Basic information

2004/0170(CNS) CNS - Consultation procedure Decision	Procedure lapsed or withdrawn
European Communities' own resources: correction of budgetary imbalances **Subject** 8.70.01 Financing of the budget, own resources	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
BUDG Budgets	LAMASSOURE Alain (PPE-DE)	02/09/2004

Committee for opinion	Rapporteur for opinion	Appointed
CONT Budgetary Control	The committee decided not to give an opinion.	22/09/2004
REGI Regional Development	GALEOTE Gerardo (PPE-DE)	30/11/2004

Council of the European Union

European Commission

Commission DG	Commissioner
Budget	

Key events

Date	Event	Reference	Summary
14/07/2004	Legislative proposal published	COM(2004)0501	Summary
27/10/2004	Committee referral announced in Parliament		
22/03/2007	Additional information		Summary

Technical information

Procedure reference	2004/0170(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Decision
Legal basis	Euratom Treaty A 173 EC Treaty (after Amsterdam) EC 269
Stage reached in procedure	Procedure lapsed or withdrawn
Committee dossier	BUDG/6/22979

Documentation gateway

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2004)0501	14/07/2004	Summary

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
EESC	Economic and Social Committee: opinion, report	CES0533/2005 OJ C 267 27.10.2005, p. 0057-0063	12/05/2005	
CofA	Court of Auditors: opinion, report	RCC0004/2005 OJ C 167 07.07.2005, p. 0001-0006	12/05/2005	Summary

Additional information

Source	Document	Date
European Commission	EUR-Lex	

European Communities' own resources: correction of budgetary imbalances

2004/0170(CNS) - 14/07/2004 - Legislative proposal

PURPOSE : to introduce a generalized mechanism to correct excessive negative budgetary imbalances.

PROPOSED ACT : Council Decision

CONTENT : The Commission recalls in this document the 1984 Fontainebleau agreement introduced the existing UK correction, which was given effect by the own resources decision of 7 May 1985. The decision was based on the following general principle:

'any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time.'

The Commission states that the justifications for granting a correction on an exclusive basis to the UK are today less relevant than at the time of the Fontainebleau European Council, since several

other Member States can legitimately claim that their current situation is comparable to the UK's. Commission data show that the UK's relative prosperity is at the top of the range. This is in sharp contrast with the situation in 1984, when the UK was the least prosperous of the net contributors.

In view of the dramatic shift in the UK's position compared to the other net contributors, it is legitimate to re-consider the existing correction system, in light of the Fontainebleau principle whereby a Member State's net balance should be viewed in relation to its relative prosperity.

Furthermore, the cost of enlargement should be fairly shared. Should the current own resources decision remain in force, data show that over the next financial perspective, the UK will become (together with Finland) the smallest net contributor to the EU budget, in evident contradiction with the

Fontainebleau principle mentioned above.

Consequently, it is argued that, in light of the principle set in the Fontainebleau conclusions, the conditions exist for the introduction of a generalised correction mechanism. The parameters defining such a correction mechanism are examined and a proposal is made:

The generalised correction mechanism is to be calculated on the basis of the net budgetary balance of each Member State in relation to the budget of the EU. The mechanism will be triggered beyond a threshold, expressed as a percentage of each Member State's GNI, reflecting the minimum accepted level of unlimited financial solidarity between Member States. and representing a sort of basic

reasonable net contribution. Net positions exceeding such a threshold will be eligible for a correction (partial refund). The amount of the correction is to be based on the part of the net balance exceeding this threshold, multiplied by a refund rate (i.e. the percentage of the amount in excess of the agreed threshold to be compensated). If the sum of all corrections exceeds a total predetermined volume, the refund rate is reduced accordingly. Annex 1 explains the steps required and the functioning of the proposed correction mechanism.

A threshold set at -0.35% of GNI will give rise to an estimated average volume of

gross corrections of around EUR 7 billion for the period 2007-2012 (to be financed in

2008-2013).

The Commission proposes the following parameters for a generalised correction mechanism:

- keeping the categories of revenue to be taken into account (VAT + GNI) unchanged. Any other existing complication should be abolished;

- keeping the expenditure headings included in the allocated expenditure unchanged;

simplifying the financing by basing it only on GNI shares, whereby all Member

States would participate in the financing of the global amount of the corrections in

proportion to their relative prosperity;

- setting the threshold level at -0.35% of GNI;

- using the refund rate as the adjustment variable with a maximum rate of 66%, to be reduced automatically when the agreed maximum refund volume is exceeded in a given year;

- capping the maximum available refund volume at EUR 7.5 billion.

In absolute terms, the UK would be by far the largest beneficiary from the generalised correction mechanism, receiving on average a net compensation in excess of EUR 2 billion per year, approximately twice as much as the net amount Germany would receive.

With the proposed mechanism, on average, the net balances of the largest net contributors would be at comparable levels, with the UK, Germany, the Netherlands and Sweden all between -0.51% and -0.45%, to be compared with a range between -0.56% and - 0.25% under the UK correction mechanism (and between -0.62% and -0.47% with no correction).

The Commission goes on to propose transitional measures and top-up payments for the UK for the next four years. These top-up payments would alleviate the financial impact of the introduction of the

GCM for the UK in 4 gradual steps. The UK has received in recent years a net correction of on average EUR 4.6 billion annually over the period 1997-2003. Under the GCM the UK is expected to receive EUR 2.1 billion annually on average over the period. The proposed transitional measures raise this annual average amount to EUR 3.1 billion. Since these lump sum payments represent a phasing-out of the current system, they

would continue to be financed according to the current financing rules, i.e: the UK does not participate in the financing and the share of Germany, Netherlands, Austria and Sweden in the financing is restricted to 25% of their normal share.

It is further proposed that neither these payments to the UK nor their financing should impact the calculation of the corrections under the proposed generalised correction mechanism (GCM).

European Communities' own resources: correction of budgetary imbalances

2004/0170(CNS) - 12/05/2005

On several occasions the Court has criticised the shortcomings of the system of own resources, which is very complex and presents numerous problems, in particular, regarding administration, consistency and lack of transparency.

The most important issues identified by the Court in its regard are as follows:

- In 2003, the traditional own resources amounted to 10 857,2 million euro after deduction of a flat-rate amount of 25 %, which was retained by the Member States to cover collection costs. The Court has already stated in its Opinion No 8/99 that collection costs actually constitute an item of expenditure and should be treated as such in the Community accounts and when calculating net balances.

- The capping of the VAT assessment base as a percentage of GNI has reduced the significance of the VAT resource in the financing of the budget. The VAT own resource decreased from 35 192,5 million euro (40,0 %) in 2000 to 21 260,1 million euro (25,4 %) in 2003. Capping also accentuated the resource's macroeconomic character via its link with the GNI. The Court reaffirms its position that a resource based on the taxable consumption of citizens can only be justified if it is directly linked to a tax base.

- In addition, tax evasion, in particular 'roundabout' frauds facilitated by the current system with taxation taking place in the country of consumption, undeclared economic activity and the varying degrees of efficiency shown by the national authorities in collecting VAT and preventing fraud might still affect the incidence of the financial burden on the Member States.

- Furthermore, the results of Court audits cast some doubt on the accuracy and reliability of the VAT statements produced by the Member States, which are compiled after complicated calculations demanding significant administrative resources.

The GNI-based resource increased from 37 580,5 million euro (42,7 %) in 2000 to 51 235,2 million euro (61,3 %) in 2003, thus providing the largest share of the own resources. The Court has found that there is limited direct verification by the Commission of the underlying national accounts which provide the figures presented by the Member States in the GNI questionnaires as a basis for calculating the GNI-based resource. This is due to the ambiguity of the rules laying down the obligations and powers of the Commission in this respect.

None of the shortcomings described above are addressed in the Commission proposals. The Court stresses the need to deal with them.

Turning more specifically to the Commission's proposal for a Council Decision, the Court notes that the GNI for the year is calculated at market prices, as provided by the Commission in application of ESA 95 (European System of Accounts 1995). The proposal also stipulates, however, that modifications to the ESA 95 which result in significant changes in the GNI as provided by the Commission shall only apply for the purpose of calculating own resources if the Council decides so. The Court understands the reasons for such a clause, but points out that this procedure may lead to a situation where GNI figures used for own resources purposes do not match published national figures, thus reducing transparency.

The Court also considers that the Commission's text should clearly state that the concept of total allocated expenditure to be used is laid down in the Council Regulation on the implementing measures for the correction of budgetary imbalances.

The Court reiterates its position that Article 8(2) of the proposed Decision, insofar as it interprets the subject of the Court's checks and audits, is tantamount to amending a provision of the Treaty outside the procedure laid down for that purpose. The statement that, 'such auditing and checks being mainly concerned with the reliability and effectiveness of national systems and procedures for determining the base of own resources accruing from VAT and GNI', should be deleted. In any case, the Court considers that such a provision cannot have the effect of limiting its audit powers under the Treaty.

The Court is of the opinion that all provisions necessary to apply this Decision could be adopted pursuant to Article 279 of the EC Treaty and Article 183 of the Euratom Treaty and that there is no need for a specific procedure for adopting the provisions necessary to apply this Decision and to make possible the inspection of the collection, the making available to the Commission and payment of the revenue.