Intervention de M. Christopher TUGENDHAT, membre de la Commission des CE, devant le Parlement Européen, le 7 juillet 1977

PRELIMINARY DRAFT BUDGET 1978

I would like to start, Mr President, by explaining in general terms why I believe the Preliminary Draft Budget for 1978 to be a document of considerable potential significance for the Community's future, and why, therefore, I welcome this opportunity to present it to Parliament.

By conventional standards the Community Budget is very small. Last year for example the Community Budget represented only 2.15% of the total of the Budgets of the Member States and some 0.69 % of the Community's GNP.

This small volume means that, except through its effect on agricultural markets, the Community Budget does not have much macro-economic influence on the European economy. Nonetheless, it would be entirely wrong to dismiss the Budget as of little practical significance. For, despite its limitations, the Budget is the indispensable financial precondition and expression of many of the Community's major policies. The sums involved may be relatively small; but if they were not raised and spent, a whole range of Community activities of vital importance would not be possible.

For this reason the new Commission saw the preparation of the 1978 preliminary draft Budget as its attempt to set out in financial terms its priorities for the impact of Community policies to implement the action programme presented by President Jenki to Parliament in February.

A judgement of this sort obviously merits the closest examination by this House. I hope that I have already contributed to this end by my presentation of our proposals to the Budget Committee last month. And I am confident that this debate will further assist the process of constructive Parliamentary scrutiny and discussion.

Of course, an action programme for the development of the Community could lay claim to expenditure far beyond the experience of recent years. But in drawing up its proposals, the Commission has been guided by its conviction, stated in the overall budgetary assessment debated in Parliament in May, that we should eschew the unnecessary imposition of extra burdens upon European taxpayers; and that it should consistently restrict its spending initiatives to tasks which can be better or more cheaply done by the Community than by individual Member States. By observing this principle, the Commission hopes to ensure that the expansion of Community activity does not entail the creation of an additional and expensive layer of public spending, but secures instead a useful <u>transfer</u> of activity away from the level of over-burdened national governments. At the same time, even where there is scope for increases in distribution from the wealthier of the poorer regions, this should not lead to an increase in total public spending in the Community.

Moreover, the Commission recognises that Community policy in general and Community Budget in particular must be constructed in a manner which takes account of the current economic climate. In every Member State there is pressure arising from concern about continuing inflation, to rein in public spending programmes; the Commission accepts that the Community also must accept the discipline which this pressure imposes. Nevertheless, public action at both national and Community level can tackle our economic problems, and above all the growing economic divergences between its richer and poorer members. In a generally restrictive approach to drawing up its budget proposals, the Commission has given clear priority to these problems.

Despite the very severe limits for particular programmes which the acceptance of these two constraints has necessitated, the Commission's proposed increase in the total Budget is significant. Measured in terms of commitment credits the total of the preliminary draft Budget for 1978 is 12,512 million European Units of Account compared with the 1977 Budget - including the supplementary budget and rectifying letter now before Parliament - of 10,247 million European Units of Account, an increase of 22%. In terms of credits for payment the total is approximately 11,858 MEUA compared with 9,579 MEUA in the 1977 Budget and Supplementary Budget.

On the basis of the Commission's proposed classification for obligatory and non-obligatory expenditure, obligatory expenditure totals 9,827 MEUA of commitments, or some four-fifths of the total. This represents an increase of 17.9% over 1977. "Non-obligatory" expenditure amounts to 2,685 MEUA of commitments, an increase of a little less than 40%. This is about the same rate of increase as proposed last year because of the need to develop scope for new actions from before.

The Commission proposals thus go above the "maximum rate" for "non-obligatory" expenditure which is calculated according to the Treaty at 13.6%. This follows the pattern set in earlier years which have equally not kept within the maximum rate, because of the need to develop scope for new actions from a very small base. The final rate of increase will need to be decided jointly by the Council and the Parliament.

The main explanation for this level of increase is that the increase in FEOGA expenditure has also been high with consequent repercussions for the Budget as a whole, since the Commission was not prepared to offset this increase by abandoning completely its ambition to expand Community policy in a number of non-agricultural areas. In our view such a course would have brought the evolution of the Community to a standstill.

Indeed, agricultural market expenditure inevitably continues to dominate the Budget. FEOGA guarantee spending is some 62% of the total Budget, and shows the largest absolute increase from 6,895 MEUA to 7,795 MEUA. This reflects the Commission's estimate of the impact in a full year of the agricultural prices package agreed in April. As in the past further expenditure may be incurred both as a result of unforeseeable market developments and also as a consequence of next year's prices package.

There has already been some criticism of the preliminary draft Budget because it does not produce a halt to the growth of agricultural spending. Members of this House will be aware that the Commission has frequently stated its determination to secure a better balance in the Budget between agriculture and other important areas of Community policy, and to contain agricultural spending. But I think we have to accept a distinction between the Budget procedure and budgetary constraints. It is unrealistic to expect that the policy adjustments and the changes in regulations needed to achieve the objective of the CAP at lesser cost can be found by action within the main Budgetary process. What we have to secure is that Budgetary considerations are brought to bear in the normal processes of policy making in the agricultural field. I believe this House has a very important rôle in the respect, for it combines the agricultural, economic, Budgetary and other interests which all have a part to play in shaping a vital area of Community activity.

For FEOGA guidance a significant increase is proposed from 325 MEUA to 511 MEUA of commitments including recourse to the "Mansholt Reserve". This is the complement of encouragement of structural reform to help in the medium term reduce some of the more immediate market and other problems.

As I have said, however, the Commission believes that the main thrust of next year's Budget should be a balanced attack upon the Community's main economic weaknesses. The main emphasis in its recommendations is therefore upon large increases in the Regional Fund; in payments to the Social Fund; in expenditure on industrial policy designed to assist with structural adaptations; and on spending policies intended to secure for Europe greater independence in energy.

As the House will be aware, the Regional Fund was first established in 1975 as an instrument to narrow disparities between the different regions of the Community, under a Regulation which laid down that 1,300 million units would be spent during its first three years of operation, that is 300 million Units of Account in 1975 and 500 MUA in 1976 and in 1977. The Commission believes that such an important instrument should not be exempted from the normal Budget process, but that from 1978 the Fund's spending should be reviewed and decided afresh each year in the Budget. And for 1978, it considers that the urgent need to do everything possible to offset the worsening of regional imbalances in the present recession requires a significant increase in both expenditure and commitments in parallel with an improvement in the range of actions the Fund may undertake. Its proposal that the Fund be increased next year to 750 MEUA represents an increase on 1977 of 88%.

But let us not forget the effect of inflation since 1975. In practice, the Commission's proposal represents very little more than the maintenance of value of those activities of the Fund which already exist and have demonstrated their usefulness, with, in addition, a provision of 100 MEUA for certain new actions which the Commission has proposed in order to extend the scope of the Fund. In the time of need, this proposal seems to us fully justified.

The primary purpose of the Social Fund is to assist with the problem of unemployment. Commitments have been rising in recent years, but the rate of actual payment has lagged seriously behind. The Commissio is determined to increase the real impact of the Fund in 1978 - particularly with respect to the young unemployed and women - by increasing the rate of payment. It seeks payment credits of 536 MEUA - a rise of over 218%, and proposes for the time being that new commitment should grow only in line with the level of inflation: that is from 503 MEUA to 560 MEUA. Clearly when payments have caught up with commitme there will be a renewed case for a significant increase in commitments a well. And the Commission may also make further proposals for new actions through the Fund.

I cannot overstress the importance of the Social Fund, and the Commission's determination to improve its effectiveness as a prepara for its further expansion. In this, the Commission view is wholly in lin with that of last week's European Council. We therefore hope that the Budgetary authority will accept our proposal without reduction.

Apart from these direct assaults on our main economic problems, we must also treat their underlying causes. This requires an industrial strategy which can improve our competitiveness and strengthen our long term potential; it requires systematic effort to build up our economic infrastructure and to reduce our balance of payments dependence, e.g. on imported energy.

To help in this vast task - which the Commission is further examining - the Commission proposes immediate increases in spending in two key sectors - the computer industry and the aerospace industry. It also proposes increased spending on a range of existing and new activities in energy, extension of projects for technological developm in the hydrocarbon sector and for uranium exploration, the development for ~~the use~~ of coal for use in power stations and of new sources of energy including coal liquefaction and the exploitation in geothermal resources for power and heating.

I do not want to go into these proposals in detail today. What I want to stress is the rôle that these projects individually pla in the strategy of economic development we all want to see. But one cannot will ends without means. I expect we will be faced with the usu situation in which the Council refuses to accept much of what we have proposed in this area because it seems too ambitious, and because the basic decisions have not yet been taken. Budgetarily, I cannot accept t argument: we believe the Budget should forecast expenditure, not lag behind as a pure accounting instrument. Politically, such a technical point should not be an alibi for a reluctance to allow the Community to help tackle the underlying causes of our problems.

Finally in this brief review, Mr President, I will mention development aid. I have talked much of the Community's economic problems. This should only underline the economic difficulties of countries much less well endowed than we ourselves. It is essential, in our view, to maintain and increase our aid effort - notably in the field of food aid, and for aid to the non ACP countries.

These, then, are the key features of the Commission's spending proposals in the preliminary draft Budget for 1978. My experience of this House enables me confidently to anticipate that Parliament's response will be judicious and constructive. And I eagerly await the suggestions for improvement which I am sure will be offered.

But the Community Budget is not only about spending, as this House knows better than I. It is also about institutional development. In this respect also, the 1978 preliminary draft Budget possesses an especial importance. Thanks to a great extent to the efforts of this House and of the Commission - and at this point I would like to pay tribute to my distinguished predecessor as Budget Commissioner, Monsieur Claude Cheysson, 1978 is expected to witness a number of major institutional innovations in the structure of the Budget itself and in the rules which surround it. Three of these changes are evident in the Commission's proposals.

First, the preliminary draft includes VAT as an own resource in 1978, a point to which the Parliament attaches particular importance. This has not yet been finally agreed. The Sixth Directive on VAT has been adopted, but there remain some technical obstacles to agreement on the VAT Financial Regulation. However, we are currently seeking to find a solution which, without departing from the essential principles contained in the Sixth Directive, would allow limited transitional arrangements to take account of some Member States' difficulties. I believe we will be successful.

Second, the preliminary draft Budget is drawn up in the new European Unit of Account. Here also there are problems: a number of fairly fundamental technical issues have yet to be resolved; and there is still no agreement on the interpretation of Article 131 of the Accession Treaty. However, the Commission is doing its best to ensure that the move to the EUA will nonetheless go ahead as planned on 1 January 1978.

Third, the Budget when adopted will no doubt include provision for the Court of Auditors. Now that the Treaty of 22 July 1975 has been ratified by all the Member States; the task of bringing the Court into practical operation is under way so that the Court may draw up its own estimate of its Budgetary needs in time for its later inclusion in the Budget.

But - at least as important - there are the parallel issues of the rules in which the Budget debate takes place - the Financial Regulation and the interpretation of Article 203.

As you know, discussion of these matters has now reached the stage of Conciliation Procedure between Council and Parliament. Preliminary discussions took place in the Budget Committee of the Parliament on 22 June 1977. I very much hope that this can be conducted as quickly as possible - though not to the detriment of the final result. For the Commission's part, we are ready in this process to contribute fully to the discussion in order to help an agreement to be reached.

Mr President, we are at the start of the 1978 Budgetary procedure. I have talked of little but problems. It is clear that this year the combination of major spending choices and of technical and institutional innovations will place a particular load on the procedure. It will require effort, imagination, flexibility and sustained good will on all sides to complete this task successfully. You may count on the Commission to play its part.