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Trade Policy Monitoring

UK makes new proposals for 2007-13 EU budget

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Report Highlights:
In preparation for the EU Summit on December 15-16, the UK has presented a paper setting out proposals for the EU budget from 2007 to 2013. Reaction from other Member States as well as the EU institutions has been negative as the paper calls for cuts to CAP expenditure of EUR 2 bn and EUR 8 bn for rural development (over the six year life of the next EU budget).
Over the next few days it will become clearer whether there will be sufficient political consensus to quickly negotiate the EU budget package or whether this issue will have to be decided later in Spring 2006. The UK will likely release a new version of the budget prior to the Summit that smoothes out some of the Member States onbjections.

Includes PSD Changes: No
Includes Trade Matrix: No
Brussels USEU [BE2]Unscheduled Report
[E3]

The EU budget is agreed in advance over a multi-annual framework, known as Financial Perspectives. With the current 2000-06 budget due to run out next year, discussions have long been underway on the size and form of the 2007-13 EU budget. Earlier this year, in June, the EU Council (i.e. Member State governments) failed to agree on a new budget for the EU from 2007-2013. The UK Prime Minister, Tony Blair, widely blamed for the failure due to intransigence over the British rebate and his insistence that CAP expenditure be cut[1].

The next EU summit, on the 15-16 December, will see further debate on the EU budget. The UK, who currently hold EU Presidency have tabled a budget paper which presents some controversial options. The paper calls for an overall budget of €847 bn for 2007-13, equivalent to 1.03% of EU GNI[2]. This represents a cut of €24 bn from the €871 bn package proposed by the Luxembourg. These cuts would mean reductions of €14 bn to the New Member States (NMS) structural spending (for example for infrastructure investment such as roads), €7 bn less for rural development, €2 bn less for CAP expenditure and €1 bn out of the costs of running EU administration.

It is not yet clear whether the other Member States and EU institutions will even accept the UK paper as a basis to start negotiations. Before the Summit on the 15-16 December there will be a meeting of Foreign Ministers on Tuesday 6 December and a General Affairs Council on Tuesday 13th December. These will help to gauge reaction to the paper, however, early reaction was negative, with French diplomats describing it is 'cynical'. The Polish Prime Minister, Marcinkiewicz called it 'unacceptable', while the European Commission President, Barroso, called it unambitious and unfair (to the NMS).

It is expected that a new paper will be released by the UK Presidency prior to the Summit. However, it is too early to judge whether this might be provide sufficient consensus for the Council to start negotiating next week. If there is no budget agreement, the issue will be passed to the Austrian Presidency in the New Year. Delay to agreement could mean hold-ups for some programs, notably for structural aid and infrastructure investment to the NMS. . Once the budget is agreed by the Council there is still much procedural and institutional work to be done in preparing the budget in time for January 2007, when it is due to start. EU institutions have occasionally in the past operated under 'continuing resolution' type situations but in general do not have the flexibility to cope with this

Agriculture

None of the budget proposals, either the initial Commission proposals, nor the Luxembourg Compromise from June or the new UK paper seek to cut CAP expenditure. The figure of EUR 43.1 bn (from 2007) reflects CAP spending ceilings set by the Council in October 2002. Where changes are being proposed is in how EU enlargement to include Romania and Bulgaria in 2007 would be accounted for. The Commission allocated up to €1.6 bn per year for them, the Luxembourg paper up to €700 m. The UK proposals do not increase CAP spending which would effectively mean a spending cut to the existing EU-25, as each country would get a slightly smaller slice of the pie.

The figures presented in the table below ignore modulation. Modulation, a concept which was agreed upon in the 2003 CAP Reform, will see the reduction of direct income payments and the money channeled into rural development spending. Modulation will see 4% of direct aids from 2006 (raised to 5% from 2007 onwards) from the EU-15, which will be

[1] The UK rebate dates back to 1984 and compensates the UK for paying far more into the EU budget than it receives in return. There is very little support amongst the other Member States for maintaining the UK rebate.
[2] Gross National Income.

redistributed as rural development expenditure with some reallocation from EU-15 Member States to the rest of the EU-25. This will shift around EUR 8 bn from CAP expenditure to rural development over the lifetime of the 2007-13 budget. There may be future changes to modulation, for example increased modulation percentages or options for Member States to choose.

UK, Luxembourg and Original Commission Budget Proposals Compared

M EUR, 2004 prices	2006	2007	2008	2013	2007-2013 total
CAP Markets EU-25	43,735	43,120	42,697	40,645	293,105
Commission RO+BU		380	976	1,648	7,969
Lux Paper RO+BU			100	700	2,000
UK Paper RO+BU	0	0	0	0	0
Rural Development					
Commission EU-25	10,544	10,896	11,013	11,500	78,436
Commission RO+BU		863	1,222	1,705	10,317
Total for Rural Dev't	Of which 28.2 bn for the NMS-10				88,753
Lux Paper EU-25	10,544	9,328	9,271	9,256	64,678
Lux Paper RO+BU		931	1,259	1,467	9,522
Total for Rural Dev't	Of which 24.1 bn for the NMS-100				74,200
UK Paper EU-25 Total for Rural Dev't	Of which 32.6 bn for NMS-10 plus RO and BU				66,000

Source AGRA FACTS compiled from Luxembourg and UK Presidency Compromise Papers.
Notes: CAP Market expenditure includes direct aids, export subsidies and all other market support instruments. RO = Romania, BU = Bulgaria.
The UK text is available from www.fco.gov.uk/Files/kfile/eu2005_FinancialPerspectives2007-13_Proposal.pdf

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