

## Overhauling the EU budget

March 2018

In his speech at the Sorbonne University on 26 September 2017, President Macron called for a fresh start for Europe. This would involve an overarching transformation of its budget into a mean of action for the benefit of European citizens, both in Europe and worldwide.

In its current form, the EU budget is no longer fit for purpose. It is difficult to grasp for citizens and its constituent elements cannot effectively meet the numerous challenges the EU is facing in the fields of migration, security, environmental, social and economic matters. These challenges are all the more urgent in the context of Brexit which creates an additional budgetary constraint which shall be taken into account.

There should be no conflict between traditional policies, which need to be reformed, and the ones deemed as “new priorities”. The aim is first to modernise the EU budget and reform traditional policies, without meaning to cut their funding with no justification. These must not be used as an adjustment variable. When the budget for the next decade is being drawn up, considerations should focus on how to build a strong Europe addressing key European sovereignty challenges, of which cohesion and food sovereignty continue to be a key part.

Likewise, we should go beyond the historic divide between net contributors and net recipients, as though it were a zero-sum game. The EU budget funds “common goods” that benefit all its Member States. These include responding to crises, protecting the EU’s external borders, supporting the European defence, supporting the European development policy, helping fostering innovation, research and mobility for young people, promoting sustainable farming, and upholding economic, social and territorial cohesion.

As a key contributor to the EU budget keen to control public spending, France will be expecting the next budget to provide a far-reaching response to all these challenges. The EU budget shall become an efficient mean to finance European common goods, with a constant focus on making its tools simpler and more flexible. In addition, the budget funding should exclude all rebates and include new own resources. It is under these terms that France will be able to consider a growing EU-27 budget.

France proposes that this budget should be based around nine policy-based “headlines” that would replace its existing structure organised by “headings” and would be both more understandable for citizens, and reflect our joint priorities with overhauled tools:

### 1) Ensure the safety of European citizens

**Security is the overriding concern of European citizens.** It is a European public good that should be financed by all Member States instead of just a few. It requires a holistic approach as well as a much larger budget than that earmarked at present. Two mechanisms could constitute the headline “Ensure the safety of European citizens” in the next budget:

- **a single internal security instrument** covering three key areas: combatting terrorism and preventing radicalisation, bolstering the interoperability of European information systems and common civil protection. This should drive the formation of a European internal security credo;
- the **European Defence Fund** with at least €500m per year devoted to research, at least €1bn per year earmarked for industrial expansion and a “financial toolbox” to foster joint acquisition of projects originating from the industrial stage.

This would be complemented by an **off-budget pillar** dedicated to security and defence encompassing a mechanism strengthening the military capabilities of our partners, in particular in

Africa, or their operations (“European Peace Facility”) and the renewed Athena mechanism which should allow for a better pooling of the costs of external operations that are shouldered by certain Member States. In addition, space programmes and security-related initiatives also help strengthen the European strategic autonomy and the safety of European citizens.

## 2) Control our borders while upholding our values

The EU migrant crisis is not a one-off – it is an issue that is here to stay. In responding to it, we have a duty of empathy for those who have risked their lives to reach our borders and a need for solidarity between Member States. The headline “Control our borders while upholding our values” would handle the financial resources set aside to protect the common external borders and for migration and asylum issues, via a **single instrument** that would:

- establish an **integrated and rigorous border management system** by bolstering the resources of the European Border and Coast Guard Agency (Frontex) which would ultimately become a European border police force at least 5000-people strong, and by improving information systems’ interoperability ;
- **provide decent reception facilities for those needing protection** by expanding accommodation capabilities and standardising application processing with backing from a fully-fledged European Union Agency for Asylum. A fund dedicated to financing local authorities engaged in welcoming a great number of refugees or in implementing exemplary reception and integration actions should be created in this framework ;
- **truly integrate and effectively train refugees** under a wide-reaching inclusion programme ;
- **step up the repatriation policy** for illegal migrants by heightening Frontex’s operational intervention.

In its response to the migrant issue, the EU requires efficiency, responsibility and solidarity. National funding pre-allocated to Member States should be subject to regular reviews based on their actual role in handling migratory flows. As regards the reception and integration of refugees, Member States that are actively embracing their responsibilities should be financially supported.

Furthermore, it is of the essence to address the **external dimension of migration** through EU external action.

## 3) Ensure our food security and food sovereignty

Food security and food sovereignty are not issues of the past, and the foundations of the Common Agriculture Policy (CAP) enshrined in the Treaties continue to be relevant. The future CAP must be far-reaching enough to address these issues while meeting two main challenges: **protecting farmers from the swings and volatility of global markets** and encouraging the major **European agricultural transition**. While avoiding to widen the scope of co-financing, the pillar structure should allow to meet three key objectives:

- construct a CAP that protects and fosters accountability, by providing **effective support for farmers with respect to economic, climate and health risks**. This would include an initial safety net (entirely funded from the EU budget to prevent distortions, and taking into account local conditions), more reactive crisis response tools, the creation of precautionary savings, the taking out of insurance policies or membership in a risk-sharing fund ;
- foster growth for agricultural and agri-food companies by **guaranteeing a fair price for producers** and promoting **work in sectors** (developing quality-focused initiatives, overhauling coupled subsidies, using the CMO tools) ;

- **raise the environmental ambition**, particularly by introducing payments for environmental services in addition to bolstering and streamlining conditionality rules, and implementing a payment incentivising farmers towards the most performing production systems (e.g. supporting conversion to organic agriculture, reducing the volume of inputs...) and improved agro-environmental and climate measures.

A CAP with a renewed vision and content will not be able to deliver on its promises without a deep overhaul of its **structure and implementation methods**. It must be **simpler, more flexible**, in particular in case of **crises, easier to understand** and more in line with needs, while **upholding conditions to allow fair competition**.

The financial tool for the **Common Fisheries Policy**, namely the European Maritime and Fisheries Fund, should be used in a renewed fashion to help foster sustainable and economic development in European fishing and sea farming.

The fight against **fraud** and for the **compliance to European norms** should be part of the objectives of the next EU budget in order to create a European inquiry and control force that would benefit both consumers and markets.

#### **4) Foster a sense of solidarity amongst Europeans promoting cohesion**

**The integrity of the single market requires a comprehensive approach, at European level, to regional disparities.** Europe's local constituencies, with their distinct geographic and economic aspects, are sources of strength. Historically, they have been marked by uneven economic growth. Some of them are, for instance, more exposed than others to climate change, globalisation, unemployment, job insecurity, the consequences of Brexit, demographic evolutions and cross-border contexts. Because of their geographical remoteness and their specific characteristics, the **outermost regions** deserve special attention.

This calls for **European solidarity and a far-reaching local development policy**. Hence, France is in favour of a true **policy of European solidarity and cohesion** designed to help economic and social transitions in an equitable fashion in all parts of Europe and to foster a more inclusive society. A fairer allocation of funds could be reached by introducing a **stricter cap system** and by using **social, economic and territorial indicators** (e.g. unemployment rate, R&D spending, access rate to very high speed). So designed, this policy would meet three goals:

- **convergence**, which would aim at real progress in economic terms. The eligibility of regions and financial envelopes will be defined as a function of the GDP/capita criterion and its evolution across the past five years, taking into account, in a proportionate way, the growth in wealth of regions or their particular characteristics as for the outermost regions;
- **helping transitions and retraining initiatives**, which would involve focusing on a limited set of topics in response to key transition issues such as the fight against unemployment, in particular of the young people, the combat against climate change and energy transition, the support to research and innovation, training and digital transformation. All European region would be eligible to subsidies pro-rata the intensity of transition issues they face. An infra-regional targeting of the local constituencies most in need will be helped by a simplified European tool ;
- **cross-border cooperation**, which should focus more than before on cross-border regions, be used on targeted theme-based policies and support projects located outside cross-border regions but presenting a high transnational added value, such as completing the Trans-European Transport Network. This does not mean, however, that transnational and interregional cooperation should be discontinued.

A **Brexit fund** should be created to support, on the basis of strictly defined eligibility criteria, local constituencies and economic sectors which are most impacted by the consequences of Brexit (financing the step-up in custom controls, supporting sectors facing difficulties...).

**Conditionalities** should provide a direct counterpart to this European financial solidarity. These conditionalities should allow for a **real social and tax-related convergence** and notably include the compliance to the **rule of law**. Some conditions would be established *ex ante*, as they are now. Others would be subject to an earmarked allocation of funds that would be released during the course of the programme provided that the criteria had actually been met. Lastly, national co-financing could be increased in the event of non-compliance with the social or tax-related conditions.

## 5) Foster the ecological transition

The EU budget should pave the way for a new productive model as well as a new model for society. It was projected that 20% of the budget would be set aside to combat **climate change** between 2014 and 2020. The timeline should be **extended and the objectives scaled up to 40%**. Effective monitoring should be ensured by clarifying and standardising the rules for booking green finance drawing, for instance, on the “Rio markers” as defined by the OECD.

All policies should integrate the cross-cutting objectives of fighting global warming, reducing reliance on non-renewable resources and biodiversity conservation. **As a general principle, the EU budget should not finance any policy detrimental to this objective.** In addition to the CAP and the Solidarity Policy, which should include heightened environmental incentives and conditionalities, four priority areas need funding to speed up the ecological transition:

- “**clean transport**” comprising, inter alia, a European support programme for non-polluting vehicles and prioritising low carbon transport and infrastructure, by maintaining an instrument dedicated to transports;
- “**clean and efficient energy**” encouraging lower energy consumption, the generation of renewable and low/no carbon energies, and the rollout of intelligent energy networks;
- “**living biodiversity**” (current LIFE+ instrument and BEST initiative for EU Overseas Countries and Territories) to combat the mass extinction of species;
- “**climate adaptation**” by stepping up financing for adaptation measures in the sectors most affected by climate change such as agriculture and fishing in line with commitments made in the Paris Agreement and at the One Planet Summit

## 6) Bolster our economic, technological, and digital reach

Europe is gradually recovering from the serious crisis it has undergone since 2008 – a crisis whose lessons we have not yet fully learned. We must now prepare our future and build an economic, technological and digital powerhouse that will rival all its competitors.

Strengthening our potential growth will require financial resources to **roll back the technological frontier**. Support to **breakthrough innovation** should come first. To this end, and amongst other initiatives, a dedicated **agency** should be created, which would select high-risk projects that may result in breakthrough innovations by combining cutting-edge fundamental research and technological development.

Second, the upcoming Framework Programme for research and innovation (**FP9, 2021–2027**) should see its budget significantly increased. A specific focus should be put on upholding its excellence-based policy and supporting key sectors such as aviation, space, transports, energy-related and ecological transition, digital economy and batteries.

Besides, France will continue its support for the **ITER** fusion energy project, and wants sufficient means to be set aside to ensure its continued operation.

The EU must also remain a frontrunner thanks to a **bold space policy with a larger budget** for maintaining and expanding existing infrastructure (Galileo, EGNOS, Copernicus), in particular through enhanced R&D resources to ensure autonomy in space and to provide support for discussions of new projects (such as the Space Surveillance and Tracking programme, SST).

Finally, we need to step up our actions to encourage the **growth of startups and scaleups**, while supporting the digital transition of all European companies. The use of **financial instruments and their coordination with sector-based policies** should be very much encouraged, as part of a single investment instrument based around the European Fund for Strategic Investments (EFSI). In this context, a **European venture-capital fund** with an initial grant of €5bn should be created, leveraging on existing EIB group's initiatives.

## 7) Make Europe a global stakeholder

EU external action requires clarification and the instruments – which are currently too numerous – need to be severely streamlined and grouped, be they in the EU budget or not. The geopolitical situation and the challenges being faced by Europe are shaping our geographic and strategic priorities for the coming decade: **Sub-Saharan Africa** and the **South shore of the Mediterranean** should be at the core of this far-reaching foreign policy. EU development assistance should be additional to, and coordinated with, domestic measures and focus primarily on responding to crises, tackling the deep-seated reasons for migration inclusive of climate change and biodiversity, human rights, health, gender, education and culture issues. The headline “Make Europe a global stakeholder” could be based on the following instruments:

- an instrument for EU **candidate countries** (the current IPA, unchanged) with stricter conditions conducive to alignment with the *acquis communautaire* and to ensure effective adherence to our common values;
- a **common foreign and security policy** instrument (the current CFSP, unchanged);
- an **humanitarian aid** instrument as it exists ;
- a **European neighbourhood** instrument (the current ENPI);
- a **development** instrument grouping together the following instruments : the DCI, EIDHR, IcSP, PI, “Bêkou” Trust fund, and “Madad” Trust Fund.

The efficiency of European aid should be heightened through the increased use of **financial instruments** (e.g. loans, guarantees) and of investments, whose procedures should be significantly simplified. In terms of governance, the role of the **Council** should be upheld, if not strengthened.

## 8) Re-imagine Europe through mobility, culture and knowledge

Europe's future lies in its young people, and culture is what holds it together. It is our duty to encourage this, as it is a prerequisite for young generations wanting to join the European project. The role of the budget is to support this goal:

- **the Erasmus+ programme** is the emblem of what Europe does best for its young citizens. Its budget must be at least doubled, to allow more young Europeans to live in another Member State and learn another language. In particular, the programme should focus on higher education and secondary school students, apprentices, athletes and those who create and disseminate culture and knowledge;

- a dedicated and strengthened "**Culture**" programme to finance tangible cultural and audio-visual projects with a European dimension, such as the translation of works (regardless of the medium), the dissemination of culture to a broad audience, the coproduction of European audio-visual works and the protection and enhancement of European heritage;
- a specific financial support should be granted to universities which embrace the "**European universities**" project – the latter could be defined by a code of conduct before a dedicated European legal status is created.

#### 9) An exemplary European administration

The European administration should **prove exemplary by displaying its efficiency**. The evolution of administrative expenses should be aligned with the budgetary constraints we are facing to build our next common budget. They should all be grouped together in a **dedicated headline** subject to a legally binding ceiling. As it currently stands, the 2% deflator should not be applied to this type of expenses as the payroll is already grossed-up by inflation. A reasonable deflator needs to be taken into account and should be applied to all expenditures. Assuming indeed an excessive hypothesis unduly increases the cost of the overall budget. Lastly, **the withdrawal of one Member State calls for a decrease in European staff**.

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Leaving aside the budget's content for the moment – which must be our primary concern – France, like the European Parliament, would like to see a **more flexible** financial framework. To achieve this, our current instruments must be streamlined and focused on a few mechanisms allowing us to deal with crises and new needs that may arise during the course of the programme. The need for flexibility must be reconciled with that of **fiscal discipline**: from now on, all instruments should be placed beneath the framework's ceilings.

Finally, budget overhaul means **financing reform**. The GNI system does represent a stable and equitable resource. Nevertheless, it must be supplemented by true own resources, as it is the case today with customs duties, but such that this does not constitute an additional burden on our fellow citizens. New resources should reflect a European vision of the financing of the public goods aiming at protecting our common standards and competitiveness. France encourages the Commission to make proposals along these lines, thus by prioritising both **environmental and digital taxation**. Such a discussion will be more fruitful than one focused on "fair returns", which undermines European budget negotiations. France opposes all **rebates** as they run counter to the values underlying the pooling of financial resources in the service of Europe's future.

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Hence, France awaits with interest the Commission's proposal. It calls for audacious and responsible initiatives also and for greater transparency in order to ease the upcoming negotiations amongst Member States and with the European Parliament.