effective regulations at European level means that such documentation is often not provided. This is particularly burdensome for SMEs, which can often ill afford to carry out professional risk assessments.

4.11 The access to the adequate manufacturers' documentation would enable trade unions and insurance companies to undertake various activities aimed at protecting workers, irrespective of the deadline for the implementation of the directive and its future provisions (in line with the universally recommended practice of avoiding unnecessary risk, where possible).

4.12 The EESC is concerned that the postponement of the transposition deadline may lead to new equipment entering into service which lacks any documentation on the risks arising during use or repair.

Brussels, 12 March 2008.

The President
of the European Economic and Social Committee
Dimitris DIMITRIADIS

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**Opinion of the European Economic and Social Committee on EU budget reform and future financing**

(2008/C 204/23)

On 25 September 2007 the European Economic and Social Committee decided to draw up an own-initiative opinion, under Rule 29(2) of its Rules of Procedure, on

*EU budget reform and future financing*.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 20 February 2008. The rapporteur was Ms Florio.

At its 443rd plenary session, on 12 March 2008, the European Economic and Social Committee adopted the following opinion by 113 votes to 18 with 15 abstentions.

## 1. **Conclusions and recommendations**

1.1 The radical changes of recent decades have led the European Union to launch a new political agenda whose priorities include climate change, energy and immigration: new issues requiring a rapid response. The EESC is keen to take part in the debate opened up by the Commission on budget policy, the key to rising to the above challenges.

1.2 The review of the European budget comes in the context of the sensitive ratification period of the Lisbon Treaty and is directly connected to the debate on cohesion and research policy and the CAP 'health check'. Moreover, the elections to the European Parliament and the installation of the new Commission are in sight. For this reason, the EESC would stress the difficulty of holding such an important debate at a time when two major institutions are undergoing renewal. The EESC also hopes that the governments of the 27 Member States will be prepared to take bold strategic decisions. The Committee urges the Commission to clarify which instruments it intends to use in the consultation procedure.

1.3 There is a fundamental choice to be made when shaping budget policy: federalism or an intergovernmental system. Clearly, the arrangements for financing the budget are one measure of the level of advancement of European integration.

1.4 Before assessing what economic resources are needed and what methods will be used to locate them, it will be necessary to ensure that the Community's policies are up to date, in particular those that have a long history and which, despite having had a positive impact on development and economic growth, will need to be adjusted and bolstered if they are to respond to the new challenges. An in-depth, courageous analysis of the Structural Funds, cohesion funds, regional policies etc. needs to be carried out, to analyse in particular their impact and effectiveness in the new Member States, taking into account the Fourth report on economic and social cohesion (COM(2007) 273 final) on which the EESC recently issued an opinion ([1]).

([1]) See EESC opinion on the *Fourth Report on Economic and Social Cohesion*, CESE 1712/2007.

1.5 The review should be guided by the principles governing European integration, starting from the principle of sustainable development: solidarity, proportionality, peace, prosperity, freedom, security, general wellbeing, fairness and redistribution. The frame of reference for any proposal regarding the future financial perspectives must be the need to provide an effective response to the serious dangers associated with climate change. Meanwhile, a major effort is needed to deliver indispensable additional information, transparency and clarity regarding the ways European taxpayers' money is collected and spent, not least to combat Euroscepticism.

1.6 It is time to consider the case for doing away once and for all with all the rebates, prerogatives and derogations that mark the current budget. The reform must take a real step forward, away from these provisions that run counter to the European integration spirit of solidarity.

1.7 The EESC believes that Community budget financing should be reviewed in line with Treaty Article 269 ([2]). Looking at the various reform options, the Committee would stress that whatever solution is chosen it will have to be applied gradually. A broad consensus will have to be sought with national parliaments and local and regional authorities and above all, priority should be given to the principle of each Member State's fiscal capacity, also taking into account the increased scale of spending objectives. On this note, the EESC would reiterate the position already stated in its opinion on Building our common future: Policy challenges and budgetary means of the enlarged Union 2007-2013 ([3]).

1.8 In the light of the widespread renationalisation of policies, the budget's implementation phase is becoming increasingly delicate with regard to the relationship between Community institutions and the public, as well as the public perception of Community action. Greater sharing of responsibility between the Commission and Member States in budget implementation is an important element, not least in involving all the economic and social players (as set out in the new Article 274 of the Lisbon Treaty). The EESC believes that long-term strategies should be pursued with financial continuity, whereas some room for manoeuvre might prove necessary in the event of changed circumstances or the need for a rapid response.

1.9 The principle of participation and contribution that underpins the tax systems of many EU countries, based on fairness and redistribution, seems to have proved most effective and efficient.

1.10 All stakeholders at every level, from national governments to individual members of the public, are both responsible for and benefit from Community funds.

1.11 In order to properly adjust new and old policies to international challenges, and thus be in a better position to look at the level of resources needed, the entire system of ex-ante and ex-post evaluation needs to be beefed up. The independence and transparency of the evaluating body must be ensured.

1.12 Such evaluation must take account of the efficacy and the interaction of the various systems of public spending: EU, national and regional, as well as the possibility that several bodies may interact in the process (European Investment Bank, public-private partnerships, etc.).

1.13 Consistency with macroeconomic policy instruments will need to be ensured. For example, the Stability and Growth Pact sets out strict stability criteria, but says almost nothing about growth and thus about public investment. Improved coordination of national budget policies will also be needed.

1.14 New economic and financial phenomena have appeared on the world stage in recent years: there is greater international competition, and employment in the European Union is more vulnerable. Funds such as the Globalisation Adjustment Fund are an example of the instruments that are needed, but not yet adequate, to address this kind of phenomenon.

## 2. **Introduction**

2.1 The Communication from the Commission SEC(2007) 1188 launched a public consultation for all interested parties in view of the 2008/2009 budget review. On the basis of the outcome of this preliminary consultation process, which will end on 15 April 2008, the Commission will, presumably either at the end of 2008 or in early 2009, present a text (it is not yet clear whether this is to be a white paper) that will form a proposal for assessing, reviewing and amending the EU's own resources system and the financing and spending arrangements for Community activities.

2.2 After the end of the consultation, scheduled for 15 April 2008, the conclusions will be presented by the Commission at a conference (27 May 2008). By the end of 2008/early 2009, the Commission will present a new review document; the specific proposal will be presented during the third and final phase (2010/2011).

2.3 The EESC has the duty and opportunity to answer the questions raised by the Commission's consultation paper and to give its opinion on the concrete proposals put forward by the other institutions on the reform of the EU budget system.

2.4 The need for a thorough reform of the EU budget is of fundamental and primary importance not only to ensure the functioning and fair and transparent financing of the EU and its policies, but also to move beyond the recent institutional crisis and make the best of the results achieved by the Lisbon Treaty.

([2]) The first paragraph of Article 269 states that 'Without prejudice to other revenue, the budget shall be financed wholly from own resources.'

([3]) See EESC opinion on *Building our common future: Policy challenges and budgetary means of the enlarged Union 2007-2013*, OJ C 74 of 23.5.2005, p. 32.

## 3. A brief history of the EU budget

3.1 The EU budget should be viewed as one of the key instruments for achieving EU policy objectives. Although substantial in absolute terms, as a percentage the EU budget is quite modest and despite the enlargement of the EU to include 27 countries, it has gone down steadily in recent years ([4]).

3.2 Some EU policies, such as cohesion policy, need financial support for their implementation, whereas other policies, such as competition, benefit from other instruments for achieving their goals. The financing and functioning of the budget must therefore be such that the policy objectives which have their fundamental basis in the budget can be achieved.

3.3 The EU budget has from the very beginning been amended and adapted to reflect the successive stages of European integration: the single market, enlargements, and, in particular, the widening scope of EU policies. Traditionally, a considerable part of the budget has been allocated to a relatively small number of policies, while policy objectives themselves have also undergone changes and developments that justify a budget review.

3.4 The European Coal and Steel Community (ECSC), set up in 1952, was genuinely financed by its own system of own resources derived from fixed quotas based on steel production in tonnes, which the coal and steel industries paid directly to the Community budget. In accordance with the principle of solidarity and in order to guarantee independence from national interests, the EC Treaty stipulates that 'without prejudice to other revenue, the budget shall be financed wholly from own resources' (Article 269).

3.5 The Luxembourg Council Decision of 21 April 1970 introduced an authentic financing system based on own resources, in the form of revenue specifically allocated to the Community to finance its budget and due to it by right without need for further decisions by the Member States. At present, the EU's funds consist of its own resources, made up of **agricultural and customs duties** on imports from non-EU countries, a resource levied from the harmonised value added tax (VAT) base, and a rate to be levied on Gross National Income (GNI) if and when the first three resources are not enough to cover the Communities' financial commitments.

3.6 Calculating the VAT resource by applying an average weighted rate on the total net revenue (the so-called 'revenue method') transformed the VAT resource from a 'genuine' own resource to a statistical device for calculating the contribution of each Member State, which is far removed from the spirit in which it was introduced.

3.7 The provenance of the EU's own resources has changed radically over time. The Commission's consultation paper itself ([5]) points out that whereas in 1988 the GNI resource made up less than 11 % of EU financing, compared to 28 % provided by custom duties and agricultural levies and 57 % by the VAT-based own resource, in 2013 the GNI resource will provide about 74 % of EU financing, against 13 % for customs and agricultural levies and 12 % for the VAT-based resource.

3.8 This means that the majority of resources are currently derived, and will increasingly be derived in the near future, from the budgets of individual Member States, and are sometimes presented as 'expenditure items'. We need only consider that in 2013, own resources as such will be reduced to 12 %, thereby resulting in a total dissociation between the financing of the budget and the letter and spirit of the Treaty.

3.9 The structure of budget expenditure, as well as its financing resources, has changed considerably over time. Payments for the Common Agricultural Policy (CAP), for instance, reached a peak of 70.8 % in 1985 and went down to 60 % of total expenditure in 1988; in 2013 CAP expenditure will be virtually halved to 32 %. Cohesion policy has, on the other hand, experienced an opposite trend: whereas in 1965 expenditure on this policy amounted to only 6 %, it rose to 10.8 % in 1985, 17.2 % in 1988, and will amount to 35.7 % of the EU budget in 2013. The planned CAP review will have to take account not only of support for farming, but also of the benefits that it has secured for the EU public particularly in terms of quality and control.

3.10 A problem with coherence has emerged particularly since the Maastricht treaty: the European Union has gained new powers and, little by little, new objectives have been announced (for instance, recently, the commitment regarding environmental issues), but these have not been reflected in the size of the EU's budget, which has remained essentially unchanged.

3.11 There are a series of instruments including, for instance, the recently introduced European Globalisation Adjustment Fund, which are not written into the budget. These are not accounted for financially in any specific way, but their operation and subsequent use are dependent on surpluses in other budget headings and other Community funds that have been released. In practice, this system means that such instruments are of minor importance and their financing and running is in essence marginal.

3.12 Other aspects including the introduction of the UK rebate in 1985, which was subsequently extended to other states, not to mention the numerous derogations and imbalances that make the budget so complex and lacking in transparency, add to the urgency and importance of reviewing the budget and how it is operated and financed.

## 4. The need for a budget review to prepare the European Union for future challenges

4.1 The EESC considers that the characteristics of the budget of such a unique entity as the European Union should reflect the fundamental principles of European integration as enshrined in the treaties, and the founding treaties in particular. The objectives of peace, prosperity, freedom, security, general wellbeing,

([4]) See diagrams attached.
([5]) SEC(2007) 1188 — Communication from the Commission — Reforming the budget, changing Europe — a public consultation paper in view of the 2008/2009 budget review.

fairness and redistribution should be the main reference points when it comes to adopting decisions. Considering challenges such as climate change and environmental degradation, sustainability should also be included as a strong guiding principle for all expenditure in the future budget.

4.2 The solutions adopted should be geared towards making the overall framework for managing the budget more transparent and easy to understand, thereby establishing a more direct link between the EU public and the EU institutions.

4.3 The budget review should ensure respect for the principle of equity among Member States, moving beyond any derogations, concessions or prerogatives. Each Member State's contribution to financing the budget should reflect its general level of prosperity and principles of solidarity.

4.4 In keeping with the principle of non-discrimination and equality for all EU citizens, the budget review should provide for special measures to move beyond the system of derogations, privileges and exceptions enjoyed by some Member States.

## 5. Moving on from the present financing system

5.1 The European Commission's consultation paper should provide an opportunity for all stakeholders, be they institutional, political or social, to hold serious discussions aimed at overcoming the contradictions that characterise the EU budget and, above all, the way it is financed.

5.2 The EESC underlines that, given the sensitivity of the issue, broad consensus among all interested parties, i.e. ranging from national parliaments to the social partners, should be sought; and that during the implementation process, the amendments adopted should be phased in gradually in order to ensure widespread adherence to the reform, thereby avoiding preferential treatment among Member States.

5.3 On the basis of the new Lisbon Treaty, the EESC believes that the budget review should result in a budget financing system involving new forms of own resources. In particular, two inconsistencies that characterise the present situation must be remedied: the fact that 70 % of resources come from Gross National Income, which, on paper at least, should only play a residual role, and the situation whereby approximately 85 % of the total derives from resources that are not actually 'own resources' and therefore allocated directly to the EU.

5.4 For these reasons, the EESC hopes for a return to the letter and spirit of Article 269 of the Treaty, which unequivocally establishes the primacy of own resources for financing the EU budget. It welcomes the debate launched by the European Parliament's Lamassoure report [6], which includes ideas for a review of the own resources system:

— VAT

— excise duties on transport fuel and other energy taxes;

— excise duties on tobacco and alcohol;

— tax on company profits.

5.5 European citizens should be able to benefit from more and better information, and transparency and efficiency in the system. Moreover, they should be given the means to verify and assess how their contributions to the EU are spent on its functioning and policies, participating as knowledgeably as possible. Such arrangements are fundamental to all democratic governments.

5.6 Clearly, the arrangements for financing the budget are one measure of the level of advancement of European integration. In a more federal system, a European tax would be a fair method, and would be more transparent. However, to suggest that in the current situation European economists might fail to find a solution is wrong and demonstrates a lack of political will.

## 6. Policies and role of the European Union

6.1 In Communication SEC(2007) 1188, the Commission lists a series of factors [7] that have a direct and indirect impact on the Union's strategic choices and political agenda. These factors range from an ageing population to scientific and technological progress, the competitiveness of global markets, climate change, Europe's commitment to solidarity, and rural development policies.

6.2 As the budget is an essential tool for meeting the objectives that underpin EU progress, its review should be conducted in the light of a full and in-depth discussion of the role and aims of the 27-member EU.

6.3 For this reason, the EESC would argue that during this consultation phase, there is a need to build a consensus, both within and outside the institutions, around the policies that are deemed to be of fundamental importance for Europe's future. It will then be necessary to determine how the European Union has strengthened its role and sphere of influence in those sectors. This makes it all the more necessary that the process be conducted in the light of the new treaty.

6.4 When decisions are taken on the policies that will form the linchpins of the EU's activities in the coming years, a careful analysis should be made of all the inconsistencies and delays of the past, particularly in the financing system, so as to avoid repeating the same mistakes.

[6] European Parliament, *Report on the future of the European Union's own resources* (A6-0066/2007), of 13 March 2007, rapporteur: Alain Lamassoure.

[7] See point 2.1 of Communication SEC(2007) 1188.

6.5 In the various areas of activity and more specific policies described by the Commission in the consultation paper as future challenges, special emphasis, not least in financial terms, should be placed on action in support of economic and social cohesion. Disparities have grown, particularly since the recent enlargement of the EU. The budget review must be used as an opportunity to continue promoting the development of less developed regions, for the obvious reason that economic and social progress in the less wealthy regions of the Union will have a positive impact on all the Member States and their economies.

6.6 Furthermore, as has already been mentioned, the EU's work must continue to be guided by the values of solidarity and social justice. In the face of challenges such as immigration, the EU must learn how to project its role and social model beyond its borders, by having instruments to hand, of a financial nature in particular, aimed at tackling the causes of immigration in the countries of origin.

6.7 Dealing with the challenge of climate change is becoming an increasingly important priority for Europe and should be reflected in spending priorities in the future. Additional funds need to be committed to research and development in breakthrough technologies in the energy and transport field and for the development of methods for carbon capture and storage. Major funds should also be allocated to supporting adaptation and mitigation measures in the least developed countries and to support low carbon investments in the emerging economies.

## 7. **Explaining budget policies to the public**

7.1 The European Union's institutional crisis has been due in part to the budget structure itself, which is in serious need of reform. In the present situation, the short-sighted debate of recent years on the EU's own resources contributes to the EU's poor image. Complexity, lack of transparency and derogations and exceptions are all factors that distance us from the principles of European integration and perpetuate Euroscepticism.

7.2 Given the difficulties encountered during the constitutional (and subsequently Lisbon) treaty process, the budget and its necessary reform should not contribute further to the idea that the EU citizen's money is being poured into a 'bottomless pit'. For this reason, the link between spending and outcomes has to be more explicitly spelt out.

## 8. **What future for the EU's own resources?**

8.1 The debate on EU financing provisions is one of the most controversial aspects of the discussion on budget reform. The budget's current financing framework (outlined in point 3.7) is quite distinct from financing based mainly on own resources. The options for reform range from the introduction of a new own resources system replacing what went before, to options favouring Member States' GNI.

8.2 The European Parliament's report on the future of the European Union's own resources, adopted in March 2007 (rapporteur: Mr Lamassoure) [8] criticises the current budget system and its financing and advocates a reform to be introduced in two stages but which should form part of a single decision. The transitional first phase would lead to an improvement of the current system of national contributions while the second, in the view of the EP, should lead to the creation of a genuine own resource for the European Union to replace the existing mechanisms.

8.3 In emphasising that a European tax would not be in the least revolutionary insofar as it would not change the tax burden for citizens, the EP sets out the criteria for the new system: sufficiency, stability, visibility and simplicity, low operating costs, efficient allocation of resources, vertical equity (redistribution), horizontal equity (equal impact on all EU taxpayers), and fair contributions (in line with the wealth and prosperity of each Member State).

8.4 Working from the observation it has made on a number of occasions regarding the European budget's insufficiency to meet the objectives pursued and challenges faced by the EU, the EESC would like to launch a debate on the possibility of a European tax. By examining the various degrees of importance of Community legislation, one idea might be to use possible sanctions against countries failing to transpose certain fundamentally important directives to finance projects of European interest.

8.5 The EESC appreciates the rigour of the report and its wealth of proposals, and agrees with the EP's analysis of the budget's present state of health and the need to reform it. Nevertheless, it would draw attention to the difficulties involved in introducing a system such as the one described. The introduction of financing based on a 'European tax' would undoubtedly be met with considerable resistance, first and foremost due to problems in putting the idea across to the public.

8.6 On this note, the European Union ought to put more effort into fully developing the protection and promotion of cohesion, the environment, employment and the European social model, in addition to support for competitiveness.

8.7 The EESC hopes that the decisions to be taken on the reform of EU budget financing will take greater account of the fiscal capacity of each Member State, in a spirit of fairness, equality and solidarity, doing away with derogations and exceptions. Furthermore, the EESC would argue that the debate on resources, though of primary importance, must not be allowed to overshadow or upstage the discussion on the Union's strategic choices, its role and its policies.

## 9. **Transparent and effective budget implementation methods**

9.1 Budget implementation is another important subject up for review. Transparency, reliability and clarity are the key criteria at this stage. It is at the implementation phase in particular that the European public comes face to face with EU action

(8) http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A6-2007-0066+0+DOC+WORD+V0//EN.

and can judge its practical results. In addition, it will be necessary to ensure that the budgetary cycle is synchronised with the terms of office of the European Parliament, the Commission, and the European Council.

9.2 The EESC would argue that further efforts are needed in the area of public information on the results of European policies and funds, for two main reasons: 1) in the interests of transparency; 2) to combat Euroscepticism and frequently biased reporting that focuses on failures rather than the more common success stories.

9.3 As regards the stability of the financial frameworks and their internal flexibility, the EESC would argue that the EU's long-term strategies (for instance, employment, research and development, environment and energy) must be boosted by an assurance of continuity, whereas for short-term priorities a margin of flexibility should be allowed, with a view to adjusting to changing circumstances and ensuring a rapid reaction, above all leaving room for action by Member States.

9.4 Inevitably, the debate on budget implementation must also look at budget management and accountability. Currently, 80 % of the budget is managed directly by the Member States, while the remaining 20 % is managed by the European Commission, which however has responsibility for overall budget implementation. The EESC would argue that there is a case for discussing the relevance of this division of responsibilities.

9.5 In this respect, the utmost consideration must be given to the new treaty, which amends Article 274 as follows: in the first paragraph, the words at the beginning 'The Commission shall implement the budget' are replaced by 'The Commission shall implement the budget in cooperation with the Member States'; the second paragraph is replaced by the following: 'The regulations shall lay down the control and audit obligations of the Member States in the implementation of the budget and the resulting responsibilities. They shall also lay down the responsibilities and detailed rules for each institution concerning its part in effecting its own expenditure.'

Brussels, 12 March 2008.

The President
of the European Economic and Social Committee
Dimitris DIMITRIADIS

*APPENDIX*

**to the opinion of the European Economic and Social Committee**

The following amendments, which received at least a quarter of the votes cast, were rejected in the course of the debate (Rule 54(3) of the Rules of Procedure):

**Point 1.3**

Delete point 1.3:

~~'There is a fundamental choice to be made when shaping budget policy: federalism or an intergovernmental system. Clearly, the arrangements for financing the budget are one measure of the level of advancement of European integration.'~~

*Voting*

For: 40 Against: 87 Abstentions: 10

**Point 7.3**

After current point 7.2 insert a new point 7.3 as follows:

'One of the major concerns about the present system of EU finances is the inability to manage them in such a way that the Auditors will sign off the accounts. The annual charade whereby the Auditors decline to sign off most of the expenditure gives rise to very adverse publicity in the Member States. Any new system must resolve this problem.'

*Voting*

For: 37 Against: 94 Abstentions: 12