Procedure file

Basic information

CNS - Consultation procedure Decision	2004/0170(CNS)	Procedure lapsed or withdrawn
European Communities' own resources: correction of budgetary imbalances		
Subject 8.70.01 Financing of the budget, own resources		

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	BUDG Budgets	PPE-DE LAMASSOURE Alain	02/09/2004
	Committee for opinion	Rapporteur for opinion	Appointed
	CONT Budgetary Control	The committee decided not to give an opinion.	
	REGI Regional Development	PPE-DE GALEOTE Gerardo	30/11/2004
Council of the European Union			
European Commission	Commission DG	Commissioner	
	Budget		

Key events

14/07/2004	Legislative proposal published	COM(2004)0501	Summary
27/10/2004	Committee referral announced in Parliament		
22/03/2007	Additional information		Summary

Technical information

Procedure reference	2004/0170(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Decision
Legal basis	Euratom Treaty A 173; EC Treaty (after Amsterdam) EC 269
Stage reached in procedure	Procedure lapsed or withdrawn
Committee dossier	BUDG/6/22979

Documentation gateway					
Legislative proposal		COM(2004)0501	14/07/2004	EC	Summary
Economic and Social Committee: opinion, report		CES0533/2005 OJ C 267 27.10.2005, p. 0057-0063	12/05/2005	ESC	
Court of Auditors: opinion, report		RCC0004/2005 OJ C 167 07.07.2005, p. 0001-0006	12/05/2005	CofA	Summary

Additional information	
European Commission	EUR-Lex

European Communities' own resources: correction of budgetary imbalances

PURPOSE : to introduce a generalized mechanism to correct excessive negative budgetary imbalances.

PROPOSED ACT : Council Decision

CONTENT : The Commission recalls in this document the 1984 Fontainebleau agreement introduced the existing UK correction, which was given effect by the own resources decision of 7 May 1985. The decision was based on the following general principle:

'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.'

The Commission states that the justifications for granting a correction on an exclusive basis to the UK are today less relevant than at the time of the Fontainebleau European Council, since several

other Member States can legitimately claim that their current situation is comparable to the UK's. Commission data show that the UK's relative prosperity is at the top of the range. This is in sharp contrast with the situation in 1984, when the UK was the least prosperous of the net contributors.

In view of the dramatic shift in the UK's position compared to the other net contributors, it is legitimate to re-consider the existing correction system, in light of the Fontainebleau principle whereby a Member State's net balance should be viewed in relation to its relative prosperity.

Furthermore, the cost of enlargement should be fairly shared. Should the current own resources decision remain in force, data show that over the next financial perspective, the UK will become (together with Finland) the smallest net contributor to the EU budget, in evident contradiction with the

Fontainebleau principle mentioned above.

Consequently, it is argued that, in light of the principle set in the Fontainebleau conclusions, the conditions exist for the introduction of a generalised correction mechanism. The parameters defining such a correction mechanism are examined and a proposal is made:

The generalised correction mechanism is to be calculated on the basis of the net budgetary balance of each Member State in relation to the budget of the EU. The mechanism will be triggered beyond a threshold, expressed as a percentage of each Member State's GNI, reflecting the minimum accepted level of unlimited financial solidarity between Member States. and representing a sort of basic

reasonable net contribution. Net positions exceeding such a threshold will be eligible for a correction (partial refund). The amount of the correction is to be based on the part of the net balance exceeding this threshold, multiplied by a refund rate (i.e. the percentage of the amount in excess of the agreed threshold to be compensated). If the sum of all corrections exceeds a total predetermined volume, the refund rate is reduced accordingly. Annex 1 explains the steps required and the functioning of the proposed correction mechanism.

A threshold set at -0.35% of GNI will give rise to an estimated average volume of

gross corrections of around EUR 7 billion for the period 2007-2012 (to be financed in

2008-2013).

The Commission proposes the following parameters for a generalised correction mechanism:

- keeping the categories of revenue to be taken into account (VAT + GNI) unchanged. Any other existing complication should be abolished;

- keeping the expenditure headings included in the allocated expenditure unchanged;

simplifying the financing by basing it only on GNI shares, whereby all Member

States would participate in the financing of the global amount of the corrections in

proportion to their relative prosperity;

- setting the threshold level at -0.35% of GNI;

- using the refund rate as the adjustment variable with a maximum rate of 66%, to be reduced automatically when the agreed maximum refund volume is exceeded in a given year;

- capping the maximum available refund volume at EUR 7.5 billion.

In absolute terms, the UK would be by far the largest beneficiary from the generalised correction mechanism, receiving on average a net compensation in excess of EUR 2 billion per year, approximately twice as much as the net amount Germany would receive.

With the proposed mechanism, on average, the net balances of the largest net contributors would be at comparable levels, with the UK, Germany, the Netherlands and Sweden all between -0.51% and -0.45%, to be compared with a range between -0.56% and - 0.25% under the UK correction mechanism (and between -0.62% and -0.47% with no correction).

The Commission goes on to propose transitional measures and top-up payments for the UK for the next four years. These top-up payments would alleviate the financial impact of the introduction of the

GCM for the UK in 4 gradual steps. The UK has received in recent years a net correction of on average EUR 4.6 billion annually over the period 1997-2003. Under the GCM the UK is expected to receive EUR 2.1 billion annually on average over the period. The proposed transitional measures raise this annual average amount to EUR 3.1 billion. Since these lump sum payments represent a phasing-out of the current system, they

would continue to be financed according to the current financing rules, i.e: the UK does not participate in the financing and the share of Germany, Netherlands, Austria and Sweden in the financing is restricted to 25% of their normal share.

It is further proposed that neither these payments to the UK nor their financing should impact the calculation of the corrections under the proposed generalised correction mechanism (GCM).

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As announced in Official Journal C 66 of 22 March 2007, the Commission decided to withdraw this proposal, which had become obsolete.