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Research Report

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The Financing of the EU's Common Foreign and Security Policy

Solving the Conundrum

Annegret Bendiek / Hannah Whitney-Steele

On 17th May 2006 the European Parliament voted for the agreement on the Financial Framework 2007–2013. The EU has decided that in that period a total of € 49.463 million will be spent on its external policy, which constitutes an average increase of 29%. This development is in line with public opinion, as according to the Eurobarometer the support amongst Europeans for an EU Common Foreign and Security Policy (CFSP) is remarkably high. However, the new budget presents the EU and the Member States with several challenges: firstly, a lack of transparency in the allocation of funds; secondly, too little possibility for democratic control by the European Parliament; and finally, a still insufficient amount of funding. One way to diminish these deficits would be the introduction of a CFSP Fund in 2009, out of which all EU missions would be financed. If it were established, this Fund ought to be subject to scrutiny by the European Parliament, as well as being equipped with adequate financial means.

On 4th April 2006, and under the aegis of the Austrian Presidency, the European Parliament, the Commission and the Member States agreed on a new Inter-institutional Agreement (IIA) concerning the Financial Framework 2007–2013. They decided on several changes for the EU's external policy, which is covered under Heading 4 of the Agreement: "The EU as a global player" (see Annex, p. 7). Heading 4 lists 8 categories of external activities: an Instrument for Pre-Accession; a European Neighbourhood and Partnership Instrument; Development Cooperation and Economic Cooperation Instrument; an

Instrument for Stability; CFSP; the provisioning of a Guarantee Fund; an emergency aid reserve and other *ad-hoc* envelopes such as humanitarian aid etc. One of the main outcomes of the IIA is that an extra € 1 billion will be allocated to the EU's external policy. €800 million of this goes to CFSP, and €200 million to the newly established European Neighborhood & Partnership Instrument that covers the countries of the south and eastern Mediterranean, the southern Caucasus and the strategic partnership with Russia. Furthermore, both the Emergency Aid- which has the purpose of providing a rapid

response to unforeseen events in non-member countries—and the Solidarity Fund—which is intended to allow rapid financial assistance in the event of major disasters in the Member States or candidate countries—will be financed outside the budget with money provided directly by the Member States. The Flexibility Instrument, which is used for unexpected eventualities, has been renewed (€200 million *per annum*). If the funds provided for the Flexibility Instrument are not used they may be carried over, but must be used within 2 years; the Flexibility Instrument can be used for the same category of expenditure for several years. It will now be possible to use it for the same action and for more than one year (e.g. Iran).

Finally, the Commission will present an evaluation of the functioning of the IIA and the European budget by the end of 2009 possibly with proposals for modification, and both the current and the newly elected European Parliament (elections are in 2009) will take part in the assessment by voting on the Commission's budget review.

Despite these changes, those examining the financing of CSFP still find themselves faced with a considerable conundrum, namely who spends exactly how much on what. This problem is of particular relevance against the background of possible future missions in Kosovo or Congo. Two problems are directly associated with this conundrum: there is a lack of democratic control over military policy activities and the related spending; and the member states provide insufficient resources to fund the EU's ambition to become a fully-fledged actor in its foreign and security policy, meaning that additional money is diverted from sources outside the budget.

Transparency

Above all, this conundrum is about transparency because the funding of, for example, EU missions in third countries falls only partly under the EU budget, EU Member States are also providing money

for envisaged EU missions from outside the EU budget. Furthermore, funds for EU missions have to be distinguished between foreign policy measures undertaken in the context of the First Pillar (mostly civilian aspects) and those of the Second Pillar of the Treaty on European Union (mostly military aspects).

For both the civilian and military aspects of the EU's external policy, there are 7 basic ways of allocating funds within and beyond the official EU budgetary procedure which will be explained below (see also Table 1, p. 3).

For civilian operations, there are three ways of funding:

1. The main way of funding is through the EU general budget, which includes the CFSP budget (see Annex, p. 7).
2. A second means is to fund operations through the European Development Fund; this Fund is not in the general budget but can be used to support civilian crisis management operations in ACP countries that are run by organisations working in close cooperation with the EU.
3. EU civilian operations can also be financed outside the EU budget from national contributions if the Council so decides by unanimity; these are *ad-hoc* missions.

There are 4 channels of financing missions that have a defence or military component. According to the Treaty provisions, the European Security and Defence Policy (ESDP) is a matter of purely intergovernmental cooperation where Member States' competencies are still predominant. Therefore, ESDP funding is realized from outside the EU budget.

The ESDP missions can be financed firstly by the ATHENA mechanism, which was established in February 2004. For the ATHENA mechanism, the contributions of the Member States are determined according to a gross national product scale; the only country that does not participate is Denmark. Third countries may contribute as well.

Secondly, the missions can be financed

by contributions of the Member States according to the NATO principle “costs lie where they fall”. This principle has the disadvantage of creating uneven burden-sharing amongst the contributing Member States, as it is difficult for the smaller Member States to act as a leading nation or furnish the mission from their own military and defence resources.

Thirdly, the ESDP agencies such as the European Defence Agency (in charge of development of defence capabilities; armaments cooperation; research and technology), the European Institute for Security Studies (contributes to research and analysis), and the European Union Satellite Centre (generates information for crisis monitoring and conflict prevention) have their own budgets made up of national contributions.

Finally, there is the possibility of administrative costing—something which is not clearly defined—and of the member states’ co-financing certain projects with private companies, international organisations, or the EU.

Table 1
Range of funding options for EU foreign policy

<i>Civilian</i>	<i>Military</i>
1. EU general budget (includes CFSP budget)	1. ATHENA mechanism
2. European Development Fund	2. “Costs lie where they fall” principle
3. Ad-hoc missions	3. Own budgets of ESDP agencies
	4. Administrative costing and co-financing of projects by partners

In practice, the EU has completed 4 missions and 13 are ongoing; of these 17 operations only 3 have been purely military and the remainder are made up of either purely civilian or a mix of civilian and military

elements, and thus of CFSP and ESDP elements. The current trend whereby the EU’s operations consist of both civilian and military components is likely to continue; this will be the case in the largest EU mission yet, the Kosovo mission of 2007. Mixed interventions such as police missions, e.g. the EU police mission in Bosnia-Herzegovina (EUPM), fall under a grey zone between *ad-hoc* arrangements and CFSP budget financing.

Transparency is important because a detailed description of proposed expenditure allows the general public as well as the European Parliament and national parliaments to “know where the money goes”. It is the European taxpayers’ money which is being spent; together with accountability, transparency is at the very heart of democracy.

Accountability

A lack of accountability relates also to the EU foreign policy conundrum. The idea of accountability implies that the European Parliament should be able to exert decisive democratic control over the CFSP decisions. This even more so, as the funding for military, police and civilian EU operations has increased and in the future will, in all likelihood, grow even further.

The EU budget is not just a technical instrument compiling income and proposed expenditure; rather it reflects the EU’s political objectives and priorities for the future. Control of the budget is a very important way to influence policy. Moreover, mismanagement of funds, hidden expenditure, and nepotism are possible dangers if the European Parliament lacks democratic control over the financing of EU foreign policy.

However, despite the consultation right established by the IIA as regard to Joint Actions, the European Parliament is hampered in its efforts at controlling the EU’s financing due to the opacity of the allocation of funds (off-budget financ-

Table 2
EU Missions (May 2006)

<i>Completed missions</i>	<i>Ongoing EU missions</i>
1. EU Police Mission in the former Yugoslav Republic of Macedonia (EUPOL Proxima)	1. EU Police Advisory Team in the Former Yugoslav Republic of Macedonia (EUPAT)
2. EU Military Operation in former Yugoslav Republic of Macedonia (CONCORDIA)	2. EU Police Mission in Bosnia-Herzegovina (EUPM)
3. U Rule of Law Mission in Georgia (EUJUST THEMIS)	3. EU Military Operation in Bosnia and Herzegovina (EUFOR-ALTHEA)
4. EU Military Operation in Democratic Republic of Congo (ARTEMIS)	4. EU Police Mission in the Palestinian Territories (EUPOL COPPS)
	5. EU Border Assistance Mission at Rafah Crossing Point in the Palestinian Territories (EUBAM Rafah)
	6. EU Integrated Rule of Law Mission for Iraq (EUJUST LEX)
	7. EUFOR DR Congo
	8. EU Police Mission in Kinshasa (DRC) (EUPOL Kinshasa)
	9. EU security sector reform mission in the Democratic Republic of the Congo (EUSEC DR Congo)
	10. EU Support to AMIS II (Sudan, Darfur)
	11. EU Monitoring Mission in Aceh (AMM Monitoring Mission)
	12. EU Border Assistance Mission to Moldova and Georgia (EUSR support in Moldova and Georgia)
	13. EUPT Kosovo (new)

ing, and parallel budgets and mechanisms), and by a lack of adequate rights to oversee military spending.

The first condition for realising accountability is a transparent budget. In this context, accountability goes hand in hand with transparency because only when it is clear how much the EU spends on what (e.g. Joint Actions), can the European Parliament initiate a finance check.

Secondly, the European Parliament should be equipped with genuine rights of information and consultation concerning the funding of CFSP. In particular, the Council should inform and consult the European Parliament before, rather than after, it takes decisions on EU operations.

Accountability is crucial because the exact nature and sources of the financing of CFSP need to be accounted for to the European public as well as to the European Parliament and the national parliaments. These actors should be able to make valid assessments of the EU's defence spending. Only if they have oversight and control over the financing of CFSP, can they debate the policy and bring forward alternative proposals.

Funding

A third aspect of the conundrum surrounding the financing of the EU's foreign policy arises from the fact that the EU—even though it decided to increase CFSP

spending for the new budget period—still does not allocate sufficient funds for its overall external policy. The EU's ambitions as a global actor (as set out by the European Security Strategy of December 2003) are not commensurate with its foreign policy budget. In order to realise its ambitions to become a global actor, the EU and the Member States must be willing to dedicate more financial means to CFSP.

In terms of figures, what would be appropriate? The European heads of state and government discussed this question at an informal meeting at Hampton Court; this was followed by a letter on 14th December 2005 from the Secretary General of the Council/High Representative for CFSP (SG/HR) Javier Solana to the British Prime Minister Tony Blair. In this letter, Javier Solana, for 2006, recommended € 120 million for CFSP missions; crucially this figure did not include the Kosovo mission. Another estimate by one head of government was € 300 million per year for CFSP. If the EU were to provide enough funding for its CFSP, the Member States would no longer have to improvise ways to transfer funds to Heading 4 'CFSP' from the other Headings of the budget or from further sources, such as the aforementioned parallel budgets or the other mechanisms set out in Table 1 (p. 3).

A CSFP Fund

The conundrum of CFSP financing can only be solved with the benefit of a complete picture of the sources of its funding. The current financing system consists of a complex range of funding options, and in order to diminish the main constraints of a lack of transparency, of democratic control, and insufficient spending, a new CFSP Fund should be introduced. All EU missions, both civilian and military, should be financed from this Fund; this would ensure coherence between CFSP and ESDP, especially in light of the fact that the mix of civilian and military elements in EU operations is already a reality, and a clear

separation between the two remains an impossibility. A new CFSP fund would replace the different ways of funding by a single procedure and would it make easier for the European Parliament and national parliaments to "know where the money goes."

There are two options for the institutional design of the CFSP Fund.

Firstly, and preferably, the Fund could be part of the EU general budget. This would imply that the rules of the EU budget would apply to it; the Member States' contributions to the Fund would be determined according to fixed Gross National Income (GNI)-based resources without any further influence by the national authorities. The Fund would be, in general, accountable to the European Parliament because, together with the Council, it has budgetary authority. However, by 2007 a special procedure for CFSP expenditure must be applied. The European Parliament is not any more fully involved than with other expenditure. It can freeze any increase in the annual CFSP envelope, but cannot make amendments within this envelope (it has no say over the allocation of funds), nor can it put money in the reserve, as the European Parliament sometimes does with other lines of expenditure in order to gain more information and clarification of spending.

Secondly, the CFSP Fund could be situated outside the EU budget. In this case, every Member State should indicate by means of a budgetary document and on a multi-annual basis how much funding it wishes to commit; this would facilitate "burden-sharing" between Member States. This option would, however, require that the contributions and priorities should be subject to control by the European Parliament.

In 2009, the EU plans to review the EU budget; this is a window of opportunity to introduce the new CFSP Fund for EU missions, either as part of the general budget or outside of it. For both options it is important to improve the democratic

quality of decision-making: the more the European Parliament is involved in the funding of external policies in general, and CFSP in particular, the more likely it is to reduce the deficits of transparency, accountability and democratic control in the EU's foreign policy.

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Annex

Financial Framework^{a)} 2007–2013

Indicative breakdown of expenditure with adjusted financial envelopes after
Triologue of 4 April 2006

Heading 4

The EU as Global Actor

(2004 prices)	2006 ^c	2007	2008	2009	2010	2011	2012	2013	2007– 2013 total	Change 2013/ 2006
Instrument for Pre-Accession (IPA) ^{b1}	1.121	1.193	1.290	1.353	1.452	1.565	1.660	1.700	10.213	52%
European Neighbourhood & Partnership Instrument (ENPI) ²	1.274	1.390	1.400	1.437	1.470	1.530	1.640	1.720	10.587	35%
Development Cooper. & Economic Cooperation Instrument (DCEC) ³	1.862	2.000	2.060	2.116	2.167	2.190	2.246	2.324	15.103	25%
Instrument for Stability ⁴	531	232	268	338	363	400	430	500	2.531	-6%
CFSP ⁵	99	150	185	220	250	285	310	340	1.740	245%
Provisioning of Loan Guarantee Fund	220	188	185	181	178	174	171	167	1.244	-24%
Emergency aid reserve	221									-100%
Other (humanitarian aid, macro- financial assistance, ad-hoc enve- lopes, traditional agencies & margin)	894	1.046	1.081	1.094	1.129	1.196	1.222	1.278	8.046	43%
Total heading 4^b	6.222	6.199	6.469	6.739	7.009	7.339	7.679	8.029	49.463	29%

All figures have been calculated using a 2% annual deflator between 2004 and 2013.

- a The **European Development Fund**, the **EU Solidarity Fund** and the **Emergency Aid** reserve are not included in the financial framework.
- b The 2006 figure does not include appropriations for BG/ROM nor the amount (€ 134 mn) proposed for 2006 by the Commission for the northern part of Cyprus.
- c The breakdown for the year 2006 is based on the 2006 budget.
1. **Pre-Accession Instrument** will cover the candidate countries (Turkey and Croatia) and the potential candidate countries (the Western Balkans). It replaces existing instruments PHARE, ISPA, SAPARD, CARDS as well as a number of other regulations.
2. The **European Neighbourhood and Partnership Instrument** will cover third countries participating in the European Neighbourhood Policy i.e. the countries of the South and Eastern Mediterranean, Ukraine, Moldova and Belarus, and the countries of the southern Caucasus, thus replacing MEDA and part of TACIS. This instrument will also support the EU's strategic partnership with Russia. A specific and innovative feature of the instrument is its cross-border co-operation component: it brings together regions of Member States with neighbouring countries sharing a common border.
3. The **Development Co-operation and Economic Co-operation Instrument** will cover all countries territories and regions that are not eligible for assistance under either the Pre-Accession instrument or the European Neighbourhood and Partnership instrument (replacing ALA, EDF etc.)
4. The **Instrument for Stability** is a new instrument to tackle crises and instability in third countries and address trans-border challenges including nuclear safety and non-proliferation, the fight against trafficking, organised crime and terrorism.
5. Within the **CFSP** budget chapter, the articles into which the CFSP actions are to be entered could read along the following lines: crisis management operations; conflict prevention; resolution and stabilisation; monitoring and implementation of peace processes; non-proliferation and disarmament; emergency measures; preparatory and follow-up measures; European Union Special Representatives.

Source: European Commission, *Multiannual Financial Framework 2007–2013*, Fiche no 94 REV1, 11 April 2006