

## European Union expenditure

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## European Union expenditure

Since the very beginning of the European integration process, the budget of the European Communities has experienced constant growth, a reflection of the increasing development in the Community's powers and responsibilities. Being an instrument for the attainment of political objectives, it adjusts to changes in those objectives. Union expenditure therefore evolves in a manner commensurate with the development of Community activities.

Since 1988, Union expenditure has been covered by a multiannual financial programme: the financial perspective. The financial perspective sets ceilings for total expenditure and for each category of spending. Classified by heading of the financial perspective, the Union's main categories of expenditure are agriculture, structural operations, internal policies, external action, administrative expenditure and pre-accession aid.

### Agriculture

The common agricultural policy (CAP) is historically the Community policy to which the lion's share of funding has been allocated. The transfer of responsibility from the Member States to the European Union is particularly marked here, as a result of which the EU provides a large proportion of the funding for European agriculture. Although since the late 1980s agricultural spending has accounted for a diminishing proportion of the EU budget, it still consumes almost 45 % of it. The size of the budget allocated to agriculture is justified by the objectives of the CAP, as laid down by the Treaties. These are to increase agriculture's competitiveness, guarantee the agricultural population a fair standard of living, stabilise markets, provide security of supply and ensure reasonable prices for consumers. Although these objectives have for the most part been attained, this has meant a constant process of adaptation. As a result, the CAP has been reformed in recent years to take account of the new international and environmental situation in which agricultural activities take place, as well as enlargement. The CAP is now increasingly concerning itself with sustainable development, particularly by promoting environmentally friendly production methods and the efficient use of resources. Major reforms which took place in 1992, 1999 and 2003 seek to reduce surpluses, to maintain the environment, to guarantee security of food supplies, animal welfare and quality, to develop new activities, to ensure the future of rural areas by supporting their socio-economic development, and in so doing to foster economic and social cohesion in the Union.

### Structural operations

This expenditure covers structural aid measures designed to promote better economic and social cohesion within the Communities. The economic and social disparities between Member States and the regions comprising them still persist, and they increase with each enlargement. The economic and social cohesion policy aims to reduce inequalities in wealth distribution across the regions, improve the employment situation, foster the harmonious development of the various regions of Europe and protect and improve the environment. To that end, since the entry into force of the Maastricht Treaty in 1993, the Union has devoted almost one third of its overall budget to regional development and economic and social cohesion through the Structural Funds and the Cohesion Fund. The Union has four financial instruments with which to implement its regional policy: the European Social Fund (ESF) established in 1957, the European Agricultural Guidance and Guarantee Fund (EAGGF Guidance Section) introduced in 1962, the European Regional Development Fund (ERDF) established in 1975, and the European Fisheries Fund (EFF), introduced in 2007 as a replacement for the Financial Instrument for Fisheries Guidance (FIFG) (which was established in 1993). Financial support under these 'traditional' Structural Funds focuses on priority objectives (such as economic growth and employment) and on precise target areas (essentially the least prosperous regions). Since 1994, the Cohesion Fund has also enabled help to be given to regions in the greatest need by making a financial contribution to the completion of major projects in the fields of the environment and the Trans-European Transport Networks.

### Internal policies

Internal policies have expanded in line with the increase in the European Communities' powers and responsibilities. The Union covers a broad range of areas such as trans-European networks, energy, industry, technological research and development, the internal market, competition, health and consumer protection, education, culture, the media, the environment, social policy and employment. On the basis of subsidiarity, internal policies help support the efforts made under national policies in these fields. Expenditure under this heading accounts for about 7 % of the Union's total budget. Technological research and development and trans-European transport, energy and telecommunications networks absorb the bulk of this expenditure and therefore receive most of the funding. The Union also devotes a considerable amount of money to various actions in the fields of education, vocational training and youth.

### **External action**

External action covers all action by the European Union in connection with countries in the rest of the world. The Union is a leading world player and has also become a major donor in recent years. As a result, expenditure under the heading of external action has increased and accounts for almost 5 % of the general budget.

Some of these activities are in the field of financial, technical and economic cooperation, divided into geographical areas, while others constitute horizontal cooperation and are defined on the basis of the topic or policy objective to which they relate.

The aim of *financial, technical and economic cooperation measures* is to assist in the economic restructuring and development of third countries. This applies particularly to Union cooperation with the countries of the Western Balkans, Eastern Europe, the Caucasus, the Central Asian Republics, Latin America, Asia, the Middle East and the Southern Mediterranean.

*Other cooperation measures* include humanitarian and food aid, initiatives for democracy and the protection of human rights, rehabilitation and reconstruction measures for developing countries, and interventions under the common foreign and security policy (CFSP) such as conflict prevention and resolution, or support for peace processes.

### **Administrative expenditure**

This heading of the financial perspective covers all the expenditure on the running of the Communities' institutions, namely the Commission, the Council, Parliament, the Ombudsman, the Court of Justice, the Court of Auditors, the Economic and Social Committee and the Committee of the Regions. The other bodies, especially the numerous Community agencies, receive subsidies from the Commission budget, most often under the heading of expenditure on internal policies.

Administrative expenditure includes expenditure on buildings, equipment and various operating expenses as well as staff costs (salaries, staff pensions).

Administrative expenditure has increased after each enlargement, and after the establishment of new institutions or agencies and the direct consequence of this: the increase in staff. It accounts for over 5 % of the Union's general budget.

### **Pre-accession aid**

Pre-accession aid accounts for approximately 3 % of the Union's total budget.

Enlargement of the European Union is a major issue in the European integration process. Consequently, since 1998 the Union has been pursuing a pre-accession strategy to prepare the ground for the accession of ten countries of Central and Eastern Europe (CEECs) and has been putting three pre-accession programmes in place. These are the agricultural instrument SAPARD, the structural instrument ISPA and the PHARE programme.

SAPARD (Special Accession Programme for Agriculture and Rural Development), which entered into force on 1 January 2000, allocates agricultural and rural development aid to the CEECs. Its aim is to prepare the candidate countries to implement the common agricultural policy on the legislative and regulatory front and to help solve problems associated with structural adjustments in the agricultural sector and rural areas.

ISPA (Instrument for Structural Policies for Pre-Accession), which entered into force in 2000, helps the CEECs to conform to Community standards in transport infrastructure and environmental investment.

The PHARE programme (institutional pre-accession aid — originally Poland–Hungary Economic Reconstruction Aid) was established in 1989 to support the reform process and the economic and political transition in Poland and Hungary, and it has been the main support instrument for the candidate countries since 2000. Its principal objectives fall into two broad categories: strengthening the capacity of public institutions so that the candidate countries are able to implement the Community *acquis* and investment to help them bring their industries and basic infrastructure up to Community standards.

Since their accession in May 2004, the new Member States from Central and Eastern Europe have ceased to be beneficiaries of new commitments under these programmes but continue to receive payments under the previous commitments. Only Romania and Bulgaria, which became accession countries in April 2005, qualify for the renewed aid programmes.

Cyprus and Malta do not receive any pre-accession aid under ISPA or PHARE but instead are eligible for programmes for Mediterranean third countries.

Since December 2001, Turkey has been eligible for other specific pre-accession programmes intended to strengthen institutions and to consolidate the regulatory infrastructure, thereby allowing it to be brought into line with the Community *acquis*, and to improve economic and social cohesion.