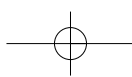


# Budgeting for the future, Building another europe

European economic policies  
from a civil society  
perspective

2008

Sbilanciamoci!



**THIS WORK HAS BEEN POSSIBLE THANKS TO THE CONTRIBUTIONS OF**

The Greens/EFA Group in the European Parliament  
GUE/NGL Group in the European Parliament  
Heinrich Böll Foundation EU Regional Office

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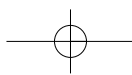
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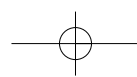
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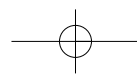
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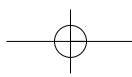
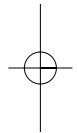
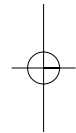
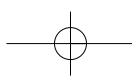
*Teresa Maisano and Tommaso Rondinella*

## Featuring

Birdlife, Campagna per la Riforma della Banca Mondiale (CRBM),  
CEE Bankwatch, Compass, Coordination Paysanne Européenne (CPE),  
Counterbalance Campaign, EuroMemorandum Group,  
European Anti-Poverty Network (EAPN), European Network Against Racism (ENAR),  
European Public Health Alliance (EPHA), Eurostep, Farmsubsidy.org, Friends of the Earth,  
Lunaria, Magistratura Democratica, Obessu, Seattle to Brussels Network,  
Transnational Institute, Unione degli Studenti, WWF European Policy Office

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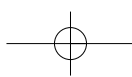




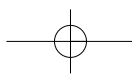
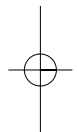
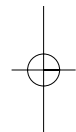
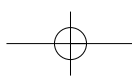
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# Executive Summary





## Executive Summary

*Budgeting for the Future, Building another Europe*, edited by Sbilanciamoci!, puts forward a critical civil society outlook on the 2007/2013 Financial Perspectives. In order to achieve this goal Sbilanciamoci! decided to create a civil society network, with a European dimension, guaranteeing full expertise on the different topics and issues listed in the Multiannual Financial Framework's headings. The opening of the book is dedicated to two different approaches concerning the Treaty of Lisbon.

The presentation of the Treaty made by Giuseppe Bronzini of **Magistratura Democratica** shows merits and faults. The most important and radical change in the Treaty of Lisbon is the fact that the norms included in the Charter of Nice have now the same legal value of those included in the Treaties. The Charter solemnly lists all the most significant rights of first, second, third and fourth generation. Its rules will have the same importance of EU's primary norms and the courts of the EU at all levels will be able to draw on its guidelines to assess the legitimacy of implementation measures by the Union and the Member States. It introduces important elements of rationalization of the "European government" but the proliferation of choices at "variable geometry" set the basis for an intergovernmental model for the future of Europe instead of a federalist one. On the social side, the agreement of Lisbon does not bring much innovation, leaving in the hands of the European Parliament the building of an authentic democratic and social Europe.

In the contribution by Susan George, Chair of the **Transnational Institute**, the European elites have never digested the French and Dutch 'No' votes on the Constitution and now they are striking back with the so-called "Reform Treaty". This latest, being pushed through the European process with unseemly haste so that European citizens cannot interfere, is just as complicated, just as neo-liberal, just as unjust as the defunct Constitution it replaces.

Following a general presentation of the European budget, Jack Thurston of **Farmsubsidy.org** assesses the level of transparency of the European budget. There is little transparency on how the 130 billions which cascades from Brussels each year are spent. This money passes through a multi-layered patchwork of jurisdictions, agencies and programmes that

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vary greatly in their levels of transparency and accountability. For the most part, the picture is not good, although there are some grounds for optimism about the future.

### Heading 1: Sustainable Growth

The contributions concerning the first heading, Sustainable Growth, are conceived in the framework of Lisbon Strategy's targets: research and development, education structural and cohesion funds, TEN. With a total amount of 350 billion Euro available for the period 2007-2013, the Regional Funds under the EU Cohesion Policy are the largest item of the EU budget (44% of the EU budget compared to 43% for agriculture and fisheries together).

The contribution on R&D by **Lunaria** highlights that although we have gone a long way from the past financial perspective, more resources are needed in order to make the EU a knowledge driven economic area. The analysis of the subject also concludes that the quantity of resources spent is not a panacea for achieving high quality research.

Much more attention has to be given to the social cohesion effects of R & D policies.

The Lisbon strategy is tackled by the **EuroMemorandum Group** who argues that the primacy of economic goals over social ones derives from the fact that the internal market and the monetary union are the main pillars of the socio-economic framework of the EU, defined and applied on the Community level, while social issues are subsumed within this framework, to be dealt with by member states on the national level. The fundamental asymmetry between economic and social policy, whereby the former sets the pace and the latter follows, is maintained in the Lisbon Agenda. This asymmetry is further exacerbated (a) by the fact that the member states have very few macroeconomic policy tools left at their disposal, since fiscal policy is regulated by the Stability and Growth Pact, while monetary policy is carried out independently by the European Central Bank; and (b) by the limited size and inappropriate structure of the EU budget, which is thus not in a position to compensate for at least part of the loss of policy autonomy of member states.

As regards education, **Obessu** proposes to lay down a Student's Rights declaration capable of sustaining a pre-existing constellation of rights not yet covered by European legislation. The declaration aims at sustaining cohesion through the assignment of equal rights for education across Europe.

Cohesion and Structural Funds are analysed under different points of view according to their impact on poverty and social inclusion, on climate change and on the environment.

Energy and transport policies have been analysed by **Bankwatch**. Many of the selected projects pose environmental threats, and in several cases proper strategic and environmental impact assessments have not yet been completed. The economical benefits from the TEN-T projects are also highly questionable. The TENs policy promotes a development model based on continuous traffic growth. Fourteen years into the policy, the geographical scope is no longer restricted to the EU and our immediate neighbours, but is also laying the policy groundwork for cross-continental links.

**EAPN** calls for an increase in attention to the real objectives of cohesion funds. Beyond economic convergence, structural funds are a massive opportunity for greater social cohesion. Looking at the method of governance and delivery of the Funds, a better partnership with civil society and NGOs would strengthen the legitimacy of the process. Their added value, due to their roots in the communities and more flexible approaches, is essential to ensure an efficient use of EU monies. Civil society and NGOs should as well constantly monitor how structural funds are spent and promote revisions of European sending priorities.

In the analysis made by **Bankwatch** and **Friends of the Earth** Structural and Cohesion Funds have a central role to play in realising the EU climate strategy. They should help the beneficiary countries move onto the low-carbon development path. For this, EU cohesion policy itself needs to be "decarbonised". To make EU funding climate-friendly, a comparable effort would have to be made to earmark high minimum funding allocations for the main low-carbon investments such as energy efficiency, renewable and clean urban transport. Although these investments are included on the list of the promoted "Lisbon-friendly" investments, so are major motorways and airports that heavily contribute to increasing greenhouse gas emissions.

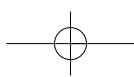
According to **WWF**, all investments supported by the EU should have a positive environmental impact and not breach the EU environmental legislation. No exceptions should be allowed anymore. If EU countries want to continue on the old-fashioned path of development at the price of the environment, they should not be rewarded by European public money.

## Heading 2: Preservation and Management of Natural Resources

However planned to decrease over time, Common Agricultural Policy (CAP) still represent 43% of the EU budget. **BirdLife International** is calling to the EU and Member State governments to grasp the opportunity to replace the CAP system with a common policy for sustainable land management and rural development, designed to deliver the benefits that the public need from farming and land management. Such a re-aligned policy should also provide farmers with long term signals they need to plan in a changing world, and the resources to provide those public goods the public expects.

CAP is assessed also by the **Coordination Paysanne Européenne**, especially from the point of view of its unfair distribution and lack of legitimacy. CPE advances many proposals for reforming the CAP starting from the assumption that if citizens want that food is produced directly by independent farmers, that agriculture takes place in all regions, for reasons of diversity, quality of food and for the positive multifunctional role of sustainable family farms, then we need to keep and develop farms which can be maintained by the next generation, with many young people enough attracted by this job, by this life in countryside. For that, farmers need economical, social, cultural recognition. Then we need a very different CAP where market prices recognize the costs of an environmentally and socially sustainable production, including the remuneration of farmer's work.

According to **WWF** the link between the current fisheries crisis and EU subsidies is broad-



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ly accepted by governments worldwide (see the 2002 Johannesburg World Summit on Sustainable Development, and discussions within the WTO Doha Round of negotiations). It is crucial for the EU to target aid for the transition to a well-managed, socially and environmentally sustainable fisheries sector. In particular, the next financing instrument should: exclude the most harmful subsidies, such as aid for engine replacement; target aid to adapting EU fleet's capacity to existing resources; provide more support to areas of common concern, such as monitoring and enforcement instead of supporting individual operators.

### Heading 3: Freedom, Security and Justice

The third set of contributions assesses key issues such as migration flows, security, external borders, common immigration, asylum policies, visa and Schengen, security and free movement of people. At the same time complementary issues such as fundamental rights and citizenship, intergenerational and youth programmes and health and consumer protection are approached.

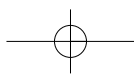
**ENAR** maintains that if the European Union is to guarantee its citizens a common space of real freedom, security and justice, investments reflecting these goals are needed. Freedom cannot be understood as a right of the few. Security is a consequence of freedom and inclusion as well as a condition for them. Finally, a justice friendly environment cannot be created without a persistent attention to the respect of human rights.

According to **Lunaria** substantial increases in the availability of funds for youth policies are urgent. Otherwise no alibi will be credible for the EU democratic gap and young people's lack of trust in EU institutions. More funds are also needed for co operation with the southern-shore Mediterranean countries and those partners in the European Neighbourhood Policy (ENP) where the presence of youth is more significant. Lunaria further proposes to involve high school students (both individual students and classes) in a renewed and enlarged *Erasmus* initiative. Finally volunteering, participation and active citizenship should be fostered beyond youth-centred policies.

Health care is still a sector of national rather than EU competence. Community action in the field of public health shall fully respect the responsibilities of Member States for the organisation and delivery of health services and medical care. According to **EPHA** many of the most important threats to health cannot be solved by national public health policies, nor are they restricted by geographical borders. Coordinated EU action on public health is increasingly important. Civil society has played an increasingly significant role in shaping and delivering health outcomes at local, regional, national and the European level. It will continue to play a key role in undertaking actions which add value and complement the work done by the EU and Member States to make citizens healthier and safer.

### Heading 4: EU as a Global Partner

The fourth set of contributions looks at the external dimension of the European Union, "EU as a global partner".



An overview of the current international development policy is provided by **Eurostep**. Simon Stocker's contribution focuses on the consequences of the adoption of the Lisbon Treaty as a new legal base for Europe's development cooperation policy as well as for foreign policy in general. Against the danger that the significant levels of EU development funds will be used to finance EU's foreign policy objectives, Eurostep calls for a consistency of future EU budget with the Treaty, the creation of separate instruments for other external policy areas, the inclusion of the EDF within the budget and a major rationalization of responsibilities with the reunion of all programs under EuropeAid.

Trade policies and the "Global Europe" strategy have been examined by **Seattle to Brussels Network**. The values and interests at the core of the Commission's new 'Global Europe' strategy are clear. Up to now, pro-development language was used to hide an aggressive pro-corporate agenda. Trade policy can no longer be an issue which a few groups address from a development or an environmental angle. It has to be understood within the context of how the EU is pushing forward a neoliberal agenda not only in countries outside of the EU, but also within the EU borders

**CRBM** focuses more specifically on the EU aid-for-trade initiative. It concludes that more resources are needed in order for such initiative to be significant. It stresses that funds should be spent according to the recipients' needs and featuring the highest possible level of autonomy. It also makes clear that aid-for-trade funds should not be used as bargaining chips when it comes to trade policy. It also maintains that evaluation and monitoring of the impact of capacity building for its social, economic and environmental effects needs to be integrated into all proposals and funding mechanisms.

## Outside the budget

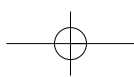
Finally some issues outside the budget (but definitely part of European policies) are approached critically. These are the own resources system, tax competition in Europe and the biggest development bank in the world today, the European Investment Bank (EIB).

### Own resources

The current system applied to finance the budget should be able to:

- Generate "own resources" so to overtake negotiations based on net contributions.
- Give stability and an amount of resources sufficient to cover the EU expenditures.
- Be transparent.
- Guarantee vertical and horizontal equity.

A pure system of own resources should be based either on a harmonized tax levied at European level, or on a slice of an already existing national tax. From **Sbilanciamoci!** point of view a tax system has to be fair, provide vertical equity, and have side effects able to promote public goods. An overall energy tax, a corrected-for-equity VAT, VAT on imports or a currency transactions tax are different feasible options for a renewed own resources system.



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### Tax competition

Tax competition is a very serious constraint on national tax policies. All over Europe, politicians argue that tax competition compels them to reduce tax rates to maintain their local advantages for international investment. It is impossible to have both, the benefits of an internal market without borders and effective tax sovereignty for member states.

Only a European solution can reinstall a democratic organization of tax policy, because the realm of tax policy is anything other than a political vacuum. According to **Compass** a Compulsory Common Consolidated Tax Base (CCCTB) with a minimum tax rate offers a good starting point for a more far-reaching reform of European corporate taxation. Such a reform would forestall unfair tax competition, enable Member States to regain their lost political autonomy to organize efficient and socially just tax systems and contribute to European solidarity.

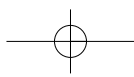
### European Investment Bank

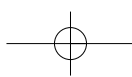
Critical Elements of the EIB statue and operations are: coherence with the EU goals; transparency and participation; safeguards policies; human rights; accountability, global loans. The **Counterbalance Campaign** argues that the EIB should ensure that all future projects financed contribute to sustainable development and, while lending outside Europe, they must show how they contribute to meeting the Millennium Development Goals of the UN; EIB should:

- phase out support for projects that are essentially incoherent with poverty alleviation and sustainability;
- inform and listen to affected communities;
- set up an Advisory Committee for Sustainable Investment and Lending;
- adopt a full-fledged accountability and compliance mechanism.

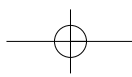
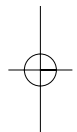
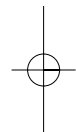
### The European Bank for Reconstruction and Development

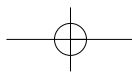
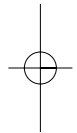
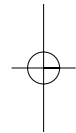
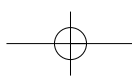
The EBRD was established in 1991 in London. During the years of its operation, the EBRD has become involved in a number of problematic projects and its management is characterized by very low levels of transparency. Bankwatch calls for the inclusion in the new policy strategies gender, labour and poverty impact of its investments, the acceptance of broad definition of project boundaries according to the project areas of influence making it subject to public consultation. Loan beneficiaries should as well meet EBRD environmental and social standards for all operations.





# Introduction







## Why this book?

The idea of writing this book comes from far away. It sinks its roots in the work carried out by the Campaign *Sbilanciamoci!* since many years.

*Sbilanciamoci!* is a campaign involving 46 associations, NGOs and networks working on globalisation, peace, human rights, environment, fair trade, ethical finance and development cooperation. Since 1999 *Sbilanciamoci!* has proposed alternatives to the Italian budgetary policies, arguing for social and environmental priorities. The Campaign publishes yearly reports, meets policy makers, organizes conferences to promote a different use of public resources and new roles of public actors in the economy. We think that, given new economic and social priorities, a radical change in the perspective of public policies is necessary in order to push for a solid world in which more attention is paid to people's rights and environment instead of the needs of a market economy based on privileges, rents, wastes, inequalities.

After all these years of experience coordinating a group of 46 associations and NGOs and analysing the Italian Budget Law, *Sbilanciamoci!* has concluded that time has come to shift and share this experience on a European level.

Time has come for different reasons. The first one is related to the fact that the European Union is facing unprecedented challenges on different levels. The enlargement and the process of economic and political integration has turned the EU into a great economic and financial power.

The second one is related to the fact that the world is facing wars, conflicts, occupations, hunger, climate threats and justice inequalities. In order to respond actively and pragmatically to these urgent issues, that cannot and should not wait more, we need responsible global actors, and the European Union must and should be one of them.

Last but not least, it is not possible anymore to analyze and look at domestic policies in European countries without paying attention to what it is happening in Brussels. Some policies, like agricultural, are almost completely defined at a community level. But on many issues the Community government defines directives, recommendations and obliges Member States to stay within strict constraints, the financial ones being the most evident. Decisions

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taken in Brussels are considered as “exogenous”, as if people has no power to influence them, to put pressure on the Community Institutions. It is not only a matter of democratic functioning of the institutions. There is a widespread attitude of domestic politics to refugee behind the idea that decisions taken in Brussels are taken by others and cannot be influenced. The same parties governing our countries are seating in the European Parliament and are composing the Commission. Citizens can put pressure on Community politics if they start to be aware of the issues actually discussed in Brussels.

That is why we should feel, as European civil society, that Europe concerns us. We need to join actively the EU, offering a strong civil society network able to balance and give concrete alternatives to those policies that we think are going in the wrong directions.

In many different ways EU-based actors have an impact, intentionally or unintentionally when they consume, produce, save, invest, or participate in public and private life, on the lives of distant neighbours, which are women and men. At the same time while the EU, with its Member States, is one of the more influential actors in all dimensions of the globalization process, and often the most influential one, it does not exercise a visible influence on the process of globalization as a whole.

In order to start giving inputs to face these issues, Sbilanciamoci! together with a high level network of civil society representatives have decided to write this book, starting from the assumption that the European Budget and the policies deriving from it affect us. Why should be civil society suggestions taken into account? Because they come from the bottom, from the ultimate beneficiaries or victims of EU policies and decisions and from a long term expertise on the different issues. The first step was to define methodologically how to proceed. Two were the starting points taken into account: the first one was to create an European Civil society consultative network on the European Budget, the second one involved using the Multiannual Financial Framework 2007-2013 as a scheme to develop the analysis on European expenditures and selected EU policies.

This project is not aimed at giving an exhaustive technical analysis on the budget but to publish an anthology on the issue recollecting major points of view of European civil society on the EU budget. That is why the network was created choosing different NGOs and organizations with long term expertise on the different issues touched by the different headings composing the European Budget. It will analyse as well issues that are outside the budget but that we consider essential inside the European Union framework, because strictly linked to the issues listed in the Financial Perspectives such as the Reform Treaty of the European Union, European Investment Bank - EIB, European Partnership Agreements-EPA, Tax competition in Europe. The other big issue analysed by this book is the other face of the European Budget, that means Own Resources.

For an unfortunate coincidence an analysis of defence and security policy is lacking. Even if absent in this collection we are very much aware of the central role that such issue, even if external to the budget, have for the building of the political Union. The reform treaty,

with the creation on the High representative of the Union for Foreign Affairs and Security Policy, is stressing even more the need for a common defence policy. Participation to military missions, role within the NATO, arms production and trade are all elements of concern for most European civil society organizations.

The network is composed of: Birdlife International, Campagna per la Riforma della Banca Mondiale (CRBM), CEE Bankwatch, Compass, Coordination Paysanne Européenne (CPE), Counterbalance Campaign, EuroMemorandum Group, European Anti-Poverty Network (EAPN), European Network Against Racism (ENAR), European Public Health Alliance (EPHA), Eurostep, Farmsubsidy.org, Friends of the Earth Europe, Lunaria, Magistratura Democratica, Obessu, Seattle to Brussels Network, Transnational Institute, Unione degli Studenti, WWF European Policy Office.

The goals of this anthology are mainly three:

- To produce an advocacy tool for policy makers of the European Institutions. It will be distributed among Members of the European Parliament, European Commission and European Council, in order to give a civil society point of view for the Financial Perspectives' mid-term review scheduled by 2008-2009. The trend inside the EU institution is to shift this mid-term review initially scheduled for the next year to the next European Commission, as the European elections are going to be held by June of 2009. The Barroso Commission is not showing a political will of having this review under its mandate. They are launching a shy tentative of re-opening the debate in order to leave to the next new Commission some inputs but definitely they are not eager to assume the political responsibility of doing the review and to open again the debate on the Common Agricultural Policy funds and so on.
- To improve the tools of this project in order to expand the possibilities of speaking out civil society's reasons on the EU Budget. This book will also be used to respond to the Consultation Paper launched by the European Commission last 13<sup>th</sup> September, which is part of the shy actions mentioned above, in order to collect European stakeholders opinion on how the European Budget must be reviewed. All the contributions will be published on the Commission website and will be used to publish the results of the final consultation period in a large-scale conference organised by the EU Commission. The deadline is fixed by the next 13 of April. Of course we welcome the fact that the European Commission is holding a broad consultation including civil society.
- To offer a tool to European citizens to better understand how the Union works and which are the key issues of the debate. Moreover it is supposed to provide an input to civil society and European Institutions able to stimulate the debate on EU Budget and major EU policies.

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The Sbilanciamoci! campaign thinks that it is necessary to radically change the perspective of public policies, giving new economic and social priorities, in order to push for a solid world in which more attention is put to people's rights and environment instead of the needs of a market economy based on privileges, rents, wastes, inequalities. Too often the so-called free market, privatisations and liberalism have demonstrated their failures. It's high time to introduce social rules for the market and to re-think a role of the public sector in the economy. Welfare, environment and peace, once again, can be the coordinates for the building a new model of development.

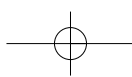
Social issues are still having a marginal role in European policies. The Lisbon strategy (mainly focused on employment and competitiveness rather than on social cohesion and inclusion) and the Chart of Fundamental Rights have been introduced only recently and in a much less constraining way than the single market and the Stability Pact. A European social model, even if with the natural national shades, still has to be built. Most of the Member States have similar welfare systems based on the universal access to services but this is not enough to talk about a European model while inequalities between and within Member States are not faced with a common strategy. Social cohesion has to become a central issue for the future of the Union, overcoming the market approach, and its goals will have to represent primary objectives for the Community action.

The same can be said for the environmental objectives. The Sustainable Development Strategy has been defined and more recently objectives for an energy plan have been set, yet still the sustainability issue covers a very marginal role among Community policies.

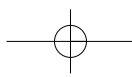
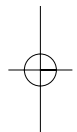
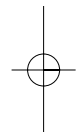
The current budget appears as totally non sufficient to face these challenges and the Lisbon Treaty submits social progress and sustainable development to the establishment of the internal market.

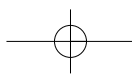
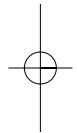
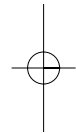
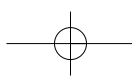
Moreover, the process of economic and financial globalization has increased significantly the level of interdependence among countries worldwide, generating a need for more elaborate forms of global governance. That is why it is very important to talk about consistency and coherence when we approach European policies; specifically if we are talking about foreign affairs policies.

Although the EU firmly defends the principle of multilateralism, it is difficult to identify the kind of multilateralism it presents, the one of International Financial Institutions (IFIs) or the one of United Nations Agencies. If the EU wants to "speak with a strong voice and make a difference in the conduct of world affairs", through close dialogue and consultation with its partners, it will have to complement its support to multilateralism by defining a number of principles to be defended and promoted in global discussions regarding the international system.



# The Reform Treaty





# Treaty of Lisbon: the Reform Treaty<sup>1</sup>

Giuseppe Bronzini  
*Magistratura Democratica*

## Preface

In December 2007 the European council in Lisbon (hence the name of the Treaty) brought to completion - if the Treaty is successfully ratified by all EU member states - the difficult compromise reached in June earlier that year under the German presidency. This new agreement was needed to overcome the crisis set off by the crushing defeat delivered by French and Dutch voters in two referenda, whose results were a rejection of the first Constitution of the Union.

Two years of very difficult negotiations had passed and the European Parliament, the only body with direct and universal mandate from European citizens, had not been able to work out any solution to the major impasse and serious institutional crisis. Thus, initiative was rebound to the national States and their leaders. In the meantime, with the access of Romania and Bulgaria, the functioning of the Union, whose rules were designed for a six-Member States organisation, was proving and still proves inadequate to govern a congregation of 27. This happened in a context where the Union had been given new additional competences to those transferred by Member States in 1957. Such impact is evident if you consider that 60-70% is the estimated percentage of norms that national judges apply every day and which derive directly or indirectly from decisions taken in Brussels.

The EU system can be criticised for its democratic deficit, its "social frigidity", for the abnormal importance given to the principles of free market and competition. Nevertheless, only few people strongly oppose it, and not many are unashamedly in favour of a "re-nationalisation" of European polices. Even those democratic forces who opposed the Constitutional Treaty and campaigned for the "No" at the referenda, give as reasons for their position the call for "more Europe": they ask for radical changes in the project carried out by the second Convention (as Fabius' French socialists did) or call for a new Constitutional assembly. After two years of stalemate, such "constructive" appeals have produced no common design to be put into practice: the Parliament in Brussels, which was meant to be the privileged seat for all parties, Trade Unions and associations to put forward motions to solutions proposed by national Governments, has had no real impact and has disappeared from the equation.

Such circumstances (at this stage is not vital to understand who should be made accountable for this) gave way to proposals such as that by Giuliano Amato, who published an article about it in *Le Monde* and *The Financial Times* on 24th January 2007. The present French President, Nikolaj Sarkozy, also put forward the idea of a "transplant" of the main innovations produced by the old Constitutional project into the weave of current Treaties (in his own

<sup>1</sup> Translated by Valentina Moressa

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words, “a mini-Treaty”). This proposal showed a refusal to revise/rationalise the European system, as well as a reluctance to constitutionalise it. Both issues were tackled, even though not always successfully, by the second Convention.

This was the main attitude during the reform process, although the Treaty of Lisbon bears more innovations (which were “transplanted” from the old Treaty) than those Sarkozy intended to preserve: the Treaty of Lisbon is not a “mini-Treaty”, because the changes it introduces are quite radical, even though it is not a Constitution, nor is it intended to be<sup>2</sup>.

### General structure, values and rights

The debated constitutional process of the European Union, which has been formally interrupted by the new Treaty, originated from the European Council in Laeken in 2003. The Laeken declaration established the second Convention (the first one had produced the European Charter of Fundamental Rights in 2000), which carried some important questions<sup>3</sup>.

In the declaration and official conclusions the Council emphasised the need to simplify and clarify the European normative system, which was considered too complex and confuse. The aim was to enable the European citizen to understand the main rules of the functioning of the Union. This clear-up of the norms was presented as a priority among reforms. The original project carried out by the Convention was then incorporated in the Constitutional Treaty, which was rejected in two referenda in 2005. Such project was described in more than a hundred articles, but still managed to give a clear and comprehensible idea of the general principles in the first part of the Treaty. In the second part it enshrined the full text of the Nice Charter (the European Union Charter of Fundamental Rights). The third and fourth parts included the old Treaties, without specific connection to the other two parts of the Reform Treaty. Now changes have been put in the original structure of the two Treaties, which remained separate: the Treaty on European Union (TEU) and the Treaty establishing the European Community (TEC), later renamed the Treaty on the Functioning of the European Union (TFEU). This incorporation had no coherence, nor method.

Norms are not given a clear hierarchy of importance anymore, at least conceptually. Both Treaties have indeed equal value and have their own “general part”. Moreover, they include an abnormal number of Protocols, some of which focus on quite relevant issues: subsidiarity, the opting out clause for Great Britain and Poland, the implementation of the Nice Charter, the adoption of the European Convention on Human Rights, etc. Beyond the shadow of any doubt, it can be said that the main goal of the Laeken process has not been reached: citizens (and experts as well) get lost in the complex scheme of cross-references between the two Treaties and the various Protocols. The overall conclusion is that the whole apparatus is un-

<sup>2</sup> A reasoned summary of the changes introduced by the Treaty can be found in the note European Parliament published in December 2007, which can be found on the website: [www.europeanrights.eu](http://www.europeanrights.eu). For a first assessment, see J. Ziller, *Il nuovo Trattato europeo*, Bologna, Il Mulino, 2007, which only analyses the June preliminary agreement. G. Nihoul, *Le Traité de Lisbonne: relance d'un Traité ou Traité de la relance?*, in *Notre Europe*, Novembre 2007, Y. Bertoinci “The Lisbon Treaty” in *European issues* n. 87 Fondation Robert Schuman.

<sup>3</sup> Among such (54) questions, one dealt with the possibility of creating a Constitution. The Convention gave a positive answer to this question.



readable and it promotes the idea of European "sources" always needing in-depth and difficult analysis. This uncertainty and chaotic disorder gets worse, if you consider that the Court of Justice have often interpreted the norms included in the Treaties in a very extensive way, thus showing that the way that norms are written down does not ensure an easy interpretation. Such circumstances contribute to the widespread idea that the functioning of the EU is not transparent and is dominated by red tape, with its impenetrable jungle of rules and regulations. In comparison to the past, now citizens can only easily take in that there are three sectors in the functioning of the EU: the first one includes all the areas in which the Union has exclusive competence (market and competition, for instance); the second sector consists of all those areas where competence is shared between the Union and Member States (where, according to the principle of subsidiarity, action should be taken by the party which can ensure more effectiveness); finally the third sector comprises all those subjects for which the Union only gives support to the Member States. Despite this straightforward ranking, the process of how (which kind of majorities are needed, which role do supra-national bodies play) Member States and the Union work within and across these three sectors is much more complex.

However, even with the illogical choice of having two distinct Treaties, the Reform Treaty leaves behind the so-called "pillars" system, according to which some questions (but not those connected to the common market) were not subject to the usual procedure of the Union (co-decision with the European Parliament and compliance check by the Court of Justice) and underwent a specific course of action, where national governments played a determinant role.

Nowadays, besides imperative exceptions (many of which in foreign policy), the general principle is that where some criteria have proved effective and have been consolidated in the most traditional sectors of European integration, they still apply. Out of deference to the principles of democratic participation and the rule of law, this leads to a significantly increased power of the Parliament in Strasbourg: it has been estimated that 95% of the subjects will have to be voted by the Parliament. The Court of Justice will gain power as well, even though it has already expanded its control powers through "audacious" sentences.

An analysis of the Treaty cannot leave out of consideration the changes made to the values of the Union (art.2 TEU), as they have been given a new definition, according to the guidelines of the Convention: "The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail." This definition includes extremely important social values, such as solidarity and equality. The decision to incorporate them is not merely rhetoric: if Member States adopt (or threaten to) internal acts which could jeopardize such values, the Union can intervene. It is also important to highlight the relevance of the change introduced by Sarkozy: in the list of the Union's goals he cancelled the "free" market "based on full competition", on the assumption that competition is an instrument to achieve a goal and not a

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goal itself. This amendment could potentially mean a radical change in the orientation of the Court of Justice, which has always considered those values as fundamental to the system.

The most radical change in the Treaty of Lisbon is the fact that the norms included in the Charter of Nice have now the same legal value of those included in the Treaties. The Charter solemnly lists all the most significant rights of first, second, third and fourth generation. Its rules will have the same importance of EU's primary norms and the courts of the EU at all levels will be able to draw on its guidelines to assess the legitimacy of implementation measures by the Union and the Member States<sup>4</sup>. In this context, it is important to stress the following points:

- a) the Treaty of Nice is also a "political" document, to which the Union and its Member States will have to refer to. It is an unlimited free source of inspiration for judicial interpretation. This is particularly relevant if you consider that the Charter explicitly enshrines work and social rights (including third generation ones, such as the right to on-going training and lifelong learning, or the right to a basic income). It defines such rights as indivisible (see the Preamble of the Charter) and as important as the other rights mentioned.
- b) Although the Charter has a very general phrasing, the clause on its scope and the level of protection leaves the Member States some room to maneuver, but does not allow an actual effective protection of rights. For example, the protection in the event of unjustified dismissal does not allow real flexibility when you exit the labor market.
- c) The protection of one or more rights stated in the Treaty of Nice authorizes Member States to neglect the Union's regulation for competition and the common market. In this way, national social policies which can be justified through the protection of rights are considered legitimate. Nevertheless, a bizarre Protocol exempts (at specific conditions) British and Polish judges from applying the Charter. Many question the effectiveness of this Protocol: the Court of Justice (and the European Court of Human Rights in Strasbourg, even though it is not part of the judicial system of the Union) and many national judges at all levels have repeatedly applied the norms of the Charter and even the House of Lords has used it for some important decisions. Moreover, the UE will explicitly adopt the 1950 European Convention on Human Rights<sup>5</sup>.

The reinforcement of the European system for the protection of fundamental rights is a significant step towards a more "federal" system (every European can assert rights from a common Bill of Rights), at least on a jurisdictional point of view. However, this measure has been counterbalanced by the explicit removal of all the "symbols" of a closer integration among the peoples of the Old Continent: the flag, the anthem, the principle of supremacy of the EU law

<sup>4</sup> The Charter applies to EU law and national law (as the latter adapts to the first). According to the regulations of the Court of Justice, national law implementing EU law does not include only those rules and norms directly connected to it (i.e. an act implementing a directive), but also any national norm falling within the scope of matters normally regulated on a supra-national level. See M. Cartabia (ed.) "I diritti in azione", Bologna, Il Mulino, 2007. For further analysis on the "anticipated" implementation of the Charter by the Court of Justice during the last years, please see G. Bisogni, G. Bronzini e V. Piccone (ed.) "I giudici e la Carta europea dei diritti fondamentali", Taranto, Chimienti 2006; G. Bronzini, V. Piccone "La Carta e le Corti", Taranto, Chimienti, 2007.

<sup>5</sup> See F. Licata, *Il Regno Unito e la Carta dei diritti fondamentali: funzionerà l'opting out?*, in Newsletter n. 6 [www.europeanrights.eu](http://www.europeanrights.eu), January 2008. See also E. Paciotti *La seconda proclamazione della carta e il Trattato di Riforma*, ibidem; L.S. Rossi *I diritti fondamentali e il Trattato di Lisbona*, ibidem; V. Zagrebelsky *La prevista adesione dell'UE alla Cedu*, ibidem; G. Bronzini "La Carta di Nizza entra nei Trattati" in *L'Unita europea* November 2007.

(which was then re-introduced through a Protocol) and the word "Constitution", which does not indicate the Reform Treaty anymore. Furthermore, although the Charter of Rights was solemnly proclaimed again and published on the Official Journal of the Union, it was only recalled in a norm (art. 6.1 TEU), as if the aim was to mitigate its objectively "constitutional" scope.

### **Institutions, democracy, representativeness**

Some important changes involve the institutions of the Union, such as the introduction of the "long" presidency system: the European Council will no longer follow a six-months rotation scheme for the Presidency, but the President will be elected for a two and a half year term. This measure could lead to a greater continuity in the activity of the Union. Despite the risks connected to a "personification" of the presidential post and the potential competition with the President of the Commission, there are clear advantages in the dismissal of the rotation scheme (which would have included in the future 30 to 33 States): it would have produced separation, despite the chances it gave to smaller countries to lead the work of the Council and set its programme. The Commission was also included in the changes, with a stronger supra-national role. It will not have one Commissioner for each Member State: the number will be reduced, so only two-thirds of Member states will provide a Commissioner at any time, with every country taking equal turns. With this new rule, nationality will not be central and the President of the Commission will be subject to a vote of confidence in the European Parliament (as it already happens in practice), with the European Council having the authority to request such vote. The Treaty also establishes the Qualified Majority Voting as the general standard (from 2017 on). This means that a minimum of 55% of the Member States (i.e. 15 out of 27 countries) representing a minimum of 65% of the EU's population must vote in favour for European legislation to be passed. The Parliament will be part of the decision-making process through co-decision. The treaty also creates the new post of "High Representative of the Union for Foreign Affairs and Security Policy", who will also become a Commission Vice-president and President of the Council of Foreign Ministers, merging the two roles and becoming an substantial bond between the two European bodies, according to a so-called "double umbrella" system. Nevertheless, it is especially in this area that the Treaty maintains veto powers over the Member States. The mechanism behind the process is rather muddled and could hinder the consolidation of a common foreign policy, which has been so far a mere chimera.

The measures mentioned above are the result of a compromise, which was already in place after the second Convention. They should strengthen the institutional structure of the Union and produce a greater efficiency, compensating its so-called "democratic deficit". This general remark is partly mitigated by the proliferation of opting out clauses in fundamental policy areas. Great Britain has opted out from almost all the new initiatives of the Union: it has not adopted the single currency, it has opted out from Schengen, the fundamental rights stated in the Charter of Nice does not apply to its citizens (in certain situations), etc. A Euro-

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pean Union based on “variable geometries” is not easily governable through common institutions, because they have virtually no significant powers over the group of States making up the Union, even if they are organized according to more transparent and efficient rules. The new Treaty facilitates enhanced cooperation, which enables some Member States to achieve a further integration without being held back by other countries. However, such projects of cooperation, if too numerous, can hinder the pursuit of a general common design. In this context, it appears ambivalent that national Parliaments can question European policies on subsidiarity, delaying their entry into force. If on the one hand the involvement of national Parliaments at a European level is positive, on the other hand it can be potentially dangerous in terms of nationalist trends. Even so, it is unquestionably beneficial that European citizens (minimum one million people) can now put forward new legislative proposals, making direct participation in European politics possible. It is a way to correct one of the most significant anomalies in the government system of the Union as for the principles of contemporary constitutionalism: the right of legislative initiative is now extended to groups, individual MPs and citizens according to forms of collective application (there is only a limited right of petition to the European Parliament).

### Social policies

This section will analyze the controversial issue of social policies in the European Union. According to a popular opinion, that I agree on, the rejection of the Constitution in the 2005 referenda mainly derives from the widespread feeling that it was not building a satisfactory continental welfare state. The Union’s social chapter is considered to be under-dimensioned in comparison to the areas of the common market and free competition, which are fully part of the EU system. Does the new Treaty address this call for a more social Europe, as the ballots in France and Holland suggest? The answer is mainly negative: the competences of the Union in this area remain the same as those outlined in the Treaty of Nice in 2000, with the same taboos in tackling some issues, such as strike actions, salaries and the right to association. It also has the same standards for the approval of common measures (in some cases, even unanimity).

In many fundamental subjects, both in the work legislation and social security law, the introduction of “minimum common requirements” were already set down (art. 137 TEC) with qualified majority<sup>6</sup>. However, the most relevant aspect of the so-called “social frigidity” of the Union still remains the lack of an interconnection between its social, economic, monetary and tax policies. Even if the new Treaty could lead to the approval of significant social measures applicable to all the Member States, how would funding work? Which would be the tax system, since nowadays tax systems are absolutely heterogeneous across the countries? The

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<sup>6</sup> To determine such “minimum requirements”, it will be necessary to refer to the concept of “essential content” of the fundamental rights, which was introduced by the Charter of Nice.

Treaty only includes a promising social clause (art. 5a), according to which “in defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health” (a similar clause is directed at fighting discrimination, see art. 5b). Such provisions clearly aim at giving an internal coherence to supra-national bodies, preventing economic measures or initiatives for the strengthening of the competitiveness of the “Europe zone” to prevail on objectives such as cohesion and solidarity, which have long been incorporated in EU Statutes. However, much still remains to be done. For example, the Statutes of the European Central Bank have not changed, preserving the total alienation of this pivotal institution from social matters<sup>7</sup>.

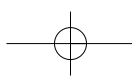
Social policies require a further development, which can happen according to two main lines: a) Courts can exert pressure at all levels to protect socio-economic rights, benefiting from the incorporation of the Charter of Nice in the primary legislative structure of the Treaties; b) all the actors on the continental public sphere can continue discussing the construction of an actual social model, as it has been happening during the last years through the so-called “open method of coordination” - a soft law mechanism of institutional dialogue on occupation (which has now been extended to social issues as well), established by the Treaty of Amsterdam and launched in 2000 with the Lisbon Agenda. Unfortunately, the Treaty of Lisbon omits to mention the link between such procedures (in which many European associations successfully fit) and the traditional institutions of the “European government”. It is still to be understood how directions from the open method can translate into consistent and binding legislative actions (i.e. how and at which conditions soft law can become hard law).

Finally, the Treaty introduces a more solid legal base to regulate services of general interest, which are mentioned in a specific Protocol as well. It also establishes a reinforcement of judicial tools for energy policies.

## What progress for Europe?

To sum up, the Treaty is very important for the consolidation of a Europe of rights: it is the cutting edge of a not merely economic integration among countries of the Old Continent. This integration has a clear “constitutional” connotation, which in the future should lead to an intensification and radicalization of the concept of “European citizenship” (which is not promoted by the Reform Treaty). Apart from that, the agreement reached in Lisbon introduces important elements of rationalization of the “European government” system, promoting - even though not sufficiently - democratic participation and in general better defining the criteria of accountability for the directive bodies of the Union (but still not in a satis-

<sup>7</sup> See G. Bronzini “Il modello sociale europeo” to be published in (F. Bassa nini e G. Tiberi, eds.) “Le nuove politiche europee: Commentario al Trattato di Lisbona”, Bologna, Il Mulino, 2008, also to be found in Astrid on line.



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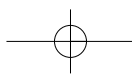
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factory way). Yet, the Treaty is still hazardously “neutral” towards the adoption of a federal model (at least toward the perspective of it) and a more intergovernmental model for the future of the Union: some institutional reforms seem to go in the direction of the first option, but the proliferation of choices at “variable geometry” supports the second scenario. For example, the reform of the Treaties indicates that the European Parliament will put forward a lot of proposals and that the method of the Convention (contemplating the co-optation of national parliamentary representation to find solutions), but in the end the last word will be the Member States’, which will have to decide through the archaic rule of unanimity, as it is common in international agreements.

On the social side, the agreement of Lisbon, except for the important demanding of fundamental rights in Courts, does not bring much innovation. The European Parliament which will be elected in 2009 will therefore have a huge responsibility: if, as all the elements suggest, the Treaty of Lisbon is ratified, it will be up to the MPs in Strasbourg to make the best of their chances to develop consistent European policies to address the need for an increased social protection and credible mechanisms for democratic participation in the decisions taken in Brussels. The Treaty also enables the Parliament to put forward proposals to revive the “constitutional” perspective, which is now still on hold. It is the only possible context for an authentic federal, democratic and social Europe<sup>8</sup>, which, although the Treaty has successfully dealt with the institutional crisis of the last two years, still remains to be implemented.

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<sup>8</sup> See Various Authors, “ Per un’Europa costituzionale “, Rome, Ediesse, 2006.



# From “constitution” to “reform” or from bad to worse

Susan George

*Chair of Transnational Institute<sup>9</sup>*

*The European elites have never digested the French and Dutch ‘No’ votes on the Constitution and now they are striking back with the so-called “Reform Treaty”. This latest, being pushed through the Europeans process with unseemly haste so that European citizens cannot interfere, is just as complicated, just as neo-liberal, just as unjust as the defunct Constitution it replaces, writes Susan George.*

The French ‘No’ vote of 29 May 2005 in the referendum on the European Constitutional Treaty [ECT] was often misunderstood outside France [particularly in Spain]. Many thought it was a right-wing, regressive, anti-immigrant, anti-Turkish or anti-Chirac protest vote.

Probably 18-20 percent of the No vote could be attributed to such motivations, but even our worst enemies - and I say “our” because I campaigned vigorously for the ‘No’ - admit that it was a progressive, pro-European rejection of a deeply flawed proposal. We wanted Europe, but not that Europe. The ECT was a triumph of anti-democratic, anti-social, neo-liberal legislation which would have been nearly impossible to change. The media, political and corporate elites voted massively for the ‘Yes’ [in the rich Paris suburb of Neuilly 85% voted in favour] whereas ordinary working people saw through the constant propaganda and mostly voted No [85 % in one working class suburb of Rouen, for instance]. Turnout was 70%, up by more than half from the mere 46 percent that had bothered to vote in the European parliamentary elections a year earlier.

The No was the French and Dutch answer to a text that described in detail precisely the Europe we don’t want. The people were entirely absent. The Convention not elected but appointed. Although national or Euro-parliamentarians were among the 105 members, they were not elected for that purpose and they could not even propose text, only comment on and amend text proposed by Giscard d’Estaing and his vice-presidents. It was hugely complex and long. It subjected Europe *ad vitam aeternam* to NATO for its defence policy and to the most narrow kind of neo-liberal economic policies where “free and undistorted competition” was far more important than worker or social or environmental rights. It was a recipe for the destruction of public services and for a “race to the bottom” with regard to wages, working conditions, and social, fiscal and environmental policies. The people were supposed to be entirely absent, as they were absent from the text itself, but when they actually read

<sup>9</sup> 5<sup>th</sup> September 2007. Published by the Fundació Sistema in TEMAS, issue no. 155, October 2007.

## Budgeting for the Future, Building another Europe

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the book-length document that was to seal their fate, they rejected it. It was a great moment.

Immediately after the French and Dutch votes, European Commissioner Gunther Verheugen said, "We must not give in to blackmail": this nicely summed up the Commission's views on popular sovereignty. The Eurocrats learned their lesson; so did national governments. Do not, under any circumstances, allow the peoples of Europe to say anything about their future. Do not allow referendums; push the next text through leaving no time for discussion or debate. Leave all the anti-democratic, neo-liberal measures just as they were in the Constitution, or make them more so, but make sure they are even more difficult to identify and the text even more complicated to decipher. Make sure too that the new Treaty, once approved by governments, cannot be altered. In a word, or a slogan, Down with Democracy!

Now, two years later, we have the new Treaty, called in French "Modificatif" and in English "Reform". It is everything one feared, and worse. Our leaders didn't even bother to tell us they were working on it until the 50th anniversary celebration of the EU in Berlin in March 2007. The Portuguese presidency presented the draft on 23 July; the Inter-Governmental Council [IGC] is to adopt the final draft on 19 October and the Treaty ought to be ratified by all 27 members before the European elections of June 2009. As far as I know, only Ireland will hold a referendum [mandated by law]. President Sarkozy of France has already announced that the French Parliament, where he has a comfortable majority, will ratify it [apparently he feels the people might still prove to be disobedient and dangerous].

At least 80 percent of the legislation passed in every European country now comes directly from Brussels, which alone shows how vital it is for European citizens to understand what is happening. Furthermore, not only do European take precedence over national law but the European Court of Justice has decided and reiterated that any rule promulgated by the European Commission also takes precedence, even over national constitutions. In other words, whatever its name, the new Treaty will be just as strong legally speaking as the dead Constitution.

Here is the state of play and congratulations if you understand it. First, the Constitution, which would legally have repealed and replaced all existing treaties, is formally "abandoned". The Reform Treaty modifies the two existing treaties which are [1] the Treaty on the European Union [i.e. Maastricht Treaty, as modified by the treaties of Amsterdam and Nice] and [2] the Treaty Establishing the European Community [Rome 1957 plus later modifications]. The Constitution may be dead, but the changes it introduced are renamed "the innovations resulting from the 2004 IGC", which is the one that approved the Constitution and sent it out for ratification. Got that?

The 2007 IGC is mandated to merge and mesh 296 modifications into the two existing treaties, along with the "innovations" introduced by the dead Constitution, except a few listed exceptions. The modified treaty will come to 410 articles, often extremely detailed, 146 pages and 62.000 words [in the French version]. Twelve protocols [69 pages] and 51 declarations as well as various annexes have all the same legal value as the Treaty itself.



According to a thorough analysis by Robert Joumard, the text remains, despite its length, highly ambiguous. The way decisions are taken varies from one area to another and there are 177 different areas of competence. More or less demanding Qualified Majority Voting will apply to about 120 of them, but unanimity remains the rule for revising the Treaty, for fiscal policy and most aspects of social and environmental policy, not to mention foreign and defence policy. The Commission emerges with its powers increased whereas the European Parliament, which has little power to begin with, is still excluded from any co-decision in many areas, but nowhere is there a complete list of all the areas from which it is excluded. Some of these, however, are: foreign and security policy, the internal market, monetary policy, most of agricultural and social policy.

The Charter of Fundamental Rights, first proclaimed in Nice in 2000, remains ambiguous and understanding how the Court might interpret it is virtually impossible, but in any case the Charter "creates no new competence or tasks for the EU" so it has little judicial value. It guarantees fewer rights than, say, the French Constitution; furthermore, no matter how weak the Charter may be, the United Kingdom has been authorised not to apply it. This appears to mean that while competition and market freedom are compulsory for all EU Member States, even the most meagre social rights are optional.

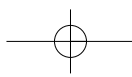
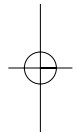
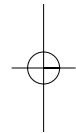
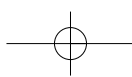
What is not ambiguous is the centrality of the highly competitive internal market that remains the supreme common denominator for the EU. Free trade has iconic status. A new article says the goal of EU commercial policy is the "integration of all countries into the world economy...[through the suppression] of barriers to international trade"; elsewhere it calls for the suppression of all restrictions on trade, including non-tariff "barriers" like environmental or consumer protection standards, and on foreign direct investment.

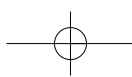
The European Central Bank remains independent of all political control and "price stability" graduates to the status of an "objective" of the EU. Unanimity is still required for any limitations on the free movement of capital, this would undoubtedly include any tax on financial transactions of the kind ATTAC and many other civil society organisations call for. Many provisions weaken public services, which remain subject to the laws of competition.

European subservience to NATO for security and defence policy is reinforced and gets a new, special protocol; the Member States promise progressively to increase their military capacities, and the struggle against terrorism justifies military missions to help non-European countries to fight terrorism on their soil.

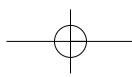
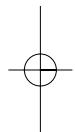
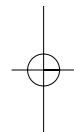
One could go on for pages more, but the main points are these: the new Treaty retains most of the rejected Constitution. It is uniquely neo-liberal in letter and in spirit. It has been put on the table with unseemly haste and no public debate has been, nor will be allowed on a text of supreme complexity. Amendments and revisions require unanimity, tantamount to making them impossible. The Commission will continue to hold practically all legislative and executive power. The EU will be legally tied to the United States defence Establishment [and thus to its Commander in Chief, the US President.]

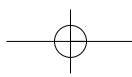
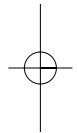
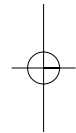
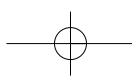
Citizens of Europe: this is your last chance.





# Overall Issues





# The European budget in tips

Teresa Maisano

*Sbilanciamoci!*

## A short history of the European Budget

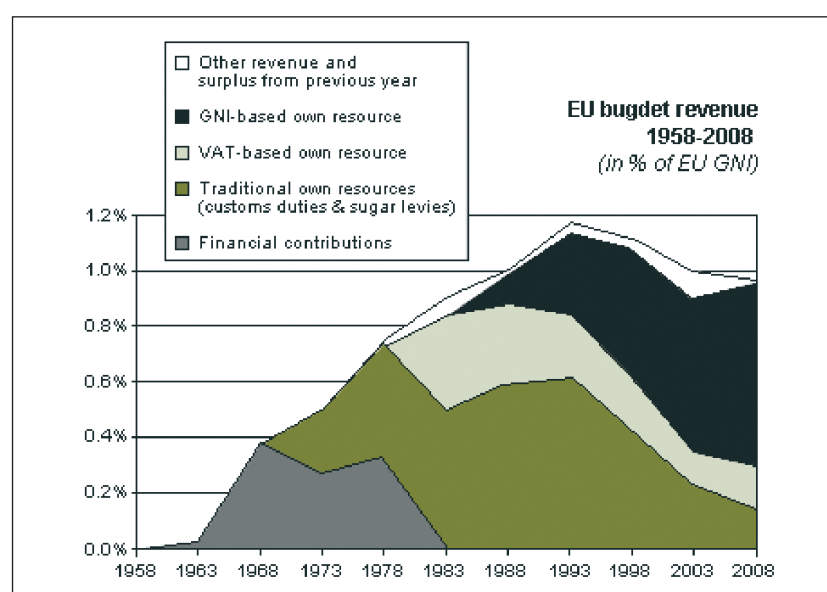
The first European Economic Community budget dates back to 1958 and is adopted by the Council, on the basis of the Commission's proposal and after getting the Parliament's opinion. The first EEC budget is very small and covers administrative expenditure exclusively. As the EEC's objectives are translated into policy commitments, the budget grows to implement them, for example through the European Social Fund. The European Agricultural Guidance and Guarantee Fund (EAGGF) is launched in 1962, and agricultural expenditure soon makes up the majority of the budget.

Once the main policies, including the European Social Fund, common customs policy, and common agriculture policy are up and running, more stable sources of revenue are required. The system of "own resources" is agreed, replacing financial contributions from the Member States. Three own resources are introduced: customs duties and agricultural levies, stemming directly from the implementation of EEC policies, and a transfer from each Member State based on VAT. Initially, the VAT resource is set at a maximum of 1% of the share of the economy to which VAT applies, assessed on a common basis across all Member States.

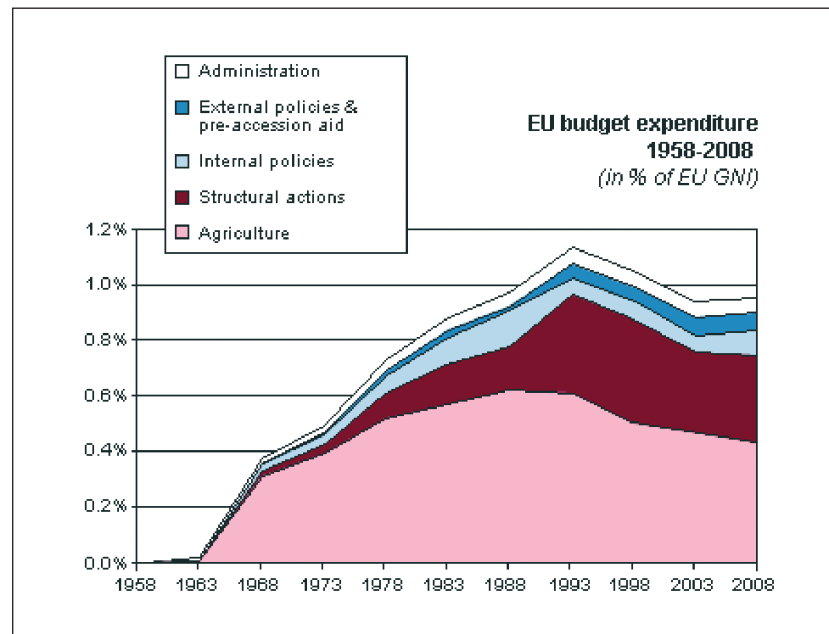
At the same time, with revenue now accruing directly to the Community, the Parliament gains greater influence in the adoption of the annual budget.

Denmark, Ireland and the United Kingdom become members in 1973.

**Figure 1.** EU budget revenues 1958-2008



Source: European Commission [http://ec.europa.eu/budget/reform/history/history1975\\_en.htmv](http://ec.europa.eu/budget/reform/history/history1975_en.htmv)

**Figure 2.** EU budget expenditures 1958-2008

Source: European Commission [http://ec.europa.eu/budget/reform/history/history1975\\_en.htm](http://ec.europa.eu/budget/reform/history/history1975_en.htm)

#### *Parliament gains decisive role in budget (1975-1982)*

Parliament gains further powers on budgetary matters as the own resources system comes fully into force. From 1975, Parliament has the last word on non-compulsory expenditure (compulsory expenditure results directly from the Treaty of Rome, such as most agricultural expenditure, or from international treaties), and can reject the budget. Therefore its power to increase non-compulsory expenditure is limited to a maximum rate, established on the basis of economic conditions in the Community. Parliament also takes on sole responsibility for granting the budgetary discharge, i.e. certifying proper implementation of the budget after each financial year.

A new institution, the Court of Auditors, is set up to verify the financial operations of the Community institutions and assess the effectiveness of their financial management systems, replacing the smaller, less powerful audit board.

In 1979, the first direct elections to the European Parliament give the institution a greater democratic weight, strengthening further its position and legitimacy as one of the two arms of the budget authority. However, Council and Parliament find it increasingly difficult to resolve differences during the annual budget process.

Greece becomes a member in 1981.

#### *Overcoming conflicts in the budget process (1983-1987)*

In this period, expenditure grew to finance the common agriculture policy, to strengthen existing policies, in particular the European Social Fund and the European Regional Development Fund, and to launch new policies such as the common fisheries policy, the first research framework programme and the integrated Mediterranean programmes.

However, increased expenditure brings the question of budgetary imbalances into the spotlight. The UK considers its contribution to financing the Community disproportionately high in relation to its relative prosperity. This is because its agricultural sector is small, whilst the economic base on which VAT applies is proportionately higher than that of other Member States. A decade of discord is brought to an end with the 1984 agreement on a mechanism to apply a "correction", reducing the UK's payments into the Community budget.

At the same time, the recurring differences between Parliament and Council cause increasing problems in the budgetary process. In 1982, a first inter-institutional agreement attempts to resolve the problems. Although it helps smooth the process initially, the two partners in the budgetary authority soon rediscover their difficulties as the budget continues to grow.

Spain and Portugal become members in 1986.

#### *First multi-annual financial framework agreed (1988-1992)*

With the need to resolve the annual budget crisis due to disagreements between Council and Parliament, the Commission proposes that the three institutions set binding multi-annual expenditure ceilings for each category of expenditure. The three agree the Community's first "financial perspective", covering the period 1988-92 which coincides with the programme to complete the internal market by January 1993.

The financial perspective seeks to limit the rise in agricultural spending whilst substantially increasing expenditure on cohesion policies. At the same time, a new own resource, based on a proportion of each Member State's gross national product is added to the three existing ones. This matches payments by Member States more closely to their wealth (while the UK correction mechanism is continued). The ceiling for own resources is introduced, and limits the Community budget to a maximum of 1.20% of Community GNP in 1992.

#### *Second financial framework (1993-1999)*

The Treaty on European Union (Maastricht Treaty) introduces a range of new policy areas including common foreign and security policy and justice and home affairs, as well as creating the Cohesion Fund to invest in infrastructure in the poorest Member States. A new set of financial perspective is agreed for the period 1993-99, to include all of these additional fields. The ceiling for own resources is raised to 1.27% of GNP in 1999.

On the expenditure side, spending on structural and internal policies is significantly increased, and the resources for external action are increased by more than 50%. Arrangements to limit increases in agricultural spending are continued.

Austria, Finland and Sweden become members in 1995.

#### *Third financial framework (2000-2006)*

For the first time drawn up in Euro, the financial perspective for the period 2000-06 focus on the need to double assistance to the countries which have applied for EU member-

## Budgeting for the Future, Building another Europe

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ship. On the other hand, many governments are pre-occupied with stabilising public expenditure, not least because of the fiscal discipline required to join the Euro area. Therefore, whilst a new pre-accession strategy is created to assist the central and eastern European candidate countries, agricultural spending is held stable and cohesion expenditure is checked by refocusing on areas of highest priority. While the UK correction is retained, a new mechanism reduces the share of Germany, the Netherlands, Austria and Sweden (the countries with the largest negative budgetary balances) in funding the EU budget.

Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia become members in 2004.

### *Fourth financial framework (2007-2013)*

The current financial framework, for 2007-13, focuses resources on improving the EU's competitiveness (the Lisbon Strategy for growth and jobs) and cohesion, whilst the amount devoted to agriculture is to be reduced over the seven-year period for the first time in 50 years. The own resources ceiling is maintained at the previous level (recalibrated to 1.24% of gross national income (GNI)). The method of calculation of the UK correction is revised, by progressively excluding non-agricultural expenditure in the countries which joined the EU in 2004 and 2007. Additional measures will further reduce the contributions of Germany, the Netherlands, Austria and Sweden.

Bulgaria and Romania become members in 2007.

## **The Budget in tips**

The EU Budget is published in two volumes in all official languages of the Union. Volume I provides a detailed statement of EU Budget revenue as well as the revenue and expenditure of each of the institutions, apart from the European Commission, in sections ordered according to their order in the Treaties. Volume II covers all Commission revenue and expenditure (Section III) linked to EU policies. Appropriations entered in sections other than Section III are of administrative nature.

The annual spending plans are negotiated between the European Parliament and the Council of Ministers on a basis of a proposal by the Commission. The budget covers the spending of all the Union's institutions. It fixes income and expenditure for the year, lists all the activities that are to be funded and sets out the total amounts of money and staff available for each one. It also cites the authorising acts for each action. Before they can be implemented, almost all activities also require a Community law - an authorising act or legal base - proposed by the Commission, and agreed by the legislative authority - the European Parliament and the Council of Ministers together, in many cases.

EU spending is limited by the Treaties. The Union budget is not allowed to be in deficit, which means that revenue has to cover the whole cost of all the different activities. This revenue, or income, comes from three main sources: customs duties, a share of the harmonised

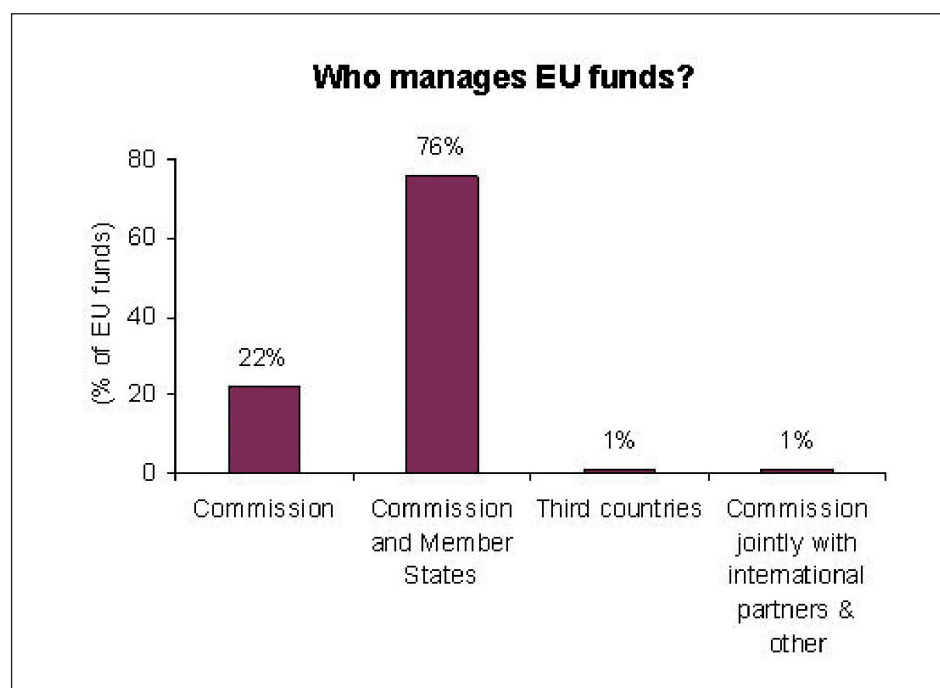


value added tax (VAT) base of each Member State, and a further contribution from the Member States based on the size of their gross national income (GNI). But the “own resources” issue will be further developed in a specific chapter of this book.

There are two parts of budget expenditure: compulsory and non-compulsory expenditure. Compulsory expenditure covers all expenditure resulting from international agreements and the EU Treaties. All other expenditure is classified as non-compulsory. The Council of Ministers has the final word on compulsory expenditure and the European Parliament on non-compulsory expenditure.

The Commission implements the budget on its own responsibility, but shares most of the management with the Member States. A Community legal act - the Financial Regulation - agreed upon by the Member States sets out the rules for calling on, budgeting and using EU funding. All income and expenditure must be accounted for.

**Figure 3.** Who manages the EU funds

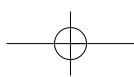


Source: European Commission [http://ec.europa.eu/budget/budget\\_glance/how\\_managed\\_en.htm](http://ec.europa.eu/budget/budget_glance/how_managed_en.htm)

The EC Treaty sets out the timetable for the budgetary procedure. As this official schedule was too tight, the institutions have agreed to a “pragmatic” timetable which - without amending the Treaty - allows more time by bringing forward the initial stage of the procedure. This scheme shows how the timetable normally proceeds:

1<sup>st</sup> Reading:

- *March* - Council, Parliament and Commission start with triologue meeting to discuss policy priorities



## Budgeting for the Future, Building another Europe

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- *July* - Triologue meeting about total expenditure in particular on the amounts of compulsory expenditure. Conciliation on the results of the triologue at the Budget Council
- *Second Half of July* - 1st reading by qualified majority (225/345 votes) comprising at least 62% population (Council)
- *Mid October* - Triologue (implementation of current budget, open questions)
- Parliament - *End of October*
  1. 1st reading - The European Parliament can: 1. amend non-compulsory expenditure by an absolute majority of members (393 votes)
  2. Propose modifications to compulsory expenditures by a majority of votes cast

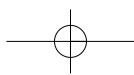
### 2<sup>nd</sup> Reading

- Council and Parliament - *Mid November* - Triologue (non-compulsory expenditure and ad hoc amending letter on compulsory expenditure, open points to be solved in conciliation)
- *End November* - Conciliation aiming at an overall agreement on the whole Budget and, in particular, on *ad hoc* amending letter on agriculture and fisheries agreements
- Mid December - Council - 2nd reading by qualified majority (255/345)
- Final decision on the compulsory expenditure
- Modification of the EP's amendments to non-compulsory expenditure
- Parliament - Final decision on the non-compulsory expenditure and adoption of the budget by majority of members and 3/5 of votes cast. The budget may be rejected by an absolute majority of members and two thirds of the votes cast.

Audits are conducted both by internal auditors and by the external auditor (the European Court of Auditors). The Directors-General have to draw up a report each year, reviewing the work of their departments and commenting on the use made of the resources that were put at their disposal. These Annual Activity Reports are presented to the Members of the Commission and a report of them is transmitted to the budgetary authority, i.e. to the European Parliament and the Council of Ministers, by 15 June following each budget year.

Each year, under what is known as the "discharge procedure", the European Commission and the other EU institutions are accountable to the European Parliament for the use made of the resources at their disposal. The Commission is obliged to take follow-up action on the conclusions reached and recommendations made under the discharge procedure by the European Parliament and Council of Ministers. Parliament, Council and the Court check on these follow-up actions.

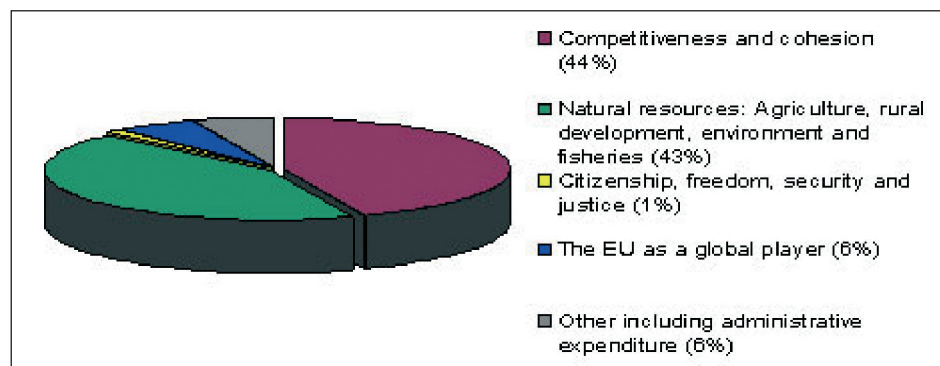
EU spending is further limited by a Multi-annual Inter-institutional Agreement between Members of the European Parliament, the Council of Ministers, and the European Commission. This agreement contains a "Multi-Annual Financial Framework". The last one covers spending plans for the seven-year period from 2007 to 2013.



## The Multiannual Financial Framework 2007-2013

The budget drawn up in 2007 has been the first one under the New Multiannual Financial Framework, which will cover the period up to 2013, and the first for the enlarged European Union of 27 Member States. The 2007 budget will support in particular sustainable growth and employment.

**Figure 4.** EU Budget 2007



Source: European Commission [http://ec.europa.eu/budget/budget\\_glance/what\\_for\\_en.htm](http://ec.europa.eu/budget/budget_glance/what_for_en.htm)

What is the Multiannual Financial Framework? It is a multiannual spending plan that translates into financial terms the Union's policy priorities. It sets limits of EU expenditure over a fixed period and thus imposes budgetary discipline.

It groups EU activities into broad categories of expenditure, called "Headings", broken down in some cases into subheadings, and lays down maximum amounts for each heading for each year. The EU annual budget has to respect those maximum amounts on ceilings. The present financial framework (2007-2013) comprises six headings:

### 1. Sustainable growth

- 1a. Competitiveness for growth and employment
- 1b. Cohesion for growth and employment

### 2. Preservation and management of natural resources

### 3. Citizenship, freedom, security and justice

- 3a. Freedom, security and justice
- 3b. Citizenship

### 4. The European Union as a global player

### 5. Administration

### 6. Compensations (related to the latest enlargement of the Union)

The current Multiannual Financial Framework covers the period 2007-2013 (see Fig 4) and have broken some important trends with a long tradition in the European Union's budget history. The first change is related to a quantitative dimension dealing with the fact that this is the first Multiannual Financial Framework for the enlarged European Union of 27 Member States, the second one is related to a qualitative dimension, this Financial Framework will support a new generation

## Budgeting for the Future, Building another Europe

of programmes focusing on the Union's policy key priorities, in particular on sustainable growth and unemployment. In fact before 2007 the biggest percentage of expenditure was addressed to the Common Agricultural Policy and from 2007 will be addressed to the first heading of the Financial Framework concerning job creation and sustainable growth (Lisbon Strategy).

The amounts of the financial framework are expressed in 2004 prices and are converted into current prices according to a fix deflator of 2% a year as described in point 16 of the Interinstitutional agreement. As mentioned above, the ultimate responsibility for the implementation of the budget rests with the European Commission. In practice, the lion's share of the EU funds (some 76%) is spent under what is known as shared management. Under these arrangements, it is the authorities in the Member States, rather than the Commission that manage the expenditure. A whole set of checks and balances is put in place to help ensure that the funds in question are managed properly and in accordance with the rules in force.

The Preliminary Draft Budget for 2008 is the second of the financial framework, which will guide EU finances up to 2013. The 2008 will be a year of consolidation and continued implementation. The renewed Lisbon Strategy remains at the core of EU policy development. EUR 57,1 billion will be spent on policies related to growth and employment, an increase of 4,2% on the 2007 budget. The new European cohesion policy programmes for all Member States are due to be adopted in 2007, with the first full year of implementation in 2008.

**Figure 5.** EU budget 2008 in billion Euro

Expenditure estimates or EU policies	Budget 2008	Change from 2007
<b>1. Sustainable growth</b>	<b>58.0</b>	<b>5.7%</b>
1a. Competitiveness for growth and employment	11.1	18.4%
1b. Cohesion for growth and employment	46.9	3.1%
<b>2. Preservation and management of natural resources</b>	<b>55.0</b>	<b>-1.5%</b>
3a. Freedom, security and justice (including fundamental rights and justice, security and liberties, migration flows)	0.7	16.7%
3b. Citizenship (including culture, media, public health and consumer protection)	0.6	14.7% <sup>(1)</sup>
<b>4. The European Union as a global player</b>	<b>7.3<sup>(2)</sup></b>	<b>7.3%</b>
<b>5. Administration</b>	<b>7.3</b>	<b>4.4%</b>
<b>6. Compensations to EU countries<sup>(3)</sup></b>	<b>0.2</b>	<b>-53.5%</b>

(1) Excluding the amount allocated in 2007 from the Solidarity fund and the transition measures for Bulgaria and Romania. (2) Including Emergency Aid Reserve. (3) Amount fixed by the Accession treaties.

Source: European Commission [http://ec.europa.eu/budget/budget\\_detail/current\\_year\\_en.htm](http://ec.europa.eu/budget/budget_detail/current_year_en.htm)

Preserving and managing our natural resources in a sustainable and responsible manner takes a more important role inside the EU Budget, of course with all a series of contradictions that will be further analysed in the next chapters. The adoption of the Energy and Climate Change Package in 2007 must be followed up by concrete action in 2008.

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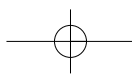
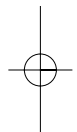
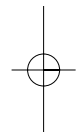
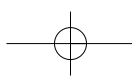
[http://www.europarl.europa.eu/news/public/documents\\_par\\_theme/905/default\\_en.htm](http://www.europarl.europa.eu/news/public/documents_par_theme/905/default_en.htm)

**Figure 6.** Multiannual Financial Framework

Commitment Appropriations	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013
<b>1. Sustainable Growth</b>	<b>51 267</b>	<b>52 415</b>	<b>53 616</b>	<b>54 294</b>	<b>55 368</b>	<b>56 876</b>	<b>58 303</b>	<b>382 139</b>
1.a Competitiveness for growth and Employment	8 404	9 097	9 754	10 434	11 295	12 153	12 961	74 098
1.b Cohesion for Growth and Employment	42 863	43 318	43 862	43 860	44 073	44 723	45 342	308 041
<b>2. Preservation and Management of Natural Resources</b>	<b>54 985</b>	<b>54 322</b>	<b>53 666</b>	<b>53 035</b>	<b>52 400</b>	<b>51 775</b>	<b>51 161</b>	<b>371 344</b>
<b>3. Citizenship, Freedom, Security and Justice</b>	<b>1 199</b>	<b>1 258</b>	<b>1 380</b>	<b>1 503</b>	<b>1 645</b>	<b>1 197</b>	<b>1 988</b>	<b>10 770</b>
3.a Freedom, Security and Justice	600	690	790	910	1 050	1 200	1 390	6 630
3.b Citizenship	599	568	590	593	595	597	598	4 140
<b>4. EU as a Global Player</b>	<b>6 199</b>	<b>6 469</b>	<b>6 739</b>	<b>7 009</b>	<b>7 339</b>	<b>7 679</b>	<b>8 029</b>	<b>49 463</b>
<b>5. Administration*</b>	<b>6 633</b>	<b>6 818</b>	<b>6 973</b>	<b>7 111</b>	<b>7 255</b>	<b>7 400</b>	<b>7 610</b>	<b>49 800</b>
<b>6. Compensations</b>	<b>419</b>	<b>191</b>	<b>190</b>					<b>800</b>
<b>Total Payment Appropriations</b>	<b>116 650</b>	<b>119 620</b>	<b>111 990</b>	<b>118 280</b>	<b>115 860</b>	<b>119 410</b>	<b>118 970</b>	<b>820 780</b>
As a percentage of GNI	1,10%	1,08%	1,07%	1,04%	1,03%	1,02%	1,01%	1,05%
<b>Total Payment Appropriations</b>	<b>116 650</b>	<b>119 620</b>	<b>111 990</b>	<b>118 280</b>	<b>115 860</b>	<b>119 410</b>	<b>118 970</b>	<b>820 780</b>
As a percentage of GNI	1,10%	1,08%	1,07%	1,04%	1,03%	1,02%	1,01%	1,05%
Margin available	0,18%	0,18%	0,27%	0,24%	0,28%	0,27%	0,30%	0,24%
Own Resources ceiling as a percentage of GNI	1,24%	1,24%	1,24%	1,24%	1,24%	1,24%	1,24%	1,24%

\* The Expenditure on pensions included under the ceiling for this heading is calculated net of staff contributions to the relevant scheme, within the limit of EUR 500 million at 2004 prices for the period 2007-2013.

Source: Annex I of Interinstitutional Agreement (2006/C 139/01) Official Journal



# EU Budget and transparency

Jack Thurston  
*Farmsubsidy.org*

A well-worn adage among investigative journalists is that the best way to understand a story is to 'follow the money'. Understanding the EU budget by following the money can be very difficult because of the complexity of budgets in general and the EU budget in particular, but most of all because there is little transparency about how the €130 billion which cascades from Brussels each year is spent. This money passes through a multi-layered patchwork of jurisdictions, agencies and programmes that vary greatly in their levels of transparency and accountability. For the most part, the picture is not good, although there are some grounds for optimism about the future.

In 2006 The European Ombudsman put a convincing generalised case for transparency as part of his response to the European Commission's green paper on the European Transparency Initiative (ETI):

*"Transparency (or openness) is an essential aspect of pluralist democracy. It ensures that citizens can have the information they need to participate effectively in the political process and to call public authorities to account. The right of access to documents empowers citizens in relation to the flow of information. It enables them to take the initiative to obtain information, in its original context, that has not yet been put into the public domain".*

On 19 February 2007, the European Parliament adopted a report on the practical implementation of the ETI which states that:

*"Transparency enables citizens to participate more closely in the decision-making process and guarantees that the EU institutions enjoy greater legitimacy and are more effective and more accountable to the citizen... [Transparency] contributes to strengthening the principles of democracy and respect for fundamental rights... Greater transparency within the EU institutions would increase public understanding of how EU funds are used while at the same time improving the possibilities for evaluating the effectiveness of EU spending".*

The role of civil society is critical both in obtaining budget data and making sense of it.

From my perspective, trying to find out who gets what from the Common Agricultural Policy, things have come a long way since 2000 when, as a political adviser to the then UK Minister of Agriculture, I leaned over my boss's shoulder to look at a single sheet of paper

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prepared by officials that listed the top twenty recipients of EU farm subsidies in the UK. The thought that immediately crossed my mind was this: if the public knew about the six and seven figure annual payouts to rich landowners like Queen Elizabeth II, the Duke of Westminster and the Earl of Buccleuch and to big food companies like Nestlé and Tate & Lyle, would they ever see the CAP in the same way? Talk to most Europeans about the CAP and they think it is all about money to help out small family farmers who are struggling to get by. The reality is that these farmers barely get a look in: 85 percent of EU farm subsidies go to the top 18 per cent of recipients.

Transparency in the EU budget has been advanced farthest in relation to farm subsidy payments, and this is almost entirely the result of the work over the past four years of the journalists, researchers and activists of the farmsubsidy.org network using existing rights of access to information to obtain lists of who gets what. In several cases, the law in question has derived from the European Directive 2003/4/EC on public access to environmental information (also known as the Aarhus Convention). Cross-border collaboration has allowed us to develop a single EU-wide online database of farm payments so that anyone with an internet connection can access the data obtained in a user-friendly way. The online database we maintain currently holds details on 11.5 million payments to 6.3 million recipients in 20 countries worth a total of €64 billion. While this is a great deal of data, it is really just the tip of the iceberg and many countries are still holding out against releasing data. France and Germany have distinguished themselves as the most vehement opponents of budget transparency, particularly when it comes to farm subsidies. As the French newspaper *La Tribune* put it in October 2005, "along with nuclear missile launch codes, the list of the biggest recipients of EU farm subsidies is among the most closely guarded secrets of the French Republic". Even so, this first campaign for EU budget transparency has snowballed across Europe and it is beginning to have a measurable impact on the debate on the future of Europe's farm policies.

Following the rebranding of the EU budget in the 2007-13 financial perspective, the EU's €55 billion in farm payments is currently listed under a broad budget heading called '*Preservation and management of natural resources*'. This description is at best highly misleading, at worst, pure deception. To find out what is really going on, you have to go beyond the spin and dig deep into the details. The same kinds of searching questions that the farmsubsidy.org network is asking regarding the farm payments can - and should - be asked in regard to each area of the EU budget: structural funds, cohesion funds, fisheries subsidies, external action or development aid. The availability of detailed data on the EU budget is enabling European civil society to perform new and potentially powerful oversight functions. Following successful request for access to data on EU fishing subsidies (the Financial Instrument for Fisheries Guidance) we cross-checked the list of fishing vessels that had received large EU subsidies with court records of vessels that have been convicted of illegal fishing, for



example, use of drift nets that kill dolphins and other vulnerable species. We found it was quite common for a vessel to receive subsidy in one year, be convicted of illegal fishing in the next, and then receive more subsidy in the third year. This is all perfectly legal, but it does raise questions about the way EU fishing subsidies are allocated. When the Court of Auditors looked at an EU aid package for the Balkans it found examples of money being spent in ways that had little to do with the stated objectives. In 2003, €2.8 million was allocated under a heading of 'strengthening border protection in Macedonia'. It was supposed to pay for training officials, improving recruitment and buying equipment to check documents. In fact it was all spent on buying vehicles. The reputation of international development policies have been beset by allegations of so-called 'phantom aid': sums of money that sound good when announced during a heads of government summit meeting but end up being spent in the donor country on expensive consultants. It is only by knowing the end beneficiary that we can have any hope of assessing how the money has been spent. Was that multi-million euro grant for 'democracy promotion in Egypt' actually spent on training riot police? Was that EU-funded road ever built?

Very often, the first objective of investigative journalists who delve into budget data is to uncover 'waste, fraud and abuse', not to look at the bigger questions of EU policy and priorities. After all, graft and corruption stories make better headlines than policy analysis. In the early days of farmsubsidy.org, we uncovered plenty of this kind of fairly low-grade story, the most notable being the €180,000 in farm subsidies going to the Dutch Agriculture Minister Cees Veerman who had failed to declare that he owned four farms he held in the Dordogne region of France. Allegations of conflict of interest caused uproar in the Dutch parliament and nearly cost Veerman his job. In the first few years, the biggest stories have been about high level conflicts of interest, very large payments to wealthy individuals and big business and curious recipients of farm subsidies like golf courses, pony clubs, railway companies, airlines, churches and oil rigs. Since there is only so much work that official audit bodies can do, supplementing the efforts of auditors and parliaments with investigative reporting is a good thing. However, if civil society groups involved in budget monitoring are to achieve their potential they must go beyond 'waste, fraud and abuse'. As more data becomes available it will be possible to use payment data for more sophisticated evaluations of the impact of farm payments on the environment, rural employment and living standards and food safety. For example, BirdLife International is mapping farm subsidy data against its own measures of farmland biodiversity, to see whether there is a correlation between subsidy intensity and loss of wildlife, soil erosion and water pollution. Transparency and informed civil society oversight can reach the parts of the EU budget that the Court of Auditors cannot reach.

Despite the obvious benefits of transparency, member states and the Commission alike have fought costly legal battles to keep their citizens in the dark. Even though at the end of 2006 the principle of budget transparency was enshrined in the legal text of the EU Financial

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Regulation, implementation of the new rules has been characterised by delay and backsliding. As things currently stand, we will have to wait until 2009 for details of non-agricultural expenditure relating to the 2007 budget to be published. We will have to wait an additional year before details of agricultural expenditure are published. The lesson is that a high level pledge on budget transparency is not always a guarantee that it will be followed through in practice. Public officials find it hard to conceive of a pressing reason for putting government data into the public domain. They see only potential trouble in doing so. So they take the path of least resistance and keep data to themselves, unless they happen to be challenged by an investigative journalist or a concerned citizen.

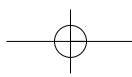
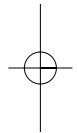
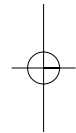
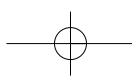
The European Ombudsman argues that “moving to a situation in which availability of information is the norm and confidentiality the exception involves a major cultural change.” In a pluralist democracy, investment in comprehensive and functional public information infrastructure has a high rate of return. As such, it should be as high a priority as other more traditional infrastructure investments like roads, railways and telecommunications. In that context, the costs involved in transparency are very modest. In practical terms, the European Parliament has endorsed our view that the Commission should “accept political responsibility for publishing information on beneficiaries of EU funding under all modes of management”. To date, the Commission has resisted this strongly in regard to funds under shared management (around 80 per cent of the budget) and has sought to pass the buck to the member states. The Parliament is stinging in its criticism of the Commission’s half-hearted attempts to provide a ‘web portal’ to member state information sources, pointing out that “the information is so diverse and scattered and of such varying quality that information can hardly be found”. It is regrettable that the farmsubsidy.org network has had to spend most of our effort on getting access to data and cleaning and processing it. This has dramatically reduced our capacity for performing policy-relevant analysis of the data.

Despite these shortcomings, the EU is definitely moving in the right direction. In many cases the practices and aspirations of European Union institutions on transparency are more advanced than at the level of member states (although this could be interpreted as ‘damning with faint praise’). There are some cases of good practice at a national level, for example the Hungarian and Bulgarian governments have recently launched web-based tools for citizens to monitor EU spending, and alert authorities to instances of fraud, corruption or waste. The regional government of Sardinia has embraced web-based transparency policies. The public agency Natural England has published interactive maps relating to landscape conservation and agri-environment policies. Often these initiatives are personal initiatives of individual pro-transparency public officials, rather than the result of widespread adoption of new transparency standards. Such a piece-meal approach can be valuable in allowing innovation and communicating best practice, but it will take a step change if budget transparency will become the rule rather than the exception in Europe.

The European Ombudsman has pointed out that while access to documents held by EU institutions is a right under the EC Treaty (Article 255), EU law does not confer on citizens any general right of access to information about the EU-related activities of member states. Moreover, the government of each member state has the right to veto public access to any document of which it is the author, without giving any reason. The Ombudsman concludes that:

*“For citizens of the Union who want to monitor how the Union’s policies are made and implemented, the current situation thus presents a systemic problem. On the one hand, the exercise of public authority closely connects the national and Union levels. On the other hand, there is a rigid separation of those levels when it comes to the legal framework of transparency. The lack of congruence between how authority is exercised and how it is made accountable constitutes a serious weakness in the democratic structure of the Union”.*

EU institutions have the chance to lead by example and to show that it can be done. If budget transparency becomes a reality for the EU, it will not be long before European citizens demand transparency from their national, regional and local governments too.



# Reforming the budget, reforming the revenues

Tommaso Rondinella

*Sbilanciamoci!*

## 1. Where the money come from

Talking about the EU budget is impossible without paying some attention to the way the Union finds the resources to be spent. Whereas most people consider the discussion on the revenue side of the budget too technical to be faced, some of the issues raised refer to basic principles of equity, democracy and transparency. From this point of view the debate on the resource system of the Union achieves a fundamental role for the future of Europe.

In 2007 the total amount of revenues collected by the European Union was of more than 120 billion euros. Over two thirds of it was due to direct contribution by Member States (MS) as a percentage of their Gross National Income (GNI), while another 15% proceeded from a slice of the VAT collected locally. These two sources of revenues, covering more than 80% of the whole European budget, can be actually considered contributions by Member States instead of proper "own resources". The so-called first pillar - composed by customs duties - and the second pillar - agricultural duties and sugar fees - represent the very own resources of the union. They are also called the "traditional resources" being the ones that financed the EU budget for the first decades of the European Community (EEC).

Agricultural customs are levied on imported agricultural products whose prices are lower than the European ones in order to try to equal them and thereby protect the internal agricultural market. Sugar levies are imposed on producers of sugar and derivative products like isoglucose and insulin. But unlike the levies on agricultural imports, they are charged on Community sugar producers. Custom duties are established with respect to trade with non-member countries. The main purpose of these duties is similar to the aim of agricultural duties as it aims at the equalization of the EC prices with the world prices and the protection of the European market (Cieślukowski, 2005).

The EU derives additional revenue from other resources, such as taxes and premiums levied on salaries of the EU's employees, interests from outstanding amount dues, budgetary surpluses, income from the activity of some institution, etc. Revenue from these resources is irregular and less efficient in fiscal terms.

**Figure 1.** Revenues for the financial years 2006 and 2007

Type of revenue and corresponding budget heading	Actual revenue in 2006(a)	% for 2006	2007(b)	% for 2007
<b>1 Traditional own resources (net of 25 % collection costs)</b>	<b>15 028,3</b>	<b>13,90%</b>	<b>18 748,5</b>	<b>15,60%</b>
- Agricultural duties (Chapter 10)	1 291,8	1,20%	1 683,2	1,40%

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Type of revenue and corresponding budget heading	Actual revenue in 2006(a)	% for 2006	2007(b)	% for 2007
- Sugar and isoglucose levies (Chapter 11)	151,6	0,10%	633,4	0,50%
- Customs duties (Chapter 12)	13 584,9	12,50%	16 431,9	13,7%
<b>2 VAT resource</b>	<b>17 206,2</b>	<b>15,90%</b>	<b>19 095,7</b>	<b>15,90%</b>
- VAT resource from the current financial year (Chapter 13)	17 219,8	15,90%	19 095,7	15,90%
- Balances from previous years (Chapter 31)	- 13,6	0,00%	-	
<b>3 GNI resource</b>	<b>70 132,1</b>	<b>64,70%</b>	<b>81 077,6</b>	<b>67,40%</b>
- GNI resource from the current financial year (Chapter 14)	68 602,1	63,30%	81 077,6	67,40%
- Balances from previous years (Chapter 32)	1 530,0	1,40%	-	
<b>4 Balances and adjustments</b>	<b>- 15,3</b>	<b>0,00%</b>	<b>0</b>	<b>0,00%</b>
- UK correction (Chapter 15)	- 6,0	0,00%	0	0,00%
- Final calculation of UK correction (Chapter 35)	- 4,0	0,00%	-	
- Intermediate calculation of UK correction (Chapter 36)	- 5,3	0,00%	-	
<b>5 Other revenue</b>	<b>6 071,7</b>	<b>5,60%</b>	<b>1 425</b>	<b>1,20%</b>
- Surplus from previous financial year (Chapter 30)	2 502,8	2,30%	1 25,7	0,10%
- Miscellaneous revenues (Titles 4 to 9)	3 568,9	3,30%	1 299,3	1,10%
<b>Grand Total</b>	<b>108 423,0</b>	<b>100,00%</b>	<b>120 346,8</b>	<b>100,00%</b>

Source: (a) Court of Auditors 2007 (b) European Commission 2008

### *History and evolution of the own resources' system*

In the '60s the activities of EEC and Euratom were financed with direct payments made by Member States. The contributions were defined according to GNI and to political criterion. This method could not guarantee long term stability since it depended on political decision and in such context the biggest contributors also had major influence in defining expenditure priorities. The Treaty of Rome itself disposed that such system should have been existing only as a transition before the definition of a system of own resources able to guarantee financial and political independence to the Community.

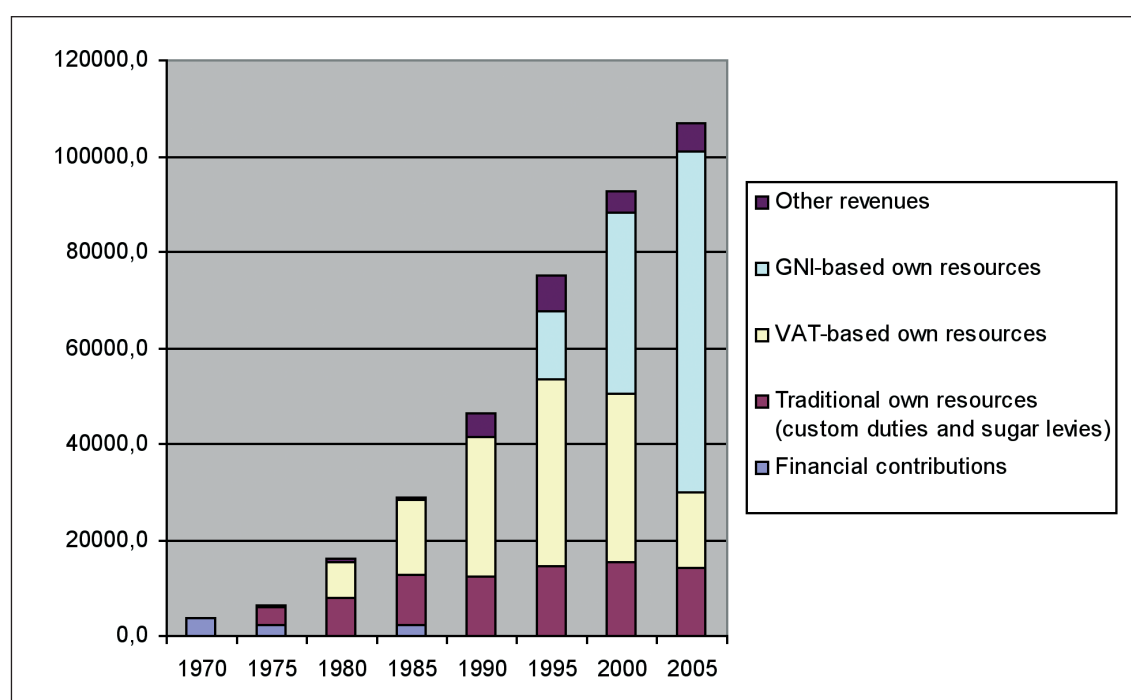
In 1970 the Council defined a system of own resources which was meant to replace direct payments from Member States through the "traditional own resources" (custom duties and agricultural fees) and through a resource based on VAT.

But during the '80s the new financial structure showed its limits. At that moment most of the resources were spent for the agriculture policy (CAP) and in 1984 the UK, due to its limited agricultural sector, asked for a rebate: a compensation of two thirds of its net contribution to be covered by all other Member States. Besides, in 1988 revenues from the own resources turned out to be insufficient to cover the constantly raising cost of the CAP and commitments to the new Member States. Instead of defining new own resources, the so-called fourth resource was introduced and the Community returned to the general budget financing method that existed in the 60s. Created in order to cover "residual" expenditures,

in 2013 the GNI resource will provide about 74 % of the EU financing, against 13 % for customs and agricultural levies and 12 % for the VAT-based resource.

Over the years the EU revenues have been increasing continuously in absolute terms though in the last fifteen years the relative size started to decrease. After having reached 1,2% of EU GNI at the beginning of the nineties, the EU budget revenues are falling below 1% of EU GNI with the financial perspectives 2007-2013. This is due on one side to the enlargement of the Union that made the EU GNI quickly increase, on the other side on the lack of willingness of major Member States.

**Figure 2.** Size and composition of revenues 1970 - 2005



Source: European Commission, EU budget 2006 - Financial Report

### *The UK rebate*

The UK budgetary correction mechanism (the so-called UK rebate) is probably the most controversial issues surrounding the EU budget together with the agricultural policy to which it is strictly linked. In the '80s, when the UK joined the 9 members' Community, the EU budget was mostly spent on the agricultural policy. Because of the different structure of its agricultural sector that was receiving few contribution from the CAP, the UK found itself to be one of the largest contributors despite of being one of the poorest countries. The strong pressure of Mrs. Thatcher granted the UK of a reimbursement, opening the door to a bargaining mechanism in the definition of the own resources that is eventually strongly affecting budget transparency and coherence (CEPS, 2007).

The UK rebate sets that UK contribution to the Community budget is reduced by an amount equal to 66% of its net balance. Such imbalance is the difference between the amount

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paid by the UK - excluding the traditional own resources - and the community expenditures affecting the UK - excluding external actions, that is also pre-accession expenditures. Pre-accession expenditures turned in internal expenditures with the enlargement, yet remaining outside the rebate formula. The new Financial Perspectives provide that the rebate will keep on existing though, "starting in 2013 at the latest, the UK shall fully participate in the financing of enlargement costs for countries which have acceded after 30 April 2004 except for CAP market expenditure" (Council, 2005).

Such complex calculation mechanism never took into account the chance for a transformation of Britain's wealth. Over years the rebate has grown because of two main reasons:

- the increase in cohesion expenditures of which the UK is not a main recipient
- the increase in UK contribution because of the increasing UK GNI.

The final result will be that the UK will become one of the smallest net contributors while being one of the wealthiest member states as shown in Table 2 (CEPS, 2007).

**Figure 3.** Net contributors before and after the rebate

Net budgetary balances before the rebate, est. average 2008-13	Net budgetary balances after the rebate, est. average 2008-13
UK -0.62	Netherlands -0.56
Netherlands -0.55	Germany -0.54
Germany -0.52	Sweden -0.5
Sweden -0.47	Italy -0.41
Austria -0.37	Austria -0.38
Italy -0.29	Cyprus -0.37
Cyprus -0.28	France -0.37
France -0.27	Denmark -0.31
Denmark -0.2	Finland -0.25
Finland -0.14	UK -0.25

Source: CEPS, 2007

### *Some general rules*

The current system, though very complicated, can be summarized in a few general rules:

- The GNI-based resource is obtained by applying a rate fixed each year under the budget procedure to a base representing the sum of the gross national incomes at market prices. It is calculated by reference to the difference between expenditure and the yield of all the other own resources.
- There is a ceiling the own resource system cannot exceed. It is fixed at 1,24% of EU GNI for payments and 1,31% for commitments.
- 25% of the revenues from the "traditional own resources" are kept by Member States as a deduction for the collection of the duties.
- the taxable base of VAT in MS is limited to 50% of their GNI and the tax fee is harmo-



nized with 0,30% according to the new Financial Perspectives, with exceptions for Austria (0.225%), Germany (0.15%) and the Netherlands (0.1%).

- the UK rebate is covered by all other MS but Germany, Netherlands, Austria and Sweden pay only  $\frac{1}{4}$  of their share. The remaining  $\frac{3}{4}$  are charged to the other MS.

### Critical points

Apart from these, some other smaller adjustments have been defined in order to reach a compromise during the negotiating process. Rebates and small adjustments make the EU budget much more difficult to read. Yet **transparency** is of paramount importance for the best functioning of the budget. Increasing transparency of EU financing would foster the involvement of the Parliament in budgetary matters. Indeed, as taxpayers tend to question the use and the amount of the taxes they pay, they also force the tax authorities to better justify the use of their resources and to make the best use of them. Increased transparency may thus impact on the accountability of a government and on overall efficiency (Cattoir, 2004). Yet the current system is still rather complex and only a few citizens in Europe have a clear idea on where the resources are coming from. Only the traditional resources respect a criterion of transparency, while the GNI contribution is not directly perceived by taxpayers and the quote of VAT derives from a complex calculation apart from being affected by various rebates.

The lack of transparency is thereby linked to the wide use of direct contribution from Member States. Moreover direct contributions necessarily stress the difference between **net contributors** and net beneficiaries, determining the constant attempt by MS to get the maximum benefit at national level. Governments tend to try to justify their contributions to the EU budget with monetary inflows coming from Brussels. Such constant comparison between inflows and outflows is a distorted view of the real costs and benefits for Member States. In fact it does not take into account a number of advantages rising from European policies, namely those linked to the internal market and the economic integration, economic and political stability as well as all the indirect expenditures originated by structural funds. As a result, Member States are currently focused on getting their money back rather than on realizing the European Union's goals. The fourth resource is definitely the most efficient, the one that made possible a continuous increase of the budget. Nevertheless the structure of own resources may be important to qualify the identity of the Union. As emphasized by former Commissioner for Budget Michael Schreyer the Union is not supposed to be an international organization financed with countries' contribution, nor a club in which members negotiate the contributions with the chairman in the backdoor. Power to raise taxes is a central element of state sovereignty and a pure system of own resources would give the Union the ability to use money on the expenditure side according to a principle of best effectiveness for the Union as a whole (Schreyer 2006).

Another disadvantage of the present own resources system stands in the lack of **equity** and in the poor redistributive effect. Direct contributions are often considered unfair since

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they are not based on the actual ability-to-pay of citizens and countries. On one side the VAT - an indirect tax on consumption thereby regressive by definition - weighs in a more burdensome way on poorer people who use a larger part of their wages for consumption. Its role in the composition of the EU budget has been fortunately decreasing year by year both in absolute and relative terms.

On the other side, the GNI resource is strictly proportional to the stock of GNI with no attention to the income per capita, a much better measure of richness and of ability-to-pay of MSs. The system of own resources should be, instead, interregionally progressive by means of respecting a national per capita income of each Member State in comparison to the total income of the EC.

Eventually, a system of own resources based on national contribution is not able to guarantee **stability** and adequate **size** to the budget in the long term. A system based on political negotiation is constantly subject to possible reductions in periods of crisis of the bigger payees. Following a rule of majority in decision making, bigger payees have larger influence in the decisions on the amounts to be transferred to Brussels as well as on the direction of the expenditures. A lack of will to transfer resources from one of the biggest Member States may influence deeply the Union as a whole. The way the budget is financed should instead be as independent as possible from single countries' decision as to guarantee long term stability and a size adequate to the increasing competences transferred to Brussels .

The consequences of a lack of will to fully finance the EU budget could be already observed during the negotiations for the current Financial Perspectives. In December 2003, after a European Council in Brussels six heads of state from net contributors countries<sup>10</sup> called for a reduction of the EU budget signing a letter in which they asked to set the ceiling for the financial perspectives at 1,0% of GNI instead of 1,24% arguing that:

*"This would still allow for annual increases on the EU-budget well above growth rates of national budgets on most Member States, and permit a sufficient margin for policy-implementation in the enlarged Union".*

Thereby a ceiling of 1,0% has become the starting point for the negotiations on the Financial Perspectives 2007-2013 (European Parliament 2007).

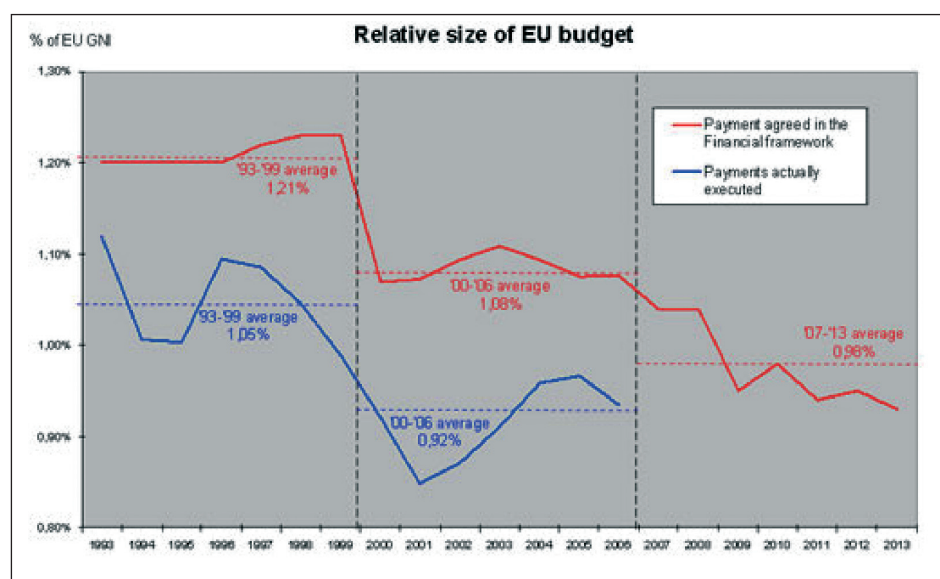
Nevertheless it must be stressed that the overall size of the EU budget appears to be already structurally too small. The case of the great difficulty faced in order to finance the 2 billion euros satellite navigation system Galileo is a demonstration of the insufficient size of the budget. It has eventually financed collecting money from the CAP thanks to the world increase of agricultural prices that allowed some leeway within the agricultural budget, but under normal conditions this would not have been possible. Another demonstration stands in the use done of the flexibility instrument. The budget rule permits the budgetisation of 200

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<sup>10</sup> Germany, Austria, France, the Netherlands, Sweden and UK.

million euros cumulatively over three years for matters that could not otherwise be financed in each budget year. Since the creation of this instrument, it has always been used for the fourth heading "Europe in the world", showing that the resources usually allocated for external policy are structurally non sufficient to face the commitments. An equilibrated and sufficient budget would allocate the flexibility instrument to different headings according to special circumstances that might occur year by year. Figure 4 shows the decreasing of the EU budget in terms of EU GNI. While during the '90s the size of the community budget was around 1,2% of overall European income, it has been decreasing over time representing nowadays less than 1% of EU GNI.

**Figure 4.** Relative size of EU budget



Source: European Commission «[http://ec.europa.eu/budget/reform/issues/article\\_5957\\_en.htm](http://ec.europa.eu/budget/reform/issues/article_5957_en.htm)»

## Proposals

Once taken into account these limits of the current system of own resources many proposals have been put forward in order to provide the Union with a revenue mechanism able to:

- **Generate "own resources"** so to overtake negotiations based on net contributions instead of on the real challenges of the Union.
- Give **stability** and an amount of resources **sufficient** to cover the EU expenditures in the long run, that is to sum at least 1% of European GNI.
- Be **transparent** to citizens that must have a clear and direct perception of how the European policies are actually financed and how much they are paying for them.
- Guarantee vertical and horizontal **equity**. The former satisfies the principle according to which the richer pays a higher proportion of its income because of its major ability-to-pay, this being true both for countries and citizens. The latter refers to the principle that "equals should benefit from equal treatment".

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A pure system of own resources should be either based on a harmonized tax levied at European level, or being a slice of an already existing national tax. From Sbilanciamoci! point of view it is of paramount importance a tax systems that is fair, providing vertical equity and having side effects able to promote public goods. The chance to implement taxes at regional level appears to be a first step towards a system able to control social and environmental issues that cross national borders and to defend **global public goods**.

The best option for a European levy seems to be an overall **energy tax**. This may easily refer to an already existing directive entailing the harmonisation of the tax base on mineral oils, natural gas, electricity and coal, and the approximation of tax levels through Community-wide minimum rates of taxation (Cattoir, 2004). Apart from being a source of revenues for the Union, an energy tax would represent an important incentive towards the development of renewable energies.

An EU energy tax, even if limited to set the minimum rates defined by the directive, would probably bring sufficient revenue to cover a significant part of the EU budget. This is in line with previous Commission conclusions. For instance, the European Commission (1993) estimated that a 10 US dollar tax per barrel of oil equivalent would yield about 1.1% of EU GNI in the context of a carbon/energy tax. Such levy would as well guarantee stability of revenues in the long run, since energy consumption is usually strictly linked to GDP growth (Cattoir 2004). The case for a reduction because of a massive use of renewable energy, does not seem to happen in a short time, but it would be in any case desirable for sustainability reasons. The very limit of a taxation of this kind stands in its progressivity, that is its ability to guarantee vertical equity. In fact, while a taxation on gasoline for transports would fall proportionally more on well-off people, the one on heating products would affect much more poorer households. It should then be defined a structure of fees able to burden mainly on richer taxpayers by differentiating fees on different products. This will lead to a possible reduction of the tax yield, but an energy tax does not have to be the only source of revenues for the EU.

Aside of an energy tax, it may be of great use a **currency transactions tax** (CTT). It wouldn't provide an equal amount of revenues, but still may value more than 20 billions euros (up to 90 according to Spratt, 2006), that represents one fifth of total EU budget. Its only limit stands in its dependency from financial markets fluctuation, but it is a powerful tool in order to limit financial volatility. CTT is a very small fee (0,1% or less) to be applied to every currency transaction. Such a small fee wouldn't affect international trade nor savings. The only actors who would be affected by this tax are financial speculators, those buying and selling assets continuously in order to get small advantages on random fluctuations of the market. These activities are not based on real economy. Decisions are taken according to risk analysis and on behavioural and compulsive imitation of other actors, thus producing herd behaviours and increasing the volatility of financial markets. Affecting only speculators, the CTT will promote financial stability, this being good for the stability of EU revenues, but above

all for all savers. Under this perspective financial stability may be considered a public good to protect. Compliance and administration costs could be fairly limited, since the tax would be paid on an automatic basis to the stock market authorities. Under the equity point of view CTT is very effective since it is paid mainly by those few people, banks and investment funds (European and non-European) able to invest big amounts of money in financial markets.

These two resources alone may easily substitute the VAT and GNI resources and increase the EU budget shaping it according to a proper system of own resources and allowing European institution to concentrate on Union's goals instead of on Member States pressure.

Moreover, a simple restructurings of VAT may improve the current system. The main limit of VAT is its vertical inequity as an indirect tax on consumption. **Differentiating VAT** fees according to the kind of products so to shift the burden on well-off households or on those activities producing negative effects on society (for example pollution, weapons, advertisement or sports' show business) might be a way to introduce progressivity in the VAT resource.

Another possibility is to increase the traditional own resources by adding the **VAT on imports** from third countries (Bornico, 2006). VAT paid at the external borders of the Union is of the same kind of nature as custom duties and could be assimilated to them constituting a pure own resource. The main difference with custom duties is in the tax yield, VAT on imports representing between 1 and 2% of European domestic product (see figure 5). The asymmetry in revenues from each member state existing for custom duties are then inflated. The case of UK and the Netherlands might be the biggest obstacle to such measure since these countries, because of the size of their ports and the important share of imports entering Europe through their borders, should renounce to a greater amount of internal revenues.

**Figure 5.** Percentage of VAT on imports on EU GDP

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>TOT</b>	1,15%	1,20%	1,22%	1,23%	1,38%	1,43%	1,50%	1,81%	1,74%	1,62%	1,61%

Source: Bornico, 2006.

These last two measures still wouldn't be clearly visible to citizens and would not overtake completely the perception of net contributions, at least initially, but their application would be immediate and very effective for community budget.

## Conclusions

If the Community budget needs to be reformed, the reforming of the revenue side is the starting point. The new European budget should be based first of all on genuine own resources able to guarantee independency to the European Institution so to use the budget according to a principle of best effectiveness for the Union as a whole. In order to reach this objective an overtaking of the current system based on country contributions seems not adequate.

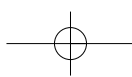
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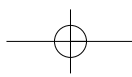
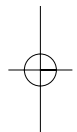
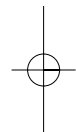
Sbilanciamoci! campaign proposes a combination of an energy taxation and of a currency transaction tax, that added to the current "traditional own resources" would reach a sufficient flow of resources. In addition, a proper own resources system will permit to eliminate all the adjustments and rebates currently characterizing the revenue side, thereby enhancing budget transparency in the view of European citizens.

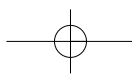
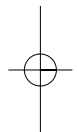
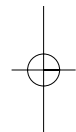
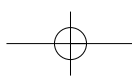
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# Heading 1 - Sustainable Growth







# Research, technology and innovation according to the Community budget

Pietro Maffettone, Tommaso Rondinella and Anna Villa

*Lunaria*

## The general picture

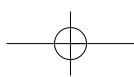
The building block of the Research, technology and innovation (RTI) strategy is the legacy of the "Lisbon Strategy". The main objective is to reshape the European economic area via the expansion of knowledge-driven economic growth. As stressed by the Lisbon strategy the main objective is to create a "knowledge-based economy". Such objective is not driven by a desire to simply modernize European economic and productive assets. The main point is to emphasize the impact of knowledge on growth performances. More specifically it is based on a theoretical perspective that attributes a role to innovation in order to explain growth differentials among the most advanced economic areas. Put another way, if the US or Japan grow more rapidly than the EU as a whole, this is due to more knowledge-based economies in both countries.

Under this perspective the concept of European Research Area (ERA) is essential in order to build a knowledge-based society where research, education, lifelong learning and innovation are mobilized to satisfy ambitions and expectations of European citizens on economic, social and environmental fields. The idea of ERA combines three aspects correlated to each other:

1. The idea of an "internal market" of research where researchers, technology and knowledge can freely circulate;
2. An effective coordination of activities, programmes or research policies defined at national or regional level;
3. The implementation of initiatives financed at European level.

Five years after its creation, the Lisbon Strategy underwent a revision process that showed the need for its re-launch and redefinition of priorities. European policy for research and innovation is not limited to the Framework Programme (FP) but depends on market regulation, cohesion and competitiveness strategy and the following targets:

- Develop research, education and innovation in all forms allowing to convert knowledge in added value to create new and better jobs;
- Foster a dialogue among different the stakeholders, public and private, of knowledge society: cooperation and technology transfer between public research and industry and strategies concerning copyright and patents are fundamental to reach such aim;
- Reach a level of research investments equal to 3% of GDP for each Member State, with an adequate allocation between public and private investments (33% public, 66% private);
- Strengthen European attractiveness for researchers and technological initiatives;



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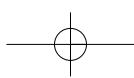
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- Institution of a European Research Council (ERC) to sustain excellence and base research;
- Institution of a European Institute of Technology;
- Creation of an attractive environment for investments and work;
- Put growth and employment to use in social cohesion;

The **Research Framework Programmes** (FP) are the EU's main instrument for funding research in Europe and have been operating successfully since 1984. They have played a particularly important role in bringing European researchers (in academia and in industry) together in collaborative research projects, in facilitating the mobility of researchers across Europe and in supporting economic and social development. The current Seventh Framework Programme (FP7) has a budget of over €50 billion, covering the seven-year period 2007 to 2013 and it has been designed to build on the achievements of its predecessor towards the creation of the European Research Area and carry it further towards the development of the knowledge economy and society in Europe. In particular the 7th Framework Programme emphasizes the creation of the European Research Council. It is structured into 4 specific programmes, designed on the main strategic objectives of European research policy that are:

- **Cooperation:** this specific programme supports all types of research activities carried out by different research bodies in trans-national cooperation and aims to gain or consolidate leadership in key scientific and technology areas. FP7 allocates €32,4 billion to the Cooperation programme. The budget will be devoted to supporting cooperation between universities, industry, research centres and public authorities throughout the EU and beyond. The Cooperation programme is sub-divided into ten distinct themes;
- **Ideas:** This programme foresees the creation of the ERC with an overall budget of €7.5 billion over 7 years (2007-2013). Main objectives are the improvement of excellence research, dynamism and creativity in European research and the attractiveness of Europe for the researchers. This programme also support 'frontier research' executed by individual teams;
- **People:** Entirely dedicated to human resources in research this programme aims to responding to the needs of Europe's scientific community in terms of training, mobility and career development. the 'Marie Curie Actions' have been regrouped and reinforced with an overall budget of more than €4,7 billion over a seven year period until 2013, which represents a 50% average annual increase over FP6;
- **Capacities:** this programme operates in seven broad areas: research infrastructures, research for the benefits of SME's, regions of knowledge and support for regional research-driven clusters, science in society, support to the coherent development of research policies, international cooperation. It is provided with a budget of €4,1 billion.

The **Competitiveness and Innovation Framework Programme** (CIP) 2007-2013 aims to stimulate the competitiveness of European enterprises. With small and medium-sized enter-



prises (SMEs) as its main target, the programme foster and promote innovation activities, including eco-innovation, accelerate the development of a sustainable, competitive, innovative and inclusive information society, provide better access to finance and deliver business support services in the regions. It contributes to reduce the gap between research and innovation, encourages a better take-up and use of information and communications technologies (ICT) and helps to develop the information society. It also promotes the increased use of renewable energies and energy efficiency. The programme will run from 2007 to 2013 with a budget of €3,2 billion.

The CIP is structured around three main blocks of activities:

- the Entrepreneurship and Innovation Programme, particularly focussing on SMEs;
- the ICT Policy Support Programme, to support the adoption of ICTs in business, administrations and public sector services;
- the Intelligent Energy Europe Programme.

The CIP complements the efforts of the Framework Programmes to bring ERA one more step forward towards a European research and innovation area.

The RTI oriented initiatives within the cohesion policy are mainly focused on reducing the gap between richer and less favoured European regions. In a broad vision (not only RTI initiatives) the EU cohesion policy focuses on three main objectives:

- Convergence;
- Competitiveness and employment;
- Territorial Cooperation.

Financial resources amount to €307.6 billion to the cohesion policy for 2007-2013. 81.7% of that amount will serve Convergence regions, 15.8% will go to regions eligible under the Competitiveness priority, and 2.44% will remain for European Territorial Cooperation.

In the following table we present an overview of these instruments with both financial dimension in EU proposal and in Council approval.

**Figure 1.** A comparison of the three large programmes of EU RTI policy

	Framework Programme	CIP	Cohesion Policy
Ultimate aim	creation of the European research area	fostering innovation within the EU	fostering convergence within the EU
Rationale	market and system failure in RTI policy, provision of EU-wide public goods	market and system failure in RTI policy	redistribution
Primary spatial dimension	European	European	National and regional
Criterion of project selection	bottom-up research excellence (innovative potential) except in some aspects of the capacities programme	impact potential coordination projects	relative national and regional backwardness (country specific financial allocation) evaluation of impact potential on regional (national) economy

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	Framework Programme	CIP	Cohesion Policy
Targeted group	enterprises, researcher and research institutes as well as national and regional decision makers in RTI policy	national and regional decision makers in RTI policy, innovative SMEs, technology transfer institutions	nation states, regions
Funding dimension 2007-2013 (Commission Proposals) <sup>11</sup>	72726 Mio. EUR	4212.6 Mio. EUR	336100 Mio. EUR (total) 20166 Mio. EUR (RTI)
Funding dimension 2007-2013	50521 Mio. EUR	3196 Mio. EUR	307600 Mio. EUR (total) 18456 Mio. EUR (RTI)

Source: Hölzl, W. *Cohesion and Excellence: Two ways to a better Europe*, mimeo, Austrian Institute of Economic Research, 2006, and European Commission

**The budget**

Among other things, sub-heading 1a of the 2007-2013 financial perspective puts forward the European Community's investment plans for research and development. Such investments are clearly targeted to development and innovation in the EU area as a whole. The financial framework gives a ceiling expenditure in order to boost innovation of about 72 billions euros in the six years period considered. The yearly spending ceiling starts at 8 billions and by the end of 2013 gradually reaches 12 billions. The final weight of the initiative in perspective is given by its relative importance on EU's budget in year 2013: expenses for competitiveness growth and employment will constitute roughly 16 percent of total expenses. The title 8 of the EU budget is the one dedicated to "research". The table below for year 2007 may provide an overall view on how money are actually distributed among different headings.

**Figure 2.** Title 08 - Research. General summary of appropriations 2007

Title Chapter	Heading	Commitments
08 01	Administrative Expenditure of 'Research' Policy Area	237 872 302
08 02	Cooperation - Health	688 163 000
08 03	Cooperation - Food, Agriculture and Fisheries, and Biotechnology	204 559 000
08 04	Cooperation - Nanosciences, Nanotechnologies, Materials and New Production Technologies	390 363 000
08 05	Cooperation - Energy	121 023 000
08 06	Cooperation - Environment (Including Climate Change)	214 179 000
08 07	Cooperation - Transport (Including Aeronautics)	339 999 000
08 08	Cooperation - Socioeconomic Sciences and the Humanities	68 617 000
08 09	Cooperation - Risk Sharing Finance Facility (EIB)	p.m.
08 10	Ideas	260 843 000
08 11	People	430 179 000

<sup>11</sup> For the funding dimension for RTI in the Structural Funds is assumed that 6% of the Structural Funds is directed towards RTI.

<b>Title Chapter</b>	<b>Heading</b>	<b>Commitments</b>
08 12	Capacities - Research Infrastructures	136 197 000
08 13	Capacities - Research for The Benefit of SMEs	120 566 000
08 14	Capacities - Regions of Knowledge	9 947 000
08 15	Capacities - Research Potential	24 837 000
08 16	Capacities - Science in Society	37 358 000
08 17	Capacities - Activities of International Cooperation	17 075 000
08 18	Capacities - Risk-Sharing Finance Facility (EIB)	p.m.
08 19	Euratom - Fusion Energy	213 881 000
08 20	Euratom - Nuclear Fission and Radiation Protection	49 000 000
08 21	Completion of Previous Framework Programmes and Other Activities	p.m.
08 22	Research Programme of The Research Fund	
	for Coal and Steel	p.m.
<b>Title 08</b>	<b>Total</b>	<b>3 564 658 302</b>

Source: Official Journal of the European Union, 16.3.2007, III/501

But this is not the only channel through which RTI is financed in by the Union.

The **Structural Funds** play a substantial role to help all regions build research and innovation capacities corresponding to their situation and priorities. Between 2000 and 2006, approximately €13 billion - around 6% of the EU Structural Funds - have been spent on research infrastructures and networks, innovative business start-ups and the modernisation of SMEs. This amount is expected to increase from 2007 onwards, as the EU's regional policy will increasingly focus on knowledge, research and innovation. It has been proposed to earmark 60% of the structural funds for actions contributing to the Lisbon objectives. A significant part should be devoted to R&D and innovation.

The **Regions of Knowledge** initiative aims to support trans-national mutual learning and cooperation between research-driven clusters, bringing together regional authorities and development agencies, public research organisations, industry and other relevant stakeholders. The main activities covered are the following:

- Analysis, development and implementation of research agendas for regional clusters and cooperation between them
- "Mentoring" of regions with a less developed research profile by highly developed ones
- Actions to improve the integration of research actors and institutions in regional economies

This will be complemented by the **Europe-INNOVA initiative** which will provide support to facilitate networking between industrial clusters.

**Risk-sharing finance facility.** Financial markets and financial institutions are traditionally reluctant to invest in R&D projects. This is due to the fact that there is a higher uncertain-

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ty/risk for R&D projects, compared to more traditional business projects. In order to improve access to loans for R&D projects, the Community proposed the Risk-Sharing Finance Facility (RSFF), consisting in the financial collaboration between the European Commission and the European Investment Bank (EIB). The RSFF aims to improve access to the EIB debt finance for participants of European R&D projects. Such a mechanism was specifically called for by the European Council in its decision on the Financial Perspectives for 2007-2013.

### Critical comments

As we come to our critical analysis we have to stress that the decision procedure is certainly inadequate for the implementation of goals such as the creation of a knowledge-driven economy. Two aspects of the decision procedure seem to be particularly inefficient. First of all the political influences of Members on the design of specific amounts of money. Although this problem is general in kind, it is particularly strong on issues such as innovation. Innovation, research, development through technology, are all based on the adoption of a long term perspective on economic and social development. Yet such long term projects are discounted and more pressing issues are most of the time privileged. Research and development is a clear case where the long term common good is sacrificed to maintain short term partial gains. This is even more plausible as we examine the second political problem that the decision process must confront: the role of economic lobbies. Although economic lobbies represent a voice from the real economy, their interest does not always matches the general interest for years to come. In the long run, some sectors are known to be less productive for the future of the EU. Yet such sectors still manage to strongly influence decision-making procedure in European circles.

The inadequacy of the decision procedures brings about a natural result: the inadequacy of funds for the objectives set. Of course, all critical comments to budgetary decisions are guided by the desire to "receive more funds". Yet in this particular case our request is particularly linear. The EU wants to be pillar of a renewed European effort for technological change. Such objective will never be achieved if the EU will continue to set its budgetary trade-offs leaving to research and development what is left over from other expenditures.

A further problem is the use the EU will make of the funds it will assign to research and development. We must keep in mind that our main objectives are economic growth and social cohesion. In this perspective the enhancement of investment in research and development are just a means to an end. The fact that the EU will spend money in order to achieve a knowledge-based economy does suffer from a strong conceptual problem: how does money invested, for example, in technological change lead to greater economic growth and social cohesion? As long as the EU does not put forward a more sophisticated plan to detail how "funds" turn into "development" we will not be able to thoroughly judge the nature of its commitment towards the Lisbon Strategy.

A final comment rests on an often "forgotten link". The link between economic growth

and social cohesion. If we are able to concretely boost economic growth via the construction of a knowledge-intensive economy in the EU, this might more effectively close the gap between Members. There is of course no strong evidence in order to put forward such thesis without some degree of uncertainty. Yet common sense tells us that given the small amounts of money the EU dedicates to effective intra-country redistributive measures, it is probably true that to use such resources in research and development might hold the best long term returns. This is particularly plausible given the strong economic differences among Members.

## Prescriptions

In the following we put forward a short list of prescriptions in order to improve the 2007-2013 financial perspective when it comes to research, technology and innovation.

### *More funds*

When it comes to prescriptions to improve a financial framework, "more funds", is the most abused item on every list. Yet our recommendation does not aim at simply giving RTI more money. Such surplus money must be used to better perform the task of social cohesion. It should be thus used in sectors that are developing in less developed Members and in the no-profit zone.

### *More funds/critical impact*

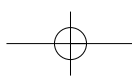
RTI are activities that are often marked by high barriers to entry in order to make them productive. For example, research in the pharmaceutical sector can take years and millions of Euros in order to develop a single product. We are concerned that the actual level of funds available might be ineffective towards the creation of productive knowledge in many sectors. In our outlook, more funds mean to make all funds productive rather than just spending more.

### *A closer look to the problem*

The EU is about to develop a long term project in order to improve research and development in its boundaries. Yet the 2007 financial perspective does not seem to adequately tie investments in RTI and studies concerning their relative effectiveness. Not all funds spent in innovation processes can hold the same returns, this should be acknowledged. Furthermore, the aim of social cohesion should be kept in mind at all times. This is especially true when deciding the relative shares of funding among different projects. Although we should always be conscious of different returns held by different investments in innovation, distributive considerations can impact our final decisions. This point might entail a stronger reliance on public research in order to ensure adequately distributed spill-over effects to the general public.

### *Highlighting the European dimension*

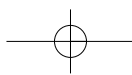
A further problem lies in the recognition of the necessity of a European dimension for research projects. The EU needs to further show the centrality of a European dimension of research problems. After all members could easily ask the EU to simply distribute more money to national research systems. Yet, the European dimension is needed in order to pool resources and promote coordination. The EU needs to clarify and further promote its role in the



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reorganization of resources at the supranational level. Many commentators have called for the creation of centralized European research agency. We see such proposal as only partially convincing. The EU does not need another bureaucratic system of resource administration. A European agency for research would be useful only if able to dedicate most of its funds to actual research and development rather than administrative staff and politicians.





# EU Social Agenda and Lisbon Strategy

Marica Frangakis  
*EuroMemorandum Group*

## EU statutory objectives and the Lisbon Strategy

According to Art 2 of the General Provisions of the Lisbon Treaty, currently under ratification, the objectives of the EU are set out as follows<sup>12</sup>:

- 1. The Union's aim is to promote peace, its values and the well-being of its peoples.*
- 2. The Union shall offer its citizens an area of freedom, security and justice without internal frontiers, in which the free movement of persons is ensured in conjunction with appropriate measures with respect to external border controls, asylum, immigration and the prevention and combating of crime.*
- 3. The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance.*
- 4. It shall combat social exclusion and discrimination and shall promote social justice and protection. Equality between women and men, solidarity between generations and protection of the rights of the child.*
- 5. It shall promote economic, social and territorial cohesion and solidarity among Members States.*
- 6. It shall respect its rich cultural and linguistic diversity and shall ensure that Europe's cultural heritage is safeguarded and enhanced.*
- 7. The Union shall establish an economic and monetary union whose currency is the euro.*
- 8. In its relations with the wider world. The Union shall uphold and promote its values and interests and contribute to the protection of its citizens. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights, in particular the rights of the child, as well as to the strict observance and the development of international law, including respect for the principles of the United Nations Charter.*
- 9. The Union shall pursue its objectives by appropriate means commensurate with the competences which are conferred upon it in the Treaties.*

*Official Journal of the E.U.- C306/17-12-2007*

<sup>12</sup> In view of the consensus among European leaders underpinning the Lisbon Treaty and the undemocratic process of its ratification by the national parliaments of the member states, this is likely to come into effect by 2009.

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Summarising the above broad objectives, the socio-economic elements contained in them are the following:

- *Internal market* - i.e. market liberalization on the EU level.
- *Sustainable development*, based on a three-pronged strategy of (i) growth, (ii) price stability and (iii) competition. The goals of full employment, social progress and protection of the environment come under the general framework of the internal market.
- *Social issues* - i.e. combating social exclusion, promoting social justice, with special reference to gender equality and the rights of the child, and intergenerational justice - are mentioned as special areas of concern also within the framework of the internal market.
- The same is true of *cohesion*, an area where the EU has traditionally had a particular interest.
- The establishment of an *economic and monetary union*, the currency of which is the euro, already linking 15 out of 29 member states.

Overall, it may be argued that the primacy of economic goals over social ones derives from the fact that the internal market and the monetary union are the main pillars of the socio-economic framework of the EU, defined and applied on the Community level, while social issues are subsumed within this framework, to be dealt with by member states on the national level.

This asymmetry has been the case, in particular since the mid-1980s and the establishment of the Single Market project, which was followed by the Single Currency project of the 1990s. This is further reflected in the Lisbon Agenda 2000-2010, which was set by the European Council in March 2000, with the express strategic aim of turning the EU economy into "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion".

By 2005, it became generally acknowledged that the Lisbon Agenda had failed to realise its objectives during the first half of its existence. It was thus decided to revitalize it, i.e. to give it a "new look", without interfering with its fundamental goals and assumptions. The renewed Lisbon Agenda took the form of the "Integrated Guidelines 2005-2008 for growth and jobs", a header that was expected to increase political ownership of the Agenda, i.e. to act as a rallying cry for the new policy era.

More specifically, the Integrated Guidelines 2005-2008 consist of the Broad Economic Policy Guidelines (art. 128), and the Employment Guidelines (art. 99), two Treaty-based instruments for the coordination of economic policy. They include 23 guidelines, of which 15 constitute the Broad Economic Policy Guidelines and 8, the Employment Guidelines. The Integrated Guidelines also mark the beginning of a new economic governance cycle, whereby member states submit their own annual National Reform Pro-

grammes depicting the policy measures taken to promote the goals of the Integrated Guidelines.

Generally, the main policy directions of the Lisbon Agenda, including its imbalances and asymmetries between the economic and the social aspects of policy, as well as between the pursuit of efficiency and equity, are reproduced in the Integrated Guidelines. Furthermore, it has been argued that “the neoliberal framework that became prevalent in the 1980s and the ensuing emphasis on stabilisation and market liberalisation remain central policy elements. At the same time, the social implications and aspects of economic policy are awarded limited attention and even less support in terms of funding and prioritisation”<sup>13</sup>.

Three years after they were launched, the Integrated Guidelines, or the renewed Lisbon Strategy, are considered to have been a success. This is the main conclusion of the Commission’s Strategic Report published in December 2007<sup>14</sup>. In particular, after five years of especially low growth, nearing stagnation in 2002 and 2003, GDP growth reached 3% in EU-27 and 2.25% in the euro zone, in 2006<sup>15</sup>. This is taken as evidence of the fact that the Guidelines are working, even though it is admitted that “most of the recent upturn is cyclical”<sup>16</sup>.

Hence, the Commission has concluded that no amendment is required of the Integrated Guidelines agreed in 2005 and that they should remain unchanged for the next cycle, with only certain modifications to the explanatory notes accompanying them<sup>17</sup>.

In particular, the four priority areas of the Lisbon Strategy - knowledge (education, R&D and innovation), the business environment (especially SMEs), labour market policy (flexicurity, active ageing and employability) and energy and climate change (internal market for energy, public procurement policy) - are to be updated to take account of developments over the past three years, while member states are called upon to “deepen the Lisbon Strategy in the next Lisbon cycle”<sup>18</sup>.

Overall, it would appear that the fundamental asymmetry between economic and social policy, whereby the former sets the pace and the latter follows, is maintained in the Lisbon Agenda. This asymmetry is further exacerbated (a) by the fact that the member states have very few macroeconomic policy tools left at their disposal, since fiscal policy is regulated by the Stability and Growth Pact, while monetary policy is carried out independently by the European Central Bank; and (b) by the limited size and inappropriate structure of the EU budget, which is thus not in a position to compensate for at least part of the loss of policy autonomy of member states. We shall go on to look at the EU budget in some detail.

<sup>13</sup> Frangakis (2006): 71.

<sup>14</sup> Press Release IP/07/1892.

<sup>15</sup> The annual percentage change of GDP of EU27 (at 2000 market prices) was equal to 2.0%, 1.2%, 1.3%, 2.5, 1.8% and 3.0% in 2001, 2002, 2003, 2004, 2005 and 2006 respectively. Over the same period, the corresponding rates of change of GDP of the Eurozone were equal to 1.9%, 0.8%, 0.8%, 2.0%, 1.5% and 2.2% (Statistical Annex Autumn 2007).

<sup>16</sup> COM(2007) 803 final - Part I:5.

<sup>17</sup> Thus, the European Commission is going to propose to the 2008 Spring European Council “to launch an ambitious next cycle, by: ... re-affirming the integrated guidelines for the next three years” Ibid - Part I:16.

<sup>18</sup> Ibid - Part I: 7.

## The EU budget - functions and resources

Functions - A budget has three functions: allocative or growth promoting, redistributive and stabilizing. The EU budget is however associated with the following conflicts: (i) between growth promoting and redistributive objectives; (ii) between net-payer and net-recipient countries; and (iii) between priorities promoted by different EU bodies<sup>19</sup>. As a result, the final compromise is essentially "an intergovernmental agreement among sovereign states to pool a limited share of their resources to address agreed problems at the European level"<sup>20</sup>.

The total size of the EU budget for 2007-2013 period is €864.30 billion at 2004 prices, which amounts to 1.048% of the EU Gross National Income<sup>21</sup>, while a ceiling of 1.24% of the sum of member states' GNI applies throughout this period.

As we can see, the largest items concern agriculture, cohesion and competitiveness, which together absorb more than 77% of the total budget. This structure suggests (i) a strong redistributive element amongst regions and countries; (ii) a minor allocative one and (iii) virtually no stabilizing policy element.

In particular, the EU cohesion policy redistributes resources through the structural funds - the European Regional Development Fund and the Social Fund, aimed at regions with a low GDP per capita (75% of the EU average) and the Cohesion Fund, aimed at countries with a GDP under 90% of the EU average. On the other hand, expenditure on agriculture essentially redistributes resources across sectors (from industry and services to agriculture) and individuals (from consumers and taxpayers to farmers). In this sense, it may be considered to be part of the cohesion objective of the EU.

The allocative element, on the other hand, is relatively small, in spite of the emphasis placed on growth by the Lisbon Agenda. This is largely the result of the limited size of the EU budget and of the traditional emphasis placed on compensating the agricultural sector and, later, regions and member states for perceived inequalities in the evolution of the single market.

Lastly, the stabilizing element is completely absent from the EU budget. Thus, should an economic shock commonly affecting more than one member state occur, there is no provision for a common fiscal intervention by the member states concerned in order to stabilize their economy and to avoid a possible upheaval on the EU level.

Overall, the expenditure side of the EU budget appears to be the historical product of time, rather than the financial aspect of clearly defined policy objectives. Although the redistributive element is stronger than the allocative one, it has not adjusted to the growing disparities resulting from the recent enlargement of the EU to include 14 new member states,

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<sup>19</sup> Cipriani (2007)

<sup>20</sup> Wynn (2007):1

<sup>21</sup> GNI is equal to GDP minus primary income payable by resident units to non-resident units, plus primary income receivable by resident units from the rest of the world.

the average income and standard of living of which is considerably lower than that of the "old" 15 member states<sup>22</sup>.

Not surprisingly, the funding of social policy is negligible. This in fact comes under the "competitiveness" heading, i.e. it is considered to be one of the Lisbon objectives, and in 2007 it absorbed just 0.16% of the budget. Similarly, expenditure on health and consumer protection (under the heading of "security and justice") is also minimal, amounting to less than 0.47% of the budget in 2007.

While the rationalization and overall appraisal of the effectiveness of the EU budget expenditure appears urgent, it is the restructuring of the EU policy objectives and structure that is even more urgent, so as to reflect the growing social needs of the EU member states, as well as the need to boost growth and to provide effective tools for the stabilization of the EU economy, should the need arise.

Resources - In addition to the straitjacket of the Financial Perspectives, which set the level of expenditure in relation to GNI, keeping it constant for six years, the EU budget suffers from two more limitations - the principle of equilibrium, whereby revenue and expenditure must be in balance and the inability of the EU to raise loans in order to finance its expenditure<sup>23</sup>. The resources of the EU budget consist of the items shown in the table below.

**Figure 1.** The structure of the EU budget resources 1996-2006 (% and €million)

	<b>Customs Duties and agricultural levies (%)</b>	<b>VAT resource (%)</b>	<b>GNI resource (%)</b>	<b>Total (€ million)</b>
1996	19	51	30	71,177
1997	19	45	36	75,415
1998	17	40	43	82,223
1999	17	38	45	82,700
2000	17	40	43	88,040
2001	18	39	43	80,788
2002	12	29	59	77,550
2003	13	26	61	83,352
2004	13	15	72	95,201
2005	14	16	70	100,942
2006	15	17	68	102,367

Source: Cipriani (2007) T.2.1

As we can see, the tendency is for the share of the GNI resource to increase, while that of the VAT resource, as well as of the customs duties and agricultural levies (also known as

<sup>22</sup> In 2004, the average GEP/capita of the enlarged EU was more than 12% lower than the equivalent indicator for the EU15, while income disparities doubled overall.

<sup>23</sup> In this sense, the term "own resources" should not be confused with EU financial autonomy.

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the “traditional own resources”) to decline. In particular, the GNI resource - levied at a uniform rate in proportion to the GNI of each member state - is a residual resource used to balance the budget. Its growing significance has meant that member states that are net contributors to the budget have tended to view this in terms of their national allocation, rather than that of the substance of EU policies. Hence the national squabbles between net contributor and net recipient member states, giving rise to intricate and largely unjustifiable schemes of EU budget rebates. These not only obscure the overall EU budget structure, but also prevent a more meaningful discussion of the future of the EU budget from taking place.

Last, but not least, the decision-making process with regard to the setting of the resources side of the EU budget is dominated by the Council, while the European Parliament is called upon to give its opinion. The Lisbon Treaty goes some way towards redressing this imbalance, although again the Council appears to have the first say in the matter.

Overall, the resources side of the EU budget is, much like its expenditure side, a historical product of time, with little relevance to any vision of the future of the EU. It is dominated by the narrowly defined national interests of the EU member states, while it is subject to institutional limitations, that prevent it from playing a more ambitious role in relation to the EU policy objectives.

### Alternative proposals by the Euro Memo Group

The Euro Memo Group (EMG) has since its inception, in the late 1990s, drawn attention to the fact that the EU budget is far from fulfilling its purpose. Both its size and its structure, as well as the undemocratic way of its design, limit its contribution to a social, democratic and dynamic Europe<sup>24</sup>. The proposals for an alternative EU budget in terms of size, resources and expenditure, made by the Group are the following.

Size - As far back as the late 1970s, the MacDougal Report (1977) proposed that the EU budget should be equal to at least 2 - 2.5% of the joint GDP of the member states, for policy to have any perceptible effect on the EU economy. The EMG has stipulated that the minimum size of the EU budget be set 5% of the joint GDP of the member states. Furthermore, it has been suggested that the transition from the present state (of 1.24% of GNI) be accomplished gradually over a period of 10 years, whereby the size of the budget increases by 0.5% each year. Such an increase is subject to the democratization of the decision-making procedure.

Resources - The present system is considered to be both inadequate and inappropriate. More specifically, it is proposed that a thorough reform of the current system of own resources is undertaken, whereby the VAT related component is abandoned and, in addition to the traditional tariffs, the only other revenue source is a progressive GDP-related European income tax, applying the ability-to-pay-principle across the EU member states. In particular, the coun-

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<sup>24</sup> The full title of the Euro Memo Group is “European Economists for an Alternative Economic Policy in Europe”.

try specific tax rate should be fixed in relation to the relative strength of each member state, measured in income-per-capita in purchasing power standards (PPS)<sup>25</sup>. It would be at the discretion of the member states to decide the way in which the European tax is domestically re-financed, although this should not give rise to a new tax competition round.

A larger EU Budget could further be financed through the introduction of new taxes on a European level. The following taxes, which in fact serve more than one goal, have been suggested:

- On incomes, on savings and on corporate profits. Such a tax would also help contain tax competition;
- On speculative financial transactions. Such a Tobin-type of tax could mitigate financial instability;
- On CO<sub>2</sub> emission. A tax of this kind would further help protect the environment.

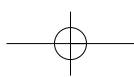
In addition, the EGM has proposed that the strict prohibition of a European debt (art. 269 of the Treaty) is abandoned and that the EU is allowed to finance long-term European projects, such as the Trans-European-Networks or investment in common technological development projects, through loans, using the European Investment Bank as its agent on capital markets. Such projects carry self-financing implications since they strengthen the productive basis and thus also the tax basis of the European economy. Therefore, it is justified in terms of intergenerational equity to shift part of the financial costs for such infrastructure to future generations, who are its main beneficiaries.

Expenditure - The EMG supports the concept of the "European Social Model", which however needs to be further articulated and strengthened across the member states. At present, this is largely a fictitious concept, which the Lisbon Agenda regards mainly as a "factor of production", i.e., devoid of its social aspects and implications.

In this respect, the EMG strongly supports the necessity of a federal budget, which provides, on the one hand, the tools for stabilization or recovery on a European level, in case of common shocks and, on the other hand, the tools for interregional and interpersonal redistribution in order to cope with asymmetries. More specifically, the following proposals have been made.

- A European Employment Stabilization Fund of the order of 1% of EU GDP be set up, to act as an automatic stabilizer, allowing rapid transfers to countries facing a worse than average deterioration in employment performance;
- The Regional Funds be raised to 1% of EU GDP and special subsidies be assigned to new member states, taking into account their especially high social needs, while avoiding any possible competition for funds with the poorer regions of the "old" member states;

<sup>25</sup> Thus a per-capita-income of 120% of EU average would lead to a tax rate that is 20% higher than the average EU rate of 5% (leaving aside the income from tariffs) i.e. 6 % of GDP, whereas a country with a per capita income of 50% of EU average would have to pay only 2,5 % of its GDP in European taxes.



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- Direct transfers to poor sections of the population be made as part of the fight against poverty in the EU. In particular, it has been proposed that the EU makes a payment of €20 per month to each of the nearly 80 million poor persons in the Union, and that this amount be increased by €10 each year, until it reaches the level of €50. Such a relatively moderate anti-poverty transfer from the EU would soften the otherwise growing disparities within the union.

Decision-making process - According to the present institutional arrangements, the European Parliament has no formal role in the determination of resources and the level of contributions of member states. In particular, the multi-annual frameworks have reduced the power of the Parliament when compared to the Council in the budgetary debate. This needs to be redressed, so that the decision-making process becomes more democratic, as well as transparent, making for greater legitimacy of EU policies and actions.

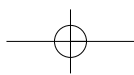
Overall, the EU budget is a key condition for the evolution of European integration and part of the debate about the legitimacy of EU actions. To debate the EU budget is to discuss visions of Europe's future<sup>26</sup>. The EMG lays great emphasis on the institution of a federal budget, capable of supporting an ambitious vision of the future of the Union, one in which democracy and social cohesion, in addition to growth and dynamism, are its defining features.

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<sup>26</sup> Cipriani (2007)





# Why is education fundamental?

Valeria Carrieri

*Unione degli Studenti - OBESSU*

Education is a human right. Everybody must have the right to the education he/she wants and the kind of education that provides the possibility to develop as a person and as a citizen.

Education is social inclusion. Education is the access to every kind of information, helping everybody become reflective, critical and self-determinate persons. "Education" can be considered a lifelong process of developing knowledge, skills, abilities and social competencies.

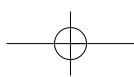
The school students of today are not only forming the society of tomorrow, but also the society of today. Wherever we want to see, society in ten years needs to be reflected in the education of today.

Nowadays neither the interest nor the curiosity of the school students is defining what is taught, but the interests of governments are. We want a school where the fact that everybody is different is acknowledged, where diversity is promoted and individual talents are encouraged. We want a school where there is space for personal development, active participation and curiosity. We want education and school of the best quality. OBESSU wants an education that gives students the tools and the will to question the current values, systems and structures and thereby develop society.

For a long time the European debate about education has merely been considered a technical and economical issue. We strongly believe that education and knowledge are the basis for building a better world. And that education for all is the fundament of a sustainable development and a way of preventing phenomena such as child labour, poverty and social exclusion. It represents a challenge and also a duty to make this debate something valuable for the whole society and not only for the few actors interested in specific educational matter.

## *The Student right charter*

Our proposal of the declaration on the Rights of the Student highlights the rights that are already given and promotes others in areas not yet covered by European legislation. The objective of the charter is to guarantee the same rights for students throughout Europe. Our common declaration also defines the rights of students in vocational education. This is a very important part of the Statute since working experiences for students as part of their studies often turn into non-educational experiences, at times also into exploitation of non-compensated workers.



## **The right to study, to high-quality education and sustainable student life**

### *Social autonomy of students and the student welfare*

The access to education, especially on secondary level, is still an unreachable objective for many young Europeans (as it is demonstrated by the increasing amount of early school leavers). In order to face this problem it is really important to defend the access to knowledge and the value of public schools, and this means to be actively engaged in the renewal of the student welfare systems in Europe. It is necessary to start a debate on how to build a common European students' welfare system.

We want to promote different forms of direct financing of studying, which are already used in many European Countries. Those should be turned into a sort of "student income", based on the recognition of the role of the school students, acknowledging the value of their work as producers of knowledge and recognising their key function in the European development and growth.

OBESSU has a vision of a new welfare system for students: "learnfare". The "learnfare" would mean establishing and developing systems to promote and ensure access to all life-long learning policies. Policies enhancing non-formal education and encouraging active citizenship are of great importance.

Besides specific interventions on European level, it is a matter of fact that school students need a new system of services as well, based on the status of being a student. First of all a system providing free admission to cultural institutions like museums and expositions, the abolition of taxes on goods such as CDs and books, reduced entrance fees for cinemas, theatres and public transportation. Of great importance is the access to Internet and the availability and affordability of communications technologies.

We demand that this system of services should be financed by European structural funds like the European social fund.

## **Towards a European framework for recognition of secondary education**

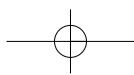
### *Common area for secondary education*

The harmonization of the different systems of secondary education is a necessary step in order to enhance the quality of education in Europe, and to contribute to a greater mobility of the school students.

We are aware of the fact that the quality of the education offered in the European countries differs quite a lot, as it does all around the world. We fight for an educational system, giving people the same opportunities, no matter where they are living.

The Education & training 2010 has set the recognition of diplomas as one of its targets, but the situation is not progressing at all.

OBESSU wants to see an area of quality education, promoting lifelong learning and active partaking in society, where different educational systems develop through cooperation at the European level.



A well harmonized European dimension of education is also the one that is networking those experiences without discrediting the national and local diversities.

#### *EQF (European Qualifications Framework)*

OBESSU recognises the need for a framework, such as the EQF, that enables comparison among the competences and qualifications achieved in different regions, countries or in different fields. This is an important tool in order to obtain mobility and transparency, not only in the education but also in all fields of learning. It should also be a tool for promoting lifelong learning, underlining that all forms of competences must be considered, those obtained in a formal setting of learning but also those obtained in a non-formal or in-formal setting. Our concerns towards this type of framework are linked to the standardisation of the educational systems.

There is a concern linked to the strict use of only the learning outcomes as descriptors in the EQF, we believe that the process is almost as important as the outcomes and this needs to be considered.

The different qualification frameworks have to be coordinated and the EQF has to be seen in relation to both the Bologna process and the Copenhagen process.

### **The Lisbon strategy and education**

In 2000 the European Council carried out a new plan called the Lisbon Strategy, aimed at making Europe "the most competitive knowledge based society in the world". The broad objective of the Strategy is to make the European Union the most dynamic and competitive economy of the world by 2010, capable of sustainable economic growth with more and better jobs and a greater social cohesion. A very broad reform package is proposed and regarding education the Council prepared a set of measures as follows:

- To increase investment in the educational sector.
- A European portfolio of competencies to be provided in the lifelong learning framework.
- A real and effective mobility for student and teachers.
- A common form for European Curriculum vitae in order to improve the recognition of the acquired competencies.

These are not revolutionary targets, but they represent a first step towards a real investment in education and training. During the last years, the implementation of the aims stated above has been weak.

OBESSU is concerned by the mostly economic approach that is the basis of the Lisbon strategy. Europe needs a more social oriented strategy, able to link different sectors in the struggle for a sustainable model of society. The goal of a knowledge based society should have a different starting point: democracy, equality and active involvement.

Education has to be the core of the Lisbon strategy. We need to empower the role of education as a way of guaranteeing every citizen equal rights and opportunities, and thereby giving new perspectives and inputs on the European political arena.

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We ask the Commission and the European Council to confirm the same engagement that was undertaken in 2000. It is fundamental to harmonize the investment in education of the member countries; raising their levels up to no less than 6 % of the GNP.

The school student movement plays an important role in this process and in order to ensure the involvement of the civil society, OBESSU has to invest in a dialogue with the other stakeholders working on the Lisbon strategy. Through cooperation the decision making process can be influenced and the Lisbon objectives made more consistent with what we see as crucial points in the field of education and the development of the knowledge based society.

### Processes threatening the public education

#### *Privatization of education*

In the economy of today knowledge is considered to be one of the most important resources, fundamental in the human development. The access to education is one of the pillars in the development of both the human-being and the society as a whole and the aim of controlling the education is becoming one of the main issues in the modern democracies.

Privatization of education is the process through which partial or total responsibility for the management and administration of public educational systems is contracted out by government to private companies or foundations. However, integrating the corporate ideology in educational institutions has not been proved to improve the quality of the education nor does it support the provision of an objective and general tuition. Nevertheless, educational services have a multimillion-dollar yearly turnover and are prospectively an enormous source of profit for the private sector.

We firmly believe education should always remain a governmental responsibility and a strictly public service, reflecting the interests of the society and not only those of a private contractor. The integrity or objectiveness of education should never be compromised. Therefore, potential financial challenges within the educational system cannot be faced through reforms involving privatized management and cost cutting strategies from the private sector. However, savings in public schools should not lead to cost cutting in the classroom nor the acceptance of advertisements in the school.

School students are not to be seen as consumers of a service called education, or as means of production to be refined for the labour market. Education considered as a "service" or a "product" is denying the role of the students as "creators of knowledge" and education as the result of a collective cultural involvement. A privatized education is not promoting an equal society but a concept of competition, efficiency and profit maximization. This is limiting not only the access, but also the "circulation" of the knowledge, already endangered by the copyright policy.

#### *GATS*

Education should never be subjected to trade negotiations such as the GATS. After the failure of the negotiation rounds in Cancun, the WTO (World Trade Organization) is trying to apply

the GATS (General Agreement on Trade and Services) on education as well. The GATS treaty considers every service as tradable and it is therefore a source of profit and potential new markets. The only exception is public services, services completely run by the state, without any other private or external provider or competitor. Only a few countries have an educational system completely run by the state and therefore WTO considers education to be a tradable service.

The first consequence of the application of the GATS treaty in the field of education would be the privatization of the education itself or some services related to it. The governments' funding of the public schools could be considered as unfair competition towards the private educational providers. The WTO might request to grant private and public schools in the same way without any distinction, reducing the small funding that the states are investing in public schools and endangering the budgets and functioning of the public schools. This brings directly to a privatization of large segments of education or, in alternative, raising or imposing tuition fees. Another consequence connected to privatized schools (or enterprises) is the loss of importance in terms of democracy, where the important decisions are taken by council of administrations or foundations.

The third aspect linked to privatization that we need to stress out is the idea of focusing the learner on certain subjects leading him/her to a specific profession. This idea does not reflect our common understanding of education or the goals of life long learning. A narrow education leading the student into a profession is yet another risk within privatized education.

#### *The Service Directive*

The policies developed on the external market by the European Union in the framework of the WTO are also developed in the creation of an internal market, considering again social and economical rights as an obstacle to the establishment of a free market.

The Service directive, which has been scarcely approved in the first reading in the EU Parliament, is giving enterprises the possibility to provide services in Europe. The directive is influencing the national legislation guaranteeing rights for employees or consumers.

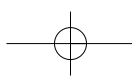
The directive has been opposed by many stakeholders and NGO's, such as OBESSU, highlighting the strong negative impact the directive would have on the principle of quality education for all.

The directive is still vague and unclear in the field of education. The parliament has decided not to clearly define what Services of General interests (SIG) are, concluding that public goods are just part of it.

OBESSU will continue monitoring the situation together with the other stakeholders and partner organizations, highlighting the controversial points and stressing the responsibility resting with the Commission and the Parliament regarding education and towards the students in Europe.

#### *Financial cutbacks*

We are very concerned about the last developments in the Financial prospective approved in February 2006. While the parliament and the EU Commission are claiming a bet-



## Budgeting for the Future, Building another Europe

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ter investment in the youth field, especially when it comes to student mobility, in the budget the cutbacks were affecting also the aspects related to lifelong learning, with the consequent reduced budget for the student mobility. One of the outcomes of those cutbacks is the suspension of the development of new programs like the Junior Erasmus that will remain a pilot programme until 2013. This is not the way to deal with the demands and the perspective of young people and school students. This course of action will effect the development of a real European understanding for young people. It is necessary to start a phase of reflection together with the other stakeholders, aiming at influencing the midterm financial prospective revision that will take place in 2010.

### **Added values to education (in brief points)**

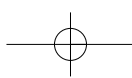
Secondary schools in Europe should provide the students with the necessary tools and guidelines on what lifelong learning is and what it can offer.

The non-formal education is an important complement to the formal one, offering the students a possibility to develop new personal skills and actively partake in the civil society. Recognising non-formal education is a way of activating young people.

Intercultural education is fundamental and all teachers should be trained in order to be able to include all children, take into consideration the diversity in the classroom and benefit from it.

Student counselling has to focus on the students' individual interests, instead of stereotypical ideas and expectations based on their gender. The learning environment, teaching and school material (notably books and such resources) have to be free from gender-based stereotypes.

School must be the primary place for education about sexual orientations, towards the acceptance - which goes beyond simple tolerance - of any of them. This chiefly involves the simple incorporation of sexual orientations alternative to heterosexuality, at the same level; an open, prejudice-free dialogue about these issues between the educational team and school students; and a reprehensive attitude towards homophobia.



# Trans European Networks for Integration and Growth in the Extended European Union<sup>27</sup>

Anelia Stefanova  
*CEE Bankwatch*

European integration assumes that there are trans-national backbone networks existing, which interconnect the member countries and allow for easy mobility of passengers and goods. The idea of Trans-European Networks (TEN) has been developed in the early nineties and it is an element of the Maastricht treaty. The first guidelines have been published in 1996 and include transport, electrical power supply and communication networks. They are classified into a number of sub-networks, for example the TEN-T (transport) include 9 subnetworks.

The first EC regulation for providing community aid for Trans European Networks was adopted in 1995 and initially the projects could be supported with maximally 10% EU funding, eventually extended by the regional structural and the cohesion fund subject to the conditions in the member countries.

In its resolution of 8 June 2005 on policy challenges and budgetary means of the enlarged Union 2007-2013, the European Parliament underlined the strategic importance of transport networks for the completion of the single market and for closer relations with candidate, pre-candidate and "ring of friends" countries. Moreover, it also expressed its willingness to examine innovative financing instruments such as loan guarantees, European concessions, European loans and an interest relief fund.

To achieve these goals, both the Council and Parliament put forward the need to strengthen and adapt the financial instruments through an increase in the level of Community co-financing by providing for the possibility of applying a higher Community co-financing rate, in particular for projects characterised by their cross-border nature, their transit function, or by the crossing of natural barriers.

In the next chapter we will cover briefly the funding for Trans European Network energy (TEN-E). Our main focus in this section of the report will be the funding for TEN-T (the transport network as it gets the majority of the EU funds from Growth and Job budget. The TEN-E budget is just around 2% form the TEN-T budget and half of it is in form of technical assistance.

## The EU support for TEN-E

The European Union finances electricity and gas transmission infrastructure projects of

<sup>27</sup> Community financial aid in the field of the trans-European transport networks and energy Regulation (EC) No 2236/95 of the Council amended by Regulation (EC) No 1655/1999, No 788/2004 and No 807/2004.

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European interest. A yearly budget of about 25 Million Euros is spent mainly for supporting feasibility studies. Most of the projects cross national borders or have an influence on several EU Member States.

The call for applications for funding is open in the first quarter of each year. Applications are made by promoters of eligible projects, like electricity and gas transmission companies, investors in LNG facilities and gas storages. Projects need to be supported by the Member States involved.

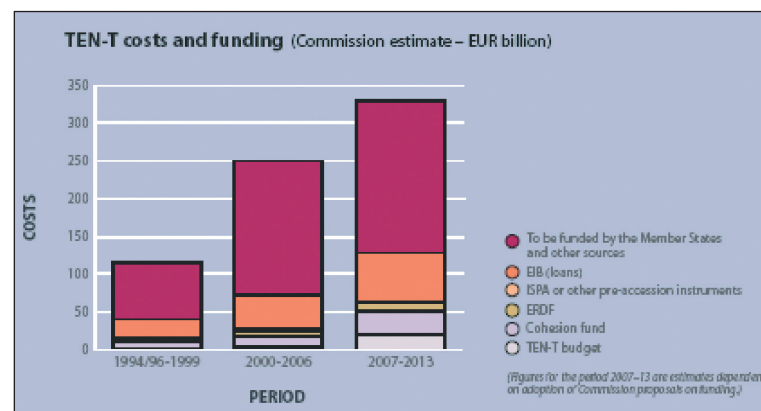
The Trans European Energy Networks are integral to the European Union's overall energy policy objectives, increasing competitiveness in the electricity and gas markets, reinforcing security of supply, and protecting the environment.

### The EU support for TEN-T

The TEN-T is the most investments-intensive program for infrastructure development in EU. TEN-T was conceived in 1994 notably at the Essen Council in 1994 where an initial group of 14 priority projects were identified for completion by 2010. In 2004 when the guidelines for development of TEN-T were revised the program became more ambitious. 30 priority projects were adopted with total cost of €250 billion whilst the cost of completing the whole network amounts to €600 billion by 2020.

EU funding for the Trans-European transport networks comes in part from a dedicated TEN-T budget line managed by the Directorate-General for Energy and Transport of the European Commission. These funds come from the EU's 'Growth and Jobs' budget.

**Figure 1.** Ten-T cost and funding



Source: EC, 2005: *Trans-European Transport Network: TEN-T priority axes and projects 2005*

In 2000-2006, €4.425 billion were allocated from the TEN-T fund to projects. Despite the large amount of EU co-funding, only a handful of the priority projects have been completed using these funds:

- Oresund bridge between Sweden and Denmark (completed 2000)
- Milan Malpensa Airport (completed 2001)



- High-speed rail link Paris-Brussels-Cologne-Amsterdam-London (high-speed link in UK completed 2007; last section Brussels-Amsterdam should be operational in 2008)
- Betuwe route rail line from Dutch ports to German border (completed 2007, to be fully operational from 2008)

It is clear that EU commitment alone is not enough to ensure projects are completed. The major cause of delay of completion of the TEN-T projects is the lack of funds, as well as procedural and technical problems, particularly on cross-border sections. To address these problems, the European Commission requested increased provision of European Funds and European coordinators were nominated to oversee progress on six flagship projects. As regards the funding of the projects, whilst the EU can contribute from various funding lines, the majority of the resources must come from national and regional governments and the private sector.

### Current budgetary period 2007-2013

The TEN-T fund will provide €**8.013 billion** from 2007-2013, which is almost double the amount available during the funding period 2000-2006. However, it is only around 40% of the approx. €20 billion that the Commission initially requested for TEN-T funds from the Community budget.

The funding will be gradually increased during the funding period:

**Figure 2.** Annual allocations TEN-T funding (Million Euro)

2007	2008	2009	2010	2011	2012	2013	Total:
831	950	1 029	1 062	1 242	1 357	1 541	8 013

Source: European Commission

The €8 billion available does not go far towards the cost of developing the TEN-T network between 2007-2013, which is estimated at €160 billion for the 30 priority projects alone. The main sources of EU funding are the **Cohesion Policy funds**, including around €37 billion available from that funding line, that still leaves €115 billion to be raised from national and private sources, and loans from the **EIB (of around €75 billions according to the EIB forecasts)**. The cost of completing the 30 priority projects is expected to cost a further €80 billion in the next financial period 2014-2020. As the budget line is considerably less than the amount requested, 80-85% of this funding will be concentrated on the priority projects, traffic management systems, and projects seen to give 'European added value', meaning those that would be least likely to succeed with only national inputs. Priority is therefore given to specific projects:

*Priorities in TEN-T funding in 2007-2013 budget period are:*

- Cross-border sections;
- Bottlenecks;
- Links crossing natural barriers, eg. mountain ranges;
- Technological projects to ensure vehicles can operate throughout the EU.

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Rates of co-financing from EU funds vary depending on the nature of the project, level of priority and type of contribution to the project. Higher maximum rates of 30% Community co-financing are available for the priorities listed above. The rest of priority projects could get 20% co-financing rate. The TEN-T funds could co-finance also 50% from TEN-T project studies (including feasibility studies and environmental studies) and 50% for ERTMS studies and works (trackside and on-board equipment).

### The Forms of TEN-T funding are following:

- Grants for studies;
- Grants for works (including purchase, supply and deployment of components, systems and services, carrying out construction and installation works, acceptance of installations and launching of project);
- Grants for works under availability payments schemes (new);
- Interest rate rebates;
- Loan guarantees (LGI - new);
- Participation in risk capital funds.

### TEN-T funding plans 2007-2013

Applications for multi-annual funding - only for priority projects and traffic management - were received by the Commission between May and July 2007. In November 2007, the Commission and committee of experts from Member States finalised a list of 79 priority projects sections that will share €5.1 billion, including €190 million for Galileo. The first annual payment will be allocated in early 2008.

**Figure 3.** Scenario proposed by the Commission

Priority project type	Proposed maximum co-financing rates	Total TEN-T funding available
Works on cross-border sections	25% except Brenner and Mont Cenis rail tunnels, Rail Baltica Project (27%)	€ 2304 million
Studies for cross-border sections and new sections for priority projects	50%	€ 576 million
Studies and works on inland waterways projects	20%	€ 550 million
Works on road and railway sections to remove bottlenecks	max. 5-10%, or up to 20% for projects in immediate border areas not formally considered cross-border sections	€ 1681 million

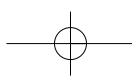
## Conclusions and recommendations

The environmental balance of the projects is dubious. Whilst the Commission is presenting the package as “sustainable” and cites that almost 75% of the funding will go towards rail projects, this is far from any guarantee of sustainability. Some of the project sections that will receive funding are amongst the most controversial, including the Alpine base tunnels, (Brenner and Mont Cenis link between Lyon and Turin) the Fehmarn Belt road/rail bridge connecting Denmark and Germany, and Lisbon’s new airport. Many of the selected projects pose environmental threats, and in several cases proper strategic and environmental impact assessments have not yet been completed. The Commission claims that funding decisions needed to be made, even in absence of proper environmental assessment, in order to attract national and private co-financing.

The economical benefits from the TEN-T projects are also highly questionable. The expected impacts of transport infrastructure on economic growth are modest for the highly industrialised West European countries. On the other hand better transport in the industrially developed West European countries will only have little influence on production as long as the wage differentials are that huge. In West European countries it becomes more important to cope with the negative consequences of traffic growth and improve on the environmental conditions or other soft factors.

Bundling of transport, favouring environmentally more friendly modes, will increase attractiveness of the regions as well as a better traffic management will do by using economic instruments (see the London example). The economic, social, health and ecological conditions in the industrialised countries have become very vulnerable such that a consolidation of these systems are the major challenge in the next period of time. Infrastructure investments in West European countries therefore should be assessed most carefully to avoid overinvestment in social capital which will not be needed by future generations. To give an example: investing in all planned Alpine crossings such as Lyon-Turin, Lötschberg, Gotthard and Brenner will result in an overcapacity which will lead to long-term debt payments for future generations without sufficient benefits. It can also be questioned whether projects which aim at fulfilling historical dreams such as the Fehmarn Belt bridge, the Pyrenees crossing or the bridge over the strait of Messina are the best answers of the present generation to the challenges of the future.

Beyond the discussion on new spectacular bridges and tunnels one problem is almost forgotten because it is almost impossible to mobilise a powerful stakeholder groups for this issue: it is the maintenance of the developed networks in the industrialised countries. In Germany, for instance, about one half of the investment funds for trunk roads go for rehabilitation. In the case of railways this share is already about two thirds. After the disaster the change from the Eurovignette to the Tollcollect system for charging heavy goods vehicles and the losses of revenues presently the financial resources are just sufficient to finance the maintenance and reinvestment. Looking with more realism at the forthcoming problems generated



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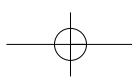
by lower growth rates and higher challenges to preserve the quality of the presently existing infrastructure one should hesitate to recommend a national and European big deal with investing in many megaprojects for transport infrastructure"<sup>28</sup>.

For 2010 is planned the review of the TEN-T program. The main of the EC so far is to review the traffic forecasts, bottlenecks and to update the list of the priority projects adding extension of the TEN-T to neighboring countries and to trade partners as China and India.

The TENs policy promotes a development model based on continuous traffic growth. Fourteen years into the policy, the geographical scope is no longer restricted to the EU and our immediate neighbours, but is also laying the policy groundwork for cross-continental links. Before setting our sights on a new and even more ambitious infrastructure program we call on the European Commission, European Parliament and the Council to make a comprehensive assessment of the TEN-T progress to date. We call for a thorough analysis of the planning and implementation of TEN-T infrastructure projects since 1994, in comparison with original policy objectives, demand forecasts and cost-benefit analyses. Current TEN-T plans must be analysed in the light of recent EU commitments to limit climate change and to the renewed EU Sustainable Development Strategy.

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<sup>28</sup> Prof. Werner Rothengatter, Contribution to the Milan-Workshop on European Economic Policy.



# Structural funds and the fight against poverty. Beyond competitiveness, how to work towards social inclusion?

Elodie Fazi

*Policy Officer , European Anti-Poverty Network*

*Often presented as the EU's main success story and solidarity instrument, structural funds have been at the heart of the EU's 50<sup>th</sup> anniversary in 2007. Yet as the 2007-2013 programming period is entering its operational phase, time has come to go beyond self-celebration, learn lessons from the past and make them a better tool against exclusion.*

*This contribution will therefore look at the structural funds' contribution to the fight against poverty and social exclusion, by raising three main questions:*

*How can European Social Fund measures better contribute to the fight against poverty?*

*Why is partnership with social NGOs so important in this purpose and how to improve it?*

*How to make sure the fight against exclusion is taken into account in the whole scope of structural funds instruments, and not only the Social Fund?*

## **From cohesion to competitiveness policy? An increasing subordination to "growth and jobs"**

Despite the rather limited amount specifically devoted to social cohesion, structural funds have made a difference for people in poverty. But what will be the reality in the new programming period (2007-2013)? Initially meant to tackle economic and social disparities, are structural funds on the way to become a mere competitiveness tool?

*78 million citizens facing poverty: which role for the EU and structural funds?*

Two years before the deadline the EU set itself to "make a decisive impact on the eradication of poverty". Relative but also absolute poverty remain widespread in the EU: in 2004, 16% of EU-25 citizens lived under the risk of poverty threshold and it is commonly admitted that 78 million citizens are currently at risk of poverty in the EU-27<sup>29</sup>. Perception in many Member States is that of little or no progress towards the eradication of poverty by 2010. Besides, the actual value of the poverty threshold (how much money somebody has to live on if they are on the poverty line) can vary greatly between countries, in particular between the "convergence"<sup>30</sup> and other areas.

Despite the limitation of EU competences, significant steps were made in recent years to tackle this social emergency: commitment to make a decisive impact on the eradication of poverty with the creation of the Open Method of Coordination on Social Inclusion, emergence of a

<sup>29</sup> Assessing relative poverty and defined as 60% of median income.

<sup>30</sup> Covering regions with a GDP less than 75% of the Community average.

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European debate on “active inclusion”, legislation on equality and non-discrimination. From the budgetary side, following the loss of specific Poverty Programmes in the 80s, the fight against poverty has been integrated as key priority in programmes such as PROGRESS (Community Programme for Employment and Social Inclusion). Yet PROGRESS focuses primarily on policy instruments, networking and exchange of good practices, when it comes to financial redistribution, structural funds remain the key instrument the EU has in the fight against social exclusion.

### *Beyond competitiveness, the need to keep social cohesion as a priority*

Although structural funds are primarily known for their contribution to major infrastructure projects, they have proved to be a significant tool to tackle poverty since the early years of the EU and the creation of the European Social Fund (ESF) in 1957. Over the period 2007-2013 some €75 billion will be distributed to the EU Member States and regions through the European Social Fund, which focuses on five priority themes: (1) adaptability of workers, (2) access to employment and inclusion of job seekers and “inactive people”, (3) social inclusion of disadvantaged people, (4) enhancing human capital, and (5) promoting partnership approaches. For Member States in the “Convergence Area” (mostly those that joined in or after 2004), another priority is also devoted to capacity-building of public services, social partners, and non-governmental organizations.

On paper, social inclusion has been given a high level of priority, with approximately 12% of the total ESF funding available. Yet, concerns have emerged that the funds are used to promote a “labour market activation” at the expense of a broader approach, putting an increasing pressure on people experiencing poverty.

### *Promoting quality jobs and taking the root causes of poverty into account*

Integration in the labour market remains the key goal of the ESF and it is thus not surprising to see it as the major objective of most programmes (through training, lifelong learning and “employability” measures). Yet EAPN is concerned that “activation of the economically inactive” has become the main strategic approach to the fight against poverty, sometimes regardless of the quality of jobs created and impact on those most remote from the labour market. While the inclusion of excluded groups into occupational activities can be seen as a positive development, it all too often appears to be driven by public finance and labour market rather than social inclusion needs. In order to have a real impact in the fight against poverty, ESF projects should support “good activation” policies, aiming to improve personal, social and vocational skills and to enable further social integration of marginalized groups. Besides, the fight against poverty cannot be limited to integration in the labour market. Using structural funds for this purpose also means supporting a wider range of measures, taking into account the root causes of poverty, through:

- measures allowing a wider integration and empowerment of excluded groups (for example, through community projects, or social services);

- social economy initiatives and inclusive entrepreneurship approaches;
- infrastructure linked to social inclusion (community, health centres, etc.);
- capacity building for social NGOs (in particular in the convergence areas).

#### *The need for increased coordination with the EU social inclusion process*

The lack of a holistic approach taking into account the root causes of poverty reflects the difficult position of the EU strategy on social inclusion. While structural funds 2007-2013 are marked by an increasing link with the Lisbon Strategy, the new framework has overlooked the contribution of the Open Method of Coordination on Social Protection and Social Inclusion (“the EU social inclusion process”), which was initially one of the key pillars of the Lisbon Strategy. It is crucial for the credibility of cohesion policy to better take into account objectives of the OMC on inclusion. In addition, after the programmes are launched, more energy needs to be invested in strengthening the coherence between the two processes, in particular regarding the monitoring and evaluation of ESF projects.

### **Because the “how” matters as well: improving partnership with social NGOs**

Assessing structural funds’ impact on the fight against poverty also implies looking at the method of governance and delivery. While partnership with NGOs is an obligation upon Member States and has been increasingly acknowledged, more steps need to be made to ensure a consistent approach throughout the EU.

#### *Towards a better partnership in structural funds governance*

For the first time, Article 11 of the Structural Funds General Regulation explicitly recognizes the principle of partnership with civil society organizations and NGOs, which covers planning (through consultation on programming documents), monitoring (participation in monitoring committees) and evaluation. Experience has proved that partnership contributed to strengthened legitimacy of the structural funds process, improved the transparency and the quality of information towards potential beneficiaries and led to a better absorption of funds.

Yet efficient partnership also means holding consultations that really make a difference, enlarging the scope of NGOs beyond environmental and gender equality organizations to cover social inclusion NGOs, having a real mandate for the organization sitting in the committees. Despite significant progress in some Member States, the lack of level playing field across the EU and of common guidance seem to indicate that no real effort was made to ensure that the new partnership principle is translated into concrete actions.

#### *Partnership in the implementation of the funds: acknowledging the added value of NGOs*

Beyond governance, partnership in the *delivery* of the funds is essential to ensure an efficient use of EU monies by their beneficiaries. NGOs appear particularly suited to implement

structural funds projects in the field of inclusion, given their roots in the communities and more flexible approaches. Yet they still face many obstacles to access structural funds, among which, difficulty to use the funds for micro-projects, financial requirements (co-financing), as well as lack of information and of capacity to follow-up project applications. Despite the absence of obligation upon Member States to develop targeted approaches, some mechanisms have been put in place throughout the EU, which contributed to a better and easier use of the funds by their beneficiaries.

The “global grants” mechanism was introduced in 1989 to ensure that the funds reach those most in need, especially for purposes of local development. For this reason, it is sometimes designed as a “small” or “micro” grants mechanism. In practice, this happens through the delegation of the management and implementation of an Operational Programme to one or more intermediate bodies, which might be local authorities, regional development bodies, or non-governmental organizations. Global grants systems often include facilities in terms of co and pre-financing, allowing better outreach to small and local organizations and helping them to overcome financial obstacles.

Often seen as complementary to global grants, technical assistance is designed to support the smooth running and management of structural funds’ operation, for instance by covering studies concerning the operation of the Funds, the exchange of information and experience, and reaching out to final beneficiaries. In a number of countries, it has been used to support potential beneficiaries’ access to the funds, through information and training programmes, as well as ongoing tailored support to some groups throughout different phases (e.g. applications, follow-up and reporting).

So far only a limited number of governments (including Britain, Czech Republic, Slovenia, Hungary, Malta and Ireland) have announced their willingness to make use of global grants and/or technical assistance for NGOs in 2007-2013. At this stage, it is hard to avoid the conclusion that a major opportunity is being lost to create a better environment for NGOs as beneficiaries.

### **Beyond the social field, the need for real inclusion proofing of structural funds**

Major steps still have to be made to ensure that European Social Fund programmes deliver better on social inclusion. However, limiting the fight against poverty to the employment and social policy field would be a critical mistake and additional energy is needed for a better integration of social concerns in the *whole range* of structural funds instruments.

#### *The need for real assessment of the social impact of EU policies and programmes*

Economic, internal market, education, transport, enterprise and energy policies have a major impact on the reality of people experiencing poverty. Yet they are so far only subject to a limited social impact assessment, which was developed as part of the EU “better regu-



lation" agenda<sup>31</sup>. The new Horizontal Social Clause integrated in the EU Treaty<sup>32</sup> has the potential to fill the gaps of the current social impact assessment procedure and integrate the fight against social exclusion in the whole scope of EU policies, as it provides a stronger legal basis. Yet, in order for the Clause to make a real impact, it has to be supported by new effective tools, including a real "social inclusion" proofing of policies and programmes.

*For social inclusion proofing of all structural funds instruments*

Aiming at economic and social cohesion, structural funds should be a key target in the development of new inclusion proofing mechanisms. If not carefully designed, structural fund measures can indeed contribute to *producing* poverty and exclusion rather than *reducing* them. Examples of structural fund measures that lead to exclusion include, for example, health services which provide high-tech equipment - when disadvantaged urban and rural communities have a poor quality local health service; entrepreneurship programmes which benefit existing businesses - but not people trying to escape poverty and unemployment; or transport measures which build motorways - but do nothing for isolated, excluded rural communities that need small bus services. While applying inclusion proofing to labour market and similar interventions is relatively straightforward, it is more challenging to apply it to areas outside those traditionally considered the social inclusion part of the structural funds, such as ICTs, transports, education, enterprise, culture, or sustainable development.

The development of common social inclusion indicators to be used in the planning, management and evaluation of all structural funds instruments would be a very first step in this direction, which will probably not be reached before the beginning of the next programming period. Yet it would show the EU's concrete commitment to translate the new "horizontal social clause" into concrete action, provided it ever enters into force.

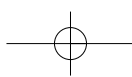
*Possible social inclusion indicators, beyond the social area*

EAPN is currently developing a note on social inclusion indicators. You will soon be able to find it on: [www.eapn.org](http://www.eapn.org)

<u>Theme/measure</u>	<u>Suggested indicators (with type of indicator)</u>
Broadband	% access to broadband in disadvantaged areas (location) % use of broadband by excluded groups e.g. unemployed (outcome)
Urban renewal	% projects in disadvantaged areas (location) % rating of consultation process (participation)

<sup>31</sup> [http://ec.europa.eu/enterprise/regulation/better\\_regulation/impact\\_assessment/docs/sec\\_2005\\_791\\_guidelines\\_annexes.pdf](http://ec.europa.eu/enterprise/regulation/better_regulation/impact_assessment/docs/sec_2005_791_guidelines_annexes.pdf).

<sup>32</sup> Formulated as follows "In defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health".



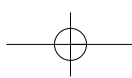
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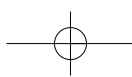
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Agricultural aid	% going to farmers of less than 150 agricultural units (targeting) % of improved farm incomes (outcome)
Enterprise grants	% in disadvantaged locations (location) % going to groups identified as at risk of poverty % for social economy organizations (participation) % improvement in incomes, employment in district (outcome)
SMEs	% in disadvantaged districts (location) % led by people in target groups identified as disadvantaged
Transport	% public transport facilities improved (services, speed) (outcomes) % disadvantaged groups now able to use transport (outcomes)
Childcare facilities	% located in disadvantaged districts (location) % used by parents from disadvantaged groups (targeting) % parents progressing to training, work, employment (outcome)
Energy	% used by people living in fuel poverty (targeting) % perceiving improvement as a result (participation) % low income homes fuel costs down, temperatures up (outcome)
Housing projects	% beneficiaries from persons living in poverty (targeting) % beneficiaries of extreme need categories (e.g. homeless) (targeting)
Culture, sports projects	% using from disadvantaged backgrounds, disability (targeting)
Health projects	% beneficiaries from groups living in poverty (targeting) % of targeted groups with improved health (outcomes)
Environment	Air quality in disadvantaged locations

## What now?

Though the planning phase is coming to an end, structural funds are not fixed once and for all: many channels still exist to develop innovative governance and projects. At this stage, priority should be given to promote, use and disseminate good practices from across the EU, which should be better known and used by NGOs themselves, as well as by management and monitoring committees.





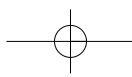
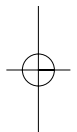
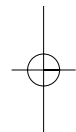
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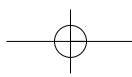
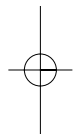
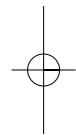
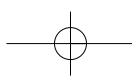
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On mid-term, the current consultation on the future of EU policies and the interim evaluation of structural funds will be important opportunities to stress that beyond economic convergence, structural funds can still be a tool for more social cohesion.

Yet this will not happen without efforts, and it is crucial for all stakeholders to keep mobilized and monitor how structural funds are used in practice, but also develop a common vision for a cohesion policy that really puts sustainable development at its heart.





# EU Structural and Cohesion funds and their impact on climate

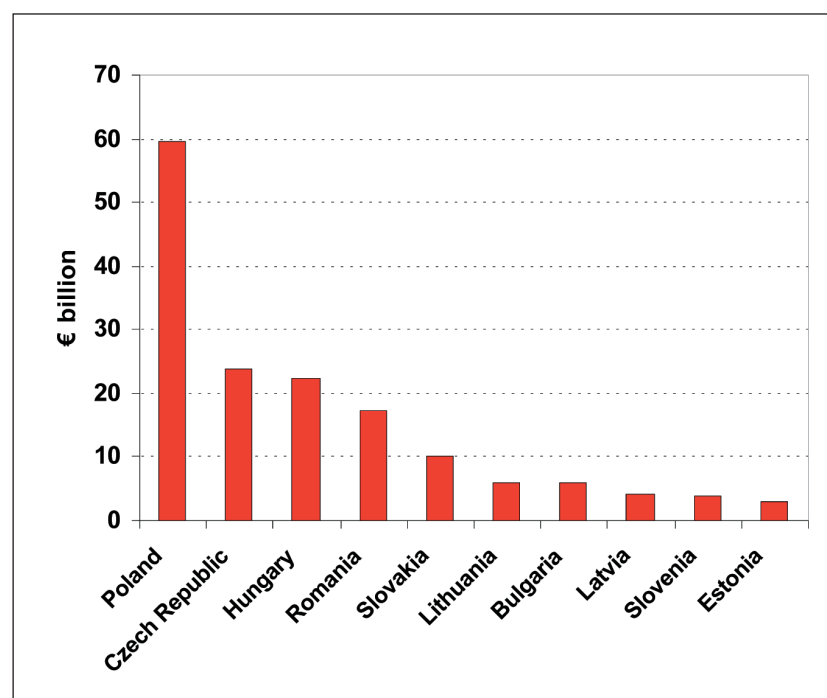
Anelia Stefanova  
CEE Bankwatch

Martin Konecny  
Friends of the Earth - Europe

## A history not to be repeated

Over the 2007-2013 period, the European Union is set to distribute 308 billion euros for projects financed through its Structural and Cohesion Funds (SF/CF) - more than a third of its overall budget for the seven years. Just over a half of this amount - 157 billion euros<sup>33</sup> - will go to the ten central and eastern European member states (CEE-10) including the latest newcomers Bulgaria and Romania (see Figure 1) with the aim of closing the gap between the richer old member states and the poorer newcomers from behind the former Iron Curtain. In per capita terms, the CEE countries will receive significantly more than what the Marshall Plan entailed after World War II.

**Figure 1.** EU funding allocations for CEE-10 countries for 2007-2013



Source: European Commission

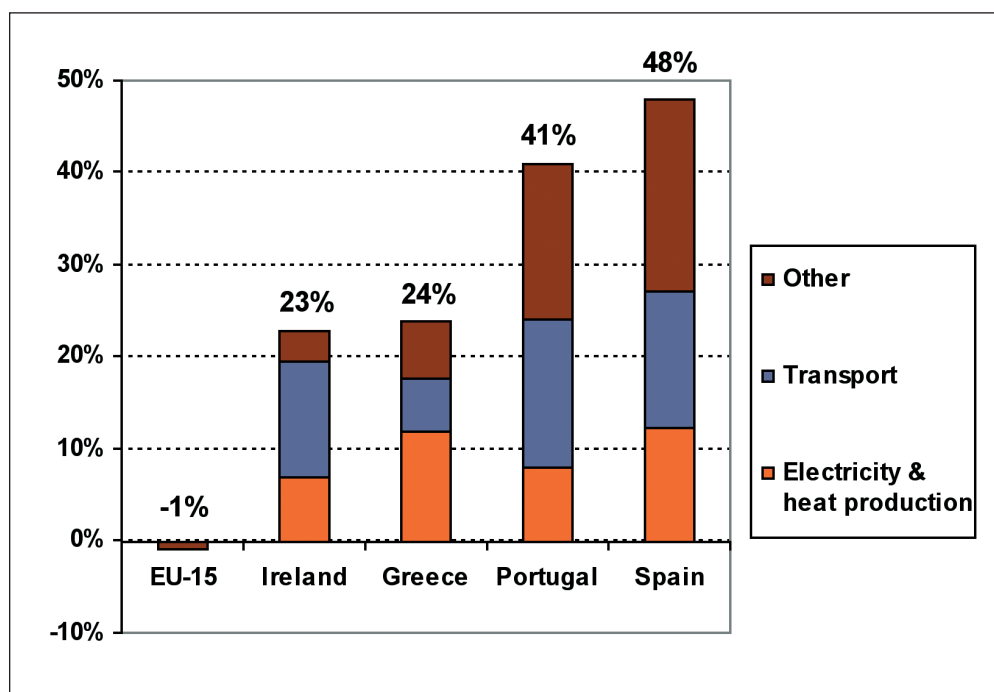
<sup>33</sup> All financial figures throughout this report are in fixed 2004 prices and do not include national co-financing. In current prices, CEE-10 countries will receive approximately 175 billion Euro.

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In the very same period when the investment will be taking place, Europe will have to take an unprecedented effort to combat climate change. The EU will finally have to start achieving serious cuts of its greenhouse gas emissions in order to have a chance of reaching its declared objective to limit global warming to 2°C above pre-industrial levels. By 2008-2012, the EU has to fulfil its Kyoto obligations to reduce emissions by 8% compared to 1990 and then quickly work towards achieving the recently agreed 20%-30% cuts by 2020, with a view to reducing emissions by 60%-80% by 2050.

Worryingly, the Figure 2 below shows that the two EU policies may be at odds with each other. EU funding has so far undermined rather than supported EU climate objectives. **The four "cohesion countries" (Greece, Ireland, Portugal and Spain), which have so far received by far the most EU money per capita, have also witnessed by far the greatest increases in greenhouse gas emissions in the EU.** Spanish emissions have soared by almost 50% in only 15 years. In all four countries, most of the increases can be attributed to growing transport and production of electricity and heat.

**Figure 2.** Greenhouse gas emissions of countries receiving the most EU funding in comparison with the total for EU-15 (% change 1990-2004)



Source of data: "Annual European Community greenhouse gas inventory 1990-2004 and inventory report 2006. Submission to the UNFCCC Secretariat." European Environment Agency Technical report No 6/2006.

While the blame cannot be wholly pinned on EU funding, EU money has undoubtedly strongly contributed to the trend of rising emissions by financing road infrastructure generating more traffic and by supporting an energy-intensive economic growth model. The huge

financial amounts from the EU and the development strategies linked to them do crucially shape the long-term development of the beneficiary countries.

Structural and Cohesion Funds - the EU's main common financial muscle to promote its goals - have a central role to play in realising the EU climate strategy. They should help the beneficiary countries move onto the low-carbon development path. For this, EU cohesion policy itself needs to be "decarbonised". If the EU is really serious about achieving its climate protection goals, its funding through SF/CF must include robust, systematic and well-targeted support for EE/RE. Symbolic support here and there will not suffice. The EU will only be successful in tackling the climate challenge if there is a joint and consistent effort at all levels, from the local through regional and national to European, and if it is backed up by adequate financial resources.

The most important novelty in the EU funding framework for 2007-2013 is the so-called "Lisbonisation" of cohesion policy: 60% of the funds under the "Convergence" objective and 75% under the "Regional Competitiveness and Employment" objective are "earmarked" for new Lisbon (Growth and Jobs) Agenda investments<sup>34</sup>. To make EU funding climate-friendly, a comparable effort would have to be made to earmark high minimum funding allocations for the main low-carbon investments such as energy efficiency, renewable and clean urban transport. Although these investments are included on the list of the promoted "Lisbon-friendly" investments, so are major motorways and airports that heavily contribute to increasing greenhouse gas emissions.

### **Decarbonising EU funds in CEE countries**

In CEE countries, greenhouse gas emissions declined substantially due to economic restructuring in the 1990s. Since 2002, however, emissions are on the rise again, and are projected to increase by 11% between 2004 and 2010<sup>34</sup>. "The new Member States seem to be repeating the experience of Ireland, Portugal and Spain," the European Environment Agency observed. While almost all CEE countries are likely to meet their Kyoto goals, such development could jeopardise any efforts for necessarily bigger post-Kyoto emission cuts after 2012. Even now the strongest resistance to EU emission reduction targets for 2020 and related energy policies comes from some CEE member states.

CEE countries have a right to develop, but they also have an obligation - like the rest of the EU and the world - to reduce their emissions to a level compatible with limiting climate change to 2°C and proportionate to their share of the world population. EU funding should

<sup>34</sup> The new member states are formally excluded from the binding earmarking provision but they are strongly encouraged by the Commission to "Lisbonise" their funding plans as much as possible anyway.

<sup>35</sup> For the 2004 EU newcomers, i.e. without Romania and Bulgaria. *Greenhouse gas emission trends and projections in Europe 2006*. European Environment Agency report no. 9/2006.

help new member states reconcile their right to develop with their obligation to cut emissions by helping them move on a low-carbon development path. **CEE countries can avoid repeating the "Spanish scenario" if EU funds in 2007-2013 are systematically directed towards energy efficiency, renewable energy, sustainable mobility and eco-friendly technologies.** This is also the way to gradually dissolve the current CEE opposition to ambitious EU climate change commitments.

Regrettably, the data shows that new member states' draft funding plans for 2007-2013 are failing the challenge. In the CEE-10 countries, **only three billion euros of EU funds are allocated for energy efficiency and renewable energy, less than five billion for urban and regional public transport, while more than 22 billion euros is to be spent on roads and motorways** that generate more car and truck traffic and thus more emissions. There are big differences between individual countries which proves that things can be done better in most cases.

The findings in this report are based on an analysis of financial allocations in the final draft OPs submitted to the Commission. The report focuses on allocations for energy and transport, which will be decisive for increasing or decreasing climate emissions.

## **EU funds for energy efficiency and renewable energy**

### *Comparison of 2007-2013 allocations*

Overall, according to the draft Operational Programmes, 3.1 - 3.2 billion euros - only 2% of the overall SF/CF allocation for CEE-10 countries - is to be invested into EE/RE in these countries in 2007-2013.

A comparative view reveals major differences between the funding plans of the different countries (See Figure 2 and 4). Only Lithuania can be said to be taking EE/RE seriously in its draft plans, by allocating 5.4% of all its SF/CF money for it, followed by Slovenia with 3.8%. On the other side of the spectrum, Poland, Hungary and most probably also Bulgaria are planning to give only token support for EE/RE, allocating just around 1% of all EU funding for it. In particular, the EE allocations are extremely low in both Poland and Hungary - at 0.5% of all their EU funding. It is worth noting in this context that Poland and Hungary are the two member states which most resisted adoption of any EU targets for reducing greenhouse gas emissions by 2020<sup>36</sup>.

The low level of the planned investments clearly falls short of the sort of action needed to realise the EU's strategic energy objectives over the next seven years and makes mockery of the EU policies and commitments described above. The European Commission needs to make sure that the draft OPs are revised and the support for EE/RE is significantly strength-

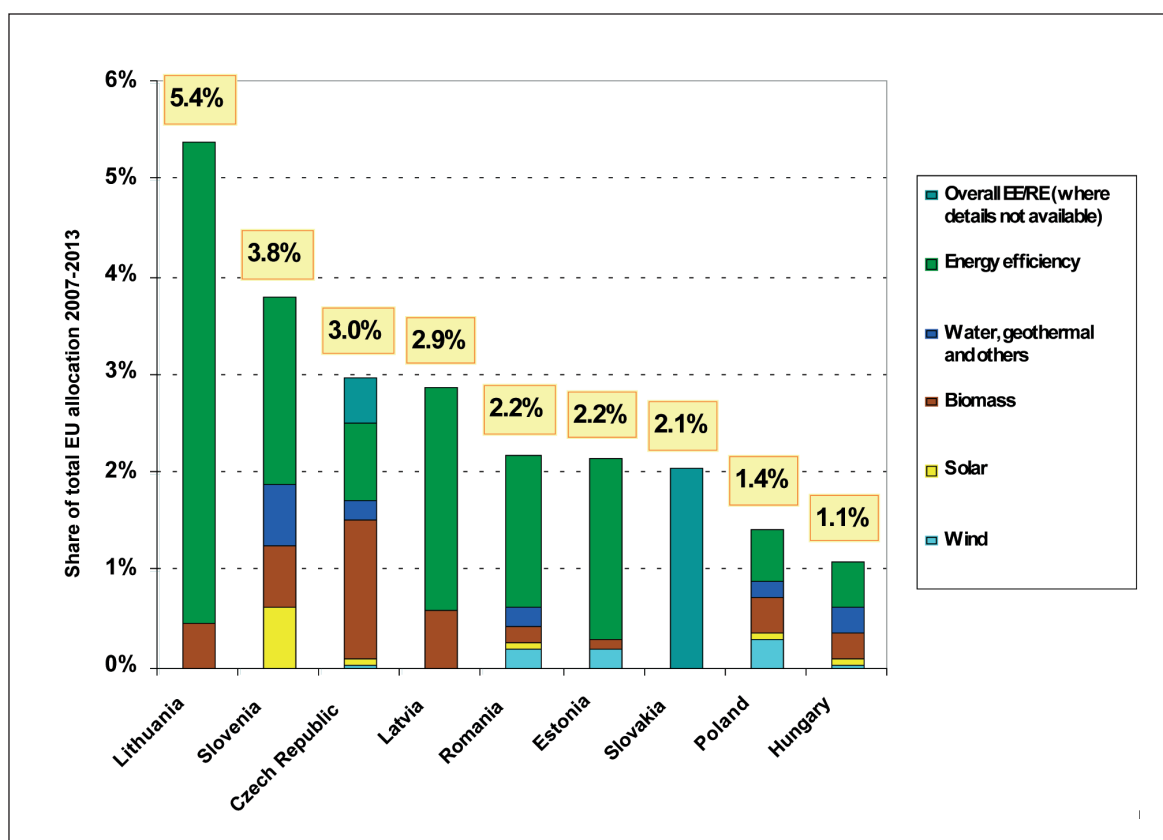
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<sup>36</sup> EU Environment Council meeting, 20 February 2007.



ened. If not, the European Commission will fail to live up to its own stated objectives. The plans of the countries planning the weakest and narrowest support for EE/RE require the biggest changes. The countries with more comprehensive support can serve as a proof that things can be done better.

**Figure 3.** Share of EE/RE allocations in total EU funding in CEE countries for 2007-2013<sup>37</sup>



<sup>37</sup> Figure 3 and 4 are based on indicative allocations in the Operational Programmes available as of [26 March] 2007, without national or private co-financing. Only measures whose primary aim is explicitly energy efficiency and renewable energy are counted. What is not included:

- 1) Other measures that may *indirectly* also contribute to decreasing energy intensity, e.g. research and development or public transport
- 2) Measures for energy security or reduction of NO<sub>x</sub> and SO<sub>x</sub> emissions from fossil fuel sources as planned for example in Poland, Romania and Lithuania. These measures do not directly and explicitly aim to contribute to energy efficiency or renewable energy production.
- 3) In case of the Czech Republic and Hungary, there may be additional EE/RE measures in their regional OPs, which are not included in this analysis. However, they are unlikely to significantly change these countries' overall EE/RE allocations. In case of Poland, the EE/RE measures in its regional OPs are included in the analysis.

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**Figure 4.** Comparison of EE/RE measures and allocations in the Operational Programmes of CEE-10 countries for 2007-2013

	Energy efficiency					Renewable energy					No. of measures	EE/RE share in total EU funding	Over-all
	industry / enterprises	energy sector	housing	public buildings	district heating	Wind	solar	bio-mass	geo-thermal	hydro			
<b>Lithuania</b>	✗	✓	✗	✓	✓	✗	✗	✓	✗	✗	1 priority with 2 measures in OP Cohesion and 1 measure in OP Economic Infrastructure	<b>5.4 %</b>	😊
<b>Slovenia</b>	✓	✗	✓	±	✗	✗	✓	✓	✓	✗	1 priority with 4 measures in OP Environment & Infrastructure	<b>3.8 %</b>	😊
<b>Czech Republic</b>	✓	✗	✗	✓	✗	✓	✓	✓	✓	✓	1 priority with 3 measures in OP Environment and 1 priority in OP Enterprise	<b>3.0 %</b>	😐
<b>Latvia</b>	✗	✗	✓	±	✓	✗	✗	✓	✗	✗	2 measures with 5 sub-measures in OP Infrastructure & Services	<b>2.9 %</b>	😐
<b>Romania</b>	✓	✓	✗	✗	✓	✓	✓	✓	✓	✓	1 priority with 2 measures in OP Competitiveness and partially 1 priority in OP Environment	<b>2.2 %</b>	😐
<b>Estonia</b>	✗	✗	✓	✗	✓	✓	✗	✓	✗	✗	1 priority with 3 measures in OP Environment	<b>2.2 %</b>	😐
<b>Slovakia</b>	✓	✓	✗	✗	±	✗	✓	✓	✓	✓	1 measure in OP R&D & Innovation and 1 sub-measure in OP Environment	<b>2.1 %</b>	😐
<b>Poland</b>	✗	✓	✗	±	±	✓	✓	✓	✓	✓	1 priority with 5 measures in OP Environment & Infrastructure	<b>1.4 %</b>	😐
<b>Hungary</b>	✓	✗	✗	✓	✓	±	✓	✓	✓	✓	2 priorities in OP Environment	<b>1.1 %</b>	😐
<b>Bulgaria</b>	✓	✗	✗	✗	✗	±	±	±	±	±	1 sub-measure in OP Competitiveness	<b>?</b>	😐

Apart from direct support for EE/RE, it is equally important to ensure that EE/RE is, as a horizontal priority, integrated as much as possible into all other measures and activities to be financed by EU funds. For example, any investments of EU funds in buildings and housing should systematically integrate energy-saving measures and RE technologies. The measures for modernisation of universities in Slovakia's OP Research and Development, which explicitly include significant improvements in energy efficiency of the university buildings, may serve as a positive but unfortunately exceptional example in this respect. Overall, there are few signs in the OPs that EE/RE will always be considered as a horizontal priority for all EU funded investments. Quality of the funding measures is also equally important as the quantity. It is essential that EE/RE measures are thoughtfully prepared, well designed and carefully targeted in order to maximise the added value of the funding support and to avoid any negative side effects (as discussed in section 2.2 above).

## Recommendations

The European Commission should require systematic use of EU funds for EE/RE in each member state in 2007-2013. During the monitoring of the Operational Programmes' implementation and as part of the mid-term review, but also for the future EU budgets the Commission should demand the following:

- At least **5% of all EU funds** in each member state should be allocated for EE/RE priorities
- The measures should be **well-prepared, targeted and include environmental criteria** for RE investments;
- **Inclusion of the following measures** should be considered in the OPs of each member state;
- promoting **energy efficiency and renewable energies in industry** and the use of waste heat in enterprises;
- energy-efficient refurbishment of the **housing sector** - renovation of high-rise residential buildings and social housing with energy saving measures and systematic integration of RE technologies;
- energy-efficient refurbishment of **public buildings** (hospitals, schools, state and municipal buildings);
- renovation of municipal **district heating systems**, replacing fossil fuels with biomass, cogeneration and integration of solar and geothermal sources;
- renovation of **public lighting** systems:
- savings in the **energy sector** (distribution of heat and electricity);
- support for **renewable energy investments**: renovation of existing energy sources and installation of new RE systems; including biomass, wind, solar, geothermal and small hydro.
- support for **cogeneration** of heat and electricity;
- **energy audits** for households, **training** for businesses and craftsmen, **networking** between municipalities, awareness **campaigns**;

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- Energy-saving measures and RE technologies should be **systematically integrated into other priorities** and measures in the OPs - for example any investments in buildings and housing;
- Ensure the **additionality and complementarity** of EU funded programmes with regard to existing national programmes and policies;
- Each member state should **demonstrate how it will reach its EE and RE targets** through EU, national or other funding, using appropriate indicators.

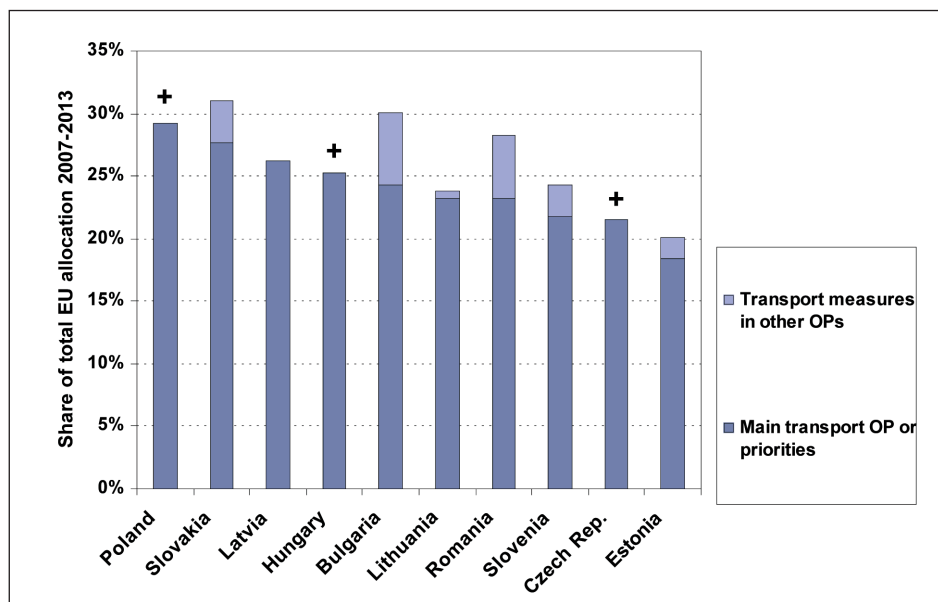
### EU funds for transport

#### *Breakdown of transport allocations for 2007-2013*

Altogether, 42 billion euros of EU funding is allocated for transport in the Operational Programmes of the CEE-10 countries for 2007-2013, not counting additional few billions for transport in the regional OPs in Poland, Czech Republic and Hungary<sup>38</sup>. Figure 5 shows the share of EU funds to be spent on transport in each country - with Poland and Slovakia planning to spend the most. Figure 6 shows the breakdown of the 42 billions according to different transport modes; Figure 7 compares the planned distribution of the transport funding in individual countries.

Taken together, the CEE countries plan to invest much more EU funds into roads and motorways than into any other transport mode. More than 22 billion euros - over one half of all transport funding - is to be invested in roads and motorways. The share of roads is likely to be even higher, if the additional transport funding through regional OPs was calculated in.

**Figure 5.** Share of transport in total EU funding in CEE-10 countries for 2007-2013<sup>39</sup>

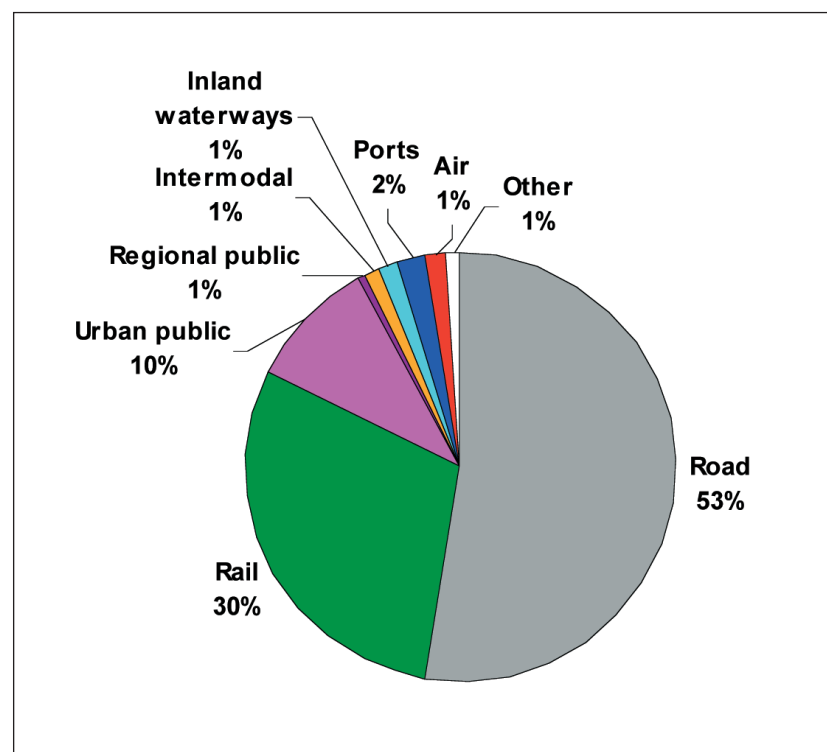


Source: European Commission

<sup>38</sup> Poland, Czech Republic and Hungary, will distribute a minority share of their EU funds through regional OPs. This regional funding is not included in this analysis and the charts. However, it can be estimated that the inclusion of regional transport allocations would raise the total transport allocation in CEE-10 countries to between 45 and 50 billion Euro - around 30% of all EU funding.

<sup>39</sup> All figures are based on indicative allocations in the Operational Programmes available as of [26 March] 2007. For Poland, Czech Republic and Hungary, the '+' signs indicate that there is additional funding for transport in their regional OPs, not included in the graph.

**Figure 6.** Breakdown of EU funds for transport in CEE-10 countries according to mode for 2007-2013



Source: European Commission

Less than one-third of the transport funding (over 12 billion euros) is to be invested in railway infrastructure and only one-tenth (over 4 billion EUR) in public passenger transport.

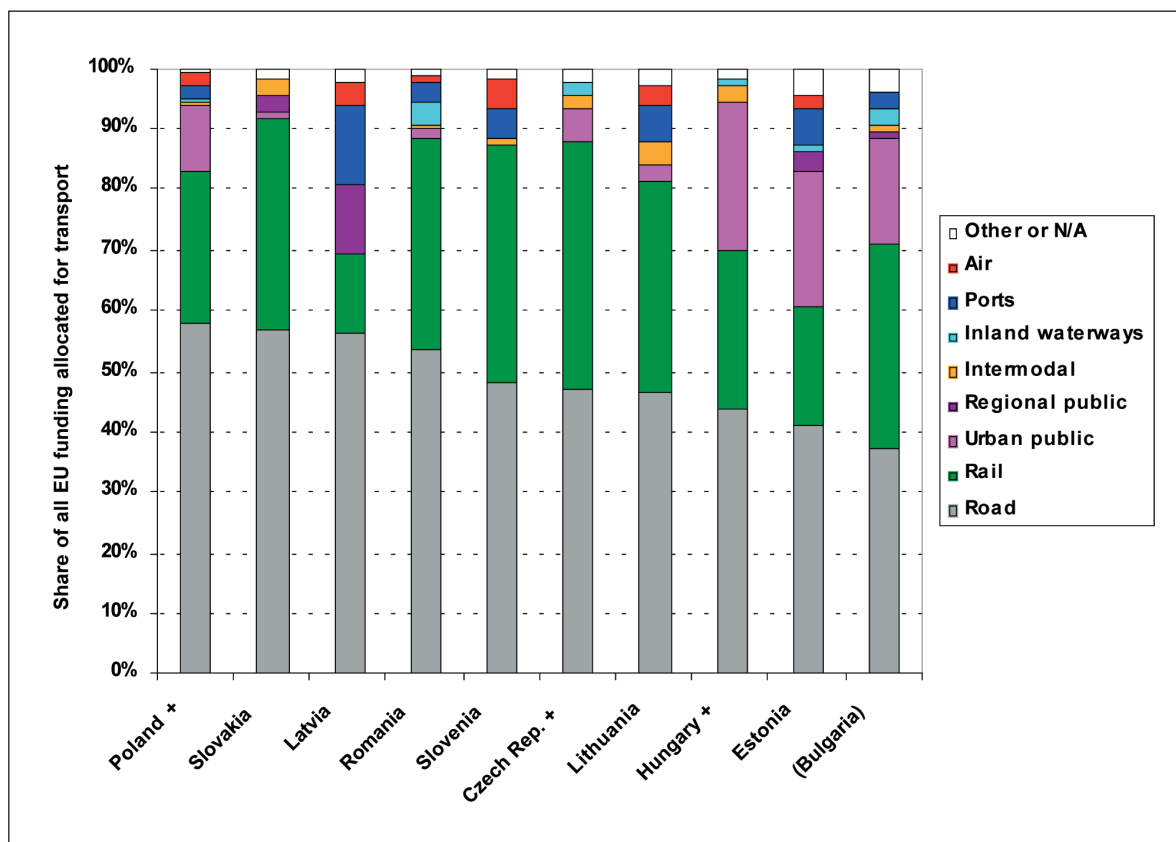
Around one billion euros is to be invested in maritime and river ports, while inland waterways, airports and inter-modal transport infrastructure should receive half a billion euros each. As for the inter-modal infrastructure, it remains to be seen to what extent these logistical centres will actually help to move freight from road to rail and to what extent they will simply facilitate and stimulate growing transport volumes for all modes.

#### *Comparison of allocations for public transport: inconsistent and insufficient*

Figure 7 reveals major differences between the modal preferences in the funding plans of the different countries. As for urban and regional public transport, the chart and Figure 8 demonstrate how incoherent the funding support in CEE countries will be in 2007-2013, unless the OPs are still subjected to substantial modifications.

Romania, Slovenia, Slovakia and Lithuania score the lowest on public transport, planning only very meagre EU funding support for these sectors.

**Figure 7.** Comparison of EU funding allocations for transport in CEE-10 countries for 2007-2013<sup>40</sup>



Source: European Commission

The relatively strongest EU funding support for public transport is planned in Hungary and Estonia. Estonia is again a relatively positive example since it sets appropriate objectives and indicators in its OPs: it aims to preserve the 35% share of public transport in total passenger kilometres, to increase the number of electric rail passengers by 50% and tram and trolleybus passengers by 35% by 2013. Unfortunately, such objectives and indicators are exceptional among the CEE countries.

<sup>40</sup> For Poland, Czech Republic and Hungary, will distribute a minority share of their EU funds through regional OPs. This regional funding is not included in this analysis and the charts. However, it can be estimated that the inclusion of regional transport allocations would raise the total transport allocation in CEE-10 countries to between 45 and 50 billion Euro - around 30% of all EU funding.

**Figure 8.** Comparison of measures and allocations for railways and public transport in the Operational Programmes of CEE-10 countries for 2007-2013

	✓ included	± partly included	✗ not included	
	Rail infrastructure	Regional public transport	Urban public transport	Other
<b>Czech Republic</b>	✓ 1124 km reconstructed or modernised + 12 reconstructed junctions € 2,359m	± In regional OPs	± Prague metro (4.5 km extension): ~ € 300m + more in regional OPs	✓ Traffic management in Prague
<b>Estonia</b>	✓ € 133m	✓ Regional passenger rail & public transport info-systems: € 25m	✓ Electric transport in Tallinn (incl. rolling stock) € 130m + OP Living Environment: urban transport € 22m	
<b>Hungary</b>	✓ 366 km newly built or modernised: € 1,641m	± In regional OPs	✓ Metro (Budapest), tram, suburban railway, P&R, B&R (42 km of constructed or improved fixed-track network): € 1,546m	
<b>Lithuania</b>	✓ 200 km newly built or reconstructed: € 566m	✗	± OP Cohesion Promotion: new, less polluting urban buses: € 41m	
<b>Latvia</b>	✓ € 135m	± Modernisation of Riga suburban commuter railway system (infrastructure, rolling stock, also city trams): € 122m		✓ Traffic safety in municipalities € 27m
<b>Poland</b>	✓ 1,566 km modernised: € 4,869m	± In regional OPs	✓ Complex projects for 9 metropolitan areas: infrastructure and rolling stock for urban railway, tram, metro, trolleybus; P&R, B&R (550 km of modernised networks): € 2,121m + more in regional OPs	✓ Intelligent transport systems € 88m
<b>Romania</b>	✓ 180 km rehabilitated or upgraded + 18 stations modernised: € 1,957m	✗	± OP Regional Development: urban transport rolling stock: € 63m	✓ Traffic safety € 178m ✓ Reducing environmental impacts € 12m
<b>Slovakia</b>	✓ 138 km modernised: € 1,255m	± Regional passenger railways (new rolling stock – 50 units): € 89m	± OP Environment: eco-optimisation of public transport (10 projects): € 54m	✓ OP Regional development: Bicycle paths € 2m
<b>Slovenia</b>	✓ 428 km constructed or modernised: € 398m	✗	✗ Single ticket project for public transport € 3m	✓ Bicycle paths € 5m
<b>(Bulgaria)</b>	✓ ~€ 555m	± OP Regional Development: Intra-regional public transport services (new buses, stations, info-systems...): € 17m	✓ Sofia metro extension: € 240m OP Regional Development: Infrastructure and rolling stock (bus, tram, trolleybus) for urban areas: € 112m	

Even where considerable support for public transport is envisaged, it is rarely comprehensive. In Poland, for example, the urban public transport priority leaves out the funding of environment-friendly new buses. Given that 50% of Polish urban buses are older than 10 years<sup>41</sup> as well as the outstanding share of bus transport in Poland compared to other public transport modes, the situation is hardly acceptable.

<sup>41</sup> Tabor autobusowy w komunikacji miejskiej - analiza stanu". IGKM (Polish Chamber of Urban Transport), 2006.

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The planned funding for public transport as compared to roads does not match the emphasis given to it in the EU cohesion policy and falls short of the needed investments. Without further major modifications, the funding support for public transport in 2007-2013 will be inconsistent as there will be only a few projects here and there; and it will be insufficient as it will not match the existing needs. Less should be spent on roads and more on public transport and railways across the CEE region. This pertains especially to the countries with the lowest support for public and environment-friendly transport in their OPs. They can do better than that, as the examples of countries with better support show. If public and environment-friendly transport do not receive a central place in the OPs now, Europe and especially CEE countries will miss a major opportunity to shift towards sustainable transport patterns. Seven more years may be lost to unsustainable, road-based transport growth.

### *Allocations for roads: a gross imbalance*

The analysis of allocations shows that instead of using EU funds to systematically improve public transport, the governments are planning to build roads. Taken together, more than a half of all EU funds for transport in CEE countries is to be invested in roads and motorways. Figure 6 shows that roads and motorways are to receive especially high shares of the funding in Poland and Slovakia<sup>42</sup>.

There is thus a gross imbalance in favour of one of the least efficient and least sustainable transport modes. The road-biased funding plans represent a continuation of the business-as-usual trend in transport financing, which has been analysed by CEE Bankwatch Network in an earlier study and is also apparent in the additional EU funding for roads coming from the TEN-T budget and from the European Investment Bank<sup>43</sup>.

Road infrastructure in CEE countries is not in a good shape and does require improvements. However, the same can be said for public transport and railways. Decision-makers must therefore strike the right balance, taking into account costs and benefits of various types of transport, including external costs and environmental impacts. Our analysis of the funding plans shows an unjustified bias in favour of roads and a neglect of public transport. This is certainly not the right balance.

A number of studies have undermined the widespread conviction that motorways are essential to regional development and employment creation. The economic impacts can just as often be positive as negative, depending on the specific local circumstances of a given region<sup>44</sup>.

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<sup>42</sup> It can be observed that the countries which plan to spend the most EU money on transport - Poland and Slovakia - also plan to spend the highest shares of this funding on roads and motorways (see Figures 5 and 8). Estonia is the opposite example, as it plans to spend the least on transport and from there almost the least on roads. Thus, while Poland plans to spend 17% of all EU funding on roads and motorways, Estonia plans to spend only 8%.

<sup>43</sup> *Heading down dead ends: Transport sector financing in Central and Eastern Europe*. CEE Bankwatch Network, 2004.

<sup>44</sup> SACTRA, *The Standing Advisory Committee on Trunk Road Assessment, Transport and the Economy*, DETR, London, 1999.



Decision-makers also need to take into account external costs of transport, such as accidents, damage to health, and climate change impacts, which are estimated at more than 7% of the EU's GDP<sup>45</sup>. External costs of road transport are higher than those of any other transport mode with the exception of air transport. If external costs are taken into account, road transport becomes a much less attractive option and the investment of public resources into road-building becomes even less justified. The same goes even more for air transport, which is to receive half a billion euro subsidy from EU funds in CEE countries.

Experience around the world also shows that it is not possible in the long term to solve congestion problems by building ever more roads, as they generate ever more car traffic. "Building road infrastructure inflates transport demand just as printing money creates inflation<sup>46</sup>."

In order to promote a balanced development of the transport sector in CEE countries that is in line with common commitments to avoid climate change, the EU should spend less on building roads and more on improving alternatives to the car, such as public transport.

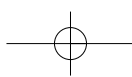
## Recommendations

The European Commission should require that EU funds for transport in each member state are focused on public and environment-friendly transport in 2007-2013 period review and in the future budget period. For the new budget period discussion we think that:

- At least **75% of all transport funding** in each member state should be allocated for environmentally more friendly transport investments;
- Public **urban** transport systems;
- Integrated **regional and suburban** public transport systems;
- **Railways** (infrastructure and passenger rolling stock);
- **Inter-modal** infrastructure for shifting freight from road to rail;
- **Bicycle** lanes and paths;
- **Traffic management** systems;
- Investments in **public transport** should cover improvements both in **infrastructure and rolling stock** and be part of integrated transport strategies including the enhanced **accessibility, frequency, quality, safety and environmental performance** of the public transport services;
- Funding for roads should be primarily focused on the **rehabilitation of the existing road infrastructure** and safety improvements rather than the building of new roads and motorways;

<sup>45</sup> *External Costs of Transport*. INFRAS - Zurich /IWW Karlsruhe, October 2004.

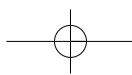
<sup>46</sup> *Transport and Economy: The Myths and the Facts*. European Federation for Transport and Environment (T&E) and Stichting natuur en milieu, 2001.



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- Each member state should **demonstrate how it will finance the necessary modernisation of its public transport** from EU, national or other sources, using appropriate indicators;
- **Strategic Environmental Assessments** of the OPs must be carried out properly including their climate change impacts and the OPs must be adapted according to the resulting SEA recommendations.



# Promoting sustainable development in Europe through regional funds

Stefanie Lang

*EU Cohesion Policy and Regional Funding, WWF European Policy Office*

## The EU Cohesion Policy

With a total amount of 350 billion euros available for the period 2007-2013, the Regional Funds under the EU Cohesion Policy are the largest item of the EU budget (44% of the EU budget compared to 43% for agriculture and fisheries together). Their aim is to promote development as well as economic and social "cohesion" of European regions, so that all of them will achieve and benefit from the same level of welfare. Regional funds have three main spending priorities: convergence, competitiveness and cooperation. The convergence priority allows investments in infrastructures such as transport, energy and environment. The competitiveness priority targets investments in training schemes or job-creation programmes. The cooperation priority focuses on projects involving several regions from different EU countries.

For the current programming period, structural actions are strategically focused to fulfill the Lisbon and Göteborg objectives agreed in 1999 and 2001 respectively by EU member states. The so-called "Lisbon agenda" aims at making Europe the most competitive region in the world, while the Göteborg objectives aim at achieving the Lisbon goals within the framework of sustainable development.

All 27 countries are receiving some kind of EU regional funding, but the main share goes to the Eastern and Southern regions of Europe. In the 12 new EU members, this budgetary period represents the first experience of management of large amounts of EU regional funds. In Poland alone, regional funds are up to 65 billion euros, that is up to 4% of national GDP (Gross Domestic Product) of the Baltic States. It is clear that this money is critical in shaping institutions and policies, but also in setting a path towards sustainable development.

## How Regional Funds are and can be spent

Regional funds, if properly directed and managed, represent the greatest potential for sustainable development in Europe. The regulation for the period 2007-2013 is clearly mentioning the possibility to use Regional Funds for environment and nature conservation as well as measures to reduce greenhouse gas emissions. It also states that "the objectives shall be pursued in the framework of sustainable development [...] and the promotion of protecting and improving the environment."

However, the types of investments regional funds are most often used for - big infrastructures - cause major threats to the natural environment. The most recent example is in Rospuda Valley, in Poland, with plans to use EU money to build a highway through a unique

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peat bog land, home to several large species such as elk, lynx and bear - an area highly in need for protection.

The incentive to invest in large, expensive - and usually unsustainable - infrastructural projects is often caused by the need to effectively absorb these funds.

But environmentally-friendly projects are possible. In past years, EU regional funds supported the development or upgrading of environmental water infrastructures, the reduction of wasted water, better quality for air and soil, and reduction of waste. This has led to a noticeable increase of environmental quality in European countries. EU regional funds also had positive impacts in the creation or improvement of public transport, including train connections. To a lesser extent, EU funds have supported nature conservation measures through nature information centres, breeding stations, re-habilitation processes and awareness-raising activities. It is estimated that until 2006 approximately 17% of EU regional funds have gone to projects to the benefit of the environment in Europe.

But what about the remaining part? Is the principle of sustainable development - enshrined in the EU Treaty - fully respected?

An analysis of the previous programming period for EU regional funds spending is available below (the same applies for regional and structural funds).

**Figure 1.** Planned expenditures from Structural Funds on environmental categories 2000-2006

Category	Million €	% of Structural Funds EU-25
<b>Environmental infrastructures (A)</b>	<b>10.913,6</b>	<b>5,1%</b>
Air	213,6	0,1%
Noise	46,2	0,0%
Waste	1.428,6	0,7%
Drinking water	2.978,5	1,4%
Water sewerage and purification	3.605,0	1,7%
Not distributed	2.642,0	1,2%
<b>Other categories (B)</b>	<b>26.007,7</b>	<b>12,1%</b>
Sustainable transport	12.369,3	5,8%
Forest and nature protection	4.760,8	2,2%
Reahbilitation industrial areas	2.249,3	1,0%
Rehabilitation of urban areas*	2.049,3	1,0%
Agricultural water management	2.012,0	0,9%
Environmental technolgy	1.243,0	0,6%
Sustainable energy	804,3	0,4%
Sustainable fisheries	519,6	0,2%
<b>Total on Environmental Categories (A + B)</b>	<b>36.922,0</b>	<b>17,2%</b>
<b>TOTAL STRUCTURAL FUNDS</b>	<b>214.817,0</b>	<b>100,0%</b>

\* Estimated share for environment (45% of the category)

Source: Infoviev / EC

While the European Commission recognizes the potential for the use of such funds in a sustainable and environmentally-friendly way, it is mostly up to EU countries to decide at national level how to use regional funds. This means that a much larger share of funds goes into projects that have detrimental effects on the environment. Large infrastructures are one of the key threats to nature and biodiversity in Europe.

The impact of EU regional funds at national and regional level has led to:

- Habitats fragmentation because of transport infrastructures crossing protected areas. A particularly bad example is the road built in Spain (Doñana) which contributes to killing the Iberian lynx, a species threatened of extinction and protected under the EU Habitats Directive.
- Change or destruction of river systems due to channeling or dredging, with increased flood risks downstream.
- Shift from rail to road, rather than the other way round - thus contributing to more CO2 emissions.
- Destruction of ecosystems and their services, for example natural flood-retention areas being destroyed by waterways transport or hydropower infrastructures.
- Loss of species due to habitats destruction.
- Overexploitation of natural resources.
- Wasteful consumption patterns.

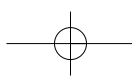
Unfortunately those developments are partly happening even without EU support, but the fact that EU money is exporting those trends to new member states, accelerating and re-enforcing such unsustainable development paths is not acceptable.

### **Need for different approaches**

As one of the biggest budget lines of the European budget, regional funds should be seen and used as an instrument for sustainable development. Territorial and social cohesion can be achieved with investments in eco-technology, eco-innovation, green transport modes, renewable energies, energy efficiency, environmental infrastructures and nature conservation. The job creation potential of those investments has to be fully understood and exploited.

According to WWF, all investments supported by the EU should have a positive environmental impact and not breach the EU environmental legislation. No exceptions should be allowed any more. If EU countries want to continue on the old-fashioned path of development at the price of the environment, they should not be rewarded by European public money.

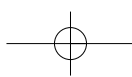
EU funds should be spent more strategically and be used as an instrument for change. Political commitments like the Kyoto Protocol, the EU targets for greenhouse gas emissions reduction, the goal to halt biodiversity loss, the objectives outlined in the sustainable development strategy and in all EU environmental regulations should receive a boost from the regional funds.



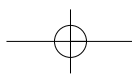
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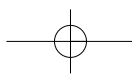
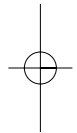
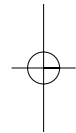
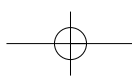
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In 2005 WWF published a guidebook for good projects funded through EU regional policy. The publication, *“EU Funding for Environment - A handbook for the 2007-2013 programming period”*, is available at <http://assets.panda.org/downloads/eufundingforenvironmentweb.pdf>.



## **Heading 2 - Preservation and Management of Natural Resources**







# The CAP- the Elephant in the EU Budget Room

Ariel Brunner & Konstanti Kreiser

*BirdLife International*<sup>47</sup>

The CAP is the world's largest system of agricultural subsidies, spending €55.1 billion in 2007<sup>48</sup>. As such it has attracted over the years much criticism for its impacts on both the European environment and the economy of developing countries. It is still absorbing more than 40% of the overall EU budget so it is clear that any debate on the future of the budget must be, to a large extent, a debate over the future of the CAP. Repeated scandals about rich land owners receiving fat income support and large companies profiting from export subsidies have tarnished the image of the CAP, making it arguably the most criticized part of the EU budget. The CAP has also been a major driver for environmental degradation and it is still widely criticized for failing the environment, despite recent reforms. While it is clear to any independent observer that current CAP spending is wasteful and unjust, these observations risks clouding the fact that the CAP does represents the EU's main common tool for dealing with land use issues - a key strategic concern whose importance will only increase in the coming years.

**Figure 1.** The CAP in the budget

Total <b>EU Budget</b> (2007) 126.5 billion EUR (2 %of EU public expenditure)	<b>Other budget lines</b> - 55.5% of total budget		
	<b>Protection and management of Natural Resources budget line</b> - 44.5 % of total budget	<b>CAP</b> - 43.6% of total budget	<b>Pillar I</b> - 77% of CAP <b>Pillar II</b> (rural development) - 23% of CAP
		<b>Environment</b> - 0.2% of total budget	

## A history of piecemeal reform

Introduced in 1957 as part of the Treaty of Rome, the CAP's aim was to put an end to the post war food shortage and widespread rural poverty. The main delivery tools at that time

<sup>47</sup> BirdLife International is a global alliance of conservation organizations working in more than 100 countries and territories. BirdLife has been one of the leading NGOs engaged in favor of CAP reform for well over a decade. For more information about the work of the BirdLife European Division on Agriculture and for BirdLife's vision document on the future of the CAP "New challenges, New CAP", see [http://www.birdlife.org/action/campaigns/farming\\_for\\_life/index.html](http://www.birdlife.org/action/campaigns/farming_for_life/index.html).

<sup>48</sup> EU Budget 2007, EC (2006).

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were guaranteed prices, intervention buying, high import tariffs, and export subsidies. These policies were so successful in encouraging production that, through a combination of intensification and expansion in the area under production, they quickly led to surpluses and the infamous butter mountains and wine lakes of the 1980s.

It was a combination of the need to address these surpluses and the growing pressure from trade negotiations that initiated the first of the major CAP reforms. The “MacSharry Reform” in 1992 aimed to reduce these surpluses by decreasing price support and introducing direct compensation payments to farmers. This process was continued by the “Agenda 2000” reform, which further reduced price support and increased farmer compensation through direct payments. A “second pillar” of the CAP, aside from normal income payments to farmers, was officially created to pay for rural development measures. From then on, this pillar was seen as the more environmentally, but chronically underfunded side of the CAP.

The third and most significant reform (“Fischler reform”) took place in 2003 as part of the Mid Term Review of the Agenda 2000 reform. This reform resulted in the replacement of most direct subsidies by a single farm payment scheme that would be based on area and historic subsidy allocations. Although many market support tools still exist within the CAP (export subsidies, intervention buying of excess production, payments coupled to production), most “pillar I” payments are now given as direct payments to farmers based on an “entitlement”. In practice it is a system of income support where aid is based on past subsidies receipt.

The role of the CAP’s “second pillar”, i.e. the rural development fund, was strengthened with the introduction of “modulation”, a process whereby funds are shifted from the first to the second pillar.

## Greening the CAP, an unfinished journey

By generously rewarding production at any cost, the CAP has driven the intensification of agriculture in Europe. This, in turn, has been the main cause of the collapse in biodiversity, demonstrated by the decline in farmland bird populations<sup>49</sup>, in the EU. With production subsidies making up over half of farmer incomes in many instances, it is clear that they have played a fundamental role in farmers’ decisions, resulting in intensification well beyond the level that would be delivered by the market alone.

Intensification has been achieved through increasing yields and stocking densities, expanding fields and removing hedgerows and other important habitats, and increasing massively the use of pesticides and artificial fertilizers. Besides the collapse of farmland biodiversity, agricultural intensification is linked to a wide range of environmental problems such as water pollution and eutrofication, over abstraction of water, and soil erosion and degradation<sup>50</sup>.

The evolution of the CAP through two decades of reforms has supposedly been accom-

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<sup>49</sup> Donald et al, “Agricultural intensification and the collapse of Europe’s farmland bird populations”. Proc. R. Soc. London B (2001) 268.25-29.

<sup>50</sup> European Environment Agency, “Integration of environment into EU agriculture policy- the IRENA indicator-based assessment report”. Report n°2/2006.

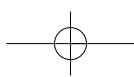
panied by a journey from a coarse and environmentally damaging system of farm support to one that now, at least to some degree, encourages more sustainable farming through the removal of the link between payments and production and the introduction of minimum standards and incentive payments for higher standards.

The 2003 reform was the most important for the environment. The decoupling of agricultural support from production finally removed the perverse incentive to over-produce and thus cause environmental damage, whilst the introduction of "Cross-Compliance" has, at a minimum, put a much greater importance on complying with EU environmental legislation and basic good practice rules, through linking compliance to the receipt of subsidies. Furthermore, the new EU Rural Development policy, which is paid for through the second pillar of the CAP, has a strong emphasis on the environment and identifies biodiversity conservation as a key objective. Though the CAP remains a long way from an environmental policy, and many parts still threaten the environment, it is certain that the CAP has become significantly greener<sup>51</sup>.

This green transformation has not however resulted in an efficient tool promoting sustainable land use in Europe's countryside. Around 80% of the total CAP budget goes to the Single Farm Payment (SFP). This payment is not linked to any clear outcome, though it is attached to basic environmental and welfare standards known as cross-compliance. These standards have not, however, been implemented effectively in most Member States and they fail to provide protection for farmland habitats and landscape features<sup>52</sup>. Furthermore, the SFP is predominantly paid on an historical basis, with most therefore paid to intensive farmers, disadvantaging those who have historically practiced extensive, more environmentally friendly forms of agriculture. Rural development measures, particularly agri-environment schemes, represent the most promising part of the CAP as they can benefit wildlife, the environment and the rural economy. Agri-environment schemes support farmers who adopt higher environmental standards that result in public benefits such as wildlife and clean water. These benefits are not recognised by the market, and are therefore delivered at sub-optimal levels. Agri-environment helps correct this market failure, by ensuring farmers are rewarded appropriately for the public goods they deliver. However, rural development measures lack sufficient funding, receiving only approximately 20% of the total CAP budget. Agri-environment measures receive even less. This means that the influence these measures have on farming decisions is dwarfed by the impact of Pillar I measures. Furthermore, rural development measures are often used to support environmentally destructive practices such as funding unsustainable drainage and irrigation expansion, inappropriate deforestation, using agri-environment money to pay for practices that have no clear environmental benefit, or for practices that would be followed anyway or Less Favoured

<sup>51</sup> Schmid et al, "Phasing out of environmentally harmful subsidies: Consequences of the 2003 Reform". *Ecological Economics*(2007) 60/3; Schmid & Sinabell, "On the choice of farm management practices after the reform of the CAP in 2003". *Journal of Environmental management* (2007) 82/9.

<sup>52</sup> Farmer & Swales (2004) The development and implementation of cross compliance in the EU 15.



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Area payments that go to all farmers in designated areas, regardless as to whether they practise environmentally friendly farming.

### An illusory boon for farmers

One of the principal defenses of the CAP is that it maintains farmers' incomes and the economic health of the sector, yet the number of people working in agriculture in the EU has been in continual decline, falling in the EU-15 by 18% between 1995 and 2005. The SFP system does not support those farmers who specifically require financial help, nor those who are delivering the most for society through providing environmental benefits. Indeed, 85% of direct payments go to just 18% of farmers, with the largest farmers in the old EU Member States benefiting the most<sup>53</sup>. Agricultural subsidies are also an inefficient way of supporting farmers. The OECD has concluded that, through increasing prices, most of the money ultimately goes to larger players in the agricultural industry, such as input suppliers and landowners<sup>54</sup>. As little as 25% of public money spent on market support instruments stays with the farmer.

### The case for public payments for land management in the EU

Environmental payments for farmers, alongside a high regulatory baseline, are a necessary policy tool if agriculture is to deliver the range of environmental and social public goods that society expects from it. Thriving wildlife, beautiful landscapes upon which rural tourism depends, clean water, and well functioning watersheds are all products of agriculture in Europe, given that agriculture is responsible for the management of approximately three-quarters of European land. Wider society values these services but they have no market value. This results in a market failure in which sub-optimum levels of these public goods are delivered, resulting in biodiversity decline, water pollution, degraded landscapes and soils.

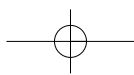
The relationship between agriculture and biodiversity in Europe is a particularly close one. Agriculture has shaped the European landscape, with much of Europe's biodiversity intimately dependent on traditional farming<sup>55</sup>. Traditional mowing and low intensity grazing, for example, have for centuries maintained a range of semi natural, biodiversity rich grasslands that would have otherwise reverted to scrub and forest. The action of big wild herbivores and large scale geomorphologic phenomena that used to maintain open landscapes in past eras is mostly gone forever. This means that abandonment of traditional agricultural practices is as much a threat to biodiversity as is intensification<sup>56</sup>. Most traditional high nature value farming is not economically viable on its own, but its viability can be improved through targeted rural development aid and agri-environment support.

<sup>53</sup> [www.farmsubsidy.org](http://www.farmsubsidy.org).

<sup>54</sup> OECD (2003) Farm household incomes: issues and policy responses.

<sup>55</sup> McCullough, "Identifying species richness "hotspots" for farmland birds in Europe: what makes a hotspot a hotspot?"; Centre for Ecology, Law and Policy, Environment Department, University of York, UK.

<sup>56</sup> DLG- Government Service for Land and Water Management "Land abandonment, biodiversity and the CAP. Outcome of an international seminar in Sigulda, Latvia, 7-8 October, 2004". 2005.



Land use policy, and principally agri-environment, is the best tool available to address this market failure and reverse the decline in biodiversity both at the macro, landscape scale, and at the more specialised species and habitats scale, including the Natura 2000 protected area network. Agri-environment schemes pay farmers to adopt or maintain specific farming practices based on an income foregone formula and have been shown to be able to deliver for the needs of specific species<sup>57</sup>, and are expected to be able to deliver higher environmental standards throughout the countryside<sup>58</sup>.

Climate change places a further importance on improving the sustainability of agriculture and its value to wildlife. The quality of agricultural habitats will determine the ability of many species to move effectively between protected areas in order to follow their shifting "climate envelopes", i.e. the areas with the climatic conditions appropriate for the species in question. At the same time, in times of climate change, only healthy and robust ecosystems will be able to deliver the services and products our society needs.

### **The way forward: BirdLife's vision<sup>59</sup>**

How Europe's land is managed affects us all. Society requires land management to yield private goods, such as food, fibre and fuel, as well as public goods, which are goods that we all benefit from, such as clean water, healthy ecosystems, wildlife, thriving rural communities and beautiful landscapes. Yet, as essential as these benefits are, they are undervalued by the market, and, as a result, they are delivered at below optimum levels.

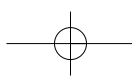
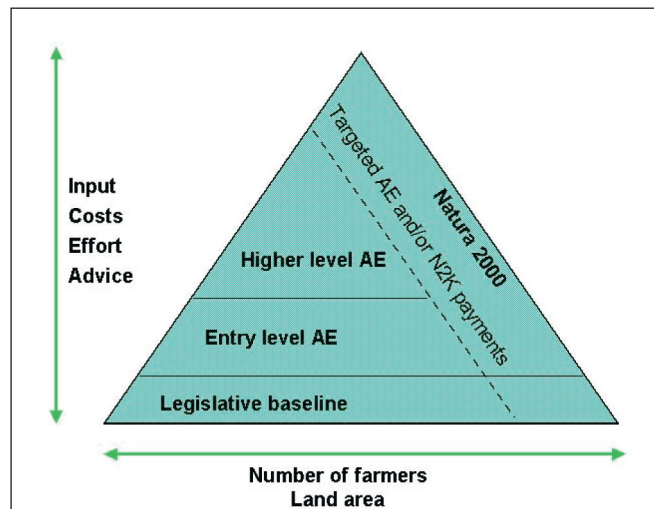
The role of public intervention in land management must therefore be about securing these public benefits. We believe that there is a need for an EU wide policy targeting sustainable land management and that such a policy should evolve out of today's CAP second pillar. We suggest the following elements as foundations for this new policy.

- **Establish a common sustainable land management and rural development policy.** Establish a sustainable land management and rural development policy for the whole of the EU, building on the current Rural Development Regulation but targeted at environmental sustainability. Our vision is for Pillar 1 of the CAP to be phased out, with funds transferred to a sustainable rural development fund based on the current Rural Development Regulation, which is at present separated into three 'axes': competitiveness, sustainable land management, and improving the quality of life in rural areas. The central element of this system should be supporting sustainable land management through regulation, agri-environment and Natura 2000 payments, as shown in the figure.

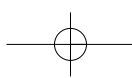
<sup>57</sup> Leitao et al. "Bustard conservation in Europe in the last 15 years: trends, best practice and future priorities". 2006 Vickery et al. "The role of agri-environment schemes and farm management practices in reversing the decline of farmland birds in England". *Biol. Conserv.* (2004) 119, 19-39.

<sup>58</sup> DONALD and EVANS, "Habitat connectivity and matrix restoration". *Journal of Applied Ecology*, (2006) 43, 209-218.

<sup>59</sup> BirdLife's manifesto for the future of the CAP «New Challenges, New CAP» is available at <http://www.birdlife.org/eu/pdfs/CAP%20Brochure.pdf>.

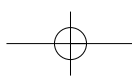

**Figure 2.** Birdlife AE Pyramid


- The pyramid model consists of a minimum legislative baseline for all farmers that is based on the principle of 'do no harm', which would ensure, for example, the protection of landscape features and valuable habitats. This baseline is currently set by cross-compliance, which should continue for as long as direct payments are available, but in the longer term should become a legislative requirement. Basic agri-environment schemes that are open to all farmers should be made available in all parts of the EU. They should include straightforward, practical measures designed to enhance the farmed environment and encourage more sustainable farming practices, such as creating flower-rich areas for invertebrates and birds, adopting water-saving practices, establishing buffer strips to reduce water pollution and erosion, and creating basic habitats within and around fields. Advanced agri-environment schemes should also be used by all Member State and regional governments to address specific areas and environmental issues, such as the conservation of key species and habitats, especially where these are not afforded the protection and funding they need through other mechanisms, including Natura 2000 designation. These schemes require more demanding management and, consequently, the payments and level of advice required by farmers would also be higher. This system of support is based on the principle of giving all farmers the opportunity to receive support to adopt more sustainable practices and look after wildlife. It is also able to deliver good quality habitats across the farmed landscape, whilst allowing the targeting specific species and habitats for more intensive conservation efforts. In practice, a comprehensive agri-environment framework would create a sort of "public goods market" where farmers are paid, from the public purse, to produce environmental public goods that are not paid for by consumers. Alongside support for sustainable land management, the use of other measures to tackle the social and economic challenges faced in the more marginal rural areas of the EU should address these challenges whilst ensuring that they respect and add value to environmental sustainability.



- **Deliver good management of Europe's protected areas** The Natura 2000 network of protected areas is designed to protect and restore Europe's species and their habitats, and is the EU's most far-reaching effort to halt biodiversity decline. The future CAP should play a key role in delivering good management on Natura 2000 sites through targeted agri-environment schemes and Natura 2000 payments. If properly supported, it has the potential to save habitats and species from imminent extinction, create jobs in rural areas, for example through eco-tourism and provide a means of adding value to food and support for sustainable farming. The conservation objectives of many sites require the maintenance of traditional land management practices, such as extensive grazing and mowing for hay production. Natura 2000 cannot achieve its aims without a robust and dedicated system of funding for continuing these sympathetic management practices, which are often uncompetitive in today's market conditions. Sustainable management of Natura 2000 sites could be achieved through a combination of measures, including Natura 2000 payments, which compensate farmers for undertaking the necessary management for the conservation of designated areas, and targeted agri-environment schemes. The European Commission has estimated that it will cost at least €6.1 billion per year to properly finance the Natura 2000 network<sup>60</sup>. Agricultural and forest habitats represent 60% of Natura sites; bringing these habitats into good condition and maintaining this will depend on sufficient funds being ring-fenced for supporting sustainable land management on these sites..
- **Funding for high natural value farming** Land abandonment is a major biodiversity concern in many parts of Europe, particularly now that payments have been decoupled without being accompanied by sufficient agri-environment to fund agriculture that is delivering for the environment. Marginal High Nature Value agriculture needs public intervention to maintain its economic viability. Agri-environment can help but is not able to stop the decline in marginal farming by itself as payments are based on an income foregone formula that is redundant when there is very little income in the first place. Instead, social and economic investment will be required in these areas with the aim of maintaining the rural population in marginal HNV areas and ensuring the environmentally beneficial farming continues. BirdLife advocates for a specific Less Favoured Areas scheme that would geographically target support payments to high natural value farming, as defined by the European Environment Agency. Such payments must be conditional on basic management requirements that ensure beneficial farming practices continue. This should be combined with the targeting of other Rural Development measures to these areas to improve the rural economy in a sustainable way, through, for example, building local food chains and helping farmers tap

<sup>60</sup> Commission communication - COM(2004)0431 Financing Natura 2000.



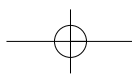
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into the opportunities offered by tourism and recreation activities. The level of support should be sufficient to make marginal HNV farming economically viable, and the system will need to be as “un-bureaucratic” as possible in order to reach those disadvantaged groups that find it very hard to enrol in agri-environment schemes.

### **A question of quality, not just quantity**

The EU budget review offers an unprecedented opportunity to have a fresh look at the CAP and bring a badly needed overhaul of this policy, to bring it in line with society’s needs and expectations. For too long the CAP has been tinkered with, through endless limited adjustments, forever dodging the key questions: what is the policy for and what are the most rational tools for pursuing its objectives. It is also clear that no credible modernisation of the EU budget is possible without a thorough reform of the CAP. There is a risk however that the debate will be reduced to a purely quantitative one, about how much money should be spent on the CAP. Given the immense challenges facing Europe’s land in the coming decades, this would be a major mistake. Time for a qualitative debate on what are we spending on, and how to make good use of the money.





# Agriculture and Rural Development

Gérard Chopin

*Chair of Coordination Paysanne Européenne (CPE)*

## Introduction

### *The agenda*

*Spring 2008 : the future of the EU agriculture policy is at stake during the next months.*

First, from May to November 2008, the agriculture Ministers will have to deal with the proposals of the EU Commission to adapt the Common Agriculture Policy (CAP) for the years 2009-2013. That is the "health check" of the CAP reform 2003 launched by the Commission in November 2007. Secondly the debate about how to shape the next CAP after 2013 already started, with the new EU budget reformed in 2009/10. In case the new EU Treaty adopted in December 2007 is ratified by the 27 Member States, there will be co-decision of the European Parliament (EP) also in agriculture, what was not the case since EU exists. The French Presidency starting in July 2008 has already urged the Agriculture Council to accelerate this debate. As a result, the CAP 2013 will be one of the main issues to be discussed at the informal EU Agriculture Council in Annecy on 21-23 September 2008.

### *Food first?*

When the European Community (EC) started in 1958, only 13 years after the Second World War, European food security was an important issue. Indeed Europeans had known in the 20<sup>th</sup> century what hunger was; the EC was still relying on food import, and "when depending from ships, submarine are dangerous<sup>61</sup>". Then the CAP was given priority as common policy, almost the only one, absorbing the main part of the EU budget.

Today, after several decades where the public opinion has been told that the EU has farm surplus and spends too much money on agriculture for so few farmers, the European food issue is moving again to a new situation: should European agricultural land produce food for people or fuel for cars?

Indeed, even if the EU is the main food exporter (figure 1), it remains the first importer (figure 2). Compared to the USA, and taking into account its population, the EU has not a great agricultural area.

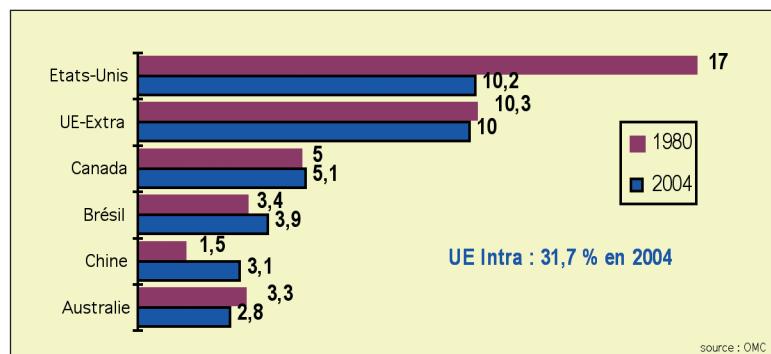
Whereas "main stream" actors in the EU were shaping the public opinion to get rid of agricultural subsidies, to let third cheap countries produce more and more agricultural goods for Europe, whereas there was (there is) a huge pressure on the agriculture budget to be put down at the next EU budget revision, now we have to move to an essential debate: which

<sup>61</sup> Lucien Bourgeois, les virages de la PAC, « regards sur l'agriculture et l'agroalimentaire », APCA, Paris, 2007.

## Budgeting for the Future, Building another Europe

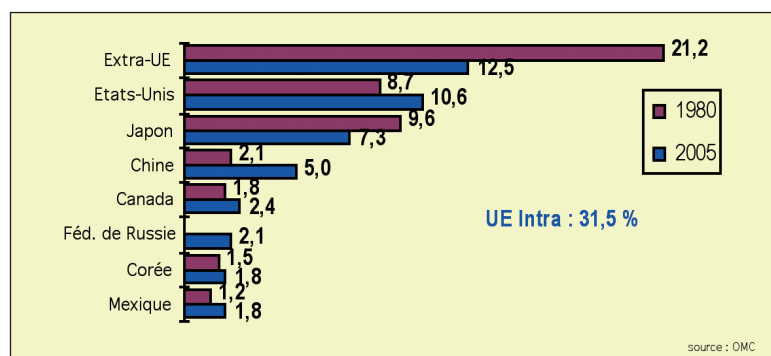
priorities for agriculture, for food, for energy, for rural areas and not only how much money from the EU budget for agriculture.

**Figure 1.** Main food exporters (%)



Source: Chambres d'Agriculture - APCA-Études économiques, WTO

**Figure 2.** Main food importers



Source: Chambres d'Agriculture - APCA-Études économiques, WTO

We will analyze the present EU agriculture budget, which is more or less fixed till 2013 and after we will deal with agriculture in the whole budget review after 2013.

## Key figures

Agriculture and rural development are part of the heading n°2 in the EU budget : "Preservation and management of natural resources"

EU budget limited to	1% of EU GDP (19% in the USA)
EU budget in 2007	= 126,5 billion €
Agriculture expenditure	= 42,7 billion €(33,7%)
Rural development	= 12,4 billion €(9,8%)
Agriculture + rural development	= 43,5% of the EU budget
	= 0,4% of EU GDP
In 1988, CAP budget	= 61% of EU budget
In 2013, CAP budget	= 32% of EU budget

At the EU Council in December 2005, the Member States decided to guarantee the agricultural funds till 2013, though with a ceiling. They invited the Commission to start a complete and global review of the budget, included the CAP, and to present a report in 2008/2009:

*“Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the common agricultural policy applies since 1 January 2007. In order to attain the objectives of the common agricultural policy defined by the Treaty and finance the various measures falling under it, including rural development, a European Agricultural Guarantee Fund (EAGF) and a European Agricultural Fund for Rural Development (EAFRD) are set up by this regulation<sup>62</sup>.”*

Maximum amount of expenditure

for agriculture + rural development for 2007-2013 862,4 billion €

of which for rural development 88,3 billion €

EAGF: funds direct payments to farmers, market regulation measures (first pillar)

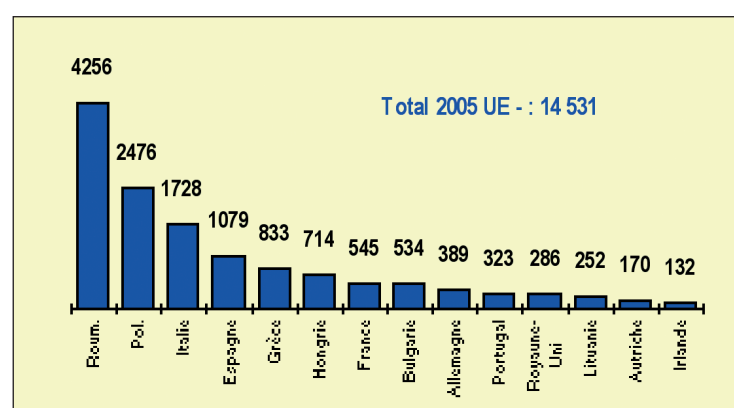
EAFRD: co-funds rural development plans of the Member States (second pillar)

In 2005, there was 14.531.000 farms in the EU 27

4.256 in Romania

2.476 in Poland (46% in only 2 countries)

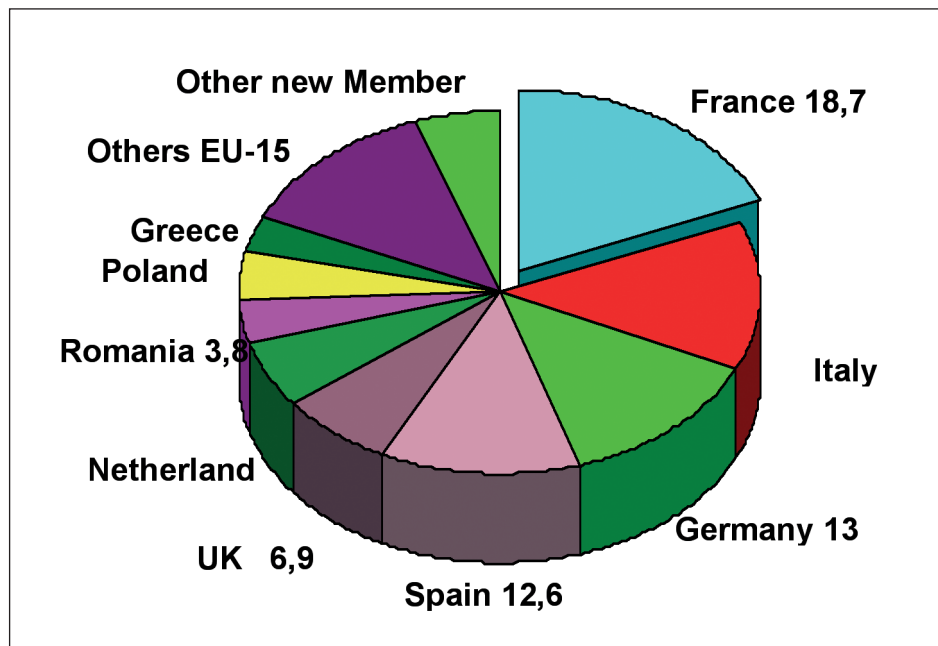
**Figure 3.** Number of farms on the EU (thousands)



Source: Chambres d'Agriculture - APCA-Études économiques, EUROSTAT

4 countries (France, Italy, Germany, Spain) produce 58% of the EU agriculture production.

<sup>62</sup> [http://ec.europa.eu/agriculture/fin/index\\_en.htm](http://ec.europa.eu/agriculture/fin/index_en.htm).

**Figure 4.** Agricultural production in the EU in %

Source: European Commission

#### Rural development

*"The Rural Development policy 2007-2013 focuses on three areas corresponding to the three thematic axes laid down in the new rural development regulation: improving competitiveness for farming and forestry; environment and countryside; improving quality of life and diversification of the rural economy. A fourth axis called "Leader axis" based on experience with the Leader Community Initiatives introduces possibilities for locally based bottom-up approaches to rural development"*<sup>63</sup>.

#### More funds from first to second pillar

With the 2003 CAP reform, the EU started a process to reduce the funds for direct payments and market management and to move them to rural development. The so called "modulation" takes 5% of the direct payment from each farm receiving more than 5000€ direct payments, going to the fund for rural development in the same Member State. With the CAP health check, the EU Commission proposes to raise the "modulation" up to 13% in 2013.

### The way the CAP is funded lacks of legitimacy

*Here the purpose is not to blame the CAP to get rid of it, as some governments and organizations did during the recent years, discovering after 40 years that the CAP was unfair. We propose here to analyze the lack of legitimacy of this present CAP so that the need for a deep CAP reform should be clear.*

<sup>63</sup> [http://ec.europa.eu/agriculture/rurdev/index\\_en.htm](http://ec.europa.eu/agriculture/rurdev/index_en.htm).

*Lack of legitimacy on international level<sup>64</sup>*

It is not possible to understand the present CAP, also on the budgetary level, without going back to the GATT negotiation 1986-1994 (Uruguay Round).

During the eighties, where the EU had surplus in meat, milk, grain, sugar, wine, etc., the EU (and the USA) came under the fire of third countries, but also of development NGOs and some farmer's organizations such as the CPE. The EU was damaging the rural economies of these third countries, especially development countries, through agricultural exports dumped on their markets.

Since the agricultural prices of these commodities in excess were much higher than the prices in international trade, the EU was funding export subsidies to the exporters, which represented the difference between the two price levels. These subsidies were costly, benefiting the export industry, damaging Southern farmers who cannot compete with exports at prices below the costs of production. The EU and the USA together looked for a new system where they would continue to export and dominate the world agricultural trade, but without to be blamed for, without dumping. EU Commissioner for Agriculture Ray Mac Sharry and the US agriculture Minister met in November 1992 in Washington, at Blair House. They agreed upon a trick to continue their export game and that is the key to understand the CAP since 1992.

What to do to get rid of export subsidies, rightly blamed for dumping? You need just to drop the price on internal level, to bring it on the price level of the international trade. But, because the production costs in industrialized countries like the EU or the USA are higher than in many other export countries, these two rich superpowers had to decide direct payments to the farmers, so that these can supply the downstream sector at prices under their production costs.

With the blessing of OECD, a more ideological than economical agency, they agreed to create a "green box" for agricultural payments which wouldn't be considered as distorting, where they will put their direct payments, under the condition that they will have to be decoupled from the production. And with the advantage that this green box wouldn't have been questionable at the WTO. The EU and USA developed then great imagination to move all their subsidies in that green box. That is probably the most important reason for creating the second pillar of the CAP.

The trick was simple but effective and the US and EU succeeded in imposing it to all the countries who ratified the GATT/WTO agreement signed in 1994. But of course the dumping is not over, because what is important for the Southern farmers is not the way the cheap exports are subsidized (export subsidies before<sup>65</sup>, direct payments now), but their too low price. These new US/EU agricultural subsidies have come more and more under the fire of third countries: that is one of the reason of the WTO Doha Round failure.

The trick is at the heart of the CAP reform launched in 1992, and continued in 1999 and 2003. EU prices were put down at the low international level in several steps during the

<sup>64</sup> «The conditions of legitimacy of agricultural subsidies », CPE, Sept 2005, [www.cpefarmers.org](http://www.cpefarmers.org).

<sup>65</sup> The EU still uses export subsidies, but each year less. The EU Court of Auditors, in its report about 2006, gives prominence to the control system, too weak for the big amounts.

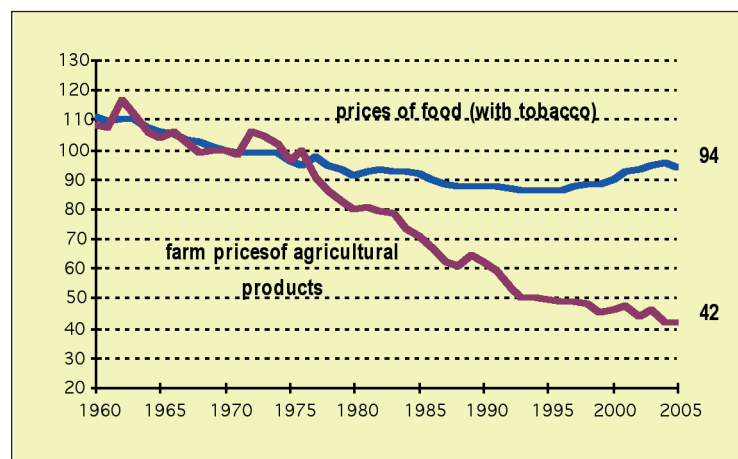
## Budgeting for the Future, Building another Europe

last 15 years, starting with grain in 1992. As a consequence, the agriculture budget raised and the biggest part is now devoted to direct payments. By moving the biggest part of the CAP budget from market management to direct payments to farmers, which should be more transparent than subsidies to the downstream sector, we should not forget that the purpose was to supply this downstream sector with very cheap agricultural commodities and to continue to export and dump at prices under the European production costs.

### *Who is really benefiting from the EU agricultural subsidies?*

Till last year where some agricultural prices like grain and milk were raising rapidly, the downstream sector (agro-industry, retailing sector) could buy agricultural products to the EU farmers at prices below the costs of production (in 2001 the grain price was so low that some villages were burning it for heating houses). That means that the direct payments are paid to farmers to compensate low prices, but they indeed subsidize agro-industry and supermarkets which through this way are able to buy cheap and sell expensive<sup>66</sup>. Did the price of bread come down during the 90's when grain price was on the decrease? Did the taxpayer would have accepted to subsidize Nestlé, Tesco, etc. with billions Euros? They did, but without being aware of.

**Figure 5.** Farm prices versus food prices (constant prices 1970=100)



## Lack of legitimacy on social level: the very unfair distribution of payments

### *Unfair distribution among production sectors*

In the history of the CAP, some productions were funded more than others; these are the productions where there was a market management like grain, milk, beef, sugar, wine, tobacco, olive oil. Other sectors such as fruits & vegetables, pig, potatoes, receive much low-

<sup>66</sup> The EU Court of Auditors said on 22/12/98 following: point 9: «It is a common assumption that EU consumers should benefit from the guaranteed price reductions. However, the effect of reduction in raw material costs on consumer prices is limited. Increases in processing costs, marketing costs and, particularly, commercial margins can easily absorb most of the agricultural price reductions. There is little evidence that consumers have benefited from the 1992 reform. This is an issue of fundamental importance which requires particular consideration.»  
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:1998:401:0003:0022:EN:PDF>.

er support. That explains the reason why the CAP expenditure is lower generally in EU Southern countries.

Again the Commission, quite late (that could be done already in 1992, 1999, or 2003), is aware of the unfairness of payments based on historical level of payment or production. It accomodates in the health check the regionalization of the payments which means that every hectare would receive the same amount in the same region: that would avoid the distortion among the farms and the sectors inside a region, but would not change the unfair distribution between the regions, still based on historical amounts. As a result Portugal would still receive far less than the Netherlands.

**Figure 6.** EU Agriculture expenditure by products

<b>Breakdown of expenditures (financial year 2005) by sector according to the economic nature of the measures 3.4.4 (EAGGF Guarantee)</b>	
Arable crops	17 769.8
A - Sugar	1 651.8
A - Olive oil	2 311.
A - Dried fodder and dried vegetables	294.3
A - Textile plants	972.5
A - Fruit and vegetables	1 742.7
A - Wine	1 267.2
A - Tobacco	922.7
A - Other sectors	1 937.4
A - Milk and milk products	2 547.5
A - Beef/veal	8 176.0
A - Sheep meat and goat meat	1 837.3
Pig meat, eggs and poultry meat	131.5
A - Fishery products	28.5 0
A - Non-Annex I products	335.4
Food programmes	292.1
Posei programmes	185.4
Veterinary and plant-health measures	240.9
Control and prevention measures	14.2
Clearance/Reduction-suspension of advances	- 577.6
Settlement of disputes	0.0
Promotion and information measures	37.0
Other measures	- 16.9
<b>Sub-total 1a</b>	<b>42 100.8</b>
<b>Rural development</b>	<b>6 845.8</b>
<b>Clearance/Reduction-suspension of advances</b>	<b>-18.4</b>
<b>Total EAGGF</b>	<b>48 928.2</b>

Source: European Commission, Agriculture and Rural Development DG.

*Unfair distribution among farmers*<sup>67</sup>

The EU Court of Auditors several times warned the Commission for misuse of taxpayers' money by distributing CAP funds on a too unfair way between European farms<sup>68</sup>.

During the 90es, 80% of the CAP payments went to only 20% of farmers. Since the CAP reform 1999/2003, it is worse: in 2005, 18,5% of the farms received 84,6% of the payments.

In 2005, 81,46% of the farms received less than 5000 € and 0,5% of the farms benefited more than 100.000€ (15%). CPE has been asking for fairness from 1986. More recently some NGOs, supported by governments like UK, DK, and farmer's organizations developed a transparency campaign<sup>69</sup> focusing on this unfair distribution (when UK and DK supported this, that was probably more with a view to discredit the CAP than to come to a fairer distribution: UK government was always opposed to ceilings for CAP direct payments). There is no legitimacy from the taxpayer point of view to fund a large grain farmer much more than a small one, or a huge dairy farm rather than a family farm. The Commission, who proposed a ceiling already in 1991, without success because of the lobbying of COPA<sup>70</sup> organizations to their governments, is aware that without legitimacy the subsidies have no future. In its health check proposal, the Cion proposes a digression, but a soft one, upon 100.000 €. The same big farmers lobby seems to influence again: the Cion could propose, for the legislative proposals in May 2008, an even softer digression.

**Lack of legitimacy on multifunctional level**

The taxpayers have not only expectation from farmers to produce enough and safe food, but they also expect diverse regional food, beautiful and diverse landscapes, without visible and invisible pollution; they expect lively countryside where they can spend quiet week-ends and holidays, they expect mountains without avalanche. This multifunctional aspect of agriculture and farmers depends also on agriculture policy.

The problem is that a large part of the agricultural production is more and more produced on too intensive/industrial basis, on large farms creating human deserts<sup>71</sup>. For example, with the creation of decoupled milk payment in 2003, linked with a strong decrease in intervention price, milk production is concentrating in larger intensive farms and many sustainable, multifunctional, family dairy farms disappear. Did the CAP reform 2003 start to dismantle the huge industrial pig, poultry, vegetable "farms", often working with immigrants outside the social legislation? No, and these are examples of the negative multifunctionality of industrial farming. Some efforts have been done in the good direction but the industrial logic of the CAP remains and therefore weakens the legitimacy of public support from the taxpayers.

<sup>67</sup> [http://ec.europa.eu/agriculture/fin/directaid/2005/annex1\\_en.pdf](http://ec.europa.eu/agriculture/fin/directaid/2005/annex1_en.pdf).

<sup>68</sup> Court of Auditors-22/12/98- id : point 23. "...CAP support is 'distributed somewhat unequally and is concentrated on (regions and) producers who are not among the most disadvantaged". This implies that one of the aims of the 1992 reform, i.e. providing an equitable income to farmers, has not been met... point 27: "The Commission should reconsider its capping proposal. For example, lower thresholds and more progressive capping would achieve greater budgetary savings and a distribution of Community aid more focused on those in need and better adapted to real CAP priorities". This refers to the CAP reform 1999 proposal, which proposed a more severe capping as the health check proposal- it was refused by the Council.

<sup>69</sup> [www.farmsubsidy.org](http://www.farmsubsidy.org).

<sup>70</sup> [www.copa-cogeca.be](http://www.copa-cogeca.be).

<sup>71</sup> «I prefer neighbors than more hectares » -slogan of Confédération Paysanne (France), CPE member.



## Lack of legitimacy on EU cohesion level

Is it legitimate that Portugal receives from the EU taxpayers far less from the CAP budget than the Netherlands, which has far less farmers? For example in 2003, Portugal received 0,855.900 billion € (2382 € per farmer in average) and Holland received 1,397.300 billion € (16.343 € per farmer in average): it is 8 times less per farmer! When the 8 Central Europe countries, plus Malta and Cyprus, negotiated their EU membership, they had no choice but accepting much lower direct payments for their farmers than in the EU-15. They started in 2004 (enlargement on 1/1/04) by receiving only 25% of the payment, with a progressive increase to 100% in 2013. That means that the farmers from Central Europe will receive progressively more from a first pillar payment which is reduced every year.

In 2005, Poland received only 1.839 billion € from EAGGF Guarantee expenditure for 2.476.000 farms (743€ per farm in average). The EU Cohesion fund should not be there to repair the damages of other EU policies in term of regional cohesion.

**Figure 7.** EU Agriculture expenditure by Member State

Belgique/België	1 034.5
Ceská Republika	463.8
Danmark	1 224.9
Deutschland	6 503.1
Eesti	77.4
Elláda	2 754.0
España	6 406.5
France	9 968.9
Ireland	1 806.2
Italia	5 499.7
Kypros/Kibris	58.8
Latvija	137.5
Lietuva	291.2
Luxembourg	45.0
Magyarország	716.8
Malta	9.9
Nederland	1 256.3
Österreich	1 235.7
Polska	1 839.0
Portugal	891.9
Slovenija	127.3
Slovensko	247.5
Suomi/Finland	902.9
Sverige	956.3
United Kingdom	4 215.0
<b>EU-15</b>	<b>44 701.0</b>
<b>EU-25</b>	<b>48 670.2</b>

Source: European Commission, Agriculture and Rural Development DG.

### Why EU cows do not receive 2\$ a day as often said?

Some years ago, during the Doha round WTO negotiations, Oxfam International wrote on the front page of its Briefing Paper *"Milking the CAP. How Europe's dairy regime is devastating livelihoods in the developing world"* (December 2002) that *"European citizens are supporting the dairy industry to the tune of €16 billion a year. This is equivalent to more than \$2 per cow per day - half the world's people live on less than this amount"*.

Jacques Berthelot<sup>72</sup>, economist, answers :

Let us stop saying that "in 2001, the industrialized countries distributed to their farmers 311 billion dollars of subsidies", which, for Oxfam, would imply thus that each cow of the EU receives 2 euros per day of the EU... On the 311 billion dollars considered by OECD as a "estimation of the total support" for farmers in 2001, the budgetary expenditure is limited to 147 billion (47% of the total), 116 billion (37% of the total) of which profit individually to farmers, the rest financing expenditure for agricultural infrastructures, research, popularization and subsidies to agro-industry. On the other hand 164 billion dollars (53% of the total) correspond to "transfers of the consumers", including 141 billion supposed to go to farmers but expressing the difference between the internal EU farm prices and the world prices, thus creating a negative "consumer's surplus". Thus the "estimation of the total support" for the farmers of the EU is 118 billion euros for 2001 according to OECD, whereas the agricultural expenditure of the EU was 42,8 billion euros (including rural development). The difference between these figures is even clearer for the dairy products for which the expenditure of the EU was 2,5 billion euros, that is to say 15% only of the 16,7 billion pledged by OECD, which, for 20,4 millions milk cows, accounts for 0,34 euro per cow, the negative surplus of the consumer thus accounting for 85% of the total.

2,5 billion euros are however still too much, especially if it is known that three quarters are used to subsidize directly or indirectly exports of dairy products.

### Decoupling of direct payments from the production: why is it wrong?

The Commission proposed the decoupling very late in the negotiation of the 2003 CAP reform and just before the WTO ministerial conference in Cancun in September 2003. There were indeed two objectives:

- To move so much support as possible into the green box of the WTO.
- To make a future reduction of the agricultural budget easier: when the payment has no link anymore with the production, when farmers get payment without to produce, legitimacy is questioned: that means that the Commission, voluntarily, decreased the legitimacy of the agricultural support to make the deal of the reform package accepted by the Member States which are in favour of a much lower CAP budget. The Commission failed with the first objective (no WTO success in the Cancun conference and after). The second objective will be one of the key debates in the next years.
- These two (bad) reasons for decoupling forget its consequences for farming: aban-

<sup>72</sup> <http://solidarite.asso.fr/Agriculture06.php>.

donment in production, especially in animal production and in less favoured areas where the cost of production are often higher than the prices (Why did the Commission publish an health check without checking the effects of decoupling?). How to motivate young people to become farmer with such payments, whose amount and legitimacy will be questioned at each WTO negotiation and CAP reform?

**Rural development** (second pillar funds) **should not repair/replace the CAP** but should complement it. For the WTO reasons we explained, and for replacing more EU funding of the first pillar by more funding from the Members States (second pillar is co-funded), the Commission proposes to shift more money to rural development fund.

Naturally everybody agrees to support rural development and there is legitimacy and need for that. The question is not there. Firstly the problem is that the present rural development policy objectives claimed by the EU are in contradiction with the orientation and the instruments of the first pillar, which lead to intensification, concentration of farms, abandonment of production and farms, and negative multifunctionality of industrial farming. Secondly the EU guidelines for the national/regional rural development plans are too lax, where many Member States give too much funds for investment on intensive/big farms and not enough to move agriculture and countryside on a socially and environmentally sustainable path.

### **Risk of a next much lower EU budget for agriculture if legitimacy does not recover**

As the Commission never wanted or succeeded in increasing these different levels of legitimacy, there is a great risk that Europeans, through their governments and MEPs, will strongly decrease the agriculture budget at the next EU financial negotiation to be held in 2009.

Whereas new stakes/realities appear in Europe and on global level regarding food security, global warming, energy, food safety, animal diseases, obesity, etc., we think that it is not relevant to get rid of the CAP by decreasing strongly its budget, by re-nationalizing the agriculture policies and by leaving the markets operate without supply management. That would be a dramatic mistake, also for European food security. What is relevant is to change this CAP into another one much more legitimate on all levels explored above.

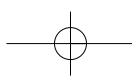
### **Some comments from farmers and economist**

- For CPE and COAG<sup>73</sup>,

*"there will never be any good instrument regarding direct payments, as long as these payments will be a great part of farmer's income... To maintain on long term sustainable family farms, farmer's income should come principally from farm prices and not subsidies".<sup>74</sup>*

<sup>73</sup> COAG= main farmer organization in Spain . [www.coag.org](http://www.coag.org).

<sup>74</sup> Common position - Dec 07- [http://www.cpefarmers.org/w3/article.php3?id\\_article=156](http://www.cpefarmers.org/w3/article.php3?id_article=156).



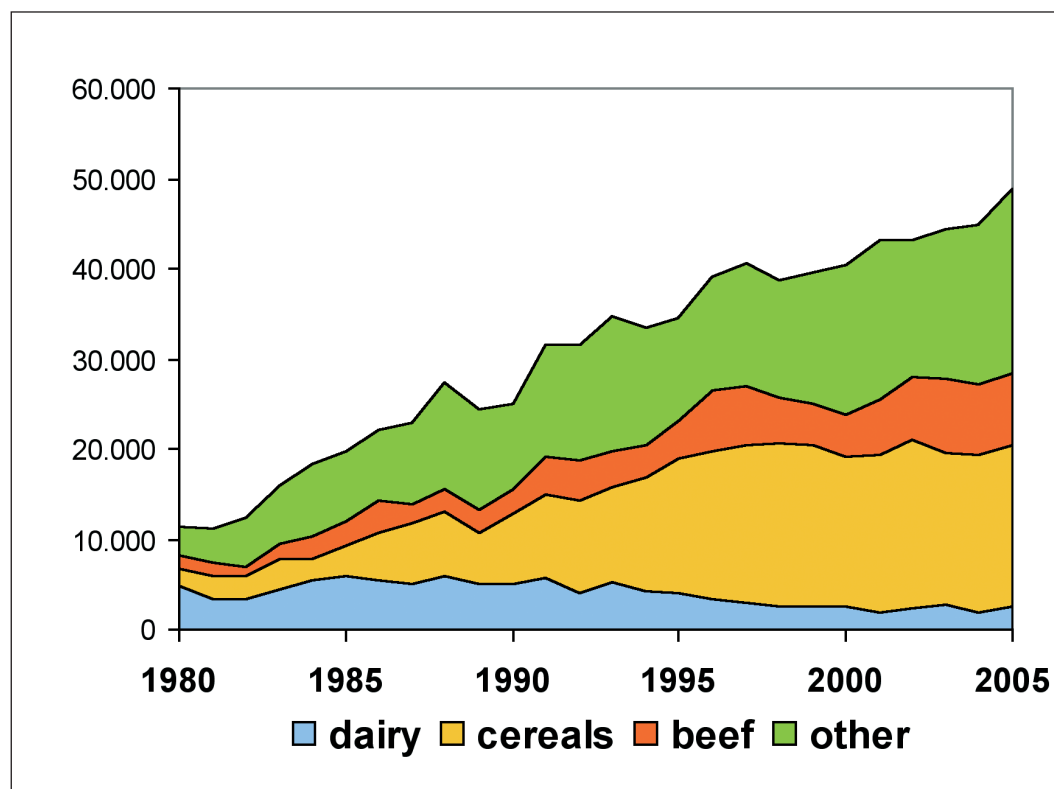
## Budgeting for the Future, Building another Europe

- Lucien Bourgeois (Agriculture Chambers, France), economist<sup>75</sup>:
  - *The CAP subsidies represent the same amount as the investments in agriculture: the "modernization" which follows allows to decrease the costs of production, thus to decrease farm prices for the agro-industry, the first industrial sector in the EU.*
  - *between 1990 and 2005, the expenses for agricultural market regulation (insurance for food security) were about the same amount as the insurances for cars + houses. (Today the Commission proposes to replace the market regulation by a private-public risk management system).*
  - *more it was spoken about market, more the part of subsidies in farmer's income was raising.*
  - *the cold war, by dividing Europe in two parts, led Western Europe to look for food self-sufficiency. Since the Berlin wall fell, the CAP has no more the same legitimacy.*
  
- Niek Koning, Wageningen Agric. University (Holland) (see figure 8)
 

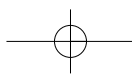
*Direct payments are more costly for the EU budget than price support*

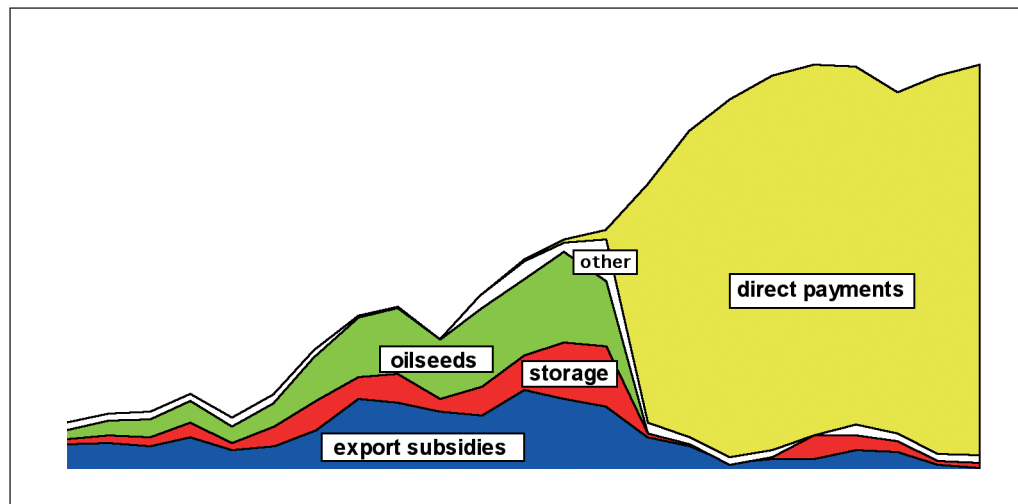
  - *Higher incentives for politicians to reduce the level of farm income support.*
  - *for ex for grain production the budget raised from 2 billion € in 1980 to 17 billion € in 2002. (see figure 9).*

**Figure 8 .** EU farm policy expenditures (Million Euro)



<sup>75</sup> L. Bourgeois, id.



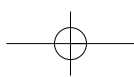
**Figure 9.** Evolution of EU expenses for arable agriculture, 1980-2002 (Million Euro)

Source: European Commission

### How to improve the 2009-2013 EU agriculture budget?

If there is no will from the EU to put the CAP into a better direction till 2013, although we need now a deep CAP reform, there are possible improvements regarding the use of the CAP budget with greater legitimacy and more fairness:

- To stop the remaining export subsidies would be fair for the third countries. Global warming and export priority go hand in hand. The amounts saved by stopping the subsidies could be used to support local/regional marketing of agricultural products and to support sustainable family farming in poor countries damaged by the previous CAP.
- To decrease the funds for promotion of agricultural products at export, which is another form of export subsidies.
- To stop negotiating lower tariffs at WTO and to exchange the end of all tools of dumping with the right of EU and all other countries to protect its market with tariffs when necessary. The WTO Doha round is probably dead. These tariffs (import taxes) are an income for the budget (and they are still important in the budget of the poor countries).
- To distribute the direct payments on a fairer way among farmers, with higher payments for the small farms and with digression for bigger farms, with a link to the number of people working on the farm, and with an absolute ceiling per person. It can be done inside the first pillar, where it is exactly known who receives what, and would benefit automatically many small farms, which are receiving too less at the moment. That can be used also into the second pillar if the present rural development plans are improved.
- To limit decoupled payments for supporting the non trade concerns, linked with a greater positive multifunctionality of the farm (for environment, biodiversity, rural services offered by the farmer, etc.).



## Budgeting for the Future, Building another Europe

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- To convince the Member States that they should not first calculate in the negotiation how much return their State will get (a dream?), that what they received before is not their money but EU money, that the repartition between Member States needs to be changed since it is too unfair. It means that some countries should receive less and others should receive more, that grain farmers should receive less (they are not not legitimate to receive so much when prices have raised so much in the last two years) and breeders more.
- To be legitimate as rural development fund, the second pillar, managed and co-funded by the Member States should give more priority to the setting up of young people on sustainable family farms, to effectively support better farm practices for the environment and for food quality and food safety, to support local marketing and processing of agricultural products. That means less priority to investment (often the way for big farms to get more return than what they lost from the “modulation” of the first pillar).
- All instruments used should contribute to reduce transport of goods, to raise organic matter in the soil in order to increase carbon storage: everything useful to curb the climate change should be given priority. Sustainable small scale farming can contribute to cool down the earth (Via Campesina)<sup>76</sup>.
- The EU should stop funding industrial agro fuels, without economical, energetic, environmental or social legitimacy<sup>77</sup>.

## The debate on the future agriculture budget after 2013

### *A budgetary logic or first a debate on priorities?*

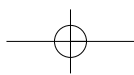
One of the main issues in 2008/09 for the Member States is to decide whether they will define the priorities for the CAP after 2013 before they decide the budget, or if, as usual, they determine the new budget and after will adapt the policy to the budget. Budgetary logic first: that was one of the reasons for the incoherent CAP we had. That's a bad way to enter the debate, also because the Member States do not agree upon the financial issues, incomes, expenses and they consider first how much they will get back from the EU.

### *Ideology or people's interest?*

There are governments such as UK, DK, Sweden, NL, some Central European ones, which want to get rid of an agriculture policy, as New Zealand did some years ago. First this is more an ideological view than the result of a large debate after analysis of the long term interests of people. The “free” market ideology is simplistic: market is good, state is bad, except when damages of the market should be paid: let us then get rid of market management and turn the agriculture policy into a rural policy in hand of the Member States, with just some EU guidelines and private funds to replace European funds.

<sup>76</sup> [www.viacampesina.org](http://www.viacampesina.org).

<sup>77</sup> See CPE position on [http://www.cpefarmers.org/w3/article.php3?id\\_article=125](http://www.cpefarmers.org/w3/article.php3?id_article=125).



Whereas some financial companies speculate on agriculture prices and inefficient agro fuels compete with food on the same land, banks could find a new interest in investing in agricultural production: is the privatization of the agriculture policy the next future?

The present Commission is ideologically attracted to that trend, but knows that the new stakes we are facing with global warming, energy crisis, etc. will impose regulations. At the same time the Commission is ready to forget the free market ideology when strong industrial interests command intervention from the State: whereas the EU abandons the market management in agriculture, it creates a super market organization for agro fuels, where the market is forced by the State to use non competitive agro fuels! Do the neo-liberal logic, strengthened since the fall of the Berlin Wall, reaches its limit, because of its incapacity to face the new challenges of this century? Will the market answer the challenge of global warming in the next decades which will have dramatic effects in Europe, where Sahara could cross Mediterranean, where extreme hot (up to 50°) and dry weather in summer will affect the whole Central and Western Europe, except UK and Atlantic coast, where the weaker Gulf Stream will cool this region? The lack of winter rain and the warming in Southern Europe will lead to extreme problems for agriculture, especially in Spain.

The EU governments have to discuss and anticipate these issues in order to define the best agriculture policy facing these challenges, and then adapt the budget to their priorities. If the debate is going first into the budgetary logic, the British case will come on the table: the other member States want to reduce the historical UK "discount" and this will decrease if the CAP budget will decrease.

And the rich Member States are keen to move more funds into funds co-funded by the Member States, like rural development: they have the money to do it, unlike the poor countries. Far from the EU cohesion: rich remain rich.

## **Proposals for a legitimate EU agriculture budget in a new European budget after 2013**

### *Are our governments really European?*

The decision in 2005 to decrease the EU incomes from 1,4% to 1% of the GDP shows that the governments have still (no more?) the political will to develop Europe as a strong political entity. That confirms that the European "Community" then the EU were put in place in the cold war facing URSS. Since 1989, there is a lack of sense, of debate about what is the EU for. The difficult debate on the frontiers, on Turkey accession is a sign for this emptiness. The historical enlargement in 2004, that means the re-unification of Europeans after 50 years of separation, could have brought a new political dynamic, but the Member States' governments preferred to choose a quite weak Commission (Commissioners), without giving the strong impulsion which the EU would have needed. It is also clear that the USA, which gained in influence inside the EU through the Central Europe countries, was not lobbying for a strong

## Budgeting for the Future, Building another Europe

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Europe on political level. The debate on the future EU budget cannot be separated from the debate on the EU itself. People are probably more Europeans than their governments; if these governments make the choice of an EU just as a “free” trade area, then probably the EU budget will remain at the very low level we know (let us remind that the US budget represents 19% of the GDP, not 1% as for the EU). If there is a will to develop the European Union as a strong political, economical, social, cultural union, then there will be a need to transfer more funds from the national to the European level.

*In that context, what will happen with the agricultural budget ?*

- if the EU budget is raised significantly, what is not the most probably case, the CAP budget could be maintained on the present level, with much better, fairer and legitimate use.
- if the EU budget is not raised significantly, there is very little chance for the present CAP budget to be maintained. The CAP can work better and cheaper, but will have probably difficulty to face the challenges described upon.

*Expenses to get rid of:*

Export subsidies, promotion subsidies for exported products, investment subsidies for big farms, agro fuels subsidies, infrastructural investment subsidies for import/export industry, subsidies for restructuring agro-industry and slaughter houses, subsidies for industrial animal production to adapt environmental legislation (the 1991 directive on nitrates is old enough).

*Support does not mean subsidy*

There is a need for clarification. Support does not mean always expense. For example import taxes, which support a good and stable internal market price, are considered as a support by OECD (see page 8): they are an income for the EU.

*Farmer's income from market prices, not from subsidies*

If the EU citizens want European food security, that means not to be dependent for their basic food needs, therefore EU has to maintain food production as the priority for the use of agricultural land. If the citizens want food not to be produced directly by agro-industry but by independent farmers, if they want that agriculture takes place not just in favoured areas but in all regions, for reasons of diversity, quality of food and for the positive multifunctional role of sustainable family farms, then we need to keep and develop farms which can be maintained at the next generation, with many young people enough attracted to this job and to life in the countryside. In order to reach that, farmers need economical, social, cultural recognition. This is not going to happen as long as their income come more from subsidies than from the products they sell (e.g. for cattle farmers, usually more than 100% of income is coming from subsidies). Then we need a very different CAP to achieve this goal, a CAP where market prices rec-



ognize the costs of an environmentally and socially sustainable production, included the remuneration of farmer's work.

*A budget not to pay farmer's income but a policy and a budget*

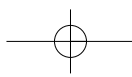
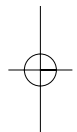
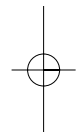
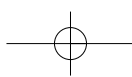
EU needs a budget which assures a good framework to develop farming as sustainable family farming receiving legitimate expenses. To get fair and stable market farm prices, we need three kinds of channels (tools):

- supply management to avoid surplus or shortage;
- border tariffs when needed, associated with a ban of any direct or indirect subsidies which allows to export at prices under the production costs (as it is the case also with the present CAP decoupled payments put in the WTO green box). For this reason the EU has to change the present direction of the agricultural trade negotiations (the right to protect<sup>78</sup> exchanges with the duty not to dump);
- des-intensification of too intensive farms, abandonment of industrial factory farms in 10 years, subsidies to promote sustainable ways of production, ban of GMOs, of dangerous or useless pesticides, promotion of rotation of crops;
- subsidies from the CAP budget for small farms and less favoured areas;
- structural funds for local/regional economy and no more for import/export;
- support (training, programs in agricultural schools) funds for organic, for pastures, for farm-made agro fuels for local use, for solar/biogas energy, for biodiversity, for quality, for consumers/farmers initiatives to start;
- funds for farmers' exchanges, supporting visits among countries, especially between Western and Central/Eastern Europe;
- to separate the budget line of the Commission for its own information measures and the budget line for information/debate/training on CAP<sup>79</sup>;
- decoupled payments for rural services from farmers.

We need coherence between agriculture, structural funds, development, environment and consumers policies.

<sup>78</sup> Let « protection » recover its positive signification, as in social or environmental protection. What is not acceptable is the present situation where the EU/US are dumping and protecting at the same time.

<sup>79</sup> [http://ec.europa.eu/agriculture/grants/capinfo/index\\_en.htm](http://ec.europa.eu/agriculture/grants/capinfo/index_en.htm).



# Putting an end to harmful fisheries subsidies

Markus Knigge,

*European Marine Programme Officer, WWF European Policy Office*

## The mystery of EU fisheries subsidies

EU fisheries and the EU fisheries sector are firmly part of the global fisheries crisis. In Europe more than 80% of known resources are over-fished, while overseas EU fleets have done more than their share to bring commercial productivity of the oceans to an all-time low. About three quarters of the world's major fisheries - such as Atlantic Cod or Bluefin Tuna - are over-exploited, fully exploited, or recovering from depletion. According to European Commission estimations, the European fleet operates with about 40% overcapacity. In other words, there are too many vessels chasing too few fish.

European subsidies have played a major role in the up-building of this overcapacity. It is clear that subsidy reforms are needed to reduce fleets capacity and, in turn, to promote stock recovery and a more sustainable fisheries sector.

While some analysts estimate that the European Fisheries sector receives almost 2.5 billion euros of aid per year (Sumalia and Pauli 2006), no one really knows the exact figure of fisheries subsidies. This is mainly due to the wide range of financial instruments used to support the sector, including grants, fuel subsidies, contributions to social security and fuel tax exemptions. In addition, there are agreements with non-European countries, under which the EU secures access for European fleets to African and Asian waters in exchange of financial compensation.

## The European Fisheries Fund

The most significant source of aid in the EU is the European Fisheries Fund (EFF). Approved in June 2006, it provides approximately 3.8 billion euros of aid in the period 2007-2013. Like its predecessor, the so-called Financial Instrument for Fisheries Guidance (FIFG), which ended in 2006, the EFF is supposed to play a dual role:

- adding value to the fisheries sector by helping to adjust the structures of the production sector;
- maintaining cohesion of European populations and regions whose economy is highly dependent on fishing.

Compared to the FIFG, the EFF puts much more emphasis on sustainability, environmental protection, preservation of natural resources and quality of life of fishing communities. Moreover aid for construction of new vessels is ruled out. Despite this, the EFF includes measures which are likely to increase the EU fishing capacity and therefore increase pressure on already overexploited fish stocks.

## Budgeting for the Future, Building another Europe

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The most crucial concern is the potential for fleet modernization, in particular the replacement of engines. Already the mid-term FIFG evaluation in 2003 indicated that providing public aid for the reduction of the fleet while supporting at the same time fleet modernization would lead to negative impacts on natural resources due to higher efficiency of vessels. Moreover, as long as there are serious shortcomings in national control and enforcement systems, the under-declaration of engine power remains a widespread problem.

In 2003 a WWF study on the Spanish fleet operating in the Mediterranean demonstrated that 80% of the engines supported by EU aid exceeded the legal engine power limit. On average, real engine power was over 2.5 times higher than declared. As a result, modernization of engines - even under the legal condition to not increase engine power - will ultimately lead to a substantial increase in the European fleet's fishing capacity.

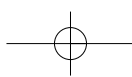
On the other hand, the EFF has an enormous potential to help regenerate severely depleted fish stocks. Funding can be used for a wide range of activities, such as the proper implementation of the EU Habitats Directive and the so-called "Natura 2000" network of protected areas, or the certification of fish products caught using environmental friendly methods. As none of the measures in the EFF is compulsory, it is up to each country to determine national priorities and measures which will be funded. Unfortunately, so far limited funds were allocated to environmental measures. While the chance for a new era of subsidies is open, the danger is that usual patterns will lead to further over-exploitation of already declining resources.

Having more detailed information about the aid flows is crucial to better gauge the impacts and the effectiveness of the European Fisheries Subsidies regime. Transparency is highly needed. As of January 2008, for the first time, beneficiaries of EU funds, together with amounts allocated to their operations, are disclosed. This will allow evaluating impacts of EFF expenditure and help prepare a more effective financial instrument for the future.

### **Towards sustainability**

The link between the current fisheries crisis and EU subsidies is broadly accepted by governments, as reflected in commitments made at the 2002 World Summit on Sustainable Development in Johannesburg and discussions within the World Trade Organization Doha Round of negotiations. Consequently, it is crucial for the EU to target aid for the transition to a well-managed, socially and environmentally sustainable fisheries sector. In particular, the next financing instrument should:

- Exclude the most harmful subsidies, such as aid for engine replacement;
- Target aid to adapting EU fleet's capacity to existing resources;
- Provide more support to areas of common concern, such as monitoring and enforcement instead of supporting individual operators;



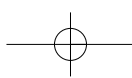
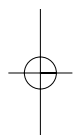
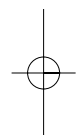
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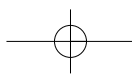
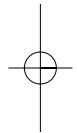
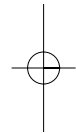
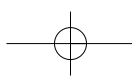
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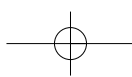
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- Involve environmental organisations in the programming process, at least to the same degree of other EU funds;
- Exclude from aid operators and vessels engaged in illegal fishing or in activities in breach of EU environmental laws.

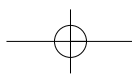
In addition, it is crucial that other environmentally harmful subsidies, such as fuel tax exceptions, are abolished. It is general knowledge that once subsidies are given, they are difficult to withdraw or to change. Vested interests and misguided politicians resist real change and harmful subsidies continue to flow. However, under current conditions scientists project the collapse of all species of wild seafood currently fished by 2050. Fish stocks and the marine ecosystem - and with them, the economic health of the European fishing industry - have only a chance to recover if the next financing instrument will ensure that the EU fishing capacity is brought down to levels in line with sustainable management of fish resources.

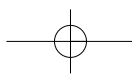
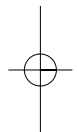
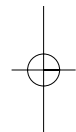
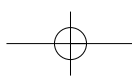






## **Heading 3 - Citizenship, Freedom, Security and Justice**







## Heading 3a - Justice, Freedom and Security

Luciano Scagliotti  
ENAR

### Political priorities

According to the Treaties, building a common space of Freedom, Security and Justice (JLS) is one of the main objective of the European Union. Furthermore, Budget Commissioner Dalia Grybauskaitė recently stated that the budget reforms are about Europe and its policies, aiming at giving “*value-added in EU spending to tackle challenges*”. Citizens are invited to reflect firstly on EU priorities, identified by the Commissioner herself such as, among others, energy, environment, *immigration and terrorism*<sup>80</sup>.

It could seem an obvious expectation that the EU budget reflects both the outmost relevance of the JLS issues and, within them, the priority rank assigned to the “management” of immigration and the fight against terrorism.

A high priority rank even more obvious, as regards immigration, if one looks at the two “changes” which can be expected to affect all the policies, both at global level and in any geopolitical area, and particularly in Europe: climate change and demographic trends. As a matter of fact, both these changes directly affect the development and paths of international migration, strengthening both push factors (in sending countries) and pull factors (in receiving countries). Although a number of other factors are involved, it can be argued, for the purpose of this paper, that while climate change increases the need for emigration, EU demography increases the need for immigration.

On the other hand, increasing perceptions of insecurity among EU citizens give other JLS issues - such as fighting transnational organised crime and terrorism, protecting fundamental rights, strengthening the judicial system - a crucial role in building social cohesion in the EU. The same can be argued in relation with the need, on which all actors and stakeholders seem to agree, for a fair and just accommodation of the increasing cultural, ethnic and religious diversity of the European society.

We can therefore assume that 1) JLS has a high rank in the EU political agenda; and that 2) immigration and equality have a high rank in the JLS agenda. As a first step we'll look at how these assumptions are - or are not - reflected in the EU budget.

### Allocations structure

The financial framework 2007-2013 allocates about 43% of the budget to agriculture

<sup>80</sup> Intervention at the EPC Breakfast policy briefing of 16/10/2007.

## Budgeting for the Future, Building another Europe

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and 36% to “Cohesion for growth and employment”. Another 9% is earmarked for competitiveness, while administration and external relations are given slightly less than 6% each.

Freedom, security and justice commitments account for about the 0,8%.

It is clear that different policies have different costs structure. It would be meaningless to compare figures that don't allow any evaluation of the quality of spending. Nevertheless, the gap is so wide - a rate ranging from 1:50 to 1:7 - to be significant. As for other priorities (innovation, research, environment to name some of the most repeated and highlighted in the public discourse), the centrality of the JLS challenges for the future of Europe is not an issue in the EU budget.

Before such a small allocation, and consequently such a low priority actually assigned to the sector, it can seem useless to enter into further details. JLS, however, is not to be considered homogeneous; it includes very different policies and, most important, the budget share is an indicator of political orientations, not only of political priorities.

Considering neither the administrative expenditures nor the issues which no or small spending programme is provided for (Drug prevention, for instance) the main subheadings are “Solidarity” (around 38% of JLS budget), “Migration flows” (32%) and “Security” (16%). “Justice” (6%) and Fundamental rights (less than 5%) follow at distance, and are hardly comparable as regards the spending structure. At a first glance the JLS budget seems, although undersized, balanced. But one has to look at the real meaning of titles as “solidarity”, “migration flows” or “security”. The programmes which are funded under these subheadings can help to understand.

Grossly, five main programmes share the 64% of the overall JLS budget: Integration of third countries nationals (FPT, 11,5%), Crime (CRI, 8,4%), European Refugee Fund (ERF<sup>81</sup>, 9,8%), European Return Fund (FER 9,4%) and External Borders Fund (FFE, 25,3%)<sup>82</sup>.

### Political priorities (revisited)

One must be cautious in assessing political priorities through budgetary choices. Not only because of the different patterns of spending and value-added creation instruments (multiplying factors, resources mobilisation, private investments, etc.) but also because of the differences in structural needs and in the balance of competences between the EU and its Member States. Nevertheless, it can't go unnoticed that ERF, FER and FFE sum up to a 44,5% of the JLS budget; while the FPT only receives an 11,5%.

In other words, programmes which mainly aim at reducing migrants inflow, either strengthening borders control or facilitating (un)wanted repatriations, receive the 79,5% of the very scarce resources available for the priority “immigration”, while the only programme aimed at enhancing social cohesion<sup>83</sup> and mutual respect receives a 20,5%.

<sup>81</sup> Including the 2007 allocation of ERF2.

<sup>82</sup> It's worth noting that the “Terrorism” programme (TER) has a share of only 1,9%. But again, the spending structure is not easily comparable to the other programmes.

<sup>83</sup> And therefore ensuring also the security of the EU citizens as well as contributing to innovation and competitiveness; but this cannot be argued here.

It seems possible then identify a couple of real priorities in the field of JLS: 1) Defending the frontiers and limiting migration inflows; 2) Lowering immigration stock. Preceding by far a second couple: 3) Inclusion of immigrants<sup>84</sup> and 4) Fighting against crime.

It can be therefore noticed a clear lack of coherence with the political discourse about the challenges the EU has to deal with: starting from the demographic change and ending with the Lisbon goals. Not to mention the continuous emphasis put, on one hand, on security issues and, on the other hand, on the celebration of diversity in relation with the need for innovation. A lack of coherence which adds on the lack of coherence among policies in the fields of external relations, social inclusion, immigration and social cohesion.

### What can be done

It is all too clear that a different balance is needed. If the European Union is to guarantee its citizens a common space of real freedom, real security and real justice, investments are needed that reflect this goals.

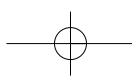
Freedom cannot be understood as a right of the few: it has to be the right of every person who lives in the territory of the EU. The priority cannot be limiting the entries and make them temporary. But exactly this is the effect of spending in the control of the borders rather than in creating the conditions, and in facilitating repatriations rather than integration.

Security cannot be understood as building higher and higher walls around Europe; Europe, more than any other region, should have learnt that walls are useless and damage first who builds them. In a way, security is a consequence of freedom and inclusion as well as a condition for them. Investments are needed to ensure a fair and smooth access to the territory and a just possibility of legal stay, rather than in restrictions whose only outcome is an increase of the number of persons forced to defend their rights against unjust barriers, with the (unwanted) consequence of undermining the residents' security.

Justice cannot be ensured other than on a strong basis of respect and protection of fundamental rights in practice. Again, this requests investments in both improvement and harmonization of the legal systems in the EU rather than in the generalised impositions of limits to civil rights under the umbrella of a fight against crime and terrorism which is, in the light of the budget allocations, more political rhetoric than effective action.

Finally, if JLS as a whole is to remain a priority in the European agenda, resources need to be invested in a less ridiculous percentage than they are today. The above remarks in no way mean that some allocations should be reduced in order to increase other ones. On the contrary, an increase is needed in the overall JLS budget. Transparency and coherence can help:

<sup>84</sup> We are fully aware that other resources are available, mainly under the Structural Funds and the ESF particularly. Nevertheless the basic assumptions would not change, bearing in mind the weakness, in those funds too, of the provisions in favour of immigrants' inclusion and the lack of political will in most Member States.



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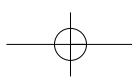
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### *Higher transparency.*

The method of "clauses", included in non-specific programmes, for immigrants' inclusion as well as combating organised transnational crime, including terrorism, proved ineffective. Resources made available for these and other JLS aims should be clearly included in the JLS heading; in order to make impossible for the Member States to misuse them too.

### *Better coherence.*

Even more important, resources could and should be recovered from other headings. A relevant part of the allocations to agriculture are nothing but a support to protectionism for the internal market. With a double perverse effect: i) fostering one of the root causes of international migration, by making it impossible, for the farmers of sending countries, to access the EU market; and ii) not allowing the EU itself to invest in attracting and including the inflows it needs (and contributes to create). Lowering the protectionist barriers would, on the contrary, create conditions for both diminishing migratory pressures in some sending countries and making just and effective policies possible in the receiving ones.



# From youth to intergenerational programmes

Sergio Andreis

*Lunaria*

The EU youth programmes are a European civil society success story. No youth specific policy existed within what is now the EU before national and international youth NGOs started lobbying, arguing for active citizenship, equal opportunities and positive discrimination for girls, international youth exchanges, volunteering, intercultural and informal education schemes.

The first result was reached with the establishment, in 1972, of the Council of Europe's European Youth Foundation (EYF) - <http://www.eyf.coe.int/fej/>, a fund established in 1972 to provide financial support for European youth activities. It has now an annual budget of approximately 3 million €. Since 1972, more than 300,000 young people, aged between 15 and 30 and mostly from the Council's Member States, have benefited directly from EYF-supported activities. In 2007 the EYF supported some 300 projects involving more than 15,000 young people.

Youth NGOs managed to convince first the EC and then the EU institutions of the importance of investing in dedicated youth programmes and since the mid 80s things started to move and the so-called priority actions in the youth field were launched.

The inclusion of *Youth* as a policy concept took place with the Treaty of Maastricht in 1993. The Treaty extended the scope of EU policies to include the youth 'field', thanks to Article 149 § 2, which states that the EU should ...*encourage the development of youth exchanges and of exchanges of socio-educational instructors...*

Before 2001, the activities of the European Institutions in the youth field mainly focused on the consideration and implementation of specific programmes, like *Youth for Europe*, in 1988. However, a consensus remained that this action and cooperation needed to be strengthened and that young people themselves had to be more involved. Eventually, the European Commission considered the development of a more genuine cooperation for future decades.

The first tangible evidence of such renewed effort was *the White Paper on Youth* adopted in November 2001. The Paper contained a proposal to the EU's Member States to increase cooperation in four youth priority areas: participation, information, voluntary activities and a greater understanding and knowledge of youth. The White Paper also proposed to take the youth dimension more into account when making other relevant policies, such as education and training, employment and social inclusion, health and anti-discrimination. The Paper was a response to the apparent disaffection of young people with traditional forms of participation in public life, and called on young Europeans to become more active citizens. Taking the White Paper as a starting point, the EU Council, in June 2002, established a framework for

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European cooperation in the field of youth. In November 2005, the framework was updated to take into account the *European Youth Pact* and is now made up of three main strands:

Young people's active citizenship. The Member States have agreed on common objectives for each one of the four priorities of the White Paper. In order to reach these objectives, the *Open Method of Coordination* is applied. Other instruments to foster young people's active citizenship are the *Youth in Action programme*, the *European Youth portal* and the *European Knowledge Center on Youth Policy*. The structured dialogue aims at involving young people in policy shaping debates in relation to the European agenda.

Social and occupational integration of young people. *The European Youth Pact* aims at improving the education and training, the employability and social inclusion of young Europeans, while facilitating the reconciliation of career plans and family life.

A youth dimension in other EU policies. The European Commission actively works to take youth into account in a number of policies, of which anti-discrimination and health are the most prominent.

In addition to these three strands, the European Union also contributes to the development of the mobility of young people and recognition of their non-formal learning experiences.

Finally, in addition to a European Youth Forum - <http://www.youthforum.org/>, recognised by the Commission, a specific network for youth information, Eurodesk, [www.eurodesk.org](http://www.eurodesk.org), and a set of programmes without precedents in other world regions, in fact used as models in other continents, today we have:

- a legal basis for youth initiatives in the EU Treaty  
[http://eur-lex.europa.eu/en/treaties/dat/12002E/htm/C\\_2002325EN.003301.html](http://eur-lex.europa.eu/en/treaties/dat/12002E/htm/C_2002325EN.003301.html);
- the Charter of EU Fundamental Rights [http://www.europarl.europa.eu/charter/pdf/text\\_en.pdf](http://www.europarl.europa.eu/charter/pdf/text_en.pdf) - recognising the values for which also youth NGOs have been lobbying;
- a social, cultural and human charter, aimed at encouraging understanding between cultures and exchanges between youth and civil societies in the Euro-Mediterranean Partnership - [http://ec.europa.eu/external\\_relations/euromed/index.htm](http://ec.europa.eu/external_relations/euromed/index.htm) and in the European Neighbourhood Policy - [http://ec.europa.eu/world/enp/welcome\\_en.htm](http://ec.europa.eu/world/enp/welcome_en.htm).

Following enlargement, Europe has 75 million young people between the ages of 15 and 25 and the new generation of EU programmes for education and training, youth, culture and citizenship, covering the years from 2007 until 2013 - [http://ec.europa.eu/dgs/education\\_culture/index\\_en.html](http://ec.europa.eu/dgs/education_culture/index_en.html) - includes:

### *Lifelong Learning*

It replaces the *Socrates*, *Leonardo da Vinci*, and *eLearning* programmes which expired at the end of 2006. It comprises four sectoral programmes on school education (*Comenius*), higher education (*Erasmus*), vocational training (*Leonardo da Vinci*) and adult education (*Grundtvig*),

and is completed by a transversal programme focusing on policy cooperation, languages, information and communication technology, and the dissemination and exploitation of results. The final element to the new programme is the *Jean Monnet action*, which focuses on supporting the teaching of European integration as a subject at universities, and supports certain key institutions and associations active in the field.

*The programme budget is €6,970 million for the period 2007-2013*

The aim of the new programme is to contribute, by emphasising the need for lifelong learning, to the development of the Community as an advanced knowledge society, with sustainable economic development, more and better jobs and greater social cohesion. It aims to foster interaction, cooperation and mobility between education and training systems within the Community, so that they become a world quality reference.

As for what concerns the four sectoral programmes, quantified targets have been set in order to ensure a significant, identifiable and measurable impact for the programme. These targets are as follows:

*For Comenius:*

to involve at least 3,000,000 pupils in joint educational activities, over the period of the programme;

*For Erasmus:*

to have supported an overall total of 3,000,000 individual participants in student mobility by 2012;

*For Leonardo da Vinci:*

to increase placements in enterprises to 80,000 per year by the end of the programme;

*For Grundtvig:*

to support the mobility of 7,000 individuals involved in adult education per year, by 2013.

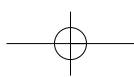
## **Youth in Action**

It aims at developing among young people a sense of personal responsibility, initiative, concern for others, civic participation and active involvement at local, national and European level. *The budget for the 2007 - 2013 period is €885 million.* The Youth in Action programme will give funding support to projects under five headings:

Youth for Europe: to reinforce the active civic participation of young people by supporting appropriate exchanges, mobility and initiatives for young people and their projects.

European Voluntary Service: to develop young people's solidarity, active engagement and mutual understanding, all in the framework of a charitable or not-for-profit activity. It can take the form of either individual or collective projects to enable young people to express their personal commitments, but also to involve them in the EU's solidarity actions.

Youth of the world: to foster young people's mutual understanding and active engage-



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ment through an open-minded approach to the world. It opens up the programme to projects with the neighbouring countries of the enlarged Europe.

Youth workers and support systems: to help youth organisations that are active at the European level to promote the development of exchange, training and information schemes for youth workers; and projects to stimulate innovation and quality and partnerships with regional or local entities.

Support for policy cooperation in the field of youth: to promote co-operation among decision-makers on youth policy, preparing the participation of young people in democratic life. It also develops representative structures for young people throughout Europe. Furthermore, this action gives assistance to encourage structured dialogue between young people and those responsible for youth policy, and helps co-operation with international organisations, thus promoting discussion and reflection on the EU's work for young people.

## Culture

With a budget of €408 million, for 2007-2013, the project aims at enhancing the European cultural area. This will be done by developing cultural cooperation between the creators, cultural players and cultural institutions of the countries taking part in the programme. It shall be open to the participation of non-audiovisual cultural industries, in particular small cultural enterprises, where such industries are acting in a non-profit-making cultural capacity.

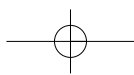
The specific objectives are:

- to promote the transnational mobility of people working in the cultural sector;
- to encourage the transnational circulation of works and cultural and artistic products;
- to encourage intercultural dialogue.

### *Europe for citizens*

Its overall aim is to help bridge the perceived gap between the general public and the EU institutions. With a total budget, for 2007 - 2013, €215 million, it provides the Union with instruments to promote active European citizenship. It puts citizens in the spotlight and offers them the opportunity to fully assume their responsibility as European citizens. It responds to the need to improve citizens' participation in the construction of Europe. It also encourages cooperation among citizens and their organisations from different countries in order to meet, act together and develop their own ideas in a European environment which goes beyond a national vision, while nonetheless respecting their diversity.

Intercultural exchanges contribute to improving the mutual knowledge of the culture and history of the European peoples. It will bring our common heritage to the fore and strengthen the basis of our common future. Mutual understanding, solidarity and the feeling of belonging to Europe are indeed the building blocks for citizens' involvement. They are reflected by the four different programme's actions:





Action I: *Active citizens for Europe* involves citizens directly, either through activities linked to town-twinning or through other kinds of citizens' projects.

Action II: *Active civil society for Europe* is targeted to Europe-wide civil society organisations, receiving either structural support on the basis of their work programme or support trans-national projects.

Action III: *Together for Europe* supports high visibility events, studies and information tools, addressing the widest possible audience across frontiers and making Europe more tangible for its citizens.

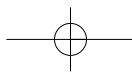
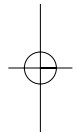
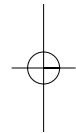
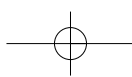
Action IV: *Active European Remembrance* supports the preservation of the main sites and archives associated with the deportations and the commemoration of the victims of Nazism and Stalinism.

So far this is the half-full glass. The half-empty being outlined by our proposals:

1. the 2008 EU budget amounts to € 129.149 billion<sup>85</sup> - for all the youth and citizenship programmes indicated earlier the yearly average totals € 1.211 billion, which equals to only 0.94 % - substantial increases in funding are urgent for youth - otherwise no alibi may be credible for the EU democratic gap and lack of trust in the EU institutions by young people.
2. the same is even more urgent for cooperation with the southern-shore Mediterranean countries and those partners in the European Neighbourhood Policy (ENP) where the percentage of youth in the total population is often above 40%. The case of Turkey is particularly crucial for the pre-accession negotiations process.
3. why should *Erasmus* be still limited to universities? Such a programme should involve all the EU, Euromed and ENP high school students, both as individuals and classes.
4. volunteering, participation and active citizenship should be fostered well beyond young people. *Lunaria*, together with other European NGOs and local authorities, and the support of the European Commission, has developed pilot schemes of transnational volunteering for citizens over 55 years of age<sup>86</sup>. Why not launch a mass European Voluntary Service with and for senior citizens?
5. and why not developing intergenerational volunteering, exchanges, participatory citizenship projects? Lifelong learning has become part of the EU quality of life approach, but much more interaction among different generations is needed to contribute to the making of an EU identity and to avoid the risk of wasting huge human potentials accumulated during the various phases of our lifetime.

<sup>85</sup> [http://ec.europa.eu/budget/library/publications/budget\\_in\\_fig/syntchif\\_2008\\_en.pdf](http://ec.europa.eu/budget/library/publications/budget_in_fig/syntchif_2008_en.pdf).

<sup>86</sup> [http://www.lunaria.org/senior/fiftyfifty/5.nessuno\\_escluso\\_eng.pdf](http://www.lunaria.org/senior/fiftyfifty/5.nessuno_escluso_eng.pdf).



# Public Health and the European Union

Caroline Bollars

*European Public Health Alliance*

The European Public Health Alliance (EPHA) represents over 90 nongovernmental and non-profit organisations working in support of health in Europe.

EPHA aims to promote and protect the health interests of all people living in Europe and to strengthen the dialogue between the EU institutions, citizens and NGOs in support of healthy public policies: <http://www.ephah.org>.

In order to describe what has been going on in the field of Public Health at EU level, EPHA needs to refer to 'Article 152' of the Treaty of the European Communities which states that "a high level of human health protection shall be ensured in the definition and implementation of all Community policies and activities".

Today's health has emerged not only as a separate and clearly defined policy area but also as an important aspect of other policy areas, for example in agriculture, environment, employment, competition, consumer protection etc. But health care is still, in principle, a sector of national rather than EU competence. Community action in the field of public health shall fully respect the responsibilities of Member States for the organisation and delivery of health services and medical care. But as cross border health threats evolve in a growing Union, the EU plays an increasingly important role in promoting and coordinating health care solutions for all the Union, concentrating its focus on disease prevention, overall preparedness and rapid response to potential dangers. As in any other policy area, European public health policies are developed in the context of shared responsibilities between the Council, the European Parliament and the Commission (Public Health and the EU, executive summary).

## **Second Programme on Community Action in the field of Health (2008-2013)**

In 2007, the Second Programme on Community Action in the field of Health (2008-2013) has been approved and came into force on 1 January 2008. Together with the new Programme the Commission adopted a new EU Health Strategy: 'Together for Health: A Strategic Approach for the EU 2008-2013', which will help them to implement the core objectives of the Programme.

The European Parliament and Council adopted the second programme of Community action in the field of health in October 2007. The budget of the Programme is fixed at 321.5 million Euros. The programme has 3 general objectives: to improve citizen's health security to promote health, including the reduction of health inequalities health information and knowledge

### *Background*

On 6 April 2005 the Commission launched its proposal for a new Health and Consumer Programme 2007-2013. The EP started its first reading of the programme proposal in Sep-

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tember 2005. The Council held an initial debate on 2 June 2005. Delegations stressed the need to enhance the added value of the common actions in this area, in particular, that it would be useful to improve cooperation between Member States' health systems and to improve the way in which cross border health threats (pandemics) were addressed. They also pointed to the need to deal with the risk factors in order to prevent major diseases.

A number of MEPs expressed sympathy with the Rapporteur's suggestion to split the two programme areas. The rapporteur, Antonios Trakatellis announced that the Programme would be dealt with by two different Committees (ENVI and IMCO), due to the organisational structure of the European Parliament. This means two different rapporteurs and reports, one on the health side and one on the consumer side. Trakatellis mentioned that synergies between both consumer and health issues are necessary but he called for two clearly separate pillars and a very strong Health programme. He outlined that the proposed budget is a minimum and he will ask for more funding.

As for Funding, the overall budget of the health programme was set at 321.500.000 Euros from 1 January 2008 to 31 December 2013. EPHA regrets the decline of the proposed budget from 1,500 million Euros to 321,5 million Euros. Of course the health community still believes that EU resources can be spent in a cost effective way. To put it in perspective, if the EU wanted to allocate 1 EUR per person per year, that would need a total allocation of over EUR 3.000 million.

## EU Health Strategy 'Together for Health: A Strategic Approach for the EU 2008-2013'

At the same time (23 October 2007), the European Commission adopted a new Health Strategy: "Together for Health: A Strategic Approach for the EU 2008-2013".

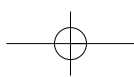
The new EU Health Strategy sets out a framework spanning core issues in health as well as health in all policies and global health issues. The Strategy aims to set clear objectives to guide future work on health at the European level, and to put in place an implementation mechanism to achieve those objectives, working in partnership with Member States.

The Strategy focuses on four principles and three strategic themes for improving health in the EU. The principles include taking a value driven approach, recognising the links between health and economic prosperity, integrating health in all policies, and strengthening the EU's voice in global health. The strategic themes include Fostering Good Health in an Ageing Europe, Protecting Citizens from Health Threats, and Dynamic Health Systems and New Technologies.

EPHA considers that the success of the EU Health Strategy will depend on the following key factors:

- **Adopting a public health approach to health:** We advocate for a health approach in all policies as the main mechanism through which the strategy will be delivered: investing in health policies alone cannot deliver the objectives of the Strategy.

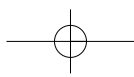
- **Stating clearly the objectives of the Strategy:** The EU Health Strategy should aim to bridge the gap between health inequalities - both within and between Member States - within a ten year period. To achieve that aim, the main focus should be on broader health determinants.
- **Adopting a pragmatic approach to the Strategy taking into account resource limitations:** EPHA understands that the EU competences on health are limited and therefore the Strategy will be better implemented if sustainable well-functioning national health systems are strengthened and involved in delivering the Strategy. EPHA strongly recommends that the European Commission implements cost-effective policies that are based on evidence. For the same reasons, we advise that the EU Health Strategy must build on existing resources, commitments and objectives. Also, it is very important for EPHA and its members that the EU Health Strategy is approached within the global governance framework on health, represented by the World Health Organisation.
- **Fostering health criteria on the agendas of policy-makers:** Although the case is strong to advocate for a health in all policies approach, we understand that some other departments may be reluctant to implement this approach. One of the challenges of the EU Health Strategy is how to foster health criteria on the agendas of policy-makers who have not previously considered health as part of their portfolio.
- **An adequate use of the regulatory framework:** EPHA expresses caution at the use of self-regulation because it has been proven that this method fails to protect public health. Non-legislative instruments, such as the Open Method of Coordination, can contribute to improving Member State coordination and preparedness to respond to health threats. It can also be an efficient tool to strengthen health systems while respecting the subsidiarity principle. EPHA strongly recommends that the establishment of Health Impact Assessments of all EU policies should be a clear priority of the EU Strategy.
- **A clear commitment from Member States:** In EPHA's view, given that ultimately Member States are going to deliver the strategy, they have to agree and develop a sense of ownership of the strategy. The Council response to the Health strategy must involve a definite commitment to implement and allocate the necessary resources for the effective implementation of the Strategy.
- **Strengthening NGOs' role in decision-making and establishing of a participatory status for NGOs:** NGOs are crucial partners to develop and implement the health strategy. EPHA calls for the establishment of a participatory status for NGOs that would support the involvement of health NGOs in policy making beyond DG for Health and Consumer Affairs. This will ultimately strengthen the implementation of a health in all policies approach across the European Commission DGs.

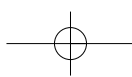


## Conclusions

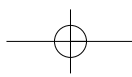
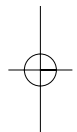
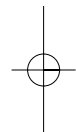
Good health is a fundamental resource for social and economic development. Higher levels of human development mean that people live longer and enjoy more healthy years of life. A healthy population will reduce the pressure on health and social care systems. A healthy workforce is a precondition for economic growth and prosperity. In today's Europe, with a rapidly ageing population, this is more important and true than ever before. Remarkable improvements in public health in recent decades have been shown, but there are still large differences between population groups, regions and countries. Although health care mainly is a national responsibility, many of the most important threats to health cannot be solved by national public health policies, nor are they restricted by geographical borders. Coordinated EU action on public health is increasingly important.

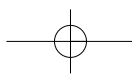
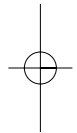
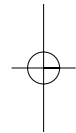
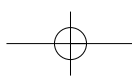
Civil society has played an increasingly significant role in shaping and delivering health outcomes at local, regional, national and the European level. Civil society will continue to play a key role in undertaking actions which add value and complement the work done by the EU and Member States to make citizens healthier and safer. The EU has made considerable progress in order to increase dialogue with civil society, opening it up to a multitude of stakeholders from different countries and sectors. But there is still a lot of work to be done, specially building the capacity of civil society to engage in policy making (Public Health and the EU, executive summary).





## Heading 4 - EU as a Global Partner







# Europe's global responsibility: The centrality of its development policy

Simon Stocker,  
*Director of Eurostep*

The ratification of the Lisbon Treaty over the coming months will be important if we are to capitalise on the gains that it contains. When in December 2002 the European Council launched the process to update the Union's Treaties to enable the enlarged membership to work more efficiently, NGOs saw it as an opportunity to strengthen and clarify the legal base for Europe's development cooperation policy. The result has been all that was sought. The Lisbon Treaty clearly identifies that the Union's development policy provides the principal framework governing the EU's cooperation with all developing countries. This policy places the eradication of poverty as the overarching objective, for which the achievement of the Millennium Development Goals (MDGs) is central. The Treaty also maintains the principle that all EU policies having an impact on developing countries are coherent with the Union's development policies and their implementation. Additionally for the first time it also includes a legal provision within the Treaties for the EU's humanitarian assistance to all parts of the world. The outcome of the review of the future use of the EU budget should reflect the amended Treaties.

## The EU's cooperation with developing countries

The European Union provides more than 50% of the total global development aid<sup>87</sup>. If the commitments made by the EU and its member states to increase its level of aid over the coming years, with a view to reaching the UN target of 0.7% in 2015, are fulfilled, the proportion of aid provided by the EU will increase.

The European Commission currently manages around one fifth of the EU's official development assistance. Over the seven years from 2007 to 2013, the period of the current financial perspectives, the aid to developing countries managed by the European Commission is expected to total some €52 billion. Of this €28.9 billion will be provided by the regular budget of the EU, with a further €22.68 billion being provided through the European Development Fund.

When, as part of the preparations for the current financial perspectives, revisions were made to the legal instruments governing the use of the EU's funding, significant moves were made towards ensuring that the EU's development cooperation was implemented as part of a global development policy. This was consistent with the way in which EU development policy was approached in the proposed changes to the Treaties. The EU's development cooper-

<sup>87</sup> In [http://ec.europa.eu/development/policiesgen\\_en.cfm](http://ec.europa.eu/development/policiesgen_en.cfm).

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ation has been a principal expression of the Union's relations with the rest of the world since the establishment of the European Economic Community 50 years ago. This primarily focused on cooperation with countries in Africa, the Caribbean and the Pacific, and was financed through the European Development Fund. The EDF has remained a principal funding instrument for the EU's development cooperation, and the EU's cooperation with ACP countries has been synonymous with its development policy.

Over time the EU has developed its cooperation with other developing countries in Asia, Latin America and other parts of the world, and this has been financed by the regular EU budget. However, these relationships were not primarily built on the basis of the EU's development policy, but on other interests of the EU, particularly trade. The structure of the Commission for managing the different relationships reflected these different policy interests. The Directorate for Development, which is supposedly responsible for EU development policy, is only responsible geographically for ACP countries. Overseeing cooperation with other developing countries is managed by the Directorate for External Relations. The External Relations Commissioner is also responsible for EuropeAid, the Directorate of the Commission responsible for implementation of all aid programmes.

## Towards a global development policy for the EU

One of the key results in the establishment of the Development Cooperation Instrument in 2007 was to establish more clearly the application of the EU's development policy as the principal policy framework for the EU's cooperation with all developing countries. The provisions of the Union's Treaties set out the broad objectives for this policy, the principal of which is the eradication of poverty. Since 70% of those living in poverty are women, addressing gender inequalities is fundamental to achieving this objective.

In its role as one of the co-legislators for establishing the revised legal instruments the European Parliament ensured that the funds provided through the Development Cooperation instrument must finance legitimate development activities, as defined by agreements made within the DAC<sup>88</sup>. An emphasis was given to prioritizing investing in the provision of social services as a fundamental basis for development. This was underlined with the inclusion of a requirement for at least 20% of the EC's aid to be used for this purpose.

## Legal framework for financing EU cooperation with developing countries

There are now three principal legal instruments that provide the basis for the EU's funding of its cooperation with developing countries: the European Development Fund that funds cooperation defined by the Cotonou Agreement. This instrument is an inter-governmental agreement between the EU's member states and is not part of the regular EU budget; the European Neighbourhood Partnership Instrument (ENPI) for countries

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<sup>88</sup> There were some clearly defined exceptions but these account for less than... % of the overall allocation.

covered by the European Neighbourhood Policy; and the Development Cooperation Instrument (DCI) for developing countries not covered by either of the other two instruments. The DCI also covers the financing of a set of thematic programmes applicable to developing countries in all parts of the world. In addition there are two other instruments relevant for cooperation with developing countries: the Stability Instrument primarily intended to finance actions addressing situations of conflict, and an instrument covering the EU's humanitarian aid. The financing of cooperation with countries seeking membership of the EU is covered by a separate Enlargement Instrument which specifically supports actions within these countries that brings them into line with the EU's *acquis communautaire*.

Legal instrument	Applicability	Financing available	Period
European Development Fund	Countries of the African, Caribbean and Pacific Group	€ 22.68 billion	2008-2013
Development Cooperation Instrument <sup>89</sup>	Asia, Latin America and South Africa	€10.057 billion	2007-2013
	Thematic programmes for countries covered by the EDF, DCI and EN	€ 5.595 billion	
	ACP Sugar Protocol	€ 1.244 billion	
European Neighbourhood Partnership Instrument <sup>90</sup>	Southern Mediterranean, Middle east, Southern Caucuses and Eastern Europe	€ 12 billion	2007-2013
European Instrument for Democracy and Human Rights <sup>91</sup>	All countries	€ 1.104 billion	2007-2013
Stability Instrument <sup>92</sup>	All countries	€ 2.062 billion	2007-2013
Humanitarian Aid Instrument <sup>93</sup>	All countries	€ 7.36 billion	2007-2013
Enlargement Instrument for Pre-Accession Assistance <sup>94</sup>	Countries seeking entry into the EU	€ 0.012 billion	2007-2013

<sup>89</sup> REGULATION (EC) No 1905/2006 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 December 2006 establishing a financing instrument for development cooperation.

<sup>90</sup> Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument.

<sup>91</sup> Regulation (EC) No 1889/2006 of the European Parliament and of the Council of 20 December 2006.

<sup>92</sup> Regulation (EC) No 1717/2006 of the European Parliament and of the Council on establishing an Instrument for Stability, 15 November 2006.

<sup>93</sup> Council Regulation (EC) No 1257/96 of 20 June 1996 concerning humanitarian aid.

<sup>94</sup> Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA).

## Implications of the Lisbon Treaty

Ratification of the Lisbon Treaty in itself will not be sufficient to ensure that the EU's cooperation with developing countries is primarily motivated by its development policy. In seeking to strengthen the effectiveness of the EU's political role in the world the Lisbon Treaty will result in some significant changes in the way in which the EU relates to the rest of the world. One of the principal aims of changes in the Lisbon Treaty is to bring increased consistency between the different external policies of the EU - trade, development, humanitarian assistance, foreign political policy, security, defense, etc. For some of these (trade, development, humanitarian assistance) the European Commission has a role in their implementation; for others (foreign policy, security, defense) the competence lies solely with the European Council and the member States.

Making the EU's external actions more consistent is certainly positive since the different policy areas have important contributions to make in order to achieve the overall objectives of the Union towards the rest of the world. In the Lisbon Treaty these objectives state that the Union actions *"shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights, in particular the rights of the child, as well as to the strict observance and development of international law, including respect for the principles of the United Nations Charter."* It is necessary to recognize, however, that many of these objectives will only be achieved with a concerted effort to eradicate poverty and to diminish inequalities within and between societies. The very construction of the European Union reflects this approach. The objectives of the EU's development policy are the cornerstone for the EU's overall objectives towards the rest of the world. In this context the promotion of increased consistency between the EU's external policies must contribute to helping ensure that EU's policies and practices affecting developing countries are coherent with EU development policy objectives.

To increase the effectiveness of the EU's role in the world a High Representative of the Union for Foreign Affairs and Security Policy will be appointed. As the title suggests the High Representative will be responsible for the EU's external policies, will be based in the Council of the EU, and will chair the EU's Council of Ministers dealing with external issues. The High Representative will also have a foot in the Commission as a Vice-President with the role to coordinate all of the EU's external policy areas: the foreign and security policies that fall under the remit of the Council, as well as those for which the Commission has competence - including development, trade, economic cooperation, and humanitarian aid.

The Treaty also makes provision for the establishment of an EU diplomatic service - called the European External Action Service (EEAS). Comprised of officials drawn from the Council, Commission and Member States, the EEAS will support the High Representative in the implementation of her/his role in both the Council and the Commission. It is in this context that many questions remain open. Although the Lisbon Treaty provides for the establishment of

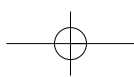
the EEAS, the *“organization and functioning of the EEAS”* will be determined by the Council (on the basis of a proposal from the High Representative). The scope and composition of the EEAS is already being discussed within the Commission and Council with a view to a conclusion being reached later in the year. Inevitably the establishment of the EEAS will result in the re-organisation of the Commission’s services dealing with external policy issues. It is the result of these negotiations that will determine whether the intentions set out in the Lisbon Treaty for development, to be implemented as distinct areas of competence on the basis of its own objectives, will be realized.

The appointment of the High Representative and the establishment of the EEAS could be positive to increase the effectiveness of EU development policy, but there is a danger that the significant levels of EU development funds will be used to finance the EU’s foreign policy objectives. After all, while the Treaty provides that structural means to implement EU foreign policy are to be strengthened, there are no plans for any additional funding for its implementation from the member states, nor any significant shift of power over foreign policy envisaged from member state governments to the EU.

It is in this context that the organization of the legal framework for the management of the EU’s budget will need to be considered. This must ensure that the resources provided for the implementation of the EU’s development policy are explicitly used for that purpose, with specific reference to the internationally accepted criteria defined in the DAC.

### **Key issues for the EU’s future budget**

- The structure of the future budget of the Union must be consistent with the Lisbon Treaty. The EU’s cooperation for developing countries should be financed by budget lines that are directly linked to the articles in the Treaty defining the EU’s development policy.
- The legal instruments covering the EU’s cooperation with developing countries should be clearly oriented towards the objectives of the EU’s development policy as defined by the Treaty and development policy statements relating to the development articles of the Treaty.
- Separate legal instruments should be established to finance other external policy areas, such as foreign policy, defense, security, etc. Financial allocations for these instruments should be additional.
- The EDF should be brought within the framework of the EU’s overall budget so as to strengthen the reality of an EU development policy that is applicable to all developing countries, as defined by the DAC.
- The programming cycle for the EU’s development policy should be re-integrated. The current division of responsibilities between two Commissioners and three separate Commission services fragments the management of the EU’s development policy. With the establishment of the EEAS parts of the three services (partially) dealing with de-



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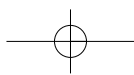
velopment programming and implementation should be reunited under one service with one clear public face: EuropeAid. The name EuropeAid has contributed to creating greater visibility. It would be inconceivable after all the investments in EuropeAid, and the positive results this has yielded, for it now to be made redundant.

- EuropeAid should be overseen by one Commissioner for Development. This logically follows from the Treaty, in which development cooperation is identified as a distinct policy area. The resulting service, which would be associated with the EEAS, would help assure the integrity of the EU's development policy. The Commissioner responsible for this service would then naturally be accountable to the Development Committee of the European Parliament in all the aspects of his/her work.
- The European Parliament's legitimate role in assuring democratic accountability for the use of the EU's development resources will need to be enhanced, with additional capacity. The Development Committee of the Parliament should be primarily responsible for overseeing the EU's development cooperation in all parts of the world.

## Conclusions

NGOs that have followed the initiatives to amend the EU Treaties since the Council's 2002 launch of the process that has eventually brought us to the Lisbon Treaty, have consistently argued that the EU's development policy and its objectives should define the framework for the EU's relations with all developing countries (as defined by the OECD/DAC). It is on this question that the gains in the Lisbon Treaty are important. On the back of these gains the EU's development policy has become central to the regulations covering the use of EU development funds in Asia and Latin America in particular, and to a lesser extent in countries of the southern Mediterranean, southern Caucuses and eastern Europe covered by the European Neighbourhood Policy. As a result there has been an increased consistency in the implementation of EU development policy towards all parts of the developing world.

For this to continue in future it is crucially important that the result of the review of the EU's budget is consistent with these outcomes. For this to be achieved it will be necessary for the set of legal instruments that exist for the current budget cycle to be revised and redesigned. In this process the centrality of the EU's development policy and its objectives must be recognized.



# The new 'Global Europe' strategy of the EU: Serving corporations worldwide and at home

**A wake-up call to civil society and trade unions in Europe and elsewhere**

*Seattle to Brussels Network*

## **New ambitions of EU trade policy beyond the WTO**

On 4 October 2006 the European Commission unveiled a new communication entitled *Global Europe: Competing in the world*, which outlines how Brussels will pursue bilateral free trade agreements with major emerging economies in order to secure new and profitable markets for EU companies. The EU will also push for stronger intellectual property rights and reduced non-tariff barriers in its trading partners - and for even more business-friendly 'domestic reforms' within Europe itself.

The report sets out an aggressive so-called 'external competitiveness' strategy. As EU Trade Commissioner Peter Mandelson puts it: "*What do we mean by external aspects of competitiveness? We mean ensuring that competitive European companies, supported by the right internal policies, must be enabled to gain access to, and to operate securely in, world markets. That is our agenda.*"

Since the official communication of 4 October is meant for public consumption, the most worrying content has been filtered out. If one wishes to understand the EU's true priorities and intentions, one needs to consult the blunt draft version prepared earlier by the Directorate General Trade of the Commission (DG Trade) - this paper was kept secret by the Commission, but was leaked to the public and is available at [http://www.s2bnetwork.org/download/globaleurope\\_draft](http://www.s2bnetwork.org/download/globaleurope_draft). The EU's priorities are still included in the public attachment to the official communication that is available from the Commission's website:

[http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc\\_130370.pdf](http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130370.pdf).

The essence of the proposed strategy comes down to this: if the EU wishes to maintain its competitiveness in the global market, it must step up its efforts to create opportunities for its companies abroad, targeting especially the overall regulatory environment in third countries. But in order to build strong companies, the EU should also create a more business-friendly environment at home.

The EU not only wants to take a more aggressive - or, as it calls it, more 'activist' - stance in its dealings with trading partners. It also wants to initiate various new bilateral processes, and it suggests the introduction of new measures such as prior consultation with business abroad and at home, including regarding the design of new regulations; private access to dispute settlement for EU companies; restricting access to government procurement contracts in the EU for countries that do not reciprocate; and full parity in bilateral negotiations.

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If trade policy was already an instrument to introduce policy reform at home via the WTO and bilateral negotiations, it will now also directly dictate domestic reform. *"The internal and external dimensions of competitiveness are inextricably linked,"* says DG Trade. Getting rid of all barriers that hinder the operations of companies and making sure all regulations are minimally trade distorting must be the agenda of the EU at home and abroad.

Breaking down the regulatory environment seems to be the most important strategy for increasing the EU's external competitiveness. This includes SPS and TBT requirements, regulations on services, public procurement but also IPR, investment and competition policy regimes of third countries. What is to be expected is more competition, more flexibility, more deregulation. Goodbye to the European social model; here's the naked globalization for all.

### *Mandelson's priorities*

- Decreasing non-tariff barriers to EU exports and investments: "We need to look at the whole operating environment in third countries," says the Commission, which intends to insure that regulation is non-discriminating and the least restrictive possible.
- Increasing access to raw material inputs in order to compete on a "fair basis". The main goal here is to completely eliminate export taxes and other export restrictions which trading partners use to secure their own raw materials for their own use.
- Securing energy supplies through improved trade in the energy sector of third countries, the main interest being to secure gas and oil supplies for Europe. This also includes a competitive, EU-wide energy market.
- Further strengthening the presence of EU companies in emerging markets through permanent establishment, meaning more investment liberalisation.
- The opening up of public procurement markets - an "enormous untapped potential" for EU exporters, says the Commission (10-25% of the GDP of partner countries); however, practices in partner countries "impede" the "fair" participation of EU suppliers and "shut [them] out from important exporting opportunities".
- Improvement of the application of trade defence (anti-dumping) mechanisms by third countries, which threaten to cancel out market access obtained by EU companies.
- Enforcement of intellectual property rights, including geographical indications.

For the Commission, even an ambitious outcome of the current Doha negotiations at the WTO will not be enough to fulfil the aspirations of the EU business lobby. After the completion of the round, all the issues above need to be put back on the table. However, since there are doubts about the readiness of WTO members to take up such an agenda, a new programme of ambitious bilateral negotiations needs to be developed.

### *A new generation of bilateral agreements*

Such a programme begins by identifying the criteria to select the target countries. The



main criteria are: market potential (the size of the market and its growth and profit prospects), the level of protection against EU export interests, and the number of bilateral agreements countries already have with other trading partners (establishing privileged relations which shut out the EU and establishing a common regulatory regime that is not compatible with that of the EU). These steps are followed by: access to resources; the balance between offensive and defensive interests; and the effect on the multilateral system.

On this basis the Commission identifies ASEAN, South Korea and Mercosur (Argentina, Brazil, Paraguay, Uruguay, Venezuela) as priority targets, along with India, Russia and the Gulf Cooperation Council. The EU has already started free trade agreement (FTA) talks with the Gulf Cooperation Council, which comprises six Arabian Peninsula countries around Saudi Arabia. Its FTA negotiations with Mercosur, suspended since 2005 over disagreements on agriculture, industrial goods, investment and services, are set to resume. Brussels and New Delhi are also exploring the possibility of starting FTA talks. The EU has not called for an FTA with China, in spite of its large and growing market. China is seen at one and the same time as a threat, an opportunity and a prospective global partner, and the EU has further elaborated its trade and investment policy with China in a new communication published on 24 October 2006.

The new bilaterals will:

- Secure market access for essentially all trade in goods and services, seeking full parity with what other countries have obtained in their bilaterals.
- Tackle non-trade barriers and aim for regulatory convergence. Apart from the usual SPS, TBT, IPR issues, DG Trade wants to open up a new frontier: it sees barriers not only in certain measures themselves, but also in the way they are introduced "without sufficient consultation". Therefore discipline is needed, including "dispute avoidance mechanisms". This goes in the direction of the "prior consultation commitments" that the USA is seeking in its bilaterals. In the case of the US, when countries want to change their rules affecting business and trade, they need to involve their trading partners during the decision-making process. The EU calls for "consultation, early warning procedures, exchange of information and the possibility to comment". The Commission also proposes stronger monitoring, enforcement and dispute resolution mechanism which should be accessible to the industry.
- Include new provisions for investment, IPR and competition.
- Open public procurement markets. Since the EU procurement market is already broadly open, the Commission is considering reducing access for countries that do not reciprocate, so as to push them into negotiating procurement agreements.

The Commission also suggests a verification mechanism to ensure that its trading partners share the same level of ambition before starting the negotiations, in order to avoid the risk of negotiations being blocked because of a mismatch of expectations. Such verification is taking or has already taken place with India, ASEAN and South Korea.

*The domestic dimension of the external trade strategy*

In order to support external competitiveness and better serve the EU's economic and business interests, external considerations must be taken into account when setting key internal policies. The completion of the single market and increasing internal competition is key to this, but the main focus is again on the regulatory framework. Internal rules and practices should be made more consistent with the rules and practices of the EU's trading partners, and less trade restrictive.

The external dimension must be taken into account at an early stage of decision making in order to minimise regulatory frictions with trading partners. "International regulatory cooperation is the right tool", says the Commission, "helping to choose the least trade restrictive system, minimize the cost of regulations for domestic business and 'upstream' dispute resolution... One good example has been the consultation process for the REACH directive where the voice of the industry outside Europe became heard. We should be ready to improve our level of transparency, prior information, chance to comment..."

While the Commission uses REACH as a positive example, NGOs argue that, on the contrary, REACH demonstrates how the lobbying activities of the chemical industry have undermined legislation that was designed to protect people and the environment. It was the European business lobby that called on non-European companies to intervene as well. Interestingly, the European Parliament found that large TNCs exporting a few bulk chemicals would mostly bear the costs. But clearly the pressure of the giant corporate lobby industry is not sufficient for the Commission; in future the Commission will call in non-EU corporate interests to take part in the decision-making process. The Commission wants to be more transparent (to foreign business, not to its own civil society) and wants to listen to foreign corporate grievances before making decisions "affecting the market" - decisions such as those on environment, health or social regulations. This will make the EU even more undemocratic. Finally, the Commission also wants **to equip people for change**. The Commission is aware that if it wants ambitious agreements serving EU corporate interests, then it will also have to offer something in return. The Commission is prepared to open up sensitive sectors of the EU economy while admitting this will bring about "transformations which are disruptive to some in the EU".

Therefore the Commission will open up the EU, but will seek transition periods, safeguards, etc. It promises to equip some people for these changes with education and active labour market policies through the so-called Globalisation Adjustment Fund. For those who will find no jobs, no policy is developed, even while an increasing number of economists are starting to worry about jobless growth, the working poor and the lack of distribution of wealth. For **consumers**, the Commission promises measures so that the positive effects of trade opening and lower prices from lower tariffs "are not captured by specific interests".

**Critique: 'Global Europe' - a dangerous corporate agenda**

Mandelson's vision for a 'Global Europe' looks two ways: outwards to the EU's relations

with other countries and inwards to the sort of Europe we wish to create for ourselves. The outward-looking policy marks a new beginning for the EU's relations with other countries, with an emphasis on unapologetic self-interest at its core. Gone is the talk of trade justice or making globalisation work for the world's poorer countries. Instead Mandelson promises simply "a sharper focus on market opening and stronger rules in new trade areas of economic importance for us".

In practice this means launching a new generation of trade deals with developing countries such as Brazil, China, India and Korea - precisely those markets that European business needs to conquer if it is to thrive. Mandelson's code word here is "activism" - using bilateral negotiations to force open new markets - and the stated aim is to win EU companies the right to exploit these new opportunities and the natural resources of the developing world.

Access to the services, industrial and public procurement markets of emerging economies is the central element of the new vision, despite the acknowledged problems that this causes poorer countries' own development efforts, and the consequential poverty when local businesses collapse under unfair competition. Perhaps the clearest throwback to colonial times is the demand for open access to natural resources. Mandelson has heeded the calls of the Brussels business lobby by making European access to the resources of developing countries a "high priority" and by promising to oppose any attempts by such countries to defend their resources for their own use.

This self-interest extends to energy sources too, with Mandelson calling for a "coherent policy" to secure European access to the planet's oil and gas reserves. Furthermore, a new set of investment agreements will allow multinational corporations to start up production in cheap labour economies free from the regulations or performance requirements that could dent their profit margins. At the same time, new intellectual property rules will ensure that local firms are prevented from copying the designs and technology which they could use for their own development purposes.

The first thing to note is that this is a vision born of failure. The EU has tried again and again to impose this model through the multilateral negotiations of the WTO, and was the driving force behind the launch of the Doha round of trade talks in 2001. Yet since that time the EU has seen its best efforts rebuffed at every stage.

The EU's attempt to introduce a multilateral investment agreement failed first at the OECD and then at the WTO's Cancún ministerial in 2003. The attempt to start negotiations on public procurement also failed at Cancún, while efforts to open up foreign services markets for EU companies have fallen far short of what was hoped for. The EU's proposed ban on export taxes, which restrict corporate access to the natural resources of developing countries, has failed even to get onto the negotiating agenda. And now the remnants of the EU's Doha dream lie in tatters, with talks suspended and no sign of a restart any time soon.

So how has Mandelson's vision failed so spectacularly? There are two main reasons for this: one external and one home-grown. The first reason is that developing countries are no

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longer willing to submit to the neo-colonial ambitions of the European business community. Countries such as Brazil, China and India have made clear that they will not be pushed around in world trade talks, and even the former colonies of Africa are refusing to lie down quietly in their economic partnership agreements (EPAs) with the EU.

The second area of resistance has been on the home front - and this is where the second major element of Mandelson's vision also kicks in. Mandelson's attempts to gain more market access for EU companies through the WTO negotiations have been thwarted by domestic resistance to the neoliberal model in Europe itself. Put simply, the EU has not been able to offer its trading partners the open markets which Mandelson would love to create internally, and therefore has not been able to extract from those trading partners the new business opportunities demanded by EU companies externally.

So the home front is where Mandelson wishes to redouble his efforts, and where the true threat he poses becomes clear. All those European groups opposing the free market model on social, environmental or developmental grounds must be overcome through a new concentration on "competitiveness", the favoured EU code word for the neoliberal agenda. Anyone concerned with agricultural sustainability, workers' rights, climate change or the European social model itself stands in the way of the Mandelson vision. The defenders of such interests threaten the EU's capacity to compete with Japan and the USA today, or with India and China tomorrow.

The clearest example of how this will affect Europe is to be found in Mandelson's plans for the downgrading of EU standards and regulations. The deregulation agenda forms a central part of Mandelson's agenda for Europe, euphemistically described as "an open and flexible approach to setting our rules". The fixation with minimising inconvenience to business even at the risk to public health, workers' rights or the environment pervades the Mandelson vision, and forms the most immediate threat to people across the EU.

Mandelson has spelled out in his recent speeches what lies unsaid in the vision paper: this assault on the European model is to be brought about through "regulatory convergence" with the USA. In place of the European model of high standards won through decades of public pressure and committed campaigns, Mandelson offers us a future remodelled along US lines, where corporate interests come first and people's needs come nowhere. And the reason? "The greater the consistency in rules and practices with our main partners," says the vision, "the better for EU business."

## Challenges for civil society and trade unions in Europe

The values and interests at the core of the Commission's new 'Global Europe' strategy are clear. Up to now, pro-development language was used to hide an aggressive pro-corporate agenda. Now the EU has revealed for the first time how the internal projects and directives developed by the Commission and supported by the Council of Ministers are directly linked to the external objectives of the Commission, and vice versa.

To date, trade policy has not been very high on the agenda of most movements, trade unions and NGOs in Europe. With many ongoing problems at the domestic and EU levels, such as the push for the Services (Bolkestein) Directive to create a single services market in Europe, the EU Convention process and the increasing precariousness of jobs in Europe, most of the aforementioned groups have been focusing on other issues.

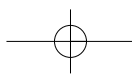
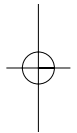
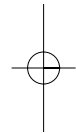
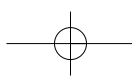
However, today many different civil society groups in Europe all want discussion and dialogue to understand the impacts of Mandelson's proposed policies. These groups include social movements, trade unions and others working on issues such as agriculture, workers' rights, consumer interests, development, environment, women's issues, corporate accountability, climate change, migration, war, etc. Trade policy can no longer be an issue which a few groups address from a development or an environmental angle. It has to be understood within the context of how the EU is pushing forward a neoliberal agenda not only in countries outside of the EU, but also within the EU borders.

The questions we need to start discussing are:

- Do we understand the full scope of the policies proposed?
- What are the impacts of further trade liberalisation on the number and quality of jobs not only in developing countries, but also in Europe?
- What has the increase of migration flows to do with trade policies?
- What governance model is promoted when corporations from the EU or outside have privileged access to influence policy, but with no public debate?
- How are climate change and trade policy linked?
- Why do consumers not benefit from the proposed model?
- What are the social, environmental and cultural costs of the race for more competitiveness and the pursuit of economic growth as proposed?

We would like to invite all progressive forces in Europe and internationally, all our allies working in farmers', workers', consumer, women's, environment, development and public services networks, to join us in the analysis of the EU's trade policy and its assault on the vast majority of people and the environment. We would like to invite all these forces to prepare a space that allows us to start a Europe-wide debate for spring 2007 and to discuss how we can work together to resist this aggressive agenda and to work for alternatives that are based on human rights, solidarity and sustainable economic activity.

If you are interested in getting in touch with the Seattle to Brussels Network to work on this issue, please contact: [astrickner@iatp.org](mailto:astrickner@iatp.org).



# Aid for Trade: is cooperation serving trade?<sup>95</sup>

Roberto Sensi

*Campagna per la Riforma della Banca Mondiale (CRBM)*

The European Union is currently negotiating six Economic Partnership Agreements (EPAs) with 77 countries in Africa, the Caribbean and the Pacific. These so-called ACP countries comprise some of the least developed countries in the world. Overall, the EU is treating these EPAs as reciprocal free trade agreements. However, in recognition of the asymmetries between the EU and the ACP countries and likely significant adjustment costs, the EU is engaging in trade-related aid and adjustment programme.

The EU's far-reaching market opening agenda comprises the trade in raw materials, agricultural products, non-agricultural goods, and services and it addresses areas including investment, government procurement, intellectual property rights, customs procedures and development assistance. The reciprocal trade relations envisaged in the EPAs will require significant adjustments from ACP countries as the weaker partner in the negotiations. The likely adverse development impact of reciprocal market access between such highly asymmetric partners as the EU and the ACP countries, in particular the least developed among them, continues to be highlighted by civil society organisations and ACP Trade Ministers alike. (ICCO, 2007).

## Adjustment costs

According to a research carried out by the Commonwealth Secretariat the estimated overall costs for a minimum level of restructuring adjustment support required from ACP countries amount to €9.2 billion (at 2005 prices) over 10 years. There is the additional requirement that this support is frontloaded with 60% of the total needed in the first five years, which raises the issue of the timeliness of distribution of this aid. The study identifies four main areas where ACP countries will need support with adjustment costs. These include costs incurred by fiscal reform, made necessary by loss of government revenue due to removal of tariffs; trade facilitation and export diversification costs; production and employment adjustment programmes; and skills development and productivity enhancement support programmes. Among those, the easiest to quantify are the costs associated with revenue loss (Christian aid, Traidcraft, Tearfund, 2007).

<sup>95</sup> Compiled on the basis of the following documents: ICCO, *The realities of EC "Aid for Trade" support in Botswana, Lesotho, Namibia and Swaziland. Lessons for the Epas negotiations*, 2007. Christian Aid, Traidcraft, Tearfund, *"The real costs and benefits of Economic Partnership Agreements"*, april 2007. IATP, *"Can aid fix trade? Assessing the WTO's Aid for Trade Agenda"*, September 2007. OECD/WTO, *"Aid for Trade at a Glance 2007: 1st Global Review"*, 2007. ECDPM, *"Aid for Trade. Twenty lessons from existing aid schemes"*, Septemeber 2007. Solidarité, *"With teh EPAs the EU derisore aid to ACP countries will not prevent an increased gap in their competitiveness"*, novembre 2007. Christian Aid, *"The opportunities and risks of Aid for Trade"*, 2007. International NGO Principles regarding "Aid for Trade", 2007.

## Costs of addressing supply side constraints

Liberalisation will have two substantial effects on the economies of the ACP countries: the contraction of production in non-competitive sectors and the simultaneous expansion of sectors which hold a comparative advantage. It is important to take into account supply side constraints which may hinder either of these effects, thus working against the stated benefits of trade liberalisation. These constraints may include lack of transport infrastructure, limited access to telecommunications, barriers to entry to markets because of lack of economies of scale, and investment (*Ibidem*).

A European Analysis Research Paper examining possible supply side constraints concludes that "liberalisation is not a magic trick to promote development and that it can only work if many other issues are addressed successfully at the same time" (European Analysis Research Series, 1995).

## Who will cover these costs?

The EC says that aid to cover the costs of implementing and adjusting to EPAs will come from the 10th EDF. €22.7 billion has been pledged for the 10th EDF. However, before consideration of any EPA related needs, it was estimated that €21.3 billion were needed to fund the costs of the existing aid portfolio and maintain EU contributions at 0.38% GNI. So, if the EDF is to provide new funds for EPAs, it's clearly going to be diverted from other areas such as health and education.

Putting aside problems with the amount of aid available, there are massive process problems with the EDF, not least the time it takes to commit and disburse EDF resources. Even if there was more money in the EDF or it was felt justified to divert EDF money from social spending, the delay in delivering the aid poses major problems for 'time sensitive' EPA related adjustment costs. For example, EC assessments of time frame required for full deployment of existing 9th EDF resources in Botswana, Lesotho and Swaziland show that it will take between 9 and 17.5 years to disburse existing EDF funds and between 7 and 14.66 years to sign contracts for the implementation of specific project activities (Christian aid, Traidcraft, Tearfund, 2007).

On the 16<sup>th</sup> of October 2006 the EC announce new policy in this regard, reiterating a commitment to provide €2 billion annually in aid for trade support to developing countries and one year later worked out a strategy on the delivery of previously pledged "aid for trade" support. Half of this amount is to be new money drawn from EU member states expanding ODA budgets. Half of it will be drawn from the EDF. It is the part to be drawn from EU member states expanding aid budgets which could potentially contribute to EPA related adjustment initiatives. The EU is still elaborating how precisely it is to live up to these commitments. The best endeavour nature of these commitments, compared to the binding nature of the tariff commitments entered into through an EPA, is a matter of major concern to ACP countries (*Ibidem*).



## What is Aid for Trade?

The proposal of an Aid for Trade package developed by the WTO governments arose in the context of negotiations on the Doha Agenda. Aid for Trade was officially put on the WTO agenda at the 6th Ministerial Conference in Hong Kong in December 2005. The Hong Kong mandate is "to help developing countries, particularly least-developed countries (LDCs), to build the supply-capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade." Aid for Trade remains vaguely defined. Developed and developing countries have differing views on what the package should encompass. Many developing countries, for example, argue that building supply-capacity and trade-related infrastructure includes activities such as improving the productive capacity of agriculture and manufacturing sectors, building roads to link local, regional and international markets, and supporting the development of small and medium enterprises (IATP, 2006).

At the Hong Kong Ministerial Conference, WTO members instructed the WTO Director-General, Pascal Lamy, to set up a Task Force to provide recommendations on how to put into operation Aid for Trade. The first set of recommendations was submitted to WTO members on July 27, 2006.

The Task Force recommended that Aid for Trade cover six broad categories:

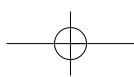
- (a) Trade Policy and Regulations, which includes training trade officials, helping governments implement trade agreements, and complying with rules and standards.
- (b) Trade Development, which includes providing support services for business, promoting finance and investment, conducting market analysis and e-commerce.
- (c) Trade-related Infrastructure, which includes building roads and ports.
- (d) Building Productive Capacity: improving the capacity of a country to produce goods and services.
- (e) Trade-related Adjustment, which includes financial assistance to meet adjustment costs from trade policy reform, including balance of payment problems resulting from lost tariff revenues or from the erosion of preferential market access.
- (f) Other Trade-related Needs.

Categories (a) and (b) cover the traditional forms of aid, namely trade-related technical assistance and capacity building. Categories (c) - (f) expand the Aid for Trade agenda (*Ibidem*).

The Task Force recommended that Aid for Trade build on existing trade-related assistance mechanisms, for example the IF and the JITAP, as well as use existing guidelines for aid delivery, especially the Paris Declaration on Aid Effectiveness.

The Task Force recommended several additional guidelines for the implementation of Aid for Trade.

They include: (1) strengthening country ownership of aid programs and country-based formulation of trade-related needs and priorities; (2) strengthening the donor response to trade-related needs and priorities; (3) strengthening the bridge between country demands



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and donor responses at the country, region and global level; and strengthening monitoring and evaluation. The Task Force also recommended the establishment of various structures to facilitate the implementation of Aid for Trade. These include a system of data collection and analysis at the country level, national and/or regional Aid for Trade Committees, and a global periodic review of Aid for Trade by WTO members (*Ibidem*).

### What is the trend?

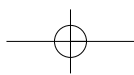
According to OECD/WTO report, between 2002 and 2005 the total aid for trade commitments from bilateral and multilateral donors rose by 22% in real terms, from USD 17.8 billion to USD 21.7 billion. This represents an annual rate of growth of 6.8% and a welcome contrast with the long-term declining trends observed since the mid 1970s. For example, in 1988, spending on building productive capacity reached over USD 16 billion in 2005 constant prices compared with the barely USD 9 billion during the 2002-05 baseline period. This decline was far from being compensated by aid to economic infrastructure which remained around USD 10-12 billion per year since its peak in the early 1990s or by assistance to Trade Policy and Regulation, which entails much smaller financial flows (OECD/WTO, 2007).

The increase in flows during 2002-05 has however been insufficient to reverse the declining trend of aid for trade as a share of total sector allocable ODA. Indeed, over that same period total sector allocable ODA increased by 27%, from USD 51 billion to USD 67.5 billion. Consequently, aid for trade as a share of total sector allocable ODA fell from 35% in 2002 to 32% in 2005. Many factors lie behind this relative shifting of resources. For instance, during the 1990s, political support for the public ownership model for utilities declined in many OECD countries, with a concomitant expansion of public-private partnerships. This development has probably contributed to donors reducing aid for economic infrastructure, on the assumption that private-sector actors would fill the funding gap (an assumption that has, with hindsight, largely proved mistaken) (OECD/WTO, 2007).

### Relevance of the ACP-EU partnership for recent AFT developments

The ACP-EU cooperation represents a highly significant case in the context of North-South aid and trade relations. The Cotonou Partnership Agreement (CPA) framework explicitly establishes specific linkages between trade, aid and development. This feature is becoming even more central with the Economic Partnership Agreements (EPAs) currently being negotiated between the EU and the six ACP regions.

The EU - member states plus the EC - is the largest donor in the world and it is increasing both its AFT funding and its overall assistance (pledged to rise to €90 billion by 2015 to meet the United Nations target of 0.7% ODA/GNI). Between 2001 and 2004, the former (including contributions to multilateral AFT schemes) reached an annual average of €840 million for the EC and €300 million for the EU member states. Consequently, aid decisions by the EU, in particular in terms of its assistance to ACP countries (nearly half of the developing



WTO members), will have a major impact on trade and development at the global level (South Centre/ECDPM, 2007).

## Quantities

The EU has committed itself to increasing its aid for trade from €960 million in 2006 to €2 billion from 2010. If this total amount is for all developing countries, of which 40% have gone to SSA in 2006, the European Commission has promised that half of the increase will go to ACPs. This would make €884 million for SSA and about €940 million for all ACPs (assuming it would be proportional to the population size, where SSA represent 94% of the total) (Solidarité, 2007).

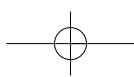
Assuming that the increase from €940 million in 2006 to €2 billion from 2010 on would be linear, which means it would be €265 million per year, we can estimate the current and the real value of the EU aid for trade during 10<sup>th</sup> EDF. The nominal value would be €11.205 billion, an average of €1.868 billion per year, and a real value of €10.365 billion or 1.728 billion per year. This would represent a total loss of purchasing power of €840 million or 7.5% in relation to nominal value. Considering the increase in population for the ACP countries (914 million inhabitants by the end of 2010), this represents an aid of €1.89 per inhabitant per year, to be compared with the per capita GDP of \$599 or €477 in 2006 (*Ibidem*).

## Effectiveness

Another constructive discussion that aid for trade has facilitated refers to the effectiveness of trade-related assistance and capacity building. It creates the opportunity to make aid more predictable and effective and to put developing countries firmly back in the driving seat of their trade and development strategies. The problems experienced with trade-related aid have been significant and sometimes damaging, but they do not differ in essence from those identified in wider aid debates. Therefore the "Paris Principles" to improve aid effectiveness have been rightly identified by the Task Force as the key to overcome past problems. Although flawed - for example by not tackling the problems of conditionality head-on - application of these aid effectiveness principles can improve trade-related assistance in the following ways (Christian Aid, 2007).

## Country ownership

The impact of trade reforms is notoriously diverse and unpredictable. Unintended impacts can emerge unless reforms are carefully managed, paced and locally designed. A recent assessment of World Bank support to trade reforms pointed out the need to pay more attention to local conditions such as health, education, infrastructure, etc., in determining the impact of trade reforms in order to improve their disappointing track record. It also highlighted the need for a "greater understanding of the local political economy. Trade reforms are also particularly sensitive to local political ownership, because of negative impacts for



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some groups. Imposing external reforms, for example through conditions, undermines this sense of ownership" (*Ibidem*).

### Alignment

According to this idea donors must fall in behind countries' strategies and priorities. One of the major failings of the Integrated Framework (IF), the flagship aid for trade initiative, was due to a lack of application of this principle. Despite attempts to provide holistic, integrated, country-owned diagnostics of the problems of LDCs, the IF failed to achieve its lofty objectives because donors tended to fund those items in the new strategies that most appealed to them, rather than letting LDC governments prioritise policies and spending. There are two reasons to be underscored in order to understand how important the principles of country ownership and alignment in the trade arena are. First, the controversial nature of the reforms themselves - donors tend to prefer reform programmes that favour liberalization policies, although experience of several countries shows that heterodox policies are those that achieve success. Secondly, donors are simultaneously trade and investment partners with their own commercial interests at stake. Thus applying these principles is essential to avoid conflicts of commercial or even ideological interests with the need to support local strategies (*Ibidem*).

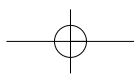
### Mutual Accountability and Predictability

Predictability is important as the trade reform process is a lengthy one with benefits realized over the long term - even decades. During that period, countries need to be confident that they will receive timely and sufficient assistance to put in place the necessary conditions and accompanying measures to derive the benefits from reforms and maintain support for them. Without this, the value of trade reforms is undermined and even reversed.

Mutual accountability is especially important in the context of trade because of the different weights of aid and trade commitments. Non-binding "best endeavour" clauses pledging assistance for implementation have been ineffective in securing adequate support for developing countries. In addition, there is no strong framework to make donors accountable for their aid delivery - even the Paris Principles themselves have been heavily criticized for the weakness of their implementation and enforcement. On the other hand, developing countries sign up to binding commitments to carry out trade reforms backed up by dispute settlement provisions. They therefore risk sanctions for failing to implement commitments undertaken on the promise of aid never delivered - a far cry from mutual accountability (*Ibidem*).

### Aid for trade risks distorting spending priorities

The OECD has stated that aid for trade pledges will not be additional to promises of aid increases made in 2005 - promises that have yet to be delivered on. Ear-marking of aid for trade-related assistance therefore will divert funds from important social spending, unless ad-



ditional money is made available. This is especially problematic if aid for trade is narrowly defined. It risks providing incentives for a limited set of reforms, and not addressing the broad range of factors affecting a country's trading success. Some developing countries have been reluctant to define aid for trade broadly, as there is a risk of any aid commitments being re-labelled "aid for trade" to fulfil public promises. However, there are good reasons for keeping the definition open-ended. Firstly because needs vary. Secondly because if a specific pot of money is associated with a narrow range of reforms, there is a real risk that these are given undue attention by developing countries competing for limited funds (*Ibidem*).

The added value of aid for trade lies in mobilizing new funds and drawing attention to neglected areas of spending. Among donors there has been a reluctance to fund production, although improving the competitiveness of producers in developing countries is a key factor. Patterns of donor spending on aid for trade show that there is a preference for spending on trade policy and regulation. However, UNCTAD has warned that support to the productive sector in least developed countries (LDCs) has experienced a significant decline that must be reversed (*Ibidem*).

Finally aid for trade risks being a double blow for the poorest groups if it is targeted at export-oriented industries only. This money could then bypass the significant proportion of poor producers and traders for whom domestic or regional markets are more important. Poor people will also suffer if social spending is reduced because aid for trade is not new money. This takes on increased resonance, in light of current concerns regarding the effects of increasing inequality (*Ibidem*).

### **Aid for trade risks distorting trade reform choices**

Aid for trade raises the spectre of old, but not yet extinct controversies, of donor activity in the area of economic policy. Grant and loan conditionality in the area of economic policy, especially trade, has been rife and frequently damaging - most notoriously during the 1980s and 1990s period of Structural Adjustment Programmes. Although World Bank studies appear to show economic, especially trade conditions, in decline, countries still face strong pressures to adopt a checklist of donor-preferred reforms through technical assistance, project assistance rankings and bias in research (identified as problematic in a recent assessment of World Bank research) (*Ibidem*).

This runs counter to good development practice according to which the importance of local conditions and political domestic choices dictates that local design and ownership are critical to successful reforms. It also goes against the principles of mutual accountability and alignment already identified as essential to the sound implementation of aid for trade. With respect to formal conditions attention has shifted to "second generation" reforms relating to business and investment regulations and conditions behind the border. These are likely to be key areas of spending for aid for trade, and are no less controversial. For example, preferred reforms often relate to investor protection, fewer and lower taxes for businesses and

more “flexible” labour rules. These kinds of reforms are arguably more politically sensitive than changes to border taxes, as they enter into country choices of how they regulate their domestic economy (*Ibidem*).

### **Aid for trade risks distorting trade deals**

Aid for trade is closely connected with the WTO trade talks held during the Doha Round. It is part of the Hong Kong Ministerial Declaration and the WTO Director General has been assigned an active role. Developing countries were aware of the risks this association would have posed. On their opinion “aid for trade” could only complement and not substitute a good WTO deal. A deal that delivered little in the way of subsidy reform or real market access improvements in rich country markets for developing countries or that used aid for trade to leverage more commitments from developing countries would work against developing countries improving their place in world markets and seriously undermine the usefulness of the initiative. These problems have been evident in Economic Partnership Agreement (EPA) negotiations between the EU and African Caribbean and Pacific (ACP) countries. Rumours of aid bribes and countries competing to sign up first or to the most comprehensive deals have undermined their confidence in reaching the right negotiating outcome.

However, as the ACP have argued, when developing countries sign up the agreements, they would benefit from greater confidence in having the necessary resources and good conditions to implement and capitalize on them. Existing measures in trade deals designed to secure assistance for implementation have had little effect. In addition, flexibilities intended to help countries to coordinate development strategies and trade reforms have not worked properly (*Ibidem*).

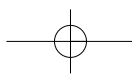
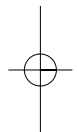
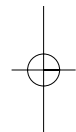
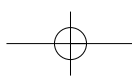
A more constructive relationship between aid and trade commitments is possible and could be achieved under the remit of Doha negotiations that includes a mandate to improve special treatment provisions for developing countries in trade agreements.

### **Principles**

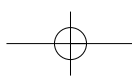
Given the concerns listed above, we the undersigned, call upon bilateral and multi-lateral donors to transform existing “aid for trade” programs by applying these principles:

1. Country-driven. Recipient nations should have the greatest say in programming resources. “Aid for trade” should be country-driven, involving local civil society and local small and medium businesses in determining priorities. This means “aid for trade” programs should be structured from the premise of local ownership, knowledge and participation so that trade strategies flow out of locally-developed national development strategies. This also means that developing countries should be free to use funds to enhance their capacities to advance their interests in relation to trade law, regardless of what the donors’ interests might be. Finally, “local ownership” also means that public oversight of national plans and priorities for *Trade Capacity Build-*

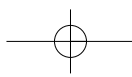
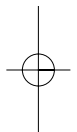
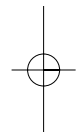
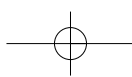
- ing Assistance* is ultimately assured through taking such plans to the national Parliament or Congress for final formulation and approval.
2. Poverty-reduction emphasis. In practice, "aid for trade" should be focused on meeting the economic development needs of smallholder farmers and other people struggling to overcome poverty with the understanding that at times it may be premature or inappropriate to emphasize production for international markets.
  3. Aid without detrimental conditions. "Aid for Trade" programs should not demand that recipient nations implement economic policy changes which are harmful to people living in poverty or the environment.
  4. Untied. "Aid for trade" should not require the purchase of donor country products or donor-country businesses, contractors or consultants.
  5. Greater freedom and flexibility in finding technical assistance. Aid for trade programs should enable recipients to choose more independent, objective sources of advice and support, rather than just those employed or endorsed by donor agencies. There is a need for availability of a larger number of different paradigms underpinning technical assistance. As regards these issues, competition among different paradigms will empower the user. Monolithic paradigms or approaches should be rejected.
  6. As opposed to a "quid pro quo" approach in trade negotiations. At times, donor nations have used "aid for trade" as a bargaining chip to achieve desired outcomes in specific trade agreements. We call on donors to de-link "aid for trade" from trade negotiations, and make it an ongoing part of foreign assistance for a more predictable, long-term support for development. "Aid for trade" should be a complement, rather than a substitute for fairer trade rules.
  7. Funding allocated for "aid for trade" should be additional to existing development aid. Donors should not shift resources away from traditional, long-standing commitments to meet basic needs, on-going development projects, or general budgetary support. On the contrary,, financial assistance for enhancing trade should be over and above existing levels of aid.
  8. Disbursement channels for trade capacity building assistance need to be streamlined. At present, current mechanisms are not able to meet the timeline many countries face in order to prepare for negotiations and to gear up particular sectors before implementing a new trade agreement.
  9. Evaluation and monitoring of the impact of TCBA for its social, economic and environmental effects needs to be integrated into all proposals and funding mechanisms.







# Outside the Budget Inside European Policies



# Europeanizing corporate taxation to regain National tax policy autonomy<sup>96</sup>

Christian Kellermann, Thomas Rixen and Susanne Uhl

*Compass*

As a reaction to the German corporate tax reform, the English and Dutch governments also announced tax reductions. This demonstrates once again that tax competition is a very serious constraint on national tax policies. All over Europe, politicians argue that tax competition compels them to reduce tax rates to maintain their local advantages for international investment. While governments thus admit that they are pressured to lower taxes because of tax competition they insist, on the other hand, upon maintaining their national sovereignty in tax policy matters. Arguing that tax sovereignty is an essential part of their statehood, member states of the European Union have, in the past, always refuted any attempts to even partially harmonise direct taxes in Europe.

Member states' insistence on tax sovereignty is counter-productive because, although they formally have the exclusive legal competence over tax policy, in fact, their actual capacity to design their tax systems according to national political preferences has long been taken from them. Under conditions of an open economy, national political autonomy to organize a socially fair and efficient taxation system can only be regained if the states do not simply adapt themselves to tax competition individually, but by regulating tax competition collectively on the European level. To achieve this, it is necessary to harmonize certain aspects of European tax policy. A Europeanization of corporate taxation does not contradict national tax policy autonomy. To the contrary, it is a prerequisite for real national tax sovereignty.

## The Structure of Tax Competition and its Harmful Consequences

Tax competition results, if states use tax instruments strategically to attract enterprises, direct investment, or other economic assets.

Competition is driven by enterprises reacting to tax advantages offered by a jurisdiction. However, taxes are only one of many factors relevant for local decisions of enterprises. It is known that factors such as market access, infrastructure, labor costs and the educational level have a stronger influence on the choice of location than taxes. A company does not relocate only because of tax burdens.

Unfortunately that does not mean that tax competition can be neglected as a problem. Enterprises do not have to move their "real" production sites abroad in order to save taxes.

<sup>96</sup> Compass Thinkpiece 25, Precip of an article of the same name written by Thomas Rixen und Susanne Uhl for the Friedrich-Ebert-Stiftung. The original version can be downloaded at <http://www.fes.de/internationalepolitik/taxes/>.

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The present structure of international and European tax law allows transnational enterprises to book their losses in "high tax" countries and their profits in "low tax" countries or tax havens. This type of tax optimization can be achieved by various techniques, such as the (legal) manipulation of internal transfer pricing for preliminary or intermediate products or the skillful choice of financial structures. Instead of moving the complete company, it suffices to open a so called "mailbox company" in a tax haven or "low tax" country and to allocate profits to this subsidiary using these techniques. Thus, in the tax context, states compete primarily for the assignment of profits, without the need for the associated real economic activity to be relocated. Because enterprises are not forced to relocate to achieve tax advantages, competition for real direct investment is only a secondary consideration.

Even if tax competition is primarily about shifting paper profits and losses, it does have a real effect. In all European states, nominal tax rates - which are decisive for enterprises in their decision to allocate profits - have been reduced over the last 15 to 20 years. At the same time the tax base has been broadened, so that only rather small revenue losses can be observed. Far more important than revenue losses are the effects of tax competition on the structure of national tax systems. Broadening the tax base has led to a reduction of the tax burden on highly profitable companies, while less profitable or "new" capital is more heavily taxed.

Also, a shift of the tax burden on labor and towards indirect taxation can be observed. In practice, this means that large multinational enterprises enjoy tax reliefs, whereas the burden on medium and small companies and employees increases. The main problem, which has hardly played a role in political debates, however, is that tax competition can undermine the progression of personal income taxation. In order to make it impossible for taxpayers to "hide" their personal income in corporations and thus to enjoy a lower tax rate, tax policy makers are usually eager to keep the gap between top personal income tax rates and enterprise tax rates as small as possible (backstop function of the corporation tax). The reduction of enterprise taxes, brought about by tax competition, thus creates pressure on the progressiveness of personal income tax rates. Tax competition makes it much more difficult for states to keep a progressive income tax system that encourages redistribution. Thus, tax competition favors those who demand a reduction of enterprise or personal taxes for material or ideological reasons. For everyone else there are allegedly no other policy options.

### European Tax Initiatives

This development has rather been encouraged by the European Union - and not been successfully corrected. Within the framework of its internal market program, the EU has removed the barriers to the free movement of goods, services and capital. The so called removal of tax borders - as it has been achieved with indirect taxes through various harmonization measures since the 1960's - is part of this liberalization. In the area of direct taxes, especially the European Court of Justice has secured an implementation of "discrimination-free" tax laws. In recent years the Court has declared various national defense measures, such as

the so-called "Controlled Foreign Corporation" legislation, which were supposed to make it more difficult for enterprises to shift profits offshore, to be (at least partially) incompatible with European Law. Thus, the EU has contributed to the intensification of tax competition.

Despite the negative consequences for member states' tax policies it has not yet been possible to effectively regulate tax competition at the European level. This is so because by no means are all States equally disadvantaged by tax competition. Indeed, small states can "win" the competition because in relation to their own relatively small inland tax base, they can attract a great deal of foreign tax base.

The bottom line is that they can increase their tax revenue by reducing their rate of tax. In particular the new member states - encouraged by Ireland's example - look forward to the prospect of a successful "catching-up" in their economic development as a consequence of a consistent tax reduction policy. In consideration of the fact that in taxation matters only unanimous decisions can be taken, small states, and those opposing a European involvement in tax matters for ideological reasons such as Great Britain, can successfully block every attempt to even partially harmonize corporate taxation. In addition, since the 1990s, when the problem of tax competition became virulent, a positive evaluation of competition has become widely accepted. As long as it remains fair, the European Commission regards tax competition as being positive.

The single measure regulating corporate tax competition in the past was the so called "Code of Conduct against Harmful Tax Practices". States declare themselves ready to renounce on particular tax practices, which target foreign capital and tax base but do not grant the same favorable treatment to domestic enterprises. Admittedly, even if the Commission refers to it in the implementation European State Aid Policies, the Code is not legally binding. Besides, it allows states to reduce taxes whenever they want, as long as they do not discriminate between domestic and foreign investors.

For some time now, the Commission has been pursuing another project, which would partially harmonize tax policies. By 2008, it wants to present a directive for a "Common Consolidated Corporation Tax Base" (CCCTB). The objective is to increase tax transparency and to make cross-border investments easier. In addition, many states hope that a CCCTB can also restrict corporations' possibilities for shifting paper profits. Current international tax law works on the principle of "separate entity accounting", i.e. the various parts of a multinational enterprise are taxed separately as if they were completely independent units.

Precisely this nationally separate taxation enables enterprises to use the above-mentioned possibilities of shifting paper profits and losses. Under a system with CCCTB the total and consolidated profit of all parts of an enterprise would be calculated according to unified rules and then be divided among the different locations in which it operates according to a fixed formula. The formula may be based on factors such as wages, turnover, or capital value at each location. A common consolidated base with a division by "formula apportionment" could indeed help to limit the possibilities for shifting "paper profits", if the factors in

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the formula are good indicators of real economic activity. To formulate it pointedly, it would then no longer be enough to open a "mailbox company" in a low tax country in order to enjoy tax advantages. As long as the local firm had no or only very limited wages, turnover, or capital value, only a minimal part or none of the total profit would be apportioned to the respective country.

However, the present status of deliberations, which until now have only been undertaken on the administrative level in a working group of the Commission, let it appear quite likely that a CCCTB will only be optional. Accordingly, enterprises could choose, whether they are taxed on the basis of separate entity accounting or on a consolidated basis. This freedom of choice would not only mean that the goal of simplifying tax assessment could not be achieved, but it also makes it very likely that the objective of preventing profit shifting would be missed. In addition, the Commission has declared that under no circumstances would it dictate tax rates to member states. In our view, this is a serious problem, because the introduction of a CCCTB alone cannot effectively regulate European tax competition.

For a Compulsory Common Consolidated Tax Base with a Minimum Tax Rate Nonetheless, the European efforts to introduce a CCCTB offer a good starting point for a more far-reaching reform of European corporate taxation. Such a reform would forestall unfair tax competition, enable member states to regain their lost political autonomy to organize efficient and socially just tax systems and contribute to European solidarity.

We therefore propose a compulsory unified CCCTB accompanied by the introduction of a minimum tax rate. A unified basis of tax assessment combined with formula apportionment can limit the possibilities of profits and loss shifting if it is properly designed. Our proposal is that the CCCTB should be divided among member states according to a dual apportionment scheme with micro- and macro-economic components. The major part of the entire tax base should be divided between those countries where the enterprise has a base according to the micro-economic values of total wages, capital and turnover at the respective location.

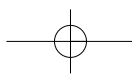
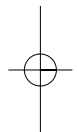
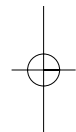
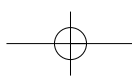
Different complications appear when deciding on the exact weight of the three mentioned factors, so that no simple solution, which is completely free of any problems, exists. For this reason - as experiences in Canada, where formula apportionment is used to allocate the tax base among the Provinces show - it may be sensible to select weights for different economic sectors according to different criteria. This micro-economic formula apportionment should be supplemented by a macro-economic component that is based on regional Gross Domestic Product (GDP). The part of the entire base that is split according to the macro-economic apportionment system is assigned to all EU member states, whether or not the enterprise is located there. The division should be such that the region with the lowest GDP per capita receives the largest portion of this part of the tax base. The macro-economic key would explicitly address the issue of regional development and European solidarity. The allocation through a macro-factor helps those states benefiting from the current status quo of tax competition and expecting to serve their economic development by lowering taxes. The macro-

component could make it easier for these states to agree to the harmonized common tax base. It is, however, essential to supplement the introduction of CCCTB with the introduction of a minimum tax rate. Pure profit shifting would be made more difficult by a CCCTB together with formula apportionment, but that would not spell the end of tax competition. If it were no longer possible for an enterprise to minimize its taxes through profit shifting, then the remaining tax rate differentials would increase the attractiveness of real relocations. Precisely because tax competition in a system with a harmonized consolidated tax base would no longer allow profit shifting, it would increase the competition for real investment. In order to at least constrain such real tax competition, it is essential to introduce a compulsory minimum tax rate. It is difficult to specify what the exact minimum tax rate would need to be because the appropriate level depends on the breadth of the tax base. If it is very broad, the tax rate can be lower than with a narrow tax base. Assuming the common tax base had a breadth that corresponds to the current average national tax bases, a rate of 30% including any possible local corporate taxes would be appropriate.

A CCCTB must be compulsory for all legal forms of enterprises. Otherwise the possibilities for tax competition would simply be extended. Not only would 27 member state tax systems be in competition with each other, but there would also be a 28th system.

### **More Tax Autonomy through European Regulation**

We understand the current European debate on a common consolidated tax base as an indication that among some governments there is recognition that they - and with them the European Union - have a clear tax policy problem, which cannot be solved by simple laissez faire. Particularly the decisions of the European Court of Justice, that make unilateral defensive measures against unfair tax competition impossible, show the need for rules that do not offend European law. But first, member states have to give up the myth of national tax sovereignty. It is impossible to have both, the benefits of an internal market without borders and effective tax sovereignty for member states. One cannot have one, an internal market without tax borders, and at the same time keep the other, effective national control over the design of tax policy. Only a European solution can reinstall a democratic organization of tax policy, because the realm of tax policy is anything other than a political vacuum. To the contrary, tax policy is central to issues of justice and distribution and thus basic democratic and social standards.





# The European Investment Bank

Caterina Amicucci

*CRBM - Counterbalance Campaign*

## Basic Facts about the European Investment Bank

The European Investment Bank (EIB) was set up in 1958 under the Treaty of Rome, which established the European Union. Originally set up to finance the physical infrastructure of the EU member states and to provide investments in less-developed areas of the EU, the EIB has now become one of the largest international financial institutions (IFIs) in the world. With an annual portfolio of almost EUR 45,8 billion (for 2006), the EU's house bank is responsible for almost double the amount of financial investments made by the World Bank. However the EIB is the only IFI without any binding standards or protocols to constrain its work. As a body of the EU, the EIB states that its mission is to further the objectives of the EU by making long-term finance available for sound investment. In recent mandates, its objectives have been re-defined as the promotion of energy security and regional integration and the promotion of the private sector. The EIB is subject to European law and it is legally bound to act within the limits of the EC Treaty and its own statute which gives it a legal, financial and administrative personality. The EIB's legal status is, however, ambiguous and the independence it has secured for itself from other EU bodies makes it difficult to hold the bank to account.

The EIB provides loans to EU member countries and about 140 non-member countries, the so called Partner countries, as well as private companies. It lends primarily to EU countries as part of its mandate, while lending outside the EU is based on various Community agreements. Traditionally the EIB was responsible for infrastructure projects in the EU - transport, energy, industry - and now it is branching out into energy security and the promotion of the private sector. The EIB has several financial mechanisms through which it provides support for projects, depending on the project category and/or the region of operation:

- *Individual loans* are loans provided for concrete projects in both the public and private sector, including banking.
- *Global loans* are credit lines provided to intermediaries (banks, leasing companies or financial institutions), which in turn give loans to local authorities or SMEs for new capital investment projects worth up to EUR 25 million. The venture capital activities of the EIB are concentrated within the European Investment Fund.
- *Structured Finance Facility* provides senior loans and guarantees to support projects with a high-risk profile, in particular large scale infrastructure schemes, which the EIB is increasingly opening to finance.

The 27 Member States of the EU are the shareholders of the EIB, and jointly provide the EIB's capital, their respective contributions reflecting their economic weight within the Union.

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In 2004, in the context of the EU enlargement with the 10 new Member States, the capital of the EIB increased to EUR 163.654 billion.

- The Bank's decisions are taken by the following bodies:
- *The Board of Governors*: composed of Ministers from the Member States (normally from the Ministries of Finance, Economic Affairs or Treasury).
- *The Board of Directors*: consists of 28 Directors - one nominated by each EU member state and one by the European Commission - and 18 Alternates, all appointed by the Board of Governors.
- *The Management Committee*: seated in Luxembourg, under the authority of the president. They are appointed by the bank's governors.
- *The Audit Committee*: composed of three members and three observers. It is appointed by the governors for a three year term of office.

The EIB is already a major financier of development projects around the world, with almost 13% (EUR 5.9 billion) of its overall lending portfolio lent outside of the EU last year. But in December 2006 the Bank received, agreed by the European Council, a new mandate for greater external EU lending. The new mandate amounts to EUR 27.8 billion from 2007-2013, an increase of over EUR 7 billion. Additionally, under the renewed Cotonou Partnership Agreement 2008-2013 for the Africa, Caribbean and Pacific (ACP) countries, the EIB can now lend up to EUR 3.5 billion of EU money as well as EUR 3.7 billion of its own resources. Within the framework of the new mandate the EIB is playing a key role in shaping development policies and this is causing major worries. Because the EIB lacks both binding operational policies and any form of accountability system, the prospects of serious environmental and social damage are disturbingly high. In its EU operations, these concerns are mitigated by the existence of EU law, but of course such law does not apply to the bank's operations outside the EU.

## Critical Elements of the EIB statue and its operations

### *Coherence with the EU goals*

In its lending the EIB does not act in full compliance with key EU goals such as promoting sustainable development, reducing the threat of climate change, protecting biodiversity and creating employment. The EIB is involved in supporting projects where there is significant conversion or degradation of critical natural habitats such as projects in the extractive industries, big dams or other major infrastructure projects, support of transport sector. In its external lending the bank is failing in contributing to the poverty reduction.

The EIB is demand-driven and as such is not currently promoting sustainable development: it simply responds to the needs of its clients. This is a practice that is in no way sufficient for a public EU institution that is mandated to support EU goals.

Between 1996 and 2005 the EIB invested EUR 112 billion in transport, over half of which went to roads and air transport. In Central and Eastern Europe this figure amounted to 68 % of the total portfolio. During this period the EIB also lent EUR 16 billion to the aviation industry

for airport expansions and the purchase and manufacturing of airplanes. The total of annual CO<sub>2</sub> emissions from selected EIB-financed airport expansion projects such as Heathrow Terminal 5 and Schiphol 5th runway, if the new capacity is fully used (45.15 mt), are probably more than the individual total annual CO<sub>2</sub> emissions of Switzerland, Ireland, Norway or Slovakia.

Outside the EU, the EIB is a significant financier of projects in the extractive industries, despite the devastating consequences of this sector on the environment. In Zambia, where from 2000 to 2006, over 81 % of the EIB's investments went to mining projects, studies have shown that mines financed by the EIB have caused major air pollution, not to mention the contamination of streams and underground aquifers. When it comes to hydroelectric projects, the EIB likes to describe these as "renewable energy projects," and thus categorises them as environmentally friendly, disregarding their often massive impact on local ecology and communities. In 2005, the EIB financed only one "environmental" project in Asia or Latin American countries, the Nam Theun Hydroelectric project in the Lao People's Democratic Republic. The project is cited as contributing to the EIB's overarching goal of promoting environmentally sustainable development in EU partner countries. However, Nam Theun is predicted to have serious impacts on the lives and the livelihoods of tens of thousands of rural Laotians, with the eviction of 6,200 indigenous people living on the Nakai Plateau to make way for the Nam Theun 2 Dam and its reservoir. Another 120.000-150.000 people depend on the Xe Bang Fai and Nam Theun Rivers for their livelihoods. Environmental studies have analysed the likely destruction of fisheries, the flooding of riverbank gardens and other disastrous impacts expected from this project .

#### *Transparency and participation*

Despite recent improvements to the EIB information disclosure policy, obtaining relevant and timely information from the bank is still difficult. In 2006 the EIB organised its first-ever public consultation process for a review of its Public Disclosure Policy which should be considered an important step for the EU's multi-billion euro lending house bank which had been lagging for many years behind other international financial institutions in terms of transparency. The policy was also subsequently updated to the requirements of the regulation applying Aarhus Convention on Access to Environmental Information, Public Participation and Access to Justice to EU institutions. This means that today EIB publishes in advance information on new projects including environmental and social assessments (though not on all of them). Some more information might be available upon request after project approval. While the policy is improving, the practice of information disclosure from the EIB follows at a somewhat slower pace. The EIB retains the right to withheld basic information to fully assess projects it is financing; the information released is not always timely; and the extent of information given remains insufficient. A big problem remains with the EIB neglecting public participation, while it also lacks clear requirements on consulting with impacted communities. These practices are plainly inadequate under EIB's new legal obligations under Aarhus, and also under best project impact assessment practices, which encourage community ownership and

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participation in projects to minimise impacts and improve productivity. NGOs expect EIB to come up to expectations as rapidly as possible.

### *Safeguards policies*

Unlike other international financial institutions, the European Investment Bank does not have binding and operational safeguard policies or procedures to guarantee a high standard of protection for the environment and communities affected by its lending activities.

### *Human Rights*

The European Union is theoretically very much committed to the promotion and respect of human rights but guaranteeing and adequately ensuring the respect of human rights in its financial development operations remain still difficult, due to the prevailing economic interests and the lack of operational policies.

This is particularly the case of the EIB that, under its external mandate, has still not appropriate standards in assessing human rights and keeps supporting projects provoking a variety of human rights violations (e.g.: forced displacement of people, impoverishment of local communities, significant degradation of social and cultural environments, worsening of health and living condition).

From the EIB internal procedure is possible to argue only general commitment in protecting and promoting Human Rights but the Bank does not have a separate policy on human rights and it is not clear which international standards, laws and conventions the EIB refers to in its operation.

Moreover the EIB supports projects in areas where infringements of freedom of expression and other civil and political rights deny affected communities the possibility of raising concerns about the project and participating in its planning and implementation.

### *Accountability*

The EIB lacks an independent complaint and appeal mechanism that could be successfully used by individuals and/or communities affected by bank's projects. At present only European Citizens can complain to the European Ombudsman against the EIB for its operation within the EU but the Ombudsman's opinion is not binding. Non-European citizens affected by the projects can complain to the European Ombudsman but he can discretionally take the case. Currently, due to NGOs' prodding, the EIB has begun working on the issue and the European Ombudsman announced its readiness to take on complaints not only from the European citizens but also those who wish to complain on the EIB operations outside the EU.

### *Global loans*

A major but largely overlooked part of the EIB's operations are its "Global Loans". These provide financial intermediaries - often large private European and non-European banks in EIB client countries - with funds which they can then on-lend to local project promoters. Under this set-up there is little access to documents from the EIB or the intermediaries about what project these loans are financing and about the environmental and social standards they follow.

## What can be done: Reforming the EIB

The EIB should ensure that all future financed projects contribute to sustainable development and, while lending outside Europe, they must show how they contribute to meeting the UN Millennium Development Goals. EIB should phase out support for projects that are essentially incoherent with poverty alleviation and sustainability, such as:

- projects involving significant conversion or degradation of critical natural habitats, supporting the destructive exploitation of natural resources, or entailing the production of substances that are banned or scheduled to be phased out of production
- large mining projects that do not comply with the World Bank's Extractive Industries Review's recommendations
- large dams that do not comply with the World Commission on Dams' recommendations
- fossil fuel projects and nuclear power plants as well as aviation projects

Instead the EIB should support green decentralised energy projects, public and inter-modal transport, development projects concretely aimed at reducing poverty.

The EIB should live up to the global development commitments of the EU and the standards set by other multilateral development banks.

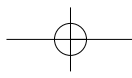
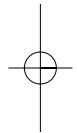
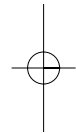
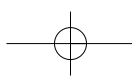
The EIB should inform and listen to affected communities. The participation of the local community in the decision-making process, as well as greater protection and redress for local people affected by the projects outside the EU, should be guaranteed.

The EIB should set up an Advisory Committee for Sustainable Investment and Lending composed of representatives of the bank, European institutions, member governments, non-governmental organizations and industry, charged with developing policy guidelines for EIB investments in energy, forestry, transport, water and other projects.

The EIB should adopt a full-fledged accountability and compliance mechanism, which provides equal access for citizens from outside the European Union. The mechanism should be fully independent in its fact-finding tasks, it should ensure that activities supported by the EIB abide by all human rights, social and environmental policies, should provide affected communities with effective remedies, and finally it should have the right to apply to client companies a range of sanctions.

The EIB should improve the performance of its Public Disclosure policy and allow an high public scrutiny of the global loans lent to the financial intermediaries.

Categorical prohibitions must proscribe EIB support for all projects in areas where infringements of freedom of expression and other civil and political rights deny affected communities the possibility of raising concerns about the project and participating in its planning and implementation.



# The European Bank for Reconstruction and Development

Anelia Stefanova  
*CEE - Bankwatch*

The European Bank for Reconstruction and Development was established in 1991 in London. The EBRD was the first multilateral development bank with an explicit environmental mandate built into its charter. That mandate requires the Bank to promote “environmentally sound and sustainable development” in “the full range of its activities.” The charter also commits the Bank to fostering democracy and democratic institutions, rule of law, and respect for human rights in helping the countries of Central and Eastern Europe make the transition from centrally planned to market economies. The EBRD is the largest single investor in Central and Eastern Europe, and the Commonwealth of Independent States. The EBRD has signed 2636 projects for around 37 billion euro in 29 countries in the region since its establishment in 1991<sup>97</sup>. Since 2006 the Bank have increased its lending up to 5 billions euro annually.

Currently the EBRD has 63 members (61 countries, the European Community and the European Investment Bank), with a total of 27 countries of operations. The Bank’s subscribed capital is 20 billion euro (5 billions is paid and 15 billions is callable). The EBRD has credit rating of AAA from Standard & Poor’s and Aaa from Moody’s. The Bank does not directly utilise shareholders’ capital to finance its loans. Instead, the AAA/Aaa rating enables the Bank to borrow funds in the international markets by issuing bonds and other debt instruments at highly cost-effective market rates.

The Bank provides loans, equity investments and guarantees for private and public sector projects in the areas of finance, infrastructure, industry and commerce in these countries. Its activities include the promotion of the private sector, the strengthening of financial institutions and legal systems, and the development of infrastructure needed to support the private sector. The EBRD works in close cooperation with other international financial institutions such as the World Bank and the European Investment Bank.

Unfortunately, during the years of its operation, the EBRD has become involved in a number of problematic projects. The EBRD is the only development bank currently opting to finance the construction of nuclear power plants, such as Mochovce in Slovakia and Khmel-nitsky 2 and Rivne 4 (K2/R4)<sup>98</sup> in Ukraine. Through its funding of oil projects, the EBRD not only contributes to climate change but also causes a number of local problems. Such projects, of course, mainly involve high profits for oil companies rather than bringing benefits to

<sup>97</sup> Data EBRD fact sheets updated January 2008 <http://www.ebrd.com/pubs/factsh/themes/introe.pdf>.

<sup>98</sup> Read more for K2/R4 projects on CEE Bankwatch Network web site <http://bankwatch.ecn.cz/project.shtml?s=153988>.

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local inhabitants. The most recent case of this is the BP-led Baku-Tbilisi-Ceyhan oil pipeline<sup>99</sup>, which will export vast amounts of Caspian oil to western markets. The EBRD is currently considering financing the second phase of Shell's controversial Sakhalin 2 oil and gas project<sup>100</sup> in the Russian far east. The EBRD has also been one of the key investors in gold mining in the region. One such notorious project backed by the EBRD is the Kumtor Gold Mine in Kyrgyzstan where a string of accidents have taken place, including a cyanide spill that seriously affected several hundred people.

Civil society organizations (CSOs) are involved in campaigning on a number of EBRD projects and also devotes attention and resources to improving the EBRD's safeguard policies such as its Environmental Policy, Public Information Policy and the Independent Recourse Mechanism, and the EBRD's sectoral policies such as the Energy Policy, the Natural Resources Policy and the Transport Policy.

The primary **civil society concerns** with the EBRD include:

- weaknesses in environmental and social policies;
- lack of transparency;
- insufficient access and influence for local communities to projects that affect them, and
- the lending priorities of the Bank;

### EBRD Environmental Policy review in 2008

In line with its founding mandate, the EBRD is required to adhere to the political, economic and environmental dimensions of sustainable development in all of its operations. However, the EBRD often fails to implement the policy requirements of this mandate in its operations, especially for projects to which it lends. The review of the EBRD's Environmental policy will be finalized in the second half of 2008. The CSOs see the EBRD plans to expand the Environmental Policy into an Environmental and Social Policy which as a positive step. However the Bank should do more to improve the sustainable footprint of its investments.

Given the real and increasing negative impacts to the environment and global economy caused by climate change, the EBRD needs to follow other international financial institutions by adding **a fifth strategic direction to the Policy that specifically directs/commits the EBRD to focus its overall investment portfolio on the transition to a low carbon/low GHG economy**, i.e. primarily phasing out the use of fossil fuels.

Additionally, project information available under the Environmental policy remains limited. The Environmental Impact Assessment for private-sector projects is released only 60 days prior to Board approval, leaving little leeway for the public to present any thoughtful feedback during project planning. While the Environmental policy references the Aarhus convention, which guarantees the right of every citizen to environmental information, the Policy does

<sup>99</sup> Read more for Baku-Tbilisi-Ceyhan oil pipeline project on CEE Bankwatch Network web site <http://bankwatch.ecn.cz/project.shtml?apc=-153988-1&s=153907>.

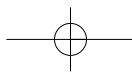
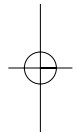
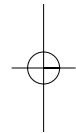
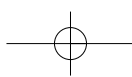
<sup>100</sup> Read more for Sakhalin 2 oil and gas project on CEE Bankwatch Network web site <http://bankwatch.ecn.cz/project.shtml?apc=-153978-1&s=166066>.



not grant full access to project documentation, as initial project discussion papers, loan agreements between the EBRD and project sponsors, Environmental Action Plans and loan contracts, and all implementation and supervision documents are kept confidential. In this way, the Policy prevents citizens from engaging effectively in the decision-making processes regarding project design, mitigation of negative environmental and social impacts, and quality of implementation.

Other demands of the CSOs towards Environmental Policy review are that the Bank:

- Draft and include in the new policy strategies for gender, labour and poverty impact of its investments;
- Accept broad definition of project boundaries according to the project areas of influence and make it subject to public consultation;
- Require its loan beneficiaries to meet EBRD environmental and social standards for all its operations.



# Conclusions: What we would like after - New Challenges and New Ideas

Tommaso Rondinella & Teresa Maisano

*Sbilanciamoci!*

This book represents a huge heritage for European Institutions and European citizens. It is a concrete input offered by European civil society to its elected and non-elected representatives.

Passing through all the contributions collected by this book it clearly appears a strong call on European Institutions to re-address the selected EU policies contained in the EU Budget. People's needs should address money and not vice versa.

It comes out evidently that Europe needs to invert some trends. These trends, are not only localized in Europe, but on a global scale. This current phase of capitalism, better known as neoliberalism, is harming our economies, our environment, our communities, our social solidarity and justice, undermining what Europe has considered since its beginning as a well organised response to the Second World War tragedies, fundamental human rights and International Law.

This book is calling on European Institutions to react to these trends and to take a 360° change in its approach to policies and Budget, revenues and expenditure. It demands to have less free market and neoliberal policies and more public control over salaries and social justice, it asks for more transparency and accountability and less complexity and vagueness, it demands to have a foreign cooperation policy that is more focused on aid than trade, it requests a better redistribution of resources, it demands less pollution and less big trans-European motorways and more environmental sustainability, it needs for more quality and less quantity, less "security" and more freedom of movement for all, both European citizens and migrants.

This book also states that if Europe is brave enough to make this 360° turn in order to start a cultural change towards a structural transformation of its institutions, European civil society is ready to be a reliable, honest and expert partner. A structural transformation would include real democracy, active civil society's participation in decision-making processes, equal opportunities, social justice, environmental sustainability and defence of public goods.

The book strongly underlines as well the important role of the European Parliament, as the only body with direct and universal mandate from European citizens, and the need to empower its functions and role.

Through using the budget the European institutions choose *where* to take and *how* to spend public money every year. Since we are dealing with public money, it seems obvious that these choices should pursue citizens' needs. Yet budgets, both at European and national level, are often discussed, negotiated, drawn up according to special interests and, above all,

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the consequent choices are presented as inevitable, unquestionable, shrouded in the drabness of figures and graphs that should represent collective welfare but which seem of little importance to the uninitiated or distracted reader. Instead, through those terms and those percentages, it is decided how to use public money to deal with the needs of society: it is therefore speaking of us, of the money and needs of each of us. Remaining outside this discussion means leaving our future in few people's hands.

The analysis collected in this book shows that changes are needed in the budget structure as well as in European policies in order to build a Europe reflecting citizens' priorities.

It is of paramount importance for citizens' inclusion that all decisions and expenditure tracking are fully transparent. The way the new Lisbon Treaty has been written appeared almost secret and the way it will be finally ratified shows a strong lack of involvement of citizenship in front of the fear for a citizens rejection. And a further effort has to be done in order to enhance budget transparency. Understanding the EU budget by following the money is very difficult because of the complexity of budgets in general and the EU budget in particular, but most of all because there is little transparency about how the money is spent. This money passes through a multi-layered patchwork of jurisdictions, agencies and programmes that vary greatly in their levels of transparency and accountability. The transparency issue becomes a problem when money is spent by Member States, this being the case of the CAP and often of Structural Funds, that is to say the great majority of the budget. EU institutions have the chance to lead by example and to show that transparency can be fulfilled. If budget transparency becomes a reality for the EU, it will not be long before European citizens demand transparency from their national, regional and local governments too. Nevertheless a further effort to push Member States towards a major transparency can be put forward also by Community institutions, so to create at least a minimum standard throughout the Union.

On the side of policies the topics raised in the book vary a lot and tackle many different issues.

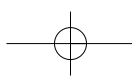
A major attention is to be given to the Lisbon Agenda. Its strategy for social inclusion is currently limited to employment and competition. Knowledge, research, lifelong learning and labour market policy are all considered in a general framework where economic policies set the pace and the social ones follow. The inclusion of excluded groups into occupational activities can be seen as a positive development but social inclusion and fight against poverty cannot be limited to the integration in the labour market. Inclusion appears to be often driven by public finance and labour market rather than social inclusion needs. While structural funds 2007-2013 are marked by an increasing link with the Lisbon Strategy, the new framework has overlooked the contribution of the Open Method of Coordination on Social Protection and Social Inclusion ("the EU social inclusion process"), which was at the beginning one of the key pillars of the Lisbon Strategy. It is crucial for the credibility of cohesion policy to better take into account the objectives of the OMC on inclusion and to acknowledge the added value that civil society can provide.

Structural and cohesion funds show their limits not only on their social impact but also on the environmental one. Only 17% of the structural funds have been spent under environmental headings and a decarbonisation of the EU funds should represent a general objective for the forthcoming reform of the budget, with climate change impact assessment carried out for all major investments. Investments in public transport, railways and in general environmentally friendly transports are still overtaken by investments in roads. This means investing in a non sustainable Europe.

Social and environment impacts have to be faced as well when analyzing the CAP. It is for sure the most controversial issue emerging from the EU budget (together with its consequence, the UK rebate). CAP is non transparent and deeply unfair within states and among states. During many years it has been linked to the quantity of production promoting a massive use of pesticides. In fact the agricultural policy has an irreplaceable role at both social and environmental level. A deeply reformed CAP should be able to sustain small producers, to stop the flight from the countryside, to promote biodiversity, local productions and organic farming. The share of the EU budget for the CAP may still decrease getting rid of export and agro-fuels subsidies, investment subsidies for big farms, for import/export industry, for the restructuring of agro-industry and slaughter houses. Moving resources to rural development might instead be the key for an healthy land management in the EU. Eventually, what appears more urgent is the fair distribution of resources. This is fundamental for a legitimacy of the CAP in front of the citizens, who cannot accept rich land owners receiving fat income support or large companies profiting from export subsidies, and also to provide European policies with an overall coherence. Cohesion funds are in fact spent in new members states in virtue of the low incomes, often in the countryside, yet Polish farms receive yearly 743 euro on average. Horizontal and vertical equity would be powerful tools for social inclusion also through the CAP.

Foreign policies as well show an overall inconsistency mainly between development aid policies and trade. On one side Europe is the first donor at international level providing more than 50% of total development aid, and since its constitution with the Treaty of Rome cooperation has been a principal expression of the Union's relations with the rest of the world. At the same time the European Union is pursuing aggressive trade policies and bilateral agreements that can be conflicting with aid policies. The clearest example being the Economic Partnership Agreements with ACP countries that may generate important decreases in GDP of the same African countries that Europe is supposed to help.

Europe is playing globally, but it is playing in the wrong side of the field. The U.S.A. model of preventive war, civilization clash and violation of human rights needs to be tackled. Europe needs to be an alternative to this model, and needs to start now. The document on security, namely "A Secure Europe in a Better World", approved by the Council in 2003 including many reflections elaborated by NGOs, recognizes the linkages between injustice and insecurity, the predominance of non military threatens for the future of the planet and supports a



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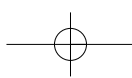
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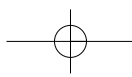
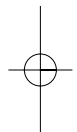
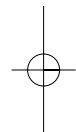
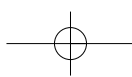
multilateralism in decision processes and in international relations. But, in contrast with all this, it insists considering the military element as central without understanding that security strategies based on military actions are self-defeating and doomed to produce insecurity.

If the Community budget needs to be reformed, the revision of the revenue side is the starting point. The new European budget should be based first of all on genuine own resources able to guarantee independency to the European Institution so to size the budget according to a principle of best effectiveness for the Union as a whole. In order to reach this objective an overtaking of the current system based on country contributions seems urgent. Sbilanciamoci! campaign proposes a combination of an energy taxation and a currency transaction tax, that added to the current "traditional own resources" would reach a sufficient flow of resources. A proper own resources system will allow the removal of all the adjustments and rebates currently characterizing the revenue side, thereby enhancing budget transparency in the view of European citizens.

The different items listed by the EU Budget cannot be approached separately anymore, they are all interlinked in a unique single process. Health, education, employment, fights to precarious employment, environmental sustainability, agriculture, infrastructures, humanitarian aid, cooperation, and immigration policies, structural and cohesion funds.

Finally, from this anthology emerges that civil society in Europe is expressing the will to struggle for its Europe as the first common good to be protected against the slow undermining of all fundamental rights and freedoms.



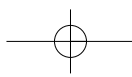
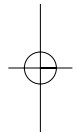
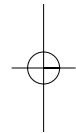
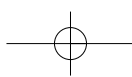


# Acronyms

ACP - Africa, Caribbean, Pacific  
ASEAN- Association of South-East Asian Nations  
CAP - Common Agricultural Policy  
CCCTB - Common Consolidated Corporation Tax Base  
CF - Cohesion Funds  
CPA - Cotonou Partnership Agreements  
CSO - Civil Society Organisation  
CTT - Currency Transaction Tax  
DAC - Development Assistance Committee  
DCI - Development Cooperation Instrument  
DG - Directorate General  
EAGGF - European Agricultural Guidance and Guarantee Fund  
EBRD - European Bank for Reconstruction and Development  
ECT - European Constitutional Treaty  
EDF - European Development Fund  
EE - Energy Efficiency  
EEAS - European External Action Service  
EEC - European Economic Community  
EIB - European Investment Bank  
EQF - European Qualification Framework  
EPA - Economic Partnership Agreements  
ENPI - European Neighbourhood Partnership Instrument  
ETI - European Transparency Initiative  
EYF - European Youth Foundation  
FTA - Free Trade Agreements  
EU - European Union  
GATS - General Agreement on Trade and Services  
GATT - General Agreement on Tariffs and Trade  
GDP - Gross Domestic Product  
GNI - Gross National Income  
GNP - Gross National Product  
IF - Integrated Framework  
IFI - International Financial Institution  
IGC - Inter Governmental Council  
IPR - Intellectual Property Right  
JITAP - Joint Integrated Technical Assistance Programme



JLS - Freedom, Security and Justice  
LDC - Least-Developed Countries  
MPs - Members of the Parliament  
MS - Member States  
ODA - Official Development Assistance  
OECD - Organisation for Economic Cooperation and Development  
OP - Operational Programme  
PPS - Purchasing Power Standards  
R&D - Research and Development  
RE - Renewable Energy  
REACH - Registration, Evaluation, Authorisation and Restriction of Chemicals  
SF - Structural Funds  
SFP - Single Form Payment  
SIG - Services of General Interests  
SME - Small and Medium Enterprises  
TBT - Technical Barriers to Trade  
TCBA - Trade Capacity Building Assistance  
TEC - Treaty establishing the European Community  
TEN - Trans-European Networks  
TEN-E - Trans-European Networks Energy  
TEN-T - Trans-European Networks Transport  
TEU - Treaty on European Union  
TFEU - Treaty on the Functioning of the European Union  
TNC - Trans-National Corporation  
UNCTAD - United Nations Conference on Trade and Development  
VAT - Value Added Tax  
WTO - World Trade Organisation



# The Civil Society Organizations

**BirdLife International** is a global Partnership of conservation organisations that strives to conserve birds, their habitats and global biodiversity, working with people towards sustainability in the use of natural resources. [www.birdlife.org](http://www.birdlife.org)

**Campagna per la Riforma della Banca Mondiale (CRBM)** is an Italian civil society campaign joined by 41 organisations that works for a democratization and a deep environmental and social reform of international financial institutions. [www.crbm.org](http://www.crbm.org)

**CEE Bankwatch Network** is an international non-governmental organisation with member organisations from 12 countries across the central and eastern European region. The aim of the network is to monitor the activities of the international financial institutions which operate in the region, and to propose constructive alternatives to their policies and projects in the region. [www.bankwatch.org](http://www.bankwatch.org)

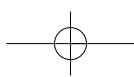
**Compass** is the independent democratic left pressure group, whose goal is to debate and develop the ideas for a more equal and democratic world, then campaign and organise to help ensure they become reality. [www.compassonline.org.uk](http://www.compassonline.org.uk)

**Coordination Paysanne Européenne (CPE)**. The members of the European Farmers Coordination propose an in-depth reform of the agriculture policies in Europe and in the world, in particular of the Common Agricultural Policy of the European Union. [www.cpefarmers.org](http://www.cpefarmers.org)

**Counterbalance** is a campaign promoted by a network of European NGOs with the aim of making the EIB contribute to the EU development agenda to eradicate poverty, foster sustainable development and achieve the Millennium Development Goals (MDGs). The campaign "Counterbalance" is promoted by: CEE Bankwatch Network (Europe), Both ENDS, (Netherlands), Bretton Woods Project (UK), Campagna per la Riforma della Banca Mondiale (Italy), Les Amis de la Terre (France), Urgewald (Germany), Weed (Germany). [www.counterbalance-eib.org](http://www.counterbalance-eib.org)

**EuroMemorandum Group** has been created by 23 economists from 10 European countries to criticise the monetarist bias of economic policy in the EU and its consequences: welfare cuts, labour-market deregulation, destruction of natural environment and further increase of unemployment. [www.memo-europe.uni-bremen.de](http://www.memo-europe.uni-bremen.de)

**EAPN** is a network of 24 national networks of voluntary organisations and grassroots groups active in the fight against poverty. Its core objectives are to promote and enhance the effec-



tiveness of actions against poverty and social exclusion; to lobby for and with people and groups facing poverty and social exclusion. [www.eapn.org](http://www.eapn.org)

The **European Network Against Racism** (ENAR) is a network of European NGOs working to combat racism in all EU member states. ENAR is determined to fight racism, xenophobia, anti-Semitism and Islamophobia, to promote equality of treatment between European Union citizens and third country nationals. [www.enar-eu.org](http://www.enar-eu.org)

**EPHA** is an international non-profit association composed of not-for-profit organisations working on all aspects of public health. EPHA's mission is to promote and protect the health of all people living in Europe and to advocate for greater participation of citizens in health-related policy making at the European level. [www.eph.org](http://www.eph.org)

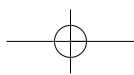
**Eurostep** is a network of autonomous European non-governmental development organisations working towards peace, justice and equality in a world free of poverty. Its membership works to influence Europe's role in the world in pursuing the eradication of injustice and poverty and it advocates changes in Europe's policies and practices. [www.eurostep.org](http://www.eurostep.org)

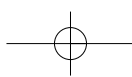
**Farmsubsidy.org** is a network of journalists, researchers and activists pushing for transparency in European Union farm subsidy policies. It uses freedom of information law to force European governments to release detailed data on who gets what from Europe's Common Agricultural Policy. [www.farmsubsidy.org](http://www.farmsubsidy.org)

**Friends of the Earth** is an international network of grassroots groups in 70 countries that defends the environment and champions a healthy and just world, challenging the current model of economic and corporate globalization, and promoting solutions that will help to create environmentally sustainable and socially just societies. [www.foeeurope.org](http://www.foeeurope.org)

**Lunaria** is an Italian non-profit, non-confessional and independent association. It carries out research, training, and communication activities on fair economy and third sector, migrations and globalisation. It promotes initiatives concerning international volunteering and youth policies. [www.lunaria.org](http://www.lunaria.org)

**Magistratura Democratica (Democratic Judiciary)** is an association of judges joining *Magistrats européens pour la démocratie et les libertés* (Medel). It is one of the organizations representing Italian judges and prosecutors in different bodies of self-governments including the Consiglio Superiore della Magistratura (Supreme Judicial Council). It is committed to the defence of the autonomy of the judicial apparatus from political intervention. [www.magistraturademocratica.it](http://www.magistraturademocratica.it)





**OBESSU** (Organising Bureau of European School Student Unions) is a platform for cooperation between the national school student unions active in general secondary and secondary vocational education in Europe. All member-organisations are independent, national, representative and democratic school student organisations. [www.obessu.org](http://www.obessu.org)

The **Seattle to Brussels (S2B) Network** is a pan-European network campaigning to promote a sustainable, socially and democratically accountable system of trade. The network includes development, environment, human rights, women's and farmers organisations, trade unions, social movements as well as research institutes. [www.s2bnetwork.org](http://www.s2bnetwork.org)

The **Transnational Institute** (TNI) is an international network of activist-scholars committed to critical analyses of the global problems of today and tomorrow, with a view to providing intellectual support to those movements concerned to steer the world in a democratic, equitable and environmentally sustainable direction. [www.tni.org](http://www.tni.org)

**Unione degli Studenti** is an independent association that strives to build a public, democratic, solid, non-denominational and antifascist school in Italy. [www.unionedeglistudenti.it](http://www.unionedeglistudenti.it)

**WWF European Policy Office** was established in 1989. It is the 'embassy' to the European Union for the global WWF network, which is active in 100 countries. The WWF European Policy Office helps realize WWF's mission to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature. [www.panda.org](http://www.panda.org)

**Sbilanciamoci!** is a campaign involving 46 associations, NGOs and networks working on globalisation, peace, human rights, environment, fair trade, ethical finance. Since 2000 Sbilanciamoci! has proposed alternatives to the Italian budgetary policies, arguing for social and environmental priorities. Sbilanciamoci! publishes yearly reports, meets policy makers, organizes conferences to promote a different use of public resources and new role of public actors in the economy.

Sbilanciamoci! campaign thinks it is necessary to radically change the perspective of public policies, giving new economic and social priorities in order to push for a solid world in which more attention is put to people's rights and environment instead of the needs of a market economy based on privileges, rents, wastes, inequalities.

***Sbilanciamoci! has been joined by:***

*Aiab, Altreconomia, Antigone, Arci, Arci Servizio Civile, Associazione Obiettori Nonviolenti, Associazione per la Pace, Beati i Costruttori di Pace, Campagna per la Riforma della Banca Mondiale, Carta, CIPSI, Cittadinanzattiva, CNCA, COCIS, Comunità delle Piagge Firenze, Comitato Italiano Contratto Mondiale sull'Acqua, Coop. ROBA dell'Altro Mondo, CRS, CTM Altromercato, Crocevia, Donne in nero, Emergency, Emmaus Italia, Finansol.it, Fondazione Culturale Responsabilità Etica, GESCO, Gruppo O.Romero SICSAL Italia, ICS, Icea, Legambiente, LILA, Lunaria, Mani Tese, Microfinanza, Movimento Consumatori, Nigrizia, Pax Christi, Rete degli Studenti, Rete Lilliput, Terre des Hommes, UISP, Unione degli Studenti, Unione degli Universitari, Un Ponte per..., WWF.*

[www.sbilanciamoci.org](http://www.sbilanciamoci.org)

