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PRESS RELEASE

A New EU Budget for 2014-2020 Proposed

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On June 29, the European Commission presented its long-awaited proposal for EU's next seven-year budget (2014-2020)[1]. The budget will grow from the current EUR 976 billion to EUR 1,025 billion for the next seven-year period, which represents a 4.8%, nominal increase and goes beyond the expected inflation rate of 2%. Although these amounts seem huge, it should be borne in mind that the seven-year budget accounts for as little as 1.05% of EU's Gross National Income, whereas the national budgets of EU member states very often reach a high of 40% of their respective GNI[2].

Revenue

In order to achieve maximum financing independence and to reduce dependence on payments from the member states, the European Commission has proposed to reduce the member states' contributions from 1.12% of GNI in the previous budget period (2007-2013) to 1.05% in the period 2014-2020.

In order to compensate for member states' contribution cutbacks, the Commission proposes the introduction of new EU-wide taxes. These taxes are certainly one of the most polemic issues in the new budget proposal expected to stir up a lot of controversy in EU circles. Primarily involved here are two taxes - a financial transactions tax (FTT) and an EU-wide VAT resource.

The introduction of an EU-wide FTT was proposed at a European leaders meeting in June. With financial transaction tax instruments already in place in about ten member states, the Commission President Barroso believes that without a single EU-wide financial transaction taxation framework there is a risk of distorting the single market of financial services. Barroso further believes that, instead of waiting for the other countries to introduce this tax, it would be better to have "an own tax resource" and then try to create conditions for a global financial tax.

The Commission also suggests introducing a direct VAT at the EU-level. The EU budget currently receives a levy on national VATs, bringing in EUR 14 billion annually. The new budget proposal foresees replacing the current levy with a direct EU VAT to be collected by member states and then transferred directly to the EU budget. The burden would thus be shifted from the member states' budgets directly to taxpayers. The Commission envisages that if the EU-wide VAT was applied at a rate

[1] European Commission. *A budget for Europe 2020*. COM(2011) 500 final. Brussels, June 29, 2011. Available from: [http://europa.eu/press_room/pdf/a_budget_for_europe_2020_en.pdf].
[2] GNI - Gross National Income refers to the value of goods and services produced by a nation during a year (i.e. its GDP), together with its net income received from other countries (i.e. interest and dividends).

of 1%, and if the current levy on VAT was eliminated, this would bring annually around EUR 41 billion to the EU budget.

Expenditure

The Commission's proposal regarding the main areas of expenditure is rather conservative in that the share of allocations for agriculture and regional policies in the budget remains unchanged. The largest expenditure item in the EU budget, regional policy, is to be allocated EUR 376 billion, as the Commission considers the development of EU regions to be the key to sustainable growth. A new category of "transition regions" will be introduced, and new conditions will be imposed on regions for receiving aid, which will provide an additional stimulus to member states to achieve the set objectives.

The second largest expenditure item continues to be the Common Agricultural Policy funding. EUR 371 billion is to be earmarked for agriculture, which reflects the EU's continued orientation towards safe food supply while preserving the environment and promoting rural development.
Savings are expected in administration costs, as the Commission proposes that they should remain at the current level of 5.7% of the EU budget. The Commission will continue with the staff rationalisation reform launched in 2004, which has already resulted in savings worth EUR 3 billion, with an additional EUR 5 billion expected by 2020.

While the EU administration staff will certainly be unhappy about the planned rationalisation, the sharpest controversy is likely to be over the proposed new EU taxes. Currently opposing the new taxes are the UK, Czech Republic and Sweden, so that it will be very difficult to reach a consensus among all the 27 member states on the new budget. The debate over the budget proposal will be additionally heated by the Commission's advocating a radical simplification of the so-called rebates, i.e. the money paid out of the EU budget to certain member states (the Netherlands, Sweden, Germany, Austria, and UK, the latter receiving a particularly high rebate) which consider their payments into the EU budget to be too high compared with other member states.

All this may aggravate the EU budget negotiations between member states and the EU Parliament to be held in the 2011-2012 period. The adoption of the budget (that is likely to be different from the current proposal) is expected by end-2012.

Given Croatia's planned accession to the EU in 2013, the discussions on the budget proposal should be more than interesting to this country's authorities, but also to the public.