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Seizing the moment:

Aligning the EU budget with Europe's economic needs

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EXECUTIVE SUMMARY

- Due to its inflexible design and poorly targeted spending schemes, the EU budget is particularly ill-suited to deliver the jobs and growth that Europe needs. However, the window of opportunity for radically reforming the EU budget is swiftly closing. Before the end of the year, national governments could potentially conclude talks over the shape and size of the EU's next long-term budget, locking in the overall spending priorities for the period between 2014 and 2020.

- Despite the austerity facing Europe, the European Commission has proposed a 6.8% increase in EU spending for 2013, while cutting only six out of almost 41,000 EU jobs. For the next long-term EU budget post-2014, the Commission has proposed to increase the budget by yet another 5%, while only offering minor reforms on substance.

- Based on a line-by-line analysis of EU spending in 2012, Open Europe has set out an alternative budget that would reduce spending by almost 30% - saving European taxpayers around €41bn annually - while focusing the spending far more effectively on boosting jobs and growth. The UK would reduce its annual gross contribution to the EU budget by almost €5.7bn (£4.6) under such a scheme. Areas in the current budget where both savings and better targeted spending could be achieved include:

    - Focusing the EU's structural funds on less wealthy member states and stopping the recycling exercise whereby richer member states subsidise each other's regional development policies would save just over €20bn.
    - Over one quarter of the EU budget is spent on subsidies to farmers and landowners, irrespective of whether they are engaged in any meaningful economic activity. Slimming down and re-focusing the CAP would bolster both rural job creation and the delivery of environmental benefits, while also achieving a saving of almost €24bn.
    - The cost of EU quangos to European taxpayers has gone up by 33% in two years. Simply scrapping those that duplicate others' work or add no value would save €431m.
    - Scrapping the European Parliament's additional seat in Strasbourg could save €180m. Last year, the Parliament issued tenders with a combined value of over €62.4m related to the maintenance of the Strasbourg seat – despite the building standing empty for 317 days.
    - The cost of running the European Parliament has increased by 36% since 2005, and now totals €1.7bn. Expenditure on MEPs' salaries and allowances has increased by 77.5% over the same period, now costing €190m, excluding pensions and transitional allowances. This is largely due to reforms in 2009 which standardised MEP's pay across all member states, which had been hugely divergent, and shifted the cost from member states to the EU budget. Also, since 2005, spending on Commission pensions has increased by 48.6%, amounting to €1.3bn today, while expenditure on Commission staff salaries and allowances has risen by 17.9% and now totals €2.1bn, although this is down from a record high of €2.2bn in 2010.
    - Since 2005, EU spending on 'Education and Culture' has risen by 61%, now standing at €1.54bn. The DG for Education and Culture employs 484 staff – more than the DG for Internal Market and Services.
    - Meanwhile, despite the importance of trade and the single market, only 2.6% of the EU budget is explicitly dedicated to facilitating these policies. Aside from the EU's six highly specialised joint undertakings, general R&D – the one area where the EU budget really can add value – only accounts for around 4.5% of EU spending in 2012. This amount should be radically increased.

- To mirror tough economic decisions in member states, there are also substantial savings to be had in a range of other areas, including administration, communications, justice & home affairs and foreign policy.

- In the on-going negotiations over the next long-term budget, the UK is pushing for a budget freeze and seeking to defend its rebate. While this strategy has merits, it will also not achieve anything more than if the UK simply chose to veto the proposal for the next long-term budget, as in the absence of an agreement, the status quo would effectively prevail. The UK must set the bar higher and push for, at the very least, the devolution of the structural funds back to richer member states, which would be a win-win for the UK and Europe. If this is not forthcoming, the UK should be prepared to veto the budget.

Box 1: What is the EU budget?

The budget finances the EU institutions and provides funding for the execution of policies across a range of areas, from foreign policy to farming.[1] The budget is primarily funded through what the Commission misleadingly refers to as its 'own resources'. These are really funds from member states and taxpayers which can be broken down into three sources: direct payments based roughly on each member state's Gross National Income (GNI), a levy on each member states' income from VAT, and finally customs duties on imports from outside the EU and sugar levies. These account for around 99% of the EU budget. Contributions from non-EU states to certain programmes and fines on companies for breaching EU law account for the rest.

Each annual EU budget is based on spending rules which apply across a seven-year framework period, known as a Multi-Annual Financial framework (MFF). The budget is divided into commitments and payments; commitments are funds earmarked for certain purposes, while payments are funds due to actually be paid out. Therefore, member states' contributions to the budget in any given year depend largely on commitments made in previous years.

The budget is broadly divided up into five headings: Sustainable growth (economic development), Preservation and management of natural resources (agriculture and the environment), Citizenship, freedom, security and justice (social policy, crime and policing), EU as a global player (foreign policy) and Administration. These are then split across a range of more specific budget lines and/or policy objectives such as research and development, culture, and transport. Between them, the first two headings account for the overwhelming bulk of EU spending; 87% in 2012.

The main problem with the budget is that far too much money is allocated to wasteful and failing policy areas such as the Common Agricultural Policy and an EU-wide regional development policy. In some aspects, these policies are not merely wasteful, but actively harmful, as they can channel investment away from where it can have the biggest effect on jobs and growth. Contrary to the Commission's claims, far too much money continues to be wasted on administration. Furthermore, the overall design and structure of the budget itself is inefficient and unnecessarily complex. This paper will take a detailed look at these flaws, and will discuss how they can be addressed, so that the budget delivers better value for member states and taxpayers.

1 Although some EU programmes are financed from outside of the budget, such as the EU's main overseas development programme, the European Development Fund, and co-operation between member states in the area of Common Security and Defence Policy.

1. RADICAL REFORM VERSUS THE STATUS QUO

1.1. Radical reform of the EU budget: If not now, then when?

Throughout this year, the EU will be negotiating both the annual budget for 2013, and more importantly, the next seven-year financial framework, which will run from 2014 to 2020, and will broadly lock in funding parameters over this period.

- In June 2011, the Commission tabled its proposal for the shape and size of the 2014 – 2020 MFF. The Commission's total proposed budget amounts to €1,025bn in commitments and €972.2bn in payments.[2] Overall, this represents an above-inflation increase of 5% to the EU budget.

- In April 2012, the Commission tabled its proposal for next year's budget, which will freeze commitments at the level of inflation (2%), but increase payments by 6.8% on this year.[3]

The negotiations over both are due to be completed later this year, although in the absence of an agreement, those concerning the MFF could drag into next year. There is not much time for the UK and other reform-minded member states to push through an alternative to the status quo.

There are a number of reasons why Europe has a golden opportunity to push for radical reform of the EU budget:

- The current financial crisis affecting Europe is putting huge pressure on national treasuries. Savings are needed across the board, including the EU budget.

- If the EU is pushing for austerity in member states, it is only right that it sets a good example with its own budget.

- It is also clear that the EU budget is insufficiently responsive to address economic change. For example, it is difficult to shift investment from an over-heating part of the economy to an under-developed one; a significant part of Spain's receipts from the structural funds are still directed towards infrastructure, despite the necessary adjustment following the country's housing bubble.

- Prices on most farm goods are at record highs, meaning the time is ripe to overhaul the EU's system of farm subsidies.

In addition to the overall spending increase, the Commission has also put forward two further controversial measures in its 2014 – 2020 MFF proposal. The first involves scrapping the UK rebate in favour of new "lump sum" reductions to net contributors' payments – it is not yet clear what economic impact this would have on the UK's overall contribution. The second concerns the establishment of a new direct financing mechanism for the EU budget, via two new EU taxes, a move which has long been on the wish-list of the Commission and many MEPs. The Commission has proposed a "financial sector tax" – which would hit the UK particularly hard - and a new "EU VAT", to replace the existing VAT contributions, to fund the budget.

1.2. Why has the EU budget proven so difficult to reform?

The UK has long been a critic of the current budget, both in terms of overall spending and allocation of funding to specific policy areas. Britain's disproportionate net contribution to the budget resulted in an annual rebate (see Box 2). However, while this addressed the issue of Britain's overpayment, it did nothing to tackle the underlying flaws in the budget. In fact, arguably, it entrenched them, as the UK prioritised the financial and political benefits of maintaining the rebate over attempts to push for more radical reform.

2 European Commission, 'A Budget For Europe 2020 - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions', 2011 http://ec.europa.eu/budget/biblio/documents/fin_fwk1420/fin_fwk1420_en.cfm

3 European Commission, 'Statement of Estimates of the Commission for 2013 (Preparation of the 2013 Draft Budget)', Document I, Political Presentation, 2012 http://ec.europa.eu/budget/library/biblio/documents/2013/DB2013/DB2013_docI_en.pdf

The EU budget has proved difficult to reform because it is not primarily designed to maximise economic returns across Europe, but rather to balance a range of political interests. Member states are keen to protect areas of the budget from which they do well, EU institutions seek to maintain and expand their competencies by having as much cash as possible at the EU level, while external groups that are able to make themselves heard through effective lobbying try to gain access to lucrative subsidy streams.

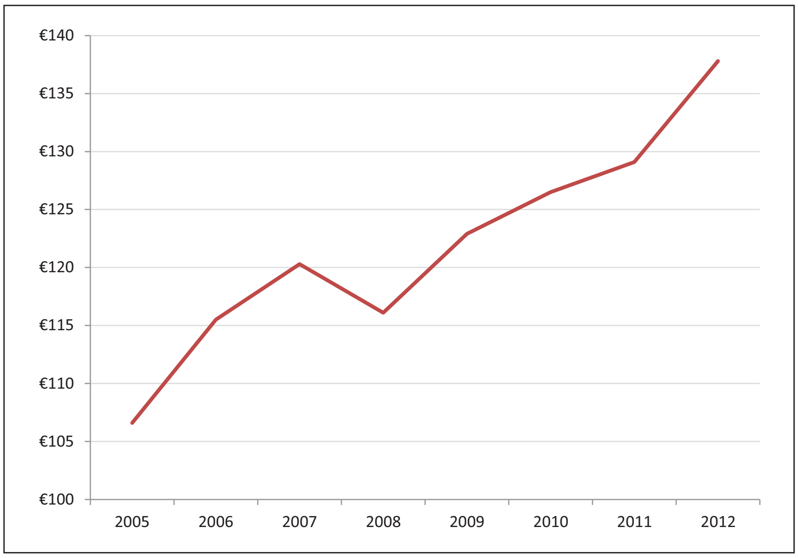
Negotiations over the long-term EU budget are also inherently biased towards the status quo, since they are subject to unanimity, with every single member state able to veto an agreement. The European Parliament's assent is also required which reinforces the predisposition towards the status quo, as the Parliament tends to resist budgetary reform.

An unfortunate side-effect of this logic is that funding tends not to be directed towards areas where it can add the most value, but is used to defend entrenched interests and reward special pleading, including from the EU institutions themselves. As the influential Sapir report for the European Commission argued:

> *"National political constraints mean that each government worries more about being able to flag a negotiation success (i.e. obtaining a significant share of EU money to be spent in its own territory) than about being sure that money is spent on worthwhile projects."*[4]

This leads to a classic public choice dilemma. The 'benefits' of the current budget are concentrated on a range of vested interests, while the costs are spread thinly across a diverse and poorly organised group; Europe's taxpayers. In addition, the lack of transparency and information surrounding the negotiations exacerbate the difficulty in gathering momentum for reform; few people, beyond those with a direct interest, are aware of the processes and issues at stake.

Graph 1: Evolution of the EU budget 2005-2012 (payment appropriations, €bn)



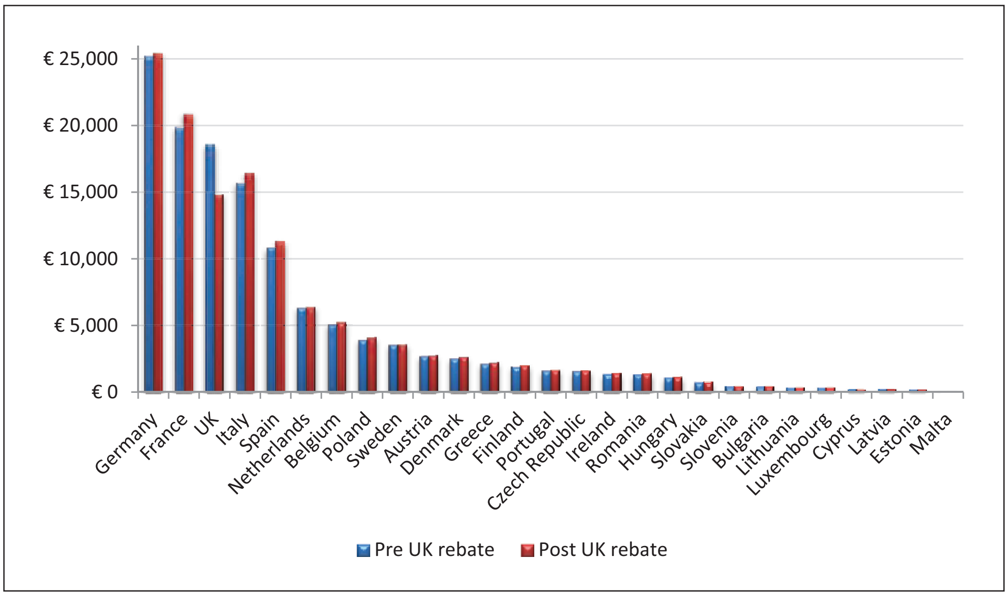
Source: EU Commission, Open Europe calculations

4 Sapir et al., "An Agenda for a Growing Europe; making the EU Economic System Deliver", Report of an Independent High-Level Study Group established on the initiative of the President of the European Commission, July 2003, http://www.umic.pt/images/stories/sapirreport.pdf

1.3. Winners and losers from the current system

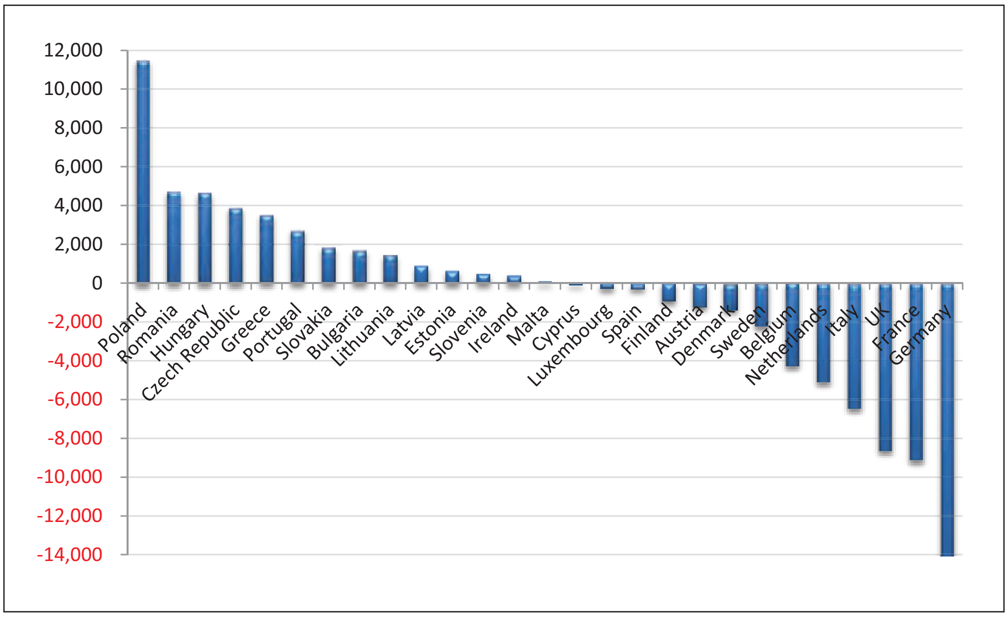
The graphs below illustrate the current winners and losers from the EU budget, in gross and net terms.

Graph 2: Gross Contributions to the EU budget in 2012 (€m)



Source: EU Commission, Open Europe calculations

Graph 3: Net receipts from the EU budget in 2012 (€m)



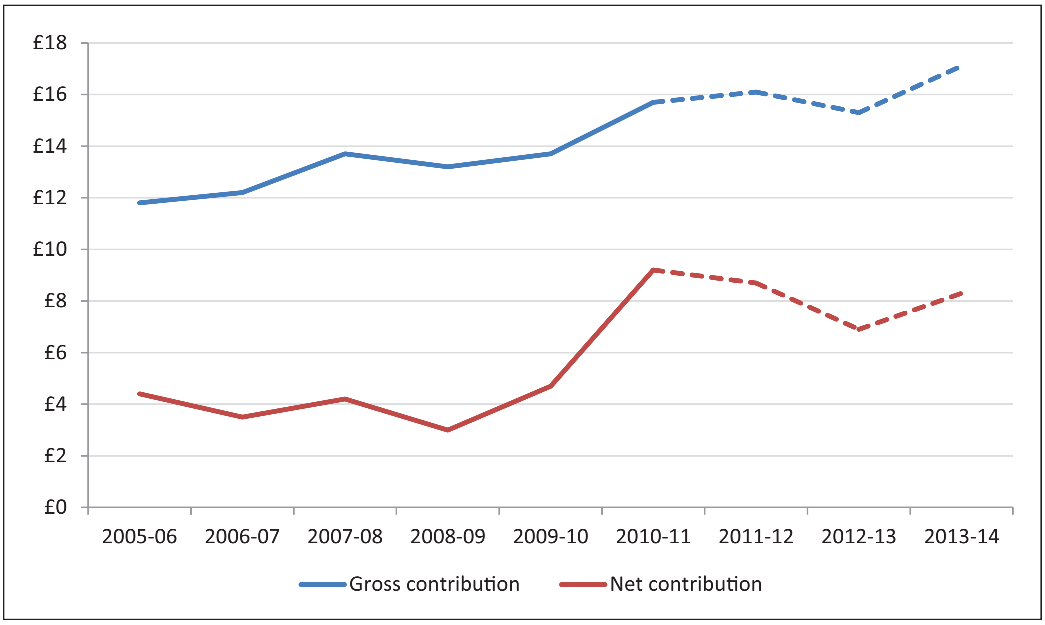
Source: EU Commission, Open Europe calculations[5]

5 Receipts include CAP direct payments, rural development funding, fisheries funding, and the structural and cohesion funds

1.4. How does the UK do from the budget at present?

Following the changes to the rebate (see box 2), and the increase in flows to the new member states post-enlargement, both the UK's gross and net contributions to the EU budget have increased steadily.

Graph 4: UK contributions to the EU 2006 – 2014 (£bn)



Source: HM Treasury, OBR[6]

The UK is an enthusiastic supporter of EU enlargement, and should accept that the accession of new member states will increase the EU's overall expenditure. However, as the next section will demonstrate, much of the budget continues to be spent on inefficient policies such as the Common Agricultural Policy and the structural funds. By radically reforming such policies, the UK can both secure a better deal for itself, and ensure that new member states are able to access sufficient EU funds.

Box 2: The UK rebate

The rebate was secured by Margaret Thatcher in 1984 as compensation for the UK's disproportionate net contribution to the CAP, and to account for the UK's relative wealth compared to the other member states. However, as CAP spending started to shrink as a proportion of the EU budget (although not in absolute size) and the UK became relatively wealthier within the EU, the rebate became contentious. In 2005, Tony Blair agreed to give up a portion of the rebate in return for a commitment on further CAP reform, which has not been delivered.

The formula used to calculate the value of the rebate is highly complex. As a rule of thumb, it is roughly two-thirds of the UK's net contribution to the EU budget in the previous year, which in 2012 amounts to just over €3.8bn (£3.1bn). Germany, the Netherlands, Sweden and Austria have negotiated a 25% cap on the share they pay towards the rebate – in other words a "rebate on the rebate" - leaving France and Italy to pay the lion's share. Despite its rebate, the UK remains one of the biggest net contributors to the EU budget.

1.5. Where do different countries stand ahead of the negotiations?

There are several distinct blocs in the on-going EU budget talks. These are by no means static, and areas of overlap exist. The divisions can usually be determined by following the money and special interests:

- *The net contributors:* Countries that pay more into the budget than they get back naturally want to keep spending down. This bloc includes the UK, Sweden, the Netherlands, Finland, France, Germany and, contrary to popular belief, Italy. In December 2010, a letter co-signed by the UK, France, Germany, the Netherlands and Finland called on Commission President Barroso to ensure that "commitment appropriations over the next multiannual financial framework [do] not exceed the 2013 level with a

6 This also includes the UK's contribution to off-budget EU expenditure such as EU overseas aid

growth rate below the rate of inflation."[7] Since then, around ten member states which also support a freeze along these lines have formed a loose coalition, although they disagree internally over which areas of the budget should be subject to spending restrictions.

- *The net recipients:* Countries that get back more from the budget than they pay in are generally happy to see the budget rise. This bloc includes traditional beneficiaries such as Greece and Portugal, and the new Central and Eastern European member states. Together they form the 'Friends of Cohesion Policy' group, which aims to ring-fence the structural funds and cohesion funds, from which they currently benefit.

- *New member states:* Countries which joined the EU in 2004 and 2007 share some common objectives, such as a fairer distribution of CAP payments (under the present system the wealthier EU15 members receive substantially more per acre). This is an area where the position of the new member states is distinct from the net recipients mentioned above.

- *The CAP bloc:* Up to 24 EU member states are currently more or less in favour of keeping the CAP as a substantial part of the EU budget, although some are in favour of reductions. This is a powerful bloc which continues to block reform under the influence of the farm lobby, the Commission, and many MEPs.

- *The EU institutions:* The Lisbon Treaty enhanced the role of the European Parliament in negotiations over the EU long-term budget, giving MEPs an effective veto (or at least codified the practice in law). As noted, the Commission has already tabled a proposal for a substantial budget rise. For its part, the European Parliament has consistently argued for more spending at the EU level. Therefore, through the Commission's agenda-setting powers and the Parliament's veto powers, the EU institutions are also an obstacle to reforming the budget.

What are the positions of the EU's big three?

The UK: going soft?
The UK has traditionally called for EU reform, but the coalition Government's priorities in the current negotiations focus on 'damage limitation' instead. Three objectives are stressed:

- Protecting the UK rebate from further reduction,
- Freezing the overall size of the budget,
- Achieving reform through 'downward pressure'- with less money available, the cash raised must be better spent.

There are signs that this strategy is producing some positive results, as other net recipients have joined the UK in calling for an inflation-linked freeze to the EU's long-term budget. However, the Coalition has softened its position compared to its predecessor. It has backtracked on Labour's pledge to focus the structural funds exclusively on the EU's poorest member states, and it appears to have abandoned ambitions of reforming the CAP, in favour of the objectives listed above.

Previous unsuccessful attempts may have given rise to 'reform fatigue', but conversely, the danger is that the UK negotiating team's current narrow focus will lead to the squandering of a unique opportunity for EU budgetary reform (see Section 3).

Germany: the reluctant paymaster
As the largest contributor to the EU budget – roughly 20% in absolute terms – it is in Germany's interest to keep spending down, and it currently endorses a budget freeze. Traditionally, Germany has been content to pay the lion's share of the EU's running costs. Although its contributions are not optimally allocated, they demonstrate the country's post-war commitment to European co-operation and maintain support for the single market.

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7 Office of the Prime Minister 'Letter to the President of the European Commission' December 2010 http://www.number10.gov.uk/news/letter-to-president-of-european-commission/

However, Germany also faces domestic budget cuts and needs to raise billions in capital to stock up the eurozone's bailout funds. This fuels determination to ensure better value for money during EU budget negotiations. As Foreign Minister Guido Westerwelle recently argued in a Bundestag debate on jobs and growth in Europe:

> *"The EU cannot spend more than up until now. It must use its resources better than before… We need to re-think the application of EU funds. We cannot allow the continuation of the situation in which member states try to get as much cash back to spend on national hobbyhorses. This ultimately leads to aberrations such as EU subsidies going to day-spas or romantic hotels… Structural funds spent at the EU level must contribute to higher growth and greater competitiveness in Europe… we owe this to all European taxpayers."*[8]

France: from spending spree to budget hawk?

Over the current MFF, France has gone from a net recipient of EU funding to a clear net contributor. This is partly due to its significant net contributions to the structural and cohesion funds. Amidst pledges to rebalance the budget within the coming decade, France has altered its stance on EU budget negotiations. Nicolas Sarkozy pledged to freeze France's contribution to the EU budget during his unsuccessful 2012 election campaign, a move he claimed would save the country €600m a year.[9] However, new President Francois Hollande has yet to clearly state his position on the budget.

France remains the principle advocate of the CAP, and has opposed any move to reduce EU farm spending, claiming that potential savings will have to come from other policy areas. Due to the way the UK's rebate is structured, France pays more towards the rebate than any other country, an arrangement described as "le chèque britanniqué." Despite both being net contributors, France and Britain are pitted against one another in the current talks. It currently looks likely that the two countries could strike a deal to maintain the rebate and freeze the CAP, meaning the status quo would prevail.

1.6. What happens if a deal cannot be reached?

According to the EU Treaties, if no agreement on the next MFF has been reached by the end of the current budgetary period (in this case by the end of 2013), "the ceilings and other provisions corresponding to the last year of that framework shall be extended until such time as that act is adopted."[10] This means that the spending limits agreed for 2013 would continue to apply in 2014, albeit with an adjustment to maintain "constant prices", which amounts to a fixed 2% increase every year set out in a separate agreement between the Commission, the Council and the Parliament.[11] Likewise, member states will still have to provide cash to cover commitments made in previous annual budgets.

However, the agreement also states that the framework can be "expressly terminated" by either the Council or Parliament, whereby the previous MFF would no longer be carried forward. Instead, the Commission would propose a new budget for that year, which would be decided according to the annual budget procedure, i.e. under Qualified Majority Voting in the Council of Ministers and separate approval by a majority of MEPs, so not by unanimity.

This is a technical discussion, but it has massive implications for the negotiations since it effectively determines how much leverage a reform-minded country has through the threat of vetoing a budget deal. It is clear that both member states and the EU institutions want to avoid the highly complex and uncertain situation that would follow if an agreement failed to be reached before the end of 2013.

This fear clearly makes the veto a powerful tool with which to achieve reform. At the same time, if the previous budget is carried over with a 2% increase, it would be an almost identical outcome to that currently being pursued by the UK, France, Germany and others – meaning that those arguing for an increase are in a much weaker negotiation position than those arguing for a freeze. This also means that

8 Preliminary Minutes of the 179th Bundestag Sitting on 11 May 2012 http://www.bundestag.de/dokumente/protokolle/vorlaeufig/17179.html

9 It is currently unclear how he reached those figures. *Le Figaro,* 'Sarkozy promises to freeze France's contribution to the EU' 5 April 2012 http://elections.lefigaro.fr/presidentielle-2012/2012/04/05/01039-20120405ARTFIG01015-sarkozy-projette-le-gel-de-la-contribution-francaise-a-l-ue.php

10 'Treaty on the Function of the European Union', Article 312 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:115:0047:0199:en:PDF

11 European Commission, 'Inter-institutional agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management', 2006 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2006:139:0001:0001:EN:PDF

the UK is arguably selling itself short, as its current negotiating position does not go above and beyond anything that cannot be achieved by default if a deal is not struck (including maintaining the rebate, see Section 3).

The big caveat is the uncertain situation that would arise if the Council or the EP decided to 'terminate' the existing MFF without an agreement on the new one being in place. In theory, this would allow the Commission to propose a radical increase via an intermediary 'temporary' budget (as the MFF ceilings would no longer apply),[12] which would then be voted on by QMV, as opposed to unanimity, in the Council. However, the exact procedure for this is uncertain, and in any case, it would be a huge, not to say reckless, political gamble on the part of the Parliament to terminate the existing framework, and on the part of the Commission to table proposals for even higher spending were this to happen. Given that the vast majority of member states would not welcome such a scenario, it is not something that should be perceived as an obstacle to the UK adopting a robust negotiating position.

12 Up to the EU's absolute ceiling on its 'own resources' of 1.23% of EU GNI.

2. SNAPSHOT: HOW SHOULD THE EU BUDGET BE REFORMED?

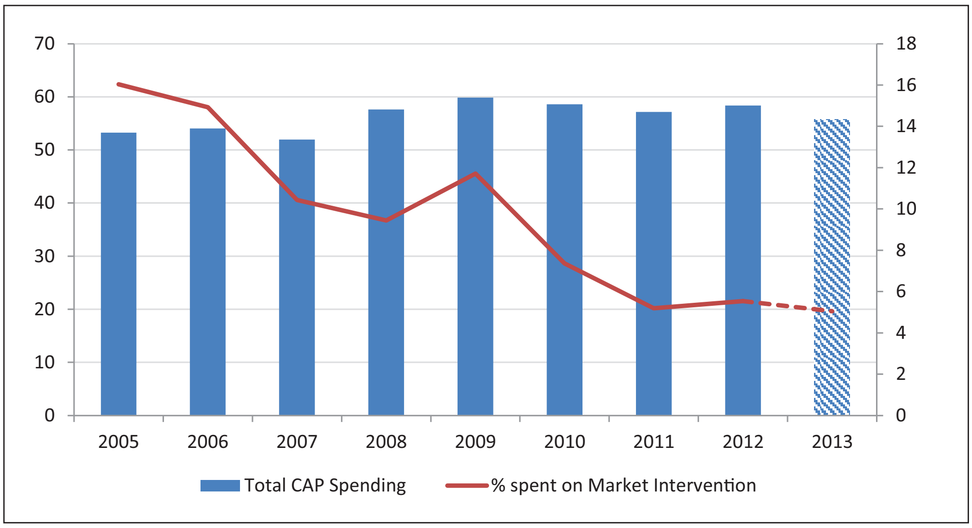
Below we take a detailed look at how much the EU spends on different policy areas, based on a line-by-line analysis of the EU budget. We have used 2012 as our 'snapshot' period, but the savings offer a very good indication of roughly the amounts that could also apply to the next MFF. To help make sense of the Commission's presentation of the EU budget, which confusingly is divided up according to 'objectives' with no corresponding budget lines, we have categorised it according to spending areas similar to those one would expect to see in a normal national budget, i.e. according to the policy area or institution.

We propose reforms and/or savings to reflect the economic climate and cuts to public spending in member states. In total, we have identified around €41bn in savings that could have been made to the 2012 EU budget, without hurting meaningful investment in the economy. In fact, by targeting spending better, our 'alternative' budget would be far more effective in delivering jobs and growth for Europe. We include a breakdown of potential savings per member state in Section 3. As the amounts spent in different areas change year on year (and in particular post-2014 when a new MFF will come into force), the EU budget is a moving target and as such our savings figures are for illustrative purposes. However, they still give a good indication of the savings that could be made.

2.1. The Common Agricultural Policy

Total EU spending in 2012: *€58.4bn (€399.3bn over seven years)*
Proposed savings in 2012: *€23.9bn (€165.2bn over seven years)*

Graph 5: Spending on the CAP 2005 – 2013 (€bn)



Source: EU Commission, Open Europe Calculations

What is it?

The Common Agricultural Policy (CAP) is one of the EU's flagship policies, involving a series of objectives and subsidy programmes relating to agricultural production, rural development and the environment. It is the biggest single item in the EU budget, accounting for around €55bn a year, or 40% over the current 2007 – 2013 EU budgetary framework period.[13] Since its establishment in 1962, it has been criticised by countries such as the UK, Sweden and Denmark, who have lost out in financial terms compared with other states, as well as by a whole range of other groups, such as consumer groups and development NGOs, for its detrimental impact on food prices, and economists for its negative impact on the economy as a whole.

13 EU Commission, DG for Agriculture and Rural Development, 'How much the CAP costs' http://ec.europa.eu/agriculture/capexplained/cost/index_en.htm

Key facts:

- The UK remains a big loser from the CAP. Between 2007 and 2013, it will contribute £33.7bn to the CAP and get back £26.6bn; a net contribution of £7.1bn. Per hectare, the UK receives £188, compared to France, Germany and the Netherlands which receive £236, £251, and £346 respectively.

- There remains no clear link between the wealth of a country and how much it receives from the CAP. Latvia, for example, gets £115 per hectare from the EU's direct subsidies – the least of all member states – despite average farmers' income being only 35% of the EU average. In contrast, wealthier member states such as Ireland and France continue to do well out of the CAP.

- Despite being sold on its "green" merits, the share of the CAP spent on explicit environmental aims in the UK is just 13.6%, and could be even lower in the EU as a whole.

- Through the so-called Single Payment Scheme – which makes up 72% of payments across the EU – the Commission gives out income support irrespective of whether any farming or any other economic activity takes place on a farm. Therefore, CAP subsidies often act as an outright disincentive for farmers to modernise, in turn locking in unviable business models and hurting Europe's competitiveness. Perversely, this system has also resulted in already wealthy landowners around Europe receiving millions in taxpayer subsidies.

- The cost of the EU's farm subsidies and tariffs to consumers and taxpayers in the EU now stands at €86.9bn, of which €52.5bn stems directly from CAP subsidies. We estimate that the full liberalisation of the CAP and other EU measures to protect farming, such as tariffs, and the reinvestment of the money into more productive areas of the economy, could increase output by €139bn, or 1.1% of EU GDP. Britain would experience a boost in output of €14.2bn or the equivalent of 135,000 full-time and part-time jobs.

The reform: More for less – making the CAP work for jobs and the environment

Full liberalisation of the CAP looks politically unfeasible. Instead, we propose that the current CAP structure should be replaced by a system of agri-environmental allowances. Funding for member states would be allocated according to environmental criteria, such as biodiversity, but would be administered nationally. Payments could then be transferred between farmers depending on where the environmental gain is the greatest. After complying with some minimum environmental standards, farmers would then be free to opt in or out of this scheme. Those farmers who wish to focus exclusively on production would be free to do so.

In parallel to transforming the CAP into a vehicle focused on the delivery of public goods, the CAP budget would also be streamlined. This will include cutting the current budget for direct payments (Pillar 1) by 30%,[14] eliminating the remaining market interventions, and devolving the rural development component (Pillar 2) for wealthier member states. This system would reduce the size of the CAP budget by around €165.2bn over seven years.[15] This sum could either be invested back into the EU budget, for example in research and development focused on agriculture, or returned to member states.

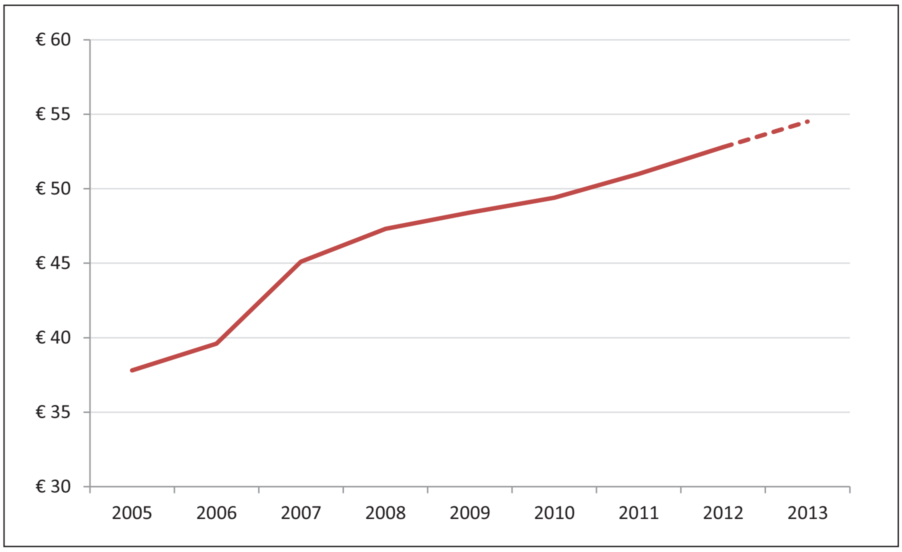
14 The 30% figure mirrors cuts to the UK's Department for Agriculture, Food and Rural Affairs

15 The comparable figure is likely to be a bit lower for the next financial framework as the direct market intervention component of the CAP has been steadily declining since the 2003 Fischer Boel reforms.

2.2. The Structural and Cohesion Funds

Total EU spending in 2012: €52.8bn (€348.4bn over seven years)
Proposed savings in 2012: €21bn (€147.2bn over seven years)

Graph 6: Spending on Structural and Cohesion Funds 2005 – 2013 (€bn)



Source: EU Commission

What are they?

The EU's Structural and Cohesion Funds are aimed at helping poorer regions in the EU catch up with richer ones, but also cover a number of other side objectives, such as 'social cohesion', competitiveness along the lines of the Lisbon Agenda, and the protection of the environment.[16] There are two structural funds – the European Regional Development Fund (ERDF) and the European Social Fund (ESF) – alongside the separate Cohesion Fund, which is limited to member states with a national income below 90% of the EU average. Together, the funds represent the second largest item in the EU budget, accounting for roughly one third of total expenditure, €348.4bn over the current MFF.[17]

Key facts:

- Over the 2007-2013 EU budgetary period, the UK is contributing roughly £29.5bn to the EU's structural and cohesion funds and receiving back £8.7bn, making it the third largest net loser from the funds after France and Germany.

- Although the funds are designed to help poorer areas catch up with richer ones, all regions, even the richest ones, are eligible for at least some funding. As a result, a substantial part of the funds, €147.2bn over seven years (40%) still goes to the EU's wealthiest member states.[18]

- The structural funds can have a positive impact in individual cases, if combined with good public administration and pro-growth policies, as the example of Ireland in the 1990s shows. However, there is no conclusive evidence that the structural funds have had an overall positive economic effect on Europe's economy, and the correlation between funding and results remains unsatisfactory.

- Ultimately, involving all member states in EU regional spending, irrespective of their relative wealth, is economically irrational. As the Commission itself has admitted, this exercise creates "considerable administrative and opportunity costs." Firstly, regional funding can channel funds away from where they can have the most comparative impact. Indeed, richer member states already attract investment, which risks being crowded out by EU-level regional funding. Secondly, in richer member states, the structural funds mostly serve to redistribute income within the same regions. For example, we estimate that of the UK's receipts from the structural funds, less than 20% is redistributed across

16 This discussion is based on Open Europe "Off target: the case for brining regional policy back home", January 2011 http://www.openeurope.org.uk/Content/Documents/Pdfs/2012EUstructuralfunds.pdf
17 European Commission, '2007 – 2013 EU Multiannual Financial Framework' http://ec.europa.eu/budget/figures/fin_fwk0713/fwk0713_en.cfm
18 Defined as those member states with a GDP per capita at 90% or above the EU average

regions, while over 80% is redistributed within the same region in which the funds were originally raised as taxes. It is unclear what added value the structural funds provide for Britain and other wealthy member states.

- Although German Chancellor Angela Merkel and other leaders have called for the funds to be used to tackle sluggish growth, they remain inappropriate tools to solve Europe's debt crisis. In theory, the funds could serve to boost investment in Europe's periphery, but in practice, they are too inflexible to respond to changing economic circumstances. For example, 28% of the funds in Spain over the 2007-2013 period have been allocated towards infrastructure projects. This is despite over-investment in this sector and the resulting housing bubble being one of the main reasons why Spain is in its current mess.

- Of the 37 regions in Britain under the EU's classification system, 35 are net contributors to the structural funds; only West Wales and Cornwall are net beneficiaries. This means that, for example, the West Midlands region, which has the lowest disposable income per capita in the UK, pays £3.55 to the structural funds for every £1 it gets back. Merseyside, which has a disposable income of 88% of the average, pays in £2.88 for every £1 it gets back. All the regions in the North East pay in more than they get back, as does Northern Ireland (£1.58 for every £1 it gets back). All sub-regions in Scotland are likewise net losers from the structural funds.

The reform: Radically improving targeting for Europe's poorest areas

As proposed by the previous UK Labour Government, limiting the funds to EU member states with income levels at or below 90% of the EU average could create a win-win situation. Such a move would instantly make the funds easier to manage and tailor around the needs of the poorest regions in the EU. We estimate that 23 out of 27 member states would also either pay less or get more out of the EU budget (if GDP per capita is used), as the funds would no longer be transferred between richer member states. This option could therefore attract strong political support in many capitals.

If this policy had been adopted for this EU budgetary period (2007-2013), France would have emerged as the biggest winner from focusing the funds on the poorer states, cutting more than €12bn from its net contribution to the EU budget over seven years. The UK comes second, saving up to €4.6bn (£3.8bn). Other net contributors making significant savings include the Netherlands (€3.7bn), Germany (€2.6bn), Denmark (€2.5bn) and Belgium (€2.4bn). Importantly, all new member states except for Cyprus would also save money on their contributions to the EU budget, with Poland gaining the most (€4.5bn).

Italy, Spain and Greece would all lose out substantially, but in the context of the eurozone crisis, these countries need far more responsive and better targeted support than is currently offered by the structural funds. As it is, these countries are already set to receive a smaller share of EU subsidies, as recent enlargements continue to erode their net receipts. Spain will also lose its receipts under the Cohesion Fund, which it was only able to claim during the current MFF due to an extension of the eligibility criteria.

Devolving regional policy back to the UK should involve the Coalition promising to ring-fence the £8.7bn that it currently receives from the EU's structural funds, for continued regional and regeneration spending around Britain. In addition, it could pledge to re-invest its projected saving of up to £3.8bn under the 90% threshold back into regional development. This means that disadvantaged regions in the UK would get more money than under the present settlement.

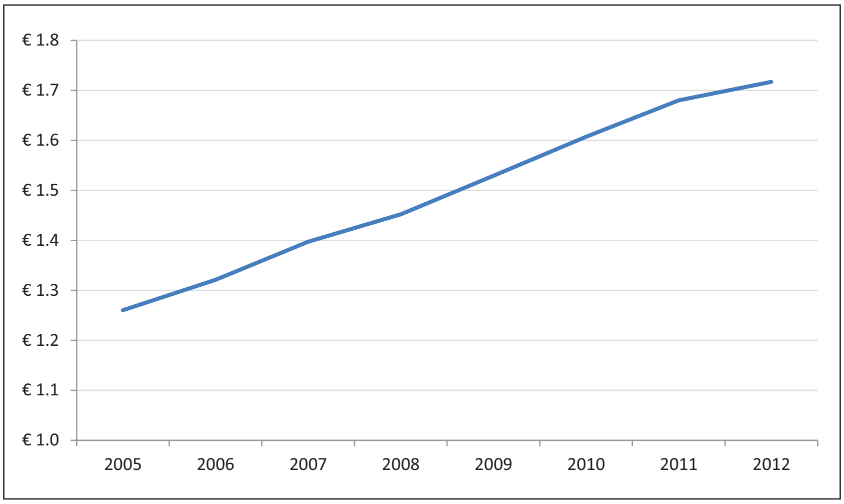
2.3. EU Institutions and Administration

Total EU spending in 2012: *€11bn*
Proposed savings in 2012: *€2.43bn*

i) European Parliament

Total EU spending in 2012: *€1.7bn*
Proposed savings in 2012: *€344m*

Graph 7: European Parliament expenditure 2005-2012 (€bn)



Source: EU Commission

What is it?

Directly elected by citizens, the European Parliament's 754 MEPs have the right to amend, pass or veto legislative proposals (together with the Council of Ministers) in areas where so-called 'co-decision' applies. The EP's powers and competencies have steadily grown, and since the 2009 Lisbon Treaty, it has powers of co-decision in most EU policy areas, including the budget. This means that both MEPs and national ministers must reach an agreement before a proposal from the Commission can become law. This applies in crucial areas such as social policy, and environmental and financial regulation.

While MEPs do some good work in scrutinising the Commission, the reputation of the EP has been marred by a number of cash-for-lobbying and abuse of allowances and expenses scandals. However, even the regular expenditure of the Parliament, which has grown hugely in recent years, has been subject to criticism on the basis that much of it is wasteful, overly generous and driven by self-promotion, although in fairness, much of this spending has been criticised by MEPs themselves.

Key Facts:

- The Parliament conducts its operations in three different cities; it has seats in Brussels and Strasbourg, and a separate office in Luxembourg which houses its Secretariat, responsible for handling its administrative and legal affairs. The majority of MEPs' time is spent in Brussels, with a monthly commute to Strasbourg, which this year will stand empty for a total of 317 days.

- In 2011, the Parliament issued tenders with a combined value of over €62.4m related to the maintenance and upkeep of the Strasbourg seat.[19] The EP has also put aside almost €1m to offset the carbon emitted during travel between the two locations in 2012.

- Encouragingly, MEPs recently voted in favour of a single seat in Brussels by 429 votes to 184.[20] However, as the Strasbourg seat is enshrined in the EU Treaties, scrapping it would require amending the EU Treaties and unanimous agreement amongst member states, which is currently being blocked by France.

The reform: Cutting salaries, allowances and wasteful spending

We propose that the overall budget of the EP ought to be cut by 20%, with a range of specific measures that would reduce unnecessary spending and still enable MEPs to perform their duties. It would also

19 European Parliament, 'List of contracts awarded in 2011' http://www.europarl.europa.eu/tenders/march_attribues_2011.htm
20 European Parliament, ' Estimates of revenue and expenditure for 2013, Section 1, Parliament', 29 March 2012 http://www.votewatch.eu/cx_vote_details.php?id_act=2666&lang=en

Box 3: How much do MEPs get in salary and allowances?

Compared to parliamentarians in many member states, MEPs enjoy unusually generous pay and perks. These include:

Basic pay: MEPs' gross salary stands at €95,482[21], which is around 17% higher than that of British MPs and 236% higher than that of Polish MPs. In 2009, MEPs voted to increase their salaries by 3.7%[22] and voted against a motion to freeze their 2012 pay rates in 2011. Since 2005, expenditure on MEPs' salaries and allowances has increased by 77.5%, although this is largely due to reforms in 2009 which standardised MEPs pay across all member states, which had been hugely divergent, and shifted the cost from member states to the EU budget.

Subsistence allowance: On top of their salaries, MEPs are paid €304 for every day spent in Parliament as a 'subsistence' living allowance for working away from home, as long as they sign in at the beginning of the day.[23] In addition, MEPs can also claim a separate subsistence allowance of €152 per day plus accommodation and expenses for attending meetings outside the EU.

Office and general expenditure allowance: MEPs receive €4,299 a month (€51,588 annually) to cover office administrative costs. MEPs are not required to present receipts for the allowance. MEPs are also entitled to a €21,209 monthly budget for parliamentary assistants and other staff.[24] In 2009, MEPs voted against opening information on their expenses to the public.[25]

Travel expenses: MEPs also qualify for two generous travel reimbursement schemes: an annual travel allowance worth €4,243 for journeys outside their home state, and refunds for trips to 'official' Parliamentary meetings (business or first class).[26] In 2011, MEPs voted against a motion that would have forced them to take second or economy class on short trips when travelling at taxpayers' expense.[27]

Medical allowance: MEPs are entitled to reimbursement for a variety of medical and dental procedures, elaborated in great detail in the Parliament's internal rules.

Pensions: Under the current scheme, MEPs are entitled to a non-contributory pension from the age of 63. This amounts to 3.5% of their salary for each year in Parliament and is capped at 70% (€66,887) of gross annual salary. An MEP would receive a pension worth €33,418 for ten years spent in Parliament, without having to contribute anything towards their retirement while in office.[28] This is substantially more generous than the pension scheme for Westminster MPs, who contribute towards their pensions over the course of their parliamentary careers and whose final pension is capped at two-thirds of their annual salary.[29]

Other: MEPs can also claim up to €5,000 a year for language courses and up to €1,500 or £1,358 a year for IT courses.[30]

show that MEPs really are able to demonstrate solidarity with EU taxpayers, as they often purport to do. The package of measures includes:

- Scrapping the second seat in Strasbourg in favour of a single seat in Brussels. This would cut down on travel expenses and rent, which would save a total of €180m per year. This move alone would achieve just over half of the targeted savings from the EP's budget. In fairness, a majority of MEPs favour this option but as it needs a Treaty change, they do not have the power to change it themselves (see above).

- Cutting all MEPs' salaries and allowances by at least 15%, to reflect austerity measures implemented across member states, such as Belgian MPs' voluntary 5% pay cut[31], while also bringing it more into line with the salaries of German and UK MPs. In addition, there would be greater oversight of expenses with the production of receipts for all expenses becoming mandatory, while unnecessary perks such as language courses should be scrapped.

21 European Parliament, 'How the Parliament is organised', 2011 http://www.europarl.europa.eu/aboutparliament/en/0081ddfaa4/MEPs.html

22 European Parliament, 'Draft general budget of the European Union for the financial year 2010 as modified by the Council', 17 December 2009 http://www.votewatch.eu/cx_vote_details.php?id_act=294&lang=en

23 European Parliament, 'About Parliament', 2011 http://www.europarl.europa.eu/aboutparliament/en/0081ddfaa4/MEPs.html

24 MEPs' assistants are now paid directly by the Parliament. European Parliament, 'About Parliament', 2011 http://www.europarl.europa.eu/aboutparliament/en/0081ddfaa4/MEPs.html

25 European Parliament, '2009 Discharge: EU general budget-European Parliament', 28 March 2011 http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2011-0094&language=EN

26 MPs are required to present their travel receipts to be eligible for the allowance.

27 European Parliament, 'Estimates of revenue and expenditure of Parliament for the financial year 2012, Section 1, Parliament', 25 March 2011 http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2011-0087&language=EN

28 European Parliament, 'How the Parliament is organised', 2011 http://www.europarl.europa.eu/aboutparliament/en/0081ddfaa4/MEPs.html

29 UK Parliament, 'Briefing Paper: Parliamentary Contributory Pension Fund' , 27 October 2011 http://www.parliament.uk/about/faqs/house-of-commons-faqs/members-faq-page2/

30 As of February 2007

31 *Reuters*, 'Belgian MPs accept pay cut to help austerity drive', 12 January 2012 http://uk.reuters.com/article/2012/01/12/belgium-austerity-lawmakers-idUKL6E8CC46A20120112

- Funding for political parties should also undergo an identical 15% cut, saving €13.2m, while the funding for political foundations should be scrapped altogether. The funding rules for parties should also be amended; at present, parties vie for common funds, meaning there is no incentive to cut back on spending, as any left-over money will go to their opponents. Under an individual allocation scheme, parties would not lose out if they choose to refuse some share of taxpayers' money.

- Finally, the European Parliament should eliminate expenditure unrelated to the performance of its duties, such as the costly House of European History.

ii EU Commission and general administration

Total EU spending in 2012: *€5.78bn*
Proposed savings in 2012: *€1.16bn*

What is it?

By far the biggest of the EU institutions, the European Commission is the EU's executive, putting forward legislative proposals for the consideration of the Council and EP. Its other responsibilities include implementing policies, managing the day-to-day running of the EU, and representing the EU abroad (along with the EEAS). For this reason, the Commission's activities carry a heavy administrative burden. Under this heading, we count the Commission's own administrative costs, those of each of its policy areas, and the costs of back office services such as the production of statistics. Other institutions' administrative expenditure is covered separately.

Box 4: How much does the Commission actually spend on admin?

According to the EU's Financial Programming website, the Commission spends around €3.3bn on its own administration.[32] According to the draft 2012 budget, this does not include spending on EU officials' pensions or European Schools.[33] Working under the assumption that the Commission's budget does not duplicate any expenditure, we added the administrative heading coming under each individual policy area. This amounts to €4.3bn, not including European schools, pensions or expenditure by EU agencies, which we have counted separately. This is €1bn higher than the Commission's figure.

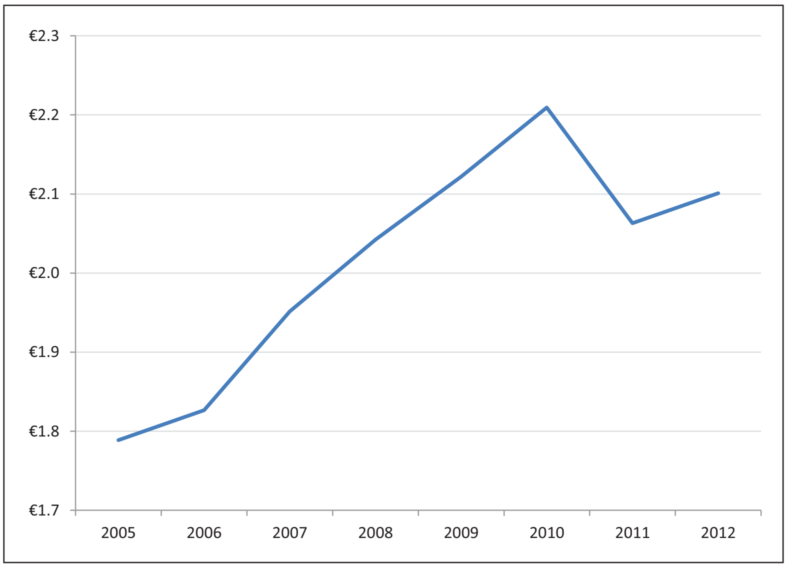
According to the 2012 draft budget, the €3.3bn figure also does not include technical and administrative support, external personnel, "other administrative expenditure", or research establishment plan posts.[34] We consider that these budget lines, and the European pensions and schools, should be included in the administrative figure, as the expenditure is not spent on implementing policy. Consequently, we estimate that the Commission's budget for administration amounts to €5.8bn.

- The Commission employs over 33,000 staff in total, including 'contract' and 'local' agents.[35] In light of the economic climate, the Commission has announced it will cut 5% of its staff over five years, but following Croatia's accession, its overall cut proposed for 2013 amounts to just 0.5%, or 121 posts.[36] This is despite the fact that member states are making considerable reductions in public sector posts. Greece has scrapped a total of 150,000 public sector jobs over the next three years, and according to figures from the ONS, between March 2010 and March 2011, UK civil service employment fell by 6%, or 29,051 posts.[37]

- Commission staff enjoy comparatively high salaries and generous pension schemes. The starting salary for a permanent Commission official is €31,850, reaching €220,450 for the highest paid officials.[38] New employees are entitled to a 16% share of their annual salary to account for the costs of moving to Brussels. Between 2005 and 2012, spending on Commission salaries rose from €1.78bn to €2.1bn, a 17.9% increase (according to Title XX in the Budget, this does not include external staff). Although overall spending fell in 2010, this coincided with the disbanding of the Commission's DG for External Relations in order to set up the European External Action Service, which is a separate institution.

32 European Commission, Financial Programming and Budget, "Budget 2012" http://ec.europa.eu/budget/figures/2012/2012_en.cfm
33 European Commission, 'Draft General Budget 2012' http://eur-lex.europa.eu/budget/data/DB2012/EN/SEC00.pdf p56
34 European Commission, 'Draft General Budget 2012' p66
35 European Commission, 'HR: Staff Key Figures'2012 http://ec.europa.eu/civil_service/docs/hr_key_figures_en.pdf
36 Open Europe press release, 'Open Europe fact-checks the Commission's 2013 draft budget', 27 April 2012 http://www.openeurope.org.uk/Article?id=8802
37 ONS, Civil Service Statistics, 2011 http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-229310
38 European Commission, 'Salary Table for Officials 2010' http://ec.europa.eu/civil_service/docs/salary_officials_en.pdf

Graph 8: Total Commission spending on salaries and allowances 2005-12 (€bn)



Source: EU Commission, Open Europe calculations

- Commission staff are eligible to receive their pensions, which are capped at 70% of final salary, from the age of 63. Officials contribute 1.9% of their salary to their pension scheme every year.[39] Commission spending on pensions increased by 48.6% since 2005, and currently totals €1.3bn.

- In 2012 the European Commission is set to spend €169m on so-called 'European Schools', a network of 14 institutions teaching around 22,500 children, mostly those of EU employees. Access for non-EU employee children is conditional on paying average annual fees of €13,045,[40] and sufficient availability of school places. EU officials, who receive household and child allowances, do not pay fees.[41]

The reform: Cutting salaries, allowances and wasteful spending

The Commission has proposed extending working hours and reducing its headcount by 5% over five years. Although this is welcome, it does not go anywhere near far enough. As noted, the proposed staff cuts for next year amount to just 0.5% of posts, while the extension of working hours means that employees will only work an additional 2.5 hours a week.

Instead, to reflect the savings that are taking place in the UK and government departments across Europe, we propose a 20% cut to the Commission's administration and back office spending, loosely premised on the average cut of 19% to Whitehall departmental spending, and the 16.9% average cuts to Spanish departmental budgets.[42] This could be achieved through a combination of the following suggested measures:

- The EU already struggles to attract qualified staff who meet the necessary linguistic criteria, so we propose a modest reduction in salaries by 5% across the bottom half of the salary brackets and 10% to the upper salary brackets. This will maintain competitive pay and conditions for EU officials.

- We advocate a reform to the pension plan by immediately increasing the retirement age to 65, in line with most European countries. An independent review along the lines of the UK's Hutton report[43] ought to be commissioned to examine the long-term sustainability of EU pensions, and if deemed necessary, EU officials could be asked to make bigger employee contributions to cover the costs.

- Allowances and benefits should be scaled back. EU staff who wish to send their children to European schools should be made to pay at least 50% of the fees, which could raise over €235m.[44]

39 European Commission, 'Permanent Officials', 31 January 2012 http://ec.europa.eu/civil_service/job/official/index_en.htm
40 European Schools, 'School fees 2011/2012' http://www.eursc.eu/index.php?id=6
41 European Schools, 'Origins of students for each of the three categories' http://www.eursc.eu/index.php?id=20#1
42 Spanish Ministry of the Treasury, 'General State Budget 2012' http://www.minhap.gob.es/Documentacion/Publico/GabineteMinistro/News%20in%20English/30-03-12%20Presentaci%C3%B3n%20PGE2012.pdf
43 HM Treasury, 'Hutton Review of Fair Pay in the public sector: final report', March 2011 http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-229310
44 This figure was calculated assuming that of the 22,500 children attending European schools, 18,000 belong to EU employees.

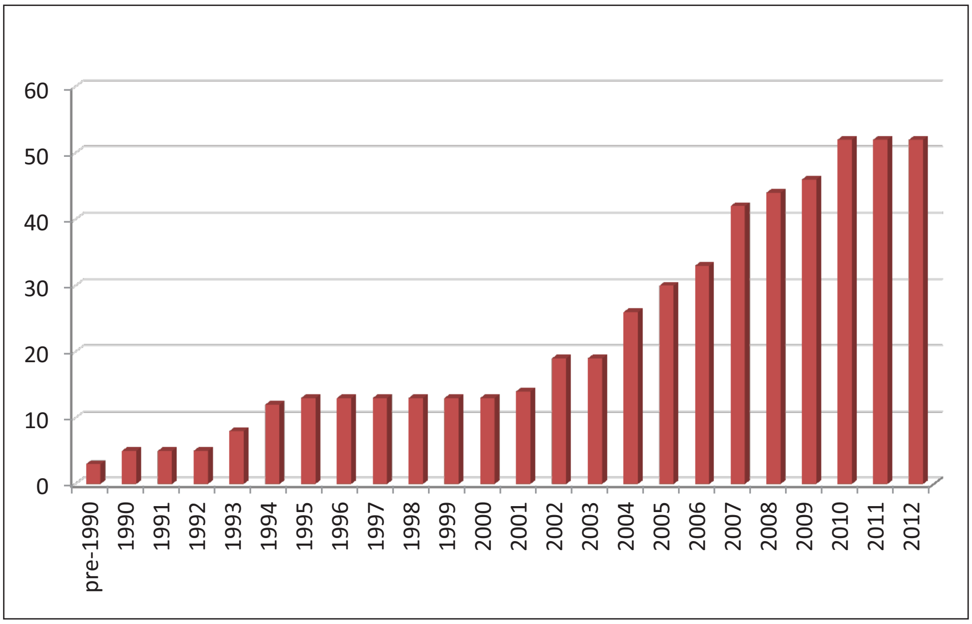
iii) Quangos and Agencies

Total EU spending in 2012: €2.48bn (€2.38bn of which from the budget)
Proposed savings in 2012: €668m

What are they?

EU agencies are bodies that are distinct from the main EU institutions, but handle tasks on their behalf. They operate across a range of policy areas, from the single market, crime and policing, to areas of scientific research, and their tasks range from information gathering to making key decisions over how EU law should be implemented.[45] There are currently 52 EU quangos, double the number in 2004. Prior to 1990, there were only three.

Graph 9: The rise of the EU quangos 1990 - 2012



Source: Open Europe Calculations

Key Facts:

- The total cost of the whole EU quangos system to European taxpayers now stands at €2.64bn, up 3.4% from last year and a massive 33.2% increase on 2010. Over 90% (€2.48bn) of this comes from EU member states, the rest is funded by non-EU member states such as Norway. This year, the UK will pay around €362m (£298m), Germany €490m and France €386m.

- Some agencies, such as the European Chemicals Agency, help to facilitate trade in the single market or pool expertise. However, many agencies add little or no value, and duplicate the work of each other, of the core EU institutions, as well as of member states' organisations and civil society. For example, there are currently two EU agencies specifically dedicated to human rights in addition to similar bodies in member states, the Council of Europe, the ECtHR, a specific EU Commissioner for "fundamental rights" and a range of NGOs.

- Others have no impact on policy whatsoever. For example there is no evidence that the €129m a year Economic and Social Committee, an "advisory" body that has existed since the 1950s, has actually altered the outcome of an EU proposal in recent years.

- As an evaluation for the European Commission concluded, the system of EU agencies also "creates an indirect but powerful incentive" to spend taxpayers' cash. As a result, much of this money is wasted, including on self-promotion activities.

45 For a more detailed discussion as well as a complete list of the EU agencies please see Open Europe's recent report: 'The Rise of the EU Quangos (Updated)', April 2012 http://www.openeurope.org.uk/Content/Documents/Pdfs/RiseoftheEUquangos2012.pdf

The reform: Completely scrapping ten agencies, 30% efficiency savings imposed on the remaining decentralised and executive agencies

Open Europe has identified at least ten agencies which serve no unique purpose, duplicate the work of the work of other organisations and institutions at both the EU and member state level, and therefore ought to be abolished with virtually no adverse impact on the overall functioning of the EU. These include:

- The Economic and Social Committee and the Committee of the Regions, saving a total of €215.3m,
- the two human rights agencies saving a total of €27.9m,
- the four agencies involved with workplace and employment issues saving a total of €72.5m,
- the European Food Safety Agency saving €78.1m, and
- the Education, Audiovisual and Culture Executive Agency saving a total of €46.7m

In addition, the remaining decentralised and executive agencies would be cut by 30%, which would save EU member states €247.5m this year. Savings would total €668.2m, with the UK saving €100.4m (£82.6m), France €107.3m and Germany €136m. The vast majority, €653m, would come from the EU budget. In parallel, all agencies should be given strict performance targets, and funding would be conditional on meeting these targets.

iv) Other Institutions

Total EU spending in 2012: €1bn
Proposed savings in 2012: €225m

What are they?

In addition to the Parliament, the Commission, and the quangos, the EU also has a number of other institutions, most of which perform very specific tasks. The most significant of these is the European Council, which comprises the heads of state or government of member states, and is chaired by an internally appointed President, currently Herman van Rompuy. Other notable institutions are the European Court of Justice, (ECJ) which rules on EU law, and the European Court of Auditors (ECA), which scrutinises EU expenditure.

Key facts:

- The cost of running the office of Council President Herman van Rompuy in 2010 amounted to around €6m including staff, travel expenses and salary.[46]

The reform: Cutting the running costs of all the remaining institutions, with the exception of the Court of Auditors, by 25%

The Council's budget overwhelmingly goes towards staff and 'back office' functions. Given that the Commission currently justifies its 2013 budget increase on the grounds that it must pay out historic commitments made under policy budget headings such as the structural funds, all possible savings at an administrative level ought to be implemented.

Under the 2010 Comprehensive Spending Review, the UK Government's Cabinet Office, which is responsible for supporting the PM and the Cabinet, had its budget cut by 35% in real terms, while support for the office of the PM was slashed by 25%.[47] Savings included "reducing use of consultants and other external support… a significant rationalisation of its estate and back office services…wider renegotiation of major contracts with leading suppliers to Government…reducing travel costs through the use of more scheduled flights where possible rather than charters…energy efficiency and wider efficiencies." This efficiency drive proved hugely successful. Cabinet Office Minister Francis Maude announced that his department had managed to find £3.75 billion of cash savings in just ten months, between May 2010 and March 2011.[48]

Applying the 25% efficiency target in 2012 to the Council and all other remaining institutions with the exception of the ECA would save just under €225m.

46 House of Lords, 'Summer Recess 2010 Written Answers and Statements' http://www.publications.parliament.uk/pa/ld/ldtoday/writtens/02082010.htm
47 HM Treasury, 'Spending Review 2010', October 2010 http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf pg. 74
48 Cabinet Office 'Francis Maude reveals £3.75 billion in savings' 1 August 2011 http://www.cabinetoffice.gov.uk/news/francis-maude-reveals-%C2%A3375-billion-savings

2.4. Foreign policy & Enlargement

Total EU spending in 2012: €2.4bn
Proposed savings in 2012: €49m

i) The European External Action Service (EEAS)

Total EU spending in 2012: €489m
Proposed savings in 2012: €49m

What is it?

The EEAS is the EU's diplomatic body, set up to coordinate the bloc's foreign policy and strengthen its voice in the world. It is headed by Baroness Catherine Ashton, the EU's High Representative for Foreign Affairs. Under the auspices of the EEAS, there are currently 140 EU delegations around the world in addition to another six permanent delegations to other international organisations such as the UN in New York and the Council of Europe in Strasbourg. In the words of the EEAS itself, the role of these delegations is to be the "eyes, ears and mouthpiece of the European Commission vis-à-vis the authorities and population in their host countries".[49]

Key facts

- The EEAS currently has 3,611 staff, of which 1,551 work in Brussels and 2,060 across the global delegations.[50]

- When the EEAS was set up it was supposed to be "budget neutral", meaning it would be funded by money taken from other areas of the EU budget. However, in 2010, the EEAS was allocated an extra €9.4m,[51] while another €34.4m was proposed in the first draft of the 2011 budget, although this was later rejected by member states.

- For 2012, the EEAS will be given an extra €26.9m (£22m) although the money came from the Commission's administrative budget (so budget neutral). In the Commission's proposed budget for 2013, the budget of the EEAS is set to increase by 5.7%, or another €28m.

- In additional to their generous salaries and pensions, EEAS staff are also entitled to a number of additional perks including: expatriation allowance, installation allowance, resettlement allowance, removal expenses, cost of living salary weighting, daily subsistence allowance, travel expenses, household allowance, a range of child related benefits, entertainment expenses, mission expenses, overtime, and a business class ticket every year for the diplomat and their family to fly home.[52]

The reform: 10% efficiency savings

The EEAS was set up under the dubious assumption that a new institution could override the strongly divergent foreign policies of member states. The record of the EEAS has been patchy, and its impact on foreign policy issues where hard power is required, such as Libya, has been largely irrelevant. Naturally, the EEAS is limited to occasions where EU leaders can agree on a common position – which is not the fault of Baroness Ashton. While the EEAS has had some welcome recent successes such as in the Balkans (i.e. Serbia's extradition of Radko Mladic), as well as effectively co-ordinating EU sanctions on Iran and Syria, this does not mean that these could not have been achieved through intergovernmental cooperation by the member states.

If the EEAS is to be retained, we propose that it should have its budget cut by at least 10%. This is relatively modest given the pressures on national budgets; for example, the budget of the Spanish Foreign Ministry is to be cut by 54.5% this year.[53]

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49 European External Action Service 'EU Delegations' http://eeas.europa.eu/delegations/index_en.htm
50 European External Action Service, 'Report by the High Representative to the European Parliament, the Council and the Commission', 22 December 2011 http://www.eeas.europa.eu/images/top_stories/2011_eeas_report_cor.pdf, p8
51 European Parliament, 'Draft Amending Budget, Section II, European Council and Council', 2010 http://eur-lex.europa.eu/budget/data/BR_2010/EN/BR06.pdf , p5
52 Full list of all benefits and allowances see the 'Staff Rregulations of Officials of the European Communities' http://ec.europa.eu/civil_service/docs/toc100_en.pdf
53 Spanish Ministry of the Treasury, 'General State Budget 2012' http://www.minhap.gob.es/Documentacion/Publico/GabineteMinistro/News%20in%20English/30-03-12%20Presentaci%C3%B3n%20PGE2012.pdf

ii) Enlargement

Total EU spending in 2012: *€1.9bn*
Proposed savings in 2012: *€0*

This spending is meant to lay the groundwork ahead of future EU enlargements. Most of the cash is spent on helping potential accession countries adjust to EU membership, under a specific funding stream known as the Instrument for Pre-Accession (IPA).[54] This covers official candidate countries, such as Croatia (now set to join in 2013), Turkey (unlikely to join any time soon), as well as potential candidates such as Albania or Macedonia. Funding is geared towards adjustments in trade policy, (for example adopting more stringent EU product standards), agriculture and the environment, and the labour market.

Key facts

- Misleadingly, much of the aid given to potential new member states, including relatively wealthy ones such as Turkey, is classified as 'development aid', despite this funding clearly being designed to achieve aims other than fighting poverty. It is therefore not always easy to separate pre-accession funding from EU aid funding.

- However, for good reason, enlargement is often described as the EU's only successful foreign policy. It is clear that the prospect of enlargement has acted as an engine for beneficial social, political and economic reforms in Central and Eastern European countries, and continues to do so in the Balkans.

The reform: better targeting and differentiation between countries

In view of the positive record of EU enlargement, the case for maintaining pre-accession funding remains strong, although there is a need for better differentiation and targeting. For example, it makes no sense for taxpayers in poorer EU member states to subsidise a wealthy candidate country such Iceland, which is eligible for IPA funding[55], as opposed to other candidate countries such as Serbia.

2.5. EU Aid

Total EU spending in 2012: *€10.6bn (€6.8bn of which from the budget)*
Proposed savings in 2012: *Make contributions voluntary*

What is it?

The EU, in its own right, is the world's second largest aid donor behind the US. Apart from the pre-accession funds for EU enlargement discussed above, the most significant EU development aid programmes within the budget are: the European Neighbourhood Policy Instrument (ENPI) for countries in Eastern Europe, the South Caucasus, the near Middle East and North Africa; and the Development Cooperation Instrument (DCI) for countries and in Asia, Central Asia, South America, the Middle East and South Africa. The EU also provides humanitarian aid through the European Commission's Humanitarian Aid & Civil Protection Directorate General (ECHO).

The European Development Fund (EDF) is a separate fund outside the EU budget managed by the European Commission to which the UK contributes (currently at more or less the same percentage as its EU budget contribution). It provides support to African, Caribbean and Pacific (ACP) countries, as well as the EU's Overseas Countries and Territories.[56]

Key facts

- The EU is the UK's largest multilateral partner. Approximately 18% of the UK's total aid budget is spent by the EU each year.

- Only 46% of EU aid reached lower income countries in 2009, compared with 74% of UK aid and 58% of EU member state governments' aid.

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54 Countries funded include Albania, Bosnia & Herzegovina, Croatia, (Kosovo), Macedonia, Montenegro, Serbia, Turkey and Iceland.

55 EU Commission press release, 'Iceland to receive pre-accession funding', 14 July 2010 http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/943&format=HTML&aged=0&language=EN&guiLanguage=en

56 Open Europe, 'EU external aid: who is it for?', 2011; http://www.openeurope.org.uk/Content/Documents/PDFs/euaid2011.pdf; House of Commons International Development Committee, 'Sixteenth report: EU development assistance', April 2012; http://www.publications.parliament.uk/pa/cm201012/cmselect/cmintdev/1680/168002.htm

- In its 2011 multilateral aid review, the Department for International Development noted that, while the EDF (€3.8bn a year) has a strong poverty focus (85% of funds are spent in low income countries), more than 85% of the EU's other development aid programmes' budgets (€6.8bn a year) are spent in middle income countries. The EDF is rated "strong" on both its contribution to the "UK's development objectives" and on its "organisational strengths" but the rest of the Commission's aid budget is rated "weak" and "satisfactory" on the same respective measures.

- The EDF relies on voluntary funding from national governments, which gives member states much greater power to push for reform and a greater focus on poverty – a key objective of UK aid spending.

The reform: Drive better performance through voluntary rather than mandatory contributions to EU aid budgets

Contributions to the EU's on-budget development aid programmes should be made voluntary, as the EDF element already is. DFID has stated that the EDF is far better targeted at reducing poverty than the rest of the EU's aid budget (predominantly the ENPI and DCI), and that the UK has far more scope to improve performance, precisely because its contribution is voluntary. The UK should therefore spend its aid budget directly through DFID rather than the EU, unless there is a demonstrable EU 'value added', in which case it could opt into specific programmes. This would not necessarily mean a reduction in UK aid spending, but would simply provide the UK with greater choice and accountability over how its taxpayers' money is spent on aid.

The role of the EU should be to provide a forum for coordination between donors, rather than acting as a '28th donor'. It should serve as an intellectual centre in development issues and work to improve the aid effectiveness of the worst EU donors, by encouraging best practices, benchmarking and monitoring progress. It would also generate large savings in administration costs.

There is however a strong case to suggest that the UK should continue to contribute to the ECHO, which has a strong record in providing humanitarian aid in emergency situations. It also has a wide reach, particularly in countries where the UK may not be present.[57] We have not included any savings to member states under this budget line, operating under the assumption that aid spending would remain, but conducted either via the EDF or nationally.

2.6. Single market & trade

Total EU spending in 2012: €3.3bn
Proposed savings in 2012: €0

What is it?

This spending goes towards facilitating what many consider the core area of EU policy and competencies: trade. This includes both internal trade, i.e. the single market, and external trade, since the Commission negotiates on behalf of all 27 member states as a single block.

This area also covers economic and financial affairs more generally, including issues dealing with the euro (which is not strictly trade but difficult to isolate from economic affairs more generally), and transport, the digital agenda, and various consumer policies such as food safety.

Key facts:

- Despite the importance of trade and the single market, only 2.6% of the EU budget is explicitly dedicated to facilitating these policies.

The reform: Continue to facilitate trade with an emphasis on fewer but better regulations

As in all areas of EU spending, it is likely that some savings could be made, but given the small share of the budget spent on this area, relative to its central place in European cooperation and its importance for Europe's economy, the overall level of spending should stay roughly the same. Efforts should be focused on improving and implementing the EU's "better regulation" agenda, which should include a drive for less regulation, which would benefit European businesses and SMEs in particular. There may

57 DFID, 'Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations', March 2011 http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf p179

even be a case for bolstering the capacity of this policy area. For example, the Impact Assessment Board – created to ensure that Commission proposals are subject to rigorous evaluations about its economic impact (which unfortunately still does not always happens) – could be given greater responsibilities and an expanded budget.[58]

2.7. Crime, justice and immigration

Total EU spending in 2012: €1.14bn
Proposed savings in 2012: €114m

What is it?

This section of the EU budget reflects the EU's explicit commitment to integration in the area of justice and home affairs (JHA) post the Maastricht Treaty, which came into force in 1993. It funds four specific objectives: free movement, a common asylum and immigration policy, fighting international crime and terrorism, and a move towards a 'European Judicial Area'. Funding under this heading is partly spent on maintaining the EU's internal border-free Schengen Area, supporting member states in dealing with cross-border issues such as migration and asylum, drug trafficking, human trafficking and terrorism, and other areas such as 'anti-discrimination' and gender equality policies – which overlaps with other DGs as well as agencies.

Key facts

Many of the EU's measures in the area of crime and policing, such as possible DNA data sharing and the European Arrest Warrant, are highly controversial, as they restrict the scope for national sovereignty by transferring jurisdiction from UK courts to the European Court of Justice. The UK has chosen to opt out of a number of specific EU laws in this area,[59] as well as choosing to stay outside of the Schengen Area.

The EU spent around €289m under the JHA heading on common asylum and immigration policies, mostly to help the Mediterranean states manage the EU's external borders. If targeted and spent properly, this could be a good use of money, and a demonstration of the added value of the EU budget.

The reform: tread carefully

Politically, this is a highly sensitive area for EU involvement, due to authority traditionally having been exercised solely at the national level. If proven to be targeted effectively, there may be a case for increasing funding to help states on the EU's borders cope and to absorb disproportional levels of immigration – internal open borders may require supranational coordination. This must be handled with extreme care and only subject to approval from voters and national parliaments.

However, overall spending in this area cannot remain untouched in light of the fact that member states are having to make cutbacks in corresponding domestic budgets. For example, the budgets of UK's Home Office and Ministry of Justice were both cut by 23% in 2010.[60] However, given the relatively small amount involved, we propose a modest cut of 10%. There should be ample scope to achieve this saving, given current wasteful expenditure. For example in 2010, the DG for Justice issued a tender worth up to €718,620 for designing and launching a new website.[61]

2.8. Education and Culture

Total EU spending in 2012: €1.54bn
Proposed savings in 2012: €320m

The 2012 budget provides just over €1.5bn for expenditure on education and culture, roughly 1% of total EU spending.[62] The bulk of the spending goes on various educational programmes, the most famous being the Erasmus university exchange scheme.[63] The Commission also spends over €300m on culture and

58 For a wider discussion on the EU's 'better regulation' agenda, see Open Europe, "Still out of control? Measuring eleven years of EU regulation", 30 Mar 2010, http://www.openeurope.org.uk/Content/documents/Pdfs/stilloutofcontrol.pdf

59 For more information on this topic read Open Europe's 'An unavoidable choice: More or less EU control over UK policing and criminal law', 29 January 2012 http://www.openeurope.org.uk/Content/Documents/PDFs/JHA2014choice.pdf

60 Telegraph, 'Budget 2010: Whitehall details £11bn of cuts', 25 March 2010 http://www.telegraph.co.uk/finance/budget/7515307/Budget-2010-Whitehall-details-11bn-of-cuts.html

61 Data found in the European Financial Transparency System. http://ec.europa.eu/beneficiaries/fts/find_en.htm

62 For the purpose of this report, we removed the Culture and Education DG's "People: Programme for the mobility of researchers", which we count under the Research and Development budget heading, and administrative costs, which are discussed in section 2.3.

sport initiatives, including support for artistic projects, 'endangered languages', the European film industry, and actions to "promote sport among young people in Europe". However, as detailed above, money can also be allocated to 'cultural' programmes from other areas of the budget, for example via the European Parliament.

The Treaty on the Functioning of the EU calls for the EU to "contribute to the flowering of the cultures of the Member States." On its website, the Commission also admits that another explicit objective of the culture programme is to improve the "external visibility" of the EU and to help convince citizens "to give their full support to, and participate fully in, European integration."[64]

Key Facts:

- Since 2005, spending on Education and Culture has risen by 61%. This does not include spending on the administrative costs of the DG for Education and Culture, which have increased by 53.8% over the same period.

- The DG for Education and Culture employs 484 staff. This is higher than the number of employees at DG for Internal Market and Services, which is a core area of EU policy.

- Despite its high staff count, in 2010 alone, the DG for Education and Culture issued tenders for contracts worth up to €4.8m for consultancies and surveys to review its performance and policies. An additional €75,228 was contracted out to spend on a four minute video promoting "the European Youth Strategy".[65]

- Funding for Education and Culture projects is partly decided by a committee of "experts" acting on behalf of the Education, Audiovisual and Culture Executive Agency. In 2010, over 850 such experts were employed.[66] The Commission publishes the experts' names, but little else (for example their country of origin or profession) is known about them.[67]

The reform: Freeze spending on education programmes such as Erasmus, but scrap all EU level spending on 'culture'

In many countries, there's a vibrant democratic debate about the extent to which the state should be involved in promoting 'culture'. Opinions vary greatly on, for example, how culture should be defined, how it should be funded, and what can be justified in its name. Because of the subjectivity involved, it is absolutely vital that spending on culture is transparent, with a clear possibility for taxpayers to object to it, if they do not consider it good value for money. It is also an area of public spending that has experienced among the most severe cutbacks in national budgets, with the UK's Department for Culture, Media and Sport being cut by 25%,[68] while the Dutch Government has opted to cut its arts budget by the same amount.[69]

EU involvement in culture is inherently contentious, as much of the funding can be handled equally well or better at the national or local level, and does not require supranational coordination. EU involvement also shifts accountability for controversial funding decisions from nation states to over 850 independent experts, which makes it more difficult for taxpayers to take action if they feel the money is being spent inappropriately.

As the Commission itself admits, EU cultural spending at least in part aims to promote "European integration". Advancing such a political objective in the name of culture is clearly dubious and not a good use of public money. Therefore, while it makes sense for the EU to continue funding educational spending such as the Erasmus programme – which promotes a free movement amongst students in a practical and transparent way – all other spending in this area should be scrapped, saving €320m. Member states could then re-direct these savings to national cultural programmes if they wish.

63 Other include Comenius (exchange programmes for school children), Leonardo da Vinci (vocational training) and Grundtvig (adult learning).

64 European Commission, 'Decision of the European Parliament and of the Council establishing the Culture Programme (2007 to 2013), 12 December 2006 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006D1855:EN:HTML

65 All figures from 2010 Financial Transparency System http://ec.europa.eu/beneficiaries/fts/index_en.htm

66 European Commission, 'List of selected experts in 2010', http://eacea.ec.europa.eu/about/call_experts/documents/experts-general-2010.pdf

67 The Commission has in the past said it doesn't publish details about the committee members' "expert areas" because it does not want them to be "lobbied".

68 Department for Culture, Media and Sport, 'Written Ministerial Statement: DCMS Spending Review settlement' October 2010 http://www.culture.gov.uk/news/ministers_speeches/7508.aspx

69 Dutch Government 'Budget Day 2011' http://www.prinsjesdag2011.nl/miljoenennota/huishoudboekje_van_nederland

2.9. Research, Development and Innovation

Total EU spending in 2012: *€6.6bn*
Proposed increase in 2012: *€6.6bn*

What is it?

The EU has a dedicated funding stream for Research & Development (R&D), allowing researchers and organisations, individually or as part of a cluster, to apply for funding. On its website, the Commission describes the aim as bringing:

> *"Europe's best researchers and innovators together to tackle the biggest issues of our time, such as energy, food security, climate change and our ageing population…Although the EU is the global leader in many technologies, it faces increasing challenges from traditional competitors and emerging economies alike."*[70]

However, despite this laudable aim, R&D accounts for only 4.5% of the total budget, excluding contributions to agencies and Joint Undertakings.

Key facts:

- As R&D is so heavily dependent on economies of scale, and the pooling of expertise, this is clearly an area where a cross-border funding stream makes sense. It is also an area where Europe needs investment, especially in cutting edge areas such as bio-technology.

- Unlike the structural funds, it is much easier to find examples of success stories in the field of R&D, which would not have happened without EU funding or which did not crowd out private funding or divert scarce resources. This is particularly true in medical research, where for example, a grant to a cluster of researchers from across Europe resulted in the identification of a gene that can act as a tumour suppressor in cases of lymphoblastic leukemia.[71]

- However, it is also widely acknowledged that EU research funding has grown increasingly complex over the last 25 years, owing to a growing number of objectives, funding streams and countries involved. This, in turn, adds unnecessary complexity to the already fairly dense patchwork of research programmes existing in Europe – and makes it far more difficult and cumbersome for potential recipients to access funding.

The reform: increase spending but make it simpler

Given the superior added value of R&D compared to other EU spending areas, the proportion of funds dedicated to it should be at least doubled. However, this must be combined with an equally radical simplification of the funding and application procedure, to make it easier for participants to apply for funds. In other parts of the world, most notably the US, research programmes tend to be quicker off the mark. The Commission has taken some positive steps to simplify application and accounting procedures for SMEs for example, but much more is needed.

It also appears that EU funding is most successful when targeted at research projects involving a limited number of organisations and actors in different countries, which would otherwise have found it difficult to attract the necessary investment. In contrast, when the Commission takes the lead in large, top-down projects, such as Galileo, the process and results are less convincing.[72] Medical research, green technology and alternative energy (when targeted and based on sound scientific evidence) are all areas where funding could be increased.

70 European Commission, EU Policy Areas 'Research and Innovation' http://europa.eu/pol/rd/

71 European Commission, Community Research and Development Information Service, 'Gene identified as tumour suppressor', 8 June 2010 http://cordis.europa.eu/fetch?CALLER=NEWSLINK_EN_C&RCN=32186&ACTION=D

72 Open Europe, 'Lost in Space: How the cost of the EU's Galileo project has skyrocketed', October 2011 http://www.openeurope.org.uk/Content/Documents/PDFs/galileo2010.pdf

2.10. Other spending areas and off budget items

i) Social Policy

Total EU Spending in 2012: €161.7m
Proposed savings in 2012: €40.4m

What is it?
The EU plays a huge role in shaping social and employment law across member states, although its impact is felt more in terms of the indirect effects of EU regulation rather than via direct EU spending. Given the scope and prevalence of EU involvement in this area, actual spending comes in at a relatively modest €162m, split between areas such as employment but also public health.

The reform: more devolution of social policy competencies back to member states and a 25% spending cut
The Commission claims that "To do well in the face of competition from new emerging economies, Europe must create the jobs needed by a dynamic, knowledge-based society".[73] While the rhetoric is sound, EU legislation in this area often has exactly the opposite effect: imposing inflexible rules which stifle enterprise and competitiveness, and therefore act as a drag on jobs and growth. The Working Time Directive which regulates working hours and rest periods is the best example of this. We estimate that in total, EU social and employment regulations cost UK businesses and the public sector £8.6bn a year.[74]

Ideally, this whole policy area should be repatriated to those member states in favour. Failing this, they should at the very least be allowed greater scope in how to implement EU regulations, allowing for differentiated approaches that better reflect Europe's diverse range of labour market and social policy models. This would then allow the EU to focus on sharing best practice, rather than policing regulations, which would allow for a 25% budget cut in this area, saving €40.5m.

ii) Energy, Environment and Climate Action

Total EU Spending in 2012: €957m
Proposed savings in 2012: €0

What is it?
This area of the budget encompasses a number of inter-related EU policies promoting energy efficiency, the protection of the environment (although other areas of the budget – such as the CAP – are also geared around this objective, at least in theory) and combating climate change. The latter covers the EU's much criticised carbon emissions trading scheme (EU ETS).

While many of the EU's policies in this area are flawed and need to be re-orientated to deliver both stronger economic growth and environmental benefits[75], the overall funding for these objectives should remain in place.

iii) Maritime Affairs and Fisheries

Total EU Spending in 2012: €983m
Proposed savings in 2012: €197m

This area of the budget predominantly funds the EU's Common Fisheries Policy, widely considered to be among the EU's worst policies, if not the worst, due to the economic and environmental damage it has caused to coastal and maritime communities and ecosystems, particularly due to the quota system, which has led to widespread discards.

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73 European Commission, EU Policy Areas 'Employment and Social Affairs' http://europa.eu/pol/socio/index_en.htm
74 Open Europe, 'Repatriating EU social policy: The best choice for jobs and growth?', November 2011 http://www.openeurope.org.uk/Content/Documents/PDFs/2011EUsocialpolicy.pdf
75 See forthcoming Open Europe paper on EU environmental and climate policy.

The reform: cut by 20% and focus spending on transition

The Commission has proposed to set up a new European Maritime and Fisheries Fund (EMFF) from 2014, which would go towards the "sustainable development" of fisheries, including support for fishermen who want to invest into more selective gear, while the ineffective and criticised funding for scrapping vessels would be abolished. This would clearly be a step in the right direction. However, funding for scientific research, and funding for initiatives designed to add commercial value to less 'popular' fish – i.e. fish that people tend to eat less, should be increased to reduce pressure on overfished stocks. At the same time, to reflect savings in member states, a 20% cut should be applied – at least until this funding becomes fit for purpose.

iv) Communications

Total EU Spending in 2012: €135.6m
Proposed savings in 2012: €54.3m

In 2012, the Commission's DG for Communications will spend over €135.6m providing information to citizens and promoting its policies. This does not include the administrative costs of running the DG, nor does it include a range of other activities that could be considered 'communication' including many that fall under education and culture.

Key Facts

- The Commission has offices or 'representations' around Europe, which cost over €25m to maintain each year. The UK has four European Commission offices employing a staff of 45.[76] The work of the Commission outposts is supplemented by the Information outlets network, which receives a total of €13.7m to respond to citizens' queries in over 480 offices across the EU.[77]

- Although citizens are represented by their MEPs at the European Parliament, each Member State has at least one European Parliament Information Office (France and the UK have two). Luxembourg and Brussels, which host the European Parliament buildings, have their own separate information offices.

- The Commission's budget for subsidising various radio and television stations now stands at €47m – a 150% rise since 2005. A further €14.4m is set aside for online and written information "for the purpose of providing all citizens with general information on the work of the Union institutions, the decisions taken and the stages in the building of Europe". This is spent on the Europa website and the Europe Direct contact centre, which provides online answers to citizens' queries. In 2011, the Europe Direct contact centre received just 79,683 enquiries, a decrease of 18.6% on the previous year.

The reform: a 40% cut to the DG for Communications

In order to hold EU institutions to account, it is vital that citizens should gain access to information about their structure and activities. However, communications budgets are being cut virtually everywhere and the Commission's communication efforts are too often geared towards promoting EU integration rather than genuinely explaining to citizens what the EU does. This means that this area should be subject to substantial savings.

These savings are all the more pressing given the inefficiency of the Commission's policy. Thus the 2012 budget notes that despite its expenditure on communications, "regrettably, Union communication is still very much a top-down process that lacks interaction and adaptation". The Commission adds that "the main Union institutions can do a lot to open up, to better include citizens and to make information available, searchable and shareable".

Instead, funding for inefficient schemes, or schemes which duplicate the activities of other budget lines, should be cut. This could be achieved, for example, by a 30% cut to all multimedia programmes and "going local" communication programmes, saving over €24m. Information outlets across the EU should be gradually phased out, in favour of a more cost-efficient Europe Direct centre. In addition, funding for

76 Figure obtained by adding the total staff employed across all four UK offices. EU Commission 'Representation in the United Kingdom' http://ec.europa.eu/unitedkingdom/about_us/index_en.htm

77 Europe Direct Information Network http://europa.eu/europedirect/meet_us/index_en.htm

the "Fostering European Citizenship" programme, which promotes the visibility of European policies and "active civil society in Europe," should be scrapped. Any worthy spending items under this heading can be moved to other areas.

v) Off budget items

Total EU Spending in 2012: €1.9bn (not including the EDF)
Proposed savings in 2012: N/A

What are they?

The EU also has a number of funding instruments and policy areas funded by member states on an ad hoc basis, or completely separately from the main budget altogether. This includes the European Development Fund (covered in Section 2.5).

Other off-budget instruments include the Globalisation Adjustment Fund (EGF) and the European Union Solidarity Fund (EUSF), although their deployment is subject to agreement from MEPs. The EGF is used to support redundant workers, mainly in regions and sectors "disadvantaged by exposure to the globalised economy".[78] The objective is to ensure their reintegration into the labour market. While this rationale is sound, it also duplicates the activities of one of the structural funds, the European Social Fund and has come under criticism. The Swedish government, for example, has called for the fund to be scrapped altogether.

The EUSF on the other hand exists to provide "rapid, efficient and flexible" assistance to member states experiencing severe natural disasters.[79] However, the Fund cannot always fulfil its purpose, for example Italy only received €16.9m in compensation for floods in the Veneto region 13 months after they had occurred.[80] Member States' contributions to these funds are roughly proportional to their contributions to the EU budget as a whole.

Significantly, in its proposal for the 2014-2020 framework, the Commission has proposed a further €58.3bn of EU spending outside the official EU budget, a 53% increase compared with the current MFF.[81] In addition to an increase in the EDF, the Commission has proposed setting up a new 'Reserve for Crises in the Agricultural sector', and moving large items of expenditure on research and technology, such as the Global Monitoring for Environment and Security (GMES) initiative and the International Thermonuclear Experimental Reactor project, off the budget on the basis that "the costs and/or the cost overruns are too large to be borne only by the EU budget."[82]

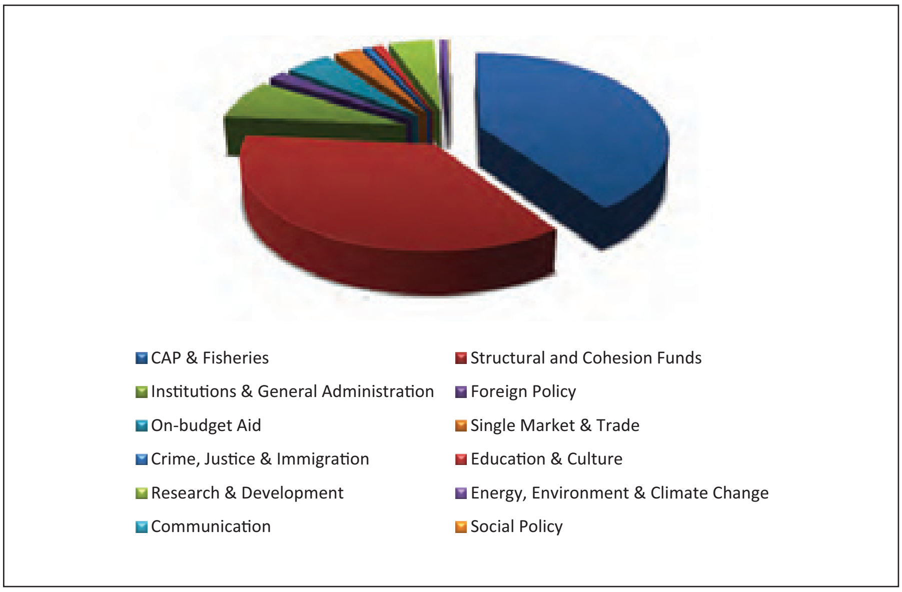
There are many different ways in which these off-budget items can be subject to savings, but for the purposes of this report, we have not included the spending itself nor potential savings in our overall EU budget figures.

78 Europa, 'Summaries of EU legislation : European Globalisation Adjustment Fund'
http://europa.eu/legislation_summaries/employment_and_social_policy/social_agenda/c10155_en.htm
79 Europa, 'Summaries of EU legislation : The European Union Solidarity Fund'
http://europa.eu/legislation_summaries/regional_policy/provisions_and_instruments/g24217_en.htm
80 EPP group press release, 'EU Solidarity Fund: €38 million aid for Spain and Italy'. 13 December 2011
http://www.eppgroup.eu/press/showpr.asp?prcontroldoctypeid=1&prcontrolid=10862&prcontentid=18243&prcontentlg=en
81 Open Europe 'Commission proposal for the EU budget post-2013: the good, the bad and the ugly' June 2011
http://www.openeurope.org.uk/Content/documents/Pdfs/20142020EUbudget.pdf
82 European Commission, 'A Budget For Europe 2020' http://ec.europa.eu/health/programme/docs/maff-2020_en.pdf, pg. 21

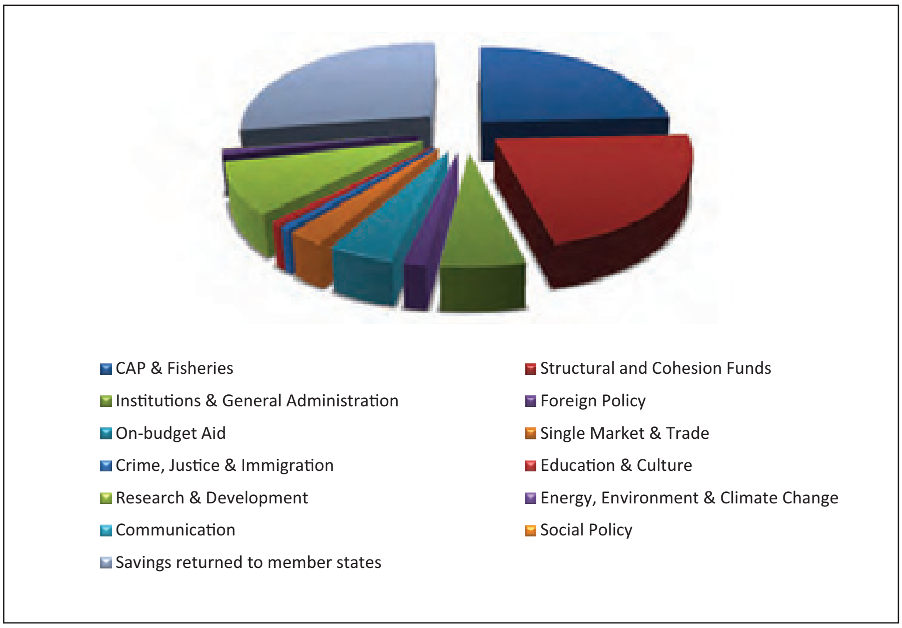
2.11. New spending priorities & new 'winners and losers'

The pie charts below compare the shifting spending priorities under our illustrative alternative budget compared to the current budget.

Graph 10: Spending priorities under current EU 2012 Budget



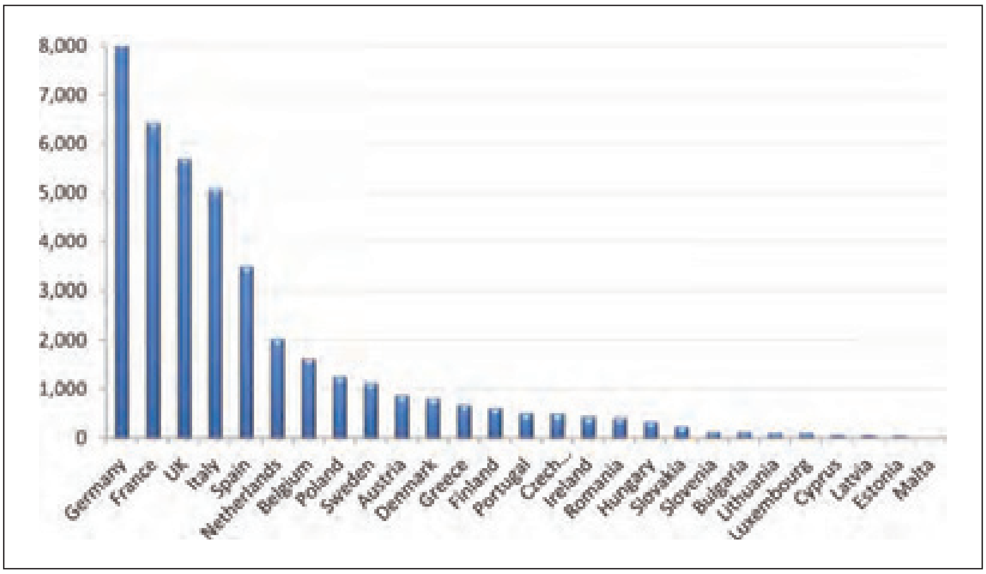
Graph 11: Spending priorities under Open Europe's proposals



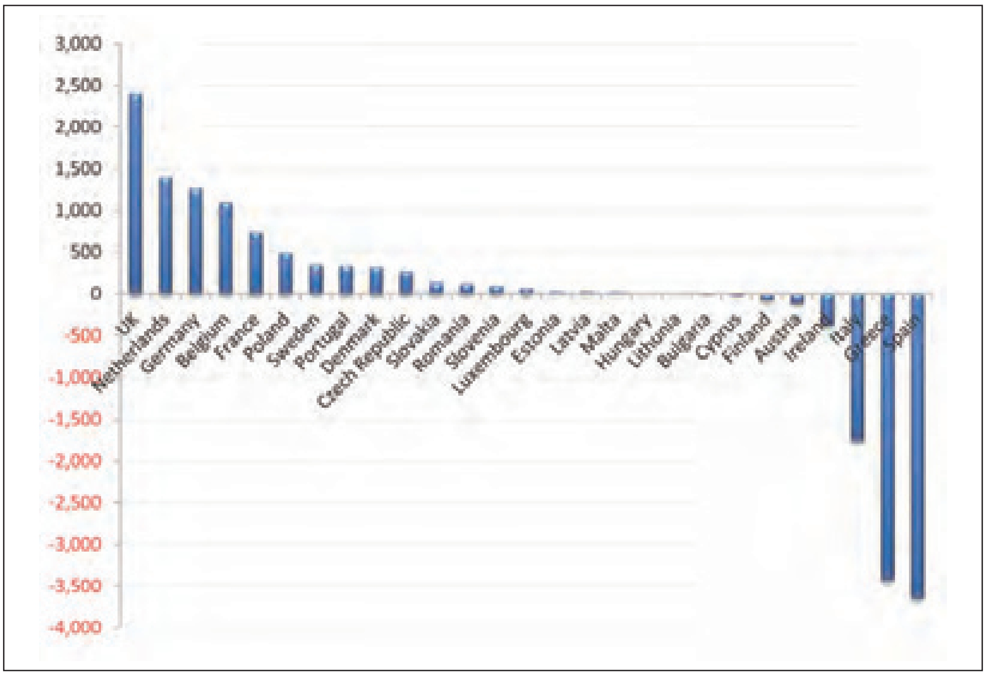
Sources: EU Commission, Open Europe Calculations

And graphs 12 and 13 show how the alternative budget would change the contributions from various member states.

Graph 12: Gross savings per member state under Open Europe's proposals (€m)



Graph 13: Net savings per member state under Open Europe's proposals (€m)



Sources: EU Commission, Open Europe Calculations

These savings are illustrative, based on member states' gross contributions to the EU budget this year, and as such do not factor in changes to the UK rebate that would result were the changes proposed in this report implemented.

While some member states would lose out financially under these proposals, all member states stand to gain from the substance of the proposals, with far more cash allocated to highest value areas of the budget, such as research and development, and less to wasteful and irrational spending areas such as subsidies to landowners and regional development assistance for richer member states.

Finally to avoid a situation in which any of the newer and less wealthy member states lose out under our proposals, we would propose a new burden sharing mechanism, under which any potential net loses by new member states (such as for Bulgaria and Cyprus under our illustrative savings), would be recompensed by the EU15 in order to ensure they do not lose out. However, following the effect on the UK's rebate discussed above, it is either likely to involve very small sums or not be an issue at all.

3. THE NEGOTIATION OPTIONS

We have illustrated that it is possible to make a whole range of savings in the EU budget, while improving the focus of the spending. So what are the options for the UK and other reform-minded member states in the on-going MFF negotiations?

3.1 The status quo on substance but increase in spending

One option would be to simply agree to the Commission's post-2014 MFF proposal. With some tweaks – some good, some bad – the European Commission is effectively proposing to lock in the status quo, whereby the vast majority of spending will go towards the CAP and structural funds, with a similar allocation logic to the current MFF (see above). The Commission has also proposed a 5% increase in the size of the EU budget. The EU institutions clearly favour this scenario – or an even higher increase - as do some countries that currently do well, such as Spain. However, given the resistance from many of the net contributors, an increase of the magnitude proposed by the Commission is unlikely. Given the flaws of the EU budget and the economic climate, the UK should strongly resist this proposal.

3.2 Reform through downward pressure

As noted in Section 1, the UK's current strategy is to push for a budget freeze (no increase above inflation), and defending the rebate. The idea is that with less cash in the pot, EU member states, MEPs and the Commission will have no choice but to prioritise their spending better, including less funds going to the CAP. While this strategy has the potential to gather support amongst a substantial number of member states – ten countries already back a budget freeze – and is therefore clearly achievable, it also comes with several drawbacks.

Firstly, it is biased towards the status quo as the evidence does not suggest that the EU budget responds to downward pressure in the same way that national budgets do. For example, while France and the UK agree on a budget freeze, they fundamentally disagree on where potential savings should be made. It is very unlikely that France will agree to substantially reduce CAP spending, meaning the downward pressure will be negated by the realities of EU politics. Secondly, given that by simply vetoing the EU budget (meaning that the previous budget would be carried over with a 2% increase), the UK would end up with an almost identical outcome as its default negotiation position (including defending the rebate), Britain is selling itself short. By arguing for a meaningful deviation from the status quo – either a substantial decrease or reforming of spending areas – Britain would be in just as strong or weak negotiation position as those who are arguing for an increase (including the Commission). Britain therefore has scope to be far bolder than simply pushing for a freeze.

3.3 Select one big target and use the veto to achieve it

In light of the negotiation dynamic outlined above, the UK could instead rely on its veto to achieve the same outcome that is currently its starting negotiation position. Instead of duplicating the 'veto outcome' and starting position, the UK could prioritise and target one key area of the EU budget that it identifies as being most in its interest to reform. It could put forward a strong economic case and also threaten to veto the EU budget unless this reform goes ahead. Clearly, the potential for the cleanest policy option would be to devolve regional policy back to member states with a GDP of 90% or above the EU average. As we have pointed out repeatedly, such a move would generate huge gains for Britain (including a net saving of around £4bn over seven years) and the EU as a whole, while also boosting the EU's jobs and growth agenda at a time when Europe needs it the most.

As we have also noted, focusing the funds on the genuinely poorer member states and regions has the potential to gain support from net contributors and the new member states (all of whom would benefit financially), while Greece, Spain and Italy would need some sort of compensation for their net losses. This also presents an excellent opportunity to make investment far more tailored around what these countries actually need.[83]

83 For a more detailed discussion on this topic see Open Europe 'Off Target: The case for bringing regional policy back home', January 2011 http://www.openeurope.org.uk/Content/Documents/Pdfs/2012EUstructuralfunds.pdf

This negotiation position also carries with it the advantage that the UK would be in a 'no-lose' situation, as even if it were unsuccessful in implementing the reforms and had to resort to the veto, it would not suffer any financial loses compared with the current MFF, and for this reason it is Open Europe's preferred option.

3.4 Big bang approach

The UK could go for a more radical option: threaten to veto the EU budget unless it is subject to a complete overhaul along the lines set out in this report. The same negotiation logic would apply as under the option above, although based on a more ambitious starting position. Adopting a holistic approach would also help to offset the loses that would fall disproportionately heavily on a small number of member states by focussing only on one area of the budget. However it would overall be far more difficult to achieve unless the UK was prepared for a massive political row with its European partners.

One politically sensitive option that will make this strategy more plausible would be to offer to give up the rebate in return for big bang reforms. As we note in Section 1, whilst the rebate is extremely useful in giving the UK a fairer deal, it does nothing to address the flawed substance of the budget. In one sense, the rebate is blocking reform as it is preventing the UK from striking deals apart from on the status quo. However, in order to even consider giving up the rebate, the UK would need to be given firm guarantees that reforms would indeed happen. What happened in 2005 when Tony Blair gave up part of the rebate, in return for promises of CAP reform that never really materialised, cannot happen again. In other words, reform first, the rebate later.

3.5 Refuse to pay

The most radical approach of all would be to simply refuse to pay the bill. A hypothetical scenario may occur, whereby member states fail to reach an agreement on the MFF – perhaps as a consequence of a UK veto – but the intermediary proposal for the annual budget is equally unacceptable to the UK, for example if the Commission managed to get a substantial increase to the budget through via QMV. The UK could then simply refuse to pay in to the budget, which presumably would involve its receipts being frozen as well. While the EU Treaties do not specifically legislate for such a scenario, it would be safe to assume that the UK would be in breach, and likely to face infringement proceedings, along with substantial political fallout.

ANNEX I: METHODOLOGY

In order to break down and re-categorise the EU budget according to how we wanted to present it, we broke it down line-by-line following the Commission's own breakdown per institution.[84] We then added up the budget lines under the headings in Section 2. For example, this included moving agricultural pre-accession assistance from the CAP section of the budget to the Foreign Policy section of our report, and including the decentralised agencies under the institutions section rather than under their respective policy areas. We also calculated our own total for the Commission's spending on administration, which is higher than that given by the Commission itself (see Box 4).

In a couple of spending areas, most notably the Structural and Cohesion funds, we used the amounts allocated for 2012 in the 2007-2013 MFF breakdown rather than the actual payments from the 2012 budget in order to maintain consistency with our previous reports on the issue. For this reason, our total figure for the 2012 budget (€146.7bn) comes in slightly lower than that given by the Commission (€147.2bn).

In terms of working out net savings per member state, for the CAP direct payments and rural development lines, as well the structural and cohesion funds, we factored in our estimates for member states' receipts from these areas. For all other savings, we distributed them accordingly to member states' gross contributions to the EU budget, while acknowledging that these are only illustrative.

84 EurLex Budget online http://eur-lex.europa.eu/budget/www/index-en.htm