This subject profile provides details of the way in which the European Union budget is agreed and then how it is collected.
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THE EUROPEAN UNION BUDGET

As with all international organisations the European Union requires a budget. The budget pays for the EU’s running costs and more importantly finances the EU’s strategic policy programmes such as structural funds and research and development funding.

HOW THE BUDGET IS AGREED

In the first instance, the European Commission puts forward a proposal for an overall EU budget covering a number of years, this is known as the multiannual financial framework. The multiannual financial framework is designed to ensure that “Union expenditure develops in an orderly manner and within the limits of its own resources” (Article 312 of the Treaty on the Functioning of the European Union). Crucially, the European Union can only spend the money it raises and cannot go into deficit. The multiannual financial framework is required to last for at least five years. Recent frameworks have lasted for seven years including the current one which will run until the end of 2013.

The multiannual financial framework must be agreed unanimously by the Council of Ministers and must receive the consent of the European Parliament. According to Article 312(3) of the Treaty on the Functioning of the European Union; “the financial framework shall determine the amounts of the annual ceilings on commitment appropriations by category of expenditure and of the annual ceiling on payment appropriations. The categories of expenditure, limited in number, shall correspond to the Union’s major sectors of activity.”

Within these categories, it is for the Council of Ministers and the European Parliament to agree on the specifics of the budget for each year. Article 314 of the Treaty on the Functioning of the European Union outlines the process for agreeing the Annual Budget. It broadly follows the same approach as the Ordinary Legislative Procedure.

The European Commission is required to submit a proposed draft budget to the European Parliament and the Council by 1 September of the year preceding the year for which the budget will apply. Following this, the Council has one month (until 1 October) to agree its position on the budget and forward this, along with the reasons for its position to the European Parliament. The European Parliament then has forty two days to either agree the Council position or to adopt amendments (by a majority of its members).

At this point, the difference between the Ordinary Legislative Procedure and the procedure used to agree the annual budget is activated. Instead of going to a second reading in the Council and the European Parliament, a Conciliation Committee is established by the European Commission to find an agreement between the Council and the European Parliament. The Conciliation Committee has fourteen days to agree a common position.

If a common position is agreed, the Council and the European Parliament has fourteen days to agree the text or to reject it. The European Parliament must approve the text for it to be adopted. If the Council chooses not to approve the text, it can still be adopted if the European Parliament “acting by a majority of its component members and three-fifths of the votes cast, decide to confirm all or some of the amendments…..Where a European Parliament amendment is not confirmed, the position agreed in the Conciliation Committee on the budget heading which is the subject of the amendment shall be retained.” (Article 314(7(d)) Treaty on the Functioning of the European Union) In this instance the budget would be deemed to be adopted despite not having the backing of the Council.
FINANCING THE BUDGET

Article 311 of the Treaty on the Functioning of the European Union states that; “The Union shall provide itself with the means necessary to attain its objectives and carry through its policies”. Article 311 goes on to state that “without prejudice to other revenue, the budget shall be financed wholly from own resources”.

Previously the European Union’s budget had depended entirely on contributions from member states own national budgets. Introducing a system of own resources meant the European Union became financially independent. This is because own resources are sources of finance which accrue automatically to the European Community from member states.

The budget is financed by member states in three different ways. Through “Traditional Own Resources” which is customs revenue generated for the European Union by Community legislation, through Value Added Tax resources and through a system linked to GNI.

The GNI-based contribution is the largest part of each member state’s payment and is set each year by the EU to balance the budget.

Traditional Own Resources

Traditional Own Resources (TOR) are sources of revenue generated exclusively by the European Commission as a result of European Community legislation. For example, European Community customs legislation which governs customs duties on goods (including agricultural produce) imported into the European Union provide for a common customs tariff which is collected by member states who receive a percentage of the resources as compensation for collecting them. The level of compensation is currently 25% of the tariff.

Value added tax

In 1970, Value Added Tax (VAT) resources were introduced to supplement the budget which had previously relied only on traditional own resources. However, due to delays trying to agree a VAT base figure the VAT resource did not come into use until 1980.

The resource based on (VAT) is a uniform percentage rate that is applied to each member state’s harmonised VAT revenue. The VAT resource is currently calculated at 0.33% of each member state’s tax base. The tax base is a theoretical construct that compensates for the fact that neither the VAT rate nor the list of goods and services covered by VAT are harmonised at EU level.

Gross national income

The GNI own resource (originally Gross National Product) was introduced in 1988. One of the main reasons for its introduction was to introduce a new resource to balance the budget and ensure the European Union was able to raise as much money as it needed to spend. This is important because the EU budget must always be in balance. The GNI resource is a uniform percentage rate (currently 0.73%) applied to the GNI of each member state.
This diagram illustrates the breakdown between the resources which make up the European Union budget. It also shows how the level of each resource as a contribution to the overall budget has changed over the last decade. This comparison highlights the increased reliance on GNI based resources.

(European Commission 2011)
THE 2007-2013 BUDGET

Negotiations for the 2007-2013 EU budget were controversial and drawn out. The European Commission and many of the new member states wished to see a higher budget, whilst many of the larger states and in particular the net contributors at the time\(^1\) (Austria, Germany, France, United Kingdom, Denmark and Sweden) held out for a smaller budget.

The European Commission originally proposed a budget of around 1.24% of EU GNI (amounting to €1,025 billion) whilst the six net contributors proposed a budget of 1% of EU GNI. After protracted negotiations, a budget deal was reached at the European Council meeting on 19 December 2005. Member states agreed an overall budget of 1.045% of EU GNI amounting to a total of €862 billion.

The budget was finally ratified by both the Parliament and the European Council in April 2006 with the Parliament securing a further €2 billion for the budget.

The pie chart produced by the Foreign and Commonwealth Office indicates the different areas in which the EU budget will be spent.

![Pie chart](Source: UK Government Foreign and Commonwealth Office 2007)

\(^1\) Those member states who contribute more to the EU budget than they get back in terms of EU spending. Examples of EU spending in member states are Common Agricultural Policy payments and European Structural Funds.
United Kingdom Contributions to and Receipts from the EU Budget

HM Treasury (2010) has produced figures showing how much the UK has paid towards the EU Budget and how much it has received back. The figures are for 2004 to 2010 and are reproduced in the table below. The figures confirm that the UK is consistently a net contributor to the European Union.

The UK’s net contribution to the EU Budget (£million)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Contributions</td>
<td>10,765</td>
<td>13,035</td>
<td>12,993</td>
<td>13,056</td>
<td>9,798</td>
<td>9,814</td>
<td>13,287</td>
</tr>
<tr>
<td>Total Receipts</td>
<td>6,330</td>
<td>7,796</td>
<td>7,258</td>
<td>6,331</td>
<td>5,655</td>
<td>4,941</td>
<td>6,225</td>
</tr>
<tr>
<td>Net Contributions</td>
<td>4,435</td>
<td>5,239</td>
<td>5,735</td>
<td>6,725</td>
<td>4,143</td>
<td>4,873</td>
<td>7,062</td>
</tr>
</tbody>
</table>

*The figures for 2010 are forecasts, those for earlier years are outturn.

**SOURCES**


RELATED BRIEFINGS

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