

EUROPEAN PARLIAMENT

Working Documents

1981 - 1982

27 March 1981

DOCUMENT 1-136/81/Annex

ANNEX

to the report drawn up by Mr U. IRMER on
behalf of the Committee on Budgetary Control
on the 1979 discharge

ANNEXES I - XIII (working documents)

OPINIONS OF THE

Committee on Development and Cooperation

Committee on Regional Policy and Regional Planning

Committee on Social Affairs and Employment

Committee on Energy and Research

C O N T E N T S

Page

ANNEX

ANNEXES: Working documents on the various Community policies

I	: Revenue - draftsman: Mr GABERT	5
II	: Title 3 excluding the energy and research sectors - draftsman: Mr NOTENBOOM	15
III	: Chapter 32 of the general budget of the EEC (Expenditure on energy policy) Draftsman: Mr COLLA	27
IV	: Chapter 33 of the general budget of the EEC (Expenditure on research and investment) Draftsman: Mr COLLA	33
V	: Social sector - draftsman: Mr WETTIG	43
VI	: European Regional Development Fund Draftsman: Mr GOUTHIER	52
VII	: EAGGF, Guarantee Section - draftsman: Mr DANKERT	57
VIII	: EAGGF, Guidance Section - draftsman: Mr FILIPPI	58
IX	: Development aid - draftsman: Mr IRMER	73
X	: Borrowing and lending operations Draftsman: Mr COUSTE	82
XI	: Satellite bodies of the EEC Draftsman: Mr KELLETT-BOWMAN	87
XII	: Expenditure of the institutions (other than the Commission) Draftsman: Mr SIMONNET	97
XIII	: Personnel, administrative and operational expenditure - draftsman: Mr PRICE	107

OPINIONS OF THE

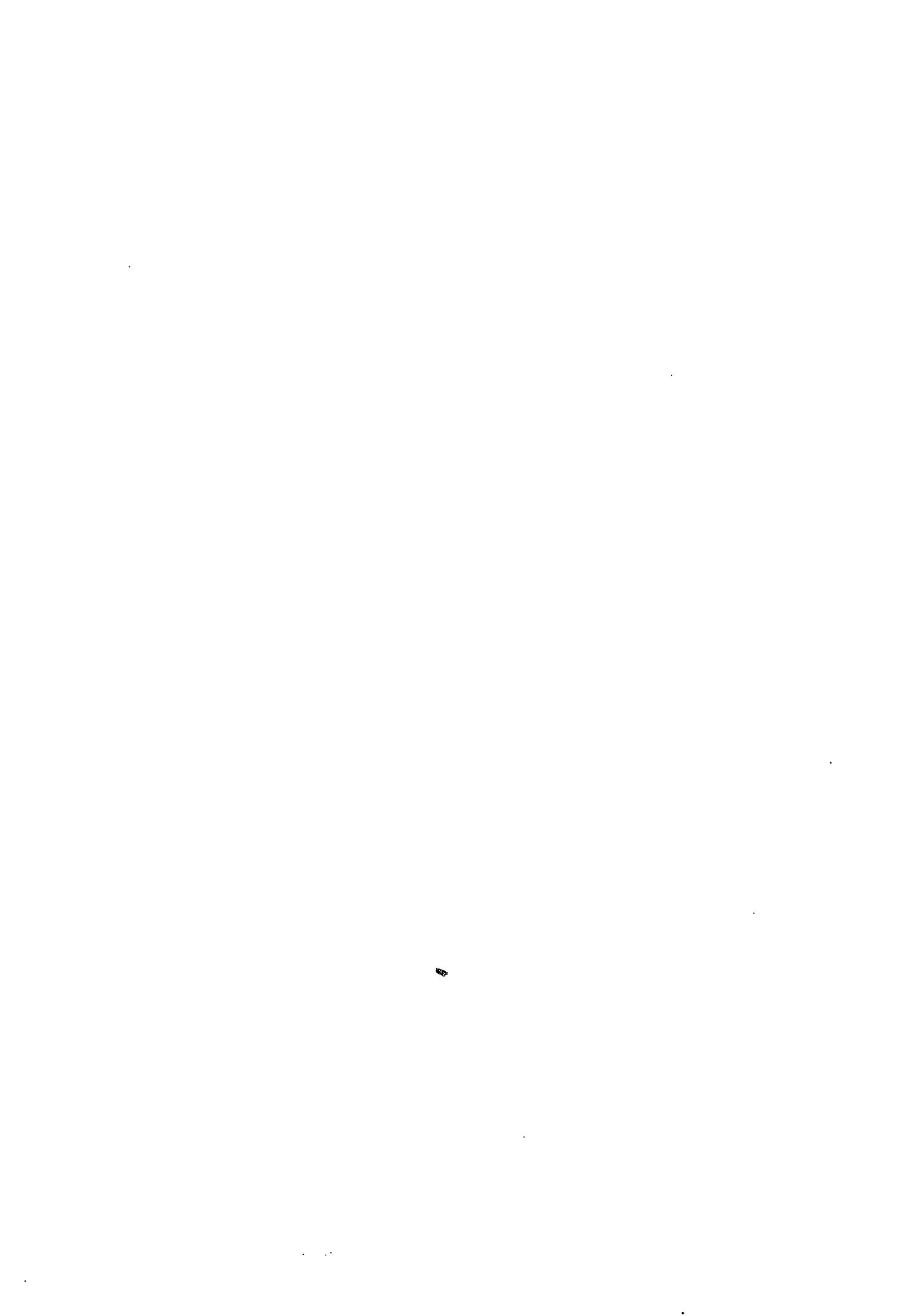
Committee on Development and Cooperation	123
Committee on Regional Policy and Regional Planning ..	135
Committee on Social Affairs and Employment	137
Committee on Energy and Research	144

1979 DISCHARGE

Working Document

- Revenue -

Draftsman: Mr V. GABERT



I. DEVELOPMENTS IN THE 1979 FINANCIAL YEAR

1. The 1979 financial year was unusual in that adoption of the budget was delayed by Parliament's rejection of the draft. In 1979 budgetary revenue of the Communities consisted of customs duties and agricultural levies, resources accruing from value added tax, financial contributions from Member States and miscellaneous revenues such as deductions from staff remuneration, fines, etc. The year was notable for the introduction, after some years' delay, of receipts from value added tax (VAT) as an additional own resource. The object of these receipts is to replace financial contributions based on gross national product (GNP). However, in this respect 1979 must be regarded as a transitional year because the Federal Republic of Germany, Ireland and Luxembourg had not introduced the requisite common VAT measures and they continued to pay GNP contributions. This mixed system will not apply in 1980, when all Member States will assign VAT resources.

2. The following table compares the budgetary revenue of the Communities for 1978 and 1979:

Table - Total revenue 1978 and 1979

(m EUA)

	1978 Out-turn	1979	
		Final budget	Out-turn
Customs duties	4,390.9	5,045.5	5,189.1
Agricultural levies	1,872.7	1,706.0	1,678.6
Sugar levies	410.6	459.8	464.9
Value added tax resources	-	4,739.6	4,737.7
Financial contributions (GNP)	5,329.7	2,299.7	2,302.1
Miscellaneous revenue (including ECSC and Euratom contributions)	177.8	154.8	188.7
Balance from previous year	-	41.6	41.6
Total	12,181.7	14,447.0	14,602.7

Total revenue (14,602.7 m EUA) was very close to the final estimate included in the amending and supplementary budget. Noteworthy was the increase of 9.3% in customs duties, explained principally by a substantial unforeseen rise in imports subject to common customs tariff duties.

Agricultural levies fell by 1.6% due to a falling trend in imports of the main cereals and rising world prices.

An increase of about 9.6% in the VAT resources and financial contributions was necessary to balance the additional expenditure authorized in the amending and supplementary budgets. This involved an increase in the Community VAT rate from 0.7196% in the original budget to a final figure of 0.7889%.

3. The discussion of the revenue side of the 1979 budget lends further weight to the Parliament's view that the Community has an independent claim to its share of VAT and that the governments are committed, once the budget has been established, to make available to the Community the monies estimated in the budget.

The Community's own resources should no longer be shown as national resources in the various national budgets as Community law (in this case the Decision of 21 April 1970) sanctions the principle of direct collection by the Community and this is reaffirmed annually in the budget of the Community.

4. Rather than asking the Court of Justice for a ruling on the legality of the budget adopted on 14 December 1978, three Member States (France, the United Kingdom and Denmark) took the law into their own hands and tried for three months to escape their obligation to pay over own resources.

In February 1979 these Member States started to pay over to the Commission the provisional twelfths applicable whenever the budget is not adopted by the beginning of the financial year.

However, on 12 February the Commission had formally required them to put their payments in order and then took steps in preparation for infringement proceedings before the Court of Justice pursuant to Article 169 of the EEC Treaty. Negotiations were meanwhile being conducted between the Council and Parliament

The dispute was finally resolved only when the three Member States settled their payments retroactively. At the beginning of April they contributed much more than the own resources they were required to pay and the situation was finally normalized on 25 April when supplementary budget No. 1/79 was adopted.

Despite its financial controller's objections the Commission found that the Member States in question did not have to pay the interest due on the belated payments in accordance with the regulation in force as they had rectified the situation before supplementary budget No. 1/79 was adopted.

Parliament agreed with this approach at the time, as it was prepared to put an end to the budget dispute provided the Member States in arrears settled the sums due and thus acknowledged de facto the existence of the budget adopted by Parliament.

This arrangement was a compromise. The approach adopted by Parliament in no way prejudiced any decision that might be taken regarding future interest claims.

Thus Parliament's point of view was confirmed that, for revenue as well as expenditure, the budget constitutes a directly enforceable legislative act. Adoption of the budget obliges the Commission to implement it and to use all the legal instruments at its disposal to do so.

5. In 1978 the Court had pointed out that the amounts due from the Member States were payable in full, subject to an abatement, during 1978 and 1979, for Denmark, Ireland and the United Kingdom pursuant to Article 131 of the Act of Accession. Regarding the Article 131 operations the Court again felt it necessary to restate its views, in particular on the absence of published decisions by the Council or the Commission detailing the rules agreed upon for the application of that Article. Again the Court was unable to report that all revenue had been paid to the Community in a legal manner.

The financial clearing operations carried out outside the budget to give effect to Article 131 are set out in the following table:

Table - Article 131: Clearing outside the budget

(1,000 EUA)

	Commission's interpretation of Article 131 repayments due to Member States	Settlement		
		Amount borne by each Member State	Amount paid by Member States	Amount received by Member States
Belgium	-	40,693	40,693	-
Denmark ¹	-	-	-	-
FR of Germany	-	165,061	165,061	-
France	-	163,001	163,001	-
Ireland	6,400	4,193	-	2,207
Italy	-	91,868	91,868	-
Luxembourg	-	554	554	-
Netherlands	-	53,913	53,913	-
United Kingdom	625,501	112,618	-	512,883
TOTAL	631,901	631,901	515,090	515,090

¹ Unlike Ireland and the United Kingdom, Denmark's share of the budget, before the application of Article 131, was below the ceiling calculated on either of the interpretations considered.

II. VALUE ADDED TAX AND FINANCIAL CONTRIBUTIONS

6. Article 4 of the Council Decision of 21 April 1970 provides that the VAT resources to be paid by each Member State to the Community should be calculated by applying a rate not exceeding 1% to an assessment basis determined in a uniform manner throughout the Community. The provisions seeking a harmonized base are contained in Council Directive 77/388/EEC. This did not succeed in establishing a fully uniform basis of assessment. Some differences remain as between the Member States and it will be necessary, for some time to come, to adjust the national bases to bring them into line with the theoretical uniform assessment basis.

7. One of two methods may be adopted for calculating the assessment basis. The first is based directly on the VAT returns of taxpayers, and the second involves the application of data derived from national accounts statistics to the actual revenue collected.

The result of applying one or other of these bases cannot be known until after the end of the relevant year. During the budgetary year itself one-twelfth of the amount attributable to VAT in the budget estimate must be credited to the Communities on the first working day of each month. The various rates of exchange and units used in these calculations gives rise to discrepancies which have to be corrected. The Court of Auditors recommends that this anomalous situation could be avoided by using the actual exchange rates obtaining on the day on which the contribution is due. The Commission has now complied with this recommendation.

The Court is not convinced that the administrative difficulties advanced by some Member States are insurmountable, and requests the Commission to re-examine the matter afresh.

8. Because the VAT resources in the 1979 accounts were based on estimates only, no on-the-spot audits were carried out by the Court on such resources in 1979. However, it undertook a programme of information visits to Member States involved in order to brief itself on the systems in operation and prepare for a full audit in 1980 of the final figures in respect of 1979.

9. The rule that revenue and expenditure in the budget should be in balance can strictly apply only at the estimate stage. The difference between estimates and the actual revenue or expenditure constitutes a surplus or a deficit that is carried forward to the following financial year. Under Article 15 of the Regulation No. 2891/77 this balance is defined as consisting of the difference between:

- all the revenue collected in respect of that financial year,
and

- the amount of payments made against appropriations for that financial year

- (a) increased by the payment appropriations for that financial year that are not implemented and carried forward to the next financial year

- (b) decreased by the payment appropriations for the preceding financial year that have not been implemented and cancelled.

Revenue collected in 1979 thus exceeded requirements by 455.9 m EUA. The discharge decision should however take account of the fact that there is some doubt as to how 203.5 m EUA in the EAGGF Guarantee Section and 2.6 m EUA in Parliament's budget are to be allocated.

Control of the collection of revenue

10. The Court of Auditors has carried out a number of very useful checks to assess how well the system of collecting and controlling own resources functions.

The following points are worth mentioning:

Control of Community VAT

11. Various documents, some of them emanating from the national administrations, mention a very high rate of tax evasion in the collection of VAT in some Member States. This problem concerns mainly the national administrations, which are also primarily responsible for controlling the collection of VAT. Nevertheless, part of the VAT resources constitute Community revenue and it is up to the Commission even if only to assure the Member States, the Community institutions and Community taxpayers that the tax is collected uniformly and fairly, to carry out the necessary controls to ensure that all the resources due to the Community are paid within the prescribed time limits.

However, despite its efficiency, the Commission does not have enough staff to carry out the task assigned to it under Article 12 of Regulation No. 2892/77.

Parliament must urge the Commission to enter sufficient appropriations to fulfil these tasks in the next draft budget. It must also point out that the Commission must try to organize the auditing of own resources as efficiently as possible.

Moreover, since the checks on the final amounts provided for in Article 10 of that regulation can only be carried out when it is impossible to include them in the annual statement of account, any corrections have to be allocated to the financial year in which they are made.

Parliament expects the Commission to apply the method of macro-economic control (Doc. R/2809/1/77) and fulfil its commitment to carry out checks during the following year.

However, even this possibility will exist only in theory until the Commission has the means of checking the accuracy of the summary accounts submitted by the Member States.

Audit of customs duties, agricultural and sugar levies

12. The Court of Auditors carried out a series of on-the-spot audits in the Member States in connection with the 1979 accounts. Its enquiries were concentrated on customs duties, agricultural levies and sugar levies. It found that, with a few exceptions, the national arrangements were generally satisfactory in the difficult circumstances. There were errors of calculation but they were not systematic. The Commission should strive to achieve the maximum simplification of the present complex structures consistent with the essential economic and financial aims of agricultural policy.

In connection with the accounting procedures for agricultural levies and monetary compensatory amounts it is strongly recommended that the relevant Community regulations be amended.

In the Netherlands and the Federal Republic of Germany accounting deficiencies were found which both Member States have now taken steps to rectify.

13. The Court of Auditors deals at length with the agricultural intervention agencies of the Member States which have a role to play in the administration of the own resources deriving from trade in agricultural produce. Their structure and functions vary significantly from one Member State to another. In some cases they are public corporations set up under public law, in others, though operating under public law, they have the status of semi-private commercial undertakings.

In the absence of Community provisions regarding collection and enforcement, it falls to the Member States to endow these agencies with the legal powers necessary to protect Community financial interests. The report of the Court of Auditors cites the case of the intervention agency responsible for sugar in France which does not possess statutory powers of enforcement. In Belgium weaknesses were also found in the enforcement procedures of the intervention agency responsible for the assessment and collection of agricultural levies. The Commission requested the responsible Ministry to carry out a detailed audit of the period from 1971 to 1975 as a consequence of which additional sums equivalent to about 4 m EUA were made available to the Community. An extensive audit of subsequent periods is at present being carried out by the Belgian authorities. The Court of Auditors welcomed the improved system introduced by the agency in 1978 and proposed further improvements.

A more fundamental examination should be undertaken by the Commission and the Member States of the structures and functions of the various bodies involved with a view to establishing standardized procedures and administrative norms which could be followed by all the Member States.

14. The Court of Auditors mentions the problem of unilateral exemption from customs duties and, in particular, those granted by some Member States in respect of imports of certain items of military equipment. This matter was raised in the report for 1977 and has not yet been settled. It was found that in Italy, for example, the concession applied to a very wide range of goods, including transport and communications equipment. The Court considers that such exemptions should be limited to strategic materials.

German internal trade

15. Protocols to the Treaty of Rome provide for special treatment to be afforded to goods imported into the Community in certain circumstances. Examples are the protocol on the treatment of goods imported into France from Morocco and Tunisia and the protocol on German internal trade. In the former case the protocol clearly states that goods imported into France are not in free circulation in the Community if they are re-exported from France to another Member State. But such a stipulation is not present in the protocol on German internal trade, and, as a consequence, goods originating in the German Democratic Republic which arrive in the Federal Republic of Germany are legally in free circulation in the Community. This produces the potentially anomalous situation that goods from the GDR imported directly into a Member State other than the Federal Republic of Germany are liable to customs duties and/or agricultural levies, whereas the same goods imported first into the Federal Republic of Germany and then into another Member State would not be so liable. The Court feels that the protocol on German internal trade thus represents a potential threat to the Community's own resources. However, mechanisms exist to discourage the re-export of goods originating in the GDR from the Federal Republic of Germany to other Member States, and these mechanisms have been the subject of investigations by the Court.

The Court was satisfied that German internal trade is closely controlled by the Federal authorities and that most of the goods purchased in the GDR actually remain in the Federal Republic. Current regulations require an import or export licence for goods imported from or exported to the GDR. Many types of goods are also subject to quota limits, expressed in either value or quantity terms. In the industrial sector some 30% of goods are subject to quotas while in agriculture almost all (92%) are controlled in this way. Internal German trade is regulated by border checks and surveillance of firms by the tax and customs authorities. In the case of agriculture control is also exercised by the Federal Institution for the organization of agricultural markets.

In 1978 the value of goods imported from the GDR totalled DM 3,800 million, of which some DM 40 million worth, or just over 1% was re-exported to other Member States.

The Court of Auditors considers that control of origin is one aspect of the German internal trade arrangements to which the Federal authorities could usefully pay more attention.

It also points out that the protocol to the Treaty of Rome permits Member States to take measures to prevent any difficulties arising from German internal trade. The Court's investigations show that only France systematically avails itself of the right to take protective measures. The Court also notes that the barriers erected to prevent the outflow of goods subject to the German internal trade arrangements are reasonably effective, representing as it does just over 1% of the goods entering the Federal Republic of Germany from the German Democratic Republic. But there is nevertheless cause for concern insofar as this figure represents a potential loss of own resources. Member States would have to have recourse to the protective measures envisaged by the protocol in order to minimize the consequences for their economies and for the Community budget.

16. The declarations and findings of the Court of Auditors as regards the effect on the collection of Community revenue of the special intra-German trade situation are serious from two points of view. Firstly, important derogations from the system of own resources, although admittedly authorized in a protocol to the EEC Treaty, are organized on a purely national basis. Secondly, these derogations have, according to the Court of Auditors, given rise to serious cases of fraud.

This problem does not however come within the scope of the discharge decision. Consideration should be given not only to its political implications but also to its effects on the structure of trade within the Community and with state-trading countries. A separate report should therefore be devoted to the problem.

Community transit

17. The Court of Auditors draws attention in its report to some of the dangers to the reliability of the collection of own resources when attempts are made in too unilateral a fashion to make technical improvements to the free circulation of goods within the Community. The Committee on Budgetary Control had already drawn attention to the dangers involved when the signature of only one official was required on a form to justify the payment or reimbursement of very large sums. The Court of Auditors cites the example of replacing 'T1' by 'T2'. Reference must again be made to this danger in the 1979 discharge.

IV. Remarks on the organization and principles of Community financial autonomy

18. Consideration of the implementation of the revenue section of the budget, in particular in 1979, prompts various misgivings as regards the ability of the present system of collection and control to ensure the financial autonomy of the Community.

19. The fact that the Member States differ in their awareness of the Community nature of own resources is reflected in the different ways in which these resources are treated in the national budget documents. They appear either in a document annexed to the national budget or in the budget itself as 'resources to be transferred', as a negative item or even as revenue proper.

Parliament should state whether in its opinion these different procedures are compatible with the principle of financial autonomy on the basis of a thorough study by the Commission.

20. The Court of Auditors draws attention to the diversity of the national bodies in the agricultural sector responsible for collecting Community resources, their different powers and their very strained relations with the Commission. This situation promotes neither the integration of the system of own resources nor uniformity in their collection. Efforts must be made to achieve harmonization in this area.

21. In some sectors, particularly compensatory amounts, revenue is not entered by the national bodies in the Community accounts until after expenditure has been deducted. The Community is therefore not informed of the actual amounts of revenue or expenditure. It would be advisable for these transactions to be entered in full in a centralized Community account and for the rules to be amended to this end.

WORKING DOCUMENT

on the implementation of the general budget
of the European Communities - 1979 financial year -
and the preparation of the discharge in respect
of expenditure under Title 3 other than on energy
and research

Draftsman: Mr NOTENBOOM

1. In the context of the discharge procedure, your draftsman has considered in particular, expenditure under Title 3 other than on energy and research. This concerns the following policies with the appropriations set out below:

		Orig. approp.	Final ¹ approp.	Expenditure		Carried forward from 1978 ²	Expenditure	
				'000 EUA	%		'000' EUA	%
Chapter 30								
Expenditure in	CA	6,950	11,834	10,569	89			
the social	PA	4,765	4,765	3,626	76	1,381	1,381	100
sector	non-differ- entiated	6,170	6,820	4,274	63	952	813	85
Chapter 31								
Expenditure	non-differ- entiated	7,209	11,094	2,415	22	4,549	4,200	92
in the agri- cultural								
sector								
Chapter 34	non-differ- entiated	1,500	1,500	626	42	454	319	70
Safeguards								
Chapter 35	non-differ- entiated	7,792	7,792	3,522	45	2,987	2,861	96
Man and the environment								
Chapter 36								
Scientific	CA	1,700	8,660	5,962	69			
and technical	PA	3,825	4,825	1,508	31	2,061	2,061	100
information	non-differ- entiated	1,530	1,680	1,056	63	791	684	86
and informa- tion management								
Chapter 37	CA	pm	38,045	1,070	3			
Industry and transport	PA	700	9,200	46	0.5	4,263	1,263	30
	non-differ- entiated	1,441	2,191	877	40	16,211	15,193	94
Chapter 39	non-differ- entiated	8,955	8,955	2,880	32	5,347	4,012	75
Specific ³ projects								

¹ Including transfers of appropriations and, as regards commitment appropriations, appropriations carried forward from 1978.

² Indicated only for non-differentiated appropriations and for payment appropriations. Commitment appropriations carried forward are included in the 'final appropriation' column.

³ Comprising: preparation of new research programmes (391), educational measures (392), cultural measures (393), measures to improve knowledge of the Japanese market (395), European Foundation (396)

2. Apart from a few statistics with regard to Chapter 30, the report of the Court of Auditors contains no comments on these items of expenditure. Last year the Court of Auditors stated that owing to lack of staff it was unable to devote attention to this sector. Your draftsman wonders whether there are not in fact shortcomings in the distribution of responsibilities in the Court of Auditors and urges that the Court should organize its activities in such a way that certain items of expenditure do not substantially escape all control.

ANALYSIS OF FINANCIAL MANAGEMENT

3. Generally speaking, it can be said that the Commission acquits itself of this task in a fitting manner in respect of these items of expenditure which, in terms of financial appropriations, are less important, at least as far as commitment appropriations are concerned, and insofar as it believes that there is a sufficient legal basis. The rate of utilization for payments, even in respect of expenditure for which there is a legal basis, is variable, which raises questions about the accuracy of the budget estimates.

AGRICULTURAL SECTOR

4. The rate of utilization in respect of item 3101 (the campaign against African swinefever) and item 3102 (action in the event of outbreaks of epizootic disease) was 0% and 8% respectively, i.e. far below expectations, partly because the incidence of these diseases was much lower than expected. The same reasons were given last year. Consideration might be given to the desirability, for such items, of providing merely a minimum appropriation and having recourse, in cases of epidemics, to credit transfers from items in respect of which developments have been more favourable.

5. In addition, your draftsman feels that considerable improvements could be made to the estimates of the necessary budget appropriations:

- the long time lag between commitment and payment (Art. 313: farm accountancy data network (0% paid); Item 3141: research programmes (55% paid) and delays in research activities;
- Member States submitted no requests in respect of Item 3111: veterinary inspection of the application of Community rules and regulations (0% paid out);
- Item 3112: veterinary inspection in non-Member countries: only 55% was spent (as against 27% in 1978);
- Art. 315: training of EAGGF inspectors: only 33% spent (18% in 1978).