POSITION PAPER

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BUSINESSEUROPE POSITION ON THE EU BUDGET REVIEW

AN EU BUDGET THAT MATCHES EU AMBITIONS

Executive summary

The limited size of the EU budget implies that it can only target a few well-selected objectives where real value-added can be identified with respect to other policy instruments at Community, national and regional level, in line with the subsidiarity principle.

BUSINESSEUROPE calls for a reform of the EU budget seeking to better reflect the EU's ambition to become a competitive, knowledge-based and low carbon economy.

This implies a significant increase in resources devoted to research, innovation, adaptability, infrastructures, education and training. An effective orientation of cohesion policy towards these objectives will be the means to deliver sustainable convergence in the regions.

While there is at present no justification to increase the EU budget above 1% of EU GNI, a more supportive agricultural landscape, with structurally high commodity prices and new market opportunities, should make possible a significant shift in EU funding resources from the Common Agricultural Policy (CAP) towards competitiveness programmes.

In order to ensure effective delivery within a tight budget framework, ways of improving governance and consistency between various policy initiatives is also essential. Leverage effects must be encouraged at all levels, through financial engineering instruments, co-financing solutions and effective public-private partnerships. Moreover, EU-funded programmes must be fully integrated in the Lisbon Strategy and help reinforce other actions taken at EU, national and regional level towards growth and jobs objectives.

Effective management also implies the use of objective criteria to allocate funds, to evaluate their performance and to allow sufficient flexibility to redeploy resources away from non-performing programmes. This also calls for a more operational mid-term review. Finally, the financing system of the EU budget should ensure simplicity, stability and fairness.

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1. Challenges facing Europe

The challenges facing Europe remain formidable and any future EU budget will need to reflect them better:

- Productivity growth is stalling in the largest EU member states, illustrating a lack of innovation, competition, adaptability and skilled workforce
- Living standards and competitiveness positions vary widely across regions and member states
- New members have entered a new phase of their catching-up process, with changing employment needs, fast restructuring and in some cases rising macroeconomic imbalances
- The internal market is neither complete nor sufficiently well enforced. In particular the internal energy and services market are still a long way away.
- Global competition for high value-added products is rising. Huge emerging economies are already outperforming the EU in terms of economic growth and strategies for R&D and innovation.
- Measures to tackle climate change and promote energy efficiency need innovative solutions and policies that do not hamper but encourage the competitiveness of European companies
- An ageing population threatens the sustainability of social security systems and changes the functioning of European labour markets

2. Priority on competitiveness and cohesion

EU investment and funding should concentrate on transforming the EU into a knowledge-based economy, ensuring cohesion between member states and regions and consistency between policy decisions at all levels. EU resources invested in the following areas will contribute most to these objectives and secure the best value for money:

1. R&D and innovation, paying proper attention to the development of solutions to major societal challenges including climate change
2. Employability, adaptability , education and training
3. Networks and infrastructures
4. Cohesion.

Budget provisions for these policy priorities should be substantially increased, which should be made possible by deepening reforms of the Common Agricultural Policy in order to free up resources for other EU policies. Effective implementation should also be guaranteed through programmes with clear objectives and participation rules.

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2.1 R&D and innovation

Research and innovation is an area where significant value-added from EU funding can be expected. According to the Commission, reaching the spending targets on R&D could imply a boost to GDP of close to 5% over the medium term. Most of these gains would come from cross-border trade, investment, technological and knowledge transfer, which provides a strong rationale for European-level actions. The Eighth Framework Programme should see a significant increase in funds and focus on building a critical mass of activity in key technology areas.

Support for research and technological cooperation is crucial in order to develop leading centres of excellence in science and technology, attract researchers and reinforce the innovation capacity of the European Research Area. The development and use of energy-efficient technologies should also be promoted.

The European Institute of Technology, through the creation of knowledge and innovation communities, is a possible means to strengthen knowledge transfer. But its viability depends on a significant amount of public funding both in the initial start-up phase and during its later life, which should be properly reflected in the EU budget. A guaranteed financial basis for EIT, ensuring the success of investments is a precondition for companies to commit to specific knowledge and innovation communities

For Europe to become a better place for research and innovation in the future, the risk that is inherent to these activities should be better taken into account in the Financial Regulation applicable to the general budget and its Implementing Rules.

2.2 Employability, adaptability, education and training

In an evolving internal market and with technological changes bringing important relocation of resources across sectors and regions, the EU budget has a role to play in creating systems to anticipate change and support workers' adaptability and their occupational and geographical mobility.

In this regard, anticipation is one of the priorities of the European Social Fund (ESF), but insufficient attention has been paid to this objective in the past. ESF support should be used to improve education and vocational training systems and lifelong learning, while making them better adapted to the challenges of the changing labour market. For the period 2007-2013 only 18% of the ESF resources will be used to increase the adaptability of workers and firms. A significant rebalancing of ESF funding towards this objective will need to be operated in the future. The involvement of social partners in the preparation, implementation and monitoring of EU funds under different programmes is also crucial in terms of effectiveness and efficiency.

Moreover, the EU funds must help create a better match between the supply and demand of skills on European labour markets, improve management skills and entrepreneurship, particularly for small businesses in the management of innovation, while respecting the principle of subsidiarity in these fields. Programmes such as Erasmus or Leonardo should be appropriately funded as they contribute to enhancing the skills and mobility needed in the European labour market and bring positive publicity for the EU among citizens.

Finally, investment in human capital is key for the newly acceded countries to be able to create the institutional capacity deemed necessary to implement the *acquis communautaire* and reap the benefits of the internal market.

2.3 Investments in trans-European infrastructure and networks

The development of Trans-European Networks is crucial to deepen the internal market and facilitate the rapid catching up of poorer and more isolated regions. They must facilitate the access to knowledge and resources across Europe through appropriate infrastructures. This is an area where EU value-added is undeniable and where sufficient EU funding is necessary.

For instance, European transport networks are far from complete, and several priority projects identified by the Essen European Council as long ago as December 1994 are still ongoing. A renewed financial commitment from member states and the EU is needed, focusing on a clear prioritisation of projects.

The completion of the internal market for energy also demands urgent electricity and gas grid extensions as well as new investments in infrastructure and inter-connections between North-South / West-East. It is very important to give proper support to cross-border connections, giving due consideration to the specific situation of new and peripheral member states.

2.4 Cohesion

Cohesion policy is the second largest item of the EU budget, representing 35% of total expenditures. For the current financial perspectives, cohesion policy funds must meet a Lisbon earmarking requirement, focusing investment on infrastructures, education and training, networking or research. This is a step in the right direction, which has helped to develop more strategic regional thinking, and it should be applied to all EU member states in the future. However, cohesion policy should not be overloaded with too many targets. Where earmarking applies, the wide scope of eligible activities may imply a limited effect on allocation decisions.

BUSINESSEUROPE calls for:
- **More partnership:** The involvement of business representatives is crucial particularly in areas such as employment, human capital, entrepreneurship, cluster development and support for small and medium-sized enterprises.
- **Easier access to funds:** Payments should be made available faster, limiting the number of stages between the moment a beneficiary is designated and effective receipt of the funds.
- **Think small first:** It is crucial for SME development to ensure simplified procedures and an opening of the financial ceilings for small projects, with a widening of the “de minimis” rule and a definition of coherent rules for SMEs – tailored financial engineering.

- **Evaluation and transparency:** The new implementing regulation has improved but it still contains procedures open to interpretation, and therefore carries a certain legal uncertainty in the control and audit aspects.
- **Shut down non-performing programmes:** Regions that do not achieve measurable performance criteria should see their funds reassigned.
- **Absorption capacity:** The support from the EU budget to low-income regions is sometimes considerable as a ratio to their GDP. The absorption capacity of member states and regions must be considered carefully, in terms of administrative resources but also as regards the wider macroeconomic consequences of EU funding.

A more detailed BUSINESSEUROPE position on the future of cohesion policy was published on 20 September 2007 as our answer to the European Commission's consultation on the 4th Report on Economic and Social Cohesion.

3. Need for a deeper Common Agriculture Policy reform

The EU's Common Agricultural Policy (CAP) must keep pace with market and technological changes. Today's landscape for Europe's agriculture has become significantly more favourable, with structurally high commodity prices and new market opportunities reducing the need for support instruments.

This environment provides a unique chance to modernise the EU Common Agricultural Policy and allows a significant shift in EU funding resources towards competitiveness-enhancing programmes. Externally, further CAP reforms should also permit a more offensive position in WTO and bilateral free-trade negotiations.

The precise parameters of this reform will need to be defined taking into account the growing diversity of challenges facing the EU agricultural sector and the industries connected to it, but should seek in priority to open the sector to competitive forces and integrate it more into the EU Lisbon strategy for growth and jobs, focusing on innovation, R&D and technology transfer, entrepreneurship, penetration of ICT in rural areas and effective coordination with investments under the Structural and Cohesion Funds.

More transparency and further information on CAP beneficiaries would also help promote more effective use of the funds.

4. Improve governance and consistency of EU policies

4.1 More delivery through better management

<u>Effective programming</u>
76% of the EU budget is managed in liaison between the European Commission and the member states in a governance framework where regional and local actors must see their role reinforced and appropriately supported. Efficient systems for auditing EU expenditure must be in place at European and national level.

It is also necessary to implement the so-called partnership principle effectively: those responsible for setting and implementing objectives within the EU should increase dialogue between the authorities responsible for the use of the funding and those implementing the projects on the ground.

EU procurement activity must also contribute more to the creation of a demand-side pull for innovation. By engaging with businesses to identify innovative solutions and to set targets to be met through innovation, public procurement across the EU could be used to facilitate significant new investment by the private sector.

<u>Objective evaluation criteria</u>
Asserting the efficiency and effectiveness in relation to the objectives to be reached is therefore crucial and this must be achieved through:

- A careful and objective evaluation of the level of funds required to deliver, and through an enhanced monitoring process based on clear and fixed performance criteria defined at the preparatory phase of the programmes with all relevant stakeholders.
- These evaluations should be carried out by independent bodies and lead if necessary to a reallocation of resources from non-performing to more performing programmes.
- Coordination between European, national and regional evaluators is essential without increasing the administrative burden on the beneficiaries of EU funds.
- Evaluation should also be proportional to the importance of the project

4.2 Better use of leverage instruments

<u>Financial engineering</u>
The use of EU funds as collateral for granting loans for projects ranging from large infrastructures to innovative SMEs has the potential to allow higher-risk investments (for example, in business start-ups), therefore amplifying significantly the impact of EU initiatives in these fields. Moreover, with the private sector becoming a stakeholder in partnership with public authorities, effective allocation and management of the funding could result.

In this context, the business community fully supports and calls for the further development of revolving instruments in collaboration with the European Investment Bank, such as JEREMIE (joint initiative supporting improved access to finance for SMEs), JASPERS (joint assistance to support projects in European Regions), JESSICA (joint European support for sustainable investment in city areas) and the risk-sharing finance facility.

<u>Consistency with other EU policies</u>
The Strategy for Growth and Jobs, the Lisbon agenda, offers an overarching theme to align policy efforts at all levels and ensure effective coordination of resources.

In order to ensure the coherence of efforts, the allocation of EU funds at national and regional level must reflect the country-specific priorities identified in the context of the EU growth and jobs strategy. The objectives pursued by the use of EU funds should be documented in national reform programmes and be an integral part of the assessment of reform implementation in member states.

The EU budget must also be used as a lever to complete the internal market, funding programmes favouring the free movement of goods, services, people, capital and knowledge.

In order for the EU budget to have a sufficient impact, regional and national budgetary policies should, where appropriate, pull resources in the same direction.

4.3 Ensuring flexibility and accountability

Margins

Sufficient margins must be built in the budget to accommodate unforeseen expenditure priorities and cyclical variations in budgetary resources. However, it is important that the definition of unforeseen expenditures is clarified and to avoid budgetary margins being used as a means for solving problems related to under-funded programmes.

Effective mid-term reviews and programming period

Mid-term reviews have to be effective and useful, based on a real evaluation of the relevance of the spending after a period of implementation.

Member states should be then entitled to certain flexibility to reallocate resources to where they will pay off. The Commission's role in the relocation of funds should be clearly defined.

A medium-term perspective for the EU budget is necessary to ensure sufficient continuity in policies but a seven year programming period does not necessarily provide sufficient flexibility and also reduces public accountability bearing in mind the five-year term of the Commission and the European Parliament. Hence careful consideration should be given to a shorter programming period of five years if, this does not lead to more paralysis in the negotiation process in the Council.

4.4. Financing the budget: ensuring simplicity, stability and fairness

The debate on the EU's own resource system is connected to discussions on the EU spending structure and its effective management. Only with significant reforms to the structure and effectiveness of EU spending will a constructive debate on the EU's own resource system be possible.

In any event, the following principles should guide any further reform proposals:

1. Simplicity and transparency: a clear understanding of how the EU budget is financed
2. Stability: resources for the EU and contributions from member states should be predictable and relatively stable over time
3. Fairness: the Union's financing system has to be based on ability to contribute, measured according to the relative wealth of member states, ensure a balance distribution of net contributions and seek to alleviate where possible the need for compensation measures on the income side.