



**Overview Paper**  
**Clingendael European Studies Programme (CESP)**  
**EU Policies Seminar Series**

*Exploring the EU budget after the budget review*  
*Towards new policy priorities*

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This paper is meant to introduce the topics that will be discussed during the EU policy seminar 'Exploring the EU-budget after the Budget Review: Towards new Priorities'. This seminar, which will take place at the Netherlands Institute of International Relations 'Clingendael' on 30 June & 1 July, is organised jointly by the Clingendael and the Dutch Ministry of Foreign Affairs. The seminar is the third in a series of seminars during which issues that are high on the EU-agenda are discussed. The first seminar was devoted to the energy and climate package as presented by the European Commission in January this year. During the second seminar, the European Neighbourhood Policy and the prospects for elaborating this policy were discussed.

The upcoming seminar concerns the EU budget, in the light of the ongoing budget review. The seminar aims to provide a forum where experts can, under Chatham-House rule,<sup>1</sup> discuss issues concerning in particular the expenditure side of the EU-budget. Participants in this seminar are academics, policy makers, and top-level civil servants, working in the field of the EU budget, the Common Agricultural Policy, The Structural and Cohesion policies, and new policy priorities. The final programme of the seminar is attached to this discussion paper, as well as an overview of the current EU budget

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<sup>1</sup> When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.

## The budget review and the EU budget

In December 2005, the European Council within the broader framework of the new Financial Perspectives agreed to undertake a general review of the EU-budget. The Council invited the European Commission to 'perform a full, comprehensive and wide-ranging review with regard to all aspects of EU expenditure, including the CAP and its revenue, including the British rebate, and to report on its findings in 2008-2009.'<sup>2</sup> The significance awarded to this review, can be derived from the Council's decision: "On the basis of such a review, the European Council can take decisions on all the subjects covered by the review. The review will also be taken into account in the preparatory work on the following Financial Perspective".<sup>3</sup>

In response to this request the European Commission initiated a public consultation on the budget and its review, which was concluded on June 15th. As a first step of the process of consultation the Commission published a paper in which various issues and questions concerning both the expenditures and revenues of the EU were being raised.<sup>4</sup> Important as this review is, general consensus is also that any effect from the review will not influence the budget until after the current financial framework.<sup>5</sup>

In this seminar the focus regarding the budget review will be on the expenditures of the EU. In this regard, it should be emphasized that seen from the broader perspective of EU policies and legislation, the EU's budget is of relatively minor importance.<sup>6</sup> Contrary to the situation in most of the member states, the EU budget only to a small extent reflects the EU's policy priorities and policies.<sup>7</sup> One reason is that the EU is primarily a regulatory body, pursuing and implementing its policies primarily through other instruments than the budget, through legislation in particular.<sup>8</sup> A second reason is that the member states are still responsible for the big spending areas of policy making (e.g. housing, health care, social security, etc.). For that reason the EU budget is in particular small compared to the average budget of the member states. Overall, the budget for the years 2007-2013 amounts to a yearly 129 billion Euro in 2008.<sup>9</sup>

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<sup>2</sup> Conclusions of the European Council, 15-16 December 2005, 15914/05.

<sup>3</sup> Declaration n° 3 annexed to the Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management - OJ C 139, 14.6.2006.

<sup>4</sup> European Commission. *Reforming the budget, changing Europe, a public consultation paper in view of the 2008/2009 budget review*, SEC (2007), 1188 final, Brussels, 12 September 2007.

<sup>5</sup> Begg, I. (2007). *The 2008/9 budget review*. EU-consent EU-budget Working Paper No. 3.

<sup>6</sup> See also: Advisory Council on International Affairs. *The finances of the European Union*. The Hague, December 2007.

<sup>7</sup> See for a detailed historic overview of the EU-budget: Ackrill, R. & Kay, A. (2006). Historical-institutionalist perspectives on the development of the EU budget system. In: *Journal of European Public Policy*, 13(1). January 2006, pp. 113-133. And: Szemlér, T. (2006). EU Budget Milestones, From Fundamental Systemic Reforms to Organised Chaos. In: *Papeles del Este* 11, pp. 1-20.

<sup>8</sup> Gross, D. (2008). *How to Achieve a Better Budget for the European Union?* CEPS Working Document No. 289/April 2008. Brussels: CEPS.

<sup>9</sup> European Commission (2008). *General Budget of the European Union for the Financial year 2008*. Luxembourg: Office for Official Publications of the European Communities.

Since the adoption of the new Financial Perspectives the EU's expenditures are classified under five (rather broad) headings:

1. Sustainable growth (i.a. internal market, competitiveness, cohesion);
2. Preservation and management of natural resources (i.a. agricultural policies, rural development, natural conservation);
3. Citizenship, freedom, security and justice (i.a. justice and home affairs);
4. The EU as a global player (i.a. development policy; neighbourhood policy);
5. Administration (expenditures related to the EU institutions)

Under the present FP the largest part of the EU budget is spent on the first two categories, i.e. agriculture and cohesion policies (87% of the budget).

The key issue discussed in this seminar is whether, and to what extent, this distribution is still in accordance with the EU policy priorities, taking into account the challenges that the Union is facing in the field of e.g. competitiveness, external policies and internal security. In other words, is there not a need for a substantial reform of the expenditure side of the EU?<sup>10</sup> If so, the budget review offers an opportunity to set out the guidelines for such a fundamental overhaul.

Within the broader framework of the EU's expenditures and against the background of the aforementioned question as to the need for reform, this seminar will address three key issues for the EU budget. First, the issue whether, and to what extent, new policy priorities should be set regarding the EU-expenditures and/or a reallocation of funds within the existing budget is appropriate. The second issue concerns the Common Agricultural Policy and the question to what extent further reform of this policy is needed. The final topic relates to the Cohesion and Structural Policies and the need for reform in this area. It is obvious that these three topics are related, in particular from the perspective of reallocation of funds and the issue of 'old for new policies'. This paper will introduce the three items mentioned in the same order, addressing the main developments, and raising some questions for debate.

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<sup>10</sup> See: André Sapir e.a. *An agenda for a growing Europe, making the EU economic system deliver*. Brussels, July 2003.

## **New Policy Priorities for the EU budget**

Under this heading the question is discussed whether and to what extent new policy priorities should be set for the EU budget and/or a reallocation of funds should take place in order to invest more in existing EU policies.

Recently a number of (new) policy areas have been identified on which the EU should spend more. One of the most radical proposals in this regard concerns Sapir report of 2003.<sup>11</sup> In this report 'An agenda for a growing Europe' a radical reform of the expenditures of the EU is recommended. The report proposes to make substantial cuts in the CAP and to reallocate the funds to spending on the objectives that have been set out in the Lisbon Agenda; i.e. the goal of strengthening the competitive position of the EU and to stimulate investments in the accumulation of knowledge and in technological innovation. These financial reforms should be implemented within the framework of the existing budget; i.e. without an increase of the existing budgetary resources.

To the areas mentioned in the Sapir report other new policy priorities on which greater spending by the EU may be needed, can be listed. One issue is the need of greater investment in the external policies (incl. foreign and security policy) in response to the enlargement of the EU and the initiative for the European Neighbourhood Policy and a more challenging security environment of the EU. In addition, reference should be made in particular to the issues of internal security and justice (a EU funded external border protection force?), energy and climate change, security and defence policy in general, development cooperation, etc. Some of these are high on the EU agenda nowadays (climate change, energy). But as far as the EU does have to play a role in dealing with these issues, the available funds are small, indeed. Or, in the words of Daniel Gros, 'there are greater calls for more attention to be paid to the common foreign, defence, security, immigration and citizens' rights, yet budget allocations to these fields are negligible'.<sup>12</sup> One of the reasons of course is that a reallocation of resources is a complicated and time-consuming affair within the framework of decision-making procedures concerning the budget. Or, as Iain Begg has put it: 'New spending demands on the EU budget often arise, but generally have to be rebuffed because existing spending priorities consume so much of a small budget that there is no room for manoeuvre'.<sup>13</sup> (Begg, 2007). Even so, the Union must take up new tasks to face a changing, and more challenging world.

### *Questions for debate*

- Which criteria should be used to determine whether and to what extent the EU is the appropriate level of policy making in order to deal with a specific issue?
- Taking into account these criteria, what then should be the main (new) policy priorities for the EU-budget of the future and to what extent are they reflected in the present budget?
- Which reforms and reallocations are necessary to enable the EU to act more effectively on these issues?
- Where and how can the EU budget instrument play a relevant role to strengthen Europe's competitiveness, and bolster economic growth?

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<sup>11</sup> Sapir, A. (2003). *An agenda for growing Europe: making the EU system deliver*, Report of independent high-level established at the initiative of the President of the European Commission. Oxford: Oxford University Press.

<sup>12</sup> Gros, D. (2008). *How to achieve a Better Budget for the European Union?* CEPS Working Document No. 289, April 2008. Brussels: CEPS.

<sup>13</sup> Begg, I. (2007). *The 2008/9 budget review*. EU-consent EU-budget Working Paper No. 3.

- How should the EU's external role as a global player be expressed in the budget?
- How should changes in the EU's spending priorities be implemented?

## Reviewing the Common Agricultural Policy

Reform of the CAP has been high on the EU agenda since the beginning of the nineties. Although this reform process has been difficult and sometimes painful, important adjustments in the CAP, both regarding the instruments and the goals of the agricultural policy, have been implemented during the past 15 to 20 years. In this regard, it is important to note that the Council in its demand for a budget review has made an explicit reference to a CAP reform.

Traditionally, the EU budget has been dominated by agricultural spending. The Common Agricultural Policy represented 61% of the budget in 1988. By 2013 the share of traditional CAP spending will have almost halved to 32% of the budget. In accordance with the EC treaty, the main goal of the CAP is to achieve an adequate level of production, at a reasonable cost to consumers, while ensuring a fair standard of living for the agricultural community and safeguarding the future of rural areas.<sup>14</sup> From its very beginning, the CAP has been under close attention of scholars, proposing changes and reforms. Since the nineties important adjustments in a policy which started in the sixties, have been made. One issue now is whether in view of new challenges, in particular in the field of climate change, the rising food prices and growth of the world population, further reforms are necessary in order to cope with these issues. And if so, what reforms are appropriate and to what extent do they have an impact of the EU budget?<sup>15</sup>

The CAP has furthermore been criticised for hindering other EU policies such as development cooperation, competition and environmental policies. In addition, the common agricultural policy is traditionally criticized for its high costs and inefficiency.<sup>16</sup> Scholars widely agree that this policy does little to foster cohesion, in view of the fact that most subsidies are paid to rich farmers in richer member states.<sup>17</sup> Due to this continuous criticism, the CAP has undergone many reforms over the years, up to the current situation where the Commission is conducting a 'Health Check' of the policy, primarily aimed at evaluating the reforms that were introduced in 2003.

In recent years, the CAP has been adjusted in favour of more room for market forces. Price support linked to agricultural production has been replaced by new schemes and instruments, in which greater emphasis is placed on rural development, nature conservation and quality. Instruments such as the cross compliance principle, whereby farmers face a reduction in payments if they fail to meet environmental, animal welfare or food safety standards, *inter alia* achieve this.<sup>18</sup> Although these changes demonstrate the capacity of the CAP to adapt,

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<sup>14</sup> Hausner, K. H. (2007). The European Budget in the Years 2007 to 2013 and the Common Agricultural Policy. In: *Intereconomics*, 42(1), pp. 54-60.

<sup>15</sup> E.g. Laffineur, M. (2008). Finding a new EU budget won't be easy. In: *Europe's World* (8). pp. 103-105.

<sup>16</sup> Hausner, 2007, The European Budget in the Years 2007 to 2013 and the Common Agricultural Policy. In: *Intereconomics*, 42(1), p. 56.

<sup>17</sup> See e.g. Núñez Ferrer, J. (2007), *The EU Budget: The UK Rebate and the CAP Phasing them both out?* CEPS Task Force Report. Brussels: Centre for European Policy Studies; Gros, D. (2008). *How to achieve a Better Budget for the European Union?* CEPS Working Document No. 289, April 2008. Brussels: CEPS.

<sup>18</sup> Cipriani, G. (2007). *Rethinking the EU Budget Three Unavoidable Reforms*. Brussels: CEPS.

some commentators argue in favour of still more drastic reforms,<sup>19</sup> inter alia to create room in the EU budget for other or new spending priorities.<sup>20</sup> At the same time, experience in the EU learns that whatever the result of the CAP reform may be, changes are not expected to happen rapidly due to ‘path dependency’, leaving according to some the ‘gradualist approach’ the ‘only politically feasible way of achieving a better system.’<sup>21</sup>

### *Questions for debate*

- To what extent is further reform of the CAP necessary and, taking into account the results of the present Health Check, in what direction should these reforms go?
- In this regard, is the present system of income support still as self-evident as when the policy was first launched, or should it be modified further?
- Is income support still necessary, with increasing world food prices and an expected substantial rise in income for farmers?<sup>22</sup>
- To what extent should the member states be more involved in the financing of the CAP, in the form of co-funding?
- Should guaranteeing food-security for Europe’s citizens become the top-priority of the CAP?
- How to confront new challenges, from climate change, to bio fuels, water management and the protection of biodiversity? To what extent can or should these challenges be part of the CAP?

### **Adapting the Cohesion and Structural Policies**

After the Common Agricultural Policy, the second largest redistributive policy of the EU concerns the structural and cohesion funds. Increasing cohesion among the member states is one of the fundamental goals of the EU. The idea behind it is that economic and social disparities between poorer and richer regions and member states are not only a potential threat to the functioning of the internal market and EMU, but that such divergences are neither in accordance with the ideals of solidarity and community that underlie the integration process.<sup>23</sup> Although the reduction of regional disparities was mentioned already in the preamble of the treaty on the European Economic Community of 1957, cohesion policy only started as a real and substantive policy area in the eighties and nineties in response to the enlargement of the EU with poorer member states and to the initiative to deepen the economic integration through the adoption of the single market programme and the Economic and Monetary Union. In particular since the adoption of the Delors I package in 1988 (Financial Perspectives 1988-1992) spending on support for poorer regions and countries has increased sharply, from 2-3% of the EC budget to around one third of the present EU budget.

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<sup>19</sup> E.g. Núñez Ferrer, J. (2007), *The EU Budget: The UK Rebate and the CAP Phasing them both out?*, CEPS Task Force Report. Brussels: CEPS.

<sup>20</sup> Sapir, A. (2003). *An agenda for growing Europe: making the EU system deliver*, Report of independent high-level established at the initiative of the President of the European Commission. Oxford: Oxford University Press.

<sup>21</sup> Begg, I. (2007). *The 2008/9 budget review*. EU-consent EU-budget Working Paper No. 3.

<sup>22</sup> European Commission. (2007). *Prospects for Agricultural Markets and Income in the European Union 2007-2014*, p. 9. Brussels: DG Agriculture and Rural development.

<sup>23</sup> See Desmond Dinan, *Ever Closer Union; An Introduction to European Integration*. Houndmills: Palgrave, 2005.

The objective of the EU cohesion policy is the achievement of economic and social progress across the member states and in particular to reduce social and economic disparities. The economic and political sense of this effort and of the cohesion policy in general is more or less accepted.<sup>24</sup> But scholars and policy makers have openly questioned whether the cohesion policy as it has functioned throughout the years has been the most efficient means to redistribute wealth.<sup>25</sup> Reform as to the objectives, instruments, level of concentration, absorption capacity, etc. has therefore been one of the leading themes in the discussion about the effectiveness and the modalities of the EU's cohesion policy. More recently the discussion has focused on the question to what extent the cohesion policy of the EU can be linked more effectively to the Lisbon strategy, and can be made to support the effort for economic modernization and innovation. An approach that was recommended by the Sapir group in its report on improving economic growth in Europe. In its report the study group recommended to invest more of the cohesion funds in physical and human (trans-European) infrastructure in poorer regions and member states, in order to enable them to catch up.<sup>26</sup> In the latest financial framework, attempts have been made to put the cohesion and structural policies more in line with the Lisbon targets. Whether this will be successful, remains to be seen.

### *Questions for debate*

- Are the redistributive policies still fit for their job, taking into account the principles of subsidiarity and proportionality?
- Are the redistributive policies spent in the most effective way and what reforms are needed to increase effectiveness?
- Should spending on disadvantaged areas within the richer member states be addressed as an EU issue or should support only be given to poor regions in poor member states?
- Is further reform of the cohesion policies needed in order to support the member states in their effort to meet the Lisbon targets? What specific reforms are necessary in this respect?

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<sup>24</sup> European Commission (2007). Fourth report on Economic and Social Cohesion. COM(2007) 273 final. Brussels: European Commission.

<sup>25</sup> E.g. Santos, I. (2007). Back to basics with the EU budget. In: *European Voice*, 4-10 Oct. 2007; Ederveen, S., Groot, H. de, Nahuis, R. (2006) Fertile Soil for Structural Funds? A Panel Data Analysis of the Conditional Effectiveness of European Cohesion Policy *Kyklos* 59 (1) , 17-42; Santos, I. (2008). *Is Structural Spending on Solid Foundations?* Bruegel Policy Brief. Brussels: Bruegel.

<sup>26</sup> Sapir, A. (2003). *An agenda for growing Europe: making the EU system deliver*, Report of independent high-level established at the initiative of the President of the European Commission. Oxford: Oxford University Press.

## **Concluding Remarks**

This paper offered in a nutshell an overview of the different debates and various questions concerning the expenditure side of the EU budget. In the light of the 2008/2009 budget review, it is in particular important that in the discussion about the EU budget a clear distinction is made between the revenue and expenditure side of the budget. The goal of this paper was also to provide a common basis for the discussions during the seminar, in order to have an open and fruitful debate.



**FINANCIAL FRAMEWORK 2007-2013 (revised)**  
(EUR million – current prices)

COMMITMENT APPROPRIATIONS	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013
<b>1. Sustainable Growth</b>	<b>54 405</b>	<b>57 478</b>	<b>59 752</b>	<b>61 863</b>	<b>63 734</b>	<b>66 766</b>	<b>69 812</b>	<b>433 810</b>
1a Competitiveness for Growth and Employment	8 918	10 589	11 324	12 469	13 107	14 365	15 624	86 396
1b Cohesion for Growth and Employment	45 487	46 889	48 428	49 394	50 627	52 401	54 188	347 414
<b>2. Preservation and Management of Natural Resources</b>	<b>56 662</b>	<b>58 300</b>	<b>59 252</b>	<b>59 726</b>	<b>60 191</b>	<b>60 663</b>	<b>61 142</b>	<b>415 936</b>
of which: market related expenditure and direct payments	45 759	46 217	46 679	47 146	47 617	48 093	48 574	330 085
<b>3. Citizenship, freedom, security and justice</b>	<b>1 273</b>	<b>1 362</b>	<b>1 523</b>	<b>1 693</b>	<b>1 889</b>	<b>2 105</b>	<b>2 376</b>	<b>12 221</b>
3a Freedom, Security and Justice	637	747	872	1 025	1 206	1 406	1 661	7 554
3b Citizenship	636	615	651	668	683	699	715	4 667
<b>4. EU as a global player</b>	<b>6 578</b>	<b>7 002</b>	<b>7 440</b>	<b>7 893</b>	<b>8 430</b>	<b>8 997</b>	<b>9 595</b>	<b>55 935</b>
<b>5. Administration <sup>(1)</sup></b>	<b>6 919</b>	<b>7 280</b>	<b>7 699</b>	<b>8 008</b>	<b>8 334</b>	<b>8 670</b>	<b>9 095</b>	<b>56 005</b>
<b>6. Compensations</b>	<b>445</b>	<b>207</b>	<b>210</b>					<b>862</b>
<b>TOTAL COMMITMENT APPROPRIATIONS</b>	<b>126 282</b>	<b>131 629</b>	<b>135 876</b>	<b>139 183</b>	<b>142 578</b>	<b>147 201</b>	<b>152 020</b>	<b>974 769</b>
as a percentage of GNI	1.06%	1.06%	1.05%	1.03%	1.01%	1.00%	1.00%	1.03%

  

<b>TOTAL PAYMENT APPROPRIATIONS</b>	<b>121 981</b>	<b>129 090</b>	<b>123 975</b>	<b>133 673</b>	<b>133 655</b>	<b>140 362</b>	<b>142 534</b>	<b>925 270</b>
as a percentage of GNI	1.02%	1.04%	0.95%	0.99%	0.95%	0.96%	0.94%	0.98%
Margin available	0.22%	0.20%	0.29%	0.25%	0.29%	0.28%	0.30%	0.26%
Own Resources Ceiling as a percentage of GNI	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%

(1) The expenditure on pensions included under the ceiling for this heading is calculated net of the staff contributions to the relevant scheme, within the limit of € 500 million at 2004 prices for the period 2007-2013.