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The EU Budget and the CAP Reform after the Lisbon Treaty

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Index

- ❖ **The EU Budget: Features, Functions and Structure**
- ❖ **Decision-making and budgetary powers**
- ❖ **The net balances' puzzle in the budget choices**
- ❖ **Empowerment of EU Parliament in the budget choices: milestones**
- ❖ **New budget procedure according to the Lisbon Treaty**
- ❖ **Implications for the CAP reform**

EU Budget: Features and Tasks

The EU Budget is strictly constrained by the its availability of resources (Equilibrium Principle art. 268 TCE)

- NO way for *deficit spending* and borrowing (EU public debt)
- Payment appropriations related to revenue (“own resources”)



Very small in size:

- ~ 1% of EU GNI (up to 1.2 in 1993)
- ~ 2% of public expenditure in EU countries



Limited tasks:

- Instrument for funding circumscribed Common actions
- Restricted room (financial and political) for redistributive policies
- Not suitable for stabilization macropolicies

Structure of the EU budget – Revenues (1)

Decision on the system of own resources (CE 70/243):

Since 1970 The EU budget is funded almost entirely by Own Resources (unanimous decision of the Council ratified by the national parliaments)

TOR - Traditional Own Resources (≈15%):

- Agricultural levies
- Custom duties

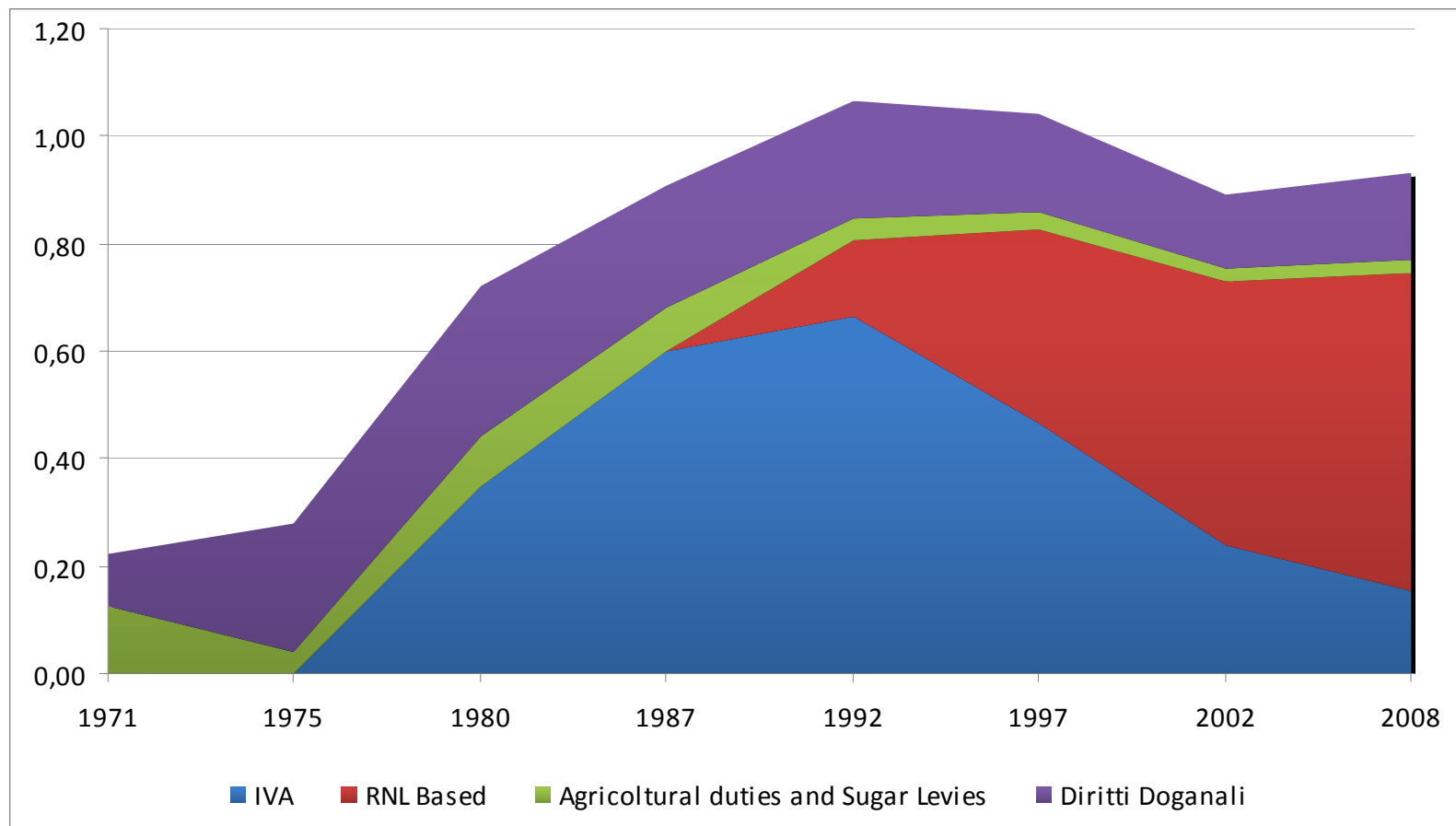
Resources from value added tax (≈15%):

- Ranging between 1% and 0,3% levied on the harmonised VAT base of each EU country but always $\leq 55\%$ GNI

Resource based on Gross National Income (GNI) (≈65 %):

- Complementary contribution levied on the GNI of each EU country up to 1,24% of GNI

Structure of the EU budget – Revenues (2)



Fonte: <http://ec.europa.eu/budget/>

Structure of the EU budget – Expenditures (1)

Two main categories

Compulsory (about 40%)

- ▶ From commitments in treaties and related legislation (automatic)
- ▶ EU Council has the last word
- ▶ Mainly related to the I pillar of the CAP

Non-compulsory (about 60%)

- ▶ Appropriations require specific legal acts (EU regulations, etc)
- ▶ EU Parliament (EP) has the last word

Structure of the EU budget – Expenditures (2)

Main Headings (average 2007-13)

Natural Resources – Agriculture (43%)

I pillar CAP (32%); II pillar CAP and fishery (11%)

Cohesion actions – Structural funds (36%)

ERDF; ESF; Cohesion fund

Competitiveness Actions – Internal actions (9%)

Research and innovation; trans-European network;
Educational system

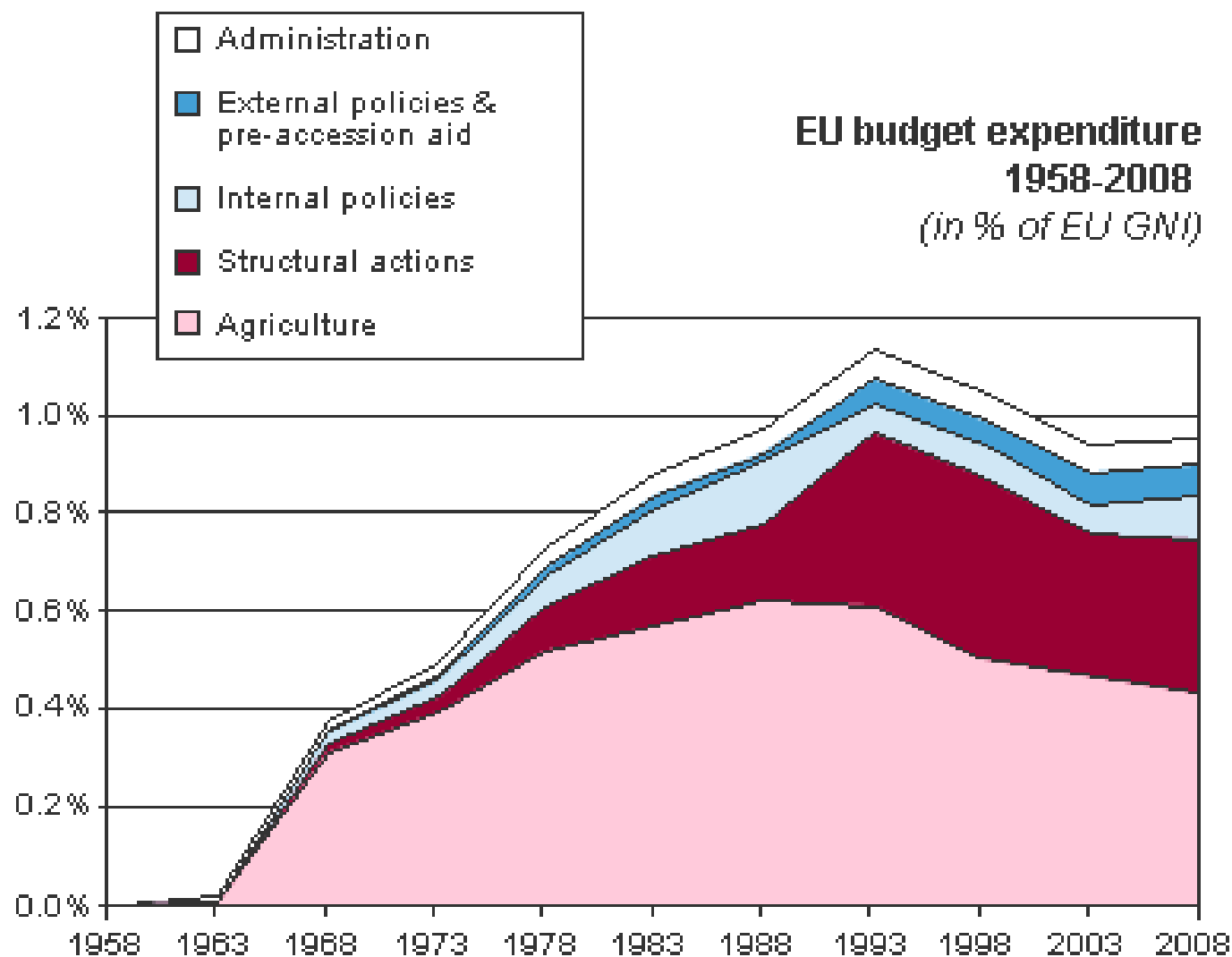
EU global partner– External actions (6%)

Development assistance and international cooperation;
pre-adhesion funds ecc.

Administration (6%)

EU institutions functioning

Structure of the EU budget - Expenditures (3)



Fonte: http://ec.europa.eu/budget/reform/history/history1957_en.htm

Decision making and budgetary powers (1)

Own Resources Decision (ORD)

Defines the nature and amount of the own resources. It stays in place until a new decision is made

- ▶ Commission proposal
- ▶ Council adoption (requires unanimity)
- ▶ National parliaments ratification

Annual Budgetary Procedure

- ▶ Draft Budget by Commission
- ▶ Adoption from Council and Parliament (2 readings)
 - ▶ Council has the last word on compulsory expenditures
 - ▶ Parliament has the last word on not compulsory expenditures
- ▶ Parliament may reject the (2/3 votes)

Financial Perspectives (since 1988) - 1

Budget crisis in the eighties

- ▶ Inter-Institutional conflict on budget (EP vs Council)
- ▶ Need to introduce a ceiling for CAP expenditures
- ▶ New expenditure policies following the Single Market



Inter-Institutional agreement aimed to a multi-year financial planning (7 yrs) establishing maximum amounts (ceilings) for the whole budget and for each single heading

- ▶ Respect budget discipline
- ▶ Protection for non-compulsory expenditures
- ▶ Financial perspectives consistent with new policies' goals and priorities

Financial Perspectives (since 1988) - 2

The Financial Perspectives (FP) are just a *political agreement*, not mentioned in the EU Treaties (pre-Lisbon). Actually FP don't represent a legal act binding the EU Institutions.

Who decides:

- ▶ Commission proposal
- ▶ Parliament advice (binding !?)
- ▶ Council reaches a “political agreement” (unanimity)
- ▶ Transposition in an “inter-institutional agreement”

Net balances and budgetary choices (1)

Revenues structure

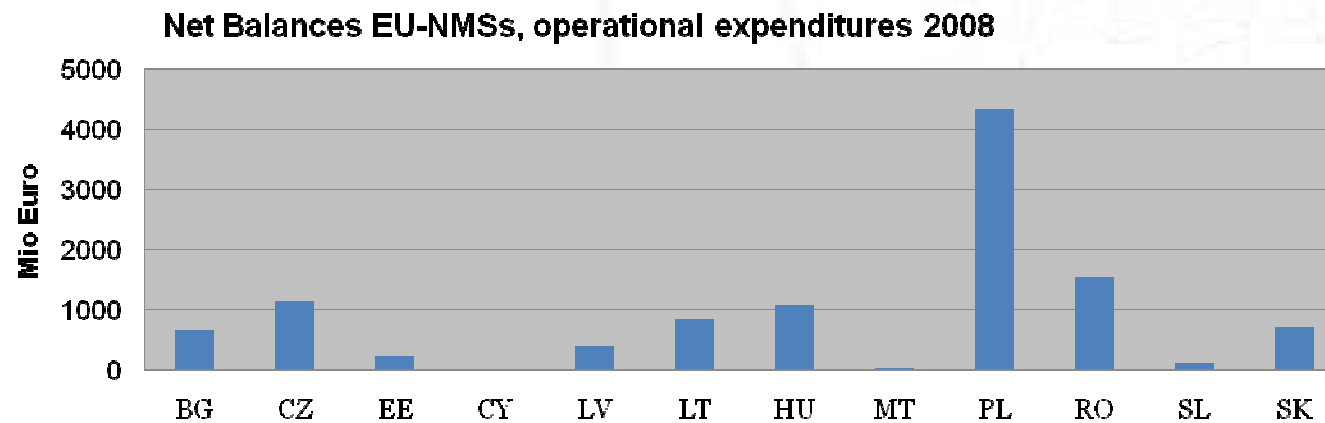
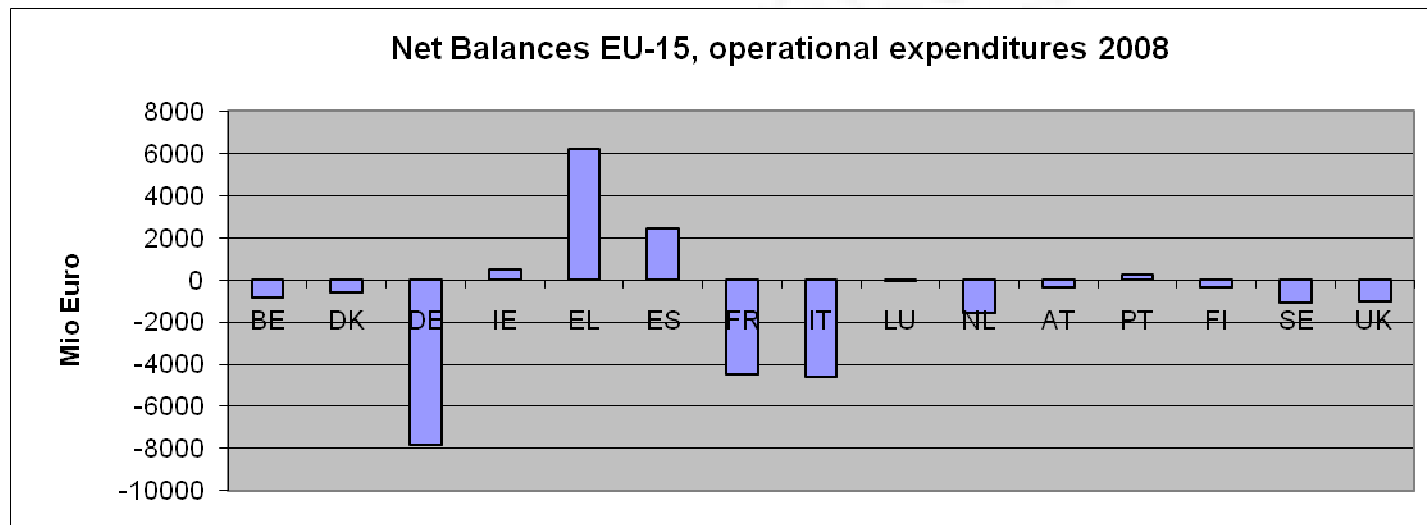
- ▶ Increased share of “national contributions” vs. TOR
- ▶ Financing solidarity principle (CAP)

Distributional effects of expenditure policies

- ▶ Regional and cohesion policies (explicit effects)
- ▶ CAP (“implicit” effects)

Net balances and budget choices(2)

Significant burdens in net balances



Net balances and budget choices (3)

Fontainebleau Agreement on the “*juste retour*” principle (1984):

“.... 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.”

(Conclusions of the Presidency Council EC 1984)

Introduces the “British *rebate*”: special refund equal to 66% of UK negative net balance funded by other Member States depending on their GNI

Centrality of intergovernmental negotiations (Council) in budget choices

“From the negotiations experience in last 20 yrs it emerges that net balances are the key principle in making budget decisions”

(Study commissioned by the DG-Budget, 2008)

Net balances and budget choices (4)

Implications

► Formal:

- Ad-hoc adjustments to the own resources mechanism following the “*British rebate*”: further minor adjustments for some MSs net contributors (Germany, the Netherlands, Sweden and Austria)

► Political:

- Intergovernmental Institution (Council) keeps control on budget planning
- Spending policies (CAP) shaped by the need of main net contributors

“ The current budget is more the expression of different deals and attempts by governments to claw back in receipts as much of their contribution as possible than a coherent set of measures. ...” (The Sapir Report 2004)

“... like a large group of diners at a restaurant, where the debate about what to order are matched only by disputes over how to split the bill” (Clasper and Thurston 2010).
- Conservative (*Status quo*) and reductionist choices

Distributional impact of CAP reform: hypothetical scenarios (% change of MSs' CAP appropriations)

| | Conservative | Environmental | Territorial | Sector | Public goods |
|--------------------|--------------|---------------|-------------|--------|--------------|
| Germany | -0,6 | -14,1 | -20,3 | -32,8 | -25,7 |
| Greece | -11,4 | -37,2 | -40,8 | -22,5 | -51,2 |
| Spain | -0,6 | -11,1 | -24,1 | 1,9 | -26,7 |
| France | -2,8 | -32,4 | -20,6 | -23,2 | -31,1 |
| Italy | 0,9 | -1,1 | -15,6 | 20,5 | -17,1 |
| Un. Kingdom | 20,5 | 35,5 | 10,4 | -18,0 | 15,6 |
| EU-15 | 4,5 | 0,9 | -0,6 | -10,2 | -2,2 |

| | Conservative | Environmental | Territorial | Sector | Public goods |
|-------------------|--------------|---------------|-------------|--------|--------------|
| Bulgaria | -19,2 | -14,1 | -17,9 | 27,5 | -15,1 |
| Czech Rep. | -1,3 | 12,9 | 21,3 | -17,7 | 26,0 |
| Latvia | -14,5 | 24,8 | 23,5 | 106,1 | 41,3 |
| Hungary | -7,0 | -5,1 | -31,2 | 44,2 | -31,1 |
| Poland | -18,5 | -14,2 | -1,5 | 42,6 | 0,8 |
| Romania | -20,3 | 4,0 | 7,1 | 19,3 | 19,4 |
| EU-12 | -14,8 | -3,1 | 1,9 | 33,3 | 7,1 |

| | Conservative | Environmental | Territorial | Sector | Public goods |
|------------------------|--------------|---------------|-------------|------------|--------------|
| Votes against | 219 | 229 | 207 | 138 | 180 |
| Votes in favour | 126 | 116 | 138 | 207 | 165 |

Source: Henke 2010

EP empowerment in budgetary choices milestones

1970

Treaty of Luxembourg



- Own Resources and **Budget Procedure**

1978

European Council
Decision



- Election of EP by **universal suffrage**

1988

SEA Single European Act



- Introduction of **Cooperation Procedure**

Interinstitutional
Agreements on FP



- **guaranteed funds for EP** on non-compulsory expenditure

1993

Maastricht Treaty



- Introduction of **Codecision Procedure**

1999 - 2001

Amsterdam - Nice



- **Extension of Codecision Procedure**

2009

Lisbon Treaty



- **Extension of Codecision Procedure to CAP**
- **Elimination of compulsory expenditures**

EU BUDGET



EP Empowerment in budgetary choices: which changes after the Lisbon Treaty

► In Annual Budget Procedure

- Compulsory expenditures eliminated
- Special procedure: one reading in Council and Parliament and Conciliation Committee if necessary
- CAP in ordinary legislative procedure (codecision)

► In multiannual financial planning:

- From a political agreement to a legally binding act (Regulation stated by the Treaty)
- From Financial Perspectives (7 years) to Multiannual Financial Framework (MFF) (≥ 5 yrs)
- Unanimous adoption by Council following Commission proposal and EP consent
- Possible shift from unanimity to qualified majority in the Council adoption if unanimously decided

Implications for CAP reform (1)

In an historical perspective, the EU budget evolution have been affected by an entanglement between intergovernmental (net balances) and interinstitutional (Council-Parliament on budget powers) negotiations

- ▶ Defense of the Council's budgetary powers through the conjunction of: consultation legislative procedure for CAP; distinction between compulsory/ non compulsory expenditures, high level of CAP appropriations
- ▶ Vicious circle between net balances focus and primacy of intergovernmental negotiations

Implications for CAP reform (2)

The Lisbon treaty confirms the compromise between Council and Parliament which emerges from an historical analysis

- ▶ Council and MSs consolidate their full control on the Multiannual Financial Framework (adopting unanimously the ceilings on commitment appropriations by category of expenditure and the annual ceiling for all payment appropriations).
- ▶ In the Annual Budgetary Procedure the Parliament extends its “power parity” with Council over all budget appropriations and spending policies (CAP)

Implications for CAP reform (3)

An high CAP expenditure cannot help anymore to maintain budgetary powers within intergovernmental negotiation (Council)

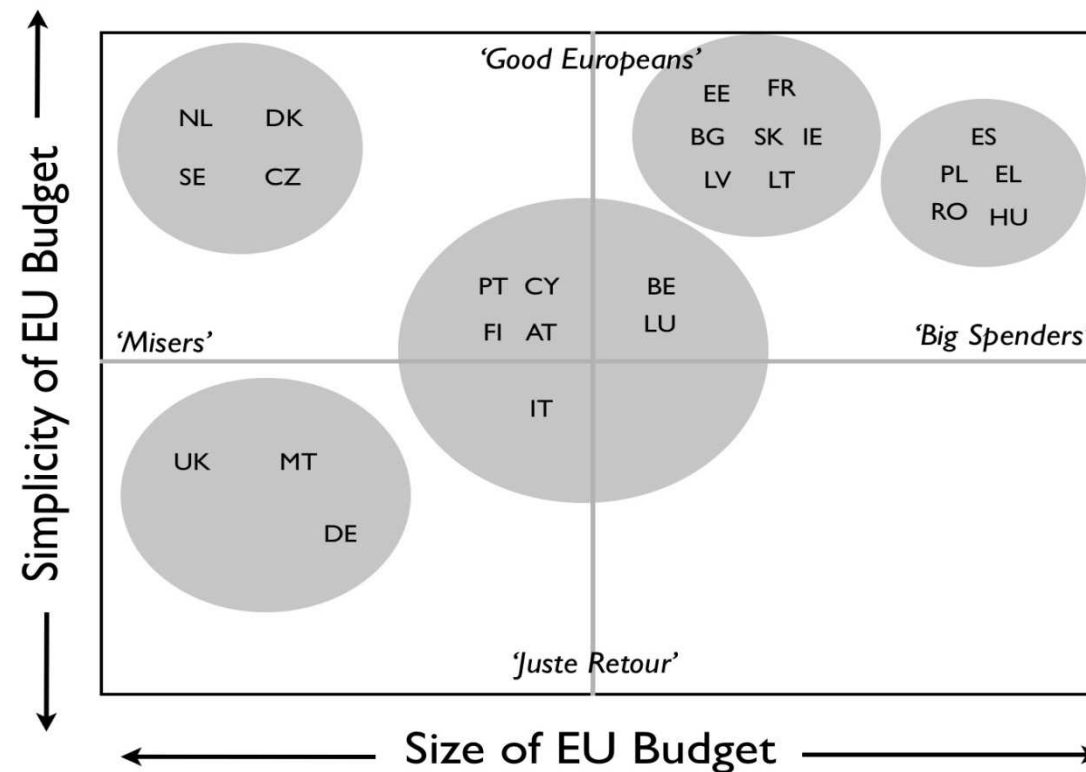
- ▶ Political equilibria on net balances can be affected by the Council only through the Decision on Own resources and the Regulation on the Multiannual Financial Framework

CAP cannot be used anymore autonomously by the Council as a policy aimed at equilibrating net balances among MSs

- ▶ Decreased interest of the Council in maintaining high CAP spending
- ▶ More room of maneuver for a CAP reform affecting net balances and distribution among MSs

The main issue regards the European Parliament attitude towards the feature and the size of the future CAP

Budget Review: MSs approach to the EU Budget



Source: Clasper and Thurston 2010

Thanks for your attention

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| | Direct payments | Environment | Disadvant. Areas | Modernisation | UAA |
|------------------------|------------------------|--------------------|-------------------------|----------------------|------------|
| Conservative | 0,7 | 0,2 | | | 0,1 |
| Environmental | 0,2 | 0,5 | | | 0,3 |
| Territorial | 0,2 | 0,3 | 0,3 | | 0,2 |
| Sector oriented | 0,2 | 0,1 | | 0,5 | 0,2 |
| Public goods | | 0,4 | 0,3 | | 0,3 |