NATIONAL ASSEMBLY
OF THE REPUBLIC OF BULGARIA

STATEMENT OF THE NATIONAL ASSEMBLY OF THE REPUBLIC OF BULGARIA ON THE EUROPEAN COMISSION DRAFT LEGISLATIVE PACKAGE FOR MULTIANNUAL FINANCIAL FRAMEWORK OF THE EUROPEAN UNION 2014-2020

At a joint sitting, held on September 21, 2011, the Committee on European Affairs and Oversight of the European Funds (CEAOEF) and the Budget and Finance Committee (BFC) discussed the **Draft Legislative Package for Multiannual Financial Framework (MFF) 2014-2020, included as items 41, 42 and 43** of the Annual Work Programme (AWP) on EU Affairs (2011) of the Bulgarian Parliament.

In unison with the double democratic control exercised on the key EU policies, CEAOEF takes into consideration the position expressed on the MFF main aspects by Forum Civic Participation. It includes 98 NGOs from all over the country, working actively in the field of civic participation and good governance.

After the discussion on the Draft Legislative Package for Multiannual Financial Framework of the EU 2014-2020, the Bulgarian Parliament via the Committee on European Affairs and Oversight of the European Funds (CEAOEF) and the Budget and Finance Committee (BFC) expresses the following Statement, which is to be sent to the European Institutions:

Regarding the Multiannual Financial Framework 2014-2020:

On the **Communication from the Commission to the European Parliament, the Council, the European Economic And Social Committee and the Committee of the Regions: A Budget For Europe 2020,** ***COM 2011 (500)***, included as item **41** of the AWP on EU Affairs (2011) of the Bulgarian Parliament and the **Proposal for a Council Regulation laying down the Multiannual Financial Framework for the years 2014-2020,** ***COM 2011 (398)***, included as item **42** of the AWP on EU Affairs (2011) of the Bulgarian Parliament, CEAOEF and BFC have concurred upon the following:

1. We support the EC proposal for **7-year cycle** of the next MFF. **The achievement of Europe 2020 targets** is related not only with **the long run sustainability of the programming process,** but also with finding the right balance between the necessity of **flexibility** in the expenditures distribution and the provision of better **predictability** in the context of fiscal consolidation requirements in the Member States. Furthermore, the 7-year EU financial planning period allows for the achievement of goals on policy level **beyond the separate Member States' political and financial cycle frames;**

2. We consider the so proposed MFF **in line with the Europe 2020 targets.** At the same time, the fund spending in the EU budget framework is **result-oriented** and targeted towards the achievement of **European added value.** It focuses on **procedures' simplification, conditionalities, support for the investments and efficient financial management.**

We support the MFF expenditure items related to the Europe 2020 objectives fulfillment, incl. **research and innovation, education and lifelong learning, Internal Market policies,**

Cohesion policy, social policy, environmentally friendly agriculture, fishery, ecology, climate change, energy and transport policy, civil society, freedom, security and justice.

Regarding the **Common Agricultural Policy (CAP),** we deem **it is necessary to at least keep the current level of financing of CAP,** keeping its architecture of 2 pillars with the option for a flexible approach between the first and second pillar. At the same time, we think that CAP should be **modernized and simplified in order to become more just, more "green" and in accordance with the Europe 2020 Strategy.**

Regarding the **direct payments,** a fairer approach must be applied for funds distribution among the Member States. It needs to **eliminate the level of support difference between new and old Member States**, thus creating a similar competition base.

We greet the proposed by EC increase of the **funds for external borders control and illegal migration management.** Having in mind the forthcoming accession of Bulgaria to the **Schengen Area**, these funds are of key importance for exercising efficient border control over a significant part of EU external borders.

An important aspect of the proposed MFF are the expenditures within the context of **EU as a global player,** incl. external activities, neighborhood and development policies, as well as the proposed optimization of administration costs. With view to the Development Cooperation Instrument, we find necessary that a regional **Instrument for the Black Sea Region** be created. It should finance the implementation and target achievement of the future EU Black Sea Strategy.

The expenditure items presented above are **in unison with the Bulgarian targets for the Europe 2020 Strategy implementation and take into account our country's capabilities, as they are outlined in the National Reform Programme of the Republic of Bulgaria (2011 – 2015):**

Targets of the Europe 2020 Strategy	Bulgarian national targets in the National Reform Programme
1. Employment: 75% of the 20-64 year-olds to be employed;	National target 1: "Reaching 76% employment of the population aged 20-64 by 2020";
2. R&D / innovation: 3% of the EU's GDP (public and private combined) to be invested in R&D/innovation;	National target 2: "Investments in R&D in the amount of 1.5% of the GDP";
3. Climate change / energy: greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990; 20% of energy from renewables; 20% increase in energy efficiency;	National target 3 under the "Climate – Energy" package: "Achieving a 16% share of renewable energy sources in the gross final consumption of energy and increasing the energy efficiencyby 25% by 2020";
4. Education: Reducing school drop-out rates below 10%; at least 40% of 30-34–year-olds completing third level education;	National target 4: "11% share of the early school leavers by 2020, and a 36% share of the people aged 30-34 with higher education by 2020";
5. Poverty / social exclusion: at least 20 million fewer people in or at risk of poverty and social exclusion	National target 5 "Reducing the number of people living in poverty by 260 thousand"

3. We deem that **the Europe 2020 Strategy priorities** for achieving intelligent, sustainable and inclusive growth are the foundations of the next MFF. On the other hand, however, we think that the EU Budget spending for the Europe 2020 priorities' realization shall be adapted and take into account the Member States' specific priorities and their level of development. **The basic infrastructure** comes forward as Bulgaria's priority because it is of key importance for the economic and social cohesion of the regions in convergence process. Taking into consideration the deficit in the Central and Eastern European countries' infrastructure, **we embrace the idea for the Connecting Europe Facility creation, but it shouldn't at the expense of the Cohesion Policy targets achievement. The allocation of financial resources in MFF 2014-2020 for development of modern and highly functioning infrastructure** in the field of transport, energy, information and communication technologies shall contribute for a fully functioning Single Market.

4. We support **the increase of funds for the Cohesion Policy**, being convinced that the provision of bigger financial aid for the least developed regions will lead to economic, social and territorial cohesion within the EU.

We join the proposal for creation of a Common Strategic Framework for the shared management funds, through which a better fund synergy shall be achieved in the Europe 2020 context.

We deem that basic infrastructure construction should be stimulated, together with measures, encouraging investments and development, so that the National Reform Programme is successfully implemented and the catching-up process – realized.

5. **We reckon that a decrease of the GNI-based installment to the EU budget will lead to a greater "Europe on 2 speeds" risk. Each country's contribution to the EU budget must be in co-relation with the size of its economy, i.e. with its GNI.** That's the best mechanism for a fair and just EU financial burden sharing, which allows for every country to feel empathetic to the European processes, being at the same time responsible for the size and structure of the EU budget. **In this regard, a potential decrease of the GNI component in the installment will not take into account the actual economic development of the Member States and, respectively, their contribution and responsibilities.**

6. We congratulate the EC efforts for **the System of Own Resources simplification** because through the system, sufficient resources must be provided for the policies implementation and achieving the targets at EU level, together with a fair treatment of the Member States and transparency of the EU Budget financing. **At the same time, we believe that the introduction of Common European taxes will move the tax burden from the Member States to their citizens (tax payers).**

The long term prospective shouldn't be directed towards focus movement from the objective macroeconomic indicators at state level to indirect taxation. In that scenario, there would be negative consequences for the final consumers, such as a lower Disposable Personal Income ceteris paribus.

Regarding the introduction of 2 new taxes- Financial Transactions Tax (FTT) and European Value Added Tax (EVAT):

We reckon that **the Proposal for a Council Decision on the system of own resources of the European Union, *COM (2011) 510*, included as item 42 of the AWP on EU Affairs (2011) of the Bulgarian Parliament and the Proposal for a Council Regulation laying down implementing measures for the system of own resources of the European Union**, ***COM***

2011 (511) **<u>are not compliant with the proportionality principle</u>**, established in article 5, paragraph 4 of the Treaty on European Union (TEU) due to the following arguments:

1. The System of own resources should respect the Member States' fiscal sovereignty. Also, we'd like to point out that the Proposal for a Council Regulation laying down implementing measures for the system of own resources of the European Union envisions **the tax rates to be adopted with qualified majority instead of unanimity, which contradicts with Article 113 of TFEU;**

2. We believe that the introduction of new taxes, incl. the ones in the financial sector, would lead to an additional tax burden for the EU citizens and business.

By moving the burden from the Member States towards their citizens, **the introduction of Common European taxes would provoke negative attitudes to the EU among the European tax payers;**

3. We deem that the focus shift from GNI to additional taxes in the EU budget installment formation **will not take into account the actual economic development of the Member States;**

4. The new FTT introduction at EU level would have a contradictory effect without reaching agreements on the topic worldwide: all transactions to become subject to taxation, not the European ones only. Otherwise, FFT would lead to **loss of competitive advantages for the financial institutions within the EU, and also, to loss of competitiveness for the European financial markets in general – deals moving into new markets (regions).**

For the countries with insufficiently developed stock markets, a new taxation would further jeopardize their development and reduce the alternative options for financing the business.

We think that the FFT introduction would imply **administrative re-organization at EU level; additional expenditures in regard to its overall administration;**

5. The introduction of new European VAT would represent additional taxation to the existing one in the Member States, respectively moving the burden towards the final consumer.

The text of Article 2, Paragraph 1, Letter v) of the Proposal for a Council Decision on the system of own resources of the European Union, which introduces the new VAT, is not clear enough and creates the risk of conflicting interpretations.

The concern for such interpretations are based on the circumstance that in the EU Budget goes part of the VAT on goods and services, acquisition of goods within the EU and import of goods taxable with standard VAT rate in each Member State, i.e. **the range of goods, taxable with standard VAT rate in the Member States is different.** Therefore, we believe that if the words **"each Member State"** is changed to **"all Member States",** the text will become clearer, i.e. the supply of goods and services, acquisition of goods within the EU and import of goods which **taxable with standard VAT rate in all Member States.**

Multi-Annual Financial Framework of the EU 2014 - 2020

Position of the Forum Civic Participation concerning the Inquiry published on the Bulgarian National Assembly web-page

1. **Do you consider that the decrease of the Gross National Income at the formation of the contribution of a given country to the EU budget will reflect adequately its real economic growth?**

The contribution of each country to the EU budget should be related to the scale of its economy, e.g. the Gross National Income. This is the best mechanism for fair distribution of the EU budget funding burden allowing each country to feel involved in the European processes and at the same time responsible for the size and structure of the EU budget. The decrease of the GNI share would lead to a distortion in the separate countries' contributions with possible negative consequences for the European cohesion.

2. **Do you agree that the diminishing role of the GNI should be at the expense of the introduction of new revenue sources in the EU System of own resources?**

We would rather not agree. The imposing of additional common European taxes would not lead to any positive outcomes especially in the current complicated economic environment. The link between the national budgets and the European budget should be kept.

3. **Do you think that the reform in the EU System of own resources should be carried out by the introduction of 2 new revenue sources for the European budget – Financial Transaction Tax /FTT/ and new own resource on the base of VAT, representing 1% of the value of the goods and services subject to taxation with a standard VAT rate in all EU member states?**

The Financial Transaction Tax, if only introduced in Europe, will lead to uncompetitiveness of the European financial markets and shift of the transactions to other regions. This is the reason why the FTT may be only considered if it is to be introduced at world level or at least in all G-20 countries. Otherwise the effect will be highly negative for Europe. Sweden introduced similar taxes in the financial sector in the 80's and the result was negative as a huge volume of the transactions shifted to other countries and the revenues of the tax were extremely low.

In addition the ideas for FTT include not only the taxation of the „harmful“ or speculative financial transactions but all transactions, incl. stocks, bonds and other investment tools. For Bulgaria with its underdeveloped stock and bond markets the additional taxation will further impede their development and will reduce the alternative opportunities for companies to access funding. The taxation burden will be transferred to the final consumers making prices of the financial services higher, respectively leading to increased fees and interest rates for the business and the consumers. The administrative costs in relation to the Tax will most probably not be low and together with that a building of a whole new administration at the EU level to collect the tax will be needed. As the FTT is a cumulative tax it will have negative effects on the markets' liquidity and will make them more unstable. A problem comes also with the idea to levy a tax on the currency trade especially for the countries that are not part of the Eurozone where the tourism, manufacturing, trade and traveling are bound with a number of currency transactions.

The taxes on the financial sector will not improve the operation of the financial sector but will only generate additional burden even for institutions that have not contributed to the crisis. The better alternative is to have the focus shifted towards the bank fees that should fund the new mechanisms for tackling the bank crisis that are being discussed at the European level. This is a way to prevent and solve the bank crises without any burden on the budgets that is not the case with the last crisis.

The introduction of the European VAT will represent additional taxation, complementing the national tax burden that has grown in many countries due to budget problems. Undoubtedly this will not be a single step but a tendency towards increasing the rates in time will be established (the EC itself wants flexibility in the opportunities for changing the rates). The ability of the national governments to administer their tax policy and to fix the most country effective set of taxes that will fund the national and European budget is reduced. Due to the enormous differentiation of the VAT tax base in the different EU countries the introduction of a new unified European VAT with a single tax base in addition to the national VAT will generate serious complication of the tax system. The incentives of the countries will be oriented towards reduction of the tax base with the aim of decreasing the contributions to the EU instead of increasing the tax base and achieving lower rates and less distortion from the tax system.

4. **Do you think that the package of the Commission's proposals in relation to the new MFF in the area of reforming the System of own resources will lead to additional tax burden and administrative burden for the citizens and the business?**

The pressure for the EU budget increase will also continue to exist in the presence of own resources in the form of FTT and VAT and will easily be realized due to the lack of balancing power. Because of the divergence between the ones that will fund the EU budget and the others that will receive funding from the EU budget, a tendency of budget and tax increase will be formed. This will be a burden for the already overtaxed European taxpayers. Now the EU budget increase directly impacts the national budgets and is competing with other budget programs. That is why it has a balancing power not allowing infinite extension of the European budget. The own resources such as FTT and VAT overcome this institutional arrangement, encouraging the tax and budget increase, generating potentially huge negative spirits towards the EU amongst taxpayers.

5. **Do you think that the EC proposal for the MFF takes into consideration the catching-up effect between the new and old EU member states?**

More efforts and resources should be allocated towards measures related to the catching-up process in the poorest regions – including especially infrastructure and measures stimulating the investments and development.

6. **Do you accept the EC proposal for a 5 % increase in the Financial Framework for the next Programming Period?**

No. In the middle of the debt crisis, when all EU countries carry out budget consolidation, the increase in the EU budget means additional pressure over the national budgets and necessity for additional reduction of the other budget expenditures. In budget consolidation all expenditure items should take part of the burden of reductions in order to guarantee the success of the efforts and to have the burden evenly distributed. If the EU expenditures are not included in the process of budget reductions then other sectors will also want to have their exceptions, thus impeding the European countries budget position stabilization and threatening the EU stability. The EC being a big supporter of the budget discipline should give an example and achieve budget reduction in real terms.

7. If your answer to the question above is "Yes" – will this lead to greater opportunities for project funding?

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8. Which sectoral policies should in your opinion receive more funding in the next Programming Period 2014 – 2020?

Despite the given reduction planned a pretty huge part of the European resources go for agriculture subsidies. Bulgaria will benefit from a scenario with equal subsidies but on low or zero level. The Bulgarian agriculture would become much more competitive on the European market if the subsidies at the EU level are removed as a whole. In this case the Bulgarian competitiveness will be much more visible and will have impact on the investment decisions. The agriculture subsidies help the expensive and ineffective countries to keep agriculture that otherwise would not be able to survive there. The redistribution of the agriculture subsidies to other priorities such as science and infrastructure for example would have a significant positive effect on the European economy and its competitiveness without the need of any additional resource from the member states.

The infrastructure for Bulgaria is much more important especially when it comes into question about the infrastructure necessary for the country's development that is intensifying the integration of the separate regions in the country and the integration of the country as a whole with the EU. The infrastructure expenditures should be a priority.

9. Do you find it effective to have a regulation of the automatic decommitment of the unused in the end of the financial year European funds from the member states towards the EU budget?

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10. Do you think that the issuing of Eurobonds will contribute to the EU budget stability?

The Eurobonds make sense only in establishing European Federation with the unification of the national budgets and a Single EU Ministry of Finance on the example of the USA. Without a single budget and finance management the issuing of common Eurobonds will further foster the imprudent countries to accumulate debts as they will be isolated from the market pressure. It is arguable whether the American Federal model and a centralized model (this is another topic) is useful for adoption in Europe, but until this is not a fact – the issuing of common Eurobonds will increase the moral risk in Europe.

11. Do you find effective the EC proposal for introduction of a new financing instrument in the form of project bonds for securing financially the infrastructure projects implementation?

The project bonds would contribute to the implementation of more infrastructure projects by the attraction of private funding. Nevertheless, guarantees are needed that this mechanism will not remove other opportunities for project funding but will complement and enlarge them.

12. **Your organization is: NGO – Forum Civic Participation (informal union of 98 NGOs from all parts of the country being active in the area of civic participation and good governance).**

The position of the Forum Civic Participation has been elaborated with the participation of Mr. Georgi Angelov, Expert at the „Open Society“ Institute.