

The bumpy road to the 2015 EU budget

SUMMARY

Under the Treaty of Lisbon, the procedure to adopt the EU's annual budget provides for a single reading and specific deadlines for each of the key institutional actors involved in it: the European Parliament (EP), the Council and the Commission.

This year's budgetary procedure has seen difficult negotiations between the EP and the Council, the two arms of the budgetary authority, in relation not only to the 2015 budget but also to amendments to the 2014 budget. A major stumbling block was the growing backlog in payments that has affected the EU budget in recent years. On the one hand, the Council wanted to cut the Commission's estimates, based on legal commitments into which the EU has entered, of the resources needed. On the other, the EP supported stepping up efforts to tackle the payments backlog, to reduce its negative consequences on beneficiaries of EU funds.

In December 2014, Parliament and Council's negotiators reached a compromise, which now needs to be confirmed by both institutions to be applicable. The deal includes extra payment appropriations of some €3.5 billion for the 2014 budget; 2015 payment appropriations set at €141.21 billion (or 1.01% of EU GNI), an amount closer to the Commission's initial proposal than to the Council's position; the establishment of a payment plan to reduce the level of unpaid bills; and close inter-institutional monitoring of payment implementation and forecasts in 2015.

Should the EP and the Council not adopt the 2015 budget by the end of the year, a stop-gap system ('provisional twelfths') would apply from 1 January. This would have a series of implications, including fewer resources available for payments.



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The EU's annual budgetary procedure

The Treaty of Lisbon introduced some significant changes to the financial provisions of the EU, including to the budgetary procedure used to adopt the budget each year. Currently detailed in Article 314 of the Treaty on the Functioning of the European Union (TFEU), this special legislative procedure can be seen as a simplified 'ordinary legislative procedure' with a **single reading** and **specific deadlines** for each of the institutional actors involved. For the sake of simplicity, some key phases of the procedure can be singled out: 1) **by 1 September** of each year, the **European Commission** must table the proposal for the draft budget of the following financial year (in practice, the proposal is usually presented by June at the latest); 2) the **Council** is to adopt its position on the draft budget **by 1 October** and to communicate it to the European Parliament (EP); 3) following the Council's communication, the **EP** has **42 days** either to approve or to amend the Council's position (the plenary usually votes on the draft budget in October); 4) if the two arms of the budgetary authority adopt, and maintain, different positions, a **Conciliation Committee** composed of equal numbers of Members of the two institutions is convened and has **21 days** to agree on a joint text, with the Commission acting as 'honest broker'; 5) if the Conciliation Committee fails to find an agreement, the **Commission** must submit a **new draft budget**, on which negotiations between the **EP** and the **Council** can restart; and 6) if there is no agreement and final adoption of the budget **by 31 December**, the system of '**provisional twelfths**' kicks in (Article 315 TFEU): this means that the maximum amount that the EU is allowed to spend monthly for each category of expenditure equals one twelfth of the relevant appropriations in the previous year's budget or in the draft budget (whichever is the lower).

With the Treaty of Lisbon, the EP no longer has the final say over certain parts of the budget (what used to be called 'non-compulsory expenditure') but has instead gained co-decision powers over the entire budget.

Negotiations on the 2015 draft budget: the stumbling block of payments

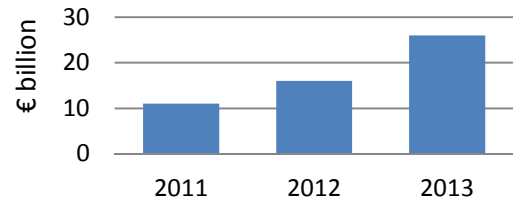
On 17 November 2014, the Conciliation Committee's negotiations on next year's budget failed; this is the third time in five years, since the entry into force of the Lisbon Treaty. Twice before (with the 2011 and 2013 budgets), the EP and the Council managed to find a last-minute agreement and adopt the budget by the end of the year, thus avoiding the system of provisional twelfths. On 27 November 2014, the Commission presented a [new draft budget](#) for 2015, trying to strike a balance between the positions adopted by the [Council](#) in September and the [EP](#) in October. Since the annual budgetary procedure is often used to tackle adjustments to the current budget, this year's [package of negotiations](#) also included a series of proposals to amend the 2014 budget.

For each category of spending, the EU budget contains two figures: commitment appropriations and payment appropriations. These may differ, since commitments are legal pledges to provide finance once given conditions are met, and thus do not necessarily lead to payments in the same financial year. In their respective readings of the first draft budget submitted by the Commission, the two arms of the budgetary authority adopted different positions on 2015 **commitments**, for example the Commission's proposal of devoting €17.45 billion to '**competitiveness for growth and jobs**' was cut to €17.12 billion by the Council and increased to €17.67 billion by the EP.

However, the most significant stumbling block in this year's negotiations appears to have been represented by **payment appropriations**. This reflects a recurrent problem

with annual EU budgets since the entry into force of the Treaty of Lisbon: a **systematic under-budgeting of payment appropriations** during the annual budgetary procedure, leaving the EU unable to pay an increasing number of bills on time (see figure 1), with a negative impact on beneficiaries of EU funds in most policy areas (e.g. **cohesion policy, humanitarian aid and research**). In turn, unpaid bills at the end of one financial year create a burden on the following year's budget, potentially triggering a 'snowball effect'. The issue appears to be compounded by the Council regularly cutting, in times of fiscal consolidation, the payment appropriations that the Commission estimates necessary, based on the legal commitments subscribed to by the EU.

Figure 1 – EU budget: unpaid bills at year-end



Data source: Based on European Commission data.

The EP, which has repeatedly condemned the Council's approach, tried to tackle the growing level of unpaid bills both for the 2014 and the 2015 budget, by using the [flexibility instruments](#) (including a last-resort tool such as the Contingency Margin) agreed by the two arms of the budgetary authority and the European Commission in the political deal on the EU's [2014-20 Multiannual Financial Framework \(MFF\)](#). In addition, as regards the EU budget 2014, the EP supported the use of higher revenue from **finances against companies breaching competition law**, which could help to counter the worsening of the payment backlog. From its side, in its September reading of the draft budget 2015, the Council again adopted a position reducing payment appropriations (by €2.1 billion) in comparison with the estimates produced by the Commission.

The December compromise

On 8 December 2014, Parliament and Council's negotiators reached an agreement on the 2015 budget and the amendments to the 2014 budget. The compromise (see annex) sets 2015 **payment appropriations** at €141.21 billion, an amount closer to the initial Commission proposal than to the Council's position of September. The deal includes measures to address the payment backlog such as: extra payment appropriations of some €3.5 billion for 2014; the mobilisation of the Contingency Margin (although the EP and the Council maintain different interpretations of the rules governing this instrument); the establishment of a payment plan to reduce the level of unpaid bills, with particular focus on those related to **cohesion policy**; and close inter-institutional monitoring of payment implementation and forecasts with at least three joint meetings on the topic at key times of the annual budgetary procedure (Spring, July and October). Taking stock of progress made in negotiations, changes were also agreed on **commitment appropriations**, for example increasing their level for actions relating to '**competitiveness for growth and jobs**' (e.g. promoting access to finance for small and medium-sized enterprises) and for the operational expenditure of **Frontex**, the European Agency in charge of managing operational cooperation at the external borders of the EU. As for 'agriculture', 2015 commitments are in line with the Commission's initial proposal as modified by Amending Letter 1/2015.

What the system of 'provisional twelfths' would imply

The compromise needs to be confirmed by the two arms of the budgetary authority to be applicable. The EP is due to vote on it during its last plenary session week of 2014, first in the Budgets Committee and subsequently in plenary. If the budget is not adopted by the end of the year, the system of 'provisional twelfths' would kick in. Used

repeatedly in the 1980s (1980, 1985, 1986 and 1988), the system would have a series of implications until a budget is adopted, such as: fewer resources for payments; new initiatives, which did not have a budget in 2014, could not be financed; and the EU could not make use of tools (such as the European Union Solidarity Fund and the European Globalisation Adjustment Fund) that can mobilised only through an amending budget.

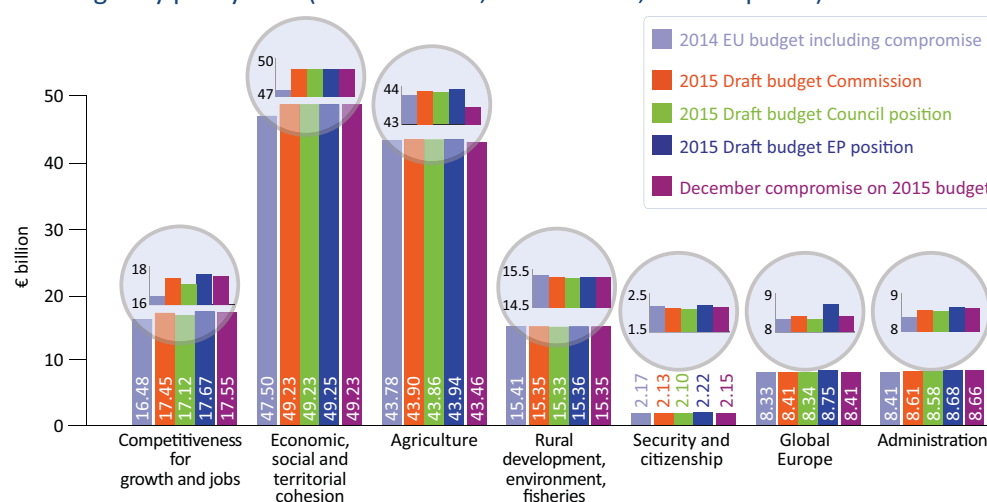
Annex

The charts show how the Commission's initial draft budget, Parliament and Council's positions on it and the December compromise compare to each other and to the 2014 EU budget.

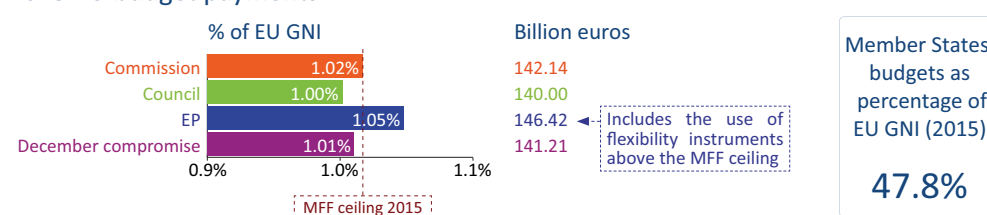
Total EU budget (commitments, billion euros, current prices)



EU budget by policy area (commitments, billion euros, current prices)



2015 EU budget payments



Data source: European Commission

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