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Report

drawn up on behalf of the Committee on Budgets

on ~~the~~ estimates of expenditure and revenue of the Budget of the European
Communities for the 1974 – 1975 financial years (Doc. 239/73)

Rapporteur : Mr A. ROSSI

PE 35.029/fin.

On 13 November 1973, the proposal from the Commission of the Communities to the Council concerning estimates of expenditure and revenue of the Budget of the European Communities for the financial years 1974, 1975 and 1976 was referred to the Committee on Budgets.

At its meeting of 8 November 1973, the Committee on Budgets appointed Mr ROSSI rapporteur. At its meeting of 3 December 1973, it discussed the Commission's proposal and adopted unanimously by 8 votes the motion for a resolution and explanatory statement.

The following were present: Mr SPENALE, chairman; Mr AIGNER, vice-chairman; Mr ROSSI, vice-chairman and rapporteur; Mr GERLACH, Mr LEENHARDT, Mr NOTENBOOM, Mr PÊTRE, Mr PISONI, Mr WIELDRAAIJER and Mr WOHLFART.

CONTENTS

A.	MOTION FOR A RESOLUTION	5
B.	EXPLANATORY STATEMENT	7

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

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the estimates of expenditure and revenue of the Budget of the European Communities for the financial years 1974, 1975 and 1976

The European Parliament,

- having regard to the financial estimates for 1974-1976 (COM (SEC) 3743/73/fin.);
 - having been consulted by the Council of the European Communities on the estimates of expenditure and revenue of the Budget of the European Communities for the financial years 1974, 1975 and 1976 pursuant to its decision of 21 April 1970 (Doc. 239/73);
 - having regard to the report of the Committee on Budgets (Doc. 270/73),
1. Welcomes the fact that the document drawn up by the Commission is more detailed than that presented last year and that the Commission submitted it to Parliament during the part-session on the budget;
 2. Declares, however, that the document is still inadequate as a whole, either because the Commission, in accordance with the Council decision of 21 April 1970, has confined itself to submitting estimates showing the financial implications of regulations and decisions already in force, and of proposals it had already submitted formally to the Council; or because the Commission has merely given minimum estimates (agricultural prices) or estimates not based on properly substantiated figures (Regional Fund; Social Action Programme);
 3. Considers that when it delivers an opinion on the annual budget it requires multi-year financial estimates enabling it to assess the impact of the package of Community programmes in terms of the Communities' financial autonomy;
 4. Believes that this requirement will become even more urgent next year when the system of own resources is introduced and, in the exercise of the fiscal powers of the Communities, the Community institutions have to define not only an expenditure policy but also a revenue policy, which must be based on steady and carefully programmed rates of increase;
 5. Requests the Commission of the Communities to bear these requirements in mind and to submit sufficiently detailed estimates for 1975 to 1977 next year; also requests it, therefore to propose amendments to the

relevant provisions of the Council decision of 21 April 1970 if it considers them too restrictive;

6. Further requests the Commission of the Communities to submit to it next year, within the framework of the multi-year financial estimates for 1975-1977, estimates of expenditure which take particular account of any changes which occur in certain sectors of the economy as a result of the current economic situation.
7. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENTINTRODUCTION

1. The Commission drew up the financial estimates for 1974-1976 pursuant to the Council decision of 21 April 1970. As explained in the Commission document, the main provisions are as follows:

'In order to place the budget of the Communities within a framework of forward planning for several years, the Commission shall, each year, after receiving the opinion of the Budgetary Policy Committee, draw up financial estimates 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...'

2. This is, therefore, a document of major importance, although the Council decision restricts its scope to estimates showing the financial implications for the Community of regulations and decisions in force and of proposals submitted by the Commission to the Council.

3. The changes in the financing of Community expenditure and the creation of own resources mean that documents of this kind will increasingly take the place of the reports in the form of programmes drawn up in the past.

These forecasts will provide financial background information for Community programmes and enable the development of resources as a function of needs to be evaluated as well as the distribution - which is fairly limited - of own resources between the different aims of the Community.

4. As requested by the Committee on Budgets, these forecasts are to be discussed every year at the same time as the annual budget.

We are grateful to the Commission of the Communities for this.

It submitted its estimates during the last Parliamentary part-sessions on the budget.

I. Examination of the expenditure estimates

5. The expenditure estimates are discussed in the second part of the document, pages 27 to 78. The following paragraphs briefly list the objections to these estimates on the basis of our examination:

6. Functional expenditure and expenditure relating to persons working within the Institutions

The increased expenditure on salaries and the increase in the cost of equipment does not in general exceed 10%. Although it would be desirable to limit the increase to 10%, it seems that the overall rate of increase may in fact be lower than the real rate, given the rise in expenditure over the past years.

7. Provisional appropriations and expenditure not specially provided for

The Commission of the Communities, which has always opposed the inclusion of substantial amounts under this title, intends to earmark only a flat-rate of 10% of functional expenditure and expenditure on salaries.

It would have been desirable to earmark a 'reserve' to be included under this title every year when the budget is adopted to avoid having to modify the VAT levy rate during the year.

The question of a financial 'safety valve' of this kind was raised at the recent budgetary debate. Perhaps if estimates of expenditure are to be realistic, they should include a fairly substantial although not excessive safety margin under 'expenditure not specially provided for'.

8. Expenditure on research and investment

This expenditure has an annual ceiling of 80 m u.a. on average. It is doubtful whether this estimate is realistic in the light of recent world events.

9. The estimated average of 80 m u.a. is mainly made up of appropriations for joint projects and for complementary programmes in which only some Member States participate.

10. Community contracts for innovation and industrial development

The annual grant of 20 m u.a. corresponds to prior decisions. However, the estimated expenditure for Community projects in the

sector of prospection for hydrocarbons (25 m u.a.) seems inadequate in view of the repercussions of the current energy crisis.

11. Social policy

Expenditure for actions under Article 4 of the reformed Social Fund will increase from 1974 to 1976 (from 99 to 175 and then to 250 m u.a.) It is doubtful, however, whether this estimated appropriation will cover the cost of decisions on intervention other than those already in force, or shortly to be submitted, e.g. on agriculture, textiles, migrant workers and the handicapped.

12. Financing operations under Article 5 of the Reformed Social Fund

Expenditure will increase here too (168, 225, 250 m u.a. from 1974 to 1976).

This increase may be sufficient in itself, but reflects the limits the Council imposed on the 1974 Commission proposals.

13. Social Action Programme

The possible financial implications of new measures under the Social Action Programme cannot, as the Commission says, be based on accurate estimates at this stage of preparation of the programme.

The Commission notes that for the time being supplementary expenditure would be approximately 100 m u.a. in 1975 and 350 m u.a. in 1976.

14. Regional Development Fund

In absolute terms the Commission's estimates seem high, i.e.:

500 m u.a. for 1974
750 m u.a. for 1975
1000 m u.a. for 1976

It is doubtful, however, whether these appropriations can finance the Communities' overall regional policy having regard to the large number of regions to be granted aid under the proposals now before Parliament.

Even if Community financing merely complements national regional policies, by 1976, it will clearly correspond to one-third of current expenditure for the organization of agricultural markets.

15. EAGGF, Guarantee section

The estimated expenditure for the three years under consideration is 3324, 3734 and 3841 m u.a.

The following remarks must be made:

- (a) These estimates are based on the prices of the 1973-74 marketing year. They presuppose constant prices between now and 1976. Your rapporteur considers this a risky hypothesis.
- (b) Even if the differences from the 1972 estimates (for 1974: 3126 m u.a. as against 3324 m u.a. - for 1975: 3215 m u.a. as against 3724 m u.a.) are partly attributable to unknown factors due to the enlargement of the Communities, they are still considerable.

It must be noted that the estimates of expenditure for the Guarantee Section (by far the highest in the budget) are still very approximate figures.

- (c) A further uncertain factor is the world price level for agricultural products.

16. EAGGF, Guidance Section

Estimating expenditure for the Guidance Section presents no technical difficulties. The ceiling is fixed by regulation at 325 m u.a.

This is not true, however, of the potential real expenditure of this section for joint actions to modify agricultural structures.

The table in the Commission document (p.63) gives no figures for the majority of joint actions but simply makes token entries. This applies to:

- Forestry schemes to improve agricultural structures;
- Contracts for the marketing and processing of agricultural products;
- Development and improvement of the marketing and processing of agricultural products;
- Improvement of the transparency of the agricultural markets;
- Conversion in the cod-fishing sector;
- Premiums to encourage the production of beef and veal;
- Statistical surveys of fruit trees;
- Conversion in the offshore fishing sector;

- Conversion in the inshore fishing sector.

Moreover, in the estimates of expenditure, the Commission advises using existing reserves (Mansholt reserve) as from 1976 but does not quantify them.

17. Environment

There are no estimates of expenditure for environmental action as such.

18. European Development Fund

40 and 80 m u.a. have been estimated for 1975 and 1976 respectively for financing the EDF. These estimates are in respect of appropriations for payments. In themselves they raise no special problems. But it must be pointed out that for certain sectors they relate to appropriations for commitments (e.g. EDF) and in othersto appropriations for payments whereas they should relate to expenditure of the same kind.

19. Conclusions

The Council decision on which these three-year estimates are based limits their scope. The Commission's estimates still give rise to some reservations, however, for the following reasons:

- (a) expenditure for 1976 (7,064 m u.a.) is not so very different from the estimated expenditure proposed by the Commission in its reliminary draft budget for 1974 (5,782 m u.a.). This suggests that the financial estimates may be on the low side.
- (b) estimated expenditure for the Guarantee Section of the EAGGF is based on the assumption of unchanged agricultural prices in 1976 in relation to 1973. As the Commission admits, the proposed figures therefore merely represent 'minima'.
- (c) expenditure for the Guidance Section of the EAGGF makes no provision for the majority of joint actions to reform agricultural structures;
- (d) estimated expenditure on research and investment, innovation and industrial development and prospection for hydrocarbons for the three years under review is expressed in constant value terms. This suggests that the estimates bear no relation to reality, particularly in respect of the need for research in the light of the current world situation;

- (e) even functional expenditure is expressed to some extent in constant terms. The average estimated increase of 10% will probably barely cover the automatic rise in salaries and functional expenses following the rise in the cost of living;
- (f) estimated expenditure for the Social Fund and Regional Policy is not adequately broken down; nor is it based on programme analysis or accurately substantiated figures.

The accuracy of the overall estimate of expenditure for the next three years therefore seems dubious; it is both cautious, and too close to Community provisions already in force.

Chapter II - Estimates of resources

20. The Commission's estimates of revenue are based on the total resources from the CCT, agricultural levies and VAT.

As the Commission explains: 'in addition to paying customs duties, agricultural levies and a certain percentage of VAT, the Member States will make a settlement which will involve an additional charge to some and a reduction for the others' (p.12). This 'compensation' is based on the decision of 20.4.1970 which stipulates that from 1 January 1975 to 31 December 1977 the variation in the relative shares from year to year may not exceed 2%.

If it exceeds 2%, financial compensations are to be made between Member States concerned.

The tables on pp.14 and 15 of the Commission document show revenue, per Member State, from the CCT and levies and from the VAT rate which the Commission expects to be applied as from 1 January 1975, namely 0.38%.

This gives rise to the following comments: the hypothetical uniform basis of assessment which the Commission adopted for its estimate of the VAT rate corresponds to the rate in the proposed directive now under consideration by the European Parliament. It would produce about 675 thousand million u.a. in 1975 and 745 thousand million u.a. in 1976.

Last year the Committee on Budgets pointed out that the rate of 0.25% then estimated by the Commission and to be applied from 1975 seemed adequate. The fact that the Commission has fixed the rate at 0.38%

this year justifies the comments made at the Parliamentary sitting of 15 March 1973.

Moreover, the rate of 0.38% is very approximate having regard to the minimum nature of certain estimated expenditure.

The inexact estimates of expenditure and, as a result, of revenue make it difficult to determine the possible compensations to be made between Member States; the variations in the relative share of some of them would exceed the 2% limit from year to year. This important problem remains, therefore, unsolved.

General conclusions

21. This Commission document is certainly an improvement on last year's. Yet it still does not comply with Parliament's wishes, namely, to translate into budgetary terms all the projected Community programmes for the period under consideration. This is imperative, insofar as Parliament and the Community institutions must define a policy of own resources (and no longer of expenditure only) based on steady and carefully programmed rates of increase. Only then can the Community exercise fiscal powers.

22. The Commission is, in fact, aware of the limitations of its document. The Commissioner responsible stated on 13 November 1973 that the various parts of the document were indeed interesting but not yet sufficiently 'consolidated'.

The problem of fixing these forward estimates must, therefore, be tackled in a more appropriate manner. The Committee on Budgets expects the Commission to take the necessary steps in this direction when it submits its next forward estimates for the years 1975-1977, i.e. when the Community gains financial autonomy.

