

## BİRLEŞİK KRALLIĞIN AB BÜTÇESİNDEKİ YERİ<sup>1</sup>

### PLACE OF UNITED KINGDOM (UK) IN THE EU BUDGET

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#### ÖZET

2016 yılında Birleşik Krallık'ın AB üyeliğinden ayrılması kararı ile sonuçlanan referanduma ilişkin en önemli argümanlarından birisi AB bütçe finansmanının Birleşik Krallık ekonomisine ciddi ölçüde yük getirdiğidir. Bu görüş sadece 2016 referandumu öncesi ve sonrasında değil, Birleşik Krallık'ın AB üyesi olduğu 1973 yılından beri belirli çevrelerce dile getirilmiştir. Özellikle Birleşik Krallık siyasi otoritelerinin bütçe ile ilgili tam üyelikten itibaren AB ilgili kurumlarıyla yoğun müzakereleri söz konusudur. 1979 yılında Birleşik Krallık hükümetinin Başbakanı olan Margaret Thatcher'ın bütçe görüşmelerinde yoğun müzakereler yaptığı bilinmektedir. Bu kapsamda çalışmada Avrupa Komisyonu tarafından hazırlanan raporlardan hareket edilerek Birleşik Krallık-AB arasında bütçe ekseninde yaşanan gelişmeler incelenmiştir. Yapılan incelemenin sonuçlarına göre Birleşik Krallık'ın AB bütçesine en fazla katkı sağlayan dört üyeden birisi olması, AB gelir mekanizması ve Birleşik Krallık'ın diğer üyelere kıyasla ekonomik büyüklüğünün fazla olmasının doğal bir sonucudur. Birleşik Krallık'ın yaptığı müzakereler neticesinde 1984 yılında oluşturulan "bir düzeltme hesabı" ile mevcut mekanizma içerisinde bütçeye olan katkısı diğer üyeler tarafından finanse edilmek suretiyle azaltılmıştır. 1999-2018 yılları arasında Birleşik Krallık'ın bütçeye yaptığı katkılar ve bütçeden kendisine yapılan harcamalar arasındaki farkın en fazla olduğu yıl 2015 yılıdır ve oluşan 13.9 milyar Euro değerindeki farkın Birleşik Krallık 2015 yılında GSMH'sına oranı %0.55'tir. Birleşik Krallık ve AB arasındaki 1984 yılından buyana devam eden tartışmalar, Brexit sonucunu doğuran en önemli ekonomik etken olarak karşımıza çıkmaktadır. Brexit sonrasında AB bütçesinde meydana gelecek yeniden yapılanma süreci, bazı üye ülkelerin bütçeden elde ettikleri kazanımların azalmasına neden olacağı kesindir.

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Diğer taraftan Brexit sonrası Birleşik Krallık'ın da AB bütçesine yaptığı katkıların artık ekonomi içerisinde kalacak olmasından elde edeceği bir takım finansal avantajlar olacaktır.

**Anahtar Kelimeler:** AB bütçesi, Birleşik Krallık, Brexit.

## ABSTRACT

One of the main arguments regarding the referendum which had been result with the decision of leaving the EU membership in 2016 is that financing the European Union (EU) budget is a great burden on the United Kingdom (UK) economy. This argument is not an idea which was only brought before or after the 2016 referendum, it had been expressed by certain environments since 1973 when UK became a member of the EU. Especially, there had been intense negotiations of UK political authorities with the related institutions of the EU about budget beginning from absolute membership. It is known that Margaret Thatcher who became Prime Minister of UK in 1979 made intense negotiations in budget discussions. In this context, developments between UK and the EU are analyzed in the paper on the axis of the budget through the analysis of the reports prepared by EU Commission. According to the results of the review, the UK's position among other members as one of the four main contributors to the EU budget is a natural result of the EU budget income mechanism and the UK's wider economic size compared to other members. The UK's contribution to the budget had been decreased by creating a "UK correction mechanism" in 1984 financed via other members in the mechanism available as a result of UK negotiations. In the period of 1999-2018; the year which reflects the largest gap between UK contributions and expenditures transferred to the UK from the budget is 2015 and the amount is 13.9 billion Euros that is 0.55% of UK's 2015 GDP value. The ongoing negotiations between UK and EU since 1984 appears to be the most important economic reason which causes Brexit result. It is certain that new structural process which will occur in the EU budget after Brexit will cause revenue decreases of some member countries acquired from the budget. On the other hand; there will be some financial advantages in terms of UK as a result of contributions transferred to the EU budget will remain in the economy.

**Keywords:** EU budget, United Kingdom, Brexit

## 1. INTRODUCTION

It may be stated that intensive negotiations between the UK and EU has begun since 1973 which is the date of UK membership to the European Economic Community (EEC) that is the former name of the EU in that time. The contributions transferred by the UK to the EU budget had been such an important issue in the country agenda, so it had been one of the most important general election campaigns of the Labor Party, which wanted to win the elections and the first referendum about UK membership to the EEC held in 1975. According to the data illustrated in 2007 EU financial report; net contribution of the UK was 135 million UA (Unit of Account) in 1976 and 278 million UA in 1977-78. Difference between UK contribution to the budget and supports received from the budget are 1.5 billion ECU and 1.4 billion ECU in 1979-80 respectively. Especially this case caused the legendary negotiations of Prime Minister Margaret Thatcher which she was insisted during the negotiations as "I want my money back" (Brehon, 2017:1).

Constant negotiations sustained by the UK about budget were updated in 1975, 1980, and 1984 and in the following years; caused creation of a new account in the budget revenue accounts of the EU called the "UK Correction". Even though decreasing the contributions made by the UK through the payments of other members irritated the other members especially Germany from time to time; this account had been in force during 2016 Brexit referendum and afterwards and continued to be financed by other members in various amounts from time to time.

Despite the arrangements, the UK continued to be one of the most important financiers with Germany, Italy and France.

The UK where takes the prominent place in terms of contribution to the budget fell behind the new members especially considering budget expenditures to the member states. Other important financiers of the budget namely Germany, Italy and France benefitted from the EU budget more than the UK. Even though French and Germany rise out within the four main economies; it is required to remember that these economies are the two most important financiers of the UK correction account.

UK's withdrawal decision from the EU which is presented as the most successful and extensive economic integration after 43 years from the membership has caused interrogations all over about gains and losses obtained from the EU economic integration for member countries. Brexit followers in UK declare that EU membership causes many damages and one of those damages is budget burden. So this paper is important in terms of becoming an exhibition initiative via EU Commission reports if declared ideas are right and uncovering position of UK regarding budget burden among other 28 members. Contribution of the paper to the literature is that using indicators related to budget burden discussions, the paper reaches strengthening results of the ideas that UK is an important member in terms of the EU and regardless of other advantages of membership, alternative costs of the EU membership is high for UK in terms of budget.

## **2. DEVELOPMENTS BEFORE 2004**

First enlargement wave of the EEC occurred in 1973, number of member countries increased from 6 to 9 with the accession of Denmark, Ireland and United Kingdom (England, other parts of Great Britain and North Ireland). UK where is the research issue of this paper applied for the membership in 1963 and 1967 but was rejected by France due to inadequate situation of the country regarding European integration (Whyman and Petrescu, 2017:6). In Table 1 below, it is possible to observe net contributions of UK to the EU budget for 1973-2003 years. In this period, enlargement waves of the EU, in other words; number of countries joined to the EU is not as large as it happened in 2004, as mentioned in the following chapter. So it may be appropriate to evaluate UK's position in the EU budget in two different periods, namely before and after 2004. UK's importance had been increased as one of the main contributor of the EU budget as the number of members raised in the EU. Even though the UK correction mechanism came into force in 1984, UK's contribution to the EU budget continued to rise on average. In 1999-2003 years, total net contribution of UK is almost 21 billion Euros, more than 4 billion Euros in a year. And 5 billion Euros were transferred approximately to the UK correction account from other members in the same period.

**Table 1:** Contributions of the UK to the EU Budget and Expenditures Received from the EU Budget for 1973-2003 Period

Million UA	Total EEC Budget Revenues	Contributions of the UK	Expenditures to the UK	Difference	UK Correction
1973	4.556,70	425,30	-	-	-
1974	4.515,50	428,90	-	-	-
1975	6.008,40	811,70	-	-	-
1976	7.172,60	1.129,10	994,2	134,9	-
1977	10.069,10	1.768,50	1490,1	278,4	-
1978	12.019,50	1.768,50	1490,1	278,4	-
<b>Total</b>	<b>44.341,80</b>	<b>6.332,00</b>	<b>3974,4</b>	<b>691,7</b>	<b>-</b>
Million ECU	Total EEC/EU Budget Revenues	Contributions of the UK	Expenditures to the UK	Difference	UK Correction
1979	14.388,30	3.026,80	1.541,20	1.485,60	-
1980	15.280,50	3.168,30	1.803,10	1.365,20	-
1981	18.043,40	3.877,70	3.124,70	753,00	-
1982	21.164,20	5.115,50	3.961,90	1.153,60	-
1983	23.013,60	5.084,40	4.083,60	1.000,80	-
1984	25.473,50	5.429,40	4.092,50	1.336,90	-
1985	28.459,50	5.712,00	3.107,40	2.604,60	-981,40
1986	33.270,70	4.825,20	3.386,80	1.438,40	-1.871,10
1987	35.349,10	5.727,50	3.121,50	2.606,00	-1.631,00
1988	40.883,30	5.323,90	3.253,90	2.070,00	-2.407,30
1989	44.329,30	6.568,10	3.214,30	3.353,80	-1.723,40
1990	41.413,10	6.534,30	3.147,40	3.386,90	-2.375,30
1991	52.836,50	4.736,40	4.069,50	666,90	-3.562,60
1992	56.261,70	6.702,40	4.446,40	2.256,00	-2.580,20
1993	63.973,40	7.626,60	4.667,30	2.959,30	-3.155,80
1994	64.188,80	6.417,40	5.343,40	1.074,00	-2.294,90
1995	67.827,60	9.251,60	4.612,40	4.639,20	-1.449,30
1996	71.098,70	8.218,60	6.112,40	2.106,20	-2.913,80
1997	75.293	8.928,10	7.129,30	1.798,80	-2.431,30
1998	82.249,20	12.537,20	6.981,40	5.555,80	-3.153,50
<b>Total</b>	<b>874.797,40</b>	<b>124.811,40</b>	<b>81.200,40</b>	<b>43.611,00</b>	<b>-32.530,90</b>
Million EURO	Total EU Budget Revenues	Contributions of the UK	Expenditures to the UK	Difference	UK Correction
1999	82.530,80	11.083,50	5.893,30	5.190,20	-3.576,60
2000	87.969,20	13.867,00	7.857,20	6.009,80	-3.420,80
2001	80.718,10	7.743,40	5.863,60	1.879,80	-7.432,50
2002	77.698	10.152,80	6.161,00	3.991,80	-4.933,50
2003	83.632,50	9.971,50	6.174,50	3.797,00	-5.184,90
<b>Total</b>	<b>412.548,60</b>	<b>52.818,20</b>	<b>31.949,60</b>	<b>20.868,60</b>	<b>-24.548,30</b>

Source: (European Commission, 2008b)

Expenditures from the EU budget to the UK were smaller compared to contributions of the UK and this difference became a major political concern of the community in 1974. GDP value of the UK was behind the community average in that time and the country had to import agricultural products most of the time because size of the agriculture sector was not large enough.

So the level of agriculture expenditures of the community budget received by the UK was very low. In addition; it is stated that UK's contribution to the budget was higher compared to the other countries because the proportion of VAT in GDP of the UK was significant (European Commission, 2014:29).

One of the election commitments of the Labor Party which won the elections in 1974 was to negotiate of the UK's membership conditions with the EEC. Negotiation issues concerning this paper or issues annoying UK are common agricultural policy applied by the EEC, contributions of UK to the EEC budget and harmonization of VAT among member states. Compromise was provided about budget correction mechanism as a consequence of the negotiations of the Prime Ministers in December 1974 and negotiations occurred in the EEC Council in March 1975.

An announcement was made by the UK Parliament declaring that a referendum will be held in February 26 1975 about the EEC membership of UK after the negotiations. The referendum question was "Do you think UK should be in the European Community (Common Market)?" 64% of the voters participated to the referendum and results showed that 67% of the participants gave affirmative vote while 33% of the voters gave negative vote (Miller, 2015).

Various mechanisms created to arrange UK contributions to the EEC budget. The first mechanism agreed in March 1975 and applied in the period of 1976-1980. According to the arrangement, if one of the members was exposed to an unjust burden in budget finance, this extra burden would be covered by the EEC budget. The meaning of the extra burden is VAT payments provided by UK. The data regarding these payments can not be observed in related reports as separated payments because these payments collected in the financial contribution account until it was fully harmonized in 1979 and aftermath. In addition, there were some conditions to determine if a country was exposed to an unjust burden about budget contributions. These conditions are; GDP per capita level of the country should be less than 85% of community average, growth rate should be less than 120% of the community average and the share of contributions of the UK to the own resources should be more than 10% of the UK's share in community GDP. This mechanism never came into force (European Communities, 1989:21).

The second settlement mechanism for the UK was created to apply from March 1980. Different information is given in public finance reports about the content of this correction mechanism and related information are not given in detail. It is mentioned in reports prepared in 1989, 1995 and 2002 that arrangements concerning the UK correction are about expenditures received by the UK (European Communities, 1989:21; European Commission, 1995:19; 2002:28). But according to the reports prepared in 2008 and 2014; those arrangements are about the contributions provided by the UK (European Commission, 2008a:29; 2014:29).

The following decisions below were approved by the European Council about UK contributions to the budget in December 1979 (European Commission, 1980):

- Credits of following years are included to the budget according to the sample of financial mechanism. The Council is qualified to make decisions about the application of additional measures declared by the Commission every year considering the request of the UK.
- UK contribution for 1980 is calculated regarding the estimate of the Commission (1,8 billion EUA). About 1,2 billion EUA<sup>2</sup> is subtracted from the estimated amount and the net contribution would be 609 million EUA.

<sup>2</sup> It is the statement replaced UA in the related documents. Unit of account used in the budget transformed into European Currency Account (ECU) for 1979-1998 and Euro has been EU currency unit since 1999.

- UK net contribution for 1981 is calculated based on the estimate of the commission which is about 2,1 billion EUA. Net contribution of the UK is increased as much as the difference between 2,1 billion and 1,8 billion ECU; in other words, 19,9% or about 121 million EUA. Thus the net contribution of the UK is 730 million EUA.

- Contribution of the UK is decreased by about 2.6 billion EUA based on the calculations mentioned above.

- If the contribution provided by the UK was more than 1.8 billion EUA in 1980 and 2,1 billion EUA in 1981, the difference is financed as follows: 25% of the difference is financed by the UK and 75% of the difference is financed by the other 8 members. For 1981, if the amount of the difference is between 730-750 million EUA, it is financed by UK. If the difference is between 75-850 million EUA, 50% of the gap is financed by UK and rest of the gap is financed by other 8 members. If amount of the gap is more than 850 million; then 25% of the difference is financed by UK and 75% of the difference is financed by other members.

- Contributions for 1980-1982 years are designed according to the applied financial mechanisms and additional decisions proposed by the Commission. Financial mechanism is maintained automatically till the end of 1982.

In 1984, an agreement called Fontainebleau Agreement rearranges the position of UK in the EEC budget was entered into force. The content of this agreement is creation a constant mechanism to decrease the budget burden of UK, increasing VAT payment rate from 1% to 1.4% and accession of Portugal and Spain to the Community. Unanimity is required to change the conditions of the rules of own resources. The UK rejected any kind of increases on the expenditure ceilings as long as a long term decrease was determined for UK contribution. According to the agreement, UK contribution decreased by 1 billion ECU directly (Benedetto, 2017:621-623). This reduction was provided by decreasing VAT payments of UK as much as the reduction amount. A new budget revenue account called UK Correction was created in related budget reports with the Fontainebleau Agreement.

In 1986, calculation method of the UK correction account was changed. According to the new arrangement, 66% of the difference between VAT based contributions of the UK and budget expenditures used by the UK was refunded to the country beginning from 1986. The calculated amount was shared between other members except for Germany in accordance with their VAT based contribution shares. Germany was emphasized that it had been the most important revenue resource of the budget from the establishment of the community and asked to reduce its share on UK payments. So share of Germany was reduced by 1/3 following the Fontainebleau Agreement (European Commission, 2014:30).

As a consequence of growing number of members and incidents occurred in that period, reform initiatives about budget structure were proposed by the EEC Commission in February 1987. After the negotiations, the reform package came into force in July 24, 1988(European Communities, 1989:25). In this reform, there was also change about the UK correction mechanism which started in 1985 and calculation method was changed in 1986. In the new method, the amount that is paid to the UK is calculated as it was in 1986. Then, savings originated from new methodologies namely GNP based resource and 55% VAT tax basis are subtracted from the amount which is calculated by using old method. Instead of determining rates regarding other members' VAT contributions, repayments for calculated amount are determined by GNP levels of other members. In addition, Germany continues to pay 1/3 of its share and Portugal and Spain is financed decreasingly in UK correction payments until 1991(European Commission, 1995:22).

In 1999, VAT based resources that corresponded 36,1% of total budget revenues were obtained by a VAT rate which determined in advance and included to the national VAT rate of the member. The rate was determined as 1% in 1999 and this caused the VAT based resources decrease.

It is determined every year that VAT income basis does not exceed a certain level of GDPs of member countries but all members cannot benefit from this decision but the chosen members can. In 1999, it was determined that the VAT basis cannot exceed 50% of member's GDP. Greece, Spain Luxembourg, Ireland, Netherlands, Portugal and UK were beneficiaries of this decision in 1999.

In a report that contains proposals about budget changes for 2000-2006 years, UK correction mechanism is also analyzed. It is emphasized that context of the correction mechanism has changed since the mechanism started to apply. It is also stated that wealth of the UK has increased by time and UK is not the only member which confronts imbalances in budget relations with the EU. Even though the most important factor of UK's problems with EU budget is agriculture expenditure, the correction mechanism is used for expenditure categories other than agriculture. It is underlined that these expenditures have gone beyond the original reason of UK correction mechanism since adoption expenditures started to engage important role in EU budget. There were slightly less arrangements on the revenue side of the budget in 2000-2006 periods because the main focus was given on the expenditure side. European Council determined to decrease the VAT rate to 0.75% in 2002 and 0.50% in 2004. The collection cost of traditional own resources is raised to 25% from 10% to increase its share on budget revenue. There was no significant change in UK correction mechanism. It was determined that Germany, Netherlands, Sweden and Austria are responsible to pay  $\frac{1}{4}$  of their calculated liabilities regarding UK correction, so the burden is decreased on those members (European Commission, 2008a:75-86).

The European Council made some decisions about changes in the EU budget that is valid from March 1, 2002. One of those changes is about the UK correction mechanism. As mentioned before, the cost of collection of traditional own resources is raised to 25%, implying that transfers of member countries concerning traditional own resources are decreased. So a new calculation method imposed reflecting income increase of UK originated from this new arrangement. The other important change is that GNP based resource is replaced by GNI<sup>3</sup> based resource.

### 3. EU-UK BUDGET RELATIONS IN 2004-2018

The EU that had 15 members until 2004, transformed into an economic integration consists of 25 members that Czech Republic<sup>4</sup>, Southern Cyprus, Estonia, Hungary, Malta, Latvia, Lithuania, Poland, Slovenia and Slovakia included.

Financing of the EU budget is provided by own resources and other revenues. Budget revenue that amounts 95 billion Euro is obtained from own resources in 2004. Total budget revenue of the EU is about 103.5 billion Euros when other revenues and revenues transferred from previous year are included (European Commission, 2008b:77). Taxes obtained from agriculture product imports and custom duties which are sub-accounts of traditional own resources cover 1.4% and 11.1% of total budget revenue respectively. These two tax revenues are transferred to the EU budget after two months of delay so contributions of 10 new members of the EU could be transferred to the budget for the period of June-December. Taxes obtained from sugar production cover 0.4% of own resources. 10 new members had no contribution to the budget as sugar production taxes in 2004.

VAT revenues can play an important role as share of GNP in some members. So VAT basis is restricted to 50% of the GNP values of some separated members. Number of members benefitted from this decision was 5 in 2003 and reached to 13 in 2004, UK included. The maximum VAT rate was determined as 0.50% and decreased to 0.2984% considering UK correction payments.

<sup>3</sup> Gross National Income (GNI): GNI value of a country is calculated by adding interest incomes, fees, share of profits and other incomes of residents obtain from other countries and subtracting such revenues transferred to other countries from GDP value. In other words GNI is GNP as it is mutually known in the literature. But the World Bank and the EU use GNI instead of GNP concept.

<sup>4</sup> The name of this member has been replaced as Czechia by the Czech government in 2016.

VAT based revenues covered 14.6% of total own resources in 2004. Countries that became members of the EU in 2004 May 1 contributed in 2/3 of the year.

GNP based resource is a very significant revenue item of the EU budget and 72.6% of total own resources revenue was obtained via GNP mechanism in 2004. New members contributed to the EU budget in May-December periods for this item as well and the rate of GNP based resource is 0.6972% for 2004.

**Table 2:** Contributions of the UK to the EU Budget and Expenditures Received from the EU Budget for 2004-2018 Period

Million EURO	Total EU Budget Revenues	Contributions of UK	Expenditures to UK	Difference	UK Correction
2004	95.053,30	11.682,50	7.130,20	4.552,30	- 5.272,10
2005	100.811,10	12.157,10	8.670,40	3.486,70	- 5.185,80
2006	102.351,20	12.380,60	8.294,20	4.086,40	- 5.221,40
2007	109.987,50	13.429,00	7.412,90	6.016,10	- 5.188,90
2008	111.169,10	10.113,90	7.309,90	2.804,00	- 6.252,00
2009	108.906,90	10.111,60	6.247,10	3.864,50	- 5.657,70
2010	119.074,90	14.659,40	6.745,60	7.913,80	- 3.562,70
2011	119.994,70	13.825,20	6.570,00	7.255,20	- 3.595,90
2012	129.429,80	16.177,50	6.933,90	9.243,60	- 3.803,60
2013	139.743,60	17.068,40	6.308,30	10.760,10	- 4.329,50
2014	132.961,30	14.072,30	6.984,70	7.087,60	- 6.066,30
2015	137.334,70	21.409,30	7.457,60	13.951,70	- 6.083,60
2016	132.174,30	15.920,70	7.051,60	8.869,10	- 5.870,20
2017	115.427,70	13.757,10	6.326,30	7.430,80	- 4.937,60
2018	142.335,40	16.403,50	6.633,10	9.770,40	- 5.026,50
<b>Toplam</b>	<b>1.796.755,50</b>	<b>213.168,10</b>	<b>106.075,80</b>	<b>107.092,30</b>	<b>- 76.053,80</b>

**Source:** European Commission financial reports for 2007-2018 years.

The UK correction account which had been in force using difference calculation methods since 1985 to correspond the 66% of the difference between UK contribution and UK utility value started to be financed by 24 members with the accession of new countries.

Germany, Austria, Netherlands and Sweden financed ¼ of their calculated amount as a result of new arrangements and rest of the amounts were financed by other 20 members. Even though the number of member countries increased to 25, if the financial reports of 2004-2006 years are examined; it will be observed that the strongest economies of the Union sustained to be the most significant financiers of the budget as a natural consequence of budget financing mechanisms. Germany covers 1/3 of total budget revenue alone as it was the case in previous years and continued its leadership but it can be also interpreted that Germany's share in total budget revenue has diminished.

Share of 10 new members in total budget revenue is 5% in 2005. 60% of total own resource revenues are covered by four strongest EU member. Spain and Netherlands are other most important contributing members in 2006 after Germany, France, Italy and UK that finance more than 60% of budget revenues. 24 members made additional payments more than 5.2 billion Euros for UK. Most contributing countries are France (1.4 billion Euros) and Italy (1 billion Euros). In 2006, payments regarding justice and home affairs (JHA) started to be subtracted from UK liabilities.

Exemption amounts regarding JHA payments for Denmark is 188 million Euros, while the amounts are 57 million Euros and 774 million Euros for Ireland and UK. The most contributing member that covers these exemptions is Germany with the payment amount of 255 million Euros (European Commission, 2008b:79). According to the amount of expenditures from the budget to the members France, Spain, Germany and Italy are the members received more than 10% of EU budget expenditures in 2004 and 2005 years. Poland is the most supported member among other new members that became a member in 2004, May. 4 billion Euros was transferred to Poland from the EU budget in 2005. Amount of expenditure for Netherlands that accessed to the EU in 1958 was 2 billion Euros, for Portugal accessed to the EU in 1986 was 3.8 billion Euros. Amount of support for UK was 7.1 billion Euros in 2004 and 8.6 billion Euros in 2005, approximately. In 2006, UK is the fifth most supported member with 8.3 billion expenditure amount. 4 billion value of expenditure is transferred in the context of agriculture heading while 3 billion value of expenditure is transferred for structural activities (European Commission, 2007:20).

Share of UK in budget revenues decreased in 2008 compared to previous year while shares of other strong economies increased. Share of total budget revenue in total EU GNP is 0.90% in 2008. Consequently, EU members use a small part of their GNP values to finance EU budget. The highest rate belongs to Belgium as a share of GNP level with 1.34% in 2008. Despite the fact that UK is the most fourth contributor of EU budget, burden of incomes transferred to budget in GNP is 0.55 % (European Communities, 2009:67). Spain contributed to the EU budget almost as much as UK in 2008 and became one of the dominant members of EU budget revenues.

When contributions of members are reviewed since 2009 Germany, France Italy and UK are the most influential members of economic structure generated by 27 members. Foremost members in terms of GNI seize are also foremost contributors of the budget at the same time in 2010. This year UK's GNI value (1.7 trillion Euros) is higher than Italy's GNI value (1.5 trillion Euros). However share of Italy in budget revenues is 4% higher than UK. Italy transferred 1% of GNP value to the EU budget while the rate is 0.85 for UK (European Commission, 2011:60). Germany that coincides 19% of EU budget in 2011 has the highest GNP value with 2.6 trillion Euros and transferred 0.89% of GNP to the EU budget. Share of Italy in budget financing is higher than UK even though Italy is behind UK in terms of GNP value in 2009-2012 years.

Number of EU members rose to 28 with accession of Croatia in 2013. This year amount of contribution transferred by the UK is more than 17 billion Euros which is the second highest contribution for 2004-2018 periods that cover 19 years. Information given in the EU 2013 financial report confirms that 16.2 billion of contribution transferred through GNI based resource. This amount corresponds 0.91% of GNI value of UK for the relevant year.

UK contributed 21.4 billion Euros to the EU budget in 2015. This amount is the highest amount of UK contribution covering 1999-2018 periods, in other words, for 20 years. 20,6 billion Euros via GNI based resource, 3,7 billion Euros via VAT based resource and 3,2 billion Euros via agriculture, custom and sugar taxes should have been transferred to budget from UK but 6 billion Euros were subtracted from these transfers because of UK correction mechanism (European Commission, 2016:78). It may be assessed as a powerful argument for BREXIT voters that amount of contributions transferred by UK reached the highest value just before 2016 referendum. Fixing VAT rates as 0.30% and giving privileges to Germany, Netherlands, Austria and Sweden about VATs cause increases on UK correction account. Pre-accession expenditures begin from 2014 is not included in UK correction account. The aim of UK correction account is to decrease difference between UK's shares in EU budget revenue and shares in total EU budget expenditure. Difference between UK's share in total VAT revenues and UK's share in expenditures transferred to the members is calculated as percentage and this rate is multiplied with total budget expenditures. 66% of difference determined by this calculation is financed by 27 members other than UK and subtracted from UK total revenue transfers.

Distribution among 27 members is determined by each member's share in total EU GNP level. Germany, Netherlands, Austria and Sweden are the only members that pay 25% of their calculated liabilities. Other amounts which are not compensated by these members are financed via 23 members in proportion (European Commission, 2015:35-39).

Statistics illustrated in EU 2014 finance report show that Germany provided 29.1 billion to the budget and takes the first place among members in GNP ranking as it happens in budget financing. This year France which is the second largest economy of the EU transferred 21 billion Euros to the EU budget and takes the second place in budget financing for 2014. The third largest economy of the EU in terms of GNI size is UK. If UK correction mechanism did not exist UK would have to transfer 20.1 billion Euros to the EU budget and its position in budget financing and economic magnitude would match. Italy provided 15.9 billion Euros to budget even though it is the fourth largest economy in the Union. Spain which is the fifth largest economy provided more than 11 billion Euros to budget. Total EU budget revenues cover 0.96% of total EU GNP value. Most beneficiaries of 2014 EU budget expenditures covering significant contributors are Poland, France, Spain, Germany, Italy, Greece, Belgium and UK respectively. Poland which takes the fifteenth place in competitiveness ranking, takes the first place in cohesion expenditures. This year Poland benefitted from the EU budget as much as 8% of Poland's GNP value in the framework of cohesion expenditures. UK takes 8<sup>th</sup> place in total expenditure ranking in 2014 and it is the fifth country in expenditures for competitiveness and 11<sup>th</sup> most benefitted country in cohesion expenditures.

UK was the 3<sup>rd</sup> largest economy after Germany and France in terms of GNI value in 2014. In 2015 UK became 2<sup>nd</sup> largest economy in the EU leaving France behind. Also net contribution of the UK to budget raised 52% compared to previous year, making the country second largest contributor, leaving France and Italy behind. Share of UK contribution to the budget in GNI value was 0.65% in 2014 and raised 0.85% in 2015 (European Commission, 2016:29). Therefore total net contribution of UK rose because of UK correction amount which remains almost the same even though GNP value increased compared to previous year. Amount of contribution provided by UK is 14 billion Euros in 2014 while the amount increased to 21.4 billion Euros in 2015.

Amount of expenditure for competitiveness heading was 15.6 billion Euros in 2015 when payments regarding projects of previous year are included. About 9 billion Euros of this expenditure were transferred to the Horizon 2020<sup>5</sup> Program. First three members which benefit the most from this expenditure heading are France (2.2 billion Euros), Germany (1.9 billion Euros) and UK (1.6 billion Euros). Amount of expenditure in cohesion heading is 51 billion Euros when expenditures of previous years are included. 54% of these expenses were used for convergence policies of less developed regions and 24% were used for the Cohesion Fund. Germany, France and UK are the 9<sup>th</sup>, 10<sup>th</sup> and 11<sup>th</sup> most benefitted members of the budget through this expenditure heading. First three members are Poland, Czech Republic and Spain. Poland was supported only 169 million Euros through competitiveness expenditures while the amount given was about 8 billion Euros in the context of cohesion heading. 56.6 billion Euros of resource was allocated in 2015 for natural resources budget heading that cover agriculture expenditures. About 44 billion Euros of the source were used via EAGF<sup>6</sup>. France takes the first place among other members with amount of 9 billion Euros of support related to this heading. France is followed by Spain, Germany, Italy, Poland and UK. The amount transferred to UK is 3.8 billion Euros (European Commission, 2016). Rank of UK is 6 in 2015 in most supported members ranking in terms of total expenditure.

Correction mechanism operates to decrease net contribution of UK to budget had been updated many times since 1985 and still retains its complexity.

<sup>5</sup> Competitiveness program includes the largest research and innovation program of the EU History called Horizon 2020. Budget of the program is 80 billion Euros for 8 years.

<sup>6</sup> EAGF: European Agriculture Guarantee Fund.

Information given in EU 2017 budget report exerts that this mechanism is still calculated regarding own resources system mainly depends on VAT mechanism in 1980s. Financing of account is provided by 27 members which was about 5.9 billion Euros in 2016. Payments corresponded by Germany, Netherlands, Austria and Sweden is decreased by 75%. Rest of the financial burden originated from privileges imposed those members is distributed between other 23 members. France (1.7 billion Euros) and Italy (1.3 billion Euros) are members which transferred the most to this account. Contribution of Germany which is the most important contributor of the budget is 416 million Euros for the correction. It would be more than 2 billion Euros if there were no privileges applied to Germany.

Share of total contributions transferred by members in EU GNP value was 0.89% in 2016. Despite the privileges imposed, Germany contributed 25.4 billion Euros in total. This amount is 0.80% of Germany's GNP value which is 3.2 trillion Euros in that time, reflecting Germany as the largest economy in the Union. UK, France and Italy are other largest economies after Germany. Even though UK is the second largest economy, the country takes the 3<sup>rd</sup> rank after France in budget financing by contributing slightly more than Italy. Regardless of UK correction account, liability of UK for EU budget is 18.5 billion Euros originated from VAT based resources as 3.3 billion Euros and GNI based resources as approximately 15.2 billion Euros. In 2016, UK takes the first place among members in VAT based resources and takes the second place after Germany in GNI based resources if UK correction is not included (European Commission, 2017:34).

Amount of total budget expenditures transferred to Spain was about 11.6 billion Euros that is the highest amount in expenditure ranking among members in 2016. Expenditures conducted to France and Germany is 11.6 and 11.3 billion Euros respectively. Expenses directed to Germany, the highest contributor of the EU budget is 10 billion Euros which is the 5<sup>th</sup> most transferred amount after Poland. UK is at 8<sup>th</sup> place after Romania and Belgium with amount of 7 billion Euros. In the framework of competitiveness heading, UK obtained 1.9 billion Euros which is the 3<sup>rd</sup> highest value in related heading after France and Germany. In cohesion heading, that consists economic, social and regional orientation Poland received 5.5 billion Euros as the highest amount paid to a member in this heading. Other most supported members are Italy, Romania and Spain. UK is at 12<sup>th</sup> place in expenditure amount ranking after Germany and Belgium with 1.1 billion Euros support amount in cohesion heading. In natural resources heading that EU agriculture policy expenses are included, the highest support was transferred to France with about 7.3 billion Euros. Other members rank after France are Germany (6.3 billion Euros), Spain (6.2 billion Euros) and Italy (5.1 billion Euros). Rank of UK is 6 in this heading after Poland with 3.9 billion Euros of expenses. Greece is the most supported country in security and citizenship expenditures with 362 million Euros. 51 million Euros were allocated to Croatia this year for global Europe purpose (European Commission, 2017).

Germany which is the largest economy of the EU contributed 23.7 billion Euros to the budget in 2017 and corresponded 20.5% of total own resources alone. In other words, Germany transferred 0.80% of its GNP to the EU budget. France is the 2<sup>nd</sup> and Italy is the 3<sup>rd</sup> highest contributors with about 18 billion and 13.9 billion Euros respectively. UK financed 11.9% of own resources in 2017 and ranked in the 3<sup>rd</sup> place after Italy in terms of own resource financing. Total GNP of Germany was 3.3 trillion Euros in 2017 while it was 2.2 trillion Euros for UK which was the 3<sup>rd</sup> largest country after France. France funded 15.5% of EU budget and Italy funded 12% of the budget. Shares of these transfers in GNP of France and Italy are 0.77% and 0.80% respectively. Croatia transferred 970 billion Euros to the EU budget in 2017. Share of this amount in total EU own resources is 0.8% while it is 9.28% of Croatia economy. Therefore it may be interpreted that EU budget was a burden for Croatia that is worthy of notice (European Commission, 2018:31). It is observed that contribution of UK decreased to 13.7 billion approximately in 2017 while it was about 16 billion Euros in 2016.

Expenditure heading which was the highest resource allocated in 2017 EU budget is natural resources. 56.7 billion Euros were used for natural resources heading in 2017 which agriculture, rural development, fishing, environment and climate policies are monitored. Amount of expenses for rural development are 11.1 billion Euros while it is about 44.7 billion Euros for direct payments, EAGF and market related expenditures. France (9 billion), Germany (6 billion) and Spain (5.9 billion) are the most supported members considering related heading. UK obtained 3.7 billion Euros and it is at the 6<sup>th</sup> rank after Italy and Poland in amount ranking. Malta received 13.8 million Euros from the EU budget in natural resources heading. Shares of related budget expenditures in GNI values of members are calculated to illustrate importance of supports provided by EU in economies of member countries. 0.020 is the highest rate which illustrates the rate of GNI value which belongs to Belgium (European Commission, 2018:36-44).

Two third of difference between UK contributions to the EU budget and supports received by the UK from the EU budget was financed by compensating 5 billion Euros to UK in 2018. 0.90% of total GNI of the EU members were transferred to the EU budget via own resources. Contribution of Germany is 29.2 billion Euros. Therefore about 20% of own resources obtained from members financed by Germany. Italy is in the second place contributing 22.2 billion Euros and France is in the 3<sup>rd</sup> place contributing 17 billion Euros. UK transferred 16.4 billion Euros to the budget and UK is the 4<sup>th</sup> highest contributor as an EU member. For Germany which transferred almost 30 billion Euros to the EU budget, this contribution amount is 0.85% of Germany's GNP value (European Commission, 2019:39).

Competitiveness and cohesion headings are the most resource allocated headings in 2018 and 72% of total expenditures are related to these headings. Germany (2.6 billion Euros), France (2.5 billion Euros) and Belgium (1.8 billion Euros) are the most supported countries in competitiveness heading according to distribution of expenditures to the members. UK which is at the 4<sup>th</sup> place after Belgium received amount of 1.6 billion Euros from the EU budget. When distributions of expenditures among members in cohesion heading are reviewed, Poland (11.5 billion Euros), Hungary (4.4 billion Euros) and Spain (4.2 billion Euros) are the most supported countries. UK received approximately 1 billion Euros in cohesion heading, making the country the most 12<sup>th</sup> supported member. The least supported member is Denmark in cohesion heading with 68.4 million Euros amount of support. Poland is the most supported member of 2018 with 16.3 billion Euros. France (14.8 billion Euros), Spain (12.2 billion Euros) and Germany (12 billion Euros) are other most supported countries after Poland respectively. 6.6 billion Euros of expenditure is allocated from the EU budget for UK and it is the 7<sup>th</sup> most supported country.

#### 4. Conclusions and General Assessment

After UK left the EU as a result of 2016 referendum, intense discussions in academic and political environment have started about possible conclusions in terms of EU and UK. These discussions have been sustaining in the context of short term and long term effects. UK's withdrawal from the EU membership will diminish budget revenues of the EU in short term. Two different scenarios may occur regarding EU budget principle that makes impossible to create budget deficit using debt or other instruments. First, decreased budget revenues may be financed by EU leader countries specifically Germany, France, Spain and Italy. In other words, considering expenditure raise pressures in the EU budget due to increased number of member countries in time and regarding economic differences among member countries may cause initiatives to fill the gap created by UK. It is certain that those initiatives will cause some problems in economies of financier countries in this case. And second scenario is decreasing budget expenditures as much as the amount of diminishes in budget revenues. In this case, expenditures regarding common agricultural policy and regional differences which are the largest expenditure accounts will be reduced as a consequence.

And also financial supports obtained by members through these two expenditure accounts will decline. Reducing the expenditures transferred to countries where regional development difference is high and below the average level of the EU will cause disappointment possibilities increase in these countries. Besides, it is possible to see negative effects on GDP levels of member countries and also on the other economic indicators related to GDP such as GDP per capita levels, share of the EU in global economy, etc. In the long term, losing an important member may cause to reduce efficiency of the union in international commodity and service markets. There is a possibility for the integration which UK is not included to narrow trade with the countries due to intense relations of UK with British Commonwealth countries. Additionally, trend of developments about UK-EU trade is directly related to trade and cooperation agreement came into force between UK and the EU. According to most favored nation rule which is an obligation to apply for WTO members, any privilege given by the EU to UK in the framework of relevant agreement may create expectations about providing same privileges to other countries that are WTO members and not members of the EU.

One of the most important economic arguments advocated by Brexit supporters is that EU is a significant burden for UK in terms of budget liabilities and alternative costs of expenses for the EU budget are enormous. In this regard, some academic papers focus on the assessment of EU-UK relations in budgetary perspective. Studies prepared by both EU Commission and UK Treasury present different and controversial conclusions (Whyman & Petrescu, 2017).

In this paper, information and data illustrated in reports prepared by the EU about budget related issues is reviewed. Data related given in related budget reports may be summarized as follows:

- UK had been one of the most important financiers of the EU budget since its accession in 1973 with Germany, France and Italy.
- Relations of UK with the EU in the framework of budgetary concerns had been an important agenda and discussion issue since 1974.
- Increase of difference between UK contributions to the EU budget and supports UK received from the EU budget is noticeable especially after 1979.
- Germany, Italy and France are also disadvantaged members in terms of contribution and support difference but a correction account was imposed only for UK and compensated by all other members.
- Although Fontainebleau Agreement which is the legal source of UK correction account guarantees to dissipate victimization of all members exposed to contribution-support imbalances, initiations were launched only for UK regarding related agreement.
- UK's contribution to the EU budget increased 52% in 2015 compared to 2014, in other words, before the referendum. And also positive difference between contribution and support reached the highest amount in 2015 with 13.9 billion Euros compared to other years covering 1999-2018.
- UK contributed about 266 billion Euros to the EU budget while the country received about 138 billion Euros from the EU budget for 20 years between 1999 which Euro was imposed as mutual currency and 2018 years. Difference between amounts is 128 billion Euros approximately. This amount means almost 6.4 billion Euros of resource transferred to the EU budget in a year.
- Budget revenue mechanism of the EU is the main reason why UK is one of the dominant financiers of the budget with Germany, France and Italy. Members that have larger GNP values and VAT revenues automatically provide more resource comparatively.

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