Background

Q&A on Parliament's position on the budget negotiations

Negotiations between the European Parliament and the EU Council of Ministers on next year's budget reached an impasse on Monday night after a stubborn refusal by a minority of governments to talk about a procedure to involve Parliament in discussions on the EU financing system and in spite of major concessions made earlier by Parliament.

The EP negotiating team had reiterated its willingness to limit the rise in 2011 payments to 2.91 per cent, while it had already capped commitments (which determine future payments) to 1 per cent. However, the MEPs also repeated their desire to open talks about how Parliament can be involved in a review of the EU budget financing system in order to make it less crisis-prone.

Contact :

Jaume DUCH GUILLOT
EP Spokesperson and Director for the Media
BXL: (+32) 2 28 43000
STR: (+33) 3 881 74705
PORT: (+32) 496 59 94 76
EMAIL: jaume.duch@europarl.europa.eu

Marjory VAN DEN BROEKE
Head of the Press Unit - Head of the Press Unit
BXL: (+32) 2 28 44304
STR: (+33) 3 881 74336
PORT: (+32) 498 98 35 86
EMAIL: marjory.vandenbroeke@europarl.europa.eu

Sara AHNBORG
BUDG
Press Officer
BXL: (+32) 2 28 34018
STR: (+33) 3 881 72420
PORT: (+32) 498 98 13 36
EMAIL: budg-press@europarl.europa.eu

Ron KORVER
BUDG
BXL: (+32) 2 28 44659
STR: (+33) 3 881 74903
PORT: (+32) 498 98 35 88
EMAIL: budg-press@europarl.europa.eu
EMAIL: ronnie.korver@europarl.europa.eu

Why does Parliament want to be involved in talks on the financial framework for the budget years 2014-2020?

Parliament is concerned that, with all the new policies and new tasks which have been allocated to the EU by the governments, not least in the Lisbon Treaty, more and more often ad-hoc budgetary manoeuvres end up being needed or - in the worst case - no money can be found to finance these policies and tasks.

If it is involved in the talks - e.g. by having observers present - Parliament can not only give an input, but having closely followed the debate and the different solutions proposed will make it easier to ensure the adoption of the outcome by MEPs.

Parliament's consent is required for an adoption of the next multiannual financial framework (MFF). Since MEPs need to defend their vote to their electorates, they need to be fully informed about what is in a possible deal and also be able to influence it. If MEPs do not think that the financial framework the Council proposes is good enough for European citizens, they would have to reject the deal in its entirety.

To avoid such a situation - a budget crisis - the Parliament, the Council and the Commission are obliged by the treaty to "take any measure necessary" to facilitate the adoption of the MFF. Parliament believes a good approach would be to include a number of MEPs as observers from the start of the negotiations. If there are representatives from Parliament in the room when key points are discussed, they can advise Member States on how to make sure that the text can be approved by MEPs.

Is Parliament asking for an EU tax?

Most MEPs find an EU tax an unrealistic prospect. To create such a tax, unanimity in the Council is required, as well as ratification by all national parliaments: a "double unanimity". What Parliament is asking for is to be involved in discussion on new sources of income for the EU, without prejudging what kind of income sources these might be. Member States will have to discuss this in any event, because a new decision on EU own resources is required for the 2013-2020 budgeting period.

Parliament hopes that there will be a meaningful discussion, because the current system, consisting mainly of national contributions to the EU budget, puts too much emphasis on national budgets, which makes the annual EU budget procedure very difficult. That also means that there is now too much focus on the overall level, rather than on the content, of the EU budget.

The own resources are an important part of the EU financing system. Although at the very beginning, the European Communities were financed by national contributions, it was already laid down in the founding Treaty of Rome of 1957 that this would only be for a transitional period and that the then EEC would have to be financed entirely by a system of own resources, rather than by national contributions. Thus, in 1970 the Council adopted the Decision on the replacement of financial contributions from Member States by the Communities' own resources, stipulating that these would consist of agricultural levies, customs duties and a percentage of the harmonized VAT base. (The member states are responsible for collecting the levies and transferring them to the European Commission.)

However, after the UK was granted a rebate and differentiated VAT rates were introduced for different member states to pay for that, putting together the EU budget became more and more difficult. For that reason, in 1988, a fourth source of funding, based on member states' Gross National Product was introduced. This source has now become the system's main resource, as customs duties diminished due to worldwide efforts to bring down trade tariffs and as agricultural levies diminished due to changes in agricultural prices.

The European Commission tabled a number of options for changing the current financing system in its recent budget review (19 October).

What Parliament wants for now is an agreement on a procedure and an agenda for dialogue, so that an agreement can be reached before the EU has to decide on its next long-term budgetary framework (the “Multiannual Financial Framework, MFF”, also known as the “financial perspective”).

Why has Parliament now agreed on an increase by 2.91%?

The Commission is the institution which manages and implements the EU budget, which makes it best placed to calculate the level of payments for a certain year.

MEPs had therefore voted to accept the Commission's estimate of necessary payments for 2011, 6% more rather than 2.9% more.

The Council has put as its main condition for a budget agreement to have a lower level of payments. MEPs might not find this realistic, but they know that the important part of the budget is the level of commitments.

The agreed level of payments merely regulates the timing – when the bills should be paid – whereas the commitments are the political decisions determining how much and on what the EU should spend in the short and long term.

Because of the difficult economic situation in the EU, Parliament advocates an increase in commitments of around 1%, below the level of inflation.

Is Parliament asking for a treaty change?

No. The Lisbon Treaty says that, regarding the negotiations on next long term budgetary framework (the “Multiannual Financial Framework - MFF”, also known as the “financial perspective”), the Council, the Commission and the Parliament "shall take any measure necessary to facilitate its adoption" (Article 312, §5 TFEU).

In general, when it comes to annual budgets, the MFF and own resources, the presidents of these three institutions "shall take all the necessary steps to promote consultation and the reconciliation of the positions of the institutions over which they preside in order to facilitate the implementation of this Title" (article 324 TFEU).

What Parliament wants is to agree on what this means in practice - that is to determine a pragmatic working method.

Does Parliament want a higher budget for the future?

Not necessarily. MEPs want the budget framework (= upper limits) for 2012 and 2013 to be flexible enough to make room for the new tasks the EU has taken on since the framework was decided five years ago.

This includes budgetary room for the External Action Service, work to prevent future financial crises, including an increased budget for the new financial supervisory authorities, and the stepped up fight against climate change, as well as the nuclear fusion energy research project "ITER", which is highly valued by the Member States.

Such an adjustment does not have to be an increase of the total EU budget, but should rather increase the possibility to move funds from one budget are to another. Moving funds between different parts of the budget is currently very difficult.

What does it mean that Parliament insists on "flexibility" for the budget?

Another important issue for the Parliament - out of concern that there is enough money available to implement the decisions taken by the Council - is the so-called "flexibility" margin.

This means that if there is a real, but unexpected, need for substantial extra money, then additional funds can be put into the EU budget, to the value of 0.03% of Gross National Income.

In the past, this "flexibility" has been used by the Council to finance the European satellite system Galileo, to alleviate the food crisis in African countries, and to fund the economic recovery package put together last year.

The Council is now saying that, following the Lisbon Treaty, it needs to decide by unanimity on releasing the 0.03% "flexibility", whereas it used to be by qualified majority in Council with a 3/5 majority vote in the Parliament.

This was laid down in the Interinstitutional Agreement between the Parliament, Council and Commission on budgetary discipline and sound financial management (point 22, second indent). This agreement now needs to be renegotiated following the Lisbon Treaty, but discarding this aspect would mean that any single Member State can block the decision in Council.

Does Parliament want more powers over the EU budget?

What Parliament wants is an implementation of the Lisbon Treaty, nothing more, nothing less.

The Lisbon Treaty gives MEPs, as the directly elected representatives of some 500 million EU citizens, certain powers. What Parliament want is to agree on how these should be implemented in practice.

Regarding the setting up of the next long term budgetary framework (the “Multiannual Financial Framework - MFF”, also known as the “financial perspective”), MEPs want to agree on a working method with the other institutions. Parliament's consent is a requirement for a new MFF.

Parliament has suggested a model inspired by earlier Intergovernmental Conferences, with three MEPs participating in all discussions, to facilitate adoption in Parliament of the text proposed and avoid a deadlock.

What were Parliament's demands during the negotiations?

The Conference of Presidents formulated seven demands, which comes down to a firm commitment from Council that an arrangement will be set up to involve Parliament in future talks on the EU financing system (the Multiannual Framework).

The original seven points were:

- Need for a genuine strategic dialogue with the Council [as required by the treaty]
- Sufficient overall level of spending
- Focus on 'European Added Value' [the Commission should make a study, presenting what citizens gain by spending money at EU level rather than national level]
- "Lisbonisation" of the budget [make the current budget framework up-to-date with the EU's new tasks, such as the EEAS, stemming from the Lisbon treaty]
- Mid-Term review: adjustment of the current MFF for years 2012 and 2013 [not necessarily making the budget higher, but give room for Lisbonisation, financial crises measures and other new projects]
- Meaningful Own Resources [start a discussion about new ways of funding the EU budget, in this first step agreeing on nothing else but a working method and a calendar]
- Proper involvement in preparations and negotiations on the next MFF [as required by the treaty]

There is no agreement. So what happens now?

The Commission has announced that it will prepare a new draft budget as quickly as possible. After this proposal, the Council must adopt its position within one month and after this, MEPs have 42 days to decide whether to approve it.

These are the maximum limits - the institutions could of course adopt their positions much faster, aiming at an agreement in December.

Parliament is counting on the EU Heads of State and Government, who will meet for a summit on 16-17 December, to break the deadlock.

What will be the consequences of having to fall back on the system of provisional twelfths?

As long as there is no 2011 budget, the budget of the previous year will be used, with the annual sums divided up in 12 monthly parts. The implications of this are severe, but not apocalyptic. The provisional twelfths system involves monthly budgets per category which are exactly one twelfth of the budget of 2010. This system does not take into account that payments are higher in certain months than in others. The solution to that problem lies in Art. 315 of the Treaty, which that says "on the basis of a Commission proposal, the Council, by qualified majority, can decide to add the necessary funds". The European Parliament then needs to approve or reduce this amount within 30 days.

Especially in the field of agriculture, this will be urgent. Member States have advanced direct payments to farmers to an amount of €30 billion and the European Commission has to compensate them in January 2011. On the basis of provisional twelfths, the Commission will only have €6 billion available – so the Member States and the Commission have a problem.

This is only one example of a consequence of not having the budget approved before January.

All newly decided policies will encounter budgetary problems, since there was no (or only a little) money for them in the 2010 budget. This concerns for example the new Financial Supervisory Bodies, the External Action Service and the nuclear fusion research project (ITER). In the draft budget for 2011, an increase of 14% was planned for cohesion policy. This would also need to be remedied by patchwork.

Links to further details

The links below offer further information and background on Parliament's reaction to the end of the conciliation procedure and on the 2011 EU budget.