The 2016 budget and the revision of the MFF, speech by Jean Arthuis, 8 december 2015, Egmont Institute

Prime Minister Monti,
Vice-President Georgieva
President Davignon,
Ladies & Gentlemen,

Let me begin by thanking the Egmont Institute for inviting me to say a few words about the 2016 European budget and the Multi-Annual Framework Programme in general.

The 2016 Budget:

So, to begin with the budget that has just been adopted by the Parliament, then, there are strong and weak points, progress has been made but much remains to be done. In organising the 2016 budget, the European Institutions have completed a more than satisfactory job. This success has been made possible by a particularly favourable combination of factors.

In the first place, the Parliament has grown in maturity and – against a backdrop supplied by its original far reaching ambitions – has managed to identify a credible landing zone for this year's negotiations. Nevertheless, the Parliament has continued to drag its feet over its commitment to reducing staff and spending by 5% as previously agreed. As President of the Budget Committee, this involves a degree of self-criticism: our credibility in relation to the Council depends on being able to control our own spending and this is something that we plainly have not done. As a Liberal, this also involves a sense of responsibility: I am mindful of the need for sound financial management in public affairs at a time when budget cuts are affecting the lives of many of our citizens.

Secondly, the Council Presidency – headed by the Luxembourg Finance Minister, Pierre Gramegna – has shown itself to be both deeply experienced and highly skilled in its management of the conciliation. However, it is a source of real regret that Pierre Gramegna will no longer be at the head of the Council next year. It is high-time that we scrapped the system of rotating presidencies: this is a ludicrous system that merely condemns the Council to stop-go policies, to instability and short-termism. This is not the time to examine this question in detail, but my recommendation would be that the Council elect a permanent chair, for the budget matters.

Thirdly, the Commission has displayed considerable political courage under its Vice President Kristalina Georgieva. Commissioner Georgieva has been able to stamp her mark and to impose a new style. In the past, the Commission often tended to subordinate the need for an effective and properly thought out budgets to its desire for compromise. Commissioner Georgieva has been able to restore the right emphasis on the quality of our budgets. At the same time, over the course of the last year, the Commission has ensured that its predictions are based on clear and reliable figures and, it would seem, no longer suddenly shifts from one position to another overnight. If the Commission's position is not a moving-target, the two branches of the budgetary authority can work together more serenely.

Indeed budgetary conciliation has been a marked success. Previously, there was a tendency for negotiations surrounding the budget to turn into bitter in-fighting between the Institutions and this is much less the case today. So – thanks to the work undertaken by the three institutions working in concert – real progress has been made. The Parliament has grown in maturity, the Council has shown responsibility and leadership and the Commission has had the courage of its convictions. There is now greater trust and confidence in the interactions between the three institutions and this has been reflected in the quality of this year's budget.

This being said, it remains the case that we need both a properly funded budget and greater flexibility. Commissioner Georgieva has already outlined the main orientations of the budget but from whatever angle the budget is approached, the main difficulty remains the amounts that we have available to us. In many domains we have *already* exceeded the 'ceilings' imposed by the MFF. It can only be noted with regret that - given the lack of adequate funding - the only alternative is to rely on direct funding from the Member States, if we are to meet the current challenges that we are confronted with in Turkey, Syria or Africa. In other words, we are forced to draw up an official budget and then to supplement this with a second budget made up of voluntary contributions in the form of trust funds.

So, we must find a way of properly financing our ambitions but also of introducing greater flexibility when it comes to reacting effectively to changing circumstances. It is absolutely necessary that we ensure that we have the financial means to fund both foreseen expenditures but also the unforeseen events that inevitably arise.

Let me mention only three of the challenges that we must confront:

Firstly, there remains an urgent need to promote growth and employment across Europe but the most business and innovation-friendly part of the budget – that associated with the European Fund for Strategic Investment – has already been entirely spent.

Secondly, there is the question of how we are to ensure our internal security in the face of a manifest terrorist threat. This will inevitably require consideration how best to establish much more effective European governance in the face of dangers of this sort, something that must also be factored into our budgeting decisions.

Thirdly, the largest mass movement of refugees since the Second World War confronts us with the urgent question of how we might fund a response that will be adequate to the sheer scale of the crisis. You will know that we approved the 2016 budget on the 25th of November of this year. Four days later, on the 29th of November, the heads of State or government announced the attribution of 3 billion euros to Turkey. This money has been set aside to enable the country to deal with the huge influx of migrants into the country. However, *quite honestly*, I have no idea where the money will come from! We have already been forced to spend every euro at our disposal in order to tackle both the causes and the effects of sudden surges in increased migration across Europe. The sums that will be attributed to Turkey have simply not been foreseen in the existing budget provisions.

What about the MFF?

With President Juncker, we see the coming of age of a more political Commission but we also require a more European budget, a more democratic budget. Budgeting questions and a flourishing democracy have always gone hand in hand. Historically, Parliaments were first created as a means of gaining popular consent to taxation. The English Civil War was sparked by the need to fund seventeenth century military expenditure. The slogan of the American Revolution was “No taxation without representation”. In France, Louis XIV was forced to re-summon the *Etats généraux* in order to raise new taxes. In all cases, the end result was a fiscal regime that benefited from widespread popular support and hence political stability and growth.

Today, the European Parliament is the only Parliament across Europe that does not enjoy the right to control taxation. We have a limited say on spending and no say at all with regard to revenue. We, too, must also devote some serious thought to the question of how best to gain popular consent for the policies that we wish to implement. In this context, we all await the publication of the report of the High Level Group - chaired by Mario Monti - devoted to re-considering the question of own resources. For my part, the solution that I would advocate involves a partial transfer of the fiscal burden from Member States to the European Union. Citizens would be asked to pay less in taxation at a national level, more in taxation at a European level.

At the same time, it is also necessary to introduce much greater flexibility into the budgeting process. Elected as an MEP in 2014, I was honoured to be given the task of chairing the Budget Committee of the European Parliament. No sooner had I started working, however, than I found myself in a somewhat uncomfortable position.
6 months before I had arrived, my predecessors had agreed to a budget that was to last for the following 7 years, two years longer than my own mandate, which lasts for five years. Indeed, the current MFF represents an agreement arrived at by national leaders in 2013 for a seven year period, at the end of which most of them will no longer be in government. As a result, I am stuck with a series of

measures that were decided on before I arrived and which will not be subject to fundamental re-negotiation until after I have finished my current mandate.

In other words, the provisions laid down under the terms of this seven year framework allow me all the freedom of movement of a train on tracks that have already been laid. I might make minor adjustments to the locomotive, attempt to slow the train down or speed it up: spend less than the ceilings imposed or overshoot them (as we have done this year). Whilst I - in the Parliament - seek to press on the accelerator, the Council presses on the brake. As I move forwards in jolts and starts, I cannot adjust the direction of travel nor change the design or size of the locomotive I am driving. Significant and binding decisions remain in effect for long periods of time irrespective of what that future reserves for us. This has to change.

2017

And, so, how are we bring about the reforms to the MFF that are required? My suggestion would be that the Commission comes forward with a proposal to review the MFF in 2016. This will allow us to re-assess the programme as a whole and the legal basis that was agreed on in 2013. Then, in 2017, the MFF should be subjected to a complete overhaul and – it is to be hoped – the Commission will be able to lend its weight to bringing about the changes that we require.

Indeed, 2017 will be a decisive year for the European Union in more ways than one. For instance, 2017 is the deadline for enshrining the Fiscal Compact in EU Primary law. 2017 is the year that the French and the Germans go to the polls and it is the year that the British will be holding an in-out referendum on Britain's participation in the European Union. It is also the year in which the report drawn up by the Five Presidents suggests the time will have come to change gear and to speed up the consolidation of the EMU.

At the same time, however, the so-called payment crisis will have reached new heights. As you know, the EU budget is victim of a payment backlog and by 2017 most of the bills generated by the new programmes for the 2014-2020 period will start arriving on the Commission's desk. To make matters worse, the Presidency in charge of negotiating the 2018 budget will be none other than the British presidency. I believe that I have already mentioned that the system of rotating presidencies required reform!

Despite the challenges that we must meet, 2017 will be the year to make a new start. I look forward to the opportunity to completely overhaul the MFF in a context in which changing political circumstances might well involve treaty change and the drawing up of a new Convention. I believe that a new Convention is, indeed, necessary and that we should seize this chance to improve the design, the funding arrangements and the fundamental objectives of the EU budget.

Here, I could elaborate a little on the direction that I believe such reforms should take if we are to equip ourselves with a properly thought out budget. However, time prevents me. It only remains for me to thank the Egmont Institute and President Davignon once again for their kind invitation to contribute to the debate today. Perhaps, sometime in the future, I will have a chance to return and discuss what I think an adequate, properly funded and properly directed budget would look like.

Thank you very much.