

# The Role of the EU Budget

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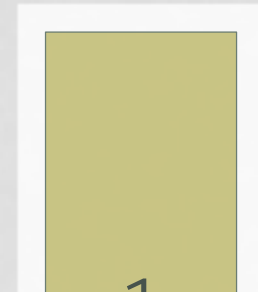
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Umeå University





# LONG-TERM CHALLENGES FOR EU BUDGET

- Persisting regional disparities
- Demographic change
- Increasing income and wealth inequality and risk of poverty
- Refugee migration
- (Youth) unemployment
- Recent and imminent enlargement rounds
- Climate change and energy transition

**= > Current structure of EU budget not able to cope with these challenges**





# LESSONS TO BE LEARNED FROM MFF 2014-2020

- MFF 2014-2020 contributes too little to overarching goal of sustainable growth and development
  - Europe 2020 strategy
  - 2030 Agenda for Sustainable Development, Sustainable Development Goals
  - Paris Climate Agreement

=> EU expenditures as well as own resources to finance EU budget





# LESSONS TO BE LEARNED FROM MFF 2014-2020

- MFF 2014-2020 still dominated by CAP (39%) and cohesion policy (34%)
- Moderate share of expenditures dedicated to competitiveness and infrastructure, including research (13%)
- 2% of overall expenditures for development assistance within regular EU budget
- 1% for Schengen-related spending (asylum, migration, borders and internal security)





# LESSONS TO BE LEARNED FROM MFF 2014-2020

- Share of conventional CAP (“first pillar”) still too high, not targeted enough
- Cohesion funds not targeted enough, focusing too strongly on traditional infrastructure projects
- Share of R&D and infrastructure expenditures too low
- Too little funding available for pro-active migration policy and development assistance





# GENERAL REFLECTIONS ON THE NATURE OF THE NEXT MFF

- General approach for next MFF also depends on future integration scenario
- But: considering deficiencies in current EU budget, MFF should be overhauled fundamentally anyway
- Shifts in expenditure structure should be based on comprehensive concept of sustainability (economic, social, environmental sustainability)





# FUTURE STRUCTURE OF MFF

European added value with focus on sustainability can be generated by:

- Significantly reducing overall expenditure on CAP; reinforcing “greening” of first pillar; shift to “second pillar”
- Shifting cohesion funds from “richer” to “poorer” MS, coupling them more strongly with climate and employment goals as well as pro-active migration and integration policy





# FUTURE STRUCTURE OF MFF

European added value with focus on sustainability can be generated by:

- Significantly increasing expenditure on (“green”) research and innovation, education
- Significantly increasing expenditure on sustainability-oriented cross-border infrastructure (TEN) as part of European decarbonisation strategy







# FUTURE STRUCTURE OF MFF

European added value with focus on sustainability can be generated by:

- Significantly increasing funds to contribute to internationally coordinated approach to mitigation of world-wide “refugee and migration crisis”
- Significantly increasing funds for development assistance





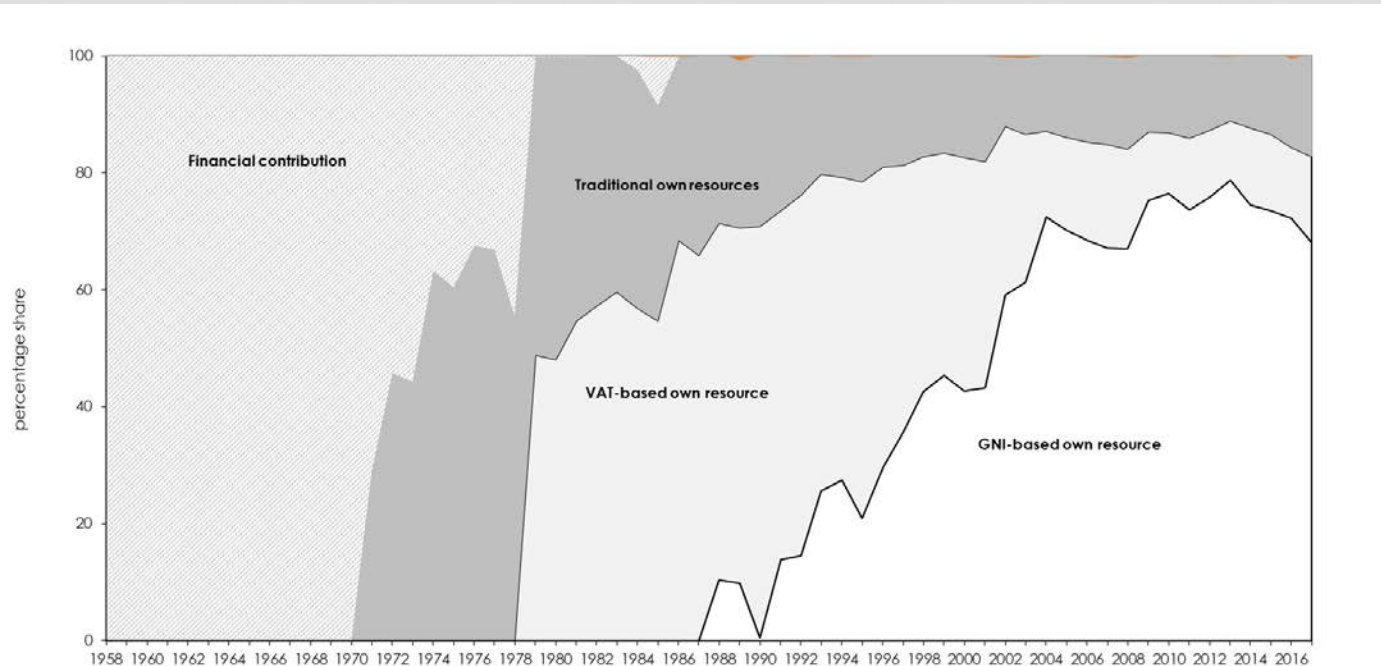
# FUTURE STRUCTURE OF MFF

- These shifts should be pursued regardless of future integration scenario
- Current budget volume leaves considerable space for significant expenditure shifts
- Combination of expenditure cuts in CAP and a sustainability-oriented shift of priorities within each spending category should significantly increase added value of EU spending



# REFORM OF SYSTEM OF OR

## Composition of own resources in a long-term perspective



Source: European Commission (2018).





# REFORM OF SYSTEM OF OR

- Current system of own resources contributes little to European sustainability goals
- Current own resources should be (partially) replaced by sustainability-oriented tax-based own resources
- Candidates: Taxes that cannot be enforced effectively on MS level due to tax competition, tax avoidance, cross-border externalities, e.g. flight ticket tax, financial transactions tax, CO2 tax, CCCTB, fuel tax, border carbon adjustment for EU-ETS...





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# REFORM OF SYSTEM OF OR

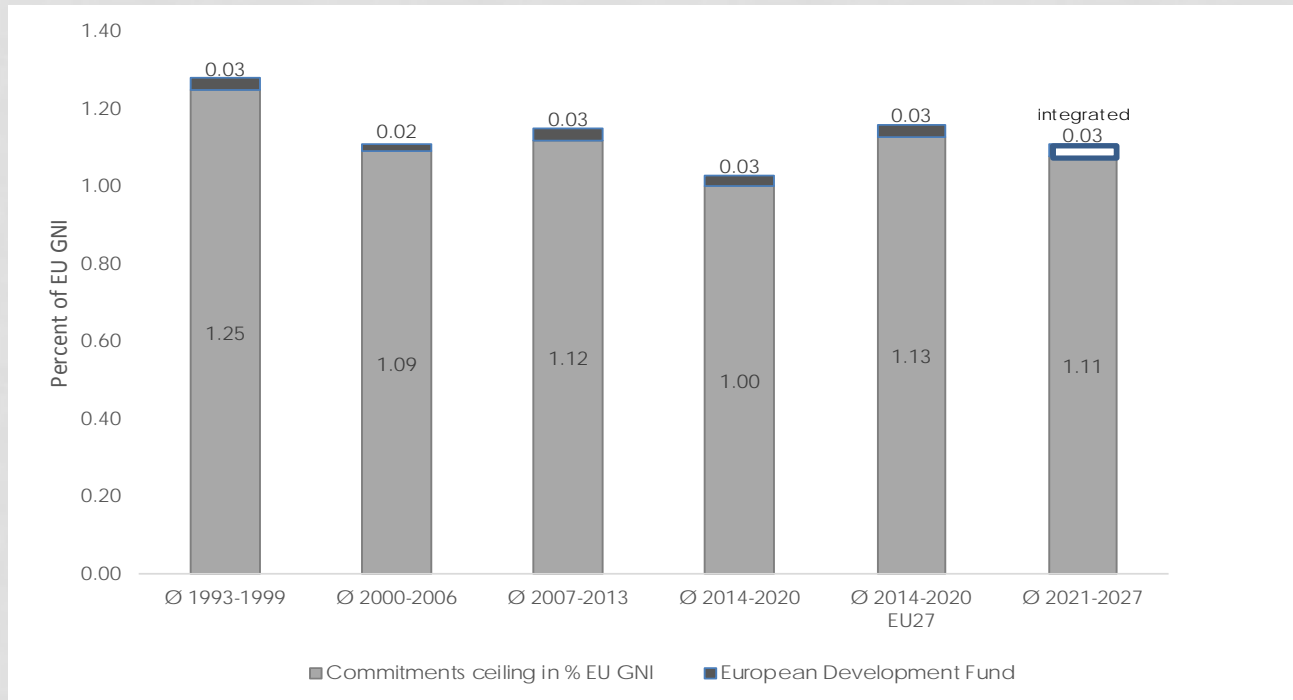
potential tax-based own resource	Reference year	MS involved	details	potential revenues, bill. €
carbon-based flight ticket tax	2014	EU 28	carbon price 25 € to 35 € per tonne CO2 emissions	4 to 5
border carbon adjustment	2021	EU28	carbon price 54 € per tonne CO2 embodied in imports	27 to 84
Supplement to national fuel tax	2014	EU28	0.05 cent to 0.20 cent per liter fuel	13 to 86
net wealth tax	2014	EU 20 (MS for which HFCS data are available)	1% on household net wealth > € 1 million; 1.5% on household net wealth > € 1.5 million	156
financial transaction tax	2016	EU10 ("Coalition of the Willing")	0.1% on equity; 0.01% on derivatives	4 to 33
CCCTB-based own resource	2015	EU28	National corporate tax rates of 2015 applied on CCCTB	202



The Fair Tax project is funded by the European Union's Horizon 2020 research and innovation programme 2014-2018, grant agreement No FairTax 649439

# EC PROPOSALS FROM MAY 2018

## Size of EU budget in % of EU GNI





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# EC PROPOSALS FROM MAY 2018

	MFF 2014-2020			MFF 2021-2027			
	Mio. €	% of Total	% of GNI	Mio. €	% of Total	% of GNI	
<b>1a. Smart and Inclusive Growth</b>	<b>142,130</b>	<b>13.1</b>	<b>0.13</b>	<b>187,370</b>	<b>14.6</b>	<b>0.16</b>	
Horizon 2020	79,402	7.3	0.07	R&I	102,573	8.0	0.09
Connecting Europe Facility (CEF)	21,937	2.0	0.02	Horizon Europe	97,600	7.6	0.08
ERASMUS	14,775	1.4	0.01	European Strategic Investments	49,973	3.9	0.04
Other	26,016	2.4	0.02	Connecting Europe Facility (CEF)	24,480	1.9	0.02
				Single Market	6,391	0.5	0.01
				Space	16,235	1.3	0.01
<b>1b. Economic, Social and Territorial Cohesion</b>	<b>366,791</b>	<b>33.9</b>	<b>0.34</b>	<b>2. Cohesion and Values</b>	<b>442,412</b>	<b>34.6</b>	<b>0.39</b>
				Cohesion Funds	374,414	29.3	0.33
				Regional Development and Cohesion	273,240	21.4	0.24
				European Social Fund (ESF)	101,174	7.9	0.09
				ERASMUS	30,000	2.3	0.03
				EMU	25,113	2.0	0.02
<b>2. Sustainable Growth: Natural Resources</b>	<b>420,034</b>	<b>38.8</b>	<b>0.39</b>	<b>3. Natural Resources and Environment</b>	<b>378,920</b>	<b>29.6</b>	<b>0.33</b>
Common Agriculture Policy (CAP)	408,312	37.7	0.38	Common Agriculture Policy (CAP)	365,006	28.5	0.32
European Agricultural Guarantee Fund (EAGF)	312,735	28.9	0.29	European Agricultural Guarantee Fund (EAGF)	286,195	22.4	0.25
European Agricultural Fund for Rural Development (EAFRD)	95,577	8.8	0.09	European Agricultural Fund for Rural Development (EAFRD)	78,811	6.2	0.07
Other	11,722	1.1	0.01	Other	13,914	1.1	0.01
<b>3. Security and Citizenship</b>	<b>17,725</b>	<b>1.6</b>	<b>0.02</b>	<b>4. Migration and Border Management</b>	<b>34,902</b>	<b>2.7</b>	<b>0.03</b>
Asylum, Migration and Integration Fund	3,137	0.3	0.00	Asylum and Migration Fund	10,415	0.8	0.01
Internal Security Fund	3,764	0.3	0.00	Border management	21,331	1.7	0.02
Other	10,824	1.0	0.01	<b>5. Security and Defence</b>	<b>27,515</b>	<b>2.2</b>	<b>0.02</b>
				Security	4,806	0.4	0.00
				Defence	19,500	1.5	0.02
				Other	3,209	0.3	0.00
<b>4. Global Europe</b>	<b>66,262</b>	<b>6.1</b>	<b>0.06</b>	<b>6. Neighbourhood and the World</b>	<b>123,002</b>	<b>9.6</b>	<b>0.11</b>
External Action	54,563	5.0	0.05	External Action	105,219	8.2	0.09
Humanitarian Aid	6,622	0.6	0.01	Humanitarian Aid	11,000	0.9	0.01
Neighbourhood, Development and International Cooperation Instruments <sup>1)</sup>	40,012	3.7	0.04	Neighbourhood, Development and International Cooperation Instrument	89,500	7.0	0.08
Other	7,929	0.7	0.01	Other	4,719	0.4	0.00
Pre-accession Assistance	11,699	1.1	0.01	Pre-accession Assistance	14,500	1.1	0.01
<b>5. Administration</b>	<b>69,584</b>	<b>6.4</b>	<b>0.07</b>	<b>7. European Public Administration</b>	<b>85,287</b>	<b>6.7</b>	<b>0.07</b>
<b>6. Compensations</b>	<b>29</b>	<b>0.0</b>	<b>0.00</b>				
<b>TOTAL</b>	<b>1,082,555</b>	<b>100.0</b>	<b>1.02</b>	<b>TOTAL</b>	<b>1,279,408</b>	<b>100.0</b>	<b>1.11</b>



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# EC PROPOSALS FROM MAY 2018

- **Rather moderate structural expenditure shifts**
  - Decrease of CAP and cohesion expenditures to about 29% each
  - Slight increase of research framework programme from 7.3% to 7.6%
  - Stagnation of Connecting Europe facility at about 2%
  - Largest increase for asylum, migration, border management, defence, external relations: from 7.7% to 15.5%







# EC PROPOSALS FROM MAY 2018

- **First steps towards tax-based own resources**
    - Share of 3% in CCCTB
    - Tax rate of 0.80 € per kilo non-recyclable plastic waste
    - Share of 20% in revenues from auctioning emission trading certificates
- = > 12% of overall revenues by 2027 – thus reducing share of national contributions from above 80% to 71%





# CONCLUSIONS AND OUTLOOK

- Comprehensive sustainability-orientation of EU budget could be key element to contribute to Europe 2020 strategy, SDGs, Paris Agreement...
- Use momentum created by current reflections on flaws in E(M)U architecture, future of EU finances, integration scenarios to push radical reforms in EU budget
- Brexit shock – opportunity to fundamentally reform structure of EU budget
- Importance of package deals!





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