The EU budget, a guide

The EU budget is no simple matter, but then no budget ever is. A yearly exercise based on a seven year “financial framework” and covering every euro spent by the EU, either directly or, most often, through governments, it is the blood that courses through Europe’s veins making the Union function and deliver. On 15 December MEPs passed the draft budget during their Parliamentary session.

Following the entry into force of the Lisbon Treaty earlier this year, Parliament is now a true co-legislator for the entire budget, meaning it fully shares responsibility with the Council of Ministers, representing the EU governments, and is fighting to ensure that the funds made available will enable the EU to carry out its duties as citizens expect.
Parliament adopts EU budget for 2011

The European Parliament adopted the 2011 EU budget at its plenary session in Strasbourg on Wednesday. The adopted budget reflects most of MEPs' priorities, while respecting the total limits laid down by the Council. In this year's budget negotiations, MEPs also reached agreement with the Council and Commission regarding several budget-related political demands.

The 2011 budget, as adopted by the full Parliament, includes more funding for the priorities set out by MEPs, including youth, innovation, the Middle East peace process and Palestine. Some examples (all figures in commitments):

1a **Competitiveness for growth and employment** - MEPs won more money for the Life-long Learning Programme (+€18 million), the Entrepreneurship and Innovation Programme (+€10 million) and Intelligent Energy — Europe programme (+€10 million).

1b **Cohesion for growth and employment** - MEPs added a new line, worth +€2.5 million, for the Baltic Sea strategy

2 **Preservation and management of natural resources** - MEPs increased the environment programme Life+ by +€6.7 million and support for the management of fishery resources by +€2 million

3a **Freedom, security and justice** - MEPs won +€2.35 million for the Daphne programme for the fight against violence against women and children and +€1 million for prevention of terrorism

3b **Citizenship** - MEPs obtained +€4 million to support the World Special Olympics in Athens and +€3 million to the Youth in Action programme

4 **The EU as a global partner** - an extra amount of +€100 million for Palestine, the peace process and UNRWA

Regarding the overall figures, MEPs accepted the levels proposed in the Commission's draft budget of 26 November: €141.8 billion in commitment appropriations and €126.5 billion in payments. Parliament has always attached more importance to the level of commitments, since they determine the expenditure.

Furthermore, there is an agreement between Council, Parliament and Commission that, should additional funds be necessary to fulfil the EU's legal obligations, there will be amending budgets during 2011, as the EU budget cannot legally have a deficit.

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<td>4 The EU as a global partner</td>
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<td>5 Administration</td>
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<td>As % of GNI</td>
<td>1.17%</td>
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* including amending budgets 1-7

Parliament's two budget rapporteurs are Sidonia Jędrzejewska (EPP, PL), who has dealt with the European Commission budget (which includes the EU's operational spending, i.e. the bulk of the overall budget), and Helga Trüpel (Greens/EFA, DE), who has steered Parliament's work on the budgets of the other EU institutions.

**Outcome of MEPs political demands - own resources**

Aside from the 2011 budget, Parliament had a number of political demands relating to the implementation of the budgetary provisions in the Lisbon Treaty. MEPs laid down seven such demands in a budget resolution adopted at the Strasbourg plenary session in October. The main ones concerned Parliament's involvement in the talks on the next long-term budget and on a new system of own resources. On the own resources issue, the Commission will present a formal proposal by the end of June 2011, so that it is discussed at the same time as the future financial perspective. Parliament's involvement in these matters was laid down in the Treaty (Art. 312.5, 324 and 311) but needed to be worked out in more detail.

**Involvement of Parliament in future MFF talks**

After almost two months of negotiations, EP negotiators have achieved an agreement with the Council's Presidency which is backed by the other Member States. It contains a commitment by the next four EU presidencies (the governments of Hungary, Poland, Denmark and Cyprus) on the involvement of the Parliament, which has given sufficient assurances to MEPs.

Parliament also successfully argued for systematic assessments to be made of the European added value of new legislation and its funding; for a report on the cost of "non-Europe"; and for an evaluation of the benefits of synergies between the EU and national budgets. Parliament wants in this way to ensure that EU taxpayers get the best value for money.

In addition, a compromise was reached on the new priorities stemming from the Lisbon Treaty for which no provision had yet been made in the 2011 budget. The European Commission has undertaken to examine how these new priority areas could be boosted in the budgets for 2012 and 2013.

Unlike earlier years, the discussions on all these matters were held at the highest political level, with the participation of Belgian Prime Minister Leterme, Commission President Barroso and many Heads of State and Government.

The issue of flexibility within the budget - to cater for unforeseen expenditure for emergencies or new EU tasks - and the financing of the ITER nuclear fusion research project will need to be resolved at a later stage since no agreement was reached between Parliament and Council.

For each budget line, there are two different types of budget appropriations: commitments and payments. The commitments refer to how much the EU may commit itself to (e.g. sign a contract or start a tender procedure) in a certain year. The payment level regulates the actual payments being made that year.
EU budget for 2011: towards the final decision

The European Commission’s revised proposal for the 2011 EU budget will be voted on during the December plenary session in Strasbourg, following a decision on Thursday 9 December by the leaders of the political groups meeting under EP president Jerzy Buzek. The new proposal respects parliament’s spending priorities, while firm assurances have been put in place on its future budgetary role.

The new budget foresees 141.8 billion euros in overall commitments and 126.5 billion in actual payments for 2011, respecting Parliament’s desire to safeguard future expenditure, as Europe’s economy leaves the recession behind. It has been agreed with the governments that amending budgets may be presented during the course of the year should additional funding of EU action prove necessary.

EP overall budget rapporteur Sidonia Jędrzejewska (EPP, Poland) pointed out that “this document takes on board all the increases for the priority lines”. “Programmes such as Youth in Action, Lifelong Learning, Erasmus Mundus, as well as assistance to Palestine will receive proper funding next year”.

Beyond the 2011 budget, Thursday’s decision was made possible through a decisive deal reached with the EU Presidency which safeguards Parliament’s involvement in future budget negotiations as foreseen by the Lisbon Treaty. The member states assuring the EU presidency over the next two years have undertaken to involve it in the preparation of the forthcoming long term financial framework, which will be negotiated in parallel with the re-examination of the budget’s Own Resources.

The Commission will also examine ways of strengthening funding in the 2012 and 2013 budgets for the Lisbon Treaty’s new priority areas for EU action and will report on the actual value of the EU budget to the member states.

The issue of flexibility within the budget to address unforeseen needs during the year has not been resolved and will be examined at a later stage.
Budget 2011: Parliament reiterates its stand

MEPs are ready for an agreement on the 2011 budget within the limits set by the Council, provided EU governments accept Parliament's request for budget flexibility and an agreement on a future working method for EU funding. This was the message in Parliament's resolution on the on-going negotiations on the 2011 budget, adopted on Thursday.

The resolution was adopted by an overwhelming majority (486 in favour, 64 against and 21 abstentions).

MEPs are ready to "facilitate an agreement on the 2011 Budget and related elements within a very tight timeframe" provided three conditions are met.

Firstly, Parliament wants an agreement on genuine flexibility mechanisms that would be decided by the EP and by qualified majority in the Council. Before the Lisbon Treaty came into force, the budget could be changed by up to 0.03% of the EU's GNI, provided this change was backed by qualified majority in Council and approved by MEPs. This mechanism was used to release funding for the Galileo project and to provide €1bn to the EU food facility for emergency aid to developing countries suffering from rising food prices. What Parliament wants is to keep this flexibility in the future.

Secondly, MEPs want the Commission to present a substantive proposal on new own resources plus a commitment from the Council to discuss these proposals with Parliament within the negotiating process of the next long-term budget framework as envisaged in the 2006 Inter-Institutional Agreement on budgetary matters. Commission President José Manuel Barroso told MEPs during Tuesday's plenary debate on the budget that the Commission would put forward such proposals before the end of June 2011.

Thirdly, the Treaty (Article 312, 5) requires the three institutions to "take any measure necessary" to facilitate the adoption of the next long-term budget framework. The final condition is therefore that the three institutions must agree on a working method, making clear how to put this into effect.

"In order to reach a rapid and good deal for the EU, we need movement from the Council and we are ready to negotiate. We need movement on the European Parliament's role in negotiations about the next Multiannual Financial Framework, a commitment to have a full debate on own resources and on genuine flexibility mechanisms which respect the existing principles for revisions and would help to finance policies agreed in the Lisbon Treaty." said EP President Jerzy Buzek.

The first round of budget negotiations started with a Commission proposal in April and was followed by a Council position in August and a Parliament position in October. The original plan was to agree during the conciliation period, which ended on 15 November. Since the institutions could not agree, the Commission will propose a new draft budget, probably on 1 December. Parliament's Committee on Budgets will discuss this at its meeting of 1-2 December.

The Commission will present a proposal for the next long-term budget framework (also known as the Multiannual Financial Framework, MFF, or the Financial Perspective) in the summer of 2011.
Parliament stands united in 2011 budget deadlock

The European Parliament is holding to a firm, united position in the deadlock over the EU budget for 2011. This was confirmed in Tuesday's plenary debate on the 2011 budget negotiations with Commission President Barroso, Belgian Presidency representative Melchior Wathelet and Budgets Commissioner Lewandowski.

Discussions ranged over three key issues: the figures for the budget 2011; flexibility within the budget to deal with new priorities or upcoming urgencies; the question of Parliament's involvement in talks on the future Multi-annual Financial Framework and own resources.

Opening the debate, EP President Jerzy Buzek reminded the EP's guests that Parliament was prepared to accept Council's figures, in commitments and payments. "In exchange we wanted agreement on the question of flexibility in the budget and on how the Lisbon Treaty should be implemented with a view to future talks on the MFF and own resources", he said.

The first of the political group speakers, Joseph Daul (EPP, FR), said "The debate is not a battle for power. What it is about is making it possible for the EU to meet its promises... The reality is that the present budget does not take into account the EU's new competences; it does not take into account the budget review Parliament has asked for and contains no funding for the 2020 strategy. Council is adopting programmes but is not providing for their implementation."

For the S&D group, Martin Schulz (DE) said "Parliament is being tested. The discussion is not about money anymore but about the direction in which the EU is developing. It is about the rights of Parliament as reflected in the Treaty of Lisbon... We are elected to deal with the EU and its budget. Now the national governments want control and monitor us. That is the wrong way around!" On flexibility, he said "it's in the interest of all the institutions to be able to react in a flexible manner if needed."

Liberal leader Guy Verhofstadt (ALDE, BE) then took the floor, saying "On the figures, there is no secret that Parliament is ready to accept the figures, within a global deal of course, but the second part, flexibility, is just as important. Flexibility is not a concession from the Council. It is needed to fund new projects." "The most important thing is that we need to solve the problem of future financing of the EU. In this own resources must be a part of the deal. This is not about changing the treaty, but about applying the treaties!"

Daniel Cohn-Bendit (Greens/EFA, FR), on behalf of his group, argued that the EU had "reached a crossroads": "It is not about the money, it is about the question of furthering the European idea or not. We want the EU to solve problems that cannot be solved nationally. But Member States won't give the EU the means needed to do this. We have tabled three requests. To the Member States I would like to say: Take it or leave it! We are ready to wait as long as it takes. We are not going to stop the debate in the middle."

The ECR group was represented by Lajos Bokros (HU), who contended that "500 million tax payers cannot understand why there was no agreement in the first year of Lisbon... But there is a way to agree - if we can agree on flexibility. If we agree on flexibility, Parliament could promise not to force any political declarations on the governments. It would be yet another shame and a bigger shame if we cannot agree this time."

Lothar Bisky (DE) of the GUE/NGL group stressed "New tasks cannot, at least not entirely, be financed within the current budget. Member States have to discuss own resources with the Parliament. If we don't talk any more, we are abandoning the idea of European integration." He also warned that "net payers tend to forget what solidarity means."

The final group speaker was Marta Andreasen (EFD, UK), who told the House "Let us be honest. Negotiations on next year's budget collapsed because of this Parliament's ambition to get more powers over the budget. And the idea to have a European tax has always been unacceptable to us."
Replying for the EU Presidency, Belgian state secretary for the budget Melchior Wathelet singled out three issues: the 2011 budget, the question of flexibility and the political declaration regarding Parliament's involvement in discussions about the future MFF and the own resources debate. He believed the political declaration was the real problem in the Council, saying "But we can have this discussion. It is in the Treaty and we will have it, maybe at a later stage."

Lastly, Commission president José Manuel Barroso said to the assembled MEPs "We must show that all stakeholders understand the implications of the Treaty fully, that close cooperation between the institutions at the highest political level is a natural consequence of our joint commitment to adopt the appropriate financial framework for the future".

"We will use our right of initiative to put forward proposals on own resources before the end of next June. Obviously, Parliament has to be consulted for this issue", he added. Mr Barroso also backed Parliament's position on flexibility, saying "We should have a qualified majority on 0.03 % of GNI. I hope to get a positive message about this from Council."

Parliament will vote on a resolution on the budget negotiations on Thursday 25 November.
Impasse: Breaking the budget deadlock: now up to leaders of EU countries

- European Parliament / EU government negotiations break down
- Leader of EP team blames “intransigence” of a few countries

The 2011 EU budget negotiations reached an impasse on 15 November as a minority of EU countries in the Council blocked all discussion of the EPs role in future budget preparations, despite Parliament's earlier substantial concessions on the level of EU spending foreseen for the coming year. A new draft budget will now have to be presented by the Commission and Parliament's negotiators have expressed the hope that the EU leaders will lift the impasse at the December summit in Brussels.

Why the impasse?

Late in the evening of 15 November negotiations between the European Parliament and the EU governments represented in the Council of Ministers (known as a “trilogue” in EU-speak) broke down and the 2011 draft budget was thus not adopted (approved). Parliament's President Jerzy Buzek, who led the EP negotiating team, expressed his regret at how "the intransigence of a few Member States" made a deal impossible.

With Parliament having already accepted to cap spending for 2011 at the level demanded by the Council, an increase of no more than 2.91% in payments over 2010, it went into the final round of negotiations insisting exclusively on a "serious agreement", as President Buzek put it. This would safeguard its role in future budget negotiations and importantly provide the EU budget with the margins necessary for contingency financing during the year.

Flexibility and future budgets

This flexibility instrument, of 0.03% of GNI per annum, or roughly 4 billion euros, has always been foreseen and indeed frequently used to cover unexpected needs. It has traditionally been deployed following a council decision taken by qualified majority voting, but during the final phase of this year’s negotiations, certain countries blocked all progress by insisting on introducing a requirement for unanimity which the EP and indeed most EU members and the European Commission could not accept.

Parliament’s role in future budget negotiations, (especially its Lisbon mandated greater involvement in the preparation of the multiannual budget frameworks) was also on the table but discussion of this was firmly rejected by the same few States. Equally, Parliament's effort to open consideration or reforming the way the EU budget is financed so as to limit the burden on the member states was also rejected.

As Budgets Committee chairman and French MEP Alain Lamassoure (EPP), pointed out “a reform of the system of own resources has become inevitable with the wide-spread budgetary crisis in Europe”, although the governments have yet to accept it.

What now?

Following Monday's breakdown of the negotiations, the European Commission will have to present, in the coming weeks, a new draft budget. This will in turn be examined by Council within a period of thirty days, and then submitted for approval to Parliament, which has 42 days at its disposal. However, Parliament’s negotiating team has already expressed the hope that the leaders of the member states will break the deadlock at their meeting in December, in time for the budget to be formally approved before year-end.

If this does not happen, the EU will have to move into 2011 with the 2010 budget amounts separated into “twelfths”, one for each month of the year until an agreement is found, which will seriously constrain spending as a whole but particularly spending not foreseen in the 2010 budget such as for the External Action Service and especially the new financial sector regulating agencies.
As EP general budget rapporteur and Polish MEP Sidonia Jędrzejewska (EPP) pointed out after the meeting, “there is a growing discrepancy between what the Member States expect the EU to do and the willingness of the Member States to finance those new tasks”.
The 2011 Budget: going for growth

Next year is the year the economy could make a decisive step in its recovery and the EU budget is one vital instrument in this path to redemption for post-crisis Europe. However, the initial budget proposals by the Commission were severely trimmed by the Council of Ministers and now Parliament, following the first vote in the Budgets Committee, is fighting to restore funding to more acceptable levels.

Parliament's final position will be voted on by the plenary later this month in view of the final "conciliation" negotiation with the member states. However, the Budgets Committee, in a procedure that lasted an entire week, has voted to restore funding to effectively the same level as initially proposed by the European Commission, a figure 3.5 billion euros higher than demanded by the Ministers in the Council.

Facts and figures

The Budgets Committee is proposing funds totalling 142.65 billion in Commitments (the maximum amounts available for all actions and programs scheduled to start during the year) and 130.14 billion euros in payments (the money foreseen to be actually paid out during 2011).

This represents a slight increase above 2010 levels and is close to the original Commission proposal, with MEPs striving to strike the right balance between the obvious need for economies and the equally obvious need to sufficiently fund EU action. This is especially measures to help Europe's recovery through research and innovation, help its poorer regions and the EU's presence in the world, including essential support for Palestine. In general terms, Parliament insists on the EU being given the means to assume all the new tasks the Treaty of Lisbon requires of it.

Pointing out at the needs of the moment, the EP rapporteur for the budget, Polish centre right MEP Sidonia Jędrzejewska, explained during last week's debate that "I am aware that in the times of economic crisis we have to make cuts and concessions, but we cannot forget that our future economic growth will depend on today's investments, especially in the area of education, research an innovation".

The draft 2011 budget presented by the Commission in April foresees 142.56 billion euros or 1.13% of EU GNI in commitments and 130.13 billion or 1.06% of EU GNI in actual payments. This translates in an increase of 2.2% for the commitments on 2010 and 5.9% for the payments. (The 2007-2013 Long term framework had set commitments at 142.97 billion euros and payments at 134.3 billion.

However, the Council in August only agreed to an overall budget of 141.77 billion in commitments and 126.53 billion in payments, trimming more than 3.5 billion euros from the EC proposal, especially funds for Europe's poorer regions, for agriculture and for international aid. The European Institutions' budget is also trimmed by 163 million.

Seven member states (the UK, Sweden, The Netherlands, Finland, Denmark, the Czech Republic and Austria) voted against these proposals demanding even deeper cuts, effectively freezing the budget at 2010 levels.
2011: A budget for today and tomorrow

The EP is set to vote next week (15-22 October) on its version of the EU 2011 draft budget, with the Budgets Committee having already restored most of the funding originally proposed by the Commission but subsequently cut by the governments in Council. Why has the EP insisted in restoring the spending, what are its red lines in the negotiations with the Council that are expected to follow next week's vote and how should the budget be financed in the future? We spoke to the Budget's Committee chairman, Alain Lamassoure (EPP).

Mr Lamassoure, the Budgets Committee has voted to restore most of the cuts made to the 2011 draft budget by the Council of ministers. The governments cite the need for economies in Brussels as in the national capitals so where does the EP stand on this?

We are at European level are in the same difficulties, the same dilemmas as at the national level. It takes time to make budget savings but at the same time preserve future spending: spending on research, education, innovation and social spending for workers who lost their jobs and who are trying to retrain.

Each State is trying to find a good balance between these two concerns, which may seem a bit contradictory. The European Parliament insists that the EU budget is essentially a budget of economic action, preparing and supporting future income and thus supports the request to help support the recovery and so the budget contains only 6% in administrative expenses.

This budget supports economic activity, so the European Parliament believes that we should not sacrifice too many European policies which would be contrary to the objective sought by us all.

So in the negotiations with the Council, where would the EP draw a line in the sand and refuse to accept the government's position?

I think the main red line is not on the 2011 budget. We know that the member states who finance the EU budget have barely increased their contributions this year. But governments must accept that it takes this time of crisis to agree to preserve future expenditures from 2012.

The economic recovery is being felt in 2010. We hope that it will consolidate itself in 2011. I think in 2012 we will be able to truly begin to fund new policies set by the Lisbon Treaty; energy, the fight against greenhouse gases, funding new industries or completely new policies like immigration.

These are policies where we need resources. In addition, we expect the Council to see the impasse we are today to finance the EU budget. The contributors are national budgets that are ruined. It is time to reflect on new own resources that can feed directly into the EU budget without burdening the national budget.

For us it is an application that is obviously very strong because as we will not have our own resources, the EU budget will remain capped at a level that is much too low compared to the skills and ambitions of the European Union.

Will governments be able to accept this?

Not at the moment. But thinking has not yet begun, it is really just beginning. I hope they will accept it by the end of the year.
2011 budget: The EP position

A more restrictive 2011 budget which will, however, allow the EU to overcome the crisis through investment in research, education and "green" energy, while safeguarding future spending, was voted by MEP on Wednesday 20 October. With the vote, the stage is set for the tough negotiations with the Council leading to the final vote in the November plenary.

Recognising the budgetary constraints faced by most member states, Parliament voted on Wednesday 20 October for just a 0,8% increase in commitments compared to 2010. However, it rejected the Council's proposed spending mix and set different priorities, pointing out that "arbitrary reductions" are "not in line with sound budgeting".

In Tuesday's debate, Budgets committee chairman, Alain Lamassoure, said that the EP fully understands the cost-cutting imperative and has acted accordingly in its position on the budget. He asked however, whether it is "reasonable" to expect that the EU's new policies, competences and strategies, all decided by the governments, will be carried out without "a single extra euro".

Following the vote in plenary, EP Budget rapporteur, Sidonia Elżbieta Jędrzejewska (EPP, PL) expressed the hope that "we will have an open and direct dialogue with the Council, so we can successfully adopt a wise, sensible budget for 2011".

In all Parliament voted for funding of approximately 130.56 billion euros in payments and 143.07 billion in commitments, or 1.14% of EU GNI, in line with what the Commission had originally proposed but still lower than originally envisaged by the 2007-2013 long term financial framework.

What goes and what stays

In greater detail, Parliament is asking for payments totalling 42.55 billion euros for cohesion policy to help Europe's poorer regions, 58.5 billion for farm support, 12.1 billion for actions to promote growth, employment and competitiveness, 7.65 billion for the EU's international presence, 848 million for security and justice, including fighting illegal immigration, 649 million for citizenship projects and 8.2 billion to cover administrative costs.

In major departures from the Council's position, the EP increased funding for lifelong learning, innovation and "intelligent" energy, the Baltic Sea strategy, restored funding for agriculture, youth, sport and programmes against domestic violence, as well as assistance to the Palestinians. Provision was also made for the stability mechanism to aid Greece, should this become necessary in the future. On the other hand, funds were cut from the long-running nuclear fusion research project, the Common Foreign and Security Policy and from international cooperation, with the exception of development assistance.

As far as the longer term budget is concerned, MEPs insisted on the need for greater flexibility and asked for both the "proper" involvement of Parliament in discussions for the next multiannual financial framework and a profound rethinking of the revenue side of the budget ("own resources").

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<td>• Payments: The amounts actually foreseen to be paid during the year. They may flow from commitments included in previous years' budgets</td>
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Sidonia Jędrzejewska: "we are not blind to the concerns of the member states"

The approval process for the European Union's 2011 budget is entering its most decisive phase, the negotiations between Parliament and the member states on the exact amounts to be spent during the year, amid ongoing discussions on the future funding of the budget. Centre right Polish MEP Sidonia Jędrzejewska is has been guiding Parliament through the process and agreed to answer our questions.

Parliament's budget figures are well within the multiannual framework and in line with Commission proposals, but have been attacked as excessive at a time when there are cuts in many member states. What is the real difference with what the Council proposed and why was it necessary?

Indeed the European Parliament's position adopted last week is within the limits set by the multiannual financial framework. This is worth underlining because it is new. For me as the general rapporteur it was very important to stay within the limits of the framework because it shows that the EP is a responsible actor in the process: we do listen to the concerns of the Council and we are not blind to the concerns of the member states.

So why we propose to come back more or less to the European Commission's proposal? For two reasons. One is that in 2006, under the British presidency of the EU, we agreed on several multiannual programmes and we should not forget these decisions. Not to respect them puts ongoing programmes at risk.

The second thing is that many political events have taken place over the last years. The Treaty of Lisbon obliges the EU to do more. In my view, to expect that the EU can do much more for the same money is not just unfair, it is impossible.

The EU is under enormous pressure to implement space policy, to introduce European diplomacy, to meet its commitments linked to the EU 2020 strategy and we just don’t have resources for this. What the Council proposed in August is a de facto cut, when we need more. To be honest, the Council should either drop some of its priorities or be willing to go for an increase, which is by the way only a small one.

The EU budget is usually compared to national budgets but is the comparison realistic, given the EU budget's mission and composition?

They are totally different things. The EU budget has very particular features. It is a budget that cannot generate a deficit and cannot be financed by debt. It is also investment oriented. It focuses not on social welfare, but on investment: hard infrastructure, soft infrastructure, knowledge, research. It is an anti-crisis measure in itself.

Is the time ripe to re-examine budget funding? How do you respond to those who claim that this will reduce government influence and thus democratic oversight of the budget?

For me this is the opening of the debate on revenue, not an end. We have two months ahead of us and it is completely unrealistic to believe we can get to any conclusions on so controversial an issue.

We should be able to talk about financing of the budget for the future: how to lessen the burden to the member states and make the budget more accountable to citizens. Myself, I am not a fan of linking the debate on new financing mechanisms and the debate on the 2011 budget. On 2011 we need pragmatism and goodwill to conclude.

We have a number of amendments on the expenditure side that are a signal to the member states that they are giving more and more tasks to the EU but are unwilling to shift money to the EU level to implement those tasks. I think this is a political problem we have to tackle, a form of political hypocrisy.
The final phase, conciliation between the Parliament and Council, is about to begin. Do you fear deadlock in the negotiations?

No, no... I am a very pragmatic person my task is a pragmatic task. I think we actually presented a reasonable proposal.

You cannot negotiate if you don’t try to understand your partner, so we have to understand the Council. But if the Council is completely unwilling to give more, it has to forget about some of its dreams like the International Thermonuclear Experimental Reactor (ITER) or foreign policy. I hope we can conclude by the end of the year because it is our common responsibility to have proper financing from 1 January next year. These inter-institutional tensions and games should never be more important than the beneficiaries, the programmes.
Seven of One

In its simplest form, the EU budget can be seen as a whole subdivided into seven parts, one for each year of the current 2007-2013 financial framework, in a system that allows longer term planning and year by year flexibility and accountability. The multiannual framework sets the limits and general targets for EU action. The annual budget covers every single item of expenditure, from pencils for administrators, to subsidies for EU farmers and help for its economically less-developed regions. More importantly, it is not a luxury for Europe: it is and has been for decades, an integral part of the European economy, a true force multiplier that increases the whole Union's wealth and effectiveness.

When the "financial framework" is set, it includes the maximum amount to be spent by the EU, as well as how this is broken down year by year and subject by subject, although the exact amount for the annual budget is the subject of annual negotiations. In all, every year the EU spends on behalf of the citizens almost exactly 1% of the EU Gross National Income (GNI) or about €130 billion. This translates into about €235 from each EU citizen per year.

The current financial framework is about to undergo a mid-term review. The European Commission will be presenting its proposals on 19 October, but on 22 September Parliament called for far greater flexibility in handling the funds, in order to better match capabilities and needs, as well as for greater financial margins to be built into the budget to allow for future contingencies.

The EP is also preparing for the next multi-year framework and has set up a special Policy Challenges Committee to debate and present concrete proposals: the funds needed post-2013, where they will come from, what they should be spent on and how long the next long-term budget should last; a 10-year period, reviewed after five years has already been proposed to replace the current seven year framework.

Whatever the final decision, one thing is certain: like every budget, it is and will be divided into revenue and expenditure, with all money effectively flowing from the member states to the EU and then flowing back from the EU to member states and citizens.

Earning...

The revenue - money flowing into the budget - comes from "own resources", which are generally collected by the member states and then transferred to the EU budget. They are:

- **"Traditional own resources"** from customs duties and sugar levies - money collected when goods are imported from outside the EU and when sugar is exported from the EU to other countries. This accounts for about 12% of revenue. The **"VAT resource"** is a proportion of VAT revenue collected by the Member States, representing 11% of the EU budget revenue. The **"GNI resource"** is an annual direct contribution by each member state according to its wealth, as measured by its GNI. It accounts for 75% of all EU revenue and there are various fine tuning mechanisms, such as the UK rebate, which returns to the UK a percentage of what it has contributed to the budget.

A review of these revenues is being discussed, though not yet formally negotiated. One proposal is to replace some or all of these resources by an **EU-wide tax** that would ensure adequate financing for the budget without any additional cost to the taxpayer.

One major difference between the EU budget and national budgets is that revenue and expenditure must match. The EU cannot borrow to cover its expenditure. There is therefore no public budgetary deficit (or surplus) at EU level.

... and spending...
There are two big areas of expenditure: (i) financial support for the Union's rural regions and the farmers that bring them to life and (ii) support for the less developed regions to reduce the gap between the rich and the poor. The 2007-2013 framework includes six main "headings" for spending, subdivided into innumerable budget "items", each covering specific expenditure authorised by specific legislation, and into "commitments" and the slightly lower "payments", the money actually disbursed. These headings are retained in the annual budgets, which also include the exact amount of funds each will receive during the year.

EU expenditure adds up to about €925 billion for the seven years or almost exactly 1% of EU GNI. The level of actual expenditure on the ground is very often boosted by substantial additional national funding, especially for "cohesion" and "structural" programs (e.g. infrastructure projects, bridges, roads, railways), where projects are agreed with national and local authorities and co-funded.

**... following tough negotiations**

After the multiannual framework is set, the exact amounts to be spent every year by the EU are decided in, often, tough negotiations between Parliament and Council, a process set out in detail by the EU Treaties and an inter-institutional agreement between Parliament, Council and Commission. The Lisbon Treaty has streamlined the process and improved democratic scrutiny by substantially enhancing the role of the European Parliament in the process, extending its powers to agriculture and foreign relations.

After a first round of talks between institutions early in the year to agree on the main priorities, the European Commission presents its proposal, or draft budget, at the end of April or beginning of May. Council presents its own version of the draft budget before the end of the summer.

Council's version of the budget is examined by the Parliament's Budgets Committee. After a process of consultation with other committees specialising in various policy areas, in early October the Budgets Committee adopts amendments to the Council's figures based on Parliament's priorities. The revised version of the draft budget is put to Parliament as a whole for adoption during its October sitting.

If the two institutions' versions do not agree, it is necessary to find an agreement. That is the job of a "Conciliation Committee" in which 27 MEPs and 27 Council representatives meet. This Committee undertakes a final 21-day negotiation, at the end of which it should submit an agreed version of the annual budget to the two institutions. Parliament's adoption of the final budget, in its November sitting marks the end of the process.

If there is no agreement, the EU operates using the previous year's budget subdivided into "12ths", one for each month, until an agreement is reached and the new budget can enter into force.

**Main budget headings for 7 years**

- "Sustainable growth" - €437.8 billion, of which €348.4 billion to improve cohesion between regions
- "Preservation and management of Natural Resources" - €413 billion, of which market related expenditure and payments to farmers €330.1 billion
- "Citizenship, Freedom, Security, Justice" - €12.216 billion
- "EU as global player" - €55.9 billion
- "Administration" - €55.9 billion