6. REVENUE AND EXPENDITURE OF THE COMMUNITY

The Community budget

In 1998 Community expenditure reached almost 84 billion euros. It is expected to rise to 86 billion euros in 1999.

The budget of the European Communities, which relates to a 12 month period, is used to control the financial procedures of the European Union both by forecasting future expenditure and by checking past spending. As stated in article 210 of the EEC Treaty, it is financed entirely through its own resources.

Approval of the budget is an extremely delicate matter, since behind the apparently automatic procedures lies the difficult relationship between the Commission and the Parliament (see Chapter 3).

The initiative is taken by the Commission, which prepares a preliminary draft budget and transmits it to the Council; there, after possible amendment, it is transformed into a draft budget. The draft passes to the European Parliament which approves it, after possibly having proposed some changes to the Council as regards compulsory expenditure and, within certain limits, non-compulsory expenditure.

The definitive approval of the budget is a task for the Parliament. The Parliament and the Court of Auditors have responsibility for checking the management of financial matters.

Revenues at present derive from:

- levies, premiums, supplementary or compensatory charges and other duties fixed in the context of the Common Agricultural Policy and duties arising within the common organisation of the market for sugar;
- the common customs tariff and other duties imposed on trade with third countries and customs duties on products specified in the treaty establishing the ECSC;
• a fixed percentage, uniform for all member countries, of the revenue from the value added tax (VAT) which is paid by the individual Member States;
• a proportion of Gross National Product (GNP) of all Member States, the so-called fourth resource, which is decided on in the procedure for drawing up the budget, taking into account all the other revenues. This item is also paid individually by the Member States.

The Council of Ministers, in a Decision of 7 May 1985, fixed the maximum percentage that could be applied on the VAT revenues of the Member States at 1.4 per cent; it was also subsequently stipulated that in no circumstances could the uniform base for the assessment of VAT exceed 55 of the GNP of each Member State.

The revenue from the percentage levy on VAT did not, however, adequately reflect the capacity of each state to contribute to EU revenue and between 1995 and 1999 it has been progressively reduced to 1 per cent. In 1992 the revenue from the levy on VAT amounted to 61.6 per cent of total resources, but had fallen to 51 per cent in 1996 and is expected to be 36 per cent in 1999.

In the agreements adopted in Berlin on 25 March 1999 the European Council decided to reduce the VAT resource to 0.75 per cent of the common tax base in 2002 and to 0.50 per cent in 2004. This source of revenue was the object of heated debate between the 15 Member States and it seems likely that there will be a further reduction. Mechanisms for financing the Community budget will change considerably and, to the disadvantage of some Member States, including probably Italy.

As shown in Table 6.1, the largest items of revenue are those from the percentage VAT and GNP contributions; the latter (the fourth resource) contributes almost 40 billion euros in 1999, 47 per cent, as compared with 30 per cent in 1996.

Agricultural levies amount to only 1 per cent in 1999 and customs duties to 14 per cent. Each Member State, moreover, keeps 10 per cent of agricultural levies, sugar duties and customs duties in return for the task of collecting them. This percentage has been raised to 25 per cent in the Berlin Agreements, starting in 2001.