



QCEA response to the Consultation

In 2006 European decision-makers decided to undertake a ‘full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/9’. In September 2007 the Commission launched a public consultation to prepare for the review, in which all interested parties are invited to contribute.

This paper sets out QCEA’s response to the consultation. It is submitted to the European Commission and can be found along with other contributions on the consultation’s website:

http://ec.europa.eu/budget/reform/issues/issues_en.htm

In preparation QCEA also drafted five briefing papers dealing with questions such as: Where does the money come from? Who pays and who gains? What is the money spent on? Who makes the key decisions? These can be found on our website: <http://www.quaker.org/qcea/briefings/Budget/index.htm>

1 Has the EU budget proved sufficiently responsive to changing needs?

The Quaker Council for European Affairs (QCEA) recognises the necessity of the review of the budget and welcomes the fact that the EU Institutions have undertaken this public consultation. The fact that this is happening underlines that the EU budget can be seen as lagging behind its context.

One example where it is evident that the financial means are not keeping pace with expectations is within ‘the EU as a global actor’, i.e. the funding the EU has available for its external action. The European Union has increasing ambitions to be seen as a global actor playing its role on a global stage, but has only allocated a small share of the budget for this purpose and has stayed on this low level over many years.

The current budget review must also address the Common Agricultural Policy (CAP) which continues to occupy a significant proportion of the budget. A lack of reform in this area which would address the magnitude of expenditure on this will limit the room for manoeuvre for reform and changes in priorities in others. The fact that the CAP is undergoing only a health check and that this is taking place on a different timescale to the present review is to be regretted.

A further example where the EU budget has not kept pace with the environment it operates in is the fact that both energy security and environmental issues now have a significant political position but are not reflected in the same way in the budget.

It is also noteworthy that the current budget remains a very small proportion of European countries’ GNP despite increasing ambitions.

The timescales of the decision-making processes - especially the medium-term financial planning framework - are, moreover, unresponsive to changing needs and to changing policies in the short and medium term.

2 How should the right balance be found between the need for stability and the need for flexibility within multi-annual financial frameworks?

Flexibility can be seen as an inbuilt factor which allows a certain amount of movement between planned expenditure and actual expenditure in response to real time experience. In other words, when a particular programme has worked well then it should be possible to allocate funds in excess of budget from areas where programmes have not worked well.

Question 2 continued:

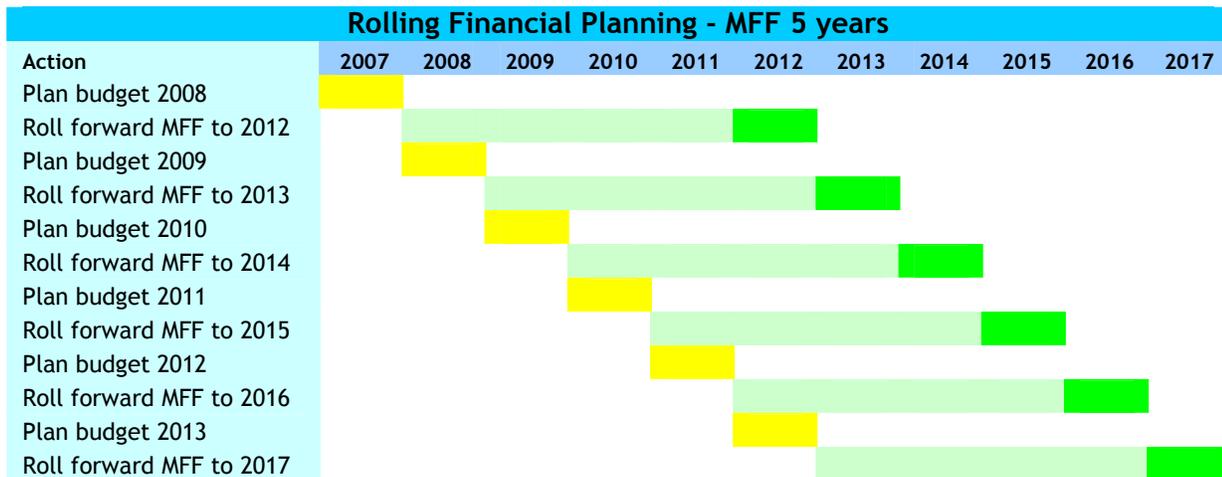
Flexibility also means that over time it should be possible to move priorities and to reflect changes. The 7-year Financial Perspectives bring a significant lack of flexibility because once the framework is set then it is difficult to change that framework before the end of the period. A system of rolling medium-term plans might make the whole system more flexible.

Another issue of flexibility is the question of budget years and the extent to which expenditure can be moved from one year to the next. Sometimes it is difficult to get programmes started, especially at the beginning of a new Financial Perspectives period; this can lead to loss of funding for programmes if they cannot take up the budget fast enough.

The medium-term financial frameworks have reduced the difficulties of agreeing a budget each year and helped bring about some stability. The term of the European Parliament and the European Commission does not cover the same period as the MFFs, however. This is a question of accountability, when for example the Commission responsible for the bulk of delivering the current MFF (2010 to 2013) will have had no part in designing it.

Considering that the terms of office of the European Parliament and the European Commission are broadly similar and on a 5-year cycle it would be possible to bring the planning cycle of the MFF in line with them. But if the MFF was to be on the same cycle, it would still mean that one Commission and Parliament would have to be party to drawing up the MFF and another Commission and Parliament would be responsible for its implementation. If instead the planning cycle could be brought in line with the Parliament and the Commission but be rolling at mid-cycle, each Commission and Parliament would be involved in drawing up a MFF and implementing the first half of it. In both these cases, the reduction in the planning cycle from 7 to 5 years would lead to some incentives on the part of each Commission and European Parliament to take full ownership of the planning mechanisms.

A more radical approach would be to have MFF on a rolling basis; that would mean that each year the budget for the next year and a further year of the MFF would be under discussion. The benefit of this would be to allow an annual look at fine-tuning the MFF but at some remove (i.e. the fine-tuning would affect year 6 in a 5-year planning cycle). An example of how this would work is shown below in diagrammatic form:



This approach would have the benefit of:

- making both the annual budget process and the MFF planning process an annual and regular process which those responsible for could become expert in and where expertise could be handed on relatively smoothly;

Question 2 continued:

- allowing an annual look at where the MFF is going, which in turn means that changes in policies and priorities can be reflected within a foreseeable timeframe without unpicking the agreement for the medium term;
- ensuring greater ownership (by which we mean accountability and commitment to making it work in practice) by the European Parliament and the European Commission because the people making the proposals and the decisions would be the people responsible for implementing at least some of this.

3 *Do the new policy challenges set out in the consultation document effectively summarise the key issues facing Europe in the coming decades?*

We perceive that all of the policy challenges set out in the consultation document are seen very much from the point of view of European interests in the narrow sense of this word rather than looking at the global context and the need for social and economic justice in that global context. The EU budget should reflect a vision of a world in which poverty is unacceptable, and where every person has the right to live in dignity, free from poverty, in a healthy environment and in harmony with nature. As it is described in the consultation paper, global poverty needs to be addressed not because of its inhumanity but rather because it threatens European interests of security and controlled migration. It is noteworthy that key values of solidarity and the EU's commitment to the Millennium Development Goals are not referred to at all or are being diverged from their real meaning in a global context into internal priorities of improvement of less-developed parts of the EU.

The list further reflects a reactive rather than proactive and strategic approach as there is little evidence of overall objectives or a vision for Europe's role in the world. Comparing this with the title (though not the content) of the European Security Strategy 'A safer Europe in a better world', at least in terms of the words, the European Security Strategy has a much clearer vision of what the world should look like in the context of European values.

Another challenge that is not covered in the consultation paper is that of engaging citizens in European decision-making. Funding must be set aside to enable accessible information and support their active participation.

It is imperative that the future budget reflects EU priorities and aims both in its structure and in terms of the priorities set. This consultation should be about a vision for the European Union and about the political will to translate this vision into reality for people. The EU budget is a tool to make this vision a reality for everyone. It needs to better reflect European values and policy priorities as anchored in the Treaties.

The EU is a peace project which is exportable; it has brought peace to its citizens by developing economic and social cooperation through political and entirely non-military means. This approach is one the EU can rightly be proud of and which it needs to offer to other parts of the world; to do this effectively the budget needs to be tied closely to the values which the EU stands for.

4 *What criteria should be used to ensure that the principle of European value added is applied effectively?*

The consultation paper is relatively vague on this issue, referring to subsidiarity and proportionality and listing a number of factors which are necessary to justify spending at EU level. Other factors in this list could include: to promote social and economic cohesion between Member States; to further solidarity between Member States; to foster cultural cohesion whilst at the same time valuing cultural richness and diversity; and to allow the European Union to act on a global stage as a recognisable and coherent actor.

Question 4 continued:

One of the ways in which European value added could be defined is to say that the public expenditure burden should be reduced by expenditure being incurred at EU level (because of avoidance of duplication, economies of scale and avoidance of sub-optimisation due to unhelpful competition between the Member States). At the very least, the public expenditure burden should not be increased by spending at EU rather than national level.

It is unfortunate that all too often the debate surrounds not added value of EU spending in these terms or in terms of the benefits of the EU policies but rather the question of net contribution; because of this, Member States are often more interested in ensuring that they minimise their net contribution (i.e. ensure that the budget remains small, that policies benefit them financially, and that if they do not, some special measures are included to reduce their net contribution).

Apart from setting clear criteria of how to define European value added, it is also important to develop an understandable methodology for demonstrating the added value of EU spending which is simple and transparent enough to make sense to citizens.

5 *How should policy objectives be properly reflected in spending priorities? What changes are needed?*

The budget should be a reflection of what the EU wants to do; i.e. it should reflect its priorities. An area of activity with a large budget allocation should also be one of the policy priorities. In the EU, the relative weight of different policy areas in terms of budget allocation has shifted significantly over recent years, but the link with shifting policy priorities is not always apparent.

As it is now, it is clear that policy areas focused inwards (sustainability and growth, agriculture and rural development, citizenship, freedom, security and justice) taken together make up the bulk of the budget and that external action takes a very minor back seat. Thus the increasing aspiration of the European Union to be a global actor is one example where the financial means are not keeping pace with expectations.

The EU like the Member States is required to act across a large number of policy fields facing complex challenges. A majority of issues, including for example climate change, redistribution of resources, development cooperation, security and justice, require action across different sectors and at different levels of governance and administration. Many of these issues also require long-term action as well as responses that may take many years to show results.

Future budgets should offer the possibility for multiple inter-linkages between the key challenges facing the EU: for example between the use of renewable energy and climate change, between climate change and poverty, or between energy security and conflict management. The challenges are inter-linked and solutions/programmes should therefore take this into account. At the moment, this is not the case.

Furthermore, expenditure in one category must not undermine overarching policy objectives of the EU. Such a situation, which we experience today e.g. in the agriculture and fisheries policies, goes against the principles of policy coherence, good governance, efficient use of public money, and also undermines the credibility of the EU.

For example, a large part of current EU spending on agriculture is supporting farming practices which contradict the interests of consumers, damage the environment, hurt smaller farms, hinder sustainable rural development, threaten public health and create inequity among Member States. This is absolutely contrary to EU objectives, such as reducing the pollution and degradation of biodiversity, promoting and protecting public health and social cohesion. These incoherencies need to be tackled.

Question 5, continued:

Clarity and much greater transparency of policy priorities and how funding across the different spending domains fits together to meet the priorities is essential. Without this transparency it will be hard for the EU to generate and/or maintain the confidence of its citizens that their money is being well spent in a well thought-out and coherent fashion. Apart from making the information available in an accessible format it is also a matter of ensuring that the level of informed interest is high enough for citizens to want to inform themselves. A better link between citizens and the European Union budget (for example through taxation that is transparent) would go a long way in this direction.

Another issue to discuss within this context is the budgetisation of the European Development Fund. This option has repeatedly been blocked by the Council and in 2005 they again decided to fund ACP-EU cooperation through a development fund rather than through the budget. We think that this discussion should continue, especially for reasons of transparency and accountability. By being part of the budget, development funds would come under the scrutiny of the European Parliament, with a bigger chance of them being democratically controlled. This is not the case now when the EDF is based on Member State contributions. There should be an open dialogue with partner countries concerning the funding of aid. Whilst there may be some risk that budgetisation of the EDF might lead to calls for reductions in the amount available, the fact that the EU and its Member States are not achieving the 0.7% ODA they are committed to in the context of international agreements, is an effective counterbalance to that risk.

6 *Over what time horizon should reorientations be made?*

Under question 3 we have proposed a rolling planning framework to ensure that financial planning remains medium term and increases its flexibility in response to new policy challenges.

It is important to control and monitor how money is spent and how far this contributes to the achievement of EU policy objectives. To do so all EU spending programmes should be subject to evaluation looking at their compliance with the Treaties' objectives, their coherence with EU policy and strategies as well as their efficiency and effectiveness. This evaluation must be implemented in a participatory way using for example the provisions of the participation article (II-8 b) of the Lisbon Treaty. Such involvement of civil society in monitoring and evaluating the use made of their money requires a coherent and concerted effort in bringing about an acceptable level of financial awareness and education both at Member State and at European level. Much of the criticism of 'lack of transparency' is actually not a lack of transparency but a lack of knowledge and understanding.

7 *How could the effectiveness and efficiency of budget delivery be improved?*

Considering that the budget finances over 150 policy areas across 27 Member States and beyond which address a broad range of political issues, it is obvious that there is no one answer to this question. These decisions need to be made on the basis of basic criteria for each budget and each programme. The basic criteria here should be no different to the criteria for good financial management in any organisation. These criteria should include:

- Greater transparency. In key budgetary areas such as structural funds and agricultural policies, evaluation and dissemination is insufficient. Publishing who receives what support is a start but it is not enough without public education on these issues.
- Better involvement of a wider range of stakeholders in planning and defining the programmes which will affect them. Co-financing could for example not only lever additional finance but also additional ownership and buy-in with the resulting interest in sound management.

Questions 7 continued:

- Simplification of implementation processes. Whilst there have been some steps taken to simplify the administrative burden on recipients of relatively small sums of EU funding, especially civil society organisations, and especially in third countries, the overall size of most grants and the accounting requirements are still extremely off-putting for some organisations who might need the support most.
- Coherence. Expenditure in one category should not undermine progress in another.

Additionally, the effectiveness of budget delivery could also be improved through combining it with other tools, such as regulations. This must not be considered as a ‘free’ alternative, however, since financial incentives are required to induce national and sub-national governments to adjust their policies to the EU priorities.

8 *Could the transparency and accountability of the budget be further enhanced?*

Of course, transparency and accountability can always be further enhanced.

Firstly, there is the aspect of ensuring transparency, visibility and accountability in *the management* of the budget. This makes critical demands on the information strategy of the European Union. It is a matter of making the information available in an accessible format but also of ensuring that the level of informed interest in these matters is high enough for citizens to want to inform themselves. A better link between citizens and the European Union budget (for example through taxation that is transparent) would go a long way in this direction.

Secondly, transparency and accountability of the budget goes further than just the management of the budget. It also involves transparency in the discussions which lead to the formulation of the budget and accountability in terms of how it has been spent and whether it has achieved its objectives. Such transparency and accountability can always be enhanced. We recognise and appreciate that there is a large volume of information on both these available, but it is not always as user-friendly and accessible as might be desirable. There is scope for engaging with citizens to find out how this information could be brought closer to them. This could form part of the continued review.

The European Court of Auditors plays a crucial role in controlling that the EU budget is spent according to its aims. We believe that greater efforts from Member States in submitting correct information on decentralised spending, as well as greater transparency and openness about this information is necessary in order for the EU to be sufficiently accountable to its citizens. One example is the recent decision by the Commission on how information about recipients of agricultural subsidies will be made public. This does not come a minute too early, but it is not clear as yet whether the information given will be sufficient to understand why the individual grants have been approved, and most remarkable is the fact that the data will be published on separate websites for each Member State, making it very difficult for citizens to get any overview.

9 *Could enhanced flexibility help to maximise the return on EU spending and political responsiveness of the EU budget?*

The consultation document envisages greater flexibility as ‘allowing resources to be reallocated between or within budget headings. This could help to shift support to the highest-performing programmes in terms of cost-effectiveness and criteria such as observed absorption capacity’.

This definition of flexibility is limited and we suggest that it be discussed in a wider context which does not only benefit high performers with greater absorption capacity but which is also about solidarity and capacity building. Re-allocation should also be possible where either for timing or other reasons, resources allocated to one programme are not needed there. The regular under-spending which has characterised many years of EU accounts could thus be minimised.

Question 9 continued:

We consider the question of ‘effectiveness of EU spending’ broader and more relevant than that of ‘maximising the return on EU spending’. In line with this we call on the EU heads of states and governments to reject the dominance of purely economic considerations. The EU budget is a relatively small amount of money confronted with big challenges. These challenges can only be effectively tackled if Member States also put their budgets in line with the commitments they make at European level.

10 What principles should underpin the revenue side of the budget and how should these be translated in the own resources system?

The overarching goal of this budget reform should be to achieve a situation where the EU is funded in a transparent and clear way that generates sufficient funding for the EU budget to achieve the political objectives of the EU and that ensures a **direct relationship between the citizen and the EU** which encourages accountability and engagement. We believe that a tax levied at EU level has the potential to bring this about.

There are, of course, a number of different criteria which should apply to any taxes levied by any government. It is our view that in the context of any taxes raised for the EU budget specifically, the key issues should be that they:

- remove or at least minimise unhelpful tax competition between Member States;
- are progressive in nature (i.e. those that are better off contribute more);
- that they - at least to some extent - establish a direct and visible relationship between the EU and the citizens.

We are aware that there are likely to be significant political obstacles to having a European level tax, not least because the introduction of any new tax is not likely to be popular even if this would be cost-neutral to tax payers either individually or on aggregate. Nor is it likely to be popular with national governments to hand control over revenue generation to decision-making at European level. Despite this we think it is worthwhile to seriously consider the option, especially because of its potential to bring the EU closer to its citizens. It would also make real sense of the term ‘own resources’ at EU level.

There is a wide range of different types of taxes which could be considered at a European level, including for example VAT, excise duties, eco-tax and communication tax. When examining which forms might be best suited it is essential that aspects of **equity and solidarity** are seriously considered. The table below highlights some of the issues related to a number of possible types of tax.

Type of Tax	Issues Raised
VAT	Technically this is quite simple since some VAT is already assigned to the EU. But there are different levels of VAT in different Member States ¹ and the money generated by each Member State from VAT is more than would be required for the EU budget so the EU would need only a ‘slice’ of the VAT income. By making it an EU tax, the European Parliament would have the power to vote on the EU VAT rate; the tax would still be collected by Member States, along with their own share of the VAT revenue, and the EU ‘slice’ would be transferred. However, VAT is seen as a regressive tax (i.e. less well-off citizens tend to spend more of their money, rather than saving it) and thus pay VAT on a larger proportion of their disposable income. To an extent, this is offset by reduced rates of VAT (or that is the theory) but with the variety of rates and products and services they apply to in different Member States, there would certainly be some questions relating both to horizontal and vertical equity.

¹ There are different rates of VAT applicable in different Member States. The Standard Rate ranges from 15 to 25%; all Member States also have reduced rates (some only one, some up to 3), and these range from 2.1 to 17%; the types of

Question 10, continued:

Type of Tax	Issues Raised
Excise Duties	<p>These are taxes or duties levied on certain goods such as alcohol, tobacco and fuel. They currently apply in many countries².</p> <ul style="list-style-type: none"> ◆ Alcohol: the EU has some regulations in place but there is significant variation in the rates of duty that apply and some alcoholic drinks (e.g. wine and sparkling wine) do not have any duty levied on them in some countries; making this a tax at EU level would require a common approach. ◆ Tobacco: all EU Member States levy a specific tax on cigarettes but not on all tobacco products; making this a tax at EU level would require a common approach. ◆ Fuel: whilst some or all fuel is taxed in all EU Member States, there are variations in the rates and in the types of fuels to which this applies: making this a tax at EU level would require a common approach.
Eco-tax	<p>This would be taxes levied on activities which are damaging to the environment and could have, <i>inter alia</i>, the following effects:</p> <ul style="list-style-type: none"> ◆ increasing the cost of such activities, thereby discouraging them; ◆ countering the effect of ‘the race to the bottom’ if such taxes were imposed by EU Member States at different levels; ◆ levying a tax on activities which, though often undertaken in one Member State, have potentially detrimental effects over a wider geographic basis. <p>However, if the tax were effective at discouraging the activity, then it would not be buoyant and thus potentially not yield enough revenue to fund the desired budget.</p>
Communication Tax	<p>This would be a tax on activities such as using mobile phones or SMS; the rationale here is that this is a large market, that decreases in the cost of technology are a direct result of a large market and that the tax would therefore be both at a low marginal level and at the same time buoyant in terms of revenues generated. The question of why this would be levied at EU level is hard to answer as there must be more intra-country traffic than international traffic of this type.</p>
Corporate Tax	<p>There are currently different corporate tax systems in different EU Member States; this contributes to the movement of employment between Member States as companies, especially those companies for which it is not important where they are located, seek out locations with low corporate tax burdens. This would be ameliorated to a certain extent but as corporate tax is not the only factor influencing the location decisions of companies, this would not solve all the problems.</p> <p>However, as a growing number of corporations are multi-national, there is a very good case to be made for EU level taxation.</p>

products and services which to reduced rates apply, also vary from one Member State to another, as do the products and services which are either zero rated or exempt from VAT.

² Information about these taxes in EU Member States accessed on the European Commission website on 10 January 2008 at: http://ec.europa.eu/taxation_customs/taxation/excise_duties/energy_products/rates/index_en.htm

Question 10, continued:

Type of Tax	Issues Raised
Personal Income Tax	This would operate no differently to the income tax paid at national level. There might be a degree of resistance to it but it would provide a very direct link between citizens and the EU. On the principle of 'no taxation without representation' this would introduce the taxation which should go hand in hand with the representation at EU level in a very direct way. Issues both of horizontal and vertical equity would, however, arise, as the standard of living, and thus incomes vary significantly between and within Member States. However, as long as the EU 'slice' of personal income tax is below the lowest level of income tax levied in any EU Member State this is possibly of limited concern. A benefit of using an income tax is that, unlike VAT, it is progressive rather than regressive in nature.
Savings Tax	This would be a tax on income from personal financial assets. Such assets are currently taxed in all EU countries ³ and moving to taxation at EU level could lead to the removal of horizontal competition. Some harmonisation for non-residents holding savings in a Member State has already taken place through the 'savings directive' ⁴ so this could be seen as a further development.

11 *Is there any justification for maintaining correction or compensatory mechanisms?*

No. Correction mechanisms were put in place as a result of the specific situation at the time. The context has long since changed. One of the objectives of the review must be to arrive at a system which would make any further correction mechanisms unnecessary. Otherwise any new approach would have inbuilt problems from the start.

The issue of correction mechanisms also relates to the fact that many Member States see the EU project as a burden rather than an opportunity. The fact that there are correction mechanisms reinforces that message and in itself leads to a perception of citizens that they are, somehow, being unfairly treated as compared to other EU citizens. Not only are the correction mechanisms out of date, they are positively contrary to the message of solidarity between citizens in different Member States.

12 *What should be the relationship between citizens, policy priorities, and the financing of the EU budget?*

A new approach to financing the European Union must start with the policy priorities. It is hard to imagine that anything else could make sense (although the current system falls well short of this). So, in order to have a proper review of the budget, this should be looked at on a zero base; in other words, it is necessary to assess (and this would be no mean feat) what it would cost to pursue the policy priorities in all policy areas and to then put them in a priority order. This would then allow a good look at the magnitude of a budget that could fund all the programmes and actions which the EU has committed itself to. Clearly, this also requires a hard look at the contribution which Member States are making to the implementation of EU priorities and policies and the costs that therefore sit in MS budgets.

If that exceeds current resources, and it is likely to do so, then there has to be a discussion either about reducing the number of policy priorities/programmes or increasing the resources.

³ Jacques Le Cacheux, Funding the EU Budget with a Genuine Own Resource: the Case for a European Tax, Notre Europe, May 2007, accessed at: http://www.notre-europe.eu/uploads/tx_publication/Etud57-FundingtheEUBudget_02.pdf on 8 January 2008

⁴ Accessed at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:157:0038:0048:en:PDF> on 10 January 2008

Questions 12 continued:

The subject of the relationship between the citizens and the budget (both in terms of what it funds and how big it is) is a different and more complicated issue. There needs to be a serious attempt at getting information about what the EU does across to citizens in a form in which that information is accessible, absorbed, understood and forms part of the political discourse which in turn can lead to the decision-making at EU level about the priority order of the policies and the magnitude of the budget. This is not something that can be done quickly but it is something that has to be done.

Our messages (in this and under previous questions) on information and education on budget matters all go in the same direction of arguing that citizens will be more willing to spend their money if they are clear about what that money is used for.