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Brussels, 25 April 2012

Questions and answers on draft budget 2013

The Commission has adopted its draft budget 2013 this Wednesday 25 April 2012. The proposal will now be examined by the Council (Member States) and the European Parliament. The EU budget 2013 will be adopted by both Council and Parliament.

Why do you express the budget in commitments and payments? Which of the two should be used?

Payments and commitments are two sides of the same coin. You cannot tell that one is "better to use" than the other. Commitments are the amount of the combined value of contracts that the EU is allowed to sign in any given year. Payments on the other hand are the actual money at the disposal of the EU budget for that year. For instance, when the EU agrees to co-fund the building of a bridge up to a certain amount of money, that amount that will probably have to be paid in future is a commitment. As the work on the new bridge proceeds, the first bills to be covered by the EU funding start arriving and the Commission must pay them; towards the end of the work, the bills increase and the Commission uses the payments at its disposal to honour its original commitment to co fund the project.

Why is the growing gap between commitments and payments a problem?

Commitments are tomorrow's payments, and payments are yesterday's commitments. Commitments are planned future payments whereas payments are legal obligations from the past. In other words, if every year the increase in commitments is much higher than that in payments you end up promising many partners to pay their future bills but find yourself unable to pay those bills when they arrive years later.

This is what has been happening over the last years: as many commitments were made years ago for projects that are being completed now, and as the budgetary authority (Council and Parliament) consistently cut the Commission's estimates for payments, many bills related to projects remain unpaid and have to be rolled over to the following year. This leaves no choice to the Commission but to call for increases in payments. Everybody must pay their bills.

What are you basing yourself on when preparing the draft annual budget?

According to the EU Treaty all EU institutions and bodies draw up their estimates for the draft budget according to their internal procedures before 1 July. Such estimates are themselves often based on Member States' estimates of payments to be made to them in that year (such as the stage of advancement of EU funded projects). The Commission consolidates these estimates and establishes the annual 'draft budget' which must respect the spending limits imposed by the multiannual financial framework (MFF – see below). The draft budget is submitted to the Council and the European Parliament.

In case of disagreement between Parliament and Council a specific Conciliation Committee is convened with the task of reaching agreement on a joint text within a period of 21 days, subject to the approval of both arms of the budgetary authority. If the joint text is rejected by the Council, the European Parliament has the right to ultimately approve the budget. If at the beginning of a financial year the budget has not yet been definitively adopted, a sum equivalent to not more than one twelfth of the preceding budget may be spent each month.

In general, payments are purely mechanical as they flow from previous commitments; the Commission has virtually no control on them.

There is far more leeway on commitments since they are about the future and thus do not constitute any obligation towards beneficiaries of EU funds. The Commitments in the draft budget indicates what priorities the Commission thinks should be in future

What is the relative size of the EU Budget?

The annual budget is equivalent to around 1% of the Union’s national wealth. Though relatively small in size it is an important tool in furthering the goals of European integration. Directly or indirectly, all European citizens benefit from some activity funded from the EU budget, be it in the form of safer food on our plates, better roads or the guaranteeing of our fundamental rights.

What is the Multiannual Financial Framework (MFF)?

The MFF translates into financial terms the Union's political priorities for at least 5 years (currently for 7 years from 2007 to 2013). It sets annual expenditure ceilings per year and per heading of the EU budget. This is an important point: the MFF does not decide the size of future annual budgets. It sets limits similar to the monthly limit on your credit card. The annual budget itself is adopted as explained above.

What is the structure of the EU budget?

The EU budget is made up of 6 headings though the 6th one is rarely mentioned:

- 1. Sustainable growth
- 1a. Competitiveness for growth and employment

research and innovation, education and training, trans-European networks, social policy, economic integration and accompanying policies

- 1b. Cohesion for growth and employment

convergence of the least developed EU countries and regions, EU strategy for sustainable development outside the least prosperous regions, inter-regional cooperation

- 2. Preservation and management of natural resources

common agricultural policy, common fisheries policy, rural development and environmental measures

- 3. Citizenship, freedom, security and justice
- 3a. Freedom, security and justice

justice and home affairs, border protection, immigration and asylum policy.

- 3b. Citizenship

convergence public health, consumer protection, culture, youth, information and dialogue with citizens.

- 4. EU as global player

all external action of the EU. This does not include the European Development Fund which is outside the EU budget.

- 5. Administration

administrative expenditure of all the European institutions, pensions and EU-run schools for staff members' children ("European Schools").

- 6. Compensations

temporary heading which includes compensatory payments relating to the latest EU enlargements if applicable in the year in question.

What is the "reste à liquider" (RAL)?

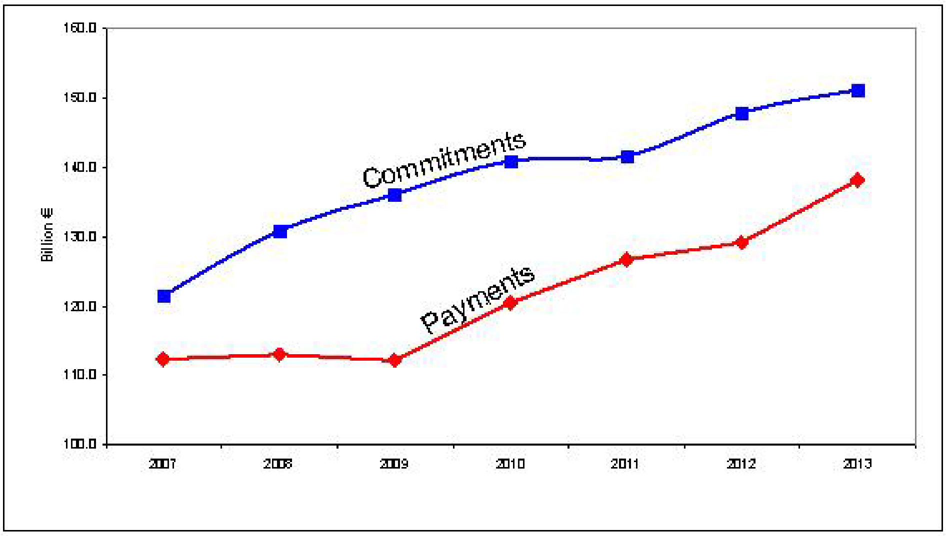
The RAL is the sum of outstanding commitments, commitments agreed to but that have not yet translated into payments. Long term budgetary commitments lead to the existence of amounts of commitments remaining to be paid out (RAL). The phenomenon is similar to when a contract is signed, e.g. to build a house, the commitment is being made, but the construction company will only be paid according to the progress of the work.

Where necessary and in line with the regulations, the Commission makes so called de-commitments (annulations of outstanding commitments). As long as there are multiannual programmes approved in total, but paid for in several subsequent years, RAL is quite normal and to be expected.

The so-called "potentially abnormal RAL" which concerns so called "dormant" commitments in respect of which no payment has been made for the last two financial years, as well as old commitments that have been in the budget for at least five financial years, form only a minor part of the overall figure. These cases are monitored carefully and usually prone to early de-commitment.

The best way to ensure the reduction of the overall RAL is to ensure good implementation of payments, particularly in the big spending projects of cohesion policy. The Member States who have the responsibility for management of most of the EU funds have an important role to play in this. Currently the payments claims sent to the Commission by Member States are accelerating. The Commission needs the appropriate payment appropriations to reimburse Member States. Otherwise the RAL would increase.

Commitments without sufficient payments = RAL



How is the EU budget fed?

There are three kinds of own resources to the EU budget:

- Traditional own resources: **-** Customs duties on imports from outside the EU and sugar levies collected by Member States who keep 25% to cover the cost of collection. It amounts to approximately 13% of the income
- Own resource from value added tax (VAT): A standard percentage is levied on the harmonised VAT base of each EU country. The VAT resource accounts for 11% of the income.
- Own resource based on gross national income (GNI): A standard percentage is levied on the GNI of each EU country. It is used to balance revenue and expenditure, i.e. to fund the part of the budget not covered by other sources of income. It amounts to over 70% of the income.

What is the share of administration costs in the EU budget?

Administration costs represent about 6% of the EU budget. In other words, some 94% of the EU budget goes back to Member States, their regions and their citizens in one form or another.

Why does the Commission want to increase payments by 6.8%?

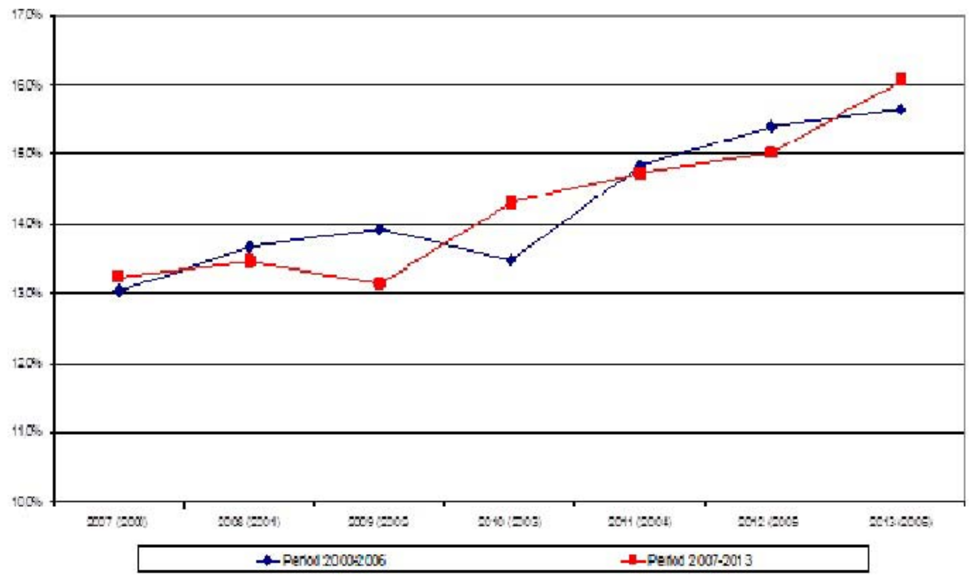
It is not so much that the Commission "wants" to increase, more like the Commission has no choice. As explained above, payments are purely mechanical: the Council and the European Parliament agreed on levels of commitments (future expenditure) in the past, they used those commitments via EU funded projects; now those projects reach completion and must be paid for.

The higher than last year's increase is also due to the fact that 2013 being the last year of the current financial framework, more projects reach completion (and must be paid for) than in the early years of this 2007-2013 financial period. The same happens every 7 years: the last year of a financial period sees a sharp increase in payments.

The increase is also the result of previous insufficient payment appropriations voted in the annual budget by the Council and the European Parliament. Last year for instance, the Commission could not pay €11bn worth of bills due to their late arrival and lack of funds. That amount had to be rolled over onto budget 2012. Such situation creates a snowballing effect of delayed payments culminating in a big increase in payments.

Finally, the 6.8% increase is compared to the adopted 2012 budget… which payment appropriations are very low. Had the budgetary authority followed the Commission's estimates for 2012 the increase in Draft Budget 2013 would have been much smaller.

Payments increase over a financial period



What are the main features of Draft Budget 2013?

Three features stand out:

- For the first time, the Commission proposes a de facto freezing of commitments (increase that does not exceed inflation). Limiting the increase of commitments makes sure that Member States will not have to pay too higher amounts into the EU budget in future.
- Savings: though payments are purely mechanical for the bulk of the budget, the Commission has seeked savings wherever possible, whether by cutting commitments of programmes that were not performing or by cutting EU staff by 1% for instance.
- Investment: the biggest increases are in areas that can help Europe get out of the crisis: science and research (+28.1%), competitiveness (+17.8%), education…

Highlights of Heading 1a (competitiveness)

- Has the highest increase in payments (17.8%) due to EU funded programmes being completed in 2013
- Research (7th Framework Programme) to increase by 28% in payments (6% in commitments).
- Competitiveness and Innovation Programme to increase by almost 48% in payments (7.3% in commitments)
- Marco Polo (Intermodality between transport means) sees a 4,4% decrease in commitments and a 96.4% increase in payments.
- Lifelong Learning & Erasmus Mundus increases by 15.8% in payments

Highlights of Heading 1b (Cohesion)

- The second highest increase in payments (11.7% in payments)
- Payments for structural funds to increase by 12.1% in payments
- Payments for Cohesion fund to increase by 10.4% in payments

Heading 2 (preservation and management of natural resources)

- Agricultural expenditure (market related and direct payments) to increase by 0.5% (payments)
- Rural development to increase by 5.4% in payments
- European Fisheries Fund to increase by 7.5% in payments
- Fisheries governance and international agreements increases (+0,6% in payments)
- Life+ (environment) to increase by 7.5% in payments

Heading 3a (Freedom, security and justice)

- Solidarity and management of immigration flow (+ 18% in payments)
- Security and safeguarding liberties to increase by 1.2% in payments
- Fundamental rights and justice to increase by 11.2% in payments

Heading 3b (Citizenship)

- Youth in action (+4.8% in payments)
- Civil protection (+7.4% in payments)
- Europe for citizens (+1.8% in payments)
- Culture (+1% in payments)

Heading 4 (The EU as a global player)

- Instrument for Pre-accession Assistance to increase by 21.1% in payments
- Common Foreign Security Policy (+5.9% in payments)
- European Neighbourhood Instrument to increase by 11.6% in payments
- Democracy and human rights to be reduced by 9.1% in payments

Heading 5 (administration)

- general increase of 2.8% (Commission's administration expenditure to increase by 1.2%, below inflation and excluding Croatia).
- Commission to cut staff by 1%