
EUROPEAN PARLIAMENT

Working Documents

1978 - 1979

30 May 1978

DOCUMENT 150/78

Report

drawn up on behalf of the Committee on Budgets (*)

on the inter-institutional dialogue on certain budgetary questions

Rapporteur: Mr M. COINTAT

(*) This report was drawn up by the ad hoc working party of the Committee on Budgets chaired by Mr Cointat and consisting of Mr Lange, chairman of the Committee on Budgets, Mr Aigner, Mr Bangemann, Lord Bruce of Donington, Mr Ripamonti and Mr Shaw.

Within the framework of the inter-institutional dialogue which, since 1975, has preceded and prepared the way for the budgetary procedure, the Committee on Budgets is authorized to submit to Parliament a motion for a resolution on the main budgetary problems still outstanding (see Bureau decision of 27 April 1976).

In accordance with its terms of reference, the ad hoc working party of the Committee on Budgets, chaired by Mr Cointat, has drawn up eight working documents and a draft motion for a resolution, which were considered and unanimously adopted by the Committee on Budgets at its meeting of 25 May 1978; the working documents now form the explanatory statement of this report.

Present: Mr Lange, chairman; Mr Bangemann and Mr Cointat, vice-chairmen; Mr van Aerssen, Lord Bruce of Donington, Mr Dalyell, Mr Notenboom, Mr Ripamonti, Mr Ryan, Mr Schreiber and Mr Shaw.

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The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on the inter-institutional dialogue on certain budgetary questions

The European Parliament,

- having regard to the inter-institutional agreement on the procedure for annual joint consideration of certain budgetary questions,
 - having regard to the reports on the inter-institutional dialogue in 1976 and 1977 (Doc. 97/76 and 119/77)¹,
 - having regard to the report of the Committee on Budgets (Doc. 150/78),
1. Approves the conclusions and recommendations of the Committee on Budgets as set out in the explanatory statement to this resolution and summarized below;

Budgetization of loans

2. Requests the Commission to draw up, before the end of this financial year, a report on the coordination of the various loan mechanisms and on the responsibilities of the various institutions for the operation of these mechanisms;
3. Invites the Commission once again to draw up a capital (or extraordinary) budget as the borrowing and lending authorization granted to the Commission by the budgetary authority for the financial year in question;
4. Invites the Commission also to inform the budgetary authority during the financial year of the main borrowing and lending operations it intends to arrange on the basis of the outline facility opened in the budget;

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OJ No. C 125 , 8.6.1976 , p.30

OJ No. C 163 , 11.7.1977 , p.39

Appropriations for cooperation with third countries

5. Feels that all cooperation activities pursued by the Community should be financed by the general budget;
6. Expects in particular the cooperation activities connected with the Second Lomé Convention to be financed by the general budget in accordance with the rules laid down in the budgetary procedure and the Financial Regulation;
7. Asks to be consulted on the financial aspects of the brief given to the Commission to negotiate cooperation agreements (including the Second Lomé Convention) and considers that the directly elected Parliament must be called upon to ratify the financial protocols;

Supplementary budgets

8. Remains convinced that, in an integral system of own resources, supplementary budgets must not be introduced except in unavalaible and unforeseen circumstances;
9. Feels that in order to avoid supplementary agricultural budgets a reserve should be created in Chapter 100 with the appropriations allocated in detail to the various market organizations in accordance with their needs;
10. Considers also that proper coordination of legislative and budgetary operations should enable the need for non-agricultural supplementary budgets to be avoided;

Nomenclature

11. Considers it necessary that Regional Fund appropriations be itemized, research appropriations simplified and EAGGF appropriations made more transparent in the 1979 budget;

Budgetary transparency

12. Disapproves of the creation of too many decentralized bodies often governed by disparate rules and requests that a detailed classification be made of them;
13. Considers that bodies carrying out Community tasks should be financed by the general budget and remain under the control of the budgetary authority;

Implementation of the budget

14. Considers that certain types of appropriations may be entered in the budget and used without any other prior legal basis and invites the Council to cooperate with it in drawing up a list of such appropriations, during the annual budgetary procedure;
15. Considers that Article 205 of the EEC Treaty gives the Commission authority to implement the budget without awaiting specific implementing decisions by the Council;
16. Considers the practice of freezing appropriations to be both useful and legitimate and invites the Council to come to an agreement with it on the procedure for the release of such appropriations;

Financial planning

17. Proposes that the multiannual estimates be extended to cover a period of five years, that their political function be strengthened and that they be better coordinated with the Community's economic and monetary activities;
18. Requests that the budgetary authority should consider and adopt these estimates each year in conjunction with the annual budget;

ECSC budget

19. Notes that the rigidity of the ECSC's operational budget no longer enables it to meet the increase in financial requirements caused by the expansion of the ECSC's activities;
20. Considers therefore that costs should be coordinated between the ECSC and EEC budgets, and that these budgets should be considered and adopted together;
21. Approves of the increased role played by the ECSC investment (borrowing/lending) budget but feels that Parliament should have total control over this budget and the activities financed from it;
22. Expects to pursue the inter-institutional dialogue in accordance with these conclusions;
23. Hopes strongly that this dialogue will enable the institutions concerned to reach agreement on the main questions in time for the opening of the budgetary procedure for the 1979 budget;
24. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENT

I. GENERAL

In both 1976 and 1977 the working party considered a series of problems connected with budgetary techniques, procedure and principles.

Again this year it has continued its examination of various old topics and tackled new problems with a view to facilitating the inter-institutional dialogue on the Community budget.

A total of eight working documents were drawn up by members of the group:

- budgetization of loans (Lord Bruce of Donington)
- cooperation appropriations (Mr Aigner)
- supplementary budgets (Mr Bangemann)
- nomenclature (Mr Cointat)
- budgetary transparency (Mr Shaw)
- implementation of the budget (Mr Lange)¹
- financial planning (Mr Lange)
- ECSC budget (Mr Ripamonti)

The group also entered upon a study of the medium-term financing of Community activities (McDougall report) but it was agreed to deal with this study separately in order to give the draftsman (Lord Bruce of Donington) more time to consider the subject.

As in 1976 and 1977, the working party submitted the results of its work to the Committee on Budgets for presentation to Parliament in the form of a report.

It is essential that the Commission and the Council study closely this report, which is addressed to them, and give a full and detailed reply so that a genuine inter-institutional dialogue may ensue.

¹ This document is also to serve as the basis for the conciliation procedure with the Council scheduled for September 1978.

This report could also serve as a reference document for consideration of the 1979 draft budget and, as in previous years, for some of the amendments proposed by the Committee on Budgets.

Since last year, Mr Ripamonti (rapporteur on the 1978 ECSC budget and on the 1979 budgets of Parliament/Council/Court of Justice/Court of Auditors) and Mr Bangemann (rapporteur on the 1979 Commission budget) have become members of the working party.

The present membership of the working party is therefore as follows:

Mr Cointat	(rapporteur on the 1976 budget), chairman
Mr Lange	(chairman of the Committee on Budgets)
Mr Aigner	(rapporteur on the 1975 budget)
Lord Bruce of Donington	(rapporteur on the 1977 budget)
Mr Shaw	(rapporteur on the 1978 budget)
Mr Bangemann	(rapporteur on the 1979 budget)
Mr Ripamonti	(rapporteur on the 1979 budget)

II

BUDGETIZATION OF LOANS

Draftsman : Lord BRUCE OF DONINGTON

INTRODUCTION

1. In 1974/75, the Community embarked on the introduction of new borrowing and lending machinery in addition to the existing machinery: 'Euratom' loans and 'Community' loans were thus added to the instruments available in the ECSC and the EIB¹.

2. Since then, Parliament has paid constant attention to the Community's borrowing and lending policy² and its position on this matter can be summarized as follows:

'The Community must rationalize and develop its borrowing and lending activities authorized and supervised by the budgetary authority'³.

The development of the loan policy

3. Parliament favours greater recourse by the Community to the capital market for many reasons:

- (a) the disparity between the richer and poorer regions of the Community is already of such proportions as to render it quite impervious to the effects of any annual contributions from the Community's Regional Fund as at present constituted and within the existing ceiling of the Community's own resources as fixed by the Treaty. Consequently only massive investment within the poorer regions can make a significant impact towards the reduction of the ever-growing imbalance;
- (b) it would help to meet the Community's need to be financially independent of the individual Member States;
- (c) borrowing is a flexible and modern method of financing, particularly well adapted to financing the productive activities which the Community will increasingly be called upon to undertake.

The rationalization of the loans policy

4. With the 'investment' loans which it plans to introduce⁴, the Commission will have five different channels and mechanisms for raising and investing capital⁵. This diversity - which is verging on disorder - has arisen because

¹ See table showing the various Community borrowing instruments in Annex I.

² See, in particular, the résumé of its main statements in the Notice to the Members of the Committee on Budgets of 13 September 1977 (PE 49.913) - given in Annex II.

³ Paragraph 1(a) of its Resolution of 15 June 1977 on the interinstitutional dialogue on certain budgetary questions.

⁴ Commission proposal of 30 January 1978 (COM(78) 26 final).

⁵ EIB, ECSC loans, Community loans, Euratom loans, Investment loans. Moreover, there are several instruments for loans in the context of financial cooperation with certain third countries.

the Community, and more particularly the Commission¹ has failed to develop an overall policy on recourse to the capital market. There are serious drawbacks to this situation:

- (a) the lack of an overall view of the Community's need for funds and its level of borrowing because of the strict compartmentalization of the various instruments;
- (b) dispersal of responsibility for decision-making and management - and even rivalry between the authorities of the departments or institutions responsible for operating the various instruments;
- (c) an uncoordinated approach to the big capital markets which is likely to create a confusion harmful to the Community's international credit standing.

Control of the loan policy

5. Parliament feels that the Community's borrowing and lending activities should be placed under political control and that this control should be exercised by the budgetary authority. This, for the following reasons:

- (a) the loan machinery can be used to finance large-scale Community measures whose development must be kept under political control (for example the construction of nuclear power stations with Euratom loans);
- (b) the use of loans involves the Community's financial - that is to say budgetary - guarantee towards international suppliers of capital;
- (c) borrowing and lending must be integrated into the budgetary procedure - as is standard practice in the Member States - although because of their special nature they would require special presentation.

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6. Since 1976 Parliament, on the basis of the work of the Ad Hoc Working Party of the Committee on Budgets, has attempted to convince the Commission and the Council of the validity of its judgments and its proposals. Although some progress has been made on control of financial operations by the budgetary authority, no improvements have been recorded as regards the rationalization of these operations. For this reason the working party is convinced of the need to present, this year, proposals for drastic reform to remedy a situation and developments which it feels are damaging.

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¹ See in particular its 'Report on the loan policy of the European Communities' of 17 March 1976 (COM(76) 111).

I. THE RATIONALIZATION OF THE LOAN POLICY

7. The Working Party must point out that the proliferation of loan instruments mentioned above is becoming worse, with the imminent introduction of 'investment' loans, projects under study in the regional and industrial fields in aeronautics, shipbuilding; moreover this proliferation is matched by a certain confusion in the definition of the role of the different Community institutions in loan activities. The Working Party therefore feels it necessary to put forward the following suggestions aimed both at unifying the existing machinery and at clarifying the responsibilities of each institution with regard to this unified structure.

1. Unification of loan machinery

8. The Commission should envisage the possibility of grouping together the four existing or planned systems - that is to say ECSC, Community, Euratom and Investment loans - into a single instrument¹ which might then be extended to include 'regional loans', 'aeronautics loans', etc.; management of this single instrument should also be unified, that is to say entrusted to a single administrative unit within one institution.

9. The financial operations of the EIB should, of course, conserve their special character but there is an urgent need for true coordination between the activities of the bank and the other Community loan instruments; this is far from being the case at present, as there is a surprising and damaging rivalry between the Bank and the Commission, particularly as regards access to the international capital markets.

2. Responsibilities of the institutions

10. Parliament has, on several occasions, regretted the fact that the existing or planned machinery gives the Council and the Bank prerogatives which should normally belong to the budgetary authority and the Commission. The economics of this machinery are that the Council fixes the maximum amount of capital to be raised and invested and authorizes each of the major borrowing and lending operations while the Bank has a general mandate which in practice gives it a controlling say in management of the operations.

¹ Community, Euratom and Investment loans are technically very similar. Annex I sets out the main features (including the sums involved); Annex III illustrates the proliferation of these instruments.

The working party's view of how these roles should be distributed is very different; the arrangement it favours - and which could be applied to a unified loan machinery - is as follows:

- (a) the Council decides (on a proposal from the Commission and after conciliation with the Parliament) on the broad outlines of the general loan machinery - and on its use for the financing of any new Community policies;
- (b) the Budgetary Authority authorizes, within a ceiling which it fixes annually, recourse to borrowing and lending; it is kept informed of operations during the financial year and controls implementation subsequently;
- (c) the Commission assumes full responsibility for the unified and coordinated management of the loan machinery; it alone, therefore, decides, within the annual budgetary limits, on individual borrowing and lending operations - if need be with the assistance of a consultative committee;
- (d) the EIB can, in addition to its own activities as defined under Article 130 of the EEC Treaty, assist the Commission in the material management of Community loans proper; but the Bank cannot replace the Commission simply through a general mandate conferred on it by the Commission.

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II. CONTROL OF THE LOAN POLICY

11. The definition and implementation on the Community Loan Policy must - in the same way as the budgetary policy - remain under the control of the budgetary authority. It must therefore be fully and clearly set out in the budget so that the budget:

- gives annual authorization for raising and granting loans,
- fixes the maximum total amount for operations thus authorized,
- constitutes a guarantee for investors against default by the Community.

12. These principles were confirmed by the Working Party and adopted by Parliament in 1975 and were applied - through amendments - in the adoption of the 1976, 1977 and 1978 budgets. So although the budgetization of loans is now accepted, the system of budgetary entry used provisionally so far must be reformed and give way to the permanent establishment of a true capital budget.

1. Inadequacy of the present method of budgetization

13. The method used in the 1976 to 1978 budgets is budgetization by a token entry in the body of the budget¹; the drawback of this method is that it fails to distinguish borrowing and lending operations from income and expenditure of quite a different nature; moreover it does not give an overall view of these operations.

2. The creation of a capital budget

14. In 1975 - in its opinion on EURATOM loans² - the Committee on Budgets suggested the creation of a special budget covering all the capital operations planned for the financial year and setting out the extent of Community borrowing and how it was being managed.

15. The special Capital Budget should comprise separate titles in respect of both loans/investments made and repayments/redemptions received, for each type of Community loan, that is to say :

- (a) European Investment Bank (EIB) loans;
- (b) European Coal and Steel Community (ECSC) loans;
- (c) European Monetary Cooperation Fund loans;
- (d) Euratom loans;
- (e) investment loans as per COM(78) 26 final of 30 January 1978.

16. Such a Capital Budget (supported by detailed annexes as necessary) should be presented in such a manner as to give to the budgetary authority a clear overall view of all capital transactions, and allow it to form a precise and consistent judgement in the financial operations authorised during a given financial year and thus proposed for the year to which the budget relates.

17. Receipts of interest and premiums and payments of interest and discounts should be shown under a separate title and such as relate to the Commission's own loan/investment transactions should be brought into the Commission's sector of the General Budget under separate titles.

¹ See Annex IV.

² PE 40.927. The outline capital budget attached to that opinion is given in Annex V to this working document; it should be adjusted to take account of the unification of loan machinery advocated here.

3. Information on the implementation of the loan policy

18. Under the scheme set out in paragraph 10 the Commission has the prerogative - but also the responsibility - of managing loans. This management should, however, be subject to the political control of the budgetary authority and it is therefore essential that that authority be informed in advance of the most important borrowing and lending operations which the Commission intends to undertake within the framework of the ceilings authorized in the Budget.

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CONCLUSIONS

19. Most of the comments made by the Working Party and the Committee on Budgets over previous years remain valid, subject to the two main proposals made above concerning the unification of loan machinery and the creation of a capital budget.

20. With regard to these proposals, the Commission is formally requested to provide the European Parliament with:

- (a) a note, accompanied by specific proposals, on the unification of the loan machinery;
- (b) its position, expressed as clearly as possible, on the role of the various institutions in the loan policy as advocated by the working party in paragraph 10 above;
- (c) a study, accompanied by specific proposals, on the creation of a capital budget on the lines set out by the working party and in conjunction with paragraphs 15, 16 and 17 of this working document.

21. Finally, the Working Party recalls that during the conciliation procedure on the Financial Regulation in December 1977, it was understood that borrowing and lending operations would be considered afresh by the Conciliation Committee.

THE VARIOUS COMMUNITY LOAN INSTRUMENTS

	Authority responsible for decision	Authority responsible for management	Actual (or authorized) amount of operations (million EUA)
<u>EIB</u> ¹	Board of Governors* (which lays down general directives) and Board of Directors** of the EIB (which decides on the raising and granting of loans)	Management Committee of the EIB	1,570 (1977)
<u>ECSC loans</u> ²	Commission	Commission	740 (1977)
<u>Community loans</u> ³	Council (on a proposal from the Commission)	European Monetary Cooperation Fund	(3,000)
<u>EURATOM loans</u> ⁴	Commission (subject to the agreement of the Council on the renewal of credit instalments)	Commission	(500)
<u>Investment loans</u> ⁵	Council (which authorizes instalments and fixes general objectives) and Commission (which negotiates conditions)	EIB (on general mandate granted by the Commission)	(1,000)
		TOTAL	(6,810 million EUA)

* Composed of the Finance Ministers of the Member States

** Composed of the Representatives of the Member States

¹ Protocol on the Statutes of the Bank, annexed to the EEC Treaty

² Articles 49 and 51 of the ECSC Treaty

³ Council Regulation of 17 February 1975 (OJ L 46/1, 20 February 1975)

⁴ Council Decision of 29 March 1977 (OJ L 88/9, 6 April 1977)

⁵ Proposal for a Council Decision of 30 January 1978 (COM(78) 26 final).

EXTRACT FROM THE NOTICE TO MEMBERS OF THE COMMITTEE ON
BUDGETS OF 13 SEPTEMBER 1977 (PE 49.913)

II. RESUME OF LEADING STATEMENTS BY THE EUROPEAN PARLIAMENT - AND THE
COMMITTEE ON BUDGETS - ON THE QUESTION OF BORROWING

19 June 1975

Resolution of the European Parliament on Euratom loans

- '3. Considers that, in line with the relevant legal rules, an entry should be made in the annual budget to cover Community borrowings and lendings, which should be subject to the budgetary procedure applicable to all Community revenue and expenditure, and that the Commission must therefore be empowered by the budgetary authorities to borrow funds and approve loans of sums to be accurately defined and set out in the budgetary documents'¹

Moreover, the Committee on Budgets requested the Commission to draw up a report on its overall loans policy (the report was to be forwarded to Parliament on 17 March 1976).

11 July 1975

Resolution of the European Parliament on the draft Treaty amending certain
financial provisions of the Treaties

- '7. Notes that different types of Community loans exist at present or are planned, without any clear definition of their relationship to the Community budget;
8. Requests, in conformity with the Commission's proposal, that the issuing of loans on the basis of the Treaties be settled in the context of the budgetary procedure, and effected on a proposal from the Commission and in agreement between the Council and the Parliament.'²

Parliament proposes that the version of Article 203(b) proposed by the Commission be reinserted:

'Any decision to have recourse to the raising of loans shall be decided during the budgetary procedure by the Council acting by a qualified majority and with the approval of the Assembly, acting by a majority of its Members and an absolute majority of the votes cast.'³

¹OJ No. C 157/36, 14.7.1975

²OJ No. C 179/46, 6.8.1975

³OJ No. C 179/50, 6.8.1975

13 May 1976

Report of the European Parliament on the inter-institutional dialogue

- '(b) the purpose of budgetization Community loans is to bring them, in the form referred to in this document, within the normal process for authorizing Community revenue and expenditure;
- (d) budgetization should allow the budgetary authority to set a maximum annual ceiling on capital transactions, based on complete information on the borrowing position of the Community;
- (f) the introduction of a Community 'capital budget' should make Community loan policy fully and clearly comprehensible';¹

25 October 1976

Resolution on the draft general budget of the Communities 1977⁴

- '23. Considers that a prerequisite for the creative evolution of the economic convergence of Member States can be achieved only by the harnessing and judicious use of the Community's capital potential within the context of its global economic and social objectives.'

10 May 1977

Resolution of the European Parliament on the guidelines of the European Parliament on the budgetary and financial policy of the European Communities for 1978

- '3. Welcomes the Commission's intention, in accordance with Parliament's view, to improve Community financing capacity by way of long-term borrowings guaranteed by the Community thus giving added flexibility to the scope for budgetary actions in the spheres of investment and development and calls for early specific Commission proposals in the matter;²

15 June 1977

Resolution of the European Parliament on the inter-institutional dialogue on certain budgetary questions

- '(a) The Community must rationalize and develop its borrowing and lending activities authorized and supervised by the budgetary authority'³.

¹ Doc. 97/76 pp. 22 - 23

² OJ No. C 133/21, 6.6.1977

³ Doc. 119/77, p.5

⁴ Doc. 363/76, p. 8

ILLUSTRATION OF THE PROLIFERATION OF COMMUNITY LOAN INSTRUMENTS

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WRITTEN QUESTION No. 802/76¹

by Mr van der Hek

to the Commission of the European Communities

(17 January 1977)

Subject: Community financial aid to Italy

1. Could the Commission indicate the amounts made available, or likely to be made available to Italy, by Euratom to finance the construction of nuclear power stations?
2. What other Community funds have been made available to Italy?
3. In deciding Community loans to Italy, what account is taken of the funds which that country obtains from the Community in other ways?

Answer

(11 March 1977)

1. No loan has so far been granted in Italy by Euratom. The Commission 'proposal' of 24 January 1975, the object of which was to authorize the Commission to issue Euratom loans totalling 500 million units of account to enable the Community to contribute to the financing of nuclear power stations, obtained a favourable opinion from the European Parliament on 19 June 1975 but has not yet been approved by the Council because of a reservation by a Member State.
2. Community loans have been given to Italy in the form of short-term monetary support, medium-term financial assistance and Community loans.

Since May 1976, Italy has had at its disposal short-term support totalling 400 million EMUA. This facility has been extended several times and will remain available until March 1977 but has not yet been used.

¹ OJ No. C 94, 18.4.1977, p. 14.

The Council Directive of 17 December 1974¹ granted Italy an amount of 1,159.2 million units of account by way of medium-term financial assistance.

On the basis of the Council Decision of 15 March 1976², a Community loan was contracted totalling \$1,000 million plus DM 500 million. Italy received ten-thirteenths of these amounts, or the equivalent of about \$1,000 million.

Apart from the loans mentioned above, bodies in Italy have also received funds from the ECSC and the EIB.

Payments under loans granted to Italy between the inception of the ECSC and 31 December 1976 amount to 624.33 million EUA and represent 15% of the total amount of ECSC loans to all the Community Member States. At the same date, the balance remaining due amounted to 496.98 million EUA.

The loans granted to borrowers in Italy by the EIB, from its foundation until 31 December 1976, amount to 2,655.5 million units of account. The outstanding balance of these loans on 31 December 1976 was 2,133.7 million units of account, or 41.6% of the outstanding amount of the loans granted by the Bank within the Community.

3. In the granting of Community loans to Italy - as in the case of any other Member State - account is taken of the situation regarding its external payments and the general economic policy pursued by the country. Article 1 of Council Regulation (EEC) No. 397/75 of 17 February 1975³, relating to Community loans, expressly states that these loans shall be granted to Member States suffering from balance-of-payments difficulties due to increases in the prices of petroleum products. Article 3 of the same Regulation provides that the borrowing Member States must comply with economic policy conditions stipulated by the Council.

¹ OJ No. L 341, 20.12.1974, p. 51.

² OJ No. L 77, 24.3.1976, p. 16.

³ OJ No. L 46, 20.2.1975, p. 1.

METHOD OF BUDGETIZATION USED IN 1976/77 and 1978

Example: Community loans

(Extract from the 1978 Budget, OJ No. L 36, 6.2.1978, pp. 340-341)

Heading	EUA Appropriations 1978	Remarks
<p><u>Chapter 42</u></p> <p>Community loans</p>	<p>token entry</p>	<p>Council Regulation (EEC) No. 397/75 of 17 February 1975.</p> <p>This heading constitutes the budgetary framework for the consequences of a general decision taken authorizing the Commission to lend funds to Member States in balance of payments difficulties caused by the increase in prices of petroleum products.</p> <p>The loan operations authorized for the financial year under consideration are limited to US\$ 3,000 million.</p> <p>Community guarantee</p> <p>If the other operations provided for by the financial mechanism for these loans cannot be brought into play in time, in view of the due dates, the Commission will temporarily use its funds to service the debt incurred by the Community, by virtue of its direct legal obligation to the lenders.</p> <p>Any expenditure which the Community may finally have to bear is charged to this chapter. The Community will then have to exercise its right to bring proceedings against the debtors¹.</p>

¹ This text is binding.

OUTLINE CAPITAL BUDGET OF THE EUROPEAN COMMUNITIES

Extract from the opinion by the Committee on Budgets on Euratom loans of 2.6.1975 - PE 40.927

GENERAL BUDGET OF THE COMMUNITIES - FINANCIAL YEAR 1976

SECTION III - COMMISSION

ANNEX III CAPITAL BUDGET OF THE EUROPEAN COMMUNITIES

<u>CAPITAL OPERATIONS</u>		m.u.a.	<u>MANAGEMENT OF LOANS</u>		m.u.a. (Principal + 11% interest)
<u>A. Revenue</u>			<u>A. Revenue</u>		
<u>Chapter I</u>	<u>Borrowing</u>		<u>Chapter I</u>	<u>Repayment of loans</u>	
Article 11	Loans issued pursuant to Regulation No.01 (petro-dollar loans)	3,000	Article 11	Repayment of loans granted pursuant to Regulation No.01 ... (petro-dollar loans)	300 + 330
Article 12	Loans issued pursuant to Regulation No.02 (Euratom loans)	500	Article 12	Repayment of loans granted pursuant to Regulation No.02 ... (Euratom loans)	50 + 55
Article 13	Loans issued pursuant to Regulation No.03 etc.	-	Article 13	Repayment of loans granted pursuant to Regulation No.03 etc.	-
<u>Total revenue</u>		3,500	<u>Total revenue</u>		735

<u>B. Expenditure</u>		m.u.a.
<u>Chapter II</u>	<u>Loans</u>	
Article 21	Loans granted pursuant to Regulation No.01 (petrodollar loans)	3,000
Article 22	Loans granted pursuant to Regulation No.02 (Euratom loans)	500
Article 23	Loans granted pursuant to Regulation No.03 etc.	-
<u>Total expenditure</u>		3,500

<u>B. Expenditure</u>		m.u.a. (principal + 10% interest)
<u>Chapter II</u>	<u>Repayment of loans</u>	
Article 21	Repayment of loans issued pursuant to Regulation No.01 (petro-dollar loans)	300 + 300
Article 22	Repayment of loans issued pursuant to Regulation No.02 (Euratom loans)	50 + 50
Article 23	Repayment of loans issued pursuant to Regulation No.03 etc.	-
<u>Total expenditure</u> (Chapter II)		700

<u>Chapter III</u>		<u>Financial expenses</u>	
Article 31	Expenses relating to borrowing and lending operations pursuant to Regulation No.01	(petro-dollar loans)	30
Article 32	Expenses relating to borrowing and lending operations pursuant to Regulation No.02	(Euratom loans)	5
Article 33	Expenses relating to borrowing and lending operations pursuant to Regulation No.03		-
	etc...		
<u>Total expenditure (Chapter III)</u>			35
<u>Grand total (Chapter II + Chapter III)</u>			735
		<u>C. Balance sheet</u>	
			m.u.a. (principal + 10% interest)
Chapter IV	Balance of capital operations (expenditure/revenue)		-
Chapter V	Financing of the balance		-
<u>Debt situation</u>			
1.	Amount of loans contracted		3,500
2.	Amount of loans repaid		350
3.	Balance outstanding		3,150

III

MATTERS RELATING TO THE BUDGETIZATION
OF FINANCIAL COOPERATION WITH THIRD
COUNTRIES

Draftsman : Mr AIGNER

1. For many years now the European Parliament has held that appropriations for financial cooperation with third countries, and in particular EDF appropriations, should be included in the budget. This reflects its desire for the Community budget to be a political budget, i.e. transparent and comprehensive.

2. The idea of including EDF appropriations in the budget, first suggested by Parliament, was considered and elaborated by the Commission and brought up by the Council in the course of the Lomé Convention negotiations. However, its implementation was deferred because of problems connected with the unit of account.

3. The point at issue was not whether the principle was a valid one, but when it should be put into effect. In the meantime, the Budget Authority, in view of the fact that cooperation with the ACP countries would in future have a considerable effect on the Community budget, particularly the 'revenue' section, entered under Title IV a number of headings relating to that cooperation.

4. The principle was subsequently extended and applied to the various forms of financial cooperation with third countries. The fact that the financial aspects of the cooperation agreements with the Mediterranean countries are included in the budget would appear to be a strong argument in favour of including the fifth EDF.

5. The working party feels that the negotiations on the renewal of the Lomé Convention should proceed on the assumption that the fifth EDF is to be entered in the budget. It is therefore necessary to assess the implications of this procedure and set out the details.

Implications of the budgetization of financial cooperation appropriations

6. The budgetization of appropriations for cooperation with third countries constitutes a fundamental political decision that the Community's international cooperation policy should be given a stronger Community bias.

7. This budgetization should make it possible to institute a true international cooperation policy and to integrate this policy with other Community policies; it should moreover reflect the Community's determination to achieve these objectives.

In the medium term, budgetary policy must be regarded as a major priority. The implementation of such a policy reflects Parliament's frequently expressed desire to transfer to the Community the financing of activities which will be

much more effective in the wider context of the Community of the Nine. Furthermore, this transfer can be effected without any increase in the overall tax burden to be borne by the European taxpayer, since the increase in Community resources will be compensated by a reduction at national level.

8. The transfer will, of course, have to be accompanied by a transfer of responsibility. And greater responsibility for the Community will mean that the Member States have less influence on the formulation and financing of the policy. The role of the Member States in relation to the Community Institutions will in future be confined to the coordination of Community and national policies.

9. As far as budget orthodoxy is concerned, budgetization of these operations represents a major contribution to the implementation of the principle of budgetary unity.

The single budgetary framework must coincide with the Community's powers in the financial sphere, which of course calls for a certain flexibility.

10. The financing of the EDF from the Community's own resources could be subject to a ceiling on these resources resulting from the 1% limit on the Community VAT rate. This problem, which is not peculiar to the EDF, will have to be resolved as soon as possible on the basis of Commission proposals.

11. With a view to putting these changes - the transfer of financing and the transfer of responsibilities - into effect, the working party proposes the following arrangements for the budgetization of financial cooperation.

The working party's proposals

12. The working party feels that in view of its political and quantitative importance, cooperation with the ACP States, should constitute a model for the other fields of cooperation with third countries from the point of view of both budgetary organization and administration. It therefore considers the arrangements for the budgetization of the fifth EDF to be of very considerable importance.

13. The working party notes with satisfaction that the principle of the budgetization of appropriations for financial cooperation has been accepted, at least as far as some of its implications are concerned, by all the Community Institutions. It has been put into practice in the case of certain agreements and has even been initiated for the Lomé Convention. It only remains for it to be established as a general principle and for certain details of its application to be worked out, and as regards the latter, the working party has the following suggestions to make.

Scope of budgetization

14. In accordance with the principles set out above, the Community budget must cover the financial aspects of all activities which, under the Treaty, fall within the Community's sphere of responsibility. Under the financial autonomy system, Community activities may not be financed by contributions from Member States, save in the exceptional cases expressly provided for in the decision of 21 April 1970. The financial obligations deriving from the Community's participation in such agreements as the North-South Conference or the Euro-Arab dialogue should therefore be shown in the budget.

15. Loan activities should also, of course, appear in the budget. Such activities should thus be financed from Community resources. The rapporteur proposes that they should be financed by means of an ad hoc Community loan.

Method of budgetization

16. The working party is in favour of simply including the appropriations for financial cooperation in the budgetary nomenclature. Title IX seems the most appropriate heading under which to include them. It will nevertheless be necessary to provide for the amendment of the general financial regulation to take account of the specific arrangements for the utilization of these appropriations and of budgetary management, particularly as regards the STABEX system.

Nature of cooperation appropriations

17. The Council and Parliament are still not agreed on this point. Parliament classifies this expenditure as non-compulsory whereas the Council regards it as compulsory. The working party proposes that appropriations for subsidies, loans, etc. should be regarded as non-compulsory expenditure, given that the Commission has the right of appraisal in respect of the utilization of this expenditure; and that appropriations for the various loan guarantees afforded by the Community should be classified as compulsory.

Fixing the appropriation for each agreement or convention

18. Since these appropriations are fixed on a bilateral basis, the total amount and the objectives to be pursued should be determined by means of international negotiation. This should not, however, interfere with the powers of the Budget Authority, which remains responsible for entering the appropriations in the budget and for deciding how and when they are to be entered.

Ratification of these agreements by the directly elected Parliament

19. It is a direct corollary of budgetization that, when financial cooperation begins to be financed from Community resources, ratification by the national Parliaments is no longer appropriate. It is not even called for in the case of matters over which, under the Treaty, the Community has jurisdiction, as is the case with agreements concluded in accordance with the procedure laid down in Article 238.

20. Since the usefulness of ratification is not in question, this procedure should be entrusted to the Community institution most suited to the task, namely Parliament.

21. In the case of agreements covering areas not provided for in the Treaty, aspects calling either for the amendment of the Treaty or for the exercise of powers by the Member States should, in the interests of clarity, be kept separate. The European Parliament, which is in any case part of the Budget Authority, should also enter into a commitment in respect of a decision which will result in the entry of appropriations in the budget. The directly-elected Parliament will after all, have the necessary status to undertake a procedure of this importance.

This arrangement has the advantage that agreements can be ratified more quickly than they can by the national parliaments.

Use of the commitment appropriation procedure

22. This procedure is in keeping with the pluri-annual nature of most of the financial cooperation expenditure.

Consultation of Parliament in defining the Commission's negotiating mandate

23. Since agreements and conventions are acts with financial implications, they are subject to the rule applicable to such acts. However, such consultation should be so arranged that it does not impair the Commission's position during the negotiations.

The Commission's powers of implementation

24. Parliament has never questioned the technical competence of the EIB and its committees or the usefulness of their contribution. However, it has always made it clear that the part played by these bodies in the utilization of Community appropriations could never diminish the Commission's responsibility for the implementation of the budget.

25. The EDF Committee must continue to represent the governments of the Member States, since the Community's financial cooperation policy must be closely coordinated with the policies of the Member States. This is a matter of external policy.

26. Nevertheless, budgetization would be pointless if it resulted in Community resources being used to finance a policy which was simply a combination and extension of national policies.

27. The EDF Committee is therefore compatible with budgetization only if it allows the Commission to exercise to the full its responsibility for the utilization of appropriations.

The rapporteur endorses the procedure suggested by the Committee on Budgets: the EDF Committee should play only a consultative role and cannot oppose the implementation of the budget by the Commission. However, in view of the custom which has developed and of the special nature of EDF operations, the working party felt that, during an initial phase, an unfavourable opinion delivered by the Committee should be referred for a decision to the budgetary authority and no longer just to the Council.

28. The Bank should never be made responsible for tasks involving political responsibility. Its role in the management of Community appropriations should be a purely technical one.

29. As regards the administration of loans provided from the Community's 'own resources', the Commission's supervisory powers must be extended to include responsibility for the utilization of appropriations earmarked for interest subsidies and loan guarantees.

Budgetary control

30. The budgetization of appropriations for financial cooperation will necessitate an adjustment of powers and responsibilities. The working party proposes that agreements and conventions should contain a provision whereby Parliament receives all the necessary documents to enable it to exercise its power of discharge and, in particular, the documents it needs in order to assess the effectiveness of the appropriations having regard to the objective pursued.

Changes in the financial regulation

31. Parliament will have the opportunity to express its point of view on the procedures for budgetization when the amendments to the general financial regulation - which have to be made to take account of the special features of the utilization of these appropriations - are adopted.

Budgetization means that the 'internal agreements' system no longer applies.

Conclusion

32. The working party proposes:

- that all expenditure relating to the Community's financial cooperation activities should be entered in the budget, including borrowing and lending activities;
- that Parliament should be consulted on the financial aspects of the Commission's negotiating mandate;
- that the directly elected European Parliament should ratify all financial protocols concluded by the Community;
- that the Budget Authority should have full powers regarding the entry in the budget of financial cooperation appropriations; that international commitments, in cases where the amount of the appropriation has to be shown, and budgetary decisions should be coordinated by having Parliament participate in the drafting of the agreements at various stages of the procedure;

- that the appropriations for financial cooperation should be classified as non-compulsory expenditure with the exception of budget items earmarked for guarantees on loans provided by the Community;
- that the commitment appropriation procedure should be used;
- that the budgetary nomenclature should be amended in such a way that appropriations for financial cooperation can be shown in Title IX of the general budget. The 1978 budget should already contain subdivisions not only for the EDF and the agreements already concluded but also for activities that have not hitherto appeared in the budget, such as the North-South Conference, the Euro-Arab dialogue, etc.
- that the EDF Committee should have powers compatible with the fact that financial cooperation is financed from the Community's own resources and act with due heed to the Commission's responsibility for the implementation of the budget.

33. The working party points out that Parliament will participate in the formulation of the amendments to the general financial regulation entailed by budgetization and that it will therefore have the opportunity of expressing its point of view on the methods to be used, if necessary through the conciliation procedure.

34. It suggests that an ad hoc Community loan should be issued for financing the loan activities to which the budgetization relates.

IV

SUPPLEMENTARY BUDGETS

Draftsman : Mr BANGEMANN

I. Introduction

1. The principle of budgetary annuality is intended to enable the budgetary authority to take political decisions in the light of an overall consideration of all budget appropriations. The activities of the Community with financial implications are, however, subject to

- political constraints in the various sectors and
- the legislative process in the Council.

The relatively rigid principle of annuality has been relaxed by a series of technical budgetary instruments in order to ensure the necessary flexibility. One of these instruments is the supplementary budget.

2. Supplementary budgets do not permit an overall view of Community budgetary policy since they preclude a comparison of the various items of expenditure as part of a single political assessment and decision. They should therefore be avoided wherever possible.

3. Every year, however, a supplementary budget proves necessary for the common agricultural policy. In this sector the supplementary budget has practically become an institution. It is therefore principally in the agricultural sector that ways must be sought - in the light of the specific conditions prevailing in this sector - of averting supplementary budgets.

4. The Committee on Budgets has long had a clearly defined policy in this area.

Reference is made to

- the report on the inter-institutional dialogue on certain budgetary questions
- rapporteur: Mr COINTAT (Doc. 97/76 - Section on supplementary budgets:
draftsman: Mr AIGNER),
- report of the Committee on Budgets on the general budget for 1978
- rapporteur: Mr SHAW (Doc. 341/77),
- report of the Committee on Budgets on the European Parliament's guidelines on the budgetary and financial policy of the European Communities for 1979 (Part II: Sectoral and basic problems relating to budgetary and financial policy - adoption of a position on the communication from the Commission of the European Communities containing a global appraisal of the budgetary problems of the Community) - rapporteur: Mr BANGEMANN (Doc. 54/78).

However, Parliament's efforts to prevent supplementary budgets being introduced have so far met with no success.

II. The legal position under the new Financial Regulation

5. According to the previous Financial Regulation of 25 April 1973 supplementary budgets were authorized 'where necessary' (Article 1(4)). The new Financial Regulation¹ of 21 December 1977 provides (Article 1(5), first subparagraph):

'In the event of unavoidable, exceptional or unforeseen circumstances, the Commission may submit preliminary draft supplementary or amending budgets.'

6. It was thanks to the efforts of the conciliation committee that this restrictive wording was adopted. The request that the three adjectives should be linked by the word 'and' (thus making them cumulative) instead of the word 'or' was not accepted.

7. The terms 'unavoidable' and 'exceptional' are sufficiently precise to rule out difficulties of interpretation. Supplementary budgets are possible when disasters or similar events occur during the financial year and require the provision of additional funds.

The term 'unforeseen' on the other hand is the subject of some dispute between the institutions. As far as the common agricultural policy is concerned, for which supplementary budgets are submitted every year, the changes necessary as a result of price decisions are indeed foreseeable. Proposals for regulations, which are already going through the Council's legislative process, also entail foreseeable expenditure.

8. For these reasons it seems appropriate to give further consideration to

- supplementary budgets for the common agricultural policy and
- supplementary budgets which are due to inadequate coordination between the legislative process and the budgetary procedure.

III. Supplementary budgets and the common agricultural policy

9. In the EAGGF, Guarantee Section, the real decisions are taken when supplementary budgets are submitted. This has resulted in the emergence of an 'additional' budgetary procedure. Thus the ordinary preliminary draft submitted by the Commission is falsified by the price decisions; a supplementary and amending budget is tacked on to it

- invalidating the deliberations which have taken place on the preliminary draft,

¹ OJ No. L 356, 31.12.1977

- upsetting the chronological order of the stages of the budgetary procedure and
- substantially reducing the time available for discussion by both parts of the budgetary authority.

10. In the report on the European Parliament's guidelines on the budgetary and financial policy of the European Communities for 1979 (Part II) the draftsman has already pointed out, on the subject of the containment of agricultural expenditure that several ways of avoiding this procedure have already been suggested, without success, viz.:

- imposing a ceiling on agricultural expenditure in the budget,
- freezing agricultural expenditure at the previous year's level while providing an appropriate reserve under Chapter 100 intended to cover the yearly increase in expenditure and subject, by way of transfers of appropriations, to a procedure of approval by the budgetary authority, and
- obliging the Council to amend the basic regulations on agricultural policy, with a view to modifying the legislation which generates expenditure in this field.

11. The imposition of a ceiling on agricultural expenditure would automatically have ruled out supplementary budgets. This solution must be rejected in view of its rigidity and the danger of destroying the common agricultural policy, the most important factor of Community integration.

12. The provision of a reserve under Chapter 100 of an amount equal to that contained in a supplementary budget, and thus replacing it, was suggested last year by the Committee on Budgets at the initiative of its chairman but was rejected by the House. The amount involved (1,400 million EUA) was presumably the factor which prompted Parliament to rule out this alternative too. This solution might, however, provide satisfactory results if adjusted accordingly. Possible improvements to this arrangement are suggested below.

The reserve should not consist of a single overall amount in Chapter 100 but should be broken down in a nomenclature - to be determined - for Chapter 100 which would resemble Titles 6 and 7. This item would thus consist of several individual reserves - possibly broken down by market organizations - which would be in conformity with the principle of specificity and would reflect more accurately the situation when transfers of appropriations became due in the course of the financial year.

13. This ties in with the solution already suggested by the draftsman. In his report on the guidelines (Part II) the draftsman suggested that

- the system of global commitments should be abandoned and

- a notification procedure should be triggered off when appropriations for a specific group of products have been used up.

14. The introduction of this 'early warning' system might have the following results:

- preparation of appropriate transfers of appropriations from the specialized reserve in Chapter 100 or
- other price or structural measures.

Either solution would help to make supplementary budgets unnecessary.

15. As has already been demonstrated, this presupposes an amendment to Articles 96 and 97 of the Financial Regulation concerning a global commitment of appropriations.

16. There are no technical budgetary problems involved in making the reserve more specific by showing a more detailed breakdown of the appropriations earmarked in Chapter 100 for the agricultural policy. Such a classification would make a substantial contribution towards facilitating the political decision-making of the budgetary authority as it involves the earmarking of the reserve for specific purposes and implies a subtler assessment of the mechanisms of agricultural policy and would hence constitute a step towards a moderate common agricultural policy.

IV. Linking the legislative process to the budgetary procedure and the implications for supplementary budgets

17. The need for supplementary budgets also depends on the extent to which the budgetary authority is willing to enter certain appropriations in the ordinary budget which will be required as a result of regulations with financial implications. Supplementary budgets are unavoidable if appropriations are entered in the budget by the budgetary authority only in cases when the legislative process has almost reached its conclusion. On the other hand, if the budgetary authority decides to earmark funds where proposals for regulations are still at the initial stage of the legislative process, supplementary budgets can in most cases be avoided.

18. This leads on to the question when appropriations can be entered in the ordinary budget. This is conceivable at the following stages:

- no Commission proposal
- Commission proposal
- after Parliament has delivered its opinion on a Commission proposal
- proposal with the Council with the likelihood of a positive decision
- Council decision.

19. This issue raises the whole question of the relationship between the legislative process and the budgetary procedure. It demonstrates that the contradictory nature of Community legal procedures can no longer be maintained. The different powers of Council and Parliament in regard to the adoption of the budget on the one hand and the passing of legislation on the other, give rise to considerable difficulties when it comes to coordinating legislation with the provision of the necessary appropriations in the budget.

The result is distortions, the logical corollary of which is the submission of supplementary budgets.

20. In view of the complexity of the procedure whereby the budget is established, it is only right that the Treaty lays down a precise timetable for it. This is not the case with the legislative processes in the Council. In these circumstances it would be a useful step forward if the legislative work of the Community could proceed at a certain predetermined pace, which would enable the Commission, in the spring of a given year, to take into account the financial implications of new regulations already adopted or regulations likely to be adopted by the time the budgetary procedure reaches its final stages.

21. In a second phase the entry of new budget appropriations should take place in such a way that, in the case of necessary regulations, it amounts to a de facto commitment on the part of the legislative body. This has two implications:

- Firstly, the European Parliament, as part of the budgetary authority, must attempt in the course of the budgetary procedure to make a realistic assessment of new appropriations and reach a conclusion already at this stage as regards the legislative measures consequent thereupon.
- Secondly, the Council, as the other part of the budgetary authority, must acknowledge this de facto commitment and not delay its translation into legislation. Only in this way will it be possible to ensure harmonious coordination between legislation and budgetary power and thus avoid supplementary budgets.

V. Supplementary budgets and the Communities' own-resources system based on a percentage of the basis of assessment of value-added tax

22. The rate of assessment of value-added tax fixed during each budgetary procedure determines the revenue side of the budget. It is the basis for the payment of the relevant percentages by the Member States and provides guidance for their financial and budgetary authorities. For the sake of legal certainty and for other practical reasons, the percentage rate must be fixed only once a year and must not be changed for the purposes of drawing up a supplementary budget.

VI. Conclusions

23. In his capacity as rapporteur for the 1979 budget the draftsman will be submitting more detailed proposals. It is, in any case, too late now to prevent a letter of amendment for the 1979 agricultural policy.

The following conclusions might already be drawn:

- The principle that supplementary budgets should be avoided must be upheld.
- The proposal to enter a reserve in Chapter 100 should be revived, with the difference that the appropriations would be broken down into specific headings (to be determined).
- The legislative process and the budgetary procedure should be more closely coordinated; in an initial phase the legislative work of the Community must proceed at a predetermined pace, which would make it easier to take account in the budget of the financial implications of Community legislation. In the second phase the entry of new appropriations in the course of the budgetary procedure must be effected in such a way that, in the case of necessary regulations, it amounts to a de facto commitment by the legislative body.

V

NOMENCLATURE

Draftsman : Mr COINTAT

1. In both 1977 and 1978 the working party's main suggestions and requests were complied with :
 - either the Commission adopted them in its preliminary draft budget,
 - or Parliament included them in the budget by means of an amendment,
 - or they were incorporated in the new Financial Regulation.

THE PROBLEMS SETTLED

2. In 1978, Parliament has had it accepted that:
 - (a) changes in nomenclature from one budget to the next should be the responsibility of the Budgetary Authority and not merely of the Council as a result of regulations¹;
 - (b) the presentation of Title IX (cooperation with developing countries and non-Member states) should be rationalized following the budgetization by Parliament of all the Community's financial cooperation expenditure.

PROBLEMS STILL TO BE SETTLED

3. Three of the working party's requests were not, however, approved :
 - (a) presentation side by side in the draft budget of appropriations proposed by the Commission and the Council to make it easier for Parliament to compare them. This request was addressed mainly to the Council which is responsible for drawing up the draft budget. The figures shown in the preliminary draft do not of course appear in the final version of the budget;
 - (b) Breakdown of Regional Fund appropriations: for almost three years now the working party and the Committee on Budgets have requested that Regional Fund appropriations should be broken down into several items - corresponding to the different activities of the Fund - in order to improve budgetary transparency. As the total sum involved is of the order of 500 m EUA, it is important that, as in the case of the Social Fund, the budgetary allocation should not be voted en bloc but that the Budgetary Authority should be informed of the specific purpose of the appropriations making up this sum - and if necessary be able to amend them²;

¹ Article 15(3) of the new Financial Regulation:
'The budgetary nomenclature shall be decided, in respect of the apportionment of the revenue and expenditure under separate titles, chapters and articles, during the budgetary procedure'.

² During the vote on the 1978 budget, Parliament did not adopt the breakdown proposed by the Committee on Budgets. This decision was mainly prompted by Parliament's desire, based on a proposal from the Committee on Regional Policy, Regional Planning and Transport, not to jeopardize the creation of a quota-free section for Regional Fund appropriations.

Research appropriations: several changes have been introduced in recent years in the presentation of research appropriations (Chapter 33) but they have not made it sufficiently clear how appropriations are allocated to different research activities. Because of its complexity, this problem calls for the special comments made below;

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- (c) Creation of a capital budget: for the record, it should be mentioned in this document on nomenclature that on several occasions Parliament has requested the creation of a genuine capital budget to record borrowing and lending operations, which should form an integral part of the annual budget.

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THE PROBLEM OF RESEARCH APPROPRIATIONS

4. At the time when the 1978 budget was drawn up and voted, the presentation of research appropriations was provisionally amended. It was, however, agreed between the Council and Parliament that a further attempt should be made to achieve transparency and clarity in the 1979 budget. As this is a relatively complex question, the Committee on Budgets has always felt that it is up to the Commission to submit appropriate proposals based on the wishes and principles put forward by the Budgetary Authority.

5. The working party therefore wishes to re-state what in its opinion are the main rules that should govern research appropriations.

- (a) Limitation of the number of items under Chapter 33: at present, Chapter 33 is broken down into more than 200 items and takes up some 40 pages of the Commission section of the budget. It should be possible, by abolishing the breakdown into budgetary 'subitems' which are not found in the other chapters, to group all the appropriations together in some 30 items spread over six to eight pages of the budget. All that would be retained would be the main research activities on which the Budgetary Authority could more easily take a decision;
- (b) Creation of an annex to Section III by grouping together in a summary table the above-mentioned subitems and the multi-annual schedule of expenditure;

- (c) Application of the general principle whereby research staff are approved when the Commission's list of staff, an integral part of the budget, is adopted;
- (d) Application of the general principle whereby the nomenclature for expenditure is determined by the Budgetary Authority;
- (e) For the record (since this touches on the wider question of budgetary powers), application of the general principle whereby appropriations for research activities are approved as part of the budgetary procedure and not by regulation¹.

6. Some of the amendments proposed above necessitate a corresponding amendment to the Financial Regulation which the Commission should submit to the Budgetary Authority along with the preliminary draft budget.

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CONCLUSIONS

7. The working party feels that the three problems raised in this document - and left pending last year - could be easily solved this year if only the three institutions concerned would show some willingness:

- (a) presentation side by side in the draft budget of estimates of expenditure by the Commission and the Council,
- (b) breakdown of ERDF appropriations,
- (c) rationalization of the presentation of research appropriations.

8. Moreover, the working party feels that further efforts should be made to clarify the presentation of EAGGF appropriations so as to better particularize certain types of expenditure.

¹ This problem was discussed - but not resolved - during the December 1977 conciliation on the Financial Regulation.

VI

BUDGETARY TRANSPARENCY

Draftsman : Mr SHAW

Introduction

1. As may be seen from the inventory annexed to this document, certain problems of budgetary transparency have been raised in the context of the subsidies paid out to bodies outside the normal institutional structure of the Community. These subsidies fall into three categories:

- (i) to bodies subsidised at 100%, and subject to direct Community control, although with some administrative autonomy;
- (ii) to bodies subsidised up to 100% with administrative autonomy;
- (iii) to non-Community bodies.

2. The common element in these subsidies to different bodies is that, by their very nature, problems of control of Community expenditure are raised. This problem has been aggravated by the proliferation of these bodies. In the recent past the European Parliament has been forced on several occasions to criticise this proliferation and to withhold discharge from two of the Community bodies (the European Centre for the Development of Professional Training and the Foundation for the Improvement of Living and Working Conditions).⁽¹⁾

3. Furthermore, the inventory does not show the full extent of the problem in as much as the non-budgetised do not appear. In the context of the Lomé Convention, various organisms such as the Industrial Development Centre have been created. These have a separate administrative structure again, involving the joint participation of the EEC and the ACP states. During the course of the examination of the report by Mr WÜRTZ on this body,⁽²⁾ the European Parliament proposed and the Commission accepted an amendment limiting the duration of the life of this body to the length of the Lomé Convention. Subsequently, the European Development Fund will be budgetised and it will be possible to bring this body into normal budgetary control. Finally, the Commission proposed in the 1978 budgetary procedure the budgetisation of the European Agency for Trade Cooperation at item 9311. The Council did not accept this proposal.

(1) Discharge procedure 1975, Report of Mr AIGNER, Doc. 165/77

(2) Doc. 321/77

Previous proposals of the Working Group and progress so far

4. In 1977 the Ad-Hoc Working Group returned to the problems posed by these decentralized bodies in the context of its examination of the needs for greater budgetary transparency. It reiterated the principle that all these bodies should be financed by the general budget, either by means of a general subsidy in the budget or, in the case of exclusively Community bodies, the complete incorporation of expenditure arising in the appropriate lines of the budget. For specific cases the Group made detailed proposals; it called for the budgetisation¹ of the University Institute in Florence and of the European Trade Cooperation Agency. It opposed any creation of para-Community bodies, preferring that, in the case of the European Monetary Cooperation Fund, for example, these services form part of the administrative and budgetary structures of the institutions.

5. During the course of the 1978 budgetary procedure the partial budgetisation of the University Institute was achieved by including a token entry against Article 288. The principle of budgetisation was established for the European Community Institute for Economic Analysis and Research (Article 282), for the European Foundation (Article 283) and for the European Trade Union Institute (Article 307). Furthermore, inclusion of a token entry at Article 909, "Administrative costs of delegations in ACP States" is the first step towards the budgetisation of the financial consequences of the administrative structures of the Lomé Convention.

6. Following the determined effort by Parliament to obtain fuller disclosure of information on the estimates, staff plans and economic programmes of various bodies (the European Schools, (Article 289), the European Centre for the Development of Professional Training (Article 3010) and the Foundation for the Improvement of Living and Working Conditions (Article 359)) and which includes the threat of freezing of appropriations for these bodies, substantial information was provided, and it was therefore possible to proceed to approve expenditure for them for 1978.

In general, therefore, progress was achieved during the 1978 budgetary procedure towards enhancing budgetary transparency. It is now appropriate, therefore, to set targets for the 1979 procedure.

7. The attitude of Parliament was made clear when it approved its report on the 1978 Draft Budget. Paragraphs 37, 38 and 39 of the resolution drawn up by the Committee on Budgets² read as follows:

¹ By budgetisation in this context is meant the including on the expenditure side of the general budget of a line showing total net expenditure, and the provision by way of a note of the accounts for the bodies concerned.

² Report of Mr. SHAW (Doc. 341/77)

- '37. Asks the Commission to submit proposals to incorporate the decentralized organizations which are outside the direct control of the budgetary authority within the administrative structures of the institutions;
38. Expects that in future there should be supplied to the budgetary authority, with the preliminary draft budget, full estimates for each of these organizations, together with their establishment plans and economic programmes, and considers it essential to prevent the continuing expansion of establishment plans and administrative costs without adequate justification;
39. Calls on the Committee on Budgets and its Sub-Committee to examine the budgetary functioning of all these organizations.'

To date, the Commission has submitted no new proposals.

Proposals for the 1979 budgetary procedure

(a) General comments

8. The European Parliament should reiterate its position, that it is opposed to the proliferation of decentralized bodies following a variety of administrative and financial forms. The guiding rule should be that bodies receiving financial support from the Community should fall into the category - either of extra-Community bodies with independent structures, subsidized to a specific amount for Community purposes - or they should be entirely subject to the administrative and budgetary rules of the Community except where the nature of the tasks undertaken by these bodies is such that it is inappropriate for the public service system to apply for given reasons. The Commission should be invited to indicate its policy and approach to this problem and to classify the decentralized bodies, receiving Community funds, accordingly.

9. The European Parliament should demand the full budgetisation of Community bodies and the approval by the budgetary authority of their establishment plans during the course of the budgetary procedure. The budgetary authority should seek a strict limitation in the growth in the staff and expenditure of these bodies. There is a tendency for certain of these bodies, notably, the European Centre for the Development of Professional Training and the Foundation for the Improvement of Living and Working Conditions to seek increases in staff which have not always been considered appropriate by the budgetary authority.

10. The European Parliament should continue to seek full disclosure of all relative information for all the bodies, on a Community basis, autonomous or not, with their detailed estimates, economic and policy programmes and staff plans. To aid the general rapporteur for the 1979 budget in his tasks, a sub-rapporteur should be appointed to sift through the in-coming information as regards these decentralized bodies, and to advise the general rapporteur as to the need for budgetary amendment or comment by the Committee on Budgets on the volume of appropriations or number of staff. Given the number of bodies concerned and the volume of information required, it may no longer be reasonable to expect the general rapporteur to cover all this ground on his own, particularly since it concerns a relatively limited proportion of the general budget.

11. The Control Sub-Committee of the Committee on Budgets should be asked to prepare, in time for the 1979 budgetary procedure, a report on the problems that have arisen, and may arise, with respect to expenditure on these decentralized bodies so that the Committee on Budgets can make proposals during the course of the 1979 procedure.

(b) Specific proposals

12. As regards measures of budgetisation to be proposed during the 1979 procedure, an amount should be included on the line for the European University Institute (Article 288) either, in agreement with the Council to include full administrative expenditure of the Institute within the Community budget. This would require an amendment to the protocol setting up the Institute, but such a possibility is envisaged in the protocol and the Commission should be immediately invited to submit a draft amendment. Alternatively, a specific sum designed to cover research projects of a Community interest to be undertaken by the institute could be included in the budget. This 'foot-in-the-door' approach would enable Parliament to begin to control the expenditure of the institute at the moment of the 1979 discharge.

13. The Committee on Budgets should tackle the problems posed by the proliferation of decentralized bodies under Title 9; it should seek the budgetisation of the Agency for Trade Cooperation with the Developing Countries (Item 9311); it should seek to include the administrative costs of its delegations, both in the ACP States (Article 909 - no amount) or in the Maghreb countries (Article 943 - subsidy to the European Association for Cooperation) within the administrative and financial structure of the budget.

14. For the many subsidies under Chapter 29 as well as to the non-Community bodies, such as the European Centre for Agricultural and Rural Training (Article 316) and for the subsidies to extra-Community bodies, such as those concerned with human rights (Article 293), a detailed justification of the requirements should be provided within Volume 7 of the General Budget. A flat-rate subsidy would be difficult to accept in future.

15. For the European Schools, currently subsidized partly by budgetary contributions and partly by the Member States (directly to teachers seconded from the Member States), total budgetisation can only be achieved by amendment of the convention setting up the European Schools. Whilst it may not be possible to achieve such a step in time for the 1979 budget, a dialogue should be started with the Council and its attention should be drawn to the fact that the current ambiguity in the financial structure of the European schools is unsatisfactory. For those bodies for which at least the principle of budgetisation has been agreed to in the 1978 Budget, but have not yet been established, such as the European Institute for Economic Analysis and Research, the European Trade Union Institute and the European Foundation, Parliament should maintain the pressure on the Council to reach a quick decision permitting the setting up of these bodies during 1978. If there is any intention to depart from the principles of budgetary transparency in the setting up of these bodies, then consultation should be opened. In any case, strict scrutiny should be maintained once the bodies have been established, to prevent a continuing expansion of provisions or staff numbers.

CONCLUSIONS

16. As regards the procedure to be followed, the Commission and the Council should be invited to reply quickly on the specific points raised so that as many items as possible can be cleared up before the beginning of the 1979 budgetary procedure. For those items remaining unresolved the rapporteur for the Commission's section of the budget should be able to formulate, on the basis of the conclusions of the Ad Hoc Working Group, draft amendments to the budget to give substance to the Group's preoccupations as regards these decentralized bodies. The Working Group's guidelines can be summarised as follows:

- (i) for bodies of a fully Community nature, subsidised by the Community at the rate of 100%, then full budgetisation should be adopted;

- (ii) for other Community bodies, subsidised at less than 100%, the amount of the subsidy from the Community should be fully budgetised and full information should be provided, including the proportion of the running costs provided by the Community;
- (iii) for Community subsidies to independent bodies or bodies outside the Community, the full amount of the subsidy should be budgetised with a clear explanation as to the justification of the subsidy.

This is not an exhaustive list of the alternatives as there can be many variants and the rapporteur will have to reflect this need for flexibility in the amendments that he drafts. In particular, he will have to take into account those bodies that need to retain a certain independence although acting on behalf of the Community in order to fulfil Community objectives. He will also have to take into account the availability of finance to supplement the revenue of those bodies from other sources.

For those bodies that are fully budgetised, the form of budgetisation is important. The Ad Hoc Working Group concludes that on the left-hand side of the budget the Community subsidy or contribution should be included on the line, on the right-hand side the purpose and justification for the Community contribution should be specified in the remarks column. Reference should be made to the type of body being supported, its administrative relationship with the institutions of the Community, and the proportion of finance supplied from the Community budget. The information should be completed by reference to the examination of balance sheets, the financial estimates and economic and staff plans of the body.

This extra information, including the estimates for those bodies, should accompany the preliminary draft budget and should be examined along with the budget by the Committee on Budgets by its rapporteur.

As regards the 1979 budgetary procedure, the Ad Hoc Working Group suggests to the Committee on Budgets that :

- (a) the Commission should propose the necessary amendment to the convention setting up the European University Institute at Florence, thus permitting full budgetisation of this item for 1979;
- (b) the administration of the Community's delegations, both in the ACP States and in the Maghreb countries, should be brought within the administrative and financial framework of the budget;

- (c) the subsidies granted under Chapter 29 and to non-Community bodies should only be granted on the basis of full information about their requirements in Volume 7 of the budget;
- (d) the European schools should progressively be brought to a position of full budgetisation as regards public financial support, thus bringing to an end the unsatisfactory dual system. For 1979, a budget amendment tabled at the first stage of the procedure, increasing the Community budget's share of expenditure, should provoke a discussion with Council;
- (e) for any new decentralised Community bodies being set up, such as the European Institute for Economic Analysis and Research, the European Trade Union Institute and the European Foundation, or the Agency for Trade Cooperation with the developing countries, the principles outlined above should be applied, and the consequential amendments to the budget proposed. It is clear that the form and extent of the budgetisation will vary from body to body, but the principle of full disclosure of information and parliamentary control should be maintained.

For the future, and following discussions with Council and Commission, it should be possible to limit the different kinds of decentralised bodies in such a way that any new body created would fall into one of a limited number of financial and administrative categories. This would achieve a helpful simplification of the existing situation.

INVENTORY OF COMMUNITY SUBSIDIES AND SUPPORT
FOR ORGANISMS OUTSIDE NORMAL INSTITUTIONAL STRUCTURE

BODY	Budget Article	Type of Admin. Relationship	Amount 1978 Budget	Comment
Computer Centre (CIRCE) plus repayments CETIN	224	Community body, partially autonomous	7,748,000	Subject of Petre Report (Doc. 486/74, PE 38.485)
Statistical Office	264	Equivalent of a directorate- general in the Commission	7,800,000	
Supply Agency	280	Community body - some administrative autonomy	840,700	
Community Business Cooperation Centre	281		86,300	Set up by Commission decision (2.5.73)
EC Institute for economic analysis and research	282	Community body - some administrative autonomy	token entry (3,050,000 in Ch. 100)	Not yet established
European Foundation	283	Para-Community body	500,000	Not yet established
Publications Office	287	Community body with some administrative autonomy	10,978,100	
European University Institute	288	Para-Community body - administrative autonomy	token entry	Partial budgetisation at behest of European Parliament

ANNEX I

BODY	Budget Article	Type of Admin. Relationship	Amount 1978 Budget	Comment
European Schools	289	Para-Community body - administrative autonomy	27,291,900 (+1,082,000 in Ch. 100)	Full disclosure of information (budget, economic programme) after tabling of amendments to freeze appropriations
Subsidies	29	(i) European Further Educational Institutions (Art. 290)	143,000	
		(ii) European Movements etc. (Art. 291)	170,000	
		(iii) Participation in occasional congresses (Art. 292)	66,000	
		(iv) Subsidies in favour of certain human rights bodies (Art. 293)	200,000	
		(v) Study grants (Art. 294)	134,000	
		(vi) European prizes (Art. 295)	13,000	
		(vii) Contribution to the Permanent Conference of Directors of University Institutes for translation and interpretation (Art. 296)	190,000	
		(viii) Participation of EEC in the administrative expenses of international agreements (Art. 298)	313,100	
		(ix) Other subsidies (Art. 299)	250,000	

ANNEX I

BODY	Budget Article	Type of Admin. Relationship	Amount 1978 Budget	Comment
Administrative Commission for migrant workers	300		645,000	
European Centre for the development of professional training	3010	Community body - administrative autonomy	2,800,000	Discharge refused for 1975
European Trade Union Institute	307	Non-Community body - administrative autonomy	500,000	Currently proposed
European Centre for Agricultural and Rural training	316	Non-Community body	131,100	Parliament itself increased appropriations for this item
Subsidy - International Labour Office	3521	Non-Community body	25,000	
Subsidy - Foundation for the Improvement of Living and Working Conditions	359	Community body - administrative autonomy	2,300,000	Discharge refused for 1975
European Export Bank	49	Community body - administrative autonomy	token entry	Parliament proposed creation
Administrative costs of delegations in ACP States	909		token entry	Currently in-completely budgetised EDF bears costs of delegations

ANNEX I

BODY	Budget Article	Type of Admin. Relationship	Amount 1978 Budget	Comment
Aid to the management of institutes for training to help individuals from non-associated developing countries	942	Non-Community bodies	120,000	
Subsidy to the European Association for Cooperation (AEC)	943	Para-Community body - administrative autonomy	3,413,900 (+379,100 in Ch. 100)	

ANNEX II

SUMMARY OF THE BODIES LISTED IN THE FOREGOING ANNEX BROKEN DOWN AS
BETWEEN THOSE WHICH ARE ENTIRELY COMMUNITY IN NATURE (A) AND THOSE
WHICH ARE NOT (B)

A	B
Computer Centre (CIRCE)	European Foundation
Statistical Office	European University Institute in Florence
Supply Agency	European Schools
Community Business Cooperation Centre	European Trade Union Institute
EC Institute for economic analysis and research	European Association for Cooperation (AEC)
Official Publications Office	
Administrative Commission for migrant workers	
European Centre for the development of professional training	
Foundation for the Improvement of Living and Working Conditions	
European Export Bank	
Administrative costs of delegations in ACP States	

VII

PROBLEMS CONNECTED WITH THE
IMPLEMENTATION OF THE BUDGET

Draftsman: Mr LANGE

I. INTRODUCTION

1. In the course of the 1978 budgetary procedure the Council assured the European Parliament that it would take part in a conciliation procedure the aim of which would be to solve the institutional and legal problems connected with the implementation of the budget. The Committee on Budgets subsequently asked the President of Parliament to invite the Council to an initial meeting in Luxembourg. During the conciliation on the Financial Regulation, the European Parliament delegation had pointed out that on the next occasion it would be Parliament's turn to take the chair, and hence to host the meeting.

2. The conciliation will take place on the basis of the Joint Declaration of the European Parliament, the Council and the Commission (Official Journal No. C 89 of 22 April 1975, p.1). The procedure is to be followed for Community acts of general application which have appreciable financial implications and whose adoption is not required by virtue of acts already in existence. In the discussions on the Financial Regulation the wisdom was demonstrated of making use of the procedure also in the case of budgetary problems of general application that are not 'acts which have financial implications' in the narrow sense. This principle was confirmed by the Council on a number of occasions. In the present instance we are also dealing with such a problem of a general nature.

3. The observations which follow are intended to provide the Committee on Budgets with guidelines that can be used in preparing for the talks between the European Parliament delegation and the Council. The procedure should be initiated early enough to allow a result which can be enshrined in an inter-institutional agreement, to be arrived at before the opening of the 1979 budgetary procedure proper.

II. THE BUDGET AS A LEGAL BASIS

4. The status of the budget in the context of the legal systems of the Member States varies from one country to another. In some it is regarded as a law in the strict sense, in others as a legislative act in the broader sense, in others still as a legal act of a special type. The legal quality of the budget is not expressly spelt out in Community law either. Article 203 of the EEC Treaty shows that the adoption of the budget is tied to a special procedure. It may be concluded from these requirements that the adoption of the budget is a law-making act in a different category from the legislative process.

That being so, the status of the budget must be on a par with that of the normal legislative acts adopted under Community law.

5. The budget can thus in principle provide the legal basis for Commission acts. In specific cases, which will be gone into later, the budget is also acknowledged as a valid legal basis. The special legal nature of the budget is thus no obstacle. On the other hand, the budget does not amount to an instruction for appropriations to be utilized, as is the case with a regulation or decision. The budget approves expenditure, but does not make expenditure obligatory. It is thus a generally accepted principle in budgetary law that no third-party rights can be derived from the budget.

6. The Community budget, in which all revenue and expenditure are shown, is by its nature a global legal act. Since this single document covers the entirety of the Community's financial activities, it follows that it cannot as a rule contain any specific instructions as to action to be taken by the Community's executive.

III. ARTICLE 205 OF THE EEC TREATY

7. The first subparagraph of Article 205 states:

'The Commission shall implement the budget, in accordance with the provisions of the regulations made pursuant to Article 209, on its own responsibility and within the limits of the appropriations.'

Neither the Treaty nor the Financial Regulation, however, stipulate in what areas the budget provides a sufficient legal basis to legitimate the Commission's acts and in what areas it does not do so. In this connection Mr Tugendhat, the Commissioner responsible, rightly pointed out to the European Parliament in a statement he made on 11 October 1977 that the budget provided the requisite legal basis, but that it was not sufficient in every circumstance to allow the expenditure. This raises the question of the criteria that can be found in order to identify the sectors of Community activity in which the budget is self-executing and requires no additional legal basis in the form of a Council regulation or decision.

IV. DISTINCTION BETWEEN APPROPRIATIONS THAT CAN BE UTILIZED DIRECTLY AND THOSE WHICH REQUIRE AN ADDITIONAL LEGAL ACT BEFORE IMPLEMENTATION

8. There is no disagreement between the Institutions on the fact that certain ad hoc measures do not require a legislative decision on the part of the Council.

These include, for example :

- aid to disaster victims in the Community under Article 590
- aid to disaster victims in third countries under Article 950
- certain expenditure on cultural action under Article 393.

9. It has, moreover, been accepted so far that the following administrative expenditure requires no additional legal basis:

- administrative expenditure of the Institutions in the discharge of the functions assigned to them by the Treaty, with the exception of staff expenditure, which is governed by the Staff Regulations, a Community regulation. These are the appropriations under Titles I and II, for example Articles 142 and 151;
- certain appropriations relating to expenditure on materials in Title III, for example the purchase of books etc., under Article 360;
- Item 9431 with regard to the setting up of Commission delegations in third countries under agreements concluded with those countries.

10. These areas, which have become accepted over the years, do not, however, allow a generally applicable doctrine to be deduced. Last year the Committee on Budgets suggested some possible solutions¹.

No decisions in individual cases

11. Under Article 205 of the EEC Treaty, implementation of the budget is the responsibility of the Executive (Commission), whose function is to take decisions in individual cases, whereas it is for a legislative body to enact general rules, however specific they may be. (The decision of the European Court of Justice in Case 25/70 allows the management committee procedure only for implementing provisions (Point 6 of the decision)). This distinction rules out individual decisions by the Council in relation to the implementation of the budget (e.g. supporting project A, but refusing to support project B). If it were otherwise, the Council would be usurping the Commission's role, thus undermining Parliament's right to approve the budget and control its implementation.

¹Opinion of the Committee on Budgets for the Legal Affairs Committee on the compatibility of the management committee procedure with Article 205 of the EEC Treaty, draftsman: Mr AIGNER - PE 47.932

12. To some extent this rule has already been consolidated by political practice. As already pointed out, in the case of ad hoc measures no additional Council decision is required for implementation of the budget. A regulation or decision would be necessary only if the Commission repeatedly resorted to such ad hoc measures, so as to make them tantamount to a Community policy properly speaking.

13. The European Parliament has found that the Commission is more and more frequently putting forward proposals for regulations containing procedural provisions under which the Council decides on the granting of individual aids, loans, etc. By such provisions the Commission is abdicating the responsibilities assigned to it under Article 205, which amounts to a violation of the Treaties.

No unnecessary stipulations

14. In many cases the content, purpose and extent of the measures will already have been adequately determined in the remarks or annexes accompanying the draft budget. In that event the budgetary authority and the legislative body will already have mapped out a sufficiently precise framework for action by the Commission, which excludes any need for the legislature to become involved yet again. Any action by the legislative body after the adoption of the budget serves a purpose only where it is necessary to spell out the practical implications of the global authorization given through the budget. If these matters have, however, already been dealt with in the remarks, then there is no further scope for the exercise of legislative powers at this stage of the utilization of appropriations.

15. Conversely, the following point can be made for the Council's legislative powers, namely that any further refinement of the general implementing directives can still be introduced, provided that the objectives underlying the budgetary decisions remain unchanged and that the Commission is given a margin for manoeuvre to make alternative decisions.

Failure by the Council to act

16. As already mentioned, the budget creates no obligation for the appropriations entered to be utilized. It follows that the budget cannot represent a legal obligation on the Council to adopt particular legal acts providing for implementation and expenditure of funds. Politically, however, the Council enters into a commitment when, as part of the budgetary authority, it draws up the budget.

17. It cannot evade this political responsibility to follow up the entry of appropriations in the budget by legislative acts simply by claiming that the appropriations were unilaterally entered by Parliament in the budget, against its own wishes. In regard to its responsibility for the budget as finally adopted, the budgetary authority is indivisible. There is no such thing as appropriations which carry diminished legal weight because they were entered at Parliament's initiative.

Cases in which an additional legal basis is required

18. The situation is different where a legislative decision by the Council is clearly required but has not yet been taken. In these cases the Commission's right to implement the budget cannot supplant the Council's legislative powers.

19. It appears desirable that the European Parliament should take the initiative of establishing which budget lines require additional legal acts before they can be implemented. The list should cite the legal acts that must be adopted in the first half of the financial year to allow implementation of the budget. Acceleration of the legislative procedure is essential if the implementation of the budget is to be expedited.

20. The following examples may be cited for the 1978 budget :

- Article 283 'European Foundation'
- Article 323 'Use of coal in powerstations'
- Items 3240-3242 'Energy saving'
- Item 3701 'Second data-processing programme'
- Article 375 'Community reorganization and redevelopment operations in connection with crises in certain industrial sectors'

- Article 930 'Financial cooperation with non-associated developing countries'
- Items 9601-9663 'Financial cooperation with the Mediterranean countries'.

V. MANAGEMENT COMMITTEE PROCEDURE

21. The management committee procedure was first used in 1962 in the common agricultural policy. In subsequent years the procedure was extended to other sectors of Community policy. Important areas of expenditure in which it is applied today are as follows :

- the European Social Fund
- the EAGGF, Guarantee Section
- the EAGGF, Guidance Section
- the European Regional Fund
- the European Development Fund

A table showing the decision-making procedures in the abovementioned main areas of Community expenditure is given in Annex I.

Composition of the committee

22. A key feature of the management committee procedure is the fact that the representatives of the Member States on the committees, who have an advisory function, are given the right to be consulted by the Commission. Only in the case of the European Social Fund are there not only representatives of the governments, but also those of trade unions and employers organizations on the committee. The committees are chaired by a representative of the Commission. Chairmanship means merely that the Commission provides the secretarial back-up.

23. Participation of representatives of national governments leads to a re-nationalization of Community activity. As a result, the management committee procedure has for years now been the object of fierce criticism. The Commission and the Member States have parried such criticism with the argument that the management committees do not replace the Commission's decision, but merely exercise an advisory function. The political reality of this 'advisory' function should not, however, be underrated, for in a great number of cases the Commission has made it a rule to adhere very closely to the opinion reached in these committees. To some extent it is also bound by the committees' decisions, a point that will be taken up again in due course.

Voting procedure

24. The voting procedure is not designed to serve the interests of the Community as such, the votes being weighted in accordance with Article 148(2) of the EEC Treaty; in other words the voting structures applied to Council bodies are extended to these inter-state management committees.

Decision making procedure

25. Under the decision-making procedure laid down for the management committees the Commission runs into procedural difficulties if it wants to depart from the committee's opinion.

The situation in the various sectors is as follows:

- European Social Fund
The Commission must notify the committee within six weeks of the reasons why it has departed in its decision from the committee's opinion
- EAGGF, Guarantee Section
The Commission adopts measures which are applicable immediately. However, if they are not in line with the committee's opinion, they are communicated by the Commission to the Council without delay. In that case the Commission may - and as a rule does - defer implementation of the measures for up to one month after notification. The Council may take a different decision (Example: case where the Council has overriding powers).
- EAGGF, Guidance Section
The EAGGF, Guarantee Section, procedure applies also in this sector. Where the Commission's decision departs from the management committee's opinion, the Council has overriding authority to take a different decision.
- European Regional Fund
Overriding authority as above.
- European Development Fund
If the Commission decides to depart from the opinion of the EDF Committee or if the committee has rejected a financing proposal, then it must either withdraw the financing proposal or pass it to the Council for a decision.

26. The involvement of the national governments in the management committees degrades the budgetary powers of the Council and Parliament. The management committee procedure must be reviewed.

27. The Council's overriding authority deprives the Commission of the power to implement the budget. Even though the Council does not make frequent use of its power to override the Commission, Parliament cannot allow the Commission's legal position under Article 205 to be undermined, since this would lead - as will be explained below - to an erosion of Parliament's powers to exercise supervision over Community activity.

VI. EXERCISE OF EXECUTIVE POWERS BY THE COMMISSION

28. The Commission has at its disposal technical instruments that enable it to discharge its responsibilities in a satisfactory manner.

In this connection it is, however, essential that the transparency of the budget be in no way impaired. The budgets of all the decentralized bodies must therefore be incorporated in the Community budget.

VII. RISK OF UNDERMINING PARLIAMENTARY CONTROL

29. The institutional balance within the Community fashioned by the Treaty requires that the Commission shall act, and that it shall do so under the supervision of the budgetary authority, in particular Parliament.

Under Article 206b of the EEC Treaty Parliament gives a discharge to the Commission in respect of the implementation of the budget. Under Article 144 Parliament may pass a motion of censure on the Commission, whereupon the members of the Commission must resign as a body. Such budgetary control, including the power of sanction on the Commission, would be pointless if unlawful delegation of executive powers made it difficult to arrive at an accurate assessment of the financial management and if the supervisory powers of the budgetary authority were eroded. The consequences would be as follows:

- The Commission could be called to account only indirectly, since it would no longer feel directly responsible.
- The other body acting on behalf of the Commission could not be called to account by the budgetary authority.

30. To summarize, under the institutional structure laid down by the Treaty the Commission is responsible for the implementation of the budget. If the Commission abdicates this responsibility then it undermines not only its own rights, but also the supervisory rights of Parliament.

VIII. FREEZING OF APPROPRIATIONS

31. In connection with the implementation of the budget a peripheral problem must be considered, namely the possibility of appropriations being frozen by the budgetary authority. A distinction must be made between:

- freezing of reserves under Chapter 100, which can be released only by transfer of appropriations to a budget line, and
- freezing of appropriations on the line.

32. In the present context we are concerned only with the freezing and release of appropriations on the line. The following headings in the Commission's budget are at present affected:

- Item 2100 'Rent'

Part of the appropriation is frozen with the remark that it is to be released when the need for a cost increase and two new external offices has been demonstrated.

- Article 266 'Regional studies at the request of the Member States'

Part of the appropriation, amounting to 160,000 EUA, is frozen and cannot be released until a programme of studies for the Irish border regions has been submitted to the European Parliament.

- Item 2729 'Information projects relating to direct elections to the European Parliament'

2 m EUA out of the appropriation of 5 m EUA is frozen until the European Parliament has accepted the information programme proposed by the Commission.

33. The Commission protested vigorously against the freezing of the above appropriations by the budgetary authority, on the grounds that it infringed Article 205 of the EEC Treaty. The Commission's violent reaction in these instances is astonishing when compared with its meek acceptance of the Council's ingerence in its executive functions.

34. The European Parliament has repeatedly set out the legal situation: The budgetary authority is fully entitled to enter specific appropriations in the budget of the Community. It therefore enjoys, without any need for express provision to that effect, the right to enter appropriations subject to qualification or restriction. The restriction or qualification consists in the fact that utilization of the appropriation concerned is made subject to certain conditions being met, a course that is in many cases the right one. The budgetary authority is planning ahead when it enters an appropriation to take account of future developments without prejudicing them.

35. The objection might be raised that the freezing and release of appropriations must be subject to a decision by both parts of the budgetary authority. In the forthcoming conciliation meetings the question might be examined, to what extent the procedure for freezing or releasing appropriations should be more precisely laid down.

IX. CONCLUSIONS

36. The conclusions from the foregoing, which must be used as a basis for the discussions with the Council under the conciliation procedure, are as follows:

The budget as a legal basis

(a) In certain cases, which will have to be defined precisely, the budget can serve as a legal basis for action by the executive. It authorizes expenditure, without creating an obligation to put it into effect.

Establishment of a list of budget lines requiring no additional legal basis in the form of a regulation

(b) As has been pointed out, there are already a number of self-executing budget entries. There is no disagreement between the institutions on this point. In the case of a further group of appropriations the views of the institutions could differ on whether they could be directly implemented. In the course of the conciliation procedure the Council and Parliament will have to work out a list acceptable to both parts of the budgetary authority, by analogy with the procedure adopted in connection with the distinction between compulsory and non-compulsory expenditure.

Establishment of the criteria

(c) At the conciliation Parliament should press for the inclusion in the list of all budget appropriations in respect of which the content, purpose and extent of the measures to be taken by the executive are adequately determined in the remarks column.

No delegation of individual decisions

(d) In Parliament's view, under Article 205 of the EEC Treaty the Commission has sole responsibility for the implementation of the budget. It follows that the Council cannot take decisions in individual cases, as was for example recently proposed by the Commission in the case of support for Community projects for hydrocarbons exploration. Such a course results in serious distortion of the inter-institutional balance, with the Council taking over the Commission's executive responsibilities, thus undermining Parliament's authority to give a discharge.

Management committee procedure

(e) The above observation is closely related to the European Parliament's critical attitude to the management committee procedure. Parliament cannot accept that the activities of the management committees should call into question the powers of the budgetary authority (Council and Parliament). It calls on the Council to join it in a review of the management committee procedure.

Freezing of appropriations

(f) The freezing of appropriations - meaning the imposition of a condition that suspends implementation, the appropriations being released when, in the course of the financial year, the condition is fulfilled - is a prerogative of the budgetary authority. The European Parliament proposes that the two parts of the budgetary authority should work out an agreement clarifying the procedure for release.

DECISION-MAKING PROCEDURES IN FORCE IN THE MAIN SECTORS OF COMMUNITY EXPENDITURE

Sector of Expenditure	Committee consulted	Relevant text	Composition of committee and voting conditions	Decision-making procedure	Nature of intervention	Sources of finance
European Social Fund	Committee of the European Social Fund	- Art. 124 of the EEC Treaty - Regulation (EEC) No. 2396/71 of the Council of 8/11/1971 implementing the Council decision of 1.2.1971 on the reform of the European Social Fund (OJ No. L 249, 10 November 1971)	1. The committee is chaired by a member of the Commission and consists of 54 members: 2 government representatives, 2 representatives of the trade union organizations and 2 representatives of the employers' organizations from each Member State. 2. The committee decides by absolute majority.	1. The management of the Fund is the responsibility of the Commission. 2. The committee provided for in Article 124 of the Treaty is consulted on any important question concerning the activity of the Fund; it is supplied with relevant information for the purpose of such consultation. 3. Where the Commission disagrees with an opinion of the committee it must inform the committee of the reasons for its disagreement within six weeks. 4. The committee may submit opinions to the Commission on its own initiative.	Participation in measures to assist certain social groups affected by unfavourable market or employment conditions (particularly in the field of vocational re-training)	Community budget
EAGGF Guarantee Section	Agricultural management committees (one for each product, e.g. milk products)	Regulation (EEC) No. 804/68 of the Council of 27 June 1968, on the common organization of the market in milk and milk products (OJ No. L 148, 28 June 1968)	1. The Committee is composed of representatives of the Member States and chaired by a representative of the Commission. 2. The votes are weighted in accordance with Article 149(2) of the EEC Treaty. 3. The committee decides by a qualified majority of 41 votes; the chairman does not vote.	1. The Commission representative submits a draft of the measures to be taken. 2. The committee delivers its opinion on these measures within a time-limit to be set by the chairman according to the urgency of the questions under consideration. 3. The Commission adopts measures which are immediately applicable.	Measures in respect of which the Commission is responsible for allocating funds, generally relating to the operation of the market organizations (e.g. fixing of re-fund rates,	Community budget

Sector of Expenditure	Committee consulted	Relevant text	Composition of committee and voting conditions	Decision-making procedure	Nature of intervention	Sources of finance
				<p>However, if they are not in accordance with the opinion of the committee, they must be communicated to the Council by the Commission forthwith.</p> <p>In that event the Commission may defer application of the measures it has adopted for not more than one month from the date of such communication.</p> <p>The Council, acting in accordance with the procedure laid down in Article 43(2) of the Treaty, may take a different decision within one month.</p>	the rate for storage aid, etc.)	
EAGGF Guidance Section (joint measures)	Committee for the European Agricultural Guidance & Guarantee Fund	Regulation (EEC) No. 729/70 of 21 April 1970 on the financing of the Common Agricultural Policy (OJ No. 94/13, 28 April 1970)	<ol style="list-style-type: none"> 1. The committee consists of representatives of the Member States and the Commission. 2. The votes are weighted in accordance with Article 148 (2) of the EEC Treaty¹ 3. The committee decides by a majority of 41 votes. The chairman does not vote. 	<ol style="list-style-type: none"> 1. The Commission representative submits a draft of the measures to be taken. 2. The committee delivers its opinion on these measures within a time-limit to be set by the chairman according to the urgency of the questions under consideration. 3. The Commission adopts measures which are immediately applicable. However, if they are not in accordance with the opinion of the committee, they must forthwith be communicated to the Council by the Commission. In that event the Commission may defer 	Investment aid in the context of a programme for the improvement of agricultural structures in the Member States	Community budget

Sector of Expenditure	Committee consulted	Relevant text	Composition of committee and voting conditions	Decision-making procedure	Nature of intervention	Sources of finance
				application of the measures it has adopted for not more than one month from the date of such communication. The Council, acting by a qualified majority, may take a different decision within one month.		
European Regional Development Fund	Committee of the European Regional Development Fund	Regulation (EEC) No. 724/75 of the Council of 18 March 1975 established a European Regional Development Fund (OJ No. L 73, 21 March 1975)	<ol style="list-style-type: none"> 1. The committee consists of representatives of the Member States and is chaired by a representative of the Commission. 2. The votes are weighted in accordance with Article 148(2) of the EEC Treaty¹ 3. The committee decides by a qualified majority of 41 votes; the chairman does not vote. 	<ol style="list-style-type: none"> 1. The Commission submits drafts of the decisions to be taken to the committee. 2. The committee delivers its opinion within the time-limit fixed by the chairman. 3. The Commission adopts decisions which are immediately applicable. However, if these decisions are not in accordance with the opinion of the committee they must forthwith be communicated by the Commission to the Council. In that event the Commission defers application of the decision which it has adopted for not more than two months from the date of such communication. The Council, acting by qualified majority, may take a different decision within the two months. 	Investment aid within the framework of a regional development programme designed to help correct the main regional imbalances in the Community	Community budget

Sector of expenditure	Committee consulted	Relevant text	Composition of committee and voting conditions	Decision-making procedure	Nature of intervention	Sources of finance
European Development Fund (EDF)	Committee of the EDF	Internal agreement on the financing and administration of Community aid of 11 July 1975 (OJ No.L25 30 January 1976)	<ol style="list-style-type: none"> 1.The committee consists of representatives of the Member States and is chaired by a Commission representative. Its secretariat is provided by the Commission. A representative of the EIB takes part in its work. 2.The votes are weighted as follows: B 6 - Dk 3 - D 25 - F 25 - Irl 2 - I 12 - Lux 1 - N8 - UK 18 (total 100). 3.The committee decides by a qualified majority of 69 votes. 	<ol style="list-style-type: none"> 1.The Commission submits financing proposals to the committee. 2. The EDF committee delivers an opinion. 3. The financing proposals, together with the opinion of the EDF, are submitted to the Council for a decision. If the Commission decides to depart from the opinion expressed by the committee or if the committee has not delivered a favourable opinion, it must either withdraw the financing proposal or, at the earliest opportunity, refer the proposal to the Council which decides on it according to the same voting procedure as the EDF committee. 	Projects or programmes of action financed by the ACP States by grants or special loans.	Contributions by the Member States (in accordance with the scale laid down in the internal financial agreement).

¹The weighting laid down in Article 148 of the EEC Treaty is as follows: B 5 - Dk 3 - D 10 - F 10 - Irl 3 - It 10 - Lx 2 - N 5 - GB 10 (total 58)

COMPARISON BETWEEN THE VARIOUS DECISION-MAKING PROCEDURES

EAGGF Guarantee Section)
(1st application : 1964))
EAGGF Guidance Section)
(1st application : 1964))
Regional Development Fund)
(1st application : 1975))

Identical procedure in all three cases.

- The Commission decides. However if the committee delivers an unfavourable opinion, the Council may take a different decision within a specified time-limit.
- Only difference: in the case of the EAGGF Guidance and Guarantee Sections the time-limit is one month; in the case of the Regional Development Fund, two months.

Social Fund
(1st application : 1960)

This procedure gives the Commission much more extensive powers.

The Commission alone decides, and is only required to notify the committee (within six weeks) if it decides to depart from its opinion.

EDF
(1st application : 1964)

With this procedure the Commission's powers are more restricted than with the others.

The Commission decides, but if the committee delivers an unfavourable opinion or in the absence of a favourable opinion the Commission must withdraw its proposal or refer the matter to the Council at the earliest opportunity. There is no provision for a time-limit after which, failing a decision from the Council, the Commission's decision becomes applicable.

VIII

QUESTIONS RELATING TO THE
COMMUNITY'S FINANCIAL PLANNING

Draftsman : Mr LANGE

I. The triennial financial estimates

(a) Legal basis

1. 'In order to place the budget of the Communities within a framework of forward planning for several years, the Commission shall, each year draw up a financial forecast for the three subsequent financial years, showing the financial implications for the Community resulting from Regulations and Decisions in force and from proposals submitted by the Commission to the Council The Council shall, after receiving the opinion of the European Parliament, study and assess the forecast.'¹

This provision no longer complies with the legal position which entered into force after the Treaty was amended in 1975. Both the budgetary authorities (Council and Parliament) are now required to assess the forecast.

2. At the joint Council meeting of Foreign and Finance Ministers in Rome on 5 April 1977 the Council reaffirmed the importance of forecasts of Community budgetary expenditure. The European Parliament, too, has repeatedly stressed the value of political discussions on the triennial financial forecasts.

(b) Method

3. The Commission's triennial financial estimates are incorporated in the General Introduction to the Preliminary Draft Budget of the European Communities as an annex to Volume 7, Section III, 'Commission'.

The estimates are expressed in EUA and at current prices.

4. To comply with the wishes of the European Parliament, the forecast for the 1978 financial year has been given a more political slant. Like the appropriations for commitments in the budget, the figures are worked out on the basis of market prices.
5. The triennial forecast is concerned mainly with the increase in appropriations for commitments. The Commission points out that appropriations for payment 'result more or less automatically from commitments undertaken'.

¹Council Decision of 21 April 1970 on financial forecasts covering several years (OJ No. L94, 28 April 1970)

(c) Content of this year's estimates

6. The estimates begin with a forecast of own resources :
 - Customs duties
 - Agricultural levies
 - Sugar levies
 - VAT percentage
7. The forecast of expenditure is broken down into sectors:
 - Agriculture
 - Social sector
 - Regional sector
 - Energy, research, industry and transport sectors
 - Development cooperation
 - Administrative expenditure
8. Parliament notes the Commission's remarks concerning the breakdown of appropriation requirements into the following three categories:
 - existing regulations
 - proposals forwarded to the Council
 - proposals in preparation.

This information gives the forecast greater political significance in that it

- provides a more detailed assessment of the scope for financial manoeuvre and
- enables budgetary policy to be coordinated with legislation.

II. Criteria for financial planning

9. Financial planning must perform three functions, i.e.:
 - define the political aims of the Community in a comprehensive survey (political function)
 - estimate the resources needed for the achievement of these objectives and the balance between revenue and expenditure for each financial year (financial function)
 - coordinate probable expenditure and the revenue needed to cover this expenditure with the Community's overall short and medium-term policy (economic function)

(a) Period covered by estimates

10. At present the Commission submits triennial estimates. It should, however, take account of the fact that the Community's expenditure policy in many areas, notably regional policy and development cooperation, might cover a period of more than three years.

A five-year period is being used increasingly in international financial policy.

(b) Content

11. More attention should be paid to the following aspects in future:

- Presentation of alternatives in the various sectors, with overall figures
- Coordination with political objectives; this is particularly important in the research, energy and industrial development fields. A comparison of proposed changes and corresponding financial implications should be made.
- Comprehensive summary of all data relevant to financial policy, including forecasts of future trends in the Community's borrowing activities and the resulting policies.

(c) Procedure

12. The European Parliament considers the estimates and delivers an opinion. Since the triennial estimates are submitted with the preliminary draft budget, it is too late for Parliament's opinion to have any effect on the preliminary draft. It would be an improvement if alternative calculations were incorporated in the estimates so that they could, if necessary, be used by the budgetary authority as a basis for discussions on the preliminary draft budget. This would ensure greater parliamentary participation in that Parliament would have a political option.

(d) Binding force of triennial financial estimates

13. The estimates are adopted by the Commission and are binding on it. This commitment is of a political rather than a legal nature. The Commission undertakes to enact certain measures to implement the estimates in each financial year.
14. The estimates have accordingly less force than the budget, which is legally binding. In this respect they are comparable with the schedules of payments vis-à-vis commitments in the 'remarks' column of the budget. The figures for coming financial years are purely indicative and must, where necessary, be revised in the schedules of payments for the succeeding financial years, to take account of changes in the situation.

(e) Economic coordination with the Member States

15. The coordination of economic and monetary policy in the Community is totally unsatisfactory. Because of its limited scope the Community budget still has no effect on short and medium-term economic policy in the Community. Nevertheless it would be desirable for the Commission's annual review of the economic situation¹ to be coordinated with the triennial financial estimates.

III. The triennial financial estimates and their relationship to the system of appropriations for commitments and the Commission's overall policy

16. In order to coordinate the triennial estimates more closely with the budget:
 - it should be stipulated clearly in the estimates which appropriations in the budget are legally binding for the basis year and a distinction should be drawn between these appropriations and the indicative appropriations for commitments;
 - ~~the~~ appropriations for payment in the budget, which is legally binding, should be clearly differentiated from the figures in the estimates, which are only indicative.
17. Before the actual budgetary procedure the Commission prepares an overall review of budgetary policy, which provides the guidelines for the drawing up of the preliminary draft budget.

¹OJ No. L119, 12 May 1977

These general guidelines:

the triennial financial estimates,
the schedules of payments vis-à-vis commitments in the
'remarks' column and
the coordination of economic and monetary policy,
together with the budget, should make it easier to assess
political requirements and possibilities.

IV. Conclusions

18. From the above remarks it would appear that there is a need for:

- a stronger political slant to the estimates
- a clear differentiation between the legally-binding appropriations for payment contained in the budget and the indicative figures in the estimates
- clear information on existing or prospective legislation with financial implications on which the financial estimates are based
- more detailed information on the revenue side of the budget
- extension of the period covered by the estimates to five years
- alternative estimates and proposals with a view to extending the budget authority's scope for political decision-making
- coordination of projects in the research, energy and industrial development fields with financial planning
- incorporation of borrowing policy in the financial estimates
- closer coordination of the Community's economic and monetary policy, the general budgetary guidelines and the financial estimates.

It follows from the second paragraph of point 1 of this working document that both branches of the budgetary authority are required to examine the estimates.

IX

ECSC BUDGET

Draftsman : Mr RIPAMONTI

Positions adopted by the working party in 1976 and 1977

1. In 1976 and 1977 the working party tackled ECSC problems in connection with its work on the budgetization of loans. Its main concern was to demonstrate the growing importance of the ECSC's investment budget and the need for control by the budgetary authority.
2. In 1976, the working party adopted the following position:
'ECSC financial transactions should also be budgetized, in a manner to be set out in detail later'¹.
3. In 1977 it defined its position more fully, calling for the gradual alignment of the ECSC and EEC budgets by means of the following measures:
 - Merging of the operational and investment budgets into a single ECSC budget to be submitted to the budgetary authority for its opinion;
 - Coordinated adoption of the ECSC budget....'².

Positions adopted at the same time by the Committee on Budgets and Parliament

4. In 1976 and 1977, the Committee on Budgets also gave attention to ECSC problems during its deliberations on the annual budget and the rate of the ECSC levy. In 1976 Parliament expressed concern at 'a degree of stagnation and inflexibility in the operational budget'³ due to a growing imbalance between available resources and financing requirements. The following year it called for measures to promote a degree 'of integration of ECSC and EEC activities' and to provide 'the budgetary authority with a more comprehensive picture of Community finances'⁴.
5. In its report on the discharge for 1976, Parliament also expressed the view that it was essential for the Commission 'to draw up a structured programme for borrowing and lending policy within the framework of the provisions of the ECSC Treaty' and 'to submit this programme to Parliament, which, each year, must have the opportunity to assess its scope and, where necessary, propose amendments'⁵.

¹ Doc. 97/76, paragraph 28(h)

² Doc. 119/77, paragraph 9

³ Resolution on the operational budget for 1977, paragraph 3 (OJ No. C 6/52, 10.1.1977)

⁴ Resolution on the operational budget for 1978, paragraph 5 (OJ No. C 6/31, 9.1.1978)

⁵ Resolution on the ECSC discharge for 1976, paragraph 13 (OJ No. C 6, 9.1.1978)

Problems

Obsolescence of the operational budget

6. The accentuation of the crisis in the iron and steel industry has called the entire operational budget system into question.
7. The effect of the crisis has been to increase the industry's requirements as regards redevelopment and resettlement etc., while at the same time considerably limiting the scope for self-financing. 80% of the ECSC budget is financed by a levy on the industry's own funds. This paradoxical situation explains why the rate of the levy has been frozen (at 0.29%) since 1972 and why the ECSC budget has remained at about 100 million u.a.
8. As a result of the stagnation of the ECSC budget the Commission proposed that the EEC budget should be used to finance a number of aid measures for the coal and iron and steel sectors¹.
9. At the same time it proposed the creation of additional revenue for the ECSC to be covered by the customs duties applied to ECSC goods imported into the Community. These duties are estimated at 65 million EUA. For the 1978 budget, the Commission proposed - as an interim measure - that a sum of 32 million EUA should be allocated to the ECSC from voluntary contributions made by the Member States in proportion to their gross national products.
10. This, briefly, is how the situation stands at present with regard to the ECSC budget. In 1976 - and again in 1977 - Parliament asked the Commission to reflect on the precarious nature of the ECSC budget and to initiate a public debate on the matter³. However, the latter has taken no action and has not even officially consulted Parliament on its proposals for the creation of new ECSC resources.
11. The questions we now have to face are as follows: Will this additional financing give a sufficient boost to the ECSC budget or will the EEC budget have to continue to make contributions? Will the Commission at all events find the necessary resources to sustain a common coal and iron and steel policy or will the Member States resort, in view of the seriousness of the crisis, to national financing and hence national corrective policies?

¹ Aids for coal stocks - Use of coal in power stations - Coal gasification and liquefaction - Interest rebates and investment premiums for the reorganization of the iron and steel industry.

² Draft decision of 8 November 1977 (COM(77) 561 final).

³ Resolution on the operational budget for 1977, paragraph 3 (OJ No. C 6/52, 10.1.1977).

Resolution on the operational budget for 1978, paragraph 5 (OJ No. C 6/31, 9.1.1978).

Expansion of the investment budget

12. ECSC borrowing and lending activities (i.e. the 'investment budget') would appear to be flourishing. Despite the crisis, annual amounts outstanding remain high (742 million EUA in loans in 1977, 1063 million EUA in 1976) and the overall figure for transactions carried out to date is impressive (almost 5,000 million EUA).

The quality of management, the profitability and the security of the financial transactions cannot be disputed; nor can the usefulness of these transactions to the coal and iron and steel sectors for investment and redevelopment.

13. Taking things to extremes, it could be argued that the main objective of the operational budget is at present to provide financial support for the investment budget¹. Indeed, part of the levy is used to finance the reserve which provides security for ECSC borrowing operations.

14. However, the investment budget is not subject to control by the budgetary authority, which has no part in determining the annual total borrowing operations or in drawing up guidelines for lending policy. Thus, the Commission administers a large sum of money guaranteed by public funds and, with the aid of this money, pursues an industrial policy which is not subject to political control. Only the discharge authority has the right - a posteriori - to inspect the accounts after they have been closed.

Observations of the working party

15. The Commission's new proposals (allocation of ECSC customs duties to the operational budget) will probably help to solve some of the problems mentioned above; however, the working party feels that greater coordination between the ECSC and EEC budgets is required on the one hand and closer supervision of the ECSC's financial activities on the other;

Coordination of the ECSC operational budget and the EEC budget

16. Given the present economic situation, the operational budget's resources will not significantly increase. The levy will probably remain frozen at the present level (it may even be reduced) and ECSC customs revenue (on the assumption that the Member States agree to allocate it to the operational budget) will be limited by the severe restrictions placed on imports of iron and steel products into the Community

¹ See comments made by Mr Cheysson during the debate on the 1977 operational budget: 'This budget is used largely to support a borrowing policy.. Above all let us not forget that the borrowing capacity of the ECSC stems from the regularity of its financial resources' (Sitting of 14 December 1976, OJ No. 210, December 1976, page 73.

17. On the other hand, financial requirements will considerably increase if the Commission implements its plan for the reorganization of the iron and steel industry.

18. It is therefore inevitable that the EEC budget will increasingly be required to provide funds to finance ECSC activities. The problem of coordination between the two budgets will therefore become acute and measures will have to be adopted forthwith. For its part, the group believes that:

- (a) The Commission should endeavour to define exactly which activities will be the responsibility of the ECSC operational budget (assistance for research, social aid, support for financial operations), and which activities will gradually have to be taken over by the EEC budget, insofar as they expand the ECSC's field of operations, the ultimate aim being to achieve genuine interaction between the two budgets;
- (b) As already requested by Parliament in 1970, the coordination of the preparation, presentation and adoption of the ECSC and the EEC budget should be improved (with due regard, of course, to the provisions of each of the Treaties). This would mean in particular that:
 - the Commission should present the draft ECSC budget by October (at the same time as the EEC budget);
 - Parliament should be able to propose modifications and proceed to a second reading in December;
 - the EEC and the ECSC budgets should be adopted together in December.

Control of the investment budget

19. The ECSC's financial activity is undoubtedly one of the most valuable weapons in the fight against the crisis in the iron and steel industry and any attempt to modify the investment budget calls for extreme caution.

20. However, it is now essential for Parliament to participate more closely in the financial and industrial policy pursued under this budget. In the working party's opinion it could call for measures to ensure that:

- (a) The investment budget is more closely linked to the operational budget. The draft operational budget should contain all the forecasts and all the necessary information on the financial policy envisaged by the Commission for the following financial year (in particular applications for loans pending).
- (b) Parliament should be notified, systematically and in detail, of borrowing and lending operations as soon as they are effected.

ANNEX

OUTCOME OF THE WORKING PARTY'S ACTIVITIES IN 1977

1. THE REPORT DRAWN UP BY THE WORKING PARTY

The Working Party met six times in 1977 and submitted a 66-page draft report to the Committee on Budgets, which unanimously adopted it on 17 May 1977; the European Parliament then also unanimously adopted it on 15 June 1977.

As in 1976, the Working Party examined a whole series of technical questions and drew a number of specific conclusions which are summarized on pages 9 - 12 of the abovementioned report¹.

The main subjects considered were :

- loans : the form of their budgetization, the possible creation of a Community capital budget and the European Parliament's participation in the carrying out of loan operations;
- cooperation appropriations : the budgetization of cooperation appropriations, the budgetization of the next EDF and the European Parliament's participation in the conclusion of cooperation agreements;
- commitment appropriations : opening of new lines of commitment appropriations, their budgetary presentation and the application of the machinery of Article 203;
- supplementary budgets : ways of avoiding recourse to supplementary budgets, with particular reference to the financial impact of agricultural prices;
- nomenclature : mandate of the budgetary authority in respect of the nomenclature and specific proposals for improvement;
- budgetary transparency : attempt to rationalize para-Community bodies and specific proposals relating to certain decentralized agencies;
- timetable for the budgetary procedure : suggestions for improvements for the adoption of the 1978 budget.

2. ANSWERS GIVEN BY THE COMMISSION AND COUNCIL²

As in 1976, the European Parliament asked the other two Institutions for their opinions on the proposals and suggestions contained in the Working Party's report so that the three Institutions could reach a mutually agreed position in time for the opening of the procedure for adopting the 1978 budget: the problems discussed in the 'inter-institutional dialogue' do, in fact, have a direct bearing on this procedure and the task of the present inter-institutional dialogue is precisely to clarify and facilitate the annual vote on the budget.

¹ see Doc. 119/77

² see PE 51.160

However, it should be noted that the scope and effectiveness of the 'dialogue' have been somewhat restricted by the belated - if not dilatory - submission of answers by the Commission and Council.

(a) The Commission's answer

In a letter from Mr Tugendhat dated 3 October 1977, the Commission gave a detailed answer to the Working Party's report. On many points the Commission apparently shared the European Parliament's opinion (notably on loans, cooperation appropriations and budgetary nomenclature); however, its answers on other points such as the ECSC budget, the classification of certain expenditure (CE/NCE) and the status of commitment appropriations were unsatisfactory; finally, it was unable to express a definite opinion on certain points such as supplementary budgets and budgetary transparency.

(b) The Council's answer

In a letter from the President-in-Office of the Council dated 29 October 1977, the Council felt that most of the points raised in the Working Party's report had already been dealt with in the course of the current revision of the Financial Regulation; as for the other points, the Council's letter said that 'they might be considered at a later date, bearing in mind the progress made on matters being dealt with during the revision of the Financial Regulation'.

3. IMPLEMENTATION OF THE CONCLUSIONS CONTAINED IN THE WORKING PARTY'S REPORT

As in 1976, the Working Party and the Committee on Budgets undertook to put into operation some of the conclusions contained in the Working Party's report; to do this - in the absence of any prior agreement with the Commission and Council - the Committee on Budgets and the European Parliament largely relied on amendments to the draft budget for 1978.

At the same time, the Committee on Budgets was able to put some of these conclusions into practice when the new Financial Regulation was considered, first by the European Parliament and then by a conciliation committee; the questions dealt with here principally concerned loans, commitment appropriations, supplementary budgets and the budgetary nomenclature.

It is unnecessary to list all the results obtained in this way - but it is useful to give a brief account of those points on which the European Parliament obtained satisfaction :

loans : confirmation of the principle of the budgetization of loans (as a token entry), the annual ceiling for the operations planned being specified in the 'remarks' column, operations of the European Export Bank and investment loans (Ortoli loans) are to be entered in the budget;

- cooperation appropriations : confirmation of the principle of the budgetization (in actual amounts) in the form requested by the European Parliament (detailed presentation by country and distinction between payment authorizations and commitment appropriations); the Commission is to study the question of prior consultation of the European Parliament on the amount of these appropriations;
- commitment appropriations : the opening of new lines of commitment appropriations is the responsibility of the budgetary authority alone;
- supplementary budgets : confirmation of their exceptional nature the Commission is to study the machinery proposed to avoid the presentation of supplementary agricultural budgets;
- nomenclature : acknowledgement of the fact that the budgetary authority is solely responsible for any changes in the nomenclature; the presentation of Title IX (Cooperation) has been improved;
- budgetary transparency : certain improvements (such as the entry in the budget of appropriations for the University Institute of Florence) have been made;
- budgetary timetable : progress has been made in that the deadlines fixed for each Institution for considering the draft budget have been extended.

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CONCLUSION:

As a whole, the outcome of the Working Party's activities is largely positive; there can be no doubt that the best results have been obtained in the course of the conciliation procedure on the Financial Regulation, and as a result of the determination shown there by the delegation from the European Parliament which included all the members of the Working Party.

However, it is to be regretted, that it was impossible to reach any agreement or compromise in time for the opening of the budgetary procedure and that consequently, this year's vote on the budget was once more considerably impeded and confused by inter-institutional differences, on technical financial details. The Working Party must therefore once again press the Commission and Council to ensure that the inter-institutional dialogue produces concrete results before the initial consideration of the 1979 budget, that is, before the summer recess.