

Rethinking EU finances in times of crisis **Turin Workshop – Villa Abbeg - 7-8 July 2011**

Opening Keynote Address

by Antonio Vitorino, President of *Notre Europe*

Good afternoon to all of you. I will start by joining Gianni and Umberto in thanking the *Compagnia di San Paolo* for her hospitality and for being a key sponsor of the four think tanks that are here around the table. I would also like to express the very positive assessment that *Notre Europe* has on our cooperation with the *Centro Studi sul Federalismo*, with the European Policy Center and with the *Istituto Affari Internazionali*.

I would like also to recall you that this project and this exercise on the European budget was a very cherished project for my predecessor, Tommaso Padoa-Schioppa, whose legacy I would very much like to remember on this occasion, in the moment that I have the responsibility of chairing *Notre Europe*.

First of all, I think that we should praise the fact that this is the first debate among European think tanks, just a short fortnight after the Commission came up with its long awaited proposal of financial perspectives. I also apologize for the fact that I will start by slowdown, just to cheer up a little bit at the end of my presentation.

The slowdown is that, probably, this is not going to be the EU budget that each and every one of us would have like for the European Union. There is no advantage (at least I see no advantage) from discussing what should and could be the ideal budget for Europe. Because we cannot ignore the constraints that exist today at the European level. I do not refer only to political constraints, but also economic constraints – this will be one of the key arguments in the debate about the EU budget, the fact that all member states are passing austerity plans in their own national budgets will project a certain shadow on the European budget's debate.

Thus, we cannot depart from the existing economic situation, and we need to make the case (and the advocacy) for the role of the European budget in overcoming the economic crisis and in putting the EU back on track in the way of economic growth and social cohesion.

Having said this, I think the crisis can help us. It can help us, in the sense that it would be absolutely suicidal for European leaders to add up an endless, bitter budgetary negotiation - or even a deadlock - , I would be suicidal to add this up to the current strains of the euro. That would have serious political consequences, and I hope that the civil society can make the case that it is absolutely fundamental to avoid an endless crash on the financial perspectives in the specific economic and political circumstances we are today.

One of the advantages of the Commission's proposal, one element we should welcome is that it does not split the debate on expenditures and on EU's resources. If the negotiation evolves by splitting the two issues and leaving us confined to the question of expenditures, then it will be almost impossible to avoid being hostages of the rebate debate and the 'just retour' concept – which is one of the most poisoning concepts in EU budgetary debates.

At the end of the day, we have to recognize that time has come to return 'back to basics'. At the origin, the European Economic Community was an original creation, in part because it had a self-sustained system of own resources. Over time, as we all know, things changed and the EU became increasingly dependent on national contributions. Now it's time to make the EU financing more free from national contributions, this is a key issue for the EU's future. Of course, we cannot expect a shift of paradigm overnight; this will not happen, but today we are confronted with the challenge of trying to pave the way, to open the door for introducing changes on the revenue side which can make the European budget less dependent on national contributions.

I believe there are three basic tests against which we should assess the Commission's proposals: The first test is whether the Commission's proposal provides an 'added value' over and above what member states do; the second test is whether the Commission proposes the right priorities, the strategic priorities for Europe in current times, and the third and last test is whether the Commission's proposals will help Europe exit from the current crisis and project Europe towards a new era of growth.

I guess that different people could provide different answers to these three tests, and the degree of ambition and the probability of meeting the three targets may be differently perceived in each case of the budgetary big building box.

Let me start with the priorities. Of course, the EU budget represents a tiny fraction of the overall public spending in Europe today, and it will remain as such in the future. The point is to know whether the priorities chosen would provide the necessary leverage effect on national public financing. It has always been like that. It is not a question of replacing national budgets; it is a question of knowing if the priorities that have been picked up by the Commission can play that leverage role that is essential for economic growth in Europe.

Personally, I think that the innovative proposal on European "project bonds" can play this role of leverage effect. It does not represent a shift in paradigm for the whole budget, but it offers a new way of doing things that, if proved to be effective, can have a spillover effect in the future. It will be hard to explain to national bureaucracies and – if I may say so – also to the European bureaucracy. It will be difficult to explain that the good old times of subventions are in their way of phasing out. But there is a need to develop a new approach to the use of European budget and its leveraging expenditure both at national and European level, through these kinds of mechanisms that are closer to the market and take the most of what the market can get as far as financing European projects is concerned.

My second remark is about added value. I do believe that some of the strategic priorities that have been picked up by the Commission do represent added value. There are things in the European agenda that can only be done at the European level, can no longer be effectively delivered at the national level. Of course, I am thinking probably about my area; I am thinking about security and migration, about asylum, I do believe those are areas that should be broadly enhanced as far as EU spending is concerned.

But the same criteria can be used to the fight against climate change, or to pan-European infrastructure investments in the areas of energy and communication that will have a key role to boost the internal market- probably we should recall that the internal market is not yet completed. The Monti report has shown it that quite clearly, and sometimes we should be more humble in our speeches and recognize that we should go "back to basics" and we should put European budget at the service of completing the internal market in these key areas that I have just mentioned to you.

As far as added value is concerned, I would also add to the list the projects the Commission has put forward for investing in research and innovation across the border. Here my only caveat is that, in this area of investment, we need to be careful in proceeding in an inclusive way. What I mean by that is that we should finance projects on the basis of excellence criteria – this is money liberated from national envelopes and I thoughtfully agree with that. However, in the implementation of this approach, we should not create the idea that these kinds of projects are only tuned for the most advanced regions in Europe. We should not lose from sight the less-developed regions, even when it comes to investigation and research (but probably this is an opinion from someone who comes from a country that you know very well).

My third remark is about competitiveness. I think that the broad idea that is behind the proposal of the Commission – that is, to streamline Europe 2020 agenda's priorities in the budget- is a very positive one. But we now need to make the case: how the financial tools can be used for that purpose? Because Europe 2020's targets are very broad, and very abstract. The secret is to fine-tune these targets and to link them with specific financial mechanisms included in the EU financial perspectives. And, of course, the creation of a Fund for investment in transport, energy and telecommunications is definitely a key element in this respect.

I would conclude with a reference to revenues. Well, each one of us has for sure his or her 'petty' resources, and there will be no agreement about what should be "the" own resources to be prioritized. I believe that the Commission's proposal is a good starting point for discussion; whether it is about the new VAT approach, whether it is about the EU levy on financial transactions. There could be others, but the importance for me is to start the debate as soon as possible and not to leave the debate go down during this one year and a half of discussions. If we lose from sight the debate on resources, more than half of the exercise will be, in my opinion, lost.

Having said these very general remarks, I believe that one should bear in mind the fact that thanks to the changes introduced in the Lisbon Treaty, the European Parliament will have an enhanced role in the discussion of the EU financial perspectives. And I believe that think tanks and civil society groups should be very active in monitoring and participating in these debates in connection with the European Parliament. For the first time, this issue is not just a dialogue between the Commission and the member states – there is a new player in town, and I am sure the European Parliament will have a high prominent role in these negotiations. We should be very active in encouraging the European Parliament to take full part into the debate. That will be not only a reinforcement of democratic accountability, but I think it will also be an ultimate test to European solidarity, which is the major value at stake when we discuss the multiannual EU financial perspectives.

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