Union's budget: system of the European Communities' own resources, adjustment of the United Kingdom correction, financial framework 2007-2013

2006/0039(CNS) - 08/03/2006 - Legislative proposal

PURPOSE : to establish the rules on the allocation of own resources.

PROPOSED ACT : Council Decision.

CONTENT : on 15–16 December 2005 the European Council reached a political agreement on the

financial framework 2007-2013. The main conclusions were as follows:

- that the Commission must prepare a new Own Resources Decision and modify the accompanying working paper on the UK correction;

- the ceilings of own resources and of commitment appropriations should remain at their current levels;

- the own resources arrangements should be guided by the overall objective of equity. These arrangements should therefore ensure that no Member State sustains a budgetary burden which is excessive in relation to its relative prosperity. It is therefore appropriate to introduce provisions covering specific Member States.

Accordingly, this proposal on the system of the EC's own resources and its accompanying working paper on the UK correction amend the existing own resources provisions. These amendments concern:

- Provisions implementing the conclusions of the European Council of 15-16 December 2005 in the own resources area;

- Some adjustments of existing provisions to take into account developments since the existing Own Resources Decision was adopted by Council in September 2000 and to improve the legal and linguistic consistency of the provisions.

Implementation of European Council: Fixed rate of call of VAT: the European Council concluded that the rate of call of VAT shall be fixed at 0.30 % of Member States' capped VAT bases. Under the new system the rate of call will be fixed permanently at 0.30 %, which corresponds to the difference between the current maximum rate of call of 0.50 % and an average past value of the frozen rate of 0.20 %. The replacement of the current complicated and opaque system of calculating the VAT rate of call with a fixed rate of call is a welcome simplification that was long overdue. The link between the VAT rate and the UK correction via the 'frozen rate' is a historical relic from the pre-1988 own resources system when the UK correction was financed in proportion to Member States' uncapped VAT bases, whereas since 1988 it is financed in proportion to Member States' GNP/GNI bases. The establishment of a fixed rate of call of VAT (the uniform rate) at its current level is therefore a logical step, as the frozen rate no longer fulfils any meaningful purpose.

Temporarily reduced rates of call of VAT for specific Member States: the European Council concluded that for the period 2007–2013, four countries shall benefit from reduced rates of call of VAT to

reduce their respective budgetary burden. During this period the rate of call of VAT for Austria shall be fixed at 0.225 %, for Germany at 0.15 % and for the Netherlands and Sweden at 0.10 %.

Temporary reductions in the GNI contributions for specific Member States: the European Council concluded that for the period 2007–2013, the Netherlands shall benefit from a gross annual reduction in its GNI contribution of EUR 605 million and Sweden from a gross annual reduction in its GNI contribution of EUR 150 million, expressed in 2004 prices. These gross reductions will be financed by all Member States, i.e. including the Netherlands and Sweden. These reductions are not intended to increase the size of the UK correction, neither to reduce the shares of the Netherlands and Sweden in the financing of the UK correction. The gross reductions will therefore be granted after the calculation of the UK correction and its financing. This measure is intended to reduce the budgetary burden of these countries.

Adjustment of the UK correction to enlargement: the European Council concluded that the correction of budgetary imbalances in favour of the United Kingdom shall remain in full except for expenditure in the Member States which have acceded to the EU after 30 April 2004. Expenditure in these new Member States, with the exception of CAP market expenditure (agricultural direct payments and market-related expenditure as well as that part of rural development expenditure originating from the EAGGF guarantee section), shall therefore be excluded from total allocated expenditure for the purpose of calculating the UK correction. The reduction of total allocated expenditure shall be progressively phased in, starting with the 2008 correction to be budgeted for the first time in 2009 and reaching "cruising speed"with the 2010 correction to be budgeted for the first time in 2011. Accordingly, the percentage of enlargement-related expenditure to be excluded from the calculation of the UK correction is: in 2009 – 20%; 2010- 70%; 2011- 100%.

The European Council also concluded that during the period 2007–2013, the total adjustment of the amount of the UK correction resulting from this reduction of allocated expenditure shall not exceed EUR 10.5 billion, in 2004 prices.

The proposal therefore lays down that the Commission services shall verify each year whether the cumulated adjustment of the UK correction exceeds this amount. If it does, the UK contribution to the budget shall be reduced accordingly. The amount of EUR 10.5 billion shall, furthermore, be adjusted upwards in case of further enlargement before 2013, except for the accession of Romania and Bulgaria.

As soon as it has been phased in and provided that the ceiling of EUR10.5 billion for the period 2007–2013 is not breached, this adjustment of the UK correction mechanism will ensure that the UK fully participates in the financing of enlargement, with the exception of the agricultural expenditure..

The enlargement-related adjustment in the current Own Resources Decision shall cease to apply as from the 2013 correction to be budgeted for the first time in 2014.

Review of the own resources system: the European Council concluded that the Commission should undertake a full review covering all aspects of EU funding and spending and to report in 2008/2009.

The proposal for a Council Decision therefore lays down that in the framework of this full review, the Commission shall undertake a general review of the own resources system, accompanied, if necessary, by appropriate proposals.

Entry into force and effect: the European Council concluded that the new Own Resources Decision shall be adopted so that the ratification process for the new decision can be completed by all Member States to allow entry into force from the beginning of 2009 at the latest, with retroactive effect as from 1 January 2007. The provisions of previous Own Resources Decisions will continue to apply to the calculation of own resources and the UK correction for years prior to 2007.

Implementation of the European Council conclusions – new accompanying working document on the UK correction: the accompanying working document on the UK correction has been modified in order to take into account the proposed changes in the Own Resources Decision. They concern:

- the date that the working document takes effect;

- the elimination of the adjustment related to pre-accession aid;

- the new adjustment related to expenditure in the new Member States;

- the ceiling on the total reduction of the United Kingdom correction related to the new adjustment;

- the adjustment to further enlargement(s) of the ceiling referred to above;

- the elimination of the calculation of the 'frozen rate' and all references to the impact of the UK correction on the VAT call rate.

Some other modifications have also been introduced to improve the coherence of the text and to facilitate comprehension. These changes are purely presentational and have no impact on the calculation method.

Other adjustments to the current Own Resources Decision 2000/597/EC: these include, inter alia:

- the removal of distinction between agricultural and customs duties following the implementation in EU law of the agreements concluded during the Uruguay round of multilateral trade negotiations;

- Own resources and commitments ceilings:in view of the change-over from ESA 79 to ESA 95 for budgetary and own resources purposes and in order to maintain unchanged the amount of financial resources put at the disposal of the Communities, the Commission recalculated the ceiling of own resources and the ceiling of appropriations for commitments. The ceiling of own resources is set equal to 1.24 % of the total GNIs of the Member States at market prices and a ceiling of 1.31 % of the total GNIs of the Member States is set for appropriations for commitments. The European Council of 15-16 December 2005 concluded that these ceilings should remain at their current percentage level.