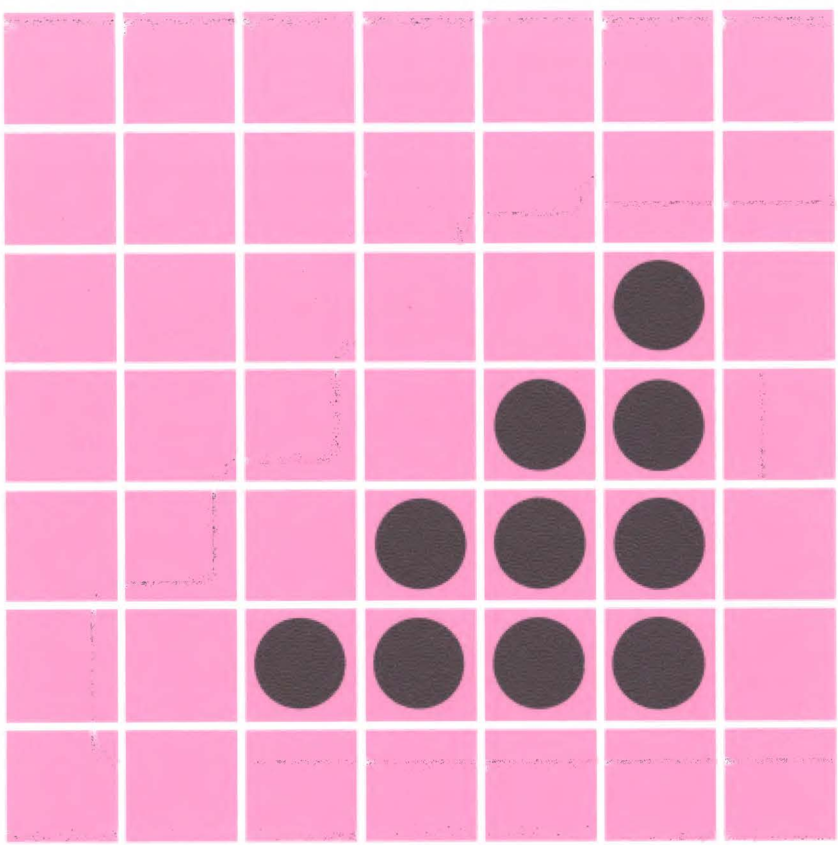
Periodical 5/1981

THE EUROPEAN COMMUNITY'S BUDGET



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The European Community's Budget

Third edition

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NOTE: Sums of money have generally been expressed in units of account (u.a.), the value and composition of which have changed many times over the years. The specific term used in particular sections of the text depends on the relevant Regulation. The gradual change-over from the old budgetary unit of account to the standard ECU is described on pages 28-29.

A. Perspectives and problems

The European Community's budget and financial management are increasingly in the public eye. This is hardly surprising, since substantial billions are currently being transferred across frontiers, and redistributed under the Community umbrella.

For many citizens and for politicians too, this is still seen as a grey area in public finance. It forms an extra tier on top of the local, regional and national levels in public finance which have gradually evolved in the Member States. In addition, at this new, supranational level a special form of financial adjustment is operating, involving an ever-growing volume of funds. This is customary procedure in federal States. Most countries in the Community, however, are centrally-constituted States where such practice is unknown. This means that the Community's financial system seems strange and unfamiliar to its citizens, not only in concept, but also in its day-to-day operation.

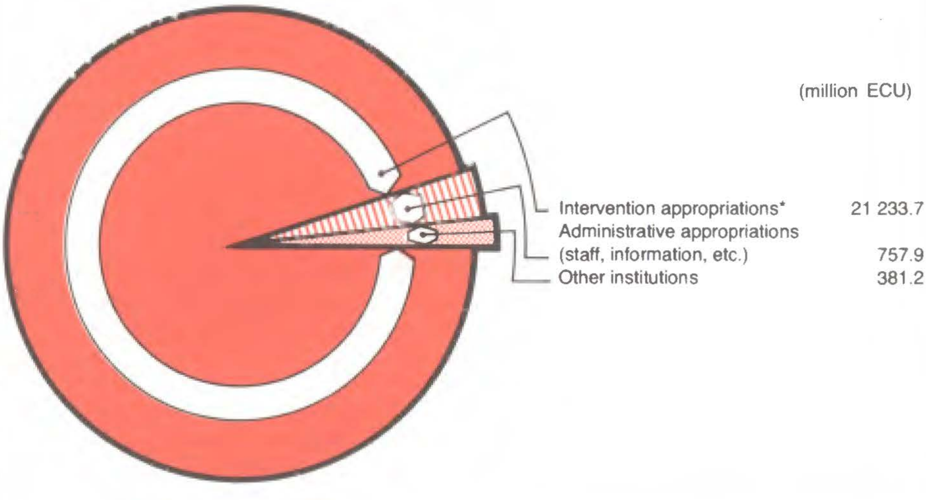
Smaller than you think

The Community budget for 1981 (the first year with ten Member States including Greece) is worth some 19 300 million ECU—around 10 700 million pounds sterling, or 13 400 million Irish pounds[1]—as against 16 200 million ECU in 1980 (for nine Member States). This is the figure for payment appropriations, which must not exceed estimates of revenue for the same year. The volume of commitment appropriations is even higher—21 100 million ECU. The difference of 1 800 million ECU represents possible additional commitments which may be drawn upon during the year but which are normally not used until subsequent financial years.

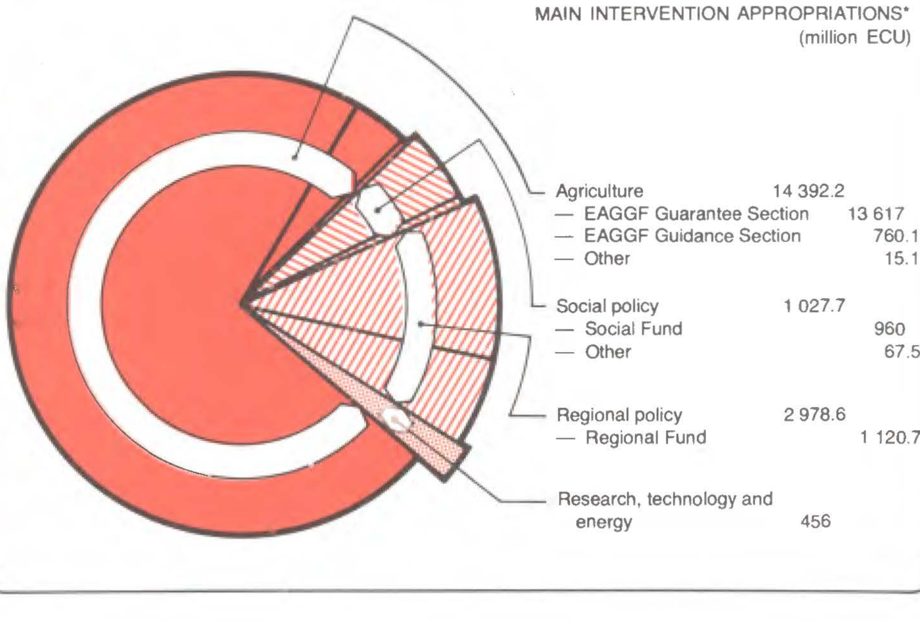
These amounts may sound huge, but they turn out to be fairly modest when put into perspective. In 1980 and 1981 the Community budget represented barely 0.8 to 0.9% of the Member States' aggregate gross domestic product. By contrast, Member States' national budget (made up of central and local government expenditure) account for a share of their respective GNP which varies from 32% in France and 33% in Germany, to 42% in the United Kingdom and Italy, and 56% in Denmark. The Community budget is equivalent to no more than 2.5% of these national budgets.

[1] Converted at the rate current on 15 July 1981.

1982 DRAFT BUDGET OF THE EUROPEAN COMMUNITIES



MAIN INTERVENTION APPROPRIATIONS*



In 1980, government expenditure per head of population in the nine Member Sates was as follow (in ECU):

Belgium	2 985	Italy	1 550
Denmark	5 215	Luxembourg	3 740
FR of Germany	3 185	Netherlands	2 630
France	2 190	United Kingdom	1 990
Ireland	1 630	(EC 9	62)

A new budget level

The fact that there is now a new level of public finance tends to mislead the general public into thinking that this entails an additional burden on the Community's Member States and their citizens. A lack of grasp and impartial information on what is admittedly a highly complex subject gives free rein to misunderstanding and misinterpretation. Fair and constructive criticism of public financial management, essential in a democracy, slides all too easily into sweeping condemnation.

There is a constant temptation—when all the Member States are in a precarious financial situation—to castigate the Community and its finances as a scapegoat or whipping-boy for rising expenditure, conveniently forgetting that the Community budget is simply a reflection of decisions taken jointly and mechanisms set up by common agreement.

Direct elections to the European Parliament and the impending exhaustion of the Community's own resources have helped the financial problems at the new Community level to make the headlines. The few budget experts among MEPs who really grasp the whole situation are faced with the difficult task of trying to educate the overwhelming majority of their colleagues in understanding and insight. This is the only way to insure that Parliament's struggle for more power and influence in the budgetary procedure does not generate results which are misunderstood by the general public. This task is made even more difficult by the fact that the European Parliament does not show the same split between government and opposition as exists in national and regional assemblies and which provides essential checks and balances in the preparations and implementation of budgets. Yet by the time the present MEPs stand for election again in mid-1984, they will have to be able to explain to their constituents how the budget works in terms of its implications for the man in the street.

Unique among international organizations

International organizations are usually financed by contributions from their Member States. In most cases their financial requirements are for staff and administrative costs only. Should any organization be entrusted with an operational function, the cost will normally be borne only by those Member States which took the corresponding decision (*à la carte* system). There is hardly any question of transfers of funds, let alone of fiscal adjustment. This is the system followed in all the 200-odd existing international organizations, many of which include several Community countries, and often the Community itself as Members. Practical examples are provided by the UNO and its specialized agencies, OECD, EFTA, the East bloc organization Comecon (Council for Mutual Economic Assistance — CMEA), NATO and the Warsaw Pact.

Financing the European Community is quite a different matter. In the light of its objectives, Member States transfer to it certain of their functions and activities, which are then pursued and financed in common. The funds needed are made over to the Community, reshuffled, and returned to the Member States. This is the procedure for operational expenditure, which is allocated in accordance with common decisions.

So far, however, this method has been used only for agriculture and, to a limited extent, for regional and social measures and for cooperation in development (Lomé Conventions and food aid). The Community is still far removed from a scenario in which Member States transfer real responsibility to it for financial management, e.g. for economic or monetary policy, together with control over related revenue and expenditure.

In international inter-governmental organizations staff and administrative expenditure account for between 95 and 100% of contributed funds. In the Community budget for 1981, around 1 000 million ECU out of 19 300 million—or 5.23%—have been entered to cover staff and administrative expenditure of all Community bodies.

That gives some idea of the difference, as does the fact that in 1981 the governments of the Community Member States will pay the equivalent of around 10 000 million ECU in contributions to these 200-odd international organizations, with nothing in money to show in return. By contrast, they will hand over 19 300 million ECU to the Community budget, 18 300 million ECU of which will be returned to them below the line—albeit redistributed—reducing their national budgets by the same amount.

There is a slight flaw in the picture, in that two-thirds of the budget—almost 13 000 million ECU out of 18 300 million ECU—is spent on agricultural market support. This, however, may be regarded as entirely normal and logical at the present stage of integration.

Towards federal financing

The Community is still far short of constituting a federation. At the supranational level at which the Member States have pitched their Community, however, common financing must nevertheless observe some of the ground rules and limitations inherent to a federation if it is to be successful and effective in promoting integration. As is the case in a federation, Community financing means a transfer of resources from a national to a common supranational level, the aim being to finance operations and activities geared to the integration of peoples and countries in the Community. This can only be accomplished, or accomplished more effectively than would be the case if left to the individual countries, if resources are pooled. This principle was behind the decisions taken between 1962 and 1970 to set up the common agricultural policy and fund it jointly. All subsequent attempts to establish even remotely similar common policies in other fields, such as energy, transport, development aid or regional policy, involving a transfer of jurisdiction to the Community institutions and a grouping of the required funds, have so far been doomed to failure. What the Community budget is able to achieve through the Regional and Social Funds and structural and industrial assistance measures is little more than a series of stop-gaps, rather than the product of a common policy as normally understood in the context of economic integration. As long as this does not change, it will regrettably be 'normal' for around two-thirds of the budget to be swallowed up by the common agricultural policy. This proportion can be reduced significantly only if other common policies worthy of the name are adopted and financed through the Community budget.

The funds managed by the Community should not, theoretically, increase Member States' normal expenditure and impose an extra burden on taxpayers; they are designed to replace part of that expenditure. If, on the other hand, everyone insists on getting back exactly what he has paid in (a fair return, the so-called 'juste retour'), the whole exercise becomes pointless. The prime objective of transferring responsibilities to the Community level—in other words entrusting activities and expenditure to collective decision-making and collective financing—is to benefit from the impact and cost-effectiveness of united action. At the same time, collective financing implies that the less prosperous and less advanced countries receive the resources which enable them to catch up and participate in the Community on an equal footing. This means that the better-off partners will have to pay more. While obtaining a smaller return from the Community in the short term, however, these countries should bear in mind that their apparent sacrifice is really an investment in the future, since their initially weaker partners—assuming the flow of funds is maintained—eventually will attain a market potential equal to theirs.

Net beneficiaries and net contributors

The distinction arising between net beneficiaries and net contributors in settling the financial contributions from the Member States and the funds returned to them also is part of the game. This concept may be of some interest to mathematicians, but, except where an 'unacceptable situation' has arisen in one Member State, it is an inappropriate and over-simplistic measure of the progress of European integration. This is particularly true when the Community contributes, by interventions and investments, to generate comparable market conditions in those areas where this could not be done by the areas' own resources.

But it is a different story where the financing of the common agricultural policy is concerned. Here the system devised to redistribute resources and promote integration has drifted off course. Quite frequently, the healthier parts in European agriculture—farms, regions, Member States—have obtained Community funds which actually should have gone to areas where there is a need for improving agricultural structures and means of production. Given the cumbersome decision-making procedures and the conflicting interests involved, this can only be corrected by a reform of the agricultural policy, and by bringing it into line with general economic policy, taking into account the squeeze on all budgets, including the Community's.

Another problem stems from the fact that agriculture—which in terms of gross revenue accounts for 2.4% in the United Kingdom, and for 17.7% in Ireland—contributes, on average, a relatively modest 4 to 5% to the Community's gross revenue, whereas, as indicated before, it eats up two-thirds of the Community's resources.

Historical parallels

Disputes constantly rage in the Community between its Member States, or between the institutions (Parliament, Council and Commission) involved in the decision-making process, and sometimes also between the two sides, as to their respective roles in distributing and redistributing funds and shares of the Community cake. This is by no means so unusual as it is often made out to be, and the situation certainly does not deserve the fuss made of it in the press. Not only are disputes of this kind the order of the day in federal or newly-federated systems; they are also a perfectly normal occurrence in fully-constituted federations. This is something which all States founding a federation or confederation have experienced from the start, and had to learn to live with. The United States, Switzerland, the Federal Republic of Germany, Canada and Austrialia are all good examples.

(Set up by the Commission to study the role of public finance in European integration, a group of independent experts under the chairmanship of Sir Donald MacDougall made a detailed analysis of the five federations listed above, together with three contrasting examples of centrally-managed Community States (France, Italy and the United Kingdom). The MacDougall report is an impressive contribution to understanding this subject. It was published in two volumes by the Commission in April 1977.)

In the United States, it took the central government and Congress—formed by the Confederation of 1781—more than eighty years (until after the Civil War) before they instituted own resources other than customs duties receipts. Even today, 'revenue sharing' between the Federation and the individual states remains a source of constant frictions in American domestic policy. In Switzerland, the federal element is very much in evidence, since the cantons are jealously defending their sovereignty in tax matters. Fiscal adjustment between the different levels of government also is frequently, and hotly, debated in Switzerland.

The federal German State, which emerged as a customs federation in 1867 from the German customs union formed in 1834, and became a political entity with the founding of the German Empire in 1871, did not become a fully-fledged customs union until

1888. Until 1913, and in some respects even until Erzberger's finance reform in 1919-20, it remained dependent on matricular contributions from its member states ('the hanger-on of the constituent states', as Bismarck called it). Nowadays the tug-of-war between the federal and state governments over their shares of turnover tax (now VAT) is a regular subject of controversy. This is heightened by the fact that the German VAT share paid over to the Community, which in 1980 rose to 6.5% of total VAT receipts, comes entirely from the federal coffers, leaving the states' shares (32.5% at present) untouched.

B. The Community's own resources

The European Community has been quicker off the mark than its historical predecessors in claiming from its Member States, in addition to revenue from customs and similar duties, a slice—albeit a tiny one as yet—of the tax cake.

The Community's own resources are therefore constituted as follows[1]:

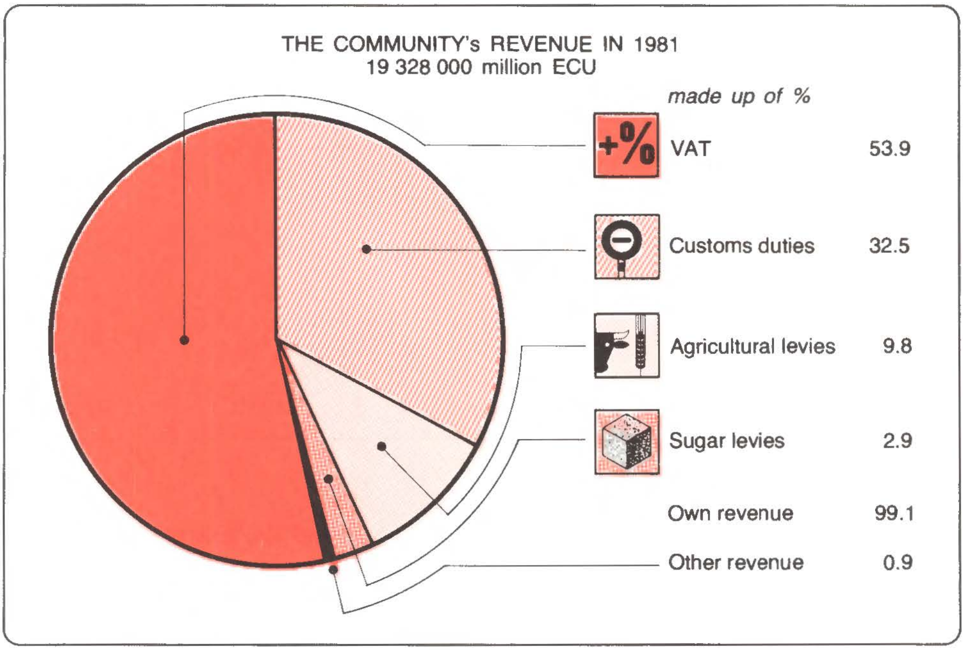
	1980	1981
Size of budget (in million ECU)	16 037	19 328
of which: (%)		
customs duties	37.0	32.5
agricultural levies	9.3	9.8
sugar levies	3.1	2.9
value-added tax	44.7	53.9
Total own resources	94.1	99.1
Other revenue	5.9	0.9
	100.0	100.0

The transfer of customs revenue to the Community was a logical corollary to the Treaty's objective of creating a customs union between the Member States after a transitional period. A customs union is characterized by a common external customs tariff coupled with the abolition of internal customs duties. This distinguishes it from a free-trade area in which there is freedom from internal customs duties but no single external tariff. In a customs union the country into which goods are imported from a non-member country is not necessarily the country of destination. The customs union promotes the geographical transfer of import flows, especially through the nearest point of entry (port, airport, frontier post or quickest overland route). Customs revenue therefore is frequently being collected in a country other than the country of destination or consumption. The only way round this problem is to hand over this revenue to the union—in this case the Community.

[1] Figures from the general budget for 1981 established on 23.12.1980.

The EEC Treaty signed in 1957 therefore provided (under Article 201) for financial contributions from the Member States (proportional contributions paid in accordance with an agreed scale based on shares of gross national product, or other criteria) to be replaced by revenue accruing from the Common Customs Tariff once it was introduced. This Common Customs Tariff (CCT) was introduced on 1 July 1968.

When the decision setting up the common agricultural policy was taken in 1962, it was agreed that proceeds from agricultural levies (similar to customs duties) also should be transferred to the Community budget, and used for joint expenditure. Agricultural levies are charged on agricultural products imported from non-member countries, which are subject to common market organizations. They are chiefly designed to offset the difference between the—usually higher—Community price and the price at which the products are supplied, i.e. the world price.



The Decision of 21 April 1970

In pursuance of Article 201 of the EEC Treaty (and, by analogy, Article 173 of the Euratom Treaty) and after long and difficult negotiations, the six Community governments of the day on 21 April 1970 adopted the Decision on the replacement of financial contributions from Member States by the Communities' own resources.

As this Decision affected Member States' national budgets and finances, it had to be ratified by the national parliaments in accordance with their respective constitutional requirements. This implies that any alteration or extension of the Decision would be subject to the same difficult and protracted process of ratification.

The Decision of 21 April 1970 was in line with the resolutions laid down by the six Heads of State or Government at the Summit Conference in The Hague on 1 and 2 December 1969. The conference also gave the first green light for negotiations on the enlargement of the Community to be opened with the United Kingdom, Denmark, Ireland and Norway (the latter also an applicant at that stage). On the same occasion a route was mapped out for achieving, in the common interest, the triple objective of 'completion, consolidation and enlargement'. 'Completion' did not simply mean the end of the transitional period since the inception of the Treaties (1.1.1958), but included the establishment of a definitive arrangement for the common agricultural policy (financial solidarity).

Although more than a decade has passed since then, it is worth recalling what the six Heads of State or Government wrote in their final communiqué of The Hague Conference:

> 'They agree to replace gradually, within the framework of this financial arrangement, the contributions of member countries by the Community's own resources, taking into account all the interests concerned, with the object of achieving in due course the integral financing of the Communities' budgets in accordance with the procedure provided for in Article 201 of the Treaty establishing the EEC and of strengthening the budgetary powers of the European Parliament.
>
> The problem of direct elections will continue to be studied by the Council of Ministers.
>
> They have asked the Governments to continue without delay, within the Council, the efforts already made to ensure a better control of the market by a policy of agricultural production making it possible to limit the burden on the budgets'.

Negotiations on enlargement began on 30 June 1970, after most of the decisions announced in The Hague had been taken or set in train. This included the own resources Decision, which was taken on 7 February 1970, and signed on 21 April.

Agricultural levies and customs duties

That Decision triggered off a gradual transfer of receipts. Revenue from agricultural levies including the sugar levy was transferred to the Community from 1 January 1971. (The sugar levy consists of a levy charged on the production and storage of sugar and (since 1977) isoglucose in order to cover expenditure for market support. Expenditure on the sugar market is estimated at 740 million ECU in the 1981 budget, which puts revenue from the sugar levy at 571 million ECU. The sugar levy is—to some extent at least—a prefiguration of the co-responsibility levy for other products; at any rate it provides an interesting example in containing outside financing, at least for products in surplus.)

It was agreed that revenue from the Common Tariff would be transferred to the Community progressively, starting by 50% on 1 January 1971, and culminating in the complete transfer of customs revenue to the Community budget from 1 January 1975 onwards. An exception was made for import duties on coal and steel products (see below).

Agricultural levies—including the supplementary and compensatory amounts, and other levies and premiums charged on the movement of goods under the organizations of agricultural markets—together with customs are the natural resources of the Community, since it is based on a single market with a common external frontier. They are, however, quite insufficient in themselves for supplying the Community with all the funds it requires for all the tasks entrusted to it.

Moreover, revenue from customs duties and agricultural levies is liable to fluctuation, and its rate of growth falls far behind the Community's increasing financial needs.

The volume of customs duties dwindles as those duties are progressively being dismantled in trade with non-member countries. The Kennedy Round of the General Agreement on Tariffs and Trade (GATT) resulted in the Community reducing customs tariffs *vis-à-vis* the outside world by an average of 30% from 1967. The Tokyo Round will mean further tariff reductions of 33% on average between 1980 and 1987. Under the Generalized Tariff Preference Scheme (GSP) for developing countries many customs duties have either been abolished, or sharply reduced. The same process results from the Community's multilateral agreements (Lomé I and II), and bilateral preferential agreements (Mediterranean countries). Growing imports and rising prices barely compensate for the worldwide reduction in customs duties. The alternative, however, would be a return to a policy of high tariffs and protectionism which the Community cannot afford as an industrial region dependent on exports (representing 25% of its gross domestic product, as against 11% in Japan, and 9% in the United States).

Agricultural levies reflect the difference between the Community price fixed for a given product, and the price asked on the world market, so that import prices are brought up to the Community level. Agricultural prices, however, are not fixed at a higher level in the Community in order to obtain more revenue from the levies. The latter merely have a positive, or negative effect on the Community's budget revenue, according to the price levels on world markets.

The yield from agricultural levies depends entirely on trends in prices, trade, and exchange rates. It does not follow a regular course either in relative, or absolute terms, and is therefore difficult to predict.

Claim to a share of value-added tax

Consequently, the Community decided to create an additional source of finance by claiming a share of value-added tax from the Member States. This was agreed in 1970, on the grounds that this tax—particularly after VAT systems had been harmonized under the

Sixth Directive of 17 May 1977—is paid by all Community citizens and, being charged at the consumption stage, closely reflects Member States' economic capacities. The uniform basis of assessment used to calculate the share of Member States' VAT revenue to be handed over to the Community is defined as being 'the sum of all taxable supplies of goods and services to the final consumer in the Community'. It does not, therefore, depend on the rate of VAT charged, which still varies widely between the Member States. Harmonization of these rates remains an objective in the integration process, but will clearly take a long time. Harmonization is not essential for calculating the contribution to the Community budget.

The 1% rate

The Member States have agreed to assign to the Community's own resources a rate not exceeding 1% of a uniform basis of assessment of value-added tax. This is a ceiling which can only be exceeded if the Member States agree to amend the Decision of April 1970, and if the amendement is ratified by the national parliaments.

In the 1979 budget the Community's VAT assessment rate was 0.78% (of a possible 1%). In the 1980 budget it ended up (after supplementary budget No 2) at 0.73%. In the 1981 budget it was originally set at 0.89%, but the amended draft of the 1981 budget reduced the rate to 0.88%. The need for funds shown in the Commission's preliminary draft budget for 1982 implies a VAT rate of 0.95%. This is because expenditure is scheduled to rise by 16% in 1982 (agricultural market expenditure by 14%, and other categories of expenditure by 20%), while customs revenue is estimated to grow only by 10.6%, and the yield from agricultural levies is to fall sightly (–0.2%). The remaining gap must be filled by a correspondingly larger slice from the 1% share of VAT (0.95%, or 12 400 million ECU, from a 1% yield of 13 000 million ECU). This leaves room for manœuvre of only 620 million ECU during the budgetary procedure for 1982. This shows how narrow the margin between expenditure and revenue has become.

Preliminary draft general budget, 1982

Financing of the budget

Expenditure to be financed pursuant to the Decision of 21 April 1970	22 207 042 357
Customs duties, agricultural levies and sugar and isoglucose levies (see below)	9 624 100 000
Amount remaining to be financed	12 582 942 357

Financial contributions based on GNP

Member State not applying the VAT assessment base on 1 January 1982	GNP scale	Financial contribution to be paid
Greece	1.6196%	203 793 334
Total	1.6196%	203 793 334

Amount remaining to be financed by own resources accruing from VAT:
12 582 942 357 ECU — 203 793 334 ECU = 12 379 149 023 ECU

Payments in respect of own resources accruing from VAT

Member State	1 % of VAT assessment base	VAT rate in respect of own resources	VAT own resources to be paid
Belgium	510 000 000		485 867 785
Denmark	265 000 000		252 460 712
FR of Germany	3 610 000 000		3 439 181 774
France	3 150 000 000		3 000 948 086
Ireland	100 000 000	0.9527 [1]	95 268 193
Italy	1 725 000 000		1 643 376 333
Luxembourg	24 000 000		22 864 366
Netherlands	710 000 000		676 404 172
United Kingdom	2 900 000 000		2 762 777 602
Total	12 994 000 000		12 379 149 023

[1] Calculation of rate: $\frac{12\ 379\ 149\ 023}{12\ 994\ 000\ 000} = 0.952\ 681\ 931\ 892$

Recapitulation of financing of expenditure

Member State	Sugar and isoglucose levies	Agricultural levies	Common Customs Tariff duties	Financial contributions	Own resources from VAT	Total
Belgium	56 000 000	190 000 000	415 000 000		485 867 785	1 146 867 785
Denmark	25 000 000	10 000 000	140 000 000		252 460 712	427 460 712
FR of Germany	200 000 000	255 000 000	1 890 000 000		3 439 181 774	5 784 181 774
Greece	17 000 000	70 000 000	110 000 000	203 793 334	—	400 793 334
France	258 000 000	140 000 000	1 150 000 000		3 000 948 086	4 548 948 086
Ireland	11 000 000	4 000 000	90 000 000		95 268 193	200 268 193
Italy	95 000 000	435 000 000	725 000 000		1 643 376 333	2 898 376 333
Luxembourg	—	100 000	4 000 000		22 864 366	26 964 366
Netherlands	57 000 000	245 000 000	615 000 000		676 404 172	1 593 404 172
United Kingdom	67 000 000	550 000 000	1 800 000 000		2 762 777 602	5 179 777 602
Total	786 000 000	1 899 100 000	6 939 000 000	203 793 334	12 379 149 023	22 207 042 357

Comparison of total appropriations for payments in 1981 and 1982 by institution

Institution	Appropriations 1981		Preliminary draft budget for 1982		Increase for 1982 over 1981 (%)
	Amount	%	Amount	%	
European Parliament	199 400 879	1.03	209 229 150	0.94	+ 4.93
Council	113 111 445	0.59	125 924 870	0.56	+ 11.33
Commission	18 946 464 586	98.17	21 991 698 067	98.30	+ 16.07
Court of Justice	25 853 270	0.13	29 612 970	0.13	+ 14.54
Court of Auditors	14 764 815	0.08	16 516 150	0.07	+ 11.86
Total	19 299 594 995	100	22 372 981 207	100	+ 15.92

Future methods considered

This came as no surprise. For some time now it has been realized that the moment is rapidly nearing when the Community's year-by-year increases in expenditure will no longer be covered by corresponding increases in own resources. The MacDougall report (see above) of 1977, and a Commission memorandum to the Council of November 1978 ('Financing the Community budget—The way ahead'published as Supplement 8/78 to the *Bulletin of the EC*) gave early warning of this development, and suggested initial approaches that ought to be discussed in order to formulate plans to deal with future problems.

Calls to raise the 1% VAT ceiling already have come from various quarters. In a resolution passed on 9 April 1981, the European Parliament held that 'raising the ceiling on VAT above the 1% limit remains the most appropriate measure', and that abolition of the ceiling was the 'most advisable solution'. The potential 'net contributors' among the Member States, however, have so far stoutly opposed such a possibility, because their own tight budget situation would inevitably mean raising VAT in these countries. In addition, the feeling, particularly in Bonn and London, is that the necessary savings resulting from a reform of the agricultural policy cannot be fully implemented, if the limited impact of the recourse to the value-added tax is being weakened.

To begin with only the device known as the 'co-responsibility levy' has been selectively applied in Community practice. The principle was anchored as early as 1968 in the shape of the 'sugar levy' when the common organization of the sugar market was established. In 1977 a co-responsibility levy was also introduced for the first time for milk producers, as a 'contribution to restoring balance on the market'.

On 24 June 1981, in its report on the mandate of 30 May 1980, the Commission finally proposed that production targets be set for every agricultural sector at Community level: 'Once these are reached producers would be required to contribute or the intervention guarantee could be reduced'.

First European tax: the ECSC levy

The first real Community tax was introduced when the European Coal and Steel Community, the first of the three Communities, was established by the ECSC Treaty of 18 April 1951. According to Article 49, the High Authority—now the Commission—is empowered to procure the funds it requires to carry out its tasks by imposing a levy on the production of coal and steel. The Commission itself can establish the levy's basis of assessment and rate. The levies are assessed annually on the various products according to their average value. The system developed by the High Authority is similar to the VAT system. The ECSC levy is currently being paid by 433 firms, 403 of them in the steel industry, and 30 in the coal sector. The levy rate was 0.35% in the 1960s, was subsequently reduced to 0.30%, and from 1972 to 1979, to 0.29%. For 1980 and 1981 it was raised again to 0.31%. It yielded 120 million units of account for the ECSC operational budget in 1981.

Mention ought to be made here of two peculiarities which have outlived the 'merger' of the institutions (see below): customs revenue from duties on imports covered by the ECSC Treaty is not available for ECSC purposes, but still accrues to the Member States. Because under the ECSC Treaty the operational budget (162 million ECU in 1981) is governed by different rules and procedures, it is always being treated and presented separately from the general Community budget. Administrative expenditure now largely passes through the Community budget, but specific ECSC expenditures, such as granting aid for the steel and coal industries (for 'restructuring operations', research, interest rebates, coking coal, and coke for iron and steel) are still being financed through the ECSC operating budget.

C. Other sources of finance

ECSC borrowing and lending operations are the additional main financial activities under the ECSC Treaty. Ever since 1954 there have been brisk borrowings and lendings to the benefit of the coal and steel enterprises. By 31 December 1979, the ECSC has raised a total of 6 431 million units of account. In 1980 the coal and steel enterprises had used the facility to a record of 1 004 million units of account, and new loans had to be floated.

Euratom borrowing and lending operations were provided for in the 1957 Treaty establishing Euratom, but they were activated only in 1977. The funds are used to help in financing investment projects for the industrial production of electricity in nuclear plants, and for industrial installations of the fuel cycle, in order to reduce the Community's dependence on imported energy. By the end of 1980 loans for that purpose had totalled 496 million units of account. At the end of 1979 the Council raised the authorized loan volume from 500 to 1 000 million units of account.

In 1975, after the first oil price shock, the Community developed another operational device: the '*Community loan instrument*'. This was to help Member States cope with balance-of-payment problems resulting from higher oil prices. To date, it has been used for one-time operations (in 1975 and 1976) for a total of 1 600 million units of account. For momentary tight spots the discreet standby operations between the central banks come into play within the European Monetary System (EMS). For *short-term monetary support* creditor quotas up to 15 800 million units of account can be mobilized. Medium-term financial assistance is available up to 14 370 million units of account.

In 1978 a *new Community instrument (NCI)* was created to meet immediate specific financial needs required for achieving greater convergence. The purpose of this instrument (also known as the 'Ortoli facility' after its inventor) is to contribute towards financing investments which make for greater convergence and integration in Member States' economic policies. Such projects must be in line with the Community's priority objectives in the field of energy, industry, and infrastructure, and result in regional developments, and in reducing unemployment. A first tranche of loans of 500 million units of account was approved in 1979, followed by another 500 million units of account in July 1980. By 31 December 1981 loans granted under the NCI totalled 474 600 000 units of account.

Two sources of finance outside the Community budget are the *European Investment Bank* (EIB), and the European Development Fund. In size and scope the European Investment Bank is by far the larger of the two. Between its establishment in 1958 and 31 December 1980 it raised some 17 000 million unit of account—mainly from borrowings on the capital market—using them for lending operations, half of which were transacted between 1978 and 1980. In June 1981 the ten Finance Ministers, in their capacity as the Board of Governors of the EIB decided to double the Bank's capital (underwritten by the Member States) from 7 200 million ECU to 14 200 million ECU with effect from 31 December 1981. This means that under the Statutes the Bank can now give loans and guarantees worth up to 86 000 million ECU (250% of the subscribed capital). The main operations here are towards promoting industrial and energy investments by loans to small and medium-sized undertakings, to the Mediterranean countries and the ACP countries in Africa, the Caribbean and the Pacific.

The specific financial instruments for the—now sixty—ACP countries are the *Development Funds.* The resources for these five-year Funds (currently Lomé II—1980-1985) are contributed by the Member States according to a specific key.

Loans and grants from this source totalled:

1st EDF	1958-63	581 million u.a.
2nd EDF	1964-71	800 million u.a.
3rd EDF	1971-75	900 million u.a.
4th EDF	1975-80	3 000 million u.a.
5th EDF	1980-85	4 542 million u.a.

Special financing to be included in the budget. In 1980 all this special financing amounted to approximately 5 500 million u.a. over and above the budget (not counting EMS). Of this 1 400 million came from borrowing and lending instruments, 3 100 million from EIB, and 900 million from the annual tranche of EDF.

In order to command a unified and comprehensive budget the European Parliament and the Commission have for some time been trying to get this special financing incorporated into the general budget, the main concern being the borrowed funds and the funds for the EDF. The Council has not yet been willing to do this. In response to Parliament's demands for closer controls and more transparency it merely decided to keep the House clearly and completely informed 'on the Community's lending and borrowing policy, its indebtedness and the conformity of these transactions'.

Parliament, meanwhile, went a step further. In a resolution of 9 April 1981 it declared that in connection with the Community's priority objectives 'the Community's borrowing and lending operations should rapidly reach an annual volume of 25% of the amount of the Community budget, exclusive of EIB operations'. In figures this would mean that in 1980, beside the 16 200 million EUA in the budget and 3 100 million of EIB financing, an extra 4 100 million EUA would have had to be found, which is virtually three times the 1 400 million that was raised that year.

D. Development of Community financing

Since the ECSC was founded in 1952 and the EEC and EAEC in 1958 budget and financing have considerably expanded. At the present time when a further enlargement of the Community is imminent, available resources must be used to meet the financial needs of all Member States in such a way as to promote integration more effectively, and adjustments to the system and its mechanisms are being considered. Most governments are reluctant to give the Community the means for making genuine progress in this direction, whereas the directly-elected members of the European Parliament are determined to exert more influence over the composition and control of the Community budget and the Community's financial activities. If need be, they will fight for it.

The ECSC Treaty went furthest

The establishment of the ECSC took place against a background of the strong pro-European sentiments prevalent in the early 1950s. Being the oldest of the three Communities, it possesses the most progressive financial system from the point of view of integration, since it has its own resources in the form of tax revenue, and it holds the power to raise loans as well.

EEC and Euratom—identical financial systems with different keys

The financial provisions contained in the Treaties establishing the European Economic Community (EEC) and the European Atomic Energy Community (EAEC or Euratom) are largely similar as regards the principles and procedure for budgetary approval. The only differences in the two systems are in their different functions and methods of operating.

The Euratom Treaty established two budgets—an operating budget and an investment budget. A total of 72.93 million u.a. flowed through the operating budget between 1958 and the merger of the Communities in 1967. The sum of 731.5 million u.a. (known as commitment appropriations) went to long-term research programmes via the research budgets.

Financial contributions and the weighting of votes in the Council were fixed at different levels:

Member State	Operating budget[1]		Investment budget	
	%	votes	%	votes
Belgium	7.9	2	9.9	9
France	28.0	4	30.0	30
FR of Germany	28.0	4	30.0	30
Italy	28.0	4	23.0	23
Luxembourg	0.2	1	0.2	1
Netherlands	7.9	2	6.9	7

[1] As in the EEC Treaty.

Although Article 173 of the Euratom allows Member States' financial contributions to be replaced by the proceeds of levies, as in the ECSC, no use has ever been made of this possibility.

The general authorization to raise loans (contained in Article 172(4) of the EAEC Treaty) has no parallel in the EEC Treaty. It was first used by the Commission at the beginning of 1975 when it made a proposal to the Council to raise 500 million u.a.

EEC—a single budget

The financial provisions of the EEC Treaty envisaged a single budget for all revenue and all administrative and operational expenditure. Only the Development Fund for granting financial aid to Member States' former overseas territories (581 250 million u.a. between 1958 and 1962) was placed outside the budget. This remained the case with the second and third Development Funds set up in 1964 and 1971 respectively for the now independent Associated African States and Madagascar (AASM). The Development Fund for developing nations in Africa, the Caribbean and the Pacific, begun in 1975, also remained outside the scope of the budget, despite the Commission's initial endeavours.

Varying scales (with the same votes in the Council) were fixed in the EEC treaty for the general budget, the Social Fund being included in the budget as a special Title:

Member State	Administrative budget %	Social Fund %	Votes
Belgium	7.9	8.8	2
France	28.0	32.0	4
FR of Germany	28.0	32.0	4
Italy	28.0	20.0	4
Luxembourg	0.2	0.2	1
Netherlands	7.9	7.0	2

Before the merger of the three Communities in 1967, the EEC budget at first grew as a function of the expansion of the administrative machinery and the launching of the Social Fund. The launching of the common agricultural policy in 1964 led to an explosion of expenditure.

The Community's operating expenditure

(in million u.a.)

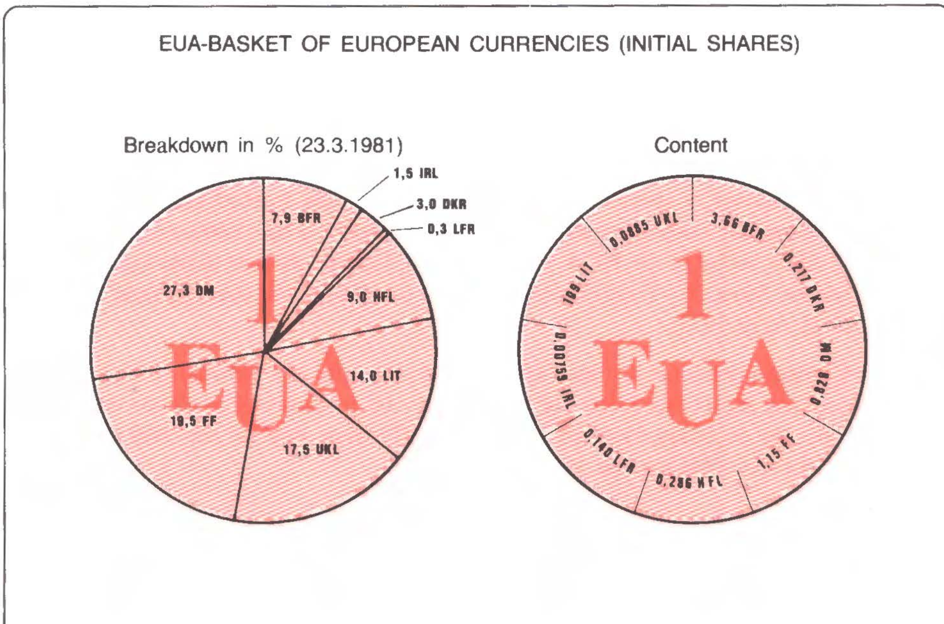
Year	Administrative budget	Social Fund	Agricultural Fund
1958–1964	156.3	110.0	—
1965	34.5	19.6	102.6
1966	42.5	21.6	300.7
1967	46.7	19.8	537.4

The European unit of account

The introduction of the EUA in the 1978 budget has greatly helped to improve the transparency of the Community's financial system. The European Investment Bank, the ECSC and the Statistical Office were already using the EUA, which had been created in 1975 for the purposes of the fourth Development Fund for the ACP countries. The real breakthrough came when the EUA was extended to the budget. This also led the monetary authorities to apply the EUA to the medium-term financial aid mechanism.

The EUA is based on a basket of Community currencies. The individual currencies are weighted according to the Member States' shares of the Community's gross domestic product, of intra-European trade and of the currency aid mechanism.

The basket is made up as follows:



From EUA to ECU

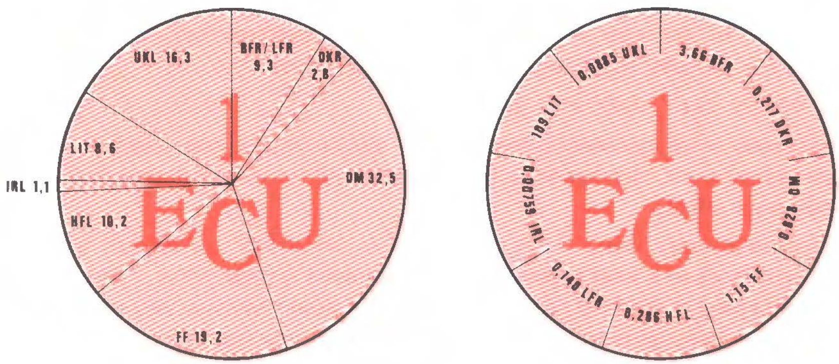
When the European Monetary System (EMS) was set up on 13 March 1979 the EUA was superseded by the ECU. ECU is the abbreviation for European currency unit, but it also recalls a coin that circulated in France in the Middle Ages—the écu. In 1979/80 the ECU replaced the EUA for all legal and financial purposes in the Community, and from 1 January 1981, it has been the unit used in the budget as well.

The value of the EUA is worked out by the Commission each day for the individual currencies on the basis of the market exchange rates at the close of trading. The equivalent of the ECU in each Member State's currency is calculated on the basis of the official rates of these currencies on the market of the country in question. The ECU rates are available each day from the Commission at 16.30 hours by telex (Brussels 237 89, selector code cccc), and published in the *Official Journal of the European Communities* (Series C) of the following day.

The ECU reflects the relationships between the exchange rates of the Member States' currencies (and of the currencies of the other OECD countries whose rates are also published daily in the Commission's quotation list) at any give time. This method is similar to that used to calculate the rate and weighting of the International Monetary Fund's Special Drawing Rights (SDR). The SDR currency basket consists of sixteen currencies of countries which have more than a 1% share of world trade: the dollar is given an excess weight of 33%. The Community currencies accounted for a total of 44.5% between 1 July 1974 and 30 June 1978. Denmark and South Africa were removed from the standard basket and Saudi Arabia and Iran included in the review carried out on the basis of foreign trading results for the period from 1972 to 1976. The shares of some countries were also altered: those of Italy and the United Kingdom fell, while those of Belgium and the Netherlands rose; this brought the Community's total proportional share in the IMF standard basket at 1 July 1978 to 41.5% (that of the USA remaining at 33%). Since from the very outset this weighting did not appear suitable for the Community's purposes, a specific Community weighting was worked out, with a basket containing Community currencies only. There is, however, a link between the ECU and SDR, as the initial value of the EUA (at 28 June 1974) is 'equivalent to the value fixed by the International Monetary Fund on 28 June 1974 for the special drawing right' (Council Decision of 21 April 1975).

When the Community budget is drawn up each year, the rates at 1 February of the previous financial year are used, this being the date when the preparatory work on the budget begins. Thus, the exchange rates on 1 February 1979 were used for the 1980 budget and those on 1 February 1980 for the 1981 budget.

THE ECU IS THE SUN OF THE FOLLOWING AMOUNTS
OF THE CURRENCIES OF THE MEMBERS STATES:



Percentage composition on 23 March 1981

The rates for converting the ECU into national currencies are calculated and published daily

Conversion rates

	Former budget unit of account (until 1977)	European unit of account		ECU (2.2.1981)
		(1.2.1977)	(1.2.1978)	
DM	3.66	2.68845	2.59338	2.59361
FF	5.55419	5.55215	5.82906	5.98667
UKL	0.416667	0.651186	0.629926	0.523058
IRL				0.695394
LIT	625	985.667	1064.46	1231.04
HFL	3.62	2.81381	2.77819	2.81399
BFR/LFR	50	41.3015	40.1924	41.6660
DKR	7.50	6.69738	7.01307	7.98715
DRA	—	—	—	60.9267
USD	1.20635	1.11739	1.22800	1.23259

Financing the common agricultural policy: the stages

Regulation No 25 of 4 April 1962 on the financing of the common agricultural policy (CAP) is the basis of the policy itself. It orginated during the first and, so far, the longest agricultural debate in Brussels, which lasted from mid-December 1961 to 14 January 1962 with minor interruptions (the device of the 'stopped clock' was used enabling decisions taken after the specified date to be deemed to have been taken at the proper time). The debate ended with the approval of the regulations on the first agricultural market organizations.

Here it must be remembered that the problem of balancing interests, which is coming more and more to the fore, is in reality as old as the integration process itself, and played a major role in determining the mode of financing agriculture. France was particularly keen on this first step towards financial solidarity in agriculture ('we are doomed to succeed'), but Germany, with its interest in the industrial market, managed to insure that Regulation No 25 of 1962 on the financing of the common agricultural policy was accompanied by Regulation No 17 of the same year—the first regulation implementing Article 85 of the EEC Treaty, and bringing the competition policy into practice.

Two forms of levy were required at first:

(a) 'internal levies' were intended to level out the still varying national agricultural prices in trade between one Member State and another until the common agricultural prices took complete effect;

(b) 'non-member country levies' were established to raise prices of imports from non-member countries to a level approximating to common market prices. This principle was also accepted in the final regulation: the levies would have an 'educational' effect and ensure preferential treatment for purchases within the common market. (Import levies were later supplemented by a system of export levies imposed when prices in non-member countries are higher than Community prices and the export of agricultural products is undesirable for reasons of security of supplies).

Together with its approval of regulations on the gradual establishment of uniform price levels for agricultural products, the Council of Ministers established the principle of financial solidarity among the Member States. The Commission justified the transfer of own resources to the Community in its draft provisions for implementation on 6 April 1965: 'The place where customs duties and agricultural levies are raised in a customs and agricultural union is, to an ever-diminishing extent, coincident with the place where the goods are consumed. This revenue can scarcely be credited to the Member State raising the duties and levies as the goods are frequently only in transit. The integration of the markets from 1 July 1967 requires that from that time onwards duties and levies should accrue to the Community as own resources. The transition from financial contributions by Member States to the Community's own resources should however take place in stages'.

The Commission proposals, which were already relatively far-reaching as regards the budgetary powers of the European Parliament (calling for the 'democratic control of own resources'), precipitated the 'vacant seat crisis' of 30 June 1965.

After this crisis was resolved, the question of 'a definitive financial arrangement for the common agricultural policy' was first of all dropped. But the Treaty merging the institutions of the three Communities was ratified, and took effect on 1 July 1967.

The merger

The Councils of Ministers and executives of the three Communities became 'common institutions' when the three Communities were merged. The legal bases were partly standardized, as can be seen from Article 20 of the Merger Treaty, which incorporated the administrative expenditure of the three Communities in a common EEC budget in accordance with the relevant provisions of the Treaty.

Definitive financial arrangements

The need to fix the details of the definitive stage of Community finance became more urgent with the approach of the end of the transitional period set for 31 December 1969 by the EEC Treaty and subsequent agricultural regulations. After months of negotiations in the Council in the second half of 1969, the breakthrough came at The Hague Conference of 1 and 2 December of that year (see above, 'Dècision of 21 April 1970').

The Agricultural Fund (EAGGF) grows

A series of figures on financing agriculture reflect the development in expenditures:

The European Agricultural Guidance and Guarantee Fund (EAGGF)

(Expenditure in million u.a.)

Year	Guarantee Section[1]	Guidance Section[2]
1965	77	25.6
1966	225	75
1967	403	134
1968	1 683	153 + 208[3]
1969	2 058	356 + 140
1970	4 087[4]	524 + 69
1971	2 727	757
1972	2 882	839
1973[5]	3 806	350
1974	3 513	325
1975	3 980	325

[1] Guarantee Section: responsible for financing export refunds and interventions to regulate internal markets (storage, etc.).
[2] Guidance Section: responsible for granting Community aid for the financing of projects to improve agricultural structures in the Member States.
[3] Additional expenditure to reduce the effects of grain price alignment in those countries which previously had higher grain prices.
[4] Eighteen-month budget year.
[5] Enlarged Community from 1973.

We obtain a mirror image of this when we consider the impact on national budgets. The very clear financial reports from the German Federal Ministry of Finance show that in the 1965 federal budget agriculture expenditure was DM 1 522 million, or 2.37 % of the total budget of DM 64 162 million. In 1975 it was down to DM 786 million, or 0.5% of a national budget which by now had risen by 144% to DM 156 894 million. In the 1981 German budget the same agricultural expenditure items are allocated DM 578 million, which is 0.25% of a total that has now risen to DM 224 600 million. As the Ministry laconically states on page 62 of its Financial Report for 1981, 'substantial areas of agriculture policy, and especially market organizations, are now regulated and financed by the EEC'.

Since 1975 the funds allocated to the EAGGF have expanded as follows:

(in mio u.a.)

	Aggregate	Guarantee Section
1976	5 805.3	5 587.1
1977	7 126.1	6 830.4 = + 22.25%
1978	8 996.3	8 672.7 = + 31.36%
1979	10 844.1	10 440.7 = + 20.38%
1980	12 042.8	11 507.5 = + 10.22%
1981	12 935.2	12 398.5 = + 7.70%

Agricultural funds do not go solely to farmers

In the general introduction to the preliminary draft budget for 1978 (Volume VII, pages 37 and 38), the Commission explained why the agricultural fund accounts for between two-thirds and three-quarters of budgetary appropriations:

1. This percentage, though always particularly high, has dropped this year; in 1973 when the monetary situation had little impact (responsible for less than 5% of the expenditure of market organizations compared with 25% at present), the overall percentage was about 78%; in subsequent years it has always been between 68 and 75%;

2. It is high due to the fact that the common policy of markets and prices is a Community one and that the financing, which is also at Community level, almost totally replaces various national financing measures;

3. Its reduction since 1973, which is even greater if one excludes that proportion which is of monetary origin, is the result of the extension of Community financing to non-agricultural measures and their consequentially increased share of the budget;

4. Moreover, Guarantee Section expenditure, although ascribed to the agricultural sector, is by no means of benefit solely to agricultural producers in the Community inasmuch as:

(a) a large proportion derives rather from the Community's external policy; such are, to quote only the more obvious cases, the additional expenditure incurred in respect of ACP sugar and the additional expenditure to restore balance in the market in butter pursuant to the protocol agreement on New Zealand butter;

(b) an equally significant proportion benefits Community consumers, with the EAGGF paying the difference between the cost of production and the consumer price. Furthermore, the system of market organizations for the main products protects food prices from world market fluctuations; this factor keeps consumer prices steady to the great benefit of the economy as a whole. Moreover, the system is organized in such a way as to ensure a regular and secure supply to the population, and this cannot be achieved without additional cost;

(c) finally, in this crisis period, the whole economy can but benefit from the fact that, due to EAGGF appropriations, the purchasing power, employment situation and investment capacity of the agricultural sector is not excessively reduced.

Regional Fund grants (by Member State)

Member State	1975—1980		
	Number of investment projects	Investment involved (million EUA)	Assistance approved (million EUA)
Belgium	232	411.68	51.08
Denmark	342	291.37	47.31
FR of Germany	1 318	4 556.17	280.21
France	1 756	5 470.94	626.93
Ireland	558	3 003.50	230.75
Italy	4 506	11 222.57	1 418.76
Luxembourg	6	24.03	3.41
Netherlands	34	479.44	70.50
United Kingdom	2 993	8 448.33	896.25
EC 9	11 745	33 908.03	3 625.20

E. Enlargement

The common agricultural policy and the way it is financed did not play such an important role in the 1971 and 1972 entry negotiations as in the negotiations in 1962 and January 1963. The main reason was the United Kingdom's decision, before negotiations began in 1971, to abandon the deficiency payments system so stubbornly defended in the 1962 negotiations and to adapt its agricultural policy to the Community system.

This obviated the need for tough negotiations like those conducted in 1962 on agricultural finance. All that was required was tideover and special provisions for a number of specific problems.
The three new Member States requested and were granted by the now-famous Article 131 of the Act of Accession, a transitional period before having to make full financial contributions.

All kinds of mathematical equations had to be worked out for this. In view of the political repercussions which such measures were certain to have, compromises often had to be sought, even at European Council level. The nine Heads of Government agreed in Dublin in March 1975 on a corrective mechanism to be put into effect if a country's contributions were to undergo an unwarranted increase.

In December 1977, the European Council settled the last disputes arising from the application and interpretation of Article 131 of the Act of Accession in the 1978 and 1979 budgets.

Transitional periods and 'dynamic brakes'

Between 1971 and 1977, the Member States' financial participation in the own resources system was gradually increased by means of the 'relative share' formula. Their annual contribution could only differ from that of the previous financial year within the limits of a +1% to −1.5% between 1971 and 1974, and by approximately 2% either way between 1975 and 1977. These 'dynamic brakes' were removed in the 1978 financial year. The

Heads of Government agreed in December 1977 that—instead of applying Article 131—financial compensations would, if required, be made in 1978 and 1979 outside the budget framework.

This decision was also appropriate in the light of the transition from GNP-based financial contributions to VAT-based contributions calculated according to objective criteria, i.e. a Community budget financed solely by own resources, and in view of the changeover from the old unit of account (u.a.)—which was tied to gold and the dollar—to the new European unit of account (EUA). It was not until the differences in interpretation of Article 131 of the Act of Accession had been settled that the Heads of Government decided on this line of approach.

Financial mechanisms

Shortly after the accession of the United Kingdom, Ireland and Denmark at the beginning of 1973 it was realized that the objectives and machinery of Community finance, originally tailored to the six founder States, would not give full satisfaction in the enlarged Community. Denmark, whose original agricultural position was such that in the early years of Community membership it was top of the league of net beneficiaries, accepted the situation with grateful but silent thanks. Ireland, on the other hand, emerged as a net beneficiary only after decisions had been taken on special measures for it. As early as 1974, on the other hand, the United Kingdom found it had reason to complain. It regarded the way the own resources system operated as unfair, and demanded a closer relationship between payments and receipt. That was the basis for its call for 're-negotiation', and the European Council in Dublin in March 1975 agreed on a corrective mechanism (the financial mechanism), to apply for an experimental period of seven years beginning in 1976. The mechanism is activated in specified circumstances putting a Member State in a special economic situation.

The mechanism, however, was never adequate, for it never removed or reduced Britain's net debit balance, or even slowed down its growth. The situation grew worse in 1979.

The mandate of 30 May 1980

The problem was raised regularly in the Council and at several European Councils. On 30 May 1980, five weeks after negotiations had broken down at the European Council in Luxembourg on 27-28 April, the Council reached a broad-based compromise. Following its customary style of adopting a package of measures, it set farm prices for 1980/81, adopted the sheepmeat regulations, devised a fisheries policy, and agreed on necessary improvements in the agricultural policy, all against the backdrop of a formula for settling 'the British problem'.

In the Council conclusions of 30 May 1980 on the United Kingdom's contribution to the financing of the Community budget (Official Journal C 158, 27.6.1980) it was agreed that the net British contribution, which for 1980 and 1981 would come to an aggregate 3 924 million EUA, would be reduced by 2 585 million EUA to 1 339 million. All the other Member States would contribute to this relief for the United Kingdom by extra payments, partly by direct payments to the British Treasury under the financial mechanism, specially revised for the purpose, and partly in the form of generous priority payments from the Regional Fund.

The balance for the year 1980 is as follows:

(millions of u.a./ECU)	Net balance before relief for UK	Contribution to UK relief	Net balance after UK relief
Belgium[1]	+ 404	− 65	+ 419
Denmark	+ 422	− 37	+ 385
FR of Germany	− 1 192	− 466	− 1 658
France	+ 15	− 351	+ 366
Ireland	+ 535	− 12	+ 525
Italy	+ 808	− 155	+ 653
Luxembourg[1]	+ 287	− 3	+ 284
Netherlands	+ 425	− 86	+ 339
United Kingdom	− 1 784	+ 1 175	− 609

[1] Figures for Belgium and Luxembourg include the 'headquarters advantage', or benefits resulting from administrative expenditure in places where the Community institutions work.

The Commission was given a mandate on 30 May 1980 to consider, by the end of June 1981, structural changes 'to prevent the recurrence of unacceptable situations for any of the Member States'. If this was not to be achieved in the short term, the Commission was to make proposals for solving the British problem in 1982 along the lines of the 1980-81 solution.

The ensuing debate will not be confined to what has become to be known as 'the British problem'. At the Commission and in the capitals it is assumed that it will be a recurring topic over the next few years, since it must extend to all the problems of supplementary finance that will flow from extension of the current ten-member Community to Portugal and Spain.

Special arrangements for Greece

For Greece, which became a member on 1 January 1981, a special protecting system has been adopted. The basic rule is, of course, that revenue from customs duties, agricultural levies, and value-added tax accrue to the Community immediately. Since it will take time before this new Member State can draw the full benefit of membership, particularly where the agricultural fund is concerned, Greece has a transitional arrangement for five years whereby part of the revenue theoretically accruing to the Community will be refunded to it. (70% of the Community portion of value-added tax in 1981, gradually diminishing to 10% in 1985.)

F. The budget procedure

Under pressure from the European Parliament, the budgetary procedure has been constantly revised in recent years. But in the present 'pre-federalist' stage the procedure still falls far short of normal and accepted practice in a parliamentary democracy. However, the consultation procedure between Parliament and the Council of Ministers, as followed at present, is gradually evolving into a federal 'two-chamber system'. This is clearly essential in view of the following considerations.

A gap in the democratic process at the new budget level

It was pointed out earlier that funds of the order of 0.8 to 0.9% of the Community's gross domestic product are now administered, committed and spent by the Community rather than by national budgetary authorities: this also implies that management of these funds has been and will continue to be withdrawn from national parliaments, with their powers of initiation and control, and transferred to a new level where no equivalent parliamentary control exists. Decisions relating to three-quarters of the budgetary expenditure ('compulsory expenditure' are taken by the Council, acting in the capacity of 'legislator'. Only in respect of the remaining quarter ('non-compulsory expenditure') does the European Parliament have the power to make changes, and even then only to a fairly limited extent.

The complex consultation procedure

The struggle for budgetary powers has not made it any easier for outsiders to understand the procedure for the passage of the budget laid down in the Treaties (in particular Article 203 of the EEC Treaty) and in the supplementary agreements. We shall therefore give a greatly simplified description of the various stages (in practice dates between six and eight weeks earlier than those given at stages 1, 2, and 3 below apply).

1. Before 1 July, each institution draws up an *estimate* of its expenditure in the next financial year (1 January to 31 December). The Commission consolidates these estimates in a 'preliminary draft budget'.
2. By 1 September at the latest, the Commission places the *preliminary* draft budget, containing the collective estimates of revenue and expenditure, before the Council.
3. The Council consults the other institutions concerned whenever it intends to modify the preliminary draft budget. It then establishes the *draft budget,* acting by a qualified majority, and forwards it to Parliament not later than 5 October. (First reading by the Council.)
4. Parliament has the right to amend the draft budget as regards non-compulsory expenditure, acting by a majority of its members, and to propose to the Council, acting by an absolute majority of the votes cast, modifications to compulsory expenditure.
5. If, within 45 days of the draft budget being placed before it (first reading by Parliament), Parliament has given its approval, the budget stands as finally adopted, i.e. voted. If, on the other hand, Parliament proposes modifications, the draft budget—together with the proposed modifications—is returned to the Council, since the Council has the last word on compulsory expenditure.
6. If, within 15 days (second reading by the Council), the Council accepts the amendments and modifications proposed by Parliament, the budget is deemed to be finally adopted. If the Council modifies Parliament's amendments or proposed modifications, the draft budget is again forwarded to Parliament together with a report of the results of the Council's deliberations.
7. Within 15 days (second reading by Parliament) Parliament acts—by a majority of its members and three-fifths of the votes cast—on the modifications to its amendments made by the Council, and adopts the budget. At this stage the 'conciliation procedure' between Council and Parliament, introduced in the Treaty of 22 July 1975 (which entered into force on 1 June 1977), comes into play.
8. When this procedure has been completed, the President of Parliament declares that the budget has been finally adopted. He therefore has 'the last word' at this stage (as the President of the Council of Ministers had earlier). This power has been increased since 1977, in accordance with the Treaty of 22 July 1975: Parliament may now reject the draft budget *in toto* and ask for a new draft to be submitted.

Conflicts on the 1980 and 1981 budgets

Parliament has made use of the two extreme forms of its power. In the year of its first direct election (1979) it rejected the draft budget for 1980 at the final reading. For the first half of 1980 the Community consequently had to work each month with one-twelfth of the total resources entered in the budget for the previous year, as the whole budgetary procedure had to be started from scratch and was only completed on 9 July 1980, following the compromise of 30 May. Then at the end of 1980, there was another confrontation between the Council and Parliament. Parliament's President declared that a supplementary budget for 1980 and the budget for 1981 had been adopted, in the exercise of her right to have the 'last word', whereas a number of governments considered that the budgetary procedure had not yet been properly completed. As a result a number of Member States refused to pay part of their contributions and were taken to the Court of Justice.

Comparison between the general budget of the European Communities, the budgets of the Member States and the Community's gross domestic product

Year	Unit	General budget of the European Communities[1]			Central government budgets of the Member States	Community GDP	General budget as % of	
		Total	of which EAGGF Guarantee	EAGGF Guarantee as % of total			national budgets 2 : 5	Community GDP 2 : 4
	1	2	3	4	5	6	7	8
1973	Mio u.a.	4 641	3 594	77.4	227 700	870 200	2.0	0.53
1974	Mio u.a.	5 037	3 390	67.3	268 300	987 900	1.9	0.51
1975	Mio u.a.	6 214	4 327	69.6	337 500	1 132 600	1.8	0.55
1976	Mio u.a.	7 993	5 710	71.4	387 900	1 315 100	2.1	0.61
1977	Mio u.a.	8 483	6 512	76.8	442 600	1 483 800	1.9	0.57
1977	Mio ECU [2]	8 500			405 400	1 405 000	2.1	0.60
1978	Mio ECU [2]	12 262	8 679	70.8	470 200	1 553 200	2.6	0.79
1979	Mio ECU [2]	14 373	10 387	71.0	527 300	1 742 000	2.7	0.83
1980	Mio ECU [2]	(16 177)	(11 485) [3]	(71.0)	601 900	1 959 600	(2.6)	(0.83)
1981	Mio ECU [2]	19 300	12 135 [6]	62.9	710 000 [4]	2 203 000 [4]	2.7	0.88
1982	Mio ECU [2]	22 373	13 617 [6]	60.9	[5]	2 447 000 [4]		0.91

[1] Total appropriations for payments: 1973-80 = expenditure against appropriations for the financial year as shown in the revenue and expenditure accounts (definition adopted for calculation of own resources).
— 1981: Budget adopted on 23 December 1980,
— 1982: Preliminary draft Budget.

[2] Conversion rates: 1977 to 1980 = average rates for the year. 1980 and 1981: the Community budgets use the rate obtaining on 1 February of the previous year. The other aggregates were converted at the rates obtaining on 1 February 1980.

[3] Including refunds for food aid and ACP sugar.

[4] Estimate.

[5] An estimate cannot be made at present.

[6] Including ACP sugar but excluding food aid refunds.

The tables give only a very incomplete picture of Parliament's margin of manœuvre, which is subject to a series of restrictions. As a result a whole terminology is constantly being used throughout the budgetary procedure. To the layman the various concepts used will be all the more obscure as they do not have the same importance—if indeed they exist at all—in the context of national budgets.

Community expenditure by sector
Total appropriations for commitments

ECU

	1981 budget		Amended 1981 budget		1982 preliminary draft budget		Change %
	1	%	2	%	3	%	col. 3 / col. 2
I — SECTION VI — COMMISSION							
(Operating appropriations)							
A. *Agricultural market guarantees*	[1]		[1]		[1]		
• EAGGF Guarantee (Ch. 10 to 29)	12 587 760 000	59.9	12 135 000 000	58.38	13 617 000 000	56.93	+ 12.21
B. *Fisheries* (Ch. 30 to 36)	87 480 000	0.41	87 480 000	0.42	86 075 000	0.36	− 1.61
C. *Agricultural structures*							
• EAGGF Guidance (Ch. 40 to 43)	642 370 000	3.04	697 370 000	3.36	770 350 000	3.22	+ 10.47
• Specific measures (Ch. 48)	14 644 000	0.07	14 644 000	0.07	16 472 000	0.07	+ 12.48
TOTAL C	657 014 000	3.11	712 014 000	3.43	786 822 000	3.29	+ 10.51
D. *Regional policy*							
• Regional Fund (Ch. 50, 51 and 54)	1 540 640 000	7.29	1 540 640 000	7.41	1 940 750 000	8.11	+ 25.97
• EMS (Ch. 52)	200 000 000	0.95	203 032 262	0.98	200 000 000	0.84	− 1.49
• Suppl. measures (UK) (Ch. 53)	955 000 000	4.52	927 918 000	4.46	1 657 900 000	6.93	+ 78.67
TOTAL D	2 695 640 000	12.76	2 671 590 262	12.85	3 798 650 000	15.88	+ 42.19
E. *Social policy*							
• Social Fund (Ch. 60, 61 and 62)	963 000 000	4.56	963 000 000	4.63	1 350 000 000	5.64	+ 40.19
• Miscell. (Ch. 64, 65, 68 and 69)	53 578 000	0.25	53 578 000	0.26	46 960 600	0.20	− 12.35
• Educ. and culture (Ch. 63 and 67)	11 310 000	0.05	11 310 000	0.05	10 291 000	0.04	− 9.01
• Environment and consumers (Ch. 66)	4 320 000	0.02	4 320 000	0.02	10 928 000	0.05	+ 152.90
TOTAL E	1 032 208 000	4.89	1 032 208 000	4.97	1 418 179 600	5.93	+ 37.39
F. *Research, energy, industry, transport*							
• Energy policy (Ch. 70 and 71)	108 700 000	0.51	108 700 000	0.52	90 640 000	0.38	− 16.61
• Research and invest. (Ch. 72 and 73)	278 836 000	1.32	283 636 000	1.36	437 253 000	1.83	+ 54.16
• Information and innovation (Ch. 75)	3 805 000	0.02	5 705 000	0.03	14 200 000	0.06	+ 148.90
• Ind. and internal market (Ch. 77)	13 860 000	0.07	13 860 000	0.07	73 314 000	0.31	+ 428.96
• Transport (Ch. 78)	925 000	—	925 000	0.00	1 700 000	0.01	+ 23.78
TOTAL F	406 126 000	1.92	412 826 000	1.99	617 107 000	2.58	+ 49.48

G. *Repayments and reserves*							
• Repayments to the Member States (Ch. 80)	874 711 000	4.14	876 501 000	4.22	962 410 000	4.02	+ 9.80
• Other repayments (Ch. 82 and 86)	169 470 011	0.80	170 700 274	0.82	175 123 667	0.73	+ 2.59
• Financial mechanism (Ch. 81)	469 000 000	2.22	469 000 000	2.26	token entry	—	– 100.—
• Miscell. (Ch. 79, 83, 84 and 85)	token entry	—	—	—	token entry	—	—
• Reserves (Ch. 101 and 102)	5 000 000	0.02	5 000 000	0.02	5 000 000	0.02	—
TOTAL G	1 518 181 011	7.19	1 521 201 274	7.32	1 142 533 667	4.78	– 24.89
H. *Development cooperation and non-member countries*							
• EDF (Ch. 90 and 91)	token entry	—	—		token entry	—	—
• Food aid (Ch. 92)	651 671 000	3.09	714 586 000	3.44	798 700 000	3.34	+ 11.77
• Non-ass. dev. countries (Ch. 93)	158 150 000	0.75	158 150 000	0.76	210 250 000	0.88	+ 32.94
• Specific and exceptional measures (Ch. 94 and 95)	18.800.000	0.09	18.800 000	0.09	33 422 000	0.14	+ 77.78
• Cooperation with Mediterranean countries (Ch. 96)	243 178 705	1.15	246 809 705	1.19	221 400 000	0.93	– 10.30
• Miscell. (Ch. 97, 98 and 99)	39 150 000	0.19	39 150 000	0.19	49 751 000	0.21	+ 27.08
TOTAL H	1 110 949 705	5.26	1 177 495 705	5.66	1 313 523 000	5.49	+ 11.55
TOTAL SECTION VI	20 095 358 716	95.14	19 749 315 241	95.02	22 779 890 267	95.24	+ 15.34
II — SECTION III — COMMISSION (staff and administrative appropriations)	674 767 050	3.19	682 717 050	3.28	757 961 800	3.17	+ 11.02
COMMISSION TOTAL	20 770 125 766	98.33	20 432 582 291	98.30	23 537 852 067	98.41	+ 15.20
III — SECTIONS I, II, IV AND V — OTHER INSTITUTIONS	352 672 559	1.67	353 130 409	1.70	381 283 140	1.59	+ 7.97
GRAND TOTAL	21 122 798 325	100.—	20 785 662 700	100.—	23 919 135 207	100.—	+ 15.08

[1] Appropriations relating to food aid refunds, 282.24 million ECU (1981 budget) and 214 million ECU (amended 1981 budget), have been transferred to Title 9 to permit comparison with 1982 (316 million ECU).

Community expenditure by sector

Total appropriations for payments

ECU

	1981 budget		Amended 1981 budget		1982 preliminary draft budget		Change %
	1	%	2	%	3	%	col. 3 / col. 2
I — SECTION VI — COMMISSION							
(Operating appropriations)							
A. *Agricultural market guarantees*	[1]		[1]		[1]		
• EAGGF Guarantee (Ch. 10 to 29)	12 587 760 000	66.13	12 135 000 000	62.88	13 617 000 000	60.86	+ 12.21
B. *Fisheries* (Ch. 30 to 36)	48 480 000	0.25	48 480 000	0.25	96 825 000	0.43	+ 99.72
C. *Agricultural structures*							
• EAGGF Guidance (Ch. 40 to 43)	468 370 000	2.42	523 370 000	2.71	760 100 000	3.40	+ 45.23
• Specific measures (Ch. 48)	13 392 000	0.07	13 392 000	0.07	15 124 000	0.07	+ 12.93
TOTAL C	481 762 000	2.49	536 762 000	2.78	775 224 000	3.47	+ 44.43
D. *Regional policy*							
• Regional Fund (Ch. 50, 51 to 54)	619 840 000	3.21	869 840 000	4.51	1 120 750 000	5.01	+ 28.85
• EMS (Ch. 52)	200 000 000	1.03	203 032 262	1.05	200 000 000	0.89	− 1.49
• Suppl. measures (UK) (Ch. 53)	955 000 000	4.94	927 918 000	4.81	1 657 900 000	7.41	+ 78.67
TOTAL D	1 774 840 000	9.18	2 000 790 262	10.37	2 978 650 000	13.31	− 48.87
E. *Social policy*							
• Social Fund (Ch. 60, 61 and 62)	620 400 000	3.21	620 400 000	3.21	960 000 000	4.29	+ 54.74
• Miscell. (Ch. 64, 65, 68 and 69)	54 728 000	0.28	54 728 000	0.28	46 485 600	0.21	− 15.06
• Educ. and culture (Ch. 63 and 67)	11 310 000	0.06	11 310 000	0.06	10 291 000	0.05	− 9.01
• Environment and consumers (Ch. 66)	4 320 000	0.02	4 320 000	0.02	10 928 000	0.05	+ 152.96
TOTAL E	690 758 000	3.57	690 758 000	3.58	1 027 704 600	4.59	+ 48.78
F. *Research, energy, industry, transport*							
• Energy policy (Ch. 70 and 71)	34 715 000	0.18	34 715 000	1.18	56 640 000	0.25	+ 63.16
• Research and invest. (Ch. 72 and 73)	256 520 000	1.33	261 320 000	1.35	355 428 000	1.59	+ 36.01
• Information and innovation (Ch. 75)	4 992 000	0.03	5 992 000	0.03	11 466 000	0.05	+ 91.36
• Ind. and internal market (Ch. 77)	10 987 000	0.06	10 987 000	0.06	30 804 000	0.14	+ 180.46
• Transport (Ch. 78)	925 000	—	925 000	0.00	1 700 000	0.01	+ 83.78
TOTAL F	308 139 000	1.59	313 939 000	1.63	456 038 000	2.04	+ 45.26

G. *Repayments and reserves*							
• Repayments to the Member States (Ch. 80)	874 711 000	4.53	876 501 000	4.54	962 410 000	4.30	+ 9.80
• Other repayments (Ch. 82 and 86)	169 470 011	0.88	170 700 274	0.88	175 123 667	0,78	+ 2.39
• Financial mechanism (Ch. 81)	469 000 000	2.43	469 000 000	2.43	token entry	—	– 100.—
• Miscell. (Ch. 79, 83, 84 and 85)	token entry	—	token entry	—	token entry	—	—
• Reserves (Ch. 101 and 102)	5 000 000	0.03	5 000 000	0.03	5 000 000	0.02	—
TOTAL G	1 518 181 011	7.85	1 521 201 274	7.88	1 142 533 667	5.11	– 24.89
H. *Development cooperation and non-member countries*							
• EDF (Ch. 90 and 91)	token entry	—	token entry	—	token entry	—	
• Food aid (Ch. 92)	651 671 000	3.37	714 586 000	3.30	798 700 000	3.52	+ 11.77
• Non-ass. dev. countries (Ch. 93)	28 400 000	0.15	88 400 000	0.46	120 250 000	0.54	+ 36.03
• Specific and exceptional measures (Ch. 94 and 95)	15 550 000	0.08	15 550 000	0.08	29 260 000	0.13	+ 88.17
• Cooperation with Mediterranean countries (Ch. 96)	155 500 000	0.80	159 131 000	0.82	141 800 000	0.63	– 10.89
• Miscell. (Ch. 97, 98 and 99)	39 150 000	0.20	39 150 000	0.20	49 751 000	0.22	+ 27.08
TOTAL H	890 271 000	4.61	1 016 817 000	5.27	1 139 761 000	5.09	+ 12.09
TOTAL SECTION VI	18 300 191 011	94.68	18 263 747 536	94.63	21 233 736 467	94.91	+ 16.26
II — SECTION III — COMMISSION (Staff and administrative appropriations)	674 767 050	3.49	682 717 050	3.54	757 961 800	3.39	+ 11.02
COMMISSION TOTAL	18 974 958 061	98.18	18 946 464 586	98.17	21 991 698 267	98.30	+ 16.07
III — SECTIONS I, II, IV AND V — OTHER INSTITUTIONS	352 672 559	1.82	353 130 409	1.83	381 283 140	1.70	+ 7.97
GRAND TOTAL	19 327 630 620	100.—	19 299 594 995	100.—	22 372 981 207	100.—	+ 15.92

[1] Appropriations relating to food aid refunds, 282.24 million ECU (1981 budget) and 214 million ECU (amended 1981 budget), have been transferred to Title 9 to permit comparison with 1982 (316 million ECU).

Terminology and significance

Parliament can exert influence only in respect of non-compulsory expenditure (NCE), and then only within a fixed 'maximum rate'. Confusion also often arises when the amounts being debated relate to 'commitment authorizations', since only the total amount of 'payment authorizations' is equal to the total amount of revenue, with which is must be balanced. What does it all mean?

Maximum rate of increase in expenditure

The maximum rate for each financial year is determined before 1 May of the preceding year as the arithmetic mean of:
(a) the trend of the gross national product (in volume terms) within the Community;
(b) the average variation in the budgets of the Member States; and
(c) the trend of the cost of living during the preceding financial year.

The maximum rates fixed in recent years have been as follows:

Community budget for 1975: 14.6%	1979: 11.4%
Community budget for 1976: 15.3%	1980: 13.3%
Community budget for 1977: 17.3%	1981: 12.2%
Community budget for 1978: 13.6%	1982: 14.5%

It is important to bear in mind these maximum rates of increase in the size of the budget (applicable to a quarter of the total and determined by objective criteria) when considering increases in Community expenditure. The figure of 13.6% for 1978 clearly looks very different from a German viewpoint (1977 budget + 10%, prices + 3.4%) or from an Italian viewpoint (budget + 43%, prices + 18.5%). With such glaring disparities between trends in costs and prices, a Community cannot do otherwise than work on average values.

In reality the maximum rate is usually exceeded in the course of the budgetary procedure. The Commission's thinking on this was expressed in its *Fourteenth General Report on the Activities of the European Communities in 1980* (Point 66):

'... the Commission felt that Community activities under the structural funds or the energy policy required a maximum rate of non-compulsory expenditure in excess of the 12.2% ceiling fixed for 1981 in accordance with Article 203(9) of the EEC Treaty. The Commission put the maximum rate in these areas at 22.03% for total appropriations for commitments and 38.62% for total appropriations for payments.

Finally, although the year's moderate increases in the appropriations for the EAGGF Guarantee Section (up 12.7% over 1980) are once again well below the 23% average rate of increase witnessed by the Community in recent years (up to 1979), agricultural expenditure continues to predominate and now represents some 64.5% of total appropriations for payments. Stringent financial management is therefore essential. The 1981/82 farm price proposals and related measures to be put forward by the Commission at the beginning of 1981 will therefore include financing proposals which can only be realized if savings are made so as to preserve the equilibrium of the budget and remain within the 1% ceiling for VAT own resources.'

Compulsory and non-compulsory expenditure

Parliament can influence only what is known as 'non-compulsory expenditure' (NCE). This is expenditure 'other that that necessarily resulting from the Treaty or from acts adopted in accordance therewith'. The demarcation is a constant source of difficulty, as the Council is trying to keep the proportion of NCE as low as possible, whereas Parliament is keen to have the greatest possible room for manœuvre. The general budget published in the Official Journal (the most recent one being the 1981 budget in OJ L 378, 31.12.1980, 787 pages long) does not make the distinction between NCE and CE too clear. The actual ratio for 1981 is CE 77%, NCE 23%, the great mass of agricultural expenditure being CE.

Commitment and payment authorizations

A distinction is made in the tables between 'appropriations for commitment' and 'appropriations for payment'. This distinction has been made in order to obtain a clearer picture of what, in accordance with accounting principles, must be made available for immediate payment and what must be kept available for liabilities extending beyond the financial year.

Commitment authorizations are intended to cover legal liabilities arising in the course of the financial year in connection with projects extending over several years. They represent the maximum expenditure which may be allowed for payment liabilities.

Payment authorizations represent the maximum expenditure which may be authorized or carried out in any one financial year to cover liabilities which have arisen either during that financial year or in previous years.

When the Community undertakes to share in the financing of a project, it commits itself to making payments in due course.

If the payments are to be made in the current budget year or in the next budget year, it is enough if 'non-differentiated appropriations' are entered in the budget, for they will cover both the commitment and the payment[1] (non-differentiated appropriations being those that are not divided into commitment and payment authorizations).

[1] Commitments authorized can be automatically carried forward to the next budgetary year.

But if payments in subsequent years are also involved, the principle of what are known as 'differentiated appropriations' has applied in recent years: the distinction then is between commitment and payment authorizations. If, for instance, the Community is planning to approve a project in 1982 that will last five years and cost the budget 1 million ECU each year, giving a total of 5 million, the Commission would enter an appropriation for commitment of 5 million ECU in the 1982 budget together with an appropriation for payment of 1 million ECU. In each of the budgets from 1983 to 1986 there would then have to be further appropriation for payment of 1 million (but no more appropriations for commitment).

Summary tables show appropriations for commitment on one side and appropriations for payment on the other. Appropriations for commitment cover commitment authorizations in the event of differentiated appropriations plus non-differentiated appropriations, which constitute at the same time commitment and payment authorizations and are regarded for this purpose as commitment authorizations. Appropriations for payment cover both payment authorizations in the event of differentiated appropriations and in addition non-differentiated appropriations—here seen as payment authorizations.

The two sets of figures have their own intrinsic value:

— appropriations for commitment provide an earlier picture than appropriations for payment of the general trend in activities and policies which are only just getting under way. They also show the payments which the Community is going to have to make sooner or later;

— appropriations for payment—and they alone—must be covered by revenue in the budget year in question.

G. Budget reality and prospects

The budgets of the institutions

The breakdown of expenditure by institution in 1980 and 1981 is as follows:

(million ECU)

	1980	1981
European Parliament	177.4	199.4
Council of Ministers	108.6	113.1
Court of Justice	21.7	25.4
Court of Auditors	13.0	14.8
Commission:		
administration	610.9	657.3
intervention	15 250.9	18 317.6
	16 182.5	19 327.6

In considering intervention expenditure (see tables), it must be borne in mind that this includes the refund of 10% to cover the cost of collecting customs duties and agricultural levies in the Member States. If these sums (848 million ECU in 1980, 876.5 million ECU in 1981) are taken into account, the resulting breakdown of expenditure is as follows:

	1980	1981
Administrative costs	5.8%	5.2%
Refunds to Member States	5.2%	4.5%
Expenditure on common tasks	89.0%	90.3%

The language factor

A number of special factors must be taken into account in any comparison of Community Budget expenditure and that of national budgets. The relatively high staffing levels of the Community's institutions are often criticized. The enormous burden which the Community's multilingual system involves is too easily forgotten. All important meetings require interpretation into several languages; all important documents have to be translated into all the seven official languages and often into and out of other languages as the Community increases its relations with other countries. Spanish and Portuguese have already become more important, at least from an internal viewpoint, with the advent of negotiations for the accession of these countries.

In the 1981 budget 2 333 posts out of a total of 14 897 in the institutions' administration, or 15.6%, come under the heading of the language service:

	Total posts	Language service
Parliament	2 927	480
Council of Ministers	1 700	340
Economic and Social Committee	374	80
Commission	9 170	1 285
Court of Justice	442	116
Court of Auditors	284	32
	14 897	2 333
Research centres	2 753	—
Other	357	—
	18 007	

Any attempt to reduce the costs of the language service by having only a small number of working languages is doomed to fail. Everybody in the Community must be able to feel that he is part of the Community. This is important, if only because the courts in the Member States are now dealing with cases arising from Community law. Even if we consider nothing more than the principle of legal certainty and equality before the law which derives from civil rights, this alone necessitates all the legal acts of the Community affecting the citizen and/or the economic affairs of the Community being adopted and published with equal validity in all the official languages.

In practice, though, French and English have become the most usual working languages for internal administrative purposes.

Court of Auditors finally set up

The Treaty between the Governments of the Member States on the amendment of certain financial provisions, concluded on 22 July 1975 and entering into force on 1 June 1977, not only extended Parliament's budgetary powers but also set up the EEC Court of Auditors. The Parliament had long been working towards this. The constituent session of the Court of Auditors was held in Luxembourg on 25 October 1977. It follows the example of existing courts of auditors in most Member States in that it is an independent body headed by a ten-member panel. It replaces the former Audit Board, which could only perform its duties on a part-time basis, thus drawing frequent criticism from Parliament. The Court of Auditors scrutinizes all Community revenue and expenditure, and decides whether financial management has been sound. It can also carry out checks in the Member States in conjunction with the individual national audit authorities and demand the documentation required for this purpose. It submits an annual report. The individual authorities can deliver opinions on the comments and objections contained therein; these are published in the Official Journal of the EC, together with the annual report.

The open nature of financial control and the transparency of financial affairs by which the Parliament and some governments set great store has thus been achieved or improved. It is also furthered by the more rigorous control whereby the Court of Auditors can at any time i.e. before completion of a financial year, deliver an opinion on particular matters, and where specifically requested, subject uncompleted accounting processes to a check or special analysis.

As yet neither an instrument of redistribution nor of stabilization

At the present stage of integration, the Commission's overall assessment of budgetary problems in the Community made in its communication to the Joint Council of Foreign and Financial Affairs Ministers and to the European Parliament in March 1978 applies:

The Community budget, not insignificant in absolute terms yet relatively very small and very heavily weighted in favour of one policy, reflects the reality of a very partial and extremely localized financial integration. At present, it is neither a true instrument for financing a wide range of policies nor a means of redistribution worthy of the name, nor an instrument of economic stabilization.

At the risk of appearing out of step with public opinion, it must be said that, objectively, the budget today in no way measures up to the part it is expected to play in the move towards greater economic integration. The deepening of the Community requires a major expansion of the financial resources available to it'. (Doc. COM(78)64 final of 1 March 1978, p. 2).

Naturally, the Commission adds, the aim is not a budget comparable in size to that of a central budget in a federal State. In view of the Community's proposed southward expansion this topic could very soon be at the forefront of public discussion.

Review of Community policies

In its memorandum on the programme for 1981, presented to Parliament when its new President Gaston Thorn made customary programme address to the House on 11 February 1981, the Commission set the situation in a new context:

'Any statement of priorities for Commission work must take as its point of departure the exceptional position in which the Commission and the Community will find itself over the next two years. The Community has committed itself to resolving the budgetary problems which have been threatening its cohesion through a policy of structural change while taking account of the guidelines in this respect which were laid down by the Council on 30 May 1980. To this end the Commission has been requested to complete an examination of the development of Community policies by June 1981. In this context it should be noted that the Community will have to operate in the immediate future within a *de facto* ceiling on its expenditure, even if it is clear to the Commission that new sources will have to be provided at the appropriate time if an enlarging Community is to survive and develop.

These circumstances will have three overall consequences for the Commission. First, existing policies will have to be managed with the maximum economy. Second, there will have to be a rigorous choice of priorities as regards any proposals for new Community expenditure. Third, there will be a new incentive to see where the Community can take effective action in certain fields not involving the use of own resources or without recourse at all to finances as a means of executing policies.

In connection with the above, a resolution of the European Parliament has been noted by the Commission. This resolution of 6 November 1980 calls on the new Commission and the Council to present budgets which are "the expression of a global policy which has been discussed and accepted by all the institutions, and which is both balanced in its constituent parts and worthy of a developing Community".

Further reading

EEC publications

— General Report by the Commission.
— Budgets (Official Journal).
— Preliminary drafts of the budget by the Commission
— Committee reports and reports of proceedings on budgetary discussions in the European Parliament.
— 2nd and 3rd financial report (COM) on the EAGGF.
— Annual reports by the Commission on the state of agriculture in the Community.
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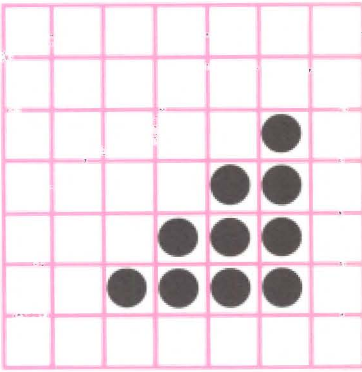

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