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The European Cup of Economic Affairs- UK vs France

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Introduction

The first EU budget was drafted in 1988 under the so-called "Delors Package I." Its budgetary headings and monetary distribution have remained unchanged until 14th July 2004, when the Commission adjusted its traditional model to a new system of headings to adapt the budget to an evolutionary economical environment.

The budget of the European Union distinguishes itself from other international bodies by its exclusive system of the so-called "own resources." This system is composed of the revenues obtained by (1) the Common Customs duties collected under the external tariff; (2) the levies in imported agricultural products; (3) the Value Added Tax revenue; and (4) the Gross National Income based resources.

The EU budget sets out and authorizes the total amount of revenues and expenditures annually deemed necessary by the European Community and the European Atomic Energy Community. However, the EU budget is a seven-year multi-annual spending plan articulated around a ¨financial framework¨ that ensures the control of the evolution of the budget expenditure.

The budget is drafted and implemented under the ¨Financial Programming and Budget¨ Directorate General and is supervised by the European Parliament and the Court of Auditors. The EU budget not only rests on the three basic accounting principles: unity, annuality and balance, which guarantee its economic efficiency, but also on the composition of its revenues, the so-called "own resources."

History and Structure Analysis

One feature that distinguishes the EU from other international bodies is that it reflects the depth of the integration process in its budget. Unlike other international institutions that receive funding from their member states, the EU is financed exclusively by a system of "own resources."

The general budget of the EU is the instrument which sets out and authorizes the total amount of revenues and expenditures deemed necessary for the European Community and the European Atomic Energy Community for each year.[1] The budget is drafted under a Directorate-General whose Commissioner, Dalia Grybauskaite and its Director-General, Luis Romero Requena,[2] have the task of presenting the annual budgetary draft for the Union and implementing it under the supervision of the European Parliament and the Court of Auditors.

[1]Final Adoption of the general budget of the European Union for the financial year 2005 (Official Journal L 60, 08/03/2005) (Corrigendums) http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/oj/2005/l_060/l_06020050308en00090020.pdf

[2]Organization Chart. Http://europa.eu.int/comm/dgs/budget/organigrams/index_en.htm

The task of the Budget Directorate-General (DG) is to come up with the so-called Preliminary Draft Budget where the financial and budgetary rules are laid down. Once it has been approved, the DG has the mission of encouraging sound financial management by the Commission monitoring the annual budgetary procedure and producing the annual accounts. The Commission is bound to implement the budget in compliance with rules described by the DG as well as ensuring that funds are used as efficiently as possible. Finally, the various Directorates-General and Services in the Commission are responsible for implementing Community programs in their respective areas as well as managing the appropriations earmarked to finance them.

The Preliminary Budget Draft (PBD) is presented to the Council of Ministers in late April, or some time in early May, and studied by the Budget Committee. Normally, the PBD is amended, and once it is approved by the Council, the PBD is then passed on to the Parliament, which also has the right to propose amendments before approving the final budget. If differences were to arise between the Council and the Parliament, the Council makes the final decision on compulsory spending. Nevertheless, the Parliament can reject the budget by a two-thirds vote and ask for it to be redrafted. Finally, when the PBD is approved in the Parliament, it goes back to the Budget DG to be applied and observed by the Court of Auditors.

The EU budget is founded on three **basic accounting-economic principles:**

- **Unity -** overall expenditures and revenues must be framed in one single document;
- **Annuality -** budgetary operations are linked to a financial year;
- **Balance -** expenditure can never exceed revenues.

The distinguishing characteristic of the EU Budget is that it is financed by its own resources. The member states determine the upper limit of their own resources, which in turn belong to the EU and not to the states. Own resources cannot exceed 1.24% of the Gross National Income (GNI) of the EU although ¨six EU countries (including Germany, the biggest net contributor) want to cap it at 1% of EU gross national income.¨[3] Since the member states met to draft the so-called Agenda 2000, there have always been wide discrepancies among EU members states concerning national and functional allocations of EU revenues and expenditures.[4] Nevertheless, the composition of the revenues in the EU budget is as follows:[5]

- Common Customs duties collected under the common external tariff and collected in respect of trade with non-member countries;
- Levies in imported agricultural products;
- Proportion of the Value Added Tax (VAT), which is determined in a standardized manner for member states;
- GNI-based resources, or the application of a rate to a base representing the sum of member states´ GNP at a market price.

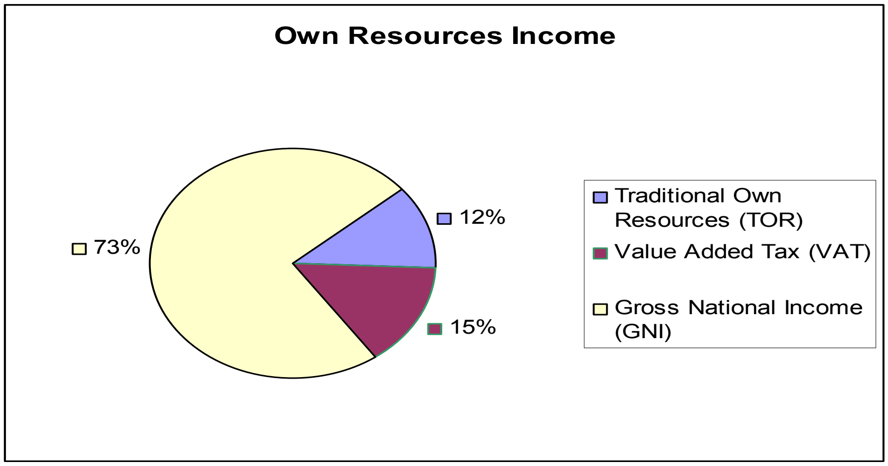
The first two groups are called Traditional Owned Resources (TOR), which are collected by member states on behalf of the EU, and accounts for around 11.6% of the total EU revenue. It is important to notice that members keep 25% of the collection. The VAT revenue is levied equally on

[3]Ernst & Young. EU Budget. http://www.ey.com/global/download.nsf/Belgium_E/EU_Brief_Feb-Mar2004/$file/EU_Brief_Feb-Mar2004.pdf

[4] Domenech, R., and Angel de la Fuente. The redistributive effects of the EU budget: An analysis and some reflections on the Agenda 2000 negotiations. ftp://prinfed.fedea.es/pub/eee/eee32.pdf

[5]The financing of the budget. http://europa.eu.it/comm/budget/financing/index_en.thm

member states´ VAT collections, and accounts for around 14.4% of the total EU revenue. Finally, the GNI is used to balance budget revenues and expenditures, and it accounts for around 73% of total EU revenue[6] (see graph below: Own Resources Income).



Source: www.europa.eu.int

The EU budget is a multi-annual spending plan that is articulated around a Financial Framework that safeguards the control of the evolution of the budget expenditure, ensures a predictable inflow of resources, facilitates the agreement of the annual budget, and aids planning of multi-annual programs and projects. The EU makes a distinction between expenditures that are a direct result of a treaty application, called compulsory expenditure, and those which are not, called non-compulsory expenditure. Each one accounts for around 50% of the total budget for payments. So far, there have been three financial frameworks:

- The Delors Package I, covering years 1988-1992, and focused on establishing the Internal Market and consolidating the multi-annual research;
- The Delors Package II, covering 1993-1999, and focused on giving priority to social and cohesion policies and the introduction of the Euro;
- The current framework, known as Agenda 2000, which covers period 2000-2006 and is focused on the EU enlargement.

The EU Budget for the Financial Framework 2007-2013

On 14 July 2004, the Commission proposed that the fourth financial framework should cover the years 2007-2013, and should amount to €826.363 billion. Its main goal was to prioritise sustainable growth and competitiveness in order to create more jobs[7] although the EU leaders have failed to agree on a new way to allocate the EU money.[8]

There has been an agreement on a new budget structure, part of which can be attributed to Professor André Sapir,[9] who concluded that the EU budget is a "historical relic" that is not helping

[6]The financing of the budget. http://europa.eu.int/comm/budget/financing/index_en.htm
[7] What is the Financial Framework? http://europa.eu.int/comm/financial_perspective/questions/index_en.htm
[8] Commission holds extraordinary seminar on EU´s problems. http://euobserver.com/?aid=19894&rk=1
[9]*André Sapir* is Professor of Economics at the Université Libre de Bruxelles, where he holds a chair in international economics and European integration. Since May 2001, he is also Economic Advisor to the President of the European Commission. He was the Chairman of the High-Level Study Group appointed by President Prodi which authored the report "An Agenda for a Growing Europe", released in July 2003 and published by Oxford University Press in March 2004. He holds a PhD in Economics from The Johns Hopkins University in Baltimore.

Europe's economic growth. Professor Sapir recommends that the EU should reduce the portion of the budget it spends on agricultural support to just 15% compared with the current 40%.[10] Despite these discrepancies, the future fourth financial framework for 2007-2013 is going to present major heading and investment distribution changes, but is still going to keep the Common Agricultural Policy (CAP) and Structural Funds (SF) distribution for the poorer regions of member states[11] (see table bellow: A Comparative Analysis of Budget Structure).

A COMPARATIVE ANALYSIS OF BUDGET STRUCTURE

Commitment under Delors I & II and Agenda 2000	**New Commitment for 2007-2013.** **New Headings**
Agriculture	Heading 1A Competitiveness for growth and employment
Structural Operations	Heading 1B Cohesion for growth and employment
Internal Policies/Actions	Heading 2 Preservation and management of natural resources
External Policies/Actions	Heading 3 Citizenship, freedom, security and justice
Administrative Expenditures	Heading 4 The EU as a global partner
Pre-accession strategy	Heading 5 Other (Administrative cost in other EU-Institutions that the European Commission)

Sourcewww.europa.eu.int

Needless to say, for the Commissioner Dalia Grybauskaite, the preparations for the fourth financial framework 2007-2013 must be considered as an unprecedented recasting **of** the financial framework since the headings and investment approaches will vary from the traditional standard headings of the past three financial budgets; therefore, the 2007-2013 Financial Framework is intended to show full commitment toward growth and employment in the Member States but maintaining past CAP and Structural Fund investments.[12]

Accordingly, with the new structure, the Financial Framework,[13] Heading 1 on Competitiveness for Growth and Employment has two subtitles. Heading 1-A on Research,

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[10] Peet, John. The EU Budget: a way forward. www.cer.org.uk/pdf/policybrief_peet_budget_july05.pdf

[11] Begg, Iain. An agenda for a growing Europe: Making the EU system deliver, July 2003. http://www.cer.org.uk/pdf/briefing_budget_begg.pdf

[12] Investing in our future. http://europa.eu.int/comm/financial_perspective/pdf/technical_briefing_050606.pdf

[13] http://www.eu.int/comm/financial_perspective/pdf/FP_post_summit_12_20051.pdf

Transport and Energy has been designed to help refocus the European support for the Lisbon Agenda. At the same time, this heading is expected both to stimulate growth by promoting competitiveness and to increase investment in modernizing the economy. Secondly, Heading 1-B covers ¨Convergence, Regional Competitiveness and Employment¨ and it is oriented to boost investment through cohesion policy and to preserve structural support to the poorest regions; hence, it is considered a good basis for new member states to converge with the rest of the EU.

Heading 2 on Common Agriculture Policy (CAP), Rural Development and Fisheries is generally titled ¨Preservation and Management of Natural Resources¨ and is oriented on the one hand to reinforce the competitiveness of our agriculture and strengthen rural development, and on the other hand, to preserve direct payments corresponding to those agreed within the CAP reform.

Heading 3 on Citizenship, Freedom, Security and Justice is dedicated to freedom, security and justice, health, culture, youth, media, and the European Solidarity Fund. In this new area, resources for community programs in the field of combating fraud, terrorism, border protection, and other measures will increase significantly over the seven-year period.

Heading 4, titled ¨EU as a Global Partner¨ is based on pre-accession instruments, neighborhood accession instruments, neighborhood and partnership instruments, and finally development cooperation instruments. Basically, it aims at the strengthening of the EU's role as a regional leader and a sustainable development partner to consolidate the EU´s role in global political governance.

Finally, Heading 5**,** titled ¨Administration¨ sets as its objective to budget an account for the administrative expenses needed to maintain effective implementation of programs.

The EU Member States Summits and Council Meetings to Solve the Budget Impasse

Although talks on the budget for 2007-2013 broke down at a summit in June 2005, on December 17 the EU´s 25 members finally reached an agreement on the budget, which was also backed up by the European Parliament on December 20th, 2005.

In June 2005, there was no agreement reached between the Britain's rebate check from EU and France's CAP policies, freezing the budget talks ever since.[14] At that summit, ¨Blair insisted that, if the British rebate were to be put on the table, the CAP should be as well. Mr. Chirac rejected such an approach out of hand, and the summit collapsed amid bitter recriminations."[15] After many hours of intense negotiation, Mr. Juncker, as President of the Council of the European Union, had to withdraw his budgetary proposal for the fourth financial framework because it had been rejected by most of the member states for various reasons.

The UK held the Presidency of the EU from July to December 2005, and Mr. Blair had as a priority to reach an agreement on the budget during his six-month term, with a ECOFIN meeting in Brussels scheduled for December 6th, 2005**.** During this time he passed the "2007-2014 Financial Framework" under the UK Presidency. The agreement accepted the transferring of monetary funds from agricultural spending to investments in research and innovation. In fact, the problem resides in a complete lack of agreement between the UK and France: the UK refuses to give up €4.6 billion

[14] Reuters. Britain under pressure over EU budget impasse. http://uk.news.yahoo.com/12102005/325/britain-under-pressure-eu-budget-impasse.html

[15] Peet, John. The EU Budget: A way forward. http://www.cer.org.uk/pdf/policybrief_peet_budget_july05.pdf

from its rebate check unless the UK sees a commitment from France to curb its farm subsidies. The money saved from the UK check rebate and France's farm subsidies will be reinvested ¨in knowledge, in skills, in active labour market policies, in science parks and innovation, in higher education, in urban regeneration, in help for small businesses."[16] It is believed that there are two key requirements to reach a budgetary agreement: the first would be to reduce overall spending providing relief to net contributors to the EU budget, including not only Britain, but also Finland, the Netherlands, and Sweden; the second key requirement would be to obtain a firmer commitment to a mid-term review of all EU spending, including agriculture.[17]

Finally, on December 16, 2005**,** after six months of silent struggle between France´s position and UK´s demands for change an agreement was achieved. This agreement has been reached after Mr. Blair´s concession of €10.5bn of the UK rebate check towards the costs of enlarging the club to the east, while Mr. Chirac retained his veto power over any decision to cut the subsidies of the common agricultural policy before the end of the 2007-13 budget period. After the negotiation, Mr. Blair stated, "(t)his is about getting an agreement that allows Europe to move forward. [The budget is] an investment in those central and Eastern European economies, to help them grow, to help them develop."[18]

In conclusion, the final budget distributions are based on a maximum total figure, which for the EU´s 27 countries, for the period 2007-2014, will be €862.363 billions, representing 1.045% of EU GNI.[19] The final breakdown of the appropriations for commitments is described in the table below.

COMPETITIVENESS FOR GROWTH AND EMPLOYMENT	Heading 1A: •*Research, Transport and Energy, Progress (Social Policy Agenda), etc*	□72.1 bill
	Heading 1B: •*Cohesion for Growth and Employment*	□307.6 bill
PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES	Heading 2: •*Common Agricultural Policy (CAP), Rural Development, Fisheries*	€371.6 bill
FREEDOM, SECURITY AND JUSTICE	Heading 3: •*Freedom, Security & Justice Health, Culture, Youth, Media, European Solidarity Fund*	€1.9 bill
THE EU AS A GLOBAL PARTNER	Heading 4: •*Pre-accession Instruments, Neighborhood & Partnership Instruments,*	€8.1 bill

[16] Blair, Tony. Speech to the European Parliament, 25 June 2005. http://www.fco.gov.uk/Files/kfile/UKEUPresidency2005_Sp_PM_EuropeanParliament_230605,0.pdf

[17] Orozco, Miguel. DG Press and Communication. Barroso Seeks to Solve EU Budget Crisis.

[18] Financial Times. EU seals budget deal with more aid to east. http://news.ft.com/cms/s/5e1ed182-6ebc-11da-a3f1-0000779e2340.html

[19] Council of the European Union. Financial perspective 2007-2014. http://www.fco.gov.uk/Files/kfile/FinancialPerspective_16Dec.pdf

	Development Cooperation Instruments.	
ADMINISTRATION	Heading 5: •*Total Administrative Expenditure*	€7.7 bill

Source: El Mundo, Sábado 17 de Diciembre de 2005. p. 36

Conclusion

Commissioner Grybauskaite stated that the budget agreement in December 2005 would only be possible if Prime Minister Blair were to commit himself to this goal. After six months of budgetary impasse, a new Financial Framework was approved to provide the financial means necessary to address inequalities in the levels of development in an enlarged Union. Right after the agreement was reached and the budget approved by the European Parliament, Mr. Barroso stated, “I welcome the fact that the Member States have now reached a deal. This is a very important political signal for Europe. Europe has avoided paralysis. Europe is on the move again.”[20]

This newly approved fourth financial framework attest to determined efforts toward budgetary discipline and it is consistent with the principles of subsidiary, proportionality, and solidarity. It covers the years between 2007 and 2013, and has been drawn up for a EU comprising 27 member states since it already takes into account that Bulgaria and Romania will join the Union in 2007.

Expenditure under this financial perspective has been grouped under five new major headings designed to reflect the Union's political priorities. It also allows for the necessary flexibility in the interest of efficient allocation of resources. The maximum total figure for expenditure for the EU’s 25 countries for this period would be € 862,363 million in appropriations for commitments, representing 1,045% of EU GNI. Finally, in this new perspective and in order to be able to reach an agreement, Mr. Blair has given €10.5 million of the UK rebate check while France’s CAP subsidies have remained unchanged.

[20] Orozco, Miguel. DG Press and Communication. No. 5376. Brussels, Saturday 17, 2005.