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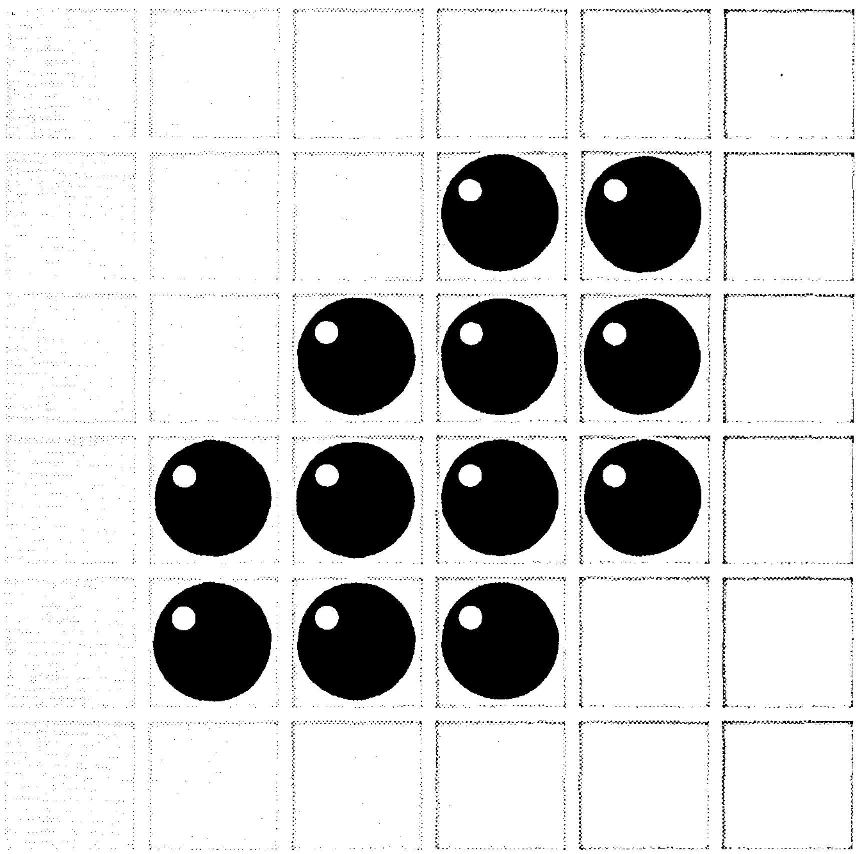
THE EUROPEAN COMMUNITY'S BUDGET



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The European Community's budget

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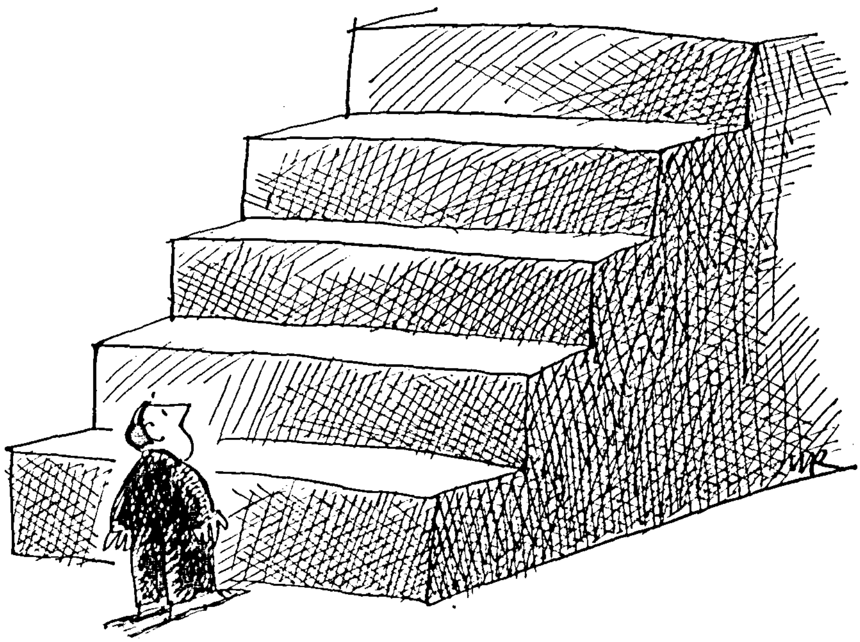
Contents

NOTE: Amounts have generally been expressed in ECU, the value and composition of which have changed many times over the years. The gradual changeover from the old budgetary unit of account to the ECU is described on pages 32 to 34. The term used in any particular section of the text will depend on the rules in force at the time referred to.

A. Perspectives and Problems



Budgetary and financial problems have long dogged the development of the European Community and have sometimes even threatened its very existence. At the end of 1984, the Community had to make spending cuts in order to cover that year's expenditure from available own resources. In December 1984, the European Parliament rejected the 1985 draft budget because it realized that the estimated revenue would only cover necessary expenditure until the autumn.

When the Community has hit the headlines in recent years, it has usually been in connection with 'Community budget deficits', 'budgetary reform', 'budgetary discipline' or 'budget disputes'. There is obvious scope for disputes between the Community and the Member States, between the Member States themselves and between the institutions involved in the budgetary procedure — Parliament, the Council and the Commission.

Large but still relatively modest budget

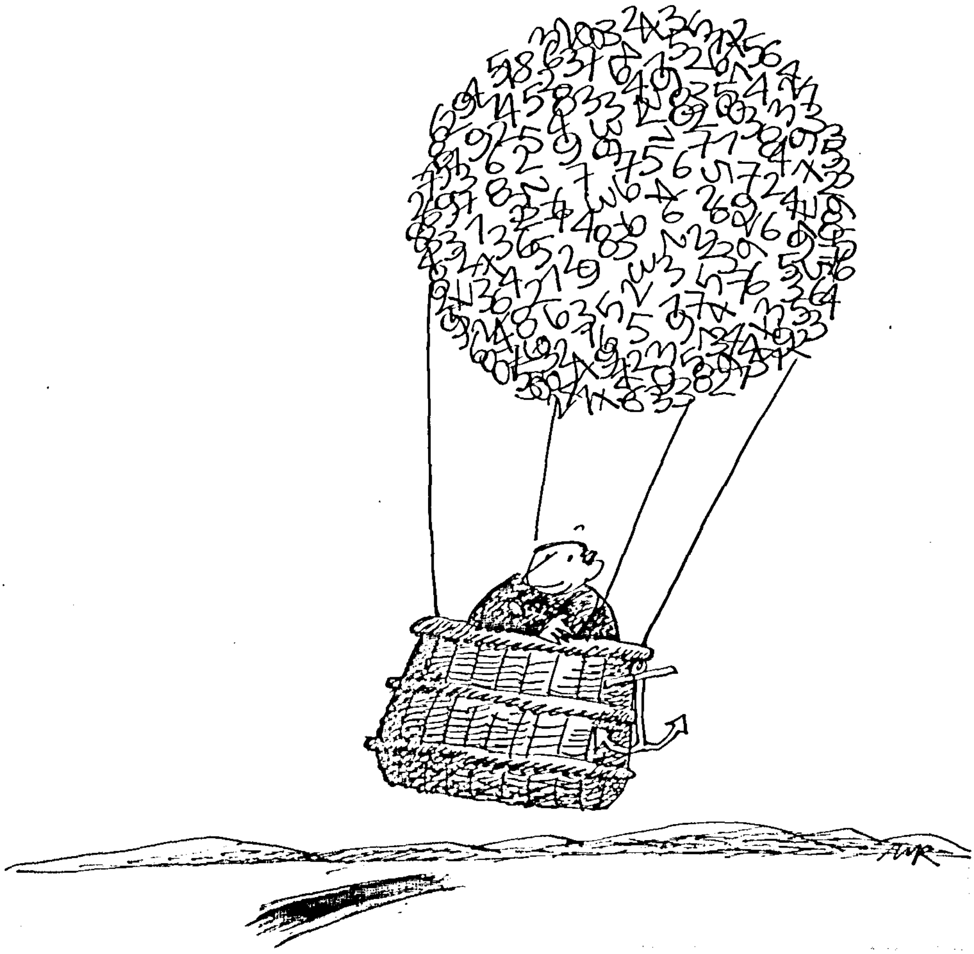
The amounts involved are huge in themselves. With the supplementary and amending budget approved by the Council and Parliament in October, the 1984 budget totalled 27 248 627 722 ECU, i.e. almost DM 61 000 million. This represents only 0.987% of the 10 Member States' gross domestic product for that year. It is equivalent to only 2.7% of the 10 *national* budgets. However, in terms of volume, the 1984 Community budget is as large as the Danish budget (DKR 228 000 million i.e. 27 900 million ECU) or the Greek (16 000 million ECU) and Irish (11 000 million ECU) together. The 1984 Community budget is also bigger than the budget of the largest *Land* in the Federal Republic of Germany, North Rhine Westphalia, which had a budget of DM 57 200 million (25 600 ECU) in 1984 compared with 15 900 million ECU in Bavaria, 14 500 million ECU in Baden-Württemberg and 11 300 million ECU in Lower Saxony.

If the loans raised on the capital markets (see pages 25 and onwards) are added to the total budget, the Community's funds for 1984 were 35 000 million ECU, or about one-third of the amount the nine Member States belonging to NATO (i.e. excluding Ireland) spent on defence according to NATO statistics for 1984.

A new public-sector budget

Many people still regard the Community's financial problems and requirements as a new obscure sector of public finance. They glibly point to what they think is a very expensive bureaucracy. However, only 4.54% of the budget is spent on personnel and administration in all the Community institutions. The Commission accounts for 2.98%, the Council for 0.41% and Parliament for 0.81%. Repayments to the Member States for the costs they incur in collecting own resources are almost as high as the institutions' total administrative costs. At 1 000 million ECU, they accounted for 4.06% of the 1984 budget. A further 4.43% went on compensatory payments (mainly to the United Kingdom). This still left 23 700 million ECU, i.e. 86.8% of the budget, to be spent on operations, hence to be redistributed amongst the Member States.

Expenditure on agricultural market organizations accounts for the lion's share with an average of two-thirds (67.28% in 1984), since only agricultural policy and its financing arrangements have so far become fully 'European'. In 1984, 13.6% of funds went on structural policies (Agricultural, Regional and Social Funds), 3.29% on development cooperation (excluding the European Development Fund which is financed from sources outside the budget) and 2.64% on research, energy and industry.



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. This highly complex subject which only real experts are fully able to fathom, 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 and prejudice.

There is a constant temptation when all the Member States are in a difficult financial situation to use the Community and its finances as a scapegoat for rising expenditure. This overlooks the fact that the Community budget is simply a reflection of decisions taken jointly and mechanisms set up by common agreement. The reality is that decisions often cannot be taken since no consensus can be found on meeting the costs.

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 assigned an operational function, the cost will normally be borne only by those Member States which took the corresponding decision (the 'la carte' system). There is virtually no transfer of funds, let alone fiscal adjustment. This is the system applied in all the 200-odd international organizations to which most Community countries and often the Community itself belong. It is the practice of the UN 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. These are the appropriations for Community operations, which are 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 development cooperation (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 intergovernmental organizations staff and administrative expenditure accounts for between 95 and 100% of contributed funds. In the Community budget for 1984, around 1 200 million ECU — or 4.5% was entered to cover staff and administrative expenditure of all the Community bodies. That gives some idea of the difference, as does the fact that the governments of the Community Member States pay the equivalent of around 14 000 million ECU in contributions to these 200-odd international organizations, with nothing in money terms to show in return. By contrast, they pay 27 300 million ECU into the Community budget, almost nine-tenths of which will be returned to them — albeit redistributed — reducing their national budgets by the same amount.

Towards federal financing

The Community is still far short of constituting a federation. At the supranational level at which the Member States have pitched the 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 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 was the purpose of the decisions taken between 1962 and 1970 to set up the common agricultural policy and fund it jointly. All 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 failed. 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 spent on the common agricultural policy. This proportion can be reduced significantly only if other genuine common policies 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. If, on the other hand, everyone insists on getting back exactly what he has paid in (the 'fair return' concept), 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 — will eventually attain a market potential equal to theirs.

Net beneficiaries and net contributors

The distinction made between net beneficiaries and net contributors by comparing the Member States' financial contributions with the payments made to them in return is also 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 oversimplistic measure of the progress of European integration. This is particularly true since the Community, with its aim of establishing comparable conditions throughout the Community market, helps provide assistance and investment, which a single Member State with its limited resources would be unable to afford.

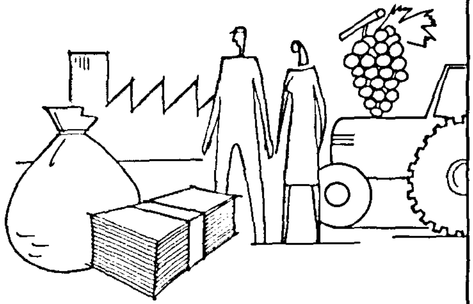
But it is a different story in practice where the financing of the common agricultural policy is concerned. Here the system devised to redistribute resources and promote integration has drifted off course. Quite frequently, the healthier sectors of European agriculture — be they individual farms, regions or even whole Member States — have obtained Community funds which ought really to 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 reforming the agricultural policy and, given the squeeze on all budgets, including the Community's, by bringing it into line with general economic policy.

Parallels in history

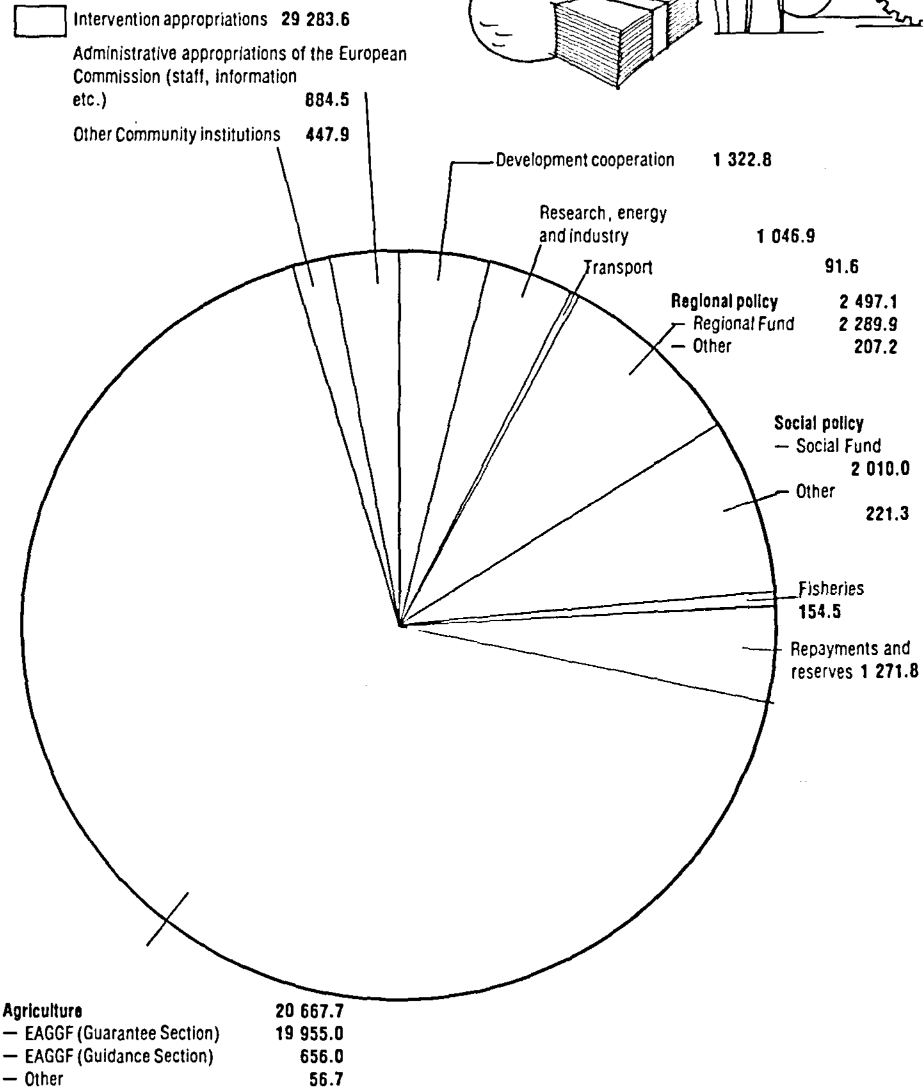
Disputes constantly rage in the Community between the Member States, or between the institutions (Parliament, Council and Commission) involved in the decision-making process, or sometimes between the two, about respective roles in distributing and redistributing funds and about shares of the Community cake. This is by no means as 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 Australia are all good examples.

A group of independent experts set up by the Commission to study the role of public finance in European integration, under the chairmanship of Sir Donald MacDougall made a detailed analysis of the five federations listed above, together with three

Budget of the European Community
1985 *(million ECU)*



Commitments [1]



[1] From the 1985 budget of the European Communities, voted by the European Parliament on 13 June, 1985.

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 80 years (until after the Civil War) to institute own resources other than revenue from customs duties. Even today, 'revenue sharing' between the Federal Government in Washington 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 jealously defend their sovereignty in tax matters. Fiscal adjustment between the different levels of government is frequently, and hotly, debated in Switzerland.

The specific problems of federation and the practical experience of the Federal Republic of Germany are in many ways illuminating for the development of financial relations between the Community and its Member States:

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). This led to the development of a 'fiscal federation'. The federation did not receive full customs power until the Basic Law was adopted in Bonn in 1949.

B. The Community's own resources

The European Community has been quicker than the central authorities in the abovementioned cases of earlier federations in obtaining from its Member States, in addition to revenue from customs and similar duties, a slice of the tax cake, albeit a tiny one as yet.

The Community's own resources are now constituted as follows:

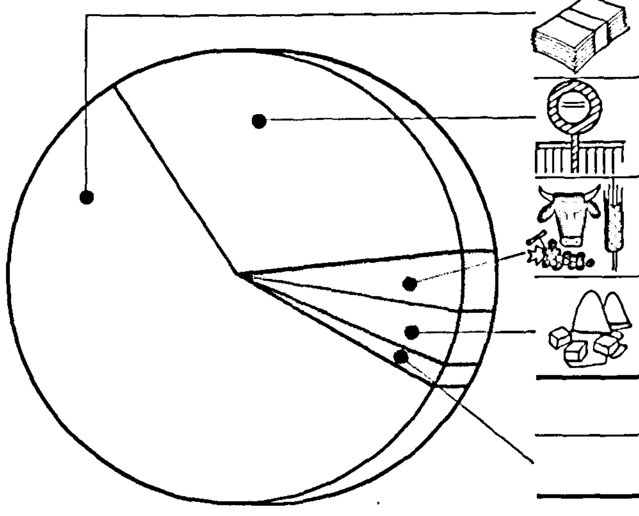
	1980		1984[1]		1985[2]	
	Amount	%	Amount	%	Amount	%
Size of budget (in million ECU)	16 037		25 449		25 691	
of which: (%)						
customs duties		37.0		31.0		31.5
agricultural levies		9.3		7.6		5.4
sugar levies		3.1		4.8		3.9
value-added tax		44.7		56.5		58.2
Total own resources		94.1		99.9		99.0
Other revenue		5.9		0.1		1.0
		100.0		100.0		100.0

[1] Including supplementary and amending budget.
[2] Situation after the Council meeting (Budgets) on 24 April 1985.

The assignment 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 geographical shifts in import flows, with preference being given to the nearest point of entry (port or airport) and to the shortest or quickest overland route. Customs revenue is therefore frequently collected in a country other than the country of destination or consumption. The only way to neutralize the effects of these shifts is to have this revenue made over to the union — in this case the Community.

The EEC Treaty signed in 1957 therefore provided (in 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 from customs duties once the Common Customs Tariff was introduced. This Common Customs Tariff (CCT) was introduced on 1 July 1968. After the United Kingdom, Denmark and Ireland joined the Community in 1973 and Greece in 1981, they introduced the CCT in stages over a five-year period. 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) should also be made over 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 available on the world market.

Community own resources in 1985
***(26 452 million ECU)*[1]**



	%
VAT	58.5
Customs duties	32.5
Agricultural levies	4.1
Sugar levies	3.9
Own resources	99,0
Other revenue	1,0
Total	100,0

[1] Estimates in 1985 Community budget approved on 13 June 1985.

The Decision of 21 April 1970

On 21 April 1970 after long and difficult negotiations, the six Community governments adopted a Decision on the replacement of financial contributions from Member States by the Communities' own resources, pursuant to Article 201 of the EEC Treaty (and by analogy Article 173 of the Euratom Treaty). 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. That conference also gave the go-ahead for negotiations on the enlargement of the Community to be opened with the United Kingdom, Denmark, Ireland and Norway (which was 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 definitive financial arrangements for the common agricultural policy (financial solidarity).

Although more than a decade has since passed, 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, on which agreement was reached on 7 February 1970 and which was 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. The sugar levy is a prefiguration of the co-responsibility levy for other products which is intended to contain outside financing for products in surplus.

It was agreed that revenue from the Common Customs Tariff would be made over to the Community progressively, starting with 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 reflect the difference between the Community price for a given product, and the world market price, so that import prices are brought up to the Community level. Agricultural prices, however, are not fixed at a high level in the Community merely to generate levy revenue. Other factors determine these prices; the effect on the Community's budget revenue will then vary according to the price levels on world markets. The yield from agricultural levies depends entirely on movements 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.

Agricultural levies — plus any supplementary and compensatory amounts and other levies and premiums charged on trade in goods covered by the agricultural market organizations — and customs duties are the natural resources of the Community, since it is based on a single market with a common external frontier. However, they do not yield anywhere near enough to supply the Community with the funds it requires for all the tasks assigned to it. Moreover, revenue from customs duties and agricultural levies tends to fluctuate, and its rate of growth falls far behind the Community's increasing financial needs.

The relative importance of customs duties is diminishing as they are progressively dismantled in trade with non-member countries. The Kennedy Round in GATT resulted in the Community reducing customs tariffs in trade with 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 system of preferences (GSP) for developing countries many customs duties have either been removed altogether or sharply reduced. The Community's multilateral agreements (Lomé), and bilateral preferential agreements (Mediterranean countries) have produced the same effect. Growing imports and rising prices barely make up 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 area dependent on exports (representing 25% of its gross domestic product, as against 13% in Japan and 8% in the United States).

The Member States have to be repaid 10% of the revenue from customs duties and agricultural levies to cover collection costs. The Community budget is thus left with only 90%. At 1 105 million ECU, this 10% repayment amounted to as much as 4.06% of expenditure in the 1984 budget. That was 386 million ECU — or 53% — more than the Member States, through the Council, allocated for expenditure on research, energy and industry.

Claim to a share of value-added tax

To meet all the Community's requirements an additional source of finance had to be found. It was agreed in 1970 that the Member States should pay over part of their value-added tax revenue. VAT was chosen because — with the harmonization of turnover tax (VAT) systems under the Sixth Directive of 17 May 1977 — it 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 for the calculation of the share of Member States' VAT revenue to be made over to the Community is defined as 'the sum of all taxable supplies of goods and services to the final consumer in the Community'. It does not, therefore, depend on VAT rates charged, which still vary 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 agreed to assign to the Community as own resources up to 1% of a uniform basis of assessment of value-added tax. This is a maximum rate which can be exceeded only if the Member States agree to amend the Decision of April 1970 and the amendment is ratified by the national parliaments.

There were delays in transposing the Sixth VAT Directive into national law. The replacement of the Member States' financial contributions by VAT payments, originally scheduled for 1978, was therefore deferred until 1979. And even then the process was not complete, since only Belgium, the United Kingdom, Denmark, France and the Netherlands had taken steps to comply with the Sixth Directive (Belgium on 1 January 1978, the United Kingdom on 1 April 1978, Denmark on 1 October 1978, France on 1 January 1979 and the Netherlands on 1 January 1979). After proceedings had been initiated before the Court of Justice, Ireland followed suit on 1 March 1979, Italy on 1 July 1979 and Luxembourg and the Federal Republic of Germany on 1 January 1980. VAT own resources payments were therefore made in full for the first time in the 1980 budget. Greece, which joined the Community on 1 January 1981 has been allowed until 1 January 1986 to introduce the uniform VAT system. In the meantime it is paying financial contributions.

In the 1984 budget the VAT call-in rate was first set at 0.9971% (of a possible 1%). However, the 1% limit was reached that autumn in the supplementary and amending budget. Increased expenditure had to be covered, and the estimate made the previous year of 1% of the Member States' uniform VAT bases (i. e. maximum VAT own resources for the Community) had to be revised downwards by 1.58% from *14 608.5 million ECU to 14 377.0 million* ECU.

The VAT call-in rate has risen relatively quickly:

	%
1979	0.78
1980	0.73
1981	0.7868
1982	0.9248
1983	0.9980
1984	1.0
1985	0.9844[1]

[1] May 1985.

Future methods considered

For some years the three-year financial forecasts attached to each year's preliminary draft budget had been indicating that the moment was drawing near when Community expenditure — if annual growth continued at the rates dictated by the rapidly expanding needs of the agricultural policy — would no longer be covered by the more moderate increases in own resources. The MacDougall report (see above) in 1977 and Commission papers had given early warning of this and had presented for discussion possible solutions for the financing problems looming ahead. Of particular significance in this context were — and indeed still are — the comprehensive review of the Community's budgetary problems, which the Commission sent to the Council (for a joint meeting of Foreign Ministers and Finance Ministers) and Parliament in March 1978, and the Green Paper 'Financing the Community budget — the way ahead', which it sent to the Council in November 1978.

Calls to raise the 1% VAT ceiling were already coming 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, stoutly opposed such a possibility, because their own tight budget situation would inevitably mean raising domestic VAT rates. In addition, the feeling, particularly in Bonn and London, was that the necessary savings resulting from a reform of the agricultural policy and its financing

arrangements would not be achieved on a lasting basis if the constraint imposed by the VAT limit were to be eased.

At the Stuttgart summit conference of the Heads of State or Government of the 10 Member States in June 1983 it was eventually decided to raise the limit from 1% to 1.4%. Hopes were pinned on the tighter budgetary discipline also called for at the Stuttgart summit. However, in agreeing to the increase in the limit to 1.4%, the German Chancellor, Helmut Kohl, had the condition written into the final declaration that it would be ratified by the national parliaments at the same time as the treaties for Spanish and Portuguese accession.

It was then found that even without enlargement the Community's activities and expenditure would lead to budgetary deficits unless the VAT limit were raised. The following decision was therefore taken at the Fontainebleau European Council in June 1984:

> 'The maximum rate of mobilization of VAT will be 1.4% on 1 January 1986; this maximum rate applies to every Member State and will enter into force as soon as the ratification procedures are completed, and by 1 January 1986 at the latest.

> The maximum rate may be increased to 1.6% on 1 January 1988 by unanimous decision of the Council and after agreement has been given in accordance with national procedures.'

The Commission's proposals, however, had been much more ambitious. In May 1983 it had called for a new decision to replace the Council Decision of 21 April 1970 (see above) which was still in force. This new decision would remove the VAT ceiling altogether and would enable the Community institutions themselves to call in the VAT revenue they needed *without* a further decision having to be ratified in accordance with national constitutional requirements.

This would give the Community direct control over a tax and would make it financially independent. In return, the need for a unanimous decision would be a definite guarantee for Member States that they would still have a role to play. The second requirement envisaged by the Commission was a Parliament decision by a majority of its members and three-fifths of the votes cast. However, the governments have not accepted this proposal nor the modulation of VAT rates suggested by the Commission. Modulation was an ingenious arrangement for overcoming certain budgetary imbalances. As the Thorn Commission stated in the review of its activities (*Working for Europe — January 1981 - January 1985*, p. 33), it was 'well received by those Member States for which it would have meant a reduced contribution to the budget, although they would have liked it to go further, but is was rejected out of hand by those which would have had to pay more. In a zero-sum game, the need for unanimity inevitably results in stalemate.

After further unsuccessful attempts, the Commission had to abandon the search for agreement on a new method of sharing out the budgetary burden among the Member States'. The Commission interpreted this as a demonstration of the Member States' lack of confidence in the future of the Community.

> 'This is hardly surprising in view of the persistent crisis which has so divided the Community, paralysed its decision-making mechanism and kept the attention of the Heads of State or Government riveted for four years on pettifogging haggles over money' (op.cit., p. 34).

However, problems of this type have beset the Communities from their infancy whenever it has been suggested that they should receive a special tax to give them financial independence. The first Community — the European Coal and Steel Community (ECSC) — was given this financial independence in 1951 in the form of a levy. The conflict which specialist literature describes as the ECSC tax battle broke out in 1953. This is perhaps why, when the EEC and the EAEC (Euratom) Treaties were drafted in 1957, the financial provisions of the ECSC Treaty were ignored (see Wohlfahrt-Everling-Glaesner-Sprung).

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 Treaty of 18 April 1951. Under 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 paid by firms in the coal and steel industries. The levy rate was 0.35% in the 1960s; it was subsequently reduced to 0.30%, and from 1972 to 1979, to 0.29%. Since 1980 it has been 0.31%. It is made up of a net scale — recalculated every year — for each tonne of brown coal, hard coal, pig iron, steel in ingots and rolled steel products. Steel firms account for three-quarters of the levy yield and coal firms for the other quarter.

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 the ECSC operating budget is governed by its own rules and procedures under the ECSC Treaty, it has always been executed and presented separately from the general Community budget. Here too, there is need for reform. The Commission has often proposed that customs duties on coal and steel should also be made over to the Community.

So far, this has not been the case. The amount involved is now around 60 million ECU, i.e. only about half the 122.5 million ECU which had to be transferred from the general budget to the ECSC operating budget (359.5 million ECU) in 1985 to finance the social and conversion measures connected with the restructuring of the coal and steel industries.

The search for other sources of Community finance has raised the question of an energy tax or a tax on imports of unprocessed fats (nicknamed the margarine tax) or on all fats along the lines of the sugar levy (coresponsibility levy). The possibility of claiming a share of taxes on tobacco or petrol — which might have to be increased for the purpose — has also been investigated, but no serious discussions or preparations have followed.

Summary of financing of expenditure
Financial year 1985[1]

	Sugar and isoglucose levies	Agricultural levies	Common Customs Tariff duties	Financial contributions Current financial year	VAT own resources Current financial year	Total
Belgium	75 680 000	278 400 000	468 000 000		546 626 040	1 368 706 040
Denmark	35 400 000	5 800 000	190 000 000		337 717 474	568 917 474
Germany	266 600 000	190 000 000	2 340 000 000		4 624 451 501	7 421 051 501
Greece	21 200 000	41 300 000	137 500 000	259 726 127	–	459 726 127
France	346 000 000	90 000 000	1 164 000 000		3 734 375 918	5 334 375 918
Ireland	14 800 000	5 500 000	125 100 000		146 777 210	292 177 210
Italy	69 320 000	342 100 000	805 000 000		2 466 311 748	3 682 731 748
Luxembourg	–	150 000	4 600 000		43 297 112	48 047 112
Netherlands	79 430 000	154 600 000	705 000 000		812 362 066	1 751 392 066
United Kingdom	78 500 000	280 000 000	2 157 000 000		2 248 470 501	4 763 970 501
Total	986 930 000	1 387 850 000	8 096 200 000	259 726 127	14 960 389 570	25 691 095 697

[1] May 1985.

Structure of revenue for financing expenditure in the 1984 budget (%)

('000 ECU)

Sugar levies	Agricultural levies	Customs duties	Total	VAT	Total	1984 GDP
1	2	3	1–3	4	1–4	
1 225 280	+ 1 946 650	+ 7 883 500	= 11 055 430	+ 14 393 858	= 25 449 288	2 642 000 000

A. Breakdown by Member State

(%)

	1	2	3	1–3	4	1–4	1984 GDP
B	7.49	15.99	5.93	7.8	3.45	5.28	3.47
DK	3.81	0.51	2.47	2.3	2.00	2.13	2.52
D	28.14	14.44	28.98	26.4	28.76	28.07	28.51
GR	1.76	4.94	1.22	1.9	1.53	1.71	1.50
F	34.19	6.93	13.74	14.8	22.79	19.00	22.14
IRL	1.39	0.31	1.57	1.3	0.86	1.11	0.76
IT	7.02	23.12	9.08	11.3	15.33	13.67	15.43
L	0.00	0.01	0.08	0.1	0.25	0.20	0.14
NL	8.17	12.69	9.35	9.8	4.98	7.16	5.49
UK	**8.03**	**21.06**	**27.58**	**24.3**	**20.05**	**21.67**	**19.49**
EUR 10	**100**	**100**	**100**	**100**	**100**	**100**	**100**

B. Breakdown in each Member State

	1 (%)	2 (%)	3 (%)	1–3 (%)	4 (%)	1–4 (%)	'000 ECU
B	6.83	+ 23.18	+ 34.77	= 64.78	+ 35.22	= 100.00	1 342 945
DK	8.61	+ 1.85	+ 36.01	= 46.47	+ 53.53	= 100.00	541 475
D	4.83	+ 3.94	+ 32.00	= 40.77	+ 59.83	= 100.00	**7 141 118**
GR	4.96	+ 22.06	+ 22.03	= 49.05	+ 50.95	= 100.00	435 707
F	8.67	+ 2.79	+ 22.40	= 33.86	+ 66.14	= 100.00	4 835 177
IRL	6.02	+ 2.12	+ 43.83	= 51.97	+ 48.03	= 100.00	282 908
IT	2.47	+ 12.93	+ 20.58	= 35.98	+ 64.02	= 100.00	3 479 369
L	0.00	+ 0.29	+ 12.52	= 12.81	+ 87.19	= 100.00	51 913
NL	5.50	+ 13.56	+ 40.44	= 59.50	+ 40.50	= 100.00	1 892 327
UK	**1.78**	**+ 7.43**	**+ 39.41**	**= 48.62**	**+ 51.38**	**= 100.00**	**5 516 348**
EUR 10	**4.80**	**+ 7.65**	**+ 30.98**	**= 43.43**	**+ 56.57**	**= 100.00**	**25 449 288**

1 Expenditure to be financed	25 449 288 355 ECU
3 Duties and levies (1-3)	– 11 055 430 000 ECU
4 VAT required:	14 393 858 355 ECU = 1%
2 + surplus	+ 207 298 607 ECU
	25 656 586 962 ECU
Other revenue	1 592 040 760 ECU
Total budget volume	27 248 627 722 ECU

Source: OJ L 329, 17. 12. 1984, pp. 26 – 28 and p. 5.

C. Non-budgetary sources of finance

The Community has made use of various financing instruments outside the budget, exploiting the first-class name it enjoys as a borrower on the capital markets.

ECSC borrowing and lending operations are the main source of additional finance provided for under the ECSC Treaty. Ever since 1954 the Community has been constantly raising capital for on-lending to coal and steel firms. At 31 December 1984 it had raised a total of 9 726 million ECU. In 1984 firms drew 825.5 million ECU from this facility and 863.7 million ECU in new loans had to be raised.

Euratom borrowing and lending operations were provided for in the 1957 Treaty establishing Euratom, but they were not activated until 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. At the end of 1984 loans for that purpose totalled around 1 840 million ECU. In 1982 the Council raised the authorized loan volume to 2 000 million ECU.

In 1975, after the first oil price shock, the Community introduced another borrowing and lending facility: the '*Community loan instrument*'. This was to help Member States cope with balance-of-payment problems resulting from higher oil prices.

After initial operations involving 1 600 million ECU in 1975 and 1976, France drew 4 000 million ECU from this instrument in 1983. In 1984 the Council increased the volume of the instrument to 8 000 million ECU and restricted the proportion which could be drawn by any one Member State to 50%.

For momentary tight spots discreet standby arrangements between the central banks come into play within the *European Monetary System* (EMS). For short-term monetary support creditor quotas up to 16 100 million ECU can be mobilized. Medium-term financial assistance is available up to 14 370 million ECU.

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. First and foremost they must aid regional development and help reduce unemployment. The first tranches of 500 million ECU each were approved in 1979 (NCI I) and 1980 (NCI II). In 1983 the borrowing ceiling (NCI III) was raised to 3 000 million ECU. In July 1984 the Council authorized a second tranche of 1 400 million ECU to promote investment projects, mainly by small and medium-sized businesses. In 1984 loans of 1 181.8 million ECU were granted from NCI I-III, 67.3% of them for the development of small and medium-sized businesses.

Another source of finance outside the Community budget is the *European Investment Bank* (EIB). In size and scope, it is the largest non-budgetary instrument. Between its establishment in 1958, under Article 129 of the EEC Treaty, and 31 December 1984 the Bank raised some 37 000 million ECU, mainly by means of issues on the capital market, and on-lent the proceeds. Well over half of these loans — more than 20 000 million ECU — were granted between 1981 and 1984. The Bank's capital (subscribed by the Member States) now totals 14 400 million ECU. Under its Statute, the Bank can provide loans and guarantees for up to 36 000 million ECU (250% of the subscribed capital).

Following the loans of 5 600 million ECU granted in 1984, this limit will be virtually reached in 1985.

Loans granted

million ECU

	1982	1983	1984
New Community Instrument (NCI) [1]	791.1	1 211.8	1 181.8
EEC balance-of-payments loans [1]	—	4 247.3	—
ECSC [2]	740.6[5]	778.1	825.5
Euratom [1]	361.8	366.6	186.0
EIB (fromt the Bank's own resources) [3]	3 863.4	4 682.9	5 633.8
of which: *loans to ACP countries*	*(122.2)*	*(90.0)*	*(79.1)*
loans to Mediterranean countries [4]	*(288.0)*	*(337.2)*	*(541.6)*
Total	5 756.9	11 286.7	7 827.1

[1] With guarantee from the general budget.
[2] With guarantee from the ECSC budget.
[3] With guarantee from EIB capital.
[4] With guarantee from the general budget for 75% of the sums lent.
[5] Including 71.8 million ECU lent outside the Community.

The footnotes show the extent to which these non-budgetary sources of finance are backed by guarantees in the Community and ECSC budgets.

The specific financial instruments for the 66 ACP countries (Africa, Caribbean, Pacific) are the *Development Funds* based on Article 132 of the EEC Treaty. The resources for these five-year Funds (currently Lomé III — 1985-90) are provided by additional contributions from the Member States according to a specific scale:

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.
6th EDF 1985-90	7 400 million u.a.

In addition, the EIB grants the ACP countries loans on special terms from its own funds as part of the cooperation under the Lomé Convention. It provided 390 million u.a. for 1975-80, 685 million ECU for 1980-85 and this will rise to 1 100 million ECU for 1985-90.

In order to command a unified and comprehensive budget the European Parliament and the Commission would like to have these *special sources of finance* (but not the EIB) incorporated in the general budget. The Governments meeting in the Council have so far been unwilling to accept this. They have, however, agreed that the Commission should provide general information regarding the various categories of borrowing and lending operations (capital operations and debt management) in an annex to the budget (most recently in the general budget for 1984, OJ L 12, 16. 1. 1984, pages 955-1039).

D. Development of Community finances

Since the ECSC was founded in 1952 and the EEC and EAEC in 1958 the budget and financial systems have developed considerably. At the present time, with a further enlargement of the Community imminent and the need to use available resources to meet the financial needs of all Member States in such a way as to promote integration more effectively, adjustments to the system and its mechanisms are being considered. Although most governments are reluctant to give the Community the means for making genuine progress in this direction, the directly elected Members of the European Parliament are determined to have a greater say in the establishment and control of the Community budget and in the Community's financial activities in general. If need be, they will fight for this.

The ECSC Treaty went furthest

The ECSC benefited from the favourable tide of strong pro-European sentiment prevalent when it was established in the early 1950s. The oldest of the three Communities, it has financial provisions which, with own resources in the form of tax revenue (levy) and the power to raise loans as well, go a long way on the road to integration as regards the institutional arrangements in general and the financial arrangements proper.

EEC and Euratom — identical financial systems with different scales

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 principles and budgetary procedure. The only differences in the two systems are in their different functions and scales of contributions.

The Euratom Treaty established two budgets — an administrative budget and an investment budget. A total of 72.93 million u.a. flowed through the administrative 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:

	Administrative budget		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

Although Article 173 of the Euratom Treaty 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 a proposal was made to the Council. See page 25 for the current situation.

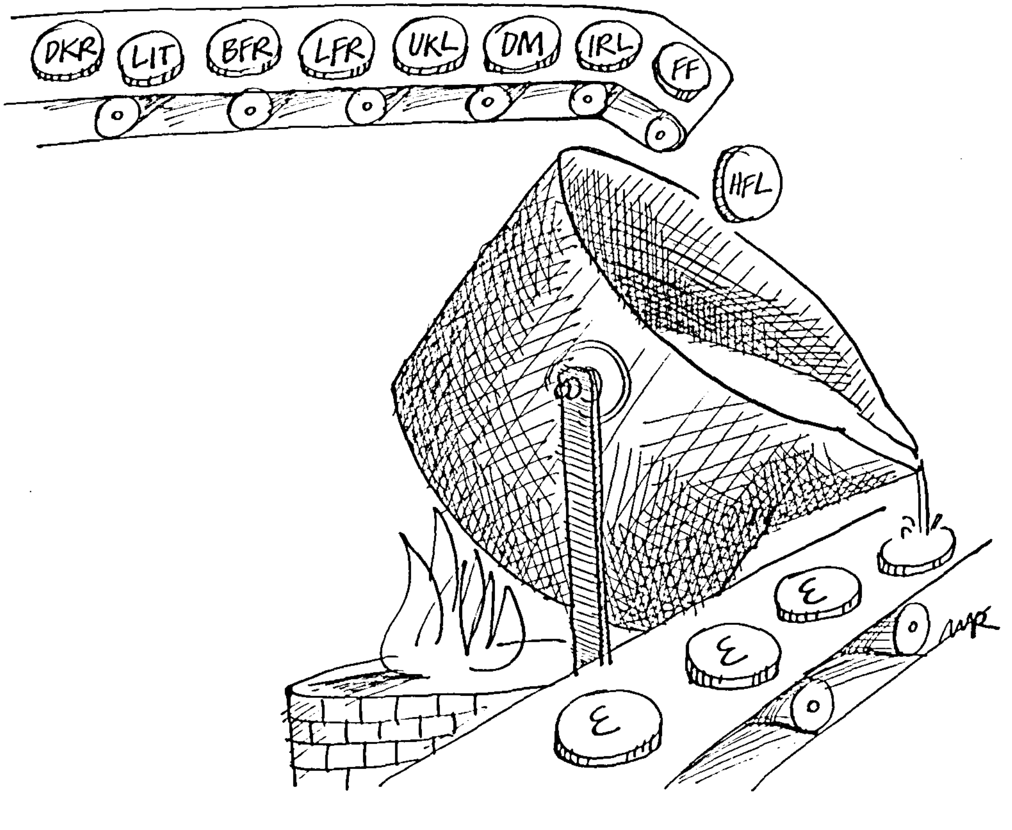
EEC — a single budget

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 was placed outside the budget.

The scale set by the EEC Treaty for contributions to the administrative budget differed from that for contributions to the Social Fund (a separate title in the budget), but the weighting of votes in the Council was the same.

	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 at a normal rate dictated by the expansion of the administrative machinery and the initial Social Fund operations. The launching of the common agricultural policy in 1964 led to an explosion of expenditure.



The Community's operating expenditure

in million u.a.

	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

Until 1977 the budget was drawn up and implemented in units of account (u.a.). The unit of account was the equivalent of 0.88867088 grams of fine gold, the gold content of the US dollar from 1934 to 1972.

Between 1978 and 1980 the budget was drawn up and implemented in European units of account (EUA). Like its successor, the ECU, the EUA was based on a basket of Community currencies. The individual currencies are weighted according to objective economic criteria (Member States' shares of the Community's gross domestic product, shares of intra-European trade and shares (quotas) in the short-term monetary support arrangements). The weighting of each currency in the basket was adjusted after the first review on 15 September 1984.

Currency basket

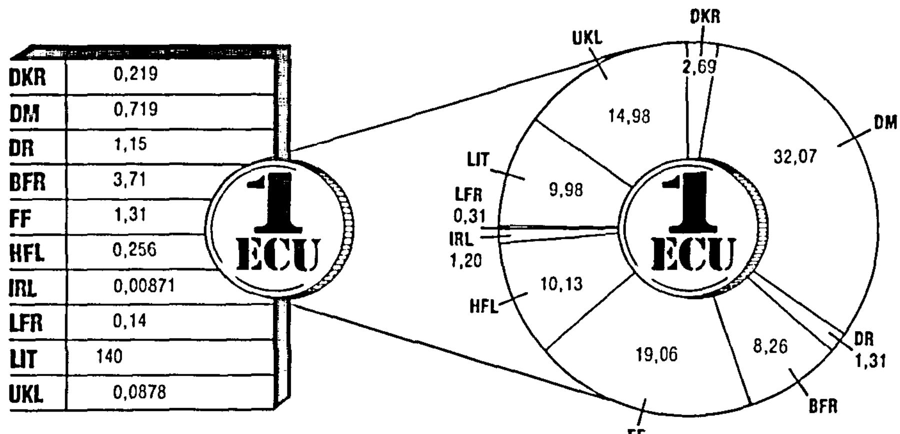
	Relative shares %		1 ECU comprises		
	Until 14. 9. 1984	From 15. 9. 1984	Until 14. 9. 1984	From 15. 9. 1984	
FR of Germany	27.3	32.0	0.828	0.719	DM
France	19.5	19.0	1.15	1.310	FF
United Kingdom	17.5	15.0	0.0885	0.0878	UKL
Italy	14.0	10.2	109.0	140.0	LIT
Netherlands	9.0	10.1	0.286	0.256	HFL
Belgium	7.9	8.2	3.66	3.71	BFR
Luxembourg	0.3	0.3	0.14	0.14	LFR
Denmark	3.0	2.7	0.217	0.219	DKR
Ireland	1.5	1.2	0.0076	0.0087	IRL
Greece	–	1.3	–	1.15	DR
	100.0	100.0	1 ECU	1 ECU	

Conversion rates

	Former budget unit of account (until 1977)	European unit of account (1.2.1977)	European unit of account (1.2.1978)	ECU (14.3.1979)	ECU (1.2.1985)
DM	3.66	2.68845	2.59338	2.51532	2.22431
FF	5.55419	5.55215	5.82906	5.78997	6.79767
UKL	0.416667	0.651186	0.629926	0.66244	0.62127
IRL				0.66244	0.71509
LIT	625	985.667	1064.46	1142.25	1371.27
HFL	3.62	2.81381	2.77819	2.71424	2.51584
BFR/LFR	50	41.3015	40.1924	39.8183	44.5370
DKR	7.50	6.69738	7.01307	7.01972	7.93610
DR	–	–	–	–	90.9416
USD	1.20635	1.11739	1.22800	1.35138	0.70079

The ECU is the sum of the following amounts of national currencies:

One ECU comprises the following percentages of national currencies:



(as of 17 September, 1984, following the inclusion of the Greek drachma in the ECU)

The rates for converting the ECU into Member State currencies are calculated and published daily.
On 1 July, 1985, one ECU was worth:

DKR	8.07421	HFL	2.53655
DM	2.25024	IRL	0.718060
DR	100.148	LFR	45.3136
BFR	45.3136	LIT	1 436.74
FF	6.85826	UKL	0.564991

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 is also the name of 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 ECU 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 15.30 hours by telex (Brussels 237 89, selector code cccc), and published in the *Official Journal of the European Communities* (Series C) on the following day.

The ECU rates reflect the relationship 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 given time.

The Community budget for any given year is drawn up using the rates at 1 February of the previous year, this being the date when the preparatory work on the budget begins. Thus, the exchange rates on 1 February 1984 were used for the 1985 budget and those on 1 February 1985 for the 1986 budget.

Difficulties with currencies and monetary compensation

The introduction of the European Monetary System (EMS) and the ECU in 1979 brought to an end the period of uncertainty caused by currency upheavals and fluctuating exchange rates that began when the convertibility of the US dollar in gold was suspended in August 1971. The Community had to try and solve the particularly complicated problems of mathematics, conversion and evaluation which resulted and experimented with such things as the 'snake in the tunnel' (1972) and block floating ('the snake') from 1973. Its task was made more difficult by the fact that France in particular had to withdraw from the snake on a number of occasions.

In the agricultural sector, a system of compensation at frontiers (monetary compensatory amounts — MCAs) had to be introduced to cope with these problems. This was necessary as the common prices for about 80% of agricultural products are uniformly expressed in ECU. Any change in exchange rates or adjustment of central rates therefore has a direct effect on the market organization prices which have to be converted into each national currency. Revaluation decreases and devaluation increases the guaranteed support prices in the country involved. The system of

monetary compensatory amounts was introduced in May 1971 to mitigate these effects which jeopardize the unity of the common market. Under the system, representative rates ('green' rates) were introduced which differ from the official exchange rates. Discussions of the monetary compensatory amounts caused major problems in the annual farm price negotiations, since, with the change in the value of the green rates, the price increases had different effects on prices in the individual countries. Prices went up more in countries with a weak currency and negative MCAs and less in countries with a strong currency and positive MCAs. The system of agricultural MCAs is extremely complicated. A much simplified example will show what is involved:

The Community price for market organization product X has been fixed at a uniform 100 ECU. At the time this corresponded in national currencies to DM 235 or FF 670. Revaluation of the German mark and devaluation of the French franc changed these amounts to DM 225 and FF 690. The guaranteed producer prices would therefore fall by DM 10 in the Federal Republic and rise by FF 20 in France. Representative green rates of DM 230 and FF 680 would therefore be fixed for the remainder of the marketing year. In cross-border trade in agricultural products there would have to be positive compensation of DM 5 and negative compensation of FF 10 to neutralize in the agricultural sector the effect of the change in central rates which had been made deliberately as a result of economic policy.

This system of MCAs also proved to be a considerable burden on the Community budget. Although, because positive MCAs increased revenue and negative MCAs increased expenditure, only the balances were of significance, they still represented a cost of one-tenth or more of total Guarantee expenditure. In addition, there were the uncertainties arising from the impossibility of forecasting currency trends when drawing up the preliminary draft budget.

A new system of monetary compensation was agreed in the agricultural price decisions for 1984/85, leading to a large-scale dismantling and elimination of positive MCAs. The main principle underlying the new system was the agreement that, when exchange rates changed, the strongest currency in the EMS, i.e. the currency with the highest revaluation rate, would be used as a basis for establishing the new 'green rates' and the monetary compensatory amounts. Past experience would suggest that this will be the German mark for the foreseeable future. Sterling will not be considered as long as it floats outside the EMS with 2.25% margins.

A green central rate was established by the decisions of 31 March 1984. This replaces the EMS central rates in calculating the MCAs and is obtained by multiplying it by the monetary factor of 1.033651. The green central rate for the Federal Republic — 2.31728 — is obtained by multiplying the ECU central rate of 2.24184 by 1.033651. The establishment of the green central rate is normally equivalent to a 3.3651% revaluation of the ECU in the agricultural sector, with a corresponding effect on the levies raised and refunds paid.

Financing the common agricultural policy: the stages

Regulation No 25 of 4 April 1962 on the financing of the common agricultural policy is the basis of the policy itself. It originated during the first and, so far, the longest agricultural marathon in Brussels, which lasted from mid-December 1961 to 14 January 1962 with short 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 ensure 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.

On 15 December 1964 the Council established common cereal prices and the principle of financial solidarity among the Member States. The Commission was asked to submit implementing rules for a common system to finance agricultural policy. The proposals published in April 1965 were relatively far-reaching for their time. In particular, the proposals for 'democratic control of own resources' by increasing the budgetary powers of the European Parliament (then consisting of delegated members) prompted General de Gaulle to block Council activities for seven months from 30 June 1965 (the 'empty seat crisis').

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

The merger

The Councils 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, 'Decision of 21 April 1970').

The European Agricultural Guidance and Guarantee Fund (EAGGF) grows

Expenditure in million u.a.

	Guarantee Section[1]	Guidance Section[2]
1973[3]	3 806	123.7
1974	3 513	128.4
1975	3 980	184.3
1976	5 587.1	218.2
1977	6 830.4	296.7
1978	8 672.7	323.6
1979	10 387.1	403.4
1980	11 291.9	603.1
1981[4]	11 063.7	576.4
1982	12 260.0	650.0
1983	15 785.8	728.0
1984	18 330.8	676.2

[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] Enlarged Community from 1973.
[4] For the nine Member States.

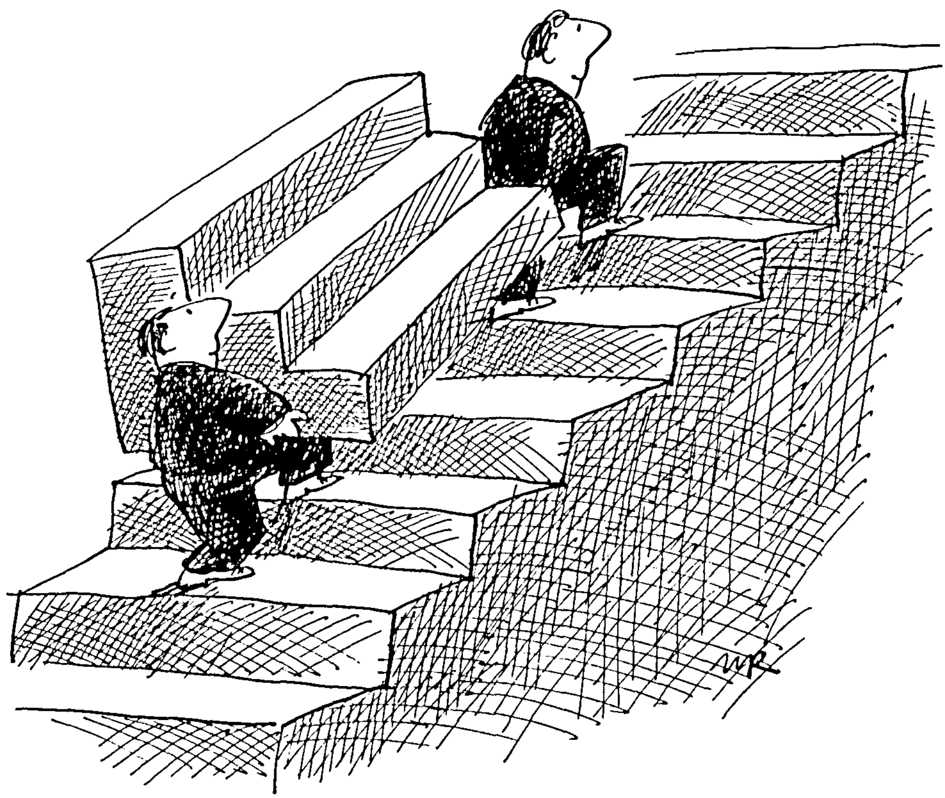
We obtain a mirror imge of the increasing trend of Community agricultural spending when we consider the impact on national budgets. The very clear financial reports from the German Federal Ministry of Finance show that in the 1965 federal budget expenditure on agriculture was DM 1 522 million, or 2.37% 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 1984 German budget the same agricultural expenditure items are allocated DM 766 million, which is 0.29% of a total that has now risen to DM 257 143 million.

However, page 37 of the 1984 Financial Report shows that DM 6 734 million from the EAGGF Guarantee Section went to German agriculture. As the Ministry laconically states, 'substantial areas of agriculture policy, and especially market organizations, are now regulated and financed by the EEC'.

At 67.28% in the 1984 budget and probably around 68% in the 1985 budget, the proportion of expenditure devoted to agriculture is still extremely high. This is not only because agricultural policy is still the only fully integrated sector, i.e. financed by the Community on the basis of joint decisions. It must also be borne in mind that some of this expenditure results from the options and decisions under the Community's foreign economic policy and trade policy. These include the commitments assumed towards Commonwealth countries when the United Kingdom joined — the purchase of 1.3 million tonnes of sugar a year from the ACP countries and the guaranteed market in the UK for New Zealand butter und cheese. Another factor of financial significance is the promise made as a commercial concession to the USA to restrict the Community's wheat exports, which pushes up storage costs.

On the other hand, the price-balancing role of the Community's agricultural arrangements protects consumers from the effects of extreme world market fluctuations and guarantees steady consumer prices and a regular and secure supply. This may not appear to be a problem at present in view of the current surpluses, especially in cereals and milk, but that does not rule out the need for a safety net.

E. Enlargement



Community established on 1 January 1958:	Belgium, France, Germany, Italy, Luxembourg, Netherlands.
First enlargement 1 January 1973:	Denmark, Ireland, United Kingdom.
Second enlargement 1 January 1981:	Greece.

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 — because of its excessive cost — 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.

On the financial front the three new Member States requested and were granted a transitional period before having to make full financial contributions. The arrangements were set out in Article 131 of the Act of Accession.

All kinds of mathematical formulas 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 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 State or 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 State or 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 receipts. That was the basis for its call for 'renegotiation', 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 where a Member State finds itself in a 'special economic situation'.

The mechanism, however, was never adequate, for it never removed or reduced the United Kingdom's net debit balance, or even slowed down its growth. The situation grew worse in 1979. At the end of 1979 Parliament even rejected the 1980 draft budget (see below).

The mandate of 30 May 1980

The problem hampered decision-making in the Council and was raised at several European Councils. On 30 May 1980, five weeks after negotiations had broken down at the European Council in Luxembourg on 27 and 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'. It was only then that the 1980 budget was adopted on 9 July 1980.

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 EUA. All the other Member States would contribute to this relief for

Vote in European Parliament on amendment to Community budget.

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.

In summer 1981 the Commission published an extensive document containing the proposals deriving from the mandate of 30 May 1980. As the Commission was later to discover, the European Council of Heads of State or Government which took place at Lancaster House, London, at the end of November 1981 had set itself an impossible task since it was 'determined to square the circle by restructuring the budget and correcting imbalances in the burdens borne by the Member States without making more own resources available' (Commission, *Working for Europe*, 1981-85).

The milestones of Stuttgart and Fontainebleau

This 'impossible task' proved to be a burden on the following summits and on innumerable meetings of the Council in its various compositions. There was no rapprochement of any type until the Stuttgart European Council of 17 to 19 June 1983 when the Heads of State or Government agreed on a work programme containing all the burning issues in connection with agricultural reform, budgetary discipline, budgetary balance, Portuguese and Spanish accession and new policies in various sectors.

The joint declaration presenting what has become known as the 'Stuttgart package' stated for the first time:

> 'On the basis of the conclusions reached on development of policies, improving budgetary discipline and the examination of the financial system, the extent and timing of the Community's requirements in terms of own resources will be determined.'

In addition to this declaration, the package also contained the agreement that a joint decision would eventually be taken on all these questions and the following objective:

> 'The accession negotiations with Spain and Portugal will be pursued with the objective of concluding them, so that the accession Treaties can be submitted for ratification when the result of the negotiation concerning the future financing of the Community is submitted.'

The comprehensive negotiations resulting from the Stuttgart compromise proved to be so tricky that the following two summits (December 1983 in Athens and March 1984 in Brussels), despite coming close to agreement, failed to settle anything.

However, the progress made allowed the agriculture ministers to achieve a breakthrough which satisfied the main demands of the Stuttgart package after long negotiations at their Council meeting on 31 March 1984, in particular as regards measures to contain costs by reducing the production of surpluses (guarantee thresholds) and the dismantling of monetary compensatory amounts (see above). The following summit at Fontainebleau on 25 and 26 June 1984 took this as a basis for a far-reaching agreement on budgetary imbalances, own resources and enlargement, and the financing of the 1984 budget. It also gave formal confirmation of the agreements already reached at the previous Brussels summit on budgetary and financial discipline. The most important parts of the Fontainebleau agreement, which should serve as a guideline for future years, are as follows:

> 1. Budgetary imbalances
>
> 1. Expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances.
>
> However, it has been decided that any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time.

The basis for the correction is the gap between the share of VAT payments and the share of expenditure allocated in accordance with the present criteria.

2. As far as the United Kingdom is concerned, the following arrangement is adopted:

(i) for 1984, a lump sum of 1 000 million ECU is fixed;

(ii) from 1985 the gap (base of the correction) as defined in paragraph 1 is, for the period referred to in paragraph 4, corrected annually at 66%.

3. The corrections foreseen in paragraph 2 will be deducted from the United Kingdom's normal VAT share in the budget year following the one in respect of which the correction is granted. The resulting cost for the other Member States will be shared among them according to their normal VAT share, adjusted to allow the Federal Republic of Germany's share to move to two-thirds of its VAT share.

4. The correction formula foreseen in paragraph 2 (second indent) will be a part of the decision to increase the VAT ceiling to 1.4%, their durations being linked.

One year before the new ceiling is reached, the Commission will present to the Council a report setting out the state of play on:

(i) the result of the budgetary discipline;

(ii) the Community's financial needs;

(iii) the breakdown of the budgetary costs among Member States, having regard to their relative prosperity, and the consequences to be drawn from this for the application of the budgetary corrections.

The Council will re-examine the question as a whole and will take the appropriate decisions *ex novo*.

2. Own resources and enlargement

The maximum rate of mobilization of VAT will be 1.4% on 1 January 1986; this maximum rate applies to every Member State and will enter into force as soon as the ratification procedures are completed, and by 1 January 1986 at the latest.

The maximum rate may be increased to 1.6% on 1 January 1988 by unanimous decision of the Council and after agreement has been given in accordance with national procedures. (Bulletin EC 6-1984)

3. Financing of the 1984 budget

The European Council agreed that, pending national parliaments' ratification of the increase in own resources, steps will be taken at the next (Budget) Council meeting to cover the needs of the 1984 budget to ensure that the Community operates normally.

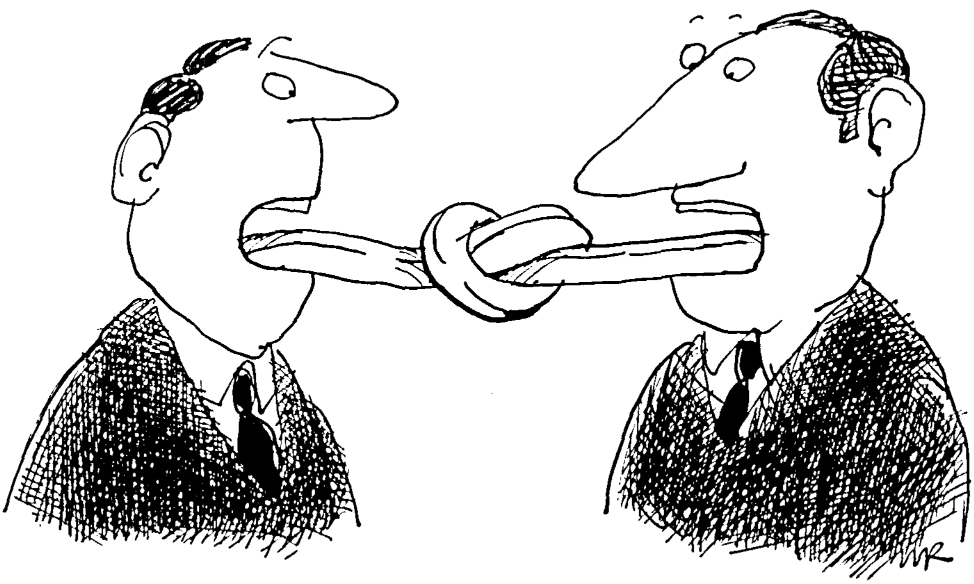
It was hoped that this would end the battle about budgetary policy. However, the interpretation of certain parts of this text has since led to new problems. In establishing rules on budgetary discipline, the Ministers were unable to go much beyond platitudes.

Special arrangements for Greece

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

Similar special arrangements are envisaged in the accession negotiations with Portugal and Spain. According to the Commission's estimates, their entry into the Community will lead to a 10-12% increase in the volume of the budget.

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, as followed at present, is gradually evolving into a federal 'two-chamber system'. Parliament and the Council together make up the 'budgetary authority'.

A gap in the democratic process at the new budget level

It was pointed out earlier that funds of the order of 1% 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 Counil.
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 finally adopted. 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 Parliament's amendments and proposed modifications, 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.

   After long negotiations, this was supplemented on 30 June 1982 by a joint declaration of the representatives of Parliament, the Council and the Commission to ensure a smoother budgetary procedure.

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 entire draft budget and ask for a new draft to be submitted.

Conflicts since 1980

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. This emergency source of finance (monthly expenditure is restricted to one-twelfth of the funds provided in the previous budget) is provided for in Article 204 of the EEC Treaty. Then at the end of 1980, there was another confrontation between the Council and Parliament. Parliament's then President, Mrs Simone Veil, 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.

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
Appropriations for commitments

Sector		Budget 1984 [1]		Preliminary draft 1985 [2]		Council draft 24. 4. 1985 [5]		Change
		Amount	%	Amount	%	Amount	%	%
		1	2	3	4	5	6	7 = 5/1
1. Agricultural market guarantees								
EAGGF Guarantee		18 333 000 000	62.65	19 955 000 000	63.35	19 955 000 000	66.58	+ 8.85
	Total 1	18 333 000 000	62.65	19 955 000 000	63.35	19 955 000 000	66.58	+ 8.85
2. Structural policies								
EAGGF Guidance		723 500 000	2.47	834 341 000	2.65	640 967 700	2.14	− 11.41
Specific agricultural measures		86 560 000	0.30	94 859 000	0.30	55 427 300	0.18	− 35.97
Fisheries		159 108 000	0.54	181 070 000	0.57	154 351 400	0.51	− 2.99
Regional Fund		2 140 000 000	7.31	2 250 000 000	7.14	2 240 000 000	7.47	+ 4.67
EMS		pm	–	pm	–	pm	–	–
Supplementary measures (UK)		pm	–	pm	–	pm	–	–
Miscellaneous – Regional		45 700 000	0.16	227 750 000	0.72	87 200 000	0.29	+ 90.81
Transport		81 750 000	0.28	111 750 000	0.35	31 350 000	0.10	− 61.65
Social Fund		1 846 000 000	6.31	1 940 000 000	6.16	1 940 000 000	6.47	+ 5.09
Miscellaneous – Social		175 022 000	0.60	188 997 000	0.60	177 869 000	0.59	+ 1.63
Education and culture		18 956 000	0.07	20 360 000	0.06	18 747 500	0.06	− 1.10
Environment and consumers		19 964 000	0.07	21 019 000	0.07	14 770 000	0.05	− 26.02
	Total 2	5 296 560 000	18.10	5 870 146 000	18.64	5 360 682 900	17.88	+ 1.21
3. Research, Energy and Industry								
Energy policy		168 774 000 [3]	0.58	156 465 000	0.50	137 700 000	0.46	− 18.41
Research and investment		750 598 000	2.57	914 767 000	2.90	788 048 400	2.63	+ 4.99
Information and innovation		29 435 000	0.10	23 200 000	0.07	9 685 000	0.03	− 67.10
Industry and internal market		69 521 000	0.24	52 370 000	0.17	33 350 000	0.11	− 52.03
	Total 3	1 018 328 000	3.48	1 146 802 000	3.64	968 783 400	3.23	− 4.87

4. Repayments and reserves							
Repayments to the Member States	1 105 343 000	3.78	1 070 265 000	3.40	1 047 098 000	3.49	− 5.27
Other repayments	44 831 392	0.15	23 994 776	0.08	23 620 098	0.08	− 47.31
Financial mechanism	−	−	−	−	−	−	−
Miscellaneous – guarantees	pm	−	520 000 000	1.65	pm	−	−
Reserves	1 207 000 000 [4]	4.13	5 000 000	0.02	75 000 000 [6]	0.25	− 93.79
Total 4	2 357 174 392	8.06	1 619 259 776	5.14	1 145 718 098	3.82	− 51.39
5. Development cooperation and non-member countries							
EDF	pm	−	pm	−	−	−	−
Food aid	506 100 000	1.73	731 000 000	2.32	618 694 800	2.06	+ 22.25
Non-ass. dev. countries	237 050 000	0.81	325 232 000	1.03	252 850 000	0.84	+ 6.67
Specific and exceptional measures	113 170 000	0.39	69 980 000	0.22	53 500 000	0.18	− 52.73
Cooperation with Mediterranean countries	108 000 000	0.37	355 100 000	1.13	236 900 000	0.79	+ 119.35
Miscellaneous	58 500 000	0.20	65 300 000	0.21	61 240 000	0.20	+ 4.68
Total 5	1 022 820 000	3.50	1 546 612 000	4.91	1 223 184 800	4.08	+ 19.59
6. Staff and administration							
Section III A	811 010 055	2.77	921 757 450	2.93	875 857 600	2.92	+ 8.00
Sections I, II, IV and V	425 562 275	1.45	438 709 060	1.40	445 251 563	1.49	+ 4.63
Total 6	1 236 572 330	4.23	1 360 466 510	4.32	1 321 109 163	4.41	+ 6.84
Grand total	29 264 454 722	100	31 498 286 286	100	29 974 478 361	100	+ 2.43

[1] Including supplementary and amending budget No 1/84.
[2] Including first, second and third letters of amendment.
[3] Including 30 million ECU in Chapter 100.
[4] Including 1 202 million ECU in Chapter 100 for UK/FR of Germany measures.
[5] Including first and second letters of amendment.
[6] Including 70 million ECU in Chapter 100 for integrated Mediterranean programmes.

Community Expenditure
Appropriations for payments

Sector	Budget 1984 [1]		Preliminary draft 1985 [2]		Council draft 24. 4. 1985 [5]		Change
	Amount	%	Amount	%	Amount	%	%
	1	2	3	4	5	6	7 = 5/1
1. Agricultural market guarantees							
EAGGF Guarantee	18 333 000 000	67.28	19 955 000 000	68.04	19 955 000 000	71.45	+ 8.85
Total 1	18 333 000 000	67.28	19 955 000 000	68.04	19 955 000 000	71.45	+ 8.85
2. Structural policies							
EAGGF Guidance	595 610 000	2.19	856 800 000	2.92	632 464 700	2.26	+ 6.19
Specific agricultural measures	79 520 000	0.29	83 039 000	0.28	53 977 300	0.19	− 32.12
Fisheries	112 358 000	0.41	139 670 000	0.48	109 601 400	0.39	− 2.45
Regional Fund	1 412 500 000	5.18	1 642 500 000	5.60	1 610 000 000	5.76	+ 13.98
EMS	pm	–	pm	–	pm	–	–
Supplementary measures (UK)	pm	–	–	–	pm	–	–
Miscellaneous – Regional	42 300 000	0.16	62 750 000	0.21	52 200 000	0.19	+ 23.40
Transport	33 750 000	0.12	35 750 000	0.13	21 350 000	0.08	− 36.74
Social Fund	1 220 000 000	4.48	1 376 000 000	4.69	1 358 000 000	4.86	+ 11.31
Miscellaneous – Social	174 222 000	0.64	187 896 000	0.64	177 727 000	0.64	+ 2.01
Education and culture	18 956 000	0.07	20 360 000	0.07	18 747 500	0.07	− 1.10
Environment and consumers	16 214 000	0.06	17 169 000	0.06	11 420 000	0.04	− 29.57
Total 2	3 705 430 000	13.60	4 421 934 000	15.08	4 045 487 900	14.48	+ 9.18
3. Research, Energy and Industry							
Energy policy	114 789 000 [3]	0.42	91 965 000	0.31	83 700 000	0.30	− 27.08
Research and investment	514 567 000	1.89	614 050 000	2.09	532 247 400	1.91	+ 3.44
Information and innovation	26 046 000	0.10	15 550 000	0.05	8 385 000	0.03	− 67.81
Industry and internal market	63 901 000	0.24	56 030 000	0.20	37 150 000	0.13	− 41.86
Total 3	719 303 000	2.64	777 595 000	2.65	661 482 400	2.37	− 8.04

4. Repayments and reserves							
Repayments to the Member States	1 105 343 000	4.06	1 070 265 000	3.65	1 047 098 000	3.75	– 5.27
Other repayments	44 831 392	0.17	23 994 776	0.08	23 620 098	0.08	– 47.31
Financial mechanism	–	–	–	–	–	–	–
Miscellaneous – guarantees	pm	–	520 000 000	1.77	pm	–	–
Reserves	1 207 000 000 [4]	4.43	5 000 000	0.02	5 000 000 [6]	0.02	– 100.00
Total 4	2 357 174 392	8.65	1 619 259 776	5.52	1 075 718 098	3.85	– 54.36
5. Development cooperation and non-member countries							
EDF	pm	–	pm	–	–	–	–
Food aid	506 100 000	1.86	532 900 000	1.82	391 561 900	1.40	– 22.63
Non-ass. dev. countries	131 305 000	0.48	173 770 000	0.60	128 750 000	0.46	– 1.96
Specific and exceptional measures	95 170 000	0.35	70 980 000	0.24	41 500 000	0.15	– 56.39
Cooperation with Mediterranean countries	106 073 000	0.39	349 250 000	1.20	248 627 700	0.89	+ 134.39
Miscellaneous	58 500 000	0.22	65 300 000	0.22	61 240 000	0.22	+ 4.68
Total 5	897 148 000	3.29	1 192 200 000	4.07	871 679 600	3.12	– 2.84
6. Staff and administration							
Section III A	811 010 055	2.98	921 757 450	3.14	875 857 600	3.14	+ 8.00
Sections I, II, IV and V	425 562 275	1.56	438 709 060	1.50	445 251 563	1.59	+ 4.63
Total 6	1 236 572 330	4.54	1 360 466 510	4.64	1 321 109 163	4.73	+ 6.84
Grand total	27 248 627 722	100	29 326 455 286	100	27 930 477 161	100	+ 2.50

[1] Including supplementary and amending budget No 1/84.
[2] Including first, second and third letters of amendment.
[3] Including 30 million ECU in Chapter 100.
[4] Including 1 202 million ECU in Chapter 100 for UK/FR of Germany measures.
[5] Including first and second letters of amendment.
[6] Including 70 million ECU in Chapter 100 for Integrated Mediterranean programmes.

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

	Unit	General budget of the European Communities [1] Total	of which EAGGF Guarantee	EAGGF, Guarantee as % of total	Central government budgets of the Member States	Community GDP	General budget as % of national budgets 2:5	General budget as % of Community GDP 2:6
	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 EUA [2]	8 500			405 400	1 415 600	2.1	0.60
1978	Mio EUA [2]	12 384	8 679	70.8	470 200	1 569 100	2.6	0.79
1979	Mio EUA [2]	14 076	10 387	73.8	527 300	1 763 400	2.7	0.83
1980	Mio EUA [2]	15 975	11 292[3]	70.7	621 900	1 987 500	2.7	0.80
1981	Mio ECU [2]	17 885	10 952[3]	61.2	731 700	2 205 400	2.4	0.81
1982	Mio ECU [2]	20 697	12 294	59.4	844 710	2 404 000	2.5	0.86
1983	Mio ECU [2]	22 896	14 050[3]	61.4	911 460	2 566 800[4]	2.5	0.89
1984	Mio ECU [2]	25 361	16 500[3]	65.1	966 800[4]	2 781 000[6]	2.6	0.91
1985	Mio ECU [2]	28 103	19 315[3]	68.7	[5]	2 990 000[6]		0.94

[1] Appropriations for payments:
- 1973–1983 = expenditure against appropriations for the financial year as shown in the revenue and expenditure accounts, including carryovers.
- 1984: Budget adopted on 20 December 1983.
- 1985: Preliminary draft Budget.

[2] Conversion rates:
1977 to 1983 = average rates for the year.
- 1984: the Community budget uses the rate obtaining on 5 April 1983.
- 1985: the general budget and supplementary budgets use the rate obtaining on 1 February 1984.

[3] Including refunds for food aid and ACP sugar.
[4] Estimate.
[5] An estimate cannot be made at present.
[6] Budget estimate.

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 appropriations', although only the total amount of 'payment appropriation' is equal to the total amount of revenue, with which it 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 done as follows:

Community budget for 1975: 14.6%

Community budget for 1976: 15.3%

Community budget for 1977: 17.3%

Community budget for 1978: 13.6%

Community budget for 1979: 11.4%

Community budget for 1980: 13.3%

Community budget for 1981: 12.2%

Community budget for 1982: 14.5%

Community budget for 1983: 11.8%

Community budget for 1984: 11.6%

Community budget for 1985: 8.0%

These maximum rates of increase determined by objective criteria from the second year before the budgetary year apply only to non-compulsory expenditure, i.e. about one-quarter of the volume of the budget. It should also be borne in mind that these criteria cover varying trends in the different Member States:

Growth 1980–1984
(Index 1984: 1980 = 100)

	Gross domestic product [1]	Budgetary expenditure [2]	Consumer prices [1]
Belgium	126.0	143	134.0
Denmark	138.5	170	139.8
FR of Germany	114.6	119	118.4
Greece	210.6	304	214.6
France	148.8	150	149.2
Ireland	160.6	166	169.2
Italy	176.6	148	174.3
Luxembourg	136.1	138	135.7
Netherlands	116.9	149	119.5
United Kingdom	130.9	135	133.4
Community	136.7	169[3]	140.7

[1] *Source:* Eurostat: Data for short-term economic analyses 1/1985.
[2] *Source:* Federal Ministry of Finance, Bonn, 1985 Financial Report, page 248.
[3] Community budget.

Compulsory and non-compulsory expenditure

Parliament can influence only what is known as 'non-compulsory expenditure'. This is expenditure 'other than that necessarily resulting from the Treaty or from acts adopted in accordance therewith'. The demarcation is a constant source of difficulty, as the Council tries to keep the proportion of non-compulsory expenditure as low as possible, whereas Parliament is keen to have the greatest possible room for manœuvre. The general budget published in the Official Journal does not make the distinction between non-compulsory and compulsory too clear. The actual ratio is about one-quarter non-compulsory to three-quarters compulsory, with non-compulsory tending to rise.

Commitment and payment appropriations

A distinction is made in the tables between 'appropriations for commitments' and 'appropriations for payments'. 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 appropriations cover legal liabilities for the financial year, including those extending beyond the financial year.

Payment appropriations cover expenditure incurred during the financial year in meeting legal liabilities (including those from previous financial years). The payment appropriations thus cover all funds for the budget year in question.

Both have their own intrinsic value:

(i) appropriations for commitments provide an earlier picture than appropriations for payments 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;

(ii) appropriations for payments — and they alone — must be covered by revenue in the budget year in question.

A six-page table in Part B (operating expenditure) of the general budget published in the *Official Journal* of the European Communities lists the budget headings which distinguish between commitment and payment appropriations.

G. Budget reality and prospects

The budgets of the institutions

The following appropriations were entered in the 1984 budget for the various institutions:

million ECU	Institution
219.9	European Parliament
112.1	Council
24.9	Economic and Social Committee
31.3	Court of Justice
18.1	Court of Auditors
811.0	Commission

This expenditure on personnel and administration comes to 4.54% of the volume of the budget in payment appropriations. This is much the same as the agreed 10% refund paid to the Member States in 1984 for the cost of collecting customs duties and agricultural levies. At 1 100 million ECU, these refunds accounted for 4.06% of the 1984 budget.

The language factor

The language factor must be taken into account in any comparison of Community budget expenditure on personnel and administration and that of national budgets. The apparently high staffing levels of the Community's institutions are often criticized. People overlook the fact that these institutions have to work in seven or more languages.

All important meetings must have facilities for interpreting out of each of seven languages into the six others. All important documents have to be translated into the seven official languages (German, French, English, Italian, Dutch, Danish and

Greek) and, as enlargement approaches, into Portuguese and Spanish. Eurocrats are expected to work in a number of languages but there is still a great need for interpreters and translators. Each additional language requires an extra 200 to 250. At conferences and meetings, simultaneous interpreting out of and into seven languages gives 42 potential combinations. This figure increases geometrically and not arithmetically. Interpreting out of and into nine languages gives 72 potential combinations. The relay method is often used in these cases. Interpreters for one or more languages interpret at second hand, i.e. they interpret from a language into which the original language has already been interpreted. Even then at least 20 interpreters are needed for seven languages and at least 30 for nine languages.

In the 1984 budget language service posts therefore account for almost 16% of the total staff complement:

Commission	1 327	out of	9 664	= 13.73%
Parliament	485	out of	2 635	= 18.41%
Council	352	out of	1 790	= 19.66%
Court of Justice	119	out of	469	= 25.37%
Economic and Social Committee	82	out of	400	= 20.5 %
Court of Auditors	36	out of	273	= 13.19%
Total	2 401	out of	15 231	= 15.76%

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. The principle of legal certainty and equality before the law which derives from civil rights alone makes it necessary for all the legal acts of the Community affecting the citizen and/or the economic affairs of the Community to be 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 amending certain financial provisions which was concluded on 22 July 1975 and entered into force on 1 June 1977 not only extended Parliament's budgetary powers but also set up the

Community's Court of Auditors. Parliament had long been striving for 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 reply to the comments and objections made; these replies are published in the Official Journal 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 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.

The large number of special reports drawn up and sometimes published by the Court of Auditors should be mentioned in this connection. Particular importance is attached to the report on the financial management of Community activities drawn up in October 1983 on the instructions of the Stuttgart European Council.

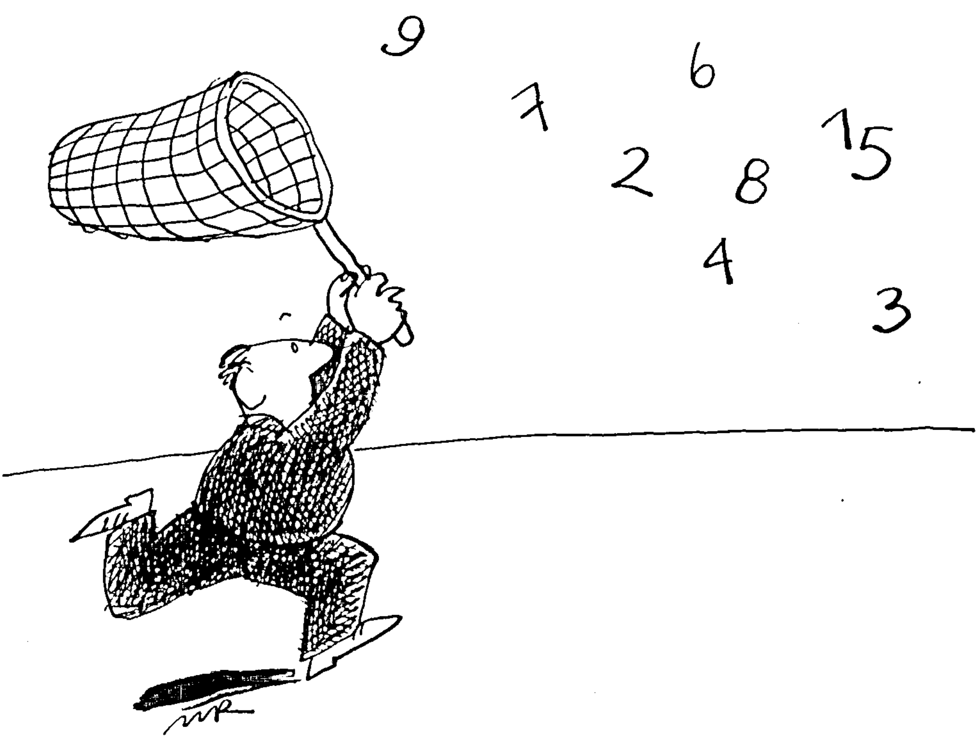
As yet neither an instrument of redistribution nor of stabilization

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.' (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 impending accession of Portugal and Spain this topic is moving to the forefront of public discussion.



Adjustment of budget policy

In his inaugural speech to the European Parliament on 14 January 1985 the new Commission President Mr Jacques Delors recalled a statement by a previous President, Roy Jenkins, to Parliament in 1977 and echoed its sentiments:

> 'The Community . . . can create and give more than it receives, but only if the Member States, peoples and governments alike, have the vision to ask what they can contribute, and not just what they can get.'

Mr Delors added that the new Commission would keep these considerations at the front of its mind when the problem of adapting the Community's budgetary and financial resources to its desired objectives hat to be posed in realistic and balanced terms.

> 'This deadline is closer than some people think because, as the outgoing Commission constantly stressed, a balanced and efficient Community cannot be built on a VAT rate limited to 1.6%. I construe this as meaning that we must strike a balance between our ambitions and our resources, applying the principles of sound management to all types of expenditure. But we must also answer the following questions: in certain cases would not an extra 10 ECU in the Community budget have a greater multiplier effect than an extra ECU in the budgets of each of the 10 Member States?'

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.

Financial reports (COM) on the EAGGF.

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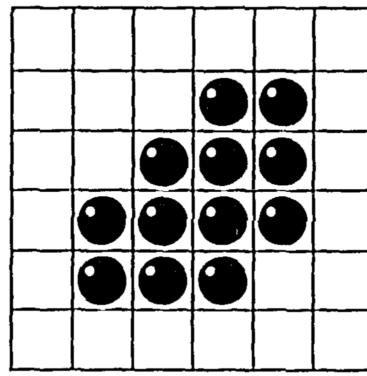
The European Community's budget now represents a tidy sum—close on 20 000 million ECU in 1981. But this is less than 1% of the gross domestic product of the 10 Member States, whereas national budgets account for between 32 and 56% of GDP depending on the country.



There is a strong temptation, particularly when times are hard, to make the Community budget the scapegoat for a number of ills afflicting public finances.

This booklet explains the *revenue* and expenditure systems of the European Community.

The bulk of the Community's revenue is made of customs duties and agricultural levies charged on imports of products from non-member countries, and a proportion of Member States' VAT receipts — up to the equivalent of a 1% rate.

Expenditure is on Community policies adopted jointly by the Community as such. This means that more than 90% of revenue is redistributed to the Member States. Expenditure on administration and staff accounts for between 5 and 6% of the budget.

The European Parliament now plays a greatly increased role in preparing and monitoring the budget. The Court of Auditors keeps a very close watch on the implementation of the budget.

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