

The budget of the European Union

Sarros P.

in

Baourakis G. (ed.).

The Common Agricultural Policy of the European Union: New market trends

Chania : CIHEAM

Cahiers Options Méditerranéennes; n. 29

1998

pages 45-56

Article available on line / Article disponible en ligne à l'adresse :

<http://om.ciheam.org/article.php?IDPDF=CI020494>

To cite this article / Pour citer cet article

Sarros P. **The budget of the European Union**. In : Baourakis G. (ed.). *The Common Agricultural Policy of the European Union: New market trends*. Chania : CIHEAM, 1998. p. 45-56 (Cahiers Options Méditerranéennes; n. 29)



<http://www.ciheam.org/>
<http://om.ciheam.org/>

THE BUDGET OF THE EUROPEAN UNION

*P. SARROS, Directorate of Agricultural Policy, Ministry of Agriculture,
Athens, Greece*

Keywords: European Union, Monetary system, Common Agricultural Policy

1. GENERAL

The general budget of the European Union (EU) was created by the Treaty on European Union, which foresaw the foundation of a unified Council and a unified Commission of the European Communities (Treaty on European Union, 8th April, 1965). On 1st January 1968 it superseded the three separate budgets of the Communities which had existed until then, namely the administrative budget of the ECSC (European Coal and Steel Community), the budget of the EEC and the operational budget of Euratom. The budget for research and investment of Euratom was incorporated into the general budget from 1971 onwards under the Treaty of Luxemburg (22 April 1970).

The general budget is governed by the fiscal provisions of the Treaties of Paris (ECSC) and Rome. A fiscal regulation determines the details relating to the drawing up and administration of the budget, as well as the submission and auditing of accounts. This fiscal regulation is supplemented by other legal acts which touch upon the implementation of the budget provisions.

The budget is passed for one economic year (i.e. it is annual in character) and has to be balanced where revenues and expenses are concerned. The revenues of the budget must be used, without discrimination, for the funding of all budget expenditure (non-compulsory). Also there is no counterbalancing between accounts (universality), while every revenue or expense must be recorded in full in the budget and its accounts. There are several exceptions to these main rules.

The general budget includes the forecasts of the administrative expenses of the ECSC and of the corresponding revenues, of the expenditure and revenues of the EEC and of the expenditure and revenues of Euratom. The budget consists of five sections, which are separated into lists of revenues and expenditure:

- (I) the European Parliament
- (II) the Council (Economic and Social Committee appended)
- (III) the Commission
- (IV) the European Court
- (V) the Court of Auditors.

In every section, the revenues and expenditure are classified according to budget allocations (headings, subheadings, articles and items) on analogy with their nature and purpose.

The budget is drawn up and administered in ECU. The general budget is funded through the following resources: customs duties, agricultural levies, levies on sugar and isoglucose and own resources of VAT and GNP (Tables 1 and 2).

It should be noted that in 1988 there was an Agreement between the European Parliament, the Council and the Commission which was aimed at the realisation of the goals of the Act of European Union, in order to bring about the materialisation of the conclusions of the European Council in Brussels about fiscal discipline, and to improve the functioning of the annual budgetary procedure. This agreement became known as the "Interinstitutional Agreement on fiscal discipline and the improvement of the budgetary procedure" (details of the Interinstitutional Agreement are to be found in L-185/88, pages 33-35).

The Interinstitutional Agreement has been modified by the Agreement of 1993 (C-331/7.12.93).

The Interinstitutional Agreement of 1993 renews, in accordance with the conclusions of the Edinburgh European Council, the Agreement concluded on 29 June 1988. Its purpose is to implement budgetary discipline and to improve the functioning of the annual budgetary procedure and co-operation between the institutions on budgetary matters. This agreement is intended to ensure that, in the medium term, Community expenditure, broken down by broad category, develops in an orderly manner and within the limits of the own resources assigned to the community.

Therefore, the Agreement contains a table with the financial perspective 1993-99, which constitutes an integral part of it.

The 1993 to 1999 financial perspective establishes, for each of the years and for each heading or subheading, amounts of expenditure in terms of appropriations for commitments. Overall annual totals of expenditure are also shown in terms of both appropriations for commitments and appropriations for payments.

The European Parliament, the Council and the Commission acknowledge that each of the absolute amounts shown in the 1993 to 1999 financial perspective represents an annual ceiling on Community expenditure. Also, they undertake to use their respective powers in such a way as to comply with the various expenditure ceilings during each budgetary procedure and when implementing the budget for the year concerned.

By decisions of the Council taken on 24th June 1988 and on 31st October, 1994 "concerning the system of own resources of the Communities", the total amount of own resources for the Communities cannot exceed, for each year during the period from 1988 to 1999, the following percentages of the total GNP of the Community for the year in question:

1988: 1.15 %	1994: 1.20 %
1989: 1.17 %	1995: 1.21 %
1990: 1.18 %	1996: 1.22 %
1991: 1.19 %	1997: 1.24 %

1992: 1.20 %	1998: 1.26 %
1993: 1.20 %	1999: 1.27 %

The appropriations listed in the general budget for the undertaking of obligations must show a harmonious evolution which will result in a total allocation not exceeding 1.335% of the total GNP of the Community in 1999. The above conditions continue to be applied, until the Council amends its decision.

For every financial (fiscal) year (which begins on 1st January and ends on 31st December), every institution draws up, before 1st July of the preceding year, a list of its forecasted expenditure. The Commission collects these lists together in a preliminary draft budget, and by 1st September of the same year at the latest, submits it to the Council, which together with the Parliament constitutes the authority responsible for the budget.

The Council draws up the draft budget and relays it to the Parliament, at the latest before 5th October of the same year. The Parliament can propose amendments to the draft budget where compulsory expenditure is concerned (expenses which derive of necessity from the treaties or acts, constituted on their basis - the remaining expenditure is non-compulsory) and can effect changes where non-compulsory expenditure is concerned, but the amendments and changes must be submitted to the Council, where the final decision is taken.

Where the non-compulsory expenditure is concerned, the Council can exercise its right of total amendment, within the limits of a highest amount of increase of this expenditure.

The final approval of the budget is announced by the President of the European Parliament. However, the Parliament can reject the draft budget and seek the submission of a new draft.

The authority responsible for the budget can approve corrective budgets (which do not alter the total amount of the annual budget) or complementary budgets (which amend its final amount).

The grant of appropriations to a budget allocation may be amended by means of transfers from other allocations.

The implementation of the budget is in the hands of the Commission and is carried out in accordance with the fiscal regulation, acting on its own responsibility and also under the conditions relating to the granting of appropriations, but it also extends to the other institutions the necessary authorisation to implement that section of the budget which is relevant to each. (Table 3). At the latest before 1st June of the year which follows the close of the financial year, the Commission makes known the accounts for that year to the Parliament, the Council and the Court of Auditors.

These accounts are presented in the form of an administrative account and a balance sheet and are accompanied by an analysis of fiscal administration.

Since 1977, the external audit of the general budget has been carried out by the Court of Auditors of the Communities. This carries out an examination of the accounts of all the revenues and expenditure of the general budget. It examines the legality and regularity of the revenues and expenditure and ascertains the efficacy of fiscal administration.

The audits can be carried out before the closing of accounts for the financial year under examination. They are made on the basis of records kept and if necessary, can be carried out on-the-spot at Community institutions and in the Member States.

The Court of Auditors draws up an annual report for each financial year and can also, at any time, make observations about particular issues, as well as give an opinion after a request for one has been made by an institution of the Communities. Until 30th April of the year following the year under examination, the Parliament, after a recommendation by the Council, grants the Commission exemption from the responsibility of the implementation of the budget. To this end, the Council and the Parliament examine the accounts which the Commission has presented, as well as the annual report of the Court of Auditors. The institutions are obliged to take all the appropriate measures relevant to the observations, which are included in the decisions concerning the exemption, and to make a report on the measures taken.

2 AGRICULTURAL EXPENDITURE

The above applies to the general budget of the EU. In this text, interest is directed towards agricultural expenditure and in particular the expenditure of the EAGGF-Guarantee (FEOGA-Guarantee). From 1988, because of the increase in this expenditure, it was decided (Decision of the Council 88/377/EEC, 24th June 1988, concerning fiscal discipline) that the order of the increase in expenditure of the EAGGF-Guarantees, for every year, must not exceed 74 % of the order of the increase in the GNP of the Community. This greatest increase of expenditure of the EAGGF-Guarantee, known as the "agricultural guideline", must be observed every year. The basis of the expenditure in agreement with which the agricultural guideline is calculated for each of the successive years was 27,500 million ECU for 1988.

With a view to maintaining the agricultural guideline, the Commission determined an "early warning system" related to the trend taken by expenditure of the allocations for sections of the EAGGF-Guarantee.

Before the beginning of every financial year the Commission determines the expected trend of expenditure for each section of the budget of the EAGGF-Guarantee Section, on the basis of the comparison of monthly expenditure with the trend of expenditure during the previous years. Consequently the Commission submits monthly reports to the European Parliament and the Council on the trend of the actual expenditure in comparison to that which was forecasted. When the measure of the development of expenditure exceeds that forecasted or if there is a danger that it will exceed it, the Commission employs the administrative measures which are at its disposal, including those based on the stabilising measures, to correct the situation (Table 4).

If these measures are inadequate, the Commission examines the functioning of the agricultural stabilisers in the domestic sector, and when necessary, submits proposals to the Council which are intended to assist their effectiveness. The Council decides within a two month period on how to remedy the situation.

The EAGGF-Guarantee Section provides advance payments, on the basis of the information which the Member States provide, where the agricultural expenditure for each Common

Organisation of the Market (COM) is concerned. The advance payments are made at the latest on the third working day of the second month following the month during which the expenditure was incurred by the payment organisations of the Member States.

In a case where there are no appropriations available, the Commission proposes the relevant transfers to the authority responsible for the budget.

In the drawing up of the annual fiscal forecasts, where the expenditure of the EAGGF- Guarantee Section is concerned a particular significance is accorded to the parity of the dollar/ECU, for the following year. The average current parity during the three first months of the previous year is taken to represent parity.

The sum of 500 million ECU is recorded every year in the reserve of the general budget, as a forecast of the amount which will cover developments which are caused by important and unforeseen fluctuations in the dollar/ECU parity at the time in relation to the parity employed for purposes of the budget.

These appropriations are not contained within the agricultural guideline. In a case of an increase of the dollar against the ECU, in connection with the parity employed for purposes of the budget, the amount saved up to the value of 500 million ECU, in the Guarantee Section, is transferred to a monetary reserve.

When a fall in the value of the dollar against the ECU, in connection with the parity employed for purposes of the budget, creates additional fiscal costs, the monetary resource is used and a transfer is made from it to the respective allocations of the EAGGF-Guarantee Section which are affected by the fall of the dollar.

All the amounts saved, in the Guarantee Section, which are transferred to a monetary reserve and remain in reserve, are cancelled out and in this way lead to the creation of a fiscal surplus, which is recorded as revenue in the following budgets. This takes place through a corrective order during the budgetary procedure, with reference to the budget of the following year. An exempted sum of 200 million ECU is determined in the monetary reserve.

The amounts saved or the additional costs, which are less than this amount, do not entail transfers from or to the monetary reserve. The amounts saved or the additional costs which exceed this amount are placed in the monetary reserve or are covered by it.

3. THE BUDGET OF THE STRUCTURAL FUNDS

The above refers to expenditure of the EAGGF-Guarantee Section. The expenditure of the EAGGF-Guidance Section, as well as the expenditure on other structural activities, is presented in a special subsection of the budget of the Commission. In this subsection, the expenditure of the structural funds is mentioned (*Guidance, Regional Development and Social*), as well as the expenditure of the Cohesion Fund, the expenditure of the Sector of Fisheries, and other structural expenditure.

The funding of this subsection is made over a long period of time (e.g. five years). Thus it takes place within the framework of the fiscal forecasts for several years for the whole group of

structural funds and activities. These forecasts are accompanied by token allocation of the appropriations for obligations undertaken, according to the target. During the drawing up of the preliminary draft budget, the Commission takes into consideration this token allocation according to target.

Another characteristic is that the distribution of appropriations of the Structural Funds is made according to each Member State, that is, each country is assigned a particular amount for a five-year period (see Delors "Packet").

It should be noted here that the refunds to the Member States of the expenditure of the EAGGF - Guidance Section are made by means of advance payments, that is, the advance is received with the submission of the functional programme, and if it is later demonstrated that 50 % of the work has been carried out, up to 80 % of the expenditure can be received, while the remainder is refunded by the EAGGF, normally in the following year, after completion of the work.

Table 5 contains data regarding the financial perspective for 1993-99. It shows all the amounts of expenditure in terms of appropriations for commitments such as the agricultural guideline, structural actions, internal policies, external actions, etc.

Table 1

Summary of financing of expenditure

Member States	Net agricultural levies (90%)	Net sugar and isoglucose levies (90%)	Net customs duties (90%)	Total net traditional own resources (90%)	VAT own resources at uniform rate	GNP own resources, not including reserves	GNP own resources, reserves	Compensation for United Kingdom VAT and GNP own resources	Total Financing
Belgium	42,390,000	75,384,000	855,810,000	973,584,000	1,135,971,184	811,465,770	36,573,459	149,310,641	3,106,905,054
Denmark	4,320,000	40,905,000	219,600,000	264,825,000	677,688,808	500,980,681	22,804,984	93,101,031	1,564,400,504
Germany	133,650,000	339,003,000	3,591,000,000	4,063,653,000	12,106,043,158	7,170,424,268	323,177,173	757,484,401	24,420,782,000
Greece	7,200,000	19,323,000	135,000,000	161,523,000	599,061,929	354,694,249	15,986,374	65,264,153	1,196,529,705
Spain	56,700,000	48,654,000	546,120	651,474,000	2,508,571,830	1,650,261,665	74,378,710	303,650,057	5,188,336,262
France	44,910,000	319,950,000	1,203,030,000	1,567,890,000	7,126,091,260	4,592,357,122	206,981,476	844,999,028	14,338,318,886
Ireland	2,610,000	8,379,000	229,500,000	240,489,000	315,892,844	171,821,362	7,744,136	31,615,329	767,562,671
Italy	75,330,000	119,205,000	953,640,000	1,148,175,000	4,460,390,479	3,466,184,212	156,223,897	637,781,909	9,868,755,497
Luxembourg	90,000	0	15,120,000	15,210,000	100,629,924	54,734,923	2,466,951	10,071,289	183,113,087
Netherlands	67,320,000	817,020,000	1,325,790,000	1,474,812,000	1,824,767,598	1,163,023,775	52,418,480	213,997,721	4,729,019,574
Austria	11,160,000	33,228,000	361,890,000	406,278,000	1,086,673,379	696,320,816	31,383,777	128,123,836	2,348,779,808
Portugal	95,400,000	549	134,550,000	230,499,000	588,403,619	320,046,222	14,424,758	58,888,875	1,212,262,474
Finland	15,570,000	8,316,000	234,990,000	258,876,000	521,059,074	373,586,385	16,837,859	68,740,327	1,239,099,645
Sweden	40,950,000	21,924,000	580,860,000	643,734,000	875,254,440	668,318,638	30,121,694	122,971,403	2,340,400,175
United Kingdom	180,000,000	69,228,000	2,466,000,000	2,715,228,000	5,865,814,726	3,560,532,883	160,476,272	-3,486,000,000	8,816,051,881
TOTAL	777,600,000	1,185,750,000	12,852,900,000	14,816,250,000	39,792,314,252	25,554,752,971	1,152,000,000	0	81,320,317,223

Table 2

(In ECU's)

Heading	Financial year 1996	Financial year 1995	Financial year 1994
1 Own resources	81,320,317,223	70,244,632,418	68,082,069,352.10
3 Surpluses available	p.m.	6,589,000,000	971,143,201.60
Surplus available from preceding financial year			0.00
Surplus forecast for the 1994 financial year	p.m.	p.m.	0.00
Surplus own resources resulting from the transfer to the European Agricultural and Guarantee Fund Guarantee Section monetary reserve			0.00
Surplus of value added tax own resources from corresponding financial contributions and the additional resource	p.m.	-1,923,049,782	-389,3247,380.81
4 Miscellaneous Community taxes, levies and dues	444,764,168	404,989,266	360,643,808.58
5 Revenue accruing from the administrative operation of the Institutions	91,694,100	91,783,750	74,607,414.05
6 Contributions to Community programs, repayment of expenditure, revenue from services rendered against payment and contributions within European Economic Area	9,253,000	9,441,000	348,934,087.03
7 Interest on late payments and fines	p.m.	p.m.	35,367,673.17
8 Borrowing and lending operations	17,488,000	16,717,000	15,454,276.09
9 Miscellaneous revenue	4,924,500	49,128,000	717,1330.95
TOTAL	81,888,440,991	75,482,641,652	66,002,143,762.76

Source: Budget 1996 (L22/96)

Table 3.

Expenditure of the Budget (In ECU's)

Description	Amount
<u>Expenditure</u>	
<i>A. Section III - Commission (Part B)</i>	
1. EAGGF Guarantee Section (Subsection B1)	41,328,000,000
2. Structural operations, structural and cohesion expenditure, financial mechanisms, other agricultural and regional operations, transport and fisheries (Subsection B2)	26,005,632,000
3. Training, youth, culture, audiovisual media, information and other social operations (Subsiction B5)	823,355,000
4. Energy, Euratom nuclear safeguards and environment (Subsection B4)	194,520,000
5. Consumer protection, internal market, industry and trans-European networks (Subsection B5)	666,522,000
6. Research and technology development (Subsection B6)	3,096,604,000
7. External action	4,649,936,000
8. Common, Foreign and Security Policy (Subsection B8)	68,250,000
9. Guarantees and reserves (Subsection B0)	927,000,000
Section III Part B - Subtotal	77,759,819,000
<i>B. Section III - Commission (Part A)</i>	
Section III - Subtotal	296,735,349
<i>A. Section I, II, IV, V, and VI (other institutions)</i>	
Total expenditure	80,456,554,349
Revenue	
Miscellaneous revenue (Titles 4 to 9)	1,431,886,642
Surplus available from the preceding financial year	p.m
Surplus of own resources accruing from VAT and own resources based on GNP relating to previous financial years	p.m
Surplus of own resources accruing from the EAGGF monetary reserves.	p.m
Refunds	p.m
Total revenue	568,123,768
Appropriations to be covered by the own resources referred to in Article 2 of Decision 88/376/EEC, Euratom	81,888,440,991
	81,320,317,223

Source: Budget 1996 (L22/96)

Table 4

Provisional utilization of BAGGF Guarantee Section appropriations

1996 financial year at 31 August 1996

In ECU's

Chapter	Approps available	Payments from 16.10 to 30.6.96	Utilization %	Profile of expenditures		Gap between utilization and indicator
				%	ECU	
	<i>a</i>	<i>b</i>	$c=(b*100)/a$	<i>d</i>	$e=(d*a)/100$	$f=b-e$
B1-10 Arable crops	17.185	15.019.2	87.4	94.1	16.165.9	-1.146.7
B1-11 Sugar	1.942	1.334.3	68.7	74.6	1.448.4	-114.1
B1-12 Olive oil	1.781	1.790.8	100.6	83.1	1.479.3	311.5
B1-13 Dried fodder & dried veg.	386	182.4	47.3	69.3	267.7	-85.3
B1-14 Fibre plants	894	738.6	82.6	98.1	879.6	-138.0
B1-15 Fruit & veg	1.729	1.202.0	69.54	79.8	1.379.2	-177.2
B1-16 Wine	1.113	609.8	54.8	78.5	873.6	-263.8
B1-17 Tobacco	1.106	840.9	76.0	77.8	860.2	-19.3
B1-18 Other sectors	314	224.7	71.6	70.2	220.4	4.3
TITLE I	26.450	21.942.7	83.0	89.1	23.571.3	-1.628.6
B1-20 Milk & Milk products	4.214	2.644.3	62.8	73.5	3.096.4	-452.1
B1-21 Beef	5.458	4.374.9	80.2	87.4	4.769.3	-394.4
B1-22 Sheepmeat & goatmeat	1.353	863.9	63.9	48.9	661.9	202.0
B1-23 Pigmeat	168	95.1	56.6	80.3	134.9	-39.8
B1-24 Eggs %poultry	150	111.9	74.6	73.5	110.2	1.7
B1-25 Other measures	146	83.2	57.0	75.7	110.6	-27.4
B1-26 Fisheries	48	16.8	35.0	65.9	31.6	-14.8

continued

TITLE II		11.537	8.190.1	71.0	77.3	8.914.9	-724.8
B1-30	Non-Annex II	616	346.8	56.3	68.4	421.3	-74.5
B1-33	Refunds food	83	22.2	26.7	72.5	60.2	-38.0
B1-34	Reimbursement	-	-	-	-	-	-
B1-35	Deprived	200	65.8	32.9	58.3	116.6	50.8
B1-36	Measures to combat fraud	44	19.0	43.2	70.7	31.1	-12.1
B1-38	Rural development	520	291.6	56.1	55.5	288.4	3.2
B1-39	Other measures	194	130.8	67.4	70.8	137.4	-6.6
TITLE III		1.657	876.2	52.9	63.7	1.055.0	-178.8
B1-40	Income aid	20	16.8	84.0	69.5	13.9	2.9
B1-50	Accompanying	2.254	836.8	37.1	32.3	728.1	108.7
TOTAL(before clearance)		41.918	31.862.6	76.0	81.8	34.283.2	-2.420.6
B2-37	Clearance previous periods	-1.090	-584.3				
TOTAL		40.828	31.278.3	76.6			

Source: Commission Report No 8/96 to the Budget Authority

Table 5

Financial Perspective

 Appropriations for
commitments

(ECU million - 1992 prices)

	1993	1994	1995	1996	1997	1998	1999
1 Agricultural guideline	35,230	35,095	35,722	36,364	37,023	37,697	38,389
2 Structural actions	21,277	21,885	23,480	24,990	26,526	28,240	30,000
- cohesion Fund	1,500	1,750	2,000	2,250	2,500	2,550	2,600
- Structural Funds and other operation	19,777	20,135	21,480	22,740	24,026	25,690	27,400
3 Internal policies	3,940	4,084	4,323	4,520	4,710	4,910	5,100
4 External policies	3,950	4,000	4,280	4,560	4,830	5,180	5,600
5 Administrative expenditure	3,280	3,380	3,580	3,690	3,800	3,850	3,900
6 Reserves	1,500	1,500	1,100	1,100	1,100	1,100	1,100
- Monetary reserves	1000	1000	500	500	500	500	500
- External action							
- emergency aid	200	200	300	300	300	300	300
- loan guarantees	300	300	300	300	300	300	300
Total appropriations for commitments	69177	69944	72485	75224	77989	80977	84089
Appropriations for payments	65,908	67,036	69,150	71,290	74,491	77,249	80,114
Appropriations for payments (%GNP)	1,2	1,19	1,2	1,21	1,23	1,25	1,26
Margin for unforeseen expenditure (% GNP)		0,01	0,01	0,01	0,01	0,01	0,01
Own resources ceiling (% GNP)	1,2	1,2	1,21	1,22	1,23	1,24	1,25
p.m. Total external expenditure	4,450	4,500	4,880	5,160	5,430	5,780	6,200

p.m. The inflation rate applicable for the 1993 budget is 4,3 %

Source: Interinstitutional Agreement of 29 October 1993 (93/c 331)