

European interview

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"The European Budget must focus on future spending to support growth and to revive competitiveness"

Interview with Alain Lamassoure (EPP), chairman of the European Parliament's Committee on Budgets

1. "The 2012 and 2013 budgets seem to be the focus of bitter compromise. We are now in stalemate. At the same time debate within the European Council over the multi-annual financial framework 2014-2020 will be tough. Can you remind us of how we came to be in this situation?"

The difficulty lies in the fact that the European budgets are financed by national budgets and that these are themselves subject to extremely severe constraints. For two years running, in 2011 and 2012, in a bid to help the Member States, the European Parliament accepted to set the European budget at a level that was deemed satisfactory to the main so-called "net contributors", i.e. basically France and Germany.

However we knew that in 2012 the level of payment appropriations, which enable spending during the year, were in danger of being too high. Hence we added a commitment to our agreement on the 2012 budget, which made it possible, if necessary, to adopt an additional budget to top-up the payment appropriations to the necessary level.

In October already we saw that the main European programmes were running short of money: the European Social Fund, the Sustainable Development Fund, the Framework Research Programmes, the Fund for Humanitarian Aid, Erasmus and the university and school exchanges etc ... Since September the coffers of these programmes have been empty. Some Member States had some funds set aside, which enabled them to continue funding these programmes, but overall there is not one single euro left available. Hence the European Parliament declared, in a quite reasonable and logical manner, and which no one could challenge:

"We cannot seriously start negotiations for next year's budget without having paid the bills of 2012 and without having topped up the 2012 budget to a total of 9 billion €." This amount represents the bill to pay in 2012 in the knowledge that no country, no budget, not even in the UK, can challenge this. But to our surprise and disappointment we see that to date, the UK, as per usual, but also France and Germany, are refusing to pay this bill. Are we credible if we're examining a draft budget and we start off by not honouring the political and legal commitments that we took last year?

2. "How can the European Parliament force the Member States to pay this bill?"

Threats have been carried out: we have rejected the budget. Of course this blocks the situation in 2013. But seriously, in which family, in which company, in which town, in which State is it possible to discuss or decide on next year's budget if we are unable to complete this year's budget? I have never encountered anything like this, either in Europe or France. In all events the 9 billion € will have to be paid, no one is challenging this. We have to pay according to a varying timetable, depending on the programmes, ranging from 45 days and 2 months or within 2 months after 31st December, in other words at the end of February. We say that we have to add 9 billion € to the 2012 supplementary budget as suggested by the European Commission, either partly in the 2012 supplementary budget or the initial 2013 budget. The sum will have to be paid at the beginning of 2013 at the latest, it is as simple as that and naturally governments will have to accept this. Again no one can challenge this argument.

I have just held a conference with around one hun-

dred representatives of Bavaria, the German Land that is most attached to budgetary austerity and the one which ensures most attentively that the European budget is well managed, not for it to increase, but for it to be managed better without adding any more money. Obviously they were shocked to see that last year's bills could not be paid.

3. "Regarding the 2013 budget opinions vary greatly, notably concerning the British rebate but others also want to see the implementation of the "I want my money back" principle. Regarding the budget's total the Commission has made a higher proposal; there has also been a request for a reduction in the budget on the part of the President of the Council. These are quite opposite views: the European citizen is lost. Can you round up these contradictory positions? Secondly how will this money be spent, will it be necessary to reconsider the spending structure of policies such as the CAP which represent 40% of the community budget?"

Negotiations started off badly and I regret the method chosen by President Van Rompuy. This comprised a bilateral interview, which in European terms is tantamount to a confessional, with each of the Member States and with the European Parliament, because there can be no agreement without the approval of the European Parliament. Then a compromise is put forward that might satisfy each of the 28 Member States (Croatia is due to join us next year and is therefore involved in these negotiations), and the European Parliament. But where is the European spirit in all of that, where is the European vision?

During the European Council on 22nd and 23rd November I would like the question to be placed on the level it deserves. We are in 2012, the Union is in the midst of an incredibly violent crisis in the wake of the bankruptcy of Lehman Brothers and of all that followed (sovereign debts, euro zone crisis etc.). The European Council was forced to take decisions, courageously and painfully, but it succeeded, which led to the consolidation of the Economic and Monetary Union and to the establishment of what seems to be an original system of solidarity between European countries: the Budgetary

Treaty, the European Solidarity Mechanism, the launch of the banking union, which still has to be defined, but on which there has been a political agreement etc ... On this basis we have to see how we are going to settle the crisis and revive growth. Without this recession will weigh over us all for the year to come. This would wipe out all of the consolidation work that we have accomplished to date. How are we going to recover competitiveness again before 2020? In brief, we should be looking into how to end the financial crisis, how to revive growth and how to recover competitiveness.

Given these goals what role can the European budget play in all of that? We know that it is a small budget which will not increase much. It only represents 1% of the GDP, i.e. 40 times smaller than the sum of the national budgets. It is of course these budgets which are the main economic weapon, but the European budget is still important, if it focuses on future spending that will lead to the support of growth and the recovery of competitiveness. From 2012 to 2020 what kind of budget will be available to complete what we have started over the last few years? How much will it total? What should the priorities be and how are we to fund them? Resources are in short supply everywhere – where can we find new financial resources to fund the European budget which we need? This is the way that the heads of State and government should consider the problem. Unfortunately it is an exercise that has not been undertaken at this level in over 30 years, since the Fontainebleau Council in 1984, when President Mitterrand, Chancellor Kohl and Margaret Thatcher agreed on the foundations of a European budgetary framework which has been our base for the last 28 years. The successive meetings that have taken place every seven years between their successors have simply renewed the previous agreements. Each of the heads of State and government have left the settlement of negotiations in the hands of the budget ministers, or at even a lower level.

This time however I believe that the heads of State and government should behave as such and not like managers of a budgetary office. I regret that the method used is leading in fact to the wrong approach, with them trying to solve the problem via an acceptable compromise between the Member States. This method leads to confrontation because it is based on opposi-

tion or in all events – it exacerbates – the opposition of the net contributor countries, who want to pay as little as possible, with the net beneficiary countries, who want to receive as much as possible. It is an unacceptable position for the countries in the first category, and humiliating for the citizens, the populations in the second category.

And so I am advising on a European approach and the quest for new resources being the priority, such as the tax on financial transactions for example, which is already under discussion, a carbon tax on the most pollutant emissions to relieve the national budgets. The cord that exists at present between the national budgets and the European budget also has to be cut so that finally the European Union can enjoy adequate means to face the 2014-2020 period.

4. "So you advise that we stop pressing the budgetary "copy and paste" button ongoing for the last 30 years?"

Exactly! We have to reinvent a budgetary model: in my opinion the danger is not really that the total will be frozen, it lies in the potential fossilisation of the budget and it becoming an historic monument. At present about 40% is devoted to agriculture, 40% to the regional and cohesion policy, 10% to the foreign policy, 10% to new competitiveness policies; it has been like this for the last fifteen years, with funding being provided by national contributions. So the danger we face is that in 2020 we shall have a budget whose total, distribution and funding match the needs of Europe in the 1990's. This situation would be quite deplorable.

5. Regarding this new model we see that there is no agreement over own resources. For example the tax on financial transactions: it involves a number of specific countries in the European Union. How can we imagine that in the future that this sum will be allocated to the entire European budget? With a struggle we might believe that this transaction could be set at a certain amount which might be part of the British rebate or something else. There is a kind of schizophrenia going on here. Is it possible to move towards more integration and more autonomous own

resources, with, at the end of the day, very different political views?

It is not a federal vision. We have to understand that the European budget is funded by its own resources, which some call in a somewhat provocative way 'European tax'. But this has existed since 1951; it has been in the treaties since then.

The Economic Community, which the UK joined in 1973 was an economic community financed by European or federal resources – call it what you may – comprising customs duties, a tax on steel and mining companies' turnover in the case of the ECSC and 1.43% of VAT which was affected directly to the European budget: everyone found that normal, the eurosceptics were not clamouring about federalism.

We have to return to a situation like this. The good news is that the argument I am using here seemed totally unrealistic and utopian just a year and a half ago. People listened to me smiling politely saying "You'll never do it." Today it has become the European Parliament's official position and the European Commission has put real proposals forward according to what is allowed in the Lisbon Treaty. As far as these issues were concerned we could not do this before.

Furthermore most Member States are not challenging the need to review the resource system. In the case of the tax on financial transactions it is very interesting because of course there are countries which prefer to say *"I do not want to take part"* meaning – *"I hope that this tax will penalise the financial activities of those who use them, and therefore I shall benefit from this"*. Except that two things will happen.

First of all eleven countries are prepared to introduce this tax, which will be implemented even in countries that are not taking part in the enhanced cooperation, such as the UK for example. Why? Because it is an indirect tax. If there is a transaction with the UK or the City and Wall Street there will be no European tax. However on all transactions between the City and the European continent or between the City and the participating countries, the player on the City side will also pay half of the tax. British citizens will realise that they are paying too, except that because they will not be taking part directly in this tax they will not be participating in the decisions taken about it. This is one point to think about.

Secondly the British will see that as soon as Italy, Spain and Germany implement the tax and decide to use the revenue in the European budget, these countries will be able to reduce their national contribution to the European budget by as much and this will relieve their national budgets. And so these countries will win twice just as the UK will lose out twice. We shall see. In my opinion, it is by showing the way that we will solve the present contradictions, i.e. by applying the European Treaties to the letter, which stipulate that the European budget shall be financed by European Union resources, the idea will grow. The greater the clash, the greater the danger that stalemate will be total at the European Council on 22nd and 23rd November – and this solution will seem all the clearer to everyone.

6. "You have changed your position regarding the euro zone budget. Why?"

I invite our French friends and Robert Schuman Foundation readers to consider this problem again. Since the Maastricht Treaty the French, whether they are traditional pro-European centrists or European Gaullists (Balladur, Juppé, Sarkozy, Fillon), or socialist – have all felt that Europe must move forwards quicker. Some countries are systematically against this idea, like the UK or those which are just not in a hurry, which cannot move as fast. So the avant-garde have to spearhead the movement. Call it what you will, avant-garde, first circle, whatever.

This avant-garde has to be the euro zone since these are the countries which already share the single currency and which have more common interests, and who, at the same time, have shown greater commitment to being members of the European Union. This was true fifteen years ago. We can pretend that nothing has happened in those fifteen years. But since then there have been two major developments.

Firstly, and contrary to what we imagined then, the euro zone members have not remained a limited circle of six. There are now 17 of them, in a maximum four to five year's time there will be 25. So we should no longer be speaking of an avant-garde: 4-5 year's time is tomorrow. The time it will take for us to have a political agreement included in writing in the Treaty and to ratify it, three to four years will have passed by,

probably more. So this means that maintaining that euro zone is an avant-garde is no longer valid from a political point of view.

I might add that if we really did want to insist, as President Sarkozy did about the Budgetary Treaty, so that countries which are already in the euro zone work exclusively together, do we really believe that in order to move forwards we should set up a new organisation alongside the one that already exists so that we are sure to include Greece and yet do without Poland? The answer is obviously "no". So that was the first change: every Member State is or will be part of the euro zone except for the UK.

The second development in the last fifteen years (and I would say in the last fifteen days) is that in London there has been no traditionally eurosceptic party, the latter is generally to be found in the opposition, and a less eurosceptic party is embodied by the party in office but now both parties are vying with each other in terms of euroscepticism. The only pro-Europeans are the Liberal Democrats, who have unfortunately given up the battle, preferring to stay in power rather than wave the European flag.

This is a political novelty – until now we might have thought, in our complicated relations with the UK, that there have more difficult periods, depending on the party sitting in 10, Downing Street. Now we are sure that we're in a different period. Especially since the British Prime Minister announced the Conservative Party's Congress just a few weeks ago that he would take the opportunity during the next elections, which will take place in the spring of 2015 at the latest, to ask for a vote of confidence (or not), offering the British people to renegotiate its relations with the European Union. The Lisbon Treaty enables a Member State to leave the Union, at any time and on its decision alone.

Addressing the negotiations over the budgetary framework, the UK's partners are right in setting a precondition, asking the British leaders whether they are negotiating for the period 2014-2015 or whether they are really negotiating over 2020. We can only accept negotiations with them for the European budget up to 2020 if they can guarantee that they will be with us in the European Union in 2020. And this is goes for any country.

7. “Is there a leadership in the present configuration which would enable this question to be set? Is there a captain on board the European vessel?”

We shall find out in a few days time. It is up to the major European Union leaders, i.e. the President of the European Council, the President of the European Commission, the German Chancellor, the French President and the President of the Italian Council – and I would add to that -the Polish Prime Minister - because of Poland’s sheer weight in terms of the effort it has made, its successes and the quality of its leaders – to ask this question of the British leaders. I think that it is

absolutely necessary otherwise we may very well end up with a disappointing agreement.



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