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COVER NOTE

from :	Secretariat
to :	The Convention
Subject :	Contribution submitted by Mrs Lena Hjelm-Wallén et Mr Gijs De Vries, members of the Convention: - "The future budgetary system of the Union"

The Secretary-General of the Convention has received the attached contribution from Mrs Lena Hjelm-Wallén et Mr Gijs De Vries, members of the Convention:

NON-PAPER ON THE FUTURE BUDGETARY SYSTEM IN THE EUROPEAN UNION

Input to the European Convention Mrs. Lena Hjelm-Wallén and Mr. Gijs de Vries, Members of the Convention, would like to present the following paper on the future budgetary system.

The future budgetary system in the EU should be based on the concepts of *long-term stability*, *accountability* and *institutional balance*. The system should promote efficient resource allocation, which is absolutely necessary in order to find room for expenditures caused by the new challenges facing the Union.

In order to create such a system, a top-down approach to the budgetary process is needed. This implies budget ceilings and other institutional frameworks that ensure budget discipline and responsible decision-making by institutions entrusted with handling the financial resources of the Union. These principles are essential to prevent budget crises and to ensure cost control in the daily implementation of the EU budget. In other words, they are necessary to create a well functioning and legitimate European Union.

Consequently, the principles described must be reflected in the financial provisions in the Treaty. Given this, we draw the following conclusions as regards the future budgetary system.

The Financial Perspective

The Financial Perspective should be given legal force by the Treaty. Thus, it should be stated in the Treaty that multi-annual budget ceilings must be set at fixed intervals. The ceilings should be set by the Council, acting unanimously, after consulting the European Parliament. It should also be stated that the Financial Perspective shall be respected when budgetary decisions are taken in the annual budgetary procedures or elsewhere. If there is no agreement on a new Financial Perspective, the existing ceilings should be carried forward.

The aim of this proposal is to give the Financial Perspective greater weight, which in turn would enhance financial stability and budget discipline.

The annual budget process

The current distribution of budgetary power between the Council and the Parliament, combined with a financial perspective and the Maximum Rate of Increase (art. 272.9 in the Treaty) strengthens stability in the system as well as between the institutions. The distinction between compulsory and non-compulsory expenditure have worked well. However, if there are sufficient safeguards for budget discipline – such as a Financial Perspective set by the Council – it could be possible to abolish the distinction between different types of expenditures, and introduce a decision process based on co-decision.

In such a procedure, which should be stated in the Treaty, the number of readings could be reduced so that there is only one reading each for the Council and the EP. The Council should decide by QMV and the EP should decide by majority.

If the Council and the European Parliament are not of the same opinion on the figures in the budget, a conciliation procedure should be opened.

If, after conciliation, there is still no agreement between the parties, a tiebreak mechanism enters into force. Expenditure is then determined at the lower of Council's or EP's final conciliation position, or at the level set in the previous budget, if this is higher than the lower of the positions of the Council or the EP. Obviously, the final level also has to be within the ceilings of the Financial Perspective.

EU revenues

The current distribution of institutional responsibility for determining budget revenues lends democratic legitimacy to the EU budget and should be maintained. In other words, the Council, acting unanimously, should decide on the system of own resources, which it shall recommend to the Member States for adoption in accordance with their respective constitutional requirements.
