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Realising European added value



Pursuing a destiny shared in common

EUROPEAN COURT OF AUDITORS

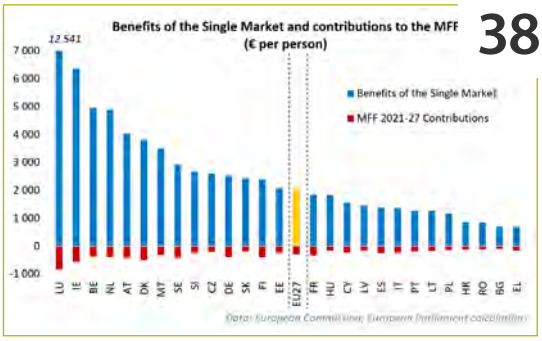
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Editorial by Gaston Moonen

Why there has to be European added value



European added value has been on our list of 'must do' topics for the ECA journal for quite some time. And this should not come as a surprise. Because the theme touches on the essence of what the European Union stands for: that the sum of the actions taken together will lead to better overall results for the participants than their individual actions can yield, and the belief that stronger collective action and shared sovereignty will therefore be beneficial for the Member States and their citizens.

Over the last seventy years, cooperation between Member states has taken off in almost any area you can think of, with security, economies of scale and cross border benefits as the main drivers. As a result, today's European Union is more integrated than ever, and matters more for our daily lives than most people realise. But at the same time, the EU has become more complex. This rise in complexity is also reflected in the discussions about the concept of European added value (we will use this and the term 'EU added value' interchangeably throughout this Journal, although, strictly speaking, there is a difference). The first five articles of this Journal highlight important historical, economic, legal and political aspects that come into play when discussing European added value – clearly a multi-faceted concept.

About twenty years ago, I propagated the thesis that the EU works best if the citizen does not notice it. If you go shopping in another EU Member State, you will not notice it since you have the euro as a common currency; if you fall sick abroad, no worry – your national health care system also covers you in another EU Member State; if you want to take up a job somewhere else or continue your education, your qualifications will be recognised. And there are many other benefits, for both consumers and producers in the EU's single market: common standards, such as in food safety or the CE label for product security, just make our lives easier.

But there are still many areas where the EU does not yet work well, and one may question whether it really adds value. This can be on small things, for example if you cannot buy travel insurance because you are not a resident of the Member State where you book your vacation. Or on bigger issues, such as security or migration, where Member States still need to agree on a common approach. Or most recently with the fight against the Covid-19 pandemic, when coordinating efforts by the European Commission were at times undermined by a lack of solidarity between Member States.

Finally, there is also a growing group of citizens who are sceptical about the European Union. The very idea of EU added value may have been largely undisputed some years ago, but this is no longer the case. The clearest manifestation of this phenomenon has been the lost referendum on the UK's membership of the European Union. Maybe ironically, 'Brexit' has rejuvenated the idea of EU added value and interest in membership or the perks of it has not waned (see pages 99 and 161). No doubt the remaining 27 Member States will closely monitor the socio-economic consequences of the UK's withdrawal in the coming years.

The idea of European added value as a remover of burdens easily gets snowed under when EU finances come into the picture. Incidentally, this year, the EU has to decide on its long term budget for the 2021-2027 period. During these negotiations, not much consideration is given to EU added value: instead the focus is on financial benefits and burdens, and outright 'pork barrel' practices to secure EU funds for a specific Member State or region. This money is then not necessarily spent on projects with the highest potential to add value – leading to money seeking projects instead of projects seeking money, with risks such as 'deadweight' and 'goldplating' (see page 78) and potentially detrimental effects on citizens' perception of the European added value of these projects. And rightly so.

This year's negotiations have shown again that the simple 'zero sum' approach remains a dominant element in the European added value discussion when it comes to financial matters. Budget figures do not explain how much added value the EU generates, whether it strengthens the economy, makes a country healthier, or a more pleasant place to live, work and travel. And how do you quantify adherence to the rule of law as an enabler underpinning the smooth functioning of the single market?

Almost all the contributions to this ECA Journal on European added value – and we received a great variety, underlining both the interest and the breadth of the topic – argue that European added value is so much more than what is reflected through the EU budget. Most of our contributors, ranging from institutional leaders such as EU Commissioner Elisa Ferreira (page 38), ECA President Klaus-Heiner Lehne (page 70) and EP Committee on Budgets Chair, Johan Van Overtveldt, (page 125) to experts such as George Papaconstantinou (page 145),) Jorge Núñez Ferrer (page 149), or Marta Pilati (page 156) underline that the EU's greatest impact is created through its legislation, its regulatory role. Or, as the American historian and journalist Anne Applebaum puts it: 'The EU is a superpower when it comes to regulation.' She has her hopes for the EU when it comes to anti-trust action and the protection of citizens' privacy, where for instance the General Data Protection Regulation (GDPR) has set an example of regulation far beyond the European continent. And perhaps the EU should be more confident about its impact, even in more 'traditional' areas such as defence and security, as argued by MEP Sandro Gozi (page 129) and Carolyn Moser (page 184).

Impact is also one, if not *the,* key preoccupation of EU public auditors, both at Member State and EU level. In the end, the EU citizen and the auditor will have the same question: did it help, did the EU's action make a difference, and to the maximum extent possible? And if it did not, this might make a more lasting impression than if it did. After all, citizens might more easily recall the EU funds spent on *a road to nowhere* than the EU funds provided for the bridge they use in their everyday commute to work (see also page 52). But assessing the impact of regulations, particularly EU regulations, is not an easy task, even less so in a complex society where regulations intertwine at several policy and implementation levels.



For external public auditors, exiting their comfort zone to look more at macro-economic effects (see page 116 and 120) instead of merely financial number crunching is quite a challenge (see page 74). Let alone cooperation between public auditors within the EU to assess whether a certain EU policy has created added value, or not (see pages 105, 110 and 165).

However, examining EU added value should also entail looking at the opportunities forfeited by a lack of integration, what is known as the cost of non-Europe. There have been several studies carried out on this aspect, including from the European Parliament Research Service, which provide interesting data (see page 134). After all, as Pierre Moscovici, First President of the French Cour des comptes, points out, society has the right to demand public servants account for their handling of public money, especially when critical choices made today will impact future generations (see page 94).

Getting reliable information, and conclusions, on European added value, from the EU's public audit institutions – as the ultimate fact checkers – is key for the existence of the EU itself. Because if there is doubt about such European added value, why bother? Why continue with this or that specific European action if it means public support for the EU will crumble as a result, and with good reason. Such information will help key choices on where EU action should be focused, because, in a period of limited resources, not only financial resources, the focus should not necessarily be on 'more Europe' but on those issues where the common interest is greatest and most essential, the 'European public goods' (see page 145). They might be material, such as infrastructure, or, perhaps even more important, immaterial. One of the outcomes of the Covid-19 pandemic might be a reorientation on what matters most for EU citizens, which is not only economic well-being, but also social well-being, a protective layer to ensure physical 'bien-être,' as captured in the Copenhagen criteria. These criteria are not new, dating back to 1993, but need to be lived and relived by every new generation.

It is perhaps no coincidence that, in this time of the Covid-19 pandemic, these 'immaterial' values that are so important have become the cause of the current stalemate in the European Council regarding the next EU multiannual budget. A sign for the future, where the EU can make a difference, as value setter (see page 187)? Hopefully this edition of the Journal, now off our bucket list, adds value for you, and opens up new perspectives on why creating European added value is essential both in the short and long term.

EU added value - a categorical imperative for EU action?

Example of various EU actions with their main proponent

By Daniel Tibor, Directorate of the Presidency



Paolo Gentiloni


Margrethe Vestager



Helena Dalli



Maros Sefcovic


Federica Mogherini



Frans Timmermans

From a historical perspective, the issue of European added value is not new. It has always been part of the debate about the European project and which direction it should be taking. This is not surprising as the concept itself touches on some core principles underpinning the whole set-up of the Union. Daniel Tibor, Senior Institutional Relations Officer in the Directorate of the Presidency, has dived into the issue of European added value, not only for the sake of this ECA Journal but also because the issue is a key topic of discussion for the next meeting of the Contact Committee of the heads of the EU supreme audit institutions. In this long read article, he takes a broader look at the enigma of EU added value.

The value of the European Union

At the heart of the European project, the key objective has always been to create values (peace, wealth, etc.) by means of cooperation, i.e. by pooling and coordinating resources under a common set of rules and procedures. The success in doing so has made membership of the European Union (EU) an ever more attractive goal for neighbouring countries. Since the early 80s, the number of EU Member States has almost tripled. Today, a further seven – subject to enlargement policy – wish to join the club earlier rather than later.

The single market, for instance, has become one of the EU's success stories. A study published in 2014[1] assessed the economic benefits for 19 Member States and concluded that 'EU membership and associated economic integration have resulted in an average increase in national income of 12% compared with a scenario in which they had each continued alone.'[2] Indeed, the deepening of the single market since 1990 has created 3.6 million new jobs, EU GDP would be 8.7 percent lower without it, and 'the average EU citizen' would nominally gain €840 less per year.[3] But it is not only the economy: 'The Single Market – and indeed the EU – is not just concerned with business. It also puts

1 Campos N. F., Coricelli F. and Moretti L., *Economic Growth and Political Integration: Estimating the Benefits from Membership in the European Union Using the Synthetic Counterfactuals Method*, 2014.

2 European Parliamentary Research Services, *Coronavirus and the cost of non-Europe - An analysis of the economic benefits of common European action*, 2020, p. 2.

3 'While all EU citizens benefit from income gains thanks to the Single Market, these effects are higher for Western Europeans in absolute terms. Relative to GDP, gains and losses are more similar.' In: Pilati M., Zuleeg F., *The benefits of EU membership are not measured by net operating balances*, 2020, p. 1.

in place regulations protecting workers, consumers and the environment. For example, the presence of air pollutants has fallen dramatically since 1990, partly thanks to EU regulation limiting their emissions.'[4]

Against this backdrop, one would assume that the benefits of EU membership would be beyond any doubt. However, with the United Kingdom having left the Union, one of its biggest Member States decided that the (perceived) added value of EU membership does not compensate (anymore) for the (perceived) loss of sovereignty which comes with common decision-making, cooperation and coordination. Moreover, some other Member States openly question whether certain areas should remain in the EU remit and would prefer to take back control in order to address issues at national level. Others, however, see the opportunities the EU is offering and advocate deeper integration.

Currently, none of the remaining 27 Member States openly fancies the possibility of leaving the Union, but populist movements and EU-sceptics are gaining support from ever broader groups in the societies of nearly all Member States for questioning the EU, its *raison d'être* and problem-solving ability. Even representatives of governments that are pro-European in principle often cannot resist blaming 'Brussels' for not having achieved the intended results due to politically necessary compromises representing the lowest common denominator.

ECA Journal Short Read

Due to the EU's socio-economic success in various policy areas, it has grown from six to 27 Member States since its early days. Nevertheless, **EU added value (EAV) remains a point of discussion.**

Enigma of EAV: despite the undisputed virtues of various attempts to conceptualise EAV, their common denominator is still the difficulties in defining, operationalising and measuring it. EAV still lacks conceptual clarity, for it is a rather multifaceted term with different meanings to different stakeholders.

EAV and cost of non-Europe are two sides of the same coin: whereas EAV is mainly used to highlight the positive results of EU integration, the cost of non-Europe refers to possible gains from further integration. In principle, the cost of non-Europe equals the potential for creating EAV.

Historically, the EU has not only focused on economic integration, but on integration through the provision of European public goods. Wherever economies of scale, cross-border spillover effects and low heterogeneity preference persist, the EU has comparative performance advantages and is likely to yield better results than Member States acting alone.

Comparing values to determine the added value is a challenge because of the difficulties in establishing relevant counterfactuals. The more, since it is not clear for whom they represent an added value, which in turn makes it difficult to decide against which criteria they are to be measured.

Ultimately, the **creation of EAV is a question of performance**, which largely depends on the effective implementation of EU policies both at EU and national level. In terms of accountability and performance, this will require common and individual audit efforts by EU SAIs and the ECA to support legislators in their choice of the right (level of) intervention for the benefit of EU citizens.

At the same time, there are also legitimate debates about the EU's effectiveness in dealing with a wide range of issues, in and outside political and academic circles. Given the nature of these pressing and contentious political, technological and socio-economic challenges, one would assume concerted action is more likely to achieve better results for all its members than one or more states acting on their own. Policies pursued only at national level are naturally limited in their effectiveness in tackling global challenges.

Unfortunately, there are enough instances, also due to the very nature of EU governance and decision-making, which indicate that the EU in its current condition has difficulties in coping with these challenges. The unresolved migration issue, the lack of military cooperation, making the EU dependent on US benevolence in NATO, the diverging interpretations of what the rule of law entails, or the (initial) difficulties experienced in agreeing on a common response to mitigate the effects of the present Covid-19 pandemic are just some examples in this regard. Not to mention the challenges the EU and its Member States will have to cope with in order to master the exigencies of climate change.

4 Ibidem.

The enigma of EU added value

References to the added value of EU action are clearly linked to the introduction of the subsidiarity principle in the Maastricht Treaty (1992). Since then EU added value (EAV) has become an increasingly common *topos*, from the 2000s onwards 'less sustained by legal arguments (the principle of subsidiarity) and more by the economic teachings of the theory of Fiscal Federalism, which provides recommendations for an optimal distribution of tasks in multi-level governance settings.'[5] It is, however, somewhat misleading to fall back on fiscal federalist teachings, given the fact that the EU is not a federal state and its budget is 'far from alignment with fiscal federalist theories of an ideal distribution of competencies.'[6]

Nevertheless, several attempts have been made to define and conceptualise EAV, with some authors closely linking it to EU principles such as subsidiarity and proportionality or complementarity and additionality.[7] Others would refer to economic theories focusing on economies of scale, reduction of information asymmetries, and dissemination of best practices across the Union, etc., or political arguments including the promotion of EU values such as peace, democracy, solidarity, security, or the rule of law.[8]

Despite the undisputed virtues of those attempts, their common denominator is still the difficulties in defining, operationalising and measuring it. Yet, as one commentator concludes, EAV still lacks conceptual clarity, for it is a rather multifaceted term with different meanings to different (EU) stakeholders.[9] Indeed, most publications use different sets of criteria to operationalise and, depending on the availability of reliable data to justify their goals, either use qualitative or quantitative approaches to substantiate EAV. Especially economic studies assessing EU public spending in comparison with national public spending have shown, mainly in terms of additional GDP, that EAV – at least for specific policy areas – can be quantified. However, as the authors of a methodologically well-founded exploratory study admit: 'the identification of a national or European counterfactual is challenging and (…) no uniform prescription is possible,'[10] in particular when applied to very different policy fields.

Moreover, the inherent risk of all quantitative approximations is obvious: if what is important needs to be measurable, a consequential risk is always that only the measurable becomes important. In this regard, for example Pilati and Zuleeg also point beyond 'direct gains in GDP, income and employment' presenting a list of 'less quantifiable yet arguably more important benefits'[11] which *inter alia* arise from EU regulations with little or no EU-spending. It must not be underestimated, by any means, that the EU – despite its supranational status and against the prevailing, rather traditional idea of citizenship – has managed to introduce a 'revolutionary concept of EU citizenship, i.e. seeking full equality of rights and opportunities for all EU citizens regardless of their national origin.'[12] Equally, the EU has established various information-sharing systems that help deal with cross-border issues, including food alerts, health hazards and criminal prosecution.[13]

5 Rubio E., *The "added value" in the EU budgetary debates: One concept, four meanings*, Policy Brief: Notre Europe 28, 2011, p. 2.

6 Núñez Ferrer J., *Spending at EU level saves at national level … and more'*, 2020, drafted as a contribution to the EPRS expert seminar on 'EU Budget 2021-27: Challenges and opportunities,' held on 28 January 2020, p. 1.

7 Cf. Ederveen S., Gelauf G. and Pelkmans J., *Assessing subsidiarity*, 2006; European Commission, Staff Working Papers on: (1) *Examples of EU added value* (SWD (2015) 124 final) that accompanied the report *on the evaluation of the Union finances based on results achieved* (COM (2015) 313 final); (2) section 1.1 in *The added value of the EU budget* (SEC(2011) 867 final) that accompanied the proposal for *A budget for Europe 2020* (COM(2011) 500 final); and European Commission (2017), *Reflection paper on the future of EU finances*.

8 Cf. Tarschys D., *The Enigma of European Added Value - Setting Priorities for the European Union*, 2005; Medarova-Bergstrom K., Volkery A. and Baldock D., *Criteria for maximising the European added value of EU budget: the case of climate change*, 2012 (IEEP); Becker P., *The European Budget and the Principles of Solidarity and Added Value*, in: The International Spectator, 47:3, 2012, p. 116-129.

9 Cf. Medarova-Bergstrom K., Volkery A. and Baldock D. (2012), p. 4.

10 'Possible approaches comprise the econometric estimation of spending models or the calculation of differentiated costing models.' Bertelsmann Stiftung, *The European Added Value of EU Spending: Can the EU Help its Member States to Save Money?*, 2013, p. 8.

11 Pilati M., Zuleeg F. (2020), p. 1.

12 Núñez Ferrer J. (2020), p. 5.

13 Pilati M., Zuleeg F. (2020), p. 1.

It is therefore not amiss to recall the fact that the EU budget only amounts to roughly one percent of Member States' GDP, 'which is just a small fraction of national budgets with government expenditure-to-GDP ratios often far higher than 50 percent'.[14] It is also important to note that 'EU objectives are mainly pursued through legislative and coordination actions that are often the main drivers for bringing different national laws in line with each other and effecting changes in member countries' basic economic, social and political structures.'[15]

It appears to be a paradox that we can say that, based on scientific evidence, EU Member States and citizens clearly benefited from cooperation at EU level, but that we are not able to pin down a set of commonly shared criteria that would, free of doubt, allow for generalisation and conceptualisation of EAV. Presumably, there are at least several overlapping or coinciding perspectives, which, therefore, can be eventually subsumed under or understood as EAV. However, as long as there is no commonly accepted understanding of EAV as a concept, its explanatory usefulness and practical value – outside the academic world – remain disputed. Below I will therefore focus on the conceptual side (leaving the technical specificities of measuring EAV to the experts) to identify some relevant constituents of a possible definition.

EU added value vs. cost of non-Europe

In discussions on EU priorities and fields of action, on the reform of the EU, its governance, budget and spending behaviour, two terms are often invoked: EAV and the cost of non-Europe (CNE). Both terms are sometimes brought up as arguments merely to support the supposedly 'good cause' of further European integration, but are also summoned to serve as arguments in deciding whether the allocation of resources should rather favour the national or the supranational level. Whereas EAV is mainly used to highlight the positive results of EU integration, CNE refers to estimates of (possible) gains from further integration. In principle, they are two sides of the same coin, with CNE describing the potential for creating EAV.

In other words, EAV 'attempts to identify the collective benefit of undertaking - and [CNE], the collective gain which is foregone by not undertaking - policy action at European level in a particular field.'[16] Most prominently, a report published by the European Parliament Research Service (EPRS) in 2019, estimates 'that there are potential gains to the European economy (EU-28) of over 2,200 billion euro […], if the policies advocated by the Parliament […] were to be adopted by the Union's institutions and then fully implemented over the ten-year period from 2019 to 2029.'[17] For ease of reading I will mainly speak of EAV, unless a specific distinction is needed, and ask the reader to imagine those areas where CNE still remains an unrealised potential to create EAV.

The European Commission has defined EAV in its internal working papers and guidelines as 'the value resulting from an EU intervention, which is additional to the value that would have been otherwise created by Member State action alone.'[18] At first glance, this definition sounds rather plausible and comprehensive, but requires further explanation and interpretation. I will start with the most obvious element determining EAV, i.e. EU intervention.

The Commission uses 'intervention' as 'an umbrella term to describe a wide range of EU activities including: expenditure and non-expenditure measures, legislation, action plans, networks and agencies.'[19] I will use the terms 'EU intervention', 'EU action' or 'the

14 Bertelsmann Stiftung (2013), p. 110.

15 Cipriani G., *The EU Budget, the Accountability Gap and a Possible Way Forward*, in: Becker S., Bauer M. W., De Feo A. [eds.], *The New Politics of the European Union Budget*, 2017, p. 225.

16 European Parliamentary Research Service, *Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24*, 2019, p. 3.

17 Ibidem, p. 1.

18 European Commission, *The added value of the EU budget,* 2011, (SEC (2011) 867 final), p. 2. A similar formulation, but slightly different definition is to be used for evaluations. In this case, evaluators are asked to look for changes 'which can be reasonably argued are due to the EU intervention, over and above what could reasonably have been expected from national actions by the Member States'., European Commission, *Tool #47*, in: *Better regulation "Toolbox"*, 2017, p. 353. https://ec.europa.eu/info/law/law-making-process/better-regulationwhy-and-how_en

19 European Commission, *Better Regulation Guidelines*' 2017 (SWD (2017) 350), p. 89.

EU acts' synonymously, as they are used to describe the same phenomena, for example in the Treaties. Particularly Art. 5 of the Treaty on the Functioning of the EU (TFEU) defines several requirements which set the boundaries for EU actions, i.e. they have to comply with the principles of conferral, subsidiarity and proportionality:

- the EU 'may only act within the limits of the competences conferred upon it by the EU countries in the Treaties to attain the objectives provided therein' (principle of conferral);
- in the 'area of its non-exclusive competences, the EU may act only if — and in so far as — the objective of a proposed action cannot be sufficiently achieved by the EU countries, but could be better achieved at EU level' (principle of subsidiarity); and
- 'the content and scope of EU action may not go beyond what is necessary to achieve the objectives of the Treaties' (principle of proportionality).

While the principle of conferral may still be seen as quite straightforward, the other two will always require further substantiation and – to a certain degree – good (political) will to determine the level of sufficiency / insufficiency of national actions or the necessity of specific EU interventions in relation to the objectives of the Treaty. It is important to recall the reasons why the principle of subsidiarity was introduced in the Maastricht Treaty, i.e. 'with the intention of limiting the further extension of [the EU's] role. […] Especially, the sufficiency criterion can be used – and has been used – to prevent the EU from assuming additional responsibilities for the sole reason that this would be beneficial, or even that it would exercise them more effectively or more efficiently than the member states.'[20] Against the backdrop of Protocols No. 1 and No. 2 of the Treaties, setting out the role and rights of national Parliaments to check subsidiarity, the check on compliance with the subsidiarity principle 'is essentially a political question entrusted to the EU's political institutions and the national Parliaments.'[21]

However, as also held up by the Commission, subsidiarity should not be mistaken as a choice between EU or no action at all, but 'about identifying the best level of governance to make and implement policies […,] leaving room for the most appropriate level of governance to assume its responsibility to act.'[22] The pertinent question is: what would be the right level to act in order to achieve the highest benefit for EU citizens? Which is nothing else than asking whether EU action compared to Member States acting alone could provide added value to EU citizens.

The Commission's definition of EAV could then also be read as the inverse interpretation of the sufficiency clause, requiring the affirmation of better goal achievement at EU level. In fact, the substantiation of possible EAV is a key element in the application of the subsidiarity principle and 'can be regarded as one reading of it that interprets the sufficiency clause of the subsidiarity principle as requiring a positive EAV.'[23] If read this way, the underlying pattern would suggest the same underlying rationale, aimed at finding the best allocation of competences and resources at the right level. The distinction between subsidiarity and EAV (as a concept or principle) would then mainly explain the different rationales behind their usages, i.e. subsidiarity to defend and justify national competences from undue supranational infringement, and EAV to call for and justify their transfer to the supranational level. This in turn could also be seen as a kind of categorical imperative for the EU to take actions on issues where it is better placed to accomplish a common good than Member States acting on their own.

European public goods – the EU should do what it is good at

In economic literature, the provision of European public goods is often used synonymously with, or as one way to interpret, EAV.[24] Only recently, Fuest and Pisani-Ferry issued a report

20 Fuest C., Pisani-Ferry J., *A Primer on Developing European Public Goods - A report to Ministers Bruno Le Maire and Olaf Scholz*, 2019. p. 5.

21 European Commission, *The principles of subsidiarity and proportionality: Strengthening their role in the EU's policymaking*, 2019 (COM(2018) 703 final), p. 2.

22 Ibidem, p. 3.

23 Fuest C., Pisani-Ferry J. (2019), p. 8.

24 Cf. Zuleeg F., *The rationale for EU action: What are European Public Goods?*, prepared for the BEPA Workshop on 'The political economy of EU public finances: designing governance for change,' 2019, p. 7.

addressed to the German and French ministers of finance, which calls on them to rethink the purpose of the EU and not to see it as 'an economic integration project nor as a political one, not as a market or as a super-state, but as the provider of public goods that benefit the European citizens and are more efficiently and more effectively produced at European rather than at national level.'[25] As a general principle, also to avoid free riding and strategic behaviour by Member States leading to suboptimal outcomes for the EU as a whole, they recommend that the EU 'should focus on providing benefits to the citizens in fields where it has added value.'[26] In other words, the categorical imperative based on EAV requires the EU to focus on those activities which clearly correspond to its comparative performance advantages.

In this regard they argue that the definition of EAV, understood as the positive difference between the net-benefit of EU action compared to the net-benefit of national actions, is in line with the principle of subsidiarity, and can thus be, 'though initially elaborated in a public finance context, […] extended to other policy areas like regulation or standard-setting where spending plays no or only a minor role. The same applies to allocating policy responsibilities to the national versus the regional or local levels of government.'[27]

Their most important arguments for the identification and provision of European public goods in certain policy areas are economies of scale, cross-border spillover effects, and preference heterogeneity. In a nutshell, this would mean that the likelihood of creating EAV is relatively high, given a proper formulation and implementation of the pertinent EU policies, wherever:

- economies of scale can be realised, e.g. in public procurement of military systems or large-scale projects such as GALILEO;
- spillovers in the provision of public goods indicate that national provision fails to be efficient for the EU as a whole (e.g. if a Member State cuts corporate taxes to attract investment with a detrimental effect on investments in other Member States); and
- preference heterogeneity is small, or at least small enough to allow for the coherent formulation of policy objectives (e.g. data or consumer protection).

According to Fuest and Pisani-Ferry, there are also 'nowadays reasons to believe that in a number of fields, economies of scale are more pervasive, spillovers are stronger and preferences are less heterogeneous than they used to be,'[28] while intergovernmental cooperation would always bear an inherent risk of Member States' free riding and strategic behaviour, ultimately resulting in suboptimal outcomes. As examples, they list eight policy areas, 'where changes in Europe's external environment and problems of collective action call for reform, while at the same time a sufficient number of member states share common interests and perspectives,'[29] that would be apt for EU actions aiming at the provision of European public goods, i. e. foreign economic relations, climate change mitigation, digital sovereignty, research and development in large and risky projects, or military procurement and defence.[30]

The charm of such an approach is that it does not only offer an indication (together with the relevant criteria) of how best to identify a broad range of EU goals in different policy areas, but also that it acknowledges the EU's comparative performance advantages in relation to its inherent capacities as a supranational structure. As such, it is quasi imposing itself as a performance indicator to also assess existing arrangements and whether they do or do not provide the added value in terms of public goods provision. Once operationalised, EAV could practically become the key measure to estimate *ex-ante* whether an EU intervention is likely to achieve better results for EU citizens than Member States acting alone, and *ex-post* whether the results of an EU intervention confirmed the ex-ante assumptions.

25 Fuest C., Pisani-Ferry J. (2019), p. 14.
26 Ibidem.
27 Ibidem, p. 8.
28 Ibidem, p. 14.
29 Ibidem, p. 15
30 Cf. ibidem.

However, this would require Member States to accept the creation of European public goods as the (overarching) goal of cooperation at EU level, which – as far as I can see – is not the case, yet. In fact, the 'juste retour' pattern we witness, for example, in the negotiations about the Multiannual Financial Framework (MFF), shows that – from a Member State perspective – EAV is rather seen as the individual benefit they can reap from EU membership. I will come back to this later, but first we need to see whether, and if yes, how EAV must be conceptualised to serve as the proposed test on the right allocation of competences and resources to the appropriate levels of governance.

Comparing added values and for whom

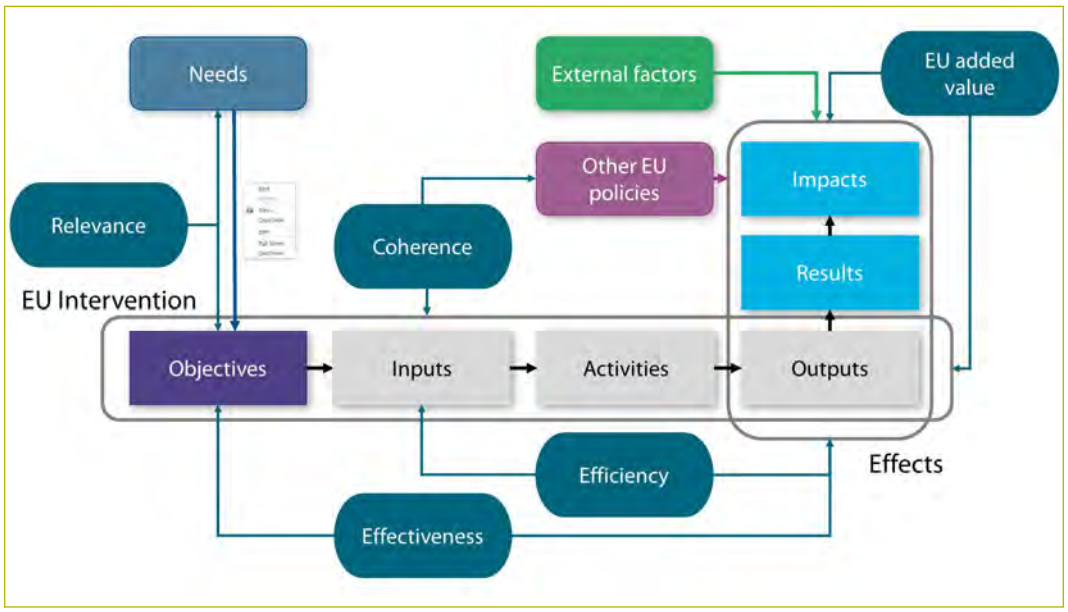
A couple of questions arise when looking at the definition of EAV as being 'the value resulting from an EU intervention, which is additional to the value that would have been otherwise created by Member State action alone.' So far, we have looked into the implications of 'EU intervention,' i.e. the principles allowing for an EU intervention, as well as into European public goods, as an ideal pattern for identifying potential goals and fields of action. What we have not discussed yet is:

- What do we actually compare when we try to determine the difference between the two resulting values? And against which criteria should we compare?
- For whom are these values actually created, or maybe better: who should benefit from EU interventions? And what does this mean for EU goals?

What do we compare?

According to the Commission's intervention logic model (see **Figure 1**), which explains the logical chain of events that should lead to the intended change, an EU intervention comprises the definition of the objectives, the corresponding inputs and activities as well as outputs.

Figure 1 – the European Commission's intervention logic model



Source: ECA, based on European Commission, Better regulation *Toolbox*, July 2017

Ideally, the intervention chosen will lead to the desired impact, which in turn will have been the adequate response to satisfy the need (or achieve the goal). It logically follows that the criteria describing the need will be the ones against which goal achievement must be measured and which would ideally be the ones describing impact (if achieved in full). [31] Hence, the value of an intervention, which is motivated and determined by the goal it should achieve, is its relative capacity to meet these criteria.[32]

31 At an abstract level the same type of relationship can be postulated between objectives and results and inputs and outputs.

32 For our purposes, it is less relevant to know the exact type of intervention (although it makes a difference which one is chosen when it comes to action), but to understand its determining factors.

The intervention logic model suggests – in line with the Commission's definition – that EAV resulting from an EU intervention equals a comparative benefit either at the level of outputs, results or impacts[33] (or all three together), intended or unintended. If this was the case, and if EAV was, as defined, the positive difference between EU and national outputs, results and impacts, then the only dimension to measure EAV would be effectiveness, i.e. whether an EU or a national intervention yields better goal achievement. At the same time, it would fail to look into the question of how it was achieved and, thereby, miss out other dimensions by which an EU intervention could create added value, such as efficiency and economy.[34] Therefore, EAV must be determined by a comparison of performances which means to look at the whole chain of events to assess whether an EU intervention would be or has been the more economic, efficient or effective choice compared to the relevant national option aiming at having a similar impact. In other words: EAV is created by choosing the EU intervention because of its better performance in achieving the desired goal or tackling the need identified.

In those cases where the goal or the need would not exist without the existence of the EU, it is by default that only an EU intervention can achieve the desired impact. And as long as there is no wish to question or change the current arrangements (which eventually would mean to change the Treaties), the same accounts for all interventions where the EU has exclusive competences, since EAV is given by definition because of the lack of comparison.[35]

Values for whom?

The Commission's definition does not directly indicate any beneficiary of EAV. There are, however, two perspectives marking the poles of the EAV continuum. On the one hand, the EU perspective, which from a supranational (addressing the Member States) and sometimes even post-national (addressing EU citizens') position determines EAV as the value (to be) created for the benefit of all Member States, respectively all EU citizens. Such a perspective necessarily abstracts from individual Member States' interests for the better of the whole. For the citizens' perspective, also the compartmentalisation of citizens' preferences by national boundaries would be lifted. Indeed, it makes a difference whether the EU attempts to improve the rights of all EU citizens, e.g. passenger rights, or works on initiatives that only have an indirect impact on citizens' lives (e.g. when establishing programmes to support research and development in the Member States). Hence, we can see the EU's perspective as the underlying norm to guide EU institutions in their actions.

On the other hand, there is the national perspective that defines EAV as the benefit the individual Member State (respectively its citizens) reaps from EU membership. This 'juste retour' approach (not limited to spending), despite its clearly diminishing effect on creating EAV from the EU perspective, is, however, not illegitimate, at least in the short to medium term, as Member State governments are held accountable for representing the interests of their citizens. Even the 'Treaty itself recognises that national interests might not be in line with European ones'[36] and therefore provides that Member States shall 'refrain from any measures which could jeopardise the attainment of the Union's objectives' (Art. 4(3) TEU).

33 The OECD (Glossary of Key Terms in Evaluation and Results Based Management) defines 'results' as: output, outcome or impact (intended or unintended, positive and/or negative) of a development intervention. As we are using the Commission's intervention logic model to explain the links and relations, we decided to stick to their usage of the terms discussed (see figure 1).

34 Despite the focus on effects, the Commission's toolbox also recommends five criteria for the impact assessment of an intervention, namely effectiveness, efficiency, coherence, relevance and EAV. However, it is quite vague when it comes to measuring EAV, as it concludes that EAV 'brings together the findings of the other criteria, presenting the arguments on causality and drawing conclusions, based on the evidence to hand, about the performance of the EU intervention.' European Commission, *Tool #47*, 2017, p. 353. Still, it hints in our direction of understanding EAV as a performance issue.

35 In these cases, performance is still a question, but does not need to be compared to any a national intervention (yet).

36 Cipriani G. (2017), p. 248.

While the call for European public goods necessarily requires the EU perspective, the supranational nature of EU governance with its Member States' prerogatives in determining EU goals and spending priorities lets EAV creation often fall victim to the whims of diverging interests. This is no wonder, given the high grade of heterogeneity in size and (economic) power, strengths and weaknesses as well as cultural differences, which account for the great variety of Member States' preferences and needs in the different policy areas. Experience shows that to a certain extent any agreement on common goals, and sometimes even on the type of intervention, is the result of a political compromise between several rationales and interests, which is not necessarily bad. However, it entails the risk of producing incoherent policy objectives leading to inadequate interventions and potentially unsatisfying results.

Assessing the EU's performance – the Commission's Better Regulation initiative

The Commission is advancing the idea of assessing and substantiating the EU's performance with their guidelines on better regulation. In fact, the Commission understood that, in order to build citizens' trust in the EU, it was necessary to also factually underpin a better delivery of results for enhancing the legitimacy and accountability of its actions. This led to, inter alia, a renewed focus on key priorities ('big on big things') and the agenda *Better regulation for better results,*[37] 'designed to ensure that policy is prepared, implemented and evaluated in an open, transparent manner, informed by the best available evidence and backed up by the comprehensive involvement of stakeholders.'[38] In addition, the Commission developed the 'Better Regulation Guidelines' which provide extensive guidance on how to 'assess the expected and actual impacts of policies, legislation, and other important measures at every stage of the policy cycle – from planning to implementation, monitoring and evaluation of performance and identification of next steps.'

One major challenge for the quality of impact assessments is the quantification of the costs and benefits of the different options.[39] To this end, the Commission also set up the Regulatory Scrutiny Board (RSB) to independently check the quality of the impact assessments and evaluations,[40] which are in principle required for any initiative expected to have significant economic, social or environmental impacts. Despite the Commission's general improvement in quantification, the RSB observed that only a quarter of the impact assessments fully quantified costs and benefits.[41] A similar verdict surfaces from the RSB's analysis of the use of evaluations for impact assessments.

However, in the 2018 OECD Indicators of Regulatory Policy and Governance the Commission has been rated third highest for impact assessments, and fourth highest for ex-post evaluation of primary law.[42] With reference to its Annual Report 2013 and special report 16/2018 on ex-post reviews, the ECA also concluded that, overall, 'the Commission had designed an evaluation system which was well managed and quality controlled as a whole [and] had made impact assessment an integral part of policy development […] to design its legislative initiatives better.'[43] The mission letter that Commission President Ursula von der Leyen sent to Vice-President Šefčovič gives hope that this positive direction will be further pursued, as she underlines 'the need for the EU to act together where it matters the most and where it can provide the most added value. To do this, we need to strengthen evidence-based policy-making and identify long-term trends on which we need to act and about which we need to know more.'[44]

Indeed, for its success, better regulation in terms of performance does not only depend on systematic and consistent application of the Better Regulation tools across policy

37 European Commission, *Better regulation for better results - An EU agenda,* 2015 (COM (2015) 215 final).
38 European Commission, *Governance in the European Commission*, 2018 (C(2018) 7703 final), p. 18.
39 European Court of Auditors, special report 3/2010, *Impact Assessments in the EU institutions: do they support decision-making*, p. 47.
40 Cf. European Commission, *Better regulation toolbox - TOOL #3 Role of the Regulatory Scrutiny Board*, p.1. (https://ec.europa.eu/info/sites/info/files/file_import/better-regulation-toolbox-3_en_0.pdf).
41 Regulatory Scrutiny Board, *Annual Report 2018*, chapter 3.4.
42 OECD, *OECD Regulatory Policy Outlook 2018*, figures 2.19, 2.20, 2.30 and 2.31.
43 European Court of Auditors (2020), p. 15.
44 European Commission, Mission letter to Maros Šefčovič: Vice-President designate for Interinstitutional Relations and Foresight, 2019, p. 4.

areas, but requires national parliaments and Member State authorities to effectively play their role in transposing EU law into national law, and to follow-up and monitor the implementation and application of these rules on the ground. In this regard, the ECA also calls for improving 'the evidence base for decision-making, and promote, monitor and enforce the implementation and application of EU law.'[45]

EAV as the subject of independent scrutiny – a role for supreme audit institutions?

Ultimately, determining the EAV of EU interventions is a question of performance and not limited to a comparison of mere results. As such it requires the comparison of the two *modi operandi* (national or EU intervention) at the disposal of EU Member States to achieve their (common) goals. If EAV is then understood as the inverse interpretation of the sufficiency clause requiring the affirmation of a better goal achievement at EU level, as I suggested earlier on, it could also become the performance indicator for determining the best allocation of competences and resources for the benefit of EU citizens.

As such, EAV could also become an audit subject for EU supreme audit institutions (EU SAIs) and the European Court of Auditors (ECA), being themselves committed to promoting the principles of good governance and performance when it comes to holding their governments and administrations accountable for their actions. However, the individual mandates, audit rights and reporting duties are limited to their own jurisdictions.[46] At first glance, EAV could thus be seen as being lost on EU SAIs in the Member States, as their mandates would require them to rather look for national added value instead of an overarching EU benefit. This may be particularly the case, when certain interventions target zero-sum games between the Member States, between their citizens, or even between specific groups of citizens, where some will win because others lose.

At the same time, given the intertwined nature of the relations between the EU and its Member States in general, and in the implementation of EU policies through EU interventions in particular, it is highly unlikely that some will always lose while others win. On the contrary, and especially in economic terms, EU membership has largely contributed to national wealth and welfare gains, with admittedly higher effects for some Member States in absolute terms, but similar gains and losses relative to their GDP[47]. In other words, in the end it would be even detrimental for the most successful Member States to allow for such an aversive stimulus, although finding the right formula of burden and profit will always be subject to controversies.

Similarly, it would be strange to say that this has no impact on EU SAIs and their audit work. With the overlap created by EU interventions and an EU budget based on Member States' contributions, cooperation between EU SAIs, and EU SAIs and the ECA, becomes instrumental to properly auditing EU and national spending in the interest of national and EU citizens, and thereby EAV. One just has to recall that EU legislation needs to be implemented at national level. Or that around 80% of EU spending is taking place in the Member States under shared management rules, leaving the responsibility for budget implementation with the Commission, but the day-to-day management, the set-up of the management and control system, with the Member States.

This should not be mistaken as a call on EU SAIs to criticise policy decisions or the formulation of priorities, because this would mean overstretching the SAIs' mandates and misinterpreting the role of an external auditor in the democratic political system. However, policy decisions usually entail interventions with spending implications and, thereby, quite naturally fall into the remit of SAIs, particularly with regard to their economy, efficiency and effectiveness.

This may also mean that EAV is not that easily identified in the short to medium-term, and may also be difficult to find at project level (unless we are talking of large-scale cross-border projects such GALILEO or ITER), but rather at programme or policy level (or even only as an effect of multiple policies in combination). However, situations such

45 European Court of Auditors, Review 2/2020, *Law-making in the European Union after almost 20 years of Better Regulation*, p. 4.

46 Following the Treaty of Lisbon, however, the ECA forwards its annual report also to national Parliaments for information (Protocol No. 1 on the role of national Parliaments in the EU, Art. 7).

47 Cf. Pilati M., Zuleeg F. (2020), p. 1.

as the current Covid-19 pandemic show that EU policies and common actions can create an added value for all Member States and their citizens, such as the centralised procurement and distribution of medical equipment or vaccines, as well as the exchange of relevant information on best practices, resources and needs.

In general, and to 'ignite the debate of what the key challenges are and what should be done at EU level, more transparency of decisions and positions is required, with decision-makers needing to be accountable for their choices.'[48] That being said, the function of an audit report is to provide the legislator the grounds for informed decision-taking on the most economic, most efficient or effective use of public resources (or for taking no action at all). Audit reports present a professional and neutral assessment of the success or failure of an intervention. Even if they do not question the rightfulness of the policy decision or the goal, audit reports may have an impact on policy decisions as well. In this regard, it may be necessary to also 'test' the underlying assumptions of a decision in relation to the choice of intervention in order to determine its adequacy in terms of goal achievement and desired impact. After all, the added value of a good recommendation is to offer the legislator a broader choice of well-substantiated actions.

So what?

Looking back at what has been achieved since the inception of the EU, there is no doubt that added value has been created, be it for the EU as whole, its citizens or each and every Member State. All are better off with than without the Union. Several studies, e.g. by looking at the effects of the single market, give proof of that. We could stop here and content ourselves with the fact that in retrospect and for long periods determining EAV is less of an issue – and it does not mean that whatever was done, was done well or led to optimal results. However, as a guiding principle for future actions, single projects or the ideal allocation of competences and resources, EAV is rather elusive and has been rightly labelled as an enigma, not because of a lack of well-founded interpretations, but due to the fact that there are too many that serve too many different purposes.

EAV is not an absolute, but a relative term depending on different perspectives and preferences, which in turn determine goals and objectives. As we have seen, EU and Member States or citizens' interests do not necessarily coincide. The challenge will be to reconcile them. One way to do so is to understand the creation of European public goods as the EU's overarching goal as a supranational organisation. More so, since such an understanding would be compliant with the current governance arrangements and key principles, such as subsidiarity or proportionality. The costs of non-Europe, being a purely national cost or a foregone gain, may provide another incentive for Member States to consider common action towards the creation of EAV.

EAV is a question of better performance (with the difficulty of establishing relevant counterfactuals) for the EU as whole, which requires allocating the necessary competences and resources at the right level. The likelihood that an EU intervention will yield positive results is for sure higher, where – as is the case for the European public goods – economies of scale, spillover effects and preference heterogeneity coincide positively. EAV creation will largely depend on the effective implementation of EU policies both at EU and national level. In terms of accountability and performance, this will require common and individual audit efforts by EU SAIs and the ECA to support legislators in their choice of the right (level of) intervention for the benefit of EU citizens: the merits of European action remain a condition sine qua non for the Union as a whole and its future.

In the end, what else is an EU action if not the Member States' institutionalised will to act together at EU level to achieve a common goal?

48 Ibidem, p. 17.

The added value of European coalitions: past, present, and future

By Rafael Loss, European Council on Foreign Relations



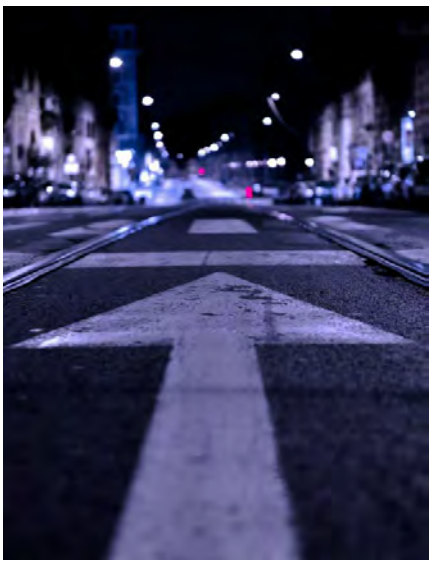
Source: EU/European Commission

Today, the need for close European cooperation may seem very obvious but this has not always been the case. Motivation to work in and for the European project has gathered strength, shifted, and also broken down on some occasions. Not surprisingly, particularly now in times of the Covid-19 pandemic, many citizens perceive the EU as a venue to find a common response to transboundary threats and challenges. Rafael Loss, Coordinator for Pan-European Data Projects at the European Council on Foreign Relations (ECFR), regularly publishes articles, analysing current affairs in the EU and using the results the ECFR collects with its EU Coalition Explorer. In his contribution below he describes some of the historical changes in cooperation in the European project throughout the decades, analyses where we stand now, linking it to public opinion and expert surveys, and argues that coalition building and cooperation in the EU has not reached its full potential yet and can provide guidance for a fair and inclusive international order.

Historical push for cooperation rather than isolation

Today's European Union is the product of successively changing coalitions of states shaping the European project to their liking. This is one possible reading of European integration since 1951. It is a reading that presupposes self-interested states seeking to maximise their interests by cooperating where beneficial. Adherents of this reading might be puzzled that, over the course of seven decades, these states have surrendered more and more of their power to a supranational 'agent.' An alternative reading therefore suggests that it was not so much coalitions of states, but rather coalitions of elites driving integration. European leaders and technocrats, who had personally witnessed the destructive power of two world wars, decided that the regulation of their coal and steel production under a centralised authority would be the surest way to make war

'not merely unthinkable, but materially impossible.' But what on earth does the EU consumer rights directive have to do with preventing war in Europe?



Source: Shutterstock

Here is where many European citizens get lost. After the Second World War, it was clear, particularly to the peoples of France and West Germany, that something in the configuration of European politics needed to change to prevent another such tragedy. Most also agreed that cooperation, rather than isolation, presented the best chance to rebuild Europe's societies and economies. Little progress would have been achieved without substantial US economic and political support, in addition to the security guarantees provided through NATO, of course. Nevertheless, the continent's post-war recovery, and Franco-German reconciliation, were remarkable European achievements.

From consensus to dissensus

In the first two decades or so after the war, a 'permissive consensus' allowed European leaders to integrate more and more policy areas in order to achieve efficiency gains, decrease transaction costs, and promote the normative agenda of an 'ever-closer union' without much objection from the public. This was the added value of early European integration.

However, the consensus turned out to be more ephemeral than some European leaders might have hoped. Leon Lindberg and Stuart Scheingold, who coined the 'permissive consensus' in their 1970 treatise on the evolving European Community, warned that 'if the Community were to broaden its scope or increase its institutional capacities markedly, […] the level of support or its relationship to the political process would be significantly altered.' With the increasing salience of European issues in national politics came the popular backlash, and the permissive consensus turned into a 'constraining dissensus'. Scholars disagree on where to place the inflection point exactly, but surely with the Danish rejection of the Maastricht treaty in 1992 – and rising Euroscepticism across the continent resulting from the uneven distribution of benefits from the single market – the public's benevolent disinterest in integration became a thing of the past.

EU project continues, despite or thanks to crises

Developments and successive crises have since provided further evidence that European integration is a deeply political, and readily politicised, project, that is not only shaped by functional and distributional pressures but also by identity politics. The Balkan wars exposed the Europeans' inability to prevent a genocide in their immediate neighbourhood. The 2003 invasion of Iraq showed how easily foreign actors could drive a wedge between Europeans on a critical issue. The EU's eastern enlargement uncovered bigotry and deep resentment toward Eastern European migrant workers. The Eurozone crisis revealed the flaws of adopting a common monetary policy without a common fiscal policy. Europe's approach to migration makes its 2012 Nobel Peace Prize ring hollow. And in 2020, the coronavirus pandemic led many Europeans to doubt the purpose of a union that, turning Jean-Claude Juncker's pronouncement on its head, could *not* protect them.

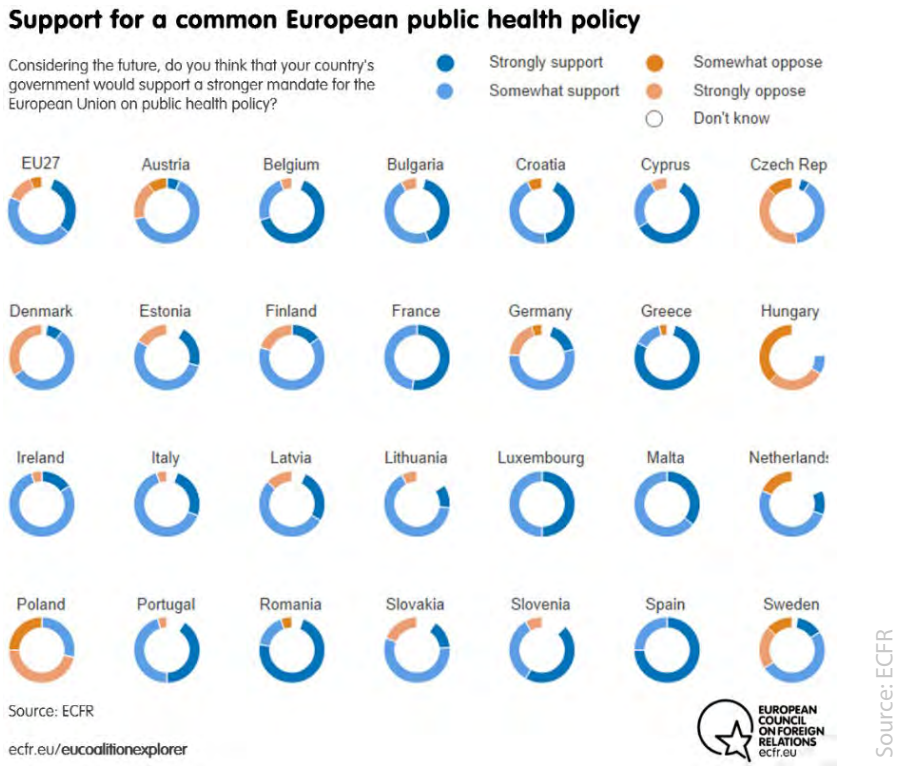
Despite these numerous, and occasionally concurrent, crises, the European project remains surprisingly tenacious. And what is more, integration is advancing as Europeans continue to look to the EU to assume a leading role in tackling future challenges. Recent public opinion polling conducted by the European Council on Foreign Relations (ECFR) found that, despite disappointment with the EU's early handling of the coronavirus crisis, many Europeans favour a common response to global threats and challenges, support financial burden-sharing in similar future crises, and are willing to incur increased costs for greater security. Earlier polls, too, suggested demand for EU leadership, particularly on climate and migration. So there is a mandate.

However, one key insight of the past three decades of scholarship on public attitudes toward European integration is that preferences are 'multidimensional, inherently variable, and characterized by a large degree of complexity.' Sometimes individuals' expressed preferences are inconsistent or even self-contradictory because causal relationships and trade-offs are not immediately obvious, and any policy prescriptions analysts might derive from them can be difficult to align with a coherent agenda.

EU Coalition Explorer: expert insights

Recognising these limitations, since 2016, the ECFR has also conducted large-scale, structured expert surveys and, based on these, has produced three editions of the EU Coalition Explorer. Of course, expert surveys come with their own challenges, including who qualifies as an expert in the first place. Nevertheless, their daily exposure to European politics makes experts' insights a valuable source for analysis. The 845-strong sample of policy professionals and expert observers of EU affairs, whose insights make up the latest EU Coalition Explorer, supports key findings from the polls mentioned above. Experts, too, see the EU27 prioritising climate and migration policy in the coming years. A second, similar survey on European cooperation during the coronavirus crisis finds substantial support among EU Member States for a common public health policy (see also **Figure 1**).

Figure 1 - Common health policy



Not only do expert insights and public opinion complement each other methodologically and enhance the validity of claims analysts can make, combining the two approaches also makes sense when considering the institutional setup of the European Union. With the permissive consensus behind us and European issues more salient, disregarding public opinion would produce an incomplete picture. Member States' parliaments and their European counterpart are the most direct reflection of the public's preferences and represent important veto players in European politics. At the same time, Member States' governments and the EU Council remain central. Therefore, taking stock of the existing patterns of relationships and the coalition potential of Member States generates valuable insights into how particular policies are being shaped in the policymaking process. More importantly, plenty of challenges that Member States tackle in cooperation, are being dealt with outside of the EU framework.

Examining Member State coalitions helps to understand which policies make it onto the EU's agenda and why, and what the likely outcomes of these processes are. It also sheds light on the added value of cooperation, and of cooperation through the EU.

Changing interactions have shifted capacity towards the EU



Diplomatic relations between European societies go back centuries. However, the character of interactions changed dramatically with the creation of the successive supranational organisations that make up the European Union. With the multitude of policies, regulations, and measures being discussed in the EU today, 19th century conference diplomacy would be wholly inadequate. As the first and, so far, only country to have withdrawn from the EU, the United Kingdom currently has to rebuild state capacity and expertise it had previously ceded to Brussels. This is proving particularly challenging when it comes the regulation and facilitation of cross-border trade. Brexit, in a sense, provides a counterfactual coming to life for analysing the added value of being an EU Member State.

The EU provides Member States with added value in their external relations, too, in the form of economies of scale. Not only are Europeans more powerful when speaking with a single voice on issues such as climate change and international trade – anecdotally, the further European diplomats are from Brussels, the easier they find it to work together – joint representation also enhances their diplomatic reach. Particularly the smaller Member States with more limited bureaucratic capacity benefit from having some diplomatic and consular activities being coordinated, facilitated, or even assumed by the European External Action Service (EEAS) and its delegations around the world.

Yet, synergies have not been fully exploited. Member States have largely maintained their networks of embassies and consulates around the world since the creation of the EEAS in 2010, despite the cost-savings a fully integrated EU foreign services promises. Rather than a substitute, they seem to view the EU delegations as a complement to their national representations. Reducing European added value to 'efficiency' and 'synergies' therefore misses the role of national interests in shaping the formulation and implementation of a common EU foreign policy. On the surface, for example, the EU Coalition Explorer reveals considerable agreement that the EU is the appropriate level of decision making for dealing with the civil war in Libya. Strong national preferences that point in opposite directions, however, have so far kept Member States from agreeing on a common approach. Thinking about Europe's role in the world without recognising the political dimension of European integration will leave the Union ill-equipped for an increasingly competitive global environment.

European added value towards a fair and inclusive international order

With competition heating up between the United States and China, and Russia expanding its foothold in conflicts of immediate concern to the EU, geopolitics must become a variable in the calculation of European added value. China, Russia, and the United States under Donald Trump threaten the European project not only with their divisive approaches toward the Union, but also because Member States are already deeply divided about their relations vis-à-vis these three powers, as the EU Coalition Explorer shows (see also **Figure 2**). Ultimately, the questions that will need to be answered sooner rather than later by Europeans are those of the purpose of their Union and of European power in the 21st century, and of their shape and legitimacy.

The Strategic Compass process - a common threat analysis the EU decided to embark upon in 2020 to concretise its level of ambition as a security provider - presents an opportunity to make progress on these questions. The next step must be to recognise 'European sovereignty' and multilateralism not as ends in themselves, but as means to achieve something for Europeans, and to appreciate the tensions that exist between the two. Europeans should set themselves apart from the hubris and moral relativism of others and build and defend a fair, transparent, and inclusive international order that can take on the challenges of the coming decades.

Figure 2 – Policy priorities



European added value for the EU budget: going beyond rhetoric

By Professor Friedrich Heinemann, ZEW – Leibniz Centre for European Economic Research and University of Heidelberg



Source: Xavier Lejeune Photo/shutterstock

The 'NextGenerationEU' recovery plan: more to it than just a budget

People might agree that there are many historical and political reasons to cooperate at EU level. But does the EU also help its Member States to save money? A seemingly simple question, but not that straightforward to answer in practice. The more so, when Member States in the EU budget negotiations – discussing about hundreds of billions of euros – pursue a 'juste retour' logic. Among his other responsibilities, Professor Friedrich Heinemann is head of the Research Department 'Corporate Taxation and Public Finance' of ZEW, the Leibniz Centre for European Economic Research. He has done extensive research on European added value (EAV) in various policy areas. Below he analyses some of the conditions that have to be met to really be able to speak about EAV, covering also some of the caveats that need to be tackled. Finally, he unfolds three key elements a future EAV orientation needs to address to overcome the current substantive risks of not selecting the policy options most likely to create EAV.

EAV: a sensible yardstick to help prioritisation

'European Added Value' (EAV) has gained great prominence as a key term in the reflections and negotiations leading to the new Multiannual Financial Framework (MFF) for the period 2021 to 2027[1]. The basic principle of EAV is straightforward and can hardly be contested as a sensible yardstick to prioritise EU spending: Europe should concentrate its scarce resources on those policies and programmes with a particularly strong case for value creation.

While the rhetoric in support of this principle is all-embracing, its application often lacks rigour, consistency and, too often, real policy consequences. Numerous independent

1 For example: European Commission: *Reflection Paper on Future of EU Finances*, COM 358 of 28 June 2017. Brussels. https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-eu-finances_en.pdf

studies have been developed and applied EAV criteria to the EU budget over the years[2] – with a broad consensus that the European budget is misbalanced. Policies with a large and obvious EAV potential such as climate policy, migration and asylum policies, development and external policies are underfinanced, whereas, inappropriately, the traditional big two spending policies, the Common Agricultural Policy (CAP) and Cohesion, absorb the bulk of the available European resources.

With the decision emerging on the next MFF and the NextGenerationEU (NGEU) package, Europe is currently defining the path for EU finances for the next seven years. Rhetorically, the prominent focus on climate policy in the context of Europe's Green Deal seems to suggest a stronger EAV orientation. However, a strong status quo orientation for the big two traditional policies – CAP and Cohesion – raises critical questions. There is an obvious risk that traditional budgets are simply re-legitimised and 'green-' or 'digi-washed' through new arguments (climate, digitalisation) – but without substantial changes to the contents and without proof of delivery on these new objectives.

The disappointing decisions so far on binding and measurable ecological conditions for CAP direct payments for the next MFF are a telling example[3]. With respect to the emerging NGEU, the first assessment on its EAV potential is mixed. In its NGEU proposal, the European Commission had suggested using some of the NGEU money to support EU policies with a convincing case for substantive EAV, cases such as humanitarian aid, international cooperation, and a new EU health fund ('EU4Health'). The European Council, in its political agreement on NGEU, has almost fully rejected these innovations and maximised the allocation for the 'Reconstruction and Resilience Facility' that transfers the money to the national budget under the very weak conditionality of the European Semester. It seems that a chance for greater EAV orientation in European spending has been missed again due to the narrow transfer interests of Member States.

Against this backdrop, below I develop four propositions: first, an effective and binding EAV orientation of EU spending would foster political cohesion even if it comes at a cost for the traditional transfer recipients of EU funds. Second, EAV can only be meaningfully assessed if there is precision on the contents and restraint on the number of policy objectives. Third, the EAV approach conceptually requires comparisons of a European policy with a national counterfactual (or vice versa). Fourth, on top of a higher conceptual precision, EU budgetary evaluations need to be organised in a more impartial way that neutralises the institutional self-interest of the European Commission and the beneficiaries of EU money in favourable assessments of EU programmes.

A European budget focused on ADDED value will limit conflicts

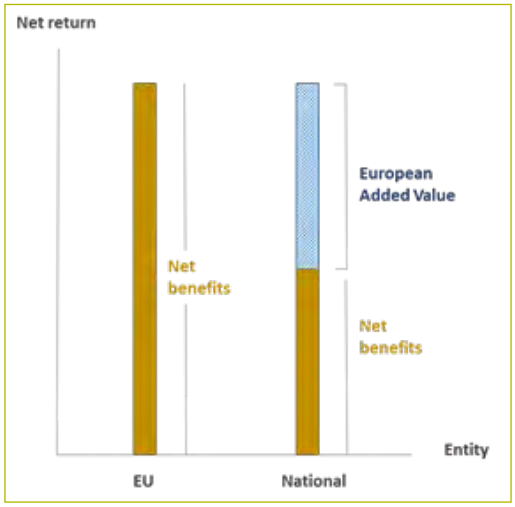
One key political advantage of a European budget focused on EAV creation is that it could overcome the logic of a zero sum redistribution game. This can be demonstrated with a precise use of EAV terminology. In order to qualify EU spending as having a 'European added value', it must fulfil two conditions: the spending must create *European value* in the sense of a positive causal impact of the EU-financed activity on performance

2 ECORYS/CPB/IFO, *A Study on EU Spending*, Final Report, Rotterdam, 2008 https://agriregionieuropa.univpm.it/sites/are.econ.univpm.it/files/FinestraPAC/Editoriale_12/study_EUspending_en.pdf; Alesina, Alberto/Angeloni, Ignazio/Schuknecht, Ludger, *What Does the European Union Do?*, in: Public Choice 2005(123), S. 275-319 https://link.springer.com/article/10.1007/s11127-005-7164-3; Sapir, André/Aghion, Philippe/Bertola, Guiseppe/Hellwig, Martin/Pisani-Ferry, Jean/Rosati, Dariusz/Viñals, José/Wallace, Helen, *An Agenda for a Growing Europe: The Sapir Report*, Oxford: Oxford University Press, 2004; Weiss, Stefani/Heinemann, Friedrich/Berger, Melissa/Harendt, Christoph/Moessinger, Marc-Daniel/Schwab, Thomas, *How Europe Can Deliver - Optimising the Division of Competences among the EU and Its Member States*, Gütersloh: Bertelsmann Stiftung, 2017, https://www.bertelsmann-stiftung.de/de/publikationen/publikation/did/how-europe-can-deliver/

3 The 'eco-schemes' could become a trigger for a stricter public good-orientation but might effectively only play a minor role with substantial national leeway on how to specify and apply them: Heinemann, Friedrich/Weiss, Stefani, *The EU Budget and Common Agricultural Policy Beyond 2020: Seven More Years of Money for Nothing?*, in: Bertelsmann Stiftung, Reflection Paper No. 3: Preparing for the Multiannual Financial Framework after 2020, 2018, https://www.bertelsmann-stiftung.de/de/publikationen/publikation/did/the-eu-budget-and-common-agricultural-policy-beyond-2020-seven-more-years-of-money-for-nothing/

indicators that are linked to European policy objectives (e.g. reduction of CO^2 emissions, increase in new jobs, increase of digital innovations, etc). The benefit must be positive, net of the welfare loss due to taxation that is needed to finance the programme. Yet, such value creation through a positive net benefit from European spending alone is not a sufficient condition for the existence of EAV. In order to qualify as *added* value, the causal effect of a European programme must exceed the causal effect of a national counterfactual (see **Figure 1**). Otherwise there is no genuine advantage from financing the programme at European level and hence, no European *added* value.

Figure 1 - A statement on European added value is relative to a national benefit



Source: ECA, based on Weiss, Stefani (Editor), 2013

The European Added Value of EU Spending: Can the EU Help Its Member States to Save Money? Exploratory Study. Gütersloh: Bertelsmann-Stiftung. https://www.bertelsmann-stiftung.de/de/publikationen/publikation/did/the-european-added-value-of-eu-spending/

Hence, EU programmes with genuine EAV have one crucial advantage from the national perspective: financing these programmes at European level instead of keeping the money in national budgets increases the benefits from public spending. With EAV, the EU budget is no longer part of a *zero* sum but an instrument in a *positive* sum game. This is in contrast to a budget without EAV that is heavily concentrated on transfers that lack value creation – e.g. from rich to poor countries and regions (Cohesion), or from less to more agricultural countries (CAP).

With this perspective, the focus on EAV is not just an issue for the technical optimisation of spending. It is rather a contribution to a consensual interest of all Member States in the European budget. If significant value creation by the European budget is beyond doubt, we would see much less distributive fights and concerns about the dubious 'net payment positions.' National net payment positions (calculated as the difference between contributions paid to the budget and transfers received) do not make any sense as an indicator for national advantage from European spending if the European budget convincingly creates significant added value. Net payments do, however, make a lot of sense if the budget is largely used as a redistributive device to channel transfers between Member States. Hence, promoting the EAV of the budget is one strategy to overcome the 'poisonous' net balance pre-occupation that has been so obstructive for European budgetary negotiations and to the political atmosphere in general[4].

In other words: while a redistributive zero-sum game budget will necessarily create winners and losers – and, hence cause conflicts – the case is different with an EAV budget. Since it generates a net value in excess of the value that could be created at national level with identical resources, there is a potential to have 27 'winners' among the Member States.

4 For an overview of strategies: Benedetto, Giacome/Heinemann, Friedrich/Zuleeg, Fabian (2020): Strategies to Overcome the 'juste retour' Perspective on the EU budget, European Parliament Briefing BUDG Committee, February 2020. https://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL_BRI(2020)648186

One clarification is important, on European redistribution and solidarity: applying the EAV criterion should not compromise European solidarity at all. However, EU policies should not be defended on grounds of their redistributive effects *alone*. A simple cash transfer – e.g. organised through a more regressive construction of national contributions can produce any desired distribution pattern among Member States. That is why there is no argument to stick to programmes without significant European value just because they have a specific spending pattern across Member States.

For the EAV principle to work it is not sufficient to apply it in empty rhetoric exercises. The principle can and has been made operational. Three elements are needed for a quantified and meaningful EAV test:

- well-defined policy objectives;
- a meaningful comparison of a national and European provision; and
- an impartial evaluation process.

European added value tests need a well-defined policy objective

The (potential) value creation through EU policies is only possible if 'value' is defined through a clearly specified policy objective. Only then can the performance of a European programme be meaningfully assessed. This points to a popular strategy among defenders of traditional EU policies, who try to immunise 'their' policy against poor performance – through a continuous expansion of policy objectives to which their policy should allegedly contribute. An inflation of policy objectives without clear weights or priorities renders any meaningful evaluation impossible. With a multitude of objectives it is always easy to pick out some objectives for which the European programme delivers some net effect. But, too often, this opens the way for a strategy to simply search for new objectives once a traditional policy has clearly failed to deliver on its original ones.

CAP direct payments are the classical example for this immunisation strategy over time. The Treaty, i.e. Article 39 of the Treaty on the Functioning of the EU (TFEU), names a limited number of objectives for the CAP. Of these five objectives, four seem to have been achieved today, more or less (i.e. increasing agricultural productivity, market stability, availability of supplies, and reasonable prices for consumers). Hence, there is one remaining objective, the 'fair standard of living for farmers.' It is fairly obvious that CAP direct payments that are paid out without any means test and with a highly regressive payment structure, perform very poorly on providing a fair income distribution across farms.[5] In the light of this objective, the CAP clearly offers a negative EAV since national welfare states are more precise in providing targeted income support for needy agricultural households. This clear failure of direct payments to deliver on its core Treaty objective has inspired the creativity of CAP defenders to come up with ever new objectives among which environmental and animal projection objectives have become particularly prominent.

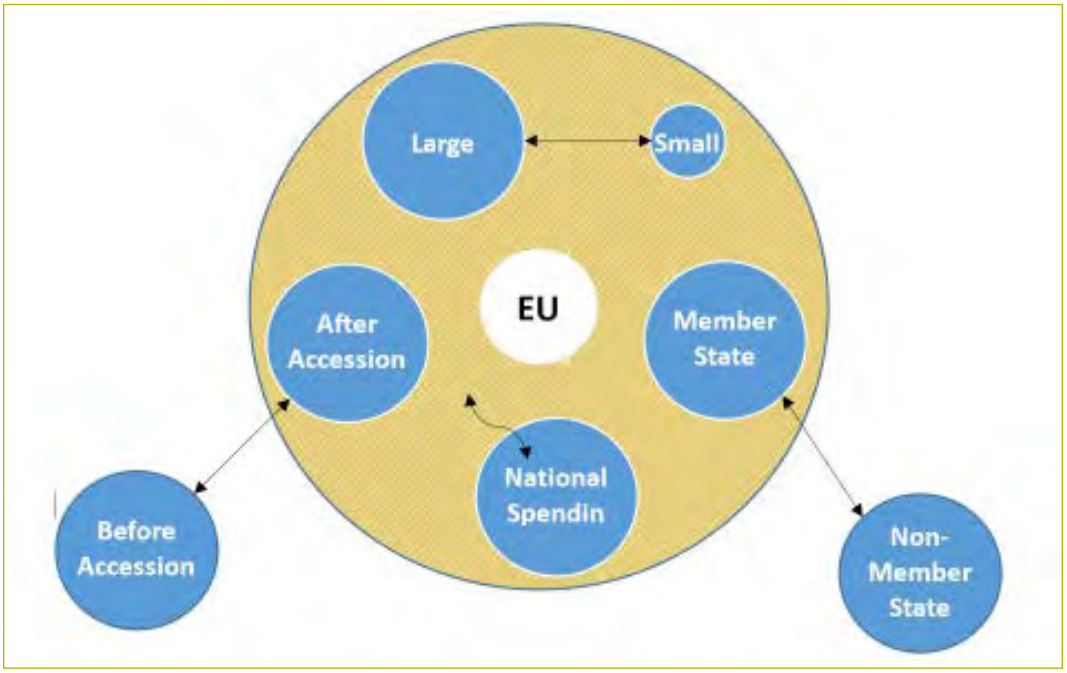
To be precise: objectives such as the protection of the local and global environment and animal wellbeing are European objectives based on a large societal consensus in Europe. However, instruments such as CAP direct payments were invented for a very different purpose and are far from being a promising cost-efficient and first-best approach to foster these objectives. Hence, a 'zero base' perspective is helpful and should always lead to questions such as: if CAP direct payments did not exist today, would we really invent this instrument today in order to reduce CO2 emissions or to protect the animals? The answer to such a question is obvious and gives a good guide to how to fend off an inflation of policy objectives in alibi strategies.

5 This point is not new at all and has been made for a long time, e.g. by the ECA as well more than twenty years ago: ECA Opinion 10/98, paragraphs 21 to 29 and diagram 3 on page 22: www.eca.europa.eu/lists/ecadocuments/op98_10/op98_10_en.pdf

The search for meaningful comparisons

An EAV analysis needs, in principle, a performance comparison of a European with a national policy. This is already possible today, if both the EU and the Member States have policy responsibilities, so that comparisons between European and (purely) national programmes are possible. There are policy fields where this clearly is the case, e.g. for research policies, regional policy, or labour market programmes. For all these fields, we could try to learn from systematic performance comparisons between programmes that are fully financed by Member States and under their full policy control with those where European money and programming plays a role (see also **Figure 2**)

Figure 2 - How to assess the existence or potential of European Added Value by comparison:



Source: ECA, based on Weiss, Stefani (Editor), 2013

The situation is more difficult if a European policy does not yet exist but is discussed because it has EAV potential. One prominent example is the discussion of a larger role for the EU in defence. Since, so far, an EU army has just been an idea, it is not possible to asses, for example, its cost-effectiveness in the provision of measurable defence capabilities. For this context, there are possible workarounds: a comparison between small and larger countries alone can help to substantiate to what extent larger armies benefit from economies of scale. If increasing cost-effectiveness can be detected between smaller and larger countries, this can be taken at least as initial and indirect evidence that a large European army will benefit from economies of scale[1].

For other policies, a comparison of a European policy with a national counterfactual is not possible because the European policy, by its nature, cannot have a national counterfactual. This is the case, for example, for European Internal Market Policies that are meant to advance trade, employment, and income; or for regulatory policies that want to incentivise a more ecological way of production or higher safety at the workplace. For these policies an assessment can be based on a comparison between EU Member States and similar industrial countries outside of the EU. An alternative is to compare the performance of countries before and after their EU accession. With Brexit, there will be a third possibility in future: we can compare the performance of the UK in certain policy fields before and after Brexit. For example, the UK government claims that it has already paved the way for much better targeted income support for its farmers where payments will be closely linked to the ecological public goods provided. Thus, the UK will become a good case study on whether the CAP is supportive of (positive EAV) or an obstacle to (negative EAV) more ecological farming in ambitious countries.

6 See for a more refined approach along these lines the case study on European defence policy in: Weiss, Stefani et al., *How Europe Can Deliver*, 2017, see footnote 2

Institutional independence of evaluators indispensable

The European Commission, as the institution responsible for implementing the EU budget, has an institutional self-interest in demonstrating high performance in the context of EU policies. This is understandable, since a poor policy record might be taken as a signal for low Commission performance. Moreover, like any other budgetary authority in the world, the Commission has an interest in protecting the budget under its control against cuts and rather to increase its size over time. With these undeniable interests, the Commission is hardly an impartial player by any reasoning in respect of the correct division of labour between the European and the national level.

These institutional interests are an impediment to an unbiased screening of the European budget. Prominent political documents that serve as milestones for the further development of the main EU policies are written by the European Commission itself (e.g. the Cohesion Report). Potential biases extend to the beneficiaries in the Member States and the European regions. EU programme evaluations are commissioned by the authorities that benefit from the programme, with the clear incentive to prove successful use of European money. Hence, the European evaluation process largely lacks financial and institutional independence. This naturally creates a bias towards excessively favourable outcomes of evaluations and needs to be addressed to pave the way towards more reliable guidance towards EAV in the EU budget.

Several avenues could be taken towards more neutral evaluations of European policy performance. Evaluation processes must be organised in a way that evaluators can no longer be punished for a less favourable evaluation result by a loss of future contracts. For this purpose, the choice of evaluating institutions and academics could be based on a peer review mechanism with no say by beneficiaries. European, national, regional or municipal authorities that receive and administer EU money should no longer decide on the selection of evaluators and definitely have no role in judging whether the evaluation delivered was appropriate. This strict separation between those who administer EU money and the evaluation processes should also hold for the European Commission. Players who have an institutional self-interest in the outcome of the evaluation should have no say in evaluation processes.

Clearly, there is also a role for public auditors to play. Once these independent evaluation systems are in place in Member States, public auditors could and should make them subject to their audits. Given the strong national interest in EU budgetary matters, it might be advisable to have international teams of public auditors from different Member States. These teams could collaborate with the European Court of Auditors to scrutinise national evaluation systems, taking into account independence and methodological standards.

Triple strategy for EAV progress

The way forward towards an EAV orientation that goes beyond rhetoric must follow a triple strategy: First, there is the need to assign specific policy objectives to specific policies in a highly selective way. Second, evaluation designs need a much clearer conceptual understanding that European added value can only be proven with a meaningful comparison with a national counterfactual. And third, Europe should develop EU budgetary evaluations that guarantee greater impartiality and openness, whether European policies have been successful or not.

One serious misunderstanding still seems to exist. A failure of a European policy is not a setback for Europe as long as an effective error correction mechanism exists. What *is* a real risk for the European integration process, however, is a stubborn holding on to failing European policies. The consequences are increasing disappointment with EU performance and intensifying distributive conflicts, with destructive power, among Member States.

Subsidiarity and EU added value: the difficulty of evaluating a legal principle in a pragmatic way

By Gracia Vara Arribas, lawyer and consultant



Source: Song_about_summer/shutterstock

Subsidiarity is part of the legal foundation of the EU and all EU institutions have an obligation to ensure that this principle is applied, with the Court of Justice of the European Union as the final arbiter. European Added Value (EAV) has become an essential - if not the main – element of this legal principle, the subsidiarity principle. However, how can a principle that is legal in form and political in nature be applied and measured in an objective manner? Gracia Vara is a senior consultant on EU law and multilevel governance, who worked for almost two decades as an expert at the European institute of Public Administration. She zooms in on the legal aspects related to EAV, but also the difficulties encountered by the Commission in quantifying EAV as part of its Better Regulation initiative.

Legal principles and their operationalisation

The principle of subsidiarity, a long standing concept in political theory, became part of European Law when it was included in the wording of the Treaty of the European Union (the Maastricht Treaty) adopted in December 1991. Since then, it has been one of the most ambiguous and disputed notions in EU Law.

Respect for the principle of subsidiarity by the EU means that in areas that fall outside its exclusive competence, the Union must act in accordance with the principle: it needs to justify whether it is more appropriate that Member States act at the right national regional or local level, or whether the EU should act. However, allocation of competences is essentially a political discussion, so the enforcement of this legal principle by the Court of Justice of the EU has been timid, to say the least. The introduction of an ex-ante review by national parliaments, since the Lisbon Treaty, brought new actors onto the stage - this time political ones - to protect Member States' competences. But the principle's full potential is still in the making, and there is still no uniform understanding of it.

The European Commission has been working to operationalise the principle in its Better Regulation (BR) guidelines, seeking to satisfy both the legal (the Court) and political (the national parliaments) control mechanisms. Two aspects will determine if the EU should act, according to the 2017 version of the Better Regulation Guidelines and the Subsidiarity task force established by the Commission in 2017: the necessity test and the EU added value

(EAV) test. However, three years after the publication by the Commission of those Better Regulation Guidelines and toolbox, we still have no clear answer to one very important question: how do we define the EU added value (EAV) of a given legislative proposal, and how should the European Institutions measure it.

Below I will address the evolution of the subsidiarity principle and its relation with the concept and evaluation of EAV from a legal perspective.

The evolution of the principle of subsidiarity

The concept was popularised by the Roman Catholic Church in the 1931 encyclical, Quadragesimo Anno, which pronounced that it was a fundamental principle of social philosophy, fixed and unchangeable, that one should not withdraw from individuals and commit to the community what they can accomplish by their own enterprise and/or industry. Generally, the idea is that in a federal structure, if effective, issues should be managed at the most decentralised level. The principle has been referred to as a golden rule for allocating functions between various tiers of government in European countries.

The *Treaty establishing the European Coal and Steel Community* was in a way the first legal text to adopt the principle, by establishing in Article 5 that 'the Community shall carry out its task in accordance with this Treaty, with a limited measure of intervention'. However, the majority claim that the term subsidiarity entered the European dialogue in 1989 as part of a new 'Eurolanguage,' when the political leaders intended to push through economic and monetary Union.

The concept formally became EU law when it entered the *Maastricht Treaty*. The wording in the Preamble noted that the signatories wanted to create 'an ever closer union among the peoples of Europe, and decisions are taken as closely as possible to the citizens in accordance with the principle of subsidiarity'.

But to observers it became immediately obvious that the Maastricht Treaty was somewhat inconsistent in relation to the use of the term subsidiarity, lending it both a negative and a positive connotation, depending on the perspective adopted. In the Preamble, decentralisation is emphasised: '…as closely as possible to the citizen'. Whereas in Article 5 the focus is on the right and necessity of responsible central intervention if the lower entity cannot function effectively. The article reads: '…the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level.'

As a result, the need to clarify the principle made its way into the *Treaty of Amsterdam*, and its Protocols on the application of subsidiarity and proportionality. The Protocols fixed three criteria for an analysis of the principle:

- there should be transnational aspects that would need European level action;
- verify that the absence of EU action would conflict with the Treaties or damage a Member State's interest; and
- finally, that EU action should bring clear benefits compared to Member State action (EAV).

The *Lisbon Treaty* maintained the same text in the Treaty, only adding an explicit reference to the regional and local level. However, in the Protocols, instead of digging into the three criteria to make the principle operational, they introduced an early warning system, by which the national and regional parliaments would have the possibility to object to a legislative proposal based on non-compliance with subsidiarity. Consequently, the Lisbon Treaty formally introduced the right for all national parliaments to get involved in the EU legislative process, by allowing them to object to a Commission legislative proposal within an eight-week period, if they considered it infringed the subsidiarity principle.

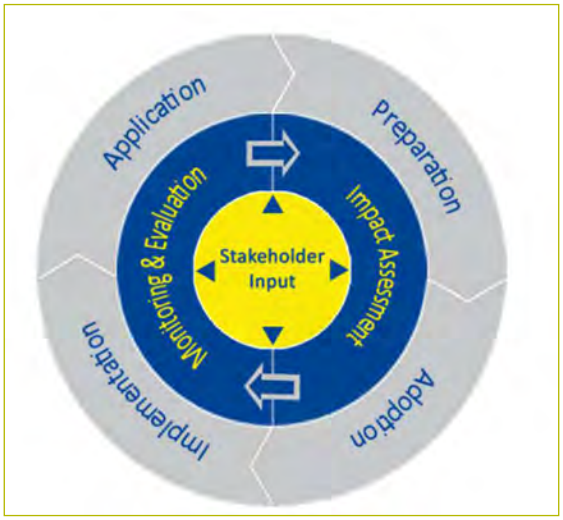
This has had a double effect. On the one side, in practice the Commission goes on using the three Amsterdam criteria as a tool to help operationalise the principle. On the other hand, a new actor has entered the stage, a political actor: national parliaments have the possibility to have a say at an early stage and block legislative proposals. So far, this has had a minor impact in terms of laws blocked - only one, the Monti II Regulation. However, it has an important side-effect, mobilising the parliaments and the Commission to better justify respect for and compliance with the subsidiarity principle.

Better regulation in the European Commission and EU added value

Under the Juncker Commission, the creation of a task force on 'Subsidiarity, Proportionality and "Doing Less More Efficiently"' gave further impetus to the adoption of better regulation principles across the EU institutions. Judging by the Better Regulation Guidelines, the Commission is strongly committed to a consistent and robust analysis of the principle of subsidiarity when making its legislative proposals across all policy areas. And the methodological requirements posed by the Toolbox and the Regulatory Scrutiny Board are quite demanding.

Complying with the Better Regulation Guidelines has proven to be a difficult task in practice and, although progress has been made at the Commission and the European Parliament, it does not avert criticism. In fact, in 2016-2017 the Commission organised training courses for officials of the different EU institutions to help them work with the principle of subsidiarity and to be able to quantify whenever possible the EU added value of any given intervention, also building on the Better Regulation Guidelines (see **Figure 1**).

Figure 1 – The EU policy cycle



Source: Better Regulation Guidelines, European Commission

In the last Better Regulation version, published in 2017, the analysis of compliance with the principle is described as an iterative process that needs to be revisited throughout the whole policy cycle. According to the Commission, and to its interpretation of the text of Article 5, it entails a double test: the first to examine why the objectives of the proposal cannot be adequately achieved by Member States, and therefore EU action is justified; the second to examine why action at EU level, by reason of its scale or effects, would produce clear benefits as opposed to action at Member State level, also known as the effectiveness test or EU added value test.

Furthermore, next to the interpretation of Article 5 stricto sensu, the Commission describes guiding questions in the context of the above two-tier test:

- the cross-border test: if the problem to be solved entails cross-border aspects;
- the heterogeneity test: if the problem has the same or diverse causes throughout the Member States;
- the cost benefit test: would national action or the absence of EU action damage other Member States; and
- an analysis of the proportionality principle, i.e. the content and scope of EU action may not go beyond what is necessary to achieve the objectives of the Treaties.

Working with EU added value testing

In fact, the criteria for quantification of EU added value, when one compares the versions of the Better Regulation Tool Box published in 2015 and the last one published in 2017, has been evolving. In 2015, it was accepted that, due to the difficulties of finding a counterfactual, the analysis would often be only qualitative. The new version of 2017 claims that possibilities to apply methods such as the counterfactual one are now easier since data collection is easier. So the Commission services should first try to quantify, and move to qualitative analysis only as a second option.

In the same vein, the European Parliament EAV Unit analyses the potential benefit of future action by the European Union through Cost of Non-Europe Reports (see also page 135), and through EAV Assessments to underpin legislative initiative reports put forward by parliamentary committees. Here, too, quantification by creating counterfactuals has proven to be difficult.

European experts have been advising Commission services on the different evaluation methods available to analyse added value. First, one would need to answer:

- what are the policy priorities and for whom?
- who should support it - EU/Member State/regional/local?
- in what way should it be done if at EU level, from the point of view of effectiveness of spending?

As already stated , based on the EAV principles, EU action is only justified if there is a clear additional benefit from collective efforts, compared with action by Member States. Moreover, the benefits should exceed those that would have been achieved in the absence of public expenditure.

Measuring this implies that, basically, one needs to be able to create the *counterfactual*: the evaluator must seek to understand the difference the programme or intervention makes. Behind all evaluations is the counterfactual question: what would have happened in the absence of the programme or intervention? Of course, this question can never be answered with certainty, because we cannot construct a parallel reality.

However, there are various methods to estimate the counterfactual, using quantitative or qualitative data. The problem is that, in the EU context, creating the counterfactual will often be difficult and costly, to say the least. The choice between such methods must ultimately depend on what we are searching for. The pressure to prove in numbers the added value of any Commission initiative may force the services involved to look for quantitative measures where only qualitative descriptions will work.

Taking up the subsidiarity/EAV challenge

The Union needs to prioritise activities and to use available resources more efficiently, and, in order to do so, a common understanding of the principle of subsidiarity is required. When assessing subsidiarity, the different actors involved are trying to quantify to the extent possible the value added by the EU intervention.

To conceptualise and understand EAV, knowledge of what drives EU initiatives and their objectives on the one hand, must be set against outputs and impacts on the other. In addition, one needs to measure the additional benefit of the EU intervention compared to Member States' actions. This is forcing the evaluators to look for quantitative measures, where data are not always available. The evaluation team needs to calibrate, with the available time and resources and using appropriate evaluation tools, whether quantification is at all possible. In those cases, there is a need to blur the quantitative-qualitative distinction, and ensure that, when using the appropriate evaluation tools, the researchers will be able to provide credible answers to the questions asked. And by doing so, be in a position to provide solid and infringement-proof justifications for compliance with subsidiarity, which can be quite a challenging task.

Treaties do not give the European institutions a blank cheque

During the last 20 years European Commission services have been working on better regulation, including establishing rules and procedures which facilitate analysis of compliance with the principles of subsidiarity and proportionality.

However, the chairman of the Commission's task force on 'Subsidiarity, Proportionality' and 'Doing Less More Efficiently," Frans Timmermans, rightly stated in 2018: 'The treaties do not give the EU institutions a blank cheque to do what they want. Subsidiarity and proportionality are the practical tools to ensure that the Union does not do what the MS or regional and local authorities can better do themselves, and to focus the Union's actions on where it can really add value.'

Today, this may be more necessary than ever.

Budgeting as the political creation of added value

By Peter Becker, German Institute for International and Security Affairs (SWP)



Source: Alberto Zornetta/Shutterstock

EU budget at stake in what some people consider the 'poker game' called the Multiannual Financial Framework negotiations

Budgeting and policy-making are not two independent processes, they are closely linked. This is true for both the national and the EU level. Moreover, in the absence of tangible results from policy-making, popular and political support is at risk. Peter Becker is Senior Associate at the Stiftung Wissenschaft und Politik (SWP) - the German Institute for International and Security Affairs - and has published many articles related to the EU budget and EU policies. Below he explains some of the core schools of thought regarding the EU budget and European added value and how added value influences, and can actually improve, the EU budget discussions, the concept serving as a political instrument to reduce the complexity and contradictions in budget negotiations. Today, this is more important than ever, not least because EU finances will change substantially in the years to come as a result of the 'NextgenerationEU' initiative agreed at the European Council meeting in July 2020.

The reality of budget compromises

Despite the traditional problems of juste retour and net payments, despite the difficult circumstances of negotiating a seven year multiannual financial framework (MFF), and despite heated conflicts along familiar lines between Member States and between European institutions, the European Union has always succeeded in agreeing a compromise on a new MFF. The recipe for success seems to be the reduction of the unavoidable complexity of the European budgetary process by predictability, path dependency i.e. the process of generating patterns and sequences of self-reinforcing developments, and incrementalism.

Nevertheless, European policy makers and external observers increasingly agree that the current system needs to be reformed. Some even argue in favour of starting the reform of the European budget process right from scratch and above all with a new rationality and logic. Usually, fiscal federalism is used as a theoretical starting point to create this new rationality. European policies would have to offer European public goods or European added value – and then would be financed by the European budget. The principle of European added value would become the decisive yardstick for this reform.

However, defining European added value does not seem to be an easy task. So far, it is unclear where added value could be found, what it consists of and how it could be measured. There is no generally accepted definition of the principle, of how to quantify added value and hence about the amount of European funding to be reserved in the budget.

Focal point for budget reform

The concept of European added value is still at the centre of the debate on how to reform the European budget. At any rate, very different contents and targets are associated with the expression 'European added value.' Over the past two decades, the search for a common definition has been unsuccessful, despite repeated attempts by both the Commission and the member states.

There only seems to be consensus about the close relationship between European added value and the principle of subsidiarity: where EU-financed instruments promise a more efficient use of resources, these instruments should deliver greater added value and hence the policy should be pursued by the Union instead of through national efforts. Moreover, the creation of European public goods is a clear sign that European funds are being spent effectively. However, this means that if European spending policies were to concentrate on European public goods, the current distribution of competencies and tasks between member states and the Union could change. Hence, the definition and handling of the principle of European added value is a highly political topic, closely linked to institutional questions and power politics. These issues, however, cannot be answered or solved by a theoretical fiscal federalism approach.

Disentangling the European added value principle

When making the principle of European added value tangible, in concrete terms, it becomes apparent that very different goals and contents are associated with the principle. Prior discussions, circling around the principle, even identified conflicting criteria for its definition and substance. The European Commission proposed three criteria to test European added value in various policies:

- effectiveness, where member states and regions cannot finance a European public good;
- efficiency, where European actions secure better results; and
- synergy, where pooled resources can generate and complement national activities.

However, observers argued that the Commission had tried in vain to use the concept of European added value to justify some proposed spending increases. A number of member states therefore listed more concrete indices to specify the principle, such as economies of scale and the avoidance of duplication and parallel structures. These member states were using the principle of European added value as an argument and lever to reform European expenditure policies and to modernise the European budget. They argued that the common agricultural policy was old-fashioned, whereas expenditure on R&D, innovation and education, energy security and climate policy could boost economic growth and thus create added value.

By contrast, other member states argued that European added value can be observed above all in truly European polices funded by EU spending programmes. Hence, European spending is a significant sign for European added value. The orientation towards European added value should in no way call into question existing EU policies and spending programmes, which were good examples of the European added value achieved. This approach sees European added value in particular in traditional European spending policies, such as the European Structural Funds or the Common Agricultural Policy (CAP), because the Structural Funds can visibly reduce the prosperity gap between rich and poor regions, i.e. tackle the task of economic, social and territorial cohesion

and thus exemplify the fundamental European value of solidarity. And the CAP has successfully achieved the legal objectives and tasks set out in Article 39 of the Treaty on the Functioning of the EU (TFEU), namely to increase agricultural productivity and guarantee food security while safeguarding the income of the agricultural community. According to this interpretation, both policies, which have often been heavily criticised, therefore serve European added value by complying with the European Union's Treaty objectives.

The controversial question is whether added value must necessarily lead to a European spending policy and to higher levels of funding, or if the principle must lead to improved efficiency of European policies and therefore to less European spending. This shows that the debate on how to define European added value is mixed with the traditional net payment logic of European budgetary policy. In the end, neither the Member States nor the European Commission have an unequivocal definition, or a method to hand to define and measure European added value.

More qualitative than quantitative

The very different understandings of what the concept of European added value means and how to implement the principle in European budgetary policy shows that it is in essence a highly politicised instrument and at best a qualitative one. European added value is hardly quantifiable or measurable. This discussion on the principle is open to lobbying to influence its outcome and thus to influence the content of the principle of added value. Member States, European institutions and also interest groups focus on securing their receipts or backflows out of the European budget. The Commission consequently admitted in a staff working paper in 2011 that 'the final judgement on whether expected added value would justify an EU programme is ultimately the result of a political process.'[1] The definition, determination and operationalisation of European added value remains a political decision.

The *enigma* of European added value is obviously not a litmus test for justifying European expenditure. Public budgets are predictions for future challenges and demands as well as numerical definitions of political priorities and goals. 'A budget, therefore, may also be characterized as a series of goals with price tags attached.'[2] Budgeting is by nature a political process and also the definition of added value as part of budgeting is the result of a political process. The principle could, nevertheless, help to de-escalate and to frame the tough negotiations between the member states and the European institutions on the MFF and hence on the political priorities of the European Union for the next seven years. As an instrument the principle can facilitate a political compromise. It is certainly not a principle that can start a reform of European budgetary policy right from scratch.

Instrumental in incremental reform in EU spending policies

Under the current conditions of limited resources, the principle of European added value could be used to negotiate the significance and relative importance of European policy goals and hence the order of European spending policies. European added value would then develop as a key word for the efficiency and effectiveness of European policies.

There is, however, a risk that this approach would again only be understood as a biased buzzword of net payers and hence would be of limited relevance and help for the political negotiations on the MFF. This happened to the better spending approach by net contributors during the negotiations on the current MFF 2014-2020. The principle therefore needs to be linked to other objectives, in particular those of net beneficiaries. This combination of redistribution with efficiency, of solidarity with added value, could become the main argument and narrative for explaining the complex budget negotiations and could enable the European Union to escape the outdated status quo of European spending policy and to review the current priorities.

1 European Commission, *Added value of the EU budget*, p. 3. https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/sec-2011-867_2011_en.pdf

2 Aaron Wildavsky and Naomi Caiden, *New Politics of the Budgetary Process*, 4th ed., New York, 2001, p. 1/2.

This, however, does not mean that a single, correct and undisputed definition of the principle of European added value can and will be developed. It will only enable the disputing groups in MFF negotiations to hammer out a compromise on the European budget. The current instrument for establishing this link is called conditionality, i.e. the linking of European funding with the EU's objectives, including in particular the efficient and sustainable use of European funds with a lasting impact.

This is one tool to reduce complexity in budgetary policy and MFF negotiations and to guarantee predictability and lasting conformity with the agreed rules. However, the conditions of how to operationalise conditionality – that means what conditions will apply and how strict will implementation be and with what consequences or possible sanctions – will be part of the political negotiation process. But this approach could make it easier to differentiate within policy areas where more European funding is under discussion, or, for example, to differentiate between loans and grants. It could help to break up the large block of budgetary disputes and enable small steps forward, i.e. make incremental reform steps possible. Finally, European institutions, including the European Court of Auditors, should receive an important and sometimes decisive role in evaluating, monitoring and scrutinising this conditionality. Linking the vested interests of net payers and net recipients could lead to more European policy making and better added value from the EU budget.

Why EU added value is in the fabric of cohesion policy

By Elisa Ferreira, Commissioner for Cohesion and Reforms, European Commission

The EU's cohesion policy is often labelled as one of the traditional policies of the EU, together with the EU's agricultural policy, despite regular reform and modernisation. In terms of spending, these two policy areas, taken together, currently account for approximately two thirds of the EU budget. In her contribution, Elisa Ferreira, the Commissioner for Cohesion and Reforms (and previously Vice-Governor of the Portuguese Central Bank and MEP), argues that the EU's cohesion policy has added value woven into its fabric – benefiting not only the recipients of cohesion funds, regions and Member States, but the European project as a whole. She pleads for an evidence-based policy that shows the true benefits of EU action, going beyond MFF contributions and a simple juste-retour logic, and explains why 'leaving no region behind' serves all EU Member States.

No simple answers

The debate on EU added value continues in good times and in crisis, and rightly so. The choice of policies to fund at EU level is a key question for policy-makers, legislators and taxpayers. We should invest limited resources where the benefit of collective action at EU level, based on solidarity, brings higher returns to Europeans than Member States acting alone.

As an economist, a politician and policy practitioner, I recognise that the answer to the question of EU added value is not always evident in a simple, mathematical formula. We should nevertheless always strive to gain knowledge from our experience, 45 years in the case of the European Regional Development Fund (ERDF), and maximise the economic and social potential of cohesion policy.

As we saw in recent months, the ways in which we can do this can be unexpected, if not surprising: the Coronavirus Response Investment Initiatives showed just how versatile cohesion funding could be. In a matter of days, it became an emergency relief instrument for workers, hospitals and small businesses.

Below I focus on the multiple dimensions of cohesion policy's EU added value and why the whole of our Union benefits from leaving no region behind.

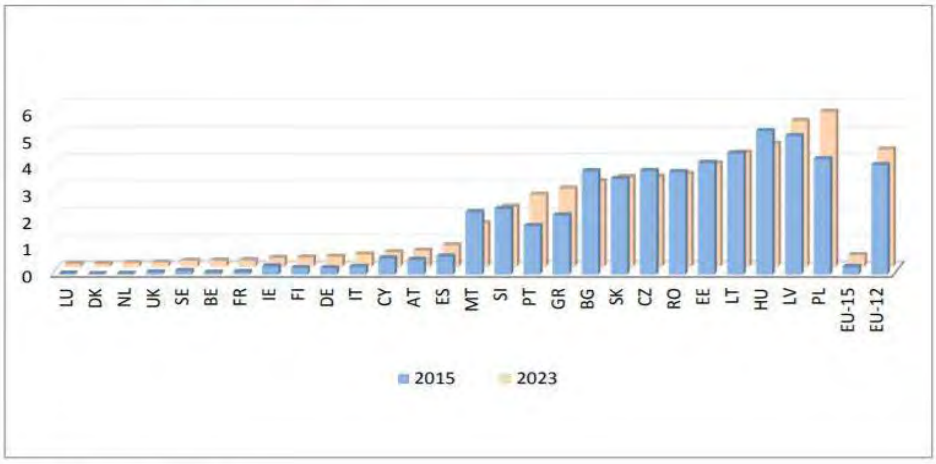
Long history in a context of major socio-economic and political changes

From the creation of the European Social Fund (ESF) in 1957 and the ERDF in 1975, to the 2004 enlargement, the major global shocks of 2008 and the current public health and economic crisis linked to the Covid-19 pandemic, cohesion policy has been a motor of the Union's success in navigating socio-economic change. For example, EU cohesion and rural investments played a key role in supporting the economies joining the Union in the 2004 enlargement in convergence and catching up, with an impact estimated at some 4% of additional GDP generated on average, see **Figure 1**.[1]

Challenges such as rapid globalisation, technological changes, demographic and migration trends, security, energy and climate change all affect the European Union. Addressing them at the territorial level has been, and remains, vital for cohesion in the Union and for our collective perseverance and prosperity.

1 2007-2013 programming period. European Commission, *The impact of cohesion policy 2007-2013: model simulations with Quest III*, 2016 https://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp14a_final_report_en.pdf

Figure 1 - Impacts on GDP of 2017-2013 cohesion and rural development policies, 2015 and 2023



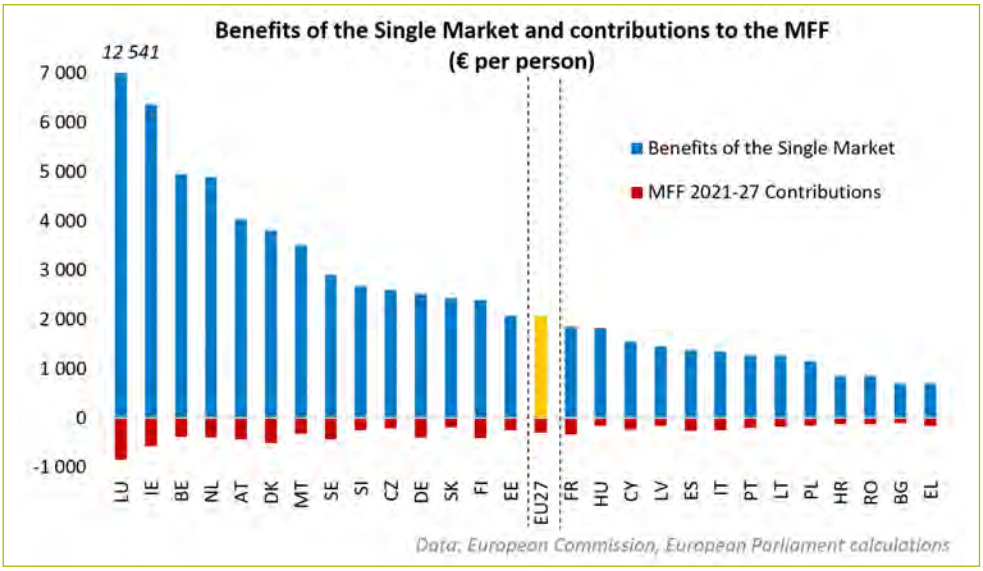
Source: QUESTIII simulations.

Source: European Commission

Important policy for a functioning single market

The single market, perhaps the greatest economic success of the Union, drives value creation and offers unmatched financial gains and opportunities, thanks to the four freedoms, and importantly, the free movement of knowledge. Economies of scale, innovation and competitiveness, and the bargaining power of the biggest trading partner in the world are all benefits of the single market averaging some 6% of EU GNI per year[2] and far outweighing the costs (**Figure 2**).

Figure 2 – Benefits of the single market vs. contributions to the EU budget



Source: European Parliament (2019) https://www.europarl.europa.eu/news/en/press-room/20200115IPR70326/q-a-on-the-eu-s-long-term-budget-multiannual-financial-framework-mff *data not updated

At only a fraction of the cost, cohesion policy investments make it a fair and sustainable economic proposition for all members of the single market club. Poorer regions and cities can find themselves stuck in low growth trajectories due to historical factor endowment (path dependence) and struggle to realise their regional potential and improve incomes. Solidarity and a level playing field, thanks to targeted investments, ensure cohesion in the single market. Crucially, cohesion policy helps address economic distortion and asymmetries, so that all Member States can be winners in the European Union.

2 European Commission, *Technical briefing on the EU's next long-term budget*,2019 https://ec.europa.eu/info/publications/technical-briefing-eus-next-long-term-budget_en

Strong consensus on the need for significant cohesion policy investment

There is a broad agreement that the use of the EU's cohesion policy to support the less developed Member States and regions (around 80% of total EU funding for cohesion) and the transitional regions with below average incomes produces strong EU added value, particularly in terms of modernisation and their integration in the single market. The importance of cohesion policy to less developed and transitioning economies is evident in the share of cohesion policy in total public investment. Cross-border cooperation too, the well-known Interreg programme celebrating 30 years this year, has a unique added value, bringing partners together across border lines in fields such as health, environment, research, education, transport and sustainable energy to reduce and remove obstacles in border regions that are often overlooked or marginalised at national level.

Perhaps the most criticised aspect has been cohesion policy support for the more developed regions, which arguably have sufficient public resources. Such an argument, however, ignores the fact that cohesion policy is unparalleled as an instrument to ensure that EU priorities such as the European Green Deal, digitalisation, research, innovation, or SMEs are pursued effectively in all of Europe's regions. This dimension of EU added value will be even more evident in the phase of recovery, where regional asymmetries have been laid bare along with Member States' different capacities to support their economies.

Collective Union investment in the aftermath of the Covid-19 crisis is necessary to balance out different economic capacities for a fiscal response to the crisis, which evidently are uneven at Member State and regional level, including in more developed ones. The political consensus that solidarity and cohesion should be at the centre of Europe's recovery is certainly reassuring. Maintaining this vision in the critical years of recovery will be paramount.

Key design features of cohesion policy bringing added value

The regional dimension has to be fully reflected in the reforms and investments that Member States will undertake in the recovery phase. Cohesion policy itself, including through REACT-EU , the new cohesion instrument powered by NextGenerationEU, must create leverage based on long-standing experience and applying design features that bring added value.

Focus on the poorest, less developed regions

Cohesion policy provides most of its financial support to the regions that are lagging behind, recognising that the economic and social development of these territories will generate a spill-over effect in the more developed regions[3]. According to some research results, externalities and spill-over effects of cohesion policy arise from more than 15% of cohesion funding, with significant benefits to 'non-cohesion' countries of about nine cent for each euro invested in 'cohesion countries'[4], noting the importance of procurement, contracting of work, import and export trade, mobility of workers and researchers. The 2007-2013 cohesion funds evaluation, based on two macroeconomic models[5] suggests a sustained flow of benefits in terms of GDP, productivity and investment throughout the Union. Notably there are net benefits even (through trade effects) for the donor regions, and the impact in all regions lasts way beyond the actual implementation period.

Addressing long-term needs, while overcoming crisis

Programming over a longer time span of seven years provides greater stability of investments than any national budget cycle and ensures that emerging one-off events

3 A study by the Visegrad Four claimed very important spill-over benefits for more developed regions, while the Commission's own modelling confirmed lower but still positive long-term effects 2016 DG REGIO, EC, EX POST 2007-2013: https://ec.europa.eu/regional_policy/en/policy/evaluations/ec/2007-2013/

4 European Parliament (2018). Research for REGI Committee - Externalities of Cohesion Policy. https://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL_STU(2018)617491

5 Quest III and Rhomolo. 2016, EC, DG REGIO, EX POST 2007-2013. https://ec.europa.eu/regional_policy/en/policy/evaluations/ec/2007-2013/

and crises do not divert focus away from long-term development goals. Socio-economic shocks such as in 2008 and the 2020 pandemic clearly disrupt long-term policies, with the potential to create persistent economic and productive losses and hardship.

In the aftermath of the 2008 financial crisis, cohesion policy enabled public authorities facing budget constraints to meet EU policy goals despite fiscal pressures. For example, it funded infrastructure for water and waste management to ensure timely compliance with EU legal requirements. In many EU Member States and regions, it incentivised significant shifts in the disposal of waste away from landfills and towards recycling in line with the EU policy.

Thus in the midst of the economic crunch, cohesion policy ensured EU green and climate objectives continued to be pursued. Yet, in times of crisis, cohesion policy also provides a lifeline to companies and workers. In the previous programming period, ERDF support was vital in helping SMEs to withstand the financial crisis and enabled them to invest, expand or innovate, while financial instruments kept SMEs afloat by supporting working capital[6]. Today, the Coronavirus Response Investment Initiative delivers working capital support to SMEs and short-term work schemes across the EU. In the recovery and longer term, ensuring company survival and job maintenance especially in the less developed and the most hard-hit regions should be a priority, aligned with green and digital objectives, in order to successfully reverse growing disparities and overcome the negative impacts of the crisis.

Involvement of national, regional and local partners

The shared management method is essential in creating ownership within the Member States and encouraging accountability and responsibility for the investments. The EU's role is to provide general steering and ensure alignment with the EU's agreed priorities, identified as the catalysts for sustainable long-term development of European regions. Developing public policy capacity for investment and learning within the Member States and regions is a long-term necessity. In less developed regions in particular, successful beneficiaries of cohesion policy programmes often go on to benefit from other programmes such as the Connecting Europe Facility and Horizon 2020 , or become partners of the EIB, and have frequently developed their capacity to engage through cohesion policy experience.

It will be equally important to maintain this partnership principle in recovery investments, enabling place-based policy making, ownership and participation. This will be crucial for the effective implementation of REACT-EU, in which the partnership principle should be respected, in order to overcome administrative capacity constraints, reduce the risk of irregularity and promote the effective use of EU-funding for crisis repair.

A modern policy and targeted investments underpinning reform and transition

In addition to well-established features, important changes have been made to the design of the policy over time to reinforce its added value and in particular to support reform efforts. Economic policy coordination and governance, from the Lisbon Agenda to the launch of the European Semester and Country-Specific Recommendations have influenced efforts by EU policymakers to reinforce cohesion policy's focus. Active labour market measures, research and innovation, digitisation and climate action all find significant financing in cohesion policy. The important role of the European Structural and Investment Funds in implementing structural reforms, administrative capacity building and alignment with EU strategic priorities is recognised in the current programming period[7].

In the challenging yeas ahead, the synergies between cohesion and reform efforts will have to be further strengthened and maximised, taking into account the regional specificities. The added value of post-crisis recovery investments powered by

6 2016, EC, DG REGIO, EX POST 2007-2013. https://ec.europa.eu/regional_policy/en/policy/evaluations/ec/2007-2013/

7 ISMERI study for EC DG EMPL, *Support of ESI funds to the implementation of the country specific recommendations and to structural reforms in Member States, 2017.* https://op.europa.eu/en/publication-detail/-/publication/de79c16e-6eb4-11e8-9483-01aa75ed71a1/language-en

NextGenerationEU and traditional cohesion investments will lie particularly in tailoring investments to each region's needs – from basic infrastructure and digital education facilities in some to state-of-the art artificial intelligence applications in others. Equally, the regions most affected by the green transition should receive the necessary Union support to modernise their economies and find new sources of income for workers and future generations: a transition to climate neutrality can only be a fair and just transition. This too, adds value to the Union and must be recognised as such.

Box 1 - Promoting e-administration and bringing added value in words and in deeds

Cohesion policy is making substantial investments in digital transformation. It has expanded the application of IT use and data driven public administration at local, regional and national levels. The policy also leads by example, working with Member States and regions in transforming the public sector for the digital age. e-Administration is applied to all programmes at multiple levels: e-application processes during project selection; promoting e-cohesion to reduce burdens on beneficiaries; and in the monitoring of projects' finances and performance.

Building on these practices the policy exploits its unique monitoring data to offer one of the most transparent presentations of the functioning and performance of the EU budget through the **ESI Fund Open Data Platform** - https://cohesiondata.ec.europa.eu. It was launched in 2015, won the first EU Ombudsman award for open administration and has been regularly updated and expanded ever since. It has obvious transparency and openness benefits: our current work to track support for climate action[8] and the cohesion policy Covid-19 response [9] are clear demonstrations of this. Finally, the platform can also lead to improvements in the quality of data provided on performance.

Looking ahead

The proposals for the 2021-2027 Multiannual Financial Framework, agreed in principle in July 2020 by the European Council against the unprecedented background of the Covid-19 pandemic, include important new reforms of cohesion policy that are centred around added value. These improvements will build on the performance and evaluation culture developed over the past financial periods as well as the useful insight and advice of the European Court of Auditors. Other features such as thematic concentration and evaluation obligations are retained with some adjustments. The evaluation criteria for example now explicitly include European added value, and the evaluation of the 2014-2020 will address EU added value more thoroughly than ever before.

With this, I hope that the complex question of targeting EU investment and cohesion funding to maximise value added for the Union will be better informed and supported by an evidence-based policy. As Commissioner for Cohesion and Reforms, my primary task is the management of cohesion policy in line with Treaty objectives to reduce regional disparities and ensure the cohesive development of our Union. One cannot control all the contextual elements, but I am committed to ensuring that the investment by the EU taxpayers through cohesion policy is used to the best possible effect, with high levels of transparency, better communication of the performance of the policy, improving the quality of evaluation and ensuring that lessons are learned and applied. This is how we can deliver EU added value using the elements designed into the policy by the legislators.

8 ESIF Open Data Climate Tracking. https://cohesiondata.ec.europa.eu/stories/s/a8jn-38y8
9 ESIF Open Data CRII / Covid-19 Dashboard. https://cohesiondata.ec.europa.eu/stories/s/4e2z-pw8r

Added value at the heart of the EU's budgetary decision-making

By Gert Jan Koopman, Director-General for Budget, European Commission



Within the European Commission, the Directorate-General for Budget is at the cross roads between money and performance. It not only deals with the resources that fuel the budget, but also promotes and funnels the growing attention paid to the performance of EU policies and programmes. Gert Jan Koopman is the Director-General for Budget and knows the ins and outs of the EU budgetary process. Below he explains what measures the Commission is currently taking to maximise the added value of EU policies and spending and also gives an outlook on the way forward.

'Fit for purpose' budgeting in a complex environment

The EU budget is primarily an investment-focused budget, ensuring the financing of EU policies in a wide range of areas through a number of spending programmes and by making use of multiple instruments and sources of funding under different management modes. EU money is spent in a complex environment and requires strong accountability and control mechanisms to guarantee budgetary discipline, to produce transparent reporting, and to verify alignment of spending with the EU's political priorities.

The European Commission and its Directorate-General for Budget are paying ever more attention to the performance aspects of budgeting, demonstrating that the EU budget is well spent and fit for purpose to achieve EU goals and objectives. We want to enrich the budgetary debate with reflections on the policy challenges being tackled and the benefits the policies bring to citizens.

In preparing the proposal for the Multiannual Financial Framework (MFF) 2021-27, and benefiting from the feedback from the European Court of Auditors, the Commission has sought to ensure a comprehensive and well-structured performance framework. This is necessary in order to explain the rationale behind the multiannual budget proposals in a clear and credible way and to defend the annual budget proposal for each policy area.

Evidence of performance will allow the Commission to engage in budgetary discussions with stakeholders on a common information basis to demonstrate the use of EU funds and the contribution of spending programmes to EU-wide goals. In this sense, EU added value is becoming a guiding principle for EU budgeting.

EU added value and the performance framework

European added value is a long-standing concept and one of the key conditions for an action to be eligible for EU funding.[1] We define European added value as the value that results from an EU intervention which is additional to the value that would otherwise have been created by action on the part of the Member State alone.[2] The performance framework defines the objectives and a set of indicators that measure the output, results and impact of interventions. It serves as a tool for monitoring what has been achieved with the funds available, for tracking progress and showing the achievements of spending programmes.

Unless they fall within the exclusive competence of the Union,[3] actions are funded by the EU because their objective cannot be adequately achieved by the Member States and, by reason of the scale or effects of the proposed action, can be better achieved at Union level. The existence of EU added value is a necessary pre-requisite for setting priorities and justifying spending at EU level. Therefore, during the process of designing an EU policy within the multi-annual budgetary cycle, it must be demonstrated whether and in what way an intervention provides such EU added value. This makes EU added value the overarching concept of the multi-annual budgetary cycle.

As EU policies are developed on the basis of the best possible information (evidence-based) and taking into account the views of stakeholders (consultation and political support), evaluations and assessments play a central role in good policy-making: the Commission ensures there is policy review and continuity throughout the policy cycle through ex-ante impact assessments, mid-term and ex-post evaluations. Indeed, the Better Regulation Guidelines require that in areas outside the exclusive competence of the EU, impact assessment verifies whether EU action is compatible with the principle of subsidiarity, including ensuring that the action adds EU value.

In the ex-post evaluation phase, assessing whether EU added value has been achieved is a compulsory part of the exercise. Even earlier, however, during the implementation of a policy, performance monitoring provides insight into whether this policy is achieving its objectives and, consequently, whether it is generating EU added value. At the same time, performance indicators show in concrete terms how EU spending contributes to the achievement of the EU's strategic objectives, allow stakeholders to examine and discuss any existing programme, and may already point to the need for corrective action during implementation.

Finally, EU added value and performance orientation are powerful communication tools: they demonstrate to stakeholders that EU funds are well spent and offer better value for money compared to national spending. They also ensure transparency about the benefits of EU policies and contribute to the quality of the dialogue between the ECA and the Commission. In this context, performance indicators and budgetary reports play an important role in ensuring the transparency and democratic accountability of the EU budget and in raising awareness. They communicate the value added of the spending programmes and help restore citizens' trust and confidence in the European institutions.

The way forward

The preparation of the proposal for the next multi-annual budget has provided an opportunity to advance and further refine the EU budget performance framework. The wealth of information on the performance of the EU budget is a key element in the modernisation of the budgetary process and the management of spending programmes.

1 See Article 5 of the Treaty on the Functioning of the European Union (TFEU)

2 SEC(2011) 867 final: Commission staff working paper, *The added value of the EU budget*, p. 2: 'European added value is the value resulting from an EU intervention which is additional to the value that would have been otherwise created by Member State action alone.'

3 See Article 3 of the TFEU



Source: sun ok /Shutterstock

Key budgetary documents have been streamlined and performance information is gradually being integrated. As part of the preparation of the annual draft budget, the Programme Statements report is a unique, comprehensive and valuable source of information on spending programmes, their implementation and results. Both being part of the Integrated Financial Reporting Package, the Programme Performance Overview summarises performance information on spending programmes in a concise and consistent way, and the Annual Management and Performance Report provides the latest information on the results achieved with the EU budget and on how the EU budget is managed and protected. Moreover, both documents include a dedicated section on EU added value.

The Commission wants to make greater use of the information available on programme performance, both in the annual budgetary procedure to support decision-making and in the discharge procedure to report on decisions taken. It has therefore taken steps to improve the quality of its reporting and to increase the credibility of the performance information produced, including by strengthening control and traceability of the quality standards of the underlying data. This will make it easier for the Parliament and the Council to engage more fully with the policy substance of the EU budget and for the ECA to take an independent perspective when assessing the qualitative aspects of budgeting, including the performance dimension.



Source: EC

Cover of the 2019 Annual Management and Performance Report for the EU Budget.

Performance information makes it possible to increase the EU budget's value for money, but also to ensure that – and make clear how – EU money serves the goals and the values of the European Union. Strengthening the performance orientation of EU spending is one way of linking the EU budget to the EU's policy goals and high-level political ambitions, such as the European Green Deal, the Sustainable Development Goals, NextGenerationEU and gender equality.

Under the coordination of the Directorate-General for Budget and in close collaboration with the Directorates-General directly concerned, a set of performance indicators has been selected to monitor progress and show the achievements of EU-funded interventions in a clear, accurate and concise manner. They are set out in the legal bases of the programmes and have therefore been discussed with the legislators. Finally, they are reported regularly in budget documents, which can be found at the dedicated website.

Performance culture as a condition sine qua non

An EU budget that finances sound performance provides effective support for the European Union's response to emerging challenges and long-standing priorities. To foster transparency and awareness of the benefits of the EU budget, the European Commission has placed performance and European added value as analytical decision-making tools at the heart of its budgetary proposals, and subsidiarity needs to be verified in the impact assessment of each proposal. However, to ensure that EU policies are evidence-based, there needs to be recognition that a robust link between EU added value and budgetary performance exists.

The concept of European added value needs to be even further substantiated and operationalised to meet stakeholders' expectations. It requires a fully-fledged performance framework based on high-quality data. This is a challenge that requires not only efforts on the part of the Commission, but also a change towards a stronger performance culture across all European Institutions, including the European Parliament, the Council and the ECA.

In these exceptional times, where significant investments from the EU Budget to respond to the crisis are indispensable and where we need to ensure that these are consistent with the EU's long-term objectives, performance information is an indispensable tool.

Scale, speed and scope - the added value of EU investments in research and innovation

By Jean-Eric Paquet, Director General Research & Innovation, European Commission



Source: European Commission

Together EU Member States can achieve more than what is possible at the national, regional or local levels alone. This is what European added value is about. Research and innovation is an area where cooperation and building on each other's efforts seems to be a sine qua non for results that matter. Jean-Eric Paquet is Director General for Research & Innovation in the European Commission. He argues that the idea of European added value has been driving European investments in research and innovation for over 35 years, through the successive EU Research & Innovation (Framework) Programmes. Below he explains how the upcoming Programme Horizon Europe (2021-27) - building on the achievements and lessons learned up to now - is expected to further add value, zooming in on three key aspects: scale, speed and scope.

Rationale for public intervention

The rationale for public investments in research and innovation is well discussed in economic literature.[1] The long time needed for (basic) research to generate positive return on investments; the high risk level and unpredictability involved; the entry barriers for new players and technologies (e.g. regarding existing infrastructures or regulatory systems); the public good nature of knowledge – (making it diffuse widely and freely with often invaluable benefits): – these are key factors that lead to under-investments by the private sector compared to what would be optimal for society. The public intervention is thus seeking to address these market failures by supporting frontier research in universities or sharing costs with the private sector for innovative projects closer to the market when risks and potential benefits for society are high, or when time is short.

Box 1 - Key data on Horizon 2020 (2014-2020)

- €56b allocated as of July 2020 to 30 000 projects (proposals' success rate of 11.9%)
- More than 35 000 different participating organisations, incl. 66% of newcomers and 15 000 SMEs, five partners per project on average
- 800 000 researchers reported as involved in the programme (36% female researchers) and 700 000 non-researchers (47% female).

1 For an overview, see EC, 2017, *The economic rationale for public R&I funding and its impact*, https://op.europa.eu/en/publication-detail/-/publication/0635b07f-07bb-11e7-8a35-01aa75ed71a1

The EU intervention through the European Framework Programmes comes in when more needs to be done at EU scale than the national or regional scales alone. This to deliver better, faster or more efficiently on common objectives. Building on past achievements,[2] the next programme Horizon Europe will come with a set of evolutions compared to Horizon 2020. In particular, it will cut across silos, sectors and disciplines to deliver scientific, technological, economic and societal impact.

To reinforce the delivery on EU priorities and address global challenges while strengthening EU competitiveness, priorities for joined investments will be strategically planned and co-created with stakeholders and citizens. This includes EU missions of common interest, and strategic European Partnerships with Member States and industry. In parallel, the European Innovation Council will identify through pan-European competition Europe's most innovative start-ups and SMEs to help them bring new solutions to the market.[3] A reinforced approach to monitoring impact will also allow singling out the programme's EU added value over time, e.g. the impact of the programme investments on climate action.[4] **Box 2** presents the key evolutions.

Box 2 - Key evolutions of Horizon Europe (2021-2027) compared to Horizon 2020 (2014-2020)

In addition to what was working successfully under Horizon 2020, the approach for maximising the added value of Horizon Europe revolves around a set of key evolutions:

- *Strategic planning* is a new way of setting research and innovation priorities, in line with EU priorities and commitments, and in co-creation with Commission services, Member States, stakeholders and civil society. It will be a multiannual strategy, while preserving flexibility to respond rapidly to unexpected crisis or policy needs.
- *Clusters*: The global challenges are too complex for an individual EU country, scholar, discipline, or technology to deliver solutions. Interdisciplinarity, breaking silos and working in clusters, which bring together different disciplines and policy areas - from frontier research to close to market applications - are key to deliver increased value for society.

Co-designed EU missions will set directions to achieve ambitious objectives with societal relevance through cooperation across sectors and disciplines in the following areas: cancer; adaptation to climate change; healthy oceans, seas coastal and inland waters; climate-neutral and smart cities; soil health and food. They are being co-designed with citizens and stakeholders.

The European Innovation Council, which combines an advanced science-and-tech research programme with an accelerator programme for start-ups and SMEs will provide EU-wide competition to support visionary innovators, researchers and entrepreneurs in realising their ventures and bringing new solutions to the market.

European Partnerships will be refocused towards providing clear EU added value through strategic cooperation between public and private actors along strategic agendas in critical areas such as clean energy, transport, health, food and circularity.

Reinforced synergies between EU programmes will support the development of a more coherent European research and innovation system working together with national and regional levels, incl. for the deployment and scale-up of proven technologies.

Open Science will become the modus operandi of Horizon Europe and reinforce the open diffusion of knowledge generated. It will go beyond the open access policy of Horizon 2020 and require open access to publications, data, and to research data management plans.

- *Reinforced monitoring system around Key Impact Pathways*, which will help capture the added value of the programme better and the difference it is making over time for society, for the economy and for scientific progress.

2 Since 1984, EU investments in the Framework Programmes contributed to key scientific advancements and discoveries for the benefits of society and the economy. These have partly been documented in evaluation exercises and studies (see for instance EPEC, 2011, the interim evaluation of Horizon 2020, 2017, and the impact assessment of Horizon Europe, 2019).

3 The Horizon Results Platform and Horizon Dashboard provide information on projects and their results

4 The monitoring system is built around a set of Key Impact Pathways (Annex V of Horizon Europe common understanding). For explanation about their rationale, see Bruno N. , Kadunc M. (2019), Impact pathways: Tracking and communicating the impact of the European Framework Programme for Research and Innovation, https://repository.fteval.at/416/1/Journal_47_10.22163_fteval.2019.330.pdf

Scale: pooling together a critical mass of resources

The question of scale is at the core of the programme since its inception. It focuses on supporting collaboration and excellence-based competition across countries - overcoming geographic, sectoral or disciplinary boundaries. By pooling resources, it generates a critical mass of money and talent, avoiding duplication of efforts across countries and delivering efficiency gains. When research activities are of such a scale and complexity that no single Member State can provide the necessary financial or personnel resources alone, it helps sharing the risks and leveraging sufficiently large investments, including for pan-European research infrastructures.



Source: AlexLMX/Shutterstock

For example, only EU-level action can overcome the thin distribution of millions of patients affected by multiple rare diseases and the lack of standardisation and data. Or allow the EU to reinforce the future industrial positioning of its value chains in the key technologies world game, e.g. by joining long-term research efforts for future batteries (Battery 2030+). Overall, according to its impact assessment, Horizon Europe has the potential to deliver up to €11 in Gross Domestic Product (GDP) gains for every euro invested, and create up to 320.000 new highly skilled jobs by 2040.

Figure 1 – R&I boosts the EU's productivity, jobs and global competitiveness



Speed - getting better together to react faster

The pace of scientific, technological and socio-economic global developments requires speed in finding increasingly complex answers and solutions at the crossroad of scientific disciplines and industrial sectors. The creation of wide cooperation networks, of trans-European research infrastructures, the training and mobility of skilled people and the excellence-based competition for grants raise the quality and visibility of projects that get funded. This creates an attractive breeding ground of top researchers and innovators with excellent ideas. It also reinforces access to markets and knowledge transfer, including through the development of common standards and interoperable solutions, but also by promoting open access policies for scientific results and data.

Box 3 - A massive cooperation network producing quality results

- A massive Horizon 2020 network of more than 1.5 million collaborations between organisations worldwide (Monitoring Flash #3, 2020).
- Producing quality results with EU-funded peer-reviewed scientific publications cited more than twice the world average (Field-Weighted Citation Index of 2.3), and 3 times more represented in the world's top 1% of cited research compared to publication output of EU Member States (Scopus).
- Generating patents with a higher market value than the world average (Monitoring Flash #5, 2020).

This consolidation of research and innovation capacities lays the foundations of current and future strategic autonomy and resilience of the EU – allowing to be prepared to react faster and better to emerging technological opportunities, but also to global socio-economic shocks, such as the coronavirus crisis (see **Box 5**). More than ever the ability to deploy existing capacities to respond quickly and effectively today depends on the visionary investments made yesterday. Overall, working together, using the channels and means created at EU level to reinforce research and innovation capacities, increases the ability of the EU to act and react with speed and impact.

Scope – Addressing strategic challenges together

The programme is designed with an investment mind-set rather than as a 'funding' instrument. It is built to help the EU make the transition towards a sustainable and prosperous future. The concentration of efforts, an improved integration of value chains and the pooling of knowledge on common priorities to solve multi-faceted societal, environmental and economic challenges is at the core of Horizon Europe. Specifically, through strategic planning and coordination of efforts and policy agendas with Member States, Horizon Europe aims to drive systems' transformations by directing EU investments where joint action matters most in line with EU priorities and commitments, including the Sustainable Development Goals.

Box 4 - Adressing sustainability challenges in Horizon 2020

- Up to 84% of the current investments relate to at least one of the Sustainable Development Goals (Monitoring Flash #4, 2020).
- 30% of investment relates to climate action.
- Additional €1 billion worth call for proposals launched in 2020 for Green Deal related research and innovation.

For the years 2021-24, the Strategic Planning process has defined the key strategic orientations that will be decisive for achieving Europe's digital and green transitions and make Horizon Europe one of the key instruments of the EU's recovery plan. As highlighted in a recent publication from the European Commission, health, digital, socio-economic and climate-related research and innovation are critical for EU preparedness to effectively and quickly respond to emergencies. The pandemic risks increasing inequality, exclusion, discrimination and global unemployment in the medium and long term. Furthermore, existing pressures in coal and carbon-intensive regions have aggravated. Therefore, particular attention will be given to advance sustainable technologies that help to mitigate the transitions' negative effects. Horizon 2020 is already testing solutions to decarbonise critical sectors, including maritime, aviation and construction.

Under Horizon Europe a continued focus will be put on delivering on the EU climate neutrality target set for 2050 with 35% of funds directed to climate action. Investments in innovative SMEs are also critical for the recovery to capitalise on innovative ideas and pre-empt lack of their funding. Horizon Europe's powerful instruments and innovative governance will overall provide even stronger support to the necessary systemic changes to ensure a truly transformative societal and economic recovery and a strengthened resilience of production sectors.

Box 5 - Acting fast together and at large scale in the coronavirus crisis

The programme is at the forefront of supporting research and innovation efforts, including preparedness for pandemics: €4.1 billion were invested from 2007 to 2019 on infectious diseases, including initiatives to address antimicrobial resistance, as well as preparedness and emergency response to outbreaks (Ebola, Zika))

- In 2020, with Horizon 2020 flexible funding instruments adapted to dealing with emergencies, about €500 million were mobilised within six months for research and innovation support. The selected projects involve hundreds of research teams across the world and address epidemiology, preparedness and response to outbreaks, the development of diagnostics, treatments and vaccines, as well as the infrastructures and resources that enable this research.
- To strengthen global coordination, the EU, together with several partners, kicked off the Global Response pledging event in May 2020, which has now raised €9.8 billion in pledges from donors worldwide to kick-start the global cooperation. This includes a pledge of €1.4 billion from the Commission of which €1 billion comes from Horizon 2020.
- In April, the Commission and national ministries also agreed on the first ERAvsCorona action plan. It lays out 10 priority short-term coordinated actions based on close coordination, cooperation, data sharing and joint funding efforts. It is already delivering results, including a European COVID-19 Data Platform, or the EU-wide clinical trial network, which will coordinate planning and implementation of large-scale clinical trials across the EU based on harmonised protocols.
- These actions will not only deliver short-term solutions to fight the crisis, but may lay the grounds for stronger EU cooperation on preparedness in view of future pandemics.

The €1 billion from Horizon 2020 for the Coronavirus Global Response event can be broken down in (as of July 2020):



Reinforcing the European Research Area together with Member States

The pandemic is expected to provide a stimulus to research and innovation efforts in the health sector. On the other hand, the outbreak magnifies the underinvestment of the private sector in research and innovation activities, and the importance of also supporting digital and data-driven solutions to fight the virus.[5] This calls for more involvement and coordination from policymakers. Horizon 2020 represents less than 0.1% of the cumulative GDP of all Member States and approximately 8% of their public expenditure in R&D. Complementary to the Framework Programme, Member States and regions - singly and in variable-geometry groupings – continue to invest in their own capacities according to their strategies and areas of interest or specialisation.

As shown in the Interim Evaluation of Horizon 2020 (2017), the programme and the wider efforts to strenghthen the European Research Area have a positive structuring effect on national R&I systems and framework conditions, such as infrastructure, regulatory environment, human resources policies, but also for research funding. As an illustration, the European Research Council providing support to top researchers for frontier research has become a global beacon of excellence, inducing national and institutional changes in national research councils' quality standards and proposal review processes. Still, complementary efforts at EU, national and regional levels are further needed to ensure well-functioning, efficient and impactful national research and innovation systems within a truly European Research Area.

European research and innovation - an essential factor for the EU's prosperity and well-being

European research and innovation is laying the foundation for our prosperity and well-being. It allows us to do better, to act faster and to deliver more for our economy and society - today and tomorrow. More than ever, amidst a global landscape of economic threats and uncertainty, joining EU forces in research and innovation through the EU Research and Innovation Programme within a reinforced European Research Area remains an essential factor, adding value not only for scientists, but for our economy and all our citizens.

5 EC (2020), *The role of research and innovation in support of Europe's recovery from the Covid-19 crisis*, https://op.europa.eu/en/publication-detail/-/publication/897a67d4-a9fa-11ea-bb7a-01aa75ed71a1

EU added value in cross-border mobility: creating the backbone of an EU transport infrastructure

By Dirk Beckers, Executive Director of the Innovation and Networks Executive Agency

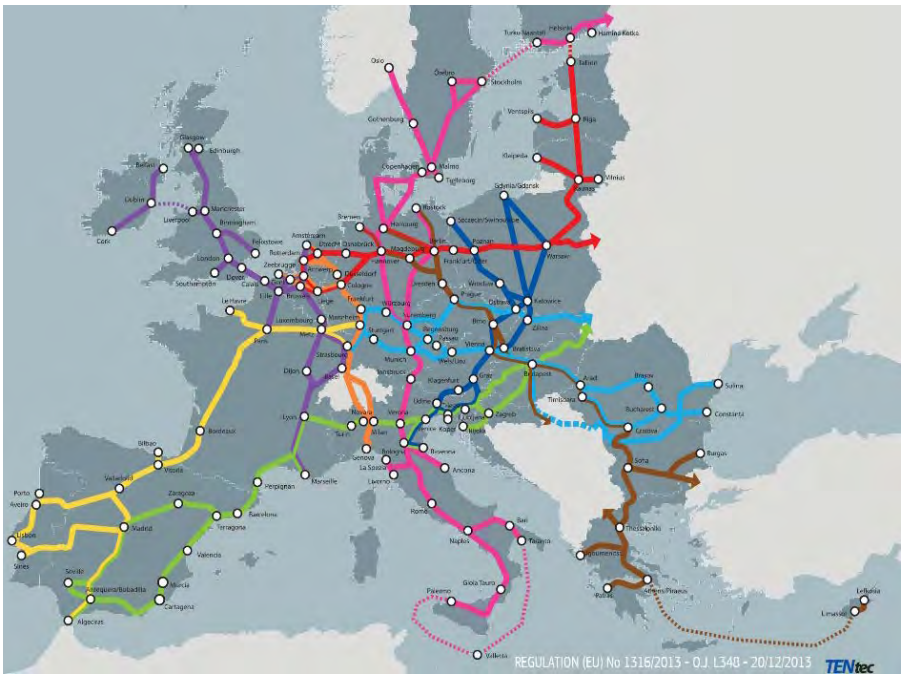
For EU citizens one of the most visible examples of EU added value may well be the means they use, often on a daily basis, to get to work, to travel, to get goods and services delivered in the EU's internal market: the physical infrastructure we use, often also co-financed by the EU. While for some this may trigger the thought of an occasional road to nowhere financed with EU funds, many will gladly use the numerous network corridors within regions and between regions and Member States, created thanks in part to EU initiatives. Going beyond stating the obvious, Dirk Beckers – Executive Director of the Innovation and Networks Executive Agency (INEA), and managing the bulk of the direct EU grants for transport infrastructure – explains how EU added value plays an essential role in INEA's project selection and implementation, feeding back into policy-making and tying into different EU policy decisions for increased impact.

Initialising a European transport network

EU added value in transport can be defined and measured in several ways. Below I will focus on EU added value in transport infrastructure policy via the management of EU financial support for selected projects.

The development of the Trans-European Transport Network (TEN-T) is a main component of the European economic and social policy that dates back to the adoption of the Common Transport Policy. It has had a legal basis in the Treaties since 1957. Since the publication of the first TEN-T guidelines in 1996, the EU has shaped and strengthened the policy and financial framework to improve TEN-T planning and implementation. The network is organised in two 'layers,' the *Core Network*, which includes the most important connections and links the most important nodes, and the *Comprehensive Network*, which includes routes at regional and national level that feed into the Core Network. The network covers all European regions. Nine multi-modal Core Network Corridors passing through different Member States represent the backbone of the Core Network. They streamline and facilitate the coordinated development of the Core Network. Horizontal priorities, such as the European Rail Traffic Management System (ERTMS), the Motorways of the Sea (MoS), the Intelligent Transport Systems (ITS), Innovation and Single European Sky ATM Research (SESAR), complement the network.

Figure 1 - The nine Core Network Corridors



Source: European Commission/INEA

Transport infrastructure projects

Each year public and private authorities invest considerable funds to build, improve and maintain transport infrastructure in order to cope with the growing transport needs of passengers and freight. The EU contributes to this effort by providing financial assistance to projects that demonstrate an EU added value, in particular a strong cross border dimension. Such infrastructure projects complete missing links or remove bottlenecks and therefore play an important role in realising the full potential of the EU's internal market ambitions. The co-financing of these infrastructure projects brings considerable added value to the transport system, starting with the fact that without the EU contribution many of these major projects would not be implemented. The EU funding aims to fill-in the funding gap for those infrastructure projects with significant initial costs, beyond the promoters' financing possibilities.

In addition, the EU's funding focuses on projects where sustainability and respect for the environment are among the main objectives (see also **Box 1**). The Commission's communication on the Green Deal calls for an accelerated shift to sustainable and smart mobility, with an emphasis on a drastic reduction in transport emissions.

Box 1 – Example of an action targeting environmental goals

The Connecting Europe Facility Action, 'Zero Emission Ferries - a green link across the Oresund', supported the conversion of two ships, originally fuelled by heavy oil, to plug-in electric powered operation using batteries only, as well as the construction of the required power provision and charging installations. The Action has brought a more environmentally friendly solution to a very busy maritime link, connecting the Comprehensive TEN-T Network ports of Helsingör (Denmark) and Helsingborg (Sweden). Both ferry terminals are located in densely populated areas, so the Action has also contributed to significant improvements in air quality. It is estimated that in the first years of operation (since 2018) the CO2 emissions have been reduced by 16 000 tonnes. Further investments are planned.





Source: INEA

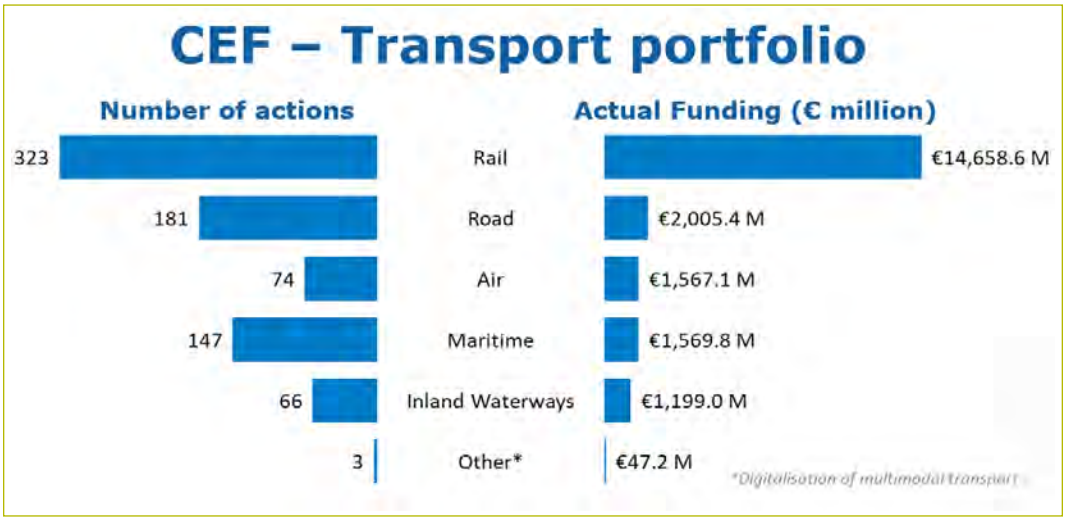
Environmental compliance is a prerequisite for any EU financial support for transport infrastructure projects and the modal shift to more environmentally friendly means of transport is among the main priorities and criteria for selecting projects. EU support accelerates the implementation of projects that produce significant socio-economic benefits, such as lower CO_2 emissions, less congestion and reduced travel times and accidents.

Moreover, EU funding only partially covers the costs of these projects, thus triggering the mobilisation of additional financial resources towards the same objective, at EU level. This has a long-term impact on national strategies that is often neglected. Especially in the case of major, cross-border infrastructure projects, Member States increase their cooperation, exchange best practices and even align their infrastructure priorities in order to carry out a mutually beneficial investment which would not have materialised without the EU's support.

A number of EU funding programmes and initiatives make financial support available to projects implementing the TEN-T. Among those, the *Connecting Europe Facility* (CEF) is the EU funding instrument for strategic investment in transport, energy and digital infrastructure. In the transport sector, CEF is dedicated to the implementation of the TEN-T, with a total budget of €24.05 billion (of which €11.3 billion comes from the Cohesion Fund) for the period 2014-2020. CEF Transport also supports innovation in the transport system in order to improve the use of infrastructure, reduce the environmental impact of transport, enhance energy efficiency and increase safety.

CEF Transport funding supports works and studies for building new transport infrastructure or upgrading existing infrastructure. Since January 2014, 17 calls for proposals have been concluded, supporting 794 actions (many are still ongoing) with €21.0 billion in funding.

Figure 2 - State of CEF Transport portfolio – June 2020



Source: INEA

CEF Transport contributes to the decarbonisation of the European economy by investing heavily in environmentally friendly transport modes, including 323 railway, 66 inland waterway and 147 maritime actions across the EU. Investments in roads focus on cross-border and missing links, traffic management and alternative fuels. In air transport, CEF supports the deployment of the Single European Sky ATM Research (SESAR), thus increasing safety and sustainability, for example, by enabling airplanes to fly shorter routes.

INEA makes implementation happen

The **Innovation and Networks Executive Agency** (INEA) manages almost the entire CEF grants for Transport, with the objective of assisting project promoters in the various stages of the projects' lifecycle and contributing to their successful implementation. The deployment of large-scale infrastructure projects is a major challenge. Typically, these are long-term investment projects, involving many different actors and processes as well as a number of uncertainties. Rigorous preparation and well-elaborated planning as well as close and pro-active monitoring are key elements for successful implementation, in terms of quality, time and budget.

Throughout the projects' lifecycle INEA's objective is to provide services of added value, with a two-fold objective:

- to implement projects that best serve the objectives of the TEN-T and;
- to guarantee that EU funds are used in line with the applicable rules and the principles of sound financial management, ensuring that European taxpayers' money is spent in the most efficient way.

Selection of projects

The selection of the best possible projects in order to meet the TEN-T objectives is a key element in the implementation process. The objective is to select projects that can be implemented within the desired timeline.

A decision on the allocation of billions of euros of taxpayers' money for projects across the EU cannot be taken lightly. Projects must demonstrate a clear EU added value; this policy is also enshrined in the EU's Financial Regulation (Articles 34(2) and 34(3)), which specifically requires an examination of whether EU funding adds value.

More concretely, the project selection is based on a two-stage evaluation process. In the first stage, at least three independent evaluators assess each proposal against the award criteria. The experts examine only the individual merits of each proposal and do not consider the total available budget when making their recommendations. This is the role of the next stage of the evaluation, steered by senior Commission officials. In this final stage, policy considerations complement the technical assessment so that the available budget is allocated to proposals with the highest EU added value in relation to the TEN-T policy objectives:

- Which projects contribute the most to the completion of the Core Network by 2030 and the Comprehensive Network by 2050?
- Which projects accelerate deployment of innovative solutions to reduce the environmental impact of transport?
- Which projects are further enhancing interoperability and safety?

The replies to these questions shape the final list of proposals recommended for funding. For example, a project along the Core Network that eliminates a bottleneck on a cross-border section is considered to have greater EU added value compared to a national project that has a mainly regional impact.

Management of projects

INEA monitors closely the progress of each project, mainly through periodic reporting and continuous contacts with the project promoters. Once deviations are observed, these are assessed in order to find the best mitigation measures, in cooperation - in most cases in agreement - with the project promoters and the Member State(s) concerned. Such measures often concern the extension of the duration of the project, in order to allow its completion and/or the reduction of its scope and the related EU budget. If serious deviations are observed, the Agency initiates the termination of the project.

For all projects, including those that are implemented without any issues, INEA has put in place a detailed system of ex-ante and ex-post controls in order to verify all project costs for which an EU contribution is required. In parallel, the progress/completion of the works is verified by on-site visits and other means of verification, while in certain cases the certification of the costs by the Member State(s) concerned is also required.

This is a fundamental task for the Agency that ensures the best possible use of EU funds. In addition, this close monitoring allows the Agency to recover unused EU funds in good time and to re-inject them into the programme. This is a real added-value service contributing significantly to maximising the absorption and the utilisation of the available EU budget to the benefit of citizens. In the current CEF transport programme – amounting to over €24 billion for the period 2014-2020, INEA has already re-injected the amount of €2.9 bilion, allowing more transport projects with a better EU added value level to benefit from the EU's financial assistance.

Feedback into policy

Another key element in the work of the Agency is close cooperation with the different Commission services. During implementation, INEA informs/consults the Commission's services on every important decision, to ensure political awareness and/or seek guidance. Periodically INEA also prepares a dedicated report on completed projects, to inform the Commission's services of their accomplishment.

This direct cooperation with the Commission ensures that implementation follows closely the policy objectives and that any deviations are reported back to the policy level in good time for possible action. This makes sure that policy decision makers are always aware of the situation with regard to the implementation of the projects, and this significantly shortens the time required to respond to needs and brings real added value at all stages of programme management.

Synergies between H2020 and CEF

In addition to CEF, INEA manages those parts of the Horizon 2020 research and innovation programme (H2020) related to transport. With a portfolio of over 300 grants, INEA manages research and innovation projects in a broad range of transport modes and sectors, such as green vehicles (see **Box 2**), aviation, waterborne transport, urban mobility, infrastructure, batteries and safety, among others.

Exploiting its privileged position of managing both the CEF and H2020 transport programmes, INEA is working intensively on the identification and promotion of synergies between both programmes. Beyond the natural progression from research to deployment at project level, opportunities for synergies can be created through appropriate programme and policy design.

Box 2 - Electric vehicles

The NeMo H2020 project has developed a pan-European eRoaming network to help electro-mobility providers standardise their services across Europe. In parallel, the EVA+ CEF project has built a wide network of fast-charging stations in Italy and Austria.



Both projects contributed to making electric cars more attractive for European citizens. CEF is supporting around 13 000 electric charging points across the network.

For this, INEA is active in fostering a dialogue between the Commission's services, project promoters and other relevant stakeholders to highlight potential areas for synergies. Several beneficiaries from H2020 transport grants are now developing or implementing work on the TEN-T corridors. The H2020 project Infra4Dfuture, managed by INEA, is a good example of this. Moreover, the CEF project FENIX in the area of transport logistics builds upon the platforms developed by the H2020-funded projects AEOLIX and SELIS.

By promoting projects that complement or build on each other, INEA brings additional added value to the EU's funding in terms of achieving greater impact and efficiency and fostering cooperation among different stakeholders. This also assists in aligning policies and programmes, with the aim of maximising results.

Focus on EU added value from project concept to delivery of results

The EU has set up a robust framework for the development of an efficient transport infrastructure, which is the backbone of any sustainable transport system. In this respect, EU funding, such as the CEF programme, provides considerable support to project promoters and accelerates implementation, thus bringing tangible added value to the process for EU citizens, who benefit from improved modes of transport.

This added value is further enforced by the project implementation mechanisms provided by INEA, in managing CEF and parts of H2020. INEA's close monitoring of project implementation ensures transparency and sound financial management, while maximising the use of EU funds, to the benefit of citizens. In addition, through systematic feedback to policy and promotion of synergies, INEA contributes to shaping future programmes and assists policymaking.

In view of the next multiannual financial framework, INEA is prepared to continue its role in providing high quality support to project promoters and policy makers, with the aim of achieving the objectives of the TEN-T, and of providing the best possible EU added value for all citizens and businesses.

The Prague-Munich 5G corridor: a roadmap towards a digital EU reference region

By Petr Očko, Deputy Minister of Industry and Trade, Czech Republic



Source: Fit Ztudio/Shutterstock

Adding value at EU level requires initiatives and taking risks, certainly in the rapidly changing digital age we are experiencing today. New technologies have the potential to create completely new possibilities and benefits for citizens and businesses across Member States, and to add value in an innovative way. One of these technologies is 5G, a topic on which the ECA recently started an audit assessing EU action to address 5G network security concerns. Proper use of this innovative technology can trigger new cooperation initiatives, as shown by the Prague-Munich 5G corridor. Petr Očko, Deputy Minister of Industry and Trade of the Czech Republic, explains below[1] what this new 5G corridor entails and shares policy recommendations geared to enhancing the added value of participating companies by making this new technology available to citizens and improving their life, health, and working conditions in a sustainable way.

5G to go 'Digital for green'

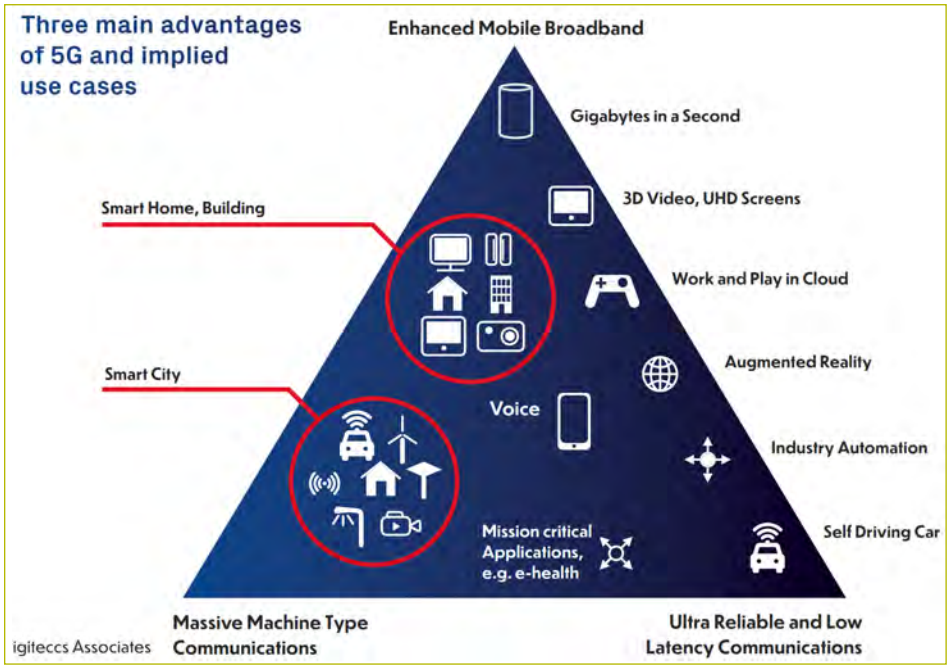
On 27 February 2020, the process of creating a 5G corridor between the Czech Republic and Germany, digitally interconnecting Munich and Prague, kicked off. This happened in Brussels with the signature of a declaration by Karel Havlíček, the Czech Deputy Prime Minister and Minister of Industry, Trade and Transport, and Florian Herrmann, Bavarian Minister for Federal and European Affairs. The clear aim of the project is to show how new generations of networks can increase EU added value when they are tackled in the broader context of digital applications that will help to increase the quality of life of citizens and economic competitiveness among regions.

This Czech-Bavarian 5G corridor project is intended to strengthen mutual cooperation in R&D and improve not only the transport of people and goods, but also public access to high-speed networks as such. This will - among other things - increase the availability and interest in mobile data. The 5G networks will continuously cover all traffic routes, i.e. motorways and railways between Prague and Munich, including the trans-European transport networks, and are a prerequisite for many use-cases in line with the national

1 The following ideas were published in June 2020 in a report by Dalibor Vavruška (DIGITECCS Associates Ltd.) and Petr Očko (Czech Ministry of Industry and Trade), see https://www.mpo.cz/assets/cz/e-komunikace-a-posta/elektronicke-komunikace/koncepce-a-strategie/2020/6/How-to-approach-5G-POLICIES.pdf

economic visions of the Czech Republic and Germany . These use-cases include new applications in environmental technologies, Industry 4.0, autonomous mobility and the smart city. 'Digital for green' is the main vision driving development of applications on both sides of the border (see **Figure 1**).

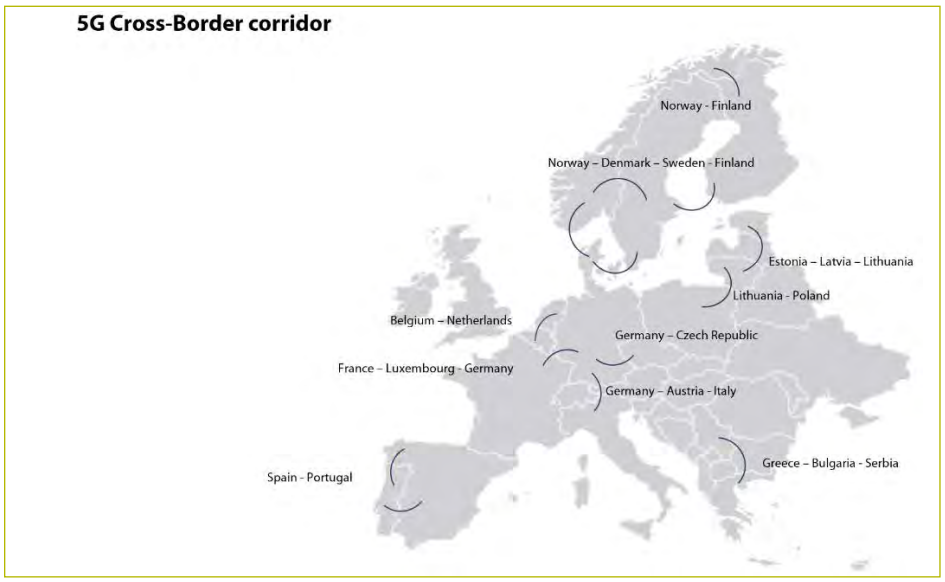
Figure 1 – Key advantages of 5G



Source: Dalibor Vavruška and Petr Očko, How to approach 5G policies, report published in June 2020

This 5G corridor is not only meant to become one of the numerous upcoming 5G corridors between EU cities (see **Figure 2**). From the outset, the ambition was to create a whole European reference region for sustainable innovation and development based on the latest digital technologies .

Figure 2 – 5G planned cross-border corridors in Europe



Source: Dalibor Vavruška and Petr Očko, *How to approach 5G policies*, report published in June 2020

5G as a catalyst for digital transformation post-Covid-19

The ongoing Covid-19 crisis in particular is making the importance of well interconnected and integrated digital infrastructure and digital services even more visible, with a focus on safety and health, but also on minimising disruption. Remote learning and particularly remote working, along with other digital tools, have not only helped us to survive the crisis, but they are also set to drive economic recovery in the business sector (see also **Box 1)**.

The Czech Republic is a prosperous country with a long tradition in innovation, advanced industry, well developed digital services markets, skilled labour, as well as sizeable investments in R&D. Digital transformation is one of the key pillars of the Czech Innovation Strategy for 2019-2030, entitled *The Czech Republic: The Country for the Future*. The country is investing in artificial intelligence (AI) technologies, for example through its internationally recognised research into AI deployment in natural language processing, manufacturing and safety and security. Based on the NCSI index the Czech Republic belongs to world leaders in cybersecurity. Development of human-centric AI solutions for Industry 4.0, Smart Cities, e-Health and beyond, are firmly at the heart of the Czech National AI Strategy approved in 2019. In 2019 and 2020 the Czech Republic hosted the Prague 5G Security Conferences (see **Box 2**).

Box 1 – Recent conclusions of the European Council regarding 5G

At their European Council summit in Brussels in early October 2020, EU leaders endorsed plans by the EU Commission to pour funding into the digital sector as part of Europe's plan to recover from the Covid-19 pandemic. 'Europe clearly needs to up its game' on digital affairs, said European Commission President Ursula von der Leyen.

5G security is among the EU's most pressing challenges. EU leaders called for joint criteria to assess the risks associated with 5G equipment suppliers such as Chinese vendor Huawei, in order to be able to ´apply the relevant restrictions on high-risk suppliers for key assets defined as critical and sensitive'. European leaders said 'potential 5G suppliers need to be assessed on the basis of common objective criteria' across the bloc to identify which telecom suppliers pose high risks to Europe's security and cybersecurity.

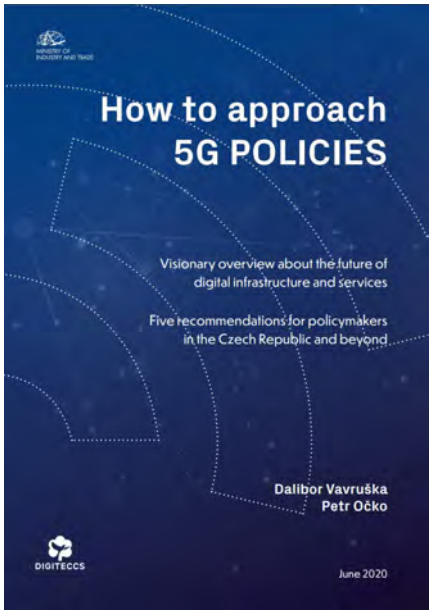
One of the conclusions concerned the new authorisation schemes and security checks for 5G suppliers, set up by a number of Member States. But others, including Germany, have stopped short of imposing tougher rules on the sector. The disparities could mean that Chinese players like Huawei face widely diverging levels of market access in Europe. The EU leaders also asked the Commission to prioritise data sharing in the health care sector under its plans to create sectoral 'data spaces,' asking for it to 'be set up by the end of 2021.' It also called on the Commission to propose new rules on a secure digital identification system by mid-2021.

Box 2 - Prague Proposals: paving the way to coordinated approach to 5G networks security

Government officials from 32 countries, the European Union and NATO, participated in the Prague 5G Security Conference, hosted by the Czech Republic, on May 2-3, 2019. The resulting cybersecurity framework named 'Prague Proposals' is a set of recommendations for nations to consider as they design, construct and administer their 5G digital infrastructure. This document focuses on four areas (politics, technology, economy, and security, privacy and resilience) to summarise the main perspectives and principles which should be followed to ensure the safe construction of 5G networks, especially where supply chain security is concerned.

The Prague Proposals paved the way for the EU 5G Toolbox on Cybersecurity that was published by the Commission in January 2020. The main intention is to better coordinate the approach to 5G networks security in the EU. In the toolbox conclusions, EU Member States agreed to strengthen security requirements, to assess the risk profiles of suppliers, to apply relevant restrictions for suppliers considered to be high risk including necessary exclusions for key assets considered to be critical and sensitive (such as the core network functions), and to have strategies in place to ensure the diversification of vendors.

The second Prague 5G Security Conference was held virtually on 23 – 24 September 2020. The second round of this global conference saw a move from general statements to the presentation of concrete solutions and initiatives in 5G security. With guests from more than 120 countries and almost 50 speakers from Europe, the United States, Korea, Japan, Israel, Australia, India and other countries, the conference launched the Prague 5G Repository, building on the previously endorsed Prague Proposals.



Cover of the study *How to approach 5G policies*, published in June 2020

The Czech telecommunications market may not be perfect from a competitive point of view. However, some of its players have pioneered strategic and structural solutions, which were later recognised and adopted more widely. This includes active network sharing between T-Mobile CZ and O2 CZ/Cetin, adopted in 2013-14. It is an interesting case from a competition point of view and perhaps an indication of a broader industry trend, especially when we look at the new generation of networks.

There are a number of reasons for thinking that the Czech market will remain attractive for pilot cases and innovative structural solutions in telecoms. One of them is the need for such solutions, in order to maintain the competitive strengths of the local manufacturing industries. The time to think about new transformative solutions is now, also because, similarly to many other EU Member States, the Czech Republic is in the process of awarding 5G spectrum. That is why we believe it is the right time to take a new approach to digital policies. Together with Dalibor Vavruška, a renowned expert on digital transformation, we have developed five main recommendations, as first mentioned in the report *How to approach 5G policies*.

Five policy recommendations for digital economy stakeholders for the 5G era

Innovation has been shifting economic emphasis from agricultural, natural commodity, industrial and electronic hardware assets towards software and processed data. National governments, national digital companies including telecoms, and other stakeholders in national economies, may need new strategic approaches to turn this trend into an opportunity. 5G is a major milestone, not only in national communications but also for human life and societies, with the potential to boost prosperity, security, health, environmental sustainability and inclusiveness.

Digital policies governing 5G, and related technologies such as Artificial Intelligence (AI), must be primarily human-centric. This means that they must be driven by the interests and concerns of local consumers, employees, entrepreneurs and voters. When competition fails to provide true choices and value to the consumers, or to convincingly guarantee human freedoms and safety in fast-changing digital ecosystems, locally or globally, elected governments may need to step in with policy interventions to protect the public interest.

As one of the key drivers of national competitiveness, innovation can be promoted by light regulation in innovative areas, favourable conditions for disruptive innovators, support for infrastructure investments, easy access to shared infrastructures and support for R&D. We recommend policymakers to consider 5G-related interventions in the following five areas:

- Encouraging the opening of tech standards, platforms and networks. We recommend selective policy interventions to encourage the opening of tech standards, platforms and networks, particularly when competition is failing, and when such moves would bring benefits or reduce risks to economies and societies.
- Supporting diversity in business models for private 5G networks for Industry 4.0 and beyond. We recommend policymakers consider allocating an appropriate amount of the over 3GHz spectrum.
- Exploring synergies between digital communications, energy and other strategic infrastructures. We recommend policymakers consider aligning regulations governing telecoms and other utilities, particularly electricity, to soften any potential regulatory barriers to synergic investments between these types of infrastructures and industries.

- Transforming telecommunications post Covid-19. We recommend policymakers work with telecoms and other stakeholders to formulate a vision of the future digital economy around more deeply shared nationwide infrastructures, and of an expanded role for telecoms as national digital service providers, trustworthy and secure providers of nationwide connectivity and guardians of private and public data.
- Responding to concerns about health, security and control. We recommend policymakers assure the public that they have a grasp on protecting its security, freedom and control over its own affairs amid a growing overlap between the virtual and real worlds, while showing their commitment to progress, their readiness to take precautions against health and security risks, and support continuous research in these fields.

The new holistic approach towards a 5G reference region to address an old dilemma

The EU recovery package and the draft EU budget are designed to grow our economy. The main quest is obviously to trigger a sustainable process in this respect which has the capacity to generate a maximum of economic and socio-economic benefits which are sustainable in the long-term. The key trajectory towards this aim will be the digitisation and the "green deal" approach of industry and society.

On the basis of the above strategy orientations, together with Bavaria the Czech Republic is launching a new form of regional cooperation which has the capacity to solve an old dilemma. In the previous rounds of EU accessions we had discussions on whether it would be preferable for the acceding countries to invest first in traditional 'hard' infrastructure such as roads, rail, ports, airports, or whether it would be wiser to invest primarily and directly in research and innovation. Those favouring the R&I-based approach sometimes pointed to the limited growth effects of traditional physical infrastructure-focused investment in many countries that were not focusing on high value-added investments.

The new answer to the growth and recovery challenge is therefore to design in a simultaneous and synergic way 'citizen-centric innovative infrastructures'. In other words, the process of putting in place enabling 'hard' physical infrastructures on the one hand and the issue of their use - 'soft infrastructures' - on the other hand need to be strategically planned and intertwined from the very beginning. Thus, the roll out of 5G interconnectors can become a 'pole of disruption' for the whole region. The 5G corridors are clearly a great opportunity for such a synergic approach, connecting digital infrastructure and transport (road, rail) but also possibly energy infrastructures for this concerted approach focusing on applications for better quality of life. Such a synergic and citizen-centric approach has great potential to bring real EU added value.

Key building blocks: early and permanent user interfaces

The necessity for such a design is in the end based on the insight that a permanent and interactive customer dialogue is the golden rule for any successful innovative enterprise. The new reference region is intended to be strategically run in the mode of a 'virtual enterprise'. In operational terms, this approach necessitates early and permanent interfaces with emerging users of and investors in the infrastructures via 'shareholder platforms'. This will also facilitate the creation of synergies between the three main sectoral strands of the EU's Connecting Europe Facility (CEF) of digital, transport and energy and horizontal cross-cutting areas such as cybersecurity, artificial intelligence, high performance computing, quantum technologies, etc.

Working towards a regional mission purpose

As for any other enterprise we also need to define the mission purpose for this region by breaking down the general objective of the Recovery Plan and Green Deal into specific regional and subregional targets and deliverables driven by the overarching global challenges. This approach of a parallel and simultaneous 'infrastructure' as well as 'infrastructure user' concept roll-out will - via its strengthened and simultaneous dialogue focusing on the regional mission purpose - result in an 'organic' and interdisciplinary smart specialisation strategy of a new quality.

In the context of Bavaria and the Czech Republic, in particular the car industry and satellite based space applications, among other sectors, deserve special highlighting in this respect. Road facilities for driverless cars necessitate both 5G infrastructure as well as satellite-based applications. But not only autonomous driving is a relevant use-case. Related areas such as climate change monitoring, citizens' health monitoring - including Covid-19 - can also be integrated into this wider smart specialisation approach.

For example, Pilsen, a well-known city on the way between Prague and Munich, plans to further develop a drone system for firefighters or automated inspections of bridges in close cooperation between state, municipality, academia and industry. Cities help to develop many other applications – not surprisingly Pilsen became one of the Czech '5G Smart Cities', with a very complex project with use-cases based on 5G technologies serving citizens. Already now we see a lot of cooperation between Pilsen-based and Bavarian research organizations, not only in Smart City 5G-related applications but also in Industry4.0 or autonomous driving. Pilsen will also be the setting for the forthcoming 'stakeholder meeting' of the Prague-Munich 5G corridor project.

This holistic strategy will also open the way towards better blending of the CEF instrument with EU instruments, such as Horizon or the structural funds. In addition to the CEF, the use of Public-Private Partnerships, including the new 'Invest EU' instrument, will be stepped up.

Using regional deliverables and benchmarks to inspire other EU regions

Following the principle that 'you cannot manage what you cannot measure' we intend to set up a mid and long term business plan for our EU reference region. This will include quantifiable benchmarks in economic and socio-economic terms. We are launching a new design process era.

Our aim in this process is not merely to exploit the 5G interconnection between the cities of Prague and Munich according to 'linear logic'. Instead we are targeting the entire region between these two cities in such a way that this connected region has the capacity to become a test bed and develop into a new European reference region. We hope the developments in this region will generate and interlink similar regional approaches in other parts of the EU, thereby becoming a strong future source of increased and expanding EU added value.

A European border region and the added value of the EU

Johannes Maier, Office of the Carinthian Regional Government



Source: ©Lakeside Park|G.Steinthaler

Lakeside Science &Technology Park with the Wörthersee, one of Carinthia's most popular lakes, in the background

The EU is not only a Union of Member States but also of regions, of municipalities, and of its citizens. Regional and local governments often play an important role in making sure that citizens and companies know about the various possibilities offered by the EU. Johannes Maier has been the EU Coordinator for the State of Carinthia for a number of years now. He is also a member of the 'Subsidiarity Expert Group' of the European Committee of the Regions (CoR), a body whose slogan is 'Europe closer to people.' He explains what the concept of EU added value means for somebody dealing with EU matters at regional level, which elements are particularly important and challenging, and argues that besides an EU of 'big things' there is also a need for an EU of 'small things.'

Matching ideals and reality

Ideally, any action taken by the EU should address many aspects: it should create a quantifiable economic and sustainable advantage for a considerable number of citizens, contribute to at least one of the community's values, create a sense of community in a symbolic way, and – which is also important – it should not unduly burden the national (and this includes regional and local) implementing authorities at the same time. This is probably a definition that is completely committed to the new creed of utility, which has now completely superimposed itself on, even suppressed, the peace mission of the European unification project[1].

The ideal and reality are usually a long way apart. For a region with legislative powers that lies on several borders, such as the Austrian region – in Austria called 'state' – of Carinthia, the 'beneficial' aspects of any new EU regulation or EU funding action, would be that it did not, at least, confront the authorities with additional legislative and/or

1 See, for example, Weidenfeld Werner, *Reden über Europa – die Neubegründung des europäischen Integrationsprojekts* in *Europäische Identität: Voraussetzungen und Strategien*, Nomos, Baden-Baden, 2007, p. 15 ff. Even before the financial, migration and Covid-19 crises, Weidenfeld asked for a simple formula to answer the question: Why do we need the European Union in the future – beyond maintaining what has already been achieved?

administrative effort, and might, theoretically, be advantageous for at least some residents. One is content with the knowledge that the action 'does no harm' and in any case gives some of the 'remaining' 447.2 million EU citizens[2] an advantage, and is therefore useful to the larger common project.

Basically, it can be said that Carinthia – a comparatively small region, which also borders two other EU countries (Italy and Slovenia) and is located in the unique cultural triangle of Romans, Slavs and Teutons – has benefited massively from its membership of the Union. I do not have the space here to go into the EU's four freedoms and the economic revival they made possible, or the 'intellectual opening' of physical borders that were historically associated with tragic (war) events[3]. In additon, however, since 1995 significant amounts of EU funding totalling approx. €2.9 billion (data from the EU Coordination Unit of the State of Carinthia), have flowed into the region, considered to be one of the economically weaker ones in Austria. It is therefore the 'big actions' of the European project, including the internal market and the structural and agricultural policies, that have brought the massive benefits.

If, on the other hand, one looks at various individual actions by the EU, which had their origins in the European Commission or with individual, and quite ambitious, Commissioners, a different picture emerges. In view of some proposals and regulations, the question arises as to where action makes more sense and if there is any value for Europe. Can the solution be found in equal treatment for all EU states and regions? Or is there added value in the fact that individual regions and states find appropriate – meaning sometimes different – solutions for their citizens within a European framework?[4] Can Europe possibly also gain strength (as it has historically) by sparking positive competition for the best ideas and projects?

Subsidiarity – not yet a guiding principle

It is precisely the principle of subsidiarity anchored in Article 5(3) of the EU Treaty that defines two strict legal criteria for the added value of every action by the EU legislator. This paragraph basically stipulates that the Union should act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States but rather at Union level for reasons of scale or effects. And that the Union's institutions must apply the principle of subsidiarity together with the principle of proportionality.

These two criteria are completely underexposed due to the lack of – or only rudimentary – case law of the European Court of Justice. The criteria are overshadowed by excessive political action, especially on the part of the European Commission, which also suffers from inadequate control within the Commission, perhaps something its Regulatory Scrutiny Board should be looking at more intensively. The Council, motivated by its particular interests, is the EU institution most likely to try to enforce these criteria. And it does so primarily with substantive and factual justifications and far too seldom, formally and clearly, on the basis of the 'EU constitutional principle' of subsidiarity[5].

With the 'decentralisation criterion' (or also 'necessity criterion,' testing by means of a 'comparative efficiency test'), checks should be carried out, in each case, on whether the purpose intended by an EU regulation has not already been satisfactorily achieved by one of the Member States themselves or in cooperation with them. As a result, EU action would not be necessary. Of course the actions of the regions (with legislative power) must also be included here. Although the Commission and the Member States are in very close contact,

2 See current Eurostat statistics of 07/10/2020; Carinthia has a total of approx. 560 000 inhabitants. *https://ec.europa.eu/eurostat/documents/2995521/11081097/3-10072020-AP-DE.pdf/7f863daa-c1ac-758f-e82b-954726c4621f*

3 For more details, see Maier Johannes, *EU-Förderungen – Möglichkeiten für Kärnten,* in *Kärntner Jahrbuch für Politik 1996,* Kärntner Druck- und Verlagsgesellschaft mbH, Klagenfurt, 1996, pp 113 ff; *Die EU-Erweiterung und Kärnten*, in *Kärntner Jahrbuch für Politik 1998*, Kärntner Druck- und Verlagsgesellschaft mbH, Klagenfurt 1998, pp 50 ff; *Vision: Kärnten, eine Modellregion europäischer Identifikation und Identität,* in *Kärntner Jahrbuch für Politik 2010*, Kärntner Druck- und Verlagsgesellschaft mbH, Klagenfurt 2010, pp 198 ff: the unique vision for the whole border region: *The small EU in the big EU*. https://www.jahrbuchkaernten.at/fileadmin/jahrbuch/Downloads/Umbruch_2010.pdf

4 See Weidenfeld Werner, idem, p. 27: *the 'model of success' of the pluralistic European Union, which not only allows diversity, but actually benefits from it*

5 See in detail Maier Johannes, contribution to the discussion of the Task Force Subsidiarity; *Subsidiarity and proportionality acc. Article 5 TEU - Deficits of the application – solutions* https://ec.europa.eu/commission/sites/beta-political/files/taskf_4m_subsi_art5_teu_principles_maier_18mai18_0.pdf

particularly in areas of existing EU legislation (due to the reporting requirements imposed), this criterion is deliberately only examined in a subordinate manner or dealt with in preliminary legislative processes. For regions, there is no data at all, especially in Member States that are not or less federally organised. The Committee of the Regions has therefore repeatedly drawn attention to the need for an additional 'territorial impact' assessment in the context of 'impact assessments' carried out by the Commission. This is still a 'debt to be discharged' by the regions[6] and, in spite of many verbal assurances, not yet anchored in law as an 'obligation to be performed' by the Commission.

Regarding the second 'efficiency criterion' – commonly known as the 'better clause,' – the Commission provides an abundance of arguments why the objectives of the action can be 'better' achieved at EU level. One argument often found, for example for the amended waste guidelines or the digital economy, is that economic growth will be stimulated and additional jobs created. In accordance with the stipulations of Protocol No 2 of the EU Treaty (application of the principles of subsidiarity and proportionality), specific quantitative figures are also given. These purely political arguments are due solely to the pressure on the Commission to communicate and have nothing to do with a core analysis of the efficiency criterion. Even in the case of national action, economic growth and new jobs can definitely be expected. In contrast, negative effects and deficits such as the costs of EU action are phased out of the political debate.

Not only EU regulations add value

It is difficult to understand the justification of EU added value if the vast majority of Member States' national laws – or also EU laws already applied – already justify the purposes and also political goals, but a Union legal norm is proposed to solve a 'national problem' of a few Member States or regions or to remedy the deficits of a few countries. Examples of this are the proposal recently adopted by the EU legislators for the 'Regulation for the minimum requirements for (waste) water reuse'[7] or the 'Drinking Water Directive'[8]. Getting those Member States or regions with legislative powers that either have no problem and therefore no need for political or even legislative action to pass new (transposition and executive) laws clearly has the opposite effect of 'EU added value'. For EU sceptics it is grist to their mills to denigrate the many achievements of the Union, pleading for withdrawal of support for the Union, describing it as mere 'symbolism.'

The regulation on 'wastewater reuse' under certain conditions is relevant for exactly six Member States in the south of the EU, all of which are not blessed with water. A few more could also apply the regulation, albeit on not very economic terms. The countries and regions most affected already had national regulations in force, albeit with different requirements. In essence, it was about ensuring that the fruit and vegetables irrigated and grown with wastewater that has been treated in different ways could be delivered to the EU's internal market without restrictions.

The 'Drinking Water Directive,' which has already been revised three times since the 1990s, was also intended to selectively address issues newly identified in 2018, such as access to water for disadvantaged groups of people (recognised in the discussion as a 'cultural problem' and less as a geographical problem; 'access to water' falls under the sole competence of the Member States and, due to their constitutions, also to regional and local authorities. Further issues were the recording of 'endocrine disruptors,' the expansion of the 'risk-based approach' (already anchored in law) including the expansion of the parameters to be checked and the introduction of checking and monitoring of house installations, which is of particular importance in connection with contact materials. In Austria, this last provision obligates the regional states with legislative power and responsibility for construction products to enact new or amended construction laws. These, if necessary in conjunction with national laws on hygiene, will lead to new monitoring procedures and methods to help prevent any illness from contaminated drinking water or legionella.

6 See the CoR's pilot experiment with the 'Regional Hubs,' a platform of selected regions and municipalities, to examine the added value of existing EU regulations for the local and regional level; https://cor.europa.eu/de/our-work/Pages/network-of-regional-hubs.aspx

7 Com (2018) 337 final v. 05/28/2018

8 Com (2017) 753 final v. 02/01/2018

Austria generally has no problem with the supply of high quality tap water from natural sources, thanks to its excellent topographical conditions as an Alpine country. Access is therefore guaranteed without exception. However, Austria, including Carinthia, generally does have problems in individual cases in connection with stale tap water in private houses. These can occur sporadically every five to 10 years. These individual cases will unfortunately not be prevented by the new 'EU-related' national regulations. The legislative and additional administrative effort that must nevertheless be made is therefore out of all proportion to any (European) benefit.

Regrettably, however, the case law of the Court of Justice of the European Union (CJEU) does not seem to consider these arguments to be related to this dilemma, giving priority to the EU norm because, according to the CJEU, 'the general interests of the European Union could be better served by action at that level' than taking into account the particular situation of a Member State which may already apply the 'better regulation.'[9]

Increased use of regulations versus directives

Since the Juncker Commission, 'regulations' as a form of EU legal act with a direct effect in all areas, have been given preference over the 'directives,' which set out goals but leave it up to individual Member States to adopt their own laws to achieve these goals. This may be understandable from the Commission's point of view. For the 'guardian of the EU Treaties,' these laws can take effect more quickly and 'uniformity' can be monitored much more economically. Dilution through the 'implementing laws' of the Member States and (legislative) regions, which are shaped by national and regional interests, is prevented. More rapid implementation and enforcement is now being sold by the Commission as an argument for EU added value. A large part of the approximately 270 Covid-19 special regulations are based on this.

But it is precisely because of this that the freedom of the Member States and regions to take into account and reflect on their special situation and requirements during implementation within a European framework is being sacrificed to centralism. The chance to generate additional added value to the EU action with 'diversity' and, above all, understanding, and therefore more likely acceptance among citizens, is also falling victim to this tendancy.

Road to adding value needs to address the EU's diversity

There is a lot to be said about European added value, and where you stand most likely has an effect on what you think of it. Without doubt regions, especially border regions such as the Austrian State of Carinthia, have benefited from the great achievements of the EU's peace project as well as its promise of prosperity: borders – both physical and mental – have been removed, the large internal market has been exploited by companies, by students and generally also by citizens. EU funds and EU regulations have been used widely. In view of this outstanding immaterial and material 'added value' for a region, it would appear inappropriate to question whether and how (new) EU legislation can bring further advantages to such a region. In the end a disadvantage or two will also have to be accepted.

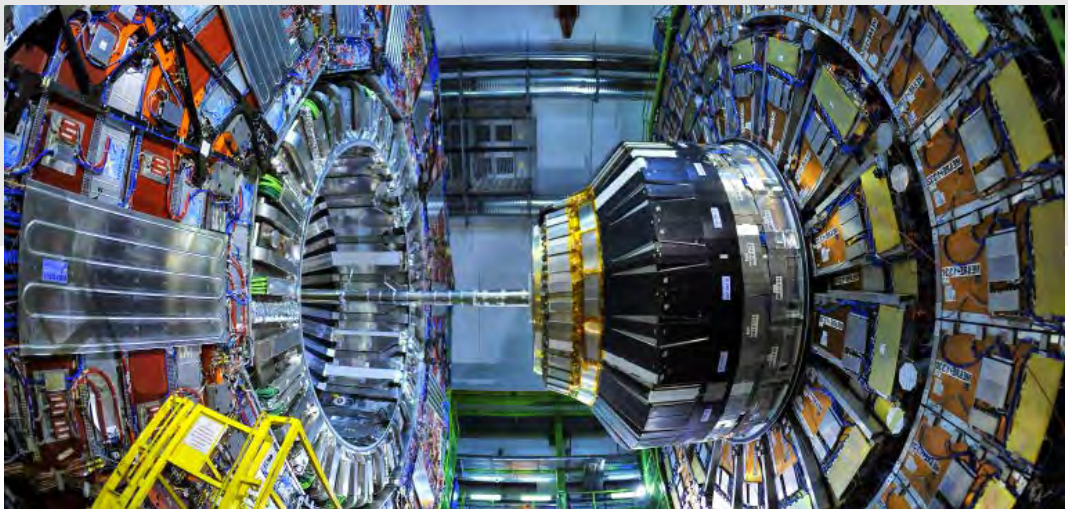
On the other hand, there is the principle of subsidiarity anchored in the EU Treaty, which can therefore even be regarded as 'constitutional' and imposes a strict examination, questioning and justification of EU added value on the EU legislators for every legislative act. The subsidiarity principle is not (yet) given the same weight at EU level as, for example, the principle of non-discrimination (also anchored in the Treaty and therefore 'constitutional'). In any case, highlighting and justifying EU added value in each and every case is a legal necessity.

In order to raise awareness among citizens and for further optimal use and preservation of what has been achieved, morally and socio-politically (peace and prosperity), new and/or revised EU action must also be questioned with regard to its European added value. Here you immediately end up with the 'big things' which the EU has to cope with in the future and for which it must provide orientation. The 'little ones,' such as the regulation of the minimum quality of waste water, are the task of the lower levels. And wherever possible, room for manœuvre should be left open in order to make use of one of Europe's great strengths: its diversity.

9 See paragraph 54, Case C-508/13, Estonia v EP and Council, 18 June 2015

If the EU wants prosperity, it should not cut EU funding for research and education

By Peter-André Alt, President of the German Rectors´ Conference, Pieter Duisenberg, President of the Association of Universities in the Netherlands, and Sabine Seidler, President of Universities Austria[1]



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Fundamental research at the European Organization for Nuclear Research (CERN)

The negotiations for the 2021-2027 Multiannual Financial Framework (MFF) are in their final phase and, for EU research and education funding, the signs are not looking too good, with a number of cuts planned in this area. This is reason enough for three presidents of national associations of universities - Peter-André Alt (Germany), Pieter Duisenberg (Netherlands) and Sabine Seidler (Austria) - to appeal to national and EU policy makers. They speak about the key chance to invest in European higher education and research, highlighting the aspects of European added value, and arguing that EU funding for higher education and research cannot be replaced by national funding. The three presidents plead for continued EU funding so that science can also offer society solutions to its problems in the future and European universities can remain active at the highest academic level and strengthen European cooperation.

European science is thriving in the EU's knowledge-based society

European science seems to be doing well, in October 2020. While its rapid reaction to the Covid-19 crisis showed its fundamental importance to the functioning and survival of our societies, the Nobel Prizes awarded to several European scientists confirmed its past performance and international reputation. Can European scholars sit back and relax then? The opposite is the case: the scientific community in Europe is facing a whole decade of misguided European austerity in science and higher education that will endanger the future of research and innovation and have a long-lasting impact on the continent.

In the negotiations between the European Parliament, Council and EU Commission on the next multiannual financial framework of the European Union, the future of European research and higher education is at stake. What may sound technical at first will have concrete, long-term and perhaps painful consequences for our societies. We are not talking about the next few months or next year. The decisions to be taken will bind us for a very long period, up to 2028 and – indirectly – for quite some time after that.

Research strives to create solutions for some of the biggest challenges our societies are facing today, such as climate change. We need research to develop new ideas, tools and concepts for questions related to digitalisation and artificial intelligence, to name just

1 This article is the English long version of the article presented in the newspapers FAZ, NRC, and derStandard on 21 October 2020.

a few. Eighty percent of EU exports rely on technology-based industries. As knowledge creation leaders, our jobs and therefore our prosperity depend on technological development with a strong foundation in fundamental and applied science as well as competences for the digital age, such as complex problem solving, critical thinking and creativity.

Competing with the US and China

Europe's universities are world class and well prepared for the tasks. However, to play in this league investments are necessary, also in view of geopolitical developments. The US is in the lead and, since 2017 when it invested €370 billion compared to the EU's €320 billion, China has taken over second place from the EU. We need to defend our position as innovation leaders in order to avoid future technological dependencies. Technological developments will shape society and we need to ensure through science and research that our fundamental democratic rights and humanistic values, such as freedom, transparency, privacy and open cooperation, are guaranteed and further strengthened in this process.

We therefore strongly disagree with our governments' decision to substantially cut funding for European cooperation in education, research and innovation. If the cuts related to the EU's recovery fund, NextGenerationEU, are added, European programmes for student mobility and university cooperation, research and innovation will lose a total of €16.9 billion.

The current strength of our European science and innovation ecosystem is founded on two pillars: an excellent national science base combined with intensive European cooperation. This results in the optimal combination of competition and cooperation and makes new knowledge available to our societies. Therefore, cutbacks in the European budget cannot be offset by national investment. For example: with the newly founded European University Alliances, the European Commission and EU Member States want to raise cooperation between European universities to a new level. However, the funding of these ambitious new networks would be endangered due to the intended cuts in the Erasmus+ programme.

Investment for growth

In a world which has become more complex, international and fast-moving we need young people who can thrive in an environment based on a capability for critical thinking and appreciation for European and international cooperation. The Erasmus+ programme offers valuable preparation for these challenges, as it gives young people the opportunity to broaden their horizon, acquire intercultural skills and boost their personal development. And yet, even with the funds previously earmarked, only 5% of all current students could be mobile at European level over the next seven years. With the currently planned cuts, this figure will be even lower.

The study *The Grand Challenge – The design and societal impact of Horizon 2020*, carried out by the European Commission's scientific service, found that every euro invested in European research generates an economic surplus growth of 13 euros. Would you turn down an investment like that and then claim to have "saved" the money? This is exactly what is happening right now with our governments wanting to cut €16.9 billion for European education and research. Following the study's rationale, our societies are likely to lose up to €200 billion in economic value as a result. This will lead to more technological dependency as well as increasing difficulty in addressing current societal challenges, turning the tide of climate change and achieving sustainable development goals. Europe must continue to build on the quality and strength of our basic research that has been a key resource for the wealth and culture of our continent.

The decisive negotiations on the EU's Multiannual Financial Framework are currently underway and it is not too late to change course. We therefore urge our governments to recognise the value of education, research and innovation in the EU financial framework and, together with the European Parliament, to set the right course for a successful future by reversing the planned cuts.

'European added value must be more than just a purely political slogan'

Interview with Klaus-Heiner Lehne, President of the European Court of Auditors

By Matthias Beermann, Directorate of the Presidency



Klaus-Heiner Lehne

Is European added value something that is self-evident for EU institutions? Or does it need to be proven time after time? And by whom then? Matthias Beermann, Senior Media and Editorial Advisor, interviewed Klaus-Heiner Lehne, President of the European Court of Auditors, to get an idea about the essentials regarding European added value for him and in the EU external auditor's audit work.

Touching on the fundamentals of the European project

Mr Lehne, can you still remember when you actually encountered the term 'European added value' for the first time?

Klaus-Heiner Lehne: This must have been in 2014, when the then Commission President, Jean-Claude Juncker, explained how he intended to mobilise more funds under the European Fund for Strategic Investments (EFSI). However, the idea that European policies should have added value already existed before then. This could also be traced to some of our ECA reports, which showed that, although certain infrastructure projects had been implemented in perfect compliance with all the rules, in the end there had to be serious doubts as to the point of the investments. For example, investments were made in the development of port facilities or airports, and in the end there was a lot of useless concrete lying around.

The fact that there has been a growing debate on the added value of European policies for some time now – does this also mean that people are questioning the value of the EU as a whole?

Klaus-Heiner Lehne: I believe that the fundamental value of the EU remains undisputed: securing peace, the economic benefits it brings us, the greater political weight that Europe has as a Union in the world. This is always about the regulatory role of the EU, which, in my view, is much more important

> *"...the regulatory role of the EU, which, in my view, is much more important than the around one per cent of EU Gross Natinonal Income which is spent directly on European policies.*

than the around one percent of EU Gross National Income which is spent directly on European policies. The question behind the added-value debate is rather whether the EU is using its funds and its regulatory power efficiently and effectively enough. The ultimate aim is to assess whether the original targets and objectives have actually been achieved.

But doesn't the concept contain an even greater challenge — that European action must always achieve better results than national policies alone would have been able to achieve?

Klaus-Heiner Lehne: Yes, exactly! In practice, however, this is often difficult to determine. It would require a direct comparison between a European measure and corresponding national projects in order to verify whether the EU provides measurable added value at this point. And it is extremely rare to be able to make such a direct comparison. That being so, there is a need for reliable criteria to make the added value measurable.

Key yardstick: outcomes and for whom

Nevertheless, in the political debate, there is often a pretence that European added value can be accurately predicted...

Klaus-Heiner Lehne: It is true that claims of European added value have become more and more a political argument. They are used to reinforce calls for certain projects, true to the motto: see how much European added value we can achieve by doing such and such! But we need to be cautious because, no matter how good the intentions may be, the results are not always that good. As a former MEP, I am only too well aware of this: After a lot of backwards and forwards, legislation is adopted, and you come home to your constituency and tell people, not without pride: Look at what we have achieved! But my experience shows that the reality is often quite different. There is a huge difference between, on the one hand, political decision-making and, on the other, its administrative implementation. There are bad laws and bad programmes which, if implemented very well, still produce successes. And, conversely, there are very good laws and programmes which are then implemented so poorly that they fall far short of their goals .

> *"no matter how good the intentions may be, the results are not always that good.*

So we should focus our attention above all on actual outcomes?

Klaus-Heiner Lehne: Exactly, and this is precisely what we do at the European Court of Auditors. Of course, we look at whether everything has been done correctly along the way, but in the end what we really want to see is whether targets have been achieved. And if not, we want to know why not. In addition, a while back even the European Parliament started changing its views on this. After 2014 it was agreed that, instead of focusing on the constant creation of new laws, more energy would be invested in monitoring how they were actually put into practice. This is also very important, because it is the only way for Parliament to fulfil its role of effectively scrutinising the executive.

> *"in the end what we really want to see is whether targets have been achieved. And if not, we want to know why not.*

In your view, are there policy areas where European added value is so obvious that there is no longer any need to discuss it?

Klaus-Heiner Lehne: Certainly in the major areas of regulation. For example, everything relating to the functioning of the EU single market should of course be regulated at EU level. There is no need to dwell on the question of where the European added value is, or whether, for example, a Member State could regulate things better. It's a different matter when it comes to spending. Say, for example, they are investing in the construction of a new local road in my neighbourhood, there is no need for EU funding. However, if it's a matter of constructing a cross-border road, which is not necessarily a priority for national government because the project lies somewhere on the periphery, I believe that the EU must take it on.

But would this not mean that, in such cases, the EU will only act as a stopgap for projects that are not important enough for the Member States themselves?

Klaus-Heiner Lehne: No, at the same time there should obviously be projects with the potential to benefit all Europeans. So if, for example, EU money goes to modernise the port of Rotterdam and make it future-proof, this is not done to help the Netherlands alone, but because the port has enormous significance far beyond the Netherlands and is important for the whole of the EU.

> *"…[EU funded projects] should obviously be projects with the potential to benefit all Europeans.*

But, such subsidies are always sold as national successes. Do you think that citizens really understand that the EU is investing in the overarching interest of all Europeans?

Klaus-Heiner Lehne: Admittedly, that is not always made entirely clear. But just take climate action, where national borders really do not matter at all. For example, recently, right in front of my front door in Düsseldorf, they laid district heating pipes co-financed by the EU with the aim of reducing CO2 emissions. This is, of course, primarily an investment in local infrastructure, but at the same time it has more general significance. And that is precisely the way the EU should use its budget in my opinion. I should add that, beyond this, EFSI – the key part of the so-called Juncker Plan - and the programmes since inspired by it try to fill a gap, using the European Investment Bank's financial cloud to foster private investment where a commercial bank or other players might consider the project too risky. Although our audits have suggested improvements, the paradigm shift towards loans and guarantees is noticeable in EU funding since 2014.

> *"...the paradigm shift towards loans and guarantees is noticeable in EU funding since 2014.*

A role for public auditors… and others

So who is qualified to verify specifically whether or not there is European added value? Should that be one of the core tasks of the European Court of Auditors?

Klaus-Heiner Lehne: Yes, but I would like to clarify straight away that it is by no means the ECA's task to develop the criteria for this. On the contrary, the authority that distributes the money — the European Commission —, or indeed the political Institutions must first determine what those criteria could be. As the Court of Auditors, we can then review them, add to them if necessary and suggest improvements. But I must be able to expect the Commission, when it brings into play a concept such as European added value, not just to use it as a purely political slogan, but also to argue on the basis of concrete, verifiable criteria.

> *"...it is by no means the ECA's task to develop the criteria for this. On the contrary, the authority that distributes the money — the European Commission —, or indeed the political Institutions... must first determine what those criteria could be.*

Would it not then make sense to involve the national audit institutions in the audit of specific projects — as they may have a more nuanced view of things?

Klaus-Heiner Lehne: Yes, as well as making sense, that could even be necessary. Very few EU projects are financed 100% from the EU budget. In most cases, there is co-funding from the Member States, so it is only reasonable to cooperate with the audit institutions on the ground. The European Court of Auditors currently has the chair of the EU Contact Committee, the association of national audit institutions and the ECA at EU level. We have used this opportunity to put the subject of 'European added value' on the agenda, because it seems to me very important that we coordinate as closely as possible among us how we intend to deal with it in the future.

> *"…because it seems to me very important that we coordinate as closely as possible among [SAIs] how we intend to deal with [European added value] in the future.*

Aren't conflicts inevitable here? Take agricultural policy, for example, which still accounts for a large part of EU subsidies. This might go down well in EU Member States where agriculture plays a major role. But what added value is there for the others?

Klaus-Heiner Lehne: The sad truth is: in reality, even in countries that receive large agricultural subsidies the support does not always achieve its objectives. Unfortunately, subsidies are often paid to agricultural holdings that do not need them — and farms and villages are dying nevertheless. It is clear that this policy is not sufficiently targeted to maintain rural structures. We are now promoting an agro-industry that damages the environment – and then we devise environmental programmes to somehow repair that damage. It is obvious that this cannot work.

> *"We are now promoting an agro-industry that damages the environment – and then we devise environmental programmes to somehow repair that damage. It is obvious that this cannot work.*

But is it not the case that, from a national perspective, there is still a liking for measuring European added value by how much a country pays into the EU budget and how much it gets out?

Klaus-Heiner Lehne: That calculation is incorrect, largely because it considers only a very small part of the give and take and financial flows in the internal market. Germany has long been a net contributor to the EU, but at the same time we Germans have benefited by far the most. Just look at our trade balance and balance of payments!

Now the British have decided to leave the EU, not just for financial reasons. Will this help us to compare better in future what added value the EU has — or does not have — for us?

Klaus-Heiner Lehne: I believe that comparison has been ongoing for a long time. And I also think the great unity shown by the remaining 27 EU countries in the Brexit negotiations can be explained by the fact that it is now much clearer what the EU means. It isn't just about money, but above all about the single market as a crucial basis for our prosperity. And it's also about European solidarity, which is now making a big difference in the Covid-19 crisis. I am convinced that even those governments that sometimes tend to make eurosceptic remarks would not dream of leaving the EU .

> *"...it is now [after Brexit] much clearer what the EU means…. I am convinced that even those governments that sometimes tend to make eurosceptic remarks would not dream of leaving the EU.*

EU added value in an audit context

By Wilfred Aquilina, Directorate for Audit Quality Control



Source: BrunoRosa/shutterstock

EU added value (EAV) is a multifaceted term and is used for many purposes and in different contexts. Reaching agreement on how to define EAV and its use is one thing, applying the concept in day-to-day auditing practice is another matter. What does EAV mean for public auditors at the ECA? And how should they apply it to their audits? Wilfred Aquilina from the Directorate for Audit Quality Control (DQC) is one of the authors of the methodological guidance on EAV that DQC developed two years ago. Below he explains what the concept means to ECA auditors and highlights some of the issues public auditors have to deal with when auditing EAV.

Defining the concept

The concept of EU added value (EAV) is an elusive one – a multifaceted term with different meanings to various stakeholders. The flexibility and fluidity surrounding the interpretation and application of the concept obviously make the results of EAV difficult and challenging for EU stakeholders to identify and isolate, and ultimately for us to audit.

Underpinning the concept of EAV are the EU principles of subsidiarity, proportionality, additionality and complementarity. The EU should not take action (except in the areas that fall within its exclusive competence), unless it is more effective than action taken at national, regional or local level. The content and form of EU action should also not go beyond what is necessary to achieve the objectives of the Treaties, and the policy approach and its intensity must match the objective being pursued and the problems being addressed.

Achieving clear additional benefits from a collective EU-wide effort, compared with action in an individual or a smaller group of Member States, is essential for the materialisation of meaningful EAV. Therefore, EU spending should avoid 'crowding-out' other public or private funding. Moreover, EU actions should be applied consistently and complement those actions supported in other EU and national programmes. This is necessary in order to maximise synergies and avoid duplication.

In 2018, the ECA established the following working definition of EAV: 'EU added value (EAV) is the value that an EU action adds through EU policy, regulation, legal instruments and spending, over and above that created by Member States acting alone.'

Analysing the underlying motives and requirements

As auditors, we seek to gain a clear understanding of the requirements and the underlying motives and dynamics driving EU policy action and performance. Most of the EU-level actions tend to result from compromise between several rationales and interests, a political process which can also evolve over time from the rationale which originally justified the intervention. The motives can be of a legal nature, such as the consequence of the Treaty objectives and obligations, which lay down the competences and obligations of EU institutions. They can be driven by values and principles shared by Member States, or common objectives that Member States would like to see being effectively pursued and addressed. Economic, environmental and social pressures can also necessitate the need to develop EU-wide mechanisms. In addition, there are Member State interests on specific issues that one or more Member States may push to have addressed at EU level.

The concept of EAV has featured widely in many political debates. It is used to highlight the benefits and achievements of EU-wide intervention and cooperation. It serves as a guiding principle during the negotiations on the EU's multiannual financial framework. It is also an integral part of the European Commission's 'Better Regulation' framework, and an underlying requirement for the Commission's proposals for new or renewed actions or interventions.

There is also a focus on results and EAV in the Financial Regulation applicable to the general budget of the EU adopted in July 2018. Evidence and assessment of the 'added value of Union involvement' is a requirement for all *ex ante* and retrospective evaluations supporting the preparation of programmes and activities (Article 34(3)). The Commission's working documents presented together with the annual proposal for the draft EU budget should have information on the 'added value of the Union contribution' for specific EU actions (Article 41). The annual activity reports of EU institutions should include an overall assessment of how EAV was generated in the preceding year through the institutions' activities and spending (Article 74(9)).

Applying the concept to performance audit

One of the main challenges that we face is how to apply the concept of EAV in an audit context, including the ways of how to assess the conditions that contribute to 'EU added value' and not simply 'added value'. Moreover, what conclusions and meaningful recommendations can we take from such analysis as part of an audit?

There is potentially more than one role that the ECA can play in the assessment and audit of EAV. It can range from choosing to audit directly the achievement of EAV for a specific EU action, to focusing on the robustness of the auditee's performance management system for measuring, assessing and reporting on EAV.

Choosing to directly audit the achievement of EU added value

Auditors planning to assess whether EAV has been achieved for a specific EU action can consider asking the following three key questions as presented in **Table 1**.

Table 1 – Key audit questions concerning EAV

Questions	Audit considerations
Is the overall action taken at EU level necessary and relevant for addressing a specific EU policy objective or obligations?	The greater the EU relevance, the more likely Member State intervention alone is or was insufficient. Auditors, therefore, can consider asking how a problem has varied across national, regional and local levels; the extent to which the problem has been widespread across the EU or limited to a few Member States; and whether the underlying causes have been the same across the EU.
Is the EU action targeting, in the most appropriate form, areas that can provide the highest net benefit at EU-level, whether economic, social and/or environmental?	This can be linked to resource allocation, complementarity with other EU and national programmes, and opportunity cost.
Is the EU-level action being delivered more economically, efficiently or effectively than Member States acting alone?	This links to the application of the three principles of economy, efficiency and effectiveness.

The difficulties of coming to a definitive and robust conclusion on EAV should not be underestimated. Auditors attempting to assess whether the net increase in benefits for citizens, as a result of an EU action, was larger than a comparable national, regional or local intervention, will likely face a number of constraints.

Sufficient and clear information and insights needed to assess the inputs, efficiency, outputs, outcomes and impacts of the measures at EU and national levels may not always be available or are incomplete. The application of counterfactuals is also difficult and there is no uniform prescription on their use. Moreover, measuring the full financing costs, as well as the benefits (particularly the indirect ones), is likely to be tricky, and ultimately not feasible, or inconclusive. The absence of a consistent analytical base and meaningful quantifications and national comparators are key stumbling blocks to be aware of. Evaluating outcome may also be difficult, as this requires judgement on whether the results of an intervention were desirable. This, however, does not mean that it should not be considered, if the audit approach is assessed to be realistic and obtaining the evidence is feasible.

Auditing the auditee's assessment and measurement of EAV

Besides examining EAV directly, performance auditors can also play a valuable role by examining the performance management system used by auditees for measuring and assessing EAV. For example, auditors could look at the design of the performance management systems used to assess EAV. Auditors can also examine the quality of the indicators and measures developed by auditees to measure and report on the added value of EU intervention. This would apply in particular in those cases when there is a strong performance management system at EU level and in Member States. In parallel, auditors can assess whether there are appropriate controls for collecting, validating, analysing and reporting on the achievement of EAV.

There are various benefits of such a focus, including using the audit results to:

- promote and contribute to accountability and transparency;
- improve policies and policy-making;
- help decision-makers take informed decisions on resource allocation;
- provide insights for the (re)design and implementation of appropriate systems, programmes and instruments; and
- serve as a basis for subsequent follow-up or related audits.

Auditors could also conduct deeper evaluations of the relevance or reliability (or both) of specific performance data used for assessing EAV (or their limitations) in *ex ante* and retrospective evaluations of EU actions, or how these are used by the auditee (for example, as a management tool or for communicating and reporting to stakeholders). The deeper or more targeted the audit work is, the more valuable the analysis and audit conclusions can be.

The need to intensify dialogue on the measurement and assessment of EAV

The concept of EAV has been a dominant theme for many years, featuring frequently and prominently in several political debates and discussions on EU interventions and budget allocation. It is a concept that needs to be better defined and understood.

The assessment of EAV is central to the design of any EU policy or intervention. It is mandatory in the Commission's 'Better Regulation' framework for any proposals presented by the Commission to revise or launch EU action. The legislator also puts considerable emphasis on the significance of EAV in the review of EU policy objectives, interventions and spending. The EU's Financial Regulation requires that information on EAV is included in the Commission's annual proposal for the EU's budget, in all *ex ante* and retrospective evaluations, and in the general assessment prepared annually by EU institutions on the preceding year.

The obligation of auditees to systematically evaluate and report on the benefits of EAV should make our audit work easier and an assessment of performance against EAV objectives and criteria easier to carry out. However, sufficient information and analysis, at different levels, on the impact of EU regulations or programmes, even without considering the particular effects of EU interventions, is often not readily available, neither directly or through the auditee's assessment of EAV in its performance measurement system. It is therefore all the more necessary for EU policymakers, the executive, auditors and other stakeholders to intensify their dialogue on how EU programmes and regulations should be designed to truly enable EAV to be defined, measured, assessed, and concluded upon.

European added value – a focal point of the ECA's work for many years

By James McQuade, Financing and Administrating the Union Directorate



Source: by-studio-shutterstock

European Added Value (EAV) has been a theme running through the ECA's outputs for many years. For over a decade, it has figured prominently in a range of ECA outputs and successive ECA strategies. For good reason: the concept of EAV is an attempt to distil the essence of the European Union, namely as a means to achieve what cannot be achieved by Member States acting alone. James McQuade, Senior Administrator in the Financing and Administrating the Union Directorate, worked on the first ECA publications on EAV in 2008 and observes that during the last decade the European Commission has drawn heavily on the concept of EVA to develop and justify its spending proposals over successive multiannual financial frameworks.

Early ECA engagement regarding European added value

The ECA's engagement with the Commission regarding EAV began in 2008, when the Commission carried out a public consultation based on a communication entitled *Reforming the EU Budget, Changing Europe*. We chose to reply to a number of the questions posed in the Commission's consultation paper that it considered were of particular relevance to the legality, regularity, effectiveness, efficiency and economy of spending. Among them was 'What criteria should be used to ensure that the principle of European added value is applied effectively?'

In our response, we welcomed the Commission's recognition that EU spending must be based on an assessment of the added value of EU spending on the grounds that 'expenditure programmes which do not add European value are by definition unlikely to be an effective and efficient use of the EU taxpayer's money". We suggested defining and articulating the concept with respect to EU expenditure around a number of principles that might be embodied in a suitable political declaration or in EU legislation to provide guidance to the Union's political decision-making authorities. We suggested those principles should include expenditure with 'clear and visible benefits for the EU and for its citizens, which could not be achieved by spending only at national, regional or local level, but could rather, by reason of the scale or effects of the proposed action, be better achieved at Union level.'

The ECA followed up this contribution by publishing in 2010 its opinion 1/2010 in response to a request from the European Parliament's budgetary control committee to prepare a paper on 'high risk areas' of EU expenditure. In the opinion, we brought together the main messages from annual and special reports to identify the main risks and challenges to reducing further the level of irregularity as well as improving the quality of EU spending. In this context, we highlighted expenditure programmes not delivering genuine EAV as a general problem and repeated our recommendation that the concept of EAV should be articulated in a suitable political declaration or in EU legislation 'to provide guidance to the EU's political authorities to be used when choosing expenditure priorities.' We also recommended that the Commission strengthen its ex-ante evaluation and impact assessment policies to ensure due consideration be given to whether and how an expenditure programme delivers EAV. The Commission included the concept of EAV in the Financial Regulation and the Better Regulation guidelines its services used when designing new programmes and schemes prior to the adoption of the 2014-2020 Multiannual Financial Framework (MFF).



ECA opinion 1/2010 highlighting the importance of EAV as policy selection criteria

In 2012, we emphasised the importance attached to EAV as a guiding principle for EU expenditure in the ECA Strategy 2013-2017. In particular, we framed our strategy in terms of how the ECA itself 'adds value by publishing reports and opinions, based on independent audit and review procedures, which contribute to public oversight of the implementation of the EU budget and to informed decision-making on governance arrangements, policy and programme design, and the allocation of the EU budget.' Our objective for the period 2013 to 2017 was 'to maximise the value of the ECA's contribution to EU public accountability.' As regards our performance audit work, the ECA strategy 2013-2017 explicitly prioritised giving sufficient coverage to topics that related 'to the overall EU objectives of achieving added value and growth.'

Highlighting risks to EAV

A key action under the ECA strategy 2013-2017 was to produce a *landscape review* on the risks and challenges to the EU budget for the new Commission appointed at the start of the MFF 2014-2020. In that 2014 landscape review (Review 2/2014), we opined that 'for too long the emphasis has largely been on spending the EU budget according to the rules established for its use, without paying sufficient attention to whether it provides value for money and results in EU added value.' The landscape review specifically highlighted the risks to EAV of EU programmes replacing national expenditure, not providing sustainable benefits, and supporting action that would have taken place anyway (deadweight) or actions that are more costly than strictly necessary (gold-plating). The review recommended that the Commission, with the support of the European Parliament and the Council, 'should prioritise spending on activities where there is European added value, such as areas where the Commission has sole competence, cross border actions, projects promoting a common interest and European networks.'

The concept of EAV then figured prominently in the ECA's response to the Commission's 2016 mid-term review of the 2014-2020 MFF. In our briefing paper we stressed that the mid-term review/revision of MFF 2014-2020 was an opportunity to consider how to improve financial management and accountability and move towards an EU budgetary system fit for regaining the trust of citizens. We highlighted the need to direct EU funds quickly and flexibly to where they can add most value for the EU and its citizens.

The briefing paper highlighted examples of poor EAV, referred to in annual and special reports, such as some EU rural infrastructure investments replacing rather than adding to national and regional funding, EU spending on new maritime facilities duplicating existing facilities nearby, EU funding for rail projects failing to shift freight from road to rail. Our briefing paper also called for 'a comprehensive EU spending review' before a new long-term budget was set, stressing that it was 'essential that all major spending programmes and schemes are not only periodically monitored and evaluated, as is required, but also that the performance and added value of the various programmes and schemes are compared.'

The ECA strategy 2018-2020, published in 2017, then cemented the centrality of EAV to the ECA's work in declaring that 'trust in the EU diminishes if added value is not demonstrated.' In the strategy, we warned that 'failure to demonstrate that positive results are achieved with EU money and EU action' might add to 'the perceived distance between EU citizens and institutions', which we considered to be 'an existential threat to the EU'. This strategy provided impetus to the ECA's extensive contributions to the EU process for developing the proposals for the 2021-2028 MFF.

In early 2018, the ECA responded to a new consultation on the future of the EU budget based on the Commission's *Reflection paper on the Future of EU finances*, which the Commission published to gain feedback from stakeholders and citizens for the development of its proposals for the 2021-2028 MFF. Guided by its strategy, we produced a briefing paper (Review 1/2018), in which we underlined the importance for citizens' trust of demonstrating EU added value. Again, we cited a number of reports to show that there was still considerable scope to improve the focus on EU added value at each point in the budgetary cycle, from aligning spending priorities with EU strategic priorities and allocating resources in the MFF through to implementing programmes and demonstrating their results.

This paper emphasised the importance of using the EAV concept to moving the debate on EU finances from its traditional focus on Member States' net balances towards one informed by a fuller assessment of the overall costs and benefits of EU membership. We also reiterated our proposal about developing the EAV concept so it could be used to identify spending opportunities at EU level, assess individual spending proposals, develop performance frameworks, and compare programmes' EAV as part of a comprehensive public spending review.

After the Commission published the communication and legislative package of proposals related to the 2021-2028 MFF, we presented a second briefing paper. In that paper (Review 6/2018), we noted that the MFF package, which included the results of the Commission's Spending Review, did not offer a new definition of EU added value, but simply referred to the set of criteria presented in the Reflection Paper. We also observed that, although the Commission identified the concept of EAV as a guiding principle of the spending review exercise, the published results did not include an assessment of the relative EAV of programmes. In parallel, the ECA published a series of briefing papers and opinions on spending areas and programmes. These also highlighted programme-specific risks to EAV. In bringing together all these contributions in *ECA remarks in brief on the Commission's legislative proposals for the next multiannual financial framework*, we said that 'the Commission has yet to propose a robust concept of EU value added, which could then form the basis for a comprehensive assessment of the costs and benefits of EU membership.'



Cover of the 2019 ECA publication featuring a call for a robust concept on EAV

EAV rooted in EU processes but more consensus necessary

After engaging with the Commission for over a decade, it is clear that the focus the ECA has given to achieving EAV in its strategies and outputs has had an impact. The concept has taken firm root in the Commission's budgetary and legislative processes.

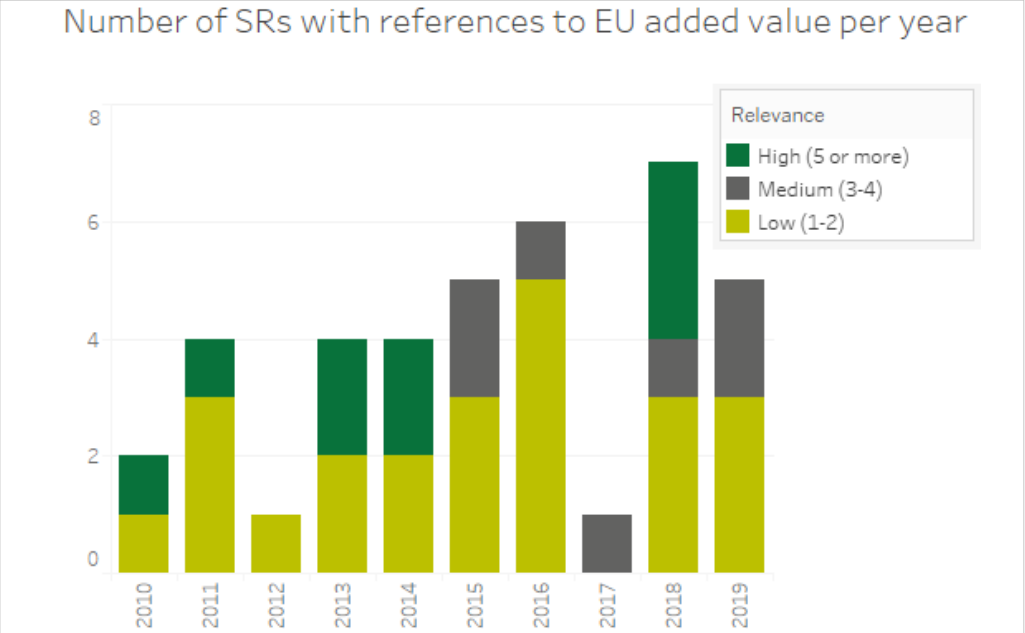
At the same time, the lack of an inter-institutionally agreed understanding of EAV continues to limit the EU's ability to demonstrate the full costs and benefits it brings. Against the backdrop of an increasingly integrated European Union, reaching such a consensus will however become even more important to improve the accountability, transparency and management of EU regulatory action and finances in the years to come.

Box 1 – European added value in ECA special reports – a text mining exercise

Our special reports present the results of selected – mostly performance and, to a lesser extent, compliance - audits of specific spending or policy areas, or budgetary or management issues. To complement the article – which focuses on our reviews and strategy documents – we (with my colleague Zsolt Varga of the ECA's *ECALab*) carried out a small-scale text mining exercise in special reports from 2010 and 2019 to count references to 'EU added value' and variants.

The number of references varied considerably between reports: the two reports with the highest number of references to EAV were SR 7/2013 on the EU added value of the European Globalisation Adjustment Fund with 19 references, and SR 15/2014 on the External Borders Fund with 28 references. Both reports have a very strong focus on the effects of EU action in the Member States covered. If we look at the number of reports referring to EAV each year over the period (see **Figure** below), we can see a rising trend overall with a peak in 2018. In 2018, the ECA published three reports which were highly relevant for EAV: 17/2018 on Absorption, 19/2018 on High Speed Rail, and 22/2018 on Erasmus+. Special reports may make observations on key risks related to EAV, such as 'deadweight' and 'lack of cross-border effects,' without referring specifically to EAV, for example, the special reports on the underuse of EU-funded airports and ports and on the underperformance of the EU Marco Polo programme. The text mining exercise shows that increasing emphasis the ECA has placed on EAV since 2010 in its contributions on EU budget reform and strategies has also been reflected in the focus and contents of our special reports.

Figure – References to EU added value



Getting a piece of the EU cake – not only from the expenditure side

By Lars Michael Luplow, Directorate of the Presidency



Source: IQoncept/shutterstock

When talking about European added value, some people think mainly of net balances and adding and subtracting budgetary flows. While there are several arguments for looking at European added value from a wider perspective, there is also some merit in looking closer at the premises and logic underlying these net balance figures, which serve as important ingredients in a 'zero-sum game' approach. Lars Michael Luplow, Assistant to the Director in the Directorate of the Presidency, does that for the revenue part of the EU budget calculations, a side often considered as set in stone and rather technical when assessing the EU's income side. A revealing exercise…

MFF negotiations triggering wider and narrow EAV discussions

There is a budgetary cycle in the European Union, related to the Multiannual Financial Framework (MFF). During the negotiations for any new MFF – which normally already start years before it is adopted, inevitably the question of European added value (EAV) is brought up and quite often EAV is assessed in terms of the net balance and whether a Member State is a net payer or net receiver (see also page 157).

Such a 'zero-sum game' approach, which considers only the direct flows of contributions to and receipts from the EU budget without taking into account other benefits or costs, if only of limited value. But even looking at the net balances is more complicated than it may seem at first sight. When assessing these balances most attention and discussion normally goes to the expenditure side. Instead, my focus is more on the EU's revenue side – also known as the EU's *own resources* system. I will not touch on the July 2020 Special European Council conclusions on the new MFF and the NextGenerationEU (NG EU), mainly because the budget authority has not adopted those yet, and the proposal would not change drastically the principles of the EU's current revenue system (that is with leaving out the NG EU and its financing), which remains my primary topic in this article.

I want my money back! – From Brexit to the frugal four

The notion of an excessive budgetary imbalance was raised as early as in the mid-seventies by the UK government. Its prime minister had put it in simple words, *I want my money back, and I want it now*! As from 1985 the UK obtained a correction mechanism (the 'UK rebate') that reduced its contributions to the EC/EU budget substantially.

In 2016, a majority of British voters decided in a referendum to leave the EU. Subsequently, the UK left the EU at the beginning of 2020. Until now, the UK has been a substantial net contributor to the EU budget[1]. With the UK leaving the EU, the topic of fair burden sharing remains a political concern in Member States that are net contributors:

We have been dubbed the 'frugal four' and I and my fellow leaders want to set the record straight. Being 'frugal' does not mean that we are any less committed to the EU than those member states who are arguing for an expanded budget. (…) Now that we have a smaller union of 27 member states, we simply have to cut our coat according to our cloth. The responsible approach in this situation is to prioritise in the interest of our taxpayers.(…) Currently, more than two-thirds of the budget is redistributed. That means the financial burden of the union is increasingly being put on the shoulders of a small number of member states, including ours. (...) We benefit greatly from being a member of the EU and the single market. However, there are limits. We insist on permanent net corrections to prevent excessive budgetary imbalances and achieve a fair, sustainable outcome.[2]

European officials avoid plain language and love abbreviations. When addressing the fact that some Member States pay more than they receive from the EU budget, we refer to 'OBBs', the operating budgetary balances .

OBBs - a more dispassionate concept

The European Commission has been calculating the OBBs since 2000, following the 1999 Berlin European Council summit. The OBBs are publically accessible and the methodology is explained . The OBBs are the difference between the operating expenditure (excluding administration) allocated to each Member State and the adjusted national contributions of each Member State to the Union's budget. Data for 2018 indicates that the five biggest net contributors (by decreasing importance) were Germany, the UK, France, Italy and the Netherlands.

OBBs are quantifiable – the benefit of being part of the Union is not

The concept of negative OBBs entails significant limitations, as it is primarily a cash-oriented approach. The European Parliament's services have recently produced several attention-grabbing papers on that topic (see also page 134)[3]. I am unable to attain the level of knowledge in those contributions, and therefore will not even try. Basically, the OBB is not the sole indicator for the cost-effectiveness of EU membership, and inappropriate for assessing the wider benefit of being part of the Union.

That said, we have to recognise an important limitation: one cannot monetise that benefit, contrary to the OBB. So another concept is used to justify negative OBBs: 'European added value.' The notion goes back to the 1980s, with the 1988 Cecchini Report identifying the advantages of the 1992 Single Market. More recent works are the European Parliament Research Service (EPRS) 2019 study '*Europe's two trillion dividend - Mapping the Cost of Non-Europe 2019-2024*'. For the purpose of this article, I will stay within the narrower OBB discourse.

The EU's own resources system - is the 'taxation' for being in the EU fair?

The OBBs are the result of both the EU budget's expenditure and revenue sides. The expenditure depends on the EU's political priorities and the allocation methods and eligibility criteria agreed between all Member States when negotiating the MFF in seemingly endless negotiations and nightly last-minute compromises. I remain

1 See House of Commons, *The UK's contribution to the EU budget,* Research Briefing number CBP 7886, August 2020

2 Sebastian Kurz, Chancellor of Austria, and Mark Rutte, Prime Minister of the Netherlands, Mette Frederiksen, Prime Minister of Denmark, and Stefan Lofven, Prime Minister of Sweden; *The 'frugal four' advocate a responsible EU budget* in the Financial Times; 16 February 2020; see: https://www.ft.com/content/7faae690-4e65-11ea-95a0-43d18ec715f5

3 European Parliament ; IPOL - Policy Department for Budgetary Affairs; Briefings; February 2020:
The benefits of EU membership are not measured by net operating balances; PE 648.145;
Why net operating balances are a distorted indicator of a Member State's benefit from the EU budget; PE 648.148;
The net operating balances: Variants, emerging numbers and history; PE 648.183;
Strategies to overcome the 'juste retour' perspective on the EU budget; PE 648.186

somewhat doubtful about the rationality such compromises can attain. Therefore, I propose to look at the revenue side of the budget.

The EU's budget is financed by what are known as traditional own resources (TOR) - EU uniform customs duties on imports from outside the EU, earmarked from 1971 onwards exclusively for the EU budget; and contributions based on statistical aggregates relating to Value Added Tax (VAT) and Gross National Income (GNI). Member States currently retain 20% (soon 25%) of the duties for the work of collecting TOR. That mainly concerns the Netherlands and Belgium with their large ports where imports enter the EU. Remarkably, Member States collecting TOR tend to count them in their national contributions to the EU budget, though they are excluded from the OBB calculations.

With TOR reflecting custom duties, can we consider the VAT- and GNI-based national contributions as a sort of tax? Both represent statistical aggregates on which a 'call rate' (a levy) is applied. Applying a levy on an economic flow (such as consumption or income) is what modern taxation is about, so that may well work. I will take a further shortcut and disregard the VAT own resource, chiefly because its significance has been constantly diminishing in favour of GNI that was initially only a supplementary resource; but nowadays represents the largest source of revenue for the EU Budget accounting, for around 70% of total financing. So let us stay with the concept of the GNI own resource as an 'income tax' Member States have to pay.

In national tax schemes, income taxes are commonly progressive taxes: the more you earn the more tax you will pay on your income, in absolute terms and in relative terms. Income taxation systems operate generally with a zero percentage taxation for the lowest income categories, an increasing marginal taxation and capping at a higher value of income. Such income taxation entails in itself a redistribution factor, as the lowest incomes are not taxed and higher incomes are taxed with a greater average percentage than each inferior income. Admittedly, applying such taxation to Member States could only be done on a per capita basis: the Member States with a higher per capita GNI would be taxed more than those with a lower per capita GNI.

None of this applies though to the GNI own resource: all Member States are taxed with the same levy on their GNI; none is exempted from the payment. The EU income tax has no redistributive function and, applied to a national framework, it would be a simple flat-rate tax. But it gets even worse when we consider the corrections.

Under the current MFF, we have the UK rebate (a correction method), gross reductions for the Netherlands, Sweden and Denmark (you might remember them, the self-declared frugal ones), and a reduced contribution by Germany, the Netherlands and Sweden to the UK rebate (a reduction on a correction, if you still follow)[4]. All that leads to a 'tax system' where the UK, the Netherlands, Sweden and Germany pay – relative to their GNI – less than other Member States, less than Bulgaria for instance[5].

The self-declared frugal ones are not so penny-wise when it comes to paying the bill

Compared to ideal income taxation, the EU's revenue system is far from being fair: the current own resources system not only misses the redistribution factor, but the capping has been perverted into a tax discount for richer Member States, leading to a system which is regressive overall. To put it mildly: there is a lot of tax optimisation on the revenue side. So penny foolish and pound wise?

When we discuss the OBBs, the undeniable distributive effects on the expenditure side have to be offset against the regressive effect on the revenue side. Such an approach would only be fair if taken into account in the overall discussions on European added value.

4 Under the current MFF, Germany, the Netherlands and Sweden also profit from a reduced call rate on their VAT-based contributions.

5 Deutsche Bundesbank, *The EU budget and its financing: looking back and ahead,* Monthly Report April 2020, pages 45 ff.

‘Adding value’, the *raison d’être* of the European Union

By Gabriele Cipriani, retired former director at the ECA



Example of an ECA press release on one of its opinions (Opinion 6/2020 published in September 2020), referring to the added value of an EU programme recently set up

Adding value and performance are concepts that regularly intertwine in budget discussions and represent a key reason why public audit institutions come into play. Gabriele Cipriani worked for over 40 years at the ECA, including many years as an audit director. He has also written several publications on the EU budget. In his contribution he analyses why achieving European added value is a condition sine qua non for the Union as a whole. But how does this concept relate to the audits carried out by the ECA? For the ECA’s Statement of Assurance audit work, he advocates the need to assess legality/regularity and performance aspects together, as the two are inseparable sides of the European added value coin.

‘Adding value’

In his address to the inaugural session of the High Authority of the Coal and Steel Community – which took place on 10 August 1952 – Jean Monnet defined the founding principle of the European project as the subordination of a portion of national sovereignty to the common interest. This *do ut des* rationale reflects the idea that in certain areas action at EU level would make Europe stronger by achieving more than the Member States could do acting in isolation. This is subject to a clear assessment of ‘the existence, scale and consequences of a problem and the question whether or not Union action is needed’[1].

1 Interinstitutional Agreement between the European Parliament, the Council of the European Union and the European Commission on Better Law-Making, 13 April 2016, paras 12-13. *Ex-ante* impact assessments are required for Commission legislative or non-legislative initiatives, delegated acts and implementing measures expected to have significant economic, environmental or social impacts. They should provide to the EU legislative authorities, on a comparative basis, a range of feasible policy options addressing the problem, in particular whether there is a need for spending at EU level and/or non-budgetary measures (such as legislative, regulatory and coordination actions). The efficient allocation of resources at EU and national level, so to deliver to best effect, might suggest ultimately to take no action at EU level.



Source : Gabriele and Francesco Cipriani

Europe can weigh more than the sum of its 27 Member States

This rationale is regularly referred to in the framework of the EU budget under the concept of 'European added value' (EAV). In this case, Member States transfer a portion of national revenue to the EU, the aim being to 'attain its objectives and carry through its policies'[2] through a common legal framework. The legitimacy of such revenue depends on securing 'a better deal for citizens than spending at national level'[3]. This expectation calls for 'clear and visible benefits for the EU and for its citizens'[4], a goal reflected in the European Commission's duty to provide an evaluation report 'based on the results achieved'[5]. Fulfilling such expectation is of the utmost importance. As observed by the ECA, 'trust in the EU diminishes if added value is not demonstrated'[6].

For a long time the ECA has advocated the need to embody the EAV concept in a suitable political declaration or in EU legislation, with a view to providing criteria for the guidance of the Union's political authorities[7]. As it argued, this is necessary not only to allocate resources but also to design and evaluate spending programmes, to be based also on a comparison of their performance[8].

Yet, EAV is admittedly a multi-faceted concept. The political reality has made of EU spending a compromise between different rationales and national stances. The Commission's intention to provide, in preparation of the 2021-2027 Multiannual Financial Framework, an EAV assessment of each spending programme fell short of its ambitions[9]. Furthermore, for a number of initiatives no impact assessment has been made[10].

EAV and the ECA

The overall EU aim of providing the best performance in the common interest is a matter *in primis* for EU institutions. Their relevance depends on ensuring the 'consistency, effectiveness and continuity' of EU policies and actions[11] within the tasks entrusted to them. This is vital since 'the loss of trust of citizens in EU policies and institutions' represents a key future challenge for the EU[12].

2 Art. 311(1) of the Treaty on the Functioning of the EU.
3 European Commission. *The EU Budget Review*. COM (2010) 700 final, 19 October 2010, p. 5.
4 ECA, *Response to the Commission's paper 'Reforming the budget, changing Europe'*, April 2008, para 8.
5 Art. 318 (2) TFEU.
6 ECA, *Audit Strategy 2018-2020*, p. 4. In this respect, when asked if they think that the EU budget provides good value for money, more than 40 % of EU citizens believe that this is not the case. Most importantly, more than a quarter of Europeans express no opinion on this subject (Standard Eurobarometer 83, *Europeans and the European Union budget*, May 2015, p. 7).
7 ECA, *Response to the Commission's paper 'Reforming the budget, changing Europe`*, op. cit., para 9.
8 ECA, *EU Budget: time to reform?*, November 2016, paras 17-18; ECA, *The Commission's proposal for the 2021-2027 Multiannual Financial Framework*, July 2018, para 26.
9 ECA, *The Commission's proposal for the 2021-2027 Multiannual Financial Framework*, op. cit, para. 24.
10 For example, the European Fund for Strategic Investments, the common provisions for seven EU funds under shared management, the Just Transition Fund and the European Fund for Sustainable Development.
11 Art. 13.1, Treaty on EU.
12 European Commission, *Draft general budget for 2020, section V, Court of Auditors,* COM (2019) 600, 5.7.2019, p. 3.

The ECA can contribute to winning back citizens' confidence through independent and cost-effective scrutiny, focusing on what matters most and creating incentives for the best use of taxpayers' money. Responding appropriately to expectations, emerging risks and changing environments requires selective choices in audit priorities and the allocation of resources. In this respect, the Treaties gave to the ECA a discretionary power, hence the right (and responsibility) to take the necessary decisions, in the light of the principle of *effet utile* that requires the most cost-effective interpretation of EU law[13].

Among its strategic priorities, the ECA has indicated its intention of enhancing the added value of its annual audit opinion (Statement of Assurance), currently its priority task, to which more than one third of its audit resources are allocated. Since its inception (financial year 1994), the methodology for producing its Statement of Assurance has been a divisive subject, both inside and outside the ECA. As recently observed by a peer review, there is a broad range of very divergent views on the Statement of Assurance's added value[14]. In particular, this concerns the exclusion of value for money from its audit scope and the 'error rate' driven approach, based furthermore on a one-size-fits-all materiality threshold across all policy areas, regardless of their risks and peculiarities.



Key image from the ECA's 2018 Annual Report (Audit in brief), showing the estimated levels of error for EU spending areas (2016-2018)

Enhancing the EAV of the ECA's Statement of Assurance

The opportunity for a rethinking of the Statement of Assurance methodology is provided by the fundamental change of the EU's financial management framework in the last thirty years. Largely inspired by the ECA itself[15], a framework of common standards has been put in place at the Commission and within hundreds of implementing bodies. This framework is founded on the Commission's supervision, which should ensure that Member State levels are operating effectively and as intended[16]. It 'should provide reasonable assurance on the legality and regularity of transactions, and compliance with the principles of economy, efficiency and effectiveness'[17].

13 European Court of Justice, Judgment of 14 October 1999, case C-223/98 - Adidas, para 24.

14 International Peer review assessing the implementation of the European Court of Auditors' Strategy for 2018-2020, March 2020, paras 7, 14-15. One may note that the SoA media coverage is significantly lower when compared to other ECA publications. The same is true concerning the degree of implementation of ECA recommendations (ECA, *Activity report for 2019*, pp. 49, 53).

15 ECA Opinion No. 2/2004 on the 'single audit' model.

16 ECA Opinion No. 2/2004, op. cit., para 39.

17 ECA Opinion No. 2/2004, op. cit., para 57. In particular, internal control systems should provide, at all levels of management, reasonable assurance concerning value for money of the operations; reliability of reporting; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks (Article 36 of Parliament/Council Regulation (EU, Euratom) No. 2018/1046).

The significant investment in resources and structures behind this framework could be the basis for a broader and more meaningful Statement of Assurance concept, putting an end to the unnatural separation between legality/regularity and value for money. In line with an 'attestation' approach, and subject to the necessary professional scepticism and professional judgement[18], the ECA could assess whether the management information presented by the Commission gives a 'true and fair view' of budgetary implementation, so as to underpin the confidence of intended users[19]. This would concern the management of the risks and estimates of error that the Commission establishes at two key stages in the budgetary implementation cycle (at payment and at closure)[20], as well as the reliability and relevance of the Commission's performance reporting[21].

The aim would be to provide a comprehensive assessment based not only on quantitative benchmarks (estimates of error) but also on qualitative elements of nature and context, such as the sensitive nature of certain transactions or programmes, the public interest, the need for effective legislative oversight and the type of irregularities[22]. Non-compliance with value for money requirements should warrant due consideration in the final ECA assessment[23]. Indeed, to what extent can expenditure be legal/regular if it does not meet 'value for money' requirements?

The approach sketched above will have three main consequences. By providing an assessment of the effectiveness of the internal control framework - currently outside the Statement of Assurance scope - it would foster responsibility and accountability on the part of the competent management authorities in a context of lack of ownership for EU budget implementation[24]. Secondly, the ECA could abstain from establishing its own error rate, which is not required by the Treaties or by professional audit standards[25]. Finally, as ECA work would require less direct transaction testing, the audit burden on implementing bodies and beneficiaries would be reduced.

The ECA's key stakeholders - such as the European Parliament, the Council and the Commission - would probably need time to familiarise themselves with such a new concept of the Statement of Assurance. In this process, the ECA needs to highlight the added value of such a change in the long run. Making the relevant management authorities more responsible for the outcome, including performance, of EU-funded measures will enhance the quality and output of these measures, leading to increased EU added value for citizens – the *raison d'être* for setting them up in the first place. This would be a win-win situation that would sit well with the ECA's current strategy: enhancing performance will increase added value, contributing to citizens' trust in the EU.

18 ISSAI No. 100, *Fundamental Principles of Public-sector Auditing*, paras 29-30, 37.

19 This refers in particular to the EU accounts, programme statements, director-general annual activity reports and the annual management and performance report. In line with its right to perform a continuous audit, with unrestricted access to any document or information it considers 'necessary to carry out its task' (Art. 287.3 (1)(2) TFEU), the ECA may have to examine the internal processes leading to such reporting, prior to statutory publication deadlines. One may note that in 2021 the ECA will assess the adequacy of the Commission's work and the reliability of its reporting on legality and regularity of Cohesion spending, as well as the closure of the ERDF/ESF 2007-2013 financial instruments.

20 This means that for the significant part of EU expenditure characterised by multi-stage payments spread over several accounting years, the ECA may have to perform direct testing procedures of final balances that are at much greater risk of error. The extent of ECA direct testing would depend on the assurance provided at regular intervals throughout the programme period, with a view to checking the adequacy of the procedures in place.

21 This would include evaluating the progress of the Commission's 'EU budget for results' initiative, whose aim is to put performance at the core of the EU budget and its implementation.

22 ISSAI No. 400, *Compliance Audit Principles,* para 47; ISSAI No. 4000, *Compliance Audit Standard*, paras 125-130.

23 This would avoid, as in the case of EU support for farmers' incomes (around €41 billion/year), such expenditure being considered free from material error (Statement of Assurance) and, at the same time, a scheme that is neither the most efficient way of ensuring a viable income nor appropriate for addressing many environmental and climate concerns (ECA performance reports).

24 This issue is dealt with in Cipriani, G. (2010). *The EU Budget: Responsibility without accountability?* Brussels: Center for European Public Studies and Cipriani G. (2017). *The EU Budget, the Accountability Gap and a Possible Way Forward*, in The New Politics of the European Union Budget, Becker, S., Bauer, M.W., and De Feo A. (Eds.), pp. 225-258. Baden-Baden: Nomos.

25 In fact, error estimates are a management responsibility with a view to applying financial corrections in which the ECA has no role, not least because its findings are not binding.

Loss of EU added value - the case of EU students studying at UK universities

By John Speed, retired former Director at the ECA



Source: alexxxis/Pixabay

Kings College, University of Cambridge, for many EU students for financial reasons not a level playing field anymore

Sometimes European added value may be difficult to quantify. But there are some issues where it can be done, particularly if the financial benefits of the past disappear. With Brexit being a fact and with the Withdrawal Agreement in mind, the counterfactual of EU added value is beginning to become apparent. For young Europeans who wish to study at UK universities this is already the case. John Speed worked for over 30 years at the ECA, including many years as director. An alumnus of the University of Cambridge. he analyses what Brexit means for study opportunities in the UK, touching on the multifaceted added value of access to higher education related to EU arrangements… and, as far as the UK is concerned, the loss of that access in the near future.

Erasmus: opening borders

The European Union has added significant value to the lives of its citizens, especially young people, in the field of higher education, through the single market and freedom of movement and its policies promoting cultural exchange, diversity and integration. Notably Erasmus and its successor Erasmus+ have enabled students across the EU to undertake short periods of study at a university or training in a company in another EU Member State, improving their language skills, developing their intercultural awareness and equipping them with valuable soft skills. This has not only improved their job prospects, but has also widened their horizons. Millions of young people have benefited from the programme since its inception in 1987.

EU students studying in UK universities

Students have also been able to apply for undergraduate and post-graduate courses at universities in other EU Member States on the same terms as home students. The UK is one of the most popular destinations to obtain higher education, second only to the United States. UK universities are among the best in the world, and consistently perform well in world rankings. They also have a reputation for world-class research. UK university degrees are recognised by employers and academics worldwide. Many students also want to study in the UK, as English has become the *lingua franca* in so many sectors.

It is not surprising, therefore, that a substantial number of EU students have over the years applied successfully to UK universities. In the academic year 2018-19, the last for which data are available, there were 143 030 EU students in UK higher education establishments, 6% of the total enrolment, of which 98 795 were undergraduates (8% of total undergraduates)[1]. The largest numbers of EU students come from Germany, France and Italy. Under the rules of the single market EU undergraduate students have been eligible for 'home' fee status and for student loans to cover the fees, i.e. the same conditions as UK students (see **Box 1**).

Box 1 - Current 'home' tuition fees for EU students in the UK, including courses starting in 2020-21

The 'home' tuition fees that a student faces is determined by a combination of his home region and where he/she studies. Students from England, Wales, Scotland, Northern Ireland and other EU countries pay up £9 250 p.a. if they study at an English university, and up to £9 000 p.a. at a Welsh University. Students from Scotland and from the other EU countries studying at a Scottish university pay in practice no tuition fees because the Scottish government pays a reduced rate of £1 820 p.a. on their behalf directly to the university. Students from England, Wales and Northern Ireland studying in Scotland pay up to £9 250 p.a. Students from Northern Ireland and from other EU countries studying at a Northern Ireland university pay £4 395 p.a. while students from England, Wales and Scotland studying in Northern Ireland pay up to £9 250 p.a.

These arrangements have generated considerable value-added, for students, UK universities, and for the wider economic and social fabric of the Union. Outstanding students from all types of schools in the EU have been able to study a wide range of courses at some of the world's best universities. They have developed knowledge, skills, critical thinking and connections which have enabled them to go on to further post-graduate education and distinguished careers in academia, commerce, industry and the public sector. In so doing they have been influential in maintaining and enhancing the UK's international reputation.

UK universities value greatly the contribution of their EU students. They enrich academic and cultural life in the university, enhance diversity, tolerance of others, and promote integration. Under the terms of the Withdrawal Agreement, EU students who start their courses in 2020-21during the transition period continue to benefit from home tuition fees and student loans. This will be for the duration of their course, normally three or four years. There has, however, already been a significant reduction - perhaps about 20% - in the number of EU students applying for courses starting in 2020-2021, probably explained by a combination of the Covid-19 pandemic and the initial impact of Brexit.

The situation post-Brexit

All of this, however, will change drastically at the end of the transition period on 31 December 2020. On 23 June 2020 England's Universities Minister announced that as from the 2021-22 academic year, EU students would have to pay international tuition fees, without any financial support from the UK government. The other devolved administrations in Scotland, Wales and Northern Ireland subsequently adopted essentially the same decisions for their higher education sectors.

Further, as the UK leaves the single market and ends freedom of movement, under new immigration rules EU students, after 30 June 2021, will have to obtain a student visa (currently £348) and pay an international healthcare surcharge (£470 per annum) in order to access the National Health Service.

There is, however, a temporary exception for the children of UK citizens living in the EU, who will continue to benefit from home fee status until 31 December 2027[2].

1 See Higher Education Statistics Agency, www.hesa.ac.uk In 2019 international students in the UK numbered over 485 000.

2 While the UK was a member of the EU, the children of UK citizens living outside the UK and the other EU countries faced international tuition fees. To qualify for home fee status many of them have undertaken secondary school studies in the UK, for example at boarding schools or staying with family members in the UK. Maintaining home fee status temporarily for the children of UK citizens in the EU after the UK has finally left the EU will introduce an element of discrimination vis-à-vis the children of UK citizens in other countries.

The international tuition fees, which vary by university and type of course, are between roughly two and seven times the level of home fees. **Box 2** presents a number of illustrative examples. Higher fees are generally charged for courses which involve laboratory work, and medicine, dentistry and veterinary sciences are the highest, especially where they include clinical placement.

Box 2 - Selected UK universities: annual international tuition fees 2021-22

University of Cambridge: (2021-22)
- Group 1 - Humanities (Languages, History, Economics, law, etc.) - £22 227
- Group 2 – Mathematics - £24 789
- Group 3 – Geography, Music, Architecture - £29 082
- Group 4 – Sciences and Engineering - £33 825
- Group 5 – Medicine and Vet Science - £58 038

N.B. In addition to tuition fees, students will have to pay College fees. These vary slightly from College to College, but are approximately £10 000 per year.

Imperial College, London (2020-2021)
Tuition fees are mainly set at four different levels: £30 000 for Mathematics, £31 750 for Chemical Engineering, Computing, Electrical and Electronic Engineering, etc., £33 000 for Biochemistry, Physics, etc., and £44 000 for Medicine.

London School of Economics (2020-21)
LSE offers courses in Economics and the Social Sciences, the international tuition fees are the same for all courses at £21 570.

University of Birmingham (2020-21)
- Band 1 (Languages, Humanities, Maths, etc.) - £18 120 - £18 780
- Band 2 (Economics, Accountancy, Music, etc.) - £19 320 - £21 180
- Band 3 (Lab-based science subjects, Engineering, Medicine) - £22 260 - £24 660
- Band 4 (Clinical Dentistry and Medicine) - £39 960

University of Kent (2020-21)
There are many different courses at the University of Kent, and three levels of international tuition fees - £16 800/£18 000/£20 500.

University of Warwick (2020-21)
- Band 1 (Humanities, and most social science courses) - £20 210
- Band 2 (Lab-based subjects, Economics, Theatre) - £25 770

University of Edinburgh (Scotland) (2020-21)
There are three levels of international fees: £20 950 for Humanities, Economics, Law, Languages etc.; £27 550 for Sciences, Engineering, Architecture etc.; £32 100 for medical sciences and pre-clinical medicine (Years 1-3). The fees for Clinical Medicine (Years 4-6) rise to £49 950.

University of Cardiff (Wales) (2020-21)
There are two main levels of fees, £18 450 for subjects like Accountancy, Economics and Finance, £21 950 for Architecture, Biochemistry, Financial Mathematics, etc., £34 450 for Medicine.

Queen's University, Belfast (Northern Ireland) (2020-21)
- FR1 classroom - £16 900
- FR2 Laboratory - £20 800
- FR3 pre-clinical/FR4 clinical (medicine) - £41 850*

*Plus, since 2019-20 onwards, £10 000 clinical placement level. For new students starting in 2020-21 this levy is paid entirely by the university for year 1, in year 2 the student will pay £5 000 and the university £5 000, in year 3 and onwards the student will pay the full £10 000. Decisions for students starting in 2021-22 have not yet been made.

N.B. Apart from the University of Cambridge, the fees for 2021-22 have not yet been fixed. The fees for 2020-21 are given as an illustration, it is likely that the actual fees for 2021-22 will be slightly higher to allow for inflation. This is the case for all the other examples given.

These levels of tuition fees transform the attractiveness for EU students of studying at UK universities. Just after the announcement of the new fees régime by England's Universities Minister, Study.eu, a study choice portal which provides information to students on universities and English-taught courses throughout Europe, surveyed 2 505 EU students who had plans to study in the UK about the impact on their plans of different increases in tuition fee levels. 84% of respondents said that a 100% increase in the tuition fees would mean that they would definitely not study in the UK, and a further 15% said that they would be "less likely" or "much less likely" to study in the UK. Only 1% said that it would not change their plans.

The survey also asked students about their alternatives. About half said that they would look for English-taught courses in the Netherlands, which has for many years been expanding its range of such courses, and just above a third would examine largely tuition-fee-free Germany. Ireland could also benefit from an increase in applications from students from other EU countries.



Source: kevinrice /Pixabay

Bridge of Sighs at Oxford University, for financial reasons for many EU students now a bridge too far

Another aspect often overlooked is the possible consequences of Brexit for British students who want to pursue undergraduate or graduate studies in one or more of the EU Member States. Besides Australia and the United States, many British students choose to start and complete their studies in one of the EU Member States. For example, a popular country is the Netherlands, where for 2018-2019 almost 86 000 international students (11.5% of the total) were enrolled, with 3400 of them from the UK. They were taking one of the 1700 courses offered in English for tuition fees - for EU citizens - of slightly over €2000 annually[3]. After Brexit, these tuition fees might rise tenfold, as many EU Member States consider applying fees applicable to students coming from outside the EU.

British students enrolled in UK universities will also be affected. According to this report (data for the academic year 2016-17) over 18 500 British undergraduate students, i.e. 7.8% of the total UK undergraduate population, study or work overseas for part of their degree. Almost 51% of these students undertook their overseas studies in EU Member States, the top three destinations being France (12.6%), Spain (11.8%) and the United States (11.5%).

Most of the British students studying in an EU Member State did so using the Erasmus programme, which provided funds of between €370 to €520 per month while they were studying abroad. Between 2014 and 2016 over 90 000 British students participated in the Erasmus programme, for which the ECA concluded in its 2018 report that it 'generates many forms of European added value - countries would not be able to achieve such effects acting alone.' In early 2020 the current British government refused to accept an amendment to the Withdrawal Agreement bill which would have committed the government to negotiating continued participation in Erasmus as part of the current negotiations. The government has said that it wants to maintain Erasmus-type schemes, but so far it has not formed part of the EU-UK negoatiations.

3 Following a significant increase in home tuition fees in 2010 in the UK, the number of UK students applying to Dutch universities, where fees were much lower, increased substantially.

A great deal is being lost

All the signs are that numbers of EU students applying to UK universities in 2021-22 and thereafter will drop drastically. The children of UK citizens living in the EU, who will still be eligible for home fees and student loans until 2027-28, will still apply, but apart from that the high level of international tuition fees will deter all but the children of the wealthiest EU parents. This will have a negative effect on social diversity. There are currently very few scholarships available for undergraduate courses at UK universities. There have been press reports of some universities considering offering discounts for EU students, but this is likely to fall foul of UK equalities and anti-discrimination legislation.

EU students will henceforth lose out on the opportunity to study in some of the world's best universities in the UK, and UK universities will lose a significant section of its diverse, international student pool. Also UK students keen to study abroad will lose out with less choice for exchange programmes and higher fees to pay when entering EU universities. What has been one of the areas of real EU added value which has directly impacted on students, both from the EU and the UK, will be lost. UK universities consider that they 'have a vital role to play in creating a successful, dynamic and internationally competitive post-exit UK.' Losing their students from the EU will, sadly, act directly against that.

The future of next generations will benefit from the EU

Interview with Pierre Moscovici, First President of the French Cour des comptes

By Derek Meijers and Gaston Moonen



Source: French Cour des comptes

Pierre Moscovici, First President of the French Cour des comptes, during a press conference.

In June 2020 President Emmanuel Macron appointed Pierre Moscovici as First President of the French Cour des comptes. With this appointment, an insider from the executive branch of EU and national politics became an external auditor, as Premier Président of one of the EU's largest national audit institutions. As European Commissioner for Economic and Monetary Affairs in the Juncker Commission, he was as well-known in Brussels as in many EU capitals. Reason enough to interview Pierre Moscovici on his perspectives on Europe, where it can excel and how public audit institutions can help the EU to perform better.

Public audit can only become more relevant for the EU's transparency

You worked for the French Cour des comptes from 1984-1988 and 2002-2004, and now you have returned to the Cour des comptes as its Premier Président. In between those periods, you gained experience as 'the auditee' in various positions. Have your views on the role and potential added value of supreme audit institutions changed in the course of your career?

Pierre Moscovici: When I first entered the Cour in 1984 as an auditor I could not have imagined that Palais Cambon would have welcomed me one day as its First President. Nonetheless, the very moment I crossed its entrance, I knew that I was not merely being given access to a historical and majestic building, but I was rather joining the ranks of an institution which is a pillar of our democracy. In fact, while the role of SAIs has been evolving since then - and I aspire to widen the scope and the efficiency of the Cour's mission under my presidency - I know for sure that the priority has always been to serve its citizens. Today, in a world which is multipolar, highly interconnected and, possibly, infinitely more complex, the role of SAIs, notwithstanding their need to evolve, is even more relevant. Let's think about citizens' declining trust in institutions, the necessity to keep a close watch on the NextGenerationEU funds or again the role SAIs can have in making

> *"... in a world which is multipolar, highly interconnected and, possibly, infinitely more complex, the role of SAIs, notwithstanding their need to evolve, is even more relevant.*

information available through open data. In short, it is a challenging and exciting time to preside over a supreme audit institution!

You have served as an MEP and have been Minister delegate for European Affairs, and later on Minister for Finance and Economy. In your latter capacity, one particular task was to assess how European policies can better contribute to growth and employment. What were your main findings then and do you think these findings, or most of them, would still be valid today?

Pierre Moscovici: As you probably know, my attachment to the European institutions and my engagement for the European Union are deeply entrenched in my person, in my political career, and in all the activities I undertake, including, of course, my new role as First President of the Cour des comptes. As a consequence, I was, I am and I will always be convinced that the policies which are coordinated at European level are designed in such a way as to benefit the European citizens, certainly by fostering growth and employment but also by promoting respect for the rule of law, social inclusion and, more recently, more sustainable development. Let me be clear: I do not want to provide an unrealistic portrait of European policies. I do think that in the past mistakes have been made, that a short sighted focus on austerity and a lack of flexibility when it comes to budgetary rules have all contributed to driving many European citizens away from their institutions, which constitute their common house of freedom. Nevertheless, more than focusing on the character of European policies, I would rather point to the European fora as the only places where we can design and implement together forward-looking policies capable of improving European citizens' everyday life and giving the next generations a more radiant future.

> *"...European fora as the only places where we can design and implement together forward-looking policies capable of improving European citizens' everyday life and giving the next generations a more radiant future.*

As Commissioner, from 2014 to 2019, you were responsible for Economic and Financial Affairs, Taxation and Customs, working on issues such as Economic and Monetary Union, including the application of the Stability and Growth Pact, also dealing with banking supervision issues. For a number of SAIs the latter is a relatively new area, which was given a new dimension with the ECB's supervision tasks. How do you see the role of the ECA and possibly your SAI in this area?

Pierre Moscovici: I am glad that you decided to evoke such a relevant subject - and nonetheless still highly neglected within the public discourse - as the prudential supervision of financial institutions, and the distribution of supervising tasks between the ECB, the ECA and the national SAIs. In fact, during my mandate as a Commissioner, I already had the opportunity to appreciate how the introduction of the Single Supervisory Mechanism, the SSM, notwithstanding its incontestably noble intentions of simplification, harmonisation and enhanced effectiveness of banking supervision, also revealed normative deficiencies and had unattended and unwelcome consequences for the SAIs' audit mandates.

I fully support the position of the EU Contact Committee of EU Heads of SAIs, which was expressed in a very straightforward manner in November 2018. It called for the strengthening of transparency and accountability in order to close the audit gaps and to ensure full access to all information deemed relevant for audit work. I do believe that it is critical to align the ECA's mandate to audit the ECB's supervisory mechanism with its other mandates to audit the other institutions and bodies of the EU. It is also of utmost importance that EU national governments and parliaments verify whether or not their SAIs effectively hold a mandate to audit banking supervision, allowing for the application or the extension of their audit mandates if this is considered necessary and feasible. In this respect, let me just highlight the fact that we, as the Cour, did not experience any withholding of information during the audit of the Banque de France in 2018. We sincerely wish all EU SAIs and the ECA the same quality of relationships we have developed with our auditees in France.

> *"...it is critical to align the ECA's mandate to audit the ECB's supervisory mechanism (...) It is also of utmost importance that EU national governments and parliaments verify whether or not their SAIs effectively hold a mandate to audit banking supervision...*

The EU needs the means to grow towards a more sustainable, innovative and proactive Union

In the European Commission you were also responsible for taxation matters. With the recovery plan and the NextGenerationEU there will also be a fundamental plan to reform the EU's own resources provisions. How do you see this developing and how do you see the role of EU SAIs in this context?

Pierre Moscovici: I do believe that a reform of the EU's own resources provisions represents a matter of the utmost importance for the European Union. After directly witnessing several crises during my mandate as EU commissioner, the refugee crisis and Brexit among others, this unprecedented global health crisis has shown clearly how fundamental it is for our Union to dispose of more consistent own resources provisions in order to promptly respond to any external and internal shock. Reactiveness is key to long-lasting resilience. In this sense, I gladly welcome any discussion aimed at addressing the issue. For example, measures such as the proposal of a digital taxation aimed at specifically regulating Big Tech, or the plan to implement a carbon border tax for non-European companies, which usually tend to be less attentive to their environmental impact than their European counterparts, all represent important steps in the right direction. EU SAIs can play an important role in that they can legitimise the use of additional funds for the EU budget. In most EU Member States, SAIs tend to be the most trusted and appreciated institutions because citizens perceive how crucial their role is in making decision-makers and public officials accountable to public opinion. The Cour, as the financial watchdog of the Republic, will be glad to work to legitimise any further increase in France's share of the EU budget through rigorous control.

> *"...this unprecedented global health crisis has shown clearly how fundamental it is for our Union to dispose of more consistent own resources provisions in order to promptly respond to any external and internal shock.*

In his mission letter to you as Commissioner, Jean-Claude Juncker wrote he wanted 'resources to be allocated to [the Commissions'] priorities and to make sure that every action [the Commission] takes delivers maximum performance and value added.' Looking back at your time as Commissioner, where do you see your Commission has been most successful in adding value, and where do you think there are good opportunities for the current Commission to do so?

Pierre Moscovici: Broadly speaking, I would claim that in the Commission I had the chance to be part of a team that proved rather successful in creating the favourable conditions for a solid macro-economic environment conducive to jobs, growth and investment across the EU, and whose pillars were sound public finances and a stable single currency. Within our mandate we probably managed in some way to lay the foundations of today's negative interest rates and renewed solidarity among European countries, two crucial elements which have contributed to rendering the Covid-19 economic measures less menacing than they might have otherwise been. Moreover, I can also mention our resolute fight against tax fraud and tax evasion, which has paved the way for the thorough, fair and simple taxation framework which is currently being implemented.

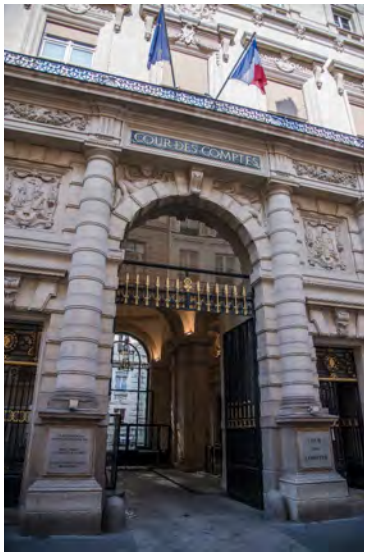
The current Commission is certainly proving ambitious, hardworking and well-intentioned. It is acting decidedly in two key areas, the green transition and the digital transition, which will leave Europe's future generations a more sustainable, innovative and proactive Union. We must also acknowledge that the current Commission has to operate in exceptional circumstances. It has managed to react promptly and boldly to the greatest economic crisis our continent has witnessed since World War II. From a health management point of view, this crisis will certainly push the Commission to acquire greater competencies and to incentivise further coordination in a realm, which up to now has been the exclusive preserve of state authority. I do think that by properly overseeing the management of NextGenerationEU and the Recovery Fund, the new Commission will be able to seize the unique chance of boosting further integration within the Union: capital markets union, migration policy, European army, debt mutualisation,

industrial strategy, taxation framework. There are many possible paths and I am sure that the Commission will be able to identify the areas where it can deliver maximum performance and value added.

Towards more cooperation for a concerted answer to global challenges

After your time at the Commission, what motivated you to go back to the French Cour des comptes? And what will be the key line, your key 'slogan' for your presidency in the upcoming years?

Pierre Moscovici: I can proudly affirm I have a heart that beats for Europe and I repeat it. But Europe also means France, which is the country where my journey started and where it will now proceed. After being engaged for five years as European Commissioner - a parenthesis in my life I consider extremely fruitful - I felt that I once again had to place the savoir-faire and experience I had developed at the service of my country, the place I first built up my European identity. In this sense, which place could have been more suitable than my first professional home?



Source: French Cour des comptes

Entrance of the French Cour des comptes

Leaving a personal mark on the institution or organisation is -understandably - every new President's dream. That is why, when I delivered my inauguration speech, I defined six orientations which would guide my presidency and which will guide the Cour through a new phase. In short, the ambition is to maintain the Cour's traditional mission as a jurisdictional institution, while developing new competencies for public policy evaluation and public sector consulting. In this sense, even from the perspective of a thorough reform, which has been named *Juridictions Financières 2025* (JF25), the Cour will aim to enhance its cooperation with the world of knowledge and culture, with the strong conviction that establishing a synergy will best contribute to serve the citizens of France. Alongside this horizon, we also envisage making the Cour a higher profile actor in the international, and especially European, sphere, since we believe that the new intertwined global challenges we have to face (Covid-19, disinformation, Big Tech regulation) increasingly require a harmonised and concerted answer and mutually beneficial collaboration. After all, it should not come as a surprise that as First President I will attempt to foster the Cour's European character, should it?

> *"...the ambition is to maintain the Cour's traditional mission as a jurisdictional institution, while developing new competencies for public policy evaluation and public sector consulting.*

> *"...it should not come as a surprise that as First President I will attempt to foster the Cour's European character...*

The French Cour des comptes and the ECA have been cooperating on a regular basis for a number of years now, at different levels. The field of transport and mobility is one such area, where the Cour des comptes and ECA auditors have regular exchanges, also rather informally. In what other areas do you see such cooperation bearing fruit and in what other areas would you like to see more or different forms of cooperation between the two institutions?

Pierre Moscovici: I have to say that as First President I am extremely satisfied with the extent of cooperation between the Cour des comptes and the European Court of Auditors, which contributes to mutual understanding of our methods and procedures. It is of course always possible to widen the scope of our collaboration and to enhance our relations. In particular, exchanges of auditors and magistrates could be promoted and taken to the next level to gain further experience and build stronger and closer human ties between our two institutions. Besides, I am strongly convinced that the key

challenge represented by the digital transition of public administration - one of the Cour's six main orientations under my presidency - would provide us with the ideal opportunity to work side by side on a crucial topic of public interest. When it comes to open data, the simplification of administrative documents and their accessibility to larger sections of the public, institutions such as ours are expected to organise such transitions smoothly and in the best interests of their citizens. Keeping this in mind, I would see the co-organisation of a laboratory on open data and digital transition as a welcome initiative to take our cooperation to the next level.

> *...the key challenge represented by the digital transition of public administration (...) would provide us with the ideal opportunity to work side by side...*

The right to hold public servants to account

Citizens are particularly keen on transparency and accountability. How do you see the role of the French Cour des comptes in the accountability for EU funds? And what is in your view of key importance to ensure such accountability in relation to the considerable expenditure and efforts made - and envisaged - in the framework of the Covid-19 crisis measures?

Pierre Moscovici: As I briefly mentioned earlier, it is indeed an exciting and challenging time to be part of an EU SAI. It is hard to deny that, at least symbolically, the conception of both the Recovery plan and NextGenerationEU represent a Hamiltonian moment. I do think that these measures perfectly reflect the EU's survival instinct and awareness of the historicity of current times. Such a unique opportunity cannot be wasted.

> *...the conception of both the Recovery plan and NextGenerationEU represent a Hamiltonian moment.*

Transparency has to be the lighthouse helping us navigate in agitated waters. It is no surprise that at this exceptional time of the support scheme for the post-Covid-19 economy, the debate is increasingly dominated by the quality of public spending rather than the amount of public spending. We therefore have to make sure that all the funds will be wisely and effectively invested in such a way as to maximise their impact. In this sense, EU SAIs will have the opportunity and responsibility to be vigilant on the allocation and quality of use of these resources. The Cour des comptes, as well as the other EU SAIs, should always keep Article 15 of the Declaration of the Rights of Man and of the Citizen as their North Star. Society always has the right to demand that every public servant account for her/his administration of public money, even more so in critical times where the choices made today will have an impact on future generations.

> *Society always has the right to demand that every public servant account for her/his administration of public money...*

The aspiration of accession to the EU: adding value to Montenegro and to external public audit – perspective from a Candidate Country SAI

By Milan Dabović, President of the State Audit Institution of Montenegro



SourceCorund/shutterstock

Since Croatia became the 28th Member State of the European Union in 2013, the accession process has remained open to the remaining countries in the Balkans. There are five candidate countries and two potential candidate countries knocking on the EU door to become EU Member States. If there is such an interest in EU membership, there must be something of added value to becoming an EU Member State. Milan Dabović, President of the State Audit Institution of Montenegro, explains what important push and pull factors are involved in Montenegro becoming an EU member, both in financial and non-financial terms. He also explains how the efforts of his country to join the Union affect his audit institution and the work he and his staff undertake.

EU membership – a strategic policy priority

EU membership is the most significant strategic foreign policy priority for Montenegro, one of the five countries which are currently candidates to join the Union.[1] Although it is the most demanding and complex process the country has ever undertaken, the overall progress and results Montenegro has achieved demonstrate commitment to EU values and readiness to comply with the EU *acquis* and obligations on its path towards the EU. As a candidate country for EU membership, Montenegro has opened all thirty-three negotiation chapters with three chapters now provisionally closed. It is evident that Montenegro has made significant progress and invested immense efforts in the negotiation process, which is reflected in the European Commission Reports on Montenegro. But still a lot of work needs to be done.

Montenegro took on the obligation of implementing necessary reforms in different areas such as the judiciary, the rule of law, public and local administration, the fight against corruption, all of which should contribute to further harmonisation of national

1 Apart from Montenegro, Albania, the Republic of North Macedonia, Serbia and Turkey are candidate countries. In addition, there are two potential candidate countries: Bosnia and Herzegovina, and *Kosovo (the designation of the latter is without prejudice to its status and is in line with UNSCR 1244 and the International Court of Justice opinion on the Kosovo declaration of independence).

regulations with EU *acquis* and, more importantly, to improving the life of Montenegrin citizens. High quality implementation of the reforms is impossible without the strengthening of appropriate administrative structures and capacities, which are in place to ensure proper implementation, alignment with European standards and values and that we face the challenges on the road to EU membership.

To reach this goal, the Government of Montenegro adopted the *Programme of Accession of Montenegro to the EU* - PAMNE - which is a most significant strategic document, covering the obligations from 33 negotiation chapters and concrete activities planned with the aim of establishment and implementation of a legal framework aligned with the EU *acquis* in all areas. This programme aims to facilitate monitoring and coordination of all planned reforms related to fulfillment of the strategic goals and provides a realistic overview of the progress made in the previous period.

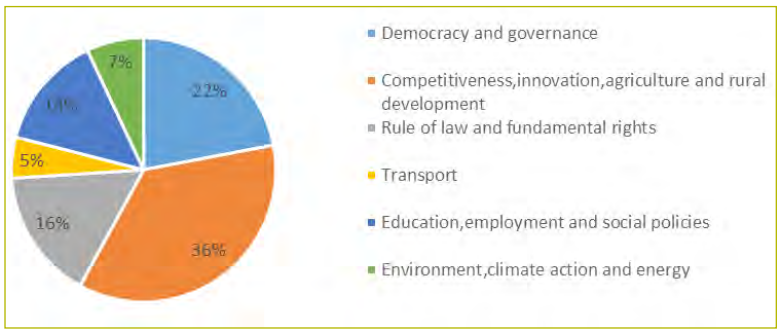
For the purpose of implementing necessary reforms and investments, Montenegro has been making use of EU financial support through different instruments, most importantly through the Instrument for Pre-Accession Assistance - IPA funds. From 2007 until 2020 the European Union has provided €504.9 million in EU pre-accession funds to Montenegro in numerous areas. Around €804 million has been provided in European Investment Bank loans since 1999, while €172.9 million has been provided since 2009 in Western Balkans Investment Framework grants to leverage investments of an estimated €1.7 billion.[2]

EU accession: in itself, a comprehensive reform process

Through IPA, the EU also supported the efforts of the Montenegrin institutions in reforming the public sector, under two main headings: 'Rule of law' (€70.3 million) and 'Democracy governance' (70.9 million). This included measures such as the creation of a more transparent, efficient and service-oriented public administration, amendments to the legal framework for better public administration, establishment of the single information system for data exchange among the state registers, an increased number of electronic services and improvement of the quality of public services.

By implementing IPA projects, Montenegrin institutions have worked intensely on building their institutional capacities, implementing the reform of the judiciary, on state administration, economic development, local government, human and minority rights, regional cooperation, sustainable development as well as on the fight against corruption and organised crime.

Figure 1 – Support for key sectors for the period 2014 – 2020



EU membership: adding value by supporting independent external public audit

The State Audit Institution of Montenegro (hereafter referred to as SAI), the country's supreme audit institution, has actively supported these reforms and invested significant efforts in improving the public sector's external audit capabilities. Our development concept has always been based on medium-term strategies, aimed at the implementation of the International Standards of Supreme Audit Institutions (ISSAIs) in practice by improving our legal framework and developing appropriate auditing manuals. All of this has been achieved with the support of the EU and other donors, such as the German

2 See for further details: https://ec.europa.eu/neighbourhoodenlargement/sites/near/files/near_factograph_montenegro_october_2020.pdf

Technical Cooperation Agency (GIZ) and other European supreme audit institutions (from Sweden, Lithuania, Poland and Croatia).

In 2001, for example, a bilateral project with the German Federal Ministry for Economic Cooperation and Development was launched to establish an independent external public audit body in Montenegro. Professional cooperation with the GTZ/GIZ, lasting for almost ten years, resulted in the development of the Law on the State Audit Institution, relevant by-laws, audit methodologies and training for audit staff, in addition, within the project implemented by the GTZ/GIZ, an audit authority for IPA as part of the SAI. Subsequently, in 2012, this Audit Authority was transformed into an independent audit body responsible for auditing the effectiveness and reliable functioning of the EU fund management and control system.

Our European partners (namely the European Commission and SIGMA (Support for Improvement in Governance and Management – a joint initiative of the OECD and the EU)) have strongly and continuously supported us in implementing numerous projects and programmes which were financed under the IPA instrument.

Our SAI has used the IPA-funded projects as an opportunity to launch important reforms in the area of external audit: such as adoption of the guidelines for assessing fiscal rules, guidelines for auditing the state budget accounts, audit quality control methodology, development of financial and compliance manuals, strategic development plans, communication and human resource strategies, organisation and delivery of a series of workshops and training for audit staff, etc. This capacity building represented immeasurable benefits for our SAI and contributed to the positive assessments of the work of our SAI by independent experts, such as in the Commission's Progress Reports for Montenegro (published since 2011), and the Public Financial Management Performance Report (PEFA) assessment for Montenegro (published in December 2019), which rated the SAI with the high grade of B+[3].

The IPA-funded projects have guided and shaped the SAI into a modern public audit body. Through the support of our EU partners engaged in implementing the projects, the SAI has strengthened its professional capacities by applying a 'learning-by-doing' approach which ensures successful implementation of the project activities and reforms.

The significant knowledge and experience gained in various projects has contributed to sustainability of the results and achievement of the SAI's strategic objectives. Three important projects are further specified in **Box 1**.

3 See 3.7 Pillar Seven: External scrutiny and audit, Table: Summary of scores and performance table PI-30): https://www.pefa.org/sites/pefa/files/2020-02/ME-Dec19-PFMPR-Public%20with%20PEFA%20Check.pdf

Box 1 – Key projects for the development of the SAI of Montenegro

I. EU Project 'Strengthening of external audit (SEA) in Montenegro'

Implementation and budget

- **Implemented by:** German Technical Cooperation (GIZ)
- **Total duration of the action:** 24 months (1 May 2010 – 30 April 2012)

Main outcomes

- Development of the Strategic Development Plan of the SAI for 2012-2017; development of the Action Plan for implementation of the strategic goals for 2012-2017; development of the Manual for planning and performing financial audit and regularity audit; institutional cooperation with the National Audit Office of Sweden in area of performance auditing; establishment of the unit for performance audit within the organisational structure of the State Audit Institution and development of pre-study for a pilot performance audit and launch of the pilot audit

II. Twinning project 'Audit Quality Control in the State audit institution of Montenegro'

Implementation and budget

- **Implemented by:** National audit office of Lithuania
- **Duration of project:** 2 April 2014 – 13 February 2015
- **Project budget:** €250 000

Main outcomes

- International standards related to quality control translated from English to Montenegrin language; SAI staff acquainted with the standards; assessment of the existing quality control practice and audit process at the SAI conducted; assessment report including the detailed map of the current quality control system and recommendations developed; action plan on introducing Audit Quality Standards developed; guidelines for quality control of the audits prepared including checklists; study visit for the representatives of the SAI on audit quality control to the National Audit Office of Lithuania organised; hands-on training and advice for the SAI audit staff and SAI members of the Senate delivered.

III. IPA II Project "Development and strengthening of the capacities of State audit institution and Audit Authority, Montenegro

Implementation and budget

- **Implemented by:** GFA Consulting Group GmbH (lead company), TIM4PIN Consultancy Ltd, e State Audit Office of the Republic of Croatia, Supreme Audit Office of Poland
- **Duration:** 19 November 2018 – 19 September 2020

Project budget: €648 500 - EU budget for the SAI amounts to €193 000

Main outcomes

- Improved SAI institutional capacity; development of human resource management strategy and communication strategy; standardised audit process for financial, regularity and performance audit aligned with ISSAI standards; development of financial and regularity audit manual; organised and delivered training for the SAI; improved institutional capacities in terms of better IT management system.

Reviewing EU added value in our audits

As relations with the EU become closer, there is rising demand for oversight of EU funds used to foster Montenegro´s development in various areas. Our SAI is mandated by law to audit all entities which use EU funds and funds of other international organisations or institutions for financing public needs. Having this prerogative, the SAI expanded the scope of its activities and assessed the use of funds granted to Montenegro for the implementation of project activities, as well as the EU funds provided in line with the partnership agreements.

Two recent examples of such audit activities are shown in **Box 2** below.

Box 2 – Two examples of SAI audits related to IPA and other funds received by Montenegro

Example 1: auditing funds provided by Norway for capacity building in the Ministry of Justice and Ministry of Internal Affairs of Montenegro

In 2018, upon the request of the Ministry of Justice as a beneficiary of the IPA projects, the SAI carried out a regularity audit of the use of the donation funds from the Government of Norway granted to the Ministry of Justice and the Ministry of Internal Affairs of Montenegro for the implementation of two projects related to the strengthening of the capacities for accession negotiations for Chapters 23 and 24. The objectives of the projects were to strengthen the functional and technical capacities of the Ministry of Justice, other judicial authorities and the Ministry of Internal Affairs, as well as to establish a new anti-corruption agency and reinforce its capacities.

Following our audit, we recommended that the Ministry of Justice, in order to monitor more transparently the implementation of project activities, should clearly define for the various projects the job descriptions within individual projects and consider making it an obligation to submit reports on work performed by the persons employed. As a result of this audit, the Ministry of Justice implemented all the recommendations given in our audit report and the unspent funds, to the amount of €20 000, from the foreign currency account of the Ministry of Internal Affairs were transferred and returned to the Ministry of Foreign Affairs of Norway.

Example 2: auditing IPA funds in relation to the Partnership Agreement with Kosovo and Albania

In 2018, the SAI audited the funds – as part of the audit of the Final Account of the Budget of Montenegro for 2017 – transferred through the Ministry of European Affairs to the Republic of Kosovo and Albania, based on the partnership agreement with the Ministry of European affairs of Kosovo and with Albania on the management of technical support for the Cross-Border Cooperation (CBC) programmes within the Western Balkans.

The Montenegrin Ministry of European Affairs signed a Partnership Agreement with the Ministry of Local Government Administration of Kosovo and the Albanian Ministry of European Integration on the management of technical support for the CBC programmes within the Western Balkans. The Montenegrin Ministry, as the leading partner of the project, was obliged to transfer funds to the amount of €67 527 to the partner countries from the account intended for financing the project. These funds did not represent budget expenditure and should not have been recorded as a receipt or as expenditure in the General Ledger of the State treasury.

Despite our critical findings, the audited entities fully supported the work of our SAI and recognised our high professional standards. This illustrates that the SAI has gained professional credibility and that the long-term efforts of our European partners to create external control as an indispensable segment in the public finance system are bearing fruit.

EU added value – also shown through solidarity in moments of crisis

The EU-funded investments bring many benefits to Montenegrin citizens. Moreover, by implementing IPA projects, special efforts have been made to improve the quality and efficiency of the work of the Montenegrin authorities. Visible results and the high number of successfully implemented IPA projects show the high level of commitment by Montenegro to European standards and values and brings us closer to the European Union.

Also during the current Covid-19 crisis, the European Union stood by Montenegro, supporting its economy and health care system. The pandemic made it necessary to introduce a series of urgent and effective health, social and economic policy measures and the European Commission decided to support Montenegro financially in mitigating the economic consequences of the epidemic.

From the 2014–2020 IPA, €53 million has been provided in bilateral assistance for Montenegro to cover urgent health needs and economic and social recovery and €455 million for a regional economic reactivation package. In addition, €60 million was approved by the EU in Macro-Financial Assistance for Montenegro and the European Investment Bank is providing €1.7 billion for the region[4]. The SAI of Montenegro will pay special attention to the emergency spending and measures taken during the crisis through the financial, compliance and performance audits we will conduct in the years to come.

4 https://ec.europa.eu/commission/presscorner/detail/en/IP_20_777

Directors' Cut

About European added value and goat cheese

Questions to Rémi Frentz (French Cour des comptes), Nanna Henning (National Audit Office of Denmark) and Geoffrey Simpson (ECA)

By Matthias Beermann, Directorate of the Presidency



From left to right: Rémi Frentz (French *Cour des comptes*), Nanna Henning (National Audit Office of Denmark) and Geoffrey Simpson (ECA).

If you ask three auditors from different European countries to discuss European added value, the conversation can take some unexpected turns. Rémi Frentz, Director of International Relations at the French Court of Auditors, Nanna Henning, Assistant Auditor General at the National Audit Office of Denmark, and Geoffrey Simpson, Director of Audit Quality Control at the ECA, took up the challenge. Matthias Beermann, Senior Media and Editorial Advisor at the ECA, interviewed the three public auditors during a virtual meeting between Copenhagen, Paris and Luxembourg. The views they express are their personal opinions and do not commit their institutions.

European added value – a term that rings a bell?

This is hard, but let's try to forget for a minute that you are professional auditors. What do you think European citizens think about when you talk about European added value - EAV?

Nanna Henning: That is a very tough question! I think that in Denmark you will have a huge variety of answers, of course, depending on where you stand politically, but also on how much you actually see the influence of the EU in your daily life.

Rémi Frentz: If you talk about European added value in France, there is a high risk that very few people will understand you. This seems to be some new concept promoted by some Member States to replace, to complete or to reframe the former concept of subsidiarity. If you talk about subsidiarity in France, many citizens will be able to react and they will say: well, we know how to build our elevators, we know how to make our cheese and we do not need additional regulations coming from the EU to tell us how wide our elevators should be or how old or how sweet our cheese should be. When you come to the added value concept, it means that the EU has to bring you something else, something new; and then you come to the difficult part of the debate in France - that this added value is not visible enough. We, as auditors, we know the national system, we know the national policies and we know the European system

> *"... the added value concept, it means that the EU has to bring you something else, something new; and then you come to the difficult part of the debate in France - that this added value is not visible enough.*

and the European policies and we are able to see the difference. And when there is an added value, we – I believe - are able to measure it. 'Ordinary citizens' will not be able to do so.

Geoffrey Simpson: Working for an EU institution, my perspective is a little bit different. But also because I am both a British national and Portuguese. Talking from my British side, I think that the debate in the UK shows that many citizens do not see the benefit of the EU. Largely because they are surrounded by those benefits. Withdrawing from the EU is likely to mean these benefits will start to become quite apparent. Rémi, you mentioned the regulations. That was in fact an important argument in the British debate about Brexit: we do not want un-elected European bureaucrats telling us what to do. But the regulations do not simply exist for the sake of it: they are there to ensure that the single market works. And we all benefit from the fact that there is this single market, including the fact that people across Europe can buy a wide variety of goods to a common standard.

> *"... many citizens do not see the benefit of the EU. Largely because they are surrounded by those benefits.*

Nanna Henning: Then you have the whole question about the educational system; Brexit will probably have a huge impact on students as well. By mentioning Brexit, Geoffrey has brought up what is being lost now, what is *no longer* added value anymore.

> *"By mentioning Brexit, Geoffrey has brought up what is being lost now, what is no longer added value anymore .*

Geoffrey Simpson: The Erasmus programme; the biggest impact programme that there is. Not a lot of money involved but in terms of connecting young people. Of course, young people in the UK are the ones who voted to remain, an overwhelming majority. This really impacts people. When, perhaps, holidaymakers are queuing in Dover to cross the channel, they might well see the benefits of Europe.

Don't you think that it is sometimes very difficult or even impossible for citizens to see whether they benefit in their daily life from national or European policies?

Rémi Frentz: Of course! Let's take, for instance, the European funds. They come from national money which has been given to the European Union. It is money that comes into a country to support a project, and we have to provide national co-financing. This is hard to understand, because if we have to add financing, what is the added value of the one financing for the other? But I need to add a word going back to Geoffrey's statement: I agree with him when he says that European regulations are a must if we want to have a single market, because it makes it easier to export French goat cheese to Poland. But this describes the world as it used to be. Today a growing number of people in France think that French producers of goat cheese should not send their cheese to Poland. They should instead favour the proximity of local markets. All that we have built to allow us to exchange goods easily in the EU is challenged by a new generation who says: we do not want your system; if we sell our goat cheese in France – that's enough for us. I do not say that they are right, but I think that the former EU model will be revisited by new generations and they will not necessarily understand European added value as we did in the past.

> *"... a growing number of people in France think that French producers of goat cheese should not send their cheese to Poland. They should instead favour the proximity of local markets.*

Nanna Henning: Are you saying that they have a more nationalistic perspective?

Rémi Frentz: Yes, and even a regional one: for some of them close is beautiful; small is beautiful. And in a way they are not wrong.

Nanna Henning: I see there is a difference between small Member States like Denmark and large Member States like France. In my opinion many Danes know that we need cohesion, that we need cooperation with people around us, because we are simply too small to take care of ourselves. That makes a difference.

> *"... many Danes know that we need cohesion, that we need cooperation with people around us, because we are simply too small to take care of ourselves.take care of ourselves.*

Geoffrey Simpson: Why can't you sell goat cheese to both France and to Poland? Second point – should French people not have the opportunity to buy Polish cheese, if they want to?

Rémi Frentz: The second question I will not answer (laughs). As far as the first question is concerned, I think that the French producers will not try to sell their cheese to Poland if the consequence is that the regulations imposed on their investments and production system are too heavy and too costly and impose too many constraints. If the level of constraints is acceptable, they will have no problem exporting their cheese and would be happy to do so.

Geoffrey Simpson: That comes down to the choice of the producer. I think the European Union gives the producer that opportunity to sell wherever they want – they can sell just in France, Poland and even to Denmark. Why constrain and why not make it easy to do?

What is interesting about our debate about European added value …

Geoffrey Simpson: … about cheese!

… is the fact that we – after all - see the benefits of European policies as given. But if there is undoubtedly added value in some fields, can there be as well some kind of 'less value' in others?

Nanna Henning: Yes, I'm sure there can be! When things get too complicated and, maybe even worse, when there is fraud with EU funds involved, then you have a lot of 'less value.' In Denmark we are just about to finalise a huge investigation into fraud in all ministries. We also have a few very unfortunate cases involving EU funds and that creates less value, it is more a burden.

Geoffrey Simpson: This misuse of European funds in Denmark – is that because of the European Union or is it because of Danish people?

Nanna Henning: It is a combination, I would say. Because the argument of the people involved is that the European rules are so complicated that anybody could go wrong with them.

Geoffrey Simpson: The misinterpretation of rules is not fraud. Fraud is when you actually deliberately mislead people for personal gain.

Rémi Frentz: In French we say 'valeur retranchée' which is the opposite of added value – that is when the regulation becomes a burden which is heavier than its benefits. In 2018 we published a report about the European agricultural guarantee fund (EAGF) whose conclusions were very severe and pointed to an example of subtracted value because of the mechanism set up by the European Union for this agricultural aid. According to our audit work, the objectives were not met, inequality had been encouraged and the EU policy has had no substantial effects on the income of farmers . The conclusion is, of course, that in the next negotiations of the common agricultural policy, the CAP, the governments and the Commission should be obliged to learn lessons from these observations.

> *"... objectives were not met, inequality had been encouraged and the EU policy has had no substantial effects on the income of farmers.*

Geoffrey Simpson: We need to realise that the decisions, including on agriculture, are all taken by the Council, including France. This is not a sort of abstract European technocrat construct; it is the representatives of the Member State governments taking these decisions. If there is a problem in the conception of these schemes and what they are trying to achieve, then let's go back to the Council. Often it is all a bit of a delicate compromise, I think. It is difficult to achieve perfection because working together and being together means– everybody has to compromise to an extent.

EAV - which side are you on?

Isn't the idea of European added value somehow a question of perspective?

Rémi Frentz: There is constant interaction between the ones who are setting the regulations, those who are handing out the funds, and the ones who are receiving the money. This adjustment is not made in the common interest of everyone. The common interest is the sum of the interests of the EU as a whole and of each nation and of each citizen, but this common interest is not always defined and is not defended unreservedly by the community of, let's say, 'technocrats' – either in Brussels or in national governments. In my own field I can give you many examples in which the EU wants money to be spent, whether the projects are good or not, whether they are mature or immature: the money has to be spent before the end of the year otherwise it will be lost the following year. That is the bad trend in the EU and, of course also at national level. You have countries that are organising themselves to receive too much money as regards their real needs. It is the convergence of two 'vicious' approaches and this happens.

> *... money has to be spent before the end of the year otherwise it will be lost the following year. That is the bad trend in the EU and, of course also at national level.*

Nanna Henning: We publish a study in 18 October 2018 on the grants given from the European Maritime and Fisheries Fund to Danish fisheries. One of the conclusions – apart from mismanagement in the responsible ministry - was that the complexity of the rules was so great and so difficult that even the Commission did not fully understand them. That is no excuse for the Danish ministry; they should have been better prepared. However, this is a good example of regulations from the EU side getting so complicated that I, personally, doubt whether such a programme supporting a very important sector in Denmark actually adds sufficient value.

Geoffrey Simpson: At the ECA we often identify the problem of complexity. I think there is a balancing act between focusing EU funds on particular things in a particular way to ensure effectiveness, which requires rules, or relaxing the rules completely. For example, for fishing the Commission could ask the Member States to spend the funds on what they want. We may then find problems with performance. If you try to achieve something specific, by definition you start to have to focus things down and the approach starts to look complex. We do plenty of compliance audits, and in our Statement of Assurance we find 3, 4, or 5% error rates in different areas. On the one hand that looks somewhat alarming, on the other hand it means that 95% plus does comply. So compliance is far from impossible. We also do performance audits when we identify that sometimes the spending is not sufficiently focused, we are not getting value for money, because EU funds are being spent on things which have little or no impact. This shows we need to put the complexity issue into perspective.

> *If you try to achieve something specific, by definition you start to have to focus things down and the approach starts to look complex. (...) we need to put the complexity issue into perspective.*

Nanna Henning: I would just like to add on this – when we look for instance into the implementation of the General Data Protection Regulation, which one would think could be very complicated, actually I think that is a very good example of European added value. All the agreements on how external delivery of data is handled were actually poorly managed in Denmark. Without the focus from the EU that would have gone under the radar, I think.

Creating EAV as SAIs

Assessing European added value – wouldn't that be a task perfectly tailored for the ECA? Or wouldn't it be even better to carry out this systematically together with the national audit institutions?

Nanna Henning: I fully agree!

Rémi Frentz: Based on a common regulation framework or common financial system, if auditors cooperate, we can measure what is happening in our country and have a basis for benchmarks . We have a basis for international comparisons and that is very fruitful, because we can see how each country has adapted its own system to European policy or regulation and we can compare – if we work together - the differences, and this even helps us to understand our national systems.

Geoffrey Simpson: I think the first point is – as this discussion is showing – the concept of European added value is quite elusive. Myself and Rémi may see the same issue somewhat differently – different sides of the same argument. It is the concept that is difficult to pin down. There is a definition, of course, but when it comes down to the audit work, it all becomes a bit tricky, but we benefit when we cooperate with national supreme audit institutions, with SAIs. In this way we get insights from the Member State level which we always find valuable. For us it is also a little bit of a challenge, because we have 27 Member States and it is quite difficult to cooperate with 27 bodies all at the same time; it is quite expensive and resource-intensive. But when we do work together – the outcome is normally very positive. There are things that SAIs should be working together on, because – again – they cover issues we cannot do individually. Working together – that is added value as well, if you like. The second point is that, given that the EU budget amounts to around 1% of European Union GDP only, the EU arguably has more influence in terms of policies and regulations. Particularly in terms of addressing things that can only be addressed on a multilateral basis. For example, the environment and data. Data is flowing backwards and forwards everywhere now. For example security – security problems cross borders. Relations with the rest of the world. You have the US on the one side and China on the other. To be heard you need bulk, you need weight.

> *Working together – that is added value as well, if you like.*

Rémi Frentz: I think that we have an excellent opportunity for that, which is the current Covid-19 crisis. Because European countries are all facing the same problems at the same time, and in July 2020, after many difficulties, the EU started to adopt a common point of view. For instance, there will be funds to support employment throughout Europe and each of our countries has developed its own national plan. Partly in cooperation with the German supreme audit institution, the Bundesrechnungshof, the fifth chamber of the Cour des comptes, which is responsible for this sector, has started an audit solely to compare the implementation of the EU measures in every country. They will put this result beside the results of the national audits and they will present their findings at the beginning of next year. That is a very good example of what cooperation between SAIs could bring to measure the added value of EU intervention to face the current crisis.

> *... we have an excellent opportunity for that, which is the current Covid-19 crisis.*

Nanna Henning: I do not have the final answer on how to audit European added value in general. But what we should try to do, despite its being sometimes very time-consuming, is knowledge sharing. This is most often very beneficial. In that sense I completely agree that doing an audit together on handling the Covid-19 crisis would be a very good initiative and I would be looking forward to that.

> *... what we should try to do, despite its being sometimes very time-consuming, is knowledge sharing. (...) doing an audit together on handling the Covid-19 crisis would be a very good initiative...*

Thank you for having participated in this knowledge exchange, showing that there are different perspectives on EU added value. For sure, there is agreement on the added value of cooperation between public auditors.Thank you for having participated in this knowledge exchange, showing that there are different perspectives on EU added value. For sure, there is agreement on the added value of cooperation between public auditors.

Why European added value should matter more for EU supreme audit institutions, why it doesn't and what to do about it

By Martin Weber, ECA Director



The idea of European added value (EAV) embodies the main rationale of and for the EU: it rests on the basic assumption that doing things together at EU level is likely to increase overall performance and yield better results, both for the Union as a whole and for each Member State. Meanwhile, the debate about EAV often focuses on existing EU policies and spending carried out within the limits of the current arrangements. Yet there is another side to the story, namely the 'cost of non-Europe,' i.e. the cost in terms of the better results and savings that Member States are failing to achieve by not cooperating more at EU level. Generally neither of these two aspects is examined by the national supreme audit institutions in EU Member States (EU SAIs). In his contribution Martin Weber, Director of the Presidency, takes this situation as the starting point and discusses why the EAV concept is not more widely referred to by EU SAIs in their work, and puts forward three propositions for the future.

European added value embodies the (economic) rationale of the EU

There are several defintions possible for European added value (EAV), but let us take the definition that is widely used and orginates from the European Commission: is the value that results from cooperation at EU level, i.e. from an EU intervention, which should be greater than the value that could have been created by actions of EU Member States on their own.[1]

This can mean two things: first, at Union level, EAV is *larger* than the sum of the corresponding values that could be created by Member States acting on their own and, second, at Member State level, it is *additional or complementary* to what could have been created by national action alone. The latter, in particular, should matter for the Member State's supreme audit institutions, the EU SAIs.

From this perspective, the EAV concept is nothing other than the embodiment of the EU's economic rationale. On the one hand, EU action should be targeted at those (European) public goods which can provide most 'benefits' for us citizens; and on the other hand, the EU should focus only on those public goods that it can produce more efficiently and effectively than Member States on their own.

1 See for example European Commission; Staff working paper: *The added value of the EU budget;* SEC(2011)867 final

A concept to (de)legitimise the allocation of competences between EU Member States and the Union

EAV – as set out above – is closely linked to the *principle of subsidiarity* stipulated in Article 5 of the Treaty on the European Union: the EU should not take action, unless it is more effective than action taken at national, regional or local level. The *division of competences* between Member States and the Union is of fundamental importance as it reflects the 'power bargain' struck between the Member States and the Union, determining the limits of the authority of the EU as well as the limits of the authority of the Member States[2] (see **Box 1** and also page 8).

EAV considerations matter most where Member States share competences with the EU or where the EU plays a supporting or coordinating role, since both levels have a role to play[3] in achieving the respective policy objectives. EU consumer policies, such as passenger rights or food labelling, are good examples for this because EU regulation can only be effective (and thus create EAV) if properly implemented and executed at national level. Yet, the Treaty is not very prescriptive. In practice, there is a wide range of possibilities for how things could be organised in order to maximise the benefit for EU citizens.

EAV and its assessment could facilitate and objectify these debates. However, determining and justifying these choices on a sound and well-founded basis is a complex task, often neglected in the political debate.

Box 1 - Competences of the Union

The Treaty categorises the competences in different policy areas as follows: the Union

- shares competences with the Member States (Article 3). In these policy areas, for example the EU's internal market, environment, transport, or consumer protection, the Union is able to legislate and adopt legally binding acts. Member States exercise their own competence only where the EU does not exercise, or has decided not to exercise, its own competence; or
- supports Member States (Article 4). In these fields, including public health, industry, education, culture or tourism, the Union intervenes to support, coordinate or complement the action of Member States. However, Member States are not obliged to harmonise their national laws or regulations because of the EU; or
- coordinates policies of Member States (Article 5), such as in the area of economic, social and employment policies. The EU also has the competence to define and implement a common foreign and security policy and to develop a common defence policy.
- Finally, when the EU takes action, another legal prerogative set out in Article 5 must be taken into account: the principle of proportionality, which means that the content and scope of EU action may not go beyond what is necessary to achieve the objectives of the Treaties.

The bulk of EAV comes from regulatory action rather than EU spending

EAV is a multi-faceted concept. In principle, it can be the result of *regulatory action*, cooperation under *'soft law'* arrangements at EU level (such as common strategies, guidelines, exchange of good practices, etc.) or through the EU's *financial intervention*. However, the bulk of the EAV comes from regulatory action, rather than EU spending[4] (which only amounts to around 2% of the EU-27 national public spending), and can yield impressive effects in monetary terms, even if such estimates vary substantially (see **Box 2**).

2 S. Garben and I. Govaere, *The division of competences between the EU and its Member States*, Modern studies in European law, 2017

3 At the same time, and maybe ironically, the principle of subsidiarity also means that EAV is not to be considered in areas of *exclusive competence*, either for the Union, such as the EU customs union or competition policy, or for the Member State, such as personal income taxes.

4 In fact, since 2018, EAV has even been one of the conditions for an action to be eligible for funding from the EU budget (see on page 74). However, the responsibility for allocating most of the annual EU spending of around €150 billion lies with national authorities, whose officials are not bound by the EU's Financial Regulation. This aspect is also interesting in view of the political agreement in July 2020 by the European Council to make an additional €750 billion available for the temporary 'NextgenerationEU' (NGEU) recovery initiative. No need to demonstrate EAV here, as the NGEU initiative is formally not part of the EU budget.

Box 2 - Estimates of EAV and the 'Cost of non-Europe'

When the Single Market was established in 1993, an ex-ante analysis estimated that it could raise overall GDP by up to 6.5%.[5] Recent ex-post econometric studies find that the actual output effects from intra-EU trade alone may have been even higher: up to 9% of EU-28 GDP, but with a strong degree of heterogeneity across Member States.[6] A 2020 research paper for the European Central Bank (ECB) has even estimated welfare gains in a range of 12% to 22%.[7]

At the same time, there is an (opportunity) 'cost-of-non-Europe' in the Single Market and beyond. This unrealised EAV results from efficiency losses due to a lack of integration or cooperation and the fact that a European public good has not yet been created. In 2017, the European Parliament's research service estimated the collective economic cost of not undertaking policy action at EU level to be almost €1.75 trillion per year. This estimate has recently been revised upwards to €2,2 trillion per year (or about 14% of EU-27 GDP), with only around a third of these welfare gains coming from the completion of the Single Market (see **Figure 1**).

Figure 1 – Cost of non-Europe



Source: ECA, based on EPRS (2019)

To sum it up: both the benefits (EAV) realised so far and the potential additional gains from yet unrealised EAV ('cost of non-Europe') are significant. Better results for citizens, efficiency gains, and outright savings could be achieved over a broad range of policies, if there was the (political) will to do so, as well as the necessary insight into administrative structures, processes, procedures and possible ways for best addressing and changing the current settings and practices. This is why EAV is not some academic theory to be left to pro-European intellectuals, but should naturally fall into the remit of all EU SAIs promoting good governance and sound financial management in the interest of their citizens. After all, it is their institutional role to give independent external advice on making more effective, efficient and economic use of public money.

But why is it then that EAV as a concept has not been used (or referred to) more widely by EU SAIs in their work so far? There are a number of reasons for this. Here my (strictly personal) attempt at summarising them:

Reason No 1: EU SAIs operate in a predominantly national accountability framework

The Union consists of two levels – the national and the supranational – which are increasingly intertwined with Member States' and EU competences overlapping in many, if not most, policy areas. This is, however, not the case for public audit in the EU, where audit mandates not only end at national borders, but also are strictly separated

5 P. Cecchini, M. Catina and A. Jacquemin, *The benefits of a single market*, 1988; A. Emerson et al., *The economics of 1992: The E.C. commission's assessment of the economic effects of completing the internal market*, 1988.

6 J. In 't Veld, *The economic benefits of the EU Single Market in goods and services*, Journal of Policy Modelling, 2019

7 J. Lehtimäki and D. Sondermann, *Baldwin vs. Cecchini revisited: The growth impact of the European Single Market*, European Central Bank (ECB) Working Paper, April 2020.

8 European Parliament; EPRS; *Mapping the Cost of Non-Europe, 2014-19* - Fourth edition'; PE 603.239; December 2017 (see https://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_STU(2017)603239)

by the vertical divide. In other words, EU SAIs operate in *accountability frameworks which are predominantly national*. They audit their national governments and public administrations, they focus on national public spending or legislation, and they report to their national parliaments. They do not report to the European Parliament, and the European Parliament only very rarely asks them about their views on how EU policies are implemented in their Member States.

Against this background, it is only natural that their work reflects *national priorities and preferences*, even more so because EAV is not a concept that can be easily applied in a strictly national context.

Reason No 2: EAV is perceived as a 'political' concept, promoting further European integration

EAV may also be perceived as a concept with *strong political connotations*. Not in the sense of party politics, but in relation to certain assumptions about the *direction and final objective of the European project*. In particular, EAV, although in essence neutral, is often associated with a push towards further European integration.

This is also relevant because not all Member States may benefit equally or proportionally from increased European integration. In some cases, EU action may create a considerable EAV for the Union as a whole, but – at the same time – could also have a negative impact on one or more Member States where it would result in 'financial losses' at national level. Corporate taxation is a good example where such a conflict of diverging interests may exist.

This may make EAV an uncomfortable framework for a non-political audit institution acting in a national context.

Reason No 3: Examination of EAV is (wrongly) considered 'ECA business'

By definition, EAV is a *supranational* concept. The ECA is mandated to audit EU policies and programmes, as well as the EU institutions and bodies. Therefore, some EU SAIs may simply consider the assessment of EAV to be the ECA's business, or even its preserve.[9]

However, it is inconceivable that the ECA could check the implementation of all EU policies on the ground, let alone in all Member States – it simply lacks the necessary resources to do so. This means, unless the implementation of certain EU policies is also audited by EU SAIs, there is no external scrutiny by public auditors. Audit gaps and blank spots are an inevitable result of this situation.

Reason No 4: Cooperation between EU SAIs is not sufficiently integrated to properly address EAV issues

EU SAIs are probably among the least 'Europeanised' bodies in national public administration, due to their particular role (see Reason No 1) and institutional independence as external auditors. This is best illustrated by a comparison with the judiciary, whose independence from the executive branch is also guaranteed by the Member States' constitutional arrangements. Nevertheless, EU law and its transposition into national law is interpreted in the last instance by the European Court of Justice.

Meanwhile, there is no similar arrangement which would allow for an EU-wide alignment of audit approaches and methodologies regarding the audit of EU policies and funds. The Treaty instructs the ECA to cooperate with the EU SAIs in '*a spirit of trust while maintaining their independence*' (Article 287(3) TFEU). The ECA must also inform them of any audit work in their Member States, and they are entitled to take part in this work as observers. There is however no reciprocal obligation for national EU SAIs.

So far, the ECA and its national counterparts have implemented and further developed audit-related cooperation under the Contact Committee umbrella, a platform established in the 1960s (i.e. before the ECA had even been established), mainly to facilitate exchanges between the heads of EU SAIs (see **Box 3**).[10]

10 D. Tibor, The EU Contact Committee – *A SAI story of the EU, of love and cooperation*, ECA Journal 11/2018, pp 23-26.

Box 3 - Structure of the Contact Committee

The heads of the SAIs of the 27 EU Member States and the ECA make up the Contact Committee's decision-taking body, which provides strategic orientation and decides on common activities and positions. They can set up working groups and task forces to support activities in a specific, EU-related area that requires continuous cooperation, or networks to monitor specific areas and exchange best practices.

However, as far as the *initiation, coordination and undertaking of audit work* is concerned, this committee is largely dysfunctional. Its decision-taking capacity is limited, as consensus, thus unanimity, of all 27 EU SAIs and the ECA is required for any decision or position taken. Moreover, the chair of the committee rotates every year and it has neither a budget nor staff nor administrative support of its own. The result is not surprising: while EU SAIs may carry out joint or coordinated audits on selected subjects in this framework, or through cooperation on a bi- or multilateral basis, this is done only to a limited extent. In practice, audit cooperation between EU SAIs and the ECA is difficult to implement, as individual mandates, interests and capacities differ.[11] The truth is: we are lacking an effective framework which would integrate the national and supranational audit levels in the EU.

From a citizen's perspective, this is a shame. De facto, in many (if not most) areas of EU policy, only a joint or coordinated effort by EU SAIs and the ECA would allow proper examination of whether the current arrangements are fit for purpose, to what extent European cooperation has created EAV and whether more integration could yield additional benefits. A good example of a potential audit subject where EAV could be examined jointly by EU SAIs and the ECA is the social security data exchange between Member States (see **Box 4**). So far, however, such an EU-wide coordination of audit efforts simply does not happen (and the few examples of coordinated audits are just the exceptions that prove the rule).

Box 4 - Social security data exchange – a potential audit subject where EAV could be examined

EU rules on social security coordination require the cross-border electronic exchange of social security information so that national institutions are able to process citizens' claims for social security benefits (such as unemployment benefits, reimbursement of healthcare costs, family benefits, and old-age pensions) in a faster and more efficient way. All communication between national institutions on cross-border social security files should take place electronically through a common IT system, rather than being paper-based, as is currently still the case.

Since 2019, all 32 participating EU and EEA countries have had to connect to the system. Once fully deployed, this system will speed up exchanges between social security institutions and allow them to handle individual cases more quickly, helping to make the calculation and payment of benefits faster and less costly. It will also contribute to more accurate and secure data exchanges, ensuring that rules are applied and helping institutions to combat social security fraud and error.

On its own, each EU SAI could only examine one side of the system. Similarly, the ECA could audit the Commission and its support for national administrations, but could not look at the underlying operations. Only together could national SAIs and the ECA examine and assess the whole system in a comprehensive manner and determine the extent to which EAV has beencreated or not.

Reason No 4: Methodological issues

Over the last 30 years, there has been a clear trend for EU SAIs towards value-for-money and performance audits. However, these audits typically focus on 'optimising' existing structures, organisations, programmes, rules or procedures. They are not aimed at questioning the allocation of competences as such - which is, however, a key aspect of applying the EAV concept and even more so when looking at 'cost of non-Europe' aspects. The difficulty with EAV may also come from the fact that many SAIs consider this to be a policy evaluation (or even a political intrusion) rather than audit – and thus outside the scope of the work they usually do.

11 An overview of the different mandates of the EU SAIs is provided in the 'Public Audit in the EU' portal, launched in 2019 by the ECA (see https://op.europa.eu/webpub/eca/book-state-audit/en).

Moreover, it is often claimed that the concepts of EAV and 'cost of non-Europe' are difficult to operationalise and measure (see [article] on page 157). If this was the case, should SAIs then not consider building up the necessary capacities? Maybe even together, allowing them to create synergies (EAV?) and comparable results? And are auditors not always faced with similar situations when carrying out performance audits? Actually, assessing the costs and benefits of a public intervention is a SAI's 'bread-and-butter' activity. There are established methods to do so, beyond econometric modelling or comparisons with relevant counterfactuals.[12]

The particular challenge of auditing EAV, at least in my view, is that the mandate of each of our SAIs, including the ECA, is effectively too narrow to carry out such an assessment in a comprehensive manner. If this can be sorted out, then there are various well-established methods and approaches to hand which would enable SAIs to also properly address the technical issues.

Three propositions

Finally, I have three propositions on how EU SAIs (and the ECA) could contribute to creating EAV by integrating the EAV concept into their audit work:

- First, in the interest of their own citizens and taxpayers, the SAIs in the Member States should target their audits on those areas where doing things nationally is likely to lead to suboptimal results in comparison to cooperation at EU level. This is not about pushing towards further European integration, but about performing audits that contribute to better results for citizens, efficiency gains, and outright savings, all of which are much needed in these times of increasingly difficult public finances. Concretely, in the programming of their audit work EU SAIs could give a specific consideration to those areas where the 'cost of non-Europe' is likely to be significant. In their own national interest;

- Second, EU SAIs need to adapt to the realities of today's Union where national and supranational competences are closely intertwined. In particular, they must step up, intensify and modernise their cooperation to meet the expectations of their citizens. This requires a fundamental transformation of the Contact Committee: the main purpose of such a transformed committee should be the coordination of joint audits on EU policies and programmes. This new orientation would require more effective governance and a more permanent structure, with dedicated administrative support. The ECA, given its mandate under the Treaties, should play a central role in this reform;

- Third, when it comes to monitoring the implementation of EU law, EU SAIs are particularly well suited and placed for the job. They are independent from national governments and familiar with the national administrative systems. So far, this opportunity has been missed by the European Parliament and its committees. What could be done? EP committees could consider inviting EU SAIs to brief them on the implementation of EU policies and programmes in their Member States, possibly together with the ECA. They could also suggest to the ECA that it should carry out specific examinations together with EU SAIs, rather than on its own. Another option would be for national SAIs to intensify their own cooperation with national parliaments as regards the monitoring of the implementation of EU law and the 'cost of non-Europe'.

Together, EU SAIs and the ECA can play an important role in identifying and assessing EAV, and contributing through their work to a more effective, efficient and economic use of (European) public money.

12 Incidentally, the UK's withdrawal from the Union may provide such a counterfactual illustrating the 'cost of non-Europe.' Since December 2016, the UK National Audit Office (NAO) has been issuing a number of reports on the implications of exiting the EU, giving a first impression of the significant costs for the UK public sector. (https://www.nao.org.uk/search/pi_area/exiting-the-eu/type/report/). So far, however, the NAO has not examined the overall economic implications of the UK withdrawal.

Several ways of looking at EU added value: public auditors should play a role in putting them at the core of the debate

By Frank van den Broek and Peter van Roozendaal, Netherlands Court of Audit

How one appreciates European added value may well depend on where one stands. For many public audit institutions, a major starting point for assessing a policy is its performance: how effective was it in reaching its goals and to what extent was it implemented efficiently and economically? Looking at EU added value from a wider angle may lead to the conclusion that there are more than two sides to the coin, revealing different insights on net budgetary benefits and costs. Frank van den Broek, Audit Manager and EU liaison officer, and Peter van Roozendaal, Audit Manager, of the Netherlands Court of Audit (NCA) explain how their audit office has looked at issues related to European added value in the last few years, and also cover one of the NCA's recent publications analysing Member States' net benefit positions over the last six years.

European added value: three different angles

The Netherlands Court of Audit (NCA) consistently advocates that EU money should be spent wisely, i.e. economically and effectively. In particular, the EU budget should be spent in such a way that it generates the best possible added value, both for the EU and individual Member States.

The term 'EU added value' is a multifaceted term and means different things to different stakeholders. Traditionally, one looks upon it from the perspective of EU-funds, and assesses whether EU-money adds something over national policies. The principle of subsidiarity demands that money should only be spent at EU-level when Member States are not able to fix a policy problem on their own. A more holistic approach looks at the added value of the EU for a Member State as a whole. That may include financial and/or non-financial aspects.

In July 2020 the negotiations on the 2021-2027 Multiannual Financial Framework (MFF) of the EU, and the Covid 19 recovery fund showed again that different Member States have different opinions about what the EU should strive for, how to achieve it, and with what instruments. Some Member States advocate that the EU should do less, some say the EU should do more.

In this contribution we look at EU added value from three different angles, each reflecting a different extent of involvement of national or supranational interests. These three perspectives are:

- the net payment positions of Member States, also known as *juste-retour*;
- the effectiveness of spending EU-money in Member States;
- the macro-economic benefits of EU-policies or, more generally, of being a member of the Internal Market and Customs Union.

A Member State's net payment position is generally a weak indicator of EU added value

Each year the EU spends around €160 billion, mostly in the form of grants, in and through its Member States. All 27 Member States contribute to the EU-budget. Their contribution largely depends on their gross national income (GNI)[1]. Since 1999, the European Commission has been publishing what is called the 'net payment position' of

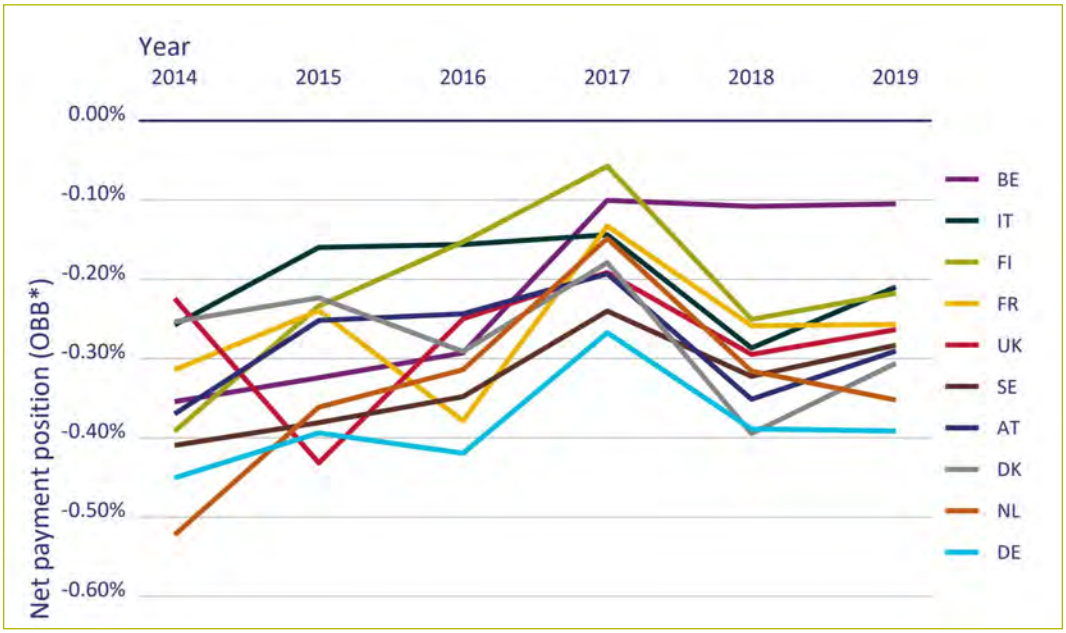
1 Gross National Income represents total primary income receivable by resident institutional units. It is equal to: GDP (Gross Domestic Product) plus primary income receivable by resident institutional units from the rest of the world minus primary incomes payable to the rest of the world.

its Member States in an annual financial report. For each Member State this report states what it contributed to and received from the EU budget. Some Member States are 'net payers' and others are 'net receivers.'

The net payment position of Member States as an indicator of the financial added value of the EU for Member States is limited. It only captures the direct financial flows to and from Member States. It ignores the effects of EU money and leaves out benefits that are not directly connected to EU-subsidies, such as the functioning of the internal market. But as we have only a small amount of concrete information about the effects of EU money (see below) the indicator cannot be totally ignored. The net payment position can also have an impact on political sentiment in some Member States. Net positions (and related rebates) have been important ever since Margaret Thatcher's statement 'I want my money back!' Although far from ideal, the indicator does allow Member States with comparable wealth to check whether they are benefiting from the budget as much as their peers.

Because of the continuing dominance of its net payer's position in the political debate in the Netherlands, the NCA published a report on 14 October 2020 that, based on European Commission data, provides an EU-wide overview of net positions between 2014-2019. **Figure 1** shows the development for the ten net payers to the EU budget between 2014-2019 as a percentage of their GNI.

Figure 1 – EU budget net payment position of EU Member States concerned



Source: Netherlands Court of Audit

Focusing too much on the net payment position may even have a negative side-effect, if it results in a 'spending-at-all cost' attitude. Instead of ensuring that grants are allocated to the best possible projects in the EU, each Member State has an incentive to spend all EU money that is allocated to it. Spending EU money *wisely* seems to be of less importance.

Information on the effects of EU subsidies is often still missing

Over the years the NCA has carried out several audits that provide an indication of the effects of spending EU money in the Netherlands. The Juncker Commission that took office in 2014 explicitly stated that it wanted the EU to spend its budget in such a way that it generated the greatest possible added value. From the perspective of the NCA, this is a route to a more transparent and effective Union: an EU that spends its money on the most pressing problems, and not focusing primarily, on the one hand, on absorbing EU funds at all costs, and, on the other hand, on limiting EU contributions under the 'juste retour' principle.

In the following section we discuss in more detail what this means in practice and how the NCA addresses these issues, using examples from the EU trend report and a special examination of the effectiveness of the EU's farm income support.

Results from EU Trend Reports[2]

In its annual EU Trend Reports – published between 2003 and 2016 – the NCA argued that the citizens of the EU have a right to expect that EU funds are spent in accordance with the rules (regularly), and that resources are used optimally (efficiently) in order to achieve the intended result (effectively). Furthermore, citizens must be able to see what the results are.

The NCA identified several recurrent problems in this regard. As a rule, the Member States' accountability reporting is not public and confined to descriptions of the measures taken. It includes little information about whether the measures achieved their desired effect. The NCA has repeatedly called for reports on the outcomes and effects of EU programmes. Such information is essential to determine whether the money is used in areas where the EU funds have added value. Unfortunately, most audits focus on compliance, and the question of whether the funds had their intended effects remains largely unanswered.

The NCA's 2014 EU Trend Report looked at the effectiveness of thirty projects under the European Regional Development Fund and its 2015 EU Trend Report at six projects that were funded from other EU programmes. The NCA found that the Dutch programming authorities (as well as the responsible ministers) had insight into policy performance and outputs, but little into the ultimate outcomes achieved with EU funding (see **Figure 2**).

Figure 2 – Insights into outputs and outcomes



Source: Netherlands Court of Audit

The NCA also found that although most of the audited projects delivered on their promises, the effectiveness and efficiency of expenditure was often difficult to establish. Performance indicators had been set but they were too general and said little about the exact effect achieved by the projects. Moreover, project applications that satisfied the funding criteria were honored on a 'first come first serve' basis. As a result, there was a risk that the most promising projects could miss out on EU funding.

Additionally, in the period from monitoring to final settlement, the chief concern of both the managing authorities and the beneficiaries was the regularity of the spending. Beneficiaries of EU subsidies were not judged on the results they produced. At the moment of completion of the project, the managing authorities had insight into the outputs of the project but not into its impact. Finally, for a number of projects, the recipients stated at least part of the project would also have been carried out without EU funding.

The NCA argued it would be more efficient and effective to allocate European structural and investment funds to programmes and projects that generate the greatest added value in accordance with the principle of subsidiarity. Ideally, projects from different Member States would compete against each other for EU funding so that the *best project proposal* would be funded, regardless of which Member State proposed it.

2 Summarized from our EU Trend Report 2016. See https://english.rekenkamer.nl/publications/reports/2016/01/27/eu-trend-report-2016

An examination of the effectiveness of the EU's farm income support (EAGF)

In 2019, the NCA analysed the information available on both gross and net incomes, including EU income support, of a group of farmers who received €426 million of EU income support in 2014. The NCA found indications that income support was only partially effective in providing farmers with a reasonable standard of living. The NCA concluded that in 2014 more than a third of EU farm income support was received by farmers whose gross farm income was at least twice the average income - the 'modal' income.

A number of interesting questions related to EU added value arose from our analysis, such as: What is a 'reasonable' standard of living for farmers? Is EU income support efficient if it is received by farmers who earn at least twice the modal income? Is EU income support effective if a third of the recipients still earn less than the statutory minimum wage? These are only indications of the effectiveness of EAGF income support, because the Commission and the Member States have not given a precise definition of what 'a reasonable standard of living' is.

EU funding effects going beyond merely budgetary effects: macro-economic benefits

The net payment position shows the budgetary balance between what a Member State contributes to and receives, financially, from the EU. Information on the effectiveness of EU subsidies – if available – shows the results for specific EU subsidies. But what can be said about the bigger picture of EU added value? What are the economic and societal benefits of being a member of the EU Internal Market?

Scientific studies point to positive effects of being a member of the EU Internal Market for the Netherlands. They rank the Netherlands among the five or six Member States that benefit the most. One study calculated that the welfare growth of the EU Internal Market for the Netherlands is over €1 500 per person, and almost €26 billion for the country as a whole[3]. Another study showed that in the long term the Netherlands would lose up to 15.7% of its GDP if trade barriers were re-introduced in the EU[4].

Aside from these economic benefits of the internal market, there are other benefits which cannot be expressed in a monetary way, for example, joint solutions to cross-border problems, such as greenhouse gases, waste, water quality, or adherence to the rule of law as an enabler for a functioning Internal Market, etc. As supreme audit institutions (SAIs), we are not yet overly accustomed to thinking in terms of macro-economic effects of policies. We believe, however, that this can be an essential building block for obtaining a more complete picture regarding EU added value.

SAIs contributing to a more complete picture on European added value

This year's negotiations on the 2021-2027 MFF once again show that different Member States have different opinions and different interests as far as EU spending is involved. To understand fully these differences – and thereby to be able to bridge them - we think it is important to include multiple perspectives on EU-added value. However, high quality and complete information at the level of the EU as a whole and at the level of individual Member States is often lacking. Consequently, the easily available information regarding the net position of Member States tends to dominate the political debate.

We believe SAIs can and should play a role in making sure that broader information is available. First, by stimulating central governments to *publicly* show a picture of the added value of the EU for their Member State that is as complete as possible. And second, by auditing the effectiveness of EU-policies themselves, including information on the macro-economic effects of policies.

3 Mion, Giordano and Dominic Ponattu, *Estimating economic benefits of the Single Market for European countries and regions*, Bertelsmann Stiftung, 2019

4 Jan in 't Veld, *Quantifying the Economic Effects of the Single Market in a Structural Macromodel*, European Economy - Discussion Papers 2015 - 094, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission, 2019

Auditing European added value – a case study based on a joint audit of the Rail Baltica project

By Jüri Kurss and Urmet Lee, National Audit Office of Estonia



Source: European Commission

The more ambitious the project, the bigger the stakes. In the case of large infrastructure projects, there are often significant investments to be made. And once started, there seems to be no way back. All the more important, therefore, to assess costs and benefits upfront. In particular for cross-border infrastructure, there is also the aspect of European added value to evaluate. This was done by Urmet Lee, Director, and Jüri Kurss, Senior Advisor, both working in the National Audit Office of Estonia, with input from the audit teams from Latvia, Lithuania and Estonia, who actually conducted the joint audit project. The authors share their experiences of applying the EAV concept, a posteriori, to their joint audit.

EU added value: so obvious, but still elusive

The story of EU added value (EAV) is almost as old as is the European Union itself. It is in the vocabulary of friends and foes of the EU, of politicians and journalists alike, as it is in the minds of EU auditors assessing the impact of EU interventions.

Our personal EAV story starts in September 2018 with the European Court of Auditors inviting the supreme audit institutions (SAIs) of Estonia, Denmark, the Netherlands and the United States of America to perform a peer review of the ECA's strategy for the period 2018-2020[1]. One of the key issues the review team addressed was the ECA's conceptualisation of EAV and the difficulty in applying it for audit purposes. The ECA spent significant time formulating a relevant definition – a complex and challenging task – and finally concluded: 'European added value is the value that an EU action adds through EU policy, regulation, legal instruments and spending, over and above the value that is created by Member States acting alone.'

Although a good conceptual definition (which is why we use it in this sense hereafter, wherever we refer to it generally), the review team concluded that for audit purposes the concept of EAV requires further operationalisation, eventually for every audit programme, enabling the auditor to assess whether EU action has delivered added value in comparison to actions taken by Member States alone.

The joint audit of the Rail Baltica project – assessing EAV?

Since the early days of the Rail Baltica (RB) project - the planning phase started in 2011 - the SAIs of Estonia, Latvia and Lithuania have actively monitored their respective national perspectives. In 2014, the three Auditor Generals discussed the necessity for cooperation and information sharing and decided to widen the monitoring scope across the Baltic States. In 2016, this cooperation was formalised and the Rail Baltica Task Force (RBTF)[2] for coordinated monitoring and joint auditing of the RB project was established.

1 The peer review report was published in March 2020.

2 The Rail Baltica Taks Force consists of representatives from the Supreme Audit Institutions of Estonia, Latvia and Lithuania, as well as Finland and Poland.



Source: Implementation of the Rail Baltica Project. Cooperative Audit Report by the SAI's of Estonia, Latvia and Lithuania, 2019

In 2017, the RBTF decided to carry out a joint audit (in addition to three independent audits in every country) focusing on very practical aspects and high-risk areas, such as procurement or contract management within the RB project. So far the first and only joint audit focused on internal controls and funding in order to determine whether the implementation system was set up efficiently and would work effectively, once procurement and contracts for big constructions had to be dealt with[3]. Setting this audit focus was undoubtedly rooted in domestic concerns in the three Baltic states.

Neither at the beginning nor – as we learned later on from the three national audit team leaders – while carrying out the joint audit, was EAV - as a concept - a driver to start this exercise nor was it explicitly questioned or tested. Is there a good reason for this, given that – from a national perspective –the extent of EU co-financing already and – from an EU perspective – the cross-border nature of the project clearly indicate that EAV could be at stake?

European added value is everywhere

One reason for not addressing EAV at national level is that such big EU investments in large-scale infrastructure projects – like the RB project – inherently create an added value for Member States, as they trigger economic growth and generate employment across the economy. For domestic purposes, this is enough and does not, therefore, need to be demonstrated. From an EU point of view, this may be different, since – at least theoretically – the money could have been better spent on other projects offering better value for the Union as a whole or was simply misspent in terms of EAV (in its various forms). For that matter, EAV should not be an end in itself and limited to only economic gain, but can consist in or be a result of cooperation and cohesion between the Member States, which in turn could foster trust in the EU and lead to further cooperation and cohesion, leading possibly to economic growth and other results, etc.

That said, what does it mean for auditing EAV? Assessing such infrastructure projects may require us to study the 'creation' or 'realisation' of EAV in a given project, e.g. by examining whether planned and implemented actions at Member State and / or EU level are or have been carried out in the best way to achieve the desired outcome. Or whether any other EU and / or national interventions would have been needed.

Seeking for EAV in the Rail Baltic project: survey among the three Baltic SAIs

For the purpose of this article, we decided to look into the question of whether the information gathered and the findings determined in the course of the joint audit of the RB project would allow identification of the extent to which EAV has been /is being created or (possibly even unintentionally) jeopardised. In order to do so, we conducted a small case study and carried out a set of written interviews in August 2020 with the RBTF audit team leaders of the three Baltic SAIs. The interviews focused on three key aspects in the implementation process of the RB project:

3 Implementation of the Rail Baltica Project. Cooperative Audit by the SAI's of Estonia,Latvia and Lithuania, 2019

- acceptance of the project and manifestation of the benefits at national level;
- funding stability;
- cooperation between the three Baltic Member States and the EU institutions involved.

In our view, these three aspects together are crucial elements for succesful implementation and actually form a set of criteria that allows an understanding of whether the potential EAV of the RB project was realised or not. For us this was the most logical way to approach this issue.

Overall, the basic concept of EAV is too abstract for direct use in audit activities, and the audit teams involved in the audit of the RB project neither thought or operated in the context of the concept of EAV. However, all agreed on the relevance of the three aspects to addressing the question of EAV. Below we briefly present the observations and our concluding remarks on each of these three aspects and draw some conclusions (see **Table 1**).

Table 1 – Key aspects of the implementation process of the RB project

Aspects and questions	Main findings	Conclusions
1. Acceptance of the project and manifestation of the benefits at national level		
• *How well was the RB project anchored and explained at national level?* • *Was there any 'room' for public discussions on the pros and cons of the RB project?* • *What was the role of European institutions in this process?*	• It is not enough to simply have a good project. In order to get everyone on board you have to explain thoroughly what the benefits of the project are, especially when there are opposing views and a debate in Member States about the pros and cons of the project. Overall, the public had been quite well informed about the project, its progress and key decisions. Press releases had been emphasising that the project was aimed at integration of the Baltic states into the European Railway network and explained the benefits of project implementation. Public opinion had been generally supportive of the idea of the European rail link. • There is less discussion or criticism of the efficiency and sustainability of the project in Latvia and Lithuania and a bit more in Estonia. The most prevalent discussion point in all three Member States related to the planned route of the Rail Baltica and the need to expropriate real estate. A common understanding is that the overall benefit of the project is a compromise for all parties involved in the project. • The main role in publicising the project was played by the ministries of each country. Later, when financial support was received from the European Commission, the European institutions took a more active role. The representatives of the Commission have participated in the discussions and explanations about the progress of the project and the challenges (such as possible delays in the timetable and other risks) and available solutions.	• There was enough explanation and room for ample discussions and proactive information provision took place. We can therefore reasonably conclude that the EAV of the RB project has been addressed at this stage of the process by the parties involved and responsible for communicating and explaining to the public the purpose, benefits and costs of the project.

2. Funding stability		
• *Funding stability of the RB project – could the lack of EU funding guarantees jeopardise the project and, thus, the creation of EAV?*	• Both the Baltic states and the EU have understood that an unfinished project would be a complete failure, as it would not only be non-functional, but also a waste of funds and a total loss in terms of EAV. • Thus, funding stability is a key condition for successfully implementing and finalising the project. However, there are no EU funds earmarked for the project in the EU budget. Moreover, potential funding appropriations are spread over multiple Financial Frameworks, requiring project implementers to apply for Connecting Europe Facility transport calls when funding is needed. • The financing risk of this project is very palpable and has been highlighted in the joint audit report.	• From an EAV point of view, a clear long-term commitment securing the necessary funding for the project may be preferable. • On the other hand, the process of public fund allocation is political in nature both at EU and Member State level. • Nevertheless, until now the present outcome with regard to funding stability seems to be accepted. • The EU in general and the Commission in particular have demonstrated a positive attitude in terms of co-financing and technical support. This is evidenced, for instance, by the regular participation of key officials in the Rail Baltica Global Forum and their commitment to supporting the project. • That said, as the cost of the project rises, the EU will inevitably seek to get the implementing countries to contribute as much as possible, but within the limits of their capabilities, to successfully complete the project.
3. Cooperation between the three Baltic Member States and the EU institutions involved		
• *Cooperation between all parties involved – did the Commission facilitate and foster cooperation?*	• The joint audit has shown that there are differences and different understandings between the three implementing countries at operational level with regard to project realisation. • In practice, the EU represented by the Commission was not only left with the role of decision-maker and enforcer, but also acted as a mediator. For instance, when the national counterparts could not agree on the appropriate model of infrastructure management, the Commission issued an Implementing Decision (2018) which set the date for deciding on this issue. • At the same time, the Commission never overstated its budgetary contributions to overrule its partners in the three Member States when engaging in conflict resolution, but respected the fact that the RB project represents a heavy burden on the national budgets.	• The Commission acted as a facilitator and helped to solve problems arising, which so far has helped to move project implementation on.

How can EU SAIs contribute to creating EAV?

In view of the heavy audit burden[1] on the RB project and the overall critical assessment of the project preparation and implementation in all audit reports, one could take a sceptical perspective and argue that auditing is rather contributing to decreasing the trust in EAV creation, and in doing so possibly also jeopardising cooperation and reducing the chances of a successful finalisation of the RB project. However, factually there is no evidence to support this. Instead, a clear, objective and unbiased presentation of problems and unmitigated risks provides all participants of the RB project with a better understanding of what needs to be improved, while simultanously setting the focus for improvements in project management. Hence we conclude that an objective outsider's look at the issues at stake (e.g. via audits) is rather supportive and neccesary for the realisation of EAV in EU projects, since it increases the likelihood of better implementation and identifies issues, thus helping to achieve more fruitful cooperation.

Takeaways for the auditor regarding European added value

While EAV may be a good argument for EU action and funding, it can be rather challenging to translate it into concrete audit criteria to arrive at clear and conclusive audit conclusions on the issue as such. Our observations, based on our EAV ex-post review related to the RB project at Member State level, are:

in general, the concept of EAV is too broad, abstract and non-self-explanatory for daily use in auditing;

- if EAV is meant to be addressed within an audit, it needs to be oparationalised by giving it certain unique characteristics relevant to the subject matter being audited;
- these characteristics serve as a set of criteria for assessment of whether the objective of delivering EAV was promoted and eventually achieved or not.
- Although some debatable issues and risks remain, we come to the perhaps obvious conclusion that the proof of the pudding is in the eating: the likelihood of creating EAV is greatest once the particular project is finalised. This has been the underlying assumption of the joint audit team as well.

Preliminary observations indicate that thus far none of the implementing parties of the RB project have initiated actions that would 'fatally' harm any of the EVA aspects we choose to assess in our case study. But it does not mean that it cannot happen in the next stages of the project. Through their assessment and by expressing their fair opinion, public auditors can contribute to minimising those risks. Also, focusing in audits on relevant EAV aspects will further increase performance audits' impact and relevance for all the stakeholders and contribute to the implementation of the project under evaluation.

1 The ECA recently conducted an audit in addition to the joint audit and regular financial audits also ECA conducted a recent audit, see ECA special report 10/2020: *EU transport infrastructures: more speed needed in megaproject implementation to deliver network effects on time*

The European dimension is key for adding European value

Interview with Johan Van Overtveldt, Chair of the European Parliament's Committee on Budgets

By Gaston Moonen



Johan Van Overtveldt

One way for the EU to provide added value is via the EU budget, and in particular through making spending conditional upon meeting specific political objectives. The negotiations between the European Parliament and the Council for the Multiannual Financial Framework (MFF) for the 2021-2027 period, as well as for the new 'NextGenerationEU' recovery initiative, have just been concluded. The Committee on Budgets is the key player on the Parliament's side in these negotiations and Johan Van Overtveldt is its Chair. I spoke with him while the negotiations were still ongoing about how the EU could get adequate financial means for its policies and how European added value can be optimised.

From Belgian Minister of Finance to Chair of the EP's Committee on Budgets

Johan Van Overtveldt has been chairing the Parliament's Committee on Budgets since mid-2019, since the current Parliament started its mandate. Before that he had done many other things: he was in journalism, banking, in industry, active in think tanks, basically a 'jack of all trades' in the most positive sense.

When asked what motivated him to go into politics he replies that it was something he had not done yet. 'During the autumn of 2013, I thought it was time to do the last thing that I had not yet done professionally – politics. From then on it all went very quickly. Less than a year later I was Minister of Finance in Belgium.' He had already been elected to the European Parliament back in 2014, but then things went differently. 'With the formation of the federal government in Belgium I was requested to make a switch. But I came back to Europe for the elections of 2019.'

Top priority of the Budgets Committee: negotiating the new MFF and the 'NextGenerationEU' initiative

The Budgets Committee Chair doesn't mince his words about his first year in office. 'It has been quite intensive – the decision making process in Europe is, per definition, complex, but that also makes it interesting. Sometimes very tiring, and at times it can also be very frustrating. Because it takes a lot of time to develop consensus.' At the same time, he finds it very interesting because you get a better feel for the sensitivities in the different national constituencies. 'This is all the more important when the circumstances are quite demanding, with a Covid-19 crisis going on and the MFF negotiations to be finalised. All the political groups are represented on the Budgets Committee and if – as we did during my term - we can reach a broad consensus in the Committee on what to do, what objective to try to achieve, then, of course, this Committee has quite some influence. At this point in

> *'All the political groups are represented in the Budget Committee and if – as we did during my term - we can reach a broad consensus in the Committee on what to do, what objective to try to achieve, then, of course, this Committee has quite some influence.*

time we are negotiating to obtain some changes to what the European Council had agreed upon in July during its famous five days summit. We are trying to improve it, in the name of and with the mandate of the Parliament, to get it closer to what is necessary in the interests of European citizens.' He also underlines the broad consensus within the Parliament on this aspect. 'Until now we have been able to keep almost everybody on board, at least, the large majority of MEPs. I think that it is really something that should be valued, reaching results on adaptations to the July compromise on the Recovery and Resilience Facility and also, of course, the Multiannual Financial Framework.'

For Johan Van Overtveldt it is clear that the Parliament should have quite some say in how the next MFF should look, even more so in view of the crisis measures taken. 'No matter how you look at it, at the end of the day, the European Parliament is the most representative EU institution, with its more than 700 MEPs directly elected by Europe's citizens.' He particularly underlines the specific European approach that the Parliament is trying to formulate.

> *No matter how you look at it, at the end of the day, the European Parliament is the most representative EU institution...*

Key concern: how to pay back the new EU debt?

The Budgets Committee's considerations do not only concern expenditure but also guarantees to make up for it in the long term. Its chairman explains: 'The Recovery and Resilience Facility - created to fight the consequences of the Covid-19 pandemic - provides for the Commission borrowing €750 billion on the markets from – let's say - now till 2026 and then the re-payment will start and run for 30 years, until 2056. That re-payment should be made - as the European Council decided – from new own resources.' He points out that this is one of the weaker points of the European Council's agreement. 'Because the agreement on what these resources should be and how much they should bring in is – to put it politely – vague. This is rather dangerous, because if you do not get sufficient own resources, you will not be able to make the repayments.'

Then, Johan Van Overtveldt explains, only two possibilities remain: 'Either the GNI contributions of the Member States have to increase – good luck with that! The European context we have now will still be us for at least some years to come. Or you start cutting the programmes, so you act on the expenditure side. I am not at all against having a close look at the effectiveness and efficiency of certain programmes, but for some of them – I'm referring to, for example, Horizon and InvestEU – I think it is a pretty well established fact that they are really performing well. Erasmus is another good example of a very successful programme.' According to Johan Van Overtveldt, this uncertainty on how to make the repayments needs to be dealt with as soon as possible. 'We must get a better picture on the road map towards servicing this EU debt, so that we can assure the financial community, but also our own citizens and companies, that the repayment that will have to start in 2026 can indeed be made in the proper way.'

> *We must get a better picture on the road map towards servicing this EU debt...*

Johan thinks that honesty and clarity is important here. 'I see several European politicians saying things today which are apparently untrue. Take for example the proposal for a digital tax: currently Big Tech companies' profits are clearly not sufficiently taxed in the EU. You can talk at the European level - I would prefer at the OECD level - to come to a digital tax on these companies, but saying that this tax will be paid by these internet giants, and hence not by the European citizens, is simply not true.' He explains that the basic problem with these companies is that they have quasi-monopolistic market positions. 'That is the problem you have to tackle. Somebody like Ms Vestager is aware of that. She was in the Parliament a few times. As long as you do not do something about it – the oligopolistic, and in some instances even quasi-monopolistic situation of these huge, gigantic companies – mainly US American, but do not forget the Chinese in this context – you can tax whatever you want! You will get money! But it will be paid by the citizens, because these guys will just pass it on. The market situation will let them do that.'

> *As long as you do not do something about it – the oligopolistic, and in some instances even quasi-monopolistic situation of these huge, gigantic companies (...) you can tax whatever you want! You will get money! But it will be paid by the citizens...*

In the current situation, the 2021-2027 MFF and measures to address the Covid-19 pandemic, and in particular the Recovery and Resilience Facility (and how the new EU debt will be reimbursed), are what preoccupies the Budgets Committee most. 'But let us not forget about the third issue, Brexit! That can also be quite disturbing and adds to the uncertainty that is already weighing so heavily on the European economy and the world economy in general. The European Union, together with the US and China, are the most important economies in the world. These three things – the MFF, Covid-19, and Brexit, are a trio that can make or break a lot of things in the coming months and years.'

> *These three things – the MFF, Covid-19, and Brexit, is a trio that can make or break a lot of things in the coming months and years to come.*

The ECB role in dealing with this crisis

Johan Van Overtveldt also underlines the crucial role of the European Central Bank (ECB) in the current context: increasing pressure on national and EU budgets, due to the economic crisis and rising levels of debt, also creates a difficult situation for the European Central Bank. 'What the ECB has done during the financial crisis was a courageous step and appropriate. My concern – and it is always easy to be critical afterwards, but I already spoke out about this when I was still Minister of Finance in Belgium – is that they continued too long with the policy of quantitative easing. This is what has led to the negative interest rates in Europe. What I brought up three or even five years ago was: what are you going to do when there is the next major crisis? And now we are there.'

He points out that what the ECB did – doubling-up efforts with lower interest rates, massive purchases of public debt, etc., is to undo what they created themselves. 'Perhaps I am exaggerating a bit but if you say all the time that you will do whatever it takes, then you should not be surprised that politicians hear it and do not get into fifth gear in terms of structural reforms or expenditure controls. And now we are in a situation where the ECB has to conduct its monetary policy in a very difficult and very uncertain situation, with measures to ensure that the whole building stays in one piece.' He adds that the ECB's efficiency has become more imperative than ever. 'We need to put the ECB even higher up our priority list than it was in the past.'

> *We need to put the ECB even more on the top of our priority list than it was in the past.*

New challenges add to the workload of the Budget committee

According to Johan Van Overtveldt, the workload for the Budgetary Control Committee has significantly increased in this parliamentary term. 'That is also something I hear from colleagues. You now have the Recovery and Resilience Facility which, of course, is a good initiative given the severity of this pandemic and the resulting economic crisis. It was not there in 2014. Moreover, its negotiation coincides with the negotiation of the new MFF, and this is where things get extra complicated. Then you have the own resources discussion; you have the discussion of the budgetary authority and oversight of these programmes, which, of course, hase gained new relevance through what we have seen in the last months. So – the workload has increased, become more complex, it has become more challenging.'

European scale creates added value

For Johan Van Overtveldt, EU added value is particularly visible in those areas where economies of scale apply. 'The European Union can bring a scale to the table that not even big countries, such as Germany or France, can bring on their own. That is where the added value is and that is why I am also fighting to get improvements for programmes such as Horizon, InvestEU and Erasmus during the next MFF. These are programmes that clearly create added value, because of the European dimension that comes with them. I have four children; three of them participated in Erasmus projects many years ago. It was a fabulously enriching experience for them. That is where Europe adds most of its value.'

Johan Van Overtveldt explains that this is an important reason why the Budgets Committee is against the trajectory that has been laid out by the European Council on those programmes. 'Is everything perfect in the Horizon or InvestEU programmes? No! But there are so many good things in them! If you are talking about digitalisation of Europe, about remaining

competitive in an increasingly competitive world, then you should be really very attentive to what you do with these programmes, because they are instrumental in building up this competitiveness. Just cutting or watering them down is going against the interests of European citizens.'

And what about European values?

Johan Van Overtveldt also takes a clear stance on the discussion of European values: 'One way or the other, there is a kind of value system and it is European. But it is also a diversified value system, because people are thinking and acting differently in Finland, Portugal or Poland. But in my view, this diversity can also be enriching and as such is a positive thing.' He refers to the former German Minister of Finance, Wolfgang Schäuble, who indicated that there are of course European values, but one has to be careful in the interpretation of them. 'The rule of law is of course a cornerstone of our democratic society. But the way we deal with it at European level must – per definition – be fine-tuned because there are so many differences. We should not forget that 30 years ago, for example, the East-European countries were still under communist regimes. 30 years is a long time, but it does not mean that all the authoritarian heritage has been wiped away and that they talk and think like us, who have been spared communist dictatorship.'

> *The rule of law is of course a coernstone of our democratic society. But the way we deal with it at the European level must – per definition – be fine-tuned because there are so many differences.*

More performance orientation needed in the EU budget

JJohan van Overtveldt has a very positive view of the work of the ECA. 'I cannot read all the ECA reports and many are read by my staff, who then brief me about key audit findings. Nevertheless, I have the impression that the reports have become more explicit. If you look at the reports from ten years ago, a lot of reading between the lines was required, and you had to interpret what the ECA was trying to say. Now the reports have become more outspoken, and I personally find them very useful.' He refers to the discussions between the Budgets Committee and the ECA at working level. 'This helps us to get a better grasp on issues, such as what is happening with cohesion funds, with agricultural expenditure, with other policy areas, and where better oversight and more emphasis on efficiency is still much needed.'

> *Now the reports have become more outspoken, and I personally find them very useful .*

Johan's predecessor, Jean Arthuis, regularly pleaded for more performance orientation when allocating the budget. Johan van Overtveldt agrees with that. 'When spending public money, you cannot take anything for granted. You also have to check whether it has been spent well and used for the intended purpose. And I really think that we can step-up on this issue. And this is what the ECA is doing and where your reports are particularly helpful to us here at the European Parliament. After all, it is the responsibility of us politicians to make sure that taxpayers' money is used in an economic, efficient and effective way. Full stop!'

> *When spending public money, you cannot take anything for granted. You also have to check whether it has been spent well and used for the intended purpose.*

Taking back control : the European way of adding value

By Sandro Gozi, Member of the European Parliament



Source: I.v.I / Shutterstock

While some want to bring government 'home' to their Member State, others have pleaded for more European action to tackle transnational issues, arguing for a unified rather than a cooperative approach. Such issues vary from EU measures addressing the Covid-19 pandemic and tackling climate change to strengthening the Union's single market and competitiveness, or enhancing the EU's powers on the rule of law and tackling organised crime. Sandro Gozi belongs to the second group. He is Italian, but was elected Member of the European Parliament in France. For many years, he has been pleading for more transnational EU policies, including for example the introduction of transnational lists for European Parliament elections. He previously worked for the EU civil service. Subsequently, he was elected as Member of the Italian Parliament and served as Europe Minister in the Italian government. He is convinced that EU solutions are the way forward to address core challenges that EU citizens care about. Below he explains why he believes in the European way of adding value.

Addressing Europe's long-term problems jointly

The 2008 financial crash, migration crisis, terrorist attacks, and now the Covid-19 pandemic have demonstrated how national governments alone cannot provide the solutions needed to match the scale of the challenges we face. Europeans therefore have a choice to make: the EU's approach to solving transnational problems, or retreating to nationalist measures. Nationalism suffers from weaknesses, but one in particular: it falls short of solving any of today's problems in the long term. Whether it is health policy, defence, digitalisation, the green recovery or migration, finding solutions at European level is the only way for us to truly 'take back control.'



Source: Concilium

From left to right: Dutch Prime Minister Mark Rutte, German Federal Chancellor Angela Merkel, President of the European Commission Ursula von der Leyen, President of France Emmanuel Macron, and President of the European Council, Charles Michel, during the Special European Council meeting from 17 to 21 July 2020

The EU needs to offer a better and more credible response than the one provided by nationalists by showing the value it can bring to domestic policies. This means taking back control through deepening the process of political, economic and fiscal integration at European level. The best example of this European approach in recent months was the European Council agreeing to the Recovery Fund back in July: the EU demonstrated it could match dramatic circumstances with extraordinary measures that can be quickly deployed Europe-wide. And it was clear that only through EU action and stronger cooperation can we win the battle against a global pandemic such as Covid-19. For me, there are several key areas where the EU can add value to our continent's recovery from the crisis: health policy, defence, digitalisation, the green recovery and migration.

The need for a European health policy



Source: ilikestudio / Shutterstock

The Covid-19 crisis demonstrated that EU competences in health are clearly lacking and limited to what the European Commission could do when the pandemic first struck Europe. This is why I am particularly pleased that European Commission's President von der Leyen, in her first State of the Union speech last September, called for the EU to be able to act in health policy. This would allow for the adoption of rapid response mechanisms to avoid, for example, conflicting reactions by Member States which put the health of their citizens at risk. Knee-jerk reactions by governments during the outbreak of the pandemic resulted in selfish national policies in complete disregard of other Member States' needs. We need common criteria for risk assessment and stronger cooperation. The EU should then have the competence to act in the common European interest, and carry out ex-post management of crises through common procurements and joint investment in research.

The Covid-19 pandemic also revealed the vulnerability of Europe's medicine and medical equipment supply chains. 80% of active pharmaceutical ingredients and 40% of finished medicines come from India and China. Our quasi-total reliance on imports shows the EU's lack of strategic autonomy in such a vital sector and resulted in shortages of masks and vital equipment to tackle the pandemic quickly. This not only poses risks to the resilience of our healthcare systems, but also prevents EU citizens getting access to the necessary equipment if supply chains are disrupted.

Updating the existing Joint Procurement Agreement would help: the Commission could then issue public tenders for ventilators, vaccines and medical treatments. It would bring more transparency and an efficient and fair distribution of vital medical equipment across member states. It is unacceptable that masks and other medical equipment needed to tackle the coronavirus were in surplus in some countries and lacking in others; we are a community of values with solidarity at its core and a single market to support it.

Second, we need to step up our game when it comes to research and innovation. We must pool resources by funding a European research consortia on prevention, detection and treatment of future diseases. In 2015, EU countries allocated only between 2% and 4% of their total healthcare expenditure to the *prevention* of diseases. The reason? Governments preferred to show to their voters more tangible action on the *treatment* of diseases. Let's hope we have now learnt from this mistake: healthcare systems across Europe need to be based on prevention rather than on treatment. Instead, health needs to be seen as an investment rather than a cost.

The EU's new coal and steel: digital and green energy

As Churchill said, one should *never waste a good crisis*. The only way to recover from the Covid-19 crisis for good is by transforming the European economy into a green superpower. Digitalisation and green energy need to become the EU's new 'coal and steel.' The combination of digital transformation and the green recovery are crucial for Europe to become stronger and more sustainable than ever before thanks to new opportunities, jobs, and investments. The EU needs to take control by achieving digital sovereignty: creating its own platforms, improving connectivity and massively investing in artificial intelligence. Action at EU level on data access will also be crucial to boost investment and business opportunities for big tech firms and SMEs while protecting EU citizens from potential abuses. Citizens' personal data should be collected and protected in the EU under our laws in accordance with our values.



Source: koya979/Shutterstock

Tackling climate change is one of the most obvious areas where action at supranational level makes sense. 27 different national measures would lead to confusion, wasting resources, fragmenting the single market and little progress. Only at EU level can we match the scale of the climate emergency with the measures needed to become carbon-neutral by 2050 and make the greening of the economy a source of growth and investment. Thanks to digitalisation, it will also be easier to improve energy efficiency, reduce our oil consumption for heating, and make agriculture more sustainable, and thanks to AI and data, easier to use less pesticides and fertilisers. We have everything to gain from this digital revolution.

Europe's defence policy: stronger together

Defence policy is another example of national solutions limiting Europe's effectiveness in the world. Today EU Member States individually would be unable to defend themselves against an external aggression and account for only 20% of NATO's military expenditure. Those who argue against a stronger EU defence policy ignore the fact that EU countries rely far too much on US military capabilities, as we saw during the EU-led missions in Libya and Mali.

The second point often overlooked by sceptics is that EU Member States have already engaged in a process of military integration due to the continued decrease in military spending and forces in Europe. Yet in 2020, Russia had 603 warships, the USA 490 and China 777 - whereas the EU27 collectively had 1 444. France, Italy and Germany combined have 700 diplomatic representations worldwide, while China has 276 and the

US 273. The question is then whether the EU wants to achieve a watered-down foreign and defence policy after years of military spending reduction, or whether it wants a strong common structure that would enable it to better protect security interests, coupled with stronger diplomatic might worldwide.



Source: Spectral-Design/Shutterstock

This would allow the EU to play a stronger role in neighbouring countries lacerated by conflicts. These conflicts are right on Europe's doorstep, and the consequences for Europe are well-known: tragedy in the Mediterranean and on our shores, humanitarian crises, people trafficking, and unmanageable pressure on the communities who are forced to manage migration with too few resources.

Reforming the EU's migration system and management of external borders



Source:Spectral-Design/Shutterstock

Tents in the empty refugee camp close to the Serbian border on 15 September 2015 in Roeszke, Hungary.

This leads me to the fourth area where EU action can bring significant benefits to citizens in the EU and beyond: better management of migration flows by working with our immediate neighbourhood. The first step towards a better defence of external borders is of course reforming the Dublin Regulation. The current mechanism, based on the 2019 agreement reached in Malta on voluntary participation in the automatic reallocation of migrants, is only a starting point for a more ambitious reform. Yet the unanimity rules in the Council block every attempt to create a fairer migration system. The only way out is for the Commission and the Parliament to adopt new immigration rules that are binding on Member States. A high hurdle to overcome, but necessary in order to be true to our European values of solidarity, respect for human dignity and human rights.

The EU also needs to take a broader approach to migration policy by not giving funds to countries which do not cooperate on migration. Instead of providing funding to countries of origin and transit, the EU should channel these resources to the same countries as states with voluntary return programmes. Such conditionality would ensure safer migration flows, and would not necessarily require new agreements between the EU and African states since the Cotonou Agreement already links development aid to cooperation on migration. Incentivising voluntary return programmes would make legal migration channels more attractive while simultaneously supporting the economic development of countries of origin.

Managing the EU's external borders is another area where there is a need for decisive action at supranational level. The single market and the Area of Freedom Security and Justice makes immigration and securing borders against terrorism a common responsibility. This is why the European Border and Coast Guard Agency (Frontex) was created, and more funding would allow it to expand its personnel and acquire new vehicles such as helicopters and vessels, thus making its contribution to the defence of common borders even more effective.

The EU needs to embody post-national sovereignty based on solid democratic foundations

In conclusion, Eurosceptics suffer from an outdated vision of the nation state where sovereignty only belongs to the national government. Yet global pandemics, the climate emergency, the digital revolution and migration flows cannot be solved by nation states alone. This is why *European* sovereignty is so important: rather than a central and overcontrolling state, the EU is a uniquely post-national one that allows us, collectively, to take back control. If the EU27 have the courage to reform it, then the EU can provide many of the solutions citizens demand.

Yet EU policy reforms and new competences are not enough. They go hand-in-hand with an extensive process of democratisation of the European public space. This can only be done by strengthening EU democracy, starting with real transnational movements, policies and elections, giving the European Parliament the right to initiate legislation, and simplifying the rules on citizens' initiatives. In order for Europe to 'provide value' in all these policy areas, it is high time to make the EU the democratic powerhouse it needs to be to do so.

European added value and the cost of non-Europe - the origins of an idea whose time has come

By Anthony Teasdale, Director General of the European Parliamentary Research Service (EPRS)



Source: esfera-shutterstoc/

The idea of European added value (EAV) was already in the minds focus of the EU's founding fathers, although different phraseologyterminology was used back then. Anthony Teasdale is Director General of the European Parliamentary Research Service of the European Parliament and Visiting Professor in Practice at the London School of Economics (LSE). Here Below he looks at goes back to the origins of EAV and how it has evolved within the EU institutions over time. into a concept that has become a guiding principle in the legislative work of the European Parliament, He also also discussesd the 'opportunity cost's of not undertaking EU action -– the cost of non-Europe -, which his research service can be estimatesd at more than €2 trillion per year.

Origins of an idea of common European action to shape Member States' future

Right from the start of the process of post-war European integration, there was always a strong sense of national economies and polities being 'stronger together' by pursuing a 'destiny shared in common', as Robert Schuman, the then French foreign minister, put it in his famous declaration at the Quai d'Orsay in May 1950. Schuman's indispensable lieutenant, the brilliant technocrat, Jean Monnet, understood how,. B by combining and reformatting problems, you could often create new space in which to resolve them - 'changing the context' of a complex issue, as Monnet put it. His insight that the pooling of control over the coal and steel industries of France and Germany could disable French hostility to the reindustrialisation of Germany (and potentially its rearmament too) was a powerful case in point, and it changed the history of post-war Europe.

Monnet believed that an increasingly interdependent Europe would be a more resilient Europe, and that the countries that participated in the European Community, now Union, would enjoy more options to shape their future, based on a stronger collective sovereignty than any individual power that they could exercise separately and alone. He was a believer in what the British historian, Alan Milward, was later to call 'the European rescue of the nation state.'[1] In this sense, the notion of there being an 'added value'

1 Alan S. Milward, *The European Rrescue of the Nnation S-state*, London 2000

from common European action is far from new, even if the phrase itself was not used in those early days. Indeed it was inherent (and remains inherent) to the very concept of supranational integration itself.

Coming into vogue

The specific use of the phrase 'European added value' - and the idea that there could be a 'cost of non-Europe' from the absence of European action - first emerged in the early 1980s, in a discussion led by the recently directly-elected European Parliament. The advent of the new Parliament gave a powerful tailwind to those who believed that Europe could be part of the solution to the economic (and indeed political) stagnation that seemed to have descended on the continent.

The twin concepts were a reaction to the general feeling of stasis that accompanied the stubbornly low growth and high unemployment of the European economy at the time. The rise of 'Euro-pessimism' and growing alarm about what in 1983 the then US Commerce Secretary called 'Euro-sclerosis' generated a strong political desire, across the ideological spectrum, led by a set of ambitious new players in the Parliament, to look at novel ways of revitalising the European economy and improving its long-term prospects.

To this end, the European Parliament established a special committee on 'European economic recovery,' which sought to identify new routes to break out of the impasse. As part of its work, the committee commissioned a background report from two of Europe's leading economists, Michel Albert, former head of the French *Commissariat général au Plan,* and Professor James Ball, then head of London Business School. Their joint work, called 'Towards European Economic Recovery in the 1980s' - or the Albert-Ball Report, as it quickly became known - was published in August 1983. Expectations of what this report might contain were relatively low, and although today it reads like a series of interlocking essays on the various problems of the stagnant European economy, it contained a number of insights that were to shape and shift opinion, in the kind of way that Monnet himself had managed to do in the 1950s.

Albert and Ball drew attention to what economists' call the 'opportunity cost' of something that does not exist. In this case, they argued that the 'absence of a genuine common market,' together with other obstacles to intra-Community trade, were imposing a systematic handicap on the European economy, which as a result was under-performing compared to its real potential. They calculated that the ensuing output gap - what they termed for the first time, the 'cost of non-Europe' - represented about two per cent of GDP per year.

'Like peasants of the Middle Ages who had to pay a tithe to the lord', Albert and Ball wrote, everyone in employment in Europe 'works on average one week per year' more than they needed to because the economies of scale that could be generated by a genuine European market were missing. Realising these economies of scale through de-compartmentalising the continent's economy was, they believed, a crucial challenge for Europe in the 1980s.

Present at the creation

As a young staffer in the European Parliament, one of my very first jobs was to follow the work of the special committee on European economic recovery in 1983-84, a process from which I learned a huge amount that has influenced my thinking about Europe ever since. I accompanied some of the committee's MEPs on a fact-finding visit to Paris to discuss the ideas in the Albert-Ball Report with Michel Albert himself, who was now chair of a major insurance company, Assurances Générales de France. I still remember our meeting at the AGF corporate headquarters, where Albert explained to us how he believed that Europe could undertake a kind of supply-side revolution that was consistent with the ambitions of Europe's founding fathers.

Even more importantly, in January 1984, the full committee held a meeting in Paris with Jacques Delors, then French finance minister and a former MEP, who felt very comfortable in the company of his erstwhile colleagues. It quickly became apparent that Delors was already very familiar with Michel Albert's thinking, someone whom he knew personally, and that he had read the Albert-Ball Report closely. When he entered office a year later as President of the European Commission, in January 1985, Delors quickly signalled that a key pathway to Europe's future success would lie in creating a new collective public good of exactly the kind identified by Albert and Ball, by completing (in fact, creating) Europe's single market and using this as a route to collective prosperity.

The vehicle for that relaunch of the European economy was to be the removal of barriers and the alignment of standards in a way that would offer wider choice for consumers and greater economies of scale for producers, so increasing trade, investment and employment. Delors embarked on a detailed programme of around 300 legislative initiatives to achieve that goal across two four-year terms, namely by the end of 1992. It is a sad reflection of the lack of European consciousness that often affects national political and economic elites that when (otherwise fulsome) obituaries were written to Michel Albert and Jim Ball on their deaths a few years ago, no mention was to be found of their key role, through the Albert-Ball Report, in shaping the European agenda of the mid-1980s. They were in fact not only 'present at the creation' of this new Europe, their central idea was critical to the creation itself.

The Delors programme to complete the single market - by promoting and assuring the free movement of goods, services, capital and people between 1985 and 1992 - rapidly gathered speed and with it, the argument that Europe could generate other collective public goods that otherwise might seem impossible. This rapid 'spill-over' effect was seen in the twin debates in 1988-89 about, first, creating a single currency to parallel the single market - encapsulated in Delors's own report on Economic and Monetary Union in April 1989 - and second, building a social Europe to balance the faster-than-expected deepening of the European market. The latter led to the European Social Charter in 1989 and eventually the Social Chapter of the Maastricht Treaty two years later.

Upgrading common interests

In effect, these unexpected and highly significant knock-on effects vindicated the theories of those 'neo-functionalist' academics, like Ernst Haas and his student Leon Lindberg, who back in the 1950s and 1960s had argued that a federal political system was most likely to emerge in Europe on a 'modular' basis, as successful integration in one area created a rationale and a political constituency for integration in other areas too. As Lindberg claimed, this process would move collective decision-making over time from a diplomatic search for the lowest common denominator - splitting the difference between the interests of member states - to a general 'up-grading of common interests.'[2]

This emphasis on the common interest did not necessarily depend decisively on proving in advance that there would be a tangible benefit from new common actions - it would reflect rather a growing perception of increasingly intertwined and mutually dependent interests, a process of *engrenage* - but the argument would obviously be easier to carry forward if such evidence could credibly be advanced.

Hence it is interesting to note that the landmark Cecchini Report , published by the European Commission in April 1988 - which is often (and wrongly) cited as the turning-point in appreciation of the 'cost of non-Europe' - and which attempted to quantify the benefits of the single market in much greater detail than anything before, came some years into the 1992 programme - and after that programme was already gaining strong political momentum. Edited by Paolo Cecchini and entitled '1992: The European Challenge', the report ran to 13 volumes and drew on interviews with 11 000 business-people. It suggested that the potential gain to the European economy would be in the

2 Leon N. Lindberg, *The Political Dynamics of European Integration*, Stanford University Press, 1963, Chapter 1.ert, *Political integration as a Multidimensional Phenomenon Requiring Multivariate Measurement*, in Vol. 24, No. 4, Regional integration: Theory and Research (Autumn 1970), pp. 649-731

order of 4.5% (and potentially 6.5%) of GDP.

Interestingly, subsequent analysis of the economic impact of over 3 500 individual legislative measures adopted at EU level to complete the single market, in the 35-year period since the mid-1980s, consistently points to a boost to collective GDP of over 5.0 per cent, or around €1 500 euro per citizen per year - so very much in line with what Cecchini was envisaging - with calculations of the GDP boost varying between 1.7% and 8.5%. A recent research paper for the European Central Bank (ECB) has even put the figure at between 12% and 22%.[3]

Falling out of use

After the high-point of the Cecchini Report, something rather unexpected happened. The ideas of European added value and 'cost of non-Europe' largely fell out of use during the 1990s and 2000s, as the economic advantages and benefits of the single market started to be taken for granted. The concepts did not feature significantly, for example, in the often-heated discussions surrounding the ratification of the Maastricht Treaty in 1992-93, and even less so during the comparably difficult ratification of the European Constitution in 2005. The European Commission rarely invoked these ideas, even though they provided a central rationale for its very existence and many of its initiatives.

The European Parliament, however, had not forgotten about the importance of arguing the case, from first principles, for how and why common European action can make a positive difference. In the battle with the Council of Ministers over the 2010 EU budget, for example, the Parliament insisted that, as part of a complex settlement, the Commission should use the two concepts of European added value and 'cost of non-Europe' much more actively in justifying and explaining its proposals - something that the more systematic use of impact assessment at that time should have made easier. The Parliament also secured agreement that the Commission would produce a broad-ranging report - a kind of 'Cecchini II' - to identify areas where future value could yet be added at European level.

The Commission's delivery on these commitments was frankly disappointing. Although the executive agreed in principle that the concept of added value should be used as a 'key test to justify spending at the EU level' - and that every 'euro spent at the EU level [should] bring more benefit than if spent at the national or regional level' - the logic was defensive and essentially limited to expenditure. Many of the areas where Europe had genuinely added value since the 1950s did not, and could not, involve significant spending, reflected in the fact that the EU budget only represented one per cent of collective GDP. Indeed, little in the single market programme as such, despite adding significant GDP, involved additional EU spending as such.

After some years, and under continuing pressure from the Parliament, the Commission eventually produced a detailed report on potential added value in a few, highly specific aspects of the single market. This output attracted little attention, even in Brussels circles. Although useful to a limited degree, the Commission had, in its response to the Parliament's initiative, missed the big opportunity it had been offered.

It was in this context that the Parliament decided itself to take the lead on the issue, in a way echoing its pioneer role in the early to mid-1980s. It proposed to the Commission and Council, which they hesitatingly agreed, that the concepts of European added value and 'cost of non-Europe' should appear in the updated version of the Inter-Institutional Agreement (IIA) on Better Law-Making, eventually adopted in 2016. These notions are thus now established as guiding principles for how the institutions should think about initiating legislation in the EU policy cycle. In parallel, the parliamentary committees became increasingly pro-active in thinking through specific areas where EU-level action could sensibly be advocated and supported to generate collective public goods that are otherwise absent.

Dedicated research capacity

To give the latter process greater substance, the Parliament's administration has in recent years put in place support systems to help the institution to identify, and where possible, quantify

3 See, for example, Thierry Mayer, Vincent Vicard and Soledad Zignano, *The cost of non-Europe revisited*, Centre d'études prospectives et d'informations internationales (CEPII), Working Paper, April 2018; and Jonne Lehtimäki and David Sondermann, *Baldwin vs. Cecchini revisited: The growth impact of the European Single Market*, European Central Bank (ECB) Working Paper, April 2020.

the potential benefit of common European action. Invited to take ex-ante and ex-post analysis seriously by the Niebler Report in the Parliament in 2011, the Secretary General established (inter alia) a small European Added Value Unit - which now forms part of the wider European Parliamentary Research Service (EPRS), which I have the privilege to lead - to provide dedicated products and services in these fields. The latter are structured around the linked tracks of European added value and 'cost of non-Europe.' Work in the first field attempts to identify and analyse the collective benefit of undertaking policy action at European level in any particular area, whilst work in the second field does the obverse - looking at the gain foregone by not undertaking such action.

Through its 'European Added Value Assessments,' the European Added Value Unit provides analytical support to 'legislative initiative reports,' whereby the Parliament invites the Commission, under Article 225 of the Treaties, to use its exclusive 'right of initiative' in various ways. Through its 'Cost of Non-Europe Reports,' the Unit helps identify policy areas where greater efficiency or a collective public good could be realised through common action at European level. The choice of research areas reflects the specific requests, priorities or positions of parliamentary committees, with which it works very closely.

Part of the work of the European Added Unit - which comprises a small team of ten policy analysts - is generated by internal research, part depends on using outsourced expertise, and part draws on existing analysis by other public bodies, think tanks and academia. During the last parliamentary term, from 2014 to 2019, the Unit produced 75 substantive pieces of analysis of various kinds.

The work of the Unit seeks to identify and quantify the potential economic gain from policy initiatives favoured by the Parliament in wide range of policy areas - from transport to research, or the digital economy to justice and home affairs - in a way that could boost Europe's economic performance over time. Such gains might come from additional GDP generated or from a more rational allocation of existing public resources, notably through better coordination of public spending at national and European levels, resulting in a more efficient allocation of resources in the economy as a whole.

Examples of potential gains

An example of additional GDP generated by common action would be the potential multiplier effect over time of widening and deepening the digital single market on a continental scale, or indeed of further completing the existing single market in goods and services. In the absence of a 'Cecchini II' from the European Commission, the Unit started in 2014 to undertake detailed work in this field for the Parliament's Internal Market Committee, consistently coming up with a calculation of long-term potential gains of between €500 billion and €1.1 trillion.



Recent publication of the EPRS on potential EAV savings. Source: European Parliament

An example of greater efficiency in public expenditure would be more systematic coordination of spending in the field of defence policy, including joint defence procurement, where its current assessment is of potential gains of between €22 and 45 billion. In October 2020, the Unit produced a study, *Improving the quality of public spending in Europe*, which looked at potential savings from thinning out the duplication of national spending in four main policy areas - health policy, climate change, social insurance and defence - calculating possible gains of around €180 billion.

Just before the last European Parliament elections, EPRS brought together all of its research to date in the latest iteration of a regular exercise called 'Mapping the Cost of Non-Europe'. The fourth edition of this report, published in April 2019, looking at the up-coming 2019-24 EU policy cycle, found that there could be cumulative potential gains to the EU-28 economy of over €2,200 billion per year - €2,213 billion to be precise - if the policies advocated by the Parliament in 50 policy areas were to be adopted by the EU institutions and then fully implemented over a ten-year time-frame (see **Figure 1**).

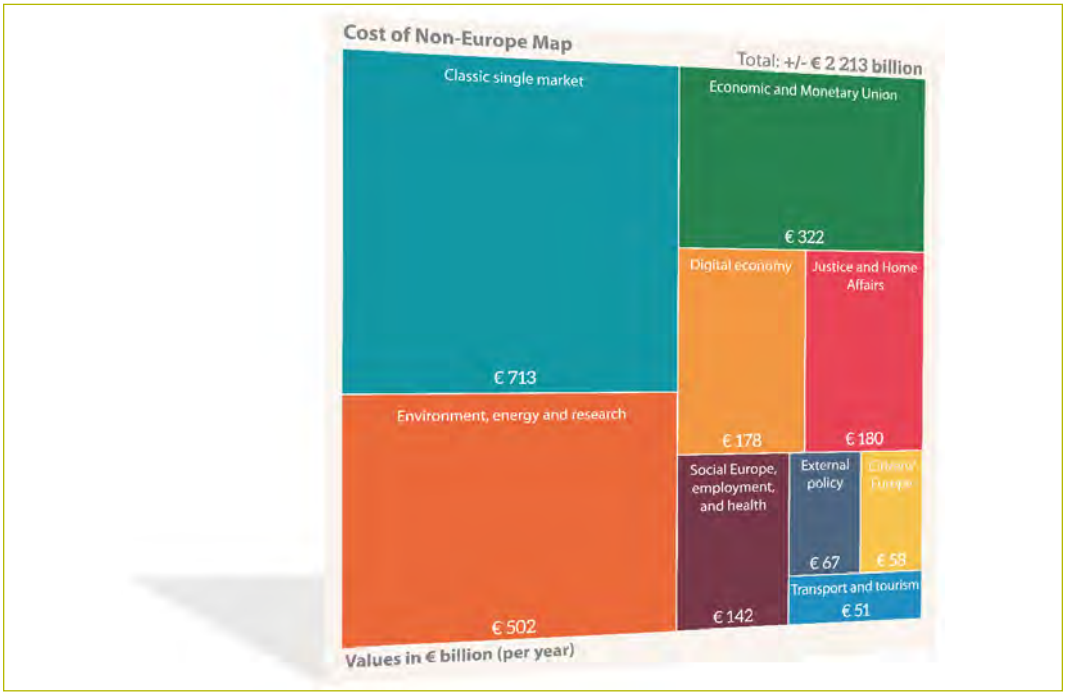


Figure 1 – Cost of Non-Europe map

The most recent EPRS assessment of the potential added value that could be realised in 50 EU policy areas, grouped in ten clusters, suggests GDP gains of over €2,2 trillion per year, after a running-in period of ten years. Source: European Parliament

What EPRS termed termed 'Europe's two trillion euro dividend' could thus increase total EU GDP by some 14% (€2.2 out of 15.3 trillion at 2017 prices). To give a sense of scale, that would mean that, in any one year, such a boost could potentially be as big as the whole quantitative easing programme undertaken by the European Central Bank in the decade following the economic and financial crisis of 2008.

The analysis of potential European added value is not, of course, a static concept. Partly this reflects the fact that any progress which is made can and should, by definition, reduce the potential added value still to be realised. For example, the European Added Value Unit's calculation of the remaining gains to be achieved in the digital single market fell during the course of the 2010s, as the market itself started to solidify and take shape. Even so, however much progress is made in deepening or widening the this aspect or another aspect of the single market, it will never be entirely 'complete' - rather, it continuously evolves in the light of invention, innovation, production and not least, changing consumer demand.

New dimensions of policy are always emerging too. In the field of artificial intelligence and robotics, for example, the Unit's preliminary assessment of potential gains from a common regulatory framework in Europe was somewhat over €200 billion per year (a figure used in the 2019 'Mapping' exercise). Since then, more detailed research specifically in the fields of civil liability and ethics for AI has already suggested a figure of between €350 and 498 billion in those dimensions alone.

Looking beyond the economic

An interesting feature of the work of the European Added Value Unit is that it has broadened in recent years to cover an increasingly wide range of policy areas beyond the classically economic. During the course of the 2014-19 parliamentary term, for example, its biggest single client was the Parliament's Civil Liberties Committee, for which a very substantial project was undertaken on how deepening EU policies in the field of justice and home affairs could both bring economic benefits and improve the lives of citizens more directly. This analysis suggested that targeted initiatives in ten fields - from fighting

organised crime, corruption and cyber-crime to adopting more coherent policies on asylum and legal migration - could add €180 billion to the European economy per year.

The work which the Unit has undertaken in recent years dovetails with parallel economic research in the academic and think-tank community more widely, both in respect of particular EU policies and the wider benefits of EU membership itself. European added value has once again become increasingly fashionable, perhaps in part under the influence of what the Parliament has been doing. For example, a study produced by three economists (Campos, Coricelli and Moretti) in 2014, which attracted considerable public attention, including in *The Economist*, sought to quantify the economic benefits of EU membership for the 19 Member States that had acceded to the Union in the successive enlargements from 1973 to 2004.[4]

The size and nature of the economic gain from EU membership might vary by Member State, and derive predominantly from different factors in each case - whether (they concluded) from intra-EU trade liberalisation (for the 10 Member States joining in 2004), the single market (for the United Kingdom), the single currency (for Ireland) or labour productivity (for Finland, Sweden and Austria). But their overall conclusion was that national incomes were already on average 12% higher in those countries than they would otherwise be, as a result of EU membership and its associated economic integration. Campos, Coricelli and Moretti also found that such gains are generally permanent and tend to increase over time.

Among major think tanks, the Bertelsmann Foundation, the Centre for European Policy Studies (CEPS) and Bruegel have all recently published research on European added value of various kinds. Most noteworthy perhaps was a study for Bruegel in 2019 by Clemens Fuest and Jean Pisani-Ferry, entitled 'A Primer on Developing European Public Goods', which argued that generally 'European public goods need to be provided in much greater depth and detail' and sought to explore eight specific policy areas where they believed this might be possible (see also page 146). These were external economic relations, climate change mitigation, digital sovereignty, research and development, development assistance to third countries, migration policy and the protection of refugees, foreign policy and external representation, and military procurement and defence.

Wider policy cycle

Finally, it is worth noting that the European Parliament's work in the field of European added value forms part of a wider and growing emphasis within the institution on the EU policy cycle as a whole. In parallel to the added value team, EPRS has built small but effective administrative capabilities looking at ex-ante impact assessment and ex-post evaluation, to support parliamentary committees in looking upstream and downstream of the draft legislation appearing on their desks, and it has also strengthened its capacity to analyse global trends and scientific foresight.

It is important to remember that, unlike most national parliaments in the EU, the European Parliament is not controlled or dominated by the executive, and institutionally it does not see its primary political role as simply keeping the executive in power. As in the United States, you see a separation of powers - or perhaps 'separate institutions sharing powers' - rather than a fused system of government. The parliamentary instinct both to amend proposed legislation and to scrutinise, and exercise oversight over, the executive branch is thus corresponding much higher than in many of the individual parliaments of the Member States. The philosophy behind EPRS is to empower our parliamentarians through knowledge and analysis, as we seek to enable them - and the Parliament as a whole - to play their full part in the EU's constantly evolving political system.

4 Nauro Campos, Fabrizio *Coricelli* and Luigi *Moretti, Economic Growth and Political Integration: Estimating the Benefits from Membership in the European Union using the Synthetic Counterfactuals Method*, Institut zur Zukunft der Arbeit (IZA) Discussion Paper, May 2014

European added value: what does it mean ?

By Eulalia Rubio, Jacques Delors Institute



Source: rangizzz/shutterstock

The concept of European added value is closely intertwined with the principle of subsidiarity in the Treaties. But what does it actually entail and what role does it play in EU policy making? Clearly, European added value is a multi-faceted concept, with different meanings to different actors. Eulalia Rubio is Senior Research Fellow at the Jacques Delors Institute in Paris and her research covers, in particular, EU budget issues, EU cohesion policies and the reform of the Economic and Monetary Union (EMU). She first published on European added value and the four key meanings of the concept back in 2011, and has commented on the topic several times since then. In her contribution, she discusses to what extent her analysis of that time still holds good today, how it can make a difference on the ground and whether it can be used as a lever for policy change.

Slogan or workable criterion?

Every time a new multiannual financial framework (MFF) is negotiated there are references to the 'European added value' of EU spending in official documents and political speeches. Yet, the term lacks conceptual clarity. The standard definition we find in European Commission sources is that it is 'the value resulting from an EU intervention which is additional to the value that would have been otherwise created by Member State action alone.' But what does it imply in practice? How does this term influence EU funding and EU budgetary legislation? Is it just a rhetorical device or can it be used as a workable criterion to evaluate programmes, build consensus on new priorities and guide the re-allocation of EU funding?

In a paper I wrote in 2011,[1] I analysed the use of this notion in the debate surrounding the 2008-10 budgetary review. I came up with four different ways of using 'added value,´ which differed along two variables (see **Table 1**). The first was the type of additionality in which people, when using the notion, refer strictly to efficiency gains rooted in the literature of fiscal federalism (economies of scale and cross-border externalities), or they take into account other gains of a more political nature provided by EU budgetary action. The latter can be, for example, giving more visibility to the EU project or aligning national policies with EU priorities. The second was whether the notion was used as a criterion to assess the rationale and relevance of spending at EU level in a given domain (ex-ante assessment) or to evaluate the results and impact of an existing EU spending programme (ex-post assessment).

1 Rubio, Eulalia (2011) *The added value in EU budgetary debates: one concept, four meanings*, policy paper. Notre Europe-Jacques Delors Institute, Paris

Table 1- Four ways of using 'added value' in EU budgetary debates

	ECONOMIC CRITERIA	POLITICAL/POLICY-RELATED CRITERIA
EX-ANTE	Criterion to assess the economic benefits of spending at EU level in a policy area (resulting from economies of scale, threshold effects, cross-border externalities)	Criterion to assess the political benefits of spending at EU level in a policy area (in terms of visibility of the EU project, alignment with the EU's priorities, etc.)
EX-POST	Criterion to evaluate the added value generated by an EU spending programme (in terms of capacity to exploit economies of scale, address cross-national externalities, coordination gains)	Criterion to evaluate the political or policy-related benefits stemming from certain EU spending interventions (in terms of alignment of national investment with then EU's priorities, coordination of national reform agendas, respect for the EU's values, etc.)

Source: Rubio (2011)

It is almost ten years since I wrote this paper, but my perception is that the four-type classification is still pertinent. Some of the uses of EU added value have lost importance, whereas others have become more relevant.

From the macro to the micro level: a stronger emphasis on ensuring additionality on the ground

Traditionally, 'EU added value´ has been used as an argument in EU budgetary negotiations to support a re-allocation of EU spending across policy areas. We still find this use in today´s negotiations. A Dutch government´s position paper on the next MFF, published in February 2018, says that 'EU funding should focus on policies that provide the most European added value. In concrete terms, this means focusing on (additional) economies of scale benefits, spillover effects, externalities and facilitating free market access. Public goods like peace, security and European values also generate European added value.' We find similar 'added value' arguments in the French and German position papers preceding the current MFF) negotiation. The EU budget, it is said, should concentrate on areas where resources can be used or administered more efficiently at EU level than at national level or to support the provision of public goods which could not have been otherwise produced at national level.

In practice, we know that this type of argument has little weight in MFF negotiations, dominated by political preferences and net return considerations. Besides, from a macro-level perspective, the teachings of fiscal federalism are less useful than we pretend. There have been attempts to build up a rigorous added value criteria to guide major EU spending choices but the latter provide rather intuitive results (e.g. defence is an area presenting major scale or cross-national spillover effects, the contrary is true for agriculture). In fact, if you accept that the additional benefit of EU spending may be in the form of coordination gains, indirect benefits and the provision of politically-defined EU public goods, you can justify EU-level spending in almost all policy domains.

While this classical use of the notion still pervades, over the last years there has been more emphasis on evaluating how specific EU spending programmes generate added value on the ground. This has been partly driven by the Commission's 2015 'EU budget for results' initiative and the related efforts to switch the focus in EU budget management from absorption and rule-compliance to results and impact. The 'EU budget for results' initiative has translated into changes in the Financial Regulation but also the introduction of more performance-based data in the monitoring, reporting and evaluation of EU programmes. The European Court of Auditors is also paying increasing attention to evaluating the added value of EU spending programmes in its reports and performance audits.

Evaluating the added value of EU spending programmes is challenging. The sources and nature of this additional value may be multiple, and vary from intervention to intervention within the same programme. Besides, any added value evaluation implies comparing the results and impact of an EU-intervention with a counter-factual: what would have happened if Member States had acted alone, or (when there is no similar national support action) in the absence of the EU intervention? Still, asking ourselves this type of question is very pertinent even if we can only provide approximate answers. After all, it does not matter how effective or efficient an EU spending action is if it overlaps with similar national programmes or serves as an alibi to reduce national spending.

Besides, there are ways to simplify the analysis. In some cases, there is a clear expectation of input additionality – the idea that an intervention has effect when compared to a baseline. It is therefore appropriate to use some indicator of financial additionality to monitor the implementation and evaluate the impact of the programme, as is done for the European Structural and Investment Funds and as is envisaged for the reporting and evaluation of the new Recovery and Resilience Facility.[2] In other cases (e.g. SME support schemes), EU action co-exists with similar national interventions. The additional value in this case will depend very much on the absence of overlaps with national schemes and the capacity to generate complementarities and synergies with them.

Finally, in other areas (e.g. research, defence, border control) there are clear scale benefits or cross-national effects from EU-level interventions but there might be deficiencies in the specific design or implementation of the EU programme that result in weak additionality on the ground. For instance, a 2014 special report of the European Court of Auditors identifies this problem in the implementation of the External Border Fund (EBF, the predecessor of the current Asylum, Migration and Integration Fund (AMIF)). Although one of the top priorities of the Fund was to develop consular cooperation, and despite the fact that cooperation actions were eligible for higher co-financing rates, most of EBF funding ended up being used to renovate, adapt and equip national consulates.

From economics to politics: EU spending as a lever of policy change

The classic notion of added value focuses on cross-national externalities and economies of scale. Yet, there have always been voices calling for a broader definition of EU added value, one that encompasses the political benefits stemming from EU spending interventions. These can include rather ethereal things such as the visibility of the EU project or increased support for EU integration, but also more tangible aspects such as the positive impact on national policy-making practices and administrations or the capacity to align national investment with the EU's policy priorities.

This broader notion of added value has been always popular among experts and practitioners working in the field of cohesion policy. In 2001, the Second Report on Cohesion already stated that 'The value added of Community involvement in regional development is not only related to the expenditure incurred as such. Benefits also stem from the method of implementation developed in the 1988 reform of the Structural Funds, which was revised in each subsequent programming period.' The novelty in recent years is that this type of political benefit is no longer seen as an unintended, positive side effect but as a core objective of the EU cohesion and structural funds. Thus, since the mid-2000s, the Structural Funds have been increasingly portrayed as, and used to align, national investment agendas to EU-level priorities (be they the Lisbon Strategy, EU2020 or, more recently, the EU Green Deal). Strengthening national public administrations and the effective management of the Funds have been defined as an explicit objective of the EU Structural Funds in certain Member States, and the disbursement of EU funds has been conditioned to the introduction of certain policy changes and reforms with the introduction of ex-ante conditionalities.

This logic of using the EU budget as a lever of national policy changes will be reinforced in the upcoming MFF and 2021-2024 Recovery Instrument. The 'enabling conditionalities'

2 According to the guidance document elaborated by the Commission, National Recovery and Resilience Plans will have to provide evidence that their previous level of public investment, excluding the recovery and resilience plan's non-repayable contribution, will at least be maintained over the programme horizon (https://ec.europa.eu/info/sites/info/files/3_en_document_travail_service_part1_v3_en.pdf)

under the EU cohesion policy will be extended and reinforced. All the funds from the EU budget and the Recovery Instrument will be subjected to strict climate mainstreaming obligations. There will also be a new rule-of-law conditionality mechanism tying the EU's payments to the respect of the rule of law. Last but not least, the amount of EU money devoted to supporting and encouraging national reforms will be significantly increased, from the €0.2 billion of the current Structural Reform Support Programme (SRSP) to the €672.5 billion of the new Recovery and Resilience Facility.

Against this backdrop, the added value of EU spending in the coming years will be very much related to the capacity to generate these policy-related benefits. Closely monitoring and evaluating the performance and impact of new policy mechanisms, such as policy conditionalities and earmarking obligations, will be key to proving that EU spending has made a difference on the ground.

Monitoring European added value and triggering national policy changes

The term European added value is frequently used in EU budgetary negotiations to plea for a re-allocation of EU spending across policy areas. Used in this way, however, the notion is of little value, as added value considerations play little or no role in big EU budgetary decisions.

Rather than struggling to build up a rigorous 'EU added value' criteria to inform major EU spending choices, it seems more useful to systematically introduce EU added value considerations in the monitoring and evaluation of existing EU spending programmes. Assessing whether a programme or a fund has generated added value on the ground is methodologically challenging but nevertheless useful. It can help identify design failures in the programme or implementation gaps and can provide inputs for the improvement of programmes.

Any added value assessment should include both economic and political criteria. Indeed, the added value of EU spending in the coming years will depend very much on its capacity to align national spending with the EU's priorities and trigger national policy changes. Closely monitoring and evaluating the performance and impact of new policy mechanisms, such as policy conditionalities and mainstream earmarking obligations, will be key to proving that EU spending has made a difference on the ground.

European public goods: just a buzzword or a new departure?

By Professor George Papaconstantinou, European University Institute (EUI)



Source: Anrita1705 /Pixabay

Face mask and virus protection – health as a European public good

Nowadays, the EU is known for its economic integration, the single market, facilitating a smoother flow of goods, services, labour and capital, and a common currency, the euro. In the early days, in the 1950s, priorities were different: peace, defence, food self-sufficiency and energy autonomy. These were the initial European public goods. In these times of crisis and uncertainty, do we see a return to the original character, with a rising focus on global commons, such as the protection of the environment, security or perhaps even public health and safety, also due to the Covid-19 pandemic, thereby going beyond merely economic integration? George Papaconstantinou is Professor of International Political Economy and Director of Executive Education at the School of Transnational Governance of the European University Institute. He has also served as a Member of Parliament, MEP, Finance Minister and subsequently as Minister of the Environment and Energy for Greece. Below he unfolds his thoughts on why the discussion on European public goods and European added value should matter for the EU's socio-economic and political future.

The concept of public goods

In the debate on the future direction of Europe, and especially after the start of the Covid-19 pandemic, the idea of a strategy of pursuing *European public goods* is being discussed more and more. In a sense, this is not a new direction at all. Whether explicitly stated in the EU Treaties or implicitly understood as its original motivating force, the European project has, since its very beginning, been associated with the provision of perhaps the most emblematic of public goods: peaceful coexistence amongst nations and peoples. So what is new about the current discussion?

It is perhaps best to start by taking a step back to examine more closely the concept of public goods itself. From the seminal work of Samuelson, economists have used two criteria to classify goods:

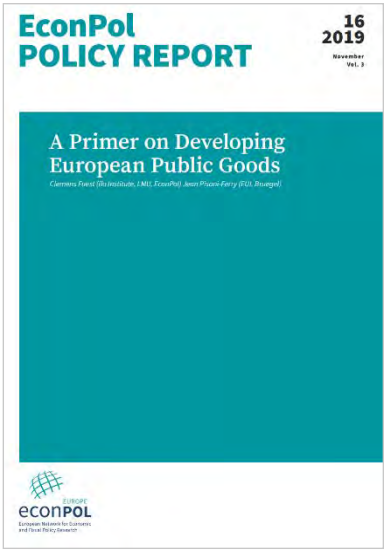
- rivalry - the extent to which consumption by anyone reduces the quantity available to others); and
- excludability (the extent to which someone can be excluded from consuming the good).

Private goods are rival and excludable; some common goods (fishing in a lake) are rival but non-excludable, other so-called 'club goods' (e.g. patentable inventions) are non-rival but excludable, while pure public goods are both non-rival and non-excludable.

In an era of increased international interdependence, the concept of public goods soon expanded to those that are available across borders, and with pioneering work under the umbrella of the United Nations Development Programme, managing global public goods (GPGs) came to be understood as a way of managing globalisation itself. Economists have tended to identify these GPGs by reference to goods such as knowledge, the ozone layer, climate, public health (especially disease control), or financial stability. In a broader context and perspective, and perhaps in a more metaphorical but also very real sense, the list cannot be complete without referring to core global issues such as maintaining peace and fostering development.

Enter European public goods

In an important recent report, commissioned by the French and German Finance Ministers, public policy experts Jean Pisani-Ferry and Clement Fuest suggest that in its early stages the EU was focused on the provision of public goods such as defence, food self-sufficiency (a major objective of the Common Agricultural Policy – the CAP) and energy autonomy. However, they argue that in the last decades the EU project has shifted to become a provider of economic integration through the removal of obstacles (to cross-border flows of goods, services, labour and capital), and to an integrated market. Echoing similar recent calls by Jakob von Weizsäcker and Pascal Lamy for the EU to develop more the provision of public goods, the report's authors argue for 'policy rebalancing' in that direction in a context transformed by technology, the rise of global commons, regional challenges and geopolitical change.



Cover of the recent report on European public goods, written by Jean Pisani-Ferry and Clement Fuest

Accordingly, the report proposes an ambitious agenda in a number of policy fields:

- climate change mitigation - with a European carbon tax;
- digital sovereignty - pooling resources to protect cybersecurity;
- R&D in large and risky projects - through a US-styled European version of the American Defence Advanced Research Projects Agency (DARPA);
- development cooperation and financial assistance to third countries;
- migration policy - common principles and policies for resettling refugees;
- foreign policy and external representation; and
- military procurement and defence - common procurement, shared infrastructures, joint defence initiatives.

Covid-19 and European public goods

The report was presented in 2019, before the Covid-19 pandemic hit. The crisis that ensued has only amplified the need for such an approach - in two directions. The first was the public health response to the pandemic itself. Health policy is a national prerogative

rather than exercised at EU-level. But contagious diseases are by definition borderless. As Gordon Brown and David Susskind convincingly show in a recent article, the Covid-19 pandemic embodies specific properties of global public goods and necessitates international cooperation. Instead, the early stages of the pandemic saw export bans and national poaching of protective equipment in Europe, thereby laying bare a system that prioritised national interests over strengthening EU-wide resilience. Rather than treating essential personal protective equipment and public health infrastructure in the same way we treat EU-wide energy reserves and critical infrastructure, Member States initially exhibited a surprising lack of coordination and of common response.

The second direction relates to the economic fallout of the pandemic and the stated goal expressed at European Council level (EUCO) to 'build back better'. Policy-makers keep repeating that the recovery from the recession cannot be a return to 'status quo ante'. Once the economy recovers, it will indeed look quite different. The boundaries between state and markets will have shifted, and whole economic sectors will have been drastically transformed. We will need to rethink everything from the nature of work to the new social compact, and at the same time devise a new paradigm for fiscal balances at national and EU level. Last but not least, the twin digital and green transitions have now become more necessary (let alone unavoidable) than ever before, but require policies to accompany an orderly transformation.

It is therefore quite surprising that the decisions which the EU as a collective took during the crisis fall short of that ambition. This is not to say that these EU-level decisions were not courageous, quite the contrary. In contrast to the delays and ambivalence exhibited during the sovereign debt crisis of a decade ago, all European institutions rose to the occasion. Early ECB action maintained liquidity in markets and guaranteed the integrity of the euro area. On the fiscal front, Eurogroup decisions providing needed flexibility in deficit spending by Member States were complemented by others allowing the use of existing safety nets in the EU, company financing from the EIB, as well as temporary employment support.

As the economic cost of the pandemic progressed, it became clear that these instruments would not suffice by themselves and that a coordinated large-scale EU-level response was required. Politically, this became a realistic proposition once France and Germany agreed on a proposal for the EU to borrow and transfer €500 billion as grants to affected Member States. The European Commission built on that with its own proposal combining grants and loans, until in July 2020 the European Council settled on a breakthrough compromise that retained the main elements of the Franco-German and Commission proposals.

The final decision reached was unprecedented in size and represented an important new departure for the EU. Nevertheless, given both the structure of the original Commission proposal and the political reality of Council negotiations, when the dust settled, the outcome was largely bereft of significant elements corresponding to the provision of European public goods. Within an original structure aimed principally at helping individual Member States recover and 'transform' rather than at developing public goods at EU level, the final compromise scaled back even further those remaining budget items directly relating to public goods on a European scale (digital, climate, just transition, sustainable agriculture). What did remain (and was further made explicit in the specific Commission guidance to Member States for the preparation of their Recovery and Resilience Plans) was an attempt to link national projects and reforms to the digital and green EU agenda.

In a certain way, this was an opportunity lost. More so given that the concept of 'public goods' has already been used not only to promote additional EU spending in 'new' policies (defence, digital, health, etc.) but even to reshape EU traditional spending areas. Agriculture is a case in point. Proposals in this area by the Institute of European Environmental Policy, the European Commission and the European Parliament were driven by the goal of justifying the continuation of EU spending, while reshaping and revamping the policy by including new objectives, such as greening the CAP, biodiversity and food security. This debate on public goods in agriculture continues, focused on innovation and digitalisation in agriculture.

European public goods will require choices on both sides of the budget



Source: Larisa-K/Pixabay

Nature and biodiversity, an example of one of the increasingly valued European public goods

The discussion on 'European public goods' is a new take on the ongoing debate on 'more Europe' in that it provides a specific filter and justification for policy action in areas where the EU can deliver more value than Member States acting individually. Referring to 'public goods' is also a good way of making European added value in all its different meanings more 'tangible'. But this is also an area where economics and politics intersect. There are solid economic arguments why, in an environment of increased interdependence, heightened competition and shifting geopolitics, the EU should be prioritising the funding of public goods. The current political climate however is not conducive. Even in Covid times, in the absence of the 'moral hazard' rhetoric that characterised the political discussion in the sovereign debt crisis, reframing the debate in terms of pursuing public goods is proving not to be an easy task.

At the end of the day, the litmus test on the willingness of the EU to move further in financing European public goods is the decisions it will take on identifying and collecting new own resources. In a recent article published before the EUCO decision, together with other EUI colleagues we argued that new own resources such as those based on a tax on digital (one of the few sectors benefiting from the crisis) or a carbon emissions tax have a number of advantages. They can be used to guarantee and leverage new EU debt necessary to finance European public goods, without increased national budgetary contributions, while at the same time promoting the three core items on the EU agenda beyond Covid-19: regulating the digital economy, promoting the Green Deal and protecting the rule of law.

Following the EUCO decision of July 2020, the discussion on such new own resources is finally on the agenda, as an expanded own resource revenue base will be required for extended EU market borrowing. Designing an appropriate mechanism, however, is not a trivial affair. The EUCO conclusions mention a specific plastics charge, a carbon border adjustment mechanism and a digital levy, a reformed and extended emissions trading system, and the possible introduction of a financial transactions tax. Recent work by Jean Pisani-Ferry and Clement Fuest, prepared for the Economic and Financial Affairs Council, evaluate these alternatives and conclude that a revamped emissions trading system would work best in both a practical and political sense.

The introduction of any such scheme certainly requires getting the technical aspect right. Equally importantly however, it involves generating a political consensus that links new own resources at EU level to the provision of European public goods, thereby finally severing the link of the EU budget with an arid discussion on net national balances. Moving in that direction in a meaningful way will represent a large step forward for EU integration.

How does the EU budget add value? Through economies of scale – not savings

By Jorge Núñez Ferrer, Associate Senior Research Fellow,
Centre for European Policy Studies (CEPS)



Source:Teeranop/shutterstock

In 2020, EU finances are high on the political agenda: the negotiations for the next Multiannual Financial Framework for the 2021-2027 period are in their final stages, together with the new 'NextGenerationEU' recovery fund. A lot of attention is paid to the numbers constituting the EU budget. But what is (or should be) the purpose of the EU budget? Jorge Núñez Ferrer is Associate Senior Research Fellow of the Brussels-based Centre for European Policy Studies (CEPS) and has published many studies on EU budget-related issues. He goes beyond the numbers, looking at the budget as a common purse for achieving public goods, economies of scale that go beyond internal market considerations, asking in particular the why question instead of how much. He makes the case for a sound EU budget, underlining that the real search for added value should also allow questioning and reducing EU action which does not meet that criteria.

EU budget: not a burden but a means

The European Union's budget is often portrayed as an excessive burden for net contributors. The net transfers by the biggest contributors are displayed as a lost transfer without returns, with political discussions often focusing primarily on the transfers from the treasuries to the EU budget and the subsequent geographical distribution of the funding. The actual economic and social impact for the EU as a whole (including for the net contributing members) is neglected. In fact, for many years Member States have been primarily concerned with receiving as much as possible from the budget while minimising their contributions, regardless of which side they are on - contributors or recipients. This reductionist approach has a negative effect in terms of policy coherence and on ensuring an efficient allocation of the funds to generate EU level value added.

Due to the excessive focus on 'net balances' and a reductionist view of costs and savings, it has become common practice to defend the EU budget with the notion that its function is 'saving' costs for Member States' treasuries. Paying less to the EU budget may lead to a one-off 'saving' for the treasury in a given year, but the consequence of the

'saving' may actually result in forfeited returns from the missed common investments and actions. Having a 'cheap' EU budget in key areas may lead to subsequent lower tax returns for the treasuries, due to lower economic activity.

Thus, the focus on net balances and the expectation that the function of the EU budget should be 'saving' treasuries' money misses the core reason for having a supranational budget, i.e. to allocate public funds to achieve *greater impacts* than with separate individual national policies. While this could entail savings to achieve the same impacts, the most important factor is to achieve more for the same level of funding and generate economies of scale with further allocations of funding at a higher level[1]. Fiscal federalism studies have treated this aspect in great detail. Of course, the EU is not a federal state, and the recommendations by fiscal federalist studies cannot be fully implemented in the EU[2]. However, in areas of EU competence the recommendations from fiscal federalism theories should be taken into consideration.

Below I present examples where the EU budget does de facto create savings, analyse where it creates more than with individual country expenditure, and suggest where improvements could be made.

Savings by centralising administrative functions

Let's start with the most mundane kind of expenditure. Discussions on the EU budget often focus on the 'costs' of the EU administration in a rather reductionist manner, without a detailed analysis of the needs at EU level. Actual requirements are not discussed with the same fervour.

Not many studies try to estimate the costs of the EU administration compared to the costs of undertaking the functions at national level separately. One example of such an analysis can be found in a study commissioned by the European Parliament[3], which presents evidence that avoiding the duplication of administrative bodies generates substantial savings[4] for national treasuries. The study focuses on EU level agencies and shows not only how the costs are lower for national treasuries, but also how they reduce costs for their clients, as the latter only need to approach a single body. A good example is the European Union Intellectual Property Office (EUIPO), which is fully financed by service fees charged to its clients. Most likely such a result could not be achieved at such costs if clients had to go through 27 different national agencies.

A study by ECORYS[5] also shows that it is not only more efficient to have EU agencies than having multiple national bodies performing similar tasks, but also less costly. It is also important to note that the single market has led to harmonised standards that reduce the costs and barriers to trade in the EU, and thus created considerable value for Member States. Of course, this in turn affects fiscal revenues positively.

The UK departure from the European Union presents an interesting case study on the savings of having common rules and common agencies. The UK's intention to leave the common customs area and the single market, and allow deviations in product standards, leads to an obligation for the UK to establish national bodies to replicate EU functions and services formerly provided by EU agencies or which were not even necessary at all (border barriers for goods). This is bound to have a considerable impact on government staff requirements. There are no reliable estimates of the impact on administrative costs

1 Núñez Ferrer J. (2020), *Spending at EU level saves at national level … and more*, Briefing for the European Parliament Budgetary Affairs Department

2 For a review of strengths and weaknesses of analysis of the role of the EU budget see Begg I. (2009), *Fiscal Federalism, Subsidiarity and the EU budget review*, SIEPS, 2009:1

3 Malan J., R. Blomeyer, J. Smit, A.M. Krarup, M. Carlberg, C. Moeller, S. Kreutzer, D. Buck (2016), *The 'Cost of Non-Agencies' with Relevance to the Internal Market*, analytical study for the Directorate General for Internal Policies, Policy Department D: Budgetary Affairs

4 European Union Intellectual Property Office (EUIPO), European Aviation Safety Agency (EASA), European Medicines Agency (EMA), European Chemicals Agency (ECHA), European Banking Authority (EBA), European Securities and Markets Authority (ESMA) and the European Insurance & Occupational Pensions Authority (EIOPA

5 ECORYS (2008), *A Study on EU Spending*, Commissioned by the European Commission, Directorate General for Budget, Final Report

for the UK after leaving the EU single market, though. The 2020 Whitehall Monitor of the Institute for Government[6], a British think tank, estimates that since 2016 UK civil service staff numbers have increased by 35 000 (8%), while the costs for external consultants tripled, reaching £1.5 billion. While not all of this is related to Brexit, the same report quotes government sources declaring that 25 000 civil servants were employed in Brexit-related roles by October 2019, with a further expansion expected. The report notes that the needs after Brexit will require these additional staff in the UK administration to remain and the numbers will even increase, as some of the operations undertaken through EU agencies will need to be performed by domestic government departments. For a comparison, all EU staff (permanent and contract employees) in all institutions (including third countries) amount to 60 000 at a cost of €5 billion. Out of these, approximately 32 000 work for the European Commission at a cost of €3.2 billion a year[7].

In addition, the costs of border infrastructure will increase for the UK, where goods traded in and out of the UK to EU Member States will transit. A report by the Institute for Government lists the numerous additional procedures that the exit from the single market is causing. This will increase costs for the government to run border controls, and for businesses to fulfil the bureaucratic requirements and pay the border tariffs.

Policies where the European Union is generating savings and economies of scale

The above-mentioned ECORYS study offers an analysis of economies of scale and savings per policy area. The study identifies expenditure that enhances competitiveness as the sort with the highest potential returns on investment. The highest returns come from investments in research and innovation, as well as cross-border infrastructures (e.g. in energy, transport and ICT structures). EU financial support for businesses is also regarded as impactful. For example, EU funding in the area of research is considered to have the largest impact on long-term GDP growth of recipient countries[8]. In fact , competitiveness-oriented investments may have impacts in terms of GDP growth that are higher than the impact from traditional investments from cohesion policy, which puts the misgivings of net contributors to the EU budget into perspective[9].

Many studies have analysed the impact of the EU budget, and, with the exception of the sometimes controversial subject of the Common Agricultural Policy (CAP), expenditure generally shows positive results[10].

With regard to the role and performance of the present policies, opinions differ on the impact of cohesion policy. Some studies claim that the overall impact on growth for the EU has been positive[11] due to spillover effects, not only for net recipients but also for the EU as whole. Other studies, however, have questioned this positive conclusion. The OECD, for example, acknowledges that there has been an improvement in the policy, but highlights the need for various further improvements[12]. Nevertheless, the OECD also highlights the benefits of EU programmes in enhancing administrative capacity and governance, which in turn foster economic development in the recipient countries, benefiting the EU as a whole. In fact, EU governance rules on strategic planning and

6 Freeguard G., M. Shepheard, B. Guerin, T. Pope, K. Zodgekar (2020), "Whitehall Monitor 2020", Institute for Government, 20 January 2020

7 See for more details on these figures ECA special report 15/19 *Implementation of the 2014 staff reform package at the Commission - Big savings but not without consequences for staff*

8 The Commission staff working paper accompanying the impact assessment of the Horizon 2020 proposals (SEC(2011) 1427 final) of 30 November 2011, presents estimates that each euro spent in the EU 6th and 7th Framework Programmes has increased the value added in the business sector by €13.

9 See the rationale in the background report to the High Level Group on Own Resources. Núñez Ferrer J., J. Le Cacheux, J. Benedetto, M. Saunier (2016), *Study on the potential and limitations of reforming the financing of the EU budget*, Report for the High Level Group on Own Resources

10 For a review of the different policies of the EU budget: Núñez Ferrer J. and M. Katarivas (2014), *What are the effects of the EU Budget? - Driving force or drop in the ocean?*, Briefing note for the European Parliament, reprinted as CEPS special report

11 For example Bradley J. and Untied G (2012), *Future Perspectives on EU Cohesion Policy*, Hermin Economic Paper, April 2012

12 OECD (2018), 'OECD Economic Surveys: European Union 2018', OECD, Paris, June 2018

financial and budgetary control have an impact on governance and development. This is reflected by the OECD, ranking the EU budget at the highest level compared, in performance budgeting, to other OECD countries[13]. The impacts and growth performance are higher in those Member States that implement actions under a solid strategy with clear and well-managed programmes[14].

It is important to highlight that today cohesion policy is largely used to help poorer countries and regions to implement EU obligations and objectives. In particular, many EU environmental and safety standards are based on the high standards of wealthier Member States of the EU, which are net contributors to the budget. Such standards would most likely not have been chosen by countries with a lower GDP per capita. There is thus a rationale to having the EU budget support poorer regions and Member States in reaching the standards in areas such as energy transition, environment, consumer protection[15]. With the Green Deal, this also takes on a new and stronger dimension. The European Structural and Investment Funds (ESI Funds) will need to continue helping countries and regions facing difficulties in achieving the EU's ambitious goals. It is highly questionable whether the costs of reaching equivalent agreements to move towards common goals would be lower without the EU and its budget.

The European Fund for Strategic Investments (EFSI - InvestEU in the future) and other financial instruments deployed with EU budget support offer important economies of scale and savings for the treasuries. The savings come in various forms:

- first, the instruments allow for a distinction between the areas where grants are necessary, and those areas where a combination with loans is sufficient;
- second, it allows more funding for projects to be raised than with pure grants;
- third, it allows the costs of capital to be reduced as risks are spread across the EU in larger funds (EFSI); and
- fourth, EFSI and financial instruments generally do not fully finance projects, as they are mainly designed to co-finance projects together with the private sector. In doing so, they also reduce the costs and the exposure of the public purse compared to grants and full public guarantees[16]. This approach provides benefits to society while avoiding higher public expenditure for as long as the instruments truly seek additionality, avoiding crowding out of the private financial sector[17].

Finally, we have recently seen the emergence of a number of EU instruments to counteract the economic effects of the Covid-19 pandemic. The EU has agreed to offer support by guaranteeing EU-wide employment support through SURE, the European Stability Mechanism (ESM) Pandemic Crisis Support and offering grants and loans through the NextGenerationEU instrument [18.] Those instruments borrow at EU level from the financial markets at lower costs and introduce a new dimension to the EU that has been resisted by Member States.

These unexpected crises are forcing the deployment of instruments that economists have considered essential in a common currency area, and they are unleashing the fiscal

13 OECD (2017), *Budgeting and Performance in the European Union - A review in the context of EU Budget Focused on Results*, ECD Journal on Budgeting Volume 2017/1

14 See for example the analysis on the Smart Specialisation Strategy by Wostner P. (2017), *From Projects to Transformations: Why do only some countries and regions advance? The case of the Slovenian S4*, EStIF No 2017:1

15 Núñez Ferrer J., J. Le Cacheux, J. Benedetto, M. Saunier (2016), idem

16 Rinaldi, D. and J. Núñez Ferrer (2017), *The European Fund for Strategic Investments as a new type of budgetary instrument*, In-depth analysis/study for the Policy Department on Budgetary Affairs, European Parliament, reprinted as CEPS research report No 2017/07, April 2017

17 For a review see Blomeyer, Roland & Paulo, Sebastian & Perreau, Elsa, *The budgetary tools for financing the EU external policy*, Study for the European Parliament BUDG Committee (2017)

18 A description of the agreement on the Multiannual Financial Framework and the NextGenerationEU van be found in Núñez Ferrer J. (2020), *Reading between the lines of Council agreement on the MFF and NextGenerationEU*, CEPS Policy Insight, No 2020-18/ July 2020

potential of the EU. The instruments are neither automatic nor permanent in nature, as many economists consider necessary[19], but even with their temporary nature, they represent a very important step forward.

Areas where the European Union could generate more savings and economies of scale

The bumpy set-up of the ESM and other permanent or ad hoc instruments after the financial crisis and now the Covid-19 crisis reveals the weaknesses of a rigid and limited budget. The EU budget is not large enough to reap the potential benefits of common financial capacity, especially in a common currency area. It is particularly relevant in areas where federal or supranational budgets are considered more efficient or sometimes even essential, such as for research and innovation, cross border infrastructure, defence, border controls, economic stabilisation or health[20]. The question of which level of governance would be better suited to managing and financing public policies is mainly a matter for the realm of fiscal federalism theory, as discussed by Oates in his landmark 1999 article[21]. According to the theory of fiscal federalism, the EU would require more integration with additional competencies and greater fiscal capacity. On the potential function as fiscal stabiliser, the theories based on the Optimum Currency Area (OCA) also claim that there is a need for greater central fiscal capacity and automatic stabilisers[22].

The shortcomings of the EU budget have become blatant over the years. The incapacity of the EU budget to act as a fiscal stabiliser has already been a matter of concern for a number of scholars, and its failure to act swiftly in the financial crisis was a consequence of this. Crisis after crisis, the limitations of the EU budget as an instrument to protect the citizens from asymmetric shocks or to achieve its stated objectives has required ad hoc mechanisms partially or fully external to the EU budget to *de facto* indirectly expand its financial capacity and avoid the limitations imposed by the Treaties. The European Financial Stabilisation Mechanism (EFSM), the European Fund for Strategic Investments (EFSI), the Trust Funds in External Action, the creation of the European Stability Mechanism (ESM) , the Corona virus responses including SURE (Support to mitigate Unemployment Risks in an Emergency) and the NextGenerationEU, are all in large part the result of the EU budget's shortcomings. They are placed partially or fully outside the EU budget to overcome the restrictive obligations to operate only for specific programmes and projects and for rigid payments to pre-identified beneficiaries and an obligatory budgetary balance. The EU budget is still formally unable to offer solutions to many of the challenges public budgets are supposed and expected to react to.

The study by ECORYS[23] identifies where the Member States' pooled resources could achieve more and analyses in some detail the 'savings' from economies of scale. The primary recommendation is a deepening of the Internal Market. This is a central tool to enhance benefits of the single market and 'save money' on several fronts. The report presents the considerable benefits in terms of economic returns of the single market, and of the free movement of people, capital and goods. Second, further tax coordination could also save the EU considerable costs and increase the efficiency of taxation and revenues for its Member States - although not for all to the same extent. Thus, greater investment to deepen the internal market, and enhanced fiscal integration, are considered as a very effective way to not only 'save' money, but to generate wealth.

19 For the rationale behind automatic stabilisers see M. Beblavý and Lenaerts K. (2017), *Stabilising the European Economic and Monetary Union: What to expect from a common unemployment benefits scheme?*, CEPS Research Report, No 2017/02, February 2017

20 See for example, Beblavy, M., Gros, D. & Maselli, I. (2015): *Reinsurance of National Unemployment Benefit Scheme*, CEPS Working Document, No. 401, January; Heinemann F., F. Misch, M.-D. Moessinger, S. Osterloh, S. Weiss (2013), *European Added Value: A Proposal for Clarification*, Bertelsmann Stiftung; Rosiak T (2015), 2015. *Fiscal Capacity For Euro Area – Towards A Bigger Eu Budget?*, Oeconomia Copernicana, Institute of Economic Research, vol. 6(3), pages 45-60, September.

21 Oates, W.E. (1999). *An Essay on Fiscal Federalism,* Journal of Economic Literature, 37(3). http://dx.doi.org/10.1257/jel.37.3.1120.

22 For a review see Dabrowski M. (2015), *Monetary Union and Macroeconomic Governance*, European Commission Discussion Paper 013, September 2015.

23 ECORYS (2008), idem

The study also highlights the benefits from coordinated common climate action to address cross-border environmental damage. The expected future costs from climate change are very substantial, and only a coordinated EU effort to drive mitigation actions will make a difference at global level. In terms of potential mitigation and adaptation costs, common EU action can offer considerable returns per euro spent and/or avoided costs. This reinforces the importance of the EU budget for the EU Green Deal.

There are a number of additional areas where more could be achieved by common action. Improving EU consumer protection policies and establishing the necessary agencies could generate considerable savings and enhance consumer safety. In security and defence and common border controls the potential savings of deeper integration are large. It is important to highlight that not doing so also exposes the EU to considerable risks. The same can be said for the lack of collaboration and integration in the area of public health (beyond the savings created by the European Medicines Agency). The coordination of health structures and services could be improved to provide increased returns from common investment. The Covid-18 pandemic has shown the weaknesses caused by the lack of coordination and cooperation.

Key existing policy areas that should not be financed by the EU budget

It is impossible in this short paper to enter deeply into polemics of what should or should not be included in the EU budget in terms of expenditure. There is, however, a rather straightforward aspect that should be avoided, given the constraints of the EU budget. Circular transfers of funding from central governments back to central governments through the EU budget should be a clear 'no go.'

This is plainly the case for the already controversial direct payments of the CAP. Even without changing the policy and maintaining the same scale of expenditure, there is little reason to transfer the entire cost through the EU budget. With a relatively easy calculation it is possible to see that three quarters of the contributed funds actually return to the central government (ministries of agriculture) of the Member States [24], only approximately 25% of the cost of the CAP direct payments are not a circular payment (i.e. actually end up in a ministry of a different Member State).

Without changing the CAP, but using a financial system that supports Member States with a lower fiscal capacity to finance the costs of the policy, the EU budget spent on agriculture through the EU budget could be cut by approximately 75% - approximately €30 billion. This means, for example, finding a mechanism that co-finances differently the costs of the direct payments based on the average GDP per capita at national level. Using a system that covers 100% of the direct payments for countries with a GDP per capita under 75% of the EU average, 50% for those between 75% and 90%, 20% for those between 90% and 100%, and zero for those above 100%. This system closely reflects cohesion policy logic, and, based on a simulation using the 2014 EU budget[25], practically eliminates the circular payments from central governments to themselves. Such a change would actually, in line with EU objectives, improve the visibility of the EU budget as a fiscal equalisation transfer mechanism, clarify the EU's role as co-financier, and comply with the principle of additionality. The change would be tax neutral, but the budget would be reserved for what its key role is: redistribution.

How to improve the EU budget to create more value

The actual size of the EU budget is irrelevant if economies of scale and savings from common action are sought. The size should depend on the best distribution of tasks between the EU and its Member States to ensure the highest impacts. Reducing the size of the EU budget is not justified if Member States are seeking savings, as a reduced budget may well create further costs and/or lower economic activities and revenues for the Member States.

24 The contribution to the EU Budget to cover the cost of the CAP can be estimated by isolating the costs and distributing it as share of the GNI resource. This allows the actual share of self-financing to be estimated.

25 This simulation has been performed in: Núñez Ferrer J., J. Le Cacheux, J. Benedetto, M. Saunier (2016), idem

However, the EU budget needs to the reformed to increase the performance of EU policies by improving allocation of the responsibilities between the EU and the Member States. This would require a reform of the Treaty and rules, allocating more areas of competence at EU level and pooling more public resources through the EU budget. Efficiency gains should then reduce the overall expenditure by the treasuries, not increase it.

Finally, to reap the full benefits of a common budget, it is also important to look at public expenditure in general. The EU does not operate in a vacuum. In fact, its impact depends considerably on how the other 98 per cent of public expenditure is managed. The sustainability of the EU and its objectives, as well as the stability of the single market and the euro, depend primarily on the much larger national budgets and the trust of citizens in the common currency. This is a task that goes well beyond the use of the headings and the size of the EU budget. This is why, in addition to reviewing the best division of powers and expenditure between the EU and its Member States, strengthening the *national* public accounting standards and financial management systems is essential, for example by implementing EPSAS (European Public Accounting Standards)[26]. After all, the EU budget is supposed mostly to complement national expenditure, often co-financing or enhancing national actions. Hence, badly managed national budgets will also negatively affect the impacts of the EU budget. If efficiency and savings are sought, this is where Member States should also be looking very closely: the performance behind their own accounts. And the sooner they do it the more savings can be made. Budgeting for performance is an issue at all expenditure levels.

26 Núñez Ferrer J. and R. Musmeci (2019), *Beyond Public Debt and Deficits – The Hidden Rapid Erosion of Government Balance Sheets is a Financial Threat to Society*, CEPS research report, No 2019/10, March 2019

The benefits of EU membership: not much talked about during EU budget negotiations

By Marta Pilati, European Policy Centre



Source: Council of the European Union

The high-level group on own resources (HLGOR), chaired by Mario Monti, pictured above, former Italian Prime Minister and EU Commissioner, has challenged the 'juste retour' principle, pleading for a wider perspective on the costs and benefits of EU membership

Many capitals in EU Member States will agree that there are tangible benefits related to their membership of the European Union. But during budget negotiations the focus, at least in the public debate, often switches to the cost of EU membership. Marti Pilati is Policy Analyst at the European Policy Centre (EPC), working mainly on economic and regional policy issues and the EU budget. Below she discusses which aspects of EU Membership might not be given enough consideration during the negotiations on the EU's multiannual financial framework, as well as the limitations of the 'juste retour' approach, and suggests possible ways to overcome this issue.[1]

Looking beyond the zero-sum game

Countries benefit from a number of advantages from being Member States of the European Union. The most widely acknowledged direct advantage is EU funding from the common budget. This, however, represents only a minor part of the benefits that EU membership offers, but is nonetheless the only subject of discussion during the negotiations of the EU's Multiannual Financial Framework (MFF), i.e. the seven-year EU budget. MFF negotiations are in fact dominated by a 'juste retour' approach, by which each country attempts to contribute as little as possible and receive as much as possible from the common budget.

1 This article draws from *The benefits of EU membership are not measured by net operating balances*, Pilati Marta and Fabian Zuleeg (2020), European Parliament, Brussels

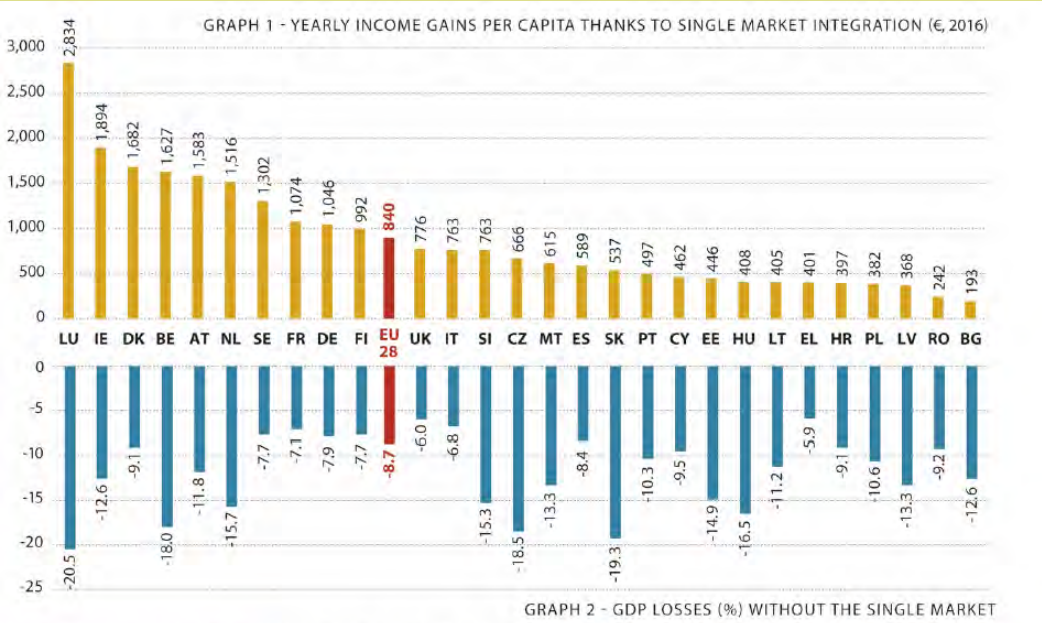
This logic, which reduces EU operations to a zero-sum game – according to which, if one country 'wins' another one 'loses' – completely disregards the wider benefits that Member States enjoy thanks to their EU membership, whether economic or not. Importantly, these are benefits that cannot be replicated at national level, and only arise thanks to EU-level action. This is because they are dependent on a critical mass that is not achievable by one country alone, or because they arise from cross-border operations or network externalities.

Benefits of EU membership

The Single Market

EU economies gain from economic integration, which results in higher intra-EU trade and more competition. The Single Market is an integrated economic area that is open in a non-discriminatory way to all sectors and individuals, in contrast to any other free trade agreement. The quantification of benefits is complex and challenging, given the absence of an alternative scenario, but some studies have been able to assess the positive effects. It is estimated that the EU's Gross Domestic Product would be 9% lower if there had been no Single Market integration,[1] which on average brings approximately €840 of annual income gains per person in the EU[2] (see **Figure 1**). Importantly, it is estimated that some Member States gain more than others, with Luxembourg, Ireland, Denmark, Belgium Austria and the Netherlands benefiting the most.

Figure 1 – Economic benefits of the Single Market



Sources (respectively): Mion, Giordano and Dominic Ponattu (2019), "Estimating economic benefits of the Single Market for European countries and regions", Bertelsmann Stiftung; Jan in 't Veld (2019), "Quantifying the Economic Effects of the Single Market in a Structural Macromodel", Brussels: European Commission.

While the economic gains of the Single Market are recognised to a certain degree in public discourse - although they are sidelined during MFF negotiations - less quantifiable benefits find less acknowledgement.

1 Jan in 't Veld (2019), "Quantifying the Economic Effects of the Single Market in a Structural Macromodel", Brussels: European Commission.

2 Mion Giordano and Dominic Ponattu (2019), "Estimating economic benefits of the Single Market for European countries and regions", Bertelsmann Stiftung.

Common action on cross-border issues

The EU allows Member States to address cross-border issues jointly. This avoids fragmentation of responses and improves the efficiency of international communication and action. For example, the effects of climate change and water and air pollution do not stop at borders. EU-wide standards and environmental protection legislation thus bring value to all countries. EU regulation on air pollution, for example, has been associated with a drastic reduction of pollutants in the air in the past few decades. Additionally, EU funding supports investment for climate change mitigation and adaptation, also in prospective Member States.

Other transnational threats include terrorism, trafficking and money laundering. Again, a common response is more effective than fragmentation through a variety of national policies. Although a fully harmonised system is not yet in place, the European Arrest Warrant means that warrants issued by a Member State are valid in the entire EU territory, thus preventing other Member States from impeding arrest.

Cross-border exchange of information is crucial for citizens' protection. This applies to the field of security, with the exchange of data and expertise on cross border criminal activities assured by Europol, but also when it comes to consumer protection. The EU has a common system for food and product safety, including tracking goods and sending EU-wide alerts on health hazards (the Rapid Alert System for Food and Feed and the Rapid Alert System for Non-Food Products).

Individual protection

Given that citizens may live and work in different Member States throughout their lives, a common set of rules is necessary to ensure that rights are harmonised across the EU. Differences across national legislation can indeed lead to the creation of grey areas where protection is not assured. This is the case for example on workers' protection, e.g. the exportability of social security rights, safety and health requirements and rules on working hours, among others. Similarly, consumer protection rules include those on passenger rights and online purchases. Another important area is food and product protection. EU legislation has also led to the creation of minimum standards for gender equality and the equal treatment between men and women in many areas, including in social security, work entitlements, access to services and parental leave .



Source: European Commission

Critical mass in the global context

It is reasonable to argue that Member States alone would not be able to negotiate as many Free Trade Agreements (FTAs) as they are through the EU. Brexit exemplifies this issue. Third countries are more interested in accessing larger rather than smaller economic areas, allowing EU countries more power in the negotiations. The benefits in terms of exports and growth that Member States gain from international trade would thus be lower in the absence of the EU.

Similarly, the size of the EU allows it to exert significant soft power in relations with other countries. For example, it allows the introduction of environment and worker protection chapters in FTAs. The Paris Agreement is probably the most successful example of the influence that the EU can exert on other countries to achieve a common objective. Another example is the General Data Protection Regulation (GDPR) on data protection and privacy, used as a model for similar legislation outside the EU, such as Brazil, the United Kingdom, India, Japan and some US states including California and Nevada.

General principles

In addition to practical benefits, EU membership also entails and protects some fundamental principles. First, free mobility, i.e. the free choice of a location to live and work. In addition to the value that this liberty represents, free mobility contributes to the transfer and exchange of knowledge and information, which in turn enhances human capital. Second, democracy and the rule of law: many countries in the past (and today) have gone through a process of democratisation and implemented reforms strengthening democratic institutions and the respect of rights as a prerequisite for EU accession. Once Members, the state of national democracies is scrutinised at EU level, which can intervene if there are deficiencies (Article 7 of the Treaty on European Union), although flaws in the approach have become evident in cases where more than one country falls under the procedure. Lastly, after the Second World War, political cooperation and strengthened economic ties among countries in the European Communities contributed to a prolonged period of peace on the continent.

Flawed approach to MFF negotiations

All these benefits have large economic and political returns, many of which are felt in the daily lives of citizens. However, they are entirely disregarded in EU budget negotiations. The fact that some Member States have been experiencing larger gains from Single Market integration than others has had some political prominence during the negotiations of the 2021-2027 MFF in the European Council. However, apart from the political discourse, these are not accounted for in practical terms, and the negotiations consider countries as 'net recipient' or 'net contributors' based on their direct contributions to and funding received from the EU budget. All the non-quantifiable benefits mentioned above are completely ignored in the negotiations. The 'juste retour' approach is flawed not only because the benefits of EU membership are not considered, but also because the indicator fails to even account accurately for the benefits from the EU budget itself. These limitations include, for example, the added value and positive externalities that EU spending in one country has for other countries, e.g. environmental policies and innovation, or the value of EU spending in third countries, e.g. development, aid and trade policy, or the fact that the final recipient of EU spending in a country may be a foreign actor, e.g. a multinational company.[3]

Consequently, the 'juste retour' approach implies that the benefits of EU membership are not relevant, that EU spending has no added value, and that the EU budget is a zero-sum game. This approach, based on a pure accounting indicator, i.e. national net budgetary balances, leads to an EU budget structure that favours policies whose spending is easily identifiable and quantifiable for each country, and thus can be clearly communicated to voters, regardless of its added value. Funding for cross-border issues, external action and non-pre-allocated programmes is less prominent because of the difficulty of assessing, ex-ante, the beneficiaries. Policies that generate savings, or whose benefits are not quantifiable, thus tend to receive less funding. Additionally, this approach imposes a rigid structure on the EU budget, whereby most funding is allocated at the beginning of the period and there is a lack of flexibility to adjust to emerging/unexpected issues.

Possible solutions

The political salience of the 'juste retour' approach means that abandoning it remains extremely challenging. While there is no single bullet, a few reforms could help to move away from the net balances bias.

First, the introduction of new own resources could provide funding for the EU budget while reducing the reliance on GNI-based contributions by the Member States.

3 For more, see Asatryan Zareh, Annika Havlik, Friedrich Heinemann and Justus Nover (2020), "Why net operating balances are a distorted indicator of a Member State's benefit from the EU budget", Brussels: European Parliament.

The latter indeed are easily quantifiable and attempts to reduce them hijack EU budget negotiations. New own resources, however, should be carefully designed to avoid leading Member States to calculate how much of it they would be contributing and avoid overburdening some Member States more than others.

Second, increasing the salience of policies with EU added value, even if not easily quantifiable, is crucial to changing the 'juste retour' mindset. Communication and awareness campaigns on the large political and economic benefits of EU membership can support greater acknowledgment of the value that is not accounted for in net balances.

Once the benefits of EU membership become more visible and accepted, governments will be keener on considering them when the EU budget is negotiated, which will probably lead to more funding for policies with higher EU added value. In the longer term, however, far-reaching, structural reforms may be needed to truly overcome the 'juste retour' approach. These could include a different governance structure that, together with the power of raising own resources, i.e. taxation, might also result in more democratic accountability and decision-making power at EU level.

Norway – optimising EU non-membership to maximise mutual European added value

By Research Professor Pernille Rieker, Norwegian Institute of International Affairs (NUPI)



Source: Alexandros Michailidis/shutterstock

Several countries outside the European Union have cooperation agreements with the EU that integrate them more or less into European projects of their choice. One of the 'third' countries most integrated into EU activities and EU regulations is Norway. What motivates the Norwegians - whose country would easily qualify for EU membership in all respects - to opt for very far-reaching cooperation, while choosing not to have a full say in all the rules and regulations that such cooperation involves? Pernille Rieker is Research Professor at the Norwegian Institute of International Affairs, specialised in European integration and European foreign and security policy. Below she explains how the search for European added value brings Norway very close to EU membership, and why the country chooses to go no further.

To be or not to be…an EU Member State

As a closely associated member of the EU, Norway complies with and implements almost all EU rules and many of its policies. As Norway fulfils all the Copenhagen criteria, Norway could easily become a full EU Member State, if it wanted to, and gain a seat at the table and full voting rights. Norway also contributes substantially to European cohesion through the financial mechanisms of the European Economic Area (EEA). On average, it has contributed €391 million annually since 2014. But it also contributes to various EU programmes such as Horizon 2020, etc. For an overview of its main financial contributions see **Box 1**.

So far however, the majority of the Norwegian people still do not want to join the EU, and full

Box 1 – Norway's contributions to the EEA and the EU

For the period 2014-2021 Norway's contribution amounts to:

- €391 million annually to 15 beneficiary states for European cohesion efforts;
- €447 million annually to EU programmes such as Horizon 2020, Erasmus+, Galileo and Copernicus;
- €25 million annually for the European Territorial Cooperation INTERREG.

Norway also contributes in the field of justice and home affairs, including participation in Schengen cooperation. For example, the annual contribution in 2015 was almost €6 million.

EU membership has been turned down in two referenda. According to an opinion poll undertaken by Sentio in November 2019, 60% of the Norwegian population continues to oppose full EU membership. But what is more interesting is that 61% is in favour of the current arrangement with the EEA agreement as the core. So, what motivates Norway to be in this in-between position – of being a part of European cooperation, but not fully participating?

Norway – a second-class EU Member State?

The Norway-EU relationship is much more extensive than most people are aware of. The EEA agreement has been (and still is) the agreement that is at the core of this relationship and has regulated the main part of the Norway-EU relations for the last 25 years. Nevertheless, today Norway has a set of additional agreements with the EU. In 2012, an independent Review Committee presented a 911 page report covering all the agreements Norway has with the EU, which cover most policy areas.

Still, the EEA agreement is the agreement that most directly challenges Norwegian national sovereignty. While Norwegian politicians have little or no (formal) influence over the legislation decided at EU level, the Norwegian government must still implement and follow EU legislation in exchange for full participation in the internal market. According to the Review Committee 'Norway has adopted roughly three quarters of EU legislation compared to those Member States that participate in everything, and it has implemented this legislation more effectively than many.' In short, the EEA agreement is exactly what the British government refuses to accept in its negotiations with the EU following the UK's withdrawal.

In Norway, the EEA agreement must be understood as a national political compromise. It is a general agreement that, in spite its problematic sides and undemocratic features, has functioned well for over 25 years, providing the country with full access to the internal market. According to the Review Committee 'it has generally functioned as intended, and better than many thought it would. The experience so far is that the principal issues are much greater than the practical ones. The model of association is practical and flexible, and this is how it has been practised by all parties.'

But Norway is not only a full member of the EU Internal Market. In addition to the EEA agreement, it is part of Schengen and has cooperation agreements both in the area of Justice and Home Affairs (Europol and Eurojust), including Civil Protection (CPM), as well as in the area of Common Foreign and Security policy (CSDP), including in the area of defence (e.g. the European Defence Agency). It is also participating fully in the European research programme, making Norwegian researchers an integrated part of the European Research Area. In practice, this means that, except for the lack of decision-making power, Norway is as close as it gets to being a full EU Member and could perhaps be considered as a second-class EU Member State. How did Norway get into this position?

A national compromise

As a leader of the Norwegian social-democratic youth league (AUF) in the early 1970s, Bjørn Tore Godal fought against Norwegian membership in the European Communities. However, as Minister of Commerce, when Norway applied for EU membership a second time, he had changed his mind. But he also believed that the EEA could be a lasting alternative to EU membership. And 25 years later, he thinks that the current arrangement has worked and still works well.

This is probably the main reason for its continued support. It started out as a national compromise or a second-best solution and has developed into an agreement that functions well and most now support, also the younger generation. It is also important to bear in mind that while the referendum in 1994 resulted in a majority against membership (52.2%), there was still a rather large minority who favoured membership (47.8%). For them the EEA agreement was the second best solution. And in the end this second-best solution was also less controversial for the Eurosceptics than EU membership.

The EEA is an interesting construction. Unlike most international agreements it is dynamic: over the last 25 years it has developed far beyond the preconditions established in 1992. But as this is an integral part of its construction, and the Norwegian Parliament agreed to this dynamic development willingly and consciously, this has been rather uncontroversial. Since 1994 all governmental coalitions have been built on this national compromise, which explains why there has been no political initiative for a new debate about EU membership.

From the outset, one of the key arguments for Norwegian EU membership in the early 1990s was market access. It was therefore keenly supported by Norwegian businesses selling products in the EU's Internal Market. But it was opposed by farmers, fisheries and the Norwegian food industry, that feared European competition. For both the supporting and opposing groups the EEA agreement was therefore seen as a second-best option. While a few are opposed to the EEA agreement (20%), there continues to be massive support for this agreement (61%), and only a minority wants to replace the agreement with full EU membership (28%).[1]

Benefits outweighing the costs, on several accounts



Source: Gaston Moonen

Mention Norway and most people think of stunning natural scenery. But it is also one of the non-EU countries most closely integrated with the EU.

While the current arrangements place obvious limits on Norwegian national sovereignty, there is a general agreement that it has served Norway well both economically and politically. This explains why most directives are incorporated into Norwegian law without much debate. There are only a few examples of controversial directives, but they have so far not led to Norway making use of its reservation right – often referred to as the power of 'veto' - or to a real debate about the agreement as such. Overall, it is still seen as being in Norwegian interests to be an integrated part of the single market and other EU policies.

But it is not only economic considerations that explain why Norway accepts this asymmetrical and self-chosen, undemocratic relationship with the EU. From a Norwegian perspective, European added value goes beyond direct financial benefits relating to avoiding tariffs or participating in measures against climate change. It is the totality of these agreements that provides Norway with more predictability and anchors it in a smoothly functioning multilateral framework that covers most policy areas, also those beyond the internal market – such as justice and home affairs, foreign and security policy. As a small country, Norway is dependent on stable, predictable international relationships. Strong multilateralism is crucial. It has always been a goal for Norwegian governments to be part of (or have a close relationship with) functional multilateral institutions that promote stability and predictability.

In a time when the whole multilateral system and the liberal order is under pressure, and there are uncertainties around the future of the transatlantic alliance, strengthening Norway's relationship with the EU is perceived as more important than ever. Interestingly, Norway unilaterally signed up to most of the EU foreign policy declarations and

1 Data based on the outcome of an opinion poll undertaken by Sentio for NUPI in 2018. See: https://www.nupi.no/nupi/Nyheter/Analyse-Holdninger-til-EOES-avtalen-etter-25-aar-Stor-oppslutning-men-lite-kunnskap

participates in EU sanctions. In general, the Norwegian approach to international politics is very much in line with the EU – and even more so since the election of Donald Trump to the White House. This is an important change, but as the opinion polls from 2019 indicate, this has not (as of yet) led to a shift in Norwegian opinion in favour of EU membership.

Having Norway as a constructive non-member that implements EU rules without much debate, follows EU foreign policy declarations and contributes financially, is of course also an added value for the EU. And perhaps particularly so in a period when Euroscepticism is on the rise in many countries. It underlines the attraction of the EU model even for a country that has chosen to remain a non-member. During the many rounds of difficult negotiations between the EU and the UK since 2016, EU-Norway relations have often been referred to by the EU side as a model.

Possible challenges to the Norwegian-EU win/win situation

So far the current arrangements between Norway and the EU have functioned well, and the critical voices have so far been few. But they still exist. If the Norwegian economy continues healthy with low unemployment rates, such voices will most likely remain marginal. With a higher unemployment rate, however, a focus on the negative aspects of the Internal Market such as social dumping - as a result of free movement of persons that allows competition from less expensive foreign labour in certain sectors - might also become a concern in Norway. The outcome of Brexit and the Union's handling of the Covid-19 crisis will also most likely influence support for/opposition to the current arrangements. An economically successful UK outside the EU could lead to more support for those who prefer a looser relationship with the EU. However, a failing and costly Brexit could have the opposite effect. Similarly, while unsuccessful handling of the Covid-19 pandemic could lead to more scepticism towards the EU, the opposite will lead to more support. Another variable will be the outcome of the upcoming negotiations with the EU concerning Norwegian financial contributions to the EU budget beyond 2021.

As I mentioned earlier, Norway contributes financially rather substantially to European cohesion through the EEA financial mechanisms. In the current situation, it is to be assumed that the EU will ask Norway to increase its financial contribution, also in view of the new Multiannual Financial Framework. While there is probably political willingness to accept a certain rise, there will most likely also be a limit to what the Norwegian public is willing to accept. This poses the risk that the next round of negotiations may challenge the national compromise around the EEA agreement and the additional agreements that has served Norway and the EU well for the last 25 years. And given the opinion polls and the continued low support for EU membership, there may be no alternative to the current arrangement, other than a very unfortunate 'Norwexit.'

For the moment, however, such an option is not on the table and the current arrangements should remain sustainable beyond 2020. They have proven to be flexible and pragmatic, enabling adaptation to new situations during the past 25 years. On both sides a lot of effort has been made to make them work. Not least because any possible alternatives simply seem to be more problematical for the parties involved. But also because the current arrangements provide added value to both Norway and the EU, serving their individual and common interests.

Adding value for whom: aid or agenda?

By Sven van Mourik, New York University



Source: Vernaccia

Street Art in Lisbon (22 April 2018)

The EU spends almost €12 billion per year (2018 figures) outside the EU, mainly for economic cooperation and development aid, under the heading 'Global Europe' and through the European Development Funds (EDF). This corresponds to around 9.5% of the EU budget (including EDF expenditure). Spending this money, however, is subject to several conditions being met. But can we still speak about aid in view of these 'conditionalities', and who is helped by it: the recipient or the donor? Sven van Mourik is a doctoral student in history at New York University, researching Afro-European relations in the late 20th century and global governance issues. For his doctoral thesis he focuses on the conditionality of the EU's external aid. In his article he questions whether this 'conditioned' aid really adds value in the long run to its recipients. Or whether it has different effects, be they intentional or not.

Beyond more or less aid

'Why do we give so much money to Africa?' This is the question raised repeatedly by Europe's far right populists seeking to cut development aid. Simultaneously from the left, we hear clarion calls to increase aid budgets.

The EU gives development aid through two channels: aid given directly by its Member States and aid given through the EU budget and its European Development Fund (EDF), the EU's main instrument to provide development cooperation aid. Currently the EDF budget amounts to slightly over €4 billion (€3.7 billion expenditure for 2018), while the EU budget provides economic and development aid through the heading 'Global Europe,' amounting to almost €10 billion (€8 billion expenditure in 2018).[1]

During the last two decades more and more economic and development aid has gone through EU channels. Reasons for this have been on the one hand economies of scale and speed aimed at more efficiency and impact, while on the other hand there was an urge to join forces and thereby reduce 'competition' between Member States' development aid programs. So go the arguments which are often related to European added value, and which may even lead to savings for EU Member States or, if savings are used to increase the amount provided, benefits for recipient countries.

1 See also the ECA annual reports 2018 (Chapter 9 and the ECA's 2018 report on the EDF)

My hypothesis is that the problem with EU aid is not its amount, but that it is flawed in its conception and application. Beginning in 1990, European development aid – coming from both EU Member States and the European Commission - has become tied up with a deeply problematic macroeconomic agenda in the form of structural adjustment programs (SAPs), as formulated by the World Bank and the International Monetary Fund (IMF). Under the Lomé IV and Cotonou Conventions – the overarching framework for relations with African, Caribbean and Pacific countries, the European Commission has made a large part of its development aid conditional upon the implementation of such SAPs. The conventions promised relief from the consequences of the restructuring itself.

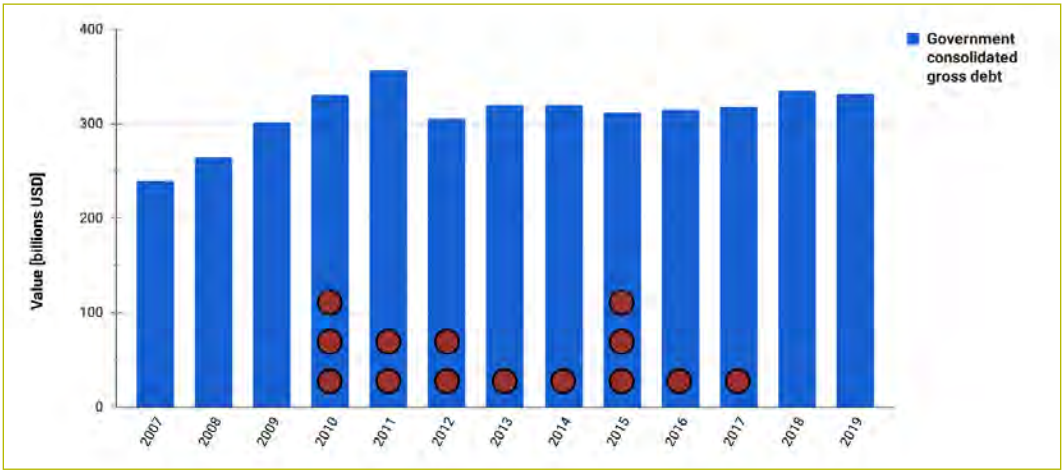
When the European Union promises aid for structural adjustment, they are not actually giving *aid*. Instead, they are using the EU's financial support as leverage to impose a particular view of what a liberal market society should look like. EU aid conditionalities reflect a distinctly European vision for the Global South[2] and are implemented under the implicit threat of the humanitarian and financial disasters that aid withdrawal entails.

Adjustment in Greece

What makes structural adjustment so problematic? Let's look at a recent example within the EU, Greece, in several ways revealing the outcome of experimentation with adjustment in the Global South. Following the 2008 crisis, a string of adjustment programs tried to spark economic growth to enable debt repayment. In exchange for bailout loans, Greece embraced budget cuts in health and education, minimum wage cuts, pension reform, privatization, deregulation, and tax hikes. This strategy of expansionary austerity was founded on the belief that by cutting wages, prices and public spending, a country could restore competitiveness and increase business confidence, which would lead to growing investment. These positive effects would ultimately outweigh the costs of austerity.

The programs had some unanticipated consequences. Between 2009 and 2013, a 25% cut in hospital and primary care funding resulted in a 32-fold increase in HIV infections. Infant mortality increased by 43 percent, and the suicide rate by 45 percent[3]. Yet these cuts did not fix the debt problem, as indicated in **Figure 1** on the evolution of Greek debt - despite 14 austerity packages imposed by the IMF, European Commission, and European Central Bank. As economist Stergios Skaperdas noted in 2015: 'This level of debt is unsustainable and there is virtually no chance it will be fully paid back. Default is still a taboo but it is bound to occur in one way or another.'

Figure 1 – Evolution of Greek debt



Source: Eurostat

Greek Government consolidated gross debt, 2007-2019 with 14 austerity packages in red.

2 The Global South is a term used by the World Bank and other organizations to distinguish the North-South divide. The Global South includes Asia (with the exception of Japan, Hong Kong, Macau, Singapore, South Korea and Taiwan), Central America, South Amerrica, Mexico, Africa, and the Middle East (with the exception of Israel).

3 Mark Blyth, *Austerity: The History of a Dangerous Idea*, 2013, page 258.

The Greek case sparked heated discussions within Europe about the role of Germany, the European Central Bank, the IMF, and the European Commission. Historically, however, this was far from the first time the European Commission and the IMF have together designed adjustment programs for highly indebted countries. Just ask the Global South.

Adjustment in the Global South

It was in the wake of the 1980s debt crises that hit the Global South that SAPs exploded onto the scene. European and American banks experiencing excess liquidity had lent more than a trillion US dollars to developing countries in the 1970s. Following the oil shocks, these countries had difficulty servicing their debts. Repayment was put at the center of international development efforts, and Europe and the US embraced the structural adjustment program as formulated by World Bank President McNamara at the end of the 1970s. Much as for Greece, bailout loans were issued with a demand for macro-economic reform: by 1994, 'more than 70 countries… [had] been subjected to 566 IMF and World Bank stabilization and structural adjustment programs (SAPs)'.[4]

What was in these programs? SAPs had two overarching objectives. The first was austerity: by lowering prices, wages, and public spending, a country would improve solvency, confidence and competitiveness in the world market. The second was to court private investment, mainly through privatization, anti-inflation measures, opening of capital markets, enforcement of first world patents and copyrights and relaxation of minimum wage laws and trade union rights. In a nutshell, structural adjustment promised to liberate market forces, promote foreign investment, and boost developing countries' exports. This in turn would bring growth that would enable repayment of outstanding debts.

For 30 years the EU has promoted structural adjustment across the globe by making a large share of its development aid dependent on whether a country agreed to an IMF or World Bank program. Initially the EU was critical of adjustment: an influential report of the UN International Children's Emergency Fund (UNICEF) had pointed out in 1988 that SAPs 'posed life-threatening dangers to women, children, and the aged.' But while it vowed to mediate the devastating social impact of SAPs, the EU fully embraced – and enforced – the macroeconomic framework set out by the IMF and the World Bank. If their conditions went unfulfilled EDF aid could be suspended, even if this, as the ECA has reported 'led to severe interruptions of the implementation of food security programmes (…).'[5]

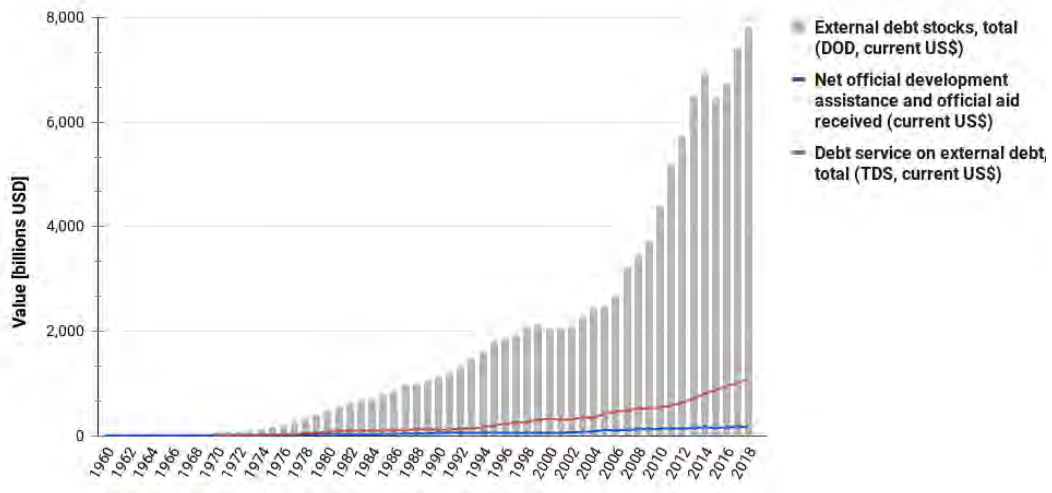
Through aid conditionality, the EU became a little-known but impactful co-author in the global history of structural adjustment. It both reinforced SAPs and spread them to places where the World Bank and IMF had not yet gained a foothold. EU aid helped cement SAPs as a gold standard of credibility for the Global South, the only way for poor indebted countries to access new credit or aid. Thus, the EU bears direct responsibility for the complicated legacy of SAPs.

The legacy of adjustment

So did SAPs work? As **Figure 2** regarding ballooning Developing World debt shows, they have not fixed developing countries' debt levels – their original purpose. In fact, debt servicing over the first ten years of the debt crisis exceeded what these countries had originally owed in 1982, yet by 1992 their debt had doubled. Although the EU has helped promote debt relief through the Heavily Indebted Poor Country (HIPC) initiative, unrepayable debt has ballooned into a structural feature of North-South relations. For example, while African countries received $19 billion in aid in 2015, they had to pay $18 billion in interest on old loans .[6]

4 Walden Bello with Shea Cunningham, *The World Bank and the IMF*, North South View, July 1994.
5 See ECA special report 2/2003, paragraph 69
6 Karen McVeigh, *World is plundering Africa's wealth of 'billions of dollars a year*,' 24 May 2017.

Figure 2 – External debt development for Developing World countries



Developing Countries' (Low and Middle Income) total external debt stocks. Source: World Bank open data site: External debt stocks, Net Official Development Assistance and Official Aid Received, Debt service on external debtSAPs impacted the Global South in other ways. In 2002, a group of NGOs and civil society organizations, backed by the UN, the EU, and initially the World Bank (which later dropped out), published *A Multi-Country Participatory Assessment of Structural Adjustment* . Through interactions with civil society in ten countries (Bangladesh, Ecuador, El Salvador, Ghana, Hungary, Mexico, Uganda, the Philippines, and Zimbabwe) it reported some common consequences for societies under SAPs:

- destruction of domestic manufacturing;
- widespread bankruptcy of small and medium-scale enterprises;
- higher unemployment rates – and consequently higher income inequality;
- environmental degradation;
- decline in health and education services;
- political destabilization.

Those first two effects of SAPs were anticipated, if not desired. Following the theory of comparative advantage, countries across the Global South had few businesses that could produce goods more efficiently than the Global North produced them, whether that be machines, medical supplies, or even food. The Global South should focus on their own advantage, which was generally the export of raw materials. While primary product exports did grow following the SAPs, profits went largely to Western multinationals. According to the same logic, these multinationals were more technically advanced and efficient in extracting the resources than domestic counterparts – and so they were often commissioned to do the job, sometimes accompanied with most beneficial (tax) conditions.

Why has structural adjustment not enabled countries to repay their debt? On the one hand, structural adjustment has put negative pressures on government income. Government firms were privatized and bought up by Western corporations that take most of the revenue (for there were few domestic investors). Local bankruptcies led to decreased taxes. Profits from exports went and still go increasingly to Western multinationals. And tariffs, which were an important source of income for most African states, were abolished in the name of trade liberalization.

On the other side, expenses went up. Businesses across the Global South went bankrupt, and essential goods had to be bought on the world market. While currency devaluation increased exports, it also made imported products more expensive. Thus, SAPs have kept the Global South ensnared in a position of economic underdevelopment.

The most staggering legacy of SAPs is their impact on health. A 2017 study concluded that austerity cuts in government health expenditure globally and in sub-Saharan Africa particularly have led to 'medical supply shortages, loss of human capital [due to brain drain], and replacement of defunded maternal health services with ineffective traditional birth attendant programs.' Privatization and deregulation of water and sanitation facilities increased reliance on unsanitary water, while user fees for health centers could lead to a 52% decrease in visits. Overall, the study linked the presence of an SAP in a country to an increase in infant mortality and maternal deaths during childbirth.

Today, SAPs exacerbate the impact of coronavirus. The current crisis in Ecuador, for instance, followed 'six years of fiscal austerity measures endorsed by the IMF, including a fall of 64 per cent in public investment in the health sector in just the last two years.' Such fiscal austerity measures have continued throughout the pandemic, and Ecuador is not alone: 'Of the 57 countries last identified by the WHO as facing critical health worker shortages, 24 received advice from the IMF to cut or freeze public sector wages.'

Increasingly, there is little alternative to adjustment for indebted countries, including, most recently, Greece. From the US treasury to the African Development Bank and the Paris Club of bilateral creditors: an IMF or World Bank program has become an almost universal prerequisite for vital credit. Even the Heavily Indebted Poor Country initiative of the late 1990s, itself a program of debt relief, was made conditional upon accepting an IMF program. Today traditional centers of the developed world like the Netherlands, Germany and the UK are voluntarily taking up austerity and other elements of structural adjustment, believing it will boost their credibility.

The 'maladie' of conditionality

Historical data show that SAPs did not have to meet concrete humanitarian, developmental or economic objectives in order to take the world by storm – on the contrary. As in Greece, the one essential may have been the illusion of repayment. For even if adjustment does not deliver, the permanent austerity of the indebted country forestalls default because austerity comes with new loans, thus protecting the investments of Western banks and governments. This mechanism is most visible in the endless rescheduling of debt in the Paris Club of bilateral creditors. Meanwhile, cash-strapped poor countries are left with no alternative but to accept more adjustment in exchange for new credit.

If aid-receiving countries have not profited from SAPs, who has? To simplify: while inflows to sub-Saharan Africa totaled $162 billion in 2015, some $203 billion in financial resources left – with a whopping $68 billion disappearing through 'illicit financial flows,' used by multinationals to channel revenues to overseas tax havens[7]. Besides Western multinationals, Western banks have also profited. In the first ten years of the 1980s debt crisis, the developing world repaid what it owed and nevertheless ended up in twice as much debt. This means, from the perspective of added value, that EU SAPs' conditions may have provided added value for EU businesses – particularly banks – but at a tremendous cost for the developing world. And still do. While a new jubilee movement advocating debt forgiveness for the Global South is gaining traction, there is a growing recognition that more is needed: we need to take a look at the *system* that keeps producing this unrepayable debt.

7 Honest Accounts 2017, *How the world profits from Africa's wealth*

SAPs have caused just the sort of widespread humanitarian crises they ostensibly sought to relieve, and placed countries in economically dependent and stagnant positions instead of restoring their economies to growth and independence. But for the EU, the root of the problem may lie with conditionality itself. Where EU aid was unconditional throughout the first three Lomé Conventions (1975-1990), SAPs opened the door for specific Member State demands. Human rights, environmental protection and other European priorities for the Global South were inserted into aid packages during the 1990s and then through the budgetsupport mechanism of the Cotonou Convention (2000-2020).

While we may like the idea of liberal market societies that follow human rights and protect the environment, attaching such conditions to EU aid amounts to liberal imperialism. Behind a paradigm of 'partnership' and 'dialogue' lies a reality of gradual but inevitable adjustment of poor countries' economies and politics to European norms and standards. Not only is vital aid imperialistic when it comes with strings attached. Such strings distract us from the real questions: how do we Europeans continue to profit from the underdevelopment of the Global South, and how can we better align our economics with our humanitarian aspirations? What kind of priority do we give to these latter European values?

When the question arises of why we give so much aid to Africa, we should take this opportunity to focus on the why and move beyond discussions about how much. Packing aid with EU conditionality, such as embedded in SAPs, shifts the focus in answering the key question of what the added value – also in the long term – will be, towards the European donors instead of the recipients of EU aid. While presented as a gift to developing countries, long term benefits for the donors may well outweigh the benefits for the recipients. This is no longer aid, since we have shifted from a humanitarian to an altogether different kind of agenda .

Relaunching growth in Europe together Dutch Central Banker Klaas Knot's agenda for a stronger currency union

By Gaston Moonen



Source: Peterschreiber.media/Shutterstock

The euro is one of the key results - and symbols - of cooperation between Member States in the European Union. Sharing a single currency can maximise economic efficiency. At the same time, for economies with low productivity growth, the euro can be a relative burden. Ultimately, diverging economies can even undermine public support for a common currency. So what does that say about the euro as the epitome of EU added value? Klaas Knot, President of De Nederlandsche Bank – the Dutch Central Bank – puts forward a number of advantages of the euro but also pleads for measures that would move us towards more European integration…to save the single currency, and more importantly the benefits of European cooperation. He did this in a speech he gave at the Eurofi Financial Forum in Berlin in September 2020, in which he urges putting an end to growth divergence within the Economic and Monetary Union and considers a strong currency union as an important condition for facing transnational challenges more successfully. Below, the issues Klaas Knot raised.



Source: DNB

Klaas Knot,
President of De Nederlansche Bank

More than six months after the outbreak of the Covid-19 pandemic, it is clear that the virus has pushed the global economy into deep recession. The European economy has not been spared. What I am particularly concerned about is that the ability to recover from this blow is far from equal across euro area member states. This crisis has thereby re-emphasized the challenges to our Economic and Monetary Union. Challenges that are posed by a creeping divergence in productivity growth, competitiveness and per capita income between member states.

Although many of you may share my concern, the urgency is not felt by everyone […]. Therefore, today I would like to argue why I think growth divergence in the euro area threatens to undermine the benefits of European cooperation. And I will outline how I think we can successfully overcome this challenge.

Challenges of the single currency

Indeed, the economic benefits of European cooperation are still convincing. Take the European single market. A wide body of research shows it has clear benefits for each and every Member State, with small, open economies the Dutch one benefiting most. Also, there are still strong economic arguments in favor of our common currency. A single market like the European market, where there is intensive trade between countries, benefits from the absence of exchange rates. The success of the single market is therefore built on the bedrock of the euro.

But we have seen that a single currency also brings disadvantages. Certainly for a group of countries that differ quite a bit from each other economically. Until now the euro has not lived up to its promise of bringing sustainable economic convergence. In fact, we have seen the opposite. As devaluations are no longer possible, countries with lagging productivity growth can only restore competitiveness through wage moderation. But even in competitive countries like Germany and the Netherlands, wage growth is already muted. Structurally undercutting German and Dutch wage growth is therefore easier said than done.

You could say that the euro always gives a little boost to the more productive, more competitive economies in the north. To southern economies where productivity growth is generally lower, the euro is a relative burden. That is why the more productive and the less productive economies have a tendency to diverge. If this imbalance persists for too long, it will lead to problems like we saw during the 2011 European debt crisis, when several Member States experienced major financial problems and all of us went through a deep recession.

The euro crisis taught us that we cannot just abandon struggling euro area Member States to their own fate. So, as long as the phenomenon of divergent growth exists, more productive economies will occasionally have to step in to help the less productive ones. But it would be even better to tackle the root cause of this growth divergence. These differences between north and south are not after all a God-given natural phenomenon. It is an uncomfortable observation that in recent years, that some even characterized as euro boom years, many opportunities for economic reform have been missed.

Covid-19 crisis as a challenge to Europe

On top of this we now all have a new crisis to contend with, the Covid-19 crisis. What is particularly cruel about this crisis—and I might add hazardous for Europe—is that the most vulnerable economies in the euro area have been hit the hardest. Consequently, their government debt will rise even further. Market concern about their debt levels may force these countries to start cutting their deficits before their economy has been able to recover. Which could further exacerbate economic divergence between euro area Member States.

In time, this could undermine public support for the euro. To this day, public support for the single currency remains high. But can we take it for granted that it will stay that way? Southern Europe currently reaps relatively little benefit from the euro. And in northern Europe, people often feel they are being called on to bail out their Mediterranean partners. Moreover, within the more prosperous Member States the benefits are not always shared evenly. In my own country, for instance, businesses have benefited greatly from the single market and the euro. Due to lagging wage growth and an increasing tax burden, however, the benefits for households are less pronounced. If a large proportion of them start to see 'Europe' first and foremost as a private party for businessmen, with scant benefits for their own pockets, then that will undermine support for the European project.

I think that is something we should all be worried about. Also, because Europe is about so much more than just the financial benefits. Take the shifting geographic balances of power, the refugee crisis, the climate crisis. You don't have to be a Europhile to understand that we can tackle these transnational challenges better at European level than at national level. These challenges call for European cooperation within a strong

European Union. And this is inextricably linked to strengthening the foundations of our currency union. I am convinced this is perfectly possible. We designed our monetary union ourselves, including its flaws. And that means we can also fix it ourselves, if we want to.

Policy for Europe

There are three things I believe we need to do for that to happen. The first is to fight this Covid-19 crisis collectively and effectively. This summer, European leaders wasted no time in setting up a European recovery fund. An excellent initiative. What's very important is that the recovery fund is intended to support public investments that strengthen economic growth potential also in the financially more constrained Member States. The recovery fund prioritizes investments in digitalization and a climate-neutral economy. That way, we can kill two birds with one stone: we narrow the gap between those leading the way and those lagging behind, and we invest in the sustainable growth capacity of the euro area. It is also important to note that the fund is temporary. There are no direct transfers between countries. Nor do countries assume responsibility for each other's debts.

While this fund is an important step, it is not enough. And this brings me to the second item on my list: we will also have to coordinate fiscal policy more closely. In recent years, European fiscal rules have been focused on the 3% limit for the budget deficit. As a result, the rules have been strict during bad times, and ineffective during the good times. I therefore think we need to pay more attention to public debt levels. The Maastricht Treaty's 60% debt limit must regain prominence. It is a recognizable benchmark, and allows Member States the room to temporarily increase their debt during economic downturns. However, the pace at which countries are required to return to below this limit, must vary more than it did in the past. The individual economic situation of a country must be taken into account. During economic upswings, countries with higher debt levels should have to make greater efforts to reduce their debt than countries with lower debt levels.

In reducing public debt, we should put more emphasis on reforms that enhance economic growth. Rather than the spending cuts and tax hikes that often initially constrain growth. If austerity is unavoidable, fiscal rules should at least protect public investment.

The third point on my European to-do list is to improve coordination in other areas of economic policy. To effectively tackle the divergent competitiveness in the euro area, all Member States must play their part. Less productive economies need to implement reforms and investments that increase their productivity and competitiveness. This has obvious benefits for exports, economic growth and employment. And it decreases the productivity gap with more productive economies. These reforms are, however, more likely to succeed if the stronger economies also do their fair share. Large and persistent trade surpluses often hide underlying problems, such as corporate savings retained for tax reasons, or stagnant wage growth. Reforms aimed at increasing households' purchasing power would therefore not only increase welfare in the more competitive member states, but also make life easier for the more vulnerable ones.

But let's be realistic: such reforms will take time. Even with the right policies in place, it will still take decades for many member states to get to where they need to be. In the coming years, countries with high levels of public debt will unlikely be able to weather another serious downturn without implementing far-reaching budget cuts and tax hikes. These countries then risk falling even further behind. Which would again overshadow our objective of creating a stronger and more coherent monetary union. The best way to deal with this, is something we will have to continue reflecting on.

I certainly do not have all the answers. But I do believe that the agenda I have outlined would put us on the way to a stronger currency union. With European governments investing in sustainable growth, both jointly and individually. Through more closely aligned economic policy.

More European integration is not a popular message nowadays, I realize that. We could also choose to abstain from further European integration. That's also an option, certainly. But there is a price to pay for that option. The price involves continued economic divergence between euro area Member States, more debt crises, more emergency support and lower levels of prosperity. Would the euro survive such a scenario?

All the same, we are living in a different Economic and Monetary Union than we imagined back in the 1990s. With more sharing of risk. And more harmonization of policy. In recent years we have pushed the boundaries of the Treaty. There is no guarantee we will not have to do that again. So it is equally crucial to reaffirm the political mandate. It is up to politicians to state their convictions, and present them to voters in a clear and consequential fashion.

If we want to achieve a strong, well-functioning and sustainable Europe that works for all of us, then we must be willing to do what it takes. It requires us to better harmonize our economic policies, and to jointly invest in sustainable growth. Firmly based on Member States assuming responsibility for putting their own house in order. With the realisation that all Member States must do their bit. And with the prospect of creating a better future for us all.

Greening the Common Agricultural policy for real – a plea for adding value to the largest EU spending programme

By Elena Montani and Kevin O'Connor, EU Staff for Climate



Source: Unsplash

Greening the Common Agricultrual Policy (CAP) is one of the slogans of the EU's shift towards a more sustainable form of agriculture, and has been for more than a decade. The Commission's current 'Farm to Fork' strategy is the most recent initiative to green the entire food system, including agriculture. This reform, as initially proposed, had the potential to achieve the kind of value that actions at the level of individual Member States could not achieve. However, the outcome of the negotiations on the Commission's legislative proposals for the 2021-2027 period seem to punch a lot lower than originally intended. This has alarmed not only environmentalists, but also staff members working for EU institutions. The cross-institutional group EU Staff for Climate expressed their concerns, which are summarised below by two representatives, Elena Montani and Kevin O'Connor.[1]

Many crises, one emergency

We are facing a planetary emergency. Science is sounding the alarm. Planetary boundaries have been overshot and climate disruption is beginning to manifest itself worldwide. The Covid-19 crisis also illustrates how interdependent human and planetary health are. Our economy, social values and lifestyles are contributing to this climate crisis. At the same time, the climate crisis is threatening our prosperity and the future of our children, and may ultimately even pose a risk to human civilisation.

The important role of transformative and coherent EU policies

From the outset, the European Union has been a visionary project and an example to the rest of the world. It has delivered lasting peace in a region historically characterised by bloody conflicts. With the same sense of purpose, averting the destruction of our life-supporting ecosystems, preventing future planetary crises and fostering a culture of deep transformation towards sustainability ought to drive the European project for the next decades. EU policies must be as ambitious as possible, doing whatever it takes to lead the necessary transformative change in Europe and across the globe.

1 This article is based on the content of a letter sent on 10 November 2020 by EU Staff for Climate to Commission President von der Leyen and to Commissioner Wojciechowski on Greening the CAP.

The European Green Deal has set out to design a set of deeply transformative policies to steer our economies towards a healthier and more resilient future, and away from the current path, which risks catastrophic climate change and environmental degradation. Agriculture is one of the key factors in determining which of these scenarios will materialise, and the Green Deal has sought to protect and restore natural and agricultural ecosystems. To that end, the EU has endorsed the Leaders' Pledge for Nature, recognising – like the European Parliament – the planetary emergency we are in, and committing, for example, to transitioning to sustainable food systems and to shifting agricultural policies away from harmful subsidies. The European Parliament has declared a planetary emergency and the European Council has adopted conclusions declaring climate change an existential threat.

Box 1 – About EU Staff 4 Climate

EU Staff for Climate is a bottom-up initiative led by EU staff in their individual/private capacity. It brings together colleagues from across the EU institutions who are deeply concerned about the climate, ecological and social crisis facing the planet. EU Staff 4 Climate was launched in March 2019 in solidarity with the global Youth for Climate movement, reaching out as concerned citizens, parents, grandparents, and as employees whose duty is to act in the public interest.

EU Staff for Climate aims to loyally support the EU institutions and the citizens of Europe in achieving a green transition to assist a return within the planetary boundaries. The first action of the group – a petition to the incoming EU leaders on the climate and ecological emergency – gathered over 11 000 signatures from EU staff.

As the Covid-19 crisis broke, EU Staff for Climate also set up the EU staff Covid-19 Solidarity Response Fund to promote a vision of planetary health as well as solidarity across Europe. The purpose of the fund is to support those most in need and to help prevent future crises. Thanks to the contribution of over 1 000 colleagues from all EU institutions, the fund has now collected over €420 000 euros and disbursed donations to 21 organisations across the EU to help vulnerable communities, health care professionals and families affected by Covid-19.

Aligning the CAP with the European Green Deal

The proposed Common Agricultural Policy (CAP), now with the Council and Parliament, is flagrantly at odds with the Green Deal and the Leaders' Pledge. The Commission's original proposal would not have prevented the Green Deal from being achieved under certain conditions, at least.[2]

While the Council appears to have taken scant account of the Green Deal objectives, the Parliament's amendments are mixed, in some cases pushing for higher environmental standards than the Commission proposal. However, the positions of the other institutions have not met most of the relevant conditions and the original proposal risks being substantially compromised.

Wrong agricultural policies will accelerate the ecological and social crisis

If the CAP is passed in anything like this form, it risks locking in agricultural policies which will accelerate biodiversity loss and create food insecurity as well as having potentially broader economic implications in the medium and longer term.[3] Agriculture also makes a significant difference with regard to net greenhouse gas emissions[4] and other environmental pollution, where the difference in impact between the types of agricultural models and practices[5] should be fully taken into account in CAP support. It is our firm belief that, given the rapidly shifting political and social landscape and the accelerating climate and ecological crises, it is likely that key parts of the CAP as it is currently taking shape will be unthinkable already in a few years' time.

2 Analysis of links between CAP Reform and Green Deal, SWD(2020) 93 final, 20.5.2020. Several earlier analyses have highlighted how the CAP has so far failed to contribute to key objectives of EU climate and environmental policy – for example ECA special report 13/2020 'Biodiversity on farmland: CAP contribution has not halted the decline.'

3 See, for example, OECD (2019) Biodiversity: Finance and the Economic and Business Case for Action; IPBES (2019): Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (https://ipbes.net/global-assessment); International Panel of Experts on Sustainable Food Systems (2020): Covid-19 and the crisis in food systems; IPBES workshop on Biodiversity and pandemics (2020) (https://ipbes.net/pandemics).

4 See, for example, a fresh report by scientists from top universities: Clark et al, *Global food system emissions could preclude achieving the 1.5° and 2°C climate change targets*, 2020 https://science.sciencemag.org/content/370/6517/705.full.

5 See, for example, United Nations Commission on Trade and Development, '*Wake up before it's too late*, 2020 https://unctad.org/system/files/official-document/ditcted2012d3_en.pdf.

Even in the short term, implementing such a CAP would hamper the ability of the European institutions to achieve the Green Deal objectives. Many colleagues working on implementing aspects of the Green Deal and related policies feel frustration at those efforts being critically undermined by a weak policy inherited from the past and further diluted by the co-legislators. Consistency in the design and implementation of different EU policies is essential for their added value and effectiveness, in line with the Treaties. Policy effectiveness also depends on a clear sense of purpose and direction among staff of the Institutions.

EU Staff for Climate letter to EU leaders

On 10 November, EU Staff for Climate sent an open letter to Commission President von der Leyen and to Commissioner Wojciechowski. In the letter, we advocated that the Commission defend the elements of the original proposal, which have been identified as steppingstones towards achieving the Green Deal, using the environmentally positive amendments made by the Parliament to help close the remaining gaps. We also proposed the addition of a review mechanism to trigger a process leading to the revision of the CAP in line with the goals of Green Deal.

If such amendments cannot be achieved, we propose to explore all possible options for withdrawing the Commission's original proposal, with the goal of revising it in line with the Green Deal's ambition. A revised proposal could design an agricultural policy more in line with the proclaimed climate and environmental objectives of all the EU institutions, in particular the Biodiversity Strategy for 2030 and the Farm to Fork Strategy. These include binding climate and biodiversity targets for agricultural land, in line with the assessment of the European Court of Auditors. The time gained by the decision to continue the current CAP regime for the next two years could be used for this purpose. A transition period could also be envisaged in phasing out the old CAP, giving the rural backbone of Europe time to adjust gradually.

Effective and ambitious implementation of the Green Deal is our priority

Putting agriculture on a more sustainable footing, which would ensure food security, fairness to farmers and respecting the planetary boundaries, can be done. What it requires is political will, engagement for popular support and operationalisation to put into practice the green values the EU wishes to stand for. EU Staff for Climate is committed to supporting a push for the implementation of the Green Deal to a level of ambition that matches this enormous challenge.

Sixth edition of the ECA Award – for research on EU added value and public sector auditing

By Mihails Kozlovs, ECA Member , Chair of the Award Selection Panel



Source: by-studio-shutterstock

Antoine Dumartinet and Carolyn Moser won the 2020 ECA Award, the theme of which was 'EU added value and public sector auditing.' This sixth edition of the ECA Award is a tribute to Marcel Mart, former ECA Member and President of the ECA. Mihails Kozlovs, ECA Member and Chair of the selection panel, provides insights into the various contributions, the evaluation process and, of course, the winners.

Focus on EU added value

The ECA 2018-2020 strategy is explicit: we are committed to increasing our focus on the performance aspects of EU action and to paying greater attention in our work to the added value of EU action. This also means that, increasingly, we are assessing whether 'action at EU level was the best way to achieve the desired outcome and whether more or less EU-level intervention would be needed in view of the objectives of the funding or policy.'

The theme of EU added value was therefore a natural choice for this year's sixth edition of the ECA award. And a theme that proved to be particularly relevant in 2020, the year of a global pandemic, because EU added value aspects are more important than ever in these times of crisis, and in view of all the challenges the EU and the world is facing.

But EU added value is also relevant to our work as the EU's independent external auditor. In our audits, we are generally looking at EU added value by asking three main questions:

- first: Is the overall action taken at EU level necessary and relevant to addressing a specific EU policy objective or obligation? If the answer is yes, this means that the greater the EU relevance, the more likely Member State intervention alone is or was insufficient;
- second: Is the EU action targeting, in the most appropriate form, areas that can provide the highest net benefit at EU-level, whether economic, social and/or environmental? This question has to be linked to resource allocation, complementarity with other EU and national programmes, and opportunity cost;

and

- third: Is the EU-level action being delivered more economically , efficiently or effectively than Member States acting alone? Once again stressing the need for common action at the EU level.

The sixth edition of the ECA award – paying tribute to former ECA President Marcel Mart

The ECA is committed to public sector auditing and one of our means of doing so is by developing active links with the academic community, thereby stimulating knowledge exchange between scholars and researchers and EU institutions, and the ECA in particular. With this in mind, we established the biennial 'European Court of Auditors Award' in 2010, to provide an incentive and recognition for research on public audit related issues.

Box 1 - Chronology of ECA Awards

2010 Jesús Lázaro Cuenca (1954-2009), former ECA director

2012 Juan Manuel Fabra Vallés (1950-2012), former ECA Member and President

2014 Massimo Vari (1937-2013), former ECA Member

2016 Henrik Otbo (1949-2015), former ECA Member

2018 Jan O. Karlsson (1939-2016), former ECA Member and President

2020 Marcel Mart (1927-2019), former ECA Member and President

The 2020 ECA Award pays tribute to the memory of a person who has actively contributed to the reputation of the ECA as an EU institution: Marcel Mart (1927-2019), the first ECA Member from Luxembourg (1977-1989) and ECA president (1984-1989). **Box 1** provides a chronology of the six ECA awards so far.

The work of the selection panel

For the 2020 ECA Award I had the honour of chairing the ECA Award selection panel with, as other members, Joëlle Elvinger, ECA Member, Debora Revoltella, Director of the Economics Department of the European Investment Bank, Professor Morten Hansen, Head of Economics Department, Stockholm School of Economics, Riga, and Martin Weber, ECA Director.

For the 2020 ECA Award we received 30 submissions, a record compared to the previous Award editions, out of which, 27 submissions were judged to be eligible. Discussion by the selection panel about the finalists was rather intense. Many of the contributions touched upon the theme of this year's award in very specific, but different ways. We also looked at the innovative nature of the work. Finally, we were also interested to see how the research presented correlated with our own findings and whether the ideas put forward in the publications submitted could be followed up by us in one way or another.

As the scope of EU added value can be very far reaching, it was not an easy choice to make. The main criterion we used in our assessment was the quality and relevance of the applicant's contribution to the theme and the innovative character of the academic research.

And the winner is…

Following a first round of in-depth analysis of all eligible applications, nine applications were shortlisted. Following a final evaluation, the selection panel decided by consensus to confer the 2020 ECA Award jointly and ex aequo on two applicants:

- first, Antoine Dumartinet for his article entitled *The CAP and Cohesion policy after 2020: the greater demand for 'European added value' set against the principles of subsidiarity and proportionality* (see **Box 2**).

Box 2 –Antoine Dumartinet: *The CAP and Cohesion policy after 2020: the greater demand for 'European added value' set against the principles of subsidiarity and proportionality*

Antoine Dumartinet's article focusses on the possible use of the EU added value concept during the negotiations on the post-2020 Multiannual Financial Framework (MFF). He also provides concrete examples of the difficulties which the European Commission and the Member States encounter in agreeing on what constitutes the basis for EU added value, in particular as far as EU policies in the area of shared management are concerned. The author connects the discussion about EU added value with another fundamental issue for European public finances, i.e. the process of substituting European appropriations for national ones just as the scope of EU intervention is broadening. His study also points to the need to equip EU added value with a sound conceptual framework in order to make it an essential principle of European public finances.

For more details see page 181.

- second, to Carolyn Moser for her book *Accountability in EU Security and Defence. The Law and Practice of Peacebuilding* (see **Box 3**).

Box 3 – Carolyn Moser: *Accountability in EU Security and Defence. The Law and Practice of Peacebuilding*

Carolyn Moser's book provides a comprehensive study of accountability in EU security and defence, a policy area subject primarily to intergovernmental co-operation. She demonstrates the limitations of the intergovernmental approach and shows that the EU as a player on the international arena would potentially benefit from more co-ordinated and coherent decision-making in the field of peace building activities, which are directly related to added value at EU level. She also touches upon accountability gaps that arise from the current governance model and structures in this policy area, including providing examples and making proposals as to how these gaps could be closed. This aspect represents another relevant dimension of EU added value. For more details see page 184.

Multifaceted character of EU added value

The number and variety of the submissions made this year illustrates that EU added value can be looked upon from different angles: the management of EU bodies, the fight against corruption, the strengthening of the accountability powers of watchdogs, or – as the winners did - in relation to the MFF negotiations and EU peacekeeping missions.

Our discussions have also shown that EU added value is a multifaceted concept whose complexity should not be underestimated. Measuring the net increase in benefits for citizens as a result of an EU action, and obtaining evidence of whether the increase is larger than that from a comparable national, regional or local intervention, can very challenging and, at times, incomplete or inconclusive. Despite these challenges, one thing is clear: European added value should always be at the core of the discussion on EU interventions, policies and spending.

Award ceremony postponed to Spring 2021

I would like to thank all the applicants for submitting their contributions to the 2020 ECA award, especially in these difficult times and to encourage the ECA to continue this welcome initiative in the future . My appreciation also goes to the members of the selection panel for reading and assessing the applications and their excellent contribution to the discussion on this very important topic.

Under normal circumstances, the award ceremony would have taken place in October 2020, with a presentation of their work by the winners and the handing over of the award medals and certificates to them. In view of the current restrictions, however, we were forced to postpone the ceremony to Spring 2021, if by then conditions allow for such a meeting in situ.

The CAP and cohesion policy after 2020: the greater demand for 'European added value' set against the principles of subsidiarity and proportionality

By Antoine Dumartinet, Deutsche Gesellschaft für Internationale Zusammenarbeit – GIZ (German Technical Cooperation Agency)/integrated expert working at the Ministry of European Integration in Serbia



Antoine Dumartinet

2020 ECA Award winner

Antoine Dumartinet is one of the two ex aequo winners of the 2020 ECA Award. His paper discusses the use of the EU added value concept during the negotiations on the post-2020 Multiannual Financial Framework (MFF), particularly in relation to EU policies such as agriculture and cohesion under shared management. Antoine Dumartinet currently works as an expert for the German agency for technical cooperation – Gesellschaft für Internationale Zusammenarbeit, GIZ – at the Serbian Ministry of European Integration. Below, he provides the main aspects covered in his award winning contribution.

EAV used as an argument both in favor of and against financial cuts in shared management policies

At the end of the extraordinary European Council meeting of February 2020, Member States did not manage to agree on the volume of appropriations to allocate to the next multiannual financial framework 2021-2027 (hereinafter 'post-2020 MFF'"). In particular, Member States failed to agree on the amount of credits to be devoted to the common agricultural policy (CAP) and to the cohesion policy, respectively facing a -15% and -10% decrease of their envelopes in constant 2018 euros. While some Member States considered these reductions insufficient with regard to the alleged low European added value (EAV) of these two policies, others required on the contrary – and reversely citing the same arguments - to increase these envelopes. Beyond budgetary matters, the failure of February's negotiations illustrates the difficulty Member States and EU institutions have to agree on a common definition of what the EAV should be.

From abstract concept to key principle…

At the end of the extraordinary European Council meeting of February 2020, Member States did not manage to agree on the volume of the appropriations to be allocated to the next multiannual financial framework 2021-2027 (hereinafter 'post-2020 MFF'"). In particular, Member States failed to agree on the amount of appropriations to be devoted to the common agricultural policy (CAP) and to the cohesion policy, which were facing a -15% and -10% decrease in their shares respectively in constant 2018 euros. While some Member States considered these reductions insufficient with regard to the alleged low European added value (EAV) of these two policies, others on the contrary – and citing the same arguments in reverse - required an increase in these allocations. Quite apart from budgetary matters, the failure of February's negotiations illustrates the difficulty Member States and EU institutions have in agreeing on a common definition of what EAV should be.

From abstract concept to key principle…

From a legal standpoint, the principle of EAV is not formally defined in any of the Treaties. Nevertheless, as I explain in my paper, the European Commission and the European Court of Auditors have successfully converted this abstract concept into an essential

principle of European public finances. In 2017, ahead of the launch of negotiations on the post-2020 MFF, the Commission published a reflection paper on the future of EU finances in which it provided EAV with a solid conceptual framework. The purpose of it was to make EAV an effective tool for allocating appropriations within the future MFF and for pacifying the whole budgetary procedure.

In its paper the Commission considered, on the one hand, that EAV consisted in the achievement of the objectives set out in the Treaties; and, on the other hand, that EAV consisted in providing/protecting public goods with a European dimension or which helped to uphold fundamental freedoms, the single market or Economic and Monetary Union (EMU). Rightly, the Commission also related this EAV notion to the principles of subsidiarity and proportionality, stressing that 'the EU should not take action unless it is more effective than action taken at national, regional or local level.' Accordingly, the EU's action has to be additional or complementary to national or regional efforts, but in no way to fill in gaps left by the shortcomings of national policies.

The principle by which the level of EAV should logically determine the degree of financial intervention by the Union after 2020 was clearly outlined in the Commission's proposal of May 2018. In practice, unfortunately, the Commission seems to have applied this key principle unequally between EU policies. In particular, the arguments put forward to measure the EAV of the Common Agricultural Policy (CAP) and the EU's cohesion policy turned out to be much vaguer and less convincing than for the other policies. The EAV of the CAP and of cohesion policy was indeed mostly justified by means of references to the objectives - all in all very general - set out by the Treaties. Plus, the financial resources devoted to certain components of the CAP and of cohesion policy appeared to be out of sync with the degree of EAV the Commission itself lent them in the preamble (e.g. European territorial cooperation, 2nd pillar of the CAP, stabilization instrument, agricultural crisis reserve, etc.).

…but in need of stricter criteria…

The difficulties related to the assessment of the EAV of the CAP and cohesion policy in general terms can mostly be explained by the extremely wide scope of intervention of these two policies. Besides, we may also consider that the EAV of these policies is partially undermined by their specific mode of management (which entails complex and costly governance structures), the rigidity of the national share pre-allocation system (which hinders necessary financial adjustments in the event of unforeseen circumstances) and the existence of similar national measures.

All in all, the specific case of the CAP and cohesion policy might plead in favor of a stricter definition of EAV which would enable this crucial principle to be made an operational tool for prioritizing EU investments and pacifying the budgetary procedure. Member States should also be actively involved in enabling EU measures to achieve their full EAV potential on their territory, in line with the principles of subsidiarity and proportionality. In that perspective, I propose the degree of added value of an EU action should be assessed by using the following criteria:

- the action of the Union is fully in line with the objectives set by the Treaties and the corresponding measures achieve - via synergies - economic, coordination and security gains;
- the European measures achieve the objectives initially assigned to them, without deadweight effects, and within a reasonable timeframe;
- the European measures do not compete with national mechanisms which are already effective and whose conditions of access for beneficiaries are also easier;
- the implementation of European measures does not constitute an excessively heavy burden for national administrations;
- the benefits resulting from the implementation of the European measure are not exclusively national.

…to evaluate EAV more sincerely and rationally

It is obvious that the assessment of the EAV of measures financed by the Union budget will always involve an element of arbitrariness. Such a situation should not, however, prevent Member States and EU institutions from seeking to agree on a stricter and more binding definition of the principle of EAV. On the one hand, this requires that the Commission departs from the logic according to which any intervention by the Union is justified. And on the other hand, that Member States undertake to carry out the necessary work of substituting European appropriations for national funds in order to give the European measures adopted their full EAV. The definition of a more stringent and empowering framework could thus make it possible to move away from the logic of 'net returns' which undermines the negotiations related to each new MFF. Such logic irremediably leads Member States to haggle – at the last minute - for discounts on their contributions and/or for increases in their national allocations, provided to implement EU actions.

In concrete terms, the (possible) mid-term review of the post-2020 MFF could be settled as a *rendez-vous* clause on which basis the EAV of the measures financed by the Union budget could be reassessed. Such a review could be carried out by using the annual reports sent by the fund managers to the Commission each year as well as by *ad hoc* reports aimed at answering several thorny questions commonly identified by the Member States and the Commission upstream during the start of the programming. In this respect, I very much welcome the provision in the recent Recovery and Resilience Facility regulation, which requires an independent ex-post evaluation in order to assess the EAV of the investments made through this Facility and newly financed by issuing EU debt.

Accountability and added value in EU security and defence activities

By Carolyn Moser, Max Planck Institute for Comparative Public Law and International, Heidelberg



Source: Carolyn Moser

Carolyn Moser, one of the two 2020 ECA Award winners

2020 ECA Award winner

Carolyn Moser is one of the two winners of the 2020 ECA Award, with EU added value as the theme, for her book Accountability in EU Security and Defence—The Law and Practice of Peacebuilding. In her book she looks closely at the accountability framework in EU security and defence policy, an area for which intergovernmental cooperation is key. Her research shows that through coordinated and coherent decision-making the EU could grow as a substantial player in peacebuilding activities, thereby providing added value at EU level. Carolyn Moser has trained in both law and political science and holds an interdisciplinary PhD . She currently heads the research group 'borderlines' at the Max Planck Institute for Comparative Public Law and International Law in Heidelberg. Below she gives us some insights into the key issues of her book.

Diving deep into international peace and security

What is actually the EU's contribution to international peace and security? I remember asking myself this question as a postgraduate student back in 2009 when attending a course on peace operations at the Fletcher School of Law and Diplomacy. Peacekeeping being by and large a UN business, the literature about UN efforts was abundant, while almost nothing had been written about the EU's 'blue helmets'. I therefore decided to dig a little deeper and explore the EU's way of doing peacebuilding in a term paper. This term paper marked the beginning of an intense academic journey that culminated years later in the publication of my book *Accountability in EU Security and Defence—The Law and Practice of Peacebuilding* with Oxford University Press (2020).

Accountability flaws and merits of EU peacebuilding



In my book I offer the first comprehensive study of the law and practice of accountability concerning the EU's peacebuilding endeavours, a still understudied area of EU external action. Given the burgeoning integration and operational track record of the Union's Common Security and Defence Policy (CSDP), in particular its civilian dimension that accounts for two-thirds of its activities, this negligence is surprising. Since 2003, the EU has launched more than twenty civilian missions under the CSDP framework in conflict-torn regions in Europe, Africa, and Asia with the aim of restoring stability and security. Currently, some 2000 experts — including lawyers, police and customs officers, as well as security sector specialists — serve in eleven ongoing civilian crisis management missions, as the activities are termed in EU jargon. Their mandates cover a broad range of tasks, such as rule of law support, police training, law enforcement capacity building, border monitoring, and security sector reform.

Yet, judging by the growing number of governance issues and management incidents from the field, the Union's civilian missions

suffer from serious institutional and procedural shortcomings related to accountability. This, in turn, begs the salient question: *who is accountable (to whom) for the EU's manifold extraterritorial peacebuilding activities*. To answer this question, the book employs an interdisciplinary method that combines legal analysis with political science tools: next to an in-depth study of legal sources, the research also draws on semi-structured interviews and case studies.

My inquiry into accountability arrangements of a political, legal, and administrative nature, in the intricate setting of civilian missions, leads to the following conclusion: when scrutinising the institutional and procedural framework set out by law, the accountability assessment is sobering, but when approaching it from a practice angle, the verdict is promising — in particular as regards accountability at EU level.

Indeed, my core finding is that while there is a considerable accountability deficit existing in law, this deficit has incrementally been countered by practice. Several EU players — notably the European Parliament, the Court of Justice of the EU, the European Ombudsman, and the European Court of Auditors — have through practice significantly increased parliamentary scrutiny, judicial review, and administrative oversight in civilian CSDP. In addition, the civilian crisis management structures themselves have — also due to outside pressure — modified internal processes and institutional arrangements to improve framework conditions, notably regarding administrative issues. As a result of this de facto readjustment of accountability, *checks and balances are stronger at EU than at Member State level*, and individuals have de facto better — even though not perfect — judicial and administrative redress options at the supranational level.

Three-fold EU added value

This leads us to EU added value in engaging in peacebuilding, which is in my opinion three-fold. *The first dimension of EU added value relates to the international impact of EU peacebuilding*. Even if the EU's contribution to global peacekeeping efforts implemented under the UN umbrella remains comparatively modest in numbers — both in terms of staff deployed and budget spent — the Union's peacebuilding activities undeniably carry a significant political weight: many stakeholders view them as particularly 'high profile' expressions of the Union's political and security commitments. What is more, EU peacebuilding is said to considerably help to stabilise crisis zones and, in this way, to prevent further deadly conflicts from erupting. Although civilian missions tend to fly under the public radar, they provide the EU with a truly unique and effective external action tool. Through a range of activities, these missions pursue a long-term perspective, that is the consolidation of the conditions necessary for sustainable peace in a post-conflict environment, and thereby offer both the EU and host states a distinctive tool for crisis stabilisation and conflict prevention. Hence, the EU contributes to global stability and security by engaging in a panoply of CSDP activities, most of which are civilian in nature.

The second dimension of EU added value concerning peacebuilding lies in the beneficial bundling of resources at EU level. Civilian crisis management is essentially a joint endeavour by EU Member States: the planning, steering, and implementation of these missions is in the hands of a dedicated and highly specialised Brussels-based bureaucracy that national governments have incrementally bestowed with functions along the entire crisis management cycle. The book therefore advances the claim that most Member States would not possess the necessary peacebuilding know-how or ministerial structures and would therefore not be able to provide civilian crisis management expertise to the international community on their own. In other words, the book underscores that EU peacebuilding missions are delivered more economically, efficiently, and effectively under the EU framework than by Member States acting alone.

The third aspect of EU added value in the realm of peacebuilding is about fostering governance standards. Many observers regularly deplore the EU's seemingly deficient governance system, which is said to lead to a democratic deficit or, even worse, a lack of legitimacy.

However, the book quashes the received wisdom about a (general) lack of accountability in and by the EU. It clearly demonstrates that the Union actually scores higher than its Member States when it comes to peacebuilding: there is more parliamentary oversight, more judicial review, and more administrative scrutiny at EU level than in most Member State systems. This finding might come as a surprise to (EU) sceptics who tend to believe that national constitutional frameworks offer higher governance standards. Yet, at the national level, the dominance of executive players in security and defence — especially in civilian crisis management — is hardly ever challenged. The same cannot be said for the EU, whose institutions have found the codified framework inappropriate and have therefore – through practice – significantly improved accountability arrangements in civilian CSDP. In my book I thus conclude that *the EU is far better than her reputation, also when it comes to accountability in sensitive policy areas.*

In sum, in my book I offer a three-fold response to the question of the EU's contribution to international security:

- in addition to providing crisis stabilisation and conflict prevention, EU peacebuilding activities;
- offer gains in terms of efficiency, effectiveness, and expenses as they bundle expertise and resources, and
- set higher governance standards thanks to the quest for accountability by EU institutions.

With this I hope to offer important insights that should inform both academic debates and policy discussions on EU security and defence activities, hopefully leading to further improvements in EU activities in this policy area.

More bang for the buck - strategic foresight as a stepping stone to providing European added value

By Mathew Burrows, Atlantic Council and Oliver Gnad,
Bureau für Zeitgeschehen (Bureau of Current Affairs)



Source: © Peter Schrank, The Economist

Is the EU's future already written in stone, channelled by the Multiannual Financial Framework as blueprint that cannot be changed? Or is there also room for choices that are based on visions of what kind of a Europe we want to be? Or need to be in order to make a difference, presenting added value for its citizens and the rest of the world, not only for now but also in the long term. Mathew Burrows is Director of the Foresight, Strategy and Risks Initiative of the Atlantic Council and Oliver Gnad is Managing Director for the Bureau für Zeitgeschehen, a Frankfurt-based think-and-do tank specialised in strategic foresight and scenario planning. Their day-to-day work is clearly forward looking, researching and presenting possible scenarios to policy makers to warrant long-term good outcomes for citizens. Below they share their thoughts why strategic foresight and scenario-based policy-making are essential for providing European added value.

European added value: capturing short term demands and long term structural gains

Since its inception in the early 1990, the discourse on EU Added Value (EAV) has largely been driven by proponents of the so-called *Fiscal Federalist* – a school of thought primarily focussing on smart spending. Proponents of this school are debating principles such as subsidiarity, efficiency, complementarity, and additionality of public spending as a rationale for EU spending above and beyond Member States budgeting.

Those leaning more towards political arguments, i.e. the need to fund for global public goods beyond national governments' reach, are challenged by reality: the heterogeneity of political preferences of EU Member States, historical path dependencies, different geographical and geopolitical exposures, perceived or real vulnerabilities, incoherence

of socio-economic development, different speeds in all major policy fields, public opinion and sentiments, and the need to act legitimately vis-à-vis respective constituencies.

Both strings of the debate face shortcomings: While the Fiscal Federalists focus too narrowly on input-output considerations ('more bang for the buck'), the *Politicians* are mainly concerned with intra-European cohesion and equity ('European navel-gazing'). Both approaches lack geopolitical foresight and suffer from 'strategic myopia'.

This is not to say that input-output considerations, intra-European cohesion or due diligence requirements are not important to forge a consensus among EU Member States on how to spend money wisely. But it is simply not possible to cope with the many geostrategic and geopolitical challenges facing the European Union and its citizens by just dwelling on those considerations. In the final analysis, EU spending not only needs to serve the immediate needs of its citizens; but the EU also must strive for becoming the main pillar in the emerging new global order, ensuring the preservation of the peace, prosperity and wellbeing of citizens for the long haul. Hence, the EU will only be able to add value for its Member States and citizens, if it remains competitive in a world that is characterized by a shifting balance of power.

With the US and China at loggerheads and slipping into Great Power competition (if not into a full-fledged Cold War), there is no sweet spot for Europe. Since the EU and many of its Member States are deeply entangled with both powers and their markets (and compete with China and the US over access to emerging markets), it cannot win anything by choosing sides as it did in the 20th century Cold War between the US and the Soviet Union. Rather, the EU needs to find its own path through the Terra Incognita of an increasingly volatile, uncertain, complex and ambiguous world - VUCA world. The choice is simple: either the EU becomes widely accepted as a global rule-maker, or it will be consigned forever to be a rule-taker.

Hence, the concept of European added value should reach beyond intra-European perspectives; instead, the EAV debate needs a global yard stick and should be measured against the EU's ability to become a competitive global player and a guardian of global public goods. These aims are outside each EU Member State's reach and demand collective political will, leadership and more than anything else the development of a strategic mindset. Only if these preconditions are met can money be allocated wisely and effectively, not only to satisfy short-term demands but also the growing long-term challenges.

More bang for the buck: beyond fiscal input-output considerations

How money is spent to generate maximum impact in the VUCA world largely depends on the ability to anticipate future trends and developments. Looking at budgetary cycles, programming, implementation and the duration of transformative change, adding value becomes a generational endeavour (in defence spending, for instance, procurement and the introduction of new systems can take up to three decades; the same is true for transformative change, i.e. the 'Green New Deal/Recovery' agenda of the 'geopolitical' European Commission). Using System Dynamics jargon, one would state that since feedback loops are so extended and the knock-effects only visible over time, it is difficult to understand the impact of policy and budgetary decisions without a long range perspective.

An example: we are witnessing the dilemma posed by retarded feedback loops during the Covid-19 pandemic. As we struggle to measure and get an accurate picture of the actual number of infected people, we constantly adjust policies, rules, and behaviour according to newly gained insight – almost on a daily basis. Only to see that the pandemic is accelerating so quickly that it outwits the measures taken even before they can generate the intended impact. Too little, too late. A Hare-and-Hedgehog dilemma: politics and policies are always lagging behind actual challenges because they are built on 'old data,' past experiences (transferred linearly into the future), false assumptions and often insufficient – if not outright – false analogies.

In short: often, policy making is not futureproof because it underestimates the speed and nature of change. In an exponential environment – which is the case as much in epidemiology as it is in the multipolar world we inhabit with its increasing number of actors and interactions – our human brains are simply incapable of understanding the complicated dynamics and feedback loops constantly changing the systems we live in and depend upon.

Another example: After the breakup of Soviet Union in 1990/91, the 'winning West' (as it perceived itself) engaged in a bold neoliberal agenda that culminated in the so-called Washington Consensus. Unleashed capitalism became the panacea for generating wealth and wellbeing. In the 1990s and early 2000s, the privatization and commercialisation became the driving force of human progress – including such global public goods as financial and economic stability, security, climate mitigation, public health. Hyper-globalisation was the result. On one hand, it led to economic prosperity and the near eradication of extreme poverty. On the other hand, it opened the gates for ecological brinkmanship, domestic inequality and populism in advanced economies.

Not that we did not know: As early as in 1965, President Lyndon B. Johnson's Science Advisory Committee warned about the dangerous impact of atmospheric Carbon Dioxide, anticipating all the knock-on effects of climate change that we are witnessing today. Deliberately, we took a decision: rather become rich and prosperous quickly than saving the resource base of prosperity for generations to come. Still today, we act as bankers who live off their capital, not from its interest. During the early 1990s, huge amounts of public spending were geared towards the liberalization of trade, opening up of markets, the privatization of publicly run enterprises, the boosting of private enterprises in new market economies – within the European Union (Maastricht Treaty) and beyond (EU Eastern Enlargement and the creation of the World Trade Organisation).

If EAV criteria would have been in place in the early 1990s, most likely they would have centred around stemming the ecological damage. Today, many have doubts whether the cure (the liberalization of markets) has not been more dangerous than the disease (social and economic inequality). For most, the unintended consequences of unbridled capitalism have opened Pandora's box, leaving us with little choice other than fixing the negative side-effects with even more EAV-earmarked money – just look at the Green New Deal/Green Recovery price tag of the Multiannual Financial Framework (MFF).

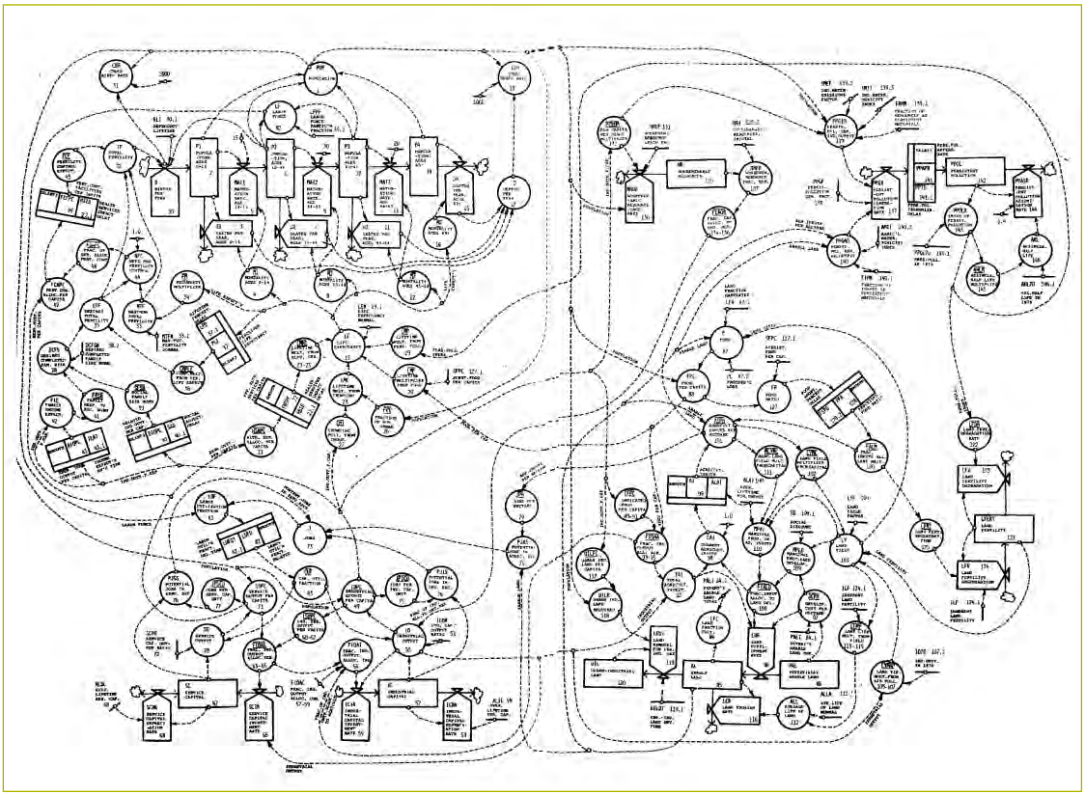
Systemic understanding: escaping the vicious cycle of muddling through

The examples show that many of our assumptions of impact-oriented (or added value) spending are time-bound and are often based on linear projections of past experience – even though we are aware of the fact that we live in a highly volatile, uncertain, complex and often ambiguous world. Times and again we only understand the world at hindsight; the interplay of different trends, forces, factors and actors. Even if we understand the consequences ahead of time, we often choose to do nothing, particularly when the costs are not immediate.

Humans can bypass their inability to understand complexity through sense-making, i.e. the social construction of our environment and the ex-post explanation of events. When British Prime Minister Harald Macmillan was asked what most likely knocked governments off course, his answer reportedly was 'Events, dear boy, events.' In fact, we are more often driven by events than we wish to – high-ranking decision-makers included. Even though we need to accept the fact that we will always have to take decisions in a state of imperfect information availability, we must avoid succumbing to reactive policymaking, constant crises management and muddling through - as we have done since more than a decade now).

If the EU wants to become a respected and capable global player aiming at adding value for its citizens and the world, it needs to better understand the systems and how to they can be changed : their dynamics, their feedback loops and their counter-intuitive, non-linear outcomes over time. This was the way Dana and Dennis Meadows explained socio-economic feedback-loops and interdependencies between humans and ecosystems in their famous world model of the early 1970s (see **Figure 1**).

Figure 1 - Navigating complexity and anticipating unintended consequences



World3 model

Source: Meadows, D.L., W.W. Behrens III, D.M., Meadows, R.F. Naill, J. Randers, and E.K.O. Zahn (1974), Dynamics of Growth in a Finite World, Wright-Allen Press

Strategic foresight as anticipatory governance: planning for alternatively plausible futures

To be able to navigate our VUCA world, it is no longer sufficient to agree upon a positive vision for our future and engage in tit-for-tat policy compromises. Policymakers and bureaucrats but also societies at large need a basic understanding of the dynamic of complex systems as depicted in the 'Limits to Growth' world model in order to come to sound, evidence-based and future-proof decisions. Once we better understand what the constituent elements of a system are, how they interact, and to which extent they are being changed by global trends and key drivers of change, we will get a much better notion which policy interventions are useful to reach our desired aims and which would do harm and produce negative side-effects – short-term or in the long-run.

A good start to acquire a more systemic worldview is to design decision-making processes not as normative races to the bottom (based on the lowest common denominator), but to think in plausible alternatives of the future, i.e. in scenarios. A very simplistic example of how this could be done is a EU scenario that we helped to developed for the annual 'Friends of Europe' conference two years ago.[1] Analysing the interaction of key drivers of global change – an aging population, migration, disruptive technologies, the rise of emerging markets, global competition in a polycentric world, resources depletion and climate change – we ask ourselves, how the EU could emerge as a global value setter, a rule-maker.

Considering these trends and using a standardized methodology for thinking out alternative plausible futures, we came up with four highly plausible stories of European futures – depending on EU strength (i.e. internal cohesion) and its will and ability to act as a global player:

1 Pascal Lamy (ed.), Europe Matters. Europe 2030: Towards a renewed European Social Contract, Brussels 2018

Figure 2: European futures revisited in a 2018 scenario exercise



Source: Pascal Lamy (ed.), *Europe Matters. Europe 2030: Towards a renewed European Social Contract*, Brussels 2018, p. 18

Why is thinking in plausible alternative futures useful? Because once political decision-makers start thinking in systems and interdependencies, they will find that they need an indicator-based monitoring and evaluation system for sound, evidence-based decision-making. This is where strategic foresight gets linked to accountability, transparency and auditing.

Even more importantly: system- and scenario-based policy monitoring is a must-have if our politics will ever be able to transcend an interest-based consensus-building machine that gives in to power relations or highly subjective and manipulative perceptions. What we should strive for is a political process that is an evidence-based learning system for the long-term good of EU citizens. Hence, if Europeans want to have 'more bang for the buck' they need to improve their understanding of the VUCA world and acquire the skills to navigate it. Strategic foresight based on system dynamics and indicator-based tracking and tracing of emerging futures would be a way to improve European decision making and budget allocation, aimed at truly bringing European added value for European societies and the citizens who constitute them.

New ECA Members

‘Auditing requires creativity!’

Interview with François-Roger Cazala, ECA Member since 1 January 2020

By Derek Meijers and Gaston Moonen



François-Roger Cazala

On 1 January 2020, François-Roger Cazala took office as ECA Member. As a former auditor at the French Cour des comptes, and with a diplomatic experience, amongst other roles, he has extensive experience in the French public administration and in the Organisation for Cooperation and Economic Development, where he worked on the SIGMA programme. We interviewed him about the highlights of his career so far, his views on the EU public audit sector and how it can provide added value, and the challenges of starting in a new job during the lockdown caused by the Covid-19 pandemic.

An unusual ‘settling in’ period

François-Roger Cazala became ECA Member on 1 January 2020, first arrived to the office at 6 January and had to start teleworking just over two months after that. This made integrating himself into his new working environment just a bit more challenging than usual. ‘On 12 March I was back home again and I think that, until now, I have spent more time in my apartment in Paris than in my office in Luxembourg! Obviously that’s not the best introduction one could think of, but I must say I am impressed by the professional way in which the ECA and its staff dealt with these difficult times.’

He explains that business was continued more or less without any interruptions and that, by now, the institution can remain fully operational whilst working fully remotely. ‘And I have to mention as well that, nearly none of our colleagues got infected after the safety measures were taken.’

Quickly after this unusual start, François-Roger Cazala acquainted himself with the ECA and its staff members, who, as he was happy to see, share his conviction to serve in public institutions and to spend a career working for the public good.

A conscious choice to work in the public sector

Indeed, a career in the public sector was a very conscious choice for François-Roger Cazala. After his studies in gymnasium and a Bachelor's degree, he went to *Sciences Po* – political sciences and the *École Nationale d'Administration* - the ENA. 'In my family there are some civil servants but most family members have a *profession libérale* – like doctors and pharmacists. And as I had little affinity with the private sector and the business world, it was quite a natural step for me to choose a career in the public sector.'

His move to the audit sector, however, was less of an obvious choice. 'When I finished my studies at the ENA, I was hesitating between two very different things: the Court of Audit and diplomacy. I did work in diplomacy in the end, but I hesitated a lot and ended up in audit after all.' And by opting for audit, in fact, he postponed the real choice. François-Roger Cazala: 'At least in France, many people begin their careers in audit, but only to gain some experience before they move to other, more operational, positions, or even politics, like the current First president of the Cour des comptes, Pierre Moscovici, or his predecessors Pierre Joxe and Philippe Séguin, ,not to mention Jacques Chirac or François Hollande.'

> *At least in France, many people begin their careers in audit, but only to gain some experience before they move to other, more operational, positions, or even politics...*

François-Roger Cazala thinks that his experience as an auditor provided him with good training. 'I learned a lot, which helped me throughout my career. Also later on, when I managed to spent some time as would-be diplomat, or when joined the Organisation for Economic Cooperation and Development, the OECD, to work on the SIGMA programme [Support for Improvement in Governance and Management].' Laughing, he adds that during those nearly ten years at the OECD, he actually managed to join both his love for audit and diplomacy.

Shaping public administration in candidate countries

All of François-Roger Cazala's different experiences shaped his thinking, but he especially values his time spent abroad, working in the international field. 'Certainly, my stay in the OECD was extremely nice to begin with and the position allowed me to combine my interest in international affairs in general, particularly European affairs and audit.' Working in the SIGMA programme, he was dealing with European countries, which were candidates to join the EU or willing to candidate.

François-Roger Cazala: 'SIGMA is a joint initiative of the OECD and the European Union aimed at strengthening the foundations for improved public governance, and supporting socio-economic development through capacity building in the public sector.' There, he used his experience in the public sector and his competences as a public auditor to help the candidate countries shape their public administration in particular in the areas of public finance, internal and external audit, EU funds management etc.

François-Roger Cazala: 'The most exciting about that period was that I really felt I had a very direct impact by helping those countries to improve their structures. That was something very positive!' He explains that SIGMA was a relatively small programme back then and that he worked with a relatively small team of peers. 'There was barely a hierarchy,' then laughing, 'sometimes not enough!' He quickly adds that, obviously, all participants were professionals. 'But they had very different backgrounds, which helped to create a sort of advantageous start-up atmosphere that enabled us to make significant progress.'

> *I really felt I had a very direct impact by helping those countries to improve their structures.*

He adds that, interestingly, some of his former speaking-partners , when in the SIGMA programme, are now his colleagues at the ECA. 'For instance Jan Gregor, who I happened to meet in the Czech Republic where he worked in the Ministry of Finance. Or Ivana Maletić, with whom I worked in Croatia, and Juhan Parts, who was actually one of the first people I met in Estonia when I entered SIGMA in 1998. So these are good memories, both professional and personal!'

Life-long auditing

During his time at SIGMA, François-Roger Cazala saw how supreme audit institutions – SAIs - might influence the legislative process. Now, at the ECA, he might gain similar experience, as he might be involved not only in audit work, but also in ECA opinions, through which the ECA provides its views on new or updated laws with a significant impact on EU financial management. François-Roger Cazala: 'There are indeed many things here at the ECA that are familiar to me. Partially because I knew the ECA before joining it, but of course also because its basic role and work is similar to that of the French SAI.'

> *There are indeed many things here at the ECA that are familiar to me. Partly because I knew the ECA before joining it, but of course also because its basic role and work is similar to that of the French SAI.*

Despite the overlaps, he thinks there are also clear differences between the ECA and the French Cour des comptes. 'Take for example the opinion on a draft Regulation (Just Transition Mechanism) that was prepared under my supervision in our Chamber.' That is something the French SAI does not do. It is rather new to me and I find this type of work interesting.' François-Roger Cazala adds that he particularly enjoys being involved in the draft opinion because it enables him to have a direct –positive – impact on the legislative process. 'Of course, with audit work you normally should have this influence as well, as I have also seen many times in the French Cour des comptes, and I hope to have that experience here as well.

Whether working on an opinion, or on financial or on compliance or performance audit tasks, the ECA Member thinks that the most important quality any auditor should have is curiosity. 'If you are not curious, you will find it very boring. In my case, I am particularly interested in public affairs in general and the European context in particular. No doubt audit can be very challenging and interesting indeed!' He explains that if you want to see how something really functions, curiosity helps to create the desire to go deep. 'It helps to address something that can be totally new for you and this is our faith as auditors. Most of the time we simply have no clue, but we need to find all the clues. And to succeed in that, we need to be curious.'

> *If you are not curious, you will find it very boring .*

> *It helps to address something that can be totally new for you and this is our calling as auditors. Most of the time we simply have no clue, but we need to find all the clues. And to succeed in that, we need to be curious.*

'Moreover,' François-Roger Cazala adds, 'we also need to be humble, thorough, and objective. I am not saying that I possess all these qualities, nor that I am an expert in all the different technicalities. But we must combine as many of those talents as possible in our audit teams. From analytical skills, to knowledge sharing and statistical sampling etc. But the basic, primary virtue is curiosity!'

EU Added value

In his hearing before the European Parliament, François-Roger Cazala indicated that the quality of public management is a condition for other major components of the public governance system. 'This is a key issue for me as I think that without good, transparent and accountable public financial management, and especially good staff, the rest of the public system lacks a solid foundation! This is one of the most important lessons I learned at the SIGMA programme as well, as you can have the best system and flawlessly comprehensive handbooks, but if your civil service is either incompetent or corrupt, or not well trained, it does not help much to have nice and cutting-edge programme and performance budgeting.'

> *...you can have the best system and flawlessly comprehensive handbooks, but if your civil service is either incompetent or corrupt, or not well trained, it does not help much to have nice and cutting-edge programme and performance budgeting.*

According to François-Roger Cazala this is especially true for the management level. 'That means the quality of the decision-making process and the coordination need to be perfect at each and every level. Especially at the top where we must make sure that the decisions that are taken in the different areas of government, ministries etc. are well-articulated, coordinated and not completely chaotic.'

With this, François-Roger Cazala arrives at the issue of the European added value, which he perceives from both a national and a more European perspective. 'Take for example the issue of European common goods and common interests. Here we must ask ourselves what our role as auditors could entail and which angle we should chose to tackle the issues we need to deal with.' He elaborates that, while thinking about what EU added value is, he came to the conclusion that the very definition of what EU added value is differs from one person to another.

Laughing: 'I am always a little reluctant to discuss this kind of buzz word because you can put a lot of different meaning into a term like European added value, yet, at the end of the day, you are still confused! For me, as a Eurocrat, EU added value helps me, as a supporter of EU integration, to make Europe a little bit more popular, and to justify its actions and help to improve them.'

François-Roger Cazala explains that, when he was younger, 'let's say 40 years ago,' it was obvious what EU added value was. 'There was no question about it. You still had people who were against the EU as such, mainly people from the radical left or right.' 'Nowadays,' he adds, 'the situation is completely different and I feel the need to explain and support the EU, as it is no longer obvious what European added value represents.' He thinks this is due to a lot of factors, including the economic situation, crisis, and, of course, the fall of the Berlin wall.

François-Roger Cazala: 'But these are speculations. I am not a sociologist, so I should refrain from speculating about the reason why the EU integration or the Europe as such is not obvious to all citizens. And note that I explicitly say *obvious* instead of *popular*. I remember the time when the idea of a single market was discussed, sometimes with reluctance, by a part of the public opinion in France. However, after a while the common opinion turned and it was seen favourably because political parties endorsed it and said: "We need to prepare for the single market." Who is doing that nowadays?'

But then, contextualising: 'Scepticism in public opinion has always existed. Remember for example the referendum on the European Constitution and the negative results in France and the Netherlands.' Being a public auditor, he believes that the ECA has a role to play, but a specific one. 'We are not in a political position to make propaganda or things like that. The only thing we can do is to do our job professionally, independently and factually, thereby contributing to public trust in the European finances and their management, and in the European institutions as such.' In doing so the ECA can be outspoken: 'We should say whether it works or does not work, including, if this comes out of our work, that it could for example be more efficient to organise it at a more decentralised level, in Member States, etc.'

> *"We are not in a political position to campaign for the EU or things like that. The only thing we can do is to do our job professionally, independently and objectively, thereby contributing to public trust...*

Taking up recurrent and new tasks

François-Roger Cazala has been appointed to the Chamber 'Financing and administering the Union' and is a member of the Audit Quality Control Committee. When asked about the tasks he is working on now, he explains that, in his Chamber, he has been allocated to Chapter 9 (Administration) of the ECA's Statement of Assurance (SoA). 'I was really happy with this task, as it provided me with an overview of our institution's work, but also because I get to work with an extremely good and professional team, which helped me to understand the process and to get familiar with the issues we are assessing.'

Another report François-Roger Cazala is working on is the review on the 3rd country contributions to the EU budget. 'A fascinating topic, as it dives into the question what the requirements are that we impose on our neighbours, such as Switzerland, Norway, and Iceland. It was extremely difficult to find some initial work on this, such as academic research, as there are very few articles on this. This shows that it is important the ECA looks into this, as the topic basically brings us into unchartered waters.' He hopes that the review will raise a lot of interest in the European Parliament and the Council.

Public auditors' work instrumental for the EU to find the right balance

Concluding, François-Roger Cazala indicates that most important is that the ECA and other public auditors do their jobs professionally and independently, contributing to clarity where the EU is obtaining results and where not. Taking a wider perspective, he thinks that as external auditor you also have to look at finding the right balance between complicated procedures meant to ensure transparency and keeping things workable from a performance point of view. 'The risk of establishing extremely complicated systems to manage funds is that we see unused appropriations, so EU funds for which Member States want to find projects.'

> *The risk of establishing extremely complicated systems to manage funds is that we see unused appropriations, i.e. EU funds for which Member States want to find projects.*

He believes that in the end the EU is not looking for projects which may be perfectly regular, but which do not really lead to something. 'A regular waste of money, so to say. As external auditors, we need to check that things are legal and regular. But what I would prefer would be *regular* investments, *regular* spending which also leads to *good* results. This is where I am a bit afraid of with regard to the €750 billion fund decided upon by the European Council and to be spent in a relatively short timeframe. 'We face both risks – to have irregularities at a high level and to have projects for the sake of spending money.' Another risk he sees is the risk of too much dissemination: 'If funds are too much disseminated into different areas, sectoral and geographical, it might not have the power to make a difference. On all these issues the EU must find the right balance and, as ECA, we need to contribute, continuously, in doing so.'

> *... the EU must find the right balance...*

Reaching out

The 2020 ECA seminar - plotting the ECA's future course

By Derek Meijers



Ursula von den Leyen, President of the European Commission, addressing the 2020 ECA seminar participants

On 24 and 25 September 2020, the 2020 edition of the ECA seminar took place. The seminar is an annual management retreat for ECA Members, the Secretary-General and directors, used to discuss strategic and organisational issues, as well as to chart the institution's future activities. This time the seminar – which was held for the first time in a hybrid format - was dedicated to an exchange of views on the 2021+ ECA Strategy. In addition, the participants discussed and selected those audit tasks that will be launched next year. Derek Meijers reports.

Distance learning

Normally, the annual ECA seminar takes place off-site, to create some distance from daily work, to facilitate out-of-the-box thinking and to provide an atmosphere that invites creative and innovative exchange. This year, however, this was not possible due to the Covid-19-related restrictions. The seminar was therefore organised within the premises of the ECA and in a hybrid manner, meaning that participants who could not join, for example for health reasons, could log on to the meeting from a remote location.

The main theme of this year's ECA seminar was 'The strategy of the European Court of Auditors for the period 2021-2025?'

Video address by Commission President von der Leyen

For the first two points, the participants in the seminar also took account of an address by the President of the European Commission, Ursula von der Leyen, and exchanged views with Maroš Šefčovič, the Vice-President of the Commission in charge of foresight activities. The President of the European Commission pointed to citizens' increased expectations of the EU in the context of the Covid-19 crisis. The extensive crisis response (the EU Resilience and Recovery Fund and the revamped EU budget) had to follow the principle of sound financial management to ensure that the funds were used efficiently to build a stronger Europe. She stressed the need of cooperation with the ECA in this

respect and moved on to discuss the Commission's main objectives in the recovery process: green transition and digitalisation. These are the vital elements needed for Europe to move from fragility to vitality and secure citizens' trust.

Strategic discussions

The 2021+ strategy will be the ECA's fourth. The work on it kicked off in September 2019. The theme of the annual seminar, including the question mark, was chosen deliberately to signal that it should provide a forum for open reflection and exchange on the strategic goals and challenges in the next five years.

In preparation of the seminar, the ECA's Strategy and Foresight Advisory Panel (SFAP), a working group of Members which had been mandated in September 2019 to develop and prepare the ECA's multi-annual strategy 2020+, had asked all Members and directors to give detailed feedback via a survey on a first draft of the next ECA Strategy.

Both through the survey and during the seminar, Members and directors commented on the strategic outlook for the ECA. Chaired by ECA Members Eva Lindström and João Figueiredo, the seminar participants:

- exchanged views on the challenges that the ECA and the EU are facing currently and in the mid-term perspective;
- discussed the main components of the draft strategy presented by SFAP in view of adoption by the College later in autumn; and
- expressed their preferences regarding the proposed audit tasks (PATs) for the 2021 work programme.

Next steps

The SFAP took all comments expressed during and after the seminar into account to issue a white version of the next strategy, which will be discussed within the College of Members in the coming weeks. After these deliberations, the new ECA strategy is scheduled to be formally adopted by the College by the end of 2020.

Austrian Federal Minister for the EU and Constitution visits the ECA to discuss the role of the ECA and the rule of law

By Franz Ebermann, private office of Helga Berger, ECA Member



Federal Minister Karoline Edtstadler meets Austrian ECA staff during her visit to the ECA. From left to right: Melitta Schuber (Austrian Ambassador in Luxembourg), Katharina Bryan, Margit Spindelegger, Karoline Edtstadler, Gerhard Ross, Helga Berger (ECA Member), Susanna Rafalzik, Jasmine Mitterbuchner

On Wednesday 14 October 2020, Karoline Edtstadler, Austrian Federal Minister for the EU and the Constitution at the Federal Chancellery, visited the ECA in Luxembourg. She was welcomed by Helga Berger, recently appointed ECA Member from Austria, and Rimantas Šadžius, ECA Member for Institutional Relations. Franz Ebermann, attaché in the private office of Helga Berger, provides more information on the visit.

Rule of law principle – a key topic for discussion

This was Karoline Edtstadler's first visit to the ECA. During the discussions, she was particularly interested in the ongoing and planned work of the ECA and its role in the design of the EU's policies and its budget. In this context, Helga Berger also presented the ECA opinion on the rule of law provisions (Opinion 1/2018) and the participants discussed the ways Member States' respect for the rule of law principle could best be ensured.

Presentation of the ECA and its mission

Rimantas Šadžius gave a presentation about the mandate of the ECA and the role of the ECA as an independent external auditor in promoting accountability and transparency. He also briefed the Austrian Federal Minister about recent ECA publications and gave an outlook on the 2021+ work programme and upcoming publications.

'Meet and Greet'" with Austrian ECA staff members

The visit was also an opportunity for Karoline Edtstadler to meet a number of ECA staff from Austria. They used this possibility to share some of their professional and personal experiences.

ECA conference 'Boosting Investments in the EU through advisory services and technical assistance in times of crisis,' organised in October 2020

By Lara Connaughton and Carmen Schnell, private office of Annemie Turtelboom, ECA Member



Conference moderators from left to right: Iliana Ivanova, Annemie Turtelboom and Leo Brincat, ECA Members

On 15 October 2020 the ECA hosted a virtual conference to discuss how advisory services and technical assistance can be used for economic recovery and optimising investments. Building on ECA reports related to this, ECA Member Annemie Turtelboom, Reporting Member for one of the audit reports dealing with this subject, gathered experts from many Member States and organisations to discuss best practices and lessons learned. Lara Connaughton and Carmen Schnell, assistants in the private office of Annemie Turtelboom, report on the interactive set-up and the highlights of the meeting.

Investing in economic recovery

Boosting investment will play a key role in the future of Europe, especially on our road to economic recovery from the current crisis. Investments that add to our competitiveness will require the relevant tools, knowledge and financing if these opportunities are to be seized by national, regional and local authorities as well as companies across Europe. The provision of technical assistance in the EU is intended to make all of these necessary components accessible to citizens and project promoters.

Box 1 – ECA reports related to EU's financial instruments and technical assistance

- Special report 12/2020 *The European Investment Advisory Hub — Launched to boost investment in the EU, the Hub's impact remains limited*
- Special report 3/2019 *European Fund for Strategic Investments: Action needed to make EFSI a full success*
- Special report 19/2016y *Implementing the EU budget through financial instruments — lessons to be learnt* from the 2007- 2013 programme period' (2016)

Over the past two years, the ECA has published several reports with a focus on financial instruments, investments and technical assistance (see Box 1). The idea behind the conference was to bring together the knowledge, best practices and recommendations from our audit and discuss them with experts in the field on the eve of the 2021-27

Multiannual Financial Framework (MFF). The conference was also meant to contribute to the Commission's and the EIB's reflections on how to best organise the new InvestEU Advirosy Hub. The additional EU funding through the Recovery and Resilience facility under the 'NextGenerationEU' initiative added to the conference's pertinence and timeliness.

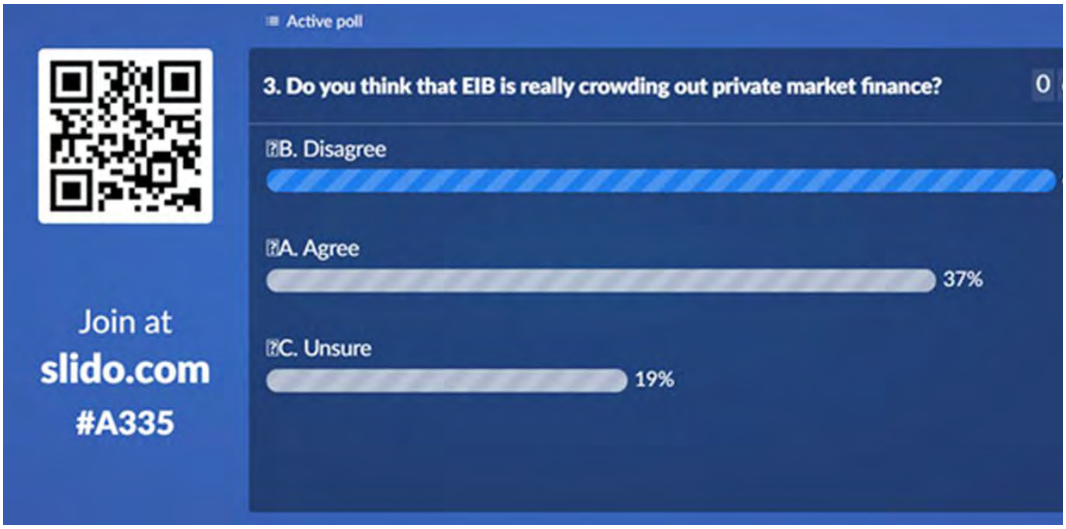
Virtual conference boosting attendance and interactivity

Initially ECA Member Annemie Turtelboom, Reporting Member for ECA special report 12/2020 on the European Investment Advisory Hub, had planned to organise a day-long conference in Brussels on the future of technical assistance, together with ECA Members Iliana Ivanova and Leo Brincat. In view of the current restrictions, the idea of such a conference was, however, adapted to a virtual format. On the positive side, this allowed the event to take place with a larger audience than initially planned. Overall, participants from 18 Member States joined the discussions with a large number of high-level panellists from both the public and private sector from all over Europe, including members and top officials from EU institutions, representatives from international organisations, commercial banks, entrepreneurs, universities and think tanks, and journalists.

After opening remarks from Annemie Turtelboom, ECA President Klaus-Heiner Lehne and the Vice President of the European Investment Bank, Lilyana Pavlova, the panellists for each session explored why and to what extent the EU's financial instruments and technical assistance were crucial to boosting investments across Member States, with moderators drawing on lessons learned from related ECA reports.

Interactive polls kicked off the discussions in each session (see screenshot example). These polls gave participants a chance to engage with the event in real time despite our social distancing! According to the first slido poll, the majority of participants felt that the priorities of technical assistance should be offering technical knowledge, best practices and 'success stories' from other sections and regions.

The second poll revealed that participants perceived legal complexity associated with financial instruments in general and low levels of cooperation from National Promotional Banks and Institutions (NPBIs) and local authorities as equally hampering when it comes to improving geographical coverage of technical assistance provision in the EU.



The conference offered lively debates, reflecting the diverse professional backgrounds of the 18 panellists, on questions such as:

- how can a more proactive approach better target the – generally unsatisfied – advisory needs?
- what role do the EIB's lending practices and selection of projects play in responding to the current crisis? and
- how can we address the challenges Technical Assistance and InvestEU will face after the crisis?

Some of the experts shared their first-hand experience with the EU's technical assistance and advisory services, which added a personal note to the debate. There were also critical voices, such as several remarks on the EU and EIB not being proactive enough in terms of identification of investment projects, neglecting cooperation with the regions, and not targeting support where it was most needed. Other issues raised concerned SMEs not being aware of the financial instruments and technical assistance options offered by the EU and the EU's lack of transparency about the actual investment possibilities.

Providing lessons learned for a rapid and efficient recovery

The conference concluded on the note that there is a need to improve outreach, geographical balance and cooperation with the regions in order to boost investments in the EU, as also highlighted in the ECA's special reports. There was consensus on the fact that the lessons learned will be particularly valid for the coming years to ensure that EU funding, including the additional money under the NextGenerationEU initiative and the Recovery and Resilience Plan, will be spent efficiently and effectively.

2019 ECA annual report: it wasn't a year like any other

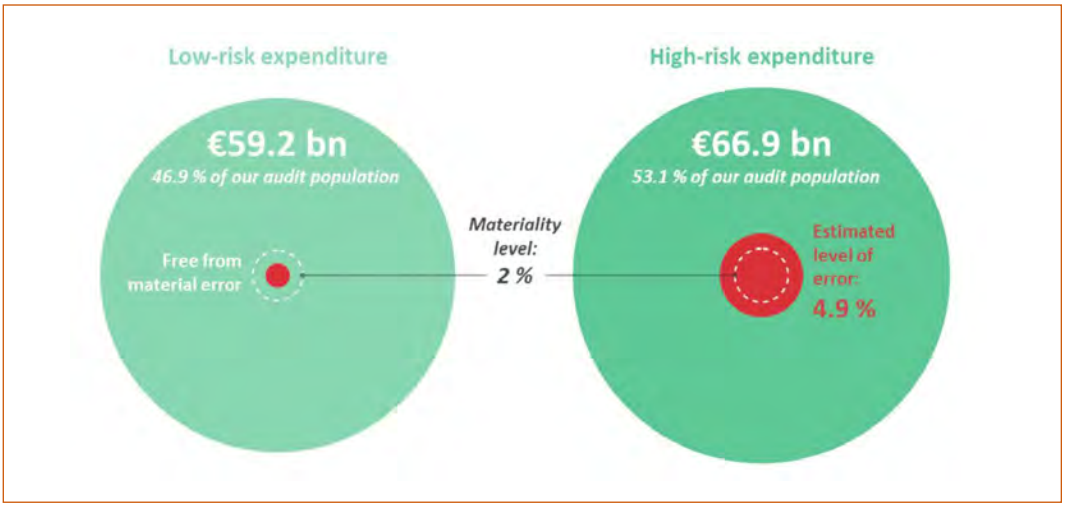
By Matthias Beermann, Directorate of the Presidency

Each year the ECA publishes a wealth of information in its annual reports on the EU's accounts and the compliance of EU spending with all the applicable rules . On 10 November 2020 this year's findings were presented virtually from Luxembourg. Matthias Beermann, Senior Media and Editorial Advisor, provides some highlights of the 2019 annual reports and the attention they have had until now.

Message as usual?

'Annual report,' – this sounds like a compulsory exercise, a boring routine. A not-very-exciting compliance check, with error rates, which, according to experience, only shift by tenths of a percentage point. From the journalists' point of view, this is usually something to place on the back pages of their papers, or perhaps they'll draft something after all if they need to fill a spaceb. Anything, but not a scoop. That's how it usually is. But this year everything was a little different, because of two factors. Firstly, the Covid-19 pandemic and the July 2020 European Council summit, where a political agreement was reached to considerably increase EU finances. Secondly, the report itself. For this year, from the media's point of view, it undoubtedly contained a hot message: for the first time since 2016, the ECA pulled the red card and gave an 'adverse opinion' on expenditure. While there was no real change in terms of the overall error rate (2.7% compared to 2.6% last year), expenditure in the high-risk area was larger than in previous years, reaching 53% of total spending (see **Figure 1**). Due to the way the EU budget is structured, this share is likely to increase further in the coming years.

Figure 1 – 2019 error rates reflect the level of risk



Virtual presentation with high attendance and coverage

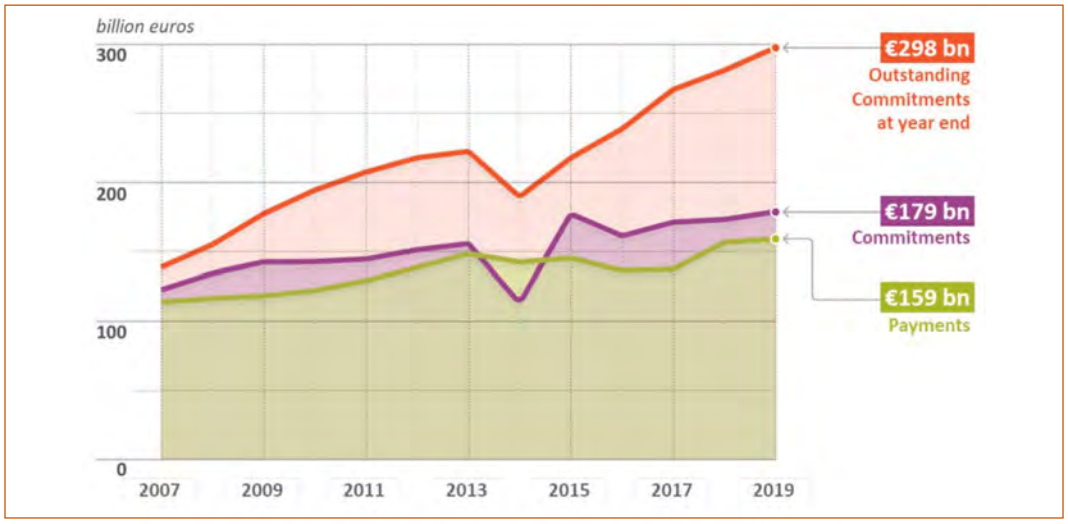
One may consider this a warning shot. And this shot was heard, first of all, by the journalists. As usual, the annual report was presented on the day before its publication at a press conference and under embargo. In view of the sanitary situation, however, the press briefing did not take place in Brussels, but was held virtually, by videoconferencing. ECA President Klaus-Heiner Lehne and ECA Member Tony Murphy responded to journalists' questions from the sixth floor of the ECA building in Luxembourg, and not as usual in a conference room in the Belgian capital. This general briefing was followed by seven special briefings for national press representatives. In total, almost 60 journalists had registered for these events, a new high.

With around 288 news articles and 450 social media posts referring to the AR 2019 (between 9 and 23 November 2020), the media response was slightly below that of the previous year. But in terms of quality, we noted a marked increase in interest. For example, the German *Der Spiegel*, one of Europe's leading news magazines, brought an exclusive interview with President Klaus-Heiner Lehne about the annual report, Tony Murphy was interviewed by Irish radio, and several other ECA Members were quoted by leading media in their respective home countries. Overall, the press paid an unusual amount of attention to the topic – in a week in which there were quite strong competing political issues in the international news coverage (e.g. the agreement on the EU budget and the continued raging of the dispute over the outcome of the U.S. election). Geographically, this year the focus of the publications was Italy, Germany, Belgium, the Netherlands and Austria.

Main headlines in the media

The direction of the reporting was very clear. 'Red Card for Brussels,, 'Warnings from Luxembourg,''EU Court of Auditors puts European Commission in the pillory' were some of the headlines. The media focused on two of the issues concerning the EU budget flagged in the annual report: first, too high an error rate in high-risk expenditure, which is likely to be a source of concern, particularly in view of the imminent expansion of European finances under the Covid-19 recovery programmes. Second, the budgetary problems caused by the famous 'reste à liquider' (RAL), a sum of around €300 billion accumulated over the seven years of the budget period, which has not yet been spent but represents financial EU obligations for the future (see **Figure 2**). Even two weeks after the publication of the annual report, this issue was covered again by some media who also quoted from the ECA's previous alerts on the RAL.

Figure 2 - Outstanding commitments at year end (2007-2019)



In terms of assessing the error rate and its real impact, reporting seemed to be much more differentiated than in previous years. Although there were still some media that called errors in expenditure 'wasted' or 'misspent' money, the majority of the articles and other media contributions spoke technically quite accurately of 'four billion euros that were not properly spent.' The fact that the ECA signed off the 2019 accounts was also mentioned in most reports, but did not make it into the headlines – except in the European Commission's press release .

But again, it wasn't a year like any other. The media coverage of the 2019 annual report suggests that, given the context of the Covid-19 crisis, the focus of the general public on European finances has become even sharper. It was a historic act of strength to agree on the billion-euro Covid-19 recovery fund. The citizens' expectations are correspondingly high that this money will now be spent properly. And who, if not the ECA, is called upon to have a watchful eye on this? Who knows, perhaps the word 'ECA annual report' will already sound less like a boring routine in the ears of journalists when it comes to the next publication in 2021.

ECA publications in July/November 2020

Review No 01/2020

Published on 02/07/2020

EU climate action: risk of overstating climate spending without a reliable tracking method



The Commission made a commitment, for the 2014-2020 period, to spend at least one euro in every five (20 %) of the EU budget on climate action. It has now raised this target to 25 % (one euro in every four) for the 2021-2027 period. According to a new review by the European Court of Auditors, setting such targets can be an effective step towards achieving the EU's climate objectives, as long as the methodology used to track the money is robust and applied consistently across policy areas.

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Audit preview

Published on 07/07/2020

How sustainable is the use of water ?



Farmers being major consumers of freshwater, the European Court of Auditors is assessing the impact of the EU's agricultural policy on sustainable water use. The audit, which has just started, will be useful as the EU moves forward with its reform of the common agricultural policy.

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Special report N° 15/2020

Published on 09/07/2020

EU action had little effect on halting the decline of wild pollinators



EU measures did not ensure the protection of wild pollinators, according to a new report from the European Court of Auditors (ECA). The biodiversity strategy to 2020 was largely ineffective in preventing their decline. In addition, key EU policies, among which the Common Agricultural Policy, do not include specific requirements for the protection of wild pollinators. On top of this, EU pesticides legislation is a main cause of wild pollinator loss, say the auditors.

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ECA publications in July 2020

Opinion N° 4/2020

Published on 14/07/2020

REACT-EU recovery funding: tension between swift support and value for money



The European Commission's REACT-EU proposal to top up cohesion funding for EU countries by €58 billion in the crucial first few years of the Covid-19 recovery aims to mobilise investment and frontload financial support. In a new opinion published today, the European Court of Auditors (ECA) points out a tension between the proposal's aim of providing the extra funding as swiftly as possible and the goal of making it available where it is needed most and will have most effect. The auditors also warn that the crisis response mechanisms the Commission is proposing for the next seven-year budget lack provisions conducive to the sound financial management of EU funds.

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Opinion N° 05/2020

Published on 22/07/2020

EU's green ambitions require a more performance-based Just Transition Fund, advise auditors



The recently amended proposal relating to the Just Transition Fund (JTF) needs to establish a clearer link to the EU's climate and environmental goals, according to an Opinion published today by the European Court of Auditors. While significant additional resources are put forward to help achieve the transition to a climate-neutral economy by 2050, the funding should be more need-based and performance-oriented. Otherwise, there is a risk that the necessary structural change will not take place and the transition towards a green economy will need to be financed again, the auditors warn.

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Special report N° 17/2020

Published on 23/07/2020

System to protect EU businesses from unfair trade competition functioning well



The European Union is committed to free trade. However, if European industries suffer as a result of unfair practices by non-EU countries, such as dumping and subsidised imports, the EU can respond with Trade Defence Instruments (TDIs). The European Court of Auditors has looked at this area for the first time. It concludes that the Commission has been successful in enforcing trade defence policy, but that there is room to improve the policy's effectiveness, particularly in view of the growing tensions in global trade politics.

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Audit preview

Published on 28/07/2020

Migrant returns and readmission to third countries probed by EU Auditors



Less than 40 % of the irregular migrants ordered to leave the EU actually return to their home country or a third country. The European Court of Auditors (ECA) has now launched an audit of the EU's cooperation with third countries on the readmission of irregular migrants. The auditors will assess whether the suite of measures the European Commission took after 2015 have improved cooperation with priority third countries.

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Review N° 2/2020

Published on 30/07/2020

"Better Regulation" must remain at the heart of EU law-making



"Better Regulation" is the set of principles and tools which the Commission uses to develop its policies and prepare its legislative proposals. It has been a key feature of EU policy-making for nearly 20 years and is internationally one of the most advanced systems, according to a new review from the European Court of Auditors. But more could be done to consult citizens and other stakeholders, improve the evidence base for decision-making, and promote, monitor and enforce the implementation and application of EU law.

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Audit preview

Published on 20/08/2020

Auditors to examine post-programme surveillance for Member States that received financial assistance after 2008 crisis



The Commission's post-programme surveillance applies to Member States exiting an adjustment programme and aims to ensure that they have the capacity to repay the financial assistance provided. The European Court of Auditors has started work on an audit examining the design, implementation and effectiveness of post-programme surveillance for the five Member States (Ireland, Portugal, Spain, Cyprus and Greece) that received financial support after the 2008 financial crisis.

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ECA publications in August/September 2020

Audit preview

Published on 25/08/2020

Auditors examining whether EU fosters SME internationalisation



SMEs are vital to the EU's economy. Supporting their development both within the single market and outside the EU is thus a key element of the Union's overall competitiveness strategy. The European Court of Auditors is starting an audit to assess the coherence of the EU's SME internationalisation strategy and the effectiveness of measures taken so far.

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Audit preview

Published on 27/08/2020

Auditors scrutinising EU support to fight grand corruption in Ukraine



Ukraine is one of the largest and most prominent countries bordering the EU and, as such, one of the main beneficiaries of the EU neighbourhood policy. With prevailing corruption threatening the country's economic growth and social development, the European Court of Auditors will assess the effectiveness of EU action to tackle grand corruption in Ukraine.

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Special report N° 16/2020

Published on 03/09/2020

European Semester: Member States must address country-specific recommendations better



Member States did not make enough efforts to act on country-specific recommendations made by the Council of the EU between 2011 and 2018, according to a new report by the European Court of Auditors (ECA). They have addressed only about a quarter of the recommendations fully or substantially, while there has been limited or no progress on almost a third of the recommendations. Although the EU has made broad progress towards most of its long-term fiscal targets for 2020, it is lagging behind on poverty alleviation and research and development (R&D). Against the backdrop of the political agreement reached by the European Council in July 2020, the auditors also stress the need to reform the way country-specific recommendations are formulated and implemented.

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ECA publications in September 2020

Special Report N° 14/2020

Published on 08/09/2020

EU development aid to Kenya needs better targeting to make an impact



The European Commission and External Action Service (EEAS) have not demonstrated that European Development Fund (EDF) aid to Kenya between 2014 and 2020 addressed the country's development obstacles and focused on reducing poverty, according to a new report by the European Court of Auditors (ECA). Projects funded under the previous 2008-2013 EDF delivered outcomes as expected, but have not had a visible impact on Kenya's overall economic development. The auditors now call on the EU to rethink its approach to allocating development aid.

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Opinion No 05/2020

Published on 08/09/2020

Concerning the proposal for a regulation of the European Parliament and of the Council establishing a Recovery and Resilience Facility



The Recovery and Resilience Facility (RRF) willsupport Member Statesin absorbing the economic shock created by the COVID crisis and making their economies more resilient. In a new opinion published today, the European Court of Auditors (ECA) points to the importance of the national Recovery and Resilience Plans (RRPs) in making sure that the EU's financial support is targeted at achieving the overall common EU objectives for cohesion, sustainability and digitalisation, and co-ordinated well with other forms of EU and national support.

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ECA review N° 3/2020

Published on 10/09/2020

China's investment strategy: the EU should step up its response



In a new review published today, the European Court of Auditors (ECA) looks at the multiple risks – mainly of an economic and political nature – China's state-driven investment strategy poses to the EU, as well as the opportunities it presents. The auditors warn the EU faces several challenges in managing its response, including how to better set, implement and track its own strategy on China and coordinate the actions of EU institutions and individual Member States as regards their bilateral relations with China. They also point to incomplete data on Chinese investments in the EU and note the need for robust mapping of risks and opportunities.

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ECA publications in September 2020

Special report N°18/2020

Published on 15/09/2020

EU emissions trading system: free allowances must be better targeted



Free allowances still make up over 40 % of all available allowances under the EU's 'cap and trade' emissions trading system (ETS), according to a new report by the European Court of Auditors (ECA). These free allowances, distributed to industry, aviation and, in some Member States, the electricity sector, were not well targeted. In addition, the speed of decarbonisation in the power sector was significantly reduced. The Commission needs to update its procedure for targeting free allowances to reflect the Paris Agreement and recent developments.

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Special report N° 19/2020

Published on 22/09/2020

Digitalisation of European industry is progressing unevenly



Europe is not fully benefitting from advanced technologies to innovate and remain competitive. In 2016, the European Commission launched the Digitising European Industry (DEI) initiative to boost the digitalisation of EU businesses. Despite the Commission's efforts to support national authorities, progress of the initiative has been uneven among the Member States, according to a new report from the European Court of Auditors. Some countries still do not have national digitalisation strategies or have not taken certain specific actions, such as establishing Digital Innovation Hubs (DIHs).

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Review N° 05/2020

Published on 24/09/2020

Auditors review how the EU's response to the 2008-2012 crises improved the resilience of the financial sector



The impact of the Covid-19 pandemic far exceeds that of the financial/sovereign debt crisis of 2008-2012, and the economic ripple effect is still ongoing. A 'smart recovery' will require us to learn from the last crisis and keep in mind the weaknesses identified. The European Court of Auditors (ECA) published its latest review today, taking stock of developments in the EU's economic and financial architecture over the past decade and flagging up unresolved challenges, potential risks and policy gaps.

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ECA publications in September/October 2020

Special Report N° 20/2020

Published on 29/09/2020

EU action on child poverty needs greater focus



It is almost impossible to assess how the EU contributes to Member States' efforts to reduce child poverty, according to a new report from the European Court of Auditors (ECA). The relevance and strength of EU instruments examined are limited because they are not legally binding – and more powerful tools, such as the European Semester or support from EU funds, rarely address child poverty specifically. It is thus difficult to determine whether EU action contributes effectively to efforts to tackle this important concern, say the auditors.

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Opinion No 8/2020

Commission's 2020/0100 (COD) proposal for a Regulation of the European Parliament and Council on the public sector loan facility under the Just Transition Mechanism

Opinion No 9/2020

Published on 02/10/2020

Proposed changes to EU civil protection mechanism should be finalised carefully



The recent proposal on amending the EU's 'Union civil protection mechanism' (UCPM) needs further clarification, according to an Opinion published today by the European Court of Auditors. In particular, it remains to be decided how its increased resources will be used and monitored. While speeding up the EU's response to crises is essential, the principles of sound financial management and accountability need to prevail, the auditors warn.

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Review N° 04/2020

Published on 06/10/2020

Plastic packaging waste: EU needs to boost recycling to achieve ambitions



There is a significant risk that the EU will not meet its plastic packaging recycling targets for 2025 and 2030, according to a review by the European Court of Auditors (ECA). The update of the legal framework for plastic recycling in 2018 reflects the EU's increased ambitions and could help boost recycling capacity. The scale of the challenge facing the Member States should not be underestimated, however. New and more accurate recycling reporting rules and a tightening of plastic waste export rules will reduce the EU's reported recycling rate. Concerted action is thus needed to get the EU to where it wants to be in just 5 to 10 years' time, the auditors say.

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ECA publications in October 2020

Audit preview

Published on 14/10/2020

European funding for boosting SME competitiveness being probed by EU Auditors



The European Court of Auditors (ECA) has launched a new audit to examine whether EU funding for small and medium sized enterprises (SMEs) is helping to make them more competitive and future-proof. The auditors will assess whether the European Commission's support from the European regional development fund (ERDF) is ensuring lasting competitive gains for start-ups and scale-ups. In addition, they will check whether Member States funnel this funding to relevant recipients, address the most pertinent needs, and whether the projects funded are delivering results. The audit comes against the backdrop of the Covid-19 crisis, which demands extra effort from EU companies to survive on the market in a more challenging business environment.

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Special report N° 22/2020

Published on 22/10/2020

The EU is yet to fully exploit the potential of its agencies



The EU agencies are playing an increasingly important part in the Union, but their role in serving EU citizens effectively needs to be evaluated more carefully. This is the conclusion of a report presented by the European Court of Auditors (ECA) today. The ECA signed off the 2019 accounts of all but two EU agencies and confirmed the positive results it had reported in previous years. For the first time, the ECA also assessed how well the EU has enabled the agencies to deliver its policies for the public good. According to the auditors, there is a need for more networking and cooperation – as well as more flexibility in the set-up, functioning and possible winding-up of agencies.

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Annual report EU Agencies

Published on 22/10/2020

Annual report on EU agencies for the financial year 2019



Each year, the ECA examines the accounts of all agencies set up by the EU, the revenue they receive and the payments they make. This document summarises the audit results for the 2019 financial year for the 41 EU agencies and other EU bodies.

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Special report N° 23/2020

EU is struggling with recruitment of officials

Published on 29/10/2020



The European Personnel Selection Office (EPSO) should reconsider how it selects new recruits for the EU civil service, according to a new report by the European Court of Auditors (ECA) published today. At a time of reduced staffing and advancing digitalisation, the EU institutions increasingly seek to recruit specialised staff, who can become operational quickly. However, the auditors found EPSO's selection process is not well adapted to small-scale targeted competitions that could attract such specialists to apply for positions in the EU civil service. At the same time, they also point to a number of weaknesses in the generalist selection procedures carried out by EPSO.

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Audit preview

EU auditors to assess how the EU supports tourism

Published on 04/11/2020



The European Court of Auditors (ECA) is analysing whether EU funding for public investments in tourism was effective and provided suitable support for the sector prior to the pandemic, and what the EU is doing to limit the negative impact of the Covid-19 crisis.

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Annual report 2019

Annual report: 2019 EU accounts: clean, but too many spending errors

Published on 10/11/2020



In the European Court of Auditors' annual report for the 2019 financial year, published today, the auditors sign off the EU accounts as giving "a true and fair view" of the EU's financial position. At the same time, they conclude that payments were affected by too many errors, mainly in the category classified as 'high risk expenditure'. Against this background, and despite improvements in certain spending areas, the auditors issue an adverse opinion on expenditure. They also take the opportunity to stress the need for robust and efficient management of the financial package that was agreed in response to the coronavirus crisis, which will almost double EU spending in the next few years.

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Annual report on the EU Joint Undertakings

Published on 12/11/2020

Auditors sign off 2019 accounts of all EU Joint Undertakings



The European Court of Auditors (ECA) has given a clean bill of health for all the EU's Joint Undertakings (JUs) - the EU's public-private partnerships with industry, research groups, international organisations and Member States - issuing clean opinions on their accounts and financial transactions. However, as in previous years, the auditors again draw attention to the 'Fusion for Energy' (F4E) JU, mainly because of the risk of further cost increases and delays in implementing the International Thermonuclear Experimental Reactor (ITER) project.

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Special report N° 25/2020

Published on 11/11/2020

The Capital Markets Union: slow progress



The free movement of capital is a key long-standing objective of the European Union. It is one of the pillars of the Single Market, along with the free movement of people, goods and services. Despite the Commission's efforts to achieve the ambitious goal of building a capital markets union (CMU), results are still to come, according to a report presented by the European Court of Auditors (ECA) today.

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Report on the performance

Published on 13/11/2020

Report on the performance of the EU budget – Status at the end of 2019



The European Court of Auditors examined the results achieved by EU spending programmes financed from the EU budget, based on performance information from the Commission and other sources, including its own recent audit and review work. It also assessed the way the Commission produced the 2019 Annual Performance and Management Report and the programme statements for the 2021 EU budget, and whether these reports give a clear, comprehensive and balanced overview of the performance of the EU budget.

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ECA publications in November 2020

Special report N° 24/2020

Published on 19/11/2020

European Commission needs to scale up antitrust and merger control to fit a more globalised world



The European Commission, the enforcer of EU competition rules, has generally made good use of its powers in antitrust proceedings and merger control, and addressed competition concerns with its decisions. But according to a new report by the European Court of Auditors (ECA) published today, it has not yet fully addressed the complex new enforcement challenges in digital markets, the ever-increasing amount of data to be analysed or the limitations of existing enforcement tools. The auditors also found that the Commission has limited capacity to monitor markets, proactively detect antitrust infringements and check the accuracy of merger information.

Click here for our report

Report on the annual accounts of the EU Schools

Published on 10/11/2020

Report on the annual accounts of the European Schools for the financial year 2019



In accordance with the Financial Regulation of the European Schools, we have reviewed the Schools' consolidated annual accounts for the 2019 financial year. We have also reviewed the accounts of the Central Office and the internal control systems (recruitments, procurement procedures and payments) of the Central Office and two of the Schools (Brussels I and II). Finally, we have reviewed the work of the Schools' external auditor, which audited the accounts and internal control systems of six Schools before consolidation took place.

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NEXT EDITION

Strategy development for public audit in a rapidly changing world

In any large organisation, private or public, strategic planning is key to defining longer-term priorities and goals. It also helps to plot a course to achieve those goals, informs the organisational needs and guides the allocation of resources.

In September 2019, the European Court of Auditors (ECA) has started a participative process, involving its staff, management and stakeholders, to develop a new strategy for the period 2021-2025. With it, our institution aims to be well equipped to make a valuable contribution to a more resilient and sustainable Union and to strengthen its role as the EU's independent external auditor.



Our next ECA Journal will be themed around strategy development in general, and the new 2021-2025 ECA strategy in particular. We will also look at other EU institutions' strategic planning and the role and impact of strategies on the European project. Furthermore, we will analyse the work that is done and the use made of strategies in the public and private audit sector at international, European and national level .

Key questions we will try to answer are: how can strategy development help prepare an (public sector) organisation to face future challenges? How important are long-term vision and strategic goals to ensure that an institution can remain relevant in rapidly changing world? Why is the way towards developing a strategy often as important as the strategy itself? And what are the success stories and best practices that should motivate strategic planners in public audit?

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Realising European added value
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