September 2018

AK Position Paper

EU Multiannual Financial Framework 2021-2027: A budget that unites Europe

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About us

The Austrian Federal Chamber of Labour is by law representing the interests of about 3.7 million employees and consumers in Austria. It acts for the interests of its members in fields of social-, educational-, economical-, and consumer issues both on the national and on the EU-level in Brussels. Furthermore the Austrian Federal Chamber of Labour is a part of the Austrian social partnership. The Austrian Federal Chamber of Labour is registered at the EU Transparency Register under the number 23869471911-54.

The AK EUROPA office in Brussels was established in 1991 to bring forward the interests of all its members directly vis-à-vis the European Institutions.

Organisation and Tasks of the Austrian Federal Chamber of Labour

The Austrian Federal Chamber of Labour is the umbrella organisation of the nine regional Chambers of Labour in Austria, which have together the statutory mandate to represent the interests of their members.

The Chambers of Labour provide their members a broad range of services, including for instance advice on matters of labour law, consumer rights, social insurance and educational matters.

More than three quarters of the 2 million member-consultations carried out each year concern labour-, social insurance- and insolvency law. Furthermore the Austrian Federal Chamber of Labour makes use of its vested right to state its opinion in the legislation process of the European Union and in Austria in order to shape the interests of the employees and consumers towards the legislator.

All Austrian employees are subject to compulsory membership. The member fee is determined by law and is amounting to 0.5% of the members' gross wages or salaries (up to the social security payroll tax cap maximum). 816.000 - amongst others unemployed, persons on maternity (paternity) leave, communityand military service - of the 3.7 million members are exempt from subscription payment, but are entitled to all services provided by the Austrian Federal Chambers of Labour.

Renate Anderl
President

Christoph Klein
Director

The three core demands of the Austrian Federal Chamber of Labour (BAK) for the next EU financial framework

Workers and consumers make a disproportionately high contribution to financing the EU budget through the taxes they pay. Therefore, in order to ensure a fair inflow of funds on the revenue side, the EU budget urgently needs a fundamentally new structure. Companies must shoulder a greater share of the burden, for example, through an EU standardised corporate tax on profits or a separate tax on earnings for digital corporations and/or the introduction of an EU-wide financial transaction tax.

The budget for the European Social Fund must be raised significantly. In any event, a percentage of 10% of the total EU budget is needed in order to adequately address the social, integration and labour market challenges faced by the EU, in particular to combat youth unemployment and to promote integration of migrants. The currently planned minimal increase is by no means sufficient, particularly since five funds are to be merged.

In view of the sharp decrease in the number of farms and the environmental problems caused, BAK is calling for budgetary resources intended for direct payments to farmers (EAGF) to be cut and for resources for rural development (EAFRD) to be increased significantly (reallocation). At least 50% of resources for rural development should be earmarked for cross-sectoral measures such as health centres, care and nursery schools.

I. Introduction

The Austrian Federal Chamber of Labour (BAK) has conducted a thorough review of the Commission's proposal for the Multiannual Financial Framework for 2021-2027 (COM(2018) 321 final) and the proposal for the own resources system of the European Union (COM(2018) 326 final) presented on 2 May 2018.

BAK takes very seriously the call of the European Commission President Jean-Claude Juncker that divisions in Europe must be overcome. Unfortunately, in the Commission's communication on the EU Multiannual Financial Framework for 2021-2027, far too little or even no mention is made of the cause of division, namely the deep divide between rich and poor within the Member States and hence within the whole of the EU.

Ten percent of the richest people own around half of net wealth, while 90% of people share the other half.[1] That means there is a massively unequal distribution of wealth, not merely between Member States, but also within society. EU decision-makers must pay greater attention to that issue overall. The financial and economic crisis which started in 2008 has also exacerbated social instability.

A clear imbalance is also noticeable in the financing of the EU budget since workers and consumers make a disproportionately high contribution to financing the EU budget through the taxes they pay. In order to ensure a fair inflow of funds, the revenue side of the EU budget urgently needs a fundamentally new structure.

Subsidies from the EU budget must offer clear added value for EU citizens or for the EU itself. BAK is of the opinion that measures aimed at job creation or strengthening social cohesion offer particularly high added value. However, European funds to combat climate change (including in accordance with the Paris Agreement on climate change) also satisfy the principle of European added value.

Only if the EU budget incorporates the above premises can it be a budget that "unites, and does not divide".

2. Brief overview

The scope of the tasks to be carried out under the **European Social Fund (ESF)** has been extended significantly. In addition to its previous tasks, the ESF is now to be tasked with the Youth Employment Initiative, the Fund for European Aid to the Most Deprived, the Programme for Employment and Social Innovation and the Health Programme. In absolute terms the budget for the ESF will rise to EUR 101 billion; however, the expansion of its tasks means a de-facto cut in funding for the ESF. BAK considers funding of at least 10% of the EU budget to be necessary in order for the ESF to be able to discharge its duties satisfactorily. The ESF should have a stronger focus on people, e.g. on measures to combat **unemployment** and **poverty**, on **qualifications**, and on **training and professional development**, for example in the sphere of the **digital workplace**. More funding is required to combat **youth unemployment** in particular. BAK is firmly opposed to linking the ESF to implementation of the country-specific recommendations within the framework of the European Semester. The proposal that additional factors, such as the extent of unemployment or the integration of refugees, should be considered when allocating funds is to be welcomed. BAK has long been calling for that. Greater importance should be placed on the criterion of refugee integration in order to improve the necessary integration of refugees in the labour market and in society and to create incentives for Member States to actually implement integration measures.

BAK welcomes the expansion of the **Globalisation Adjustment Fund** to include support for workers who have been affected by the transition to a low-carbon economy. However, the available funds must be adjusted accordingly. Achieving the EU's **climate goals** will entail a fundamental change in the whole economic structure. Such a transformation is not merely a technical challenge, but requires in-depth discussion of how those changes can be shaped to ensure social justice ("**just transition**"). **From the point of view of workers**, the upcoming massive structural change towards a **digital working world** will require comprehensive measures regarding **training and qualification** of workers, the accompanying labour market measures and reinforcement of the role of state-owned enterprises and the inclusion of employees and their representatives in planning specific measures. New programmes and priorities must be created at a European level and the necessary funding provided.

In BAK's opinion, the **European Solidarity Corps** initiative is overrated. Such voluntary activities cannot replace professional social work carried out by the relevant organisations. Furthermore, the proposal does not give sufficient consideration to the protection of volunteers in terms of labour law and social law.

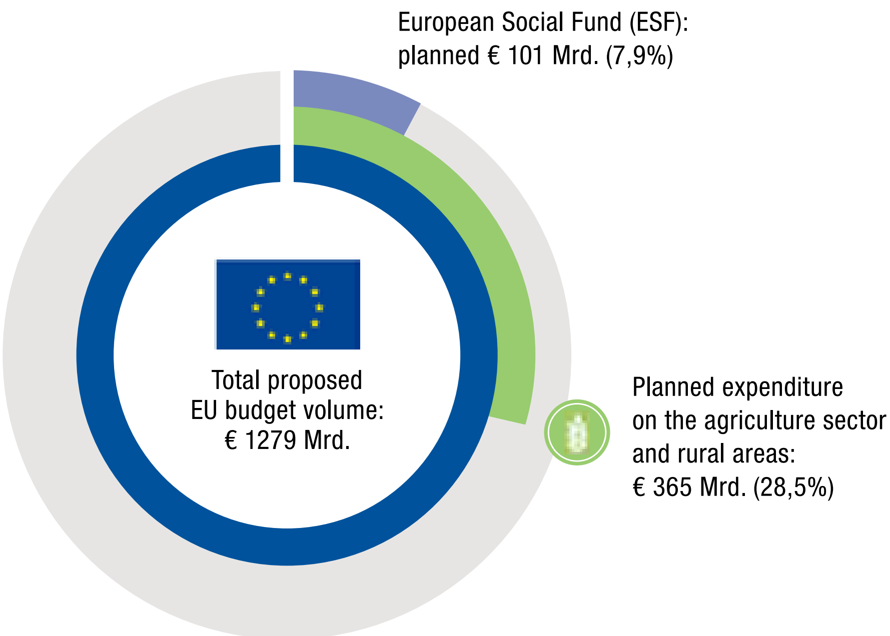
Regional and cohesion policy is an important instrument in reducing economic, social and regional differences. Unfortunately, results to date have been disappointing, for example with regard to aligning wage levels. BAK welcomes the expansion of eligibility rules to youth unemployment, the reception and integration of migrants and the level of education and training. We reject linking subsidies to compliance with the country-specific recommendations within the framework of the European Semester. Burgenland, which lies far behind other federal states in income growth, should continue to enjoy lower co-financing rates than those applied to other regions in Austria.

In BAK's view, the focus of the new **InvestEU** Fund should be on public investments. By contrast, we are critical of financial support for private projects.

BAK generally welcomes the **European Investment Stabilisation Function** since it can help to cushion asymmetric economic shocks in the euro area. However, we reject the proposal to link the stabilisation function to strict budgetary and one-sided economic demands. Instead, we refer to the call for a golden investment rule.

Regarding the **Common Agricultural Policy**, direct payments to farmers must be cut in view of the sharp drop in the number of farms. The proposed capping or degression of subsidies is not, however, sufficient to resolve the imbalance of 80% of subsidies for 20% of farms. Furthermore, those subsidies must be tied to clear European added value, such as combating environmental issues. The financial resources of the fund for rural development must be distributed more effectively. At least 50% of funding for rural development (EAFRD) should be earmarked for cross-sectoral

COMMISSION PROPOSAL ON VOLUME OF FUNDS FOR THE AGRICULTURE SECTOR AS COMPARED WITH THE ESF



measures. The proposed increase in funding for research and innovation and for education and training is certainly to be welcomed. BAK proposes adding "Securing social equality and inclusion" as a new priority in the field of research.

Regarding the chapter on **"Migration & Border Management"**, BAK proposes concentrating resources on alleviating the causes of displacement and involuntary migration. We reject the Commission's plans on **"Security & Defence"** because research projects of private arms manufacturers – moreover, those from third countries – are to be financed at a rate of up to 100% by EU funds and hence arms exports are to be subsidised indirectly with public funds.

BAK essentially welcomes the possibility of cutting or cancelling budgetary resources in cases where Member States violate the **rule of law** or **human rights**. The same should be required for Member States that pursue an **aggressive low-tax policy** at the expense of the other Member States.

When **financing the EU budget**, particular care should be taken to ensure that businesses contribute significantly more in future to the revenue for the budget. Currently workers and consumers make a considerable contribution to financing the EU budget through the taxes they pay. BAK generally welcomes the common corporate tax base, revenue from the Emissions Trading System and a tax on non-recycled packaging waste.

III. In-depth analysis of specific policy areas

It should first be noted that, according to the Commission's proposal, the volume of the EU budget for 2021-2027 will not increase in relation to the gross national income of the EU27 compared to the current financial framework, as has been variously reported[2], and will instead decrease. The Commission is aiming for funding of around EUR 1,279 billion (liabilities), corresponding to 1.11% of GNI[3]. The current financial framework comprises 1.13% of GNI based on the 27 EU Member States. Furthermore, it can be assumed that the prime ministers and finance ministers will agree on lower funding during negotiations and the actual budget volume could be considerably less than 1.11% of GNI.

However, the Commission is simultaneously proposing to **extend the range of tasks** to be financed through the EU budget. For example, substantial funds for security and defence as well as migration and border management are to be provided. However, that is only possible if corresponding cuts are made in other areas. BAK wishes to note that possible cuts must under no circumstances be made at the expense of social and employment policy projects.

The European Commission has rightly pointed out that subsidised measures must have **European added value**. BAK is of the opinion that EU projects must provide high value, especially in terms of social policy. Such "added value" is provided, for example, when jobs with good working conditions and fair wages are created.

As part of the discussion on the EU Multiannual Financial Framework for 2021-2027 BAK addresses specific policy fields in greater depth below.

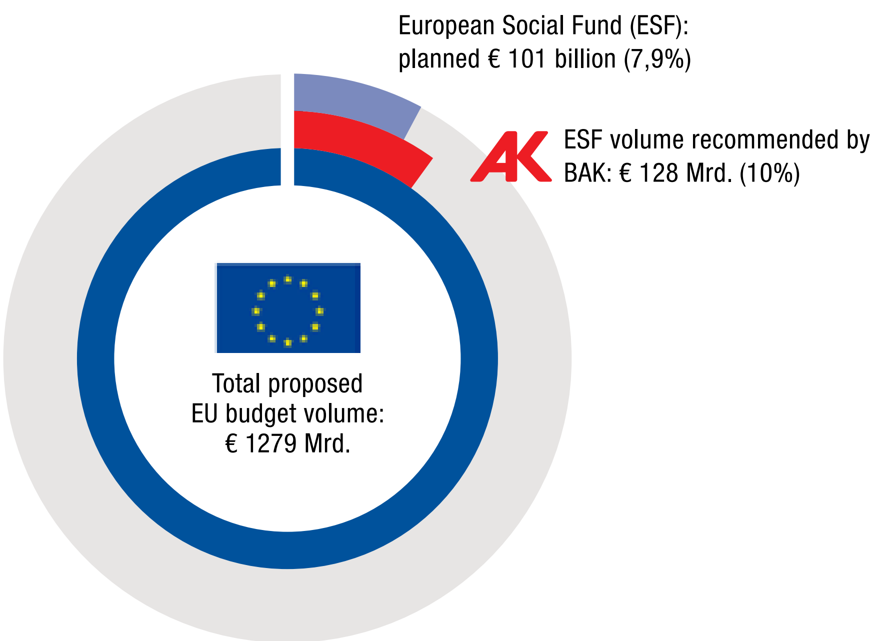
European Social Fund

One of the goals of the European Commission's proposal is to improve European cohesion by strengthening cohesion policy. We welcome that approach in principle. However, the specific plans do not reflect that goal to the necessary extent, particularly in terms of the organisation of the new European Social Fund+ (ESF+).

- The ESF budget is to be set at EUR **101 billion** for the next budget period (2021-2027). This figure is slightly higher than in the current period (EUR 88 billion). However, a total of five funds are to be merged in the new ESF+. This means that – in addition to the ESF – the Youth Employment Initiative, the Fund for European Aid to the Most Deprived, the Programme for Employment and Social Innovation and the Health Programme will have to be financed from the funds allocated to the ESF. That means a de-facto **cut in funds**, not an increase. The current budgetary resources that are proposed are by no means sufficient. In view of the urgent and extensive challenges which the ESF already has to address, a percentage of 10% of the EU budget (or 30% of the funds for the European Structural and Investment Funds) would certainly be required. According to the European Commission's proposal, the new ESF+ will only amount to 7.9% of the EU budget (27% of ESIF), even though it will have several additional tasks to perform. That percentage must therefore be raised. The reason given for merging various social, educational and employment initiatives in the new fund is that of overcoming the fragmentation of financing instruments in the field of social policy. Clearer structures and simplified finance instruments are to be welcomed in principle. However, merging those initiatives does not in itself guarantee that. Instead, in view of the insufficient budget increase, conflicts of interest will arise between the tasks to be implemented, in particular due to the addition of comprehensive health initiatives and objectives.

- The communication on the Multiannual Financial Framework sets out the future priorities of the ESF+. Aside from the criticisms made above, we welcome the target groups and subject areas mentioned, in particular **implementation of the European Pillar of Social Rights**. However, in general terms there should be a stronger focus on people in accordance with the long-standing motto of the ESF. Financial support for training and professional development should not consider exclusively the interests of businesses, but should rather reflect the **skills and interests of trainees**; special focus should be placed on training and qualifications for migrants as an aid to their integration in the labour market and not only on promoting employment. We welcome the fact that ad-

COMMISSION PROPOSAL VS. BAK'S RECOMMENDATION FOR THE EUROPEAN SOCIAL FUND



aptation to **digitalisation** through professional development is expressly included since that is one of the most sweeping challenges for the working world today. We also welcome incorporating inclusion and the fight against poverty as one of the main goals of the new social fund.

- In the current budget period, special priority is being placed on **combating youth unemployment**. However, based on the documents available, it is to be feared that this clear focus will be lost. The communication does not contain any plans to continue the Youth Employment Initiative to support the Youth Guarantee or any clear statement on the financial resources which will be available exclusively in future for that goal. Youth unemployment has dropped slightly since 2013; nevertheless, its extent continues to give rise to concern and strong efforts are required to support young people in their entry into the labour market. That priority must therefore be allocated significantly better financial resources. It must be ensured that these funds are also used to finance measures to help young people and young adults.

  In terms of content, a stronger focus has evidently been placed on the promotion of employment. However, in order to ensure lasting integration of young people and young adults into the labour market, it is critical for them to **complete initial training**; that should therefore be given due consideration.

  The Commission's approach to expanding cross-border programmes instead of its own Youth Employment Initiative fails to address the real issue. Neither Erasmus nor the Solidarity Corps can replace programmes for initial training and integration into the labour market.

- We **firmly reject** linking the ESF more closely to the **implementation of the country-specific recommendations** within the framework of the European Semester. For Austria, in an extreme case the disbursement of ESF funds and other cohesion funds could be linked to increasing the statutory pension age since that is one of the current country-specific recommendations (which should be rejected) for Austria. We reject that approach on the grounds that is clearly goes too far and is subjective. Furthermore, the annual country-specific recommendations are incompatible with the multiannual planning for EU programmes.

- We are also critical of the general increase in the **national co-financing rate**. For the economically weaker Member States, a cut in EU funds will result in less use being made of them. However, those are countries where the challenges to be addressed by the ESF, such as combating youth unemployment or poverty, are present to an exceptional degree. The Commission's assumption that raising the national co-financing rate will encourage local players to take a more active approach must, therefore, be questioned.

- By contrast, we expressly welcome the fact that in future additional factors will be considered when allocating funds, such as the **extent of unemployment** or the **integration of refugees**. BAK has long been calling for that. The criterion of integrating refugees in particular should be given greater emphasis. The integration of refugees into society and the labour market is an important tool for future social cohesion. Language courses are necessary for lasting integration. However, afterwards there also need to be possibilities for the adaptation and recognition of qualifications that refugees already have, as well as for attaining educational qualifications, initial training and retraining. Financial resources to secure people's livelihoods will be needed during training. It would therefore make more sense to move the bulk of financial resources from the Asylum and Migration Fund, which is not targeted at integration, to the ESF.

- In its communication, the Commission mentions repeatedly that funds will be allocated and used more effectively in the new budget period. A key element will be the simplification of processes for implementation and execution of programmes. If no significant improvements are made here, the effects will be limited.

European Globalisation Adjustment Fund (EGF)

BAK welcomes the fact that the European Globalisation Adjustment Fund (EGF) will be continued since swift support for workers who lose their jobs is key to their re-integration into the labour market. The fund must become considerably more efficient. Simpler processes and a significantly **faster flow of funds** are the key challenges to which an appropriate response must be found.

BAK particularly welcomes the expansion of this fund to include support for workers who have been affected by the transition to a low-carbon economy. However, BAK sees room for improvement. Accordingly, the ESF must be allocated sufficient funds. The Fund's budget should be increased to at least EUR 500 million per year. Furthermore, the criteria for accessing funds must be formulated transparently and simply. This implies that aid will be given in the form of direct grants. It must also be ensured that representatives of workers' interests are given a say in the allocation of funds.

The decarbonisation process will have a major impact on workers in the various Member States and industries. Workers in industries facing major job losses and a substantial reduction or change in their field of business (coal, automotive, energy etc.) will require particular support. That is all the more urgent because a successful decarbonisation process will only be possible if it enjoys broad support among Member States and citizens of the European Union. Since the climate policy of the coming years will entail a fundamental change in the role of paid employment and the whole economic structure, this is also a key question for employee representative bodies. In view of the above, the term "**just transition**" has taken hold as a key concept for trade union approaches and demands. It addresses the complex challenges of the transition to an economic system that manages without fossil fuels. This transition is not merely a technical challenge. Instead it requires intensive discussion and reflection on how these changes can be shaped in a way that ensures social justice. From the point of view of workers, the upcoming massive structural change will require comprehensive measures regarding training and qualification of workers, the accompanying labour market measures and reinforcement of the role of state-owned enterprises and the inclusion of employees and their representatives in planning specific measures.

BAK therefore advocates strengthening and upgrading the EGF since it is ideally suited to cushion the social impact of the decarbonisation process, thanks to its focus and structure. Through the advice, training and grants financed by the EGF, it can open up new opportunities for micro loans and services for Member States and industries under particular pressure and support them in the **retraining of their workers**. In view of the importance of the EGF for workers who are particularly affected by the decarbonisation process, BAK advocates an increase in the funds allocated to the Fund to **EUR 500 million per year**. Furthermore, the instrument of direct grants should be reinforced, obstacles to drawing on funds removed and social partners should be involved to a much greater degree.

The European Solidarity Corps

The Solidarity Corps is intended to help young people perform voluntary work to benefit people and communities in another Member State.

In BAK's opinion, that initiative is overrated. Voluntary work should be made possible for people who have an interest in it. However, voluntary work can never replace professional social work carried out by the relevant organisations. We must prevent those organisations from being supplanted. A further important issue is the protection of volunteers in terms of labour law and social law; that is not ensured to a sufficient degree by the Solidarity Corps. It would, therefore, be more sensible to give this initiative a low budget and **instead** to continue with the **Youth Employment Initiative**.

European Regional Development Fund and Cohesion Fund

BAK supports the goals of the cohesion policy. Reduction in economic, social and regional differences must naturally mean **alignment with the upper level of prosperity**. Unfortunately the results have been disappointing to date, as can be seen for example by the persistently marked differences in wage levels between EU Member States. As already mentioned, that massive imbalance of income and wealth is becoming more firmly entrenched.

The existing paradigms of EU economic policy must therefore be radically rethought, including beyond budget policy. Subsidies for the regions must be reallocated according to those challenges. Gross domestic product per capita as the sole criterion falls far short of the mark because **actual circumstances** in the regions are complex. BAK therefore welcomes the fact that youth unemployment, the level of education and training, the reception and integration of migrants and climate change have been included as criteria for receiving regional subsidies.

In BAK's view, EU subsidies should concentrate on **public investment projects** (such as social infrastructure, public transport, the energy transition and digitalisation). It is highly positive that the Commission intends 25% of EU subsidies to help achieve the climate goals in the scope of implementation of the Paris Agreement on climate change.

The Structural Funds and Cohesion Fund were able to make an important contribution in compensating effectively for declining national investments in the years of economic crisis in many Member States. In countries such as Croatia, Portugal, the Baltic countries, as well as Poland, Slovakia, Bulgaria and Romania, EU structural funds account for between 50 and 80 percent of public investments. Therefore **conditions** tied to the country-specific recommendations within the framework of the European Semester could have severe repercussions for these Member States. If EU projects are no longer subsidised because the Member States do not satisfy the requirements set out in the country-specific recommendations, that step would have a direct negative impact on workers in those countries because no EU funds for projects necessarily means no jobs. We are therefore critical of linking the Regional and Cohesion Fund more closely to implementation of the country-specific recommendations within the framework of the European Semester.[4]

BAK welcomes standardised rules and facilitation of access to the fund through simplified regulations, as well as the possibility of linking projects with other EU programmes.

Burgenland still has a lot of catching up to do in some areas compared with the other federal states as a result of its economic structure, its geographical location and its status as a border area. For example, the income of those in paid employment in Burgenland lags far behind incomes in the other federal states. In 2010 the median income in Burgenland was 86.5% of the average income in Austria. In 2015 it was 84%. The national co-financing rate for EU projects in the Burgenland should therefore remain lower than in the other regions of Austria within the EU financial framework from 2021 onwards.

The corresponding priorities should be set out in the "European Territorial Cooperation" programme for cross-border trade union cooperation.

InvestEU

InvestEU is the Commission's proposal for a new investment fund intended to mobilise public and private funding for strategic investments. Sustainable infrastructure, research, digital change, small and medium-sized enterprises and social infrastructure are some of the projects that are to be subsidised in the form of loans, guarantees and other market-based instruments. InvestEU is intended to build on the European Fund for Strategic Investments.

BAK is generally in favour of the European Commission launching a measure to increase investments. Nevertheless, we are sceptical of the continuation of the Juncker Plan, both because of the risk of a renewed "**collectivisation of losses and privatisation of profits**" and because we believe the problem of additionality or **deadweight effects** has not been resolved. It is doubtful whether lowering financing costs by a few base points can drive substantial investments that would not have been undertaken without the subsidy. As a result, InvestEU runs the risk of making little real difference and of diverting attention from the real issue, namely the dramatic decline in **public investments** during the crisis (euro area: from 3.3% of GDP in 2008 to 2.6% of GDP in 2016). That trend was halted in 2017, but recovery is not expected either.

Economic and Monetary Union – Reform Support Programme and European Investment Stabilisation Function

In order to deepen the Economic and Monetary Union, the European Commission is proposing new budgetary instruments to ensure a stable euro area and to promote convergence. First, that involves a reform support programme comprising an instrument to implement the reform, a convergence facility and a technical support instrument. Second, the Commission is proposing a European Investment Stabilisation Function.

1. Firm rejection of linking the EU budget and the European Semester

The European Commission is establishing a new reform support programme for the implementation of structural reforms identified within the framework of the European Semester. BAK firmly rejects linking the EU budget with the European Semester (conditionality) and is therefore also opposed to the new implementation instrument to support "reform commitments" of the Member States. We wish to refer to here to BAK's position paper of March 2018 on deepening the Economic and Monetary Union. It looks more closely at the debate concerning the competitiveness pacts, which the proposed reform instrument ultimately is ultimately equivalent too in its mechanism. In addition, the political priorities set at the EU level in the course of the crisis give rise to concern that measures aimed at undermining social fall-back systems or so-called "flexibilisation" in the working world (such as attacks on established collective bargaining systems) are primarily considered "worthy of support". It is unacceptable that the EU budget, which is ultimately overwhelmingly funded by European workers, should be used to support reforms that could lead to a reduction of protection standards for workers.[5]

2. Rejection of the convergence facility for Member States

We likewise reject the convergence facility for Member States joining the euro area. Given that "the euro area candidate countries already receive the largest share of EU structural funds as a proportion of their GDP, there is no need for additional, specific euro accession assistance".[6] By contrast, the creation of the conditions for upwards convergence (e.g. through better **wage dynamics**) would increase the attractiveness of the euro area and hence speed up the accession process.

3. Golden investment rule more effective than European Investment Stabilisation Function

BAK therefore essentially considers the proposed establishment of a European Investment Stabilisation Function for public investments (EISF), the aim of which is to cushion asymmetrical economic shocks in the euro area, a sensible step. However, the **volume** of the EISF of **EUR 30 billion** over seven years is insufficient. To compare, in 2016 the Member States in the euro area invested around EUR 45 billion less than in 2008. In order to stabilise investments at the former level at least in nominal terms, a total of EUR 248 billion would have been required for the seven years from 2011 to 2017. The EISF has been tasked with maintaining the investment level of the past five years; however, in view of the **low rate of financial cover for total investments**, it is unclear whether the additional funds will be sufficient incentive not to make new cuts in public investments.

BAK is therefore calling in particular for introduction of a golden investment rule, as elaborated, for example, by Professor Achim Truger[7]. Such a rule would at least relieve the pressure to save in relation to public investments. At the very least "Plan B" should exempt public investments subsidised by InvestEU or EISF from the fiscal rules in general (instead of only to a very limited degree under the investment clause introduced in 2015 in the course of flexibilisation of the Stability and Growth Pact).

Common Agricultural Policy – European Agricultural Guarantee Fund and European Agricultural Fund for Rural Development

The Commission's proposal specifies expenditure of around EUR 365 billion on agriculture and rural development for the 2021-2027 period. Of those funds, approximately EUR 286 billion is proposed for agricultural measures under the European Agricultural Guarantee Fund (EAGF), while EUR 78.8 billion – corresponding to 21.5% of the funds – is proposed for the European Agricultural Fund for Rural Development (EAFRD).

Depending on the basis of comparison, a more or less clear decrease is assumed. At "current prices" there is an increase of 0.5% for direct payments in the first pillar (2018 prices: -7.1%), while there is a decrease of 19.3% (2018 prices: -25.4%) for rural development, which is already the smaller part of the budget. Overall, according to this calculation, the Common Agricultural Policy funding would decrease by 4.6%. However, the reduction in funding is qualified by the additional EUR 10 billion that is to be provided for research and innovation, including for agriculture, under the "Horizon Europe" programme.

In its communication the Commission even criticises the **negative effect of the allocation** of these funds itself, since **20% of farms** receive **80% of agricultural subsidies**. However, the options listed in the proposal for a "relative" cap or degression in the subsidies that Member States can choose from are insufficient to resolve this imbalance.

1. Despite a cap per farm, will millions continue to be paid out in subsidies?

It is to be feared that a cap, as proposed here, will have little effect because it applies only to part of the subsidies and labour costs will still have to be considered. To put it simply, that means that EU taxpayers will also have to pay farmers for the full cost of labour. It is also to be feared that farms will divide their land in order not to be subject to the cap. This means that farms will still be able to enjoy high, subsidised profits.

2. Continuation of unjustified subsidies despite rising incomes?

According to the European Court of Auditors, real income in agriculture has risen by 19.8% since 2010[8]. Production value has remained more or less the same; however, the number of self-employed and employed people in the agricultural sector dropped by 25% in the 2007-2013 period and that of farms by 22% (latest available data). A declining number of farms – which manage ever greater areas of land – are benefiting from the high subsidies. More than 70% of the CAP budget is used for income support. However, data indicate that **agricultural households are not in a worse position than others**. In the case of larger farms in particular, income from agriculture is higher per work unit. There is therefore no reason to continue offering high income subsidies.

3. Addressing environmental issues

Scarcely a day goes by without critical reports reaching us of bees and birds dying, problems in animal husbandry, nitrates in groundwater etc. So far agricultural subsidies have not managed to resolve those problems. In its briefing paper, the ECA criticised the following areas specifically: biological diversity has declined massively. Since 1990 the population of common farmland birds has declined by 30% and of grassland butterflies by 50%.

Water quality is impacted by the high levels of nitrates caused by agriculture. Almost 95% of ammonia emissions are due to agriculture and the level of such emissions has started to rise again since 2012. Declining soil fertility increases the risk of desertification. Agriculture causes 11% of greenhouse gas emissions, which have been rising again since 2014. Therefore the granting of agricultural subsidies should be tied in future to the resolution of those environmental problems. That demand has not been implemented effectively so far. Furthermore, it is unclear how European added value, which is to be achieved through the EU agricultural budget, is to be defined or how achievement of the goals is to be measured. There is a risk that the problems already identified will remain unresolved after the 2027 financial period.

In view of the sharp **decline in the number of farms** (-22% between 2007 and 2013)[9] and the environmental problems caused by agriculture, BAK is calling for the budgetary funds for direct payments to farmers (EAGF or 1st Pillar) to be cut and the funds for rural development (EAFRD or 2nd Pillar) to be increased significantly (reallocation). Furthermore, public subsidies should only be given in future if measurable European added value can be identified. As mentioned above, that European added value should be clearly linked to the resolution of environmental problems, especially for the EAGF, since the area premiums financed hitherto do not satisfy that principle.

4. More equitable and effective disbursement of funds for rural development (EAFRD)

For Austria, payments from the EAGF (direct payments to farmers) and EAFRD (funds for rural development) account for the bulk of financial reflows from the EU. Over 70% of funds are earmarked for that purpose. Over 90% of the EAFRD is allocated to farms in Austria.

EU-Contributions and reflows **in million euros**	**2017** **provisional data**	**2018** **federal budget estimate**	**2019** **federal budget estimate**	**2017**	**2018** **as a %**	**2019**
Reflows to the federal budget	1 249	1 367	1 370	78,2%	79,7%	79,7%
Direct payments to farmers (EAGF)	*706*	*660*	*664*	44,2%	38,5%	38,6%
Rural development (EAFRD)	*478*	*563*	*563*	29,9%	32,8%	32,8%
European Regional Development Fund (ERDF)	*4*	*57*	*57*	0,3%	3,3%	3,3%
European Social Fund (ESF)	*27*	*55*	*55*	1,7%	3,2%	3,2%
other reflows to the federal budget	*34*	*32*	*31*	2,1%	1,9%	1,8%
Other reflows*	348	348	348	21,8%	20,3%	20,3%
Total reflows	**1 597**	**1 715**	**1 718**	100%	100%	100%
Vergütung für Einhebung v Zöllen (=EU-eigene Mittel)	45	49	50			

The budget of **the fund for rural development (EAFRD) must be distributed more equitably and effectively** so that all people living in rural areas can benefit. At least 50% of funding from this programme should be earmarked for cross-sectoral measures in rural areas in order to combat rural flight. **Modern infrastructure** in particular is needed. Overall one quarter of EAFRD subsidies should be earmarked for measures to improve social services (health centres, nursery schools and care) and to **expand digital infrastructure**. A further 15% of EAFRD funds should be provided for cross-community LEADER projects. Financial aid for urban areas or conurbations should also be included in the programme for rural development since that will create important economic stimuli and synergies.

The fund for rural development accounts for the major part of reflows from the EU budget to Austria. Every year the EU transfers around EUR 500 million; those funds are doubled by the Austrian government. This means that a billion euros flow each year into rural areas without the structural problems there, such as rural flight, being alleviated significantly. The Austrian programme for distribution of EAFRD subsidies should therefore also be revised in order to address the structural problems in rural areas.

Research and innovation – Horizon Europe

BAK welcomes the option presented in the MFF of a significant increase in funding for the future EU research framework programme titled "Horizon Europe" to EUR 97.6 billion, compared with EUR 74.8 billion in the current "Horizon 2020" programme.

It should also be noted that, in BAK's opinion, a further essential task of the framework programme must be to tackle the major social challenges facing Europe. These challenges should not be viewed exclusively in terms of competitiveness. The social dimension must be included so that the effects of employment and the social effects of the subsidised projects are also treated as criteria. To that end, the representative bodies of workers and consumers must be part of the planned **European Innovation Council**.

With a view to European added value being given more weight and of the current social and economic challenges facing the EU (including the massive imbalance in income and wealth), BAK has already called for a new priority to be established for the consultations on the next EU framework programme[10]. BAK has proposed a separate priority, with a fixed budget, with the possible title of "Securing social equality and inclusion" and refers in this context to a major OECD project on the subject of "Innovation for inclusive growth".

Education and training – Erasmus+

The increase in funding from EUR 14.7 billion (2014-2020) to EUR 30 billion (2021-2027) for the Erasmus+ education and training programme is highly positive, including in comparison with the history of other programmes. The European Commission will now undoubtedly allocate the corresponding financial resources, following the prioritisation of education and training in the previous programme. One purpose of doubling the programme budget is to triple the mobility of study and learning stays abroad from four to twelve million throughout the whole period. Whether that is achievable without impacting the quality or duration of stays abroad is doubtful.

Justice, Rights and Values Fund

The creation of a new fund for justice, rights and values is very welcome, in particular because its aim is to "promote, strengthen and defend" the following important values: respect for human rights, liberty, democracy, equality, the rule of law and the protection of human rights. However, with around EUR 120 million (at 2018 prices) allocated per year, it appears to be underfunded.

Migration and border management

If the opinion of the European Commission were decisive, the EU budget would play a decisive role in the matter of migration in "supporting the management of asylum seekers and migrants, in developing search and rescue capacities to save the lives of those attempting to reach Europe, in managing effective returns (...)"[11]. According to the proposed increase, funding for migration and border management will comprise around EUR 30 billion, corresponding to 2.7% of the financial framework. This means that the previous funding will be nearly tripled. BAK advocates focusing resources in this budgetary field on **alleviating the causes of displacement and involuntary migration**. That also includes **reviewing the EU's own paradigms** for trade policy, agricultural policy, climate policy and of course development policy. In view of the massive global importance of the European Union in terms of trade, it is incumbent on the EU to take responsibility for the social and economic effects in non-EU countries.

Security and defence

According to the Commission, around EUR 13 billion is to be earmarked for security and defence in the EU financial framework. However, that proposal prompts several questions. The aim is "to foster the competitiveness and innovative capacity of the defence industry throughout the Union by supporting collaborative actions at each stage of the industrial cycle, starting with research". However, the Commission then states that under certain conditions arms manufacturers in third countries can be subsidised. That runs counter to the aim of supporting the European defence industry, leading to the absurd situation that arms manufacturers from third countries will be supported by EU funds. Furthermore, research projects are to be subsidised at a rate of up to 100% and post-prototypes at a rate of up to 80%. Financing arms development by private arms manufacturers from public funds is certainly not in line with the concept of free competition. Such measures will also result in arms exports of European countries being indirectly subsidised from the public purse. BAK therefore rejects the plans of the Commission for the reasons given above and also because of the already tight budgetary resources and proposes instead that part of national defence budgets be allocated for coordination and cooperation between EU Member States.

Neighbourhood, Development and International Cooperation Instrument

A geographical focus of the Neighbourhood, Development and International Cooperation Instrument on neighbouring countries, Africa and the Western Balkan states may indeed be eminently sensible. In terms of thematic focus, **maintaining** and **establishing peace** and **human rights** must be given the highest priority. BAK takes a positive view of increasing funding for development policy. However, we are sceptical regarding the mobility of additional financial resources from the private sector since BAK is of the opinion that important development goals should not be subject to the profit-thinking of private companies via the privatisation route. A separate, non-budgetary financing mechanism in the form of a European peace facility would be a project worthy of support.

Public administration

BAK is in favour of sufficient financing for the public EU administration so that it is able to perform its often highly complex regulatory tasks (e.g. in the financial sector) **without extensive influence being exerted by private lobbyists**.

Rule of law in Member States

Unfortunately, some Member States have displayed a tendency recently to undermine the rule of law in Member States and hence in the Union as a whole. The processes enshrined in the Treaties to maintain the rule of law and human rights have proven to be ineffective or not practicable in this regard. We therefore essentially welcome the possibility of cutting or cancelling budgetary resources in cases where Member States violate the rule of law or human rights. Similar considerations should also be applied to those cases where Member States indirectly use EU aid to finance a low-tax policy or to act as a tax haven.

4. Financing system for the EU budget

It is not Brexit alone that represents a challenge to financing the EU budget. **Workers and consumers make a disproportionately high contribution to financing the EU budget** through high taxes on labour and consumption. Therefore, in order to ensure a fair inflow of funds on the revenue side, the EU budget needs a fundamentally new structure.

Unfortunately the Commission's proposal does not include measures that take that imbalance in raising funds into consideration. An **EU-wide financial transaction tax**, which would have involved the financial industry in financing the EU budget, is not feasible in the foreseeable future due to the opposition of many Member States and is therefore not mentioned by the Commission. Nor does the Commission present any proposals for tackling the problem of tax havens through now sources of income such as a tax for companies that are primarily active in the **digital sphere**. Many companies continue to transfer their profits to low-tax countries in order to avoid paying tax on profits.

Own resources on the basis of the **Common Corporation Tax Base** (CCTB) are essentially to be **welcomed** since they exert additional pressure on Member States to come to an agreement on this important question. However, in order to combat tax competition effectively, minimum tax rates must be set. However, it is highly questionable whether an agreement (within the Council) on harmonisation is realistic by 2020 or whether an agreement can ever be reached. Furthermore, it must be clarified whether the aim is for part of corporate taxation to flow into the EU budget. This part of the financing is therefore highly uncertain.

BAK welcomes simplification of the **Value Added Tax-based Own Resource**. The most effective simplification would, however, be to integrate the VAT-based own resource into the gross national income (GNI) financing, since the basis of the VAT-based own resource (private consumption, investments without input tax deduction etc.) is already part of GNI. The reduction of "collection costs" from 25% to 10% for customs revenue affects Austria to a disproportionately low degree since customs duties are scarcely levied compared to other countries. Nevertheless, particularly in view of declining customs checks, care should be taken that customs duties are not neglected.

The reference to the **Emissions Trading System** is also welcomed by BAK. However, while the ETS is still not functioning properly, i.e. while the price per metric ton of CO2 is still below five euros, that source of revenue will remain insignificant. It would make more sense to make the ETS as a whole work properly. If the Multiannual Financial Framework is intended to create the necessary political pressure, that would be a positive effect. However, the 20% of "of certain revenues from the total of allowances available for auctioning" cannot be viewed as a steering measure. Nor is it clear why aviation should be exempted.

We unreservedly welcome new own resources on the basis of **non-recycled packaging waste** brought into circulation (80 cents per kg). This is easily executable – at least for Austria – via the existing licensing systems. Thought should be given at to whether the contributions generated could be compensated by a levy on the players bringing the waste into circulation. However, we are critical of the lack of proposals to increase taxation on **shipping fuel and aviation fuel**.

As a whole, the proposed new sources of income for the EU budget fall short of the mark. They are to cover around 12% of the whole budget and hence are very modest. Expedient sources for obtaining own resources which could address cross-border challenges appropriately are disregarded. Furthermore, specific proposals are based on measures which could not be implemented to date at the EU level due to manifold opposition. The Commission's proposal has **not** utilised the existing potential for own resources **satisfactorily**.

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Footnotes

[1] See Handbuch Reichtum Nikolaus Dimmel/Julia Hofmann/Martin Schenk/Martin Schürz, StudienVerlag 2017; article titled "Reichtum in Europa" by Miriam Rehm and Matthias Schnetzer, pp. 80ff.,

[2] See for example: https://kurier.at/politik/ausland/mehrjaehriger-finanzrahmen-der-eu-startschuss-fuer-den-milliardenpoker/400029538

[3] See the Commission's communication titled "A Modern Budget for a Union that Protects, Empowers and Defends The Multiannual Financial Framework for 2021-2027", COM(2018) 321 final, p. 27

[4] See the blog post titled "EU-Budget nach 2020: erste Pflöcke zur europäischen Kohäsions- und Strukturpolitik werden eingeschlagen" by Elisabeth Beer, Maria Burgstaller and Silvia Hofbauer on awblog.at, 14 August 2017 https://awblog.at/eu-budget-nach-2020-erste-pfloecke-zur-europaeischen-kohaesions-und-struktur-politik-werden-eingeschlagen/

[5] See BAK's opinion of March 2018 on deepening the Economic and Monetary Union (EMU). http://akeuropa.eu/_includes/mods/akeu/docs/main_report_de_496.pdf

[6] See ibid.

[7] See Implementing the Golden Rule for Public Investment in Europe, Achim Truger, in: Materialien zu Wirtschaft und Gesellschaft, No. 138, March 2015, AK Wien (Vienna Chamber of Labour)

[8] ECA Briefing Paper, March 2018, pp. 9-10. https://eca.europa.eu/Lists/ECADocuments/Briefing_paper_CAP/Briefing_paper_CAP_DE.pdf

[9] See Eurostat – Farm structure statistics, http://ec.europa.eustat/statistics-explained/index.php/Farm_structure_statistics/de#Die_Gr.C3.B6.C3.9Fe_der_landwirtschaftlichen_Betriebe

[10] See BAK's position paper dated 23.11.2016

[11] See the Commission's communication titled "A Modern Budget for a Union that Protects, Empowers and Defends The Multiannual Financial Framework for 2021-2027", COM(2018) 321 final, p. 16

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