

Briefing note: European Communities (Finance) Bill

Background

On Monday the Commons will debate the European Communities (Finance) Bill. This puts into effect the deal on the EU budget struck by Tony Blair in December 2005.

The Financial Perspective sets the framework for the EU's spending and revenue raising over the period 2007-13. It consists of the Own Resources Decision (governing how much each member state pays in) and the Inter-Institutional Agreement (governing how much the EU spends and where it spends it).

Because the UK has agreed to give up part of its rebate, the Own Resources Decision has to be changed, and implementing this in UK law requires an amendment to the 1972 European Communities Act, which is made by the European Communities (Finance) Bill.

Key points

- Many people still think of the UK's contribution to the EU as a small sum. But under the 2007-13 financial perspective the UK's contribution, after the reduced rebate, will be £10.2 billion a year. To put the scale of this expenditure into context, this money could alternatively be used to:
 - Cut council tax by nearly 50%:
 - Build 40 brand new general hospitals each year
 - Employ an extra 320,000 nurses each year
 - Cut the main rate of corporation tax by 11p
 - Cut the basic rate of income tax by 3p
 - Raise the inheritance threshold from £300,000 to £2,925,000
 - Raise the income tax personal allowance by £2000
 - Cut petrol duty by 75%
 - Pay the total bill for the London Olympics in less than one year
- The EU budget is a prime example of the failure of the EU to reform. It is irrational both in terms of *what* the money is spent on and also in terms of *where* the money is spent and raised.
- In terms of what the money is spent on, the budget is dominated by two failing policies which even the current UK Government is essentially opposed to: the

CAP and the Structural Funds - which Gordon Brown has said should be returned to the control of member states.

- The complex nature of these two top-down spending programmes also exacerbates the EU's chronic problem with fraud - demonstrated this week by the Court of Auditors failure to sign off the EU budget for the thirteenth year in a row.
- Surprisingly, the Government has acknowledged in a written answer that it agreed to a last minute €1billion increase in the budget for "administration", simply in order to secure "a political consensus for an agreement". In other words the EU is to spend a billion euros on pointless agencies as a political sweetener.
- Following the agreement in December 2005 the budget has been increased. The Europe Minister said in February 2006 that the Government "strongly opposed" any increase in spending above the levels agreed in December 2005. (Letter from Douglas Alexander to the European Scrutiny Committee, 21 February 2006)
- But only two months later the Government agreed to an increase of €2.7billion.
- In terms of where the money is spent, the EU budget still operates in an unfair and irrational way, with little link between spending and need. Absurdly, rich countries like Ireland and Belgium are net recipients from the budget, while Cyprus - with a GDP per head half their level - is to be a net contributor.
- Britain will receive only €770 per person in EU spending (the lowest of any member state). This is half as much as France (€1480) and a quarter as much as Ireland (€3090). Absurdly, the richest country in the EU - Luxembourg - will get more than €22,000 per person because it benefits from having EU agencies based there.
- Per head, the top three recipients of EU funds will continue to be old member states - Luxembourg, Belgium and Greece. France will continue to be the largest recipient of EU funds of any member state in absolute terms. France will receive €89 billion from the EU over the six year period, compared to €46 billion for the UK.
- Perhaps for this reason, the UK Government refuses to publish comparative information on how much other member states will contribute to the budget. Strangely, it has produced such data for France alone, which shows that people in the UK will still pay 20% more per head than in France, despite similar income levels. We are still forced to rely on leaks for comparative data:

Financial perspective 2007-13 (€ billion, for whole period)

	PL	RO	EL	HU	CZ	PT	SK	BG	LU	LT	BE	LV	EE	SI	ES	IE	MT
Spending	87	32	40	32	31	29	14	12	10	9	39	6	4	6	78	12	1
Contributions	22	7.2	15	8.4	9.2	12	3.5	2.3	2.3	1.7	33	1.4	0.8	3.1	76	11	0.5
Net receipts	65	25	25	24	22	17	11	9.7	7.7	7.3	6.4	4.6	3.2	2.9	2.2	0.6	0.5

	CY	FI	DK	AT	SE	NL	IT	FR	UK	DE
Spending	1	9	10	10	9	13	70	89	46	78
Contributions	1.1	13	17	19	20	37	116	140	103	164
Net receipts	-0.1	-3.7	-7.2	-8.5	-11	-24	-46	-51	-57	-86

- Even the European Commission-funded *Sapir Report* acknowledged that the EU budget is no longer conducted on a rational basis. But so far it has proved impossible to change.
- The failing EU budget is an example of how ill-suited to the modern world the EU is. While the pace of change in the world increases, the EU is still unable to reform palpably failing policies. Instead of taking a rational approach, it makes decisions on the basis of historical commitments and lobby group pressures.
- The negotiation of the agreement has also demonstrated the weakness of current UK policy in the EU. The Government moved from opposing any change to the rebate to supporting a change, but only if the CAP was "got rid of". It then agreed to give up part of the rebate, but insisted there would be a "fundamental review" of the CAP in 2008." However the Commission's proposals make it clear that there will be no significant change to the CAP before 2014 at the earliest.

Case study 1: The UK in Europe - giving in gradually

In the summer of 2005 Tony Blair initially promised that "The UK rebate will remain and we will not negotiate it away. Period." (9 June 2005)

Later the Government announced that they would put the rebate on the table, but only in return for "getting rid of" of the CAP. Tony Blair said: "The rebate remains because the reason for the rebate remains... Of course if we get rid of the CAP and we change the reason why the rebate is there, then the case for the rebate changes." (29 June 2005)

In December 2005 the UK Government conceded part of the rebate without change to the CAP, but insisted that it had agreed that CAP would be fundamentally reformed as part of a "review" in 2008.

In his statement after the agreement Tony Blair said "We also agreed on a fundamental review of all aspects of the EU budget, including the Common Agricultural Policy, to be led by President Barroso, with the recommendation that it

begin in 2008... it is then possible for changes to be made to this budget structure in the course of this financing period." He said the review would "lead to the necessary fundamental reform of both rebate and CAP that we all want to see."

However, in practice the "fundamental review" of the CAP was downgraded to a "health check", which (according to a leaked green paper last week) has only led to the re-proposal of the idea of a cap on large payments which would affect just 1.7% of the budget. Moreover the idea of a cap was rejected by member states in 1992, 1999 and 2003, and is opposed by the UK because (a) Britain would lose disproportionately, and (b) it incentivises less efficient small farms.

Looking at the budget as a whole, in September 2007 the Commission published a consultation paper which made it clear there would be no fundamental change to the EU budget before 2014, and that the current Commission would not even make any proposals before it leaves office in October 2009.

A bad deal for Britain

1. UK now paying in £6 billion a year more than it gets out.

When the EU budget was agreed in December 2005 the UK press focused largely on the fact that the Government had agreed to give up £7 billion of the rebate. However, of arguably greater significance is the overall increase in the UK's net contribution - nearly doubling from £2.8 billion a year on average under the last financial perspective to £5.5 billion a year from 2007-13.

Under the new deal, the UK will pay the EU an average £10.2 billion a year (even after the reduced rebate), get back £4.6 billion a year in EU spending, and pay an average net contribution of approximately £5.5 billion a year over the 2007-2013 period. That's an increase of £2.7 billion a year and an increased net payment of £19 billion over the seven years of the financial perspective.

2. Britain spending £71 billion in total.

While the *net* contribution is important, the *gross* contribution is at least as important, because much of the EU spending the UK receives back is wasteful if not actively damaging (e.g. the CAP). The UK's total gross contribution to the EU will be around £71 billion over the seven years of the next financial perspective. To put this into context, this is roughly three times what the UK spent on overseas aid last year.

Financial perspective 2007-2013 (£ billion)	Gross contribution before abatement	Abatement	Gross contribution after abatement	Reciepts	Net Contribution
2007	14.2	3.9	10.3	5.6	-4.7
2008	14.6	4.6 to 4.7	9.9 to 10	5.2	4.6 to -4.7
2009	13.7	4.8 to 4.9	8.8 to 8.9	4.2	4.6 to -4.7
2010	14.4	3.8 to 3.9	10.5 to 10.6	4.6	6 to -6.1
2011	14.1 to 14.5	3.5 to 4.1	10 to 11	4.2	6 to 6.8
2012	14.1 to 14.5	3.5 to 4.1	10 to 11	4.2	6 to 6.8
2013	14.1 to 14.5	3.5 to 4.1	10 to 11	4.2	6 to 6.8
Total (central estimate)	99.2	28.8	71.2	32.2	38.2
Average per year	14.2	4.1	10.2	4.6	5.5
Financial perspective 2000-2006 (£ billion)	Gross contribution before abatement	Abatement	Gross contribution after abatement	Reciepts	Net Contribution
2000	10.7	2.1	8.6	4.8	3.9
2001	9.6	4.6	5.0	4.3	0.7
2002	10.1	3.1	7.0	4.1	2.9
2003	11.5	3.6	7.9	4.4	3.5
2004	11.5	3.6	7.9	5.1	2.8
Average per year	10.7	3.4	7.3	4.5	2.8

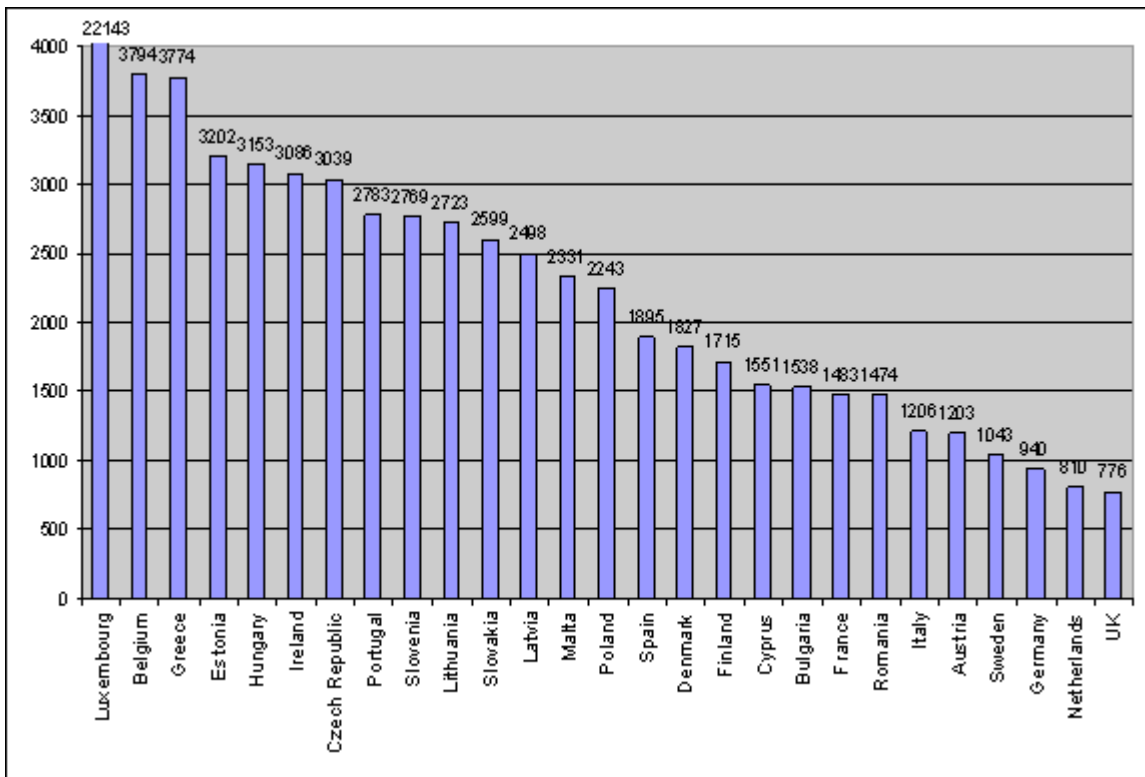
Source: Written Answer, 9 Jan 2006. Past figures from Pink Book 2005 table 9.9

3. UK still paying a fifth more than France.

The Government claimed that what Britain will be paying would be in "rough parity with countries such as France." (PMOS, 8 December 2005) But despite numerous written parliamentary questions, the Government has repeatedly refused to publish full details about the other EU member states' contributions and receipts. Leaked documents revealed that over the period, Britain will pay in 20% more than France (£42 billion, compared with France's £35 billion). The Government has now responded by publishing its projection for French net contributions (though only for France and not other member states). The Government claims that France will pay up to €48.3 bn, while the UK will pay up to €57.5 bn over the period - meaning that the UK will pay just under 20% more, even though its economy is only 6% bigger (Written Answer, 31 Jan 2006).

4. Britain to get less EU spending per head than any other member state.

The UK will also receive less back in EU funds per head than any of the other EU member states - half of what France will receive and a quarter of what Ireland will get. Last year the UK was 20th out of 25 member states in terms of spending per head. Under the new deal Britain will be 27th out of an enlarged EU of 27 members.



Source: Leaked copy of European Council working documents.

A bad deal for Europe

5. Taking from the poor to give to the rich.

Absurdly, Luxembourg, the richest country in the EU, will receive the most in EU spending per person, followed by Belgium and Greece. In absolute terms, France will go from being the second largest recipient of funds after Spain, to being the largest recipient.

Ireland, the second richest country in the EU, which has an income per head 30% above the EU average, will take more money out of the budget than it puts in, while Cyprus, which has an income 20% below the EU average, will be a net contributor.

The CAP is particularly bad in this respect. The CAP currently transfers money from the poorest member states to countries like France and Spain. For example, in 2004, the new 10 member states paid nearly a billion euros more into the CAP than they got out of it (€835 million).

6. £34 billion will be spent on administration alone - and a billion euros worth of political sweeteners were added in the last days of the negotiations in December 2005. The EU's administration costs alone will rise 28% in real terms, from £4.06 billion in 2004 to £5.21 billion in 2013. The budget for bureaucracy was actually increased by a further billion euros between the UK Presidency Proposal on 14 December and the publication of the UK's final proposals on 19 December - effectively to pay for last minute sweeteners for various member states to secure a deal.

In reply to a question by Michael Gove MP on the EU budget negotiations, the Government admitted that the extra €1 billion for admin costs was included in order to secure "a political consensus for an agreement". (Hansard, 10 May) Total admin spending will now be €50.3 billion or £34 billion over the period - the equivalent of about 3% of Britain's GDP.

Failure in the Government's own terms

7. CAP budget up by 12%.

While Tony Blair told Parliament that he wanted to "get rid of" the CAP (29 July 2005), the proportion of the EU budget spent on the CAP is actually going up from 40% to 44%.

Spending on the CAP is to increase from €49.3 billion in 2004 to €55 billion in 2007. In real terms the CAP budget has increased from €330 billion over the last seven-year budget to €371 billion over 2007-13. This failure to reform the CAP is an historic missed-opportunity, and means less money will be available for other initiatives, such as research and development.

In Chris Patten's words: "We are talking about a budget for research and development that's been severely squeezed already in order to accommodate a continuing rise in agricultural spending that will actually go up from 40 to 44 per cent of the overall community budget." (FT, 17 February 2006)

Case study 2: The UK in Europe - not getting anywhere

As with the CAP, the UK has a similar lack of success in reforming the structural funds.

In an article in the Times in 2003 Gordon Brown argued: "When the economic and social, as well as democratic, arguments on structural funds now and for the future so clearly favour subsidiarity in action, there is no better place to start than by bringing regional policy back to Britain." (6 March 2003)

In its proposal "A modern regional policy for the United Kingdom" in 2003 the UK Government argued that member states with GDP per capita above 90% of the EU average should no longer receive structural funds money. It was argued that instead of transferring money to Brussels and then transferring it back again (and incurring heavy administrative costs into the bargain), the more developed member states should simply spend the money themselves.

The structural funds are also hamstrung by restrictive rules about what they can be spent on. Gordon Brown has said that, "There are many things that we want to do to encourage local skills and research and development, and local businesses, but we're not able to do because of the existing rules." (BBC, 6 March 2003)

However, when the proposal came up for discussion the member states split neatly between net contributors (who favoured the idea) and the net recipients (who opposed it). The proposal has, therefore, run into the sand and the UK has to bear large administrative costs to administer the byzantine structural funds.

That these costly spending programmes remain in place is the more surprising, given

that they have had no measurable effect on regional convergence - which is the whole idea.

The funds are spent on everything from goat farms in northern Sweden to street theatres in the Mediterranean, and are often wasted on projects with no long-term economic benefits whatsoever. Funds are also duplicated. Of the money intended to train workers in the UK, a report for the DWP showed that almost half was spent on training workers that would have been trained anyway. The structural funds are also extremely prone to corruption and mismanagement. The last Court of Auditors report found that at least 4 billion euros of the money that the EU Commission handed out in structural funds in 2006 "should not have been". Despite these clear flaws, the scheme is likely to continue for the foreseeable future.

A failure with long-term consequences

8. A unique window of opportunity for reform has been missed.

At the time of the agreement, the UK Government argued that it scored a diplomatic victory because of the "review" of EU spending in 2008. As noted above - this review has not led to any real progress. In fact it has become harder to achieve reform of the CAP. At the time of the 2005 agreement the new member states only got a third of the CAP funds they are to be entitled to, and overall paid a billion euros more into the CAP than they received back from it. Over the next budget period CAP payments to these states will gradually increase. As they become net beneficiaries their opposition to CAP reform will grow and the pro-CAP coalition in the Council will be strengthened.

9. Phasing in of rebate cuts will put UK in weak position next time round.

The cuts in the UK rebate are to be compressed into the last years of the seven year budget. The UK will not give up the rebate in 2007 and 2008, but will then give up 20% in 2009, 70% in 2010, and 100% of the funds it has agreed to give up in 2011-2013. In December 2005 the FT noted that this back-loading of the rebate will make it tactically difficult for the UK to reduce its payments in seven years' time: "after 2013, the annual cash deduction of £2 billion for that year will be locked in for all future years. It is unlikely the UK could renegotiate a more advantageous position after that date."

10. The agreement to increase spending on the CAP is having disastrous knock-on consequences for the prospects for a world trade agreement.

Because the EU is now locked into increasing the CAP budget it can not make the concessions needed to unblock the Doha round.

Lack of transparency

11. Government evasion over figures.

Throughout the process the Government has made it as difficult as possible to find out the exact details of the budget deal. Since December 2005 the Government has repeatedly refused to publish forecasts of other member states' contributions arguing that it is a "matter for their respective governments". However, if this is true why has the Government published figures for France?

12. Further increases to the EU budget.

In addition to the huge increase in the EU budget agreed by EU leaders in December 2005, MEPs negotiated a further increase of £2.68 billion in April 2006 - partly to pay for bigger pensions for EU officials. The Telegraph reported on a Government briefing that this would increase the UK's contribution by £208 million (6 April). Since then EU Budget Commissioner Dalia Grybauskaite has said that EU leaders have actually understated the true value of the budget by £24 billion by leaving out certain financial instruments such as the EU Solidarity Fund. She has said that the true value of the 7 year budget is in excess of £600 billion (compared to the "modest" £578 billion that Blair claimed to have negotiated).