

Response of the Netherlands to the issues paper

# Dutch priorities for a modern EU budget

Buitenlandse  
Zaken



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# Dutch priorities for a modern EU budget

Ministry of Foreign Affairs of the Netherlands

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## 1. Introduction

This memorandum contains the Netherlands' response to the European Commission's consultation paper<sup>1</sup> on the budget review. This response is primarily a forward-looking one. It considers what developments are on Europe's horizon, what the important benchmarks are for the Netherlands regarding the review, and what that signifies for the European budget after 2013. It is also noted that the budget review must not result in changes being made to the current multi-annual financial framework (2007-2013).

## 2. Time for fundamental reform and modernisation

The Netherlands is in favour of fundamental reform and modernisation of EU expenditure and the way it is financed. An EU budget that is fit for the future must address challenges such as globalisation, climate change and energy security. As regards expenditure, this entails setting new priorities, proceeding on the basis that old and superseded policy must make way for the new priorities:

- Increase focus on strengthening European competitiveness (e.g. research and development), on energy and climate policy, on closer European cooperation on Justice and Home Affairs (JHA), and on a more active role for the EU on the world stage. This usually means a greater share of the budget for these policy priorities.
- Direct cohesion funds at the least prosperous regions in the least prosperous countries, supplemented by a programme for cross-border cooperation.
- Phase out trade-distorting market and pricing arrangements in agriculture policy, concentrate income support on farmers working in disadvantaged areas where agricultural is socially desirable and reward farmers and other rural businesses for specific products and services.

Reforms on the expenditure side can pave the way for a fair system of own resources that is also transparent, predictable and simple in terms of its design. This points to a system with only one source of funding, namely the GNI resource.

<sup>1</sup> Reforming the Budget, Changing Europe. A public Consultation Paper in View of the 2008/2009 Budget Review (SEC (2007) 1188 final).

### 3. Basic principles underlying a budget fit for the future

A changing world necessitates changes to the European budget. European policy initiatives do not always seem appropriate to future needs and are still too oriented to the past. Far more than in the past, the challenges facing Europe today stem from globalisation, with shifting economic centres of gravity, demographic aging and its effects on economic growth and employment. Climate change, energy, security, food and migration issues are high on the international agenda and must also be tackled at European level.

Europe's challenge is to structure its institutions in such a way that it can respond to these changes. The Reform Treaty is an important step in the right direction. As regards the European budget, however, the necessary restructuring has yet to take place. If the budget system and the budgetary priorities remain unchanged, the EU will not be able to address the new challenges, nor will it be able to exploit the opportunities that come its way.

The Netherlands believes that the changing global environment should be reflected in the EU budget. This means making choices, setting new priorities and reforming existing policy, thus creating room within the budget for new policy. It is vital that the budget review establishes as clear a picture as possible of these choices, priorities and reforms, even though the new multi-annual financial framework only begins in 2014. The current review will direct the course of the changes that will have to be implemented from that moment. This is why the Netherlands considers the budget review to be so important.

Besides effective prioritisation, the efficient and transparent implementation of the budget is also very important. The fact that the European Court of Auditors has now been unable on 13 occasions to give a positive declaration of assurance on the EU budget is unacceptable. The opportunity presented by the budget review to agree effective arrangements on the implementation and supervision of and accountability for EU programmes must therefore be taken.

The Netherlands believes that three basic principles should be accorded a central place in the budget review:

1. EU spending must provide additional economic value compared with private initiatives by citizens and enterprises and compared with national policy (the subsidiarity principle) because, for instance, benefits of scale can be realised or because of transnational external effects, not only on research and development, for example, but also on nature and the environment. A cost-benefit analysis should also be conducted to ascertain the level of government at which policy should be made.
2. There must be solidarity between prosperous and less prosperous member states. The Netherlands believes that the more prosperous member states should contribute to the development of the less prosperous member states. Payments to the EU must also be based on wealth. Where countries have similar levels of wealth, their payments to the EU should also be similar.

3. Total EU spending must remain constant as a percentage of EU GNI.

In addition, the budget review provides a good opportunity to make the necessary progress in relation to the effectiveness and efficiency of expenditure and accountability.

New priorities need not always result in additional EU spending. On some issues, coordination between member states, legislation or financing by the European Investment Bank are sufficient. Moreover, by adjusting priorities within the EU budget, funds can be freed up for new priorities (such as those mentioned in section 2). It is likely that part of the historical excessive net contribution problem can be solved by means of reforms of spending and own resources combined with a moderate budget (with current financial frameworks continuing to be respected in the future).

## 4. An ambitious energy and climate policy

Europe has taken on an ambitious role in the debate on climate change and has set strict objectives. The question that now arises is how far this should be reflected in the EU budget.

The financial incentives relating to climate and energy that need to be assessed during the budget review exist in various areas, which can be divided into mitigation (cutting greenhouse gas emissions) and adaptation (adapting to climate change), both inside and outside the EU. The Netherlands takes the view that, if such measures have economic added value and satisfy the principle of subsidiarity, they should be eligible for a larger share of the EU budget. Loans from the European Investment Bank are another potential source of finance that should be taken into account.<sup>2</sup> The multi-year framework of the European budget provides an opportunity to determine policy and financing arrangements for an extended period. It is vital for member states, citizens and businesses that legislation on environmental objectives is predictable and funding is reliable.

Because the resources for energy and climate policy are spread across the current EU budget, it does not readily illustrate the urgency of the issue. This must be remedied, for example by providing a complete summary of energy and climate spending.

With regard to mitigation efforts, the Netherlands views research, development and demonstration as crucial if climate objectives are to be met. This is especially true in relation to renewable energy sources, Carbon Capture and Storage (CCS) and energy efficiency. Funds for mitigation both inside and outside the EU are already set aside in the current EU budget.<sup>3</sup> The proportion of resources set aside within the EU budget for mitigation may be increased.

<sup>2</sup> Every year the European Investment Bank provides funding of some €4 billion for environmental projects and almost €4 billion for energy projects (inside and outside the EU).

<sup>3</sup> For example, the Framework Programme for Research and Development includes a component for research on energy technology and alternative sources of energy (€2.35 billion in the period 2007-2013) and facilities are available under the CAP, neighbourhood policy and development policy for energy and transport. Cohesion funds are used to finance regional sustainable energy generation and transnational energy infrastructure. The Trans European Energy Networks programme currently funds feasibility studies for transnational gas and electricity connections to a limited extent.

In line with the commitments made at the climate conference in Bali, the Netherlands is in favour of creating adequate, predictable, new and additional financial resources to support the poorest developing countries and other developing countries that are also prepared to make a contribution to climate policy. In concrete terms, the Netherlands makes a proposal to find resources within the EU budget to support these countries in carrying out preventive activities (such as encouraging the private sector to use environment-friendly technologies) and adapting to climate change. The costs of adaptation within the EU should in principle be borne by member states. Solidarity with less prosperous member states should be ensured via the structural and cohesion policy.

## 5. Greater investment to increase competitiveness

In the form of the Lisbon strategy for growth and employment, which was last revised in 2005, the EU has adopted a clear and balanced approach to increasing European competitiveness and promoting sustainable growth. This is important for many reasons, including the accelerating pace of globalisation and increasing demographic ageing in various EU member states, which necessitate further growth in productivity and measures to make the economy more modern and more flexible. To become more competitive, the EU also needs a good infrastructure, in terms of transport, energy networks and telecommunications.

Substantive policy is getting off the ground with the current R&D and innovation programmes. Excellence is the decisive criterion for selecting projects and supporting research, and rightly so. Although member states and the private sector have their own role and responsibility in promoting knowledge development, innovation and research, the efforts made at EU level can be shown to deliver benefits of scale and result in the utilisation of knowledge spill-overs. In other words, the availability of sufficient resources within the EU budget provides added value and serves as a catalyst.

It is doubtful whether current levels of funding for this policy will enable Europe to achieve its ambitious objectives and ensure it is adequately equipped to cope with competition from the major and emerging economies. Europe must anticipate global developments effectively. This means setting aside a larger share of the EU budget for the realisation of its ambitions on competitiveness and sustainable growth. The Netherlands agrees that the Framework Programme for Research and Technological Development, the Competitiveness and Innovation Framework Programme and the mobility programmes of the Lifelong Learning Programme provide added value and calls for them to be intensified. It wishes to draw particular attention to the following points:

- A focus on a limited number of research areas, especially in the Framework Programme, must not stand in the way of a proper response to changing societal issues.
- The programmes should make a stronger contribution to both public-public and public-private initiatives for the joint implementation of research programmes.

- Considerably greater synergy must be achieved between the various initiatives at Community level, such as the Framework Programme, the Competitiveness and Innovation Framework Programme and the cohesion policy.
- The European research climate and hence Europe's attractiveness to the most talented researchers can be further improved by giving the EU a greater role in creating large-scale and advanced research facilities and stimulating academic excellence (European Research Council).

## 6. Concentrate structural funds on disadvantaged regions in less prosperous member states

Given the large disparities in relative wealth within the EU, which may increase further with the accession of new members, there will remain a need for the time being for a programme directed at encouraging economic growth in the least prosperous regions. The pursuit of too many objectives through cohesion policy should, however, be avoided. The emphasis must remain on reducing disparities in wealth.

More prosperous member states must shoulder their own responsibilities and allocate funds from their national budgets to the development of their less affluent regions. They themselves bear the primary responsibility for encouraging growth in their disadvantaged regions and know best how to tackle specific weaknesses.

There should be solidarity between the rich and the least prosperous member states at EU level. Not just the least prosperous member states, but the EU as a whole stands to gain from strong economic growth in the EU's disadvantaged areas. Structural and cohesion funds should therefore only be allocated to the least prosperous regions in the least prosperous member states in the future. There is a role here for the EU in helping national and regional governments to build the necessary administrative capacity so that policy can be implemented as effectively as possible.

The EU can also play a role in carrying out cross-border projects that boost growth in economically interconnected border regions, as well as cross-border, transnational and interregional projects addressing societal, social and land-use planning questions (for example, in the areas of the environment, nature management, transport, health care and security). These are projects that would not be set up if national cost-benefit analyses gave a negative result, while the cross-border cost-benefit assessment is positive.

The Netherlands believes that these measures should result in a substantial cut in the share of the EU budget allocated to structural and cohesion funds. This is not an objective in itself but part of an approach designed to achieve the higher objective of assigning a larger proportion of the budget to the new European priorities.



## 7. Adapt agricultural policy further to a changing world

Over the years the CAP has been repeatedly amended in response to changing circumstances, most recently with the decoupling of income support from production and the introduction of rural development policy. Farmers have had to adapt to these changes, albeit with lengthy transitional arrangements. Agricultural spending still accounts for a considerable percentage of the total EU budget, and agricultural policy is the only policy area currently funded largely through the Community.

The CAP reform process should produce a competitive sector that is able to respond to new challenges and societal objectives. In order to achieve this ultimate goal, further policy changes are needed. The future agricultural policy should no longer be based on a historically inherited structure, but on future-oriented objectives. In shaping this new approach, a reassessment is needed of the level at which policy is formulated and developed and financing is arranged. The excellent long-term prospects for agricultural products, in terms of both price and demand, provide a favourable context for this essential next step in the reform process.

The Netherlands considers that there will continue to be a need for a European policy specifically aimed at agricultural and rural areas. The government will continue to set standards on, for example, food safety, animal welfare and the environment. Also, reforms must not be allowed to endanger food security.

Specifically, the Netherlands favours a CAP that concentrates in the future on encouraging competitiveness and innovation, supporting uncompetitive farming that has a social function, and rewarding public services as well as work and services by farmers that go beyond legal requirements.

### *Encouraging competitiveness and innovation*

The principle underlying the new CAP should be that most of the agricultural sector, like other sectors in the internal market, operates as a free market and can produce competitively for the European and global markets without income support. Only in the event of very serious disruption of the market due to crises of a climatological or phytosanitary/veterinary nature are a 'safety net' or emergency public provision justified. Such facilities must be subject to strict, objective criteria and must on no account result in the reintroduction of trade-distorting measures. The EU could encourage private initiatives in this area, since the industry itself is primarily responsible for covering risks of the kind referred to.

The Netherlands takes the view that a roadmap should be agreed for winding down the remaining trade-distorting instruments and phasing out income support to this part of the industry. This could involve gradual phasing out, but also, for example, converting existing single farm payments into a sort of bond (comparable to a buy-out scheme).

In other respects, EU policy for this part of the sector can, besides setting standards as referred to above, be limited to encouraging competitiveness and innovation.

*Supporting uncompetitive farming that has a societal function*

While most of the agricultural sector ought to be able to compete freely on 'world' and world markets, a minority of farms cannot be expected to do so because of certain competitive disadvantages. Compensation may be appropriate in areas with such disadvantages, if society wishes land-based agriculture to continue there. Policy frameworks will have to be agreed at EU level, but in view of the great differences between member states, in terms of both geographical conditions and preferences, more detailed policy will in part have to be formulated at national level. It is crucial in this regard that a reassessment is made of the existing definitions of 'problem areas' to provide a clear system with strictly defined limits. Another key condition is that, to avoid distorting the market, compensatory support must never be allowed to exceed the costs relating to the unfavourable production circumstances or the costs relating to positive external effects. Sectors within such an area that are able to compete on the free market are of course ineligible for support of this kind.

It goes without saying that the switch from the current system, with direct income support for all farmers who formerly received production support, to a system in which only farmers in disadvantaged areas with a social function still receive support, cannot be made overnight. The Netherlands therefore advocates, in the context of the CAP health check, beginning the regionalisation and differentiation of support before 2013.

*Rewarding public services as well as work and services by farmers that go beyond legal requirements*

Individual farms or other actors that operate in rural areas (e.g. nature conservation organisations) may be asked to perform specific public services, i.e. clearly defined activities such as water or nature management. The payment they receive for performing them is in line with market rates (in so far as they can be established). Work or services relating to the environment, organic farming or animal welfare that go beyond legal requirements could be similarly rewarded in a way that does not distort trade. The project-based approach that applies to the current rural development programme would seem to be eminently suitable to this end.

The further reform of the CAP will also shift the balance between European and national policy formulation. European legislation is of course essential to guarantee a level playing field and it will continue to be necessary to establish policy frameworks at EU level. But more detailed policy must be tailored to specific requirements if it is to be effective. National and regional governments will have a major role to play in the areas of the future CAP outlined above. In view of the changing relationships between European and national levels, the financing of this policy will also have to be assessed.

The Netherlands believes that payments supplementing income should continue to be financed within a Community framework. But it is not certain whether the future agricultural policy should be financed entirely through the Community. One alternative would be to opt for partial national financing. In the approach outlined above, it would be natural for national and regional governments to bear at least partial financial responsibility for the policy.

The proportion of the EU budget allocated to the CAP will have to be determined partly in the light of the resources needed to finance the priorities mentioned in this memorandum. This must be taken into account in the design of the CAP.

## 8. An active role in the world

The EU must play an active role on the world stage and must have sufficient resources to do so. Europe has proved that it can offer solutions to transnational challenges. The EU can have a greater impact in the international arena than member states acting individually. The Union has a wide range of external policy instruments. It is high time that the Union's political weight was brought more into line with its economic weight. The new EU Treaty introduces a number of changes that could further strengthen external policy. The Netherlands recommends the following priorities:

- The European Union must play a key role in the area of conflict prevention, crisis management, situations of fragility, the promotion of stability and reconstruction. Because of the wide range of instruments at its disposal, security and development are a prime example of an area where the Union clearly adds value. The coherence of external policy continues to merit particular attention.
- The Common Foreign and Security Policy (CFSP) and with it the European Security and Defence Policy (ESDP) must be further strengthened and extended. The number of ESDP operations performed by the EU is steadily increasing. Sufficient funds must be available for civilian operations financed from the EU budget.
- It is in the EU's interests that its neighbouring states are prosperous and stable. With this in mind, sufficient resources must be available for an increasingly thoroughgoing neighbourhood policy.
- The European Development Fund (EDF) should be integrated into the EU budget with a view to the transparency of European expenditure, the visibility of policy and improved effectiveness. A good solution must then be found for the African Peace Facility (APF), which is currently funded from the EDF (under the EU Treaty, military and defence expenditure may not be financed from the EU budget), in order to retain its important advantage (i.e. the immediate availability of funds that have already been committed).
- As regards EU development policy, the Monterrey commitments to increase the volume of aid provided by EU member states must be met. The EU Code of Conduct on the division of labour in development policy must be actively implemented and the possibility of cofinancing assessed. The Commission should limit itself to the sectors where it can add value. Policy coherence for development must be established more firmly. Within the ODA part of the EU budget, there must be an effective focus on poverty.
- Energy and climate diplomacy for energy security and climate policy. The Netherlands considers that good relations and consultations with energy-relevant countries are important. Where possible, the focus should be broadened to include wider sustainable economic and social development or aspects thereof.

## 9. More cooperation in the area of freedom, security and justice

In the period ahead, the EU must play a more visible role in the area of freedom, security and justice. Citizens expect Europe to work together to tackle asylum and migration issues and fight against terrorism and organised crime. The proper administration of justice in cross-border cases and protection against corruption and crime are also in the interests of the business community.

Many JHA activities can be carried out through legislation and/or intergovernmental cooperation. As regards asylum and migration, the emphasis in the years ahead will be on policy development and the proper implementation of European legislation. The Netherlands welcomes additional agreements and increased operational cooperation in this area, although an assessment will always have to be made concerning added value and subsidiarity. Cooperation in terms of the police and criminal justice authorities rests predominantly on the application of European legislation and the promotion of cooperation between member states. These are primarily national responsibilities. It is important, however, that member states with insufficient resources receive operational capacity to fulfil their JHA responsibilities.

Since most of the costs of JHA cooperation are borne by member states, EU spending in this area is limited. In spite of the increasing importance and scope of this policy area, the burden of JHA spending on the EU budget is certainly not a heavy one. However, a new financial instrument is required for JHA cooperation with third countries, especially in the area of migration.<sup>4</sup>

## 10. A clear and fair system of own resources

The modernisation of the EU revenue system is an essential part of the budget review. Revenue and expenditure are closely interconnected. The fact that various member states have received corrections on the revenue side of the budget is a direct consequence of imbalances on the expenditure side. Redistributing resources among the various spending categories can pave the way for a fair system of own resources. A new system of own resources must offer a structural solution to these imbalances and, above all, it must be equitable (based on wealth). A new system should preferably be simple, transparent and predictable, and collection costs should be low.

These criteria point to the use of the GNI resource as the sole source of financing. The strongest shoulders should bear the heaviest burden (vertical fairness). There should also be horizontal fairness: member states with similar levels of prosperity should make similar payments to Europe. For as long as this is not the case, correction mechanisms that eliminate these imbalances will be needed. Moreover, the current ceiling on own resources should not be raised. The introduction of a 'Eurotax' is not an option for the Netherlands.

<sup>4</sup> This instrument may also be brought under the heading of external policy in the budget. 11. Modern management

## 11. Modern management

The discussion of the budget review will address more than just spending and revenue. The organisation of the budget must be discussed too. The Netherlands considers that a modern budget needs a modern approach to auditing and management. This includes allowing a sufficiently wide margin to be able to accommodate unexpected developments. It is essential that the European Court of Auditors is able as soon as possible to give a positive declaration of assurance on EU spending and revenue, in particular on EU funds in shared management.

This requires, among other things, a reform of the control structure. The first steps have already been taken, but further changes are needed. Member states must also be prepared to account for EU funds received. The Netherlands was the first member state to issue a national declaration giving assurance on the spending of EU funds and is urging other member states to follow its example. The Netherlands still contends that the audit burden should be minimised by using the single audit concept. The audit aspect should also be taken into account in formulating new policy.

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