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REPORT

drawn up on behalf of the Committee on Budgets

on [/]draft supplementary and amending budget No. 2
of the European Communities for 1981 drawn up by
the Council on 19 October 1981 (Doc. 1-650/81)

PART B : EXPLANATORY STATEMENT

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EXPLANATORY STATEMENTI. THE ORDINARY 1981 BUDGET AND AMENDING BUDGET No. 1/1981

1. Parliament adopted the ordinary 1981 budget on 23 December 1980; on 18 September 1980 it adopted amending budget No 1 at the first reading.

At the time the situation of appropriations was as follows:

MECU	Commitment appropriations	% 1981/80	Payment appropriations	% 1981/80	VAT rate
1980 Budget	17.492		16.182		0.73
Ordinary 1981 Budget	21.123	+ 20.76	19.328	+ 19.44	0.89
Amending Budget No 1/1981	20.682	+ 18.24	19.130	+ 18.21	0.87

2. The main object of amending budget No 1/1981 was to reduce the EAGGF/Guarantee appropriations and to increase the appropriations for the Regional Fund (payment appropriations), for the EAGGF/Guidance Section and for food aid.

Overall, this amending budget made possible a substantial reduction in expenditure (-441 m ECU in commitments and - 198 m ECU in payments) and a slight increase in revenue (+ 82 m ECU).

3. The funds which thus became available (198 + 82 = 280 m ECU) permitted a reduction of the VAT rate for the 1981 financial year, which thus fell from 0.8906% to 0.8677%.

II. PRELIMINARY DRAFT SUPPLEMENTARY AND AMENDING BUDGET No 2/81

4. On 2 October 1981 the Commission forwarded to the Council and notified Parliament of a second preliminary draft supplementary and amending budget for the 1981 financial year.

This preliminary draft contains major changes which will have the following overall net effect:

	Commitment appropriations	Payment appropriations	VAT rate
Amending Budget No 1/1981	20,682	19,130	0.87
Amending Budget No 2/1981	- 695	- 695	
	<u>19,987</u>	<u>18,435</u>	<u>0.79</u>

5. As regards expenditure, the main object of this preliminary draft is to reduce the EAGGF/Guarantee appropriations (- 724 m ECU) and to enter (non differentiated) appropriations for two new measures: the ECSC social measures (+ 62 m ECU) and a special food aid programme for the least developed countries (+ 40 m ECU).

6. But the Commission is also proposing major changes in revenue, including in particular: increases resulting from the entry of the VAT balance from the 1980 financial year (+ 723 m ECU), reductions in resources of agricultural origin (- 700 m ECU), and a revision of the VAT basis of assessment (+170 m ECU).

7. Overall this draft preliminary budget makes possible both a surplus of appropriations and of resources in relation to the 1981 amended budget; this surplus can be summarized as follows:

- surplus of appropriations	+ 695 m ECU
- surplus of resources	+ 252 m ECU ¹
	<u>+ 947 m ECU</u>

8. The Commission proposes to amend the 1981 budget so as to cancel this surplus in order, that is, to effect another reduction in the VAT rate, which would thus fall from 0.87% to 0.79%.

1. Reduction in expenditure

9. The following table summarizes the various components of this reduction:

		Appropriations in ECU CA/PA
1. EAGGF/Guarantee	Titles 6 and 7	- 724,000,000 ¹
2. 10% repayment to Member States	(Chapter 40)	- 60,746,000
3. Steel industry social measures	(Chapter 54)	+ 62,000,000
4. Special food aid for LDCs	(Chapter 92)	+ 40,000,000
5. UK measures and com- pensation to Greece	(Article 580) (Article 491)	- 2,834,000 - 14,000 ²
6. Compensation to UK and Greece for their share in financing EMS interest subsidies	(Article 571)	- 569,710
7. Refund to Greece of part of its financial contribution	(Article 490)	- 9,044,660
TOTAL		- 695,208,370

(Source: preliminary draft supplementary and amending budget No 2/81
COM(81) 548, p.10)

¹ Including the effect of the revision of the VAT basis of assessment, calculated on the basis of the 0.87% rate (150 m ECU).

These figures are explained in detail in the Commission's preliminary draft budget; some comments may nevertheless be made:

Comments

10. The reduction in expenditure is derived mainly from the EAGGF/Guarantee Section; the Commission proposed a reduction of 724 m ECU, to be added to the 561 m ECU reduction already effected in amending budget No 1, which gives an overall reduction in EAGGF appropriations of 1,285 m ECU (- 10% in relation to the 1981 ordinary budget). In relation to 1980 EAGGF/Guarantee expenditure, the foreseeable increase for 1981 is therefore of the order of 2.6%.

The reduction effected by amending budget No 1/1981 was essentially the result of accounting measures (deletion of reserves of appropriations) and of changes in the parity situation (reduction of monetary compensatory amounts).

The reduction proposed by supplementary and amending budget No 2/81 has more diverse reasons, which the Commission explains in its introduction to this preliminary draft budget; the main savings are effected in the sectors of milk products (as a result mainly of fixing realistic refund rates) and cereals (lower refund rates thanks to the rise in world prices). The supplementary expenditure is due mainly to the increase in British positive monetary compensatory amounts and the exceptional measures in respect of the distillation of wine.

11. The two new measures proposed by the Commission for steel industry social measures (Chapter 54: 62 m ECU) and food aid for the least developed countries (Chapter 92: 40 m ECU) will be welcomed by Parliament which, incidentally, can claim the initiative here; this new expenditure should be regarded as non-compulsory and may be given effect by the Commission as soon as it is finally entered in the budget.

2. Increase in revenue

The following table summarizes the various components of this increase:

	m ECU
Agricultural own resources	- 699,46
of which levies	- 591.9
sugar levies	- 107.56
Customs duties	+ 92
Balance from 1980	+ 722.93
of which VAT balance from 1980	+ 559.28
arrears of VAT payments from 3 Member States (France, FRG, Belgium)	+ 164.98
other corrections	- 1.33
Correction of 1979 balance	- 13.09
Total	<u>+ 102.38</u>

These figures are explained in detail in the preliminary draft; some comments may, nevertheless, be made:

Comments

13. The correction of the VAT payments in 1980 produces an important 'bonus' of nearly 560 m ECU, caused mainly by the increase by some 250 m ECU of the VAT shares of Italy and the United Kingdom.

14. Following the adoption of amending budget No 1/81, the arrears of own resources due to be paid by three Member States (165 m ECU) will be settled without delay, which will increase the positive balance for 1980 by that amount.

15. Supplementary and amending budget No. 2 thus makes it possible to include the total positive balance from 1980, of which a first part had already been entered in amending budget No. 1/81.

16. Agricultural own resources fell by some 700 m ECU, as a result chiefly of the fall in levies on cereals (rise in world prices) and of the reduction to zero of sugar levies.

Lastly, the Commission proposes to revise the VAT basis of assessment for 1981; this revision produces an increase of 170.3 m ECU, or approximately 1.5%.

It should be noted that in its amending letter to the preliminary draft budget for 1982 the Commission also proposed revising the VAT basis by + 1.7%; the Council, however, rejected this further amendment.

III. DRAFT SUPPLEMENTARY AND AMENDING BUDGET No. 2/1981

17. On 19 October 1981 the Council drew up the draft budget and forwarded it to Parliament on 21 October.

This draft budget differs from the preliminary draft budget only in a few minor amendments relating to:

- the 1979 balance (in revenue)
- compensation and refunds to Greece (in expenditure).

However, it does not include the 62 m ECU of supplementary expenditure for the financing of the ECSC social measures (Chapter 54).

It should be noted that the Council has agreed to the revision of the VAT basis of assessment for 1981 as proposed by the Commission.

Overall, therefore, the Council proposes to amend the 1981 budget so as to cancel a surplus of appropriations and resources of 1,010.65 m ECU, in order, that is, to effect a further reduction in the VAT rate, which would thus fall from 0.87% to 0.78%.

IV. COMMENTS OF THE COMMITTEE ON BUDGETS

18. The Committee on Budgets accepted as a whole all the amendments in respect of revenue and expenditure proposed by the Council.

However, the committee considered it necessary, on the one hand, to restore the appropriations provided for by the Commission for financing the ECSC social measures (Chapter 54), and, on the other, to amend the remarks on the line relating to food aid for the least developed countries (Article 923). In expressing this opinion, the Committee on Budgets made it clear that the expenditure for these two items was non-compulsory and could be effected by the Commission without it being necessary to await the adoption of ad hoc regulations.

19. For his part, the rapporteur took the view that the proposed amendments relating to the EAGGF Guarantee Section (- 724 m ECU) were not entirely justified at such a late stage of the financial year; he proposed that not all these appropriations (and the corresponding revenue) should be 'de-budgetized' as the Council was proposing, but entered - at least in part - in Chapter 100 by allocating them to a 'general reserve for structural expenditure'. He thought it preferable not to neutralize these appropriations but to keep them alive (with the corresponding revenue) until spring 1982, at which time the budgetary authority might have been able to decide, with a fuller knowledge of the facts, either to cancel them definitively or to use them to finance the initial policy restructuring measures under the mandate of 30 May 1980.

The Committee on Budgets was not in agreement with its rapporteur on this point.

