

THE EU FINANCING RULES (OWN RESOURCES)

2. Structure of the budget (revenue)

2.4 UK correction

2.5 Other revenue

2.6 The budgetary logic of financing the EU

2.4 UK CORRECTION

ORIGIN OF THE CORRECTION

LATE 70's

EARLY 80's

- 70 % OF EU EXPENDITURE WAS **CAP** EXP.
UK has low share in CAP expenditure
(smaller sector, structurally different)
- UK had a high VAT base in relation to its GNP
UK had high share in O.R. payments
- UK among less affluent member states

STALEMATE

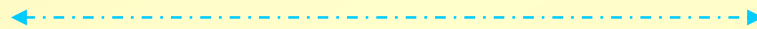


"I WANT MY MONEY BACK"

2.4 UK CORRECTION

FONTAINEBLEAU EUROPEAN COUNCIL 1984

“EXPENDITURE POLICY IS ULTIMATELY THE ESSENTIAL MEANS OF RESOLVING THE QUESTION OF BUDGETARY IMBALANCES



HOWEVER, IT HAS BEEN DECIDED THAT 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.”

LEGAL FRAMEWORK

O.R. DECISION Art 4 and 5

(Method of CALCULATION: working document of the Commission Services)

2.4 UK CORRECTION

CALCULATION (O.R. DECISION Art. 4)

THREE STEP CALCULATION

- I. 'ORIGINAL AMOUNT'
- II. 'UK advantage'
- III. 'TOR windfall gains'

2.4 UK CORRECTION

I. ORIGINAL AMOUNT

(UK % part in revenues - UK % part in allocated expenditure)

* allocated expenditure * 0.66

2.4 UK CORRECTION

UK PART IN REVENUE PAYMENTS

- UK share in 'uncapped' VAT payments =

OR payments the UK would have had to make under the ORD rules valid at the time of the Fontainebleau Council in 1984 the reforms (Since that time, the OR system has been reformed, with the capping of the VAT base capping and the introduction of the GNI resource)

2.4 UK CORRECTION

UK PART IN ALLOCATED EXPENDITURE

- includes administrative expenditure
- excludes external expenditure
- allocated expenditure is reduced by pre-accession expenditure in the new Member States in the year prior to accession

2.4 UK CORRECTION

PDBudget 2007 (CORRECTION FOR 2006)

CALCULATION OF ORIGINAL AMOUNT

1. PART OF UK in uncapped VAT PAYMENTS	17,5894%
2. PART OF UK in ALLOCATED EXPENDITURE	8,6985%
3. (1) – (2)	8,8909%
4. TOTAL ALLOCATED EXPENDITURE (in Mio Euro)	100 442,9
5. Pre-accession aid year N-1	-1 815,8
6. TAE to be taken into account	98 627,2
7. (3) • (6)	8 768,8
8. (7) • 0,66	5 787,4

UK Correction Original Amount	5 787,4
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2.4 UK CORRECTION

II. UK ADVANTAGE

Gain (or loss) that the UK obtains from the reforms of the OR system (changes to the VAT resource and introduction of GNI resource is deducted from (added to) the UK correction

PDB 2007 (UK correction 2006) = 528,7 million €, which is deducted from the original amount

2.4 UK CORRECTION

III. TOR WINDFALL GAINS

- **Gain (or loss) that the UK obtains from the increase of the TOR collection costs decided in Berlin (from 10% to 25%) is deducted from (added to) the UK correction**
- **PDB 2007 (UK correction 2006) = 7,5 million €, which is deducted from the correction**

2.4 UK CORRECTION

PD BUDGET 2007 (CORRECTION FOR 2006)

CALCULATION OF UK CORRECTION **(in million of €)**

1. Original amount	5 787,4
2. UK advantage	-528,7
3. TOR windfall gains	-7,5

TOTAL UK Correction	5 251,2
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2.4 UK CORRECTION

CURRENT FINANCING SITUATION

1

UK DOES NOT PARTICIPATE IN THE FINANCING OF ITS OWN REBATE

2

20 (22) MEMBER STATES PARTICIPATE ACCORDING TO THEIR SHARE IN EU GNI

3

DE, NL, AT, SE's SHARES ARE REDUCED BY 75 %

4

REDUCTION OF DE, NL, AT and SE's SHARES IS FINANCED BY OTHER 20 (22) MEMBER STATES ACCORDING TO THEIR SHARE IN GNI



FORMALLY:

ADDED TO VAT AND GNI CONTRIBUTIONS (NOT A SEPARATE RESOURCE)



IN REALITY: CALLED AS A SEPARATE RESOURCE

( Separate payment)

2.4 UK CORRECTION

3 CALCULATIONS

UK CORRECTION FOR YEAR “N” IS CALCULATED (AT LEAST) **3 TIMES**

		EXPENDITURE	VAT/GNI BASE
➤ PRELIMINARY CALC.	PDB N+1	FORECAST	FORECAST
➤ PROVISIONAL CALC.	PDAB1/N+1	SEMI-DEFINITIVE	UPDATED
➤ DEFINITIVE CALC.	PDAB1/N+4	DEFINITIVE	DEFINITIVE

2.5 OTHER REVENUE (examples)

SURPLUSES AVAILABLE: (TITLE 3)

- CHAPTER 30: FROM THE PRECEDING FINANCIAL YEAR
 - can be very important (max. was 15 bn euro in 2001)
- CHAPTER 31/32: OF VAT AND GNI OWN RESOURCE
 - ex ante: budget = p.m.
 - ex post: difference between provisional payments (12^{ths}) and final amount due

2.5 OTHER REVENUE

- TITLE 4: DEDUCTIONS FROM REMUNERATIONS
 - tax on employee salaries + temporary contribution
 - staff contributions to pension scheme

- CHAPTER 52: INTEREST ON BANK ACCOUNTS

- CHAPTER 63: CONTRIBUTIONS BY, INTER ALIA, THE EFTA-MEMBER STATES (under the EEA co-operation agreement)

Continued:

2.5 OTHER REVENUE

- CHAPTER 70: INTEREST ON LATE PAYMENTS
- CHAPTER 71: FINES (imposed by the Commission)
- CHAPTER 81: CAPITAL REPAYMENTS AND INTERESTS IN RESPECT OF LOANS GRANTED BY THE COMMISSION
- CHAPTER 82-83: GUARANTEE FUND SURPLUS
- CHAPTER 90: MISCELLANEOUS REVENUE

2.6 THE BUDGETARY LOGIC OF FINANCING THE EU

A. EU BUDGET IS 'EXPENDITURE BUDGET'

B. EU BUDGET MUST BE BALANCED (Treaty Art. 268)

A. POLITICAL DECISION ON EXPENDITURE – THE FINANCING FOLLOWS AUTOMATICALLY (up to own resources ceiling)

B. 'SEQUENTIAL' FINANCING TO REACH EQUILIBRIUM

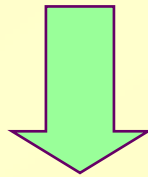
TOTAL EXPENDITURE LESS:

1. OTHER REVENUE
2. TRADITIONAL OWN RESOURCES
3. VAT-BASED RESOURCES, and finally
4. GNI-BASED RESOURCE TO REACH EQUILIBRIUM EX ANTE.

2.6 THE BUDGETARY LOGIC OF FINANCING THE EU

HOWEVER, THE EU BUDGET IS NEVER IN BALANCE EX-POST (OUTTURN STAGE)

IN PRINCIPLE THERE IS ALWAYS A SURPLUS



CARRIED FORWARD TO THE FOLLOWING YEAR

(if deficit, it will be entered as a payment appropriation in the following year's budget)