REFLECTION PAPER ON THE FUTURE OF EU FINANCES
Reflection Paper on the Future of EU Finances

Launching the debate on tomorrow's Europe

► 1 March: White Paper on the Future of Europe
► 26 April: Social Dimension of Europe
► 10 May: Harnessing Globalisation
► 31 May: Deepening of the Economic and Monetary Union
► 07 June: Reflection paper on the future of European defence
► 28 June: Future of EU Finances

Economic strength, sustainability, solidarity and security for Europe at 27 in a changing world
Drivers of Europe's Future

- A changing place in an evolving world
- A profoundly transformed economy and society
- Heightened threats and concerns about security and borders
- A questioning of trust and legitimacy
A changing place in an evolving world

Economic weight

<table>
<thead>
<tr>
<th>Region</th>
<th>2004</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States of America</td>
<td>28%</td>
<td>24%</td>
</tr>
<tr>
<td>EU-27</td>
<td>26%</td>
<td>22%</td>
</tr>
<tr>
<td>Japan</td>
<td>11%</td>
<td>6%</td>
</tr>
<tr>
<td>UK</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>China</td>
<td>5%</td>
<td>15%</td>
</tr>
<tr>
<td>Canada</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Mexico</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Brazil</td>
<td>&lt;2%</td>
<td>2%</td>
</tr>
<tr>
<td>India</td>
<td>&lt;2%</td>
<td>3%</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>18%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: Eurostat and UN Statistical Division

Defence priorities

Defence expenditure by 2045 (in billion USD)

<table>
<thead>
<tr>
<th>Region</th>
<th>2012</th>
<th>2045</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States of America</td>
<td>682</td>
<td>1335</td>
</tr>
<tr>
<td>China</td>
<td>251</td>
<td>1270</td>
</tr>
<tr>
<td>India</td>
<td>117</td>
<td>654</td>
</tr>
<tr>
<td>Russia</td>
<td>113</td>
<td>295</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>58</td>
<td>108</td>
</tr>
<tr>
<td>France</td>
<td>51</td>
<td>87</td>
</tr>
<tr>
<td>Japan</td>
<td>46</td>
<td>67</td>
</tr>
<tr>
<td>Germany</td>
<td>46</td>
<td>63</td>
</tr>
<tr>
<td>Brazil</td>
<td>35</td>
<td>97</td>
</tr>
</tbody>
</table>

Source: Report by UK Ministry of Defence, Strategic Trends Programme: Global Strategic Trends – Out to 2045

Population shift

<table>
<thead>
<tr>
<th>Year</th>
<th>Region</th>
<th>25%</th>
<th>11%</th>
<th>6%</th>
<th>4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2060</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: UN Statistical Division and Eurostat, EU27
A profoundly transformed economy and society

Legacy of the economic crisis

Unemployment rate

Climate change and environmental concerns

Changing demographics

Median age by regions of the world by 2030

New technologies and digitisation
Heightened threats and concerns about security and borders
A questioning of trust and legitimacy

Populist and nationalist rhetoric

Gap between promise and delivery

24/7 news cycle

Source: ©Pulse of Europe
Reflection Paper on the Future of EU Finances

Presenting possibilities and reform options

► What should the EU budget be used for?
► How can we make the very most of every euro to deliver tangible results for citizens?
► What can spending at EU level achieve that spending at national level cannot?
Areas financed by the EU budget

Multiannual Financial Framework 2014-2020 in billion Euro

- Competitiveness for growth and jobs € 142.1
  - Education
  - Energy
  - Industry and small and medium enterprises
  - Networks and technology
  - Research and innovation
  - Transport
  - Others

- Economic, social and territorial cohesion € 371.4
  - Research and innovation
  - Information and communications technology
  - Small and medium enterprises
  - Low-Carbon Economy
  - Climate change and risk
  - Environment and resource efficiency
  - Transport and energy
  - Employment
  - Social inclusions
  - Vocational training
  - Other

- Administration € 69.6

- Global Europe € 66.3
  - Development and international cooperation
  - Humanitarian aid
  - Neighbourhood and enlargement
  - Foreign policy instruments
  - Others

- Sustainable Growth: Natural Resources € 420
  - Agriculture
  - Rural development
  - Fisheries
  - Environment and others

Note: Commitments; in current prices; adjusted for 2018
Today, EU budget is called to address new challenges such as migration, climate change, defence, cyber terrorism.
Today, demands for reform include new financing sources, simpler calculation and collection and alignment to priorities.
EU Added Value: What is the EU budget for?

By pooling resources at European level, Member States can achieve more than if acting alone to

► Achieve the objectives set out in the Treaty
► Provide public goods of a European dimension
► Uphold European values and basic freedoms

Examples:

• cross-border programmes, large infrastructure, big and strategic projects such as Galileo and ITER
• macroeconomic stability and societal resilience for sustainable growth thanks to cohesion policy
• providing safe and healthy food, protecting rural areas and landscapes
• control of external borders
• student mobility and exchange
• scientific excellence and innovation
• promoting peace and stability in the neighbourhood and beyond…
EU Added Value and Funding from the EU Budget

CRITERIA:
- Treaty objectives and obligations
- Public goods of a European dimension
- Economies of scale
- Spillover effects
- Subsidiarity
- Benefits of EU integration
- European values: peace, democracy, rule of law

EU Value Added

Public goods requiring financing

Very high

Medium high

Low

Financing intensity at EU level

Full EU financing

Some EU co-financing

No EU co-financing
TRENDS AND CHALLENGES
Trends and Challenges

1. Security and safety for the citizens of the Union
   - Robust intelligence networks
   - Border control
   - Protection of resilient food chains
   - Global disease management
   - Common defence (physical & cyber)
   - Response to natural and man-made disasters

2. Economic strength, sustainability and solidarity
   - Competitiveness and innovation
   - Economic convergence & social resilience
   - Addressing challenges of globalization and technological change
   - Sustainable development

3. Migration management
   - Good articulation of internal and external policies
   - Enhanced framework for reception and integration
   - Control of external borders
   - Addressing root-causes of migration

4. External challenges, humanitarian aid & development
   - Maintaining leadership in development and humanitarian assistance
   - Leadership in fight against climate change
   - Instability and war in our neighborhood
   - Global strategy for foreign and security policy
   - Promoting stability and EU core values
OPTIONS FOR THE FUTURE
## Options for the Future of EU Finances

### Striking the right balance between

<table>
<thead>
<tr>
<th>Existing policies and priorities</th>
<th>New challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stability</td>
<td>Flexibility</td>
</tr>
<tr>
<td>Supporting national priorities</td>
<td>Supplying EU public goods and providing EU added value</td>
</tr>
<tr>
<td>Focus on procedural spending rules</td>
<td>Focus on results; simple and more transparent rules and instruments</td>
</tr>
<tr>
<td>Direct spending, subsidies and grants</td>
<td>Public-private partnerships, co-funding, leverage, blending</td>
</tr>
<tr>
<td>Many areas of activity, many instruments</td>
<td>More strategic coherence, coordination, fewer instruments</td>
</tr>
</tbody>
</table>
Options for the Future of EU Finances

What the future EU budget should focus on

► Responding to new challenges
  ► Reducing economic and social divergences
  ► Supporting R&D and the competitiveness of Europe's industrial base
  ► Defence
  ► Supporting structural reform, upholding EU core values
  ► Enhancing the stabilization function
  ► Funding the transition to the low-carbon economy

► Reforming the Common Agricultural Policy

► Reforming Cohesion policy

How should the future EU budget operate

► Stability and flexibility
► Financial instruments and the extended EU financial architecture
► Simplification and focus on performance
► Ensuring a streamlined and coherent financial architecture and efficient financial management
## Options for the Future of EU Finances

### Revenues to support EU policies

<table>
<thead>
<tr>
<th>Gross National Income-based own resource</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom duties</td>
</tr>
<tr>
<td>Current VAT-based own resource</td>
</tr>
<tr>
<td>Reformed VAT-based own resource</td>
</tr>
<tr>
<td>Corporate tax-based own resource</td>
</tr>
<tr>
<td>Financial Transaction Tax (FTT)</td>
</tr>
<tr>
<td>Electricity</td>
</tr>
<tr>
<td>Motor Fuel</td>
</tr>
<tr>
<td>Seigniorage (central bank currency issuance)</td>
</tr>
<tr>
<td>Carbon pricing</td>
</tr>
<tr>
<td>EU travel and authorisation system (ETIAS)</td>
</tr>
</tbody>
</table>

- Current sources
- Potential sources
5 SCENARIOS
<table>
<thead>
<tr>
<th>SCENARIOS</th>
<th>1 Carrying on</th>
<th>2 Doing less together</th>
<th>3 Some do more</th>
<th>4 Radical redesign</th>
<th>5 Doing much more together</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>Broadly stable</td>
<td>Significantly lower</td>
<td>Somewhat higher</td>
<td>Lower</td>
<td>Significantly higher</td>
</tr>
<tr>
<td>Competitiveness</td>
<td>Slightly higher share</td>
<td>Same as in scenario 1 but significantly lower amount</td>
<td>As in scenario 1</td>
<td>Higher share</td>
<td>Higher share</td>
</tr>
<tr>
<td>Economic, social and territorial cohesion</td>
<td>Lower share</td>
<td>Lower amount</td>
<td>As in scenario 1</td>
<td>Lower share</td>
<td>Higher amount</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Lower share</td>
<td>Lower amount</td>
<td>As in scenario 1</td>
<td>Lower share</td>
<td>Higher amount</td>
</tr>
<tr>
<td>Security, defence, migration</td>
<td>Higher share</td>
<td>No funding</td>
<td>Higher share partly covered by willing MS</td>
<td>Significantly higher share</td>
<td>Significantly higher share</td>
</tr>
<tr>
<td>External action</td>
<td>Higher share</td>
<td>Lower amount</td>
<td>Higher share partly covered by willing MS</td>
<td>Significantly higher share</td>
<td>Significantly higher share</td>
</tr>
<tr>
<td>Economic and monetary union fiscal capacity</td>
<td></td>
<td></td>
<td>Macro-economic stabilisation function for euro-zone MS</td>
<td></td>
<td>Macro-economic stabilisation function and a European Monetary Fund</td>
</tr>
<tr>
<td>Revenue</td>
<td>Current system without rebates; other sources of revenue or fees finance the EU budget</td>
<td>Current system without rebates</td>
<td>Same as scenario 1; plus new policies financed only by participating MS</td>
<td>Scenario 1 further simplified; new own resources</td>
<td>In depth reform beyond scenario 4; new own resources finance significant share</td>
</tr>
</tbody>
</table>
What's next?

The status quo is not an option for our Union

How the budget changes – and what it is used for – depends on what future we want for our Union and on the level of ambition we chose to work together to shape that future.