



BETWEEN THE NUMBERS

DISSATISFACTION AND UPCOMING STRUGGLES: WHAT DOES THE EU BUDGET HOLD?

MAY 2018

The EU has so far managed to avoid answering some of the fundamental questions that have been troubling the block for years: How will Brexit affect the remaining countries? Whose responsibility is the migration crisis and how can Member States better tackle terrorism? Can Member States refuse to abide to European values (e.g. the principle of solidarity in the refugee crisis) and still benefit from the EU funds? ... But the discussion on the new EU budget is bringing all the chickens home to roost and will force the EU and its Member States to find a middle ground on many of these thorny issues.

On 2 May, the EU published the proposal for the next seven-year budget, which covers the amount of money the organisation will be able to spend, invest and award to players and projects in the EU for the period 2021-2027. Though it may seem boring and uneventful on the surface, the adoption of the EU budget will be the one thing that will force Member States to discuss and hopefully agree on a shared vision for the future of the EU.

To start, this will be the first budget to be agreed without the UK, and Member States will have to increase contributions to the EU in order to cover at least part of the estimated annual €12 billion gap created by the UK's departure. It remains to be seen whether the proposed €1,279 billion budget, an increase of 15% over the previous period, will be agreed, as detractors complain that a Union of 27 shouldn't be more expensive than one including 28 Member States.

The increased budget, however, is justified by many by the increased number of priorities of the EU, including security and migration. While the proposal foresees significant cuts to major programs dedicated to the agricultural sector (-5%) and regional development (-7%) – two areas that have been the cornerstone of EU spending since the early days – it introduces new priorities such as defence (€13 billion) and digital transformation (up to €9.5 billion). Winners of this proposal are, without doubt, the research and innovation fund, which received a 30% increase compared to the previous budget, and border control, migration and asylum policies which saw their allocation more than doubled in this proposal.

These changes clearly testify to the EU's willingness to move away from its traditional areas of spending to focus on increasing defence and security capabilities and boosting modernisation and innovation across sectors. The move has already sparked criticism from key players, such as France, which is by far the largest beneficiary of agricultural subsidies, and we should expect farmers associations to put up a fierce battle to the last penny.

Beside the struggles to shift money around within the budget – and make no mistake, governments will fight to cut all programs except those that will directly benefit their countries – more fundamental issues will have to be tackled. For example, questions related to defence and security, which have traditionally been an absolute competence of individual States, will become more and more a shared responsibility. What will be the approach towards illegal migration? How will border controls be managed? What kind of defence technology will be developed?

In addition, the proposal to grow the EU's so-called "own resources," which includes a plan to increase the amount of custom duties that go directly to the EU strongbox, curtailing the share kept by Member States from 20% to 10%, is likely to be a controversial one. Needless to say, Member States are not keen to support it, not only because it takes away resources from their national budgets, but also because the more the EU is able to use "own resources," the less control they can keep on the organisation.

Another feature of the proposal bound to generate debate is the linking of EU payments to Member States' respect of the rule of law and EU values. This move has been seen by many as an attempt by the EU to respond to the authoritarian drift of certain governments, particularly in Poland and Hungary – two net recipients of EU funds. The new proposed tools would allow the Union to suspend, reduce or restrict access to EU funding

on the basis of “rule of law deficiencies” in order to ensure a sound financial management of public funds. How the EU deals with its own governments threatening the liberal values embraced by the block will shape the Union going forward and define whether the EU will continue being the champion of human rights and democracy.

WINNERS & LOSERS

As it always happens when there are limited resources to be allocated to several priority areas, there are players who are happier than others. The discontented will need to do more to defend their interests, while those who are happy with the proposal will need to capitalise on the potential benefits.

WINNERS

- **Engineering and advanced manufacturing firms, pharmaceuticals, innovative businesses and academics:** the budget for research and innovation will be increased by 30%, with a focus on health and mobility projects.
- **Tech companies:** the EU will invest €9.2 billion in the digital transformation of public services and businesses. Tech areas such as artificial intelligence and cybersecurity are in the spotlight.
- **Defence industry:** with a budget of €13 billion, the EU will become one of the top four investors in defence research and technology across Europe.

LOSERS

- **Farmers:** particularly those in Western Europe will get less subsidies and linked to more constraints
- **Austria, Denmark, the Netherlands, Sweden:** as net contributors to the budget, these countries will be asked to contribute even more to the common pot. In addition, they will lose the rebates they receive.
- **Regions & cities:** the reduction of funds for regional development in poorer areas means additional struggle for towns and cities, particularly in Central and Southern Europe.

The upcoming months, will be a real test for the unity of the block after Brexit and the final allocation of funds will tell much on what the European Union is really about. The EU aims at adopting the budget by May 2019, ahead of European elections, but don't hold your breath waiting for this result: last time it took 2.5 years to get the budget approved!

The EU budget can be an opportunity for governments to sit down and have an open discussion about the future of the EU. The risk, however, is that instead they will opt to keep the status quo – a much easier objective to reach – and not build the consensus necessary to apply much needed reforms to how the budget is allocated and to which priorities.

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