



## Reforming the Budget, Changing Europe – Sweden's response to the Commission Communication

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### Summary of Swedish views

- A modern budget providing a European added value requires reforms and re-prioritisations of EU expenditure.
- Substantial reforms of the CAP are needed, leading to substantially lower expenditure.
- The Cohesion Policy also needs reform, both in terms of composition and volume.
- Competitiveness, environment and climate, justice and home affairs and external action are broad policy areas where measures that provide added value at EU level can be identified.
- The reforms proposed here would lead to a leaner, yet sharper EU budget. This implies a similar or smaller size for the overall budget.
- Fair burden sharing is crucial.

### A leaner, yet sharper EU budget

The sui generis nature of the European construction has profound impact on the budgetary system – particularly differences in power-sharing and accountability in comparison with national systems.

As a consequence, common challenges, budgetary discipline and efficiency are not accommodated in the system to the same extent as at national level. Continuous emphasis on budget restraint should therefore be a shared responsibility of stakeholders in all budget discussions. At the same time, in order to design a budget that allows us to meet present and future challenges, we need to focus our common resources on areas with maximum European added value.

**Applying these perspectives will allow us to design a leaner, yet**

**sharper EU budget, improving the ability to address common challenges while enhancing the legitimacy of the European project.**

#### **A modern budget – need for substantial reform**

The development in Europe, e.g. through the rise of the internal market, the EMU and enlargement, as well as globalisation, has contributed to growth and stability both within the EU and in our near neighbourhood. During this period of rapid development, we have moved from a more inward-looking perspective to a more trade-oriented and global perspective. As a result, **new needs and challenges have emerged**, calling for a reformed and modernised European cooperation.

To achieve a EU budget adapted to present and future needs, a comprehensive reform of the expenditure side is necessary, including a redeployment of expenditure. This means substantial reductions of expenditure in agricultural policy. Cohesion Policy should also be reduced as a result of a strengthened focus on convergence.

**Expenditure cuts in these areas are a prerequisite to accommodate spending in other policy areas.**

The European economy must be dynamic and flexible to be able to compete in a globalised world. Changes in the environment and the climate necessitate intensified action at common level. Ever more serious cross-border crime can only be tackled by joint action. Increased migratory flows require concerted action at EU level. There is a need to boost Europe's role globally in order for the Union to be able to contribute actively to peace, democracy, poverty alleviation and to sustainable development.

A modern budget calls for **reforms of EU spending, including re-prioritisations between areas of expenditure**, if we are to achieve a budget that can contribute to the EU meeting the challenges of the 21<sup>st</sup> century. We need to have a fresh look at the various categories of spending: which are the most important categories of expenditure and how should they be designed and implemented to meet high standards regarding effectiveness and efficiency? Have some been outdated and gradually lost their relative importance?

It is equally important that the budget review covers all categories of expenditure as well as own resources. There should be **neither separation of individual issues nor any pre-judging partial agreements**, as this would be detrimental to the effectiveness and credibility of the budget review.

This is pertinent regarding the more than three quarters of the EU budget spent on the Common Agricultural Policy (CAP) and the

Cohesion Policy during the current Multiannual Financial Framework. The outcome of ongoing discussions in these areas, as well as independent evaluations, must play an important role when we are to set out the direction of future EU spending. At the same time **no separate agreements should be struck that would close the door to further reforms and expenditure cuts in the broader budget review.**

Europe is constructed as a Community based on common laws and most of its objectives are achieved through legislation. It is only designated areas that are complemented with common funding through the EU budget. For each policy area, we need to **carefully consider what form of common action is most effective and adequate: coordination, legislation and also if measures require common funding.** In those cases where expenditure at the EU level is deemed to be appropriate, our citizens rightly expect it to be used efficiently and that it generates palpable results. We need a modern EU budget that better reflects these objectives and provides a real **European added value.**

#### **Reforms based on a set of principles**

Reforms should be based on a thorough analysis. Such an analysis should, in its turn, be based on a set of fundamental appropriate principles. Both subsidiarity and proportionality are principles found in the Treaty. Under the principle of **subsidiarity**, the EU should act only and insofar as the objectives of the proposed action cannot be sufficiently achieved by Member States either at national level or indeed at regional and local level, but would be better achieved at Union level. This would imply a European added value, i.e. economies of scale and/or cross-border external effects. According to the principle of **proportionality**, the content and form of common action should not exceed what is necessary to achieve its objectives. As a third principle, **sound financial management** stipulates that common funds – just as national funds – should be used in accordance with the principles of economy, efficiency and effectiveness, as is also stated in the financial regulation.

As in the case of the national public finances, budgetary restraint should be an overriding principle. At the same time, EU internal policy reform should aim at improving **coherence** between various policy areas in order to avoid counteraction. It is of particular relevance that future CAP reforms will further improve coherence of the CAP in relation to development, trade and environmental policy. Another example is EU external action where measures such as pre-accession aid and the stability instrument need to be coherent with programmes within the justice and home affairs agenda.

### **Getting the priorities right**

Applying these principles to the EU budget, it becomes clear that there are some broad, key policy areas where common action could provide European added value. However, a condition for making progress, without risking the principle of restrictive spending, is to **get the priorities right**. Scarce resources must be concentrated where they generate the highest common benefit. Policy areas lacking European added value should be dismantled and where appropriate gradually phased out.

One of the areas that could provide European added value is spending targeted at enhancing Europe's growth potential, i.e.

**competitiveness**. Common measures to promote research and development at EU level provide benefits through the flow of knowledge, research results and researchers. Thus, there is a strong argument in favour of common financing in this field. However, a prerequisite for this is that projects are selected on the basis of excellence. We also need to further simplify the administration, and to review the management, of the framework programme for research and development. Strategic investments in cross-border transport and energy infrastructure can provide European added value in cases where an investment has effects on many Member States and where there is a risk that the investment will not be realised in the absence of common measures. In the field of education, measures to promote student mobility contribute to increased labour mobility and thereby benefits which motivate common financing. In all these fields European spending provides added value, contributing to maximising EU growth.

**Cohesion Policy needs reform, both in terms of composition and volume**. Spending in this area should - in line with the Treaty - focus on economic and social cohesion in parts of the Union most in need, i.e. primarily in the new Member States.

For other parts of the Union, national and regional efforts should be the basis for regional development. Collaboration, exchange of experiences and benchmarking between regions will safeguard the European dimension of regional development measures.

Territorial cooperation must be given continued priority both at cross-border and transnational level.

There will be a **continuous need to reform the Cohesion Policy** and to make it more efficient and simple. Among other things, there is reason to review allocation principles. Cohesion Policy funding should be provided through a simplified fund structure, focused further on the least developed regions. The allocation mechanism should reflect relative wealth. Furthermore, the links between the Cohesion Policy

and other policy areas, for example the Lisbon agenda, need to be considered in order to safeguard important principles such as coherence, effectiveness and efficiency.

**Further substantial reforms of the CAP are needed, leading to substantially lower expenditure.** It is evident that there is a lack of European added value in first pillar support and that it does not motivate a long-term public financial commitment. The favourable developments in world market prices on agricultural products – with grain prices more than doubling in the last two years - will facilitate further reforms of the CAP. This will benefit both producers and consumers and it will ease the transition of the agricultural sector to a situation where it is treated as any economic activity within the internal market. Future reforms should be guided by market orientation, consumer demand, environmental concern, deregulation and lower expenditure. In line with this, market support and production constraints should be abolished by 2013 and direct support should be phased out.

**Supplying cross-border public goods through targeted measures, regardless of the current pillar structure of the CAP, will remain an important objective of the EU and the Member States.** This justifies common funding. Within a framework of decreasing overall agricultural spending in Europe, and within today's pillar structure, there should be an increased relative focus on rural development measures of genuine cross-border external effects. However, there is diversity in needs and preferences of most public goods throughout Europe. To face up to this heterogeneity and to be effective and efficient, the policy therefore needs to be differentiated. National governments would thus be most apt to design and finance systems of support for public goods, except in cases where clear cross-border public goods can be identified. Risks of distortion in competition should be addressed through common regulation or co-ordination of action. For rural development, a holistic approach to all activities in the rural economy is crucial to achieve economic development in rural areas. Therefore, the interplay between rural development policy and Cohesion Policy should be further analysed, in order to identify synergies and improved efficiency.

European and global cooperation is essential to meet future challenges in the field of **environment and climate**. A common legislative framework will continue to be the principal basis for cooperation in tackling environmental and climate effects and Member States will have the financial responsibility for its implementation. The basic principle that the polluting party pays for damage done to the natural environment should continue to apply. Still, the EU budget has a role to play. For example, the framework programmes for research and development as well as the competitiveness and innovation programme can contribute to the development of efficient

technologies contributing to a reduction of greenhouse gas emissions and thus facilitating the transition to more environment friendly energies. There is also a clear added value of common funding of environmental measures within the framework of the policy area EU as a global partner. Current structural funds policy, primarily through the Cohesion Fund, contributes to considerable environmental investments. Furthermore, e.g. cross-border public goods are promoted in a number of instruments, such as Life+ and rural development policy. In certain cases, where policies have clear cross-border external effects, common financing is justified provided they meet the requirements of the fundamental principles set out in this paper.

**Justice and home affairs** is a key area for European action. Cross-border crime needs cross-border cooperation and solutions. We need common measures to fight organised crime and in crime prevention in order to combat e.g. terrorism and trafficking in human beings and drugs. Migration and asylum are other areas within the field of justice and home affairs where Member States need to act together. Even though the main avenue for common action in this field is cooperation and legislation, EU funding could be envisaged for the further development of common priorities such as cross-border law enforcement cooperation and information systems.

There is an obvious added value of **common external action**. Europe should play a key role in the world, ready to take action to safeguard peace, democracy, human rights and sustainable development, often in cooperation with the United Nations. This role is expected to increase over time and the EU is consequently due to have enough resources and flexibility in order to be able to act accordingly. The neighbourhood policy and measures to prepare candidate countries for EU membership are examples where action at European level can make a difference. We also need to pursue an effective policy for development and humanitarian aid. There is a strong case for integrating the European Development Fund into the budget as it would render EU development aid simpler, more transparent and provides a prerequisite for further effectiveness and efficiency.

#### **Fair burden sharing is crucial**

The budget review will also include a debate - on principal grounds - on the financing of the EU budget. The guiding principle should be that the future income system, combined with the expenditure side, establishes a **fair burden sharing between Member States**. If these conditions are met, the budget system will live up to the criterion of **legitimacy**. A secondary objective is to achieve a financing system of the EU budget that is **transparent** and **sustainable**. Exactly how such a system should be designed remains to be analysed.

An income system based on Member State wealth - expressed in terms of gross national income (GNI) - would probably both be sustainable, transparent and legitimate. GNI can also be considered to be a dynamic component. With a GNI system, changes in Member State wealth would directly effect their contributions to the budget. As trade tariffs with third countries are reduced , traditional own resources will become a less relevant source of financing.

However, with an unreformed EU expenditure side, a GNI-based system would lead to a situation where some Member States would continue to be subject to disproportionate net contributions, risking undermine the legitimacy of the EU and its budget. **Therefore, a fair burden sharing between Member States can only be achieved if it is accompanied by major reforms on the expenditure side. Otherwise, there is a continuous need for rebates and corrections mechanisms on the income side.**

**Sweden opposes the introduction of new tax-based own resources.** This would not comply with the principle of national tax sovereignty.

### **Flexibility**

**The financial frameworks give an important element of stability** over the time and facilitate the annual budget process. It provides all involved actors with the necessary means for forward planning. Nevertheless, there must be some flexibility in adapting to unforeseen needs during the period of a framework. This has to be done without undermining the framework and could easily be achieved by decreasing the share tied up by multiannual programmes, i.e. by increasing the margin within each heading.

### **Efficient policy delivery**

The review should address administrative expenditure, both on its own merits and as a consequence of the outcome of the review regarding operative expenditure in terms of changing objectives, tasks and instruments. The outcome of the review may lead to different requirements on administrative resources and their performance, including structures and procedures. **Effectiveness, efficiency and accountability in the administrative structure and practices and in delivery of policies should the key objectives.**

Ways to **improve effectiveness and efficiency in policy delivery** at EU level should also be explored. This includes questions related to the choice and design of instruments for policy delivery, which would maximise effectiveness and efficiency, given the objectives and political priorities.

In areas subject to policy-integration, the choice between centralised (EU) or decentralised (Member States) implementation or degrees in between should be addressed. In areas with centralised implementation at EU level, the options of implementation by the Commission or by decentralised or executive or other forms of agencies should furthermore be re-visited.

De-centralised and executive agencies may have advantages in certain fields provided that there are economies of scale or advantages of specialisation and that these can be better exploited in a separate body with well-defined and homogenous tasks. Agencies or bodies which do not fulfil these conditions should be reconsidered. Furthermore, the costs related to the application of complex administrative regulations in numerous, relatively small, structures should also be taken into account.

The review should also address the prerequisites for administrative efficiency in the EU decision-making and in the implementation of common policies. Administrative structures and administrative resources should be reviewed particularly with a view to improve flexibility, cost effectiveness and efficiency. This extends to practices and procedures for policy shaping and policy implementation. The current procedure where the European Parliament has its seat in one place, while during longer periods assembling in another, is not a good solution and a development where this arrangement was simplified or abolished would be welcome.

### **Budgetary control**

The fact that the Court of Auditors has been unable to give the EU-accounts a positive Statement of Assurance (DAS) for the last 13 years is a major problem. Despite the efforts undertaken by the Commission, sufficient improvements are not yet visible in the Statement of Assurance.

The Treaty acknowledges that the Commission and the Member States have a common responsibility in improving the internal control systems. Effective cooperation between these actors and the Court of Auditors is essential for the continued development of financial management. Part of the explanation is weaknesses in management at national level in areas where management is shared, notably agriculture and structural funds.

**Improved management and budgetary control in the EU would create the right conditions for an effective, reliable and efficient management of common funds and programmes contributing to achieving a positive Statement of Assurance.** Action should therefore be taken to develop coherent and comprehensive systems for internal control, based on a logical framework and internationally

accepted definitions, including common principles and standards to be applied at all levels of administration both at the EU level and in the Member States. Furthermore, national statements on the reliability of the accounts and an opinion on the internal control system should be promoted and clearer incentives to Member States to establish effective and efficient control systems should be provided. Delivery systems and programmes should also be reviewed to this end through fewer programmes and thus lower inherent risk. Fewer and clearer objectives within programmes would further greatly contribute to adequate follow up systems.

#### **Implementation of reforms**

The **level of ambition for continued reform must be high**, both in terms of substance and in terms of pace of implementation. If possible, some reforms should be adopted and implemented prior to 2014.