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**EUROPEAN BUDGET: IMPOSSIBLE OR NECESSARY?****SPEAKING NOTES FOR JEAN-CLAUDE BANON  
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- With public finances in disarray and severe economic challenges expected to persist over the next decade, the EU budget will need to be clearly aligned to Europe's priorities. We need a more competitive, dynamic and innovative Europe and the EU budget must mirror these efforts.
- While there is no justification to increase its size above 1% GNI, policy priorities must be fundamentally reconsidered, targeting those areas where the European added value is clearly identified. These are research and innovation, skills and adaptability, mobility and transnational infrastructures. A thorough reform of the Common Agriculture Policy (CAP) should permit a significant shift in the structure of EU spending towards competitiveness items resulting in substantial welfare gains.
- This would be possible by a comprehensive modernisation of the CAP. The tendency should be a progressive reduction of direct payments and an increased focus on the delivery of public goods. This means biodiversity protection and water management, climate change mitigation and research investment for the development of innovative production techniques that reduce the negative impact of agricultural activity on the environment.
- The scale of challenges faced by the economy and society, the context of crisis and a fiercer competition at global level call for further efforts to support research and innovation. Yet, Europe invests less in R&D than other regions. With an average rate of 1.8% for R&D-intensity (R&D expenditure as a percentage of GDP) in 2007, Europe is lagging behind its main competitors USA (2.7%) and Japan (3.4% - data in 2006). Europe, with only 16% of world patents registered by the EU compared to 35% by the US or 18% by Japan, must do much better in turning knowledge into business.
- But it is not only a matter of the amount of money invested. Companies are struggling with the increased bureaucracy and procedures which hamper the effectiveness of the European programmes for innovation. Europe's framework for research and innovation needs to be considerably revised, simplifying procedures and better coordinating among different initiatives to avoid dispersion of resources across too many areas.
- Cohesion policy remains of great importance for the development of our regions. Funds should continue to be earmarked to achieve the broad objectives and growth and jobs. But its governance must be enhanced. This implies further progress in



cutting back administrative burdens and more simplification in the management procedures of funds. It is particularly important to take into consideration the reality of European SMEs that see still structural funds as an option last resort.

- But the discussion on the budget must not be narrowed to policy choices. The amount of the EU budget is limited. But it is also a powerful tool to pull resources into priority areas. It is therefore essential to explore ways of increasing the leverage of each euro spent. This potential can be properly explored through:
  - ✓ The development of financial instruments in coordination with the European Investment Bank group to guarantee a revolving effect of the EU's limited resources. These instruments could guarantee a revolving effect of the money invested moving away from a one-off grant culture.
  - ✓ Effective public-private partnerships which can lead to a better allocation and management of funds encourage risk-sharing and increase value for money. The private sector is keen on investing. The EU must only facilitate the pool of private resources.
- The business community has repeatedly emphasized these two ideas and we are therefore very pleased with the Commission's communication from 28 May. Its proposals to explore the possibilities of the Lisbon Treaty to facilitate the interaction with the EIB as well as new measures to facilitate pooling private resources reveal that progress is being done in the right direction.
- But the governance system of the budget must also be improved.
  - ✓ EU expenditure auditing must be effective and take into account the tolerable risk of error;
  - ✓ red tape should be effectively cut back;
  - ✓ and it is essential to move to a culture in which performance is rewarded. For this, we need independent evaluations to scrutinise programmes and increased flexibility that allow the reallocation of funds to more performing programmes.
- Once again, we believe recent proposals from the Commission are tackling these fundamental issues. We count on the European Parliament for resolve and quick adoption of the proposals to revise the financial regulation.
- Europe cannot miss this unique momentum to take forward a paramount reform of the EU budget aligning it with Europe's priorities. EU leaders and institutions must now demonstrate their will to improve the effectiveness of the EU budget and greater consistency in their decisions. EU instruments must be at the service of the policy objectives. We do not have a choice: Europe must necessarily become more competitive and innovative. The alternative is decline.