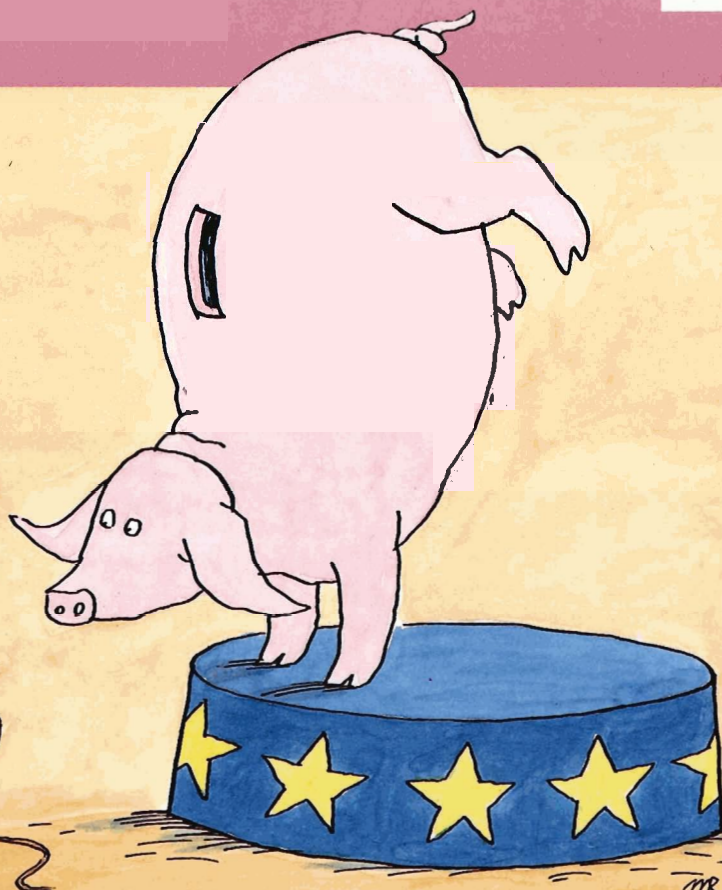



# THE BUDGET OF THE EUROPEAN UNION: HOW IS YOUR MONEY SPENT?



urope  
on the move

MR



This publication appears in all the official Community languages — Spanish, Danish, German, Greek, English, French, Italian, Dutch, Portuguese, Finnish and Swedish

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

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**T**he budget of the European Union is a reflection of the Union's policies. As is the case of the Member States' budgets, a great deal is said and written each year about the Union's budget. It provokes particularly intense discussion between the Union's institutions. The most striking feature of the Union's budget continues to be the high level of expenditure on agriculture. None the less, Europe is now developing in such a way that funds are being redirected towards other areas of activity, more especially in the regional and social spheres.

Since the start of the 1980s, Union expenditure has risen from 1.7 to 2.5% of the total public expenditure of the Member States. At ECU 84.5 billion (ECU 1 = about UKL 0.81, IRL 0.79 or USD 1.25 at exchange rates current on 31 July 1996), total Union expenditure in 1996 amounts to only 1.26% of the combined gross domestic product of the Member States.

The European taxpayers' money is not swallowed up by an administrative machine: it is used to finance measures to achieve the aims of European integration and most of the revenue is redistributed throughout the Union. Despite the need for European institutions to work in all 11 official languages, administrative expenditure accounts for only 5% of the budget, while operational expenditure, managed by the Commission, accounts for 95%.

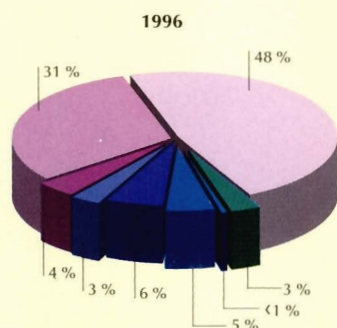
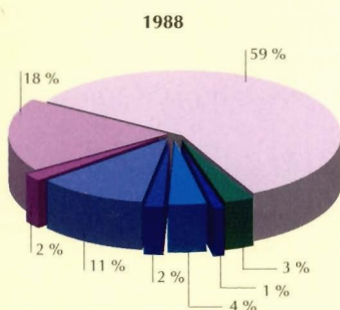
## European Union expenditure: 1970, 1980, 1988 and 1992-95 (general budget, EDF and ECSC)<sup>1</sup>

	1970	1980	1988	1992	1993	1994	1995
Total Union expenditure (million ECU) <sup>2</sup>	3 576	16 455	42 495	60 301	66 155	61 104	68 486
Per capita expenditure (ECU)	19	63	131	174	190	175	184
Union expenditure as percentage of public sector expenditure in Member States	1.9	1.7	2.2	2.2	2.3	2.1	2.1
Annual rate of growth of Member States' expenditure (%)					9.7	-7.6	12.1
Annual rate of growth of Member States' expenditure (%)					4.4	2.8	11.7
Union expenditure as percentage of Member States' GDP	0.74	0.80	1.04	1.10	1.20	1.06	1.06

<sup>1</sup> EDF: European Development Fund; ECSC: European Coal and Steel Community.

<sup>2</sup> Payments.

## Breakdown of Union expenditure



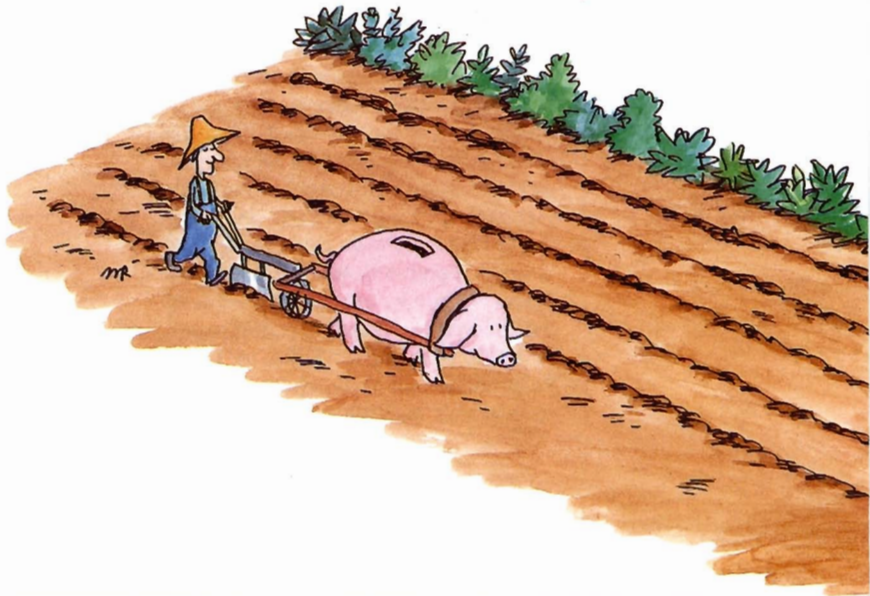
- Agriculture (EAGGF Guarantee)
- External action
- Structural operations
- Administration
- Research
- European Coal and Steel Community (ECSC)
- Other internal policies
- European Development Fund (EDF)



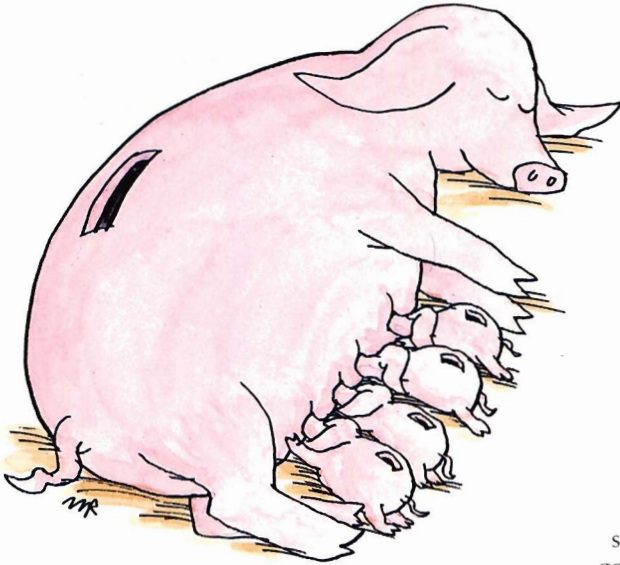
# Agriculture

The objectives of the common agricultural policy (CAP) were set by the Treaties: they are to increase productivity in agriculture, to ensure a fair standard of living for the agricultural community, to stabilize markets, to guarantee security of supply, and to ensure reasonable prices for consumers. Although these objectives have for the most part been attained, this has meant a constant process of adaptation, the most recent example of which was the reform of the CAP agreed by the Council of Ministers in May 1992. Based on more competitive prices and direct aid for farmers in the greatest need, the reform has succeeded in reducing surpluses; its other objectives are to slow down the flight from the land and safeguard the environment by discouraging intensive production methods, while encouraging the preservation of traditional crops and developing new activities relating to tourism or other areas.

In 1996 agriculture still accounts for 47.8% of the Union's financial commitments (ECU 41.3 billion) because this is the sector where the transfer of powers, and therefore of national expenditure, to the Union has gone furthest. Yet the cost of the CAP is very modest at around ECU 0.3 per person per day, i.e. about the cost of two cigarettes. It should be stressed that all the industrialized countries — the United States and Japan in particular — have developed a policy of aid for agriculture designed to provide agricultural workers with earnings comparable with those of workers in other sectors.



## Structural, social and regional operations



In accordance with the decision taken by the Heads of State or Government at their meeting in Edinburgh in December 1992, an even greater effort will have to be made in order to reach the figure of ECU 34.6 billion in 1999 (at 1997 prices). The essential aims are: to support the development of the poorest regions and conversion of declining industrial areas; to combat long-term unemployment, youth unemployment and social exclusion; to help workers to adjust to industrial change; to promote rural development, and that of sparsely populated Arctic regions; and to modernize agricultural structures in general. These are the goals of the Structural Funds: the European Social Fund, the European Regional Development Fund, the Guidance Section of the European Agricultural Guidance and Guarantee Fund, the Financial Instrument for Fisheries Guidance and the Cohesion Fund.

If all the citizens of the Union are to enjoy the advantages of the single market and of economic and monetary union that is coming into being, the Union and its Member States must rise to the challenges of reducing the disparities in wealth between regions and improving the employment situation, in short the challenge of greater economic and social cohesion. It is for this reason that the Union is devoting ECU 29.1 billion to the modernization of economic structures, especially on a regional basis, and to the improvement of the social situation of the underprivileged sections of the population. These initiatives account for 31% of the Union's total financial commitments in 1996, as against 18.5% in 1988. Regional and social expenditure comes second after agricultural expenditure.

# Research

Research and technological development is one of the keys to Europe's future. The Union has its own research policy which complements and supports the efforts of individual Member States. Its fundamental purpose is to conduct at European level operations which, for reasons of cost, complementarity, or the type of problems involved, can be managed more cheaply and efficiently at that level. For this purpose, the Union has its own multiannual framework programme for research and gives priority to projects which bring together research centres, companies and universities from different Member States.

The research policy budget totalled ECU 3.2 billion in 1996 (3.7% of total financial commitments). This represents about 4% of total public expenditure on research in Europe. However, the methods used are such as to involve a very large number of researchers and teams in these European Union initiatives. In 1995, 10 000 contracts were under-way.

The Union's framework programme focuses its efforts on a small number of clearly defined sectors: advanced technologies such as information and communications technology, industrial technology, biotechnologies, and fields such as energy, environment, health and so on.

With a view to increasing the impact of the Union's research initiatives, the Commission set up a number of research/industry task forces in 1995, on subjects of industrial and social interest, such as the car, aeroplane and train of the future, multimedia educational software, vaccines and viral diseases.





## Other internal policies

ECU 2.1 billion (2.5% of total financial commitments) is devoted to the other internal policies in 1996.

The Union is spending some ECU 397 million on various projects in the fields of education, training and youth: student mobility — encouraging young people to complete part of their studies in another Member State, exchanges and placements in the training sector, transnational cooperation projects, etc. In 1995, the Socrates programme enabled around 160 000 young people to study in another Member State. The same year, the Leonardo de Vinci programme supported over 700 transnational projects aimed at improving training in Europe, while the Youth for Europe programme financed exchange programmes involving more than 50 000 young people.

Examples of funding for other internal policies are: environment (ECU 133 million), audiovisual media and culture (ECU 119 million), information and communication (ECU 113 million). Industrial policy was allocated ECU 116 million and the internal market ECU 221 million. However, the item receiving most funding was the trans-European transport, energy and telecommunications networks, with ECU 410 million. The funding of large-scale infrastructure is, of course, the responsibility of public and private investors in the various Member States, but the Union's role is to encourage the establishment of a coherent network, paying particular attention to supplying a number of missing links, so that these vital arteries of the large internal market can play a greater role in the competitiveness of the economy, the improvement of the employment situation and Europe's economic and social cohesion.

## External action

The 1996 European Union budget allocates ECU 5.3 billion to external action. ECU 1.2 billion goes towards the economic restructuring of the countries of Central and Eastern Europe and preparation for their accession to the Union. ECU 0.7 billion is going to non-member Mediterranean countries participating in the large Euro-Mediterranean area, ECU 0.7

billion is earmarked for cooperation with Latin American and Asian countries, and ECU 0.5 billion for the new independent States of the former Soviet Union, for which the Union funds the largest programme of technical assistance. Almost ECU 1 billion is set aside for food and humanitarian aid, and a similar amount for general cooperation activities.



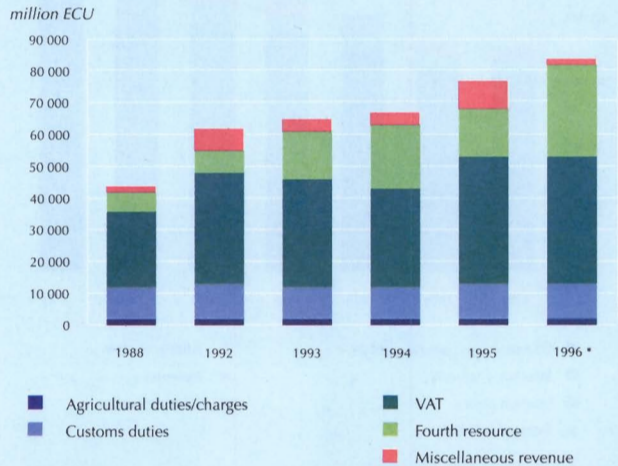
Furthermore, the European Development Fund (EDF), which does not come under the Union budget, is endowed by the Member States with ECU 14.8 billion for the period 1996 to 2000. The EDF is a financial instrument specifically intended to assist those African, Caribbean and Pacific countries which have signed the Lomé Convention with the Union. If the EDF and the general budget are taken together, 7.4% of financial commitments for 1996 are seen to relate to cooperation with the rest of the world.

The Fifteen are not only the Third World's biggest trading partner, they are also the leading supplier of public development aid. In food aid alone, the Union has, since 1994, become the largest donor, ahead of the United States. In 1994, 1.5 million tonnes of cereals were supplied either direct to some 20 African countries or via international or non-governmental organizations to 80 countries.

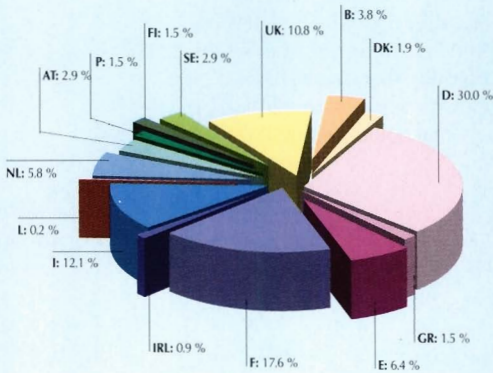
## How the budget is financed

The general budget of the European Union is financed by means of revenue which it receives as of right. The growth of these 'own resources' is limited by a ceiling set by the Member States: 1.20% of the Union's gross national product (GNP) in 1996, rising to 1.27% in 1999.

**Financing of the general budget  
1988 and 1992-96  
(out-turn in payments)**



## Financing of the 1996 general budget by Member State

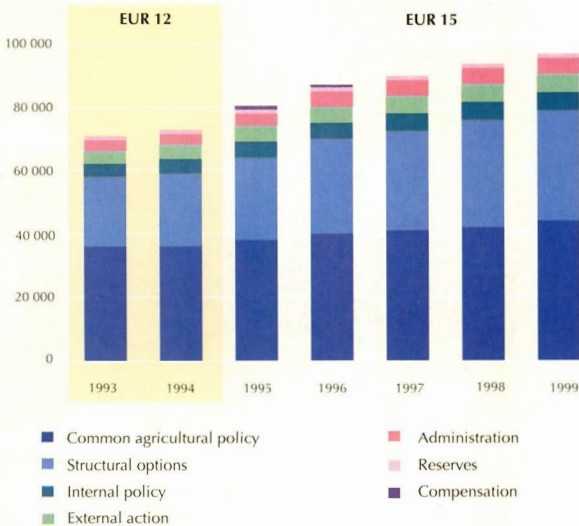


This revenue comprises customs duties and agricultural duties or charges levied on products imported from outside the Union (18.2% of total revenue in 1996). Added to this is an amount calculated by reference to the VAT base determined in accordance with common rules (48.9% of total revenue) and a resource based on GNP. Each of the Member States contributes to this fourth resource (32.9% of total revenue) according to its prosperity.

## The decision-making process

### Updated financial perspective 1993-99

(million ECU)



NB: 1993-97: current prices; 1998 and 1999: 1997 prices.

On the basis of an outline produced by the European Commission, the general budget of the European Union is adopted by the European Parliament and the Council of the European Union, which is made up of ministers representing the Member States.

The European Commission begins by producing a preliminary draft on the basis of the estimates of the requirements of the Union and its institutions, the anticipated revenue and the multiannual financial perspective. This preliminary draft is sent to the Council, which, after amending it, adopts it.

The European Parliament then proposes modifications to what are known as 'compulsory' expenditure items, i.e. those which derive directly from the European Treaties or acts adopted under the Treaties (roughly 53% of the budget). Within certain limits, Parliament can amend the other 'non-compulsory'

items of expenditure. When Parliament examined the 1996 budget, it significantly increased the expenditure earmarked by the Council in fields such as education, social policy, consumer protection and information. It should be stressed that it is Parliament which ultimately adopts the budget, and the signature of the President of Parliament which brings it into force.

## The European Parliament's powers

The power of the purse remains a keystone of the legitimate powers of a democratically elected and representative legislative chamber. This applies as much to the European Union of today as to the Member States that constitute it. While the Union does not yet have the power through majority vote to raise revenue, its budgetary and control powers parallel those of many parliamentary systems in Europe.

The Treaties establishing the European Community and the Union separate the legislative from the budgetary powers and create different loci for each of these powers between the Parliament and the Council. Here the Community differs from most Member States where the budgetary and legislative powers are centred in one institution. The Parliament possesses more significant powers in the budgetary than in the legislative domain which makes each annual budgetary procedure another tussle over the powers of legislation where the Council generally has the last word, and the powers of the budget, where the Parliament in large measure has the last word.

The elected representatives in the European Parliament decide each year on the ways that the monies granted to the Union are to be used. They also have to control the use the monies have been put to and the benefits accrued.

What is a budget but a government's programme described in figures? Financial figures tend to show the structure behind the rhetoric. Everything that the Community intends to translate into the internal market, into its research community, into an external trade system, into the Structural Funds and into the common agricultural policy is laid out for all to see in the annual budget.

## Control of expenditure

The European Commission's financial management is subject to internal control under the authority of a financial controller. On the external front, management of the Union's finances is subject to the dual supervision of the Court of Auditors and the European Parliament.

The 15 Members of the Court are appointed for six years by the Council of the European Union, after consulting the

European Parliament. They check that revenue is received and expenditure incurred in a lawful and regular manner and that financial management is sound.

As the body which exercises political and democratic control over the Union, the European Parliament now approves the appointment of the Commission as a whole, and can dismiss it too. It comments on the Commission's programme and



supervises the proper implementation of the Union's policies for which it draws, in connection with budgetary matters, on the reports produced by the Court of Auditors. The European Parliament,

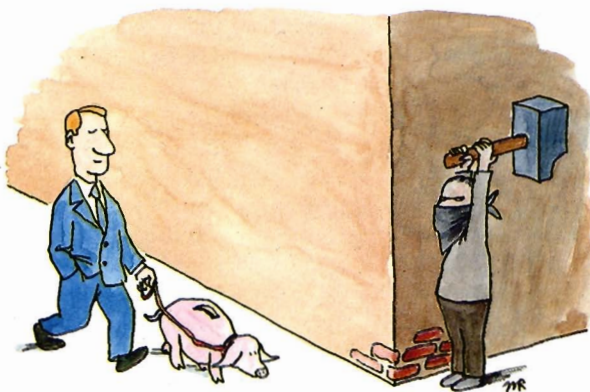
acting on a recommendation from the Council, gives a discharge to the Commission in respect of the implementation of the budget, after examining the Court of Auditors' reports.

## The fight against fraud

Like national public finances, the Community budget is, unfortunately, vulnerable to fraud. According to a recent Commission report, cases of fraud and irregularities detected in 1995 represent between 1 and 2% of the total budget — nearly ECU 735 million for revenue and ECU 411 million for expenditure. The Commission has a special unit (UCLAF) which is responsible for all aspects of fraud prevention. This department has been significantly strengthened. It now has a staff of around 130. It does not attempt to handle all cases of fraud: its operatio-

nal role is to investigate transnational, complex or particularly serious cases, in partnership with the appropriate authorities in the Member States. To put UCLAF's staffing levels into proper perspective, it should be borne in mind that there are over 130 000 customs officers in the Member States, of which 26 000 can be considered as working directly in the field of investigation.

The Member States themselves are in the front line when it comes to tackling fraud, which is understandable, as it is their task to collect own resources and subsequently pay out nearly 80% of the amounts entered in the Community budget. The Member States, therefore, are responsible for recovery and keeping the accounts, and also for the detection of fraud in respect of own resources and most of the European funds. If criminal proceedings are necessary, the Member States are the only authorities which can carry out criminal investigations, arrest, charge and try the suspects. Under the Maastricht Treaty, the Member States must use these powers to combat fraud





against the Community budget in the same way as they would use them to protect their national budgets.

UCLAF's mission is to assist Member States in important operations, particularly where coordination is needed. The unit offers its assistance in complex cases, particularly where there is a suspicion of international-scale fraud.

Customs duties and other taxes levied on imports from outside the Union are currently most affected by fraud, ahead of agricultural expenditure. Since UCLAF was strengthened, some cases involving the Structural Funds have also been detected.

Current fraud prevention measures centre on:

— the development of partnership between the Member States and the Commission, with a view to investigating large-scale fraud, particularly through the use of joint task forces;

— the strengthening of mutual assistance arrangements, particularly cooperation with non-member countries from Central and Eastern Europe;

— the specification of the role and powers of Commission staff in the performance of fraud prevention duties;

— the extension of the use of administrative penalties to the major areas of the budget;

— the implementation of the agreement harmonizing national criminal legislation in matters of fraud;

— the examination of new measures taken by the Union, before and after their

introduction, with a view to assessing their vulnerability to fraud;

— the implementation and continuous refinement of risk analysis techniques;

— the establishment of an information network on cases of fraud detected or suspected.

## Anti-fraud hotline

A free, confidential telephone number has been set up in each Member State. It allows any Union citizen to inform the authorities of any suspicions they may have concerning cases of fraud. The numbers are:

### **Belgium**

0800 12 44 26

### **Denmark**

800 184 95

### **Germany**

0130 82 05 95

### **Greece**

00800 321 25 95

### **Spain**

900 99 32 95

### **France**

0591 72 95

### **Ireland**

1800 55 32 95

### **Italy**

167 87 84 95

### **Luxembourg**

0800 35 95

### **Netherlands**

0602 245 95

### **Austria**

0660 58 45

### **Portugal**

0505 329 595

### **Finland**

0800 112 595

### **Sweden**

020 79 16 95

### **United Kingdom**

0800 96 35 95

European Commission

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