BUSINESSEUROPE

POSITION PAPER

12 October 2011

MULTIANNUAL FINANCIAL FRAMEWORK 2014-2020:
POSITIVE DEVELOPMENT BUT MORE RADICAL RESTRUCTURING REQUIRED TO DRIVE GROWTH

EXECUTIVE SUMMARY

BUSINESSEUROPE believes that the EU budget is an important instrument to overcome cross-border challenges and, when used effectively, it offers great potential in boosting competitiveness, economic growth and job creation.

As most member states are heavily affected by the economic slowdown and are pursuing austerity measures to consolidate their public finances, the business community considers that growth must be the primary objective of the EU budget. In this context, the European Commission proposal on the upcoming multiannual financial framework fell short of expectations. BUSINESSEUROPE believes a more radical overhaul is necessary in order to equip Europe with the necessary means to grow in the years to come. BUSINESSEUROPE believes that:

- A much greater share of the EU budget must be geared towards simulating economic **growth and jobs** creation in Europe. We would have also liked to see a more fundamental change and a clear alignment of the EU budget with the objectives of Europe 2020;
- While the business community welcomes a continuation of the current budget level of around 1% of GNI (gross national income), further efforts should be placed on **efficiency** measures;
- All EU policies should use designated funding in a way that enhances **competitiveness**. Every single project should be performance-proofed to ensure money is well spent;
- EU funds must support the **structural reforms** and fiscal adjustments needed in some Member States, as part of their National Reform Programmes, in order to firmly contribute to restoring growth, job creation and financial stability;
- 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. Reforming CAP and cohesion policy will progressively allow a larger share of the EU budget to be devoted to growth and competitiveness for the benefit of the EU economy at large;

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- Considerable effort is necessary to **simplify rules and procedures.** We are therefore expecting significant improvement in the legislation accompanying the MFF proposal.

However, BUSINESSEUROPE acknowledges the positive evolution that this proposal represents and the importance of several measures put forward, particularly those directed at boosting growth and competitiveness in Europe.

It is now fundamental not to undermine these proposals during the upcoming negotiations and we trust European leaders will consider competitiveness-enhancing measures a key priority for the European project.

In order to effectively reach its objectives, BUSINESSEUROPE has previously set out a number of principles as to where the budget should be anchored:

- Results-oriented, ensuring an allocation of EU funds in performing and growth-enhancing projects;
- Leverage investments, stimulating economic activity and competitiveness in areas of EU competence;
- In line with the subsidiarity principle, focus EU investment where it delivers the greatest added value, best complements national and regional initiatives, and where other available funding sources are insufficient to meet market needs;
- Accountability of policy-makers at all levels that should bear political responsibility for successfully meeting the objectives of the Union.

Concerning the financing of the budget, BUSINESSEUROPE firmly rejects any new “EU tax”, including the financial transaction tax proposal which obviously fails to take account of wide-spread concerns about both the feasibility and impact on competitiveness of such a tax.

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

AN ANALYSIS BY POLICY AREA

1. HORIZON 2020

BUSINESSEUROPE welcomes the current proposal that represents a concrete step to improve the EU research and innovation policy. While the increase in funding proposed, from €55bn for the current period to €80bn over the next one, is to be praised, it remains a minor share of the EU budget. The proposed €80bn figure should therefore be at least maintained in the final framework. It is also important to ensure this budget is complemented by earmarking of funds to RDI from other EU policies.

The idea of streamlining the current system of funding, bringing together the Framework Programme (currently FP7), the Competitiveness and Innovation Framework Programme (CIP) and the European Institute for Innovation and Technology (EIT), is welcomed. However, it is essential that the new Common Strategic Framework for Research and Innovation – Horizon 2020 – brings a much needed simplification of the rules and procedures covering eligibility, accounting, reporting and auditing, and removes obstacles for the participation of enterprises, especially SMEs, to EU funded programmes. The processing procedures for projects must be made clearer, simpler and faster.

The simplification of the rules must not hinder a careful evaluation of the way funding is allocated, in order to get the best return for investment on projects that hold a real EU-added value. The funding must be based on open competition and high-quality research and innovation.

2. CONNECTING EUROPE FACILITY

Well functioning cross-border infrastructure is key for Europe's competitiveness. BUSINESSUROPE has repeatedly asked for further action in this area and therefore welcomes the Connecting Europe Facility proposal from the Commission.

An increased deployment and use of intelligent technologies in transports, energy and ICT across EU Member States will directly and materially advance the objectives of EU 2020, cultivating a smart, sustainable and inclusive economy that delivers high levels of employment, productivity and social cohesion. Moreover, investments in intelligent technologies will also seed new industries that will be the foundation for future job creation.

The more centralised decision-making based on discussions and analysis as to the allocation of these funds is also endorsed by businesses that believe it can achieve maximum added value for European networks.

While we believe the envelope for this initiative should go beyond the current proposal given the investment needs, the increase of funds reflects a commitment to act on the European missing links. We urge the envelope to be spent in a way that it provides the necessary boost to encourage private investment. The processing procedures for projects must also be made clearer, simpler and faster.

Public private partnerships (PPP) and EU project guarantees are not only positive but also necessary complements to the facility funds. These issues are further developed later in this paper.

3. COMPETITIVENESS AND SMES PROGRAMME

BUSINESSEUROPE is pleased to see that SME development is high on the list of basic objectives underlying the MFF proposal. The MFF proposes innovative instruments and significant means to support SME research, innovation and growth through stronger international competitiveness.

In particular, we strongly support the planned use of equity and loan facilities accessible to SMEs both in the “Competitiveness and SMEs programme” and in Horizon 2020. Under the “Competitiveness and SMEs programme” loan facility, it is vital that guarantees and risk sharing arrangements are provided both for national and cross-border lending. It is also essential that the instruments are easily understandable, and simple to access, in particular for SMEs that often operate on a local basis.

4. CLIMATE ACTION

The proposal of the European Commission to bring the EU budget in line with political priorities and devote more budgetary resources to the fight against climate change is welcomed.

It is important that climate mainstreaming supports a competitive and sustainable development of the EU economy. “Climate-proofing” of cohesion, energy and transport policies must contribute to meeting the 2020 targets of the climate and energy package in a cost efficient manner without introducing unnecessary burdens for enterprises.

BUSINESSEUROPE calls for a comprehensive approach to climate policy which takes into account the contribution that different areas can give. For this reason, a renewed commitment to strengthening the European research and innovation efforts in the field of climate, through the SET-Plan and other financing mechanisms, is essential. Similarly, the proposed “greening” of 30% of direct payments under the CAP could play a positive role in terms of climate mitigation and complement the results achieved by ETS sectors. Nevertheless, it is crucial that the introduction of “greening” requirements do not harm the competitiveness of the EU economy.

5. STRUCTURAL FUNDS

Proposals in the field of cohesion policy are mostly in line with what BUSINESEUROPE has called for in the past but the Commission must be attentive when developing the details of its proposals.

Concentration of resources in a few priority areas aligned with the most competitiveness enhancing element of Europe 2020 will help improve regional competitiveness and boost growth. This is a pre-condition for BUSINESSEUROPE's support of cohesion policy that should be properly complemented by a results-oriented, efficient and accountable management of the cohesion funds.

BUSINESSEUROPE therefore calls for a results-oriented approach to cohesion policy with emphasis on independent evaluations and effective monitoring. Furthermore, simplifying procedures and reducing administrative hurdles could provide a boost to the use of funds. In this context, more needs to be done.

We support further developments in terms of structural conditionality, to strengthen institutional capacity, ensure a proper transposition of European legislation, and meet underlying conditions that ensure the success of projects. Yet, we are worried that macroeconomic conditionality as proposed by the Commission will impact end-beneficiaries unfairly.

BUSINESSEUROPE is also concerned about the risks of excluding large enterprises from eligibility for the European Regional Development Fund (ERDF). Narrowing its scope in the legislation will have an adverse effect, including for SMEs, with whom large enterprises form important value chains. Regions should be able to leverage structural funds strategically to attract investments and stimulate job creation also by large enterprises.

Finally, the European Social Fund must become more clearly oriented towards active measures such as education and training that actually meet market and employers' needs. In a time with a shrinking workforce, a special focus is needed 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.

GREATER USE OF FINANCIAL INSTRUMENTS: A BIG STEP FORWARD

In order to achieve all the objectives of the Union, it is paramount that public budgets at EU and national levels achieve leverage on private funding on a large scale. BUSINESSEUROPE has repeatedly asked for a change of mentality in the use of EU funds, progressively moving away from the traditional one-off grant culture towards the use of financial instruments with revolving effects. It is also essential that the instruments are easily understandable and simple for companies to access.

In fact, well designed financial instruments developed by the Commission in coordination with the European Investment Bank (EIB) can respond to the needs of companies, enhance the performance of projects and stimulate the will to thrive, reducing dependency on EU grants. The ultimate goal of any instrument should target to facilitate the development of the private market, making public support unnecessary.

Public-private partnerships (PPPs) must also continue being encouraged. Stronger partnership between the public and private sectors will not only make new sources of financing available, it will also help generate added value for society in the form of wider choice, innovative solutions and better value for money.

To benefit fully from the potential offered by the partnership approaches, the administration of structural funds and the procedures for analysis of potential projects as well as the commitment of funding should be simplified and made more compatible to support PPP structures.

In this context, fair treatment of the private sector in the delivery of public services and infrastructure is key. It must be clear that it is exclusively for public authorities to design policies for the delivery of public services and infrastructure projects and to put in place the right objectives and performance targets. Moreover, the choice of the mode of delivery, either by contracting out or in-house delivery, is for local authorities to make.

The new project guarantees are particularly important to increase the attractiveness of big infrastructural projects and facilitate private sector investment in large cross-border 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.

OWN RESOURCES: REJECTING UPWARD PRESSURE ON TAXATION IN EUROPE

The debate on the EU's own resource system is connected to discussions on the EU spending structure and its effective management.

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 any EU taxation, including the financial transaction tax proposal, which obviously fails to take account of the wide spread concerns about both the feasibility and impact of such a tax on competitiveness.

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.

Further options to improve EU's financing system, reduce cumbersome negotiations and ensure the necessary stability of the EU budget should be further investigated.