

Britain's contributions to the EU

How to save £5bn, minimum

By Ruth Lea



Contents

1.	Introduction	3
2.	Britain's contributions to the EU	5
2.1	Latest Estimates	5
2.2	The EU's second largest contributor	5
2.3	The EU budget: Problems with fraud	6
3.	Global Vision: A Swiss style relationship for the EU	7
3.1	A Swiss style relationship: Budgetary savings	8
	Annex A	10
	Annex B	12

About the author

Ruth Lea is currently Director of Global Vision and Non-Executive Director and Economic Adviser to Arbuthnot Banking Group. She is the author of many papers on economic matters and writes regularly for the press.

Ruth was Director of the Centre for Policy Studies from 2004-2007. She was also Head of the Policy Unit at the Institute of Directors (IoD) between 1995 and 2003, before which she was the Economics Editor at ITN, Chief Economist at Mitsubishi Bank and Chief UK Economist at Lehman Brothers. She also spent 16 years in the Civil Service in the Treasury, the Department of Trade and Industry and the Central Statistical Office. She has served on the Council of the Royal Economic Society, the National Consumer Council, the Nurses' Pay Review Body, the ONS Statistics Advisory Committee, the ESRC Research Priorities Board and the Retail Prices Advisory Committee.

1. Introduction

The state of Britain's public finances is parlous. According to the Chancellor of the Exchequer at the time of the April Budget public sector borrowing will be £175 billion in 2008-09, almost 12.5% of GDP, and could be significantly worse.¹ It is becoming increasingly accepted that there will have to be major spending cuts as the current levels of borrowing are quite simply unsustainable.²

It is against this background that the level of Britain's contributions to the EU should be reconsidered. This is all the more pertinent as these contributions are set to rise, reflecting Prime Minister Blair's concessions on the UK abatement (the "rebate") in December 2005. As the Treasury explains:

*"The UK abatement remains in full on all expenditure in the EU15, and on CAP market expenditure everywhere in the Union. [But] expenditure on economic development in the new Member States will gradually be disapplied from the abatement calculation from 2009."*³

The cuts in the UK rebate will, therefore, be concentrated into the last years of the current seven year budget (2007-2013) and this has implications for Britain's contributions to the EU budget beyond 2013. The back-loading of the rebate will make it tactically difficult for the UK to reduce its payments when the next budget is due to be agreed in 2012.

Partly reflecting the reduction in the abatement from 2009 to 2013, we concluded two years ago that Britain's net contributions to the EU budget were "set to double" from an annual average of £3¼ billion for the decade 1997 to 2006 to £6½ billion for the years 2011-2013 (see Annex A Table A.1 for the data).⁴ The forward estimates of net contributions can, however, now be expected to rise even more given the relative weakness of sterling against the euro.

Even though the discussion about Britain's contributions tends to focus on the **net** figures, it is also highly relevant to discuss the **gross** figures (net of abatement) – if not more so. Britain's receipts from the EU are necessarily on EU programmes, including CAP, which would probably either be dropped or dramatically modified if Britain were

¹ HM Treasury, *Budget 2009, Building Britain's future*, HC407, April 2009

² Ruth Lea, "Of course there will have to be public spending cuts: and big ones at that", Arbutnot Banking Group Perspective, 6 July 2009. Available from www.arbutnot.co.uk

³ HM Treasury, *European Community Finances: statement on the 2009 EC Budget and measures to counter fraud and financial management*, Cm 7640, July 2009

⁴ Ruth Lea, "Britain's Net Contributions to the EU Budget set to double", Global Vision Perspective, June 2007, www.global-vision.net



not subject to EU jurisdiction in these areas. Under these circumstances, there would be scope for genuine public sector savings. (Annex A Table 2 shows the breakdown of Britain's credits, and debits, with the EU.)

2. Britain's contributions to the EU

2.1 Latest estimates

The Treasury's latest data show that Britain's gross contributions (net of abatement) to the EU will be £12 billion in 2009-10, equivalent to 3p on the basic rate of income tax, whilst the abatement is set to fall to £3.3 billion compared with £5.1 billion in 2008-2009. Net contributions are expected to be nearly £6½ billion in 2009-10, over 55% higher than in 2008-09.⁵

Table 2.1: UK contributions to the EU budget – gross payments, abatement and receipts (financial years), current prices, £bn⁶

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 plan	2009-10 plan
Gross payments	11.4	12.2	11.8	12.2	13.7	13.2	14.2	15.3
Abatement	3.9	3.7	3.6	3.6	4.0	5.6	5.1	3.3
Gross net of abatement	7.5	8.5	8.2	8.6	9.7	7.6	9.1	12.0
Public sector receipts	4.2	4.6	3.8	5.2	5.6	4.5	5.0	5.7
Net payments	3.3	3.9	4.4	3.5	4.2	3.0	4.1	6.4

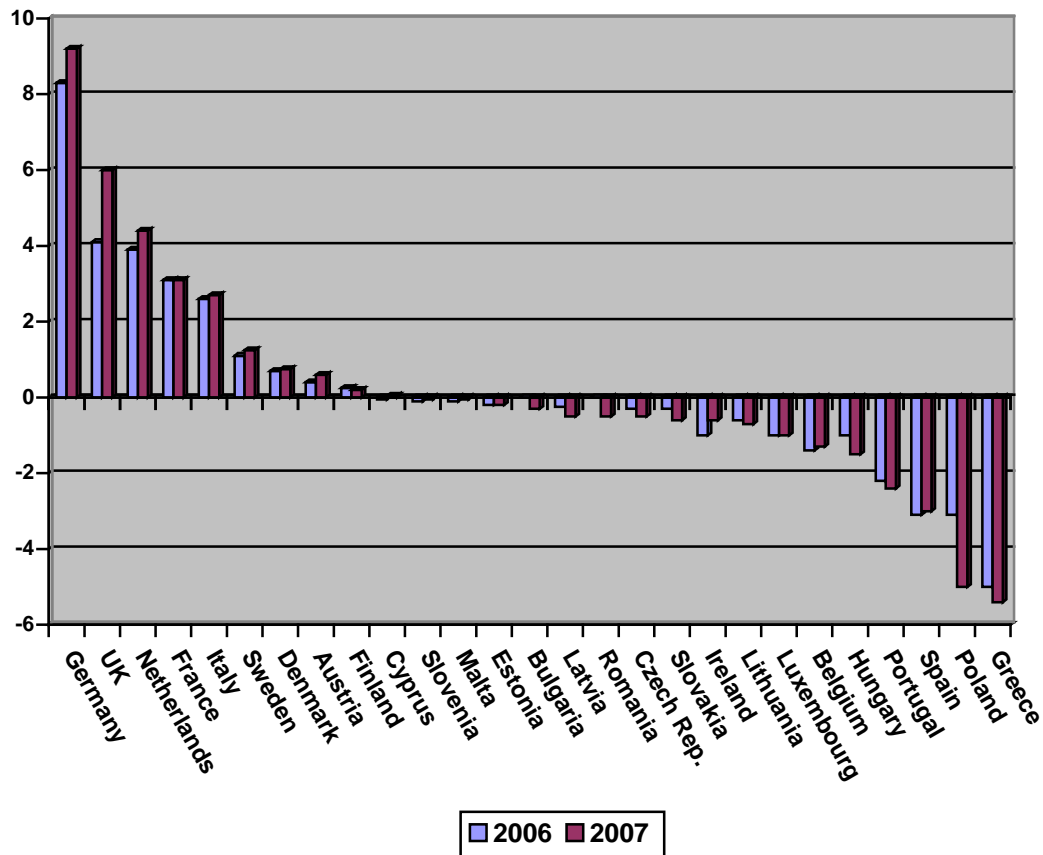
2.2 The EU's 2nd largest contributor

Not merely are Britain's net transactions with the EU in sizeable deficit and expected to rise in the foreseeable future, but it should be noted that Britain is the second highest net contributor after Germany. This is shown in the chart below. (Table A.3 in Annex A gives the detailed figures.) Other significant net contributions are made by the Netherlands, France and Italy. The largest net recipients are Greece, Poland, Spain, Portugal and Hungary.

⁵ Patrick Hennessy, "Taxpayers' bill for Europe rises by 60pc", *Sunday Telegraph*, 23 August 2009.

⁶ HM Treasury, *European Community Finances: statement on the 2009 EC Budget and measures to counter fraud and financial management*, Cm 7640, July 2009. Note: (i) there are receipts directly to the private sector, expected to be around £715m in 2009 and (ii) there are rounding errors in the table

Figure 2.1: Net contributions/receipts of Member States in 2006 and 2007, €bn⁷



2.3 The EU budget: problems with fraud

Problems with fraud and poor management of the EU Budget continue. The latest European Court of Auditors' Annual Report for 2007 was published in November 2008.⁸ The auditors failed to sign off the EU accounts for the 14th consecutive year, identifying errors in 2-5% of payments made to the EU's Member States. The Court's overall assessments of each of the EU Budget areas are listed in Annex B, Table B.2.

⁷ Sources of data: European Commission: *EU budget 2006: Financial Report*, September 2007 for 2006 data and European Commission: *EU budget 2007: Financial Report*, September 2008 for 2007 data

⁸ European Court of Auditors, *Annual Report and Statement of Assurance on the implementation of the 2007 EC Budget*, 10 November 2008. The Court's website is www.eca.europa.eu

3. Global Vision: a Swiss-style relationship for the UK

Global Vision advocates a new, more modern relationship for Britain and the EU, based on trade and cooperation whilst opting out of economic and political integration.⁹ Switzerland, though not a member of the EU, has negotiated a relationship that achieves very similar objectives. It has a free trade area with the EU, and has negotiated mutually beneficial, bilateral intergovernmental agreements.

These bilateral arrangements are extensive and are listed under two groupings:¹⁰

- **Bilateral agreements I**, which cover 7 specific areas (1999):
 - The free movement of persons.
 - The elimination of technical barriers to trade.
 - Public procurement markets.
 - Civil aviation.
 - Overland transport.
 - Agriculture.
 - Research.

- **Bilateral agreements II**, which cover the following areas (by 2005):
 - Cooperation in the fields of justice, police, asylum and immigration.
 - Taxation on savings.
 - Fight against fraud.
 - Processed agricultural products.
 - Environment.
 - Statistics, to encourage the harmonisation of data collection.
 - MEDIA, for the promotion of European films.
 - Education, occupational training, youth.
 - Pensions.

Switzerland contributes to the EU budget. According to Swiss official estimates, the EU will cost about SFr550 million a year for the period 2007-13.¹¹ If Switzerland were a member of the European Economic Area (EEA), as Norway is and which involves membership of the Single Market, the annual costs could rise to well over SFr700 million. If Switzerland joined the EU, the annual net contributions could increase to SFr3.4 billion, with gross contributions of SFr4.9 billion. Switzerland's current relationship, therefore, costs the country less than 80% of what it would cost to be a member of the EEA and the Single Market. And it costs just 16% (net) and 11% (gross) of what it would cost to be a full member of the EU.

⁹ Global Vision's website is www.global-vision.net.

¹⁰ Details on these bilateral agreements are available from www.europa.admin.ch.

¹¹ Swiss Federal Departments of Foreign and Economic Affairs, *Europe 2006 Report*, available on www.europa.admin.ch. The accession of Romania and Bulgaria in 2007, made little difference to Switzerland's overall contribution to the EU plus these 2 countries

3.1 A Swiss-style relationship; budgetary savings

If the UK were to negotiate a new relationship with the EU based on trade and cooperation, it would of course be up to the British and EU negotiators to agree on which cooperative, mutually beneficial bilateral agreements were deemed appropriate. As part of the negotiations it could be agreed that the UK should continue to contribute fully to certain EU programmes.

In Annex B (Table B.3) the major EU programmes of the 6 categories of the EU budget are listed with costs and comments about their appropriateness for continuing UK participation. For illustrative purposes, programmes that could be appropriate for Britain under the new relationship are asterisked. The table below provides a summary of the costs of these programmes.

Table 3.1: Summary of EU budget and programmes for possible UK participation (asterisked), 2008-09, €bn¹²

Budget Line	UK participation?	EU Budget	Cost of selected programmes for UK participation*
(1) Sustainable growth:	-	-	-
(1a) Competitiveness for growth & employment	Possibly some programmes	11.8 (9%)	8.9*
(1b) Cohesion for growth & employment	-	48.4 (36%)	0
(2) Preservation & management of natural resources (including CAP)	Minor programme only	56.1 (42%)	0.3*
(3) Citizenship, freedom, security & justice	Minor programme only	1.5 (1%)	0.1*
(4) The EU as a global partner	CFSP, on a strictly inter-governmental basis	8.1 (6%)	0.2*
(5) Administration	To be negotiated	7.7 (6%)	3.6*
(6) Compensation to new EU countries	No	0.2 (0%)	0
Total		133.8 (100%)	13.1*

On the basis of these illustrative figures, Britain would participate in programmes costing the EU €13.1 billion in 2009, compared with a total EU budget of €133.8 billion – about 10% of the total. On a straight *pro rata* basis, this would suggest that Britain's gross contributions could be 10% of the current figure – say £1.2 billion instead of £12

¹² Source of basic data: European Commission, *General Budget of the EU for the financial year 2009: the figures*, January 2009. Available from: <http://ec.europa.eu/budget/>. The data are for appropriations for commitments (current prices)

billion (2009-10, net of abatement). This would make a “saving” of £10.8 billion. This proportion is of a similar order to the Swiss contribution, compared with full membership. There would be no receipts and the abatement would be redundant.

But this £10.8 billion saving probably overstates the case. Some of EU receipts relate to support that the British Government would probably wish to continue if Britain moved to a new, looser relationship with the EU. These activities include support for some regional projects (currently under the European Regional Development Fund [ERDF])¹³ and agriculture – though surely not as currently configured under CAP. It would, of course, be up to the British Government to decide how it wished to support regional projects and agriculture. Under these circumstances any estimates of the eventual “savings” can only be conjectural. But even if the British Government continued with all the spending currently financed by EU receipts for these activities, which is highly unlikely, there would be a “saving” of over £5 billion.

Table 3.2: Hypothetical savings of supporting selected EU programmes only, £bn, based on 2009-10 data

	£bn	£, per capita
Current gross contributions (net of abatement)	£12.0bn	£200
Contribution to selected programmes	£1.2bn	£20
Saving, if none of spending currently financed by UK-EU receipts continued	£10.8bn	£180
Current net contributions	£6.4bn	£107
Saving, if all of spending currently financed by UK-EU receipts continued	£5.2bn	£87

Note: per capita data are calculated on the basis of a UK population of 60 million.

¹³ At present, the EU has 4 Structural Funds for granting financial assistance for structural economic and social problems: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Guidance and Guarantee Fund (EAGGF - Guidance Section), and the Financial Instrument for Fisheries Guidance (FIFG)

Annex A

Table A.1: Payments to the EU Budget, 2007-2013, £bn, (2004 prices, payments), calendar years¹⁴

	2007	2008	2009	2010	2011-13	2007-13
Gross payments	14.2	14.6	13.7	14.4	14.3+	14.3+
Abatement	-3.9	-4.65+	-4.85+	-3.85+	-3.8+	-4.1+
Payments after abatement	10.3	9.85	8.85	10.55+	10.5+	10.2+
Receipts	5.6	5.2	4.2	4.6	4.2+	4.6+
Net payments	4.7	4.65+	4.65+	6.05+	6.4+	5.6+

+ A number of the figures were given as ranges and the figures in the table are arithmetic means of those ranges.

Table A.2: UK official transactions with institutions of the EU, £bn¹⁵

	2007	2008
Credits:		
Exports of services:		
UK charge for collecting duties & levies (net)	0.6	0.7
Current transfers:		
Agricultural Guarantee Fund	2.950	3.1
European Social Fund	0.8	0.6
Fontainebleau abatement	3.5	4.9
Capital transfers:		
Agricultural Fund for Regional Development	0.150	0.4
European Regional Development Fund	0.7	1.0
Total credits	8.8	10.6
Debits:		
Current transfers:		
Customs duties & agricultural levies (Traditional Own Resources(TOR))	2.4	2.6
VAT based contribution & VAT adjustment	2.3	2.3
GNP 4 th resource & GNP adjustments	8.3	8.4
Total debits	13.1	13.3
Balance (UK contribution to the EU)	-4.2	-2.7

Note: the ONS's current account balance of payments estimates of UK-EU transactions have a different coverage from the UK's official transactions, as shown above. This reflects the fact that not all UK current account transactions with "Brussels" transit via the Treasury. For

¹⁴ Ruth Lea, "Britain's Net Contributions to the EU Budget set to double", Global Vision Perspective, June 2007. Original source: House of Commons Library, answer to PQ number 130155 from the Hon Bernard Jenkin MP, May 2007, from a WPO (31 January 2006)

¹⁵ ONS, Office of National Statistics, *United Kingdom Balance of Payments, The Pink Book, 2009 edition*, July 2009, table 9.9. Some minor items have been omitted. There are rounding errors in the table



example, Brussels makes payments directly to private-sector UK bodies and, in the other direction, DfID channels part of its overseas aid budget through EU institutions thus by-passing the Treasury. The following table shows the current account data.

Table A.3: Current account of the balance of payments, UK-EU institutions, £bn, all transactions¹⁶

	2004	2005	2006	2007	2008	Cumulative 2004-2008
Credits	8.5	9.1	9.3	8.6	9.8	45.3
Debits	13.2	15.1	15.4	15.9	16.4	76.0
Balance	-4.7	-6.0	-6.1	-7.3	-6.6	-30.7

¹⁶ ONS, Office of National Statistics, *United Kingdom Balance of Payments, The Pink Book, 2009 edition*, July 2009. Ian Milne, "UK Trade Deficit: 93% of the last five-year total was with EU-26", Global Britain, September 2009

Annex B

Table B.1: Net contributions/receipts of Member States in 2006 and 2007, €bn¹⁷

	2006 (EU25)			2007 (EU27)		
	Contribution	Receipts	Net	Contribution	Receipts	Net
Germany	20.5	12.2	8.3	21.7	12.5	9.2
UK	12.4	8.3	4.1	13.4	7.4	6.0
Netherlands	6.1	2.2	3.9	6.3	1.9	4.4
France	16.6	13.5	3.1	17.0	13.9	3.1
Italy	13.5	10.9	2.6	14.0	11.3	2.7
Sweden	2.7	1.6	1.1	2.9	1.65	1.25
Denmark	2.2	1.5	0.7	2.2	1.45	0.75
Austria	2.2	1.8	0.4	2.2	1.6	0.6
Finland	1.55	1.3	0.25	1.6	1.4	0.2
Cyprus	0.15	0.2	-0.05	0.15	0.1	0.05
Slovenia	0.3	0.4	-0.1	0.35	0.4	-0.05
Malta	0.05	0.15	-0.1	0.05	0.1	-0.05
Estonia	0.1	0.3	-0.2	0.2	0.4	-0.2
Bulgaria	Na	Na	Na	0.3	0.6	-0.3
Latvia	0.15	0.4	-0.25	0.2	0.7	-0.5
Romania	Na	Na	Na	1.1	1.6	-0.5
Czech Republic	1.0	1.3	-0.3	1.2	1.7	-0.5
Slovakia	0.4	0.7	-0.3	0.5	1.1	-0.6
Ireland	1.5	2.5	-1.0	1.6	2.2	-0.6
Lithuania	0.2	0.8	-0.6	0.3	1.0	-0.7
Luxembourg	0.2	1.2	-1.0	0.3	1.3	-1.0
Belgium	4.2	5.6	-1.4	4.4	5.7	-1.3
Hungary	0.8	1.8	-1.0	0.9	2.4	-1.5
Portugal	1.4	3.6	-2.2	1.5	3.9	-2.4
Spain	9.8	12.9	-3.1	9.8	12.8	-3.0
Poland	2.4	5.3	-3.1	2.8	7.8	-5.0
Greece	1.8	6.8	-5.0	3.0	8.4	-5.4

¹⁷ European Commission: *EU budget 2006: Financial Report*, September 2007 for 2006 data and European Commission: *EU budget 2007: Financial Report*, September 2008 for 2007 data

Table B.2: European Court of Auditors Report, 2009¹⁸

Budget area	Assessment
Revenue	The Court found that Member States' declarations and payments of TOR ("traditional own resources"), the Commission's calculation of Member States' contributions based on their GNI and VAT data, and other types of revenue, are free from material error.
Agriculture and Natural Resources	The Court found a material level of error in agriculture and natural resources, but noted that, once again, IACS (Integrated Administration and Control System) was an effective control system for limiting the risk of error and irregular expenditure, where properly applied. The Court also noted that rural development accounts for a disproportionately high percentage of the overall error rate.
Cohesion	The Court noted that there was a high risk that declared costs of Structural Policies projects are misstated or ineligible for reimbursement. They found that control systems in Member States were generally ineffective or had only limited effectiveness, and that the Commission maintains only moderately effective supervision to mitigate the risks.
Research, Energy and Transport	The principal risk to legality and regularity in this area was that beneficiaries overstated their costs and this was not prevented, or detected and corrected by the control systems of the Commission.
External Aid, Development and Enlargement	The Court found that the Commission's system of ex-ante checks provided a generally effective check on transactions but found weaknesses in the monitoring of implementing organisations, external audits of project claims and internal audit.
Education and Citizenship	The Court audited the assessment process of the Commission for ex-ante declarations and found that the process provided little assurance.
Economic and financial affairs	The Court's audit did not reveal material errors affecting the legality and regularity of administrative expenditure.
Administrative and other expenditure	The Court concluded that all institutions' 'administrative and other expenditure' was free from material error.

¹⁸ HM Treasury, *European Community Finances: statement on the 2009 EC Budget and measures to counter fraud and financial management*, Cm 7640, July 2009

Table B.3: EU budget costs, €bn, 2008 and 2009, (proposed UK participation asterisked)

	UK participation?	2008		2009	
		Budget	Cost of UK participation*	Budget	Cost of UK participation*
1. Sustainable Growth		58.3		60.2	
(1a) Competitiveness for growth & employment		11.1		11.8	
<i>Of which:</i>					
7 th Research framework*	Probably yes – after thorough study of the usefulness of the programmes.	6.1	6.1*	6.8	6.8*
Trans-European Networks (energy & transport)*	Probably yes – after thorough study of the usefulness of the programmes.	1.0	1.0*	1.0	1.0*
Galileo	No – a costly failure	0.9		0.8	
Lifelong learning & Erasmus Mundus*	Probably yes – to maintain links with other European countries	1.0	1.0*	1.1	1.1*
Competitiveness & innovation	No – better to develop own programmes	0.4		0.5	
Social policy agenda	No – better to develop own programmes	0.2		0.2	
(1b) Cohesion for growth & employment					
<i>Of which:</i>					
<u>(I) Structural Funds:</u>	No – better to develop own programmes	39.1		39.1	
<i>Of which:</i>					
(I/a) Convergence objective:		29.2		29.7	
- Employment & social affairs		7.6		7.3	
- Regional policy		21.6		22.4	

	UK participation?	2008		2009	
		Budget	Cost of UK participation*	Budget	Cost of UK participation*
(I/b) Regional competitiveness & employment objective		8.6		8.1	
(I/c) European territorial cooperation objective (mainly regional policy)		1.2		1.2	
<u>(II) Cohesion (regional policy for certain EU countries)</u>	No – better to develop own programmes	8.2		9.3	
2. Preservation and Management of Natural Resources		55.6		56.1	
<i>Of which:</i>					
(I) Market related expenditure & direct payments	No – better to develop own programmes	41.0		41.1	
<i>Of which:</i>					
- Agricultural markets		40.6		40.8	
(II) Rural development	No – better to develop own programmes	13.3		13.7	
(III) European Fisheries Fund	No – better to develop own programmes	0.6		0.6	
(IV) Fisheries governance	No – better to develop own programmes	0.3		0.3	
(V) Life-environment*	Probably yes – after thorough study of usefulness of programmes	0.3	0.3*	0.3	0.3*
3. Citizenship, Freedom, Security and Justice		1.6		1.5	
(3a) Freedom, security & justice	No – better to develop own programmes	0.7		0.9	
<i>Of which:</i>					
Solidarity & management of migration flows	No – better to develop own programmes	0.4		0.5	
(3b) Citizenship		0.9		0.65	
<i>Of which:</i>					
Youth in action (education & culture)*	Probably yes – to maintain	0.1	0.1*	0.1	0.1*

	UK participation?	2008		2009	
		Budget	Cost of UK participation*	Budget	Cost of UK participation*
	links with other EU countries				
4. The EU as a Global Partner		7.6		8.1	
	<i>Of which:</i>				
Instrument for Pre-Accession (IPA)	No – better to develop own programmes	1.4		1.5	
European Neighbourhood & Partnership Instrument (ENPI)	No – better to develop own programmes	1.6		1.6	
Development Cooperation Instrument (DCI)	No – better to develop own programmes	2.3		2.4	
Humanitarian aid	No – better to develop own programmes	0.75		0.8	
Common & Foreign Security Policy*	Participate on a strictly inter-governmental basis	0.3	0.3*	0.2	0.2*
Emergency aid reserve	No – better to develop own programmes	0.5		0.2	
5. Administration		7.3		7.7	
	<i>Of which:</i>				
Commission*	Contribution to be negotiated	3.4	3.4*	3.6	3.6*
Other institutions	Probably no	2.7		2.8	
6. Compensation to new EU countries	No	0.2		0.2	
Total		130.6	12.2*	133.8	13.1*

Source of basic data: *European Commission, General Budget of the EU for the financial year 2009: the figures, January 2009. Available from: <://ec.europa.eu/budget/>. The data are for appropriations for commitments (current prices)*



The objectives of the 6 categories in the EU budget:

- Sustainable development: spending in this area is aimed at building the EU's growth potential and fostering prosperity across EU regions.
- Preservation & management of natural resources: spending in this area includes spending on the CAP and Fisheries, Rural Development and measures aiming to contribute to food quality and a cleaner environment.
- Freedom, security & justice and Citizenship: spending in this area includes immigration, migration, security and fundamental rights & justice.
- The EU as a global player: spending in this area includes EC foreign policy & international development expenditure, including assistance to non-EU partners with the exception of assistance to Africa, the Caribbean or Pacific countries (which are funded from the off-budget EDF).
- Administration: spending in this area includes spending on the functioning of EU institutions & includes remuneration & allowances for staff & members, pension costs, & rent and other building costs.
- Compensations: spending in this area is intended to ensure that Bulgaria & Romania keep a positive budgetary balance in the years immediately following their accession and no longer includes payments to the EU10.