

EUROPEAN PARLIAMENT



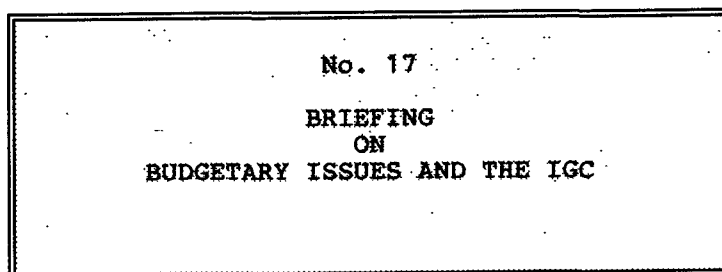
SECRETARIAT WORKING PARTY

TASK-FORCE
ON THE
" INTERGOVERNMENTAL CONFERENCE "

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These briefings have been drafted by the Parliament Secretariat Task Force on the Intergovernmental Conference. Their purpose is to gather together, in an organized, summary form, the proposals and suggestions which the authorities in the Member States, the Union's institutions and specialist commentators have put forward on the issues likely to be on the IGC 96 agenda.

Briefings will be updated as negotiations proceed.

Already out:

- 1 The Court of Justice
- 2 The Commission
- 3 The Court of Auditors, ESC and COR
- 4 Differentiated integration
- 5 The common foreign and security policy
- 6 The role of the national parliaments
- 7 The hierarchy of Community acts
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BRIEFING
ON
BUDGETARY ISSUES AND THE IGC

SUMMARY

Issues relating to the budget are not specifically identified in the Maastricht Treaty as falling within the scope of the 1996 IGC. Moreover, the financial perspective that was agreed in 1993 lays down the framework for annual revenue and expenditure until 1999, thus effectively precluding a revision of the own resources regime before the end of the century.

However, the situation is less clear-cut than this might suggest:

- a statement attached to the Interinstitutional Agreement of 29 October 1993 indicated that the institutions considered that "the budgetary provisions of the Treaty, including the arrangements relating to compulsory and non-compulsory expenditure, should be reviewed at the Intergovernmental Conference scheduled for 1996, in order to achieve interinstitutional cooperation on a partnership basis";
- the ratification of the own resources decision, designed to give effect to the financial perspective up to 1999 and to permit an increase in the level of own resources in 1995, has not yet been completed and has prompted a debate in some states about the level of their contribution to the budget of the Union, particularly in the context of future enlargement, thereby anticipating a discussion that was otherwise not expected until after the IGC;
- uncertainty as to the duration of the 1996 IGC and of the ratification procedures has led to the realisation that the apparent gap between the IGC and the debate on a new own resource regime is likely to be much less than anticipated and that the two processes may well become entangled.

As a result, the budgetary question is now seen as one of the important themes of the IGC. It has been explicitly included in the work of the Reflection Group within the theme covering the "Instruments at the disposal of the Union" as well as more generally within the theme relating to the institutions, including the Parliament. And amongst the Member states we are starting to see the budgetary issues that are seen as central to the IGC, those that are likely to be held over and those that arouse very little debate either in favour or against.

The European Parliament laid down the broad outline of the changes it would like to see in the budgetary field in its resolution of 17 May. In the coming months it will need to consider how best to pursue those changes and to answer a number of questions. How far should the budget debate **anticipate** the discussion over the shape of the financial perspective that expires in 1999? To what extent should the debate be **limited** to issues linked to the distribution of competences within the budgetary procedure rather than to the volume of expenditure to be devoted to particular policies? And how far should the priorities of the Parliament be **reviewed** to take account of the balance of opinion amongst the governments and parliaments of the Union?

I. POSITIONS TAKEN BY EU INSTITUTIONS

The European Parliament

Initial contributions to the budgetary debate were made by the Institutional Committee (in a working document by Mr LUCAS PIRES as well as in the reports of Messrs. BOURLANGES and MARTIN) and the Budgets Committee (draftsman, Mr CHRISTODOULOU). Subsequently, in its resolution of 17 May the Parliament the Parliament identified four priority areas for budgetary reform at the IGC:

- extending the scope of the **expenditure** of the Union that is to be included in the budget;
- revising the structure of **revenue**;
- reshaping the operation of the **budgetary procedure**; and
- intensifying the **fight against fraud**.

Subsequently, on 12 July the Parliament reiterated its support for extending the scope of expenditure by voting in favour the BAGGIONI report which called for the integration of the European Development Fund into the budget.

The changes sought by the EP can be divided into two categories: those designed to reinforce the role of the Parliament as one of the twin arms of the budgetary authority and broader modifications not directly related to the powers of the Parliament. On this basis one can classify the modifications sought by the Parliament as follows (Treaty articles requiring modification indicated in brackets):

Changes in the role of the EP

1. Broadening the range of expenditure over which the Parliament has a say, by incorporating the EDF, borrowing and lending and expenditure under the second and third pillars within a **single unified budget** (Article 199).
2. Associating the EP in the fixing of revenue by giving it a **right of assent** over own resource decisions (Article 201).
3. Eliminating the distinction between **CE and NCE**, thereby giving the EP an equal say with the Council in the determination of all expenditure (Article 203).
4. **Simplifying** the budgetary procedure by making the PDB, rather than the DB, the basis for EP first reading, whilst retaining the principle that the EP should adopt the budget (Article 203).
5. Reinforcing **Article 138c** which provides for parliamentary committees of inquiry as part of the fight against fraud.

Broader changes

1. Incorporating into the Treaty provisions for **multiannual financial programming** (Articles 199 and 201A).

2. Modifying the **own resource system**, laid down in the decision on own resources provided for in Article 201:
 - to include the income of the ECB (seniorage income);
 - to make it possible for citizens to identify what resources are allocated to the Union;
 - to make it reflect the financial capacity of Member States;
 - to permit the fixing of an overall financial ceiling.
3. Tightening measures designed to **combat fraud**, notably by strengthening the provisions for investigations within Member States and for sanctions in the fight against fraud (Article 209A).

The Commission

In its Report on the operation of the Treaty on European Union the Commission points without comment to the two interinstitutional agreements of 29 October 1993 (laying down the financial perspective up to 1999) and of 6 March 1995 (on the inclusion of financial provisions in legislative instruments).

The Commission also draws attention to two paradoxes which complicate the fight against fraud:

- that the Council requires unanimity to act against fraud but only a qualified majority to determine levels of expenditure;
- that Commission is liable in respect to execution of the budget whereas management is often decentralised, thus disassociating power and accountability.

In relation to the CFSP the Commission refers to the complexity of the hybrid nature of the Treaty, with decisions under one pillar requiring funding under another. The result is "procedural debates instead of debates of substance".

The Council

In its Report on the functioning of the Treaty on European Union of 5 April the Council restricts itself to two comments on budgetary issues:

Para.70 "The experience gained in the area of CFSP financing shows up the discrepancy between the European Parliament's powers of political control and its budgetary power as the Parliament tries to increase its involvement in the CFSP by exercising its budgetary powers. The funding of the CFSP has given rise to controversy and has not yet been resolved."

Para.83 "...The question of funding the implementation of Title VI is similar to that of funding the CFSP."

The Court of Auditors

In its report on the functioning of the Union the Court of Auditors proposed specific changes to the texts of the Treaty designed:

- to recognize the Court officially as the Court of Auditors of the Union;
- to give it the possibility to go to the ECJ, in particular to protect its own prerogatives,
- to allow the Court to exercise control over all the expenditure of the Union, including that under pillars 2 and 3 of the Maastricht Treaty,
- to define more precisely the responsibilities of "ordonnateurs", financial controllers and accounting officers.

The Reflection Group

In the interim report which was published on 30 August the President of the Reflection Group indicated the direction of the discussion so far on budgetary questions, notably the system of own resources, the possibility of a fifth resource, multiannual planning, the budgetary procedure, the principle of sufficient means and the control of expenditure:

Concerning **own resources** the majority of the group consider that the IGC should not handle the negotiation on the next financial perspective. Otherwise the agenda of the IGC would prove unmanageable. Some members, however, pointed to the link between the IGC, enlargement and a financial agreement. They would like to know "who will pay for what" before going ahead not only with enlargement but also with ratification of the outcome of the IGC.

Independently of the question of when the own resource system is introduced, some members feel that the system of contributions to the revenue of the budget should be revised, by establishing a system which takes account of the relative prosperity of states, by reviewing the imbalance between the powers of the EP over expenditure and its minor role in relation to revenue or by setting up a real system of Community taxes rather one based on national contributions.

One member of the group would like to incorporate **multiannual financial planning** in the Treaty but a clear majority would prefer to keep it outside, using the more flexible arrangement of interinstitutional agreements.

There is general support for a simplification of the **budgetary procedure** with the idea notably of eliminating one of the two budgetary readings. However, the proposal to remove the distinction between compulsory and non-compulsory expenditure is not accepted by the majority. The report points to an intermediate position whereby the Parliament would be able to amend a fixed percentage of compulsory expenditure.

The principle of sufficient means is seen by some as encouraging moderation in the exercise of its legislative prerogatives by the Commission. Others consider that Article F3 provides provides a sufficient guarantee of this principle. One member felt that strengthening this principle would make it easier to accept the move from unanimity to qualified majority on certain sensitive aspects of secondary legislation, particularly those involving high financial cost for Member states.

Some suggestions were put forward concerning the **control of expenditure**, including strengthening the role of the Court of Auditors in the fight against fraud, establishing cooperation with national audit bodies and increasing the

control of the ECOFIN and Budget Councils over the Councils more inclined to favour expenditure, in particular the Agriculture Council.

Mr Westendorp suggests that one of the tasks of the group in the coming months should be to examine a possible proposal from the Group as to how to manage the interlinked issues of the IGC, the financial agreement and enlargement.

In addition, the Group discussed the financing of the CFSP. There is a consensus that specific mechanisms need to be devised to ensure that funding can be guaranteed quickly. A very large majority considers that financing should be assured through the Community budget.

II. POSITIONS OF MEMBER STATES

The debate outside the Parliament on the revision of the budget has been relatively narrow in scope up to now. However, one can identify certain trends:

- concern as to the volume of revenue made available to the Community budget or the volume of expenditure received from it;
- reluctance to combine the IGC discussion with the debate on the future size of the budget;
- wide support for including the financing for CFSP entirely within the Community budget;
- few expressions of view on changes in the role of the European Parliament in the budgetary procedure.

Belgium

In the political note that it sent to the Parliament on 28 July the government indicated that it did not consider the IGC to be the appropriate forum in which to discuss the shape of the budget of the Union and in particular, the size of the structural funds or the CAP. It notes that the simple extrapolation of the existing levels of expenditure would be impossible to pay for and that solutions will have to be found by the use of transitional mechanisms.

In the same document the government does come out in support of including the finance for CFSP within the budget.

Germany

There has been considerable discussion about the financial burden of the Community budget. In its decision of 12 May the Bundesrat prefaced its approval of the new own resources decision with the demand that the disproportionate burden of the budget on Germany be corrected in the post-1999 financial perspective, with a new system that takes account of per capita income and purchasing parities. It called for future financing to be one of the themes of the 1996 IGC.

In Bild Zeitung of 19 June Theo Waigel, the Finance Minister, reiterated that the actual distribution of burdens was no longer acceptable for Germany and that the issue would be put on the agenda by Germany at the 1996 IGC, even though a new system can only come into effect after 1999.

The German government has expressed its support for two other budgetary reforms:

- an amendment to the existing provisions on financing the CFSP so that there can be adequate financial means inside the Community budget to cover common actions; and
- tighter control of fraud and auditing.

Mr Waigel rejected the idea that the EU should raise its own taxes or make its own borrowings. (Financial Times, 6 April 1995)

Greece

In an initial document submitted in January 1995 the Greek government emphasised the importance of economic and social cohesion and the need for transfers of funds to the less-developed areas. It suggested that under the third stage of EMU it will be necessary to examine the overall size of the budget and the criteria for distributing funds. The accession of the Central European countries will require a greater budgetary effort.

Spain

In Agence Europe of Wednesday 5 July, Mr Solana, Spanish Foreign Minister, stressed the need for the IGC to look at the problem of **own resources** in the light of future of enlargement, pointing out that the Member State most keen on enlargement do not intend to increase their contribution to expenditure.

In its document on the 1996 IGC, the Spanish government makes clear that if economic and social cohesion comes on to the agenda, then there should be consideration of the following:

- elimination of the regressive effects of the third VAT resource;
- strengthening of the structural funds;
- introduction of a fifth, progressive own resource;
- possibly, new alternatives such as financial equalisation mechanisms.

However, it argues that the issue of funding should not be considered at the IGC as it is likely to endanger the meeting's success. The CAP and cohesion should be considered during accession negotiations.

France

The discussion on budgetary issues in France has been concentrated in the Parliament where the following positions have been taken:

- support from the Delegation for the European Union for including borrowing and lending in the budget (Report of Mrs Ameline and Mrs Catala, p.90)
- firm opposition to the elimination of the distinction between compulsory and non-compulsory expenditure (Report of Mrs Ameline and Mrs Catala, p.90).
- support for limiting the power of the European Parliament to amend the budget, following the example set by Article 40 of the French Constitution. In particular, it has expressed its opposition to the scattering of appropriations ("saupoudrage des crédits") and wishes to prevent the Parliament from introducing amendments which have this effect.

- rejection of the inclusion of financing for the CFSP within the Community budget.

Luxembourg

The Luxembourg government, notably in its position paper on the IGC (see Agence Europe, 6 July 1995) has expressed its support for:

- reexamining the budgetary provisions of the treaties to make them more effective, notably through improvements in the means available to the Court of Auditors to carry out investigations in the fight against fraud; and
- including the finance for CFSP within the budget.

Austria

The Austrian government (in its memorandum of June 1995) came out in support of including the finance for CFSP within the budget.

The Netherlands

The discussion in the Netherlands over budgetary questions is overshadowed by the unwillingness of the Dutch Parliament up to now to ratify the **own resources** decision giving effect to the financial perspective proposed at the Edinburgh European Council in December 1992. There is considerable disquiet as to the impact of that decision on the Netherlands and in particular, the extra financial burden it will involve.

There is a debate as to how to reduce the net Dutch contribution to the budget. For example, in February 1995 the Dutch Ministry of Finance wrote to the Dutch Parliament concerning the financial relationship of the Netherlands to the European Union. It specifically presented the net position of the Netherlands vis-à-vis the EU budget and argued for a system of **net limiters** designed to eliminate excessive differences between receipts and payments.

In addition, in its document presented in view of the IGC in relation to the **third pillar**, the Dutch government (Agence Europe, 5 August 1995) argues that Community financing has clear advantages over intergovernmental financing and wants the Treaty to specify what should come under each heading.

As far as the powers of the EP are concerned, it should be recalled that support for giving the EP the right of assent over revenue was expressed by the Dutch government in its draft treaty text during the Maastricht negotiations in September 1991.

Portugal

The Portuguese government and the Portuguese parliament (resolution of 2 March) have both expressed their support for extending the budgetary provision for economic and social cohesion in the context of enlargement.

United Kingdom

The British government has expressed the wish to combat fraud more effectively, laying particular stress on a modification of the role of the Commission. On 12 January Douglas Hurd, the Foreign Secretary, suggested making the Commission

more accountable to the Council and on 3 February the Prime Minister argued for "a more efficient, cost-conscious Commission".

The inclusion of finance for CFSP within the budget is opposed by the British government.

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For further information related to this briefing, please contact Mr Michael SHACKLETON, Tel. 2732 (BXL).