

## **ANALYSIS**

# Non-Community European expenditure: a substantial reality

The revision of the EU Financial Framework under way deals of course with the EU budget (112 billion euros en 2007) but would be well advised to include non-Community EU expenditure, which is used when Member States' interests are too diverse. Though fairly limited (roughly 8 billion euros in 2007), this type of expenditure is indeed significant in research (3.6 billion) and external relations (4.6 billion euros outside NATO), for which it represents approximately 75% of Community expenditure. France provides one fourth of the budget for such European expenditure, which confirms its strategic dimension for our country.

The revision of the EU "Financial Framework" that is being conducted fairly discreetly by Community institutions will make little mention of non-Community EU expenditure whereas, even if the latter does not feature in the Community budget, it also expresses a form of "financial Europeanisation." This absence is harmful for two reasons:

- because this expenditure is already a not inconsiderable reality with regard to EU spending in certain sectors (R&D, external relations, police) sectors which share the common feature of being most often mentioned when envisaging the extension of European cooperation;
- because the development prospects for this expenditure could be interesting in an EU with 27 Member States where it is a delicate matter reaching general consensus on the type and level of desirable spending and for which the method of financing stirs up controversies that have often hindered increasing it<sup>1</sup>.

In this context, the aim of this Strategic Newswatch Analysis is to propose a cursory inventory of the main "non-Community European expenditures" based on a typology that explains the political reasoning that led to their emergence. It is essentially illustrative, owing to the lack of overall data available, which confirms both a certain deficiency in strategic vision with regard to non-Community European expenditure and the need to pay more attention to it in future: this is particularly necessary for France, which is deeply involved in financing it.

Non-Community EU expenditure: what are we talking about? 8,365 million euros (2007 figures)

#### Quasi-Community expenditure

This does not appear in the Community budget, but it is managed directly by organisations within the EU fold.

2,773 million euros

#### Common expenditure

This is undertaken by States to finance the European organisations they belong to, in parallel with their EU membership.

3,933 million euros

#### Joint expenditure

This is undertaken autonomously by European States to finance specific operations within a common framework.

1,658 million euros

1

<sup>&</sup>lt;sup>1</sup> On these subjects, see Barbier-Gauchard and Bertoncini (2007), "What are the concrete prospects for a rise in Community expenditure?", Centre d'analyse stratégique, *Strategic Newswatch* N° 50.

#### "Quasi-Community" expenditure: an expression of intergovernmental consensus

"Quasi-Community" expenditure (2.7 billion euros in 2007) can be defined as spending that does not feature in the Community budget but that is managed directly by organisations within the EU fold. It is often mentioned in discussions of the "EU Financial Framework" where the question of including it directly in the Community budget is sometimes posed (e.g. the European Development Fund). Keeping this expenditure outside the traditional Community framework seems to ensue from a lack of overall consensus between Member States if not on the principle behind it, at least on how it is financed.

#### Expenditure managed by Community institutions

The European Development Fund (EDF) is the symbolic example of quasi-Community EU expenditure: it was provided for by the Treaty of Rome and established on the basis of a system that apportions financing in accordance with the relative wealth of Member States and the degree to which development aid is politically appealing to them. This system was accepted when the EU adopted its system of own resources. The EDF is specifically dedicated to the countries of Africa, the Caribbean and the Pacific, and represents an average annual budget of over 2.5 billion euros: it is managed by the Council of Ministers and does not appear in the Community budget.

The recent setting up of the "Athena" mechanism (also managed by the Council) expresses the Member States' desire to ensure joint financial coverage for certain costs generated by operations outside the EU (e.g. in the Balkans): it mainly concerns organising the financing of the "common costs" of an operation (transport, accommodation, etc.) to ensure better coordination and economies of scale – with remaining costs being taken on directly by the States concerned. Though these common costs never exceed 10% of the expenditure generated by an external operation, Athena's financing of them has experienced rapid growth in recent years because of the increasing number of external operations conducted under the EU banner. Member States participate in financing the normal operation of Athena in proportion to their level of wealth and finance specific operations according to their degree of commitment: in 2007, the total amount came to 46 million euros. It should be noted that certain costs that are considered to be national (and thus paid ultimately by the States concerned) are also managed by Athena for reasons of efficiency: in 2007, these came to 74 million euros.

#### Expenditure by non-Community European agencies

The existence of non-Community European agencies ensues from the "three pillars" structure that stems from the European Union ("Maastricht") treaty: alongside the traditional Community pillar, the pillars devoted to intergovernmental cooperation in **foreign policy**, **security** and **defence** on the one hand and, on the other, **police** and **justice** depend logically on actions and expenditure that are not mainly Community-based. When it is common, this expenditure can be entrusted to agencies that are, of course, created by an act of Community law (a Council treaty or decision), but are directly financed by Member States, outside the Community budget.

Three of these non-Community European agencies take part in European cooperation on foreign policy, security and defence: the **European Defence Agency** (EDA), which is mainly devoted to the defence industry, brings together all EU countries except Denmark and has an annual budget of approximately 20 million euros; the **European Union Satellite Centre** (EUSC), which involves all EU countries and has an annual budget of 15 million euros; and the **European Union Institute for Security Studies** (EUISS), with an annual budget of 4 million euros.

The **Europol** agency is devoted to European cooperation on preventing and fighting international organised crime and is financed (71 million euros in 2007) by all EU Member States, in proportion to their wealth. Note that Cepol (the European Police College for training police officers) and the Eurojust organisation (for judicial cooperation) have been financed directly by the Community budget since a few years ago.

The high level of quasi-Community expenditure, therefore, is primarily linked to the EDF, but each of these expenditures is nevertheless not inconsiderable with regard to Community sector spending, since the way in which they are financed is often an alternative to direct Community financing.

### "Common" European expenditure: financing specialised organisations outside the EU

Common European expenditure (3.9 billion euros in 2007, outside NATO) can be defined as spending by States to finance European organisations they belong to, in parallel with their EU membership. While the EU is an organisation with a general calling which has gradually extended its activities, these common organisations were created by applying the principle of speciality and are mainly developed in the research sector and at more political levels<sup>2</sup>.

<sup>&</sup>lt;sup>2</sup> This is not directed at European organisation that are financed outside budgetary allocations, e.g. Eurocontrol which counts 25 of the 27 EU Member States among its 38 members but is financed on a royalty basis.

#### Common European expenditure on research

The joint implementation of scientific, technical or even industrial projects has often given rise to common European organisations with substantial public budgets<sup>3</sup>. Apart from a few jointly financed university establishments<sup>4</sup>, these European organisations are nearly all active in the field of fundamental or applied research.

Since 1975, the European Space Agency (ESA) has, in particular, carried out the design and managmenet of the different models of the "Ariane" launcher: it involves 17 States, 15 of which are EU members, and has an annual budget of approximately 2.5 billion euros. The European Organisation for Nuclear Research (CERN) bring together 20 States, including 18 EU members, with a 2007 budget of 636 million euros. The "Eureka" organisation was launched following France's initiative in 1985 with the purpose of strenghtening the competitiveness of European industry and is made up of 22 States, 18 of which are EU members, with a budget of 270 million euros in 2007. The European Organisation for Astronomical Research (ESO) was created in 1962 and brings together 14 EU Member States with a budget of 150 million euros in 2007. Lastly, the European Synchrotron Radiation Facility (ESRF), which has been managing the "Synchrotron" since 1988, involves 19 EU Member States with a budget of 80 million euros in 2007.

More recently, Member States have decided to implement the "ITER" thermonuclear fission project by resorting directly to the Euratom part of the Community budget rather than on an individual basis - as is the case with the above-mentioned organisations - at a total estimated cost of around 10 billion euros over 30 years. It is also worth noting that **Community research expenditure will increase sharply between 2008 and 2013** since financing devoted to the Framework Programme for Research and Development (FPRD) will rise from 5.1 to 8.8 nillion euros (with a total budget of 48 billion euros over that period).

Sectors (in millions of euros in 2007) Amount of Amount of As % of Member States' Community Community expenditure contribution expenditure Technological research and development 5170 70,6% 3651 European Space Agence (ESA) 2514 European Organisation for Nuclear Research (CERN) 636 270 Eureka European Organisation for Astronomical Research (ESO) 150 European Synchrotron Radiation Facility (ESRF) 80 Joint Technology Initiatives (JTI) 0.85 **External relations** 4644 6200 74,9% European Development Fund (EDF) 2544 OPEX (EU mandate): Athena\* 120 OPEX (EU mandate): apart from Athena 414 European Defence Agency (EDA) 20 European Union Satellite Centre (EUSC) 15 European Union Institute for Security Studies (EUISS) 4 152 Council of Europe (CoE) Organisation for Security and Cooperation in Europe (OSCE) 123 Western European Union (WEU) 8 For the record: North Atlantic Treaty Organisation (NATO): 1223 Organisation for Joint Armament Cooperation (OCCAR) 1244 425 16,6% Freedom, security and justice 71 European Police Office (EUROPOL) 71 Total 8365

Table 1 - significant non-Community European expenditure in certain sectors

contribution). Note that the Community budget also finances these establishments.

Sources: the organisation concerned, the EU, Ministry of Foreign Affairs, Calculations by the Centre d'analyse stratégique

In total, common European non-Community expenditure on research represented over 3.6 billion euros in 2007, i.e. more than two thirds of the total expenditure on research made within the framework of the Community budget (see Table 1).

#### Expenditure on political organisations that are more sectorial than the EU

The European States have also been led to create common international organisations, exclusively devoted to issues which, for the EU, are specifically diplomatic in nature. Two of these political organisations have a pan-

<sup>3</sup> It has even led to the creation of common European companies such as the European Aeronautic Defence and Space Company (EADS) - which, in particular, manufactures Airbus – in which the States can be shareholders without strictly speaking bearing upon public budgets.

<sup>4</sup> The College of Europe and the European University Institute of Florence were created by EU Member States (in 1949 and 1972) which have continued to finance them ever since and sit on their board of governors (only a few new EU Member States do not make a financial

<sup>\*</sup> For Athena, of the 120 million euros 74 million are national costs managed by Athena.

European purpose and include non-European states (e.g. Russia and the United States). Nevertheless, they have in common the fact that they count amongst their ranks all the EU Member States, which finance a very substantial share of their budget.

Created in 1950 and preserving and promoting Human Rights, democracy and the rule of law, the **Council of Europe** brings together 47 States and has an annual budget of around 200 million euros (over 50 million of which are devoted to the European Court of Human Rights). It is 75% financed by the 27 (i.e. 152 million euros). Stemming from the Helsinki Process launched in 1975, the **Organisation for Security and Cooperation in Europe** (OSCE) is, as its name suggests, devoted to questions of security (but not of defence) and includes 56 States from Europe, Central Asia and North America. Its annual budget reached 168 million euros in 2007 and the contribution of the 27 EU States represented 73% of this budget (i.e. 123 million euros). These organisations have annual budgets that are incommensurable with that of the EU (112 billion euros in 2007), since they are limited to essentially political and legal activities.

Two other common organisations that are active in security and defence issues should also be mentioned. The first is the **Western European Union** (WEO), historically created to organise the security of its member countries, which today includes 10 EU States (i.e. a threshold higher than that set by the treaties to undertake "enhanced cooperation"). The WEO's activites were limited by the creation of NATO and, in recent times, by the emergence of the European Union (which has, for example, brought the European Institute for Security Studies into its fold). It had an operational budget of 8 million euros in 2007. The **North Atlantic Treaty Organisation** (NATO) unites 26 European countries and also North America: however, for the record, it is worth mentioning that 21 of the 27 EU States are members and, in 2007, financed 65% of its civil budgets (129 million euros) and military budgets (1 billion euros).

## "Joint" European expenditure: specific operations in a common political framework

"Joint" European expenditure (1.6 billion euros in 2007) can be defined as expenditure undertaken autonomously by European States to finance specific operations in a common political framework. The EU can play a more or less direct inspirational role and the Community budget can even be called upon, but these operations may also arise within some of its Member States (we shall limit ourselves below to the most striking examples, outside traditional bilateral cooperations). This joint European expenditure most often occurs in the field of external relations (mostly for armaments) or for technological purposes and it would seem to express, above all, the Member States' desire for effectiveness.

#### Joint expenditure on external operations and armaments

European expenditure on external relations and defence is undertaken very largely by States and features very little in the Community budget which mainly manages external aid (to the tune of 6.2 billion dollars in 2007): most of it is devoted to development aid (in addition to the EDF) and humanitarian aid, and to civil aspects (police, justice etc.) of crisis management (e.g. in the Balkans). The European States have sometimes been led to commit a small part of their external and defence expenditure within a common framework, for reasons of legitimacy and effectiveness.

In this way, "external operations" involving European States in crisis management and peacekeeping are very often implemented on the basis of a political mandate attributed (by the UN) to the EU as a whole, while certain "framework countries" are then specifically put in charge of running the operation concerned: the European operation linked to the Darfour crisis currently being led by France is being run in this context. Though the "Athena" mechanism is a first step towards sharing the financial burden, it only contributes to pooling certain "joint costs" which, on average, represent 10% of the final cost of an external military operation. As such, most costs fall to the States which, however, benefit - in their joint commitment - from initiatives for which they would not have had the legitimacy or means to conduct alone. The main European cooperation organisation for military equiment is the Organisation for Joint Armament Cooperation (Organisation Conjointe de Coopération en matière d'Armament, OCCAR). It was established by a convention signed in 1998 between France, Germany, the United Kingdom and Italy, and now counts 6 participant countries since Spain and Belgium have joined its ranks. This cooperation concerns both the development and production of equipment, the costs of which are pooled: besides an administrative budget which came to 8.5 million euros in 2007, OCCAR also manages budgets for half a dozen armament programmes, in which Member States participate on a voluntary basis, amounting to a total of 1.2 billion euros in 2007. Each Member State then acquires the equipment it needs autonomously and individually (which is obviously the most costly part)8.

<sup>6</sup> See European land forces in external operations: personnel and funding, Document A/1963, WEU, 2007.

 $<sup>^{\</sup>scriptscriptstyle 5}$  To which 5 million euros devoted to pensions should be added.

<sup>&</sup>lt;sup>7</sup> Though the number of States concerned by OCCAR remains limited, this cooperation deserves to be pointed out because it implements the guidelines of the European Security and Defence Policy (ESDP) while mobilising not inconsiderable, and increasing, money supplies.

<sup>&</sup>lt;sup>8</sup> For the record, it should be pointed out that, in 1990, NATO set up a similar initiative called "Nahema", the first programme in which concerned the construction of a troop transport helicopter (the NH90). This initiative unites 7 European countries: France, Germany, Italy,

In total, non-Community European expenditure on external relations and defence – whether quasi-Community, common or joint – came to approximately 4.6 billion euros in 2007, i.e. roughly three quarters of Community expenditure in this sector (see Table 1). If one includes European expenditure in the framework of NATO, the total comes to 5.86 billion euros and 94.6% of Community expenditure.

#### "Joint Technology Initiatives"

The Joint Technology Initiatives (JTI) were recently launched under the aegis of the EU and presented as a key item in the Lisbon Strategy. They show a determination to create major European applied research programmes that bring together the EU, Member States and the private sector. Such initiatives are authorised to be financed up to 16% by the Community budget (within the 7<sup>th</sup> framework programme) and 33% by Member States, the remaining half being covered by companies. At this stage, the Commission has selected six projects, each of which should mobilise around 2 to 3 million euros between 2007 and 2013: ARTEMIS (embedded computer systems), IMI (innovative drugs) in the health field, CLEAN SKY (aeronautics and air transport) in the transport field, ENIAC (nanoelectronic technology 2020) in the ICT field and FUEL CELL (hydrogen and fuel cells) in the energy field.

Designed in liaison with the European Space Agency, "Galileo" – the European satellite navigation system – is presented as the only JTI so far launched, although the EU has finally decided to bear the entire cost of financing it\*: as such, it will be directly charged to the Community budget (i.e. 3.4 billion euros) with, in principle, no additional financing being required from Member States. The planned European Institute for Technology (EIT) is also similar to a traditional Community initiative: it is largely financed by the Community budget (308 million euros planned for the 2008-2013 period) but may, however, receive financial grants from States, in the form of a compulsory or optional contribution, in the same way as company contributions.

# European expenditure financed in an ad hoc manner: a useful perspective for the EU and for France?

The three kinds of non-Community European expenditure presented above have in common the fact that they are financed on the basis of an *ad hoc* system which departs from the "own resources system" accepted for the financing of the Community budget. This system is mainly based on the "non-assignment" principle and the rule against setting-off and, as such, its revenue serves to cover all EU expenditure. Could the existence and development of such *ad hoc* financing systems - which lead States to contribute in proportion to their degree of commitment and/or level of wealth - shed useful light on current debates about the effectiveness and legitimacy of European expenditure?

#### Financing linked to States' degree of commitment

One striking characteristic of the financing of non-Community European expenditure is that it depends on the degree of commitment desired by States which are free to participate, or not, in the organisations or operations concerned. Once committed, they may sometimes make their level of financial contribution proportional, particularly when a distinction is made between "compulsory expenditure" and "optional expenditure". The second type of expenditure concerns operations and projects in which States have the right to participate voluntarily and on a one-off basis: they represented, for example, 71% of the total ESA budget in 2007. A similar principle is in force for OCCAR<sup>10</sup>. Besides the taking on of joint costs by the "Athena" mechanism, financing external operations conducted under the aegis of the EU is based on charging States solely for the costs they have generated ("Costs lie where they fall").

If European States are also totally free to be members (or not) of the EU and to leave, it is difficult to imagine that any one of them would do so for reasons exclusively linked to this or that Community expenditure: the direct political consequence is that the discussion of the nature and structure of Community expenditure could be much more conflictual and it must, of necessity, result in global compromises between States and sectors. The existence of quasi-Community expenditure expresses the possibility that the participation of certain Member States cannot be reckoned on (e.g. Denmark for the EDA) or that States may reduce the level of their financial contribution compared to that which would have been planned on if the rules of Community financing were applied (e.g. the EDF). Propositions seeking recourse to an EDF-type financing system for European agricultural expenditure have recently been put forward. Their implementation would lead to a dismantling of the EU's general budget. In the future, the formula of "enhanced cooperation" inserted into European treaties in

the Netherlands, Norway, Sweden and Finland. In 2007 it had an administrative budget of 2.4 million euros and an operational budget of 60.3 million euros.

The initial plan was for companies to finance part of the construction and deployment of the satellites.

<sup>&</sup>lt;sup>10</sup> France, for example, finances 27% of the programme devoted to the "A400M" transport aircraft and 43% of the "Tiger" helicopter, but does not participate in the "Boxer" armoured vehicle programme.

See, for example, Nunez Ferrer, Can Reforming Own Resources Foster Policy Quality?, SIEPS 2008-3.

Amsterdam in 1997 and that of "permanent structured cooperation" for defence (provided for by the Treaty of Lisbon) could, if the need arises, be used to channel joint expenditure.

#### Financing that is more or less proportional to States' level of wealth

Another striking characteristic of non-Community European expenditure is that it is often financed on the basis of a contribution scale that takes into account the level of wealth of the countries concerned. This "GDP scale" can be used completely or slightly adapted in accordance with political considerations: a State may wish to pay less because it does not consider the expenditure to be strategic, or pay more to have more influence when decisions are taken.

Naturally, this quest for equity also clarifies debates about the Community budget: it largely explains why the "fourth resource", created in 1988 and based on the Gross National Product of Member States, has experienced such growing momentum (it now represents around two thirds of Community resources). Propositions seeking to make this fourth resource the EU's virtually exclusive resource in the future also need to be judged by this yardstick<sup>12</sup>.

For the record, it should be noted that this quest for equity between States also concerns the control of the use of expenditure paid into a joint budget. In the case of European organisations or operations leading to public contracts, the "industrial fair return" rule is often invoked so that contractors respect a certain balance between contributory countries. These considerations echo the attention EU countries also pay to the use of Community expenditure, half of which is today distributed between Member States when negotiations concerning the EU's financial framework take place: this practice expresses these States' desire to reduce the real range of the rule of non-assignment, even if it is in the framework of a financial compromise relating to the whole Community budget. EU States also managed to obtain a reduction in theoretical contributions to the Community budget on the grounds that they considered it disproportionate to their level of wealth (the United Kingdom in the 1980s, Germany in the 1990s, etc.) or with regard to the intrinsic usefulness of the main Community expenditure. Though the increasing number and complexity of these reductions has considerably affected the legibility of the financing system and the serenity of European budgetary negotiations, it could also be considered that their absence would seriously threaten the legitimacy of the Community budget while raising an insurmountable obstacle to its possible growth in momentum<sup>13</sup>.

Whatever the nature of the lessons drawn from the *ad hoc* financing of non-Community European expenditure, it should be noted that France plays a very substantial role in their financing (see Table 2) since its contribution:

- exceeded 2 billion euros in 2007, i.e. 24.2% of the total expenditure made in this form: the average French share far exceeds that which would results on the sole basis of its level of wealth, since its GDP represents a little less than 16% of the EU's GDP;
- is particularly high in the field of research (more than 26% of the total), especially for ESA and Eureka, and for armaments (OCCAR).

Sectors (in millions of euros in 2007)	Amount of France's contribution	Percentage of France's contribution	as % of national expenditure : France	as % of national expenditure EU average
Technological research and development	984	26,9%	7,9%	5,3%
European Space Agence (ESA)	720	28,7%		
European Organisation for Nuclear Research (CERN)	101	15,9%		
Eureka	110	40,7%		
European Organisation for Astronomical Research (ESO)	30	20,0%		
European Synchrotron Radiation Facility (ESRF)	22	27,5%		
Joint Technology Initiatives (JTI)	0,14	16,0%		
External relations	1030	22,2%	2,5%	2,1%
European Development Fund (EDF)	484	19,0%		
OPEX (EU mandate): Athena*	13	10,8%		
OPEX (EU mandate): apart from Athena	72	17,4%		
European Defence Agency (EDA)	3,2	16,0%		
European Union Satellite Centre (EUSC)	2,4	16,0%		
European Union Institute for Security Studies (EUISS)	0,6	16,0%		
Council of Europe (CoE)	18	12,0%		
Organisation for Security and Cooperation in Europe (OSCE)	12	9,4%		
Western European Union (WEU)	1,4	17,4%		
For the record: North Atlantic Treaty Organisation (NATO): 1223			]	
Organisation for Joint Armament Cooperation (OCCAR)	424	34,1%		
Freedom, security and justice	10,5	14,9%	0,04%	0,04%
European Police Office (EUROPOL)	10,5			
Total	2024	24.2%	0.25%	0.17%

Table 2 – non-Community European expenditure to which France makes a high contribution

Sources: the organisation concerned, the EU, Ministry of Foreign Affairs, Calculations by the Centre d'analyse stratégique

<sup>12</sup> On this subject, see Barbier-Gauchard and Bertoncini (2007), "The EU's Resources: Change or Status Quo?," Centre d'analyse stratégique, *La Strategic Newswatch*, N° 66, July.

<sup>13</sup> On this subject, see Bortoncini (2007), "The Frances had at a set the "Fig. B. in "in the subject and the subject an

<sup>&</sup>lt;sup>13</sup> On this subject, see Bertoncini (2007), "The European budget and the "Fair Return" principle: what is it about?", Centre d'analyse stratégique, *Strategic Newswatch*, N° 59, July.

\*\*\*

This quick inventory of "non-Community European expenditure" helps emphasise that, today, it represents a not inconsiderable financial sum that is admittedly limited compared to the total Community budget but significant in the few sectors that it concerns (R&D, external relations and defence, police cooperation).

Its prospects for development will depend primarily on the European political context, which seems marked by both the heterogeneous collective preferences of the different States and by globalisation which spurs them to act jointly for greater effectiveness. They are also linked to the EU's institutional reforms, with a certain relativisation of the pillar structure established at Maastricht and the possible activation of enhanced or structured cooperation mechanisms. Lastly, they could also be influenced by the determination to offer improved democratic control of the commitment of European expenditure by arbitrating between a Community budget that combines, in particular, the European Parliament and non-Community European expenditure managed more directly by the executive bodies, under the possible control of national parliaments.

> Amélie Barbier-Gauchard and Yves Bertoncini, Department of Economic and Financial Affairs

René Sève, Director general

Nathalie Bassaler, Chief Editor

To consult the archives of the Strategic Newswatch in electronic version : http://www.strategie.gouv.fr/ rubrique.php3?id\_rubrique=12 Centre d'analyse stratégique 18, rue de Martignac 75700 Paris cedex 07 Téléphone 01 42 75 61 00 Site Internet : www.strategie.gouv.fr

