



European Communities  
Commission  
Background Report

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THE COMMUNITY BUDGET - THE FIRST DRAFT

Tight but selective expenditure

Summary

Commission proposals for the Community 1979 Budget will be given a preliminary examination by the Council of Ministers on July 18. This will be the start of a long procedure of consultation between the Council and the European Parliament before the Budget is finally approved at the end of the year.

As has become customary, the Budget differentiates between appropriations for commitment (i.e. long-term commitment to projects which may require annual payments over a number of years) and appropriations for payment (i.e. sums expected actually to be paid out during the financial year). Commitments are expected to total about £9,800m (14,667 million European Units of Account) \* and payments, about £9,300m (13,859 meua). While this is an increase over 1978 of 15.5 per cent and 12.4 per cent respectively, it represents the smallest increase in expenditure to be proposed for a long time.

Agricultural expenditure is expected to be slightly less than in 1978 allowing, in accordance with the principles accepted by the Council earlier in the year, more money to be spent on other Community activity.

Background to the budget

Taking account of the present difficult economic situation, the Commission has produced a 'tight' but selective budget, concentrating on operations considered important by the Community, and reflecting the budgetary priorities approved by the Council, the Parliament and the European Council.

It has sought particularly to achieve a better balance between agricultural expenditure and expenditure devoted to the development of other policies, with special reference to those which can better be pursued, and make an impact, at Community level rather than the national one.

Some innovations that attended the 1978 budget have now been accepted, such as the introduction of the European Unit of Account, and the move to finance the budget entirely from own resources. The Commission anticipates, therefore, that the 1979 budget will be financed from own resources, i.e. from agricultural levies, customs duties and a proportion of the proceeds of Value Added Tax (VAT) calculated as the equivalent of levying a flat rate of up to 1 per cent on all transactions within the harmonized VAT base. For 1979 the Commission foresees VAT revenues amounting to 0.75 per cent of the assessment.

In the perspective of total Community wealth the proposed budget represents 0.88 per cent of GDP and, though the figure cannot yet be precisely calculated, about 3 per cent of total national budgets.

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\*\*\* Note: Background reports are intended as non-copyright ready-reference material on topics of current interest concerning the European Community. An index will be provided periodically so anyone receiving the reports can refer to each number more easily.

\* 1 eua = 67 pence

### Budget content

Within the total budget, expenditure is classified as either 'obligatory', which is largely unavoidable because it is incurred automatically from the Treaty or from Council decisions, or as 'non-obligatory', where there is scope for discretion.

The Commission proposes an obligatory expenditure amounting to £7,730m (11,541 meua) - about 80 per cent of the total - and non-obligatory amounting to £2,094m (3,126 meua).

While the increase in obligatory expenditure over 1978 amounts to only 11.4 per cent, the Commission is proposing a 33.2 per cent increase on the non-obligatory side.

Briefly, the budget allocations suggested are:

1. Agriculture: The Commission estimates that agricultural expenditure (EAGGF - Guarantee) in 1979 will be about £6,428m (9,594 meua) - an increase of 10.3 per cent over 1978. This expenditure was determined by the Council on Agriculture, and there is nothing that the budgetary authority can do about it. The Commission had asked for a 5.7 per cent increase over 1978.

The budget will provide for a noticeable increase in expenditure for EAGGF (Guidance section) and for fisheries policy. Fisheries policy will cost some £94m (140 meua); more money will also be spent on Mediterranean agriculture in 1979.

Even so, agricultural expenditure next year is expected to represent 65.4 per cent of the total budget, compared with 68.5 per cent in 1978 and 69.4 per cent in 1977.

2. Social policy: The Commission is proposing to expand expenditure on social policy by nearly 50 per cent, with a total commitment of about £590m (882 meua). A significant proportion of the increase will be allocated to helping young people find jobs.
3. Regional policy: The Regional Fund received a big boost in the 1978 Budget so that, for 1979, the Commission proposes only a 6.7 per cent increased commitment, totalling £415m (620 meua).
4. Industrial policy: The Commission proposes an increase in committed expenditure in the industrial sector (covering research, energy, industry and transport) from £213m (318 meua) in 1978 to £387m (577 meua) in 1979. It particularly wants to see more money spent on the development of Community energy resources; other appropriations will be used for reorganization or conversion of some crisis-ridden industries (shipbuilding, synthetic fibres, the paper industry and so on) and for the promotion of industries with an advanced technology, such as the data-processing and aerospace industries.
5. Food aid: The Commission proposes the same amount of food aid as it did in 1978 (though this was later reduced by the Council). The quantities proposed are 1,135,000 tonnes of cereals, 150,000 tonnes of powdered milk, 55,000 tonnes of butter oil and 10,000 tonnes of sugar. Aid for the non-associated developing countries would be increased by 50 per cent.

The total appropriation for commitment to development cooperation would be £470m (705 meua).

### Borrowing and lending operations

The Commission has changed the presentation of its borrowing and lending operations for 1979, by entering them in a new section of the Budget (Part II), something for which the European Parliament has been pressing. Up to now borrowing

and lending operations, reimbursement of capital and payments of interest and charges were included in an annex to the budget accompanied by a commentary.

Loans granted or raised by the European Coal and Steel Community (ECSC) or the European Investment Bank (EIB) are not included.

Three year forecast, 1979-81

The draft budget will be accompanied by a three year forecast of budgetary provision. The forecast, based on extrapolations from 1973, envisages greater restraint on agricultural expenditure and more money available for social and industrial sectors of the economy, including cooperation and development in the Third World. The estimates take into account the financial implications of Greek accession to the Community, expected to be, at least, 400 meua (approx. £268m) in 1981.

The Commission also expresses some doubt as to whether, in the light of current calls on the budget, the VAT element of own resources, limited to 1 per cent of the assessment basis, will be sufficient to meet Community needs.

Much will depend, however, on whether economic growth increases at an annual rate of 4.5 per cent, as urged by the European Council last April, or at the lower rate of 3.5 per cent, as some experts predict. In the former case, obviously, the VAT yield would be higher.

ANNEX

THE COMMUNITY BUDGET COMPARED WITH THE GDPs AND THE NATIONAL BUDGETS

The table below compares the growth of the Community budget of the gross domestic products of the European Communities and the totals of the Member States' national budgets.

It will be noted on the one hand that the Community budget is small in volume, but on the other, is tending to increase slightly in relation to the national budgets.

Comparison between the Community budget national budgets and the Community's GDP:

in thousand million

| Year    | Unit | Community GDP        | Member States' (central government) budgets | Community Budget | Community Budget in % |                                  |
|---------|------|----------------------|---|------------------|-----------------------|----------------------------------|
|         |      |                      |   |                  | of GDP<br>5 : 3       | of the national budgets<br>5 : 4 |
| 1       | 2    | 3                    | 4   | 5                | 6                     | 7                                |
| 1973    | u.a. | 868                  | 228   | 4,6              | 0,53                  | 2,0                              |
| 1974    | u.a. | 983                  | 268   | 5,0              | 0,51                  | 1,9                              |
| 1975    | u.a. | 1.111                | 337   | 6,2              | 0,55                  | 1,8                              |
| 1976    | u.a. | 1.282                | 388   | 8,0              | 0,62                  | 2,1                              |
| 1977(a) | u.a. | 1.445                | 446   | 9,6              | 0,66                  | 2,2                              |
| (b)     | EUA  | 1.376                | 406   | 9,6              | 0,70                  | 2,4                              |
| 1978    | EUA  | 1.531 <sup>(1)</sup> | 461 <sup>(1)</sup>                          | 12,4             | 0,81                  | 2,7                              |
| 1979    | EUA  | 1.671 <sup>(2)</sup> | - <sup>(3)</sup>                            | 14,7             | 0,88                  | - <sup>(3)</sup>                 |

<sup>1</sup> Estimate

<sup>2</sup> Forecaste

<sup>3</sup> A forecast cannot yet be given.

GROWTH OF THE COMMUNITY'S EXPENDITURE BY SECTOR

|  | Budget 1978                   |        |                            |        | Preliminary Budget 1979 (1)   |        |                            |        | Variations (1)                |         |                            |        |
|--|-------------------------------|--------|----------------------------|--------|-------------------------------|--------|----------------------------|--------|-------------------------------|---------|----------------------------|--------|
|  | Appropriations for commitment |        | Appropriations for payment |        | Appropriations for commitment |        | Appropriations for payment |        | Appropriations for commitment |         | Appropriations for payment |        |
|  | MEUA                          | %      | MEUA                       | %      | MEUA                          | %      | MEUA                       | %      | MEUA                          | %       | MEUA                       | %      |
| <u>I. COMMISSION</u>                                 |                               |        |                            |        |                               |        |                            |        |                               |         |                            |        |
| a. Intervention appropriations                       |                               |        |                            |        |                               |        |                            |        |                               |         |                            |        |
| - agricultural sector                                | 9.182                         | 72,28  | 9.132                      | 73,87  | 10.278                        | 70,07  | 10.070                     | 72,66  | + 1.096                       | + 11,93 | + 938                      | +10,27 |
| - social sector                                      | 593                           | 4,67   | 559                        | 4,52   | 882                           | 6,02   | 748                        | 5,40   | + 290                         | + 48,87 | + 189                      | +33,82 |
| - regional sector                                    | 581                           | 4,57   | 525                        | 4,25   | 620                           | 4,23   | 390                        | 2,81   | + 39                          | + 6,71  | - 135                      | -25,71 |
| - research, energy, industry, transport              | 318                           | 2,51   | 295                        | 2,39   | 577                           | 3,93   | 516                        | 3,73   | + 258                         | + 81,22 | + 221                      | +74,81 |
| - development cooperation sector                     | 559                           | 4,40   | 381                        | 3,08   | 705                           | 4,81   | 565                        | 4,08   | + 146                         | + 26,22 | + 184                      | +48,30 |
| - miscellaneous                                      | p.m.                          | -      | p.m.                       | -      | p.m.                          | -      | p.m.                       | -      |                               | -       | -                          | -      |
|  | 11.233                        | 88,43  | 10.892                     | 88,11  | 13.062                        | 89,06  | 12.289                     | 88,67  | + 1.899                       | + 16,28 | + 1.397                    | +12,82 |
| b. Operating appropriations                          |                               |        |                            |        |                               |        |                            |        |                               |         |                            |        |
| - Staff  | 387                           | 3,05   | 387                        | 3,13   | 418                           | 2,85   | 418                        | 3,02   | + 30                          | + 7,87  | + 30                       | + 7,87 |
| - Administration                                     | 106                           | 0,83   | 106                        | 0,85   | 121                           | 0,83   | 121                        | 0,87   | + 16                          | + 14,72 | + 16                       | +14,72 |
| - Information  | 13                            | 0,10   | 13                         | 0,11   | 12                            | 0,08   | 12                         | 0,09   | - 1                           | - 7,70  | - 1                        | - 7,70 |
| - Aids and subsidies                                 | 45                            | 0,35   | 45                         | 0,36   | 48                            | 0,33   | 48                         | 0,35   | + 3                           | + 6,94  | + 3                        | + 6,94 |
|  | 551                           | 4,34   | 551                        | 4,46   | 599                           | 4,08   | 599                        | 4,32   | + 48                          | + 8,74  | + 48                       | + 8,74 |
| c. Reserves  | 5                             | 0,04   | 5                          | 0,04   | 65                            | 0,44   | 65                         | 0,21   | + 60                          | -       | + 60                       | -      |
| d. Reimbursement to Member States from own resources | 689                           | 5,43   | 689                        | 5,58   | 689                           | 4,70   | 689                        | 4,97   | - 0,6                         | - 0,09  | - 0,6                      | - 0,09 |
| Total Commission                                     | 12.478                        | 98,23  | 12.137                     | 98,18  | 14.415                        | 98,28  | 13.607                     | 98,18  | + 1.937                       | + 15,52 | + 1.469                    | +12,11 |
| <u>II. OTHER INSTITUTIONS</u>                        | 225                           | 1,77   | 225                        | 1,82   | 252                           | 1,72   | 252                        | 1,82   | + 27                          | +12,10  | + 27                       | +12,10 |
| GRAND TOTAL  | 12.703                        | 100,00 | 12.362                     | 100,00 | 14.667                        | 100,00 | 13.859                     | 100,00 | + 1.964                       | + 15,46 | + 1.497                    | +12,11 |

(1) provisional