

**FUTURE REFORM OF THE EUROPEAN UNION BUDGET:  
a response to the European and External Relations Committee of the Scottish Parliament**

**Summary**

- *Scotland can influence the EU Budget review only to a limited extent. While it will consult with the Scottish Government and other devolved administrations, the UK Government will ultimately decide the UK position on the EU Budget review.*
- *The Scottish Parliament could usefully and pro-actively take advantage of the new subsidiarity provisions provided in the Lisbon Treaty and could engage with Scotland's MEPs to track developments in budgetary discussions in the European Parliament.*
- *The debate on the size and priorities of the next EU financial perspective is well advanced. Climate change and energy, competitiveness, research and innovation, the Common Agricultural Policy and Structural Funds and cohesion have all emerged as key issues that must be addressed by the next EU Budget.*
- *Future EU expenditure should be targeted on areas where such expenditure will*
  - *bring benefits that would be unachievable by Member States acting alone, bringing added value through coordinated action;*
  - *address a common problem across Member States; or*
  - *assist economically disadvantaged Member States.*
- *Scotland's long term economic interests lie in an increased focus on energy and competitiveness. Scotland's potential in renewable energy means it has much to contribute to, and gain from, increased activity and spending at EU level.*
- *Scottish universities compete to attract research investment and stimulate business competitiveness and innovation. Appropriate policies at European level, such as strengthening support for the European Research Council, sustained support for key technology areas in which it has world-leading strengths and a review of state-aid rules, could play an important role in stimulating innovation.*
- *A reduction of CAP funding under Pillar 1 would have a major impact on Scottish farming and it is vital that this is well understood at Scottish, UK and EU level. The industry must be prepared to deal with an inevitable diminution of funding.*
- *Thought must also be given to the role of agricultural funding in regional policy as the concept of "territorial cohesion" becomes entrenched for the first time in the Lisbon Treaty. Under current CAP Pillar 2 funding for rural development, Scotland has at present the lowest EU funding per hectare in Europe.*

## Introduction

- 1 The Royal Society of Edinburgh (RSE), Scotland's National Academy, is well placed to respond to the second phase of the Scottish Parliament's European and External Relations Committee's inquiry into the reform of the EU Budget and its implications for Scotland. It has distinguished fellows in the areas of public finance, economics, European policy, research and innovation.
- 2 This response focuses on identifying the high level principles of EU funding, the likely priorities for the future budget and the opportunities and challenges these bring for Scotland. We also comment on the extent to which Scottish actors can in fact influence the debate. We would be pleased to discuss these issues further.

## To what extent can Scotland influence the review of the EU Budget?

- 3 While the review of the EU Budget will undoubtedly present Scotland with both challenges and opportunities, the extent to which Scottish actors can actually influence the debate is circumscribed. Under current constitutional arrangements the Scottish Government can only influence EU Budget policy indirectly through the UK Government. Under the Memorandum of Understanding signed in 1999 all consultation between the Scottish and UK Governments is confidential, therefore the Scottish Parliament is constrained in respect of the information it can elicit from the Scottish Government with regard to the EU Budget. *The Scottish Parliament could, however, usefully be pro-active in taking advantage of the new subsidiarity provisions in the Lisbon Treaty, and Protocol No. 26 on Services of General Interest, and could engage with Scotland's MEPs to track budgetary discussions in the European Parliament.*

## Future Policy Priorities of the EU Budget

- 4 The debate about the priorities for the next EU financial perspective is already well advanced. *Climate change and energy; competitiveness, research and innovation; the Common Agricultural Policy (CAP); and Structural Funds and cohesion have clearly emerged as the key issues to be addressed.*
- 5 The phrase "European added value" has become a mantra in the Commission and the RSE supports this approach. As such we suggest that future EU Budget allocation priorities should be considered in light of the following criteria:

- *that a centralised EU approach will add value through coordinated or joint action.* In some cases this might relate to addressing issues which will increase market opportunities between Member States but will commonly relate to increasing the competitiveness of the EU in the global economy. It might also relate to addressing a common problem that requires concerted action.
- *That there is an agreed need to assist economically disadvantaged Member States.* This funding should be concentrated on structural, technical or other needs which will allow the disadvantaged Member State to operate within the wider EU and global market, thus also providing positive advantages to the contributing Member States.

## Implications for Scotland

- 6 For reasons of comparative advantage, *Scotland's long term economic interests lie in championing energy and research.* However CAP funding and cohesion policy continue to impact on our rural areas. The implications for Scotland in each of these areas are outlined below.
- 7 However there must be recognition of the budgetary constraints within the EU in trying to fund new priorities, as the extraordinary domestic fiscal imbalances that every member state will have to deal with for the foreseeable future will undoubtedly only add to the pressure from net contributing countries to curtail EU spending by capping the overall size of the EU Budget.

## Climate Change and Energy

- 8 Policy makers at Scottish, UK and EU levels must understand the substantial contribution that Scotland can make in respect of its *potential in offshore wind, tidal and wave energy resources.* *Co-ordinated funding for research and rapid development of these technologies should be targeted on Scotland.*
- 9 If Scotland's potential and aspirations are to be realised they must be linked in to wider UK and European energy markets. *It should therefore engage with the discussions about a possible European energy transmission and supply network,* an "intelligent network" that would draw on generating capacity wherever it occurs so as to minimise emissions and cost and maximise energy security.

## Competitiveness, Research and Innovation

- 10 *Scotland's universities are a major international competitive strength and provide the cornerstone of a cutting-edge knowledge based economy.* The EERC should ensure that full consideration is given to how EU research funding might aid in bridging the gap that currently exists between the investment in Scottish university research and that of English universities which receive income in the form of top-up fees.
- 11 Whilst the bulk of public funding for research should remain with national and regional bodies, the EU can add value by ensuring mutual transparency and co-ordination. We believe the Framework Programmes are conceptually flawed and have had only limited success. However, *efforts should be made to realise the full potential of the recently created European Research Council (ERC)* which shows signs of galvanising the European research effort and at last is a recognition that in a globalised economy, peerless research excellence is one of the prerequisites for powerful technological innovation. There should be a decisive shift of funding within the Framework Programme towards the ERC.
- 12 Innovation in Scotland can only be secured in the long term when there is a greater pull from business for economic exploitation of the research base. There must be recognition that Scotland is part of a wider economic system and that Europe is increasingly a significant influence on innovation policy. It is vital that innovation is prioritised in the EU Budget, but it is also *vital that effective innovation policies are supported with focus on long term support to emergent technology areas where there are large global markets, where Europe (and Scotland) has world-leading research and where there are companies able to take innovations to the market.* These should be based around initiatives such as the European Technology Platforms, not on misconceived initiatives such as the European Institute of Technology.

## The Common Agricultural Policy

- 13 It is important to distinguish between the Common Agricultural Policy (CAP) and the general principle of financial support for agriculture, especially in less favoured or peripheral regions, which does not depend on the maintenance of CAP in its present or modified form.
- 14 The CAP was used as an incentive for the new Member States and their economic situation would suffer were these funds to diminish or cease. As such, any proposed changes from a Scottish perspective would require to be negotiated alongside the other Member States and with the other regions of the UK.

- 15 The UK Government previously proposed ending direct support for agriculture under Pillar 1 when the CAP is reviewed after 2013. No attempt was made to assess the effect that such a change would have on agriculture across the UK. Given the distinctive nature of Scottish agriculture we regard this as an unacceptable failure in policy formulation that must not be repeated in the future.
- 16 We regard the management of Scotland's rural landscape and biodiversity, issues relating to climate change, maintenance of food security and the preservation of viable rural communities as providing a strong case for maintaining direct support for livestock-based agriculture in the Hills and Islands. More fundamental change is required to the financing of agriculture if the above objectives are to be achieved. In its Inquiry into the Future of Scotland's Hills and Islands<sup>1</sup> the RSE recommended that a new, more integrated and wide ranging EU policy instrument could be developed from the current elements of Pillar 1 and Pillar 2.
- 17 With an inevitable diminution of funding within Europe, however, it is clear that the UK Government must be prepared to renegotiate the basis of Pillar 2 funding post-2013 where Scotland has at present the lowest EU funding per hectare in Europe. In order to achieve CAP reform, and in particular a strengthened rural policy, the UK may have to be prepared to sacrifice at least part of the rebate that was negotiated in compensation for the limited funds it receives via the CAP. We do not expect the UK Government to welcome such a suggestion, but *we believe that the rebate will become increasingly difficult to defend as the relative size of the agriculture budget declines and that, rather than see it simply eroded, it would be important to ensure that some benefit is obtained in exchange.*

## Structural Funds and Cohesion

- 18 At the last review the UK Government supported the repatriation of regional policy, with European funding for the post-2004 accession states only. Scottish opinion was generally hostile to this, fearing that Scotland, as a beneficiary of Structural Funds, would lose out. However, under the Treasury's interpretation of the principle of additionality, the funds are "additional" for the UK as a whole. *Nominal increases or decreases in Structural Funding allocations to Scotland make no difference to the Scottish budget. It merely means that a section of the Scottish block grant is deemed to be European and so subject to EU spending rules.* While there have been successes from the application of Structural Funds in Scotland this has not been the result of funds per se but rather of the regional development programmes put in place under the guise of Structural Funds.

1 [http://www.rse.org.uk/enquiries/hill\\_and\\_island\\_areas/index.htm](http://www.rse.org.uk/enquiries/hill_and_island_areas/index.htm)

19 The argument on cohesion policy should focus on the merits of the cohesion policy as a whole and the territorial dimension of EU spending. The concept of “territorial cohesion” has acted to match existing commitments to economic and social cohesion. It is entrenched for the first time in the Lisbon Treaty. As a peripheral part of the EU, Scotland has an interest in this concept and we would urge the Committee to support it in the face of scepticism expressed in various quarters. It implies that the spatial dimension should be considered in all the main spending programmes and not be confined to the Structural Funds.

### State Aid

20 If Member States are to be given more responsibility and autonomy to spend EU funds then consideration must be given to the issue of state aid. European state aid rules are often cited by national authorities as a reason for not giving subsidies. However, in reality it would appear that the availability of national resources, and on occasion political will, often have the greatest influence over whether or not state aid is approved. As we understand, *European rules do allow substantial scope for subsidisation and therefore this is an area that needs to be examined further if Scotland is to benefit from the shift in spending priorities.*

21 Particularly, clarification is needed of the extent to which state aid rules inhibit support for innovation in the use of public procurement. A powerful example of the efficacy of procurement is the US Small Business Research Programme (SBIR) which is, in effect, the world’s largest venture capital fund. It expends about \$100 billion per annum from the federal procurement budget in placing contracts for research-based products and services, driving dynamism of US technology industries. It is crucial that state aid rules permit such powerful processes of technological growth in Europe.

### Additional Information and References

The following Royal Society of Edinburgh responses are relevant to this subject:

- Submission to the House of Commons Science and Technology Committee’s *Inquiry into UK Science and Europe: Value for Money* (January 2003)
- Submission to the House of Commons Science and Technology Committee’s *Inquiry into the international policies and activities of the Research Councils* (April 2007)
- Submission to the European Commission’s Green Paper, *The European Research Area: New Perspectives* (August 2007)
- The Royal Society of Edinburgh’s *Inquiry into the Future of Scotland’s Hills and Islands* (September 2008)

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Responses are published on the RSE website  
([www.royalsoced.org.uk](http://www.royalsoced.org.uk)).

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