THE EUROPEAN UNION BUDGET REVIEW

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This briefing examines the issues arising during the EU budget review which is taking place as a result of the agreement of the 2007-2013 Multi-annual Financial Framework. It then examines the views of member state governments and looks at how some of the issues might be resolved. Attached as annexes are summaries of the responses of the UK and Scottish Governments to the budget review.

An audio summary of this briefing is also available.

The Scottish Parliament

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KEY POINTS

- The European Union's budget provides a source of controversy and political conflict between member states.
- Issues such as the size of the budget, how it is raised and how it is spent along with the various corrections given to different member states have all combined to make it an issue which Europe's leaders have struggled to successfully address over the last three decades.
- Final agreement of the 2007-2013 Multi-annual Financial Framework included a commitment to undertake a review of the EU budget process.
- The review of the budget process is being coordinated by the European Commission who published a consultation paper in September 2007.
- The Commission's consultation addressed concerns over the size of the budget; how it is raised; and what it is spent on.
- Member state governments suggested that all EU spending should be "additional" and add value to spending by member state governments.
- Member state governments suggested the budget should be raised with contributions based on members' ability to pay and not based on the receipts each member state was likely to receive from the budget.
- Member state governments all highlighted the Common Agricultural Policy; structural and cohesion funding; growth and competitiveness and climate change and energy as the policy priorities which the EU budget should be concentrated on in future years.
- Experts have suggested that for the budget review to be a success it will require member states to put aside national interest and to concentrate on what is best for the European Union as a whole.

> "Many of the facets of the EU budget that warrant attention in the review have proved to be so difficult to resolve since 1988 that they have been fudged and it is a safe bet that many of them will just not be addressed in the review. Yet if a reformed budget is ever to emerge, these issues will need, one day to be confronted." (Begg 2007)

BACKGROUND

As with all international organisations the European Union (EU) requires a budget. According to the European Commission the budget is:

> "an important lever for the EU to deliver existing policy goals to bring about change and to maximise the long term impact of EU action." (European Commission 2007)

The actual EU budget is agreed on an annual basis. However, a framework for European Union expenditure is agreed covering several years. This is known as the Multi-annual Financial Framework. According to the European Commission, the Multi-annual Financial Framework is,

> "the product of an inter-institutional agreement between the European Parliament, the Council and the Commission and indicates the maximum volume and the composition of the foreseeable Community expenditure. It is adjusted annually by the Commission to take account of prices and the development of Community GNP. However, it should be noted that the financial perspective is not a multi-annual budget since the annual budgetary procedure remains essential to determine the actual amount of expenditure and the breakdown between the different budget headings." (European Commission online 2008b)

The agreement of the Multi-annual Financial Framework for 2007-2013 was one of the most controversial in the European Union's history; as a result of this, one of its outcomes was that member states agreed that a full scale review of the EU budget was necessary.

According to Becker:

> "In the light of the difficult negotiations and the obviously unconvincing final result, the prime question to be answered in the upcoming revision-negotiations should be whether this process, the practice of negotiating huge seven year financial packages, is really the most appropriate way to guarantee the proper funding of the Union and to secure the most efficient use of EU-resources. However, the starting point of the revision clause has to be a thorough examination of the Agenda 2007, ie the Financial Framework 2007-2013 process and the final compromise." (Becker 2008)

AGREEMENT OF THE 2007-2013 MULTI-ANNUAL FINANCIAL FRAMEWORK

The negotiations surrounding agreement of the multi-annual EU budget (the Multi-annual Financial Framework) for the 2007-2013 period saw disagreement between different member states about the size of the budget and the United Kingdom's rebate.

THE SIZE OF THE BUDGET

The European Commission and many of the new member states wished to see a bigger budget, whilst many of the larger states and in particular the net contributors (Austria, Germany, France, United Kingdom, the Netherlands and Sweden) held out for a smaller budget.

Payments towards the EU budget by member states are covered by an Own Resources Decision (ORD). The ORD sets a ceiling on the amount the European Union can raise from member states in any one year. At present the ceiling is set at 1.24% of EU Gross National Income (GNI). As a result of this any agreement on the level of the EU budget must be a maximum of 1.24% of European Union GNI.

At the beginning of the negotiations for the Multi-annual Financial Framework the European Commission proposed a budget of 1.14% of EU GNI. (EurActiv.com 2004) In contrast, the net contributor countries wrote an open letter to then Commission President Romano Prodi proposing a budget of 1% of EU GNI. The letter stated:

> "The new Financial Perspective should allow us to exploit the extraordinary potential of the enlarged Union, and the opportunities it offers our citizens. EU spending should add real value, and aim more actively at transforming the EU into the most competitive and innovative area worldwide. Other key tasks are further developing the Common Foreign and Security Policy, protecting our external borders, and managing migration flows.
>
> We are deeply committed to the principle of European solidarity, and to the maintenance of cohesion in the enlarged Union.
>
> Bearing in mind Europe's demographic challenge, sustained high growth requires long term sound public finances. In view of the painful consolidation efforts in member states our citizens will not understand if the EU budget were exempt from this consolidation process.
>
> We see in this context no room for an EU budget near the current ceiling for own resources. Average expenditure during the next financial perspective should in our view be stabilised around current expenditure levels, and should not exceed 1.0 % of GNI, including agriculture spending within the ceiling set by the European Council in October 2002. This would still allow for annual increases in the EU budget well above growth rates of national budgets in most member states, and permit a sufficient margin for policy implementation in the enlarged Union." (Joint Letter from the Heads of Government of the United Kingdom, France, Germany, Austria, the Netherlands and Sweden to European Commission President Romano Prodi on 15 December 2003.)

Throughout the negotiations on the Multi-annual Financial Framework the issue of the size of the budget was a sticking point.

THE UK REBATE AND OTHER MEMBER STATES' CORRECTIONS

Another sticking point in the negotiations was the feeling amongst most member states that the United Kingdom should give up its rebate.

The United Kingdom has received a rebate from the EU budget since 1984. At that time the then Prime Minister Margaret Thatcher successfully negotiated the rebate because the United Kingdom was the third poorest member of the EU but was on course to become the biggest net contributor to the budget. Thatcher told an EU Summit at Fontainebleau in France:

> "We are not asking the Community or anyone else for money, we are simply asking to have our own money back." (BBC News Website 2005)

In June 2005, the Foreign Secretary, Jack Straw indicated that the United Kingdom Government would be prepared to give up the rebate if there was a fundamental reform of the EU budget and in particular the Common Agricultural Policy (CAP). Mr Straw told the House of Commons;

> "the rebate is an anomaly, but it is an anomaly on an anomaly. What we are seeking to do is address that anomaly on an anomaly, so that the case for the rebate withers away. Meanwhile, we will maintain our position.
>
> That position was well spelled out in the other place [*the House of Lords*] –
>
> > If the reason that gave rise to the need for the rebate – the nature of the budget and the common agricultural policy – were to change, the rebate would automatically disappear without any action.
>
> That was the position as set out by the former Conservative Chancellor of the Exchequer Nigel Lawson – now Lord Lawson. I agree with him, it is more or less exactly our position." (House of Commons Hansard – 30 June 2005)

The UK Government's position that it would give up its rebate in return for reforms to the budget including reform of the CAP placed pressure on the French Government which was keen to protect the CAP:

The UK Government's position with regard to the negotiations on the rebate was however, weakened because prior to agreement of the Multi-annual Financial Framework, member states agreed that CAP spending should be frozen until 2013. This meant it was difficult for the UK Government to now argue that CAP spending should in fact be reduced.

The UK rebate has had wider implications and in recent years had led to other member states receiving various "correction mechanisms" to ensure that they did not pay more than their share into the budget. In order to reach agreement of each Multi-annual Financial Framework agreement is also now required on a number of correction mechanisms. This has made the budget process very confusing. Another criticism of the current system is that the correction mechanisms involve money being returned to the more prosperous member states largely at the expense of the less prosperous ones.

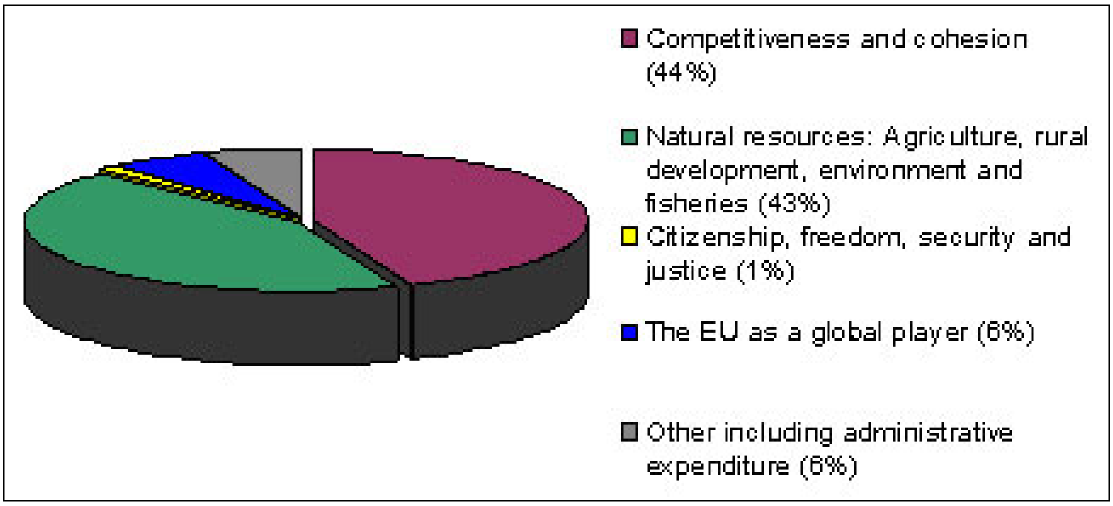
These were the key issues occupying member states when they met to try to agree the 2007-2013 Financial Perspective at the European Council on 17-18 December 2005.

THE FINAL SETTLEMENT

The Financial Perspective for 2007-2013 was finally agreed under the UK Presidency at the December 2005 European Council. Member states agreed on a budget of 1.045% of EU GNI, approximately €864 billion.

Figure 1 produced by the European Commission (2008c) shows the key policy areas in which the EU Budget will be spent between 2007 and 2013.

Figure 1: Spending Priorities for the 2007-2013 Multi-annual Financial Framework



Member states also agreed that a review of the EU Budget should be undertaken:

> "The European Council therefore invites the Commission to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/9. On the basis of such a review, the European Council can take decisions on all subjects covered by the review. The review will also be taken into account in the preparatory work on the following Financial Perspective." (Council of the European Union 2005)

EUROPEAN COMMISSION COMMUNICATION - REFORMING THE BUDGET, CHANGING EUROPE

The European Commission's review began with the publication of a Communication on 12 September 2007. "Reforming the Budget, Changing Europe A Public Consultation Paper in View of the 2008/2009 Budget Review". According to the consultation paper, the aim of the review is to:

> "set out the structure and direction of the Union's future spending priorities, assessing what offers the best added value and most effective results. It will also examine how the budget works, how to get the right balance between continuity and responding to new challenges, and whether it should be managed differently. Finally the review will take a fresh look at the best way of providing the resources necessary to fund EU policies." (European Commission 2007)

The European Commission's consultation paper was designed to "stimulate an open debate on EU finances" at a local, regional and national level.

Signalling its intention to hold a wide ranging review of the EU budget, the European Commission wrote in its Communication that:

> "The budget is an important lever for the EU to deliver existing policy goals, to bring about change and to maximise the long term impact of EU action. Twenty years after the first financial framework, it is time for a Europe-wide reflection preparing the ground for a renewed consensus about the direction of EU spending policies able to meet the challenges of the next decade and beyond." (European Commission 2007)

CHANGING PRIORITIES

The budget review paper examines the way in which the European Union's budget has evolved over time to ensure that spending is focussed on the EU's key policy priorities. For example, according to the Communication, in 1965 the Common Agricultural Policy absorbed 35.7% of the budget. By 1985 this had risen to 70.8% of the budget, but by 2013 the CAP will account for 32% of the overall budget. (European Commission 2007)

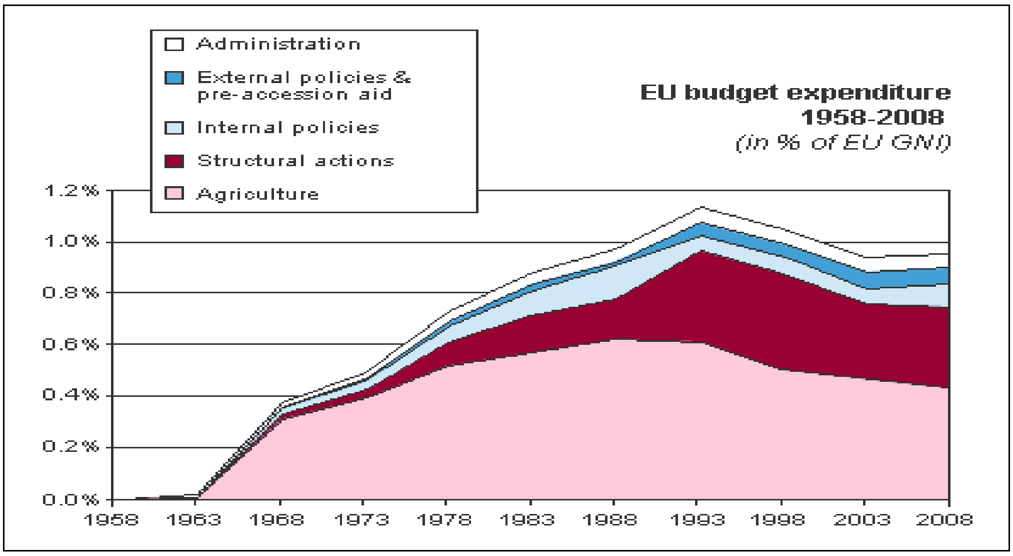
Spending on cohesion policy has also seen a marked change in terms of its budget allocation since 1965. However, in this case the budget allocated has risen. In 1965 cohesion policy accounted for 6% of the budget, this rose to 10.8% by 1985 and 17.2% by 1988. During the current Financial Perspective the budget for cohesion funding is around 35%. (European Commission 2007)

These figures illustrate the way in which the EU budget has adapted to meet new policy needs since 1965. According to the European Commission's Communication:

> "The challenge is to develop a budget for the future, anticipating tomorrow's challenges in a world of rapid change." (European Commission 2007)

Figure 2 prepared by the European Commission (European Commission online 2008c) shows the key policy areas on which the EU budget has been spent since 1958.

Figure 2: Policy Priorities for the EU Budget between 1958 and 2008



This adaptation and change to meet new policy needs is something, the Communication argues, which will need to continue to happen. The Communication highlights a series of policy areas which it suggests are "tomorrow's challenges". These include:

- scientific and technological progress which it argues are critical to boost knowledge, mobility, competitiveness and innovation
- the transformation to a knowledge and service economy which is as profound as the earlier switch from agriculture to industry
- the structure and balance of European society which is currently threatened by demographic changes across the European Union
- the promotion of solidarity, economic development and social cohesion
- the impact of climate change
- demands from consumers for a new dimension in the European Union's policies on agriculture, rural society and maritime areas
- the need for secure, sustainable and competitive energy
- the provision of security and safety for Europe's citizens (European Commission 2007)

The European Commission argues that whilst the EU budget will not be able to finance solutions for all these issues, the EU budget "can have an important role if targeted to galvanise change effectively".

ADDED VALUE

Over many years there has been a debate between member states and the European Commission about whether action on issues such as regional development should be taken by member states or by the European Union.

The consultation recognises that future European Union spending should; "provide clear additional benefits compared to action by individual member states alone in pursuing policies that promote the European common interest" (European Commission 2007). However, the Commission does not suggest that spending in areas such as regional development should become matters solely for member state governments to address.

FINANCING THE BUDGET

The final section of the European Commission's Communication addresses the issue of financing the budget. The EU budget is raised through four income streams; these are two Traditional Own Resources, Value Added Tax resources and Gross National Income resources:

- Traditional Own Resources (TOR) are sources of revenue generated exclusively by the European Commission as a result of European Community legislation. European Community customs legislation which governs customs duties on goods and also on agricultural produce imported into the European Union provide for common customs tariffs which are collected by member states. Member states receive 25% of the resources as compensation for collecting them. This administration fee particularly benefits the Netherlands, as most imports enter the European Union through the port of Rotterdam.

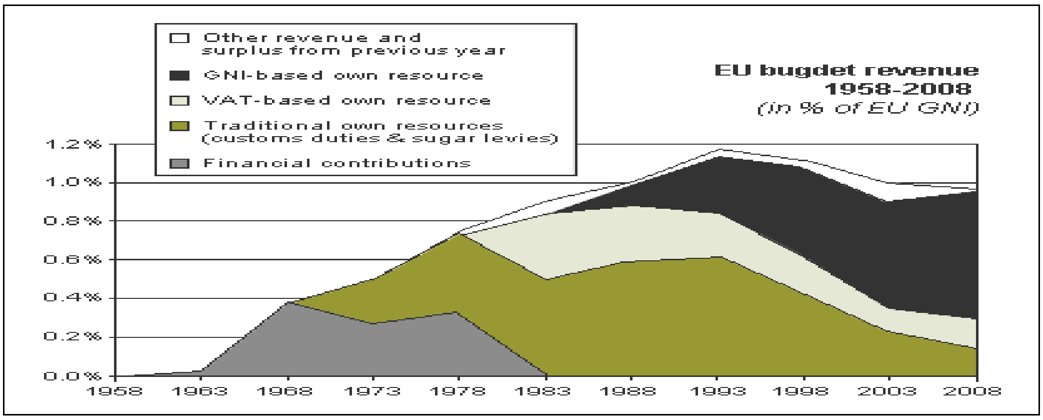
- The resource based on VAT is a uniform percentage rate that is applied to each member state's harmonised VAT revenue. The VAT resource is currently calculated uniformly at 0.30% of each member state's tax base with the exception of the Netherlands and Sweden (0.10%), Germany (0.15%) and Austria (0.225%) who have agreed reduced rates. The reduced rates for these four members were agreed by member states as part of the overall 2007-2013 budget settlement.

  The tax base is a theoretical construct that compensates for the fact that neither the VAT rate nor the list of goods and services covered by VAT are harmonised at EU level.

- The GNI own resource (originally Gross National Product) was introduced in 1988. One of the main reasons for its introduction was to introduce a new resource to balance the budget (previously VAT had been used). The GNI resource is a uniform percentage rate (currently 0.73%) applied to the GNI of each member state. (McIver 2007)

Figure 3 produced by the European Commission (2008c) shows the historical way in which the EU budget has been raised using the different resources.

Figure 3: Sources of Funding for the EU Budget between 1958 and 2008



The Communication explains that:

> "Although the current system has succeeded in providing sufficient resources to finance the EU budget, there is nevertheless a continuous debate about whether the source of funding could be improved in order to better comply with the relevant financing principles. The two largest sources of revenue – the VAT and GNI based own resources – display many of the characteristics of national contributions and are often perceived as such. They are provided by national Treasuries and are sometimes presented as an expenditure item in national budgets. As a consequence, member states often tend to judge EU policies and initiatives in terms of returns compared to their national contributions, rather than looking first at the overall value of pursuing certain policies at the European level." (European Commission 2007)

Connected to the way in which the budget is raised is the issue of "corrections" (also known as rebates) of which the one received by the United Kingdom is probably the most famous. The Commission's Communication suggests that the corrections received by a number of member states "have considerably reduced the simplicity and transparency of the system" (European Commission 2007). With this in mind the Commission's paper states that the review will look at whether the various correction mechanisms should remain in place.

THE RESPONSE OF MEMBER STATE GOVERNMENTS TO THE BUDGET REVIEW

Twenty six of the twenty seven member state governments of the European Union submitted responses to the European Commission's consultation (Slovenia failed to respond). The responses are available online at http://ec.europa.eu/budget/reform/issues/read_en.htm. A summary of the United Kingdom Government's response is at **Annex A** and a summary of the Scottish Government's response is at **Annex B**.

This section provides a selection of views from both net contributors to and net beneficiaries of the EU budget.

Member states generally agreed that reform of the budget is required and this is needed in both the revenue and expenditure sides. The Czech Republic Government's response summed up the general attitude towards the review:

> "The review should be based on a thorough assessment of existing Union priorities, policies and instruments. According to the Czech Republic the main purpose of the review must be the shift of expenditure priorities towards the policies which have the greatest potential to contribute to the EU strategic goals of sustainable and balanced growth of the Union and to enhancement of its global competitiveness while ensuring its internal cohesion.
>
> Furthermore, the turn of the century has brought important changes for both the European Union and the whole world. In the course of the review, the Czech Republic asks to carefully examine to what extent the new global challenges are reflected in the EU budget and what the scope for their future financing is. In this regard, the review must be viewed as a unique opportunity to bring EU's priorities and its budget in line with new demands, challenges and opportunities of the 21st century. This opportunity must not be missed." (Government of the Czech Republic 2008)

Whilst all member states welcomed the budget review, many made it clear that they felt it was important that any changes were not brought in until after the current Multi-annual financial framework had ended.

ADDITIONALITY

Additionality is generally taken to mean that EU funds should not be used instead of national funds but should be spent in addition to them.

Many of the member states responding made the point that EU spending should be clearly additional to the spending undertaken by member states. The United Kingdom Government highlighted additionality as being one of the three principles by which the EU budget should be designed.

> "the EU should only act where there are clear additional benefits from collective efforts or '**EU added value**', compared with action by member states, either individually or in co-operation." (HM Treasury 2008)

CORRECTION MECHANISMS

The issue of corrections was perhaps one of the most controversial issues during the negotiations for the 2007-2013 Financial Perspectives. In particular the issue of the United Kingdom's rebate was a controversial issue for some member states such as France. The UK rebate had been secured at Fontainebleau in 1984. The text of the agreement stated "any member state sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time" (European Commission online 2008c)

As indicated earlier this agreement has meant that most other net contributor member states also received some form of correction mechanism so that their contributions to the EU budget, have more closely matched receipts "back" from Brussels. Iain Begg from the London School of Economics described how this happened.

> "Although only the UK formally has an abatement, various devices have been used to ease the burden on other net contributors. Indeed, this has been true since the Fontainebleau deal. In the original formulation of the UK abatement, the UK – in simple terms – receives a rebate worth approximately two thirds of what would have been its net contribution. The cost of this rebate was shared among the other member states in proportion to their shares of the VAT resource, except that Germany's ex ante share was then reduced by a third. In effect therefore, Germany obtained a rebate on the rebate. Given that the UK and Germany in the early 1980's were the principal contributors to the budget, this special treatment was justifiable, although the Commission, especially, worried that the focus on the direct budgetary flow alone would overlook indirect benefits and other flows.
>
> Subsequently, other member states that shifted from being net recipients to net contributors also demanded and received 'their money back' in different ways." (Begg 2008)

An example of other net contributor countries seeking some of their contributions back is that in the 2007-2013 budget agreement, the Netherlands and Sweden managed to negotiate substantial reductions in their GNI based contributions. The Netherlands received €4.2billion whilst Sweden received €1.1 billion.

As each net contributor member state has sought some of its contribution back, the EU budget has become much more political for governments who are keen to show their electorate that they are getting their "fair share" from the EU budget. Clearly, this means that they are keen to limit their contributions whilst maximising their receipts from Brussels. The Czech Government commented on this issue in their contribution to the review:

> "Member states should more carefully look at the content of the political priority areas chosen for funding instead of just focusing on their net balance position which does not reflect the full benefits of EU membership." (Government of the Czech Republic 2008)

In contributions to the review, some member states have suggested that all correction mechanisms should be withdrawn. For instance, the Spanish Government said:

> "The scope for improving the fairness of the present system is not to be discussed, given the present factors in play that distort the system. Among these, one that stands out is the existence of a complex system of discounts and compensations with respect to the contributions of the most prosperous member states. This was introduced within a

> framework established for a Union of 9 member states, but today significantly alters the relation between these contributions and the relative wealth of their beneficiaries, thus distorting the financial framework of a 27 member European Union.
>
> Therefore, as regards EU's own resources, we should think about their sufficiency and on how to achieve greater simplicity and fairness. In this respect, it is difficult nowadays to explain to our citizens why member states with a per capita income that scarcely reaches the level of the European average should contribute in a higher proportion of their GDP than other member states – which enjoy a standard of living that is significantly higher than the average levels measured within the EU. It seems essential to think about the issue of moving towards a more balanced system of contributions, one that would involve the disappearance of the current systems of compensations and discounts that contributes to budgetary complexity and thus prejudices efficiency and transparency. It is necessary for the resource system to be fairer and for it to respond to the wealth of the member states, as well as other indirect extra budgetary benefits of European Union membership, by means of a broad-based GNP resource and the removal of all kinds of regressive elements." (Government of Spain 2008)

The French Government also stated that it believed the system of rebates should be abandoned and that in the future "all member states participate in funding the EU budget, in compliance with the principle of fairness and on a basis that effectively takes account of member states' ability to contribute" (French Government 2008). This approach is perhaps unsurprising given that France is now a net contributor to the EU budget but does not receive any form of rebate. The lack of rebate is balanced out partly by the fact that France is currently the biggest beneficiary of the CAP.

Those member states calling for correction mechanisms to be withdrawn have effectively called for a system in which all member states pay their fair share to the EU budget, by which they mean account is taken of member states' ability to contribute but no account is taken of how much each member state then receives back in EU funding. In the past correction mechanisms have been introduced to ensure that member states' contributions to and receipts from the EU budget are better balanced.

REVENUE RAISING

Closely related to the issue of correction mechanisms is the debate about the way in which the EU budget is raised. As discussed earlier the budget is raised through four different sources, these are:

- Customs duties
- Agricultural resources
- Value Added Tax resources
- Gross National Income

In responding to the European Commission's budget review most member states said that a system based on each member state's Gross National Income (GNI) would ensure each member state paid an equitable share:

> "A GNI based system is the most equitable as it is based on the member state's ability to pay and should provide a stable source of financing for the budget. It is also transparent and imposes a low administrative burden on member states." (Government of Ireland 2008)

This viewpoint was also expressed by the Netherlands Government who said:

> "There must be solidarity between prosperous and less prosperous member states. The Netherlands believes that the more prosperous member states should contribute to the development of the less prosperous member states. Payments to the EU must also be based on wealth. Where countries have similar levels of wealth, their payments to the EU should also be similar." (Government of the Netherlands 2008)

The responses of the Netherlands and Irish Governments are significant because if a system is to be introduced based on a member state's ability to pay it will require member states to ignore their potential receipts from the budget when agreeing how it will be financed. This would be a departure from the current approach which often sees member state governments calculating their potential receipts before committing to their contribution to the budget.

In contrast to the approach of the Irish Government, the German Government (the largest net contributor to the EU budget) suggested that a system of corrections should be maintained:

> "As long as unwanted distributive effects and distortions on the spending side and thus an excessively high net burden for individual member states cannot be ruled out, an adequate and effective correction mechanism on the revenue side is absolutely necessary." (Government of Germany 2008)

A number of member states including Germany, the Czech Republic and Ireland explicitly ruled out the introduction of an EU tax which would be used to raise money for the EU budget. Italy however, suggested that further research should be done on the option of a European tax.

> "This hypothesis has been criticised both on political grounds (opposition to a 'European tax', respect of member states' sovereignty) and for technical reasons (incomplete or lacking harmonisation of tax bases; regressive nature of certain taxes etc).
>
> Despite these difficulties, it is nevertheless necessary to pursue the analysis bearing in mind the merits of this approach. Devolving a share of the revenues of a national tax to the EU would make it possible to reduce the intergovernmental component of funding for the EU budget, whilst ensuring a direct link with the citizens in a more transparent framework." (Government of Italy 2008)

THE TIME PERIOD OF THE MULTI-ANNUAL FINANCIAL FRAMEWORK

At present, each Multi-annual Financial Framework is negotiated for a period of seven years. It has been suggested by some member states that the period of the Multi-annual Financial Framework should match the five year period for which a European Commission and European Parliament mandate lasts and that these five years should run simultaneously. Under the Treaty of Lisbon, member state governments agreed that the Multi-annual Financial Framework would run for a minimum of five years. This approach will come into effect if the Treaty of Lisbon is ratified by all 27 member states.

Figure 4 demonstrates the way in which recent European Parliament elections, changes of European Commission and agreement of Multi-annual Financial Frameworks have not taken place simultaneously.

Figure 4: Timeline of European Union Institutional Events

1985 – 1995:	European Commission – President Jacques Delors
1988 – 1992:	The First Multi-annual Financial Framework was agreed by member states.
1989	European Parliament Elections
1993 – 1999:	Second Multi-annual Financial Framework
1994	European Parliament Elections
1995 -1999:	European Commission – President Jacques Santer
1999	European Parliament Elections
1999 -2004:	European Commission – President Romano Prodi
2000 – 2006:	Third Multi-annual Financial Framework
2004	European Parliament Elections
2004 – 2009:	European Commission – President Jose Manuel Barroso
2007 – 2013:	Fourth Multi-annual Financial Framework
2009	European Parliament Elections
2009 –	New European Commission appointed

The Polish Government viewed seven year Multi-annual Financial Frameworks as advantageous because they allowed longer term strategic planning and made it easier to ensure continuity between EU level and member state level actions.

> "Multi-annual programming forced by the seven-year character of financial frameworks also enables coordination and cohesion of actions carried out at the Community level, with measures deployed in the member states and regions." (Government of Poland 2008)

KEY POLICY AREAS FOR THE EU BUDGET

Most member states agreed on the most important policy themes that the EU budget should be concentrated on. These were, in no particular order, the CAP, structural and cohesion funding, policies designed to boost growth and competitiveness and policies aimed to address the issues of climate change and energy which were commonly recognised as two of the most important challenges facing the European Union.

Common agricultural policy

In parallel to the EU budget review, the European Commission is also undertaking a review of the CAP. More information on the health check of the CAP is available in SPICe Briefing 07-68 *A Healthy CAP? The Health Check of the Common Agricultural Policy.*

Most member states recognised that reform of CAP had taken place in recent years. Most, felt that these reforms would need to continue after 2013. For example, the German Government stated:

> "Agricultural policy in the coming decades will be shaped first and foremost by the following factors: meeting the rising demand for food and non-food crops in a globalized world, creating and preserving vital and attractive rural regions, conserving biodiversity and adapting to the needs of climate policy. In addition, the increasing liberalization of markets continues to require measures to make the necessary structural changes in all sectors socially more acceptable." (Government of Germany 2008)

On a similar note, the Irish Government stated that:

> "The review should lead to a gradual evolution of the EU budget expenditure rather than radical changes.
>
> The need for continued food security and safety would warrant only gradual changes to the Common Agricultural Policy." (Government of Ireland 2008)

Most member state governments expressed their support for the continuation of the CAP and highlighted the current situation in terms of the world market for food and the danger of the EU not being self sufficient and having to rely on food imports from around the world when this particular market is currently very volatile and subject to fluctuating prices.

The Spanish Government suggested that one way of evaluating the true benefit of the Common Agricultural Policy would be for:

> "the European Commission to carry out a study of the cost of no CAP, in order to determine the costs, benefits and risks, resulting from any proposal to reform or change its orientation." (Government of Spain 2008)

The United Kingdom Government adopted a more fundamental position on the CAP:

> "Spending on Pillar 1[1] of the Common Agricultural Policy should be phased out. And against the backdrop of climate change, payments under a reshaped Pillar 2[2] of the Common Agricultural Policy should be focussed on delivering environmental benefits to society that would not otherwise be secured from the market." (HM Treasury 2008)

The Italian Government, whilst expressing support for the CAP suggested that co-financing could be introduced.

> "Italy had already raised in the past the possibility of national co-financing for direct aids: some saw this as a camouflaged way or re-nationalising the CAP. However, this reasoning is not correct, as Italy is in favour of maintaining the CAP, which is one of the main common policies implemented so far." (Government of Italy 2008)

[1] Pillar 1 of the CAP consists of Single Farm Payments and other remaining subsidies paid direct to farmers, and price support payments (which make up an ever smaller part of spending on the CAP).

[2] Pillar 2 of the CAP consists of rural development measures. The Scottish Government's Rural Development Programme describes how pillar 2 measures will be implemented in Scotland between 2007-2013.

Co-financing of the CAP is likely to prove unpopular with poorer member states such as Poland and Bulgaria who are, and will continue to be big recipients of CAP funding. Receiving large CAP receipts which require co-financing would be likely to put pressure on domestic budgets.

Structural and cohesion funding

Member state governments agreed that funding structural and cohesion policy should continue to be a priority for the European Union but disagreed about which member states should receive structural and cohesion funding.

As with the debate on this issue during negotiation of the 2007-2013 Multi-annual Financial Framework, some of the more prosperous member states felt that regional funding should only be available to the poorer member states whilst others felt that every region across the EU should be eligible for European funding in the event they faced economic problems.

The United Kingdom Government was, and still appears to be, a strong proponent of re-nationalising structural funds. This would involve the richer member states (in particular the net contributors) being responsible for funding regional development rather than receiving funds from the EU budget which would be allocated to regions in poorer member states. If this was to happen it would remove a European source of funding in Scotland which will be worth around £540 million between 2007 and 2013. In its response to the European Commission, the Scottish Government expressed support for the allocation of structural funds to regions across the whole EU.

> "Cohesion is an important policy objective for the EU which Scottish Ministers believe complements the priorities of increasing jobs and growth as well as sustainable development set by the Lisbon and Gothenburg Agendas. EU economic growth should take place within a framework of reducing regional disparities and a sustainable approach to the stewardship of our environmental resources. This alignment between cohesion, Lisbon and Gothenburg should continue in future with a greater integration of the strategic priorities set at the EU level for supporting economic and social growth and cohesion.
>
> Within this objective, we recognise that some regions require particular assistance. As part of our commitment to regional equity in Scotland, special attention is given to ensuring that remote areas of Scotland can contribute to, and benefit from, economic growth. For example, the Highlands and Islands region experiences sustained development challenges arising from population scarcity, dispersed business base, peripherality and infrastructure deficiencies. For this reason, we welcome the importance placed on territorial cohesion in the Lisbon Treaty and the recognition that peripheral parts of the EU can face significant challenges. This recognition should continue to inform the development of EU cohesion policy." (Scottish Government 2008)

Ireland and the Netherlands supported the United Kingdom Government's point of view that structural funding should be concentrated on the least prosperous member states. However, the Polish Government suggested that:

> "the significance of cohesion should not be limited merely to bridging of the development gap between less and more developed EU areas." (Government of Poland 2008)

This statement indicates that the Polish Government believes that structural funds should continue to be available for all member states and should not be, as the United Kingdom Government has suggested, re-nationalised.

Growth and competitiveness

Most member states recognised that the European Union can continue to use its budget to promote the work of the Lisbon Strategy for Growth and Jobs to ensure Europe meets its target of becoming the most competitive and dynamic knowledge based economy in the world, capable of sustaining economic growth with more jobs and better social cohesion.

The Italian Government's response to the review stated that:

> "The EU budget can play a complementary but very important role, to back national efforts to foster the competitiveness of the European economy overall. For action at European level can guarantee economies of scale and positive externalities in many areas.
>
> Developing the knowledge based economy, notably research, should be one of the items at the top of the European agenda over the coming years, using all available instruments (financial, legislative, regulatory, etc)." (Government of Italy 2008)

The Czech Republic's Government stated in its response that it saw the completion of the single market as an important aspect of the Lisbon Strategy and highlighted development of the single market as one of its key priorities during the review:

> "Despite the progress, a lot remains to be done before all the barriers are removed and EU citizens and companies can reap full benefits of the single market. Thus, during the discussions on the review, deepening of the single market and four basic EU freedoms (free movement of goods, labour, services and capital) will figure high on the list of Czech Republic's priorities." (Government of the Czech Republic 2008)

The United Kingdom Government shared the views of the Czech Republic's Government with regard to the Lisbon strategy and the importance of developing the single market.

The German Government's response acknowledged that many of the aspects of the Lisbon strategy were the responsibility of member states. However, one area in which the German Government felt the EU could take action was in the continued development of a European Research Area. Within this framework, Germany suggested that a possible new area of research which should be developed was in the environmental and energy fields.

> "In our view, one new priority is sustainable European research in the energy and environmental spheres. Research on improving energy efficiency, on developing sustainable energy technologies and on increasing the use of renewable energies should be paid special attention." (Government of Germany 2008)

Climate change and energy

Connected to the German Government's suggestion for more research on energy and environmental issues is the recognition of most member states that climate change and energy should be priority areas for the European Union and as a consequence for the EU budget over the coming years.

> "Europe has taken on an ambitious role in the debate on climate change and has set strict objectives. The question that now arises is how far this should be reflected in the EU budget." (Government of the Netherlands 2008)

Most member states supported the view that more research and development resources should be allocated to meeting climate change and energy objectives. This view was put forward by the German Government and the Government of the Netherlands.

> "With regards to mitigation efforts, the Netherlands views research, development and demonstration as crucial if climate objectives are to be met. This is especially true in relation to renewable energy sources, Carbon Capture and Storage (CCS) and energy efficiency." (Government of the Netherlands 2008)

The Polish Government also proposed the development of research solutions to combat climate change and that regulatory solutions should be sought.

> "Central importance for efficiency of EU response to this challenge will be played by regulatory solutions, including the extent to which they will reflect the treaty objective of aiming at economic convergence. However, development policies financed by the EU budget should also contribute to addressing climate change and adaptations to the effects thereof." (Government of Poland 2008)

POSSIBLE REFORMS OF BUDGET

Professor Iain Begg from the London School of Economics paints a very gloomy picture of the challenge facing member states in agreeing reforms to the EU budget.

> "Many of the facets of the EU budget that warrant attention in the review have proved to be so difficult to resolve since 1988 that they have been fudged and it is a safe bet that many of them will just not be addressed in the review. Yet if a reformed budget is ever to emerge, these issues will need, one day to be confronted." (Begg 2007)

Iain Begg's gloomy outlook is based on the fact that previous budget negotiations have failed to deliver the reforms necessary for the budget to operate more effectively. This is in large part because during previous negotiations member states have put their national interests ahead of those of the European Union as a whole. Member states have done this by focussing on the bottom line in terms of their net contributions to the European Union. In the past, says Begg, most member states have been guilty of paying too much attention to this issue and not enough to ensuring the budget can deliver for the Union as a whole.

> "But individually, EU countries mainly care about their net contribution to the budget (the difference between what they pay into the budget and what they get out of it through the CAP and other EU policies). There is no mechanism to achieve acceptable net positions. Instead, governments manipulate EU policies to make sure that they receive their 'fair' share of EU money. Or if this does not work, they add national rebates. As a result, the EU regularly ends up with budgets that are inefficient, badly targeted, ludicrously complicated and hardly worth the countless hours of political fighting that precede them." (Begg and Heinemann 2006)

It is generally accepted that the focus on national over EU wide interests will need to change for the EU to be able to use its budget more effectively.

Member states will also need to address the thorny issue of corrections. There are so many corrections in place now for different member states and different regions within member states that the whole process lacks transparency. A simpler formula for raising the budget would make the process more transparent and might even remove the politicisation of the budget.

This issue was addressed by Zuleeg and Hagemann (2008) in a paper on the EU budget review. They outlined what they felt should be the five key priorities to be achieved by the review. These were:

- Ensure the budget is driven by policy priorities
- Use the best available tools to achieve EU wide results
- Focus on delivery
- Be more open
- Align the political and budget cycles

Under the heading 'Be more open' they suggested decoupling expenditure from revenue. According to Zuleeg and Hagemann this would:

> "shift the focus from the traditional *juste retour* discussion to one in which the emphasis is on what member states contribute and on what basis." (Zuleeg and Hagemann 2008)

The suggestion by Zuleeg and Hagemann that the political and budget cycles should be aligned is another issue which could be addressed by the review. At present the mandate for the European Commission and European Parliament is five years compared to the seven year Multi-annual Financial Framework. For instance, the current Framework will finish at the end of 2013 and responsibility for negotiating a new Framework will fall to the Commission and the European Parliament (along with the European Council) whose mandates will be due to expire around six months into the new Framework. Begg suggests that this means the Multi-annual Financial Framework is no longer fit for purpose.

> "Although it has been a successful means of defusing and forestalling disputes about the budget, the multi-annual financial framework has proved to be too inflexible and is ripe for reform. There have been two main effects over the years. First, precisely because the core of the septennial budget agreements has been an allocation of money to broad headings of expenditure, there has been little opportunity for adjusting the amounts subsequently without risking a further descent into acrimonious disputes. Second, the timetable for these settlements largely inhibits discussion of European political priorities and, as a corollary, nourishes the *juste retour* dimension of budgetary politics. Accordingly, a switch to a quinquennial cycle aligned with the European Parliament electoral cycle and the Commission mandate is advocated. Starting with a timetable that is mid-point to mid-point of the European parliamentary term would, probably, be easier politically, although the fact that 2014 would be the date for the election of a parliament might argue for coincident cycles starting then. Either way, there should be institutionalisation of a mid-term review with a fairly wide-ranging opportunity for revision of the MFF." (Begg 2007)

Another issue which member state governments will need to address concerns the size of the future budget. The traditional net contributors would prefer to see the budget limited whilst the countries who have been net beneficiaries would it to be set according to the European Union's priorities rather than the amount set first and then allocated to different policies. According to Begg (2007) the net contributors desire to limit the budget would mean reneging on a promise that the EU budget would be used to help boost the economies of the poorer member states:

> "On the one hand, the countries that have become net contributors to the budget (such as France and Ireland) may start to question their traditional support for the CAP. The accession to the EU of so many countries with large, relatively backward agricultural sectors (and the prospect of Turkey joining) is bound to focus minds on issues such as value for money and the benefit of the budget. Already, mutterings can be heard in Brussels about cutting the budget to 0.7% of GNI, rather than today's ratio of just over 1%. On the other hand, the recently acceded members believe, not unreasonably, that they are entitled to (and were promised) higher receipts and they expect the promises to be honoured." (Begg 2007)

The way the budget is raised also presents a challenge for member state governments. In response to the Commission's consultation, most governments expressed support for a system based broadly on Gross National Income. One option which was explicitly ruled out by a number of member states was the introduction of an EU tax. However, Iain Begg has suggested that the introduction of such a tax might be just the policy the European Union requires.

> "An obvious element in a major reform of the budget would be to have an explicit EU tax or taxes, even though the temptation is always to place this in the 'too difficult for now' box. As noted in the second section of this paper, finding a suitable tax is not, in itself, an unduly demanding challenge, provided first, that it is borne in mind that no single tax will

fulfil all conceivable criteria and, second that its introduction does not raise the overall tax burden. The EU should set itself the goal of moving to the funding of the EU budget by explicit taxes, with a precise target date for achieving this transformation. In doing so, a wide debate should be encouraged on which tax base to choose, on the design of the tax and on the rate at which it is levied, and the temptation to avoid the option of new taxes for fear of upsetting the electorate should be rejected." (Begg 2007)

CONCLUSION

The European Union's budget provides a source of controversy and political conflict between member states. Fundamental issues such as the size of the budget, how it is raised and how it is spent along with the various corrections given to different member states have all combined to make it an issue which Europe's leaders have struggled to successfully address over the last three decades.

Agreement of the Multi-annual Financial Framework for 2007-2013 included a commitment to undertake a review of the budget covering the issues detailed above. This review was kick-started by the European Commission's publication of a consultation paper in September 2007. All but one member state government responded to the review and set out positions on issues such as the policies that the budget should be used to finance along with how the budget should be raised.

Commentators on the budget review have highlighted it as an opportunity for the European Union to tackle many of the problems which currently afflict the budget, in particular the issue of *juste retour*, where Member State Government's are concerned about the bottom line figures and whether they get appropriate receipts from the European Union in comparison to the amount of money they have contributed to the budget.

One issue, on which there seems to be universal agreement on, is that the European Union needs to reach a satisfactory outcome as a result of the review to allow the EU to move forward.

> "Eastward enlargement and recent economic developments in many member states make large-scale reform of the EU budget essential to enable the Union to function more effectively. Furthermore, the Union and its member states will face many difficult challenges in the future which the current budget is not equipped to deal with." (Zuleeg and Hagemann 2008)

> "Although there is an inevitable risk that a review of an agreement as hotly contested as the EU budget will be little more than a cosmetic exercise, Europe's leaders will forgo a golden opportunity to deal with one of the least satisfactory aspects of EU governance if they do not take the 2008/9 review seriously." (Begg 2007)

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ANNEX A - UK GOVERNMENT RESPONSE TO THE COMMUNICATION

> "Europe looks very different now to how it looked in the decades immediately after 1945. The EU budget must reflect this changing context to help equip the EU to thrive in an era of globalisation. In today's budget, there is significant spending on agricultural subsidies that lack a credible policy rationale and on regional aid to parts of the EU that are no longer poor. Far-reaching reforms will be required to reorient the budget so that it is fit for the 21st century." (HM Treasury 2008)

The United Kingdom Government published its contribution to the budget review debate in June 2008. "Global Europe: vision for a 21st century budget" outlined the policy priorities which the United Kingdom Government feels are the most important for the European Union budget to address.

The UK Government's first conclusion was that "the European Union budget needs fundamental reform to address the key challenges that matter to citizens in the 21st century". The UK Government suggested that resources should be allocated to EU action in three priority areas, these were:

- Building a prosperous Europe within a strong global economy
- Addressing the challenges of climate change
- Ensuring security, stability and poverty reduction

The paper also suggested that "spending on agricultural support should be reduced".

PRINCIPLES FOR DESIGNING A FUTURE EU BUDGET

The United Kingdom Government argued that it is essential that in future resources are used more effectively. As a consequence they have suggested three principles around which a future EU budget should be designed.

1. The EU should only act where there are clear additional benefits from collective efforts or "EU added value", compared with action by member states, either individually or in co-operation.

2. Where EU-level action is appropriate, it should be proportionate and flexible. We must recognise the limits to EU budgetary intervention. Expenditure is just one of a number of policy levers, alongside coordination, sharing best practice, and legislation or regulation. In addition, the full range of financing options should be considered, including both grant and loan finance.

3. There must be sound financial management at all times, including the highest standards of financial control and independent audit, and greater focus on delivery of outcomes in programme design and evaluation. It will be important to maintain budget discipline. (HM Treasury 2008)

The principles set out by the UK Government are an attempt by them to set the parameters which should be used when it is decided how the EU budget should be allocated. The key principle seems to be that of seeing the EU budget used to "add value". This is a commonly held view that the EU should only act in areas where it can actually make a worthwhile contribution and where it is better placed to act than individual member states. A good example often used of this is in addressing climate change where it is often agreed that the EU is better placed to coordinate the responses of all twenty seven member states rather than to leave it to individual country's to respond in a way which they think is most appropriate.

THE POLICY AREAS IN WHICH THE EU BUDGET SHOULD BE SPENT

The UK Government's contribution to the budget review highlighted the areas in which it thinks the EU budget should be targeted.

Building a prosperous Europe within a strong global economy

In 2000, in the face of strong economic competition from the United States of America and the emerging Asian economies such as Japan, China and India, and with around 15 million EU citizens officially unemployed, EU leaders agreed a new strategic goal for Europe. This agreement was called the 'Lisbon Strategy''. Simply stated, the Lisbon Strategy set out a series of objectives the aims of which were to make the EU the most competitive and dynamic knowledge based economy in the world, capable of sustaining economic growth with more jobs and better social cohesion.

In 2008 progress towards achieving the targets of the Lisbon Strategy will continue. The enlargement of the EU in 2004 brought many new countries into the Union with less developed economies. This along with rapid globalisation and the continued rise of China and India means that the challenges faced by the EU in 2000 are still present today and are more urgent.

The UK Government argues in its contribution to the review of the EU budget that as a result of the economic challenges facing the European economy this is where much if the budget should be targeted.

> "Europe must ensure that globalisation works for its citizens – by delivering sustained and sustainable prosperity, in an inclusive and cohesive way, so that prosperity is shared by all. An important part of this is boosting growth and providing more and better jobs. To achieve that, member states must continue internal reforms to promote investment in skills, research and innovation, and improve the flexibility of their economies so that they can respond to globalisation, based on a commitment to the Lisbon Strategy." (HM Treasury 2008)

According to the UK Government one of the primary aims of the European Union should be to "ensure that citizens benefit from globalisation".

Addressing the challenges of climate change

As discussed earlier, one of the areas in which it is commonly accepted that the European Union can make a difference is in tackling global issues such as climate change. The UK Government acknowledges this:

> "The EU has a crucial role to play in confronting the challenge of climate change and moving to a low carbon economy, in protecting natural resources and preventing environmental degradation. Climate change is an international challenge that requires countries to work together. The EU has made commitments to cut its emissions of greenhouse gases, increase the proportion of energy from renewable sources and encourage the introduction of low carbon technologies such as carbon capture and storage. It has established an emissions trading scheme and is working internationally to

secure a global agreement for emissions reductions to help developing countries respond to climate change." (HM Treasury 2008)

The UK Government has suggested ways in which the EU budget should be used in the future to work towards the aim of addressing climate change. These include;

> "Supporting well targeted research, development, demonstration and deployment of low carbon technologies, adding value to national programmes to help enable the EU to lead in the technologies of the future, maximising the opportunities for jobs and growth and avoiding the worst impacts of climate change in a cost efficient way and by supporting member states in honouring their commitments on climate change".

Ensuring security, stability and poverty reduction

According to the UK Government, the EU through its budget has a role to play in "promoting security and stability in neighbouring countries and beyond". It argues that global issues such as threats to security, international crime and terrorism and the impacts of climate change do not stop at the EU's borders.

> "The EU is working with countries around its borders, with other strategic partners and with countries in crisis to respond to these threats, to make the EU and beyond a safer place to be." (HM Treasury 2008)

The European Union also spends part of its budget on international development. According to the UK Government:

> "EU development policy must be better focused on the immense task of eradicating global poverty, including by meeting the commitments under the Millennium Development Goals and promoting environmental sustainability. To achieve this, fundamental reform of the European Commission's overall management of aid is needed. The better-focused European Development Fund should remain outside the budget until then." (HM Treasury 2008)

FAIR AND TARGETED SPENDING

Having outlined the policy areas in which it believed the EU budget should be focused, the UK Government's submission then outlined where it believed the budget should be spent. With reference to structural and cohesion funds, the UK Government explained that it believed that the majority of spending should be focused on poorer member states.

> "Reorientation of the budget towards new challenges also requires a principles-based assessment of how funds are targeted. Redistribution to less prosperous member states has been and should continue to be a function of the EU budget. Income disparities between member states have widened since recent accessions and the recent entrants to the EU are still in the process of developing their economies as part of the convergence process. Future environmental policies and the new climate change targets will also place costs on the continued development of all member states in the short term. The EU must view Structural and Cohesion Funds as its primary tool for targeted redistribution; any move to widen the mechanisms of redistribution beyond the EU budget could call into question their rationale." (HM Treasury 2008)

The UK Government's response expresses concern that much of the redistribution carried out through the EU budget involves money being redistributed amongst the more prosperous EU member states.

> "Much of the redistribution in today's EU budget does not conform to the UK's budgetary principles. Whilst there is some redistribution from richer to less prosperous member states, there is still significant redistribution of funds between prosperous countries of similar wealth, and even within regions; some structural funds cycle from a region, via national governments to the EU budget, and back to the region incurring higher transaction costs." (HM Treasury 2008)

Effectively the UK Government's response to the budget review makes clear a position it first advocated during negotiation of the 2007-2013 Financial Perspectives, that structural and cohesion fund spending should be renationalised for the EU's richer member states to prevent the flow of money as described above.

IMPROVING DELIVERY

The final area which the UK Government's response addresses is the way in which the EU budget is delivered. The UK Government suggests that for the new priorities to be delivered successfully, five reforms should be introduced:

- Greater focus on outcomes
- Consistency and complementarity between policy areas
- Changes to audit procedures
- A more performance orientated administration
- More innovative financing

ANNEX B - THE SCOTTISH GOVERNMENT'S RESPONSE TO THE EU BUDGET REVIEW

The Scottish Government decided to submit its own response directly to the European Commission's budget review. The response was sent by the Cabinet Secretary for Finance and Sustainable Growth, John Swinney MSP.

The Scottish Government's response sets out what it thought where the key principles which the budget should adopt:

> "In line with the important principles of <u>subsidiarity and proportionality</u>, the Scottish Government believes that the EU budget should be better concentrated on areas of expenditure where <u>Europe can add value</u> compared with spending at the national and regional level. EU spending should also be <u>better focussed</u> on the new policy challenges which Europe faces and there should also be <u>more flexibility</u> to enable EU spending to adapt more quickly to the inevitable changes in priorities which occur during a seven year spending period." (Scottish Government 2008)

The Scottish Government also raised concerns about the bureaucracy and administration required of recipients of European funding.

> "In order for EU monies to be correctly targeted and supportive of the wider objectives they are intended to meet, the bureaucracy and administration of EU funding must be lighter than at present to ensure that bodies are encouraged to apply for EU funding, the necessary guidance is in place to support their applications and that the system from application through to management is clear, consistent and user-friendly. The Scottish Government is aware of many potential bodies and businesses which have resisted applying for EU funding simply because of the disproportionate level of bureaucracy involved." (Scottish Government 2008)

The Scottish Government's response also detailed the policy areas in which it thought that the EU budget should be targeted in the future. In line with its own Economic Strategy it highlighted five strategic priorities which it said are internationally recognised to be critical to economic growth. These are:

- Learning, Skills and Well-being;
- A Supportive Business Environment
- Infrastructure Development and Place;
- Effective Government;
- Equity;

The Scottish Government's response also expressed support for the UK Government's belief that the EU budget should be spent in three key areas:

- Building a prosperous Europe within a strong global economy
- Addressing the challenges of climate change
- Ensuring security, stability and poverty reduction

The most significant elements of the Scottish Government's response relate to policy on the CAP and structural and cohesion funds where their policy appears to diverge from the UK Government position.

SCOTTISH GOVERNMENT VIEW OF THE COMMON AGRICULTURAL POLICY

As discussed earlier, the UK Government's response to the EU budget review called for a large reduction in the proportion of the budget allocated to the CAP. The Scottish Government response to the European Commission stated:

> "The Scottish Government notes the UK Government's view that EU spending on agricultural support should be reduced. There is certainly a strong case for public spending to be better focussed on specific schemes that can be shown to deliver public goods in line with the EU's own strategic priorities. The Scottish Government's vision for Scottish agriculture is for a dynamic and competitive industry with a continuing and important role to play in food production." (Scottish Government 2008)

This statement shows that the Scottish Government were keen to ensure that the money it currently receives for its Less Favoured Areas from the EU budget as part of the CAP should be maintained though it is careful not to state a preference between receiving the money through the EU budget or from the national funding arrangements.

SCOTTISH GOVERNMENT VIEW OF STRUCTURAL AND COHESION POLICY

The UK Government's response to the budget review suggested that structural funds should be re-nationalised for the more prosperous member states. This would in effect mean that the United Kingdom would no longer receive structural funds and responsibility for regional policy would revert to the UK Government. This would probably leave the Scottish Government responsible for funding regional development from within the Scottish Assigned Budget.

The Scottish Government's response to the budget review compliments the way in which EU structural funds provide support for less prosperous regions and calls for that support to continue.

> "Cohesion is an important policy objective for the EU which Scottish Ministers believe that complements the priorities of increasing jobs and growth as well as sustainable development set by the Lisbon and Gothenburg Agendas.
>
> Within this objective, we recognise that some regions require particular assistance. As part of our commitment to regional equity in Scotland, special attention is given to ensuring that the remote areas of Scotland can contribute to, and benefit from, economic growth. For example, the Highlands and Islands region experiences sustained development challenges arising from population scarcity, dispersed business base, peripherality and infrastructure deficiencies. For this reason we, we welcome the importance placed on territorial cohesion in the Lisbon Treaty and the recognition that peripheral parts of the EU can face significant challenges. This recognition should continue to inform the development of EU cohesion policy." (Scottish Government 2008)