capbeneficiariesdatabase/paymentsdatabase/cap_ben_master.jsp; The Powerscourt Estate in county Wicklow in Ireland is a famous 47 acre country estate and popular tourist attraction, boasting an exclusive Ritz-Carlton hotel and 18-hole golf course.
[16] The official records of the Swedish Board of Agriculture cover only 2008 and 2009. The estimates going back to 1995 come from an investigation conducted by Swedish Television, see http://svt.se/2.22620/1.2035065/stora_forluster_for_kungens_lantbruk. Bensor, the King's company that runs the estate, has suffered severe financial losses over the last decade. Between 2000 and 2006, for

- In 2009, £120,000 of EU farm subsidies spent in the UK went to nearly 40 different golf clubs with Alston Moor Golf Club receiving the highest amount of £28,123.[17]

- A Swedish cannabis farmer received €200 in subsidies.[18]

- The Salop Motor Club received £716.24.[19]

Regional Funding

2007-13 budget: €348.4bn or 36% of the total budget has been earmarked for regional spending through the EU's Structural and Cohesion funds. All regions, no matter how rich, qualify for some funding.

2014-2020 proposal: Regional spending would see an 8% increase to €376bn but will remain at 36% of the total budget, broken down into several different funding streams. Stronger conditionality will apply to those in receipt of funds, with some extra cash available for regions that achieve good results. All regions in the EU, irrespective of level of wealth, will receive funding.[20] Although not part of the structural funds per se, the proposal also includes the creation of a new fund ("Connecting Europe"), worth €40bn over the period, aimed at promoting transport and energy networks across Europe.

Open Europe's proposal: The structural funds are currently over-loaded with too many objectives, and suffer from poor targeting and project selection as well as unnecessary complexity. While the Commission's proposal sees some improvements by reducing the number of objectives, it is not enough. Instead of some of the EU's richest member states recycling funds amongst each other, the funds should be targeted at the genuinely poorer regions, where they can make the most difference. In addition, there should be only one objective: convergence.

One alternative – which has been favoured by the UK government in the past – is for only countries with GDP below 90% of the EU average to qualify for the funds, which would:

- mean all member states apart from four would save money *net* from such a reform (since the funds are shared by fewer member states), meaning that the richest member states (such as the UK, the Netherlands, France, Germany etc) would have exactly the same amount of money available to run their own regional policy, in addition to the cash freed up by repatriation of the

instance, the company lost €4.9 million, and according to Swedish Television this loss has been covered by EU subsidies

[17] *DEFRA*, CAP recipients database is no longer available.

[18] See *Open Europe*, '50 examples of EU waste', 2009; http://www.openeurope.org.uk/research/top50waste.pdf; Selling the drug cannabis is illegal in Sweden, but growing the plant is allowed if it is used for "industrial" purposes. However, since farmers receive subsidies from this scheme irrespective of what they have grown on their land, there was no obligation on the Swedish farmer to inform the authorities on what he intended to use the cannabis plants for.

[19] The Salop Motor Club is home to the "world famous Hawkstone Park Motocross Circuit", which holds international motocross events, see http://www.hawkstonemx.co.uk/Travel.aspx

[20] *European Commission*, 'A Budget For Europe 2020 - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions', COM(2011)500; available at http://ec.europa.eu/budget/biblio/documents/fin_fwk1420/fin_fwk1420_en.cfm

structural funds. All new member states would receive more cash in subsidies than they do at the moment.

- make it much easier to administer and control the funds since downsizing them and focussing their objectives would reduce the number of instances where error and mismanagement could occur.

- improve targeting, as the funds would be tailored around the needs of poorer countries and regions, rather than the catch-all criteria which we currently have.

The Commission's proposal for a "performance reserve" – a mechanism which would allow some funding to be set aside and given to those regions that have achieved the best results – is excellent and would establish a link between results on the ground and funding (which is completely absent at the moment). Given the difficulties involved for poorer regions to come up with the "co-financing" funds (see below), a well functioning performance reserve could replace co-financing altogether. In addition, the Commission's proposal that more money to be spent on developing transportation and energy connections is welcome. This is clearly another area where the EU budget can add value and a far bigger portion of it should be spent on this.

Structural funds – the facts:

- From 2007 to 2009, 60.8% of regional funds spent so far have been in EU member states with a GDP of 90% and higher – meaning that nearly two thirds of the funds went to the richest member states who find it easier to absorb the money.[21] (Until 2010, Greece was above the 90% of EU GDP threshold so this percentage is likely to change in future years.)

- While some of the funds make a difference – particularly in newer member states – EU regional spending continues to be characterised by poor project selection and waste, often because the main focus is getting the money out of the door. The fact that the budget is agreed over such a long timescale also means that the funds are unresponsive to dramatic changes in the economic climate – which we have been reminded of throughout the eurozone debt crisis.[22]

- In their report on the 2009 accounts, the EU's auditors found that, "As in previous years, a large number of payments to projects in Cohesion was affected by errors". Of the payments they inspected, 36% were affected by errors. The financial impact of the errors remained above 5%.

- However, there has been improvement. The auditors estimate that 3% of the payments made in 2009 should not have been paid out. This is compared to 11% in both 2008 and 2007.[23]

[21] Comparing 2007-13 appropriations by member state to European Commission financial reports 2007, 2008 and 2009.
[22] See *FT*, 'Poor take-up reflects basic flaw', 29 November 2011; http://www.ft.com/cms/s/0/f275a632-fbe1-11df-b7e9-00144feab49a.html#axzz1QSpJGOhR
[23] *ECA*, 'Annual report concerning the financial year 2009', 9 November 2010, p101; http://eca.europa.eu/portal/pls/portal/docs/1/7158724.PDF

- Regional funds aim to accelerate the development of poorer regions in the EU and to even out the differences between rich and poor regions. However, a major problem is that regional authorities in the member states have to co-fund projects and poorer countries or regions are less likely to have the money to spend.

- Jaslo, a town in south-eastern Poland, due to receive about €6m from the EU in the 2007-2013 budget cycle ran a public deficit of 21% to pay its share of the projects.[24]

External aid and foreign policy

2007-13 budget: €55.9bn – 5.8% of the total budget is spent on the EU's "external action", which includes EU aid programmes financed via the budget.

2014-2020 proposal: €70bn – 6.8% of the total budget and a 25% increase on the previous budget period. [25]

Open Europe's proposal: EU aid should be conducted outside the EU budget and national contributions made voluntary. Evidence shows that the part of the EU's aid programme that is the most effective is the European Development Fund (EDF) which is voluntary and not part of the actual EU budget. Voluntary contributions would improve targeting and accountability.[26]

External aid – the facts:

- The EU currently has an external aid budget worth €12.3bn a year, 72% of which is funded via the EU budget and the rest through additional voluntary contributions.[27]

- However, in 2009, only 46% of aid spent by the EU institutions reached low income countries, compared with 74% of UK aid, an average 58% of EU member state governments' aid and 56% of US aid.[28]

- €1.4bn or 10% of EU aid is needlessly passed on to other multilateral donors every year, such as the UN and World Bank. This money is simply being recycled between donors – up to three times in some cases – before it

[24] *FT*, 'Poor take-up reflects basic flaw', 29 November 2010; http://www.ft.com/cms/s/0/f275a632-fbe1-11df-b7e9-00144feab49a.html#axzz1PQettg61

[25] *European Commission*, 'A Budget For Europe 2020 - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions', COM(2011)500; available at http://ec.europa.eu/budget/biblio/documents/fin_fwk1420/fin_fwk1420_en.cfm

[26] See *Open Europe*, 'EU external aid: who is it for?', 2011; http://www.openeurope.org.uk/research/euaid2011.pdf

[27] EU aid spending is also funded by the European Development Fund, which is financed separately to the EU budget. See *European Commission*, 'Annual report 2010 on the European Union's development and external assistance policies and their implementation in 2009', 2010, p169; http://ec.europa.eu/europeaid/multimedia/publications/documents/annualreports/europeaid_annual_report_2010_en.pdf

[28] *Open Europe*, 'EU external aid: who is it for?', 2011; http://www.openeurope.org.uk/research/euaid2011.pdf; *OECD,* Development Assistance Committee database, percentage of allocable net Overseas Development Assistance disbursement to least developed and low income countries in 2009; http://stats.oecd.org/index.aspx

reaches a recipient country and is therefore subject to unnecessary administration and transaction costs.

Administration/bureaucracy

2007-13 budget: €55.9bn – 5.7% of the total budget.

2014-2020 proposal: €63bn – 6.1% of the total budget.[29]

Open Europe's proposal: To mirror what's happening in member states, the EU's administration budget should be frozen in cash terms (below the level of inflation) for the budget period. This would force efficiency savings and a necessary evaluation of existing resources and potentially some redundancies.

Wages: As in several member states, wages in the European Commission should be frozen and the number of top earners needs to be reduced. As the figures below illustrate, the number of well-paid Commission officials is completely disproportionate.

European Parliament: MEPs' wages and expenditure allowances should be cut by 10%, saving around €19 million per year.[30]

External Action Service: The EU's Foreign Office is in an embryonic stage but nonetheless has continued to run over budget. It remains unclear what value the EEAS adds to national diplomatic initiatives. In two years' time, an inter-governmental conference should be called, evaluating the effectiveness of the EEAS. If by then it remains unclear what role the EEAS is playing, it should be scrapped, saving nearly €500 million a year.

Quangos: Open Europe has identified eleven agencies and committees which appear to add very little value, if these were to be scrapped, and the EU were to conduct efficiency cuts of 30% on the remaining decentralised and executive agencies, the EU could save €709mn per year.[31]

Administration/bureaucracy – the facts:

- The EU currently spends €8.2bn per year on administration.[32]

European Commission

[29] *European Commission*, 'A Budget For Europe 2020 - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions', COM(2011)500; available at http://ec.europa.eu/budget/biblio/documents/fin_fwk1420/fin_fwk1420_en.cfm

[30] See the European Parliament's budget for 2011, "Members of the institution – salaries and allowances" item, which includes: salaries, ordinary travel expenses, other travel expenses, general expenditure allowance, allowances for performance of duties. http://eur-lex.europa.eu/budget/data/D2011/EN/SEC01.pdf, page 19; Appropriations for 2011 are €191,057,405. A 10% cut would save €19 million.

[31] See *Open Europe*, 'The rise of EU quangos', 2010; http://www.openeurope.org.uk/research/euagencies.pdf

[32] *European Commission*, 'Budget 2011 in figures', 2011, http://ec.europa.eu/budget/figures/2011/2011_en.cfm

- Of the 23,928 permanent and temporary EU officials employed by the European Commission, approximately 10,240 earn over €80,000 (£71,500) gross.[33] In comparison, of the UK's 527,490 civil servants, only 5,490 earn over (£70,000) gross.[34]

- The starting salary of a permanent or temporary Commission official is €31,850[35] (£28,470) gross, considerably higher than the median average gross salary in the UK civil service of £22,850.[36]

European Parliament

- The European Parliament's second Strasbourg seat costs taxpayers €180m a year with an annual carbon footprint of 19,000 tonnes.[37]

- Between 2004 and 2011, MEPs spent over €5.25m on trips to destinations around the world to attend meetings or conduct "fact finding" missions.

- Each MEP costs taxpayers €498,786 per year in salary, allowances, office expenditure and staffing before taxes:

Salary	Travel and accommodation	General expenditure (office)	Staffing expenditure	**MEP's total salary and expenses**	Pension after 5 years in office
€95,482.44[38]	€115,207.98[39]	€51,588.00[40]	€236,508.00[41]	**€498,786.42**	€16,709.43[42]

- This is more than double that of a Westminster MP:

Salary	Travel and accommodation	General expenditure (office)	Staffing expenditure	**MP's total salary and expenses**	Pension after 5 years in office
€73,274	€20,922[43]	€23,471[44]	€122,105[45]	**€239,771**	€9,160[46]

[33] Officials in each pay grade available here: http://ec.europa.eu/civil_service/docs/europa_sp2_bs_nat_x_grade_en.pdf; 10,240 officials in pay grade AD/AST 8 and above, which has a salary range of €75,500-€85,500
[34] *Office for National Statistics*, 'Civil Service Statistics 31 March 2010', 2010, Table 6, p18; http://www.statistics.gov.uk/pdfdir/cs1110.pdf
[35] Article 66, EU staff Regulations, updated July 2010; http://ec.europa.eu/civil_service/docs/salary_officials_en.pdf
[36] *Office for National Statistics*, 'Civil Service Statistics 31 March 2010', 2010; http://www.statistics.gov.uk/pdfdir/cs1110.pdf
[37] *Brussels Strasbourg Study*, 'A tale of two cities: The political, financial, environmental and social impact of the European Parliament's 'two-seat' arrangement', 2011; http://brusselsstrasbourgstudy.eu/3.html
[38] *European Parliament*, "Salaries and allowances: Salary of MEPs", 2011; http://www.europarl.europa.eu/parliament/expert/staticDisplay.do?language=EN&id=39
[39] *European Parliament*, "MEPs' allowances", 2011; http://www.europarl.europa.eu/parliament/expert/staticDisplay.do?id=39&language=en&pageRank=2
[40] *European Parliament*, "MEPs' allowances", 2011; http://www.europarl.europa.eu/parliament/expert/staticDisplay.do?id=39&language=en&pageRank=2
[41] *European Parliament*, "Staffing arrangements", 2011; http://www.europarl.europa.eu/parliament/expert/staticDisplay.do?language=EN&id=39&pageRank=3
[42] *European Parliament*, "Salaries and allowances: Salary of MEPs", 2011; http://www.europarl.europa.eu/parliament/expert/staticDisplay.do?language=EN&id=39
[43] House of Commons, Annual Report, Resource Accounts & Audit Committee Annual Report 2009-10, 2010, p.40; http://www.publications.parliament.uk/pa/cm200910/cmselect/cmcomm/685/685.pdf
[44] House of Commons Information Office, "Members' pay, pensions and allowances", 2010, p.3 http://www.parliament.uk/documents/commons-information-office/M05.pdf
[45] House of Commons Information Office, "Members' pay, pensions and allowances", 2010, p.3 http://www.parliament.uk/documents/commons-information-office/M05.pdf

External Action Service

- EU Foreign Minister Catherine Ashton's External Action Service was supposed to be "budget neutral" but has run over budget, requesting an extra €9.5bn and €34.4bn on two separate occasions in 2010.[47]

- The cost of running the EEAS for 2011 is €464 million, but under the 2012 EU budget the cost will increase by 5.5% to almost €491 million.[48]

Agencies and quangos

- Between 2005 and 2010, the number of EU quangos rose from 29 to 53. Over the same period, the bill for taxpayers tripled, rising from €764m to over €2.2bn.[49] In contrast, the UK Government expects to make £2.6bn in administrative savings from public bodies by 2014-15.[50]

Justice and Home Affairs

2007-13 budget: The amount earmarked for "Citizenship, freedom, security and justice" is €12.2bn (1.3% of the total budget), of which €7.5bn is specifically allocated for justice, crime, immigration and policing.

2014-2020 proposal: Total funding for "Security and Citizenship" has been proposed at €18.5bn or 1.8% of the total budget. The amount dedicated specifically to the headings "Migration management", "Internal security", "IT systems", "Justice", and "Rights and Citizenship" is €9.3bn.[51]

Open Europe's proposal: This is a hugely politically sensitive area and should therefore be managed with care. However, in principle, it is an area where EU spending could increase to meet new challenges posed by migration for example.

JHA – the facts:

- The Lisbon Treaty hugely increased the EU's role in justice and home affairs and increased the power of the European Court of Justice over these laws.

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[46] House of Commons Information Office, "Members' pay, pensions and allowances", 2010, p.3 http://www.parliament.uk/documents/commons-information-office/M05.pdf

[47] The promise was broken last year, when an extra €9.5 million was allocated for the EEAS in the 2010 EU budget; http://eur-lex.europa.eu/budget/data/BR_2010/EN/BR06.pdf; In September 2010, another additional €34.4 million was proposed for the EEAS in the draft 2011 EU budget which was then rejected by member states; http://ec.europa.eu/budget/library/documents/annual_budgets_reports_accounts/2011/LR1_sec_2010_1064_en.pdf, p12

[48] *European Commission*, 'Draft 2012 EU budget', p76; http://eur-lex.europa.eu/budget/data/DB2012/EN/SEC00.pdf

[49] *Open Europe*, 'The rise of EU quangos', 2010; http://www.openeurope.org.uk/research/euagencies.pdf

[50] *Cabinet Office*, 'Government to spend billions less through quangos', 16 March 2011; http://www.cabinetoffice.gov.uk/news/government-spend-billions-less-through-quangos

[51] *European Commission*, 'A Budget For Europe 2020 - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions', COM(2011)500; available at http://ec.europa.eu/budget/biblio/documents/fin_fwk1420/fin_fwk1420_en.cfm

- It is the fastest growing area of the EU budget, increasing by 260% over the 2007-13 budget period from €637m to €1.7bn.

<u>Research and Development</u>

<u>2007-2013 budget:</u> The EU's budget for R&D is €143.3bn, 14.7% of the total budget.[52]

<u>2014-2020 proposal:</u> It is not yet possible to break this element of the budget proposal down, although the Commission proposal would see a large increase for the section of the budget under which R&D falls.

<u>Open Europe's proposal:</u> This is the area where the EU budget clearly can add value and European firms and public bodies can benefit from economies of scale. R&D funding should be increased to roughly 30% of the EU budget. However, in parallel, the process for applying for this funding must be subject to radical simplification. It's universally acknowledged that EU research funding has grown increasingly complex over the 25 years of its existence, owing to a growing number of objectives, funding streams and countries involved.

The Commission has taken some positive steps to simplify application and accounting procedures for SMEs for example, but much more is needed. In future, focus should be on projects involving a limited number of organisations and actors in a few different countries, rather than top-heavy schemes with the Commission as project manager – which have a track record of bickering, delays and cost over-runs (i.e. Galileo).

<u>R&D – the facts:</u>

- Research and development is an area where the EU could add value in directing investment at cross-border projects to drive innovation and job creation in Europe. However, only 14.7% of the EU budget is currently spent on R&D.[53]

- Examples where EU R&D spending has produced good results include:

  EU-funded cancer treatment secures further investment from pharmaceutical giant
  In 2006, the small research-based pharmaceutical firms BioInvent and Thrombogenics, together with other partners, were granted EU funding

[52] The figure includes: **€53.3bn** under the EU's Seventh Framework Programme for Research and Technological Development; **€3.6bn** under the Competitiveness and Innovation Framework Programme; and **€86.4bn** via Cohesion Policy Instruments. See European Commission Green Paper, "From challenges to opportunities: Towards a common strategic framework for EU research and innovation funding", 9 February 2011, page 3, http://ec.europa.eu/research/csfri/pdf/com_2011_0048_csf_green_paper_en.pdf#page=2; see also the Commission's website, http://ec.europa.eu/regional_policy/themes/research/index_en.htm
[53] The Commission's Seventh Framework Programme for Research and Technological Development, covering the period 2007-2013, has a total budget of €53.3bn, see *European Commission Green Paper*, "From challenges to opportunities: Towards a common strategic framework for EU research and innovation funding", 9 February 2011, page 3, http://ec.europa.eu/research/csfri/pdf/com_2011_0048_csf_green_paper_en.pdf#page=2. A further €50.5bn for "R&D and innovation in the narrow sense" is provided via the EU's cohesion policy instruments between 2007 and 2013, see http://ec.europa.eu/regional_policy/themes/research/index_en.htm

amounting to €1.9m for a project called ANGIOSTOP.[54] The Swedish and Belgian firms developed a new form of treatment that stops the growth of cancerous tumours through inhibition of angiogenesis, the process by which new blood vessels are formed in the body. In 2009, the companies' successful results secured a €50 million investment from global pharmaceutical giant Roche, with the possibility of increasing this amount to €450 million should the project reach certain development milestones.[55]

Team of researchers use EU start up grant to make breakthrough in leukemia treatment
A team of European scientists headed by Prof. Jan Cools from the University of Leuven, Belgium has identified a gene that can act as a tumour suppressor in cases of lymphoblastic leukaemia, a disease that mainly affects children.[56] Their research project was funded by the European Research Council with €1.4 million under the EU's 7th Framework Programme for research.[57] The encouraging findings were published in the *Nature Genetics* journal in 2010.

- However, the current rules surrounding EU R&D funding are too complex and should be simplified in order to allow the best projects to access them. Errki Ormala, Vice-President of Corporate Relations at Nokia, recently commented: "Bureaucracy, inefficiency and time lags, as well as the reporting requirements, has made the programme virtually impossible for small and medium-sized companies. Some people even claim that sometimes industry feels that the transactions costs are higher than the money than they get from Brussels."[58]

EU taxes

2007-13 budget: The EU budget is predominantly financed by contributions from national governments. However, a direct financing mechanism for the EU budget, or EU taxes, has long been on the wish list of the Commission and integrationist MEPs. Options considered in past have included a carbon tax, a share of revenues generated from EU emissions permits, an EU VAT and taxes on financial activities (FAT) or transactions (FFT).

2014-2020 proposal: The Commission has proposed a "financial sector tax" and a new "EU VAT", to replace the existing VAT contributions, to fund the budget. It is not yet clear what proportion of the budget the Commission expects to raise through these new taxes.

Open Europe's proposal: The EU has no mandate from citizens to levy taxes on them. EU taxes have been resisted, and for good reason, in the past as an unacceptable infringement on national sovereignty.

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[54] *European Commission*, http://ec.europa.eu/research/fp7/pdf/19072010/angiostop_-_sme.pdf#view=fit&pagemode=none; *Thrombogenics* press release, 15 January 2007; http://www.thrombogenics.com/html/documents/07_TG_02VASOPLUSEUgrantEN.pdf
[55] *Bloomberg*, 'Roche Buys Cancer Drug From ThromboGenics, BioInvent', June 18 2008; http://www.bloomberg.com/apps/news?pid=newsarchive&sid=afwGsR09UjpU&refer=europe; *BioInvent*, http://www.bioinvent.se/partners/product-alliances#roche
[56] *Nature Genetics*, 42, 2010, pp530-535; http://www.nature.com/ng/journal/v42/n6/full/ng.587.html
[57] *European Commission*, http://cordis.europa.eu/fetch?CALLER=EN_NEWS_PRES&ACTION=D&DOC=57&CAT=NEWS&QUERY=012beb161e83:8ae1:56b50649&RCN=32186
[58] Quoted in *EUobserver*, "EU research scheme too complex for companies", 3 May 2011 http://euobserver.com/894/32139

EU taxes – the arguments:

- The introduction of a direct EU tax is decided by unanimity meaning that a single member state can block this proposal. At the moment, therefore, this proposal is a non-starter as the UK and Germany, for example, are both against an EU tax. But this could change at some point. The biggest argument for a direct EU tax is that in principle it could provide a simpler way to fund the EU budget, as the current system for calculating member states' contributions is based on a complex formula (combining GDP, VAT contributions and customs duties and sugar levies).

- However, in practice, this argument falls down for two reasons: firstly, the potentially added transparency is offset by the fact that the tax would be decided yet another step further removed from taxpayers, with the involvement of institutions with little democratic legitimacy (such as the European Parliament). Secondly, many of the taxes proposed are not at all suitable as tools for financing the EU budget, including a carbon tax, FTT, FAT, aviation tax. This is because any arrangement to determine each member state's share is likely to be just as complex as the current system (especially an FTT).

UK rebate

2007-13 budget: The UK currently receives a rebate from the EU budget, which consists of approximately 66% of the difference between what it contributes to the budget and its receipts (about €3bn in 2011). The Netherlands, Sweden, Germany and Austria have a rebate on the UK's rebate that means they pay only a quarter of what would otherwise be their share.

2014-20 proposal: The Commission wants to scrap the existing rebate systems in favour of new "lump sum" reductions to net contributors' payments – it is not yet clear what economic impact this would have on the UK's rebate.

Open Europe proposal: The rebate is justified since the EU budget is irrational and remains poor value for taxpayers' money. The problem with the rebate is political as it pits the UK against everyone else including the other net contributors – most importantly France (which pays the most towards the EU budget). There is therefore a strong argument in favour of France and the UK striking a deal which involves a "correction mechanism" that works for all net contributors – we will have to wait and see whether the Commission will propose something along those lines. The UK can then use its rebate as strong leverage, i.e. give it up on the conditional that definite and tangible CAP reform is undertaken.

UK rebate – the facts:

- The UK Treasury estimated the value of the UK's rebate in 2010 at €4.0 billion (£3.5 billion), compared with €5.3 billion (£5.1 billion) in the 2009 EU Budget.[59]

[59] Source: *HMT*, "European Union finances 2010", p20; http://www.hm-treasury.gov.uk/d/european_union_finances_2010.pdf

- Tony Blair's decision in 2005 to give up part of the UK rebate over the 2007-2013 EU budget period has cost British taxpayers up to €10.5bn over that period (the exact amount varies due to changing exchange rates).[60]

[60] In 2004 prices, see *House of Commons Library*, "The European Communities (Finance) Bill", *Research paper 07/77*, 15 November 2007, page 19; http://www.parliament.uk/briefing-papers/RP07-77