EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Tuesday 3 February 2009

Session 3

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EUROPEAN AND EXTERNAL RELATIONS COMMITTEE
3rd Meeting 2009, Session 3

CONVENER

*Irene Oldfather (Cunninghame South) (Lab)

DEPUTY CONVENER

*Alex Neil (Central Scotland) (SNP)

COMMITTEE MEMBERS

*Ted Brocklebank (Mid Scotland and Fife) (Con)
*Keith Brown (Ochil) (SNP)
*Patricia Ferguson (Glasgow Maryhill) (Lab)
*Charlie Gordon (Glasgow Cathcart) (Lab)
Jamie Hepburn (Central Scotland) (SNP)
*Jim Hume (South of Scotland) (LD)

COMMITTEE SUBSTITUTES

Jackson Carlaw (West of Scotland) (Con)
Ken Macintosh (Eastwood) (Lab)
*Gil Paterson (West of Scotland) (SNP)
Iain Smith (North East Fife) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

◊James Elles MEP (Conservative)
◊Bill Newton Dunn MEP (Lib Dem)
◊Stephen Quest (Cabinet of the Commissioner for Financial Programming and Budget)

◊by video link

CLERKS TO THE COMMITTEE

Lynn Tullis
Simon Watkins

ASSISTANT CLERK

Lucy Scharbert

LOCATION

Committee Room 1

Scottish Parliament

European and External Relations Committee

Tuesday 3 February 2009

[THE CONVENER *opened the meeting at 10:32*]

European Union Budget Review Inquiry

The Convener (Irene Oldfather): Good morning, colleagues, let us make a start. I welcome Mr Bill Newton Dunn.

Bill Newton Dunn MEP (Lib Dem): Good morning and thank you.

The Convener: Thank you for agreeing to speak to us this morning. I understand that your colleague, James Elles, is running a few minutes late, but we have to go to Brussels by videoconference at 11 o'clock, so if it is all right with you, we will make a start while we wait for Mr Elles to arrive.

Bill Newton Dunn: I would love to start. We have to vote upstairs in the chamber on the hour, so I will need to run, too.

The Convener: Okay—so we need to keep to time this morning. I understand that both you and Mr Elles want to make short opening statements. I am happy to hand over to you for an overview from your perspective of how negotiations are going and what the European Parliament's thoughts are on the Commission's budgetary reform programme.

Bill Newton Dunn: I remind members that I cannot speak for James Elles. I am a Liberal Democrat and I represent the East Midlands. I am in my fifth term at the European Parliament, as is my absent colleague James Elles, who is a Conservative. I am a member of the Committee on Budgetary Control and we look back on previous years' spending to say whether money was badly or well spent and what needs to be done better. James Elles is on the Committee on Budgets, which plans ahead. We should be able to complement each other so I am sorry that he is not here.

I will make two brief points. One is about the notes that I got from the Scottish Parliament's European officer, Ian Duncan. I was asked to comment on the principle of juste retour, of which Mrs Thatcher was a proponent in those awful years when she was Prime Minister and she wanted her money back. The concept of juste retour is not recognised by the European Union. In Scotland, in the United Kingdom and in every other society, the rich pay more tax and the poorer receive. In that way, we try to have a just society. The principle that the richer countries should pay out more because we are lucky enough to be richer and hope to improve the society of less developed countries exists in Europe as well as in the European budget. The principle of "getting my money back" does not exist and is not a sensible policy in any political society.

Ian Duncan also asked me to say something about the principle of added value. In my view, the EU exists to improve cross-border problems—[*Interruption.*] My colleague, James Elles, has arrived. I will finish my introductory statement and then hand over to him.

If problems are purely national—purely Scottish, for example—responsibility rests locally, but there are lots of examples of cross-border situations in which the EU can add value. One example is research and development. We do not want 27 member states to do the same basic research on one subject—it is much better if the Commission intervenes and facilitates countries' building on top of one another's efforts rather than all 27 working at the same basic level.

I examine policing. Europol—the European Police Office—is a little body in The Hague in the Netherlands that collects information and tries to co-ordinate the work of national police forces everywhere. If it did not exist, the still very bad co-operation between police forces across borders would be even worse. Europol is a good example of added value.

Before I hand over to James Elles, I offer a third example of where value can be added: the space research that is carried out by the European Space Agency. It is much more effective if European member states do specific research—we get much better results than we would if 27 of us tried to explore the outer reaches of space on our own. That is enough from me—time is racing by. It is my pleasure to introduce my friend, James Elles.

James Elles MEP (Conservative): I am sorry to be a little late—although perhaps I am just on time. I will make three particular remarks based on my experience as a member of the Committee on Budgets of the European Parliament for the past nearly 25 years.

My first point is that over that whole time, we have seen the budget become smaller as part of the gross domestic product of the European Union, such that in 1992 it was about 1.1 per cent of GDP and, as we know, it is now below 1 per cent. During that period, less has been spent on agriculture, so more has been spent on other policies. We have seen a huge development of multi-annual programmes, external programmes that did not exist in the Union in the late 1980s and educational programmes that were spawned during that period. There has been a huge change in the past 25 years.

Secondly, I think that the committee is interested to know a little about the role of the European Parliament in the budgetary process. The European Parliament has the final say on expenditure in such areas as external and education policies, which are what is known as non-obligatory policies. Therefore the European Parliament's influence in shaping the budget of the European Union has increased rather than diminished during the past 25 years. We have also gained in legislative authority and find that many of our amendments are accepted in final legislation.

As part of that action, I have been one of those who has been campaigning for value for money. I have been twice general rapporteur for the EU budget. We now take much more care of moneys that we spend because we want them to be accounted for—the search for the holy grail, you might say, which is a statement of assurance, which has eluded the EU since its adoption of the Maastricht treaty in 1995.

My next comments refer to the budgetary review. Fortuitously, I have downloaded the draft that we will discuss in the Committee on Budgets over the next month or so as we set out our views on what is likely to happen in the mid-term review. That falls into three areas that we can pick up in discussions. First, there is now a three-step approach of resolution of deficits, dealing with problems of mid-term evaluation and preparing for the next multi-annual framework.

Secondly, we set out some general principles, such as what gives value for money at a European rather than national level, as Bill Newton Dunn mentioned. We might need to have a bigger debate about that so that we are not always seen to be duplicating in areas in which we might take better action at European level. It might also be that some matters that are dealt with at that level should go back to member-state level.

Thirdly, we need to consider the report's observations on how we are going to handle the calendar, given that we are unlikely to have the Commission's document on the mid-term review before August. I do not need to tell you that there is another date in the autumn that will be of great sensitivity, which is the potential Irish referendum. There is therefore political uncertainty about how the mid-term review will be handled.

Paragraph 16 of the document says that there might be a short-term review of energy security and climate change. That is particularly relevant to us in the United Kingdom, because we might be able to get some kind of deal done. Otherwise, it seems that the mid-term review might get folded into the long-term review of the renewal of the financial perspective to 2013.

The Convener: Thank you for those opening remarks. I will start with a general question. Both of you have been involved in the process for many years. Our understanding from some of the evidence that we have taken is that, too often, we make last-minute deals behind closed doors. Part of the Commission's thinking in considering reform of the European budget and trying to look ahead to 2025 rather than just holding mid-term reviews is to consider the policy priorities and challenges that lie ahead. Do you have any thoughts on what you regard as being the key two or three policy priorities for us, as Europeans, in addressing a future budget in, say, 2025?

James Elles: First, no European Union member state has a process that looks as far into the future as 2025. The only place where that happens is the National Intelligence Council, which has just released a document called "Global Trends 2025: A Transformed World". You can download a copy from the web; it was published in Washington on 20 November. That report gives an American view of how things will evolve in the future. It divides things into relative certainties and things that will happen, albeit that we do not know when. I will mention two points from that report that are relevant to us in Europe because the trends are under way.

The first point is that a huge economic shift from west to east is a relative certainty because the Asians are under less pressure in the global recession. It was odd to see the Chinese Prime Minister in London yesterday saying, "We are struggling to achieve 8 per cent growth." If he calls that a recession, his definition is odd.

The second point is that the transition from fossil fuels to renewables will inevitably happen during the period to 2025. Fossil fuels will become scarcer and more expensive, so we will have to adapt our economies and perhaps shape policies in favour of more independence in energy, rather than relying on the Russians for gas, or on the middle east for oil.

I agree that it will be difficult to set budget policies for seven years ahead unless we have an idea of the kind of policies that we want to implement. The sooner the European Union has at its heart a long-term planning process that is independent of the policy process and which can do what the National Intelligence Council has done, the better.

Bill Newton Dunn: I am keeping an eye on the clock, so I will comment briefly.

One area in which the EU will undoubtedly have to do much more is the problem of fighting cross-border crime. The fact that the EU has open borders is a beautiful and good thing because it helps trade and helps citizens to move around, but international criminals—who often work from outside the EU, but sometimes also from Sicily and places like that—work across borders very effectively. We all have the same problem. Our police forces are either local or national and none of them has the power to cross a border.

The criminals are working in the top league, whereas our police forces are handicapped and are playing in a much lower league. I do not know whether any committee members have seen the film “Bonnie and Clyde”, which is great entertainment. In the 1930s, Bonnie and Clyde robbed banks in the southern United States of America and got away with it for a long time because they crossed borders with the cash. There was a need for a police force that could cross borders, which is why the Federal Bureau of Investigation was started. We have reached that moment in Europe. It might be a controversial suggestion, but I do not mind. I am convinced that we have to create an EU cross-border police force, which will probably be developed from Europol.

10:45

Another area we must consider is climate change. Who knows how that is going to develop? I take it very seriously and I suspect that in Europe we will together have to spend more in that area.

There is also the question of enlargement. We have 27 member states at the moment, but that is nothing like the end. The Balkan countries—Serbia, Bosnia, Albania and others—are keen to join, not to mention Turkey. I suspect that that will bring new changes for which we have not so far planned.

The Convener: That might be a useful point at which to bring in Ted Brocklebank, who is a Conservative member.

Ted Brocklebank (Mid Scotland and Fife) (Con): Good morning, gentlemen. I would like to return to the issue of juste retour, which Bill Newton Dunn mentioned before James Elles came in. Philosophically, we might all agree with Bill’s comment that it is right and proper for richer nations to help poorer nations to develop, but he did not put forward any concrete ideas or mechanisms for how we are to achieve that, given the human nature of the various participants in the agreements. I wonder whether James Elles has any thoughts on that.

James Elles: Our imbalance in the UK comes from the fact that we contribute a percentage as a large country but we do not get back as much as other countries because we do not have such a large agricultural sector. I will make a guess about what will happen in the next four or five years, given the music that is coming from Paris and what Sarko is saying. I believe that they will be prepared to go for a further amendment to the agricultural policy, which will then diminish our need for budgetary corrections in the UK. Yesterday evening, I was talking to someone who is close to Sarkozy in Paris—the French want some significant changes in how the funds operate. Given that funds are scarce both nationally and at Europe level, how can we use them to boost competition, innovation, ideas and skills, rather than necessarily spending large sums on regional policy? I am certain that that debate will continue.

We will never have a budget under which everyone gets out exactly the same as they put into it. It is right that smaller countries should be helped, but not indefinitely. Eventually, Portugal will run out of land for runways, motorways or whatever. There is a limit to the amount of infrastructure that one can create, so the process is a finite one.

Bill Newton Dunn: I do not disagree. It was clearly a mistake that Britain failed to join up in 1957, when the treaty of Rome was drawn up. Subsequently, the common agricultural policy was drawn up and it did not suit the UK. We are still paying for that today. Of course we need to change the basis on which member states contribute to the Union’s budget. The problem, which we have also seen in the efforts to get the Lisbon treaty through, is that unanimity is required. It will be difficult to get all 27 member states to agree on a new way of financing the EU.

The Convener: That is indeed quite a challenge.

Jim Hume (South of Scotland) (LD): Good morning. James Elles mentioned that less is spent on agriculture in the UK, but the CAP budget is pretty similar. Of course, CAP money is now being used on different streams such as rural development and communities. Are a lot of member states willing to reform the CAP and move budget away from it? How do you see CAP post 2013?

James Elles: Before I came to the European Parliament in 1984, I spent four years as assistant to the guy who ran the agricultural markets from day to day, and before that I was a trade negotiator in the Tokyo round. I have therefore seen agricultural policy develop, where before there were superlevies and quotas in the milk sector. What we have today is a very different type of animal: I am certain that, in another 10 years, it will be different again.

There have been one or two major changes in the past decade, including a shift from direct subsidies to rural subsidies to the environment. As Bill Newton Dunn suggested, everything we know about climate change and the environment suggests that we will be led even further in that direction. We are some way from a New Zealand situation, in which there are no direct subsidies at all, but I am convinced that there is a will to get to that position.

I will make a general point that has not yet been made. We are in the worst economic crisis since the second world war; in fact, the present crisis is similar to the one that arose in 1930-31, following the fall of the stock markets in 1929, after which people tried to up their economic game through protectionism. Given that, we will in the next two or three years be in a world that is very different from the one that we have been in for the past 20 years. I am beginning to sense that considerations such as those to do with agriculture reform, whether the structural funds will be reformed and whether we will have a mid-term review will not be at the top of the system because, to be honest, one can envisage upheavals in the euro before the end of the year, as some member states are finding it difficult to keep their economies afloat. We are moving into a different environment.

The Convener: Do you want to comment further on that, Bill?

Bill Newton Dunn: No—I am conscious of the time. James summed up the situation perfectly.

The Convener: Okay. Alex Neil is the committee's deputy convener.

Alex Neil (Central Scotland) (SNP): Good morning, gentlemen. How radical can reform of the budget be, given the commitment to the CAP? It is clear that there are significant contradictions in how the EU operates. I will give two examples. The first is the fact that provision of subsidies to coal-fired power stations is allowed in Germany—to the tune of €5 billion a year, I think—while a lot of money is spent on dealing with climate change. The second relates to the impact of the CAP on developing countries, particularly in Africa. At the same time as we rightly try to help many African countries get out of the poverty and deprivation from which they suffer, we operate an agricultural policy that is extremely damaging to those countries. Will an attempt be made to address those contradictions at the heart of EU spending?

James Elles: We could add a third contradiction relating to tobacco. Tobacco farmers get about €1 billion a year out of the EU budget, while the health council does its best to prevent people smoking and bans are imposed on smoking in public places. There are always contradictions, whether one takes a European, a national or, dare I say it, a Scottish perspective. We are examining trends.

The Doha development round did not succeed because agriculture still remains a major sticking point—the thrust is to remove export subsidies from the system. Over the past 10 years, the figures have decreased significantly, so the shift to spending on the rural environment, on environmental schemes and on different ways of using the land—which we in the UK have favoured—is clearly the direction in which the EU is moving, although I would not wish to predict just how fast the process will be, given that the rather broader concerns of saving the global financial system and saving people's jobs will be right at the top of the agenda for the next 12 months, if not longer.

Bill Newton Dunn: I will just add that the committee knows as well as we do that a budget is a compromise when one party does not control the whole thing and cannot force its budget through. Given that there are 27 nationalities in the European Parliament and that no single political family group has a majority, deals have to be struck and coalitions put together to get the budget through, with the result that we get lots of anomalies. The most famous of those relates to tobacco production, which we both support and try to stop. However, that is the nature of politics; I do not need to explain that to anyone at the committee's end.

Alex Neil: That is a topical issue in Scotland, given the budget vote that we had last week. I am sure that our Opposition friends will come round this week. As you say, that is the nature of the beast with a minority Government.

The Convener: I am interested that you raised the issue of tobacco subsidies. I know that the European Commission decided to reduce tobacco subsidies in the present budgetary framework, but I understand that the European Parliament recently voted to continue with them until 2013. It would be helpful for us to know whether that is the case. Can you update us on the position?

James Elles: I cannot remember the precise vote but, under the framework, tobacco subsidies will still be paid up to 2013, particularly to farmers in Greece on the border with Bulgaria, who say that the terrain is such that there is nothing else they can do with the land. The mood is that we should phase down tobacco subsidies because to do otherwise does not make sense when we are banning smoking in public places, as member states are doing increasingly under EU directive. When one makes policy changes, there are always bumps in the road, but the longer-term trend on tobacco subsidies is that they will be diminished and that the European Parliament will support that process.

Bill Newton Dunn: One problem that we are confronted with is that the Greeks ask us what else their farmers are expected to grow in that extremely unpleasant terrain and whether we want to just throw them out of work. They say, "Don't you care at all, you heartless Brits?" so we say, "Oh, well. Okay." The other problem is that they argue that their tobacco is EU produced and is not smuggled tobacco, such as comes in from the Ukraine in large amounts. In the deals that are made, the Greeks make arguments for tobacco subsidies. We vote against them and we regret that they still get through.

The Convener: Both of you mentioned the current financial crisis and I think that Bill Newton Dunn identified the importance to a budget of the principle of flexibility. Is the budgetary process flexible enough to accommodate measures to address the recent financial crisis, or should we build in further flexibility as we look ahead at reform?

Bill Newton Dunn: We would love more flexibility. The Lisbon treaty is part of that process. The original rules for the EU were drawn up when it had only six member countries. The growth of the EU has been a great success story, but there are now 27 member countries and we need new rules. The Lisbon treaty is an attempt to streamline decision making, but that is proving to be extremely difficult to do because the treaty must be agreed unanimously. Any way of improving flexibility that the committee could suggest would be gratefully received.

James Elles: Flexibility is mentioned in paragraph 12 of the document that the Committee on Budgets will be debating in the next few weeks. It says that

> "more flexibility within and across headings is an absolute necessity for the functioning capacities of the Union not only to face the new challenges of the EU but also to facilitate the decision-making process within the Institutions".

The programme to do with the European recovery of its €5 billion or so, which we will also discuss shortly, makes me feel a little bit uncomfortable. Twelve months ago, I thought that €1 billion was a lot of money, but now that the US Government has come up with $800 billion, one begins to get a little bit lost in the process if one is not careful to keep one's feet firmly on the ground. From an EU point of view, we must always say that we should take only measures that add value as regards not only implementation but additional funding.

I come back to an issue that I strongly urge you to take up at UK level, which is that we should have in place long-term planning systems to protect the sums of money that we will need in order to implement the 2020 agreements on climate change. Everyone took those decisions, but we are only now coming to understand what they will cost in terms of renewables and the carbon-trading system, which at the moment is not included in EU revenue, even though it is an EU system with an EU legislative base. There are many issues to discuss, but what is fascinating is that, as long as we look at the long-term trends, that will change the nature of our priorities and of our funding base.

The Convener: Would either witness like to make any final points? I am looking at the clock and I see that you have one minute before you have to leave for your vote.

Bill Newton Dunn: The only thing I would say is that we are always delighted to talk. The more we talk together, the better the results will be—I hope. It has been an honour and a pleasure for me to appear before the committee today.

James Elles: As someone who went to the University of Edinburgh, it is always a pleasure to talk to Scots; I am always very happy and feel very much at home in doing so.

When we come to discuss the mid-term review, there are two areas in the budget that seem to be chronically underfunded: area 1-A, which is on research, and category 4, which relates to the EU as a global partner.

Increasingly the EU is deciding on things such as help for Gaza, Afghanistan and Iraq but is then scrimping and saving on the existing lines. The more clarity we can get about what we are doing in our policy, the easier it will be for politicians at European, national and regional levels to take the appropriate and necessary decisions for their constituents.

11:00

The Convener: Thank you very much. At that point, we must conclude our discussion. We appreciate your taking time out of your busy schedules to come and speak to us today. At some point, we must visit you in Strasbourg to have longer discussions.

I suspend proceedings for a few minutes while we prepare for the link-up to Brussels.

11:00

Meeting suspended.

11:03

On resuming—

The Convener: I am pleased to welcome to the committee, by video link, Stephen Quest, the head of the cabinet of the European Commissioner for Financial Programming and Budget, who is responsible for the co-ordination of the Commission's response to the budget review. I also welcome Jennifer Brown, from the directorate-general for budget at the Commission. We are grateful to you for taking the time to speak to us. I understand that Stephen Quest will make a short opening statement.

Stephen Quest (Cabinet of the Commissioner for Financial Programming and Budget): Thank you for the invitation to meet the committee. I will take a couple of minutes to make a few opening remarks. I see, from the material that I have been sent in preparation for the meeting, that you are already quite well briefed on the budget review, so I will keep my remarks short and will then be happy to answer your questions. I will make three opening points in talking a little about the process of the budget review that we are undertaking; about some of the key messages that are coming out of the budget review consultation process; and about the next steps in the budget review.

I will start with the process that we are following. As you probably know, we received a mandate from the European Council in December 2005 to carry out a budget review. That mandate was agreed at the same time that the current financial framework was put in place. It is quite a far-reaching mandate to carry out a thorough review of all aspects of the European Union's budget, on both the expenditure side and the revenue side.

The first thing that we did was launch a wide-ranging public consultation, which ran through 2007 into June 2008. For us, it was an unprecedented step to hold such a wide-ranging consultation on the EU budget. We received a good number of responses from a broad range of representation, so we are happy with the process that has been followed in that sense. The public consultation concluded in November with a major public conference to close the consultation and start to draw out some of the messages from it. That conference was well attended and was quite useful to us in drawing together the key issues that had emerged in the consultation process. Now, we are near the end of the budget review process. We are at the Commission's internal thinking stage, at which we are starting to pull together the results of the consultation and some of the other work that we have been doing in preparation for the publication of the budget review later this year.

I will highlight three of the main messages that have come out of the budget review process. The first is a general support for the approach that the Commission has taken on the budget review. In particular, a lot of consensus has emerged around our focus on the issue of EU value added—ensuring that we extract the maximum value added through the EU budget. There is support and consensus around the idea that the budget review should be policy driven rather than merely financially driven. So, we should start by considering what policies should be supported at the European level through the budget and then talk about the money at a later stage.

The important point, from our perspective, is that the budget review is not a proposal for the next financial framework. It is a preparatory step, but it is a separate step from the next financial framework, which will not really be discussed until the end of 2010 and 2011. Another issue that has emerged clearly, on the approach of the budget review, is that the priority policy themes that the Commission set out in its consultation paper have received fairly broad support. There is emerging consensus that the type of policy priorities that we highlighted in the consultation paper are the right set of policy priorities to be focused on in the context of the European Union's budget.

On the expenditure side of the budget, there is emerging consensus that the key forward-looking priorities at the European level are around issues such as competitiveness, growth and jobs, combating climate change and energy, including the security of supply and so forth. Those emerged clearly from the consultation as issues that European citizens and governmental and non-governmental organisations consider to be important.

The other issues that were hotly debated in the consultation were the more traditional areas of European budgetary spending: on the one hand, the common agricultural policy and, on the other hand, cohesion policy. Perhaps unsurprisingly, views differ more widely on the future direction of European spending in those areas. There was an interesting and quite useful debate about both those policy areas.

On the revenue side of the budget, two key messages came out of the consultation. First, there is broad consensus that we must do all that we can to eliminate the need for correction mechanisms in the revenue side. Secondly, there are a lot of ideas out there for ways in which we can adjust the revenue side, simplifying and streamlining the financing side of the EU budget. However, each of those possible improvements or simplifications of the system would bring its own consequences and would perhaps have some difficult political issues hiding behind it.

I am being very schematic, but those are some of the key issues that emerged from the public consultation on the budget review.

I turn to the next steps and where we are as we start to finalise the process. We have a commitment to produce the budget review paper by the end of 2009, which is a rather complex year politically in Brussels because, as well as the European Parliament elections in May and June, we have institutional change—2009 is the final year of this Commission's mandate. We are still discussing the Lisbon treaty and waiting for the Irish referendum later in the year. There is the broader economic context of the current crisis to consider and there are many other major political issues on the agenda, including the climate change discussions. It is a difficult political calendar for us to navigate through.

The question of when would be the optimum moment for the Commission to produce its budget review proposal is therefore still under discussion in Brussels, but I can tell you that it remains our intention to produce a forward-looking, ambitious and, we hope, far-reaching paper that will play an important role in helping to build consensus and to prepare the ground for the next phase of discussions, which will be on the financial framework after 2013.

I hope that that has been of some help in setting the scene. I am happy to take your questions.

The Convener: Thank you very much. I will invite questions from my colleagues in a moment.

I imagine that building that consensus must be one of your most difficult tasks. I know that it is easy to sign up to policy principles as we sit round the table as politicians, but then we have to go back home and demonstrate what added value that will bring for our citizens. Added value and the new policy challenges are two of the issues that you are thinking about. How would you go about measuring whether a policy added value so that you could build and work on that consensus?

Stephen Quest: Answering that question is our key challenge. The European treaties give us some help, of course, because they set out some common policies, on which EU-level action is seen to be a priority. There are other areas in which it is clear that the EU has little direct competence, so one would logically expect less involvement of the EU budget. We must examine the in-between areas.

The key for us is to find a clear set of criteria that we can use in assessing where we can take better and more effective action at EU level than we can at national level. We need to ask where we can get leverage at European level by pooling resources and what initiatives can genuinely only take place at European level because they involve cross-border co-operation. An easy example to give is that of a research project that involves the participation of three, four or five research institutes in different member states. It is difficult to imagine such transnational projects taking off without some European-level stimulus and priming mechanism.

Part of the exercise that we have been going through—quite a lot of technical work has been done on this—is to identify the criteria for assessing a policy and enabling us to say whether action at European level will clearly add value or whether the case for such action is less clear, with the result that we should leave the matter to action at national level. Those are the judgments that we will have to make and which will, ultimately, fall to the Governments of the member states to make once we have presented our proposals.

The Convener: One of the contradictions that you have mentioned relates to the issue of juste retour. Does the Commission have any thoughts on how that might be addressed?

Stephen Quest: Yes. Juste retour—fair shares, as it were—is an extremely tricky issue. If one were to take it to its extreme, it would mean that everyone got out what they paid in. In such circumstances, one would wonder what the point of the European Union budget would be.

We are working hard to avoid the temptation to fall into the juste retour approach. That is why we have pushed hard the idea of a policy-driven approach to the budget review, in which we do not look so much at the money side of the equation but at what we need to do together, at European level, to advance the shared European agenda. That might be promoting growth in jobs, combating climate change, promoting security of energy supply or any other of our priorities. If we can build a clearer consensus that those are the priorities that require action, it is hoped that at that point the financing side of the equation will be slightly easier to manage, and that we may avoid falling into the trap of the juste retour, which has poisoned the budget debate in the past.

11:15

The Convener: There are many questions that I would like to ask, but I will open up the questioning to my colleagues. First, we have a question from Gil Paterson, who is a Scottish National Party member of the committee.

Gil Paterson (West of Scotland) (SNP): I paid particular attention when Stephen Quest said that he wanted to do things better. Has the Commission considered the cost of uprooting every six months and shifting from Strasbourg to Brussels? What would you save if you stayed in one place?

Stephen Quest: The movement to Strasbourg is connected to the seat of the European Parliament, which moves between Brussels and Strasbourg. The Commission is required to be present when the Parliament is in session. In a narrow sense, that is not a question for the European Commission; it is more a question for the European Parliament. The decision on the seat of the European Parliament has been taken by the heads of state and Government. It is rather a difficult question for me to answer, other than to say that there is clearly a cost attached to those movements. However, although that decision is taken knowing that there are such costs, it is taken for other reasons, including political reasons. In relation to the overall size of the European Union budgets, the costs of that operation are probably marginal.

Gil Paterson: My question is whether anyone considered the costs in principle. Did anyone take a stab at it? Ordinary people throughout Europe cannot believe what goes on. The costs might seem small beer to people in the Commission, but ordinary people in the street do not understand why we should not at least consider the issue, particularly at the moment.

Stephen Quest: The question has been on the agenda in previous discussions, although it has not been an issue in the context of the budget review exercise that we are discussing today. That is my short answer. It has been discussed in the past, and it may well come back for discussion in the future.

Ted Brocklebank: Will you comment on the responses, particularly from the richer member states, which say that some areas of spending should be renationalised and that the budget responsible for funding regional developments could be handled at the national level rather than the European level?

Stephen Quest: One idea that has come up relates to the size of the structural funding and the distribution of that spending. The issue has arisen because that funding is around one third of the European Union budget. It is a difficult debate. It has been argued that it is of interest at European Union level for there to be solidarity between the richer and the poorer member states. It therefore makes sense—and it fits with the treaty—that there should be a flow of money from the richer to the poorer member states to help poorer regions and countries to catch up. In that sense, there is less of a case for flows of money to richer member states and to regions in richer member states, although that is currently the way in which the system works.

A question that has been asked is, "What is the balance between the flow of money to the poorer regions in the poorer member states and the flow of money to richer regions?" That issue will be a red thread that runs throughout the process until the next financial framework is agreed. It is clear that it will be an area of discussion and a potential source of tension. We will have to get to grips with the issue.

Ted Brocklebank: It could be argued that although Britain is one of the richer member states, parts of north Scotland and the islands are extremely poor and require assistance. That must be taken into account. Nations are not necessarily entirely rich; they include poor areas.

Stephen Quest: That is absolutely the case and of course we are conscious of that. Regional policy as it stands at European level carefully takes account of regional disparities in member states. The issue will certainly be on people's minds as we consider the future of the European Union budget. I would not want to speculate about the answers that might be arrived at, because we have much discussing and negotiating to do.

One line of discussion is about whether we should consider levels of national wealth or focus more on regional and even subregional wealth levels and target funds more precisely on regions that most need support. Should we categorise countries at national level and simply say that overall a country is richer or poorer and will therefore receive different treatment? Such matters will need to be considered carefully and discussions are still going on.

The Convener: I guess that there is no expectation that we will raise a huge amount more than we currently raise. If the amount that we raise is to remain fairly stable, the issue is how we spend better within the priorities. I think that as part of your review you are considering how we raise money. The idea of a European tax has been mooted, but probably would not receive sufficient backing from member states. Will you talk us through some of the scenarios for raising revenues?

Stephen Quest: I can try to do so. Revenues are raised through a mix of different sources of what we call in Brussels jargon "own resources". The largest part is generated as a proportion of each country's gross national income resource—it is known as GNI resource and is in essence a pro rata payment. That is topped up with VAT receipts and traditional resources from customs duties and agricultural duties, which were the original source of own resources in the early days of the Community.

A suggestion in the consultation is that the system could be simplified by merging the GNI resource and the VAT resource and in effect removing the VAT resource, because it is a reasonably complicated system to run and is relatively small compared with the GNI resource. Such a simplification would have advantages and disadvantages.

Let us move beyond the current system and consider alternative sources of revenue to complement or replace existing sources. One avenue is consideration of more targeted ways of raising revenue, for example through emissions trading regimes or green taxes on airline tickets. There is a panoply of possible sources of sectoral revenue-raising devices, each of which has advantages. A notable advantage of the approach is that we would start to link the raising of revenue with the achievement of a policy goal. For example, in the case of green taxes or emissions trading, an environmental goal would be advanced while revenues were being raised.

The revenue-raising devices carry complex issues regarding the distribution of the tax base around the EU and the differential effects between countries, depending on the sector. Beyond that, there is perhaps the most ambitious and challenging idea of a European-level tax. That idea is obviously politically charged and would be the most ambitious step to take in the current political climate, so it is probably not on the short-term agenda.

The Convener: We have been talking about reforming the European budget for many years now. We have just taken evidence from MEPs in Strasbourg who pointed out the contradiction of providing subsidies for growing tobacco while trying to promote a healthy living agenda but, despite the obvious contradictions between certain policies, it has been remarkably difficult to obtain agreement on reform. If the budget pot stays more or less the same, and given the background of the difficulties of CAP reform and tobacco subsidies, how confident are you that you can reach agreement with member states on the new priorities, policies and challenges that you put forward?

Stephen Quest: Reforming the EU budget is a challenge, and it is difficult to be optimistic about it given the background that you described. It will inevitably be a slow process that is more like turning round a supertanker than turning round a speedboat. We do not underestimate the challenges, which is why we have been careful in the consultation process to focus on the policies rather than the money and to try to build consensus on what we should do. I hope that we can use that as a lever to move things forward.

There are grounds for optimism, even in the current budget. There are positive movements in the way that the current financial framework operates, and the current budget has a greater focus on growth and competitiveness than previous budgets. Some of the more forward-looking and modernising elements in the Commission's proposal for the current financial framework are starting to have an effect. For example, there is an increase in financing for external relations and significant increases for justice and home affairs, although relatively speaking they are still small amounts of money.

There have been significant increases in areas where Europe can add real value and which are priorities for European citizens. The challenge for us all is to continue to push the positive, modernising, forward-looking aspects of the reform while taking with us some of the more traditional priorities of the EU budget and the EU as a whole, because we will clearly need to strike a balance and bring everybody with us.

The Convener: The current economic crisis has demonstrated that we need flexible budgets. Is there sufficient flexibility in the system and, if so, can we build on that as we look ahead to reform?

Stephen Quest: Yes. Flexibility is very important and, again, the glass is half-full and half-empty. When the Commission proposed the current financial framework, it was looking for more flexibility than we got in the final deal. However, the positive side of the equation is that the budget as it stands has a number of mechanisms to enable us to respond to crises within the EU or outside. We have a new instrument called the globalisation adjustment fund, which was created to respond, under certain conditions, to the impact of globalisation in certain industry sectors in any member state that is affected. We have a solidarity fund that deals with natural disasters and emergency relief, and we have many external aid instruments to respond rapidly to disasters.

There is a tension in the budget between the natural desire of member states to have stability and predictability and to limit expenditure, which tends to lock things down rather rigidly, and the need over a seven-year period to respond flexibly to new developments and new policy needs. Striking the balance between stability and flexibility is difficult, and the Commission's viewpoint is that a little more flexibility would be welcome. We are working hard to do what we can, given the existing flexibility, but we will continue to push for increased flexibility in the management of the budget within an agreed perimeter.

11:30

The Convener: Last week, when we took evidence from representatives of the European Policy Centre, I raised the issue of flexibility and noted that the European solidarity fund and the globalisation adjustment fund were good examples of how it is possible to respond to asymmetric shocks in regional economies. They pointed out how the underspend within the budget could effectively be used to respond to such situations. Do you have any views on that?

Stephen Quest: Obviously, we work hard to avoid underspending in the budget. One of the prime objectives of the European Commissioner for Financial Programming and Budget is to ensure that the agreed budget is fully executed. Within that, as with any national budget, it is also clear that there is money that one thinks that one will be able to spend but which, ultimately, one cannot spend for various reasons. The ability to recycle that money and target it towards emerging priorities is important.

In that respect, I draw your attention to the proposal that we have made in the context of the European recovery plan to reprioritise €5 billion of unspent funds from the agriculture sector into projects to help boost spending in energy and infrastructure across Europe. That is a good example of our attempts not only to increase slightly the flexibility in the budget but to increase the responsiveness of the budget in the face of the crisis that we are confronting and to use all the resources that are at our disposal.

The Convener: In our earlier evidence session, James Elles MEP told us about the difficulty of looking ahead to 2025. Given that, a couple of years ago, no one could have predicted the current financial crisis, is it realistic to be looking that far ahead in terms of budgetary challenges?

Stephen Quest: It is difficult, but we have to make the effort. We are confronted with the need to work within long-term financial frameworks, which impose a certain rigidity and lack of flexibility. As you rightly pointed out, we could not have foreseen in 2004 and 2005, when we were adopting the current financial framework, the situation that we are in now. Therefore, it is difficult to imagine that at this point we can foresee everything that will confront us in the future.

We need to consider the major trends and ensure that we are directing the budget increasingly towards meeting the challenge of those future trends. Issues such as climate change, energy use, growth and competitiveness will be with us in the medium to long term, so it is a safe bet to focus on those challenges, but we need to complement that work with enough flexibility to ensure that we can respond to the additional new challenges that will inevitably confront us.

The Convener: The European Policy Centre identified the demographic challenge as possibly the most significant one. Do you agree?

Stephen Quest: In policy terms, the demographic challenge is high on the agenda. The Commission has been working on it for some time as it has implications for our long-term competitiveness and for a number of issues at member-state level, such as health service and pension provision. Some of those issues are within the competence of member states rather than the European Union, but any forward-looking analysis of the challenges confronting the European Union must take the demographic challenges carefully into account.

The Convener: Thank you for your time and for sharing your experience with us. We will take into account the information that you have given us.

11:35

Meeting suspended.

11:36

On resuming—

"Brussels Bulletin"

The Convener: The next item on the agenda is the "Brussels Bulletin". We will miss Jamie Hepburn this morning, as he usually has a number of issues to raise.

Keith Brown (Ochil) (SNP): Is there any more information about the lack of progress on the Turkish question?

The Convener: Perhaps we could get an update from Ian Duncan before the next meeting.

I noticed a reference to the wise men reflection group, and I wondered what had happened to the wise women and whether any women were on that group. I think that that title is rather inappropriate these days, but that is just a passing comment.

As we have no further comments, we will simply note the "Brussels Bulletin".

We agreed at our previous meeting to take the next two items in private, so I close the public part of the meeting.

11:38

Meeting continued in private until 12:15.

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