

# HOW DOES THE EUROPEAN UNION WORK?



IS: 2

Europe ...  
questions and answers



Europe  
on the move



This publication appears in the following official Community languages — Danish, German, Greek, English, French, Italian, Dutch and Swedish.

A great deal of additional information on the European Union is available on the Internet. It can be accessed through the Europa server (<http://europa.eu.int>)

**European Commission**

Directorate-General for Information, Communication, Culture and Audiovisual Publications Unit, Rue de la Loi 200, B-1049 Brussels

Manuscript completed in June 1996

Cover: 'Peace, prosperity, solidarity' — the EU's chief purpose by Muriel Otelli, Paris

Cartoons: Marten Wolterink, Rijswijk, the Netherlands

Manuscript: Charles Pawnell, London

Publisher: Office for Official Publications of the European Communities, 1996

ISBN 92-827-8117-8

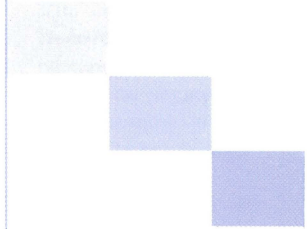
Cataloguing data can be found at the end of the publication

© ECSC-EC-EAEC, Brussels • Luxembourg, 1996

Reproduction is authorized, except for commercial purposes, provided the source is acknowledged

EUROPE...QUESTIONS AND ANSWERS

HOW DOES THE EUROPEAN  
UNION WORK?





# CONTENTS

<i>The terms 'European Community' and 'European Union' are used in this text to speak of that political entity which was born as the European Economic Community (or Common Market) through the Treaty of Rome in 1957 and subsequently evolved first into the European Community and finally to the European Union through the Maastricht Treaty of 1991, or the 'Treaty on European Union' as it is formally known.</i>	<b>1. The origins and aims of the European Union</b>	<b>4</b>
<i>The legal construction of the latter treaty, in so-called 'pillars', stipulates that most policy matters fall legally under the scope of the still existing European Community (e.g. everything relating to the single market and the common agriculture policy), but two important areas, the common foreign and security policy and justice and home affairs form the second and third pillars. They have a different legal framework under the 'roof' of the European Union.</i>	What are the origins of the European Union?	4
	Has not the European Union always been about economic integration, over and above political union?	5
	Why then has the European Union 'deepened' in the way that it has over the past decade or so?	5
	What did the Single European Act and the Maastricht Treaty contribute to this process?	6
	What has been learned from this experience?	7
	What can I expect to see coming out of the 1996 Conference?	8
	(i) making Europe relevant to its citizens	
	(ii) an efficient and democratic Union	
	(iii) external Union action	
	How many members might the European Union eventually have?	9
	<b>2. Subsidiarity</b>	<b>10</b>
	Who defines what the European Union can and cannot do?	10
	Why has the Community also been given the right to take action in seemingly peripheral subjects such as education or tourism?	13
	What exactly is 'subsidiarity'?	13
	How is the European Union implementing subsidiarity in practice?	14
	What effects might the debate over subsidiarity eventually have?	15
	<b>3. The European Union budget</b>	<b>17</b>
	How big is the Community budget, and who sets the cap on its expenditure?	17
	How is the Community budget spent?	18
	What is the remaining 20% of the budget spent on?	20
	What percentage of the Community budget is taken up by Europe's institutions themselves?	21
	Who supervises the Community's annual budget?	22
	The Court of Auditors often seems to find evidence of fraud against the European budget, especially in the agricultural sector. What truth is there in this, and what is being done to prevent it?	22



**T**he EU means many things to many people. For some it has been at the core of efforts to help maintain peace over the past 50 years in a continent which in the past has been riven by rivalry and suspicion. Others, however, talk of its political impotency. Why, they wonder, as a supposed political union, has it not been able to intervene effectively in the former Yugoslavia?

For many the EU is primarily about the single market and the opportunities and benefits this presents to businesses, students, pensioners and holidaymakers.

A number of people feel that it is becoming increasingly difficult to see the wood through the trees. They look back and ask whether the EU's current responsibilities really are fulfilling the visions of its founders, or whether those visions have themselves become lost in the ambiguities of post cold-war Europe? A fair question would be: What exactly is the EU for now?

Likewise, you may want to know how the EU benefits you directly, in practical terms.

The EU's institutions are inundated daily with enquiries by people hoping to get to the root of many such questions. This booklet, in a series of several, seeks to give brief but concise answers to the most frequent of these questions.

Ultimately, the EU is more than just the sum of its parts. Its Member States created it to help solve problems that cannot now be effectively tackled by countries acting alone. The point is that the EU offers opportunities, not restrictions.

# 1 The origins and aims of the European Union

## What are the origins of the European Union?

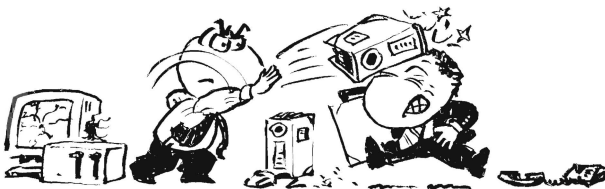
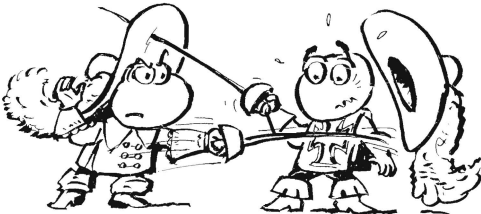
The European Union, or the European (Economic) Community as it was originally known, arose from the ashes of World War Two. Its goal was then as it is now to ensure peace, prosperity and

a new start for a continent whose political and economic foundations had effectively disintegrated.

A number of different organizations, with different priorities, were established in order that this goal could be realized. Focusing on military and security issues were the North Atlantic Treaty Organization (NATO) and the Western European Union (WEU), while the founding of the Council of Europe in 1949 sought to encourage political cooperation between the countries of Europe.

The precursor of today's European Union was effectively the European Coal and Steel Community (ECSC), which came into force in 1952. Unlike other organizations, its six founder members — Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands — quite consciously sought to sow the seeds of greater European integration and lasting peace by pooling all their coal and steel production under this single organization.

The adherence to the goal of European unity through economic integration was further enhanced by the Six agreeing the terms of the European Atomic Energy Community (Euratom) and, in March 1957, the European Economic Community (EEC).



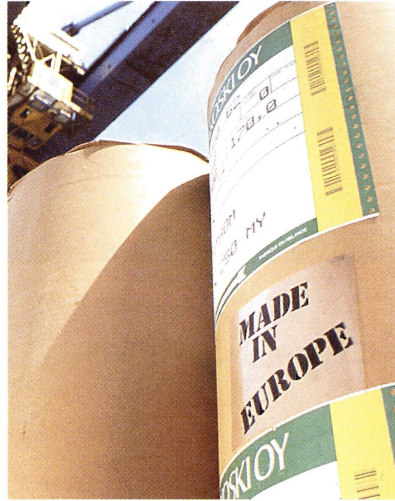
## Has not the European Union always been about economic integration, over and above political union?

Yes and no, for while the Community's goal has always been to bring about peace and prosperity for its citizens within the framework of an 'ever closer union', this has been found more difficult to achieve than predicted

For instance, while economic integration was being put into place in the 1950s, attempts were also being made to introduce more political elements of integration. One of the most overt instances of this was the French Government's launch of a plan to set up a European Defence Community in 1950. This, however, had to be abandoned in 1954 when the French National Assembly refused to endorse it.

The next major attempt was made in the early 1960s when the six founder countries instructed a committee to come up with proposals, known as the 'Fouchet plans', for a political charter for 'the union of their peoples'. This quickly ran aground amidst irreconcilable differences of opinion.

It was not until the early 1970s that the goal of 'an ever closer union amongst the peoples of Europe' was again debated in earnest by Europe's leaders. Nevertheless the direction envisaged, namely the establishment of Economic and Monetary Union by the end of the decade and the implementation of a common foreign policy, as well as of common regional and social policies, proved too controversial. Furthermore a new constitutional structure would have to have been put in place. The talks ended in failure.



## Why then has the European Union 'deepened' in the way that it has over the past decade or so?

Political union has always been at the heart of European integration, but because the countries of Europe have developed different priorities over the centuries, and as this was reflected in the amounts of sovereignty they were each prepared to pool, this process has always been haphazard and by nature incremental.

One successful attempt to widen the scope for the coordination of national policies came in 1970 with the setting-up of a voluntary intergovernmental instrument coordinating European Political Cooperation (EPC) in foreign policy.

Another sign of progress was evident in the setting-up of the European monetary system (EMS) in 1979. Designed to create a zone of monetary stability in Europe, as free as possible from unpredictable currency fluctuations, it remains the bedrock from which the exchange rate mechanism (ERM) and the ultimate goal of economic and monetary union (EMU) have grown.

*The main reason to set up the EU — or rather its forerunners in the 1950s — was the quest for peace and prosperity after the destruction of World War II. Over the years people have realized the necessity to work together in more areas tackling common problems that countries could not solve alone any longer.*



## The Council of the European Union

The Council of the European Union, usually known as the Council of Ministers is where the Member States legislate for the Union, set its political objectives, coordinate their national policies and resolve differences between themselves and with other institutions. It decides some matters by qualified majority voting, and others by unanimity. Each meeting of the Council brings together Member States' representatives, usually ministers, who are responsible to their national parliaments and public opinion. In its procedures, its customs and practices, and even its disputes, the Council depends upon a degree of solidarity and trust which is rare in relations between States.

## The Presidency

The Presidency of the Council rotates between the Member States every six months: January until June, July until December. The Presidency's role has become increasingly important as the responsibilities of the Union have broadened and deepened. It must: arrange and preside over all meetings; elaborate acceptable compromises and find pragmatic solutions to problems submitted to the Council; seek to secure consistency and continuity in decision-taking.

**Members:** ministers of the 15 Member States

**Presidency:** from 1 July 1996 rotates every six months in the following sequence: Ireland, the Netherlands, Luxembourg, the United Kingdom, Austria, Germany, Finland, Portugal, France, Sweden, Belgium, Spain, Denmark, Greece, Italy.

**Meeting place:** Brussels, except in April, June and October when all Council meetings take place in Luxembourg.

## What did the Single European Act and the Maastricht Treaty contribute to this process?

The Single European Act, in force since July 1987, was the culmination of several years of intense debate looking at how the process of European integration could be re-launched, improved and made more relevant to the European people.

The result was a detailed legal framework establishing the single market in goods, capital and services, and the guarantee of the free movement of people. It also called for closer cooperation on the environment and on research and development, as well as a formal legal agreement on European political cooperation.

The Treaty on European Union, or the Maastricht Treaty as it is more commonly known, took the process of European integration one step further, paving the way for the introduction of a single currency — the next logical step towards a frontier-free market — and setting up new, largely intergovernmental political structures or 'pillars' to enable the Union to fulfil its responsibilities as a leading global power in a rapidly changing world. These are the common foreign and security policy and cooperation in the field of justice and home affairs.

However, the Maastricht Treaty suffered from a great deal of criticism and public distrust, clearly voiced in referendums in Denmark and France, within the House of Commons in the United Kingdom and by the Constitutional Court in Germany. In particular, efforts to cement and timetable ongoing



moves towards economic and monetary union (from which Denmark and the UK have 'opted-out'); to create a common social policy (from which the UK has opted-out) and to aim eventually to create a common defence or army, have proved contentious.

### What has been learned from this experience?

As a result of the Maastricht Treaty's tempestuous ratification passage, it became abundantly clear that European integration could not and should not be implemented by a seemingly distant hierarchy of governmental and European institutions operating apparently at will, and apparently behind closed doors.

It was clear that the European Community and its inner workings must be opened up and made more comprehensible. For one, the Council of the EU has opened important debates between national ministers to journalists and television cameras. On a more practical level, the Commission has promised to consult more widely beforehand when proposing legislation. In carrying out these and other adjustments, and by re-negotiating the balance of powers between national governments, the European Commission, the European Parliament and the Council of Ministers, the Community could also be made more democratic and thus more relevant. These kinds of questions will be addressed at the 1996 Intergovernmental Conference (IGC).



*The signing ceremony of the Treaty on European Union at Maastricht, the Netherlands in 1991.*

### The European Commission

The role and responsibilities of the European Commission place it firmly at the centre of the European Union's policy-making process. In some respects, it acts as the heart of Europe, from which the other institutions derive much of their energy and purpose. The present Commission has five women members, more than any of its predecessors. The President is chosen by the Heads of State or Government meeting in the European Council after consulting the European Parliament. The other members of the Commission are nominated by the 15 member governments in consultation with the incoming President.

The Council and the European Parliament need a proposal from the Commission before they can pass legislation and EU laws are mainly upheld by Commission action. Thus the integrity of the single market is preserved by the Commission policing with agricultural and regional development policies which are sustained, managed and developed by the Commission, as is development cooperation with the countries of Central and Eastern Europe, Africa, the Caribbean and Pacific. Research and technological development programmes, vital for the future of Europe, are also orchestrated by the Commission.

7

**Number of Members:** 20

**Number per country:** two from France, Germany, Italy, Spain and the United Kingdom and one from each of the other Member States.

**Term of office:** 5 years (1995-2000)



### What can I expect to see coming out of the 1996 Conference?

This is hard to say, as only the preliminary negotiations have taken place. The so-called 'Reflection Group' of representatives of national governments, the European Parliament and the European Commission, has drawn up the parameters for the real discussions which started on 29 March 1996 between Foreign Ministers. Any concluding deal is the responsibility of the governments, each with their own priorities and expectations. The three broad areas up for discussion, however, appear to be as follows:

(i) making Europe relevant to its citizens: by making sure it meets your expectations and concerns. Thus Ministers looked at including the principle of respect for fundamental freedoms and human rights in the Treaty; many felt that there needs to be closer inter-governmental cooperation in the field

of police and judicial affairs; that job creation and the environment must be given a higher profile; and that the Community's institutions ought to be more accessible and transparent, allowing easier access to information and made more consultative in nature.

(ii) an efficient and democratic Union: so that better decisions can be taken faster, with an extension of majority voting in some new areas, and with an eye on the next enlargement. Ministers also feel that national parliaments should participate more closely in Europe's decision-making process, especially in terms of scrutiny, that the European Commission could be made more accountable to the European Parliament, and that in general the European Union should try to do not more but better.



(iii) external Union action: it is felt that the EU has to be able to face up to the post-cold war challenges in an effective and coordinated manner. There could, for instance, be some kind of a European foreign policy *supremo* so that a more united front can be presented. Europe's defence and security policy is also thought to need more coordination, and may be allowed to develop a more specifically European identity. Many see the answer to this being the gradual integration of the West European Union (WEU) into the Union.

### **How many members might the European Union eventually have?**

This is difficult to forecast, although it is quite clear that a large number of neighbouring countries hope to join in the not too distant future, or at least develop much closer ties. These include: Poland, the Czech Republic, Slovakia, Hungary, Bulgaria, Romania, Slovenia, the Baltic States of Estonia, Latvia and Lithuania, Malta and Cyprus.

The desire for stability and a lasting peace across the whole of Europe, and the hope that all its democracies might be brought together under one roof, has meant that the Union is responding very positively. It is looking to deepen the strong links which have already been established with all these countries — mainly through preferential trading opportunities and a variety of forms of economic assistance. Political dialogue is also underway. Some applicant countries' ministers already sit in on some of the most important EU ministerial meetings, giving them the right to air their views at the highest level and to see at close range how the EU works internally and how it solves its own problems.

**Intergovernmental conferences** have become an increasingly frequent event on the EU's political calendar. The 1996 IGC will be fourth in eleven years, but only the sixth in the Union's 45-year history. IGCs are, by definition, negotiations between governments outside the framework of the Union's procedures and institutions.

The first round of accession negotiations, with Malta and Cyprus, will begin six months after the conclusion of the IGC; once opinions on the applications and a preliminary decision on the future financing of the Union have been agreed, it is hoped that talks can then open with other applicant countries at the same time.

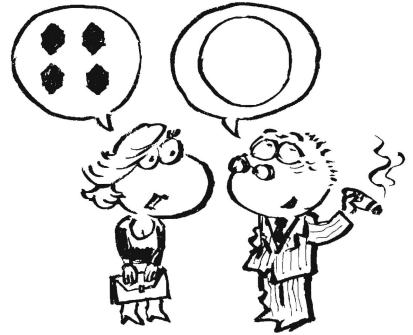
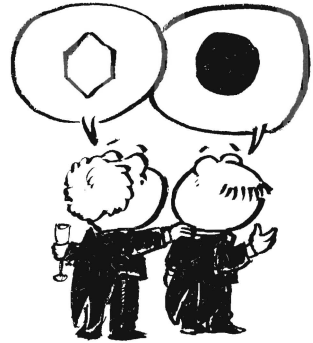
So that this may be realized, the Heads of government also agreed at the European Council in Madrid to intensify the EU's 'pre-accession strategy' so that the applicant countries' market economies can be more fully developed, their structures of government fully adjusted and a more stable economic and monetary environment created in each.

## 2 Subsidiarity

### Who defines what the European Union can and cannot do?

The Community's powers and responsibilities are those given to it by its Member States. These are laid out in the various treaties they have signed. The most important are the Treaties of Rome (signed in 1957), the Single European Act and the Treaty on European Union or 'Maastricht Treaty'.

The Treaties, agreed by the Member States, explicitly address the common recognition that certain problems are beyond the control of a single nation state and are better tackled together. In order to fulfil this, a system had to be devised that works both efficiently but at the same time is able to balance the perhaps conflicting national interests. In this vein, the European Commission acts as 'guardian of the treaties' and has the right to propose legislation; it is then for the Member States to decide together in the Council of the European Union, often by majority voting, whether to implement the proposal or have it amended. The European Parliament also plays a significant role in this process; it can scrutinize, amend and veto proposals in line with the powers accorded to it. Of course, in some cases, neither government ministers nor the Members of the European Parliament (MEPs) are able to agree on the proposals put forward by the Commission, but this is rare as the Commission will only propose legislation if it is sure it has the support of the majority.



## How are European laws made?

### Legislative power

Originally, the Treaty of Rome (1957) gave the European Parliament only a consultative role, allowing the European Commission to propose and the Council of Ministers to decide legislation. Subsequent treaties have extended the Parliament's influence to include amending and even adopting legislation so that the Parliament and Council now share the power of decision in a large number of areas. There are generally four types of procedure:

- (i) The consultation procedure requires an opinion from the Parliament before a legislative proposal from the Commission can be adopted by the Council. This applies, for example, to the agricultural price review.
- (ii) The cooperation procedure allows Parliament to improve proposed legislation by amendment. It involves two readings in Parliament, giving Members ample opportunity to review and amend the Commission's proposal and the Council's preliminary position on it. This procedure applies to a large number of areas including the European Regional Development Fund, research, the environment and overseas cooperation and development.
- (iii) The co-decision procedure shares decision-making power equally between the Parliament and the Council. A conciliation committee — made up of equal numbers of Members of Parliament and of the Council, with the Commission present — seeks a compromise on a text that the Council and Parliament can both subsequently endorse. If there is no agreement, Parliament can reject the proposal outright. The co-decision procedure applies to a wide range of issues such as the free movement of workers, consumer protection, education, culture, health and trans-European networks.
- (iv) The assent procedure is required for important international agreements such as the accession of new Member States, association agreements with third countries, the organization and objectives of the Structural and Cohesion Funds and the tasks and powers of the European Central Bank.

Under this procedure Parliament may give or withhold its agreement on the instrument laid before it but may not amend it. Through the changes introduced by the Maastricht Treaty, the European Union has become more democratic: while the Commission remains the starting point of the decision-making process, the powers of the European Parliament were increased, in particular by introducing the co-decision procedure and by extending the scope of the cooperation and assent procedures; and finally, the use of qualified-majority voting in the Council was extended to new areas.

## How are European laws applied?

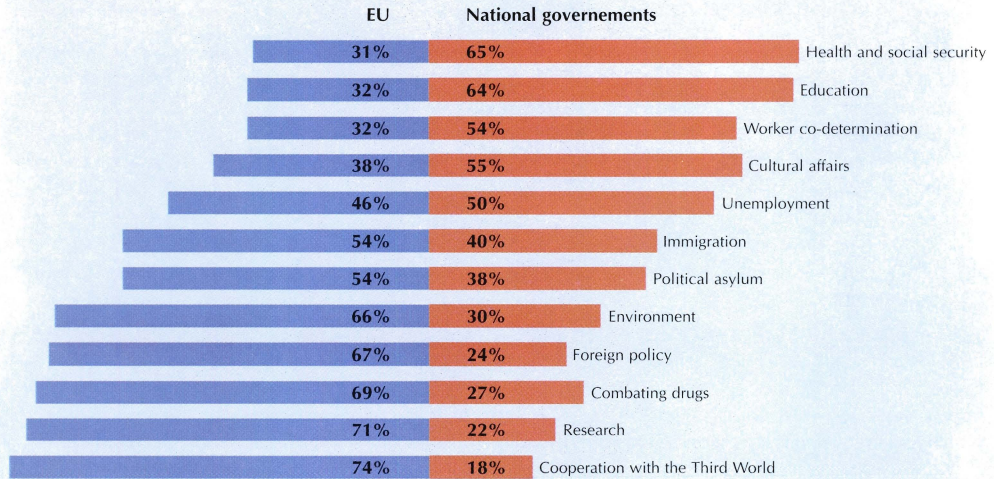
### Community legislation

Community law, adopted by the Council — or by the Parliament and Council in the framework of the co-decision procedure — may take the following forms:

- (i) Regulations: these are directly applied without the need for national measures to implement them.
- (ii) Directives: bind Member States as to the objectives to be achieved while leaving the national authorities the power to choose the form and the means to be used;
- (iii) Decisions: these are binding in all their aspects upon those to whom they are addressed. A decision may be addressed to any or all Member States, to undertakings or to individuals;
- (iv) Recommendations and opinions: these are not binding.

Community legislation, as well as the Council's common positions transmitted to the European Parliament, are published in the *Official Journal of the European Communities* in all the official languages.

## A matter for national governments or the EU?



Source: Eurobarometer 40, 1994 (extract)

*‘Should decisions be taken by the European Union or by national governments?’ the Commission wanted to know in a Eurobarometer poll conducted at the end of 1993 across the then 12 Member States (these polls have been keeping a finger on the pulse of European opinion since 1973). The survey covered a representative sample of 1 000 people in each of the nine countries, plus 500 in Luxembourg, 1 000 each in the west and east of Germany, and 1 000 from Britain plus 300 from Northern Ireland in the United Kingdom.*

*The findings showed that people preferred joint European decision-making in all areas where the problems transcend national borders (notably cooperation with developing countries, research, the fight against drugs, etc. — see chart). On the other hand, most people wanted decisions that concern them much more directly (especially on matters such as health, social security, education, culture, etc.) to rest with their national governments. This picture broadly tallies with the approach followed by the Community through subsidiarity: problems that can be tackled better through joint rather than individual action are dealt with in the EU institutions, while decisions that can be taken close to the citizen at national or regional level do not need to make any detour via the EU. This was set out in black and white in the Maastricht Treaty.*

## Why has the Community also been given the right to take action in seemingly peripheral subjects such as education or tourism?

During the late 1980s and 1990s the Community was given limited rights to get involved in a number of areas which have a more direct impact on our individual lives. The environment is one example, social issues are another, but under the Maastricht Treaty the Community was also given the go-ahead to deal with consumer rights, transport safety, certain aspects of education and public health and culture, among others.

## What exactly is subsidiarity?

Subsidiarity is the level at which decisions are best taken. This is as true of individual organizations and governments, whether European or national, regional and local, as it is of businesses and even religions.

There is no one complete definition of subsidiarity. However, perhaps the closest the EC Treaties come is Article 3b of the Maastricht Treaty, which demands that: 'in areas that do not fall within its exclusive competence, the Community shall take action in accordance with the subsidiarity principle only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of

**Environmental protection** is an obvious example of something which will benefit from common action at a European level; acid rain does not respect national borders, neither do polluted rivers. By introducing common laws on emission levels for factories, for instance, much can be achieved in fighting pollution.

Thus the existence of Community programmes such as that helping minimize the risk of AIDS, another assisting the educational integration of the disabled, or one encouraging the raising of business sponsorship for the arts, all ensure that authorities learn from each other in a positive way, especially through research efforts and information campaigns. Some of these programmes necessarily have a short shelf life, but they are essential for a deeper understanding of what works and what does not. They encourage employees, businesses, students, local and central government officials and the public as a whole across the Community to work more closely together, think on a bigger scale, perhaps more competitively and hopefully more effectively.

So the emphasis in these cases is very much on voluntary cooperation — the Community is not looking to harmonize here. Nonetheless this kind of involvement also raises questions about subsidiarity — is the Community really justified in looking at these and other issues? How deep can it go?



the scale or effects of the proposed action, be better achieved by the Community'.

For instance, the Community legislates on certain social issues, such as the consultation of workers or equal opportunities, but it does not and cannot make laws regarding wages, strikes or union membership. Similarly, any progress it makes in the field of social security has to be agreed upon unanimously in the Council. The principle that decisions should be taken as close to the citizens as possible has become an overriding one in the last few years.

### **How is the European Union implementing subsidiarity in practice?**

The Community's powers have always been quite deliberately constrained by the Treaties which created it. However, only under the Maastricht Treaty has the subsidiarity principle become formally incorporated under Community law.

Europe's institutions are taking subsidiarity very seriously. Its effect can already be seen in much of the legislation implementing the single market, where the goal of 'harmonization', used widely when legislating product and other standards in the lead up to the single market, has now been replaced by their 'mutual recognition',

enabling the free movement of goods throughout the Community so long as they live up to basic minimum requirements. In technical terms, the switch to issuing 'Directives' rather than 'Regulations' gives Member States the freedom to implement Community legislation as they deem appropriate, in accordance with their own national customs and needs.

With this new approach to legislation, some 'old approach' harmonizing laws are now being found overly prescriptive. The European Commission is in the midst of a comprehensive review of much of this legislation; some is being totally retracted, others that had been temporarily shelved are now unlikely to be proposed. Some, such as the bathing and drinking water directives, are being amended or considerably simplified.

The European Commission also now produces a yearly report on how it has been implementing the principle of subsidiarity, and makes wider consultations before proposing legislation, something evident in the regular use of Green and White Papers to encourage debate.



## The Committee of the Regions

The Committee of the Regions is the European Union's youngest institution whose birth reflects the Member States' strong desire not only to respect regional and local identities and prerogatives but also to involve them in the development and implementation of European Union policies. For the first time in the history of the European Union, there is now a legal obligation to consult the representatives of local and regional authorities on a variety of matters that concern them directly.

**Members:** 222 comprising: France, Germany, Italy and the United Kingdom 24 each, Spain 21, Belgium, Greece, the Netherlands, Portugal, Sweden and Austria 12 each, Denmark, Ireland and Finland 9 each and Luxembourg 6

**Term of office:** Four years

**Meeting place:** Brussels, five plenaries per year

### What effects might the debate over subsidiarity eventually have?

Being a flexible and behavioural rather than purely a legal dictate, means that subsidiarity will continue to have important consequences for the Community. This is all the more so as subsidiarity has become an increasingly important issue in the European debate as a whole as governments battle over the minutiae of what powers the Community should and should not be endowed with.

Quite what effect this will have over time is really the prerogative of the Member States, for it is they who decide what the Community can and cannot do, but it is a debate open to a number of different interpretations.

Many maintain that by defining such a principle very closely, a difficult proposition in practice, the EU's powers would become more codified and

therefore its position more powerful. A list specifying that which the Community is allowed to do is one suggestion. This would enable people to differentiate more clearly between Community policies/programmes and those carried out by national governments acting alone.

On the other hand, sceptics maintain that by codifying subsidiarity in legal terms, the EU's institutions would be less able to encroach on issues they think ought to be dealt with solely by national governments. This is an issue will be debated at the 1996 Intergovernmental Conference, so at the time of writing it is impossible, to predict its outcome. Member States do nonetheless agree that the concept of subsidiarity cannot be turned into an instrument for systematically reducing the Community's powers.

## **The Community's core policies and programmes**

are wide-ranging, but distinct. They include the management of the single market, chiefly making sure that the principles of the free movement of goods, services, capital and people are made a reality and, once agreed, are fully respected by all the Member States. Other core activities, many of them single market related, include the management of the main features of the common agricultural policy and the common fisheries policy, a common competition policy, an environmental policy, a regional policy to reduce economic and social disparities, help for small and medium-sized businesses, a consumer policy and elements of an industrial policy. It is also able to negotiate trade deals with other countries and trading blocks on behalf of the Community as a whole, part of an increasingly political role it is taking on with regard to world affairs.

**Subsidiarity** might also be said to apply to the relationship between national and regional government, or regional government and the Community. However, in the Community context, it refers only to the interaction between Europe's institutions and the Member States.

1. 'It is for each Member State to decide how its powers should be exercised domestically. The Community can only act where Member States have given it the power to do so in the Treaties'. (Declaration by the Heads of State and Government at the Birmingham European Council on 16 October 1992)

2. 'I have a different notion of subsidiarity: it means not harmonizing every last nut or bolt, but stepping up cooperation wherever it is really worth it. We should take as our motto, 'Less action, but better action.'" (Jacques Santer, President of the European Commission, Speech to the European Parliament, Strasbourg, 17 January 1995).

### 3 The European Union budget



#### How big is the Community budget, and who sets the cap on its expenditure?

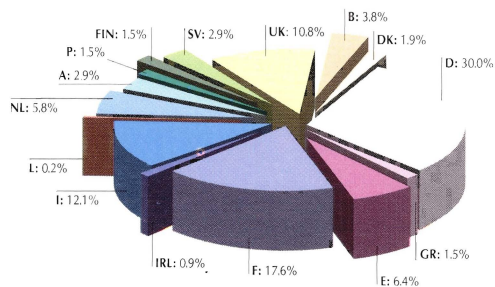
The Community budget, which for 1995 was ECU 76 billion, was arrived at through a complex series of calculations based on revenue raised from VAT in all Member States, customs duties on goods entering the Community, levies on agricultural goods imported into the Community, and sugar and isoglucose levies, introduced to encourage producers to limit surpluses.

The fourth major source of revenue, accounting for roughly a quarter of the Community budget, is based on each Member State's GNP, and is carefully assessed according to each country's ability to pay. As it is, the Community's budget is equivalent to about 2.5% of total public spending across the Community, and is often underspent.

Roughly speaking, Member States contribute to the budget according to their ability to pay. Germany is the strongest economy in the Community, and thus pays the largest share. However direct payments for agriculture distort this structure. Thus in the early 1980s Member States agreed that the United Kingdom would get an annual rebate as its net contribution to the EU budget outweighed its gross contribution quite substantially, especially when considered in relation to its economic performance.

Of course, the exact levels of Community expenditure cannot be set definitively in advance, as it is practically impossible, for instance, to gauge the density of trade coming in and out of the Community for the forthcoming year. Nevertheless the Member States and the European Parliament agreed in 1992 that the Community budget

#### Financing of the 1996 general budget by Member State

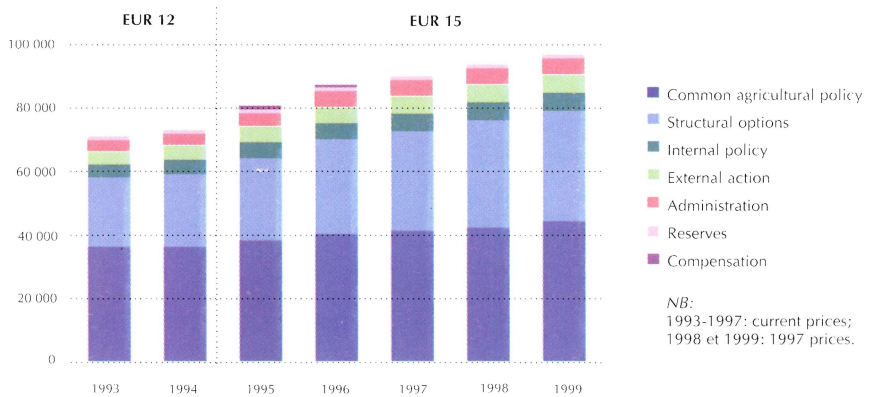


can grow to ECU 80.11 billion in 1999, or 1.27% of the Union's gross national product (GNP). This will enable moneys to be spent on particular projects of benefit to the Community as a whole, such as the trans-European networks, which will improve transport, telecommunications and energy infrastructure across the Community, and the Cohesion Fund, which aims to encourage investment in transport and environmental projects in less wealthy Member States, thereby creating a more equal single market and conditions more in line with economic and monetary union.

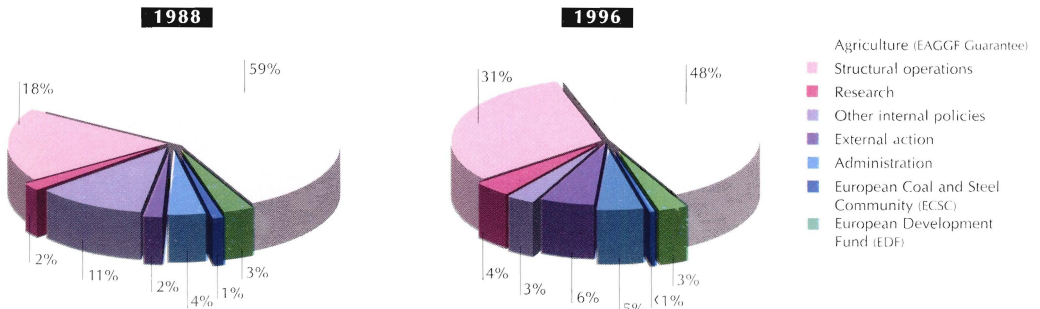
### How is the Community budget spent?

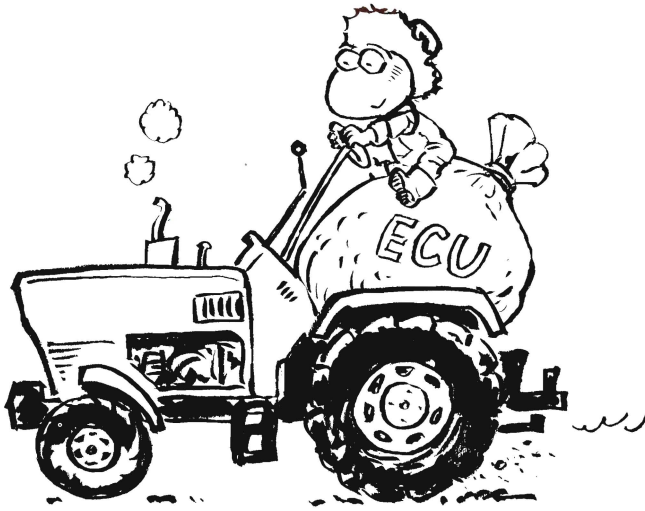
Roughly half of the Community's budget is spent on the common agricultural policy (CAP), although this proportion is diminishing (in 1988 it accounted for nearly 60% of the budget) as the CAP reform begins to bite. The freeing up of global trade in agricultural produce has played a vital role in the reform of the CAP, bringing with it the need for Community prices to be more competitive and for production to be

Updated financial perspective 1993-1999 (million ECU)



### Breakdown of Union expenditure





brought into line with demand. Less money is going on stocking surpluses, with expensive food 'mountains' almost a thing of the past, and less on subsidizing exports to world markets.

However, the CAP has also been responding to other demands, notably the safeguarding of the environment by discouraging intensive production methods, and the development of a more defined Community rural policy aimed at safeguarding the rural economy and making sure that small farmers manage to keep afloat.

The CAP costs the average Community family no more than ECU 20 per week, and reforms have resulted in the Community underspending successive agricultural budgets, all of which is returned by right to the Member States. Farmers in the Community have benefited enormously over the past few years. In 1994 their incomes rose on average by nearly 7%.

The other major slice of the Community budget, around 30%, is devoted to improving economic and social cohesion. Reducing the disparities in wealth between regions and addressing the problem of unemployment are now top priorities for the Community. Expenditure is channelled through a

number of funds, notably the European Regional Development Fund, which contributes to major infrastructure projects in poor areas, the European Social Fund, which supports training and job creation schemes, particularly with regard to young people, the Cohesion Fund, a new device assisting the construction of transport and environmental projects in four outlying areas of the Community (Ireland, Greece, Spain and Portugal), a new instrument channelling money into areas suffering from the decline of the fishing industry, and the European Agricultural Guidance and Guarantee Fund, which helps farmers adapt their activities in line with changing market needs, and funds environmental projects in areas where these are complementary to traditional farming methods.

*The miniature cog presented here by an ant, produced by means of laser technology is an element of microsystems used in miniature mechanical systems and is one of many examples of high-technology made in Europe. The EU sponsors a large number of cross-border research and development initiatives by universities, research laboratories and firms from its budget.*

### What is the remaining 20% of the budget spent on?

Other major items of expenditure include the Community's external actions, which, when including the European Development Fund, something that traditionally does not come under the Community budget, accounts for over 9% of the present budget. The Community's increasingly large contributions to the Third World means that it is now the world's leading provider of development aid. It also has a substantial humanitarian aid budget, and has assisted in the former Yugoslavia, Rwanda, Cuba and Haiti, for instance, in 1994-95. At the same time the Community's Mediterranean neighbours and those in Central and Eastern Europe also benefit enormously from technical and other forms of assistance, much of it geared towards preparing them for greater integration with the Western world.



Research and technological development also play an important role in the Community budget, and are high on the list of its political priorities. By investing in research, one is investing in the future. Action by the Community is intended to complement action at national level, and therefore projects linking scientists in several Member States are favoured.



Under its framework programme for 1994-8 the European Commission will devote ECU 12 billion to a wide and varied range of programmes involving thousands of researchers across the Community.

Among these are programmes dealing with clean energy technologies, climate research, information technology, biotechnology and controlled thermonuclear fusion. The Community also has its own Joint Research Centre, made up of eight institutes in five countries (Geel in Belgium, Karlsruhe in Germany, Ispra in Italy, Petten in the Netherlands and Seville in Spain), which are working actively on a wide range of projects, from a system to detect anti-personnel mines to pollution studies in mountain ranges.

### **What percentage of the Community budget is taken up by Europe's Institutions themselves?**

The total administrative expenses of all European Institutions, the European Commission, the Parliament, the Council, the Court of Justice, the Court of Auditors, the Economic and Social Committee and the Committee of the Regions taken together, comes to just under 5% of the Community budget. Contrary to popular perception, the 'Brussels bureaucracy' is in fact very small, and its civil servants do pay income taxes. The European Commission employs under 15 000 staff, including a good number who deal only with translation and interpretation. This is comparable in size to a number of single national ministries. All European civil servants are subject to income taxes; this ranges from the lowest bracket of 10%, up to 45%. They do not benefit from any major tax relief.

## **The budgetary powers of the European Parliament**

The European Parliament approves the Union's budget each year. The budgetary procedure allows Parliament to propose modifications and amendments to the Commission's initial proposals and to the position taken by the Member States in Council. On agricultural spending and costs arising from international agreements the Council has the last word, but other expenditure — for example, education, social programmes, regional funds, environmental and cultural projects — the Parliament decides in close cooperation with the Council.

In exceptional circumstances, the European Parliament has even voted to reject the budget when its wishes have not been adequately respected. Indeed, it is the President of the Parliament who signs the budget into law.

Monitoring of expenditure is the continuous work of the Parliament's Committee on Budgetary Control which seeks to make sure that money is spent on the purposes agreed and to improve the prevention and detection of fraud. Parliament makes an annual assessment of the Commission's management of the budget before approving the accounts and granting it a 'discharge' on the basis of the Annual Report of the Court of Auditors.

### **What is the European Parliament?**

The European Parliament is the directly-elected democratic expression of the political will of the peoples of the European Union. Representing 370 million citizens of the Union, its primary objectives are like those of any parliament — to pass good laws and to scrutinize and control the use of executive power. In recent years its responsibilities have been gradually widened and its powers strengthened first by the Single Act of 1987 and then by the Treaty on European Union of 1993. The most important powers of the European Parliament fall into three categories: legislative power, power over the budget, and supervision of the executive.

**Members:** 626 elected every 5 years: Germany 99, France, Italy, the United Kingdom 87 each, Spain 64, the Netherlands 31, Belgium, Greece and Portugal 25 each, Sweden 22, Austria 21, Denmark and Finland 16 each, Ireland 15, Luxembourg 6. Next election due 1999.

**Meeting places:** Strasbourg for monthly plenary sessions, Brussels for committee meetings and additional sessions. The General Secretariat is based in Luxembourg

Including the other European institutions and bodies the total headcount of employees amounts to around 25 000, for a population of 370 million. It is a fact that while for every 100 000 people in the Community there are about 3 220 national public servants, there are only 5 equivalent European officials.

### Who supervises the Community's annual budget?

The European Commission is responsible for drawing up a preliminary draft annual budget for the Community, but it is the Council of the European Union and the European Parliament which take the final decision. Both of these bodies are able to propose amendments to the first or second drafts of the budget as they see fit, with the European Parliament having the final word.

The European Parliament and the Court of Auditors inspect the Community's accounts, making sure that they

are effectively and efficiently spent. Every November, the Court publishes a report analysing the previous year's accounts; it also produces one-off special reports on particular sectors as instructed by the European Parliament or on its own initiative.

### The Court of Auditors often seems to find evidence of fraud against the European budget, especially in the agricultural sector. What truth is there in this, and what is being done to prevent it?

Careful reading of the Court of Auditor's reports show that they deal not with fraud in general but with shortcomings in the financial management of the Community budget by the Member State concerned or by the European Commission. In fact, the 1994 Court of Auditors report mentioned fraud just once.

### How is fraud against the EU budget being tackled?

Currently in force or under active preparation are:

1. rules on partnership between EU Member States and the European Commission, including joint prosecutions;
2. a convention on the approximation of national criminal law so that criminals can be brought to justice more easily;
3. closer cooperation between the EU and non-member States, especially in Eastern Europe;
4. further powers for European Commission officials fighting fraud;
5. checks on all new and existing Community measures so that the risk of fraud is minimized;
6. construction of an intelligence network on fraud cases, discovered or suspected.

### A confidential freephone hotline

has been opened in each Member State for citizens wishing to report instances of suspected fraud.

The numbers are:

Austria . . . . .	0660 58 45
Belgium . . . . .	0800 12 426
Denmark . . . . .	800 184 95
Finland . . . . .	0800 112 595
France . . . . .	0591 72 95
Germany . . . . .	0130 82 05 95
Greece . . . . .	00800 321 25 95
Ireland . . . . .	1800 55 32 95
Italy . . . . .	167 87 84 95
Luxembourg . . . . .	0800 35 95
The Netherlands . . . . .	060 22 45 95
Portugal . . . . .	0505 32 95 95
Spain . . . . .	900 99 32 95
Sweden . . . . .	020 79 16 95
United Kingdom . . . . .	0800 963 595





However, the EU budget is vulnerable to fraud in the same way as national spending is. Agriculture and the Structural Funds are targeted; however, the bulk of fraud against the EU budget is currently committed in the area of duties levied on imports from non-EU countries.

The European Commission is actively improving its anti-fraud procedures and management systems to combat this. The Commission has a special Directorate (UCLAF) with responsibility for all aspects of the fight against fraud on the EU budget. Though recently substantially reinforced (it has about 125 staff), it is simply not feasible for UCLAF to act in all cases.

Moreover, it is the Member States who are in the front line in the fight against fraud at all levels: if criminal prosecution is necessary, they alone have the power to investigate, arrest and charge suspects, and bring cases before the courts.

The Maastricht Treaty obliges Member States to use these powers to combat fraud against the EU budget in the same way as they are used to protect the national budgets. UCLAF's operational mission is to support Member

**The Court of Auditors** was established in 1975 and was fully operational by 1977. It has 15 members, one from each Member State. Its role is to examine the accounts of all revenue and expenditure of the Community. It also checks that all revenue has been received, that all expenditure has been incurred in a lawful and regular manner and that financial management has been sound.

The Court is obliged to protect the Community's financial interests from fraud and from irregularities. Under the Maastricht Treaty the Court was given new tasks, and is now required to provide the Council of the European Union and the European Parliament with a statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions.

In order that taxpayers' money is even more rigorously defended than in the past, the Court has made it clear that, within the framework of the Intergovernmental Conference, it should also have access to the European Court of Justice to make sure its prerogatives are respected, that it gets access to more and better information generally and that it becomes the external auditor of the second and third pillars of the EU.

Despite this, the overriding responsibility for overseeing and disbursing Community money lies with the Member States themselves: they account directly for about 80% of the budget. They are also responsible for inspecting, enforcing and auditing these funds themselves.

States in important actions, particularly where coordination between different national officials is required.

European Commission

**EUROPE ... QUESTIONS AND ANSWERS  
HOW DOES THE EUROPEAN UNION WORK?**

Luxembourg: Office for Official Publications  
of the European Communities

1996 — 23 pp. — 16.2 x 22.9 cm

ISBN 92-827-8117-8

The EU means many things to many people. A number of people feel that it is becoming increasingly difficult to see the wood through the trees. What exactly is the EU for now? Likewise, you may want to know how the EU benefits you directly, in practical terms. This booklet, in a series of several, seeks to give brief but concise answers to the most frequent of these questions.

para comprendernos mejor

for bedre forståelse

für eine bessere Verständigung

για καλύτερη επικοινωνία

for a better understanding

pour mieux se comprendre

internet

 europa

per comprenderci meglio

voor een beter begrip

para uma melhor compreensão

jotta ymmärtäisimme paremmin

för bättre förståelse

<http://europa.eu.int>

EN

The EU means many things to many people. A number of people feel that it is becoming increasingly difficult to see the wood through the trees. What exactly is the EU for now? Likewise, you may want to know how the EU benefits you directly, in practical terms. This booklet, in a series of several, seeks to give brief but concise answers to the most frequent of these questions.

#### COMMISSION REPRESENTATIONS

<b>Office in Ireland</b>	18 Dawson Street, Dublin 2 — Tel. (1) 662 51 13
<b>Representation in England</b>	Jean Monnet House, 8 Storey's Gate, London SW1P 3AT — Tel. (171) 973 1992
<b>Representation in Wales</b>	4 Cathedral Road, Cardiff CF1 9SG — Tel. (222) 37 16 31
<b>Representation in Scotland</b>	9 Alva Street, Edinburgh EH2 4PH — Tel. (31) 225 20 58
<b>Representation in Northern Ireland</b>	Windsor House, 9/15 Bedford Street, Belfast BT2 7EG — Tel. (232) 24 07 08
<b>Information Services in the USA</b>	2100 M Street, NW, Suite 707, Washington DC 20037 — Tel. (202) 862 95 00 305 East 47th Street, 3 Dag Hammarskjöld Plaza, New York, NY 10017 — Tel. (212) 371 38 04

Commission representations and offices also exist in the other countries of the European Union and in other parts of the world.



OFFICE FOR OFFICIAL PUBLICATIONS  
OF THE EUROPEAN COMMUNITIES  
L-2985 Luxembourg

ISBN 92-827-8117-8



9 789282 781173 &gt;