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The Budget of the European Union

Herman Matthijs

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ABSTRACT

This paper first provides a short history of the European budget, focusing on the development of the EU's "own resources". It then elaborates on the fundamental changes to the financial system and the budgetary procedure that the Treaty of Lisbon introduced. It is posited that with the amendments the budgetary process has lost clarity. Whilst the multiannual framework may provide for long-term stability, it stands in contradiction to a central principle of parliamentary democracy: annual budgets. The EU's search for a fair and transparent budgetary system has not yet come to full fruition. Europe needs a fairer and more transparent system. Since the Luxembourg agreement of 1970, the Union has not done anything with the VAT as own resources. The VAT is related to the welfare standards and developments in the Member States. A fixed share of this indirect tax could form the base of a long term financing plan for the general EU budget.

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TABLE OF CONTENTS

1 DEVELOPMENT OF THE EUROPEAN BUDGET 5
1.1 Introduction 5
1.2 European Budget And Own Resources 5
2 THE NEW FINANCIAL SYSTEM 9
2.1 Customs Duties and Agricultural Levies 9
2.2 VAT 10
2.3 GNI.. 10
2.4 Making available own resources 11
2.5 Other Receipts 11
2.6 Comparison 11
2.7 The UK Rebate 12
2.8 The Belgian Contribution 16
3 THE EVOLVING LEGAL FRAMEWORK 18
3.1 The New Budget in Figures 18
3.2 The Approval of the Budget 20
3.3 The Multiannual Framework 22
4 CONCLUSIONS 25
BIBLIOGRAPHY 27
THE IES WORKING PAPER SERIES 29

1 DEVELOPMENT OF THE EUROPEAN BUDGET

1.1 Introduction

The general budget of the European Union has always been an issue of high political salience. Since the birth of European cooperation with the establishment of the "European Coal and Steel Community" (ECSC) in 1951, political leaders of the various Member States have had to negotiate arrangements relating to the financing of the Community and its new supranational institutions.[1]

During the past 25 years the European Union has carried out significant reforms in the way financial resources are made available to the E.U. budget. Numerous budgetary reforms have taken place to accommodate for the evolution of the European integration from the original six Member States in 1951 to the present day 27 members.

This paper first provides a short history of the European budget, focusing on the development of the EU's "own resources". The paper then elaborates on the fundamental changes to the financial system and the budgetary procedure that the Treaty of Lisbon introduced. It is posited that with the amendments the budgetary process has lost clarity. Whilst the new multiannual framework may provide for long-term stability, it stands in contradiction to a central principle of parliamentary democracy, that of annual budgets. The EU's search for a fair and transparent budgetary system has not yet come to full fruition.

1.2 European Budget And Own Resources

When the ECSC was set up in 1951, an important decision was made to introduce a system of "own resources" to finance the Community budget. Specifically this system meant that levies were imposed on the production of coal and steel. The dominant role of the "High Authority" in the determination of these revenues was a particularly striking feature of the system.

The establishment of the "European Economic Community" (EEC) in 1957 marked the start of an integration process that was to expand to affect agriculture and various other sectors. Nuclear power, on the other hand, became part of integration through the EAEC (European Atomic Energy Community / EURATOM). The budgets of the EEC and Euratom were financed from contributions made by the Member States. This represented the first departure from the supranational character of internal resources that had been adopted by the ECSC. At the same time the decision-making power for budgetary decisions was given to the Council of Ministers, where the Member States were to vote using the newly introduced qualified majority mechanism.

The Merger Treaty of 8 April 1965[2] brought about the unification of the three Communities. The result was that the budgets of the ECSC, the EURATOM and the EEC were merged into

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[1] Kerremans and Matthijs 2004; Strasser 1990; Matthijs 2003, 35-48; Lindner 2005; European Commission 2008; Viessant 2007, 473-510; Matthijs 2010, 51-60; Lozzo et al. 2008.
[2] OJ L 152 (13 July 1967).

the current "General Budget of the European Communities". In 1970 a fundamental change to the financing of the European Communities took place when the six Member States agreed to democratise the budgetary procedure. The Council Decision[3] of 21 April 1970 (also called the Luxembourg Decision) introduced the principle of "own resources" for the financing of also the general budget of the European Communities. These own resources were to derive from customs duties, agricultural levies and the transfer of no more than 1% of the national Value Added Tax (VAT) revenues, all levied from the Member States[4]. The Treaty of Luxembourg[5] also changed the budgetary procedure so that a limited degree of parliamentary authority was introduced in the approval of the general budget.

The Treaty of Brussels[6] of 22 April 1975 brought a number of further innovations to the budget legislation of the European Communities. As a consequence of this Treaty that came into effect on 1 June 1977, the following provisions were implemented:

- the establishment of a Court of Auditors;
- the authority of Parliament to give discharge;
- the ability of Parliament to reject the budget;
- the ability of Parliament to propose amendments to the proposed expenditure.

At the Dublin European Council in 1979, Britain's Prime Minister, Margaret Thatcher, demanded a "fair return" from the European budget in favour of the United Kingdom (UK). This attitude was inspired by the fact that the UK imported large amounts of agricultural products from the Commonwealth countries, while the UK's share of the European Agricultural Guidance and Guarantee Fund was small. These Commonwealth imports gave rise to high agricultural levies because farm prices within the EC were higher than in the British Commonwealth. These levies had become, in 1970, one of the Community's own resources in the European budget.

In response to Thatcher's demands in Dublin[7], the UK did indeed obtain a favourable adjustment to the compensation mechanism that had been in effect since 1976.[8] It was based on a partial repayment of the Value Added Tax contributions paid by the United Kingdom to the general budget of the European Community. At the European summit in Fontainebleau in June 1984 the UK obtained an even more favourable arrangement that then became part of a new own resources decision.[9] The fact that this "own resources" decision can only be amended by unanimous agreement of the Member States meant that the UK's "fair return" principle became firmly established in the political policy-making process.

[3] Decision 243/1970/EC on the replacement of financial contributions from member states by the communities' own resources.
[4] See supra point 2.2.
[5] The name of the treaty is: "Treaty amending certain budgetary provisions of the Treaties establishing the European Communities and of the Treaty establishing a single Council and a single Commission of the European Communities". The date of the Treaty is 21 April and not 22 April. This mistake was corrected on 14 December 1976 by the Italian Ministry of Foreign Affairs, where the Treaty was filed. See Strasser 1990, 35.
[6] The name is "Treaty amending certain financial provisions of the treaties establishing the European Economic Communities and of the Treaty establishing a single Council of the European Communities".
[7] Regulation 2743/1980 amending regulation 1172/1976.
[8] Regulation 1172/1976 setting up a financial mechanism.
[9] Decision 257/1985/EC concerning the system of own resources.

Apart from this, the own resource decision changed the Luxembourg finance system. The farm levies and customs duties were retained as a means of financing the general budget. This also applied to VAT with an increase of the call-in rate from 1% to 1.4%. This means that during the mid 1980s 1.4% of national VAT revenues went as contribution to the EU general budget; the highest level in history. Furthermore, the Council introduced the principle of budgetary discipline, and a framework was established for maximum expenditure.

The expansion of the EC in 1986 to include the countries of the Iberian Peninsula soon gave rise to a dual problem. First, the principle of the balanced budget (i.e. no budget deficit allowed) requires budgetary discipline. The costs imposed by the new Member States, together with various other initiatives, imposed a huge burden on the European budget. At the same time spending on the farm price guarantee policy proved to be uncontrollable. New arrangements therefore became necessary.

In recent years the share of the Community's own resources in overall revenues has fallen, largely for three reasons:

- traditional own resources (customs duties and agricultural levies) have been steadily declining due to the multilateral reduction of import duties and the increasing ability of the Community to meet its own requirements for agricultural products;

- the basis for VAT has been growing more slowly than economic activity, because the share of consumer spending in the GDP has been falling. This has meant that the principle beneficiaries of EC spending, such as farmers and the population in disadvantaged regions, have encountered diminishing financial resources available for Community policies;

- the Fontainebleau correction mechanism should have resulted in an increase in the available resources, to the extent that the upper limit of the VAT applied to the Member States who financed the correction, and not to the Community as a whole.

The result was an amendment to the regulation of 1985 by the Council in February 1988.[10] With respect to the own resources, the following categories were retained or amended:

- agricultural levies;

- customs duties;

- 1.4 % of the VAT, albeit with a limitation of the VAT basis to 55 % of GDP, so that the effective average call-in rate came to about 1.2 %.

This was the beginning of the decline of VAT as the most important own resource. Measures were adopted at this February Council meeting to impose limitations on agricultural expenditure. Budgetary discipline was linked to the five-year lifetime of the legislature elected to the European Parliament.

Due to the limited availability of own resources, a new source of finance was introduced. This came in the form of a contribution from the Member States based on national GDP,

[10] Decision 376/1988/EC concerning the system of own resources.

counted as a percentage of the GDP of the community as a whole. This prosperity-based system was to the advantage of the poorer Member States and replaced the own resources contributions.

Initially, Italy was the only real 'poor' Member State of the original six. Over the period 1973-1986, the EU accessions added Ireland, Greece, Spain and Portugal to this grouping. The 'fair return' principle continued to exist. The early nineties saw the emergence of the political option for increasing resources available for structural funds as well as for the cohesion fund. The European Parliament continued to have only limited authority regarding the approval of the general budget.[11]

At the Berlin summit in March 1999, the Council laid the basis for a new financing system.[12] It did this for the following reasons:

- the Union had to be given the resources it needed to finance its policies, although great budgetary discipline was also required;
- the own resources system had to be more equitable, transparent, cost effective and simpler;
- various factors, directly and indirectly, created budgetary imbalances. These factors were included in the composition and total amount of EU expenditure, as well as the composition of the own resources.

The Berlin summit phased out the idea of the 'own resources' with the reduction of the VAT contribution to 0.5 %. The collection costs for the Member States of agricultural levies and customs duties were raised from 10 % to 25 % of total duties collected.

[11] See supra point 2.3.
[12] Decision 597/2000/EC concerning the system of own resources.

2 THE NEW FINANCIAL SYSTEM

The European Council held in Brussels on 15th and 16th December 2005 laid the basis for a new financial system for the general budget of the European Community. The system was finalised two years later in the Council Decision of 2007.[13] As a consequence, the sources of finance described in more detail further below in this Chapter were reserved for the EC general budget.

Article 311 of the Treaty on the Functioning of the EU (TFEU) stipulates that arrangements relating to the Union's own resources must be taken by unanimous Council decisions. In effect this means that it is the Member States that take the decisions and each Member State retains a veto over any proposed modification of the system. The historical basis of this system was the Luxembourg agreement of 1970, which was dealt with in the first part of this article.

2.1 Customs Duties and Agricultural Levies

Customs duties are taxes on imports, levied at the external borders of the Union. The first common customs rates for the Community were determined in 1968, two years earlier than planned. Customs duties were mentioned in the Treaty of Rome as the primary source of finance for the expenditure of the European Economic Community. This financing was boosted in 1988 with the addition of the ECSC customs duties. Customs services in each Member State collect this revenue, retaining 25 % to cover collection costs.

Agricultural levies were instituted in 1962 and were transferred to the Community by the decision of 21 April 1970. Originally these taxes varied according to the price on the global and European markets. Since the multilateral trade agreements of the Uruguay Round[14] became a part of Community law, no distinction has been made between agricultural levies and customs duties. Agricultural levies are now simply customs duties imposed on agricultural products imported from third countries. Here, too, the Member States may retain 25% of the revenue for their national budgets.

Levies and contributions on sugar are somewhat different in nature, because they affect sugar-producing enterprises. These companies must pay a production levy in order to cover the cost of supporting the market as well as a storage contribution that serves to ensure regular sales.

Levies on the production of isoglucose constitute a third source of revenue in the agricultural products sector. They serve the same purpose as the sugar levies (even though isoglucose is not an agricultural product). The legal basis of this levy has been repeatedly called into question, although, following rulings by the European Court of Justice, it is now regarded as an effective levy.

As noted above, since the transposition of the Uruguay Round into EU law, there no longer is any real difference between agricultural levies and customs duties. For this reason, the

[13] Decision 436/2007/EC concerning the system of own resources; this new system came into effect on 1 March 2009.
[14] WTO 1994.

old distinction between agricultural levies and customs duties can no longer be made in the context of the general budget. This distinction is due to formally disappear in 2010. From this point onwards, traditional 'own resources' concern customs duties and the contribution of the sugar industry.

2.2 VAT

Value Added Tax (VAT) was established as a source of financing by the Decision of 21 April 1970[15] because the traditional own resources were determined insufficient for financing the Community budget. The harmonization of this complex resource demanded much time, so that it was only first collected in 1980. The VAT resources are calculated by applying a specific percentage on a uniformly established basis. In the period from 1988 to 1994, the basis was set at a maximum of 55 % of the GDP of the Member States. As of 1995, the basis was reduced to 50 % for those Member States in which the per capita GDP was lower than 90 % of the community average. This new maximum was gradually extended between 1995 and 1999 and from then on applied to all Member States.

The decision of 1970[16] limited the maximum percentage that could be called in from VAT revenues to 1 % of a specified tax base. The second decision on the own resources, dating from 7 May 1985[17], increased this percentage to 1.4 %, effective as of 1 January 1986 when the Community was enlarged to include Spain and Portugal. This increase was needed in order to fund the costs of the enlargement. However, a fourth decision on own resources, dated 31 October 1994[18], provided for a gradual return to the ceiling of 1 % in the 1995 – 1999 period, primarily for reasons of fairness. The maximum call-in percentage was further reduced by the decision of the Council nr 597/2000[19] to 0.5 % of the maximum level of the harmonized VAT base. The latest decision of the Council, in 2007[20], finally set the call-in percentage at 0.3 %.

2.3 GNI

In 1988 Gross National Income (GNI) was introduced as the fourth own resource, and was originally based on the Gross National Product (GNP). This resource was meant to replace VAT as the way to balance the budget. The Council decision of 24 June 1988 set a ceiling for the total of the own resources: in 1988 this was 1.14 % of GNP, whilst from 1999 to 2007 it was 1.27 %.

The Decision of the Council nr 597/2000[21] extended the application of the European System of Economic Accounting introduced in 1995 (ESA 95) to the field of the EU budget. In ESA 95, the notion of gross national product (GNP) is replaced by the idea of gross national income (GNI). The new decision thus replaces GDP with GNI for the determination of the own resources. In order not to touch the amount of financial resources made available to the Communities, the ceiling for the own resources as a percentage of the GNI of the EU

[15] Decision 243/1970/EC on the replacement of financial contributions from member states by the communities' own resources.
[16] Ibid.
[17] Decision 257/1985/EC concerning the system of own resources.
[18] Decision 728/1994/EC concerning the system of own resources.
[19] Decision 597/2000/EC concerning the system of own resources.
[20] Decision 436/2007/EC concerning the system of own resources.
[21] Decision 597/2000/EC concerning the system of own resources.

was adjusted. The new ceiling, which was confirmed in the decision of 2007[22], is 1.24 % of the EU's GNI.

The GNI resources are the result of the application of a specific percentage that is determined every year in the context of the budgetary procedure. The assessment consists of the sum of the gross national incomes of Member States at market prices. They are to equal the difference between the expenses and the sum of all other budget resources. The GNI resources play a key role because they not only finance the greater part of the budget, but also determine the ceiling of the assessment base of the VAT, the distribution of the financing of the UK rebate and the maximum amount of the totality of the resources that the Community is allowed to collect.

2.4 Making available own resources

The own resources are made available by the Member States to the Community every month, and are paid into the "own resources" account of the Commission, which is, in principle, kept with the national central banks. The traditional own resources are credited as they are collected. The VAT and GNI resources are made available to the Commission on the first working day of each month. The monthly amount made available is one twelfth of the amount estimated in the budget. For the specific requirements relating to the payment of agricultural expenditure, Member States may be requested to pay the sums provided for in the context of the VAT and GNI resources in the course of the first quarter one or two months earlier.

2.5 Other Receipts

The budget is also financed from taxes and deductions on the income of the Community personnel, interests, contributions from third countries to certain community programmes (e.g. some research programmes), repayments of unused community support, interest arrears, and any balance on the previous budget year.

2.6 Comparison

The figures given in Table 1[23] show that the own resources system has lost considerable share in the total revenues. This declining share of the traditional own resources (agricultural levies, customs duties and sugar contribution) has to do with the increases in world trade and the associated policy of lower import duties. The lower share of VAT is due to the reduction of the imposed maximum percentage from 1.4 % in 1985 to just 0.3 % in 2007. Offsetting these reductions over the last twenty years, the importance of the GNI resource has gradually obtained a prominent role. As table 2 below reveals, in 2010 the GNI revenue dominates the income side of the EU budget while the VAT contribution has dropped to less than twelve percent.

[22] Decision 436/2007/EC concerning the system of own resources.
[23] Inghelram 2007, 191.

	1988	1990	1995	2000	2005	2006	2007
Agricultural and sugar levies	6.2	4.0	2.6	2.3	1.5	0.9	1.7
Customs duties	22.3	22.1	16.7	13.0	9.8	12.9	13.2
VAT resources	57.2	59.1	52.2	38.1	14.0	16.0	15.4
GNP/GNI resources	10.6	0.2	18.9	42.3	73.8	64.2	68.5
Miscellaneous - Balance past year	3.7	14.6	9.7	4.3	0.9	5.9	1.0
Total	100	100	100	100	100	100	100

Table 1. EU Budget -- shares (%) by resource category 1988-2007

	Contribution (%)	Contribution (million Euros)
Agricultural and sugar levies	0.08	100
Customs duties	11.50	14,100
VAT resources	11.40	14,000
GNP/GNI resources	76	93,400
Miscellaneous - Balance past year	1.14	1,400
Total 2010	100	123 billion Euros

Table 2. 2010 EU budget contributions per resource category

2.7 The UK Rebate

The "fair return" refers to the above-described discussion about Member States contributions to the EU budget. This subject returned to the negotiating table of the European Council during the 2007-2013 financial context. The correction mechanism in favour of the United Kingdom was maintained in the 2007 Council decision concerning own resources. As with all Council decisions, modification is only possible if all the Member States are in favour; this effectively gives the United Kingdom a veto on any changes to the rebate.

Besides the British rebate, the new system (Article 2 of the 2007 Council Decision) provides that for certain states the call-in rate of the VAT, which normally is 0.3 %, will be reduced as follows:

- 0.1 % for the Netherlands and Sweden
- 0.15 % for Germany
- 0.225 % for Austria.

Tertio, the new financial system provides a brut reduction of the BNI contributions for the Netherlands of 605 million Euros and for Sweden 150 million Euros. These amounts are in prices for the year 2004 and relate to the annual inflation figures.

Furthermore, the new system of own resources provides that all 26 Member States have to pay for the UK 'rebate' in relation to their part in the GNI of the Union. This financing of the British 'just retour' will reduce by 75 % in favour of the same above noted four countries: Austria, Germany, the Netherlands and Sweden. This "rebate on the rebate" has to be paid by the other 22 members in proportion to their part in the GNI of the European Union.

Germany has been a net contributor to the budget for many years. As a wealthy Member State with a relatively small farming sector, Germany has over the years received only meagre resources from the structural funds and the CAP. Moreover, in the nineties, the negative German balance became even larger for a number of reasons. In 1990 and 1991 economic growth in the Federal Republic far outstripped growth in other Member States. This resulted in an increase in Germany's relative share of GNP and hence in the financing of the Community. In the aftermath of the fall of the Berlin Wall and reunification, Germany received considerable sums from the structural funds. However, this has been far outweighed by the concentration of spending on the cohesion countries. The Netherlands is a net contributor due to the low level of structural funds expenditure it receives and the relatively large sums in agricultural levies and customs duties it contributes as a major hub of European transports. It is widely considered that as a result of EU enlargement, older Member States will have a negative balance on the budget.

Of the more recent Member States, Austria and Sweden also have a negative balance on budget. This is primarily due to the small share in agricultural spending and the structural funds enjoyed by these two countries before 1999. In 1997 Austria and Sweden contributed respectively 3.1 % and 2.8 % to the financing of the European Union. Their respective shares in agricultural spending were 1.8 % and 2.1 %, whilst their respective shares of structural funds were 0.9 % and 1.4 %.

If we apply the operational definition, Belgium is a net contributor. However, when the definition used for the British rebate is applied, Belgium becomes a net recipient. In any case, it is extremely difficult to make a full cost-benefit analysis of the EU budget, and even more so with respect to Belgium. Apart from the obvious expenses (transfer of own resources), Belgium is the recipient of numerous indirect revenues that are difficult to analyse. For example, the numerous European institutions established in Brussels support local consumption and yield VAT revenues for the Belgian treasury. The same presence impacts the property market, affects physical planning and generates revenues for the local airport (Zaventem) and other utilities (water, postal services, telecommunications). Of course, there are costs too; the European civil servants enjoy numerous fiscal benefits

(e.g. they pay no income tax to the Belgian authorities) and have pushed up housing prices in the Brussels area to unprecedented levels.[24]

The debate on the "fair return", upon which the calculations for the level of each Member State's contribution and receipt is set, is made all the more acute by the current composition of the own resources. The GNP/GNI resource is, after all, nothing more than a financial contribution that every Member State makes to the EU budget based on their relative prosperity.[25] Jan Inghelram[26] writes:

> "The debate about the net contribution is not limited to the EU. Similar discussions are ongoing in many federal states, including Belgium, Germany and Italy. Generally account is taken only of the budgetary flows of money in this kind of argument. For example in the case of the EU, all EU spending in a particular Member State is compared to all the own resources originating in that state, in order to determine whether the state is a net contributor or a net recipient. Even so this approach is itself open to discussion. With respect to the revenues, it is very much the question whether the traditional own resources (customs duties and agricultural levies) can be seen as a "contribution" from the Member State in which these resources originate".

The agricultural levies and customs duties are in fact related to the internal market and community rules. For example, numerous products and goods are imported via the ports of Antwerp and Rotterdam. The duties concerned are collected there and both countries are allowed to keep 25 % of the total collection to cover costs. However, their effect on the taxpayer is felt in other member countries.

Budgetary debates often focus on how much a country contributes and how much it receives in return from the EU. Inevitably, discussions arise when Member States feel they are either paying too much or not receiving as much as they should. The latter case can become a particularly vexed point, since EU policies may favour some countries over others. Contrasting the contributions against returns of a Member State and then presenting a 'net balance' is a difficult and controversial exercise. For example, spending on aid in developing countries is a part of the EU budget and this money doesn't return to any Member State. Finally, the EU is a community of solidarity among its members. Following on from this argument the redistribution of resources is an intrinsic part of the EU project.

When only the payments of VAT and GNI towards the general budget are taken into account, the picture for the situation in 2006[27] is as depicted in Table 3.

[24] The impact of the European institutions on Brussels is the subject of a 2009 report by Advisory Committee on European Affairs of the Belgian Chamber of deputies.
[25] Kerremans and Matthijs 2004, 84-5; Coget 1994, 51-96.
[26] Inghelram 2007, 194-5.
[27] Inghelram 2007, 195.

	Country	2006	2010
1.	Luxembourg	535	589
2.	Denmark	355	429
3.	Ireland	327	325
4.	Sweden	290	260
5.	Belgium	276	320
6.	France	274	299
7.	The Netherlands	260	262
8.	Austria	259	293
9.	Finland	258	334
10.	Germany	236	257
11.	Italy	230	256
12.	Spain	198	254
13.	United Kingdom	179	183
14.	Cyprus	172	222
15.	Greece	162	225
16.	Slovenia	139	181
17.	Portugal	129	145
18.	Malta	108	145
19.	Czech Republic	92	125
20.	Hungary	84	84
21.	Estonia	69	102
22.	Slovakia	67	123
23.	Poland	60	74
24.	Lithuanian	58	74
25.	Latvia	52	78

Table 3. Ranking of Member States by per capita contribution to the 2006 and 2010 EU budget, on the basis of VAT and GNI resources (Euros).

A comparison of the two sets of values allows us to draw the following conclusions for this period of the first decade of the 21st century. We can already see the impact of the financial crisis in the contributions from Ireland and Hungary. The ‘juste retour’ continues to be advantageous for the United Kingdom. In terms of per capita contributions the UK ranks as only the 13th largest contributor to the European budget in 2006 dropping to 15th in 2010. Similarly, the Netherlands and Sweden also benefit from this rule. Finland rises up the list from ninth to fourth and fellow Scandinavian Member State, Denmark, makes an important contribution to the EU budget. It is remarkable that Spain and Italy are now at the same level of contribution ‘per capita‘ as Germany. Also striking is that the two countries that are home to the large majority of the European institutions (i.e. Belgium and Luxembourg) are among the top five per capita contributors.

What is also clear is that the 21st century expansion of the Community to include ten Southern and Eastern European countries cannot be regarded as a financial success. The Republic of Cyprus contributes a little less per capita than the United Kingdom in 2006, but a lot more in 2010. Cyprus is also the only new Member State that ranks amongst the old

members in this respect. What is also striking is the immense difference (in the order of magnitude) between Luxembourg and Latvia.

2.8 The Belgian Contribution

Belgian payments to the general budget of the European Union are comprised of deductions from received revenues (75% of the "Traditional Own Resources": customs duties, agricultural levies, sugar and isoglucose levies, and the call-in on VAT receipts), and the GNI contribution.

The amounts of VAT, sugar, isoglucose, agricultural levies and customs duties transferred to the EU are specified every year in the annual General Explanatory Note to the Belgian Federal Budget[28]. The "GNI" contributions are, however, mentioned in the expenditure of the federal state,[29] where they are specified under the Federal Government Department of Finance.

The table below shows the gross cost of the European Union to the Belgian budget since 1998.

Year	Customs Duties Agricultural Levies Sugar	VAT	G.N.I.	Total
1998	1 215.9	962.2	1 036.2	3 214.3
1999	1 163.6	937.9	1 127.9	3 229.5
2000	1 295.4	1 011.5	1 121.1	3 428.0
2001	1 340.5	1 089.4	1 146.3	3 576.1
2002	1 388.1	826.3	1 365.8	3 580.2
2003	1 542.2	822.8	1 638.6	4 003.6
2004	1 693.6	566.5	1 846.4	4 106.5
2005	1 795.3	626.5	2 146.7	4 568.5
2006	2 031.2	445.8	2 279.3	4 756.3
2007	2.235.9	459.1	2 173.9	4 868.9
2008	2.235.3	461.3	2 373.3	5 067.1
2009	1 897.1	424.3	2 277.6	4 548.2

Table 4. Belgian state contribution to the E.U. 1998-2009 (million Euros) (SOURCE: Belgian state budget and general explanatory note 2010)

Despite the growing volume of free trade over the past ten years, the amount of the "Traditional Own Resources" doubled in the same period. This is an indication of the relatively good economic situation during this period and above all of the large volume of the imports of all kinds of products from third countries passing through Belgium's ports and airports. However, in 2009 we start to see the consequences of the worldwide financial crisis. The decline in global trade and levels of consumption had a negative impact on the income side of the state budget.

In theory, 25% of customs duties collected goes to the national treasury by way of collection costs. In practice the Treasury does not receive the entire amount. Part of the collection charge finances the transactions carried out in the "own permit" system granted by the Belgian Customs and Excise Administration to the Customs Services of other EU

[28] Belgian Chamber of Deputies: General Explanatory Note 2009, 220.
[29] Belgian Chamber of Deputies: General Budget of Expenditure 2009, 788.

Member States. As a result, a part of the collection costs goes to foreign customs administrations. In the 2009 forecast the state resources budget puts this figure at 86.5 million Euros. The amount of collection costs accruing to the state resources budget is estimated at 576.9 million Euros.

The introduction of the changed own resources system in 2000 and its application as of the 2002 budget year has brought about a fall in the call-in of VAT. On the other hand the GNI transfer has more than doubled in the past ten years. All together then, the yield of the collection cost (25%) in the 2009 estimate comes to 663.4 million Euros.

Table 5 shows the Belgian costs for the 2010 estimate, broken down by source of finance.

Sugar and isoglucose contributions	6.6
Customs duties (75 %)	1,890.5
V.A.T.	433.0
G.N.I.	2,629.6
United Kingdom rebate	184.4
Holland and Swedish rebate	23.4
TOTAL	**5,167.5**

Table 5. Belgian state contribution to the E.U. in 2010. (Million Euros)

If we now set the revenues from the collection costs against the above figure we find that the gross amount Belgium must contribute to the EU budget in the 2010 estimate is 5,167.5 million Euros. We should underline the fact that the Belgian contribution has grown by 50% in comparison to 2000.

As a consequence of the correction mechanism, the United Kingdom receives 3,958 million Euros in the 2010 estimate. Belgium pays an enormous supplement toward this rebate (184,4 million Euros) in comparison to favoured countries such as Sweden (28,4 million Euros), the Netherlands (56,2 million Euros), Austria (26,5 million Euros) and the Federal Republic of Germany (233,3 million Euros).

The top five contributors to the British rebate in 2010 are France (1,058 million Euros), Italy (819 million Euros), Spain (558 million Euros), Germany (233 million Euros) and then Belgium.

3 THE EVOLVING LEGAL FRAMEWORK

The system of own resources applicable to the general budget of the European Union is set out in Council decisions. Article 311[30] of the Treaty on the Functioning of the European Union states that the Union shall provide itself with the resources it needs in order to realize its objectives and to implement its policy. The budget of the Union is financed entirely from own resources, notwithstanding other revenues.

The procedure for the ratification of those provisions that are applicable to the own resources system remains unchanged. The Council decides by unanimous vote after consulting the European Parliament. The text explains that it will be possible in this context to establish new categories of own resources or to eliminate existing categories. The Council decisions taken on the basis of Article of Article 311 will only come into effect once they have been approved by the Member States acting in accordance with their individual constitutional arrangements. This fact underlines that every Member State must agree to amend the own resources system.

On the other hand the Treaty of Lisbon[31] provided that measures implementing the own resources system can be determined in accordance with the ordinary legislative procedure. However, this is so only to the extent that such decisions are in accordance with the primary law of the Treaty.

3.1 The New Budget in Figures

Article 310, 4° of the TFEU lays the basis for the principle of a balanced budget[32]. As a result it is nearly impossible to have a budget deficit. On the basis of figures for the 2010[33] budget (see Section 2.5 above), we see that the general budget of the European Union is financed as follows: in 2010, total expenditure is estimated at 122,937 million Euros. Combined, the traditional own resources, VAT and the GNI total 121,506 million Euros.

The 2010 EU general budget may be used to calculate the share of the Member States toward the funding of the budget in what are termed the "national contributions" (in this case the VAT and G.N.I.) and the "traditional own resources" (sugar contributions and customs duties). The table below gives us a picture of the call-in on the basis of prosperity of the Member States and the impact of the trade that comes from non-member states. When ranked by percentage shares of the overall budget, the list on the next page emerges.

Yet again this calculation shows how very favourable the "fair return" mechanism is to the United Kingdom and also how The Netherlands contributes relatively little in relation to its size and prosperity. We can make the same conclusion when comparing Sweden and Denmark.

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[30] Ex article 269 renumbered by the 2007 Treaty of Lisbon.
[31] Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European community.
[32] Ex Article 268, par 3.
[33] The general budget of the EU is published in the Official Journal, L Series.

1.	Federal Republic of Germany	19.53%
2.	France	16.73%
3.	Italy	13.34%
4.	United Kingdom	10.87%
5.	Spain	9.33%
6.	The Netherlands	5.03%
7.	Belgium	4.02%
8.	Poland	2.64%
9.	Sweden	2.28%
10.	Austria	2.19%
11.	Denmark	2.17%
12.	Greece	2.15%
13.	Finland	1.58%
14.	Portugal	1.37%
15.	Ireland	1.25%
16.	Czech Republic	1.23%
17.	Romania	1.15%
18.	Hungary	0.76%
19.	Slovakia	0.66%
20.	Slovenia	0.36%
21.	Bulgaria	0.34%
22.	Lithuania	0.25%
23.	Luxembourg	0.25%
24.	Cyprus	0.18%
25.	Latvia	0.15%
26.	Estonia	0.13%
27.	Malta	0.06%

Table 6. Ranking of Member State by contribution to 2010 EU General Budget

When grouping these countries by date of accession we are struck by the following observations: the six founding members of the EU still contribute 58.9 % of the funding. The three Member States that joined in 1973 (United Kingdom, Ireland and Denmark) jointly contribute 14.29 % of the total national contributions. The southern expansion of the eighties brought the accession of Greece in 1981, and Spain and Portugal in 1986. Together they account for 12.85 % of the contributions. The 1995 expansion, which saw the accession of Sweden, Finland and Austria, has, in relative terms, been financially favourable. These three Member States together contribute 6.05 % of the national contributions.

The fifteen Member States that acceded in the period from 1951 to 1995, still account for 92.09% of the national contributions to the E.U. budget. This makes it clear that the accession of the new members has certainly not brought any budgetary windfalls. It also says much about the differences in prosperity between the original fifteen and the Member States acceding to the EU in the new century.

3.2 The Approval of the Budget

Under the old system, the approval procedure for the general budget still made a clear distinction between "non-compulsory" and "compulsory" expenditure.[34] The *"compulsory expenditure"* was a consequence of the Treaties and/or the implementation of the decisions they contain. In other words, the three institutions regard the compulsory expenditure as comprising those expenses that the budgetary authority has to include in the budget in order that the Community is able to comply with its internal and external obligations, such as those arising from the Treaties or the implementation of the decisions set out therein.

"*Non-compulsory expenditure",* conversely, does not arise from the Treaties and/or the decisions set out in them. As the budgetary authority of the European Parliament is largely limited to the non-compulsory expenditure, this institution has an interest in seeing the non-compulsory expenditure grow.

However, the new article 314 (formerly article 272) of the Treaty on the Functioning of the European Union (TFEU) puts an end to this distinction between compulsory and non-compulsory expenditure: the European Parliament now has the final word on spending on both. The budgeting procedure will from now on be very similar to the joint decision-making procedure, which is limited to a single reading and a conciliation period subject to extremely strict deadlines. If the two branches of the budgetary authority fail to agree, the Commission must submit a new proposal. In that eventuality the Union would have to function using a system of provisional twelfths[35], determined on the basis of the previous year's budget. However, it is the European Parliament that takes the final decision in the very unlikely event that the Council should reject the joint proposal of the conciliation committee. In view of the consequences that follow in case no agreement is reached--in particular that no new expenditures may be added--this procedure is designed to encourage the two institutions to reach an agreement.

The new article 324 (formerly article 279bis) of the TFEU provides for regular meetings between the President of the European Parliament, the President of the Commission and the President of the Council for the purpose of budgetary procedures. This formalizes the process of tripartite consultation that hitherto has been only informal in nature.

The approval procedure now comprises a maximum of six steps (Art. 314 TFEU). The budget procedure is based on the articles of the TFEU and political traditions. First of all, each institution[36], with the exception of the European Central Bank, prepares a projection of its spending during the following budget year before the 1st of July. The Commission assembles these estimates to make a draft budget, which may also include divergent estimates.

In the early spring the European Parliament adopts a report on the Commission's "Annual Policy Strategy". This allows priorities to be identified and discussed. Early in the month of May the Commission draws up budgetary proposals based on these priorities. The draft comprises an estimate of overall expenditure and revenues for the next budget year.

[34] Kerremans and Matthijs 2004, 67.
[35] I.e. an estimate for a monthly spending, calculated on the basis of the previous approved budget.
[36] The Parliament, the Council, the Court of Justice, The Court of Auditors, ECOSOC, The European Ombudsman, The Committee of the Regions, and the Commission. Policy expenditure (including agriculture, structural funds, etc.) fall under the Commission budget.

The Commission must then submit a proposal to the Council at the very latest on the 1st September of the year preceding the budget year concerned (e.g. September 2009 for the 2010 budget). This is the second step.

The Council determines its position at the very latest on the 1st October of the preceding year and communicates this to the Parliament. Article 314(3) of the TFEU, does not stipulate that the Council should decide by a qualified majority. Nonetheless, article 314 of the TFEU must be read in conjunction with Article 16 of the Treaty on European Union (TEU). This article provides that the Council exercises the budgetary function together with the Parliament[37]. Because Article 314 does not provide for any other voting procedure, the system of the "qualified majority" is applicable[38].

The fourth stage in the procedure for the approval of the European budget is the communication of the draft of the Council to Parliament. Article 314(4) of the Treaty provides the following:

"If, within forty-two days of such communication, the European Parliament:

(a) approves the position of the Council, the budget shall be adopted;

(b) has not taken a decision, the budget shall be deemed to have been adopted;

(c) adopts amendments by a majority of its component members, the amended draft shall be forwarded to the Council and to the Commission. The President of the European Parliament, in agreement with the President of the Council, shall immediately convene a meeting of the Conciliation Committee. However, if within ten days of the draft being forwarded the Council informs the European Parliament that it has approved all its amendments, the Conciliation Committee shall not meet."

So the Parliament has three options. To exert political power, the European Parliament would obviously follow the third possibility.

The fifth step is the aforementioned, potentially necessary conciliation committee (Art. 314(5). The Conciliation Committee is made up of members of the Council or their representatives and an equal number of Members of the European Parliament, representing that institution. The Committee's job is to reach an agreement based on the viewpoints of the European Parliament and the Council within a period of twenty-one days. This takes place with the support of a qualified majority in the Council and a simple majority of the members representing the European Parliament. The Commission takes part in the work of the Conciliation Committee, and takes every initiative needed to reconcile the positions of the Parliament and the Council. If this Committee fails to bring about an agreement within the required period of 21 days, the European Commission must submit a new draft budget[39].

After the conciliation comes the sixth step in the approval process[40]. The results of the work of the Conciliation Committee must then be approved by a qualified majority in the Council within 14 days counting from the date on which the joint draft was agreed. The

[37] Treaty on the Functioning of the European Union, Art. 16(1).
[38] Treaty on the Functioning of the European Union, Art. 16(3).
[39] Treaty on the Functioning of the European Union, Art. 314(8).
[40] Treaty on the Functioning of the European Union, Art. 314(6) and 314(7).

Parliament must also approve the results of the work of the Conciliation Committee within the same period. In the latter case, or should either of these two EU institutions fail to take a decision concerning the joint text, it is held to have been adopted. Whereas the Council adopts its decision by a qualified majority, the European Parliament decides by a simple majority of its members[41]. Should the European Parliament reject the result of the Conciliation Committee, the European Commission must prepare and submit a new draft budget[42].

However, the situation is different if the European Parliament approves the joint draft and the Council rejects it. In that case the European Parliament may decide, within a period of fourteen days following the rejection by the Council, by a majority of its component members and by three fifths of the votes cast, whether to confirm all or a number of the amendments[43]. If an amendment of the European Parliament is not confirmed, the position agreed in the Conciliation Committee on the budget heading which is the subject of the amendment is retained. The budget is deemed to be definitively adopted on this basis.

The conciliation procedure is novel for budgeting purposes. It favours the Parliament since it may overrule the Council's rejection of the joint text. The Council is not empowered to do the same; a rejection by the Parliament is definitive and leads to a new Commission proposal.

3.3 The Multiannual Framework

The multiannual financial framework sets out in broad terms the expenditure of the Union within the bounds of the maximum amount determined for the own resources. Moreover, it determines the maximum amounts for each category of expenditure (agriculture, structural fund, other internal policy areas and foreign policy). The framework is established by the European Council and is thereafter the subject of an institutional agreement between the European Parliament, the Council and the Commission.[44]

At the end of the eighties a system of "Multiannual Financial Perspectives" (MFP) was agreed upon in order to overcome the annual budget battles. Under this system, spending in the main categories is fixed for five to seven years and enshrined in an institutional agreement between the three European institutions.

The first MFP, entitled 'Delors I' spanned 1988 until 1992, the second, 'Delors II' covered 1993 to 1999 with 'Agenda 2000' covering 2000 to 2006. The table on the next page gives an overview of the main expenditures as a percentage of total outlay during the period of multiannual budgeting.

From the parcel Delors I until 2006 there is a clear evolution in the division of expenditure within the MFP, namely, a reduction for agriculture and an increase for the structural funds.

[41] Treaty on the Functioning of the European Union, Art. 314(7(b)).
[42] Treaty on the Functioning of the European Union, Art. 314(7(c)).
[43] Treaty on the Functioning of the European Union, Art. 314(8).
[44] Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management.

	1988	1992	1999	2006
Agriculture	60%	56%	47%	43%
Structural	17%	25%	36%	36%
Internal policy	2,5%	4,5%	6%	8%
External policy	3,6%	3,7	7%	5%

Table 7. Delors I, Delors II and Agenda 2000. Share of EU expenditure by main category.

Article 312 of the TFEU[45] provides the legal basis for the multiannual financial framework. The multiannual financial framework is established for a period of at least five years[46]. The Council decides by unanimous vote, following approval by the European Parliament, which in turn decides by majority vote[47]. The present agreement, dating from 2006, is based on the 'Sapir' report of 2004 entitled 'An agenda for a growing Europe' and covers the 2007-2013[48] period.

The agreement contains three parts:

- Part I describes the method of application of the financial framework and remains valid for the duration of the financial framework.
- Part II deals with the improvement of interinstitutional cooperation during the Budget procedure.
- Part III contains provisions relating to the sound financial management of the resources of the EU.

Table 8 details the division of budget means for each policy area in the MFP 2007-2013.

(I) Sustainable growth	Competitiveness (research, education, social policy, etc.)	85,587
	Cohesion (convergence, regional policy etc)	347,414
(II) Natural resources	(Environment, agriculture, fisheries, development)	416,525
(III) Citizenship, justice police		12,221
(IV) EU global player		55,935
(V) Administration		56,225
(VI) Compensations		862
TOTAL		**947,769**

Table 8. MFP 2007-2013 (million Euros)

Additionally, the MFP contains a few budget rules concerning the division of some means between old EUR 15 Member States and the new EUR 12 (post 2003 accession).

[45] Ex Article 270a.
[46] Treaty on the Functioning of the European Union, Art. 312(1).
[47] Treaty on the Functioning of the European Union, Art. 312(2(1)).
[48] Annex III to the agreement divides expenditure into "non-compulsory" and "compulsory" items. This distinction has been superseded by the Treaty of Lisbon.

The most important expenditures are 'Cohesion' and 'Natural resources'. The reason for this relates to the extension of the EU over the last decade. Indeed, the new Member States have problems in most fields of activity (traditional industries, agriculture etc.) whereas the old Member States have already gone through a process of modernization.

Concerning the field of 'Cohesion' the evolution of spending is as follows:

- EU 15: 56% (2008) and 48% (2010)
- EU 12: 44% (2008) and 52% (2010)

and in the field 'Natural resources':

- EU 15: 84% (2008) and 81% (2010)
- EU 12: 16% (2008) and 19% (2010)

Gradually, the twelve new Member States are taking a greater part in the appropriations of the General Budget of the European Union.

4 CONCLUSIONS

The new own resources decision formalises the existing trend towards making contributions based on Gross National Income (GNI) the main source of financing for the General Budget of the European Union. For almost 40 years the budget has been compromised by the “fair return” principle, which works in favour of the United Kingdom. In the meantime special arrangements have also been allowed for the Netherlands, Sweden, Austria and Germany.

The decisions on the own resources continue to be subject to unanimous approval. This means that each Member State must give its approval to any change. In the 1970s and 1980s the idea was to raise an EU tax to fund the EU budget, but this concept has now been entirely abandoned. The funding of the budget continues to rest very largely on the shoulders of the first 15 Member States. The accession of the twelve later Member States has been financially demanding.

The amended Treaty on the European Union and the Treaty on the Functioning of the European Union fundamentally altered the existing budgetary procedure. Distinctions on the basis of types of expenditure have been relinquished and a “sui generis” procedure has been created for the approval of the budget.

What the new procedure has lost is clarity. And indeed it could soon result in the excessive use of the budgetary technique of provision appropriations. There is no practical experience of the newly established Conciliation Committee and only the future will show whether it will work as anticipated.

The principle of a one-year budget is central to parliamentary democracy and the multiannual framework could seriously compromise it. The multiannual framework extends for a period that continues beyond the lifetime of the parliamentary terms. As a result, the freedom of the new Commission and Parliament has been significantly restricted.

Both the new and the old financial system do have the advantage of stability for a term of years and the non-deficit obligation. On the other hand, the current system is very complex and makes it difficult to find an agreement between EU members on how to finance the Union.

Europe needs a fairer and more transparent system. Since the Luxembourg agreement of 1970, the Union has not done anything with the VAT as own resources. The VAT is related to the welfare standards and developments in the Member States. A fixed share of this indirect tax cold form the base of a long term financing plan for the general EU budget.

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