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Yes, we should!

EU priorities for 2019-2024

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The EU budget – including the CAP – should be used to finance the Union's priorities

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MAIN RECOMMENDATION ► As the EU is debating the next budget for 2021-27, it is still possible to ensure that each euro will be invested to provide added value for the EU and its citizens. The next EU budget should reflect the EU's priorities and goals, and help to address – rather than exacerbate – its challenges.

WHAT TO DO:

- ► Identify why and where EU investments are needed the most to address the challenges of today and tomorrow.
- ► Put an end to subsidies that are evidently harmful to people's well-being, health, the environment and the climate, and thus costly for the economy and society.
- ► Finance measures that will help to achieve long-term prosperity and provide added value to the EU and its citizens, in line with the Sustainable Development Goals and the Paris Climate Agreement.

The EU's challenges today are manifold: low productivity, problems with competitiveness, rising inequality, lagging behind in the global digital race, environmental challenges, climate change, migration, security, demographic trends.

As the Commission's proposal for the new MFF is currently under discussion with the European Parliament and the member states, it is still possible for the EU to ensure that this time around it will put its money where its mouth is.

These are all examples where cooperation between member states could help to deliver stronger, more effective responses at the national and European level. Politicians are quick to recognize these common challenges as priorities for action in their speeches. However, a closer look at one of the main EU tools that could be used to address these challenges and provide added value for the EU and its citizens, the Multiannual Financial Framework (MFF), shows how far words are separated from action.

Unfortunately, time after time, the EU budget falls far behind its potential. The European Commission's proposed budget of €1,135 billion for 2021-27 - about 1% of the bloc's gross domestic product – obviously cannot solve all the EU's problems. However, where the EU decides to put its money sets out a direction and shows what its priorities are.

In its current form, the MFF proposal suggests that the EU's priorities lie in the past rather than in the future. While supporting the structures of the past, such as the Common Agricultural Policy (CAP), it underperforms when it comes to addressing the challenges listed in the beginning. It fails to devote sufficient resources to people's top concerns today, which according to the latest Eurobarometers include terrorism, unemployment and the protection of the environment. As the Commission's proposal for the new MFF is currently under discussion with the European Parliament and the member states, it is still possible for the EU to ensure that this time around it will put its money where its mouth is.[1]

Why a new approach is needed

First, the EU's internal developments require a complete rethink of its finances and spending. The UK's departure from the EU leaves a budget gap of about €10 billion per year. Simultaneously, the economic, social, environmental, climate change and security challenges are creating significant uncertainties. European leaders can no longer ignore that Europe and Europeans' needs have changed.

Second, the global context has transformed dramatically. In 2015, EU and other global leaders committed to the 2030 Sustainable Development agenda and the Paris Climate Agreement. Together they set a clear direction, with clear goals to be achieved for sustainable development and climate action. For the sake of its credibility and moral leadership on the international stage, the EU's budget must reflect these commitments.

Climate change is ultimately the biggest life-threatening challenge Europe and the world is facing. The impacts can already be seen in the form of record-breaking storms, forest fires, droughts, heat waves and floods, and the economic, societal, environmental and security implications are only expected to worsen if global warming continues.

In this context, the Commission's long-term vision for a prosperous, modern, competitive and climate neutral economy by 2050, published in November 2018, and the reflection paper towards a sustainable Europe by 2030, published in January 2019, provide important starting points for dialogue and action. They suggest where the EU needs to go. And if the EU is serious about achieving a new economic, industrial and social model while becoming climate neutral by 2050, the investments in this transition must start now.

EU money should be spent on preparing member states, different sectors and citizens in this transition. The Commission's suggestion to raise the climate mainstreaming target from 20% to 25% in the new budget is an important signal. At the same time, funds should *not* be spent on activities that undermine these objectives, for example, in the fields of digitalisation, regions' smart specialisation, agriculture and energy developments. For instance, under the ongoing MFF, more resources have been allocated to natural gas than to electricity interconnection projects under the Connecting Europe Facility programme. While these investments may bring about some positive benefits, such as progress towards a coal phase-out or energy security, at the same time, they undermine the efforts to decarbonise and electrify the European economy. The investments in the infrastructures of tomorrow are done today and we should get them right.

The Commission's proposal contains some progressive elements on which the member states and the Parliament should build on. It suggests increased funding for migration and security. It proposes more support for research and innovation as well as digitalisation, which, if used well, can help to enhance Europe's competitiveness. Credit goes to the Commission for simplifying the revenue side by removing all rebates. Politically, it has also shown some backbone by asking to link the budget with the observance of the rule of law.

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However, the proposal still falls short by a margin. This is well exemplified by the CAP, which constitutes one third of the spending package.[2] By only moderately reducing the budget for the CAP, which seems to be almost untouchable within the MFF, the Commission has proposed preserving a traditional spending area at the cost of other priorities. While there have been efforts to modernise the budget, the figures speak for themselves: for instance, only €9.1 billion is allocated for the digital agenda, compared to €365 billion for the agricultural sector.

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More worrying than the figures themselves is what will be done with the money, and what has (or has not) been learnt from past mistakes.[3] The CAP has been widely criticised for failing to limit its adverse effects on the environment and the climate, and for the absence of health considerations. There is no clear indication to what extent these inefficiencies and inherent contradictions may be addressed.

The time of sacred cows should be over

As a major producer and consumer of livestock products, Europe has a huge responsibility in addressing related emissions.

If the EU is serious about using taxpayers' money to improve the lives of Europeans, the CAP should help to increase people's welfare and protect the planet. As with other parts of the MFF, every euro that is spent under the CAP should be justifiable and provide added value for the EU and its citizens.

First, the economic cost alone should raise concern. Taxpayers' money is used to support farming practices that are not competitive or economically viable for producers or for society. According to Commission statistics, up to 90% of cattle farmers' income comes from subsidies.[4] While the dependency on EU money is lower for dairy farmers and many field crops (mainly used for animal feed), they are also on permanent life support.[5]

Livestock and dairy farming, especially, play a central role in European agriculture.[6] 65% of the EU's agricultural land is dedicated to livestock,[7] and two thirds of cereal production is fed to animals.[8] European livestock farming depends on subsidies, directly and indirectly (as is the case when EU money is spent on producing feed for animals).

While the CAP is often portrayed as an instrument for supporting small European farmers, the biggest benefiters are the big players in the farm sector, including wealthy landowners.[9] In the ongoing negotiations, there is still strong support for granting direct payments simply based on land acreage. At the same time, many of the most innovate, small farms and new food sector businesses are booming without EU support.

The potential with producing nutritious, sustainable and economically viable food for humans is greater than often realised. Vegetable and fruit farmers already compete on the market with little to no income support from the EU.[10] The market for meat and dairy alternatives is seeing double-digit growth and there is untapped potential in cultivating plant proteins for humans.[11] Europe already has competitive agricultural production that could provide a livelihood for farmers while delivering on environmental and societal benefits as well – these are the practices the EU should build on. If the EU is serious about using tax payers' money to increase Europe's and the agricultural sector's competitiveness, it is hard to find justification for supporting livestock farming, whether it is directly or indirectly.

Second, the impact on the climate is alarming. So far, political efforts and investments have zeroed in on reducing energy and transport emissions, which hopefully will produce tangible results in some decades. However, if the EU is serious about climate action, it also needs to tackle the emissions from food production and consumption.

According to the Food and Agriculture Organisation (FAO), the livestock sector accounts for 14.5% of global emissions.[12] As a major producer and consumer of livestock products, Europe has a huge responsibility in addressing related emissions.[13] Delivering on the Paris Climate Agreement and achieving climate neutrality by 2050 requires reducing livestock-related emissions and promoting plant-based diets as well as healthy soils to capture carbon.[14] In fact, this would be an efficient way to cut emissions in the EU, as well as globally: while transforming the energy and transport systems as a whole and seeing the related benefits will take decades because of the needed infrastructure investments, making even small changes to diets and farming practices now would bring immediate benefits.

Thirdly, agriculture has a significant environmental footprint, impacting soil, water, air and biodiversity. The nutrients and pesticides used in the sector pollute land and water. Ammonia emissions from livestock waste are a significant source of air pollution.[15] Agriculture also contributes to growing water scarcity: it uses more than 40% of the available fresh water in the EU, with a significant share used for livestock production.[16]

Lastly, by sponsoring the Europeans' unhealthy diets, the CAP is damaging people's health and burdening healthcare systems with unnecessary costs. The World Health Organization (WHO) guidelines for a healthy diet are built on a plant-based diet.[17] The WHO classifies processed meat as a carcinogen, known to cause cancer and red meat as a possible cause of cancer.[18] Scientific research also links the consumption of animal (meat and/or dairy) products to an elevated risk of numerous other diseases.[19] Preventable chronic diseases, mostly due to unhealthy diets, account for 86% of deaths in Europe.[20] What does the EU do? It subsidises not only livestock production but also consumption. For example, the EU has been encouraging school kids to consume dairy products since 1977, amounting to €100 million this school year.[21]

For anyone who suggests that the EU should not tell people what to eat and drink: this is exactly what it has done by supporting the production and consumption of livestock products. The farming lobby often argues that it is better to subsidise animal farming in the EU than to import from countries with lower standards, that livestock is needed for food security, or that European lands are more adequate for growing food for animals than for people. However, the current approach is failing Europeans and the planet, in a big way. Science is clear on what makes a food system sustainable and what makes a diet good for human health, the climate and the environment.[22] It is time to ensure that EU money is used for – not against - these objectives.

During the EU budget negotiations, no sector should be off limits. One can certainly question spending one third of the EU budget on agriculture. However, as it is politically difficult to even imagine a radical cut to the CAP, at least a frank debate is needed about how the money is spent. If the EU insists on financially supporting the agricultural sector, the investments must be tied to performance and the aim should be to encourage sustainable and economically viable farming – or even better: creating a sustainable food system - that is good for the environment and contributes to people's well-being. Actively participating in this transition is in the farmers' best interest, too: it will help them to secure their livelihoods for the future. Changing consumers' habits will have a major impact as well, but it is still up to the EU and national policymakers to create a framework that can provide the right financial incentives for a change.

What should happen now?

As the budget negotiations are ongoing, it is up to the European Parliament and the member states to step up their game. There are three pressing issues.

First, member states must reflect on the EU's principles and values, and identify why and where EU collaboration and financing is needed. They should recognise that achieving the shared benefits requires going beyond the pursuit of narrow national interests. The world and people's needs have changed, and the EU budget should reflect that. This should also apply to the CAP.

Second, smart spending requires putting an end to subsidies that are evidently harmful for people's well-being, their health, the environment and climate – and thus costly for the economy and society. The EU's support for livestock farming but also, for example, for fossil fuel infrastructures are a case in point. Justifications for continuing to finance either of these today are hard to find. Ending harmful subsidies could help to reduce the EU budget, as advocated by net contributors like the Netherlands, and/or provide additional financial support for implementing today's priorities.

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Smart spending calls for financing measures that will provide added value to the EU and its citizens, in line with the Sustainable Development Goals (SDGs) and the Paris Climate Agreement.

Third, smart spending calls for financing measures that will provide added value to the EU and its citizens, in line with the Sustainable Development Goals (SDGs) and the Paris Climate Agreement. Payments must be tied to meeting the core objectives of the EU and achieving long-term prosperity. In the case of the CAP, it should be used to develop a competitive European agricultural sector that produces nutritious, sustainable food that contributes to people's well-being.

If the EU is serious about achieving a new climate neutral economic model by 2050, this requires huge investments. The member states must agree to use the EU budget to address the most pressing challenges and priorities of today and tomorrow in alignment with this vision. The EU could condition the payment of funds to the development of National Energy and Climate Plans (NECPs).[23] In addition, the money could be used to attract additional public and private investments for climate-friendly projects. No money should be spent on activities that go against these set goals, and how climate funds are spent must be properly controlled.

Member states' current disagreement on the size of the overall EU budget and the sectoral appropriations misses the point: the debate should be about the justification and leverage of proposed expenditures. Beneficiaries should demonstrate the EU payments' added value for Europe and how they help to address the Union's challenges. If this is not the case, funding must be phased out.

The EU budget is not a magic wand that can solve all the EU's problems. But in terms of setting a direction, it matters enormously. Where the EU decides to put its money shows European citizens and the rest of the world what its priorities are. The outcome of the discussions must be an EU budget that is in line with the EU's principles and goals. It must deliver on the objectives the Union has committed to under the SDGs and the Paris Climate Agreement. In the new budget, each euro invested should provide added value for the EU and its citizens in the face of new internal and international pressures and help to address rather than exacerbate the EU's challenges.

[1] This article builds on the author's earlier pieces: Hedberg, Annika (2018), "The next EU budget: firmly rooted in the past?", Brussels: European Policy Centre and "Time to give up sacred EU budget cows", *Euractiv*, 18 January 2019.

[2] While this piece focuses on the CAP, it is worth noting that the CAP, together with cohesion policy (another major traditional spending area), make up roughly 60% of the budget. Cohesion policy has also been subject to criticism: some studies suggest that cohesion policy has often provided only short-lived benefits for regions and that those that lag behind socio-economically often lack the needed capacities to apply for or make good use of available funding, and these kinds of inefficiencies arguably need to be addressed if the budget is to provide real added value. See e.g. Marzinotto, B. (2012), "The growth effects of EU cohesion policy: a meta-analysis", Brussels: Bruegel; Becker, S. et al. (2018), "Effects of EU Regional Policy: 1989-2013", *Regional Science and Urban Economics*, Vol. 69.

[3] See e.g. the European Court of Auditors (2018), "Opinion No 7/2018 concerning Commission proposals for regulations relating to the common agricultural policy for the post-2020 period" for a critical evaluation of the Commission's CAP proposal.

[4] European Commission (2018), "Operating subsidies (both direct payments and rural development except investment support)", p.15-18.

[5] Ibid.

[6] European Commission, "Milk and milk products"

[7] Leip, A. et all (2015), "Impacts of European livestock production: nitrogen, sulphur, phosphorus and greenhouse gas emissions, land-use, water eutrophication and biodiversity", *Environmental Research Letters*, Vol 10, Number 11.

[8] European Commission, "Cereals, oilseeds and protein crops, rice".

[9] See e.g. Matthews, A. (2017), "More on capping direct payments", CAP reform EU; "The Queen, aristocrats and Saudi prince among recipients of EU farm subsidies", *The Guardian,* 29 September 2016

[10] European Commission (2018), "Operating subsidies (both direct payments and rural development except investment support)", p.15-18.

[11] European Commission (2018), "Commission reports on development of plant proteins in the EU".

[12] FAO, "Tackling climate change through livestock".

[13] Bellarby, J. et al (2013), "Livestock greenhouse gas emissions and mitigation potential in Europe", *Global Change Biology*, Vol 19, Issue 1.

[14] Springmann, M. et al (2018), "Options for keeping the food system within environmental limits", *Nature,*562, pp. 519-525; European Environment Agency (2015), "Soil and climate change", Lóránt, A. & Allen, B. (2019), "Net-zero agriculture in 2050: how to get there?", Institute for European Environmental Policy (IEEP).

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[16] See e.g. European Commission, "Water Scarcity & Droughts in the European Union"; European Environment Agency (EEA), (2018), "Water use in Europe – Quantity and quality face big challenges"; Hoekstra, A. et al (2013), "Potential water saving through changes in European diets", Environment International, Vol 61.

[17] WHO (2018), "Healthy diet".

[18] International Agency for Research on Cancer (2015), "IARC Monographs evaluate consumption of red meat and processed meat".

[19] E.g. Etemadi, A. et al. (2017) "Mortality from different causes associated with meat, heme iron, nitrates, and nitrites in the NIH-AARP Diet and Health Study: population based cohort study", *BMJ*; Grant, WB (2016), "Using Multicountry Ecological and Observational Studies to Determine Dietary Risk Factors for Alzheimer's Disease", *J Am Coll Nutr.* ; Virtanen, SM (2016), "Dietary factors in the development of type 1 diabetes", *Pediatr Diabetes;* Brooke-Taylor S., Karen Dwyer et al. (2017), "Systematic Review of the Gastrointestinal Effects of A1 Compared with A2 β-Casein", *Advances in Nutrition,* Vol 8, Issue 5.

[20] WHO, "Noncommunicable diseases and mental health".

[21] European Commission (2018), "EU School Scheme".

[22] Willett W, Rockström J, Loken B, et al. (2019), "Food in the Anthropocene: the EAT–Lancet Commission on healthy diets from sustainable food systems", *Lancet.*

[23] Duwe, Matthias (2018), "Bringing Paris into the future MFF: how to maximise the benefits of EU funding for the achievement of EU climate objectives", Ecologic Institute.

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