

EUROPEAN PARLIAMENT

Working Documents

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DOCUMENT 326/77

Report

drawn up on behalf of the Committee on Budgets
on the proposals from the Commission of the
European Communities to the Council (Doc.
274/77) for

- I. a Regulation (EEC, EURATOM, ECSC) implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources
- II. a second amended proposal under Articles 149 of the EEC Treaty and 119 of the EAEC Treaty for a Regulation (ECSC, EEC, EURATOM) amending the Financial Regulation of 25 April 1973 applicable to the general budget of the European Communities
- III. an amended proposal for a Regulation implementing, in respect of the own resources from VAT the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources

Rapporteur: Mr H. NOTENBOOM

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By letter of 8 September 1977 the President of the Council of the European Communities consulted the European Parliament, on the proposals to amend the three following proposals for regulations:

- (1) the proposal for a Regulation amending the Regulation of 1971 implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources (Doc. COM/76) 248 final);
- (2) the proposal for a Regulation introducing VAT as a new own resource following the approval of the sixth directive (Doc. COM(77) 120 final);
- (3) the proposal for a Regulation amending the Financial Regulation of 25 April 1973 (Doc. COM(77) 59 final).

The President of the European Parliament referred these proposals to the Committee on Budgets as the committee responsible on 15 September 1977.

On 21 September 1977, the Committee on Budgets appointed Mr Notenboom rapporteur.

It considered these proposals at its meetings of 3 October and 10 October 1977.

At the meeting of 10 October the committee unanimously adopted the motion for a resolution.

Present: Mr Lange, chairman; Mr Aigner, vice-chairman; Mr Notenboom, rapporteur; Lord Bruce of Donington, Mrs Dahlerup, Mr Früh, Mr Hansen, Mr Mascagni, Mr Meintz, Mr Patijn, Mr Ripamonti, Mr Shaw, Mr Spénale (deputizing for Mr Faure) and Mr Vanvelthoven.

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

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MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposals from the Commission of the European Communities to the Council for:

- I. a Regulation (EEC, EURATOM, ECSC) implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources
- II. a second amended proposal under Article 149 of the EEC Treaty and 119 of the EAEC Treaty for a Regulation (ECSC, EEC, EURATOM) amending the Financial Regulation of 25 April 1973 applicable to the general budget of the European Communities
- III. an amended proposal for a Regulation implementing, in respect of the own resources from VAT, the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources

The European Parliament,

- having regard to the proposals from the Commission of the European Communities (COM(77) 396 final),
 - having been consulted by the Council (Doc. 274/77),
 - having regard to its previous opinions on the original proposals from the Commission¹,
 - having regard to the report of the Committee on Budgets (Doc. 326/77),
1. Welcomes the substance of the Commission's new proposals which, following the adoption by the Council of a Community basis of assessment of VAT, are aimed at organizing the whole system of own resources and Community financial autonomy;
 2. Notes that the mechanisms proposed by the Commission depart somewhat from strictly orthodox budgetary procedure and do not establish a direct link between the European taxpayer and the Community budget;

¹
OJ No. C 6, 10.1.77, p. 18
OJ No. C 6, 10.1.77, p. 165
OJ No. C 163, 11.7.77, p. 62

3. Acknowledges, however, that these mechanisms are aimed at ensuring that the Community finances for which the Commission is responsible operate as smoothly as possible, and concedes, in particular, the necessity, for the time being of adopting a 'cash budget' system for own resources;
4. Feels, therefore, that the Commission's proposals should be re-examined - and possibly amended - by the budgetary authority on the basis of a report by the Commission, to be submitted by 30 June 1979 at the latest;
5. Expresses reservations about several proposed provisions of secondary importance and requests the Commission to adopt the following amendments pursuant to Article 149, second paragraph, of the EEC Treaty;

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6. Urgently requests the Council to adopt these proposals for regulations as soon as possible so that the own resources system can be implemented on 1 January 1978;
7. Reserves the right to ask for the conciliation procedure to be initiated should the Council intend to depart from this opinion.

Proposal for a Regulation on own resources

Preamble, recitals and Articles 1 to 10 unchanged

Article 11

1. The own resources established referred to in Article 8(1) shall be entered at the latest by the twentieth day of the second month following the month during which the entitlement was established.

2. The Member States shall make payment of these resources one month in advance on the basis of the information available to them on the fifteenth day of the same month.

Each payment shall be adjusted in the following month when the entry referred to in para.1 is made. This adjustment consists in making a negative entry of an amount equal to that of the advance payment.

3. Nevertheless, the own resources accruing from VAT or, where appropriate, the financial contributions based on GNP, shall be entered on the first day of each month, the amount being one-twelfth of the total entered under this heading in the budget.

Calculation of the one-twelfth for the month of January of each financial year shall be based on the amounts entered in the draft budget; this amount shall be adjusted when the next month's instalment is paid. If the budget has not been adopted before the beginning of the financial year, the twelfths shall similarly be calculated from the amounts entered in the draft

Article 11

1. unchanged

2. unchanged

3. Nevertheless, the own resources accruing from VAT or, where appropriate, the financial contributions based on GNP, shall be entered on the first day of each month, the amount being one-twelfth of the total entered under this heading in the budget.

Calculation of the one-twelfth for the month of January of each financial year shall be based on the amounts entered in the draft budget; this amount shall be adjusted when the next month's instalment is paid. If the budget has not been adopted before the beginning of the financial year, the twelfths shall similarly be calculated from the amounts entered in the draft

¹ For full text see COM(77) 396 final

budget; the adjustment shall be made on the first due date following the adoption of the budget to allow the responsible authorities one clear alendar month.

budget; the adjustment shall be made on the first due date following the adoption of the budget to allow the responsible authorities one clear calendar month.

The system of advance payments in twelfths of own resources accruing from VAT shall be reviewed at the latest during the second financial year following that in which it enters into force.

4. Each Member State shall, in the light of the annual summary statement provided for in Article 6(3), be debited with the amount of his establishment calculated on the basis of the rate fixed for the previous financial year and credited with the twelve payments made during that previous financial year. The Commission works out the balance and informs the Member States in good time in order that the latter may:

4. unchanged

- in the event of a debit balance, pay the difference on the first of August of the same year, or
- in the event of a credit balance, deduct the difference from the twelfths payable in respect of the current financial year, beginning with the payment scheduled for the first of August of the same year.

5. With effect from 1 January 1979, those Member States having paid financial contributions based on GNP during the previous financial year shall, on the due dates given in para. 4 and by the same method, adjust the said financial contributions so as

5. unchanged

to restore, on the basis of the actual yield from own resources accruing from VAT, the original distribution in the budget between the latter and the financial contributions based on GNP.

6. Any change in the rate of VAT or, if appropriate, in the financial contributions based on GNP, occasioned by the adoption of a supplementary or amending budget shall give rise to a readjustment of the twelfths which have fallen due since the beginning of the financial year.

This adjustment operation shall be carried out on the first due date following the adoption of the supplementary or amending budget in order to give the responsible authorities a clear calendar month.

7. The operations referred to in paragraphs 4 and 5 constitute modifications to revenue in respect of the financial year in which they occur.

6. unchanged

7. unchanged

Article 12 unchanged

Article 13

1. The Commission shall have at its disposal the amounts credited to the account referred to in Article 8 of this Regulation in order to replenish the accounts via which it makes payments arising from the implementation of the budget and the transfers intended, as regards funds held in the form of currency, to restore the structure of the EUA basket so as to cover exchange risks, in accordance with the provisions of Article 16 of the Regulation on the application of the EUA¹.

Article 13

1. unchanged

¹ Reservations expressed by the Legal Service on Article 16 of the EUA Regulation

The adjustments provided for in Article 11(6), occasioned by a supplementary or amending budget raising the rate of VAT or of the contributions provided for in Article 4(2) and (3) of the Decision of 21 April 1970, may be made in advance with the authorization of the Council, acting by a qualified majority.

Article 14

1. In order to meet possible liquidity difficulties arising from:
 - (a) a difference between revenue and expenditure in a given month or
 - (b) own resources' receipts lower than the original estimates,the Commission may, having taken any appropriate steps to defer the expenditure negotiate overdrafts.
2. The geographical distribution of the overdrafts shall take account of the local requirements of the European Communities as well as the distribution of the own resources provided for in the budget or of the actual amounts collected when these are known in respect of at least three months.

Articles 15 to 17 unchanged

Article 18

The Commission shall, before the end of November in each financial year, make an estimate of the own resources collected for the entire year, on the basis of the information at its disposal at that time.

2. deleted

Article 14

1. In order to meet possible liquidity difficulties arising from:
 - (a) a difference between revenue and expenditure in a given month or
 - (b) own resources' receipts lower than the original estimates,the Commission may negotiate overdrafts.
2. unchanged

Article 18

The Commission shall, before the end of October in each financial year, make an estimate of the own resources collected for the entire year, on the basis of the information at its disposal at that time.

If this estimate differs appreciably from the original estimates, the latter shall, after a review of the cash situation, be the subject of a letter of amendment relating to the draft budget for the following financial year which is in process of approval.

The balance to be carried forward to the second financial year following the one in question, as laid down in Article 29 of the Financial Regulation of 25 April 1973 shall take this entry into account.

If this estimate differs appreciably from the original estimates, the latter shall, after a review of the cash situation, be the subject of a letter of amendment relating to the draft budget for the following financial year which is in process of approval.

The balance to be carried forward to the second financial year following the one in question, as laid down in Article 29 of the Financial Regulation of 25 April 1973 shall take this entry into account.

Articles 19 to 27 unchanged

Article 28 (new article)

The Commission shall, before 30 June 1979, submit a report on the implementation of this Regulation and any proposed amendments to it which are likely to emphasize the principle of financial autonomy of the Communities and improve its operation.

EXPLANATORY STATEMENT

1. The purpose of the Commission proposal, which the Council has forwarded to Parliament for its opinion, is to supplement three previous proposals concerning the system of Community own resources.
2. The adoption by the Council in May 1977 of the Sixth VAT Directive has led the Commission to reconsider a number of its previous proposals and to submit amended proposals to the Council and Parliament.
3. These amended proposals principally concern the general system applied to Community own resources, that is to say, 'the Regulation implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources'.
To a much lesser extent they also concern the Financial Regulation and the VAT Financial Regulation.
4. The Commission submitted initial proposals concerning these three texts, on which Parliament has already given its opinion¹; the amendments now proposed by the Commission take account of those already suggested by Parliament, which is therefore required to comment only on the new aspects of the texts.

I. PROPOSAL FOR A REGULATION IMPLEMENTING THE DECISION OF 21.4.1970
(Creation of own resources)

5. The implementing provisions of the Decision of 21 April 1970 were contained in Regulation 2/71. In June 1976 the Commission requested that this Regulation should be amended to take account of the full implementation of the own resources system on 1 January 1978.

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- (a) Regulation implementing the Decision of 21.4.70 (...)
 - Commission proposals of 2.6.76 (Doc. 184/76)
 - Parliament's opinion: working document of the Committee on Budgets of 18.11.76 (PE 46.699)
 interim report of 17.12.76 (Doc. 470/76/rev.)
- (b) Amendments to the Financial Regulation
 - Commission proposals of 19.5.76 (Doc. 166/76)
 - Parliament's opinion of 14.12.76 (Doc. 469/76)
 - amended proposals from the Commission of 31.3.77 (OJ No C 79/3)
- (c) VAT Financial Regulation
 - Commission proposals of 20.4.77 (Doc. 100/77)
 - Parliament's opinion of 16.6.77 (Doc. 159/77)

However, this proposed amendment did not take account of the entry into force of VAT, since the Council did not adopt the Sixth Directive until May 1977. The Commission is now no longer proposing to amend Regulation 2/71 but to repeal it and adopt a new regulation, which will enable the texts to be more clearly set out.

1. Contents of the proposal

6. The amendments proposed by the Commission principally concern the problem of cash-flow; the very nature of own resources is likely to lead to a two-fold disparity between revenue and expenditure:

- a time-lag due to the inherent delays in the actual collection of revenue (conjunctural deficit or surplus)
- or a disparity between estimated and actual revenue during a given financial year (structural deficit or surplus)

To resolve this situation the Commission proposes that new mechanisms should be adopted to enable it, under any circumstances, to meet expenditure requirements and at the end of the financial year to correct any imbalance between actual revenue and expenditure. There are five proposed mechanisms:

- (a) adoption of the 'cash budget' system. The system used hitherto has been that of the 'financial year budget': only revenue established during a financial year could be allocated to that financial year, regardless of the date on which it was actually collected. In view of the increasing time lag between the establishment and collection of revenue the Commission was likely to find itself short of resources at the beginning of the financial year and in particular of the 1978 financial year¹.

The Commission had already suggested the adoption of a cash budget in its original proposed amendments to the Financial Regulation to enable all revenue actually collected during a financial year to be considered as revenue for that year. However, it was obliged to withdraw this proposal in view of opposition from the Committee on Budgets, which was anxious to maintain the same 'financial year budget' system for both revenue and expenditure²

¹ There is a time lag of one to two months for original own resources, but it could be much greater for resources from VAT

² However, the Committee on Budgets was aware of the cash flow problems raised by the Commission (see resolution on the VAT Financial Regulation (OJ No C 163/63, 16.6.77)):

3. 'Reminds the Commission of the problems of the availability of funds which will arise as a result of the application of the 'financial year rule' and hopes that these problems will be discussed openly and settled rapidly'.

The Commission now feels that the implementation of VAT may lead to such large 'cash flow gaps' that it would be forced to ask the Member States for extensive advances; it is to avoid this situation, which runs counter to the principle of Community financial autonomy, that the Commission is proposing once again the adoption of the cash budget system.

(b) Advance payment of original own resources (Article 11(2))

The Commission proposes that the payment by the Member States of own resources accruing from customs duties and agricultural levies should be brought forward by one month to enable the Commission to meet certain items of expenditure (in particular EAGGF, Guidance Section), which also have to be paid in advance. Any adjustments to these advance payments must be made within 50 days.

(c) Payment of VAT in twelve monthly instalments (Article 11(3))

To avoid the considerable time lags which might develop in the collection of VAT resources (and which, moreover, vary widely from one Member State to another, hence raising additional problems), the Commission proposes that the Member States should pay their VAT contributions not on the basis of the amounts established, but in monthly instalments equal to one twelfth of their total annual contribution entered in the budget. Under this system it would be necessary to make a final adjustment to the accounts towards the middle of the following financial year (Article 11(4)).

This system also applies to the GNP contributions from Member States who would not yet be paying the VAT contribution on 1 January 1978.

(d) Overdrafts

Owing to the unpredictable and inflexible nature of own resources, expenditure may exceed revenue in any given month; in that event the Commission may have recourse to overdrafts, in other words, it may borrow the money required from finance organizations (Article 14)

Similarly, in the event of a surplus the Commission may deposit the sums available with these same organizations (Article 15). At the end of the financial year the balance of the Commission's account (credit or debit) is to be incorporated in the overall end-of-year balance (Article 16)

(e) Balance for the financial year (Article 18)

Towards the end of the financial year (at the latest by the end of November) the Commission is to make an estimate of the revenue actually collected for the whole year; if this estimate reveals the need for supplementary revenue the Commission will request an amendment to the Community's budget for the following financial year, which is in the process of approval, to make up

the deficit. The final balance of these transactions will be carried forward to the second financial year following the one in question (as laid down in Article 29 of the Financial Regulation).

7. The Commission proposals also contain two amendments not directly linked to cash flow problems:

(f) 'relative shares' of the new Member States

Whereas, as regards the original Member States, the system of relative shares is to disappear in 1978, a ceiling will continue to apply to the contributions from the new Member States for the 1978 and 1979 financial years (Article 131 of the Act of Accession). The Commission proposes that this ceiling should be applied not during the adoption of the budget but at the close of the accounts, as was the case when calculating the relative shares of the original Member States.

(g) Calculation of the gross national product contribution

For those Member States unable to pay the VAT contribution on 1 January 1978 the GNP contributions would be updated, that is calculated on the basis of the last known annual figure (n-2) instead of on the average of the previous three financial years (n-5 to n-3).

2. Assessment of the Commission's proposals

8. Parliament delivered only an interim opinion on the Commission's original proposals on the application of own resources since, in the absence of a Council Decision on the Sixth Directive, they took no account of own resources accruing from VAT. In doing so, Parliament intended to exert some pressure on the Council and reserved the right to deliver a more comprehensive opinion on this important regulation. However, the rapporteur of the Committee on Budgets drew up a working document¹ welcoming the majority of the Commission's proposals, most of which have been included in the Commission's new text and therefore require no further comment.

9. As regards the Commission's new proposals, the Committee on Budgets notes first and foremost the simplicity of the proposed system for the payment of own resources and in particular those accruing from Community VAT: this simplicity should ensure that the Commission has a regular supply of resources, although the adjustment procedures are likely to be relatively complicated.

10. With regard to the difficult question of the cash budget, the Committee on Budgets feels that the method of paying VAT own resources no longer enables a strict pattern to be observed throughout the financial year; similarly, it considers it undesirable that, to meet its payment commitments, the Commission should be obliged to ask the Member States for advances on re-

¹ PE 46.699

sources, which may cover several months of Community revenue and hence account for 25 to 30% of total budget revenue. The cash budget proposed by the Commission is therefore the only viable system, although the Committee on Budgets has already emphasized its disadvantages: different systems for revenue (cash budget) and expenditure (financial year budget), revenue spread over several financial years etc.

11. Unfortunately the advance payment of resources from Community VAT in fixed instalments will in practice place the European taxpayer at an even greater distance from the Community budget, since the amounts paid will not be actually entered into the accounts until six months after the end of the financial year in question: as a result, the political impact of this 'European tax' may be somewhat reduced. The Committee on Budgets therefore feels that the system provided for in Article 11(3) should be seen as an interim measure and be reviewed in a few years' time. In practice it should be possible to improve the payment of the Member States' VAT contributions to reduce considerably the time lag between the establishment and collection of these resources by the Community. Once this has been achieved, VAT own resources could be entered into the accounts as and when they are actually paid, as is the case for original own resources.

Furthermore, the Committee on Budgets is aware of the difficulties that the administrative formalities connected with the establishment of VAT are liable to create for small and medium-sized firms; it hopes, therefore, that these formalities will not be made overly burdensome by Community mechanisms.

12. The Committee on Budgets must express a number of reservations on several specific points:

(a) Article 13(2)

The Commission proposes that if the original rate of VAT is amended by a supplementary budget, the new rate should apply both to the months which have fallen due and to subsequent months.

Article 11(6) provides for the adjustment of the VAT twelfths which have fallen due. However, in Article 13(2) the Commission proposes that the adjustment may be made in advance, on a decision by the Council, when the preliminary draft supplementary budget is being discussed. The Committee on Budgets sees neither the point nor, in particular, the legal basis of this proposal.

(b) Article 14(1)(b)

To meet liquidity difficulties the Commission may negotiate overdrafts but Article 14(1)(b) states that before doing so the Commission must take any appropriate steps to defer the expenditure. The Committee on Budgets feels that this condition is inappropriate and inconsistent with the principles of sound budget management.

(c) Article 18

The estimate of total own resources for the whole year must be completed 'before the end of November in each financial year' with a view to making any necessary adjustments to the draft budget for the following financial year then being discussed, by means of a letter of amendment. The Committee on Budgets considers that the deadline should be fixed at the end of October, since in November the budgetary procedure is far too advanced for a letter of amendment to be introduced (final reading of the draft budget by Parliament is at the beginning of December).

(d) Article 19

The Commission proposes that the adjustments necessitated by placing a ceiling on the contributions of the new Member States should consist of 'financial compensation between the Member States concerned'. The Committee on Budgets feels that this adjustment should consist rather of a reduction in the payments of the Member States concerned to the Community budget.

II. PROPOSED AMENDMENTS TO THE FINANCIAL REGULATION

13. The Commission has already amended its original proposals on one occasion to take account of Parliament's opinion¹.

It is now proposing a second series of amendments aimed at:

- reverting to its original proposal concerning the 'cash budget' (see paragraph 6 (a) above);
- taking account of the provisions contained in the new regulation on own resources, analysed above;
- taking account of the application of the European unit of account on 1 January 1978.

14. For the most part these amendments follow from those already considered in detail above and therefore require no special comment.

III. PROPOSED AMENDMENTS TO THE VAT FINANCIAL REGULATION

15. Parliament gave its opinion on the Commission's original proposal concerning the VAT Financial Regulation and drafted several amendments. In its amended proposal the Commission has included most of Parliament's amendments and has developed its own proposals further.

- (a) Parliament's amendments: the only amendment which the Commission has not included aimed at increasing by 10% VAT revenue derived from transactions exempted in certain Member States (Article 4(2)(b)). The purpose of this amendment was, both to encourage the Member States to abolish exemptions and achieve an effective harmonization of the

¹: See footnote 1 on page 12

basis of assessment more quickly and to compensate for any under-estimation of VAT revenue from exempted transactions.

The Commission feels that this provision would delay adoption of the VAT Financial Regulation, probably as a result of opposition from the Member States. Although the Committee on Budgets still feels that it would be expedient to introduce this amendment it therefore proposed that it be dropped.

- (b) The other amendments proposed by the Commission are of a technical nature and are aimed at bringing the VAT Financial Regulation into line with the new provisions contained in the regulation on own resources dealt with above. However, the Committee on Budgets has certain reservations about Article 5(3), whereby a Member State may at any time rectify an incorrect establishment, thus entailing corrections to the Communities' budget. The opportunity to make such corrections should be available only during the two financial years following the financial year in question.

CONCLUSIONS

16. The Committee on Budgets is fully aware of the importance of the Community's cash-flow problem and feels that it should be resolved in such a way as to ensure that the principle of Community financial autonomy is fully safeguarded. However, it also feels that it is extremely important to maintain the yearly nature and transparency of the budget, as regards both revenue and expenditure.

17. Under these circumstances and subject to the reservations summarized below, the Committee on Budgets welcomes the Commission's new proposals.

18. The committee's reservations

- Regulation on own resources

- (a) The advance payment of VAT revenue in monthly instalments should be considered as an interim measure and be reviewed at the latest within two years of its implementation (Article 11 (3));
- (b) the proposal whereby any amendment to the rate of VAT during a financial year may, by decision of the Council, be made in advance (even before the adoption of the supplementary budget) does not appear to have any legal basis (Article 13(2));
- (c) the voluntary deferral of expenditure by the Commission before having recourse to overdrafts is inconsistent with the principles of sound management (Article 14 (1) (b));

- (d) the estimate of own resources actually collected over the whole year, envisaged for the end of November, should be made at an earlier stage in the budgetary procedure (Article 18) ;
- (e) any adjustment resulting from the temporary ceiling on contributions from the new Member States should consist of a reduction in their future contributions rather than bilateral compensation (Article 19 (3)).

- VAT Financial Regulation

- (f) any corrections of incorrect or incomplete establishments as regards VAT own resources should be admissible only during the following two financial years at the latest (Article 5 (3)).

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19. Finally, the Committee on Budgets draws the Council's attention to the need to adopt the three proposals for regulations as soon as possible so that they may be applied on 1 January 1978, since otherwise the implementation of the own resources system would be delayed by a year. This delay would be unacceptable, in that election of the European Parliament by direct universal suffrage should go hand in hand with the establishment of Community financial autonomy.

