

After 'No' Votes On Constitution, EU Budget Is Next

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As European Union leaders began an intense week of budgetary and constitution wrangling that could help decide the EU's direction after twin rejections of its constitution, much of their conflict centered on the bottom line: Who pays the bills?

The 25 countries must decide how to respond to the constitution defeats and how to share the funding of the EU's budget. Otherwise, they risk further disarray that could widen their difficult divisions and increase nervousness about the political union underpinning the euro, the world's most widely used currency after the U.S. dollar.

During the weekend, in clashes that mirror the union's increasingly fractious dynamics over economic policy, the British and French governments each sought to fend off attacks on their own countries' most sacrosanct budget arrangements. The British insisted they would hold on at all costs to their annual rebate on their contribution to EU coffers, won by former Prime Minister Margaret Thatcher in 1984. "We will use our veto, if necessary," Foreign Secretary Jack Straw said. Meanwhile, French President Jacques Chirac said any British attempt to reopen how much the French receive in farm subsidies was doomed.

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As other leaders sought to find a compromise, German Foreign Minister Joschka Fischer didn't rule out a new look at farm subsidies, the biggest single item in the EU budget. "Everybody has to move" to reach a compromise, he said. Germany, the EU's largest country and largest net contributor to the budget, was already calling for Britain's rebate to be re-examined.

The budget to fund the EU's centralized institutions is just more than 1% of the total gross domestic product of the 25 member countries, or about €106 billion (\$128.5 billion) a year. It pays for the projects designed to glue the union together, led by subsidies to agriculture, which account for 46% of the EU's expenditures, and aid to

Note: Figures don't add up to 100 due to rounding
Sources: EU Commission and Centre for European Policy Studies

depressed regions and for major transportation projects, which account for an additional 33%. The funding relies on a general agreement that richer countries will pay more

to help poorer ones catch up. During tough economic times in much of Europe, that pact is fraying just as it needs to accommodate 10 poorer countries that joined the EU last year.

Every country gives the same proportion of its gross domestic product. But EU spending on each member varies widely. Mrs. Thatcher argued in 1984 that with its small farming sector, the United Kingdom got a bad deal. According to the U.K. government, that would still be true today without the rebate. Britain's net payments to the EU are already more than France's, which has a big farming sector, making the U.K. the EU's third-largest net payer.

Without the rebate, Britain would be the EU's biggest net payer and contribute up to 15 times the level of France in 2003. France has a similar-size population and economy. But the rebate has become a symbol of Britain's trying to have it all ways in Europe, demanding a leading voice without committing fully to the project.

It promises to be a bruising dispute; any major concession by British Prime Minister Tony Blair would be unpopular at home. Yet if Mr. Blair wields his veto in Brussels to keep the rebate untouched, it will undermine his efforts to set the agenda for the EU as it emerges from the constitution's rejection in two national referendums. Mr. Blair is set to visit Germany tonight and France tomorrow. Prospects of reaching agreement with Mr. Chirac are so low that officials weren't planning a joint news conference of the two leaders. Those meetings lead up to an EU-wide summit in Brussels on Thursday and Friday, on which the constitution and budget dilemmas share the agenda.

The budget talks come against a backdrop of turmoil in Europe over the constitution defeats and disagreement over what to do next. Britain last week put off plans to hold its own referendum on the treaty. Germany and France were working to revive the votes, partly so Britain would have to take part of the blame for the treaty's failure.

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