BUSINESSEUROPE

POSITION PAPER

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# BUSINESSEUROPE POSITION ON THE FUTURE OF THE EU BUDGET

## KEY MESSAGES

The EU budget must be reformed, reviewing and aligning all spending with Europe's 2020 Strategy in support of the most relevant competitiveness-enhancing policies for the single market.

Every policy area must be analysed from a "European added value" perspective and assessed as to whether objectives can be better achieved through financial or regulatory instruments. In line with the subsidiarity principle, EU funding should only be used where it can deliver greater results, where it best complements national and regional initiatives and where other available funding sources are insufficient to meet market needs.

Budgetary discipline on the EU level is self-evident in a time when all Member States have to undertake painful consolidation measures at the national level. European businesses therefore believe that the EU and Member States must restrict themselves to keeping the EU budget at its current level of around 1% and focus on efficiency measures.

The EU budget is of limited size but of strategic importance. Its overarching goal must be to leverage investments and stimulate economic activity and competitiveness in areas of EU competence.

This can only be achieved through an overhaul of expenditure priorities in order to more effectively support innovation, adaptability, cross-border infrastructure developments and resource efficiency. It also means greater recourse to market financing where appropriate, more effective management of the funds, increased flexibility and a competitive financing system.

Increased accountability is necessary and policy-makers at all levels should bear political responsibility for successfully meeting the objectives of the Union. This requires a shift towards a more results-oriented allocation of EU funds, ensuring effective spending and respect for the EU added value principle.

The use of structural funds should follow this logic and demonstrate a real impact on regional competitiveness, with a special emphasis on economic development within and across regions. The reform of the Common Agricultural Policy (CAP) should be deepened and accelerated, in order to make it more market-oriented to stimulate competitiveness and more geared towards innovation, productivity, resource efficiency and climate mitigation.

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Reforming CAP and cohesion policy progressively will allow a larger share of the EU budget to be devoted to growth and competitiveness for the benefit of the EU economy at large.

Simplification efforts are also badly needed to improve the efficiency of EU-funded programmes and improve participation of companies, particularly of SMEs.

The financing system of the EU should ensure simplicity, stability and balanced national contributions on the basis of an improved GNI-based financing and own resources system.

For the business community, a critical point is to maintain discipline and avoid any additional upward pressure on overall taxation. On that ground, BUSINESSEUROPE firmly rejects the introduction of any "EU tax". Further options to improve EU's financing system, reduce cumbersome negotiations and ensure the necessary stability of the EU budget should be further investigated.

## 1. Expenditure priorities

Following the subsidiarity and EU added value principles, expenditure at European level must demonstrate that it can deliver more effective results than if deployed at national or regional level. The benefits of economies of scale in certain areas must be explored and attention should be placed on the multiplier effect of EU investments.

BUSINESSEUROPE defines five overarching goals for the EU budget:

i. Gearing up for a more innovative European Union: efforts to support RDI in Europe must be stepped up. This requires a further increase in funding but also increased attention on project performance and deliveries. Simplification measures must also progress in order to support private sector participation.

ii. Investing in the single market: remaining barriers to market integration still represent an enormous untapped economic potential in Europe. Adequate funding and an integrated framework are key for the development of trans-European networks and to support the free movement of product, services, labour, capital and knowledge. Stronger focus on cross-border spill-overs and economic development is also critical in the use of structural and cohesion funds.

iii. Promoting energy competitiveness: while it is vital to ensure energy efficiency and climate mitigation, funding in this area remains clearly insufficient. Further market integration and investments are needed to develop greater energy competitiveness and security.

iv. Supporting the employability and adaptability of people: complementing national and regional initiatives, the continuous support for skills and effective activation policies is key to modernise European labour markets. The European Social Fund must become more clearly oriented towards active measures such as education and training that actually meet market and employers' needs.

v. Unleashing SMEs growth potential: a reinvigoration of SME investments is essential and should be promoted through the various relevant EU policies, in line with the Think Small First principle. This implies further development of well designed financing instruments and greater simplification efforts to allow SME participation in EU-funded programmes.

## 2. Use of financial leverage and external policies

– Leverage: discussions on the EU budget should not be restricted to the amount of available funding but look at ways to increase the leverage of each euro spent. Indeed, the economic objectives of the Europe 2020 strategy are not going to be delivered if they are solely based on the traditional grant approach to budgeting. It is therefore paramount that public budgets at EU and national levels achieve leverage on private funding on a large scale.

  - EIB instruments: financial instruments developed by the Commission in coordination with the EIB and other international and private organisations have made it possible to move away from a one-off grant culture and to have greater use of recyclable forms of finance. Further improvement is necessary. We support the approach of combining market principles and mobilising long-term investors with the need to promote public policy objectives.

  - "EU project guarantees": business backs the development of "EU project guarantees" as an instrument to increase the attractiveness and facilitate private sector investment in large cross-border infrastructure projects. This should be based on clear and objective selection criteria, including the alignment with Europe 2020 objectives and priority infrastructures, the requirement for projects to be commercially viable, not pre-allocated by countries or sectors and consistent with sound risk management of the EU budget and EIB. The EU itself does not have the competence under the EU Treaties to issue bonds to finance its budget or specific projects. If the EU budget is used as collateral for "EU project guarantees", a buffer out of the existing budget has to be created for this purpose.

  - PPPs: stronger partnership between the public and private sectors can help respond to key societal challenges and generate added-value in the form of wider choice and innovative solutions, better value for money and new sources of financing for public services and investments. In the context of preparing the forthcoming EU budget, a thorough and realistic analysis of EU investment needs should be carried out. On that understanding, it is necessary to evaluate potential recourse to private financing.

- External policies: the European external action service (EEAS) should promote, through EU economic diplomacy, European businesses' interests abroad. It is important for EU business community that EU delegations are well equipped to provide expertise and other services to businesses. Given the limited budget, the EEAS's resources should be prioritised and focus on the regions, including the nearest borders, with greatest economic and strategic value for the EU.

## 3. Governance and architecture

- Governance: simplification efforts are badly needed to improve the efficiency of the EU budget and, consequently, its economic value added and impact on the ground. Increased political responsibility and accountability in relation to the proper and efficient use of EU funds is also important in the context of good governance. In a stocktaking exercise, the efficient use of agencies in various policy areas should be reassessed.

- Architecture: The length of the financial framework should provide the necessary stability to achieve the long-term objectives of the Union and be complemented with some flexibility for changes and reorientations in an effective mid-term review. Ideally, a far-reaching review of EU expenditures should be aligned with the cycle of the Commission and European Parliament to improve political responsibility. While respecting overall and sectoral ceilings agreed in the multiannual framework, any mid-term review should be effective, comprehensive and based on a real evaluation of the performance of the funded programmes. The lack of substance and delays observed in the mid-term review of the current financial framework cannot be repeated.

  Budget flexibility, both over time and between policy areas, is an important element of a budget that effectively can adapt to the challenges of tomorrow. However, flexibility must be subject to conditionality in order to maintain budgetary discipline and transparency.

## 4. Financing of the budget

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 resources be possible.

In any event, the financing of the EU budget should be based on key principles of:
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. Balanced contributions: the Union's financing system has to be based on the relative wealth of member states, ensuring a balanced distribution of net contributions, and seek to alleviate where appropriate the need for compensation measures on the income side;
4. Competitiveness: the financing system of the EU must be supportive to growth and jobs and avoid adding any upward pressure on overall taxation.

On that ground, BUSINESSEUROPE firmly rejects the introduction of any "EU tax". Further options to improve EU's financing system, reduce cumbersome negotiations and ensure the necessary stability of the EU budget should be further investigated.

The European business community calls for a political commitment to fast-track adoption of the multiannual financial framework.

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## PRIORITIES OF THE EU BUDGET IN GREATER DETAIL

BUSINESSEUROPE defines five overarching goals for the EU budget:

1. Gearing up for a more innovative European Union
2. Investing in the single market
3. Promoting energy competitiveness
4. Supporting the employability and adaptability of people
5. Unleashing SMEs' growth potential

### 1. Gearing up for a more innovative European Union

**KEY RECOMMENDATIONS**

- Increase substantially the funding for RDI and further develop adequate financial instruments;
- Increase focus on delivery and streamline procedures;
- Promote RDI in the implementation of other Community policies, such as cohesion and CAP.

The scale of challenges faced by the economy and society, the context of crisis and fiercer competition at global level call for further efforts to support research and innovation.

Yet, it is well known that Europe continues lagging behind its main competitors in terms of investment in research, development and innovation (RDI) and its R&D intensity remains well below the 3% target set by Europe 2020. This fact can be largely explained by inadequate levels of public spending and framework conditions that impede private investment.

BUSINESSEUROPE welcomes the Innovation Union flagship initiative and believes that many of its ideas go in the right direction. If properly implemented, it will contribute significantly to meeting Europe 2020 objectives. The EU budget can play an important role to its success however only insofar as the funding programmes undergo administrative simplification.

✓ The envelope for the framework programmes has been increasing progressively during the previous financial frameworks, amounting to more than €50 billion in the current one (2007-2013). Yet, **support for RDI funding must be substantially increased** in the next MFF through the successors to the 7th Framework Programme (FP7) and through other EU instruments such as the Competitiveness and Innovation framework Programme (CIP), the European Institute for Innovation and Technology (EIT) and through the appropriate earmarking of structural funds.

- ✓ It is crucial to improve the **focus on delivery**, ensuring that performance is taken into consideration and that projects provide a real contribution to improving European competitiveness.

- ✓ BUSINESSEUROPE also encourages the Commission to **expand and develop existing structures and financing mechanisms** on the EU level in cooperation with the EIB and other capital providers and intermediaries. Access to specialised finance remains the number one obstacle to innovation for most technology entrepreneurs in the EU. Early-stage venture capital remains scarce - currently at one third of the level in the USA - and equity funding is low. Financial instruments designed to meet the needs of RDI projects; strengthened risk-sharing facilities; and venture capital are extremely necessary.

- ✓ In addition, companies are increasingly struggling with bureaucracy and procedures which hamper the effectiveness of European programmes for innovation. This decreases the attractiveness for business to participate in EU funded projects, in particular for SMEs. We call for an **overhaul of the administrative procedures and streamline of rules across different programmes**. The guiding principle must be a shift from a control-based to a trust-based system, and simplification measures that can be achieved without the involvement of Council and Parliament must be implemented immediately.

- ✓ Finally, **promoting RDI in the implementation of other Community policies** remains an important objective. Cohesion policy can provide a crucial contribution in this regard by incentivising lagging regions to develop the necessary framework conditions for research and innovation while continuing to support leading regions to thrive for excellence. The development of clusters and business networks is also an important leverage to stimulate innovation and competitiveness. The EU must define an ambitious **European cluster and business network strategy** that supports the emergence of world-class clusters while putting in place the necessary framework conditions to enhance the performance of small-scale clusters. The future implementation of the Common Agriculture Policy must be geared towards an enhanced attention to RDI and other growth-driving projects in line with the EU 2020 strategy.

## 2. Investing in the single market

**KEY RECOMMENDATIONS**

- Further developing the TENs and infrastructure:
  - Secure an adequate budget and better integrate available funding;
  - Promote financial instruments in collaboration with the private sector;
  - Develop public-private partnerships;
- Promote territorial cohesion:
  - Concentrate structural funds on competitiveness-enhancing projects;
  - Shift focus from grants to financial instruments when possible
  - Focus on the strategic development of each region and on further developing cross-border cooperation

The single market provides direct channel to boost growth and is key for a more dynamic and competitive business environment in Europe. Yet, remaining barriers to the free movement of people, goods, services and capital still represent an untapped economic potential of between € 275 and € 350 billion.

***Trans-European Networks and infrastructure***

Over the next decade, Europe will need to invest enormous sums into its infrastructure, from 'smart' power grids to urban transport systems.

Further developing trans-European networks, building up missing links and removing bottlenecks to the transport, energy, and telecommunication infrastructures is of fundamental importance. It can improve the EU's overall competitiveness and provide a valuable contribution to achieving Europe 2020.

In the energy field, EU funding is clearly insufficient. **Improving framework conditions** for investments **in energy infrastructure is of strategic interest for the EU**.

The thirty TEN-T priority projects already agreed upon must be completed. Further, **a good quality transport infrastructure that is equipped to meet demand for all modes and intermodal connections** is key to completion of the internal market. The investment required to complete and modernise a true trans-European network in the enlarged EU amounts to some € 500 billion from 2007-2020.

The same applies to the next generation of telecommunications networks. There is the need to properly implement the Digital Agenda, which provides Europe with a clear and ambitious action plan for the coming years. To deliver its full potential, the digital single market needs to be supported by adequate physical infrastructure.

Large investments are needed to provide the necessary world-class communications infrastructures for Europe. While private investment should, in this case, be led by the private sector, the EU has a role to play where there is no realistic commercial case for private investment. Public authorities should play an active role on the demand side by promoting skills, raising awareness, and encouraging user uptake.

- ✓ **An adequate EU budget should be secured in the next MFF** for an appropriate development of trans-European networks. It is equally important to develop an **integrated framework to coordinate available EU funding** for transport, telecommunications and energy. Support should be allocated to those projects that meet fair, transparent and efficient criteria, respecting the European added value principle.

- ✓ **"EU project guarantees"** could help attracting private sector investors and mobilising private savings to support EU's strategic infrastructure needs. Using appropriations from the EU budget and EIB guarantees and expertise (in collaboration with other financing partners) could be a powerful leverage to enhance the credit rating of bonds issued by project companies themselves and increase the attractiveness of long term investment to private sector participants. The Commission and EIB should further analyse the scope of such instrument, in line with sound risk management practices and EU treaty provisions. If the EU budget is used as collateral for “EU project guarantees” a buffer in the existing budget should be created for this purpose. The EU itself does not have the competence under the EU Treaties to issue bonds to finance its budget or specific projects.

The projects benefitting from such EU guarantees should meet transparent and objective selection **criteria**:

- demonstrate an EU strategic interest in line with Europe 2020 and fit the areas of expertise of the EIB;
- be economically and technically sound, cost-effective and with real prospect of financial viability;
- exclude any pre-allocation across Member States or sectors,
- Support projects that manage to attract appropriate private sector financing.

✓ **Public-private partnerships** (PPP) in these areas are of crucial importance. It can help to mobilise more financial resources, introduce more efficiency and enable a faster and more flexible delivery during implementation. Given the sizable investment efforts required to develop projects in these areas, we also support a **prominent role for the EIB in funding** the TENs, also **making use of their expertise for project-assessment**.

Yet, there are a number of obstacles in EU or national regulations and administrative processes that generate a bias in favour of the traditional approach to public management of public services and infrastructure. It is necessary to promote a holistic culture in the management of public services and encourage partnership approaches, ensuring fair treatment of the private sector in the delivery of public services.

In the framework of the preparation of the forthcoming MFF, it is necessary to carry out a thorough and realistic analysis of EU investment needs and evaluate potential recourse to private financing.

It would also be important to design and implement programmes aimed at building capacity within public authorities to develop partnerships with the private sector.

***Increasing economic cohesion***

Regional policy must be about unlashing the potential of each territory and facilitate mobility and adaptability to make full use of all the advantages brought up by the single market. Further t**erritorial cohesion** must be achieved through the development of trans-European networks; promoting the attractiveness of the European territory based on smart specialisation of the regions; and strengthening cross-border cooperation.

It is necessary for the EU budget to continue supporting this policy but some changes to their functioning are necessary:

✓ **Greater concentration of structural funds in key priorities linked to competitiveness**, such as research and innovation, business support, employability and trans-European networks;

- ✓ It is also fundamental to amend the rationale on the use of EU funds and ensure that performance is taken into consideration so that every single project provides a real contribution to improving European competitiveness. Increasing the **focus on the real impact of projects** by promoting independent evaluations and proper monitoring instruments;

- ✓ Increase focus on **loans and other revolving instruments** as well designed instruments can respond to the needs of companies, enhance the performance of projects, and stimulate the will to thrive, reducing dependency on EU grants;

- ✓ **Further simplification** should though be a priority objective the priority, with particular attention to reimbursement methods. BUSINESSEUROPE believes that it is important to go way beyond the general messages of the conclusions of the 5$^{th}$ cohesion report to take advantage of its full potential.

## 3. Promoting energy competitiveness

**KEY RECOMMENDATIONS**
- Provide sufficient funding for energy efficiency and climate mitigation
- Design adequate risk-sharing financial facilities

While the European added value of the energy, environment, and climate fields is clearly identifiable, the funding allocated to these goals by the EU budget remains insufficient.

Much of the needed energy efficiencies can be driven by the carbon market mechanisms and to some extent by regulation. It is clear that the revolutionary shift in energy production and supply will need public support. The private sector will drive the development of new products and services - but the sheer scale of investment needed for low-carbon energy production, the related energy infrastructure and energy efficiency improvement means that the public sector must take a large share of the responsibility.

Subsidies, tax credits and when necessary public sector financing are all tools that will have to be used. Options to harmonise and centralise such schemes must be considered in order to avoid distortion of competition between member states. Funding to bring low-carbon technologies forward is crucial, but care must be taken not to direct resources into specific technologies too early, i.e. public support must avoid trying to pick a winner at an early stage.

- ✓ An enhanced envelope to energy and climate in the next MFF should have as main objective **to ensure energy security, energy competitiveness**, as well as **to reduce private sector costs to reduce GHG emissions**, thereby preventing carbon leakage and safeguarding European jobs and growth. Closely related objectives would be to achieve a true single market for energy, dependent on infrastructure investments and interconnectivity, and ensure Europe's competitive edge in related technology.

- ✓ Focus should be put on **improving framework conditions** for investments **through loan guarantees and continuous co-financing of energy infrastructure by the EU**. **Risk-sharing finance facilities for infrastructure projects** must be expanded in the EIB or the European Bank for Reconstruction and Development (EBRD).

## 4. Supporting the employability and adaptability of people

**KEY RECOMMENDATIONS**
- Enhance workers mobility, employability and adaptability to change
- Promote young people access to their first job by building bridges between the labour market and training systems
- Support lifelong learning mobility programmes
- Modernise the labour market along the lines of flexicurity

European companies' ability to adapt to change is a key factor for European competitiveness and future growth. Restructuring is an on-going path which can lead to higher growth. In a global economy with fierce competition, companies move to and invest in countries that provide the best suitable and most adaptable conditions.

With the demographic challenges facing the European labour markets and the growing global competition for talent, mobility across borders and occupations becomes even more important.

Complementing national and regional initiatives, the European budget should focus in this field on initiatives which promote learning and job mobility and contribute to a better matching of labour supply with demand. This is particularly important to ease young people's access to the labour market by promoting cross-border training programmes, apprenticeships or internships.

The European Social Fund can play an important role towards the EU2020 goals, while respecting that employment and training policies are a national competence. Efficiency and prioritising are paramount, while ensuring no overlapping with other funds, e.g. the European Globalisation Fund.

To the extent EU initiatives can provide European added value, the European Social Fund has an important role to play.

- ✓ The ESF should support targeted growth-driven strategic initiatives such as training and change capacity building in order to create new high value jobs. In a time with a shrinking workforce especially focus should be on measures which on the one hand keeps workers longer on the labour market and on the other hand eases young people's access to the labour market.

✓ The ESF should support measures which promote mobile, dynamic and open labour markets with the highest possible number of people in employment and with the qualifications matching companies need. In this regard the ESF can promote social dialogue capacity-building across Europe

✓ A continuous support for skills and employability of people can underpin competitiveness. The ESF has a long history of targeting people in the restructuring following major shifts and challenges.

✓ EU mobility and learning funds should especially focus on easing young people's access to the labour market by promoting cross-border training programmes, apprenticeships or internships

## 5. Unleashing SMEs' growth potential

✓ Enhance the existing set of innovative EU financial instruments to help SMEs invest and grow.
✓ Improve SME access to finance by offering effective guarantees and stimulating venture capital
✓ Simplify project applications procedures for SMEs and improve management systems.

The importance of developing SMEs to obtain better results in terms of growth and jobs has been recognised more clearly in the last two years. A reinvigoration of SME investments is essential to give greater momentum to the economic recovery but, at the same time, access to credit and lending conditions have tightened for SMEs.

One way of exploiting the growth potential of SMEs is through support for research and innovation. Section 1 above sets out a number of concrete recommendations for the EU initiatives to be deployed in this respect.

Innovative EU financial instruments developed by the Commission in coordination with the European Investment Bank Group (EIB Group), such as the Risk-Sharing Financial Facility (RSFF), the High Growth and Innovative SME Finance Facility (GIF) and the SME Guarantee Facility (SMEG) have demonstrated their benefits.

They have offered effective solutions in cases where market failures occur with respect to the financing needs of some SME categories like:

- small firms in the first expansion phase, having insufficient collateral
- high growth SMEs in further expansion stages.

BUSINESSEUROPE supports the plan of the Commission, mentioned in the SBA Review Communication, of enhancing the existing set of innovative EU financial instruments to help SMEs invest and grow.

- ✓ The EIB and other promotional banks should improve SME access to bank loans by offering guarantees which encourage banks to finance SMEs with insufficient collateral.
- ✓ The EIB and other promotional banks should stimulate a more complete venture capital offer by providing operators with funds or guarantees that enable them to participate in projects which would not normally attract their attention.
- ✓ Simplify project applications procedures and improve management systems. Some specific schemes are not sufficiently accessible for SMEs.