



House of Bishops' Europe
Panel
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Submission by the Church of England's House of Bishops' Europe Panel to the European Commission's 2007 Consultation Paper *Reforming the Budget, Changing Europe* [SEC(2007) 1188 final].

1. The House of Bishops' Europe Panel is a sub-committee of the House of Bishops. It acts as a point of reference for items affecting the Church of England's relations with Europe and the European Union institutions.

Executive Summary

2. The Europe Bishops' Panel (EBP) welcomes the opportunity to contribute to the fundamental review of the EU budget which the Commission was invited to undertake in the May 2006 Inter-Institutional Agreement. The review provides an opportunity to consider afresh, from first principles, the broader question of what constitutes good stewardship of the resources that Europe has at its disposal. Stewardship requires a way of living which recognises that everything belongs to God and that all resources must be used for his glory and the common good. It requires us to find ways in which we can collaborate with others to make the resources in our possession work for the good of all as intended by God.
3. In its present configuration the EU Budget fails to provide sufficiently for the European common good. The dislocation between stated aims and objectives and current budgetary allocations threatens the public legitimacy and credibility of the European project. It is not the size of the EU budget that is the problem, but rather its distribution to sustain outdated industries and sectors that all too often serve narrowly construed national interests. Faced by the global challenge of climate change, the EU budget should be refocused in support of low carbon growth both within the EU's border and beyond. A restructured budget would help respond to the competitiveness concerns of a number of member states and reinforce the EU's position as the global front-runner on low carbon growth. Introducing a greener budget would have the wider support of EU citizens and

would help to renew the EU's raison d'être. To sustain this initiative we recommend the development of a European-wide participatory budgeting process to help embed within the EU's decision making process, mechanisms that actively and consistently engage its citizens on budgetary matters.

Has the Budget proved sufficiently responsive to changing needs?

4. The Commission's consultation document is correct to note that, despite the inbuilt conservatism of budgetary reform, reorientations have been possible to the EU budget over past decades. Its assessment, however, that "the EU budget has mirrored the key steps of European integration", is unduly optimistic. The EU budget has evolved, but the change has been more incremental than radical.
5. We hold that the conclusion of the 2003 Sapir Report continues to be pertinent: "As it stands today, the EU budget is a historical relic. Expenditures, revenues and procedures are all inconsistent with the present and future state of EU integration". The problem, as noted by the Sapir Report, remains less the size of the budget, which in 2008 represents 129 billion Euros, and more its archaic bias towards agricultural spending and to regional aid that are too often used to sustain existing practices within industries rather than prompting developmental change.
6. The EU budget has little relevance for delivering on the Union's agreed policy priorities. Under the 2007-13 financial perspective farm spending will continue to take up 43% of the budget even though farming accounts for less than 1.9% of the EU's gross added value. Securing food security in Europe continues to be of strategic importance, but it is doubtful that the overall size of the agricultural budget is warranted or justified.
7. The EU's structural and cohesion funds saw a 21% increase from 2000-06, taking its proportion of the EU budget to 35.7%. We acknowledge the importance of tackling inequality and deprivation within the EU, but this is not achieved when 60% of relevant funds remain earmarked for richer member states rather than providing assistance to the newer member states from central and eastern Europe.
8. The significant financial provisions for agriculture and regional aid, comprising over 75% of the total budget, stand in marked contrast to the budgetary commitments to agreed EU priorities such as promoting economic growth and employment (8.4%) or those areas where the EU needs to be more influential – 'external policies' (5.8%) and 'freedom, security and justice' (1.2%). As a result, EU action may be constrained in key areas, most notably delivering on the Lisbon reform programme and managing the transition to a low carbon economy.
9. The discrepancy between policy objectives and budgetary allocations gives the impression of member state governments willing the ends but often not willing the means. Governments appear less interested in achieving agreed policy objectives, such as helping neighbouring countries or fostering EU-wide research and development, than they are in increasing the national benefits to be

accrued from the budget. The bulk of the EU's budget continues to go on distributive aims, and only a relatively small proportion is allocated to the type of public goods that promote sustainable growth, higher employment or social cohesion.

10. This is not to argue that the redistribution of funds within the EU is not in itself a public good. In its early days the Common Agricultural Policy (CAP) ensured the security of food supplies. Policies that promoted the economic development of more backward countries or regions contributed to the enhanced solidarity and prosperity across national frontiers. In some cases, as in Spain and the Republic of Ireland, the galvanising effect has been quite staggering.
11. However, the current redistribution of funds between member states has limited value in achieving public goods precisely because the immediate benefits now accrue to such narrow interests. The continued mismatch between declared aims and the allocation of funding, threatens the EU's ability to respond effectively to the challenges and opportunities presented by a global environment that is continually transforming.
12. The current EU budget review is therefore a welcome and important opportunity to correct the imbalance between stated aims and resources. We are encouraged by Commission President Jose Manuel Barroso's statement on the launch of the consultation on the Budget Review. He said then that: "This is day one of a no-taboos debate about spending priorities How can the EU focus spending in the right areas to deliver a Europe of results over the coming decades? How should Europe respond to and shape globalisation to boost growth and jobs? How do we build a low carbon economy, with secure and competitive energy supplies? This is our chance to start with a blank sheet of paper".
13. Having raised the expectation that change is indeed possible, the Commission must bring forward recommendations to modernise the budget. As Mrs Dali Grybauskaite, the European Commissioner for Financial Programming and Budget, noted in 2004: "The credibility of the Union is at stake. We cannot go on making promises and then failing to produce the decisions and the resources required to deliver them".

Shaping the EU Budget of the Future: The Added Value of EU Spending to Address Climate Change

14. The Budget Review provides a welcome opportunity to escape the entrenched negotiating positions that have characterised the budget for the last twenty years and to ask instead what an EU budget ought to do 5, 10 or 20 years from now. The Commission consultation document sketches out a long list of new policy challenges which could have a significant impact on where the EU directs its efforts in the future.
15. In determining whether and in what way the EU responds to this emerging policy agenda, *a priori* consideration needs to be given to where the EU can best add value. Although divergent positions exist at both a national and European level as to what constitutes added value, we hold that EU spending should be

directed to those areas that can best be done at a European rather than a national level and those policies that promise the greatest return for the EU and its citizens.

16. *Reforming the Budget* sketches out a long list of new policy challenges that could impact on where the EU directs its efforts in the future. We are encouraged that climate change is singled out as a new policy challenge in its own right, and that it also features as a contributory factor to other challenges - economic growth, globalisation, migration or the peace and security of EU citizens. This interconnectivity underlines the reality that climate change is not just an environmental protection issue, but one intimately connected with a wider world. It poses an immediate threat to human security and prosperity with a fundamental impact across a range of national and international policy issues.
17. The devastation caused by Hurricane Katrina to the City of New Orleans in Augusts 2005 underlines how even in a country as resilient and wealthy as the USA, the social and economic dislocation caused by such climatic catastrophe can place huge strains on a government's ability to provide for its citizens. As John Ashton, the UK's climate Change Envoy, rightly observed in 2007: "If the first priority of any government is to provide for the welfare of its citizens in return for the taxes that citizens pay, then climate change is potentially the most serious threat to this most fundamental of social contracts."
18. The economic and security impacts of extreme climatic events in more vulnerable regions such as Africa and South Asia, or more strategically important regions, like the Middle East may be even more dramatic. Drought and other climate-related shocks risk sparking resource driven conflicts and unprecedented levels of migration in many parts of the developing world. Given the nature of our interdependent world, the impact of extreme climate events will be felt not just in the immediate region affected, but also across the international community.
19. We welcome, therefore, the recent analysis provided by the European Commission to the March 2008 European Council that argued that climate change is not just a threat in itself but that it is a "threat multiplier" which exacerbates existing trends, tensions and instability. The report correctly notes that the immediate and devastating effects of global warming will be felt far away from Europe, with the poor suffering disproportionately in south Asia, the Middle East, central Asia and Latin America, but that Europe will ultimately bear the consequences.
20. Although the impact of climate change might vary from region to region, climate security holds that human kind is dependent on the same complex and fragile web of natural processes that, if pressed beyond a certain point, will be irrevocably compromised by a changing climate. Securing a stable climate is, therefore, a global public good that is essential for all human security and development. It represents the greatest global challenge of this generation.
21. Analysis provided by the 2006 Stern Review clearly underlines the magnitude of the problem and the challenges involved in managing the transition to a low carbon economy and in ensuring that societies can adapt to the consequences of

climate change that can no longer be avoided. The Stern Review concluded that the benefits of strong, early action on climate change far outweigh the costs. The Stern Review envisaged that the future costs to the global economy of inaction on climate change could be as much as 20% of GDP. Whereas, the economic cost of tackling the issue could be limited to between 1-5% of GDP.

22. Although the Stern Review did not specifically address the European situation it presented the choice facing decision makers in a manner that underlines the stark societal and economic dislocation following a business as usual model. “Our actions over the coming decades could generate risk of major disruption to economic and social activity, later in this century and in the next, on a scale similar to those associated with the great wars and the economic depression of the first half of the 20th century. And it will be difficult or impossible to reverse these changes. Tackling climate change is the pro-growth strategy for the longer term, and it can be done in a way that does not cap the aspirations for growth of rich or poor countries. The earlier effective action is taken, the less costly it will be.”
23. We acknowledge that the EU has played a progressive role to date in shaping the international response to climate change, not least in negotiating and then ratifying the Kyoto Protocol. It has taken the lead by creating the EU emissions trading scheme, the world’s largest carbon market, which despite its deficiencies, promises significant CO₂ reductions. The EU’s ambition is further reflected in the March 2007 European Council Conclusions. These Conclusions commit the EU to a unilateral 20% reduction below 1990 levels in greenhouse gas emissions by 2020, provided that, as part of a global and comprehensive post-2012 agreement, other developed countries commit to comparable reductions and advanced developing countries also contribute adequately to the global effort according to their respective capabilities.
24. We remain concerned, however, that despite this impressive flurry of activity over the last few years the reality remains, as noted by the European Environmental Agency’s 2006 assessment report, that the EU is still struggling to meet its current climate change commitments of reducing by 8% its greenhouse gas emissions by 2012. Unless there is a significant step change in the Union’s thinking and action, it is difficult to see how the EU can deliver on its ambitious package of March 2007 to fast track the EU to a competitive, energy-secure, low carbon economy.
25. There are, as noted by the Stern Review, clear economic and social risks in delaying early effective action. There are also clear political risks. Any perception that the EU is backtracking on its climate goals will undermine, if not destroy, its international climate leadership role. This leadership will be essential if the international community is to secure a sufficiently robust and far reaching successor agreement to the Kyoto Protocol.
26. The problem appears to be less one of political ambition and more one of adequate resources. The battle against climate change requires a dramatic increase in current and future EU spending on climate change. We hold that the Budget Review presents a crucial opportunity to fundamentally refocus the

budget, but in a way that supports low carbon growth both within the EU's borders and beyond.

27. The Stern Review concluded that the international response to climate change required deeper international cooperation in many areas, most notably in creating price signals and markets for carbon, spurring technology research, development and deployment and promoting adaptation, particularly for developing countries. Although the EU's budget comprises less than 2.5% of public expenditure in Europe, it can, if properly targeted and deployed, act as an important lever for change by promoting and underpinning policies that support action in these areas. We believe that such action would help to address the concerns of several member states that remain unconvinced by the logic of the climate change agenda, on the grounds that the proposed package of measures will impact negatively on national competitiveness.
28. We recommend that the Commission should undertake a comprehensive analysis of the 2007-13 financial perspective and its impact on greenhouse gas emissions. Although no environmental audit has yet been undertaken of the EU's 2007-13 budget, we are concerned that current budgetary allocations in the field of agriculture and social cohesion impede rather than accelerate the achievement of the EU's climate security agenda.
29. We remain concerned that the Common Agricultural Policy encourages an intensive form of farming that is deeply damaging to water quality, biodiversity and greenhouse gas emissions. Programmes funded under the Structural and Cohesion Fund, such as the trans-European transport network, often contribute to rising carbon dioxide emission despite their stated objective.
30. There is a risk that existing EU funding programmes over the next six years threaten to lock member states in to high carbon energy and transport infrastructure projects. And yet, if the connection between climate change and the EU's cohesion funds was strengthened, these funding programmes could play a critical role in developing low carbon pathways for the central and eastern European member states.
31. Similar reforms could be made to the Common Agricultural Policy to make it more climate-friendly, such as extending support for reforestation and avoiding food miles through increased local production. To facilitate the necessary shift in the EU's investment in low carbon infrastructure, we suggest that the Commission should have the power to veto all programmes proposed by member states for EU funds that do not contribute to member states' national emissions targets.
32. We believe that undertaking this audit would be a natural extension to the plans already proposed by the Commission in its 2007 Green Paper *Adapting to Climate Change in Europe – Options for EU Action*. Amongst other things the Green Paper suggests the need to integrate adaptation into existing Community funding programmes such as the Cohesion Fund, Regional Development Fund, European Social Fund and the Fisheries Structural Fund. We welcome these suggestions and trust that they will be reflected in subsequent eligibility criteria for EU funds.

33. In considering how best to restructure the EU's budget to manage the challenge of climate change, it is important not to overlook the international dimension. The emphasis in Europe is very much on mitigation and managing the transition to a low carbon economy, but what is sometimes lost is the understanding that climate change is already impacting disproportionately on many of the world's poorest communities, even though they have contributed least to the problem.
34. The polarisation of positions between those adversely affected by climate change and those responsible for causing the changes reflects the concern that climate change is becoming a major obstacle to continued poverty reduction with all that that implies for human security. Climate change threatens to push many vulnerable communities still further into poverty, and in so doing, frustrate the efforts by the international community to deliver on the millennium development goals. Goals that already looked distant now appear elusive.
35. The EU's track record in international development has been well critiqued in the past. The EU, together with its member states, is the world's largest donor of official development aid, but all too often the EU's development policy has been incoherent. Although the prime responsibility for the EU's aid efforts lies with the member states, the EU can significantly augment the effort of member states, not least because the Commission is one of the world's largest aid donors and has a uniquely global reach. Yet all too often its development aid serves broader political goals, such as enlargement and enhancing the security of its own region, rather than reducing poverty.
36. Although there are uncertainties about the long terms cost of adaptation, the World Bank has estimated that the global cost of adaptation for existing investments in the developing world at 9-41 billion dollars a year. This investment is needed to fund clean development, technology transfer and deforestation in the Global South. Some of this investment will no doubt come from the market, but a significant proportion has to be public funding.
37. We suggest that active consideration needs to be given within the Budget Review to how the EU might repay its ecological debt by providing compensation to developing countries to assist them with their efforts to adapt to the unavoidable consequences of climate change. We recommend that as large a proportion as possible of the income to be derived from the auctioning of emissions rights under the revised EU's Emission Trading Schemes should be used to fund adaption projects in developing countries.

Towards A Democratic European Budget

38. Reference is rightly made throughout the consultation document to the expectations that European citizens have that the EU budget will act as a lever for the delivery of EU policies, but in a way that visibly expresses the values underpinning the EU both at home and abroad. The Commission observes that European citizens need to have confidence that public spending at a European level reflects their own priorities and brings tangible benefits to their own lives.

39. The reality however is that many citizens increasingly see Europe as a source of insecurity rather than security. In many countries the EU now symbolises the forces of globalisation and with it the dislocation of traditional economic and social relationships in favour of new patterns of connectivity, not all of them seen as equitable. To some the EU is responsible for the declining social cohesion, poor economic growth and rising unemployment. European citizens are more and more looking to national governments to provide for their own security, even though the challenges facing Europe can only be tackled and managed at a European and collective level.
40. We hold that the crisis of legitimacy that the EU currently faces with its citizens is in part due to the continued dislocation between the EU's stated ambitions and policies, and the subsequent allocation of funding. Current budgetary allocations all too often reflect the policy priorities of the twentieth century. They don't equip the EU to connect with the changed circumstance wrought by globalisation.
41. As a consequence, Europe is failing to follow through on the tough political decisions necessary to manage its global environment in a way that provides for the security and prosperity of its citizens. If left uncorrected the EU risks further disassociation from its citizens and an ongoing crisis of confidence regarding its value and purpose. Europe's recent history of institutional reform demonstrates that the consent of Europe's citizens can no longer be assumed; it must be earned. The opportunity provided by this consultation exercise for European citizens to contribute to the review of the EU budget is therefore to be welcomed.
42. We hold that developing an effective EU response to the challenges of climate change, provides Europe with an opportunity to renew its democratic mandate and its *raison d'être*. Given the stark scientific and economic warnings provided by the likes of the 2006 Stern Review and the 2007 Fourth Assessment Report of the Intergovernmental Panel on Climate Change, the EU has a clear responsibility to help manage the transition to a low carbon economy both at home and in the wider world. Failure to do so threatens significant social and economic dislocation and with it the prospects for peace and security in Europe.
43. As part of its celebrations to mark the 50th anniversary of the Treaty of Rome, the EU Heads of State issued the Berlin Declaration with a view to renewing the EU's common basis. It stated: "We are facing major challenges which do not stop at national borders. The European Union is our response to these challenges. Only together can we continue to preserve our ideal of European society in future for the good of all European citizens ... We intend jointly to lead the way in energy policy and climate protection and make our contribution to averting the global threat of climate change".
44. Repeated Euro-barometer reports and opinion polls clearly indicate that the majority of citizens expect the EU to fulfil on this promise. The only variable missing from this equation is the necessary budgetary allocation. This Budget Review, therefore, provides an opportunity for the EU and its member states to move beyond political declarations to common but resourceful action.

45. The Commission must reflect further, however, on what additional steps might be taken following this consultation to embed within the EU's decision-making, mechanisms that actively and consistently engage its citizens on budgetary matters. The development of a European-wide participatory budgeting process is long overdue and is a necessary corrective to the political horse-trading between the different vested interests of member states that has marred past budgetary negotiations. Past attempts by the Commission to re-engage with Europe's citizens, such as the 'period of reflection' following the EU constitutional crisis, have had little impact precisely because they do not provide the opportunity for Europe's citizens to effect the EU's collective priorities.
46. We recommend that the proposed conference that the Commission intends to hold on the Budget Review towards the end of May 2008 should involve the widest possible civil society stakeholders. We also recommend that active consideration be given to the creative suggestion made by the Green Alliance in its submission to this consultation exercise that the European Parliamentary elections in June 2009 be used as an opportunity for EU citizens to contribute their thinking on the budget review proposals by inviting them to rank their preferences for EU spending at the elections.

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March 2008