

**WWF-UK**

*Registered office*  
The Living Planet Centre  
Rufford House, Brewery Road  
Woking, Surrey GU21 4LL

Tel: +44 (0)1483 426444  
info@wwf.org.uk  
wwf.org.uk

## HM Treasury – The European Union Budget

# Call for Evidence on the Government's Review of the Balance of Competences between the United Kingdom and the European Union: WWF-UK Response

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**Contacts:**

- Sebastien Godinot, Economist, EU Policy Office of WWF, [sgodinot@wwf.eu](mailto:sgodinot@wwf.eu)
- Trevor Hutchings, Director of EU and UK Advocacy, WWF-UK, [thutchings@wwf.org.uk](mailto:thutchings@wwf.org.uk)

**Call for evidence questions****Role of institutions and budget system****1 What do you see as the rationale for having an EU budget?**

1. The EU budget has an added value in all areas where each € spent at the European level is more effective than a € spent at the national level, resulting in reduced overall public spending for achieving the same results (or same overall public spending for better results).
2. There is a complex and political discussion to define the areas of biggest added value for the EU budget compared to the Member States' budgets. Research and discussions make it possible to find answers to this issue. This issue is also linked to the broader discussion of European competences (which policies are more relevant to decision at the EU or at the national level?), as the EU budget is a tool to achieve European policies, not a policy itself. Several reports underline the areas of development aid and research where EU spending is more effective than national spending, although they are currently poorly "Europeanised".



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3. The EU budget is a financial solidarity mechanism between EU Member States (legally limited at 1,29% of the EU GDP, which is quite small): the relatively richer MS contribute more than they receive, the relatively poorer MS receive more than they contribute. It is the same approach as the financial redistribution organised by a government between its richest and its poorest citizens, happening in each and every developed country (at a much bigger scale than 1% of GDP as is the case for the EU). Solidarity is an essential principle of the European project: it would be meaningless for European countries to claim to help poor countries and neglect their poor European neighbours.
4. The EU budget is necessary in areas where EU policies and targets have been agreed and set but where MSs have a track record of not spending enough to reach the targets (e.g. ecosystems and biodiversity protection, related to the EU 2010 Biodiversity Strategy which failed to achieve the targets set, and now the 2020 Biodiversity Strategy).

**2 What are your views on the appropriate roles of national and European institutions, particularly the voting rules and relationship between the domestic and European Parliaments, the Council and the Commission, in agreeing the EU budget?**

5. National and European Parliaments: this relationship on the EU budget is currently extremely weak. It would make a lot of sense to strengthen it, notably to develop a better shared view of key spending priorities at the EU level. For example the environment is considered a priority for Cohesion policy at the European level but neglected by some MSs: better discussions between national and European Parliaments would help smooth these discrepancies.
6. Unanimity rule of the Council: see question 3. A qualified majority would greatly simplify the decision making process.

**3 What are the advantages and disadvantages of having unanimously-agreed long-term budget periods? How long should they be?**

7. The principle of having a multiyear EU budget (of 7 years) is sensible, as it would be too burdensome to decide on an annual basis.
8. On the contrary, with 28 MSs within the EU, the system of unanimity for deciding the EU budget is tremendously burdensome and time-consuming, making the EU budget process very challenging.
9. In addition, given that each has a right to veto, an individual MS can impose its own national priorities in the EU budget decision making process, distorting two fundamental principles for an effective EU budget:
  - Resource side: Each MS should contribute to the EU budget in a way that is proportionate to its wealth;
  - Expenditure side: the EU budget should be focused on EU priorities, with clear issues and targets set in the EU budget decision making process.

10. These national distortions (e.g. there are now 5 different rebates for specific MS) have also made the EU budget so complex that it is now completely impossible for EU citizens to understand it and voice well-informed concerns and recommendations, undermining the democratic aspect of the EU budget decision making process.

**6 What are the advantages and disadvantages of having some expenditure, including to provide flexibility, held ‘off-budget’?**

11. If flexibility is needed at the EU level (which is reasonable to expect), there is no justification why it should be held ‘off budget’ and not included in the EU budget itself: this can distort a sound discussion on how much money exactly is available at the EU level, and makes the EU budget much more complex and difficult to understand for both decision makers and taxpayers;
12. In addition, for expenditures held ‘off budget’ the European Parliament has a more limited scrutiny power, undermining the democratic aspect of the EU budget decision making process.

**General value of spend**

**8 In your view, is the EU budget focused on areas of EU added value in expenditure?**

13. The EU budget should be centrally focused on EU priorities. Agreeing EU policies and targets and spending the scarce EU money in other areas makes no sense and weakens the credibility of decisions taken by both Europe and MSs.
14. Notably, the size of agricultural spending in the EU budget is clearly disproportionate to the importance given to agriculture in the current, and most important, EU economic strategy: the Europe 2020 Strategy (which barely mentions agriculture). As shown in Chart 2.B p 10 of the EU Budget call for evidence, 43% of the EU budget in 2013 was spent on Heading 2 “Preservation and Management of Natural Resources” of which 95,7% is focused on agriculture for this year (Common Agricultural Policy, CAP). EU subsidies supporting intensive agriculture (especially Direct Payments, the CAP “pillar 1”) have been widely criticised for decades for their negative environmental impacts on European ecosystems, as shown by European Environmental Agency’s reports (fertiliser and pesticide pollution of surface waters and ground waters, soil erosion, biodiversity loss, climate change, etc). Despite clear evidence of these negative environmental impacts (and how costly they are for European citizens), not much has changed in the new CAP for 2014-2020. The added value of the CAP in this regard is therefore questionable, and in specific environmental terms is clearly very negative. As a result the CAP will likely severely undermine the achievements of some of the biodiversity targets set in the EU 2020 Biodiversity Strategy.
15. On the opposite side, the tiny LIFE fund supporting innovative environmental projects has been applauded by the European Court of Auditors for its effectiveness to deliver tangible results and contribute to innovative environmental protection, resource efficiency and sustainable development that are prominent aspects of the Europe 2020 Strategy. But the Life fund is only 0.2% of the EU budget for 2007-2013.

16. More generally, sustainability issues have not been properly mainstreamed in the EU budget regulations despite EU Treaty requirements and the sustainability commitments of the Europe 2020 strategy. This lack of consistency between EU priorities and EU expenditure is the main problem of EU expenditure. It should be required that EU expenditure supports projects that at least respect the EU legal environmental acquis, and as much as possible contribute to the achievement of agreed EU environmental targets (e.g. on climate change, energy efficiency, renewable energy, biodiversity, freshwater, waste).

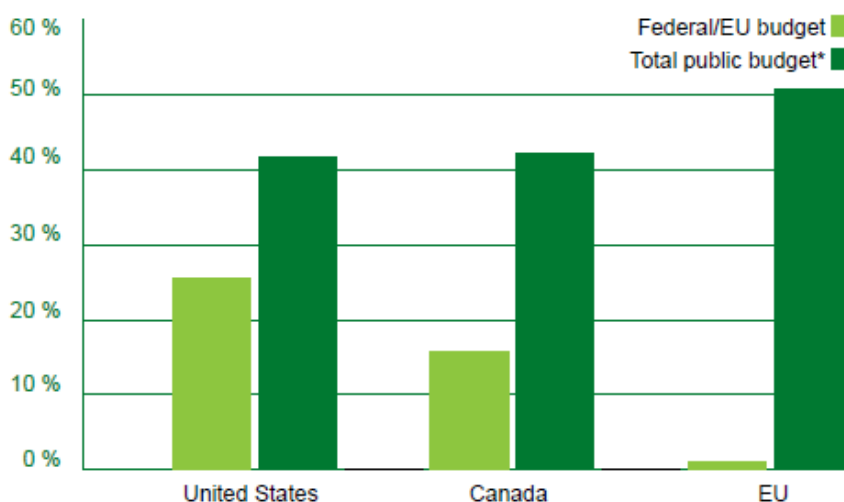
**9 What modes of expenditure (e.g. bid-based expenditure, automated expenditure, loans, grants) in the budget represent the most effective use of EU funds?**

17. It entirely depends on the type of sector, project and beneficiary supported. For example in the crucial sector of building refurbishment for energy savings:
- Vulnerable households and very small and poor municipalities must receive grants as they do not have the financial capacity to manage a loan;
  - Average private sector companies and municipalities can make use of zero interest loans;
  - Big companies and municipalities can work with innovative financial instruments like revolving funds.

**10 What is the right level for the EU budget?**

18. The figure below shows the difference between the EU budget and the federal budgets of the United States and the Canada. The EU budget currently accounts for 2% of total public expenditure in Europe (governments' spending makes the bulk of public spending).

**Figure 3: Budgets of federal states, EU and total public budgets in 2010 (% of GDP)**



Source: WWF 2011, Unlocking the potential of the EU budget – Financing a greener and more inclusive economy, Volume Two (data source OECD)

19. When analysing the level of the EU budget, 4 elements should be taken into account:

- The Lisbon Treaty's creation of a European diplomatic service and greater empowerment of the EU, with new competences in the fields of energy, research, space policy and immigration, will logically require more resources;
- Further EU enlargement during the period 2014-2020 will require additional resources (the entry of Croatia in the EU in 2013 will require around 12 billion € in the EU budget 2014-2020);
- The EU budget has already decreased in relative terms in the last decades, falling from 1.21 % of EU Gross National Income in the EU budget 1993-99 to 1.13 % in 2007-2013 (based on commitment appropriations)<sup>1</sup> meaning that the current EU budget would be 23% bigger if the same relative terms had been kept. The payment appropriations are always lower than the commitment appropriations<sup>2</sup>. Both are clearly below their legal ceiling of 1.29% for commitment appropriations and 1.23% for payment appropriations;
- Since 1995, the EU budget has increased by only 8.2% in real terms, while at the same time the national budgets have increased by an average of 23%, i.e. nearly three times as much<sup>3</sup>.

As a result it makes clear that the current EU budget is very small in relative terms, given the European competences (that tend to increase progressively).

**11 What are the arguments for and against increasing or decreasing the degree of national flexibility in spending money allocated to Member States under one part of the EU budget in other parts of the budget?**

20. If national flexibility for spending a part of the EU budget is too broad, then it simply does not make sense to have an EU budget for that issue at all: in such a case it is clearer to renationalise the spending. This will avoid confusion of citizens.

21. For the EU budget, in order to ensure it will be clearly focused on EU priorities and targets, there should be a relatively strict framework for its spending at national level.

**The resource system**

**12 What are your views on the current system whereby the EU budget is resourced on the basis that Member States contribute in relation to their income, with corrections where necessary?**

22. The main problem we see with EU budget resources is this: given that most resources now come directly from MS contributions, all MSs have adopted an approach of "juste

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<sup>1</sup> Jaroslaw Pietras (2008), The future of the EU Budget, In search of coherence of objectives, policies and finance of the Union

<sup>2</sup> Ibid

<sup>3</sup> European Parliament (2006), Report on the future of the European Union own resources (2006/2205(INI)), Committee on Budgets, rapporteur Alain Lamassoure

retour”. This is adversely influencing the EU budget discussion to the point that it makes the EU budget largely disconnected from EU priorities and counter-productive (e.g. CAP Direct Payments) because each MS narrowly focuses on its own national interests without properly taking into account the global EU interests (that benefit all MSs). Indeed, the money passes through the national Treasuries before leaving to Europe and coming back to MSs. Therefore the thinking has developed that Europe is first and foremost a cost (and not an opportunity) that each MS trying to minimise – before acknowledging the advantages that Europe provides, most notably the biggest single market globally.

23. It follows therefore that there needs to be a better informed debate when setting the EU budget, taking account of the benefits of EU membership and of MSs acting together. There are studies on the costs of how much more MSs would have to pay for the same benefits if the EU was not in place, but these extra costs do not appear to be taken properly into account, with MSs focus simply being on reducing their EU “costs” and maximising their EU “returns”.

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