COMMISSION OF THE EUROPEAN COMMUNITIES

COM(87) 101 final

Brussels, 28 February 1987

REPORT BY THE COMMISSION TO THE COUNCIL AND PARLIAMENT

ON THE FINANCING OF THE COMMUNITY BUDGET

COM(87) 101 final

COMMISSION OF THE EUROPEAN COMMUNITIES

CORRIGENDUM

New pages 2 and 3

Only for the English text

COM(87) 101 final/2.

Brussels, 5 March 1987.

REPORT BY THE COMMISSION TO THE COUNCIL AND PARLIAMENT

ON THE FINANCING OF THE COMMUNITY BUDGET

I. INTRODUCTION

The Community is at present faced with a budgetary situation which can only be characterised as being on the brink of bankruptcy. The unfolding of this situation should come as no surprise to the Community as it has developed gradually in the course of several years, and it has been announced with increasing disquiet by the Commission during this period. The background is, of course, complex, but some fundamental factors may be distinguished :

- First of all, the Community has sunk into a morass of budgetary malpractices needed to conceal or postpone the real financial implications of Community policies. Thus, the budgetary effect of the unprecedented build up of agricultural stocks has been disguised by gross over-valuation of the stocks; actual budgetary deficits have been carried forward and only covered belatedly by ad hoc solutions; and Community commitments have been allowed to accumulate without proper financial provisions;

- Secondly, the own resources system itself has proved increasingly inadequate. The resource base is gradually being eroded as a consequence of other policies in the Community, the decline in the proportion of GNP accounted for by consumption, including the general trend in economic growth away from consumption, and the composition of the base has not proved satisfactory in the light of Community developments, notably the enlargement to include Member States well below the Community average income.

- Thirdly, the Community has not been equipped with the necessary means to adapt policies to the desired expenditure scenarios. The budgetary management aspect of Community policies has either been totally supressed by the rigidity of the rules - as in the case of agriculture - or been ill-adapted to the requirements of the situation, as in the case of structural policies.

The combined result of these factors has been that the Community has executed its own policy decisions without sufficient financial coverage. Thus the 1.4 % VAT was spent the year before the new ceiling entered into force. For 1987 the true VAT rate will be 1.65 % and not the 1.4 % allowed for.

This situation must necessarily be resolved by allowing the Community to command resources sufficient to cover its policies. But the situation can only be fully rectified through profound changes in the Community's policies and greatly improved management practices.

II. THE DEVELOPMENT OF THE BUDGET IN RECENT YEARS

1. Malfunctions of the Own Resources System.

As from the introduction of own resources in the Community, the explicitly stated objective has been that these own resources should provide full and proper finance for the expenditure which flowed from the policies adopted by the Community. Therefore, both at the time of the Decision on Own Resources in 1970 and at the revision of the Decision in 1985, when the maximum VAT rate was increased from 1.0 % to 1.4 %, the ceiling was set at a level which was intended to be sufficient for a number of years.

This intention of securing financial stability in order to concentrate on policy decisions in the Community has not been carried out in practice. Nor does the present system of own resources itself respond to the developments in the Community since the system was adopted.

As a means of providing proper finance for actual Community expenditure, the present system of own resources suffers from major deficiencies - which are quite distinct from any financing need arising from already adopted Community objectives concerning future development of new policies and expansion of existing ones:

1.1 The own resources base is being eroded.

In recent years as well as for the foreseeable future, the resources available under the present ceiling are contracting:

- traditional own resources (customs duties and agricultural levies) are constantly being eroded as a combined result of the multilateral reduction in import duties and the growing agricultural self-sufficiency of the Community;

- the VAT base itself grows at a slower rate than Community economic activity because the relative share of consumer expenditure in GDP is falling. Thus, while the major beneficiaries of Community expenditure, such as farmers and inhabitants of backward regions, justly compare their situation with that of the rest of the economy, the finance available for the Community policies has fallen behind;

- the Fontainebleau abatement mechanism has in fact decreased the resources available insofar as the ceiling on VAT rates apply to the individual Member States which finance the abatement and not to the Community as such.

TABLE 1. : Community own resources.

	1980 million ECU (EUR-9)	1987 million ECU (EUR-12)	Real rate of increase (%) (1) 1980/1987	1987/1992
1. Traditional own resources	7 908	13 059	- 2,6	- 2,1
2. VAT	7 258	23 132	7,0	1,9
3. Others	900	209	-	-
TOTAL	16 066	36 400	1,9	0,8

(1) Real annual growth per head. 1987/1992 : estimates ; based on 1.4% VAT.

Com 101

REPORT BY THE COMMISSION TO THE COUNCIL AND PARLIAMENT ON THE FINANCING OF THE COMMUNITY BUDGET

I. INTRODUCTION

The Community is at present faced with a budgetary situation which can only be characterised as being on the brink of bankruptcy. The unfolding of this situation should come as no surprise to the Community as it has developed gradually in the course of several years, and it has been announced with increasing disquiet by the Commission during this period. The background is, of course, complex, but some fundamental factors may be distinguished :

- First of all, the Community has sunk into a morass of budgetary malpractices needed to conceal or postpone the real financial implications of Community policies. Thus, the budgetary effect of the unprecedented build up of agricultural stocks has been disguised by gross over-valuation of the stocks; actual budgetary deficits have been carried forward and only covered belatedly by ad hoc solutions; and Community commitments have been allowed to accumulate without proper financial provisions;

- Secondly, the own resources system itself has proved increasingly inadequate. The resource base is gradually being eroded as a consequence of other policies in the Community, the decline in the proportion of GNP accounted for by consumption, including the general trend in economic growth away from consumption, and the composition of the base has not proved satisfactory in the light of Community developments, notably the enlargement to include Member States well below the Community average income.

- Thirdly, the Community has not been equipped with the necessary means to adapt policies to the desired expenditure scenarios. The budgetary management aspect of Community policies has either been totally supressed by the rigidity of the rules - as in the case of agriculture - or been ill-adapted to the requirements of the situation, as in the case of structural policies.

The combined result of these factors has been that the Community has executed its own policy decisions without sufficient financial coverage. Thus the 1.4 % VAT was spent the year before the new ceiling entered into force. For 1987 the true VAT rate will be 1.65 % and not the 1.4 % allowed for.

This situation must necessarily be resolved by allowing the Community to command resources sufficient to cover its policies. But the situation can only be fully rectified through profound changes in the Community's policies and greatly improved management practices.

II. THE DEVELOPMENT OF THE BUDGET IN RECENT YEARS

1. Malfunctions of the Own Resources System.

As from the introduction of own resources in the Community, the explicitly stated objective has been that these own resources should provide full and proper finance for the expenditure which flowed from the policies adopted by the Community. Therefore, both at the time of the Decision on Own Resources in 1970 and at the revision of the Decision in 1985, when the maximum VAT rate was increased from 1.0 % to 1.4 %, the ceiling was set at a level which was intended to be sufficient for a number of years.

This intention of securing financial stability in order to concentrate on policy decisions in the Community has not been carried out in practice. Nor does the present system of own resources itself respond to the developments in the Community since the system was adopted.

As a means of providing proper finance for actual Community expenditure, the present system of own resources suffers from major deficiencies - which are quite distinct from any financing need arising from already adopted Community objectives concerning future development of new policies and expansion of existing ones:

1.1 The own resources base is being eroded.

In recent years as well as for the foreseeable future, the resources available under the present ceiling are contracting:

- traditional own resources (customs duties and agricultural levies) are constantly being eroded as a combined result of the multilateral reduction in import duties and the growing agricultural self-sufficiency of the Community;

- the VAT base itself grows at a slower rate than Community economic activity because the relative share of consumer expenditure in GDP is falling. Thus, while the major beneficiaries of Community expenditure, such as farmers and inhabitants of backward regions, justly compare their situation with that of the rest of the economy, the finance available for the Community policies has fallen behind;

- the Fontainebleau abatement mechanism has in fact decreased the resources available insofar as the ceiling on VAT rates apply to the individual Member States which finance the abatement and not to the Community as such.

TABLE 1. : Community own resources.

	1980 million ECU (EUR-9)	1987 million ECU (EUR-12)	Real rate of increase (%) (1) 1980/1987	1987/1992
1. Traditional own resources	7 908	13 059	- 2,6	- 2,1
2. VAT	7 258	23 132	7,0	1,9
3. Others	900	209	-	-
TOTAL	16 066	36 400	1,9	0,8

(1) Real annual growth per head. 1987/1992 : estimates ; based on 1.4% VAT.

1.2 Own resources do not cover actual expenditure.

As a result of the considerable reluctance to provide additional finance to the Community, budgetary practices have emerged which ficticiously disguise the real impact of expenditure decisions. These unacceptable practices have had to continue because new own resources were insufficient even by the time they were finally adopted. Thus :

- For the 1984 and 1985 budgets intergovernmental advances were needed to cover legal expenditure obligations - equivalent to an increase in the VAT rate of 0.14 % and 0.23 % respectively. For 1986 and 1987 underbudgeting of expenditure has had to take place because of the exhaustion of the own resources then available, equivalent to 0.10 % and 0.23 % respectively;
- For all the years concerned the Community has failed to provide proper financial depreciation of agricultural stocks. At present, two-thirds of the book-value of the stocks have no counterpart in real market value.
- Similarly, inefficient management of commitments made for a number of multiannual programmes has resulted in a snow-ball effect on outstanding payment obligations.

TABLE 2 : Actual budget and true budget, as % VAT rate required for financing

	1983	1984	1985	1986	1987
1. Actual budget VAT rate	1.00	1.14	1.23	1.40	1.39
2. Non-budgeted expenditure:					
- Current deficit (1)	-	-	-	0.10	0.23
- Non-depreciation of agricultural stocks	0.13	0.08	0.08	0.10	0.03
- "Cost of the past"	0.09	0.06	0.09	-	-
3. VAT rate required for proper financing	1.22	1.28	1.40	1.60	1.65
4. Accumulated liabilities in billion ECU	3.0	6.0	8.6	12.2	17.0

(1) EAGGF-Guarantee deficit and traditional own resources shortfall for 1986 and 1987.

All these factors - including the intergovernmental advances, which are repayable by the Community - result in a heavy burden weighing on the own resources for the future.

1.3 The own resources system does not reflect Community developments.

Apart from an erosion of the base and a ceiling on resources which is lower than actual expenditure, the system itself has not been adapted to more fundamental developments in the Community.

- At best, VAT revenue produces little if any redistributive effect in relation to the relative prosperity of the Member States. This deficiency has become only too evident after the latest enlargements of the Community which brought in three new Member States with incomes below the Community average and a higher propensity to consume;

- The system as such provides no "buffer" for a structural decline in one of the components once the VAT ceiling has been reached. At its inception, a system based on two components - traditional and VAT own resources - seemed sufficient. Economic developments have, as shown above, made this system too rigid. Several types of own resources are needed to render the system sufficiently flexible;

- VAT own resources are not in reality own resources for the Community, but rather Member State constributions. As such, Community expenditure is not subject to direct taxpayer control. Had the actual collection of VAT in Member States been made on the harmonized VAT base, it would have been possible for taxpayers to identify the Community share. Similarly taxpayers would be able to react to other directly collected revenue by the Community.

2. Problems in controlling Community expenditure.

In recent years the latent discrepancy between the Community's stated expenditure policy and its actual budget outlays has become acutely pronounced.

For EAGGF-Guarantee expenditure a real conflict has developed between the desire to contain the growth in expenditure and the finance needs stemming from Community legislation. At the same time the developments in European as well as world farming conditions have rendered this expenditure less efficient in achieving the objectives laid down by the Community.

For the structural policies and other types of multiannual programmes, the Community has opted for speedy growth and it has engaged itself contractually, but without committing itself to provide the required finance over the execution period. On the contrary, the Council has for its part decided that this type of expenditure should be subject to annual rates of increase which are far below what is required to finance the commitments already entered into.

For several expenditure policies, the execution of the budgetary appropriations has been unsatisfactory and thus contrary to spending policy - be it for lack of implementing decisions or insufficient administrative capacity at Community or Member State level.

Finally, the Community has not succeeded in its objective of correcting some Member States' budgetary imbalances by expenditure policy. On the contrary, the scale of corrective mechanisms on the revenue side has increased.

All these factors imply that the Community must engage itself in medium term planning and more effective management. Planning is needed to obtain the desired level of management of expenditure policy, because management does not make sense without medium term policy directives.

2.1 Agricultural expenditure

The impact of the CAP on the budget is conditioned by the major changes which have taken place in the balance of agricultural markets. Two points are particularly worthy of note :

- agricultural production in the Community has grown faster than consumption and so the self-sufficiency rate for all products has increased. It now exceeds 100 % for most major products subject to a common organisation of the market, by a very considerable margin in the case of milk and cereals;

- similar developments affecting many other parts of the world have led to falling prices on internationel markets and made the disposal of Community surplus production more difficult and expensive.

The Community has remained very open to preferential imports of certain agricultural products, which are very often in direct or indirect competition with its own production. Some replace cereals in animal feed, which would have been one way of reducing surpluses.

These developments have two major consequences :

- intervention under the CAP has gradually become an important component of the market rather than a way of regulating it. In many cases, intervention is no longer the exception, but instead it has become a permanent market outlet for many major producers;

- the difficulties of disposing of the excess production - both in budgetary and market terms - have led to an expansion of stocks which, as in any other area of production, is a clear sign that markets are thoroughly out of balance.

The Community budget has had to absorb the financial consequences of this imbalance. Thus, expenditure has grown by more than 5 % per year in real terms despite the difficult adjustments in CAP provisions, which have been carried out over a number of years, e.g. guarantee thresholds, milk-quotas, and co-responsibility levies.

Measured per active farmer, EAGGF-Guarantee expenditure has risen by over 8 % per year in real terms. Comparison with the average increase in per capita value added (1.4 % per year) shows that agriculture is becoming increasingly dependent on the Community budget. However, the increase in CAP expenditure has not contributed to supporting farmers' incomes to the same extent, because storage and disposal costs - including export refunds - are taking up a growing proportion of expenditure.

The growth in agricultural stocks has meant sharp increases in the cost to the budget of storage and the size of the stocks has in itself contributed to a decline in world prices, thus increasing the cost of disposal. Stock-related costs now account for one-fifth of EAGGF-Guarantee expenditure. Moreover, not all the costs of the stocks have yet been reflected in the budget, because their value has been grossly overestimated in the accounts.

TABLE 3 : Agricultural stocks (end-of-year levels)

Billion ECU

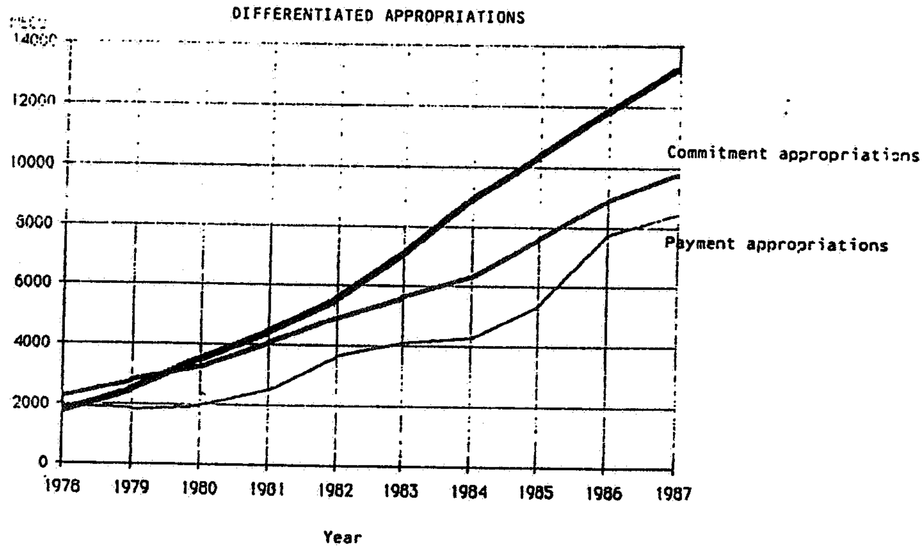
	1982	1983	1984	1985	1986	1987
Value at :						
intervention prices	4.0	7.0	8.8	10.6	11.2	12.3
Market prices	2.2	3.6	4.3	4.9	3.7	4.2
Depreciation required	45%	49%	51%	54%	67%	66%

2.2 The cost of the past

At their present level, agricultural stocks represent a considerable potential liability on the budget. A further liability consists in what has become known as the "cost of the past". This concerns in particular the Community's Structural Funds, but also relates to development aid.

GRAPH 1

DIFFERENTIATED APPROPRIATIONS



In view of the marked increase in structural expenditure in recent years, notably due to the two latest enlargements of the Community, it is inevitable that the volume of outstanding commitments should have risen rapidly too. Indeed, the rapid built-up of commitment appropriations has been expressly stated Community policy as reflected by the annual budget procedure. However, given the present regulations and management practices the scale of the increase has given rise to problems:

- the under-estimation of the time required to complete the political, administrative and technical aspects of the operations has meant that commitments have translated into payments at a slower rate than expected. There is also a tendency to inflate annual commitment appropriations to levels beyond the Commission's management capacity and the absorption capacity of the potential beneficiaries. The two arms of the budgetary authority, and also the Commission itself, would appear to share responsibility for this state of affairs;

- the failure to keep sufficiently close watch on the progress of operations has meant that a certain volume of commitments no longer has any real equivalent in terms of projects. These commitments should quite simply be cancelled but this is not always possible under the existing rules.

2.3 Execution of the budget

Execution of adopted budgets has become more difficult in recent years.

There are two major reasons for this :
- Difficulties in the budgetary procedure have, with increasing frequency, led to budgets not being adopted until well into the year to which they relate. This situation has further been complicated by the addition of sizeable amending and supplementary budgets;
- The tendency for unexecuted commitment and payment appropriations to spill over into the next budgetary year has meant that actual budgetary appropriations were greater than planned.

TABLE 4 : Budget adoption and execution
(Commitment appropriations ; average 1983-85 = index 100)

	Initial Budget	Suppl. Budget	Definitive Budget (1)	Execution Same year	Execution next year	Lapsing
EAGGF-Guarantee	100.0	7.2	107.7	107.3	-	0.4
Structural policies	100.0	6.3	124.8	112.5	10.9	1.4
Other expenditure	100.0	5.6	110.0	98.9	9.0	2.1
TOTAL	100.0	6.7	111.5	106.8	3.8	0.9

(1) Including commitment appropriations remaining from previous year and allowing for transfers.

In the case of EAGGF-Guarantee expenditure, the discrepancy between the initial budget and the appropriations actually needed is mainly due to the fact that the EAGGF-Guarantee expenditure is not determined by the budget allocation but by the evolution of the agricultural markets subject to the regulations in force.

States has been insufficient. A substantial volume of commitment and payment appropriations are therefore carried over each year. This has implied that there is a substantial gap between the budget voted and the appropriations actually available.

2.4 Budgetary discipline

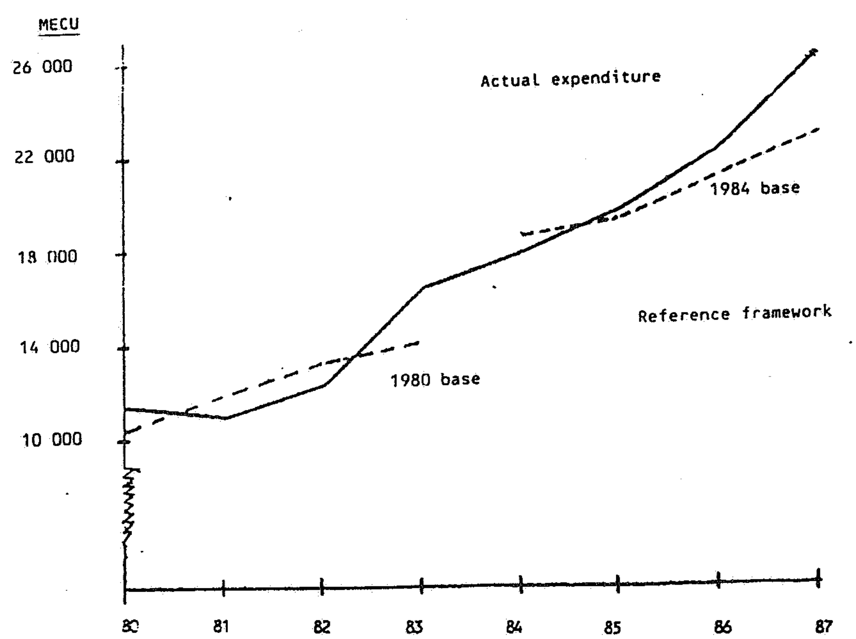
Already in October 1981, the Commission set the objective that agricultural expenditure growth should not exceed that of own resources. This guideline was, in essence, supported by the European Council in November 1981 and reflected in its conclusions of June 1983.

In December 1984, in response to the Commission's report under the Mandate of 30 May and following the conclusions of the Stuttgart and Fontainebleau European Councils, the Council laid down a number of criteria for determining expenditure in line with the objective of containing the Community budget. The effort made at Community level reflected similar action taken by most Member States in connection with their national budgets.

a) The principle laid down for the CAP was that agricultural expenditure should increase more slowly than the own resources base

The following graphs show that from the start it has proved impossible to take the decisions necessary to respect the guidelines.

GRAPH 2: Budgetary discipline for EAGGF Guarantee



Non-compliance with the framework laid down in 1984 is only partly due to unpredictable external factors (fall in the dollar and the currency realignments of April 1986). Indeed, the impact of these factors is no greater than the absence of financial depreciation of agricultural stocks. The main reason is that the budgetary mechanisms of the CAP rule out satisfactory control of expenditure.

b) The Council Decision of December 1984 also sought to contain non-compulsory expenditure within the maximum rate.

In contrast with the efforts to apply budgetary discipline to agricultural expenditure, the Commission did not go along with these guidelines for non-compulsory expenditure, as they are pointless as far as payment appropriations are concerned, and contrary to expressly stated Community policies if applied blindly to commitment appropriations. A most notable case is provision of commitment appropriations for enlargement, but the principle applies to the implementation of the Single Act as well.

It is quite clear that, to contain the growth of the cost of the past and to return to proper budget management, the payment appropriations provided should flow from the commitments decided. It is therefore only appropriate to apply budgetary discipline to commitment appropriations and to do this only with due respect given to the political undertaking by the competent authority in the Community prior to the annual budgetary process.

2.5 The Fontainebleau mechanism

Prior to Fontainebleau two formal attempts were made to avoid "excessive" negative net budgetary flows, the first by application of Arts. 130 and 131 of the Treaty of Accession and the second via the "Financial Mechanism".

The first method, analogous to that in force in respect of Spain and Portugal i.e. a sliding scale of contribution reaching 100 % after 5 years, plus an extension for two years, by imposing a limit on the rate of growth of contributions, was, in the case of the UK, only partially succesful. It became obvious in 1974/75 that the UK was already a substantial net contributor to the Community budget. The second method, the "Financial Mechanism", was then installed in an attempt to reduce the UK deficit. From its inception in 1976 to its effective end in 1984, the mechanism did not once produce a refund to the UK despite increasing net negative budget flows. Refunds were, however, made on an ad hoc basis in respect of 1980-85.

The 1986 budget contains the first correction of the imbalance under the mechanism adopted at Fontainebleau.

The following table shows the amounts involved and the effect of the mechanism on the available VAT margin.

TABLE 5 : Cost of the Fontainebleau mechanism

	Average (1) 1983-1985	1986	1987(s)
Gross correction			
- million ECU	1 530	2 736	2 360
- % VAT rate	0,10	0,15	0,13

(1) Fictitious application.
(s) Estimation.

The Fontainebleau mechanism did mark the end of a protracted conflict within the Community. But it should be borne in mind that:

- it lowered the effective VAT call-in rate to less than 1.25%, thereby depriving the Community of some of its resources;

- no account is taken in the arrangements for financing the compensation of the relative prosperity of the contributing countries;

- reference is made, albeit indirectly, to traditional own resources, which thus lose their rightful status of belonging to the Community.

SECOND PART : Proposals for new own resources

In presenting its proposals for new own resources, the Commission intends to lay the foundations for a reform of the budget system which will remedy the shortcomings of the current situation and at the same time give the Community the resources and mechanisms it needs to develop in line with the ambitions of the Single Act.

The Commission's objectives are as follows:

a) to provide the Community with a margin of own resources sufficient to guarantee it a fairly lengthy period of "budget security" during which it can plan its development especially for the period in which the internal market is being achieved;

b) to change the composition of own resources in order to obtain greater stability of revenue and a distribution of the burden of finance more in keeping with the relative prosperity of the Member States;

c) to extend and strengthen measures to ensure compliance with budgetary discipline arrangements which reconcile the constraints of a strict allocation of resources and the need to develop common policies;

d) to change both attitudes and rules which govern the preparation and the execution of the budget in order to manage the budget with maximum economy of resources, to increase the transparency of budget decision-making and to impose stricter control over expenditure;

e) to continue to provide the compensation needed to correct various budget imbalances on a basis which makes greater allowance for the relative prosperity of the Member States.

X

X X

The Commission is presenting its proposals to Parliament and the Council so that the two arms of the budgetary authority can conduct their own assessment.

The first condition to be borne in mind is that the Community must be given the resources it needs if it is not to find itself unable to pay amounts it owes, a situation which is a definite threat in view of the difficulties already besetting the 1987 budget.

Looking beyond this immediate problem the Commission is convinced that the measures it proposes will give the Community the budgetary instruments it needs to finance common measures, in particular those provided for by the Single Act, while complying with the necessary budgetary restraint.

The Commission's proposals are designed to satisfy certain requirements: the need for stability and greater certainty in budget matters; the need to preserve economic and social cohesion in the face of the changes arising from the recent enlargement and the achievement of the internal market; and the need to outline budget discipline arrangements which will help secure a consensus between the two arms of the budgetary authority.

I. Budgetary discipline

1.1 The volume of additional own resources proposed by the Commission should enable the Community to finance its development until 1992 at least while enjoying greater "budget security" than in the past. The Commission will thus have budgets containing the expenditure it will actually inour and will no longer have to resort to the expedient of deferring expenditure to hide the imbalance between revenue and expenditure.

However, the Commission considers that the creation of this new margin must be accompanied by tighter budget discipline and greater stringency in the establishment and execution of the budget. The proposals for a higher own resources ceiling and those for tougher discipline arrangements and greater strictness of management thus constitute an indivisible whole.

For the Commission, this link between the two aspects is vital for the balance of its proposals. It would therefore ask the Council and Parliament to devote as much attention to the substance of the rules and practices it has proposed for discipline and budget management as to its proposals concerning the composition and new ceiling for own resources.

1.2 The Community's budget policy for the next five years must be founded on a new institutional base. This will require a new interinstitutional agreement in which Commission, Council and Parliament will solemnly undertake:

- to manage the Community budget in such a way that the new own resources ceiling will be respected until 1992 at least;

- to treat the multiannual forecasts as an instrument of medium-term budget management, illustrating - within the own resources limit - the budget trade-offs and the evolving shape of annual budgets;

- to view the commitment appropriations as the expression of the desired budget policy and hence as the reference basis for budgetary discipline. Commitments would then automatically be covered by the volume of available resources.

The conclusion of such an agreement would give the Community, for the next five years at least, the degree of stability, security and consensus between the institutions which will enable the budget to go on playing its role in the development of common policies while satisfying the principle of strict management to which national budgets are subject today.

1.3 As the Member States are doing with their own budgets, the Community must endeavour to tighten budgetary discipline. But this cannot be seen as an end in itself, totally eclipsing the objectives which the Community has set itself and which the budget must help attain. On the contrary it must be seen as a method of achieving a better allocation of available resources by producing a scale of priorities for the medium term. Budgetary discipline must be maintained by applying the following three criteria.

a) The new limit must provide sufficient room to finance the common policies until 1992 at least, in terms of both payments and commitments. The significance of this quantitative constraint must be seen in true perspective.

The average annual growth rate for resources available to the Community between 1980 and 1987 was around 4.5% in real terms (see Table 6). Even if it is assumed that all available resources will be taken up in 1992, the corresponding rate for 1987-92 will be only very slightly higher (4.6%).

It can thus be seen that the new ceiling will not give the Community greater growth potential for expenditure than it enjoyed between 1980 and 1987.

Table 6

Community own resources and GDP
(average annual growth rate in volume)

	1980-1987	1987-1992
Own resources (1)	4.5	4.6
GNP (EUR 12)	1.6	2.7

(1) Per capita, taking into account the financing of the deficit expected for 1987.

The maintenance of roughly the same growth rate must also be viewed in the light of the expenditure needed to restore a sound budget situation (disposal of stocks and cost of the past).

A truer comparison of trends during these two periods would demand an increase in the growth rate for own resources during the period 1980-1987 to take account of the failure to finance these two aspects correctly. What is more, this also means that some future resources will be taken up to offset the non-availablility of resources in the previous period.

Table 6 also shows that economic growth should be higher in the period 1987-92 according to the forecasts now available. The difference between the increase in own resources actually called in and the production of wealth in the Community should therefore narrow appreciably.

These two facts clearly show that compliance with the ceiling fixed for 1992 will mean a marked slackening in the relative rate of growth of the Community budget.

b) Agricultural expenditure must be made subject to discipline arrangements providing the instruments for genuine containment of expenditure.

The first thing to do must be to define what exactly is meant by the containment of expenditure.

The criterion would be that expenditure on agricultural market management must not grow faster than the own resources base.

The definition of what agricultural expenditure should be subject to this maximum rate would be that contained in Article 3(a) of the conclusions of the Council of 4 December 1984 on the application of budgetary discipline. This overall figure must also cover costs connected with the disposal and depreciation of agricultural stocks.

The criterion would have to be applied year by year, while the results in terms of containing expenditure would be assessed over a three-year period. This means that for, say, the 1988 budget, EAGGF-Guarantee expenditure would be determined by applying to actual expenditure in 1987 the rate of growth of the own resources base.

The essential condition for achieving this objective on a lasting basis is that production must be contained. However, to ensure that the annual budget allocations for agriculture are not exceeded, the Commission is proposing that budgetary stabilizers be introduced in all sectors either to achieve expenditure savings or to generate additional revenue, depending on the sector, so that annual expenditure financed by own resources can be maintained within the established limits.

Automatic budgetary stabilizers already exist in a number of sectors; other expenditure stabilizing mechanisms have just been reinforced or included by the Commission with its price proposals for 1987/88 (oilseeds and olive oil). The reduction of milk quotas, the increase in coresponsibility levies for cereals and milk and cuts in aid when production thresholds are overstepped are all instruments that can be used to contain agricultural expenditure financed by own resources. The difference is that existing mechanisms would now be applied strictly so that in no case would the overall budget allocations be exceeded, and they would be unavoidable, coming into operation automatically.

This will impose a dual obligation on the Commission and the Council. The Commission, for its part, will have to consider itself bound to present to the Council appropriate stabilizing measures whenever it feels that there is a serious risk of an expenditure overrun. The Council, for its part, must undertake to act swiftly on the Commission's proposals.

To achieve this, rules will have to be added to the agricultural regulations:

- enabling the Commission to adjust the intervention arrangements within predetermined limits in order to achieve certain savings in market management, at least as a precautionary measure pending the Council's decisions;

- requiring the Council to act within clear and short deadlines (three months, say) on any Commission proposals relating to the more important aspects of the market organizations.

It will be the Commission's responsibility to take this action in good time before the risk of overspending has actually become a real overrun. For this purpose the commission will look for ways of improving its forecasting of expenditure, notably by means of monthly monitoring of execution.

In addition to the annual allocations provided by application of the budgetary discipline rules there will also be a reserve to finance the budgetary impact of any exceptional circumstances caused by monetary movements. This reserve will draw its resources from savings made in relation to a basic currency parity (ECU/dollar rate) and it will be used to finance any additional expenditure resulting from parity developments which impose higher costs on the CAP.

In any event, if, despite these measures, a deficit appeared inevitable in EAGGF Guarantee expenditure, either because the Council failed to adopt the measures proposed by the Commission, because these measures did not produce the expected budgetary results or because the contingency reserve proved inadequate, notably as a result of unforeseeable monetary events, finance for this deficit would have to be provided by a letter of amendment or a supplementary budget. The overrun financed would have to be offset by equivalent savings over the next two years.

The changeover from a system of advances to a system of repayments for the EAGGF Guarantee will provide more control over expenditure, since spending will then be possible only if the necessary resources are actually available and the applications for payments fully justified.

The Commission will present a formal proposal on this subject.

Application of these principles would change significantly the present situation where agricultural regulations have direct repercussions in budget terms; instead, agricultural rules will be applied or amended in such a way as to ensure that predetermined budget allocations are respected.

c) Third criterion for ensuring compliance with budgetary discipline: : the multiannual budget forecasts must become an instrument of budget management for the medium term.

Instead of remaining a simple forecasting exercise proposed by the Commission but virtually ignored by the budgetary authority, these multiannual forecasts would become an instrument for the medium-term planning of Community finances.

At the beginning of the year, the Commission would propose multiannual forecasts, setting out the options which reconcile budgetary discipline and respect for the own resources ceiling with the development of common policies. The budgetary authority would consider these forecasts, and the two arms would express their opinions on the main trade-offs they involve and on the plans they set out for financing the Community's main activities. This would have to be done by a firm deadline, ahead of the examination of the preliminary draft.

If the two arms of the budgetary authority failed to agree, the Commission could consider that the intentions set out in the multiannual forecasts might serve as a framework in which the annual budgets would have to be fitted.

The Commission and the budgetary authority would have to ensure every year that the multiannual budget forecasts setting out the maximum overall spending limits for the budget for each year up to 1992 were being respected. For non-compulsory expenditure this means that the annual increase will be above the maximum rate but below the annual ceiling set by the multiannual forecasts.

The multiannual forecasts would also become an instrument of budgetary discipline, since they would have to trace a regular and gradual development of expenditure avoiding any unduly rapid drain on the new resources available and leave a safety margin within the overall limit for the end of the period. In concrete terms this means that:

- the annual level of expenditure for the entire budget must not be above the figure on the trend line linking the present level to the end-of-period level;

- the new basic own resources decision should specify the annual ceilings as produced by this trend line, which must be sufficient to finance all the necessary expenditure (including stock depreciation);

- any proposal for exceeding the maximum rate for non-compulsory expenditure, whether made by the Commission or one of the arms of the budgetary authority, would have to be justified by significant policy developments, notably in connection with the application of the Single Act.

The budgetary discipline inherent in these multiannual forecasts would be defined in terms of commitment appropriations, the pattern of payments being dictated by the needs resulting from the administrative and technical implementation of the operations undertaken. This means that the ceiling on own resources must be respected up to 1992 as regards both commitment appropriations and payment appropriations.

The definition of budgetary discipline in terms of commitment appropriations is a very important departure from the present rules. It is justified by the fact that they reflect the political will and policy options of the budgetary authority. Moreover, if commitment appropriations are made to develop in an orderly manner, then budgetary discipline and the ceiling will automatically be respected in payment appropriations too. As the Commission has demonstrated in the multiannual budget forecasts which it is presenting separately, if the new ceiling is respected for commitments, the utilization of the new resources for payments will be appreciably lower.

Finally, it is a principle of sound management that all decisions taken must be matched by appropriate entries in the budget. This principle must be strictly applied, in particular for the agricultural price decisions.

II. Budget management

2.1 Drawing the conclusions from its analysis of the way in which the budget is prepared and executed, the Commission considers that the following aspects are the most critical as regards the improvement of management:

a) Provision of excessive appropriations, in particular differentiated appropriations, in a large number of headings, resulting from an overestimate of spending capacity, in particular when new operations are being launched, or from an underestimate of the time needed to obtain from the Council the legal base to use the appropriations. This tendency is encouraged by the carryover facilities.

b) Insufficient compliance with the principle of budget annuality, for the reasons set out above, leading to a large volume of appropriations being carried over from one year to the next. This detracts from budget transparency since the appropriations available for a given financial year are of different sorts, some being provided by the budgetary authority for that financial year while other substantial amounts are left remaining because previous decisions have not been implemented.

c) Inadequate monitoring of the operations or programmes for which commitments have been made, leading to appreciable deviations from the planned schedules. This goes a long way towards explaining why the appropriations entered in the budget are so unreliable a guide and utilization rates inadequate. Another consequence is the formation of a large volume of "dormant commitments", i.e. commitments which no longer have a real counterpart in the form of projects or programmes to be financed.

d) Community operations are not always as cost-effective as they might be. In some cases, the same objectives could be achieved with a smaller volume of expenditure and/or by different procedures.

The Commission is proposing changes to both the practices and the rules which govern the preparation and execution of the budget in order to restrict the volume of resources to be called in and to improve the allocation to the objectives pursued. These changes are the essential accompaniment to the criteria for budgetary discipline set out above and should facilitate compliance with them. The ultimate aim is to acquire tighter control over expenditure and make it more effective.

2.2 The Commission is proposing the following two-track approach with the aim of reducing the risk of excessive appropriations to a minimum:

2.2.1 With regard to practices, the Commission undertakes to ensure that its requests for appropriations correspond as closely as possible to actual implementation possibilities, account also being taken of the absorption capacity of potential recipients, which can be adjusted only gradually when an operation is new. It will request the budgetary authority to pay more attention, when the budget is adopted, to the assessments presented by the Commission in justifying the amounts requested.

More precisely, the Commission would like the budgetary authority not to increase the appropriations in certain headings until it has ascertained that they can actually be used.

A multiannual approach to expenditure planning will provide the possibility of staggering the impact of political decisions to step up spending on certain operations.

The Commission will attach to its proposals for commitment appropriations schedules for the corresponding payment appropriations. To be as reliable as possible, these schedules must be drawn up in close collaboration with the authorities responsible, since their help is essential if good-quality forecasts are to be produced.

The Commission undertakes to inform the budgetary authority whenever it observes any significant divergence from the initially planned schedule.

2.2.2 The Commission is proposing changes in the role of title 10/B with a view to limiting the volume of resources called in to the strict minimum.

There are two proposed changes:

- Firstly, Chapter 101 would accommodate an overall reserve which could be used if there were insufficient appropriations under any particular budget heading. It would then be possible to limit the amount of resources which needed to be called in. The appropriations entered in the headings could initially be fixed at a conservative level and the overall reserve would produce a sort of "economy of scale" during execution, since it is unlikely that additional requirements would arise at the same time for all the headings concerned.

- Secondly, Chapter 100 would still accommodate appropriations which do not yet have a legal base, in accordance with the rules currently in force. Not later than 1 October each year the Commission would ask the budgetary authority to transfer the relevant amounts to the headings which have received a legal base. As regards amounts for which no legal base has been created by that date, the Commission's policy would be not to propose any alternative use. These appropriations would then automatically lapse at the end of the year. The Commission will judge on a case-by-case basis whether or not to propose the re-entry of the appropriations the following year. The revenue corresponding to the unused appropriations could therefore be added to the balance for the year.

These two proposed measures would also help to enhance the annual nature of the budget.

2.3 In any event, some other provisions would have to be adopted in order to reinforce the principle of budget annuality more directly.

The current budget rules allow appropriations to be systematically carried over to subsequent years. This facility is justified in many respects, in particular when the criteria for a proper decision on expenditure are not met. However, it does have the drawback of encouraging lax attitudes in the requesting and granting of appropriations and of giving no incentive for rigour in the use of the appropriations available.

To restore greater transparency to the appropriations available and to ensure greater compliance with the principle of budget annuality, the Commission proposes that:

- the automatic arrangement whereby commitment appropriations remain in existence and payment appropriations are carried over should be discontinued. This would require appropriate changes to the Financial Regulation and to specific regulations, in particular those for the structural Funds. As a result, any appropriation not used in year (n) and for which the Commission has not proposed some utilization in year (n + 1) will lapse;

- the budgetary authority should be informed at the beginning of the year how the Commission intends to use appropriations which have not lapsed. Three possibilities exist:

  a) carryover under the same heading;
  b) carryover to another heading;
  c) carryover to the overall reserve in Chapter 101.

  The Commission's choice will depend on its analysis of the reasons why the appropriations have not been used.

  The budgetary authority would thus be told explicitly what appropriations are available under each heading for the new budget year. Moreover, the overall reserve in Chapter 101, which can receive the carryovers as mentioned above, could become a kind of permanent reserve.

  All these measures are required in order to:

  - make authorizing officers and potential recipients more careful in their forecasts;

  - strip the budget of any superfluous appropriations;

  - give a clear and homogenous base to the appropriations available for the financial year.

2.4 On the matter of improving the monitoring of budget operations, the Commission will take appropriate internal measures to ensure that the budget is executed as closely as possible in line with forecasts. For this, it must be able to count on the cooperation of the national administrations.

The new obligation requiring any major departures from the schedules laid down to be notified to the budgetary authority together with explanations represents an additional incentive to respect forecasts.

The Commission has also launched an operation to check "dormant commitments", i.e. past commitments for which no payments have been made for an abnormally long time. It has found that the volume of these "dormant commitments" is relatively large and that a good many of them could be purely and simply cancelled. A large number of Social Fund appropriations have already been cancelled, thus reducing the cost of the past.

In some cases this approach concerning "dormant commitments" may require changes to existing regulations.

The utilization of structural Fund appropriations will be made easier by the development of operations under programmes drawn up jointly with national administrations.

The Commission's responsibility for monitoring implementation will be reduced since the Member States will be involved more directly in the management of these programmes.

To sum up, the Commission intends to introduce arrangements which will make it possible to implement appropriations allocated in line with forecasts and to cancel without delay any appropriations which cannot be used as planned.

2.5 The Commission intends to carry out a systematic examination of budget operations to ensure that the intended incentive factor is obtained at the lowest cost to the budget. This is particularly necessary for structural operations, where there is a case for establishing new rules better suited to the nature of the project and/or programme and to the specific requirements of the promoters.

It is with this in mind that the Commission is seeking to develop its financial engineering capacity by which it intends, with a low budget outlay, to arrange the financing of projects by drawing as far as possible on funds available on the market.

In the same vein, current ideas concerning the operation of the structural Funds would allow for budget subsidies to be combined with Community loans in certain cases when the nature of the project permits.

This approach also means that the possibility of budget operations in forms other than a mere subsidy will be examined. For instance, repayable advances and the provision of guarantees could provide valuable support for the achievement of certain programmes or projects.

Development of these new rules could reduce budget costs while maintaining a satisfactory level of effectiveness for Community operations.

2.6 Finally, budget management can be improved by increasing transparency and regularly monitoring execution. The Commission is planning first of all to alter budget presentation in order to include information on the composition of expenditure which will clearly show to what extent the various items are definite and unavoidable (regardless of whether they are compulsory or non-compulsory) when they result from, say, commitments entered into (e.g. structural Funds) or international agreements involving definite amounts. By contrast other items of expenditure, although classified compulsory, may be adjusted each year. And then some chapters of the budget, such as the agricultural chapters, are more by way of technical estimates, even if they are compulsory within the meaning of the Treaty. As regards agricultural expenditure, the new elements in the budgetary discipline arrangements will be of significance.

To sum up, the object of this innovation in presentation will be to show the margin of manoeuvre actually available for establishing the budget.

As regards budget monitoring, the Commission has already taken steps to improve the item-by-item monthly information on execution. This will make it possible to detect at a very early stage any delays in execution, to analyse their causes and to take appropriate action in good time. By means of other internal management measures, it will also be possible to obtain smoother execution of the budget over the year.

III. The Community's financing needs

3.1 In the financial perspective 1988-92, the Commission outlined the way in which Community expenditure will develop in coming years.

Compared with previous years, two points need to be emphasized:

- these forecasts illustrate and justify the Commission's proposal for raising the own resources ceiling. In particular, they demonstrate the budgetary impact of policies already in force and new operations that the Community is to launch under the Single Act;

- they represent the first application of the Commission's proposed arrangements for budgetary discipline. This is the basis on which the budgetary authority will have to define the medium-term growth path for the annual budget exercises.

3.2 The multiannual financial perspective 1988-92 shows the practical effect of the Commission's proposed principles for giving a clear and sound basis to budgetary discipline. These principles are as follows:

- the EAGGF Guarantee allocation will grow at the same pace as the own resources base;

- the volume of commitment appropriations and payment appropriations for the entire budget will, in 1992, still be below the ceiling of 1.4% of Community GNP;

- a safety margin is still available in 1992; in terms of payment appropriations, it is even substantial (0.12% of GNP or 4 900 million ECU at 1987 prices);

- the new own resources margin is taken up gradually; in 1990, for instance, the resources necessary would be 1.28% of GNP for commitment appropriations and 1.21% for payment appropriations.

3.3 The main growth assumptions for expenditure can be summarized as follows:

- application of the maximum growth rate allowed by the budgetary discipline arrangements would result in the EAGGF Guarantee accounting for slightly over 50% of the budget in 1992 compared with 60% at the beginning of the period;

- in real terms the structural Funds would double between now and 1992 in terms of commitment appropriations; they would then account for some 25% of the budget.

- expenditure on research on the basis of the proposals for the next framework programme would represent 3% of the budget as against 2.5% at present;

- development cooperation expenditure would increase sharply at the end of the period on the assumption that the 7th EDF will be included in the budget;

- a margin is left for new policies; it will increase gradually to around 5% in 1992.

The main figures for the structure of the budget in commitment appropriations are set out in the following table.

TABLE 7 : Structure of expenditure 1987-92 - Commitment appropriations % (Mio Ecu)

	AT 1987 PRICES						
	1986	1987	1988	1989	1990	1991	1992
1.EAGGF-Guarantee		25780	26420	27090	27770	28490	29210
2.Structural operations		7230	7440	9460	10860	12450	14290
3.Other policies		2600	2990	3490	3750	4470	5010
4.Refunds and administration		7300	7620	6280	5840	5450	5430
5.New policies		0	500	1100	1700	2200	2800
6.TOTAL		42910	44970	47420	49920	53060	56740

With this expenditure pattern the average annual growth rate over the period at constant prices would be 4.8% in payment appropriations and 5.8% in commitment appropriations.

3.4 The Commission feels that this budget scenario, both overall and in the individual components, reconciles the need to develop common policies and the rigour required by budgetary discipline.

In particular, it should be stressed that the effort proposed for the strutural Funds is in line with the objective of economic and social cohesion highlighted by the Single Act. The reform of the Funds on which the Commission has embarked is intended to enhance the effectiveness of their contribution to economic convergence and to reinforce the support that they must provide to facilitate the economic adjustment required to complete the internal market.

As regards new policies, the main point at this stage is to leave the budgetary margin necessary for them to be introduced as and when required. This is notably the case for environment policy.

Finally, the allocation for the CAP can be considered adequate to safeguard the Community nature of this policy provided that the agriculture regulations and market management arrangements are adapted to correct the persistent imbalances which affect these markets.

The multiannual financial perspective is presented in greater detail in Section III of this document.

IV. The new own resources system

4.1. The Commission is proposing three major changes to the current own resources system :

(a) The new ceiling on Community revenue should be expressed in terms of GNP. In order to meet the Community's needs on the basis of the multi-annual 1987-1992 estimates which it has established, the Commission will propose that the decision on the Community's own resources should state (as a percentage of the GNP and in absolute values) the ceiling each year on the own resources that can be called in, and should do this within a ceiling of 1.4% of the Community GNP, until 1992.

(b) The composition of Community resources should be changed by means of a number of minor adjustments to traditional own resources (customs duties), alterations to the arrangements for collecting VAT resources and measures to make the resources paid by each Member State match more closely its contributive capacity.

(c) A greater degree of flexibility should be introduced into the own resources system so that it will be easier than at present to offset, within the agreed ceiling, any shortfall in one or other component of own resources.

4.2. The Commission's intention in asking that the maximum resources available to the Community up to 1992 be fixed at 1.4% of Community GNP is to ensure that the Community can obtain the funds it requires to :

- apply the common policies, notably those provided for in the Single Act which are needed to maintain economic and social cohesion;
- tackle present problems, notably as regards agricultural stocks and outstanding commitments for structural operations;
- enjoy a sufficiently long period of "budgetary security" to be able to plan the development of policies of which the principle has already been agreed.

It is essential to recall two points which have already been set out in the section on budget discipline :

- The ceiling must be respected up to 1992 in terms of both appropriations for payments and appropriations for commitments.
- The amount of the new margin taken up must rise regularly and smoothly to avoid any risk of the ceiling being reached before the end of 1992.

4.3 The establishment of a maximum amount of own resources available to the Community in terms of GNP is an important departure from the current system.

This innovation has the following advantages :

- The volume of resources is linked to the most representative indicator of economic growth. This practice is becoming more and more common in the Member States, which now define their budget objectives in terms of GNP. The Community would be following suit.

- The decision allocating the Community a given volume of budget funds would be more transparent and more secure since it would no longer be subject to the effects of erosion or instability affecting current own resources.

- It would no longer be necessary to set a ceiling for each type of resource - one ceiling would apply to the total. This would also allow greater flexibility in the composition and breakdown of resources for the Community budget.

4.4 In addition to this new arrangement for determining the limit for all resources, the Commission is proposing a number of changes to the sources of finance themselves. These will be discussed in detail later in the document.

The main objective of these changes is to introduce a degree of progessivity in some types of revenue, to diversify them and to increase the proportion of revenue collected direct from Community citizens.

4.5 At present, the Commission is proposing four types of resource :

- customs duties, with a number of changes to the present arrangements ;
- agricultural levies;
- 1% of the actual VAT base (including zero-rated products);
- additional resources obtained by applying a call-in rate, set at the level required each year to finance the budget, to an "additional base" representing the difference between each country's GNP and actual VAT base as defined above.

The flexibility of the new system proposed by the Commission would allow one of these resources (e.g. the additional base) to be reduced or replaced by a new source of revenue. If, for instance, progress towards completing the internal market made it possible or even desirable, a new form of Community taxation could be introduced based on the achievements made in harmonizing certain bases. This is why the Commission is proposing that provision be made for the possibility of other resources being introduced, if necessary, between now and 1992, still subject to the 1.4% GNP ceiling.

Since the overall limit of Community resources would be fixed, there would be less difficulty involved in determining the breakdown of these resources.

4.6 <u>Changes to the arrangements concerning customs duties</u>

4.6.1 <u>Payment to the Community of customs duties on products covered by the ECSC Treaty</u>

Only customs duties on ECSC products are not now paid over to the Community but are kept instead by the Member States.

However, the Decision of 7 May 1985 on the Communities' system of own resources provides that revenue from Common Customs Tariff duties and <u>other duties</u> established or to be established by the institutions of the <u>Communities</u> in respect of trade with non-member countries constitute own resources entered in the Community budget.

It would therefore be logical for ECSC duties to be paid into the general budget like those on all other products.

The Commission therefore reiterates the request it has already made on a number of occasions in the past and which has Parliament's support, that they be transferred to the Communities. In 1986 they were worth some 180 million ECU.

4.6.2 Dropping the 10% refund to Member States for the cost of collecting own resources

Article 5 of the Decision of 7 May 1985 on the Communities' system of own resources provides that the Communities refund to each Member State 10% of the amount of traditional own resources paid over (customs duties, agricultural levies, sugar levies) in order to cover collection expenses.

These refunds totalled 1 049 million ECU in 1985 and will be 1 240 million ECU in 1986 and around 1 300 million ECU in 1987.

They are intended to cover the costs incurred by the Member States in collecting own resources. A flat-rate system was chosen because it is impossible to determine the exact costs for each Member State. However, it must be said that the refunds constitute a neutral operation in terms of the overall financing of the Community, since to finance them merely requires an increase in the VAT call-in rate (roughly 0.07% on the basis of the draft budget for 1987).

The Commission is proposing that this 10% refund should be discontinued and would adduce the following arguments.

The Member States do incur real expenses in collecting revenue; but the system of flat-rate refunds, which cannot be replaced by direct evaluation, is not a guarantee of fairness. Eliminating a two-way cash flow would increase transparency, reduce administrative costs and simplify budget presentation. It is also worth noting that this system of refunds was not extended to VAT own resources.

Eliminating the 10% refund would involve amending the Decision of 7 May 1985. A more flexible solution might be for the Member States to waive their claim to it. However, most of them would have to obtain the approval of their national parliaments to do so.

The reduction in expenditure resulting from this measure and the breakdown between Member States is illustrated for 1987 in Table 8 below, together with figures for customs duties on ECSC products.

Table 8

ECSC customs duties and refunds of collection costs for traditional own resources
(1987 preliminary draft, in million ECU)

	ECSC customs duties	10% refunds (collection costs)	Total
B	7(1)	89	96
DK	15	29	44
D	74	318	392
GR	3	14	17
E	4	125	129
F	14	174	188
IRL	1	19	20
I	29	143	172
L		1	1
NL	9	111	120
P	4	18	22
UK	20	265	285
	180	1.306	1.486

(1) Including Luxembourg.

4.7 Changes in VAT revenue

Under the present arrangements, the key to the Community's VAT resources is a uniformly defined base to which the Community may apply a maximum call-in rate of 1.4% to finance its spending.

The advantage of this mechanism is that, in principle, the Member States enjoy equal treatment and a certain contribution is made towards the harmonization of VAT systems. However, it has the following drawbacks as regards financing the Community budget:

- VAT revenue tends to be regressive, as the percentage of GNP accounted for by the VAT base falls as the standard of living increases.

- It suffers from erosion, partly for the same reasons, which means that the call-in rate has to be regularly increased to obtain an equivalent volume of resources in terms of GNP.

- The current VAT receipts are not really own resources since there is no direct link between actual collection and payment to the Community. In fact, they are more like a national contribution based on a harmonized base, especially as they appear in the national budgets as a transfer to the Community.

The Commission is proposing two changes to the current system to remedy these shortcomings.

4.7.1 1% levy on the base actually subject to VAT

The Member States would pay the Community 1% of the base actually subject to VAT. This is the general rule which will be fully applicable once the VAT structures and rates have been brought into line under the "indirect taxation" section of the plan for completing the internal market. In the meantime there is the problem of zero-rated transactions. With an eye to the achievement of the internal market it would seem reasonable to apply the 1% levy to zero-rated goods and services. The Community would thus receive a proportion of the revenue that the Member States actually derive from the application of their VAT system.

For example, a Member State with a single rate of 14% would transfer to the Community one fourteenth of its VAT revenue. If a country had several rates - say 6%, 10% and 18% - it would pay to the Community budget - in this case - one sixth, one tenth and one eighteenth of the revenue from each of these rates.

Payments would be made to the Community as and when the tax was collected nationally, i.e. monthly as for customs duties and levies. The sums would no longer pass through the national budgets, which would merely record the balance after deduction of the direct contribution to the Community. This would enhance its nature as an own resource and establish a more direct link between the Community and all the businesses and individuals engaging in economic activity.

4.7.2 Levy on the "additional base"

Since the 1% levy on the actual VAT base is fixed, additional resources will be needed to cover the total budget each year.

Take 1987 as an example: since the VAT yield is 23 300 million ECU and application of the 1% levy to the actual base produces 17 800 million ECU, a shortfall of 5 500 million ECU would remain.

The additional funds needed to finance the budget would come from a financial contribution to be provided by the Member States by applying a uniform rate (0.29% in 1987) to a base defined as the difference between GNP and the actual VAT base used for the 1% levy.

The total GNP of the Member States would thus serve as a basis for financing the Community budget, but the call-in rates for the actual VAT base and the "additional base" would differ.

This "additional base" covers economic aggregates such as investment, part of public consumption and net exports.

Table 9 shows the breakdown by Member State of contributions from the 1% levy on the actual base and the levy on the additional base and compares these results with the breakdown under the current VAT system.

Table 9

Financing shares
(% of total - 1987 budget) 1)

	Harmonized VAT base	Actual VAT base (%) + additional base	Additional base
B	3,1	3,3	3,8
DK	2,1	2,3	2,6
D	27,6	27,9	28,1
GR	1,2	1,2	1,1
E	6,8	6,8	6,9
F	20,7	20,6	20,7
IRL	0,8	0,7	0,5
I	14,3	15,0	17,1
L	0,3	0,2	0,2
NL	5,0	5,0	5,2
P	0,8	0,8	0,9
UK	17,4	16,1	12,8
EUR-12	100,0	100,0	100,0

(1) Exchange rates of 12.1.1987

To ensure that the amounts paid each month to the Community were as closely as possible in line with Member States'actual receipts, the Commission would make an estimate of the two bases shortly before the start of the budget year, and by reference to these estimates would propose the monthly payments to be made by the Member States. A correction would be made later in the light of the bases actually established.

4.8 Overall impact of the new system on financing the budget

Table 10 shows how each country would contribute to financing the 1987 budget if the changes proposed by the Commission were already in effect.

The main point to emerge is that the overall result of the Commission's new proposals is a better match between each country's contribution to budget financing and its relative prosperity. A further advantage is that the size of the UK problem would be reduced.

TABLE 10: COMPARISON OF TWO METHODS OF FINANCING THE COMMUNITY BUDGET

(1987 budget - Provisional estimates (a))

million ECU

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	E/12
PRESENT SYSTEM													
1. TRAD. OWN RESOURCES	784	255	2808	123	1107	1533	170	1259	5	976	158	2338	11515
2. VAT (1)	770	528	6878	300	1704	5158	196	3546	63	1233	186	4322	24885
3. TOTAL (1 + 2)	1554	783	9686	423	2810	6692	366	4806	68	2209	344	6660	36400
PROPOSED SYSTEM													
4. TRAD. OWN RESOURCES	784	255	2808	123	1107	1533	170	1259	5	976	158	2338	11515
5. ECSC DUTIES	7	15	74	3	4	14	1	29	0	9	4	20	180
6. ACTUAL VAT (1%)	563	386	5025	220	1244	3768	143	2591	46	901	136	3158	18179
7. ADDITIONAL BASE	246	172	1837	70	450	1354	31	1114	11	341	62	838	6526
9. TOTAL (4 TO 7)	1600	827	9743	415	2806	6670	345	4993	62	2227	359	6354	36400
10. DIFFERENCE (9 - 3)	46	44	57	-8	-5	-22	-21	188	-6	18	15	-306	0

(1) Before Fontainebleau correction; financial contribution for Portugal.

(a) Theoretical financing, based on exchange rates of 12 January 1987.

4.9 Institutional and legal implications

4.9.1 A number of institutional and legal instruments will be required to give effect to the Commission's proposals for the new system of Community own resources and the new budgetary discipline arrangements.

This is necessary, first of all, so that the institutions concerned - Parliament, Council and Commission - can accept the content of the proposals and apply them on the basis of rules which are known in advance and which offer each of them a satisfactory balance between rights and obligations.

A second important point concerns the conditions in which the new mechanism will operate so that up to 1992 at least the budgetary procedure and budget financing will be governed by provisions already determined in their broad principles.

4.9.2 It has already been stated in the section devoted to budgetary discipline that those arrangements should be enshrired in a solemn and binding agreement between the three institutions which will form the basis for the new own resources system.

The main points of this agreement will be as follows:

- the new ceiling will be respected scrupulously until 1992 at least, in both appropriations for payments and appropriations for commitments (as too will the intermediate annual ceilings specified in the own resources decision);

- multiannual budget forecasts will be adopted presenting a regular and smooth development of expenditure over time and leaving a margin of security within the ceiling for the end of the period;

- budgetary discipline will be expressed in terms of appropriations for commitments.

- the rate of increase for non-compulsory expenditure, in both commitments and payments, will be determined at the beginning of the budgetary procedure in an agreement between the three institutions;

- the maximum rate of increase will continue to apply to non-compulsory expenditure, with the exception of that connected with the implementation of the Single Act.

This interinstitutional agreement between Parliament, Council and Commission could take the form of a joint declaration specifying the formal undertakings to which the three institutions will subscribe until 1992.

In due course the Commission will be presenting a draft that will be finalized in the "Trialogue" established by the Joint Declaration of 30 June 1982 (1).

----

(1) See point III (5) of the Joint Declaration of 30 June 1982 (OJ C 194, 28.7.1982).

4.9.3 In order to set up the new system advocated for own resources and to introduce the planned innovations (dropping of the 10 % refund of traditional own resources, assignment of customs duties on ECSC products, 1 % levy on VAT base, application of additional base, determination of gradual annual thresholds for taking up resources from 1988 to 1992, reference to the ceiling of 1.4 % of GNP, etc...), two sets of instruments will have to be revised :

a) the basic Decision (1) on the own resources system (based on Article 201 EEC) will have to be amended as appropriate. The procedure laid down will involve ratification in the Member States ;

b) the implementing regulations (2) (based on Article 209 EEC) will have to redrafted in line with the changes to the basic system.

The procedure for revising these instruments will require consultation of the Court of Auditors and Parliament and conciliation with Parliament.

Once the basic Decision has been revised to incorporate these new elements, the rules for applying the new system will be as follows :

- any change in the 1 % levy rate on the actual base will require a unanimous decision by the council after Parliament has been consulted ;
- the call-in rate to be applied to the additional base will be determined during the budgetary procedure;
- the creation of a new resource will require a unanimous decision by the Council, to be confirmed by national procedure if necessary. Parliament should also be consulted.

4.9.4 The new rigour that the Commission is recommending for the preparation and execution of the budget will entail a series of changes at two levels:

a) Revision of the general Financial Regulation (3)

It will be necessary to amend the provisions relating to the principle of annuality (changes in the rules concerning appropriations remaining and carryovers), to draft new provisions concerning reserves, adjust the provisions concerning the EAGGF Guarantee Section to replace advances by repayments, etc.

----

(1) Council Decision of 7 Mai 1985 (OJ L 128, 14.5.1985).

(2) Reg. 2891/77 of 19 December 1977 (OJ L 336, 27.12.1977).
Reg. 2892/77 of 19 December 1977 (OJ L 336, 27.12.1977). This has already been amended a number of times.

(3) Financial Regulation of 21 December 1977 (OJ L 356, 31.12.1977), for which a proposal for general revision was made on 9 March 1984 (OJ C 97, 9.4.1984).

This revision, based on Article 209 EEC, will require consultation of the Court of Auditors and Parliament and conciliation with Parliament.

b) Revision of sectoral instruments

Stricter application of the principle of annuality will mean eliminating certain sectorial provisions which allow commitment appropriations to be "reborn", virtually without any limit in time, when commitments are cancelled. These provisions are to be found in :

- the ERDF (1)
- certain EAGGF Guidance relations (2).

The revision procedure will be as laid down in each of these regulations.

---

(1) Reg. 1787/84 of 19 June 1984 (OJ L 169, 28.6.1984).

(2) Notably:
Reg. 355/77 of 15 February 1977 (OJ L 51, 23.2.1977)
Reg. 1760/78 of 25 July 1978 (OJ L 205, 28.7.1978)
Reg. 1941/81 of 30 June 1981 (OJ L 197, 20.7.1981)
Reg. 1938/81 of 30 June 1981 (OJ L 197, 20.7.1981)

V. Budgetary imbalances

5.1 The Commission would point out that the balance between Community budget expenditure in a given Member State and this Member State's contribution to the financing of the Community can in no way be taken as a yardstick of the overall benefit or even the budgetary benefit which it derives from Commnity membership.

The agreement reached at the Fontainebleau European Council in 1984 referred, however, to the concept of a budgetary burden which is excessive in relation to the relative prosperity of certain Member States. It also adopted a system designed to provide compensation to the United Kingdom and at the same time restrict Germany's contribution to the financing of this compensation.

The European Council also expressly stated that expenditure policy should ultimately be the means of resolving the problem of budgetary imbalances.

5.2 The Commission proposes that the Fontainebleau mechanism be adjusted to address essentially what is really at the root of the UK budgetary problem, i.e. the relatively small volume of Community agricultural expenditure in the United Kingdom.

This will have three consequences:

- traditional own resources are no longer taken into account in the mechanism, as befits their genuinely Community nature;

- the planned growth of expenditure on economic and social cohesion and that on new policies is intended to have a more direct influence on the United Kingdom's position; this corresponds to the option taken at Fontainebleau;

- as the plan is for the proportion of common agricultural policy guarantee expenditure to deminish, the mechanism will gradually apply to smaller amounts.

5.3 On this basis it would be agreed that the size of the British budgetary problem would be measured by comparing the UK's share of Community GNP with its share of EAGGF Guarantee expenditure. The difference would be applied to total EAGGF Guarantee expenditure.

The compensation to the United Kingdom would be defined as being equal to half of the result of this calculation.

5.4 To allow for the relative prosperity of the countries making up the Community today and the net budgetary burden already borne by Germany, the arrangements for financing this compensation would be as follows:

- the less-prosperous countries (Greece, Ireland, Portugal and Spain) would not have to contribute;

- Germany would contribute 25% of its normal share;

- the remainder would be contributed by the other countries in proportion to their relative wealth (shares based on GNP corrected by per capita GNP.

Table 11 below gives estimated figures for 1987.

Table 11 : Compensation model for EAGGF balances
1987

	Share in EAGGF % (1)	Share in GNP % (2)	Net balance (1-2)xEAGGF MECU (3)	Per capita GDP in PPA (4)	financing scale (2) (5)	Compensations (6)
B	4,78	3,26		103,9	6,02	- 61
DK	3,95	2,29		118,6	4,83	- 49
D	18,73	26,16		119,3	13,85	- 141
GR	5,58	1,25		55,0	0	0
E	4,79	7,03		74,5	0	0
F	23,54	20,47		109,8	39,91	- 405
IRL	5,20	0,67		67,6	0	0
I	14,05	15,41		93,7	25,64	- 261
L	0,01	0,22		140,6	0,55	- 6
NL	9,32	4,77		108,7	9,20	- 93
P	0,39	0,91		52,4	0	0
UK	9,65	17,53	- 2.032(3)	107,5	0	+ 1.016(1)
EUR 12	100	100	-	100	100	0

(1) 50% reimbursement
(2) GNP shares corrected by per capita GDP (for Germany 25 % of its normal share)
(3) Calculated on the basis of an EAGGF Guarantee total of 25 780 million ECU as shown in the five-year financial perspective.

5.5 The mechanism proposed above would apparently give satisfactory results - when allowance is also made for the effects of the new own resources system - both for the United Kingdom and for Germany. However, as it may be influenced by budget variables, provision should be made for verifying its operation and consequences after, say, two or three years.

5.6 This compensation could be entered in a new Chapter 84 in Title 8 of the expenditure side of the budget. The amount of compensation for the United Kingdom would be entered as expenditure and would be offset by negative expenditure for the other Member States corresponding to their shares in the financing.

Since the net result of this operation is nil, no entry would have to be made on the revenue side.

PART THREE : FINANCIAL PERSPECTIVE 1988-1992

INTRODUCTION AND MAIN CONCLUSIONS

Present preliminary Financial Perspectives for 1988-1992

- accompany and illustrate Commission's documents on new own resources, on CAP and Reform of Structural Funds ;
- expound Commission's proposal for medium range development in the light of the Single Act taking account of European Parliament's Resolution on Future Financing of the Community (23.10.86) ;
- constitute the basis for a major innovation in pluriannual forecasting: the Council and the European Parliament are invited to discuss these Perspectives with the aim of agreeing on a common pluriannual reference framework.

  Financial Perspectives would thus be transformed from a Commission policy proposal into an inter-institutional pluriannual planning document - a planning document which would reflect development of the Community and budgetary discipline ;
- serve as a framework for the 1988 budget proposals (as initially foreseen in the Council's 21 April 1970 decision on pluriannual financial forecasts 1).

Figures for the 1988-1992 Perspectives are presented using constant 1987 prices and exchange rates.

Major conclusions may be resumed as follows. EAGGF-Guarantee expenditure developing within the limits of the Guideline principle, doubling of structural Funds appropriations in real terms, promoting research and other indispensable Community policies, budgeting the 7th European Development Fund in 1990/91, providing for new Policies and correction of budgetary imbalances is liable to produce an increase in necessary appropriations for commitments of 5,8 % per year in real terms.

The budget structure will thus evolve towards a situation where EAGGF Guarantee expenditure represents scarcely more than 50 %, where Structural interventions account for 25 % and research for 3 % of total appropriations.

---

1) OJ L 94, 28.4.1970.

TABLE 1.EXPENDITURE 1987-1992 - APPROPRIATIONS FOR COMMITMENTS

in %

		AT 1987 PRICES					
	1986	1987	1988	1989	1990	1991	1992
1. EAGGF Guarantee		60.1	58.8	57.1	55.6	53.7	51.5
2. Other intervention policies		22.9	24.3	29.7	32.7	36.0	38.9
3. Refunds and administration		17.0	16.9	13.2	11.7	10.3	9.6
4.TOTAL		100.0	100.0	100.0	100.0	100.0	100.0

The necessary appropriations for payments will grow by 4,8 % per year on average, reaching a total of approximately 52.700 million ECU in 1992 (at 1987 prices).

A "constant resources policy" extrapolation shows that resources within the present limits of 1,4 % VAT would cover only three quarters of 1992 needs New resources within 1,4 % of the Gross National Product would seem both necessary and sufficient : Estimated needs correspond to a GNP rate of 1,28 %; the remaining unused resources would represent roughly 9 % of the 1992 budget which may be considered as an acceptable margin of security.

The indicated GNP rate shows that the share of the Community budget (P.A.) in Gross National Product would only raise from about 1,2 % in 1987 to roughly 1,3 % in 1992.

TABLE 2: Expenditure and resources 1987-1992 - Million ECU

	AT 1987 PRICES						AVERAGE GROWTH RATE
	1987	1988	1989	1990	1991	1992	1992/1987
1. Appropriations for Commitments	42910	44970	47420	49920	53060	56740	5.8
2. Appropriations for payments	41740	43360	45370	47110	49640	52710	4.8
3. 1 % GNP	36100	37060	38050	39060	40100	41170	2.7
4. Resources within 1.4 % GNP	50550	51900	53250	54700	56150	57650	2.7
5. GNP rate in % = (2) : (3)	1.16	1.17	1.19	1.21	1.24	1.28	
6. Margin (4)-(2)	8810	8540	7880	7590	6510	4940	

I. GENERAL ECONOMIC FRAMEWORK

1. In accordance with the approach adopted in the document on New Own resources, a five year horizon - 1992 - has been chosen for the new Financial Perspective.

   In 1992

   - the internal market should have been completed,
   - the transitional period for Spain and Portugal will have ended in the main areas,
   - several of the present major Community programmes will be completed (framework research programme, five-year allocation for EAGGF-Guidance, EDF, IMPs).

2. Policy development proposed is formulated in terms of appropriations for commitments, and budgetary discipline is also mainly considered in terms of commitments : payments are, essentially, a technical consequence of commitments and payment schemes.

3. Since inflation rates have substantially decreased during the last few years, comparisons between future and past developments in monetary terms would be misleading.

   Detailed estimates are therefore presented at constant (1987) prices.

4. 1987 figures shown in tables are, in most cases, those resulting from Council of Minister's second reading (27.11.86). Resources estimates are updated.

   Figures for 1988 are provisional. Resources estimates take account of discussions in the Advisory Committee on Own Resources' meeting of 23 January. Expenditure estimates are based on expected real expenditure in 1987 (EAGGF-Guarantee).

5. Table 3 shows the expected trend in GNP, prices and estimates for the "maximum rate of increase" concerning non compulsory expenditure.

TABLE 3 : General economic framework and maximum rate of increase for non-compulsory expenditure (EUR-12) 1987-1992. Rate of increase in %

	1986	1987	1988	1989	1990	1991	1992
A. GNP							
Volume	2,5	2,8	2,6	2,7	2,7	2,7	2,7
Prices	6,2	3,5	2,9	3,0	3,2	3,2	3,2
Value	8,8	6,4	5,6	5,8	6,0	6,0	6,0
B. MAXIMUM RATE							
Value	7,1	8,1	7,5	4,9	4,4	4,6	4,7
Volume	0,8	4,4	4,5	1,8	1,2	1,3	1,4

II. EXPENDITURE 1988-1992

Over the planning period of five years envisaged, the structure of the budget will necessarily be the object of some fundamental changes. The effect of the previous year's unsolved problems, such as depreciation of agricultural stocks, coverage of budget deficits and dealing with the cost of the past, will unavoidably absorb a significant part of new own resources in the first years of the planning period. Gradually, however, increased headroom will be developed which will allow the Community to fulfill the political intentions it has undertaken, especially through the adoption of the new policies included in the Single European Act.

Main lines proposed are

- limitation of EAGGF-Guarantee expenditure,
- reform of the Structural Funds, combined with a doubling of expenditure (C.A.) in real terms,
- implementation of the proposed Research Framework Programme,
- development of other and new policies, including environment,
- maintaining the Community GNP share spent through the budget in favour of development cooperation, and budgeting the 7th European Development Fund.

II.1 TOTAL EXPENDITURE

According to estimates detailed in following sections, total appropriations for commitments would have to increase by 5,8 % per year. This growth rate would be sufficient to cover development of policies, correction of budgetary imbalances and a specific provision for new policies (Table 4).

The budget structure would evolve towards a reduced share for EAGGF-Guarantee expenditure and increased relative importance of Structural Funds and Research expenditure; due to budgeting the 7th EDF, it would also reflect more clearly the total Community effort in Development cooperation.

II.2 EXPENDITURE BY SECTOR

1. EAGGF

a) Policy outline

Agricultural policy for the coming years will reflect the necessity to adjust CAP to the change in the general economic context and to the new market situation while at the same time safeguarding principles which are its base.

This will mean

- bringing total Guarantee expenditure under control, by following the "guideline" principle according to which expenditure growth should remain within the limits of resources growth. "Automatic stabilizers" would neutralize additional expenditure ;
- restructuring and rationalizing CAP expenditure : Encouragement of structural adjustments, concentration of measures.

TABLE 4 . EXPENDITURE 1987 1992 - APPROPRIATIONS FOR COMMITMENTS

MIO ECU

		AT 1987 PRICES						Average growth rate in %
	1986	1987	1988	1989	1990	1991	1992	1992/1987
1. EAGGF Guarantee		25780	26420	27090	27770	28490	29210	2.5
2. Structural interventions		7230	7440	9460	10860	12450	14290	14.6
3. Other policies		2600	2990	3490	3750	4470	5010	
4. Refunds and administration		7300	7620	6280	5840	5450	5430	-5.7
5.New policies		0	500	1100	1700	2200	2800	
6.TOTAL		42910	44970	47420	49920	53060	56740	5.8
Growth rate in %			4.80	5.45	5.27	6.29	6.94	

TABLE 5 . EXPENDITURE 1987-1992 - APPROPRIATIONS FOR PAYMENTS

MIO ECU

		AT 1987 PRICES						Average growth rate in %
	1986	1987	1988	1989	1990	1991	1992	1992/1987
1. EAGGF Guarantee		25780	26420	27090	27770	28490	29210	2.5
2. Structural interventions		6210	6540	8190	9170	10430	11630	13.4
3. Other policies		2450	2580	3210	3330	3770	4340	
4. Refunds and administration		7300	7620	6280	5840	5450	5430	-5.7
5.New policies		0	200	600	1000	1500	2100	
6.TOTAL		41740	43360	45370	47110	49640	52710	4.8
Growth rate in %			3.88	4.64	3.84	5.37	6.18	

Notes :

Sector (2) "Structural interventions = Structural Funds + Fisheries

(3) "Other policies" = Research, other internal intervention policies + Development Cooperation.

(4) "Refunds and Administration" = Refunds to Member States, Correction of budgetary imbalances + Administrative expenditure.

b) EAGGF-Guarantee expenditure

The provisions made for EAGGF-Guarantee expenditure over the period 1988-92 are in accordance with the budgetary discipline principle that the cost of market intervention as defined in 1984 should not grow more rapidly than own resources. The base for expenditure was probable real spending in 1987, excluding costs carried over from 1986 - i.e. a figure 2800 million ECU higher than the Preliminary Draft Budget estimate . The expenditure limits resulting from the application of budgetary discipline are given in table 6.

It is worth noting that expenditure will be incurred during the period 1988-1992 on the physical disposal of intervention stocks in public storage, or on writing-down their book value to reflect their true market value. The corresponding cost is likely to be of the order of 5 to 6 billion ECU (after allowing for savings on storage costs), depending on the disposal options chosen and their timing. This cost will have to be met within the limits imposed by budgetary discipline.

It must be underlined that the expenditure provisions for 1988-1992 are based on two essential premisses :

- that the guideline principle is applied to real expenditure in 1987 and
- that 1987 expenditure is financed 100 % in 1987, i.e. that no 1987 costs are carried over to following years.

TABLE 6: EAGGF-Guarantee expenditure 1987-1992 (at 1987 prices) in million ECU

	1986	1987	1988	1989	1990	1991	1992
1. Net expenditure (revised guide-line)		23.629	24.243	24.905	25.566	26.275	26.984
2. Sugar levies, food aid and ACP refunds		2.154	2.180	2.189	2.202	2.215	2.230
3. TOTAL		25.783	26.423	27.094	27.768	28.490	29.214
- rounded		25.780	26.420	27.090	27.770	28.490	29.210
Growth rate in %			2,5	2,5	2,5	2,6	2,5

During 1988-1992, EAGGF expenditure growth would thus be limited to about 2,5% per year.

2. FISHERIES AND THE SEA

Accession of Spain and Portugal brought a doubling of the number of fishermen and a 75 % increase in fishing capacity.

Perspectives for 1988-1992 imply

a) a growth of expenditure for market organizations, for fishing agreements and research corresponding roughly to the rate of increase of GNP, i.e. of the proposed new base of own resources ;

b) implementation of the new 1987-1997 structural plan adopted by the Council on 17/18.12.1986. In particular, this plan envisages establishment of a viable fishing fleet, adjustment of supply to demand, and alleviation of social consequences of change. Financing would comprise EIB loans and General budget allocations; for the first five years, the Council agreed on a 800 Mio ECU budget envelope (including EAGGF Guidance expenditure).

Budget commitments in constant prices are supposed to increase gradually from roughly 140 million ECU in 1988 to 200 million ECU in 1992, payments following with a lag of about two years.

3. PROMOTING COHESION : THE STRUCTURAL FUNDS

a) Policy outline

Reform proposals elaborated by the Commission in implementation of the terms of reference of the Single Act (Article 130 D) encompass the following principles :

1° Independent action by the Community, using the structural Funds and the financial instruments, must add effectiveness to national measures.

2° The Commission must ensure the coherence of national and Community measures.

3° The Funds will concentrate on four priority problems: underdeveloped regions, industrial decline, long-term youth unemployment, and agriculture.

4° Fund assistance will for the most part be organized in the form of programmes, allowing decentralization, real ex-ante socio-economic assessment, and a genuine check on effectiveness.

Joint management of programmes by Community and Member States following these lines will make it easier to cancel appropriations when expedient.

5° In the steps it takes to assist structurally underdeveloped regions the Commission will seek to promote the mobilization of the national, regional and local resources available.

The bulk of Regional Fund assistance and almost half of the resources of the Social Fund will be allocated to these regions.

6° Certain measures currently financed by the EAGGF-Guidance Section, such as drainage or rural infrastructure projects, should now be dealt with solely by the Regional Fund or the Community loan facilities.

b) Expenditure forecasts

Taking account of the crucial role of Structural Funds for cohesion, Commission proposes a doubling of real expenditure for the Funds until 1992 (Commitment appropriations).

Forecasts are based on the following hypotheses concerning implementation of this overall principle :

Pending reform of the funds, 1988 commitments would increase by 3 % in real terms. This rate is very close to what was envisaged in last year's "Financial Perspective 1987-1990" for the Social Fund (roughly 3 %) and the Regional Fund (about 2 % at constant prices).

After the reform, Commission and Fund beneficiaries will be able to manage and absorb substantially increased aid. In order to compensate for the very modest increase in 1988 and still achieve doubling within five years, it is proposed to make a particular financial effort in 1989 (+ 28 %). Growth rates in subsequent years would be about 15 % per year.

4. RESEARCH

Article 130 I (EEC) introduced by the Single Act provides that :

" 1. The Community shall adopt a multiannual framework programme setting out all its activities. The framework programme shall lay down the scientific and technical objectives, define their respective priorities, set out the main lines of the activities envisaged and fix the amount deemed necessary, the detailed rules for financial participation by the Community in the programme as a whole and the breakdown of this amount between the various activities envisaged.

2. The framework programme may be adapted or supplemented, as the situation changes."

Forecasts reflect the Commission's Framework proposal for 1987-1991 (7735 millions in current prices). This proposal gives particular weight to information technologies, energy and application of new technologies in industry, telecommunications and quality of life.

1992 is supposed to be a transition year with a somewhat lower level of appropriations.

5. OTHER INTERNAL INTERVENTION POLICIES

Appropriations for all other internal intervention policies such as the environmental policy, Mediterranean programmes, transport, energy and industry, have been grouped together under this heading.

Corresponding total commitments (and payments) are supposed to grow by approximately the maximum rate for non compulsory expenditure. Development of new activities linked to implementation of the Single Act may draw on the provision made for new policies (point 9).

6. DEVELOPMENT COOPERATION

Almost 50 % of General Budget appropriations for Development concern food aid. Estimates are based on the hypotheses that

- the relation between Community (including EDF) and national development effort will essentially remain unchanged,
- the share of Community budget commitments in GNP remains constant,
- corresponding to intention of Commission and repeated requests of European Parliament, the European Development Fund will become part of the General Budget.

  Figures imply budgeting the next (7th) EDF. This item explains a sharp increase of appropriations in 1991-1992.

Since factual expenditure will depend on negotiations with countries concerned, the figures proposed must be considered as very provisional estimates.

7. REFUNDS TO MEMBER STATES

Figures under this heading cover essentially

a) from 1987 to 1991 : An estimate of reimbursements in favour of Spain and Portugal according to Articles 187 and 374 of the Accession Treaty - a decreasing part of VAT and complementary contributions :

   1987 : 70 % ; 1988 : 55 % ; 1989 : 40 % ; 1990 : 25 % ; 1991 : 5 % ;

b) from 1987 to 1989 : a 250 million ECU per year reimbursement of advances paid by Member Countries in 1984 ;

(In conformity with the Commission's proposal on own resources, it is supposed that the 10 % refund of customs duties, agricultural and sugar levies will be abrogated).

8. ADMINISTRATIVE EXPENDITURE

Expected growth of administrative expenditure (all Institutions) reflects a very modest increase in real terms of about 1 % per year on average.

9. NEW POLICIES

Additional appropriations have been earmarked for new policies. These may be intrinsically new or they may simply be a strengthening of certain specific aspects of existing policies. Two areas should be taken into account:

(a) The completion of the internal market will inevitably engender new expenditure. If the main objective of a better allocation of factors of production is attained, the result should of course be more vigorous growth and a better employment situation. But another effect could also be a loss or a slackening in cohesion (social and regional aspects of the completion of the internal market), in that an improved allocation of factors generally causes a certain shift towards the more dynamic regions. Some of the additional resources which will be generated by the higher macroeconomic growth rate should therefore be assigned to the Community budget so that it will be possible to attain the objectives of the Single Act as regards cohesion by restoring the balance between the regions in the allocation of the positive effects of growth that should be produced.

(b) The transnational nature of environment problems will call for Community action. This will mainly take the form of regulations. The distribution between Member States of the cost of these regulations will probably not be the same as the distribution of the benefits. It is therefore natural that the Community should introduce appropriate policies to achieve a better match between the costs and benefits of such an environment policy.

The figure of 5% of commitment appropriations earmarked in 1992 for new policies should give the Community institutions the necessary flexibility to provide an appropriate response to the problems set.

10. CORRECTION OF BUDGETARY IMBALANCES

Estimates given (and expressed in terms of their expenditure equivalent) are necessarily very provisional, they do not prejudge a decision on the correction mechanism to be adopted.

III. RESOURCES FOR 1988-1992

Table 7 shows 1988-1992 forecasts.

a) Part I of the table gives results of a "constant policy forecast" : Evolution of existing own resources within the limits of 1,4 % of VAT.

The basis of the forecast is a provisional revision of the 1987 own resources. The figures for 1988 are, in current prices, exactly those adopted by the ACOR (Advisory Committee on Own Resources) at its 23 January 1987 meeting. They are therefore provisional. The final figures should be fixed at the ACOR meeting at the end of April to be entered in the Preliminary Draft Budget for 1988.

Customs duties and the total of agricultural and sugar levies are liable to decrease at constant prices. Estimates concerning customs duties take account of a further reduction in tariffs as a consequence of the Uruguay-Round and of progressive integration of Spain and Portugal. Estimates concerning agricultural levies envisage a reduction of EUR-10 cereals imports, they take account of the fact that from 1991,Portugal will have to pay in all agricultural levies. Average growth of VAT receipts corresponds to the growth rate of GNP ; the 1989 figure takes account of Portugal's changing to VAT.

The total of resources within the present limit of 1,4 % VAT increases by about 1 % per year, i.e. a bit more than a third of the rate of growth of GNP. Constant policy resources would thus reach about 39.700 million ECU in 1992 - an amount which would cover only 75 % of needs in terms of appropriations for payments.

b) Part II of the table gives extrapolations of 1987 figures under the following theoretical conditions :

1° total available resources 1988-1992 are a constant percentage of GNP ;

2° a constant GNP percentage equal to

- either the factual own resources/GNP relation in 1987 - case of line II.a. By definition, resources thus obtained for 1987 correspond to resources within the limit of 1,4 % VAT. In later years, resources growth equals growth of GNP. The 1992 result is 43.110 million ECU - i.e. roughly 9 % more than the "constant policy" figure. In other terms : the fact that present own resources grow less than GNP costs about 9 % of resources in 1992 ;

- or the factual expenditure/GNP relation in 1987 (roughly 1,2 %) - case of line II.b. In this case, the 1992 result lies about 25 % above the "constant policy figure", but it is not sufficient to cover 1992 expenditure needs.

c) Part III. shows evolution of resources within the 1,4 % GNP limit proposed. The corresponding estimate for 1992 is 57650 million ECU.

Comparison with evaluation of expenditure shows that with the 1,4 % GNP limit

- 1992 appropriations for commitments would represent 98 % of resources,

- 1992 appropriations for payments would consume some 91 % of resources (= 1,28 % of GNP), leaving an unused margin of 9 % or roughly 5000 million ECU.

TABLE 7 : Evolution of Own resources 1987-1992 - MILLION ECU

	1986	At 1987 prices						Average growth rate in %
		1987	1988	1989	1990	1991	1992	
I. Constant policy Forecast								
1. Customs duties		8661	8994	8730	8447	8153	7840	-2.0
2. Agricultural and sugar levies		2995	2791	2751	2713	2824	2785	-1.4
3. 1.4% VAT		25851	25936	26692	27328	28032	28753	2.2
4. Miscellaneous		274	279	285	290	296	302	2.0
5. Total within 1.4% VAT		37781	38000	38458	38778	39305	39680	1.0
- rounded		37780	38000	38460	38780	39310	39680	1.0
- growth rate%			0.6	1.2	0.8	1.4	0.9	
II. GNP limit								
a) roughly equivalent to 1987 resources: 1.047%		37800	38810	39820	40910	41990	43110	2.7
b) equivalent to 1987 expenditure (1,2%)		43330	44490	45640	46890	48130	49410	2.7
III. Proposed 1.4% GNP limit (rounded)		50550	51900	53250	54700	56150	57650	2.7
- growth rate %			2.6	2.7	2.7	2.7	2.7	