

## ALDE EXPERT FORUM ON THE PRIORITIES OF THE EU BUDGET

The Hague, 21 April 2018

**Jock Geselschap** (*VVD International Secretary*) **and Hans van Baalen MEP** (*ALDE Party President*) opened the Forum highlighting the importance of having a debate on the finances of the EU.

The moderator, **Kamran Ullah** (*News Content Director at De Telegraaf*) asked the audience to reflect on what are the most important priorities for the EU budget for the next term: more money for innovation, addressing the extent that CAP occupies the EU budget, innovation, cybersecurity and defence spending, digital single market, climate financing were the main areas identified.

### SESSION 1: Priorities for the EU budget – themes

**Harald Benink** (*Professor Banking and Finance at Tilburg University*) focused on the current economic situation in Europe. He said that while the EU is at the top of an economic cycle, there are huge imbalances in the economic growth. Two cases in point are France and Italy that are experiencing the costs of lack of and/or slow pace of economic reforms. However, he pointed out that not only Southern Countries are misbehaving but also countries like the Netherlands and Germany – with a huge export surplus (8/9% of the GDP).

When discussing the budget, he suggested the EU should take into consideration it is entering a new budget period within a fragile economic and financial setting. Indeed, leading authorities – as the IMF and its President Jean-Claude Trichet – have recently warned of a possible upcoming financial crisis. Therefore, when discussing the budget, the EU has to consider what will happen when the next financial crisis hits – that is, considering political dynamics in Europe. He underlined that the EU has not learned much from the last financial crises: asset ratios are still very low at ca 5% and there remain discrepancies between the Northern and Southern countries and negative dynamics have developed. Southern countries feel they get dictated to from Northern countries, which in turn see problems with the budget deficits. When the dynamics become negative as this, the economic reform process become extremely difficult.

He suggested the EU to focus on 3 priorities:

1. Linking European investment agenda to structural reforms
2. Clean up the bank sector and complete the Banking Union (solve issue of bail-out vs. bail-in)
3. Conditional debt relief linked with reforms

Answering the question “*Should investments be a more important part of EU budget?*”, he stated that not all the money has to come from the EU budget: investments can also be provided by the EU and co-financed from the private sector. He supported the adoption of a sort of “Juncker plus plus” fund, which would be co-financed by the EIB and from private investors. This Juncker plus plus fund could provide a new investment bank with a capital base, with the aim to strengthen competitiveness. The fund could then be linked to an agenda of economic and structural reform.

In this regard, he noted that the European Shadow Financial Regulatory Committee – of which he is part – proposed the concept of **conditional debt relief** to be linked to the access to funds: countries would be invited to submit action plans and timelines for reforms to then have access to the financing and bonds issued by EIB. He said conditional debt relief is needed due to the fragility of the current economic and financial situation which is good for the moment, but it will not last forever. A country of great concern is Italy, which has lost 17% of its industrial capacity over the past years and has 135% GDP debt. The country must change and reform, but it does not have a clear prospect of how to do it – also because of the new unstable political situation and the rise of populism. He said the idea behind conditional debt relief is that if countries implement structural reforms in a credible way, there would be a kind of debt relief for them.

The longer 'zombie banks' – those sitting on non-performing loans – are kept up, the longer they cannot engage in new investments which in turn slows down growth. This is one of the reasons behind the stagnation in Japan, now visible also in many European countries.

He said that a new financial crisis may be on the way, and the EU has to make the system more resilient now. The EU has to clean up after the past crisis and the legacy it left. For this, we need to incentivise economic reforms, and to do so may have to include conditional debt relief. All of this might be very painful, but needed.

The second speaker, **Pieter Cleppe** (*Head of Brussels Office at Open Europe*) opened his presentation stating that while the EU budget is only 1% of its GDI, it is quite a lot of money considering the amount of people living in the EU. He said there are consistently many actors asking for more money and higher EU budget and the EU should think in which areas the budget really need to be improved. He noted the two largest areas of the EU budget are agriculture and regional spending. On agriculture: he said €340bn is spent on this over seven years but 70% of this is for direct payments on agricultural land. He recalled that payments were originally linked to production, so production was incentivised, but the system lead to overproduction and was modified. *De facto*, the distribution of funds is no longer linked to production, but much of the money is given to people simply because they own land. He argued the new system is still problematic: it is indeed alleged that 80% of the CAP money is distributed to big players and not to the small farmers. He said farmers in Europe do not benefit from current situation with increased administration and red tapes. He urged the EU to look at a new model for agriculture, suggesting to adopt the New Zealand model: New Zealand introduced cuts to its agricultural sector in 1980 and liberalised it. In New Zealand the production tripled after the reforms. This case demonstrates that the command-and-control system hurts the capacity to produce food, whereas in New Zealand liberalisation has increased competetiveness. He clarified, however, that this is not a shift that can be done overnight in Europe.

Turning to the second biggest spending area – regional spending - he reported that, according to a study, the EU structural funds are not fully effective and it even correlates negatively with economic development. The EU Court of Auditors have also looked very critically at regional spending, and there are accusations of misspending and abuse. He concluded saying that there is also another problematic level to be added when it comes to the EU budget – that is the perception of how EU money is being

spent. He gave the example of the personal additions to salaries of Commissioners and MEPs, sometimes with very little accountability and incentives for efficiency. Those examples are not what makes or breaks the numbers in the EU budget, but add to the public sense that the EU's money is not spent in the most efficient manner.

The two presentations were followed by a Q&A.

The moderator asked **Harald Benink** about the consequences of Brexit on the EU budget. He replied saying that Brexit may prove to be positive for the European sentiment and integration.

**Robert Schliessler** (D66, member of the ALDE Individual Members Steering Committee) said regional funds were also designed to overcome that poorer areas in some countries were neglected by the national governments, and asked if there is any solution for this? **Pieter Cleppe** said the EU should focus on completing the internal market since all kinds of restrictions are still in place, for instance on cars. Not completing the single market and not opening up the market in services is very damaging – especially for the border areas.

**Jan Huitema MEP** (VVD) intervened asking **Harald Benink** what is the economical feasibility of his conditional debt relief plan adding that Northern countries would think it good, but maybe other countries would not accept conditionality so easily. **Harald Benink** quoted Mark Rutte when he said "make things work" is a good idea but the EU is seeing that the actual implementation of promises of reform has not yet been so positive. He argued that the EU should be pragmatic and try new things otherwise the whole system will impede and the EU will experience a crisis in trust. **Pieter Cleppe** was sceptical about achieving change based on the transfers of funds. He was more for a strategy to allow country to default if they can't pay – as the EU did with Montenegro. He said this would send a sign to other countries that don't have their budget in order that there is a threat of excluding banks from cheap money. **Hans van Baalen** (VVD) intervened saying that it is all about trust. If you have to bail out a country, you have to make sure it does not happen again. And to this aim, strict rules need to be applied – one case study is The Hague, which had big problems with its economy, but is now is back on its feet. However, it is not happening in Greece or in Italy.

## **Session 2: Priorities for the EU budget – keeping the budget lean and mean**

**Adriaan Schout** (*Coordinator Europe/Senior Research Fellow, Clingendael*) said the essential question at the heart of keeping a lean and mean budget is that there are too many requests on the budget but not enough of it. Everyone wants different things from the budget – and it is hard to meet all requirements. In principle, he was not arguing for a lower budget: he said that he would be happy even with a higher budget if it will be effective and well-used. With a view to Brexit, he said the gap was not such a big deal since it is only €10bn per year and argued that if the EU keeps inflation out of the estimates, the gap will already disappear and if the EU keeps CAP stable, the EU will be already looking at a surplus.

He said that the most concerning thing at the moment is the the demands on the budget for new tasks which are impossible to realise under the current EU budget. He mentioned a few ideas that have been going around to fill the gap, such as:

1. Taxation. From an European perspective this is a good ideas since as it is now countributions come from governments and they attach demands to the money 'sent to Brussels' which transforms the budget discussion from an intergovernmental vs. supranational struggle;
2. Reform the VAT system. The system is currently highly complicated and should be simplified. He thinks that the Juncker's proposal is very defendable for balance between poorer and richer countries;
3. CAP. There are many ideas on how to reform CAP, but he has the impression that France does not want to touch this.
4. Conditionality. It has been considered to attach demands of reform to the budget. He was not sure that the EU will get anywhere with conditionality when the reality of negotiations kick in.
5. Rebates. In this regard, the UK is the biggest player. Germany and the Netherlands want to keep it, France is not interested in discussing it.

His assessment on the various proposals was that not many things will happen. The proposals indeed do not solve the problem of there being too many demands and of how the EU will link its means with meeting the demands. He suggested to put our money in areas where there is most European Added Value asking critical questions on the added value. The EU is based on a principle that countries will still take charge of essential tasks. The qustion is: do we really want EU to take care of things like border control – or do we want EU to take responsibility?

He said that there are also other ways to reform the budget: Member States spend a lot on R&I but not in an innovative way. He affirmed that the EU makes a big mistake moving from objectives straight to money. Instead, it should focus on the objectives and the steps it is taking to achieve them. If the EU does not discuss the instrument, it will certainly fail in telling the public that it is defending their interests. He urged the EU to talk about instruments rather than money.

**Alex Brenninkmeijer** (*previously of European Court of Auditors*) said that communication is the issue the EU has to deal with. The current political system in many EU countries is worrying but the rise of euroscepticism is more due to bad communication than about the money. He suggested the EU should not rush into thinking and acting too fast, but to apply more slow-thinking to understand what is hindering the EU from dealing in a proper way with the problems it is facing. He highlighted that the budget process is based on psychology and that if the EU showed its current model to a psychologist, with a group of people contributing to a system defined by a Commission, they would say this is the beginning of war and that if you want to destroy a political system, this is how to do it. From his perspective, the EU should get rid of national contributions and take the suggestions on own resources very seriously.

On the EU MFF: he said that the first weakness of the system is the seven-year term – it's stupid. Longer frameworks are a danger to democracy. Second, the EU budget is inflexible (80% if fixed and cannot be

spent elsewhere) – the EU instead needs flexibility and not a French-style bureaucracy since it is confronted by important challenges and cannot respond effectively to them.

He added that the EU is facing serious problems with our financial system and, in one to two years, the EU will most likely have another serious crisis and at the moment it is not prepared for it – not even in theory. However, he pointed out that there are two main issues to address: the Euro and the weaknesses of banking and the financial systems, and the budget. He said that the EU is facing the problems of Brexit and a pressure to keep the budget lean and mean, so to achieve this aim, he suggested separating revenue and expenditure: deficits should be resolved with savings, windfalls in revenue should not lead to extra spending, drops in revenue should be solved with less expenditure. More generally, the EU should seek solutions in cooperation with the Member States.

He concluded saying that the most important element of the EU budget is communicating with the EU citizens: the EU should have answers to the challenges of today but be able to communicate them and the European Added Value well. In his view, the EU needs to start with communication and not the numbers and, for the budget, be realistic and apply psychology, as the system based on national contributions is starting a war in Europe.

During the Q&A, the moderator asked what is the message that the national governments have to give in front of an upcoming financial crisis. **Alex Brenninkmeijer** replied that EU governments need to ask themselves whether the political system is fit for purpose. **Adriaan Schout** affirmed that national governments and the EU cannot prevent a crisis from happening but suggested they think more slowly and about the principles the EU wants to base its decisions on accepting the risk. Also **Alex Brenninkmeijer** agreed on the communication and simplification issue. There is a need to have convincing arguments from politicians since the objectives will naturally cost money. **Adriaan Schout** added that the problem is not just a matter of narrative, it is also a matter of bad budget. Narratives alone will not help, the EU needs a better budget.

### **Session 3: The CAP – Innovation in agriculture**

**Krijn Poppe** (*Research Manager and Senior Economist at Wageningen Economic Research*) affirmed that, for the future, the EU has to think about the major challenges it faces such as climate change and food security. He added that the CAP money is estimated to be distributed to 20% of farmers with 80% of production who also own 80% of the land. Therefore, if the EU decides to increase the CAP budget, the EU needs to think about who would receive the money. He also said that the EU focuses too much on where the problems are visible, which is among consumers and farmers, without thinking too much about the governance of food chains which is also a weak spot in the current system. He suggested to transform the CAP into a Common Food Policy – with better thinking on the objectives we want to reach with the CAP. For instance better income support, ecosystem services, rural development (and innovation), food health, monitoring and research (transforming CAP into CAFP of five pillars). He concluded saying that the

EU should move payment from land ownership basis, and link it with private investors for a better access to instruments.

**Dirk Strijker** (*Professor Cultural Geography, at the University of Groningen*) differentiated rural and agricultural: notably that there are a lot rural areas in Europe but rural does not always mean it is agriculture and many people do not understand it especially in Brussels where there is still the tendency of linking the two. Turning to food policy, he argued that food consumption is both personal and local – it cannot be dictated from Brussels. He added that the EU rural policy moves cash around with negative side-effects. It can be contradictory with national policies. For instance, the Netherlands has a policy to preserve rural areas for recreation, environment, agriculture etc., whereas the EU rural policy works against preservation. He concluded that unfocused direct payments could be lowered, while measures are required for the most dependent regions. Payments should better serve public goals such as climate change, ecological objectives and the continuity of farming. Rural policy could be renationalised. He highlighted also some obstacles represented by France and Central European Member States. Therefore, in 2020 we may see that the CAP changes a bit, but not too much.

**Volker Koch-Achelpöhler** (*Head of the EU Liaison Office, Bayer*) highlighted the importance of innovation in the CAP. He said the function of agriculture was more than producing food; it shapes landscapes, it creates habitats for flora and fauna and many other things. Agriculture also impacts national resources and innovation helps there. Climate change is a reality that will also change agriculture in Europe. Water is a big thing for that, especially in Southern Europe. Putting agriculture in a global context, the world population is still increasing towards 10bn in 2050; we have economic development in many areas of the world leading to more demands that have to be satisfied and, on the other hand, 115mn people go hungry today and 600mn people are obese. He suggested the EU talks more about food policy and food systems.

On the issue of how CAP money is spent, he said that the EU is doing things in the wrong order. The EU should not talk about the money first, but what kind of agriculture it wants, and what instruments to use. Then the money should follow. In that sense, it can defend also a high CAP spending. He said that Bayer believes the EU has to increase resource efficiency, improve sustainability, use innovation and modern technology and need to be more efficient in terms of land use and with less impact on the environment working closer to universities and private sector to achieve a digital agriculture spending CAP money to make European farmers fit for the future – look to innovations and new technologies.

He added that the EU should not only look at CAP money when talking about innovation in farming but pointed out a lack of political will to get private money into the market. This has to do with bureaucracy and red tape. He said businesses have nothing against tough rules, nothing against transparency, but what we need is credibility and clarity. There are cases where in the middle of authorisation process, the rules change and businesses run into a lot of trouble. The regulatory framework has to be predictable enough.

He concluded that CAP is necessary, but the EU should discuss objectives and measures first, and then the budget after. Furthermore innovation plays an important role. The EU needs more than just CAP: it needs an innovation policy and regulatory long-sightedness.

During the Q&A, it was been asked what would be the role of the EU in the event of a food crisis. All the panellists agreed that the EU is not near to a food crisis but, if this happens there is a role for Europe and governments should help each other.

Another question regarded how the EU can make sure that the countries with much land get the innovations/research needed. **Volker Koch-Achelpöhler** said that innovation is *per se* not national but European or global but the real issue is how to get the innovation implemented. There, he would see a role of the CAP to help bring innovation to farmers. **Krijn Poppe** suggested an Erasmus programme for farmers linked to the discussion on Horizon2020.

From the audience, **Risto Lahti** (Finland, special adviser) highlighted that conditions in Finland are so different and that they would hope there would be more flexibility and tools to adapt to different conditions. In its CAP communication, the Commission has indicated that European countries could work together towards common goals in agricultural policy, but using different tools. **Krijn Poppe** was in favour of more flexibility in the scheme. Direct targeting of funding leads to a lot of bureaucracy. He suggested to link them to sustainability scheme.