



E3G

# A European Budget for the Future

Principles for EU Budget Reform

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# A European Budget for the Future

## Principles for EU Budget Reform

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### Summary

- > Europe needs a budget which reflects its future challenges, not its past political arguments. The budget review will effectively fix the shape of the European budget until 2020: there needs to be a radical shift if it is to reflect the future priorities of Europeans.
- > The EU budget is only 1% of European GDP, and this proportion has consistently fallen over the last 20 years. The danger of the budget review is not that it will result in an unsustainably expanded budget, but that it will fail to set clear priorities. Focus on budget limits at this stage will drive debate into old, backward looking patterns.
- > The EU budget is small, and should be focused on areas of high added value where Europe has chosen to act together. The budget should reflect the Lisbon Treaty and be refocused on supporting a stronger European role in shaping a globalising world, and delivering the critical shared infrastructure and innovation needed to support this.
- > Europe has taken a global lead on climate change, but the priorities of energy and climate security are not reflected in the current budget. No one member state can invest in a new low carbon European power system, or provide the huge investment needed to develop technologies such as carbon capture and storage or concentrated solar power. Ambitious European plans for new technology and infrastructure are currently unfunded; reducing European credibility with industry and other countries. One option could be to create a new (time-limited) energy and climate security budget, co-financed by European and member state resources, including auctioning of carbon permits.
- > Europeans will not have climate security unless large developing countries such as China and India begin to reduce their greenhouse gas emissions.

These countries are still poor and have contributed far less to climate change than Europe. To deliver global agreement Europe may have to spend €30-100 billion every year to help these countries decarbonise; the EU budget is the logical vehicle through which to fairly share these costs between countries.

- > Europe faces significant challenges of migration, instability and poverty in its immediate neighbourhood; climate change will exacerbate all these problems. The budget should provide greater support for the new External Action Service of the EU in tackling these issues, and promoting long term stability and prosperity.
- > European citizens feel that the European budget is a distant decision and project, and suffers from a lack of legitimacy. Europeans should be directly engaged in setting overall budget priorities. This could be done through a participative process – eg: deliberative polling – in association with the European Parliament. A more radical option is to use the 2009 European election process to put a question on budget priorities directly to citizens at the ballot.

### **1. A European budget for the future**

Europe must choose the future instead of the past. The biggest global problems that will dominate the 21<sup>st</sup> Century, from terrorism to climate change, from mass migrations to organised crime, cannot be solved by nations acting alone. They require a pooling of sovereignty. Europe is the world's most sustained and far reaching experiment in the practical and political realities of sharing sovereignty. Its continued success matters to everyone, not just to Europeans.

One of the most powerful tools in Europe's policy armoury is the budget. The manner in which an organisation raises and spends its financial resources is a key test of its priorities. At present, the EU fails miserably. Europe will be unable to secure its security and prosperity unless it better aligns its resources with the challenges it faces.

The budget review in 2008 will set the outlines of European spending until 2020. It should make a major shift in resources away from maintaining food security and towards seeking climate and energy security. If climate and energy security are not secured, Europe's other projects both old and new will falter and fail. This is an overriding imperative. European structural programmes should focus on promoting intelligent infrastructure and climate proofing in the

poorer member states, and to managing the risks to stability on European borders through the European Neighbourhood Policy.

An intelligently-focussed EU budget should set the standard for member state public spending to pursue. It should be designed to open up new business opportunities and leverage private investment from around the world in the fields of clean energy, resource efficiency and intelligent infrastructure. The contribution such a budget would make to the attainment of Europe's goals would provide a concrete example of the benefits of cooperative EU action, creating positive public pressure for sustained investment.

## 2. Shaping the debate

European Commission President Jose Manuel Barroso has called the budget reform a “once in a generation opportunity”. This is only the case if debate and reforms begin – as in the Commission's Communication *Reforming the Budget, Changing Europe* – with a fundamental examination of the policy objectives.

Some commentators have suggested that the budget review must start with a debate on a limit on overall resources. However, the EU budget is only 1% of European GDP, and this proportion has consistently fallen over the last 20 years. The danger of the budget review is not that it will result in an unsustainably expanded budget, but that it will fail to set clear priorities. Focusing on spending limits is to declare an artificial “taboo” and invites a return to the inertia of disputes around net-balances.

Budget reform should be a constant process as priorities evolve: the European Parliament has a key role in driving this and in addressing the deteriorating relationship between the EU and its citizens, whose increasing remoteness and hostility to common institutions reflects a failure to communicate the benefits of European action.

Early investment will pay the greatest dividends. The EU can and should achieve major shifts in structural and cohesion funding, research and development and adaptation, all prior to 2014. Overall, there is a virtue to early decisions on common objectives and means, which may result in better outcomes than are available under the national topicality and political pressure of eleventh hour negotiations. This argues for a budget reform process which is driven by an open discussion of European priorities, and rigorously prioritises areas where European action delivers vital public goods.

### **3. Delivering European public goods**

The EU budget should be a targeted mechanism intended primarily to serve European public goods – projects which proactively shape change and provide clear additional benefits compared to actions by individual Member States, creating maximum added-value for the common European interest. Such projects should integrate public intervention, European industry and other stakeholders. In recognition of the scale of the climate and energy challenge, we should move from the current model of supporting projects that are proposed bottom up, towards EU-scale programmes specifically targeted to achieve concrete and transformational results.

A budget for 2020 must reflect the evolved institutional shape and missions of the EU under the Lisbon Treaty. A Europe which has agreed to act together to shape the globalising and turbulent world which increasingly determines our priorities needs an adequate the budget to deliver change. Europe has willed the ends; now it must will the means to deliver them.

The Lisbon Treaty has confirmed energy and climate change as fundamental challenges, prioritised research and development, and strengthened Europe's global role with new capacities for external action. EU spending must be focused where it can make the greatest impact in Europe and beyond; it must address the global and regional risks and inequities of climate change; and set the standard for global public investment.

The Lisbon Treaty has set an ambitious agenda for European institutions based on the future challenges to security and prosperity recognised by European leaders. No European country would have realistically committed to such an ambitious agenda for global influence and change if they had not been part of the European Union. Without a matching budget process there is a danger that the burden of delivery will fall on the larger countries, and will constantly be traded off against national priorities and short-term interests.

### **4. Sustainability, energy and climate change**

Climate change is challenging the foundations of European peace and prosperity at home and internationally. Europe has rightly taken a global leadership role in tackling climate change. The EU budget is an essential part of a successful European response to climate change. An ambitious approach can deliver multiple benefits, making Europe a world-leader in the transition to a stable climate and in the technologies that will achieve this.

Sustainability, in Europe and globally, with its economic, environmental and social dimensions, must be the overarching and fundamental goal of a new EU budget. This entails a step change in commitments: there is little funding, and no clear place in the current budget, for this century's urgent global priority of climate transition. Effective connections need to be made between climate change and other European priorities, in particular the Lisbon competitiveness agenda.

To meet the growing challenge of climate change a dramatic reorientation of European public expenditure requires more than a switch of CAP spending from pure farm subsidies to agri-environment schemes and rural development, which should be the business of Member States. The current EU budget will also need to be reformed where today it increases rather than reduces EU emissions; due to investments in high carbon transport and energy infrastructure and the impact of intensive farming practices.

Climate solutions need to be commensurate with the scale of the challenge. Moving to a low carbon economy will require shifting trillions of Euros in the EU from high carbon to low carbon investment. Europe will build 500-800 GW of new power stations by 2030 as it replaces its aging capacity; this will cost over €1.6 trillion. Most of this private investment will be shaped by regulation and national policy decisions, but there remains a clear and critical European investment component.

Europe will need a new low carbon infrastructure. The European electrical grid will need to be strengthened and modernised, extended to bring in renewable energy from the North Sea, North Africa and Eastern Europe into major areas of population; a network of carbon dioxide transport and storage will be needed to make fossil power stations carbon neutral. Major new technologies such as carbon capture and storage (CCS), bulk power storage and solar concentrated thermal will need to be demonstrated at a scale well beyond the means of any one European country.

Europe is already failing to invest in its low carbon plans. Plans agreed in 2007 for 10-12 CCS demonstration plans are currently unfunded; as is the ambitious Sustainable Energy Technology plan agreed in 2008. Europe will lose its credibility as a global leader if it fails to match ambitious plans with concrete action. One option would be to establish a new (time-limited) European budget for energy and climate security, co-financed with member states, for the industrial-scale demonstration and market replication of advanced low carbon

technologies. The revenue generated by auctioning EU emission permits could be one source of reliable member state revenue for such a fund.

Large-scale financing is also needed outside Europe to cement a global deal to control climate change. Europeans will not have climate security unless large developing countries such as China and India begin to reduce their greenhouse gas emissions. These countries are still poor, have low per-capita emissions and have contributed far less to climate change than Europe. Without transitional funding to help their move to a low carbon economy these countries will not join any global effort to tackle climate change. Estimates are that Europe could have to spend €30-100 billion every year to help these countries decarbonise; as part of a shared responsibility with other developed countries. The EU budget is a logical vehicle through which to fairly share these costs between countries.

#### **5. External action and development aid**

In order to deliver on both its global ambitions and its own international security, Europe requires a strategic switch to a much more outward-looking budget that supports its global role.

Europe's interest in regional engagement is strongest in the case of its own near abroad: the arc running from Russia and the Ukraine, through the Balkans, southeast Europe, the Middle East and the Maghreb, to Morocco. Events in that arc are likely to have immediate and profound consequences for Europe. Europe's own decisions will help shape what happens there and its influence is greater. If Europe's policies are not seen to work on its doorstep, they will not be credible anywhere else.

Europe's first goal with its neighbours must be to invest in the conditions for stability and growth, by helping them to make the transition to sustainable development. That is a formidable challenge. The obstacles in some parts of the neighbourhood, from organised crime to Islamic fundamentalism, are as formidable as they have ever been in Europe.

Europe needs to become more effective in engaging and promoting stability in these regions; this cannot be achieved solely with money, but does require adequate funds to make a difference. These should be available to support the actions of the new High Representative and the External Action Service established by the Lisbon Treaty.

Beyond its immediate neighbourhood, European action is critical in promoting stability, peace and development in Africa and other developing regions. The common budget can also promote a European model of human rights and democracy, developing the EU's diplomatic, peace-building and military capacity for peacekeeping and interventions to uphold the UN's principle of "responsibility to protect".

Climate change will increase stresses in Europe's neighbourhood, which is one of the most vulnerable to water stress, sea-level rise and melting ice sheets. Europe will need more flexible and pragmatic funding instruments with which to respond to these uncertain challenges, and must invest in increasing countries' resilience to climatic shocks.

## **6. Building Public Support**

There is no greater demonstration of the seriousness of an institution than the way in which it raises and spends its money. The current EU budget fails on both counts – the different EU institutions are not directly accountable for how money is raised, nor have the outcomes of previous budget setting exercises actually reflected the priorities of citizens. Rather, budget setting has been an exercise in the defence of historical political trade-offs between the different vested interests of member states; rather than a division of resources according to the challenges facing Europe.

Citizens themselves must be able to shape the political context of future EU budgets. The current budget review should therefore incorporate a European-wide participative budgeting process.

In its simplest form this could involve the European Parliament holding a deliberative polling process with a representative sample of European citizens over the balance of budget choices. This well tested, robust and sophisticated process, which was successfully piloted at a European scale in 2007, would allow a statistically representative and randomly selected group of European citizens to engage in debates with experts before expressing their preferences over the balance of the European budget.

A more radical proposal would be to engage European citizens directly in giving views on the European budget. On the day of the elections to the European Parliament in June 2009, all voters should be asked to rank their preferences for EU spending, firstly on issues which have direct financial impact for their region and nation, then on issues which are aimed at the EU benefit in the wider

world. Results should be reported by electoral region and member state as well as a European average.

MEPs elected on that day should then take responsibility for engaging constituents with the subsequent discussions in the EU institutions as to the future shape of the EU budget. Member state officials and political leaders will also have to justify their negotiating positions in the light of these assessments of citizen preference. The European Parliament should act on behalf of citizens to ensure that Europe's budget reflects their wishes and provides added value to European cooperation.

Engaging European citizens in the budget review would be the most concrete and meaningful extension of citizen participation in European democracy. It would provide a real demonstration that European institutions are accountable to the views of citizens.