



"REFORMING THE BUDGET, CHANGING EUROPE" PUBLIC CONSULTATION IN VIEW OF THE 2008/2009 BUDGET REVIEW SEC (2007) 1188 final

ETUC CONTRIBUTION

***Adopted by the ETUC Executive Committee in their meeting
held in Brussels on 4-5 March 2008***

179.EC

1. INTRODUCTION

The ETUC has already welcomed the May 2006 agreement by the European Parliament, the Council and the Commission to undertake a fundamental review of the Community budget "*covering all aspects of EU spending, including the Common Agricultural Policy, and of resources, including the United Kingdom rebate, and to report in 2008-2009*"¹.

Given that the present system is criticised because of its lack of transparency and its complexity, the ETUC wishes to take part in the debate by contributing its views on the relevance of existing policies and the identification of future challenges. It also intends to address the question of the financial resources the EU needs to fulfil its tasks, in particular in the areas of employment and social policy, social cohesion and quality of life, sustainable development and the environment, while stressing the urgency of an ambitious response to meet these challenges.

The EU's financial perspectives are the expression of its policy agenda. They are built on the idea that the economic advantages drawn by each country from its membership of the Union exceed the strictly budgetary cost of its participation. There are expenses and investments for which Europe represents the relevant level. It is this added European value, and not simply the goal of a "fair return" based on the calculation of net national budget balances, that must guide reflection on this subject.

The aim is to determine whether the EU wishes to attain its objectives and whether the Member States are prepared to contribute to common policies whose effectiveness and necessity they acknowledge, in a spirit of solidarity and greater democracy. It is unacceptable, once all the Member

¹ Declaration No 3 annexed to the Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management - OJ C 139, 14.6.2006.

States have agreed on important Community activities, such as Galileo or the Transeuropean Networks, and have identified ambitious tasks, in particular the Gothenburg and Lisbon objectives, for financing problems to be encountered afterwards.

Appropriations are indispensable to enable the European Union to operate in accordance with its powers and the growing challenges, in particular with regard to its role in the international arena, efforts to achieve the Lisbon objectives (innovation, education, research, infrastructure and employment) or those fixed by the Treaties and for a Union that today counts twenty-seven Member States.

2. THE ETUC'S PRIORITIES

In the present context, the ETUC's priorities need to be restated. Indeed, the Commission has launched three parallel consultations with a view to defining the profile of the Europe we want for the future. In addition to the consultation that is the focus of this contribution, the Commission has initiated a debate on the future of cohesion policy and on Europe's social reality, to which the ETUC has submitted contributions. By so doing, we hope to influence the responses that must be given at both European and national level.

2.1. Social Europe

The concept of social Europe has been at the heart of the European Union's development. The social rights and social inclusion promoted and guaranteed by the public authorities, as well as a social dialogue and an important role for the social partners acting independently, have been recognised as key elements of Europe and form part of its fundamental values as defined in the Treaty and accepted over the years by Europe's heads of state and of government. That is why the ETUC supports Europe. These elements are essential for maintaining the support of unions and workers for the European Union, support that has lost a fair amount of ground in some countries.

We are convinced that, in spite of external and internal challenges, Europe can make choices. It is not by demolishing its social model, social acquis, principles and values that Europe will be able to cope successfully with a new social reality. Economic and social problems go hand in hand, and the balance struck between them forms part of the social contract concluded when the single market was developed.

A major consequence of this vision is the necessity for a common framework for strong European legislation and policies, which must be matched with appropriate financial resources.

In this respect, we seek the following fundamental objectives:

- high-quality products and services and opportunities for workers, in particular high-quality work;
- strong social welfare systems;
- a European society based on rights and values;
- strong and independent social partners.

2.2. The sustainable development strategy for quality jobs and social and economic cohesion

It is clear that, following the revision of the Lisbon Strategy, in the framework of the Integrated Guidelines, the employment pillar is overshadowed by the competitiveness objectives. The Commission's proposals for revision of those 2008-2010 Guidelines reinforce that approach.

For the ETUC, the creation of large numbers of high-quality jobs, support for the adaptation and modernisation of education and vocational training systems from the standpoint of lifelong learning and the creation of a knowledge society, the promotion of social inclusion and the fight against unemployment, and the promotion of equal opportunities, are crucial for achieving the Lisbon objectives.

The European Employment Strategy (EES) must be put back at the heart of the Union's priorities and more funds must be released to create more jobs, but also higher-quality jobs. "Quality work", one of the three compulsory objectives of the EES, must be (re)placed at the centre of the Strategy, in particular by reintroducing the objective of reducing the number of poorly-paid workers and the working poor.

Economic and social cohesion is one of our priorities, given that closer integration of the European economies is not leading to a significant reduction in territorial and social disparities. The fact of the matter is that such convergence is not automatically guaranteed, at least in conditions acceptable to a large part of the population and territories of European Union countries.

Cohesion policy must provide answers to the challenges ahead and must simultaneously help reduce disparities between regions and promote a society of full employment, equal opportunities, social inclusion and cohesion. It must contribute to the creation of a truly European labour market, primarily by promoting solidarity between regions and mobility.

The European budget must be in keeping with the sustainable development framework set out in the Treaty, defined as *development that meets the needs of societies today without compromising the ability of future generations to meet their own goals*. The EU's sustainable development strategy also stipulates that European policies must "promote integration of economic, social and environmental considerations so that they are coherent and mutually reinforce each other"².

From that standpoint, social progress, economic growth and environmental protection must be seen as objectives which are mutually reinforcing, not contradictory. There is no contradiction in principle, for

² Conclusions of the June 2006 European Council:
<http://register.consilium.europa.eu/pdf/en/06/st10/st10117.en06.pdf>

example, between a high level of social protection on the one hand and economic growth and job creation on the other. Likewise, maintaining biodiversity and a sustainable and safe energy system are positive factors for productivity and employment. Most of the countries with the best performances, moreover, achieve them simultaneously in employment, environmental quality and economic growth.

Priorities and objectives must be defined with respect to the European Union's sustainable development commitments, and European funds should be allocated as a matter of priority to projects that stimulate synergy between the economic, social and environmental dimensions. At this stage, aside from the European Social Fund, which by definition takes account of the social objective, the structural funds are not seeking genuine integration of the objectives. They are proceeding by a process of accretion: in particular, environmental projects are accepted, although among others and without the constraint of an exact analysis of their social and economic impacts.

3. MEETING TOMORROW'S CHALLENGES

The ETUC agrees with the general presentation of the challenges with which the EU may be faced in the future, such as the pressure of globalisation, demographic changes and climate change, although further analysis is needed to take account of recent developments, in particular an assessment of the impact of raw materials shortages.

It is clear that the continuing and growing number of structural problems due to globalisation, unexpected shocks, industrial restructuring or economic diversification, along with corporate mergers in different regions of the EU, mean that stronger support is required for these problem areas.

The goal of an integrated Europe should be to manage the globalisation process in such a way as to maximise its benefits and minimise its costs, while ensuring that there are as many winners as possible and that compensation measures are taken for the losers.

The ETUC considers that responding positively to the challenges arising from demographic changes implies an integrated approach as part of the implementation of an anticipation strategy. There must be multiple instruments, policies and players, and sufficient financial resources have to be made available, in particular in the context of the European Social Fund.

It is therefore worthwhile to reflect on the political choices that need to be made in order to make the most of the opportunities resulting from these processes and at the same time to protect ourselves from the negative impact to which the EU and its workers may be exposed. Needless to say, these priorities must be accompanied by adequate financial means with a view to attaining the objectives established.

The ETUC agrees with the Commission that climate change and energy security are two major challenges for the coming decades. They nevertheless do not outrank the other environmental challenges identified in the EU Strategy for Sustainable Development: sustainable transport,

sustainable production and consumption, conservation and management of natural resources, and public health.

In the debate about the future of the European budget after 2013, therefore, we need first of all to focus on the policy choices that the Member States wish to implement together, and then to look for an agreement on their funding, which is essential at Community level. That being so, the ETUC advocates the need for the current policies to be beefed up (in particular cohesion policy, as well as research and innovation) or the further exploration of their reform (CAP), while stressing the setting in place of ambitious policies in terms of energy and climate change.

3.1. Cohesion policy

The ETUC stresses once again the urgency of strengthening Community structural policies in an enlarged Europe, since the principles of cohesion and solidarity are written into the Treaty in the same way as the single market and competition policy, and they represent two of the most important vectors for the integration of peoples and territories. This is more especially so because, since the adoption of the Financial Perspectives 2007-2013, Europe has enlarged to include two new Member States.

As stated in the Commission's Fourth Report on Economic and Social Cohesion, cohesion policy currently accounts for around one third of total EU expenditure, and will mobilise some 54.2 billion euro in 2013. However, in spite of the challenges stemming from the two recent enlargements of the EU, the volume of funds diminishes in relation to the Union's gross domestic product (GDP). In 2013, it will account for only 0.35%, compared to barely 0.4% in 2004, thus returning to its level of the early 1990s.

It is therefore essential to link the debate on the future formulation of cohesion policy to the discussion on the 2008/2009 EU budget review.

In that framework, *ex ante* evaluation of projects supported by European funds must be made systematic, taking into account not only the economic and environmental impact, but also the social consequences, in particular jobs created by connecting regions to major networks.

3.2. Transport

The principle that must prevail on transport is that of transferring road traffic towards more environmentally acceptable modes. Railway infrastructure, public transport and the motorways of the sea should be priorities, along with measures to control demand for transport. The urgency of such reorientation is highlighted in the Eurostat report³: "There are no real signs of decoupling the energy consumption of transport from economic growth".

³ *Measuring progress towards a more sustainable Europe, monitoring report of the EU sustainable development strategy, 2007, Eurostat*

There is a need to develop transeuropean transport infrastructure respectful of sustainable development. The Union is the appropriate level for overcoming national stalemates in this regard. The 30 priority projects identified in 2004, although they do meet these criteria relatively well, will have to undergo *ex ante* evaluation to measure not only their economic and environmental impact, but their social impact as well.

3.3. The Common Agricultural Policy

The ETUC considers that the Common Agricultural Policy (CAP) must remain the leading instrument for implementing agricultural policy, and is opposed to any attempt aimed at renationalising it. The market liberalisation trend should not call back into question the legitimacy of a European public intervention, independent of actual production, remunerating the maintenance of public environmental and territorial assets, the quality of products, food security and the creation of jobs.

These criteria nonetheless require a stricter European definition as part of the follow-up of the "health balance" scheduled for 2008. One of the objectives of a modern and efficient CAP must be to halt export subsidies, which have harmful effects on the developing countries. The decoupling of direct aid is a tool that the ETUC can support if it is applied in such a way as to ensure a fairer allocation of aid. Environmental compliance must also be strengthened.

In the future, the ties between the CAP and the sustainable development objectives set by the Lisbon and Gothenburg Strategies (creation of quality jobs, social cohesion and environmental protection) must be consolidated and strengthened. However, in view of the consequences of the shortage of agricultural products and their higher prices as a result, its initial objective must once again be taken into account in this analysis.

In parallel with the revamping of the CAP, rural development funds should be substantially increased to tackle the employment and competitiveness problems of rural areas, particularly in the new Member States.

3.4. Innovation and research

Sustainable development must guide innovation and research and development. Not only should the percentage of the European budget earmarked for research be increased – to allocate more funds for the objective of the knowledge-based economy – but it must also explicitly include European objectives on the environment, training and social inclusion. This holds for fundamental and industrial research alike.

In many sectors (steel, aeronautics, transport), growing environmental requirements with respect to greenhouse gases, pollution, noise or waste are creating the need for technological breakthroughs. The joint technology initiatives⁴ represent a positive innovation that should be enlarged to other sectors and explicitly tied in to the requirements of the European Strategy for Sustainable Development, particularly sustainable

⁴ Joint technology initiatives have been proposed for aeronautics, space surveillance, hydrogen, innovative medicines, nanoelectronics and on-board computer systems.

transport, sustainable production and consumption, conservation and management of natural resources, public health and social inclusion.

Financial efforts alone will not create research activities. Considering the rising average age of researchers, coupled with the growing mobility of research teams, the European Union will have to find up to 800,000 new researchers over the next decade.

Organisational and social innovations must be supported by the EU budget, in the same way as technological innovations. Innovative forms of labour relations and social dialogue must be promoted to encourage the development and dissemination in companies of new production processes meeting the needs of sustainable development.

3.5. Energy policy

The ETUC is convinced of the need for a European energy policy that places Europe on the path to sustainable development. Such a policy implies a change of energy model that can find expression, on the one hand, in major restructurings that must be anticipated and accompanied, and on the other, in positive opportunities for employment and social cohesion that must be exploited. Improving energy efficiency must be a priority of the EU budget, because doing so will help the Union attain both the objective of ensuring a secure energy supply, highlighted by the 2006 Green Paper on EU energy policy, and the requirements of combating climate change. The major obstacle to making the necessary investments is financial. Improved energy efficiency in existing housing in particular should be eligible for Structural Fund support in the new Member States but also in the EU-15, given the likely positive effects on employment, the energy bill of low-income households, energy independence and climate change.

3.6. Climate change

Adaptation to the inevitable consequences of climate change is a new challenge for Europe, which will require support from the EU budget by virtue of solidarity between the Member States. Certain regions will be considerably affected by the impact of climate change, which is already being felt today. This will require not only improvements to existing infrastructures to make them more resistant to future climate change (such as protection against flooding, and prevention of the effects of heat waves on public health), but also a reorientation of the new infrastructures that will have to be situated appropriately and adapted to the new climate conditions (such as roads resistant to water and heat). The sectors most concerned are energy equipment, water distribution and treatment facilities, health systems, port installations, and coastal and mountain tourist facilities.

Enhancement of the environment must become a factor contributing to quantitative and qualitative improvements to employment. If the Member States adopt the Commission's legislative proposals for a 20% reduction in the European Union's greenhouse gas emissions by 2020, important and fast-paced changes can be expected in the economy as a whole, with

restructurings in sectors based on fossil fuel, such as heavy industry, electricity generation and road transport, and new opportunities in sectors based on energy efficiency and low-carbon technologies. Adaptation to the inevitable consequences of climate change will also bring about changes in many sectors, especially agriculture and tourism.

4. A EUROPEAN BUDGET TO IMPLEMENT OUR PRIORITIES AND TAKE UP THE CHALLENGES

The ETUC is anxious to restate that an overall increase in the EU budget is required, and that over and above the need to increase the level of investments, we also need to ensure their quality, their real impact and their sustainability. The current ceiling of 1.24% of gross national income (GNI) already offers considerable leeway and no budget has ever come close to it. However, given the above observations on political choices and new challenges, the ETUC is convinced that there needs to be an increase in the Community budget's own resources for the future. Such an increase must be commensurate with the needs regarding the choice of the priority policies which the Union is undertaking to pursue in the future.

Just as the European Council has decided, the Structural Funds are the financial instruments for the implementation of the Lisbon Strategy. The ETUC considers that this needs to take more concrete shape in practice, in the allocation and utilisation of the funds over the period extending beyond the current strategy, the objective of which is to improve the EU's performances in terms of growth, high-quality job creation, and sustainable development. In the same way, the Structural Funds likewise need to be the favoured financial instruments in rising to the new challenges in the future.

Against this background, we would stress that the European Social Fund (ESF) is the favoured instrument for supporting the implementation of the European Employment Strategy and that this must continue to be the case in the future.

As to climate change, the ETUC takes the view that the European budget should make a substantial contribution in support of the future European plan for the reduction of greenhouse gas emissions, energy efficiency and the development of renewable energy sources for 2020, as well as the adaptation to the inevitable effects of climate change. More European funds must be allocated to energy efficiency, the development and use of renewable energy, including for heating and cooling, less polluting transport and controlling demand for transport.

In the ETUC's view, moreover, the EU budget should contribute to the effort to help workers affected by rapid changes linked to the transition to a very low-carbon society, assisting them in their skills improvement and their job search. This fund would be based on the experience acquired with implementation of the European Globalisation Adjustment Fund.

On this point, our view is that for the period after 2013, the European Globalisation Adjustment Fund should be formally incorporated into the structural funds, which should include a fund for the anticipation and accompaniment of the consequences of climate change, to encourage the Member States, specifically in the less well-off countries, to assign

genuine financial instruments to the climate change mitigation and adaptation strategies.

In the meantime, existing instruments such as the Solidarity Fund and the European Globalisation Adjustment Fund should be revised upwards.

5. FINANCING THE BUDGET

For the ETUC, reform of the Union's expenditure structure must go hand in hand with reform of its revenue structure. This comprehensive review of EU revenue and spending represents an opportunity – that must not be wasted – to return to a genuine but fair system of own resources.

The aim of the reform of Community resources must be to create a genuine Union own resource that replaces existing mechanisms and to give new life to the letter and spirit of the founding treaties. Given the complexity of the current system, this reform should be progressive and conducted carefully, so as not to destabilise it. The first need is to find solutions which will make it possible to scrap the existing derogations and exemptions, which make it incomprehensible to Europe's taxpayers. On the other hand, we need to focus on choices based upon principles such as equality, fairness and solidarity, while respecting the Member States' contributive capacity and democratic obligations and seeking the widest backing from Europe's citizens.

The ETUC likewise considers that new possibilities are needed for indirect resources. Possibilities for examination include green taxes. It is also advisable to examine whether the Union should keep the unused appropriations left in the – slim – European budget, rather than returning them to the Member States.

Additional financial resources to supplement those of the public sector at Community level also need to be found. Public-private partnerships (PPPs) make it possible to involve the private sector in general interest projects. However, lessons must be learnt from certain negative experiences, and the risks that can result from PPPs have to be taken into account. It is our view that it is more relevant to use other European and national funds, in particular those of the European banks (EIB, EBRD, EIF) and to ensure access to European loans.

The ETUC considers it essential to develop information for citizens, based on the principles of transparency and the intelligibility of European policies and their financing. But information policy must not replace discussions between the institutions and consultations with all the representative social and economic players on the role of the Union and its strategic choices. Synchronizing the budget cycle with that of the European institutions (Commission, Parliament and Council) could be useful in that respect.