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Report

drawn up on behalf of the Committee on Budgets

on/draft amending and supplementary budget No 1 of the European Communities
for the financial Year 1977 (Doc. 192/77)

Rapporteur: Lord BRUCE OF DONINGTON

PE 49.420/fin.

On 4 April 1977 the Commission of the European Communities forwarded to Parliament preliminary draft amending and supplementary budget No. 1 for the financial year 1977.

Draft amending and supplementary budget No. 1 was drawn up by the Council on 21 June 1977 and forwarded to Parliament the same day.

An exchange of views was held at the meetings of the Committee on Budgets on 24 May 1977 and 7 June 1977, and at its meeting of 22/23 June 1977 the Committee on Budgets considered the report by Lord Bruce of Donington, rapporteur for the general budget for 1977, and adopted the motion for a resolution by 7 votes to 1 with 2 abstentions.

Present: Mr Lange, chairman; Lord Bruce of Donington, rapporteur; Mr Van Aerssen, Mr Albertini, Mr Früh, Mr Schreiber, Mr Shaw, Mr Spinelli, Mr Terrenoire and Mr Würtz.

The opinion of the Committee on Agriculture will be published separately.

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A.

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 draft amending and supplementary budget No. 1 of the European Communities for the financial year 1977

The European Parliament

- having regard to the preliminary draft amending and supplementary budget,
 - having regard to the letter of amendment to the preliminary draft amending and supplementary budget,
 - having regard to the draft amending and supplementary budget drawn up by the Council (Doc. 192/77),
 - having regard to the report of the Committee on Budgets and the opinion of the Committee on Agriculture (Doc. 202/77),
 - having regard to the timetable difficulties in which it has been placed as a result of Council's delays in drawing up the draft budget,
 - aware of the difficulties that the Commission would be placed in were the amending and supplementary budget not to be adopted, as the decisions in the context of the agricultural price review have automatically increased the charge to the Community budget by nearly 10%,
 - and aware that the Commission needs extra administrative facilities in order to carry out the new tasks assigned to it in the context of the new fisheries policy,
1. Protests at the delays by Council which have placed it in an extremely difficult position, both as regards its timetable and the carrying out of its budgetary responsibilities ;
 2. Draws attention to the fact that such a procedure is contrary to the spirit of the Treaties laying down the budgetary powers of the European Parliament, and its position as an integral part of the Budgetary Authority;

3. Points out that the size of this amending and supplementary budget far exceeds the acceptable level inasmuch as it amounts to some 10% of all intervention expenditure, thus defying any notion of the annuality of the budget ;
4. Underlines that, given that this amending and supplementary budget is the last before the definitive financing of the Community budget by own resources, the introduction of any supplementary budget in subsequent financial years would not be desirable since its adoption would require a revision of the VAT rate ;
5. Observes that most of the expenditure is due to increases in agricultural spending as a result of Council decisions on the farm price review ;
6. Insists that the Council, on the basis of proposals from the Commission, and in agreement with the European Parliament, tackles the problem of escalating agricultural spending;
7. Regrets the failure of Council to agree to revised research appropriations thus causing further delays in the execution of Community research projects ;
8. Agrees exceptionally to increases in expenditure for staff appropriations for the creation of a new Directorate-General for Fisheries, in view of the extra tasks that have been assigned to the Commission by Council in this domain ;
9. Reminds the Institutions, however, that the administrative expenditure should normally be fixed definitively at the time of the adoption of the annual budget ;
10. Reiterates its contention that supplementary budgets should only contain that expenditure which is urgent, unforeseeable and unavoidable ;
11. Approves draft supplementary and amending budget No. 1 for the financial year 1977; considers that as a result this budget shall be deemed to be finally adopted and therefore instructs its President to implement Article 203(7) of the EEC Treaty regarding the adoption of the Budget.

B.

EXPLANATORY STATEMENT

INTRODUCTION

1. The Committee on Budgets is confronted with a dilemma as a result of the tardy drawing up of the draft supplementary budget No. 1 (Doc. 192/77). The preliminary draft from the Commission, available since April and amended by the Letter of Amendment (COM(77) 180) had been examined by the Committee at its meetings of 24 May and 7 June. At the first meeting a letter was sent to Council (see annex) appealing for the latter to draw up the budget as quickly as possible in order that the supplementary budget procedure would not overlap with that for the General Budget for 1978. This was not done as a result of political differences within Council about certain contents of the preliminary draft.

As a consequence, a truncated supplementary budget has now been drawn up at the last moment (21 June 1977) which covers less ground than the preliminary draft. Appeals from the Commission and from Council have been launched in order to encourage the Committee on Budgets and the European Parliament to proceed to adoption of the budget by the July Session. Only scant preparation has been possible.

The responsibility for this highly unsatisfactory state of affairs rests squarely with the Council. The supplementary budget was necessitated by Council's own decisions on agricultural spending (failure to include a reserve in the 1977 general draft budget, decisions for price increases leading to extra expenditure, etc.). Now Council has delayed for over a month in drawing up the draft budget and at the last moment the Committee on Budgets was expected to pronounce literally within 48 hours of the Council meeting, for presentation to the July Plenary.

If Parliament is prepared to go along with this procedure, it is because of the convincing case put forward by the Commission as regards the need for extra appropriations to be available for the expenditure arising under Titles 6 and 7, and for the need for extra posts for the new Directorate-General on Fisheries. Here the decisions within the context of the Common Fisheries Policy require extra staff to negotiate with many third countries. These decisions have taken place since the beginning of 1977.

(i) The contents of the preliminary draft budget

2. The preliminary draft can be divided into various sub-categories :

- a) changes to the EAGGF (Titles 6 and 7) resulting from the farm price review ;
- b) amendments for staff expenditure ;
- c) research appropriations adjustments ;
- d) nomenclature changes for EIB loans to the Maghreb countries and Malta, and Arab countries for regional matters ;
- e) request for additional staff for a new Directorate-General, Fisheries ;
- f) request for reclassification of posts ;
- g) introduction of section on the court of auditors.

Partly as a result of these changes, certain rectifications to the revenue side of the budget are made.

(ii) The contents of the Letter of Amendment

3. The letter of amendment can be sub-divided as follows :

- a) further changes to the EAGGF (Titles 6 and 7) resulting from the decisions of Council on the farm price review ;
- b) further amendments to staff expenditure ;
- c) further research appropriations adjustments.

The impact of the preliminary draft supplementary budget and the letter of amendment on Titles VI and VII - expenditure arising from the Guarantee Section of the EAGGF - can be shown as follows:

BREAKDOWN OF VARIATIONS TO AGRICULTURAL APPROPRIATIONS ACCORDING TO SOURCES OF EXTRA EXPENDITURE

Preliminary Draft Supplementary Budget :
Price Proposals, m.u.a.

Extra Appropriations resulting from
Letter of Amendment, m.u.a.

	Milk	Beef	Other sectors	Agri-monetary sector	Title 6 & 7	Milk	Beef	Other sectors	Agri-monetary sector	Revised Titles 6 & 7
Total Appropriations 1977	2000.-	609.-	1444.3	1114.0	6167.4	2316.4	490.4	2548.7	1489.0	6843.6
"Due to economic situation"	+ 73.8	-111.6	+ 82.6	+ 399.0	443.9	-	-	-	-	-
"Due to price review"	- 26.8	- 7.1	+ 12.8	+ 7.0	- 14.1	+ 51.0	-	-	+ 5.0	+ 56.0
"Due to related measures"	+ 96.4	-	+ 8.0	- 52.0	+ 52.4	+ 94.2	+ 5.0	-	+ 77.0	+176.2
Other causes*	+173.0	-	-	+ 21.0	+194.0	+ 23.3	-	-	+ 2.5	+ 25.8
Total preliminary draft supplementary budget	+316.4	-118.6	+ 103.4	+ 375.0	+676.2	+173.5	+ 5.0	-	+ 84.5	+258.0
									New Titles 6 & 7	7101.6

* Changes in date of corresponsibility levy appropriation

(iii) The contents of the draft budget

4. The draft budget as drawn up by Council limits the scope of the supplementary budget to the following areas :

- (a) changes to the EAGGF (Titles 6 and 7) resulting from the decisions of Council on the farm price review ;
- (b) amendments to staff expenditure ;
- (c) requests for additional staff for the new Directorate-General, Fisheries ;
- (d) certain of the nomenclature changes for EIB loans.
- (e) a 'starting-up' global figure for the newly-established Court of Auditors ;

The Council has rejected the following elements :

- (i) all research appropriations adjustments ;
- (ii) certain of the nomenclature changes for EIB loans (postponement) ;
- (iii) request for reclassification of posts.

REVISED SUMMARY TABLE AFTER DRAWING UP OF DRAFT SUPPLEMENTARY BUDGET BY COUNCIL

COMMISSION

A.	<u>Present appropriations</u>	8,651,927,540 ua
B.	<u>Changes in draft budget</u>	
	- EAGGF Guarantee Section	+ 714,400,000
	- Staff appropriations	+ 21,575,000
	- Refunds to the Member States (Ch. 40)	+ 45,205,252
	Revised total	<u>9,433,107,792</u>
C.	<u>Other institutions</u>	
	Present appropriations	148,099,329
	Changes in draft supplementary budget ¹	5,787,087
	New total	153,886,416
	Grand total	<u><u>9,586,994,208</u></u>

¹ Including 500,000 u.a. - expenditure for setting up the Court of Auditors, not included in the preliminary draft, but added in the draft as a result of a request from the Committee on Budgets.

Elements in the decisions taken in drawing up the Draft Budget

a) Changes to the EAGGF (Titles 6 and 7) resulting from the farm price review

5. The overall effect of the preliminary draft supplementary budget plus letter of amendment is to increase expenditure under Titles 6, 7, 8 and 10 for the financing of the Common Agricultural Policy by over 700 m.u.a. (nearly 10% of intervention expenditure for the financial year).

The sources of this increase are as follows :

- (i) the results of the decisions of the Council of Ministers on the price review ;
- (ii) the increase in agri-monetary expenditure because of the further divergence in exchange rates ;
- (iii) "changes in the economic situation" which is Commission terminology employed where forecasting has not been accurate.

It seems that the Commission has, perhaps through no fault of its own, gravely miscalculated certain developments in the world economy with direct bearing on the agricultural sector. Changes in export prospects, the state of the internal market, and world supply situation, and changes in storage costs¹ are clearly liable to vary, but it does seem that the Commission should tighten up its own forecasting procedures.

6. Despite errors in forecasting and changes in currency values, it is clear that most of the increase in expenditure results from the farm price review. The position of the Committee on Budgets on this price review was as follows :

¹ Your rapporteur has been in correspondence with the Commission to try to ascertain the means of calculation of these storage costs, so far to no avail.

- a) no price increases in sectors where surpluses exist
- notably milk

- b) separation of the question of monetary compensatory amounts from the issue of agricultural prices :
abolition of mca's when the necessary conditions of economic convergence are created

- c) no specific national measures as a substitute for a structural policy designed to relieve the budget of some of the growing agricultural burden.

7. As will be seen from the letter of amendment, the Council has not taken into consideration these views. Indeed, increases in prices have been authorised for the milk sector, and brought forward - thus directly increasing budgetary expenditure and contributing to the maintenance of vast surpluses. Furthermore, the Council has diminished the impact of the Commission's co-responsibility levy by setting it at a mere 1.5%.

8. Council has approved certain national measures to subsidise the consumption of milk products and notably butter; the subsidy being directly chargeable to the Community budget (45 mua for butter consumption subsidies in the U.K.).

9. Had the Committee on Budgets' position been adopted, the extra expenditure proposed in the letter of amendment (228.6 mua) would not have been necessary and indeed the original preliminary estimates could have been cut back.

It is a matter of interest that in the discussions in the Council that have taken place on the different elements in the draft budget, practically no emphasis has been laid on the financial problems arising from the price review : the detailed attention that Council gives to staff matters, nomenclature problems and relatively minor amounts of expenditure, is abandoned when it comes to getting to grips with agricultural spending.

b) Amendments for staff expenditure

10. The inclusion of salary weightings within the salary scales decided by a December Council decision would lead to an increase in both expenditure and revenue. Therefore the Commission uses the opportunity to propose nomenclature changes in the presentation of staff appropriations. The overall effect on the budget is relatively neutral, whilst increasing its volume, because increases in Community contributions accompany the increases in remuneration.

However, the scale of administrative expenditure is such that a consultation of the European Parliament on the question of the six-monthly remuneration charges is becoming necessary. The Committee on Budgets should examine this problem most seriously as it concerns acts with important financial implications and expenditure which is theoretically non-compulsory.

c) Adjustment of research appropriations

11. The Commission adjustments that have become necessary as a result of the political difficulties that have been encountered in this sector, particularly as regards a decision on JET, have not been accepted by Council. All the changes, both to Chapter 33 and to the annex on research and investment appropriations, have been deleted.

12. The Commission, aware of these difficulties, is bringing forward a proposed transfer for urgent examination by the European Parliament and the Council. This will permit the problems that exist to be overcome at least for some months. Information is being sought from Council as to whether it is the intention that the Commission should bring forward yet another supplementary budget if, and when, the Council takes a decision on the site of JET and at last gives approval to the Joint Research Centre programmes.

d) Nomenclature changes for EIB loans to the Maghreb countries and Malta and Arab countries for regional matters

13. The Commission proposed measures for further budgetisation of financial protocols with Maghreb countries, Malta and Arab countries. As regards the new item (9621) a token entry is included because it concerns an underwriting of EIB loans. The Commission returned to the old controversy by claiming (in contrast with its preliminary draft for 1977) that this expenditure is compulsory. This also compares with the classification as non-compulsory for expenditure resulting from the Euro/Arab dialogue. No figures are yet provided.

As regards the token entry included for the Euro/Arab dialogue, the exact nature of this commitment and the likely resulting expenditure should be made explicit. In particular, it seems that Council, without waiting for a Commission proposal, has entered into some kind of formal commitment with financial implications which may result in expenditure chargeable to the 1977 budget. The European Parliament has not as yet been informed and the approval of this item can only be given on the understanding that parliamentary approval will have to be obtained before amounts can be agreed.

It seems that the Council has not agreed to include further measures of proposed budgetisation for financial protocols on the Maghreb countries and Malta (Article 202). If the European Parliament is to abstain from including an amendment in the supplementary budget to this effect, it will only be on the basis of a declaration by the Council that that Institution will agree to full budgetization in the 1978 financial year.

e) Request for additional staff for a new Directorate-General, Fisheries

14. The Commission requests additional staff for a new directorate-general for fisheries - involving the full equipment of directorates, divisions and administrative units. At its previous meeting the Committee noted that the Commission had made an effort to find some of the staff from other directorates-general. However, it was not satisfied on the need for the creation of a vast new administrative structure, separate from D.G. VI. Nor was the urgency such as to require inclusion in a supplementary budget.

Therefore the Committee authorised its Chairman and Rapporteur to indicate that these extra items should not be included in the draft budget.

This argumentation would seem to apply equally to new staff proposals in the letter of amendment. Here the Commission seeks extra staff for its directorates-general for budgets and financial control to cope with extra work caused by the decision on the financing of the Community budget exclusively from own resources. Your rapporteur would point out that this decision was not unforeseeable - if anything, it is long overdue. The Commission's proposal bears the hallmark of either an afterthought or an attempt to camouflage more staff increases in the great mass of an extremely large supplementary budget.

The Council has not agreed to request new posts apart from those for the new fisheries directorate-general. Here, the Council has accepted the Commission's argument that new decisions concerning the competences of the Community in the fisheries sector and negotiations with third countries, have necessitated vast new tasks for Commission officials. The Committee on Budgets accepts this argument, as the Commission has argued that agreement to this item in the supplementary budget would mean an accelerated procedure for the recruitment of the new officials.

f) Request for reclassification of posts

15. The Commission reiterated its proposals for the reclassification of certain posts to permit speedier career development for certain officials who have been blocked for promotion for some time. This matter was referred to the Working Party on Staff Regulations of Council. It seems that the report from this working party is now available. Your rapporteur and Chairman wrote to the Council stating that it would not be right to approve the inclusion of this reclassification within the supplementary budget because such an operation should only take place during the course of the approval of the annual general budget. In any case, the report of the Working Party on Staff Regulations of Council should be sent to Parliament.

It seems that Council has accepted this argument and has deleted reclassification from the draft budget, not prejudging the attitude that will be taken to proposed transformations in the context of the 1978 procedure.

g) Introduction of section on the court of auditors

16. The Commission proposed the budgetary nomenclature for the Court of Auditors but not, as yet, any amounts. Now that ratification has been achieved, it seemed possible to bring this proposal up to date to enable the institution to start functioning in 1977. In the view of the rapporteur, at least a global figure should have been included in provisional chapters of the budget - frozen, to be unfrozen with the approval of the European Parliament.

This view was accepted to a large extent by the Council, which voted a global appropriation of 500,000 u.a. in Chapter 100. In the meantime the Council is advancing 300,000 u.a. from its own budget after the adoption of this draft.

CONCLUSIONS

17. The Committee on Budgets

i) Points out the extreme difficulty in which Parliament has been placed as a result of the necessity to conclude the supplementary budget procedure as rapidly as possible ;
resents the failure of Council to draw up a supplementary budget necessitated by its own actions with the appropriate speed.

ii) Reiterates its contention that supplementary budgets should only contain that expenditure which is urgent, unforeseeable and unavoidable.

iii) Indicates that the scale of this supplementary budget far exceeds what is acceptable to the Committee on Budgets because it amounts to some 10% of all intervention expenditure and thus goes against any notion of the annuality of the budget.

iv) Points out that as regards agricultural expenditure, the financing of the Common Agricultural Policy is now out of control. The position that the Committee took at the time of the farm price review - no increases in prices where surpluses exist, and a global structural policy - should be restated. All the institutions, and particularly Commission and Council, should examine alternative means of controlling agricultural expenditure before the policy destroys itself.

v) In principle does not approve changes in numbers of staff or classification of posts during supplementary budget procedures. However, the exceptional circumstances resulting from the development of the common fisheries policy seemed to necessitate increased staff in this sector, and this sector alone.

The Committee on Budgets is disappointed that the political failure of Council to approve vital research projects has now been translated into hesitation by the Budget Council as regards research expenditure. In the view of the Committee, this hesitation can only damage the Community's prospects in pursuing a viable research policy.

In future no letters of amendment will be accepted for supplementary budgets. The timing of the introduction of supplementary budgets should be such as to make letters of amendment unnecessary.

This supplementary budget will be the last major budget which could be accepted before the definitive financing of the Community budget by own resources. In future the introduction of a budget of this size in mid-financial year would not be possible since its adoption would require a revision of the VAT rate, which would cause chaos in the administrative and accounting procedures of the Member States.

In any case, the European Parliament will not accept in future a procedure which places it in a position where the thorough exercise of its budgetary powers is in jeopardy. The European Parliament is the only Institution whose timetable is known publicly and published a long time in advance. Its partner in the Budgetary Authority must learn to respect this timetable lest all chances of cooperation between those two Institutions are dashed.

ANNEX

Letter from Mr LANGE, Chairman of the Committee on Budgets, and Lord BRUCE of DONINGTON, rapporteur-general for the 1977 general budget of the Communities, to Mr COLOMBO, President of the European Parliament, concerning a procedure for the drawing up of the 1977 preliminary draft supplementary budget No. 1, following the meeting of the Committee on Budgets 24/25 May 1977

Dear Mr President

At its meeting of 24 May 1977, the Committee on Budgets held an exchange of views on the Preliminary Draft Supplementary and Amending Budget No. 1 for the 1977 financial year and instructed its Chairman and rapporteur to write to you expressing the views of the meeting so that these could then be sent to Council.

This was an initial exchange of views. It will be completed at the meeting of the Committee to take place on 7/8 June 1977, because it was only at the meeting that a number of copies of the Letter of Amendment were distributed to members. It was, therefore, not possible to give detailed attention at this stage to those items concerning the European Agricultural Guidance and Guarantee Fund which are subject to major changes in the Letter of Amendment.

The Committee addressed itself to the problem of procedure and in view of the fact that the changes involved in the Letter of Amendment are the result of decisions of the Council concerning agricultural prices, and in view of the difficulties the representatives of the Commission indicated that the Commission would face were undue delays to be encountered in the adoption of the Supplementary Budget, it was decided to impress upon Council the importance which the Committee on Budgets attaches to Council drawing up the draft budget, as speedily as possible, so that the Committee on Budgets could examine the draft at its meeting on 7/8 June 1977, enabling the European Parliament to give a first reading to the draft budget at its session in June. If the draft budget is not drawn up by this time, the procedure for final adoption would be inevitably postponed until the Autumn.

/...

As regards the other items included within the preliminary draft, the Committee on Budgets decided that it was not acceptable that requests for additional staff and for reclassification of posts should be included in supplementary budgets in the middle of financial years. Such decisions should be made during the course of the normal budgetary procedure for adopting the annual budget since they concern foreseeable expenditure.

The Committee on Budgets will indicate to Council any other conclusions that it draws from the preliminary draft, and the Letter of Amendment, at its meeting of 7/8 June. The Committee would be grateful if you could make known to the President of Council the results of its deliberations as soon as possible.

Yours sincerely

(Sgd) Erwin LANGE
Chairman
Committee on Budgets

Lord BRUCE of DONINGTON
General rapporteur for
the 1977 Budget of the
Communities