Strategic EU Affairs: Commission sets out proposals for post-2013 EU budget

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***Summary*:** Discussions over the future EU budget were officially launched by the European Commission as it presented its proposals for the post-2013 Multi-annual Financial Framework (MFF) under the title 'A Budget for Europe 2020'. Headline reactions to the policy package from national governments have been dominated by reactions to the proposed new system of own resources and particularly the idea of an EU financial transactions tax for funding large parts of the EU budget in the future. Environmental stakeholders have welcomed parts of the package such as the increased commitment to climate change and energy but have been critical on the whole, with the budget falling far short of the major and strategic realignment with climate and biodiversity priorities that many had called for.

On 29 June 2011, the European Commission formally tabled its proposals for the next Multi-annual Financial Framework (MFF) 2014-2020. A Communication consisting of two parts and setting out the main orientations (COM(2011)500)[1,2] is accompanied by legislative proposals including a Regulation adopting a new multiannual financial framework (COM(2011)398)[3], an inter-institutional agreement (IIA) on budgetary matters and sound financial management (COM(2011)403)[4], and a Decision on own resources (COM(2011)510)[5]. There are also two staff working papers (SEC(2011)867)[6] and SEC(2011)868)[7], one providing some general background and the other focusing specifically on the added value from the EU budget.

Background

The EU operates on the basis of a seven year financial framework that places a ceiling on expenditure which at present is €975,777 (or 1,12 per cent of the EU gross net income (GNI)) over the seven years. The current Commission proposals, following extensive internal discussions, set out the strategic direction of the next seven year budget period.

There are three key issues at stake in EU budget discussions:

- How much Member States are being asked to pay into the EU budget;
- The ways in which that money is raised, including the replacement of the current VAT resource with a genuinely tax-based own resource; and
- What the funds are going to be spent on, with a particular interest for Member States to get back as much of the money as possible ('*juste retour*').

Over the years, the need to find a compromise to suit all EU Member States on all three points has resulted in arrangements that are increasingly unable to respond to new and emerging policy challenges. In the tabled proposals, the Commission has tried to introduce some quite bold changes in the area of own resources, but much of the budget seems to be an attempt to make changes without significantly rocking the boat.

Size of budget

The Commission proposes an overall increase of the EU long-term budget in terms of total commitment appropriations, ie €1,025 trillion. However, measured in terms of share of European GNI, it is a slight decrease: whereas the current budget represents 1.12 per cent of GNI, the proposal is to bring that down to 1.05 per cent (total commitment appropriations) or just over €1 trillion over the next period, i.e. 2014-2020.

The documents also refer to several instruments that are officially outside the main financial framework, including a new instrument to react to crises in agriculture, as well as the European Development Fund which was always outside the MFF. When taking these 'outside' elements into account, the total budget rises to 1.08 per cent of EU GNI in commitment appropriations over the budgetary period.

What is being funded – what's new?

In theory, the proposed MFF seeks to link the budget to the Europe 2020 vision. In practice the Europe 2020 priorities struggle to see their way through in the detail of the proposals. Thus, at least from an environmental perspective, this means greater mainstreaming and 'conditionality' within what is basically a continuation of old rubrics: agriculture and Cohesion Policy. The Commission's proposals are therefore seen as conservative with the share of funding allocated to these two main areas of expenditure remaining largely unchanged. Indeed, one of the Commission staff working papers states that the preferred option was to 'rename the titles of the headings of the MFF to reflect the Europe 2020 headlines but not change (or only marginally) the underlying structure'.[6]

One of the more significant changes is a proposal to bring together EU programmes for research and innovation under a new single Common Strategic Framework for Research and Innovation and to substantially increase the research budget to €80 billion (excluding commitments under other policy areas or 'fiches' and outside the MFF).

Common Agriculture Policy (CAP) and Common Fisheries Policy (CFP)

The CAP (€372 billion) remains a sizeable element of the EU budget but is now to account for a fractionally smaller share of the overall MFF than the Cohesion Policy (€376 billion). The two Pillars of the CAP remain and the basic structure of the CAP is not radically altered although here the formal objectives do now reflect the priorities of Europe 2020 Strategy much more explicitly. The key innovation is the greening of Pillar One. In future, 30 per cent of the direct payments 'will be made contingent on a range of environmentally-sound practices, going beyond cross-compliance'.[1] No further details are provided as yet. This is a significant share of the CAP budget and could result in some major changes of practice on a European scale if well designed measures are put in place and then monitored effectively. It is also possible that farmers who fail to participate in the greening will risk losing the whole of their direct payments although this is not clear from the text. Expenditure on Pillar Two is scheduled to decline in real terms over the period.

In terms of the European Fisheries Fund, the proposals appear to be moving in the direction of sustainability not just of fisheries but the broader marine environment. The newly announced European Maritime Fisheries Fund (EMFF) (replacing the EFF) notably focuses on supporting fishing which is more selective, producing no discards, doing less damage to marine ecosystems and relating to the science that supports these activities, thereby contributing to the sustainable management of marine ecosystems. A single fund is proposed, integrating all fisheries and maritime instruments under one framework, with the exception of fisheries partnership agreements and EU membership in regional fisheries management organisations.

Life after LIFE?

The LIFE instrument is rather lost amongst all the larger budget headings, but now includes both environment (including biodiversity) and climate change components. The budget is increased to €2.4 billion for projects related to the environment component plus €800 million for projects related to the climate change component (ie €3.2 million in total, compared to the €2.14 billion presently available for this instrument).

A new type of 'integrated' projects is envisaged, to support the sustainable implementation of environmental action plans relating, for example, to the habitats Directive. Integrated projects will support a series of specific activities and measures, with additional funding for these projects to be sourced from other EU funding programmes as well as national, regional and private sector funds. LIFE funding is thus to act as a catalyst, ensuring consistency and a strategic environmental focus, exploiting synergies to the full and more structured cooperation with other EU funds.

The biodiversity strand of the environmental component is to cover issues other than Natura 2000, also targeting 'wider biodiversity challenges in line with the Europe 2020 biodiversity strategy target to maintain and restore ecosystems and their services' (see Part II of COM(2011)500). No decision is yet taken on the scale of funding to be allocated to the different strands of the LIFE programme, ie biodiversity, the environment more generally (e.g. resource efficiency) and governance. The big remaining question is thus what part of the environment sub-programme will go to the biodiversity strand and how much of this will be targeted at Natura 2000. At first sight the biodiversity share might be smaller than at present.

The climate change component consists of three stands including mitigation, adaptation and governance and awareness. Funding will promote pilot and small–scale demonstration projects for innovative action on GHG emissions reduction, the development and implementation of climate change adaptation strategies at national and regional levels and improving governance and planning procedures at lower tiers of governance for climate action. Although relatively small, the climate change component is aimed to provide 'seed money' to spur policy learning and further policy developments with regard to EU policy priorities in this area.

Mainstreaming

With relatively small sums being allocated for the environment and climate change under LIFE+, mainstreaming is stressed as the main mechanism for environment and climate change financing.

On *climate change*, the EU budget is expected to stimulate national spending and create a long-term predictable policy framework for investors. Priorities for funding include renovation of buildings, smart grids, renewable energies and innovation in transport. For this purpose, the Commission proposes to increase the sum of 'mainstreamed' funds spent on climate action to at least 20 per cent of the EU budget, with contributions from all the major EU funds, ie Cohesion Policy, research and CAP, subject to impact assessment evidence. This means that the relevance of renewable energies and energy efficiency for instance under Cohesion funding is likely to increase. However, it is yet to be seen how the requirement for 20 per cent earmarking for climate change is to be operationalised in the forthcoming legislative proposals for the different funding instruments.

On *biodiversity*, mainstreaming is to cover spending both within the EU via the main funding instruments and through external action funding. This means that the integrated model for co-financing biodiversity and Natura 2000, as introduced in the context of the 2007-2013 financing framework, is foreseen to continue. To increase the efficiency of EU spending, the Commission refers to the importance of maximising synergies between biodiversity and climate finance through funding ecosystem-based adaptation and mitigation projects that also provide wider ecosystem services, both within the EU and externally. However, the lack of detail on how to ensure effective mainstreaming of biodiversity is a cause of concern. Biodiversity aspects do not feature prominently in the Commission's proposal and conservation objectives seem poorly integrated into the funding priorities of different policy sectors[2]. Furthermore, given that the Europe 2020 Strategy falls short in addressing biodiversity, linking the future EU budget closely with the Strategy (eg increasing conditionality to deliver the Strategy's objectives, see below) is unlikely to guarantee effective mainstreaming. It is therefore hoped that the upcoming Commission Communication on co-financing Natura 2000, expected to be published later this year, will come up with more concrete proposals on this regard.

In order to be able to monitor mainstreamed expenditure, including on climate and biodiversity, the Commission proposed the establishment of clear benchmarks, monitoring and reporting rules for all relevant EU policy instruments.

Effective 'proofing' of other expenditure to ensure funding does not go against biodiversity and climate objectives, is also to be stepped up.

Focus on results and value added

The Commission underlines issues of results and performance, and focuses heavily on EU value added, which is natural given the economic environment. As the Commission notes, delivery mechanisms are widely regarded as being too complicated, often discouraging participation and even delaying implementation. It proposes a simplification across the MFF, with details to be set out in a communication towards the end of the year. Key elements include reducing the number of programmes and delivery arrangements and putting different instruments within Common Strategic Frameworks.

The Commission proposes to reinforce conditionality related to the Europe 2020 Strategy objectives and targets (including the climate change one). In the context of Cohesion Policy, a two fold approach is put forward – ex-ante and ex-post. The new system is to include clear milestones and indicators based on which monitoring of progress will be carried out in the annual reports. The disbursement of funds is to be conditional upon the achievement of pre-specified targets and interestingly, the Communication reads, the failure to demonstrate progress can lead to the suspension or cancellation of funding.

Sources of funding

By the Commission's own admission, the current system is so complex that only a handful of specialists fully understand how it works.[8] In order to make arrangements simpler and avoid the repeated 'rebate' discussions, the Commission has proposed a draft decision on own resources which includes three main elements:

- Simplification of Member States' contributions;
- Introduction of new own resources; and
- Reform of the correction mechanisms (including a review of the UK rebate).

Overall, the Commission is hoping to move towards revenue flowing automatically to the European Union budget and thus avoiding decisions by national authorities.

All of these elements are in fact controversial. The most controversial aspect concerns own resources, notably with a proposal to introduce an EU financial transaction tax (FTT) and new VAT resources. As concerns the new VAT resource, this is foreseen to replace the current levy on national VAT with a direct EU VAT (although Member States would still levy the EU VAT and pass the funds to the Commission). The current system generates around €14 billion per year for the EU budget, but reduces Member States' incomes.

Initial reactions

In order to soften the reactions over its proposals, the Commission had engaged in a heavy PR exercise although it is not clear that this has had the desired effect. The own resources and review of rebate proposals were met with immediate negative reactions from around Europe, including the UK. However, unofficial sources suggest that, these 'own resources' elements apart, the final deal will not differ radically from the Commission's proposals.

For the NGO community, the FTT proposal was welcomed by Oxfam, though the absence of a clear linkage between revenues and climate and development aid has been criticised. WWF called for a more visionary approach, and mandatory requirements that ensure EU funded activities contribute to and do not undermine climate and biodiversity targets. In general, the organisation considered that the suggested budget fails to effectively address biodiversity challenges, eg guarantee adequate funding for managing the Natura 2000 network.[9] This view was echoed by RSPB, with a special concern regarding the funding available for wildlife-friendly farming.[10]

Initial reactions from the European Parliament (EP) – now a real player in the negotiations - appear to have been more positive, including from the Alliance of Liberals and Democrats for Europe (ALDE) group and the Group of the European

People's Party. The chair of the EP's budget committee was reportedly amongst those applauding the proposals and their focus on growth.[11]

The Commission and EU Presidency will now need to find a path that ensures acceptance by all parties. The risk is that – in so doing – the 'greener' elements of the proposals will be watered down or lost, with a focus instead on who pays and receives how much. Already it is difficult to see how the budget stands up to the challenges of Europe 2020 Strategy, apart from superficially. While there are clearly positive elements in the proposals – notably the 20 per cent climate mainstreaming, the new Life+ component and the 30 per cent green Pillar One commitment, other issues including resource efficiency and the whole discussion around the green economy are much less prominent.

Future developments

Before the end of 2011, the approach outlined in the main Communication (Part I) is to be set out in detail in the legislative proposals for the expenditure programmes and instruments in the individual policy areas in early autumn.

The European Parliament and the Council are invited to support the orientations set out in the Communication, and ensure negotiations can be concluded in time to allow for the smooth implementation of the new multiannual financial framework as of 1 January 2014.

How the negotiations will proceed remains to be seen, particularly as the EP has now greater powers than previously was the case. The Polish Government, which took over the rotating EU Council Presidency on 1 July, has announced its intention to use the first few months to clarify the proposals and Member State reactions. It also wants to organise a more open conference with the participation of the Council, the European Commission, the European Parliament and national parliaments with a view to reflecting on the future of the EU budget and to give a possible new stimulus to the political debate. A final deal is not expected before the end of 2012, if then.

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