Thirty years after the Treaty of Rome ….

MAKING A SUCCESS OF THE SINGLE ACT: A NEW FRONTIER FOR EUROPE

…. Europe at the crossroads

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The signing and forthcoming entry into force of the Single European Act and the accession to the Community of Spain and Portugal (following that of Greece in 1981) have brought with them fundamental changes in the structure of the Community and the obligations of the Member States. The Single European Act improves significantly the institutional system and sets new objectives for the Community, notably the completion of the internal market by 1992 and the strengthening of economic and social cohesion. The realization of these two objectives will also respond to the hopes and needs of the countries which have just joined and which rightly expect that their involvement in the Community should underpin their development and help raise their living standards through a combination of their own efforts and support from their partners.

In order to succeed in its new responsibilities, the Community must first complete the reforms it has started, especially since 1984, with the aim of adapting its old policies to the new conditions: the reform of the common agricultural policy to take account of new production and trade conditions, the reform of the structural funds to make of them instruments of economic development, and the reform of the financing rules to ensure a budgetary discipline as rigorous as that which the Member States impose upon themselves.

Once these reforms have been implemented, the Community will have to have the resources needed to be in a position to achieve the objectives of the Single Act.

By amending the Treaty of Rome in this way, the Member States have set a new frontier for European integration. They have made a qualitative leap forward which must be turned to good account to equip our economies so that they can meet the challenges from abroad and return to more vigorous economic growth, which will create more jobs.

For this reason, the Commission feels that it should set out the conditions that must be met if this great venture is to succeed. This is the thinking behind the proposals it is laying before the Council and Parliament, and these have a medium-term context, looking towards 1992 as the date by which the large market, without internal frontiers, will be complete.

I. THE CONDITIONS FOR SUCCESS

1. A common economic area
2. More vigorous economic growth
3. Greater effectiveness on the part of the institutions
4. Strengthened budgetary discipline
5. A common external economic policy

1. A common economic area

In political terms, this is not a new idea. Article 2 of the Treaty of Rome provides that the Community should promote "throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability/and/an accelerated raising of the standards of living".

In economic terms, it is self-evident that a large market without internal frontiers cannot be completed or operate properly unless the Community has instruments enabling it to avoid imbalances interfering with competitiveness and inhibiting the growth of the Community as a whole.

In other words, the ship of Europe needs a helmsman. The large market without internal frontiers cannot, on its own, properly be responsible for the three main functions of economic policy: the quest for greater stability (the fight against inflation and external imbalances), the optimum allocation of resources to obtain the benefit of economies of scale and to stimulate innovation and competitiveness, and the balanced distribution of wealth allowing for individual merit.

2. More virorous economic growth

This is one of the reasons why a cooperative growth and employment strategy was proposed in 1985 enabling more rapid development of activity and employment to be achieved throughout the Community, through the specific contributions of each country.

This strategy is still relevant, given the rather disappointing results achieved by our economies, despite the stimuli from the fall in oil prices, and, initially, the decline in the dollar. The strategy is needed all the more because it would make it possible, as a result of the additional wealth created, to provide substantial assistance to each country in carrying through the necessary adjustment to the large market and the new world economic pattern.

3. Greater effectiveness on the part of the institutions

The Council should, as foreseen in the Single Act, make full use of qualified-majority voting, the Commission should at last be given the powers that it has been denied so far and Parliament should assume full responsibility as co-legislator in the co-operation procedure.

4. Strengthening budgetary discipline

When the member countries are keen to limit their budgetary expenditure and cut public deficits and, in some cases, to lower taxes, it is no easy task to persuade public opinion that the Community needs more money. It is true that the EEC is growinhg fast and therefore needs practical policies to reach the new frontier proposed by the Single Act. It is true that the substitution effect is important - what is spent by the Community often represents sums saved in the national budgets. More than this, every single ECU which is well spent jointly by the Twelve can yield more than equivalent national expenditures.

In presenting this new plan for budgetary discipline, the Commission is drawing on the experience gained in 1985 to 1987 and correcting the defects of the present system: the disintegration of the decision-making process; the lack of control over commitment appropriations and the difficulty in getting agricultural expenditure under control (while emphasising, on this last point, the major role played by an entirely unpredictable external parameter: the extreme volatility of the dollar).

5. A common and strong external economic policy

The European Community is the world's leading trading power.

The Community is also the most open trading unit in the world. Although the Commission believes that the Community must go further in helping the developing countries, it can only reject attacks from elsewhere. Especially from countries whose protectionism is sometimes not even disguised.

There will be no tangible progress in European integration if the Community does not speak clearly to the outside world, with strength, courage and magnanimity. This is an aspect of Community life which is all too often neglected or even ignored. In fact the Community will prove its mettle, also, in the way it resists the wrong kind of pressure, but yields to those in real need.

II. REFORMS NEEDED

1. Further reform of the common agricultural policy
2. Reform of the Structural Funds
3. Reform of the Community Budget

1. FURTHER REFORM OF THE CAP

Reasons for further reform

1. Over the last few decades there has been much technical progress which has led to a sometimes spectacular increase in agricultural productivity, not only in the Community and the other industrialized countries but also in some developing countries. This has led to a growing divergence between production and consumption trends for agricultural products.

2. This long-term tendency is currently leading to the build-up of agricultural surpluses and fiercer competition on world markets, and sometimes to major commercial conflicts. This means continuous pressure on agricultural prices, both inside and outside the Community, and an appreciable increase in agricultural expenditure.

3. At the same time, owing also to the various enlargements of the Community, the diversity of Community agriculture has increased, as between both different types of farming and different groups of farmers.

4. However, the great diversity of farming situations should not make us forget what they have in common: more than elsewhere, European agriculture is characterized by a great preponderance of family farms, often quite small in size. This "European farm model" cannot be abandoned. Agriculture covers some two thirds of the Community's land area and, given Europe's high population density and the sometimes worrying degradation of the environment, farming must now have an active role to play in environmental protection and nature conservation.

REFORM OF THE CAP OBJECTIVES:

a) Controlling production
b) Stabilizing EAGGF guarantee expenditure
c) Reducing stocks and financing the transition
d) Preserving a European agricultural model where most farms are family farms
e) International cooperation

a) Controlling production

- a restrictive pricing policy
- a less permanent and more selective intervention
- quotas and guarantee thresholds to be fixed at levels which will bite
- a greater degree of producer co-responsibility
- externally, a concerted action for greater discipline in production and trade

b) Stabilization of EAGGF guarantee expenditure

- complying with the budget ceiling for the CAP (except for funds to cater for unforeseen circumstances): maximum growth in guarantee expenditure by virtue of such budget discipline would lead to it taking slightly over 50% of the budget in 1992 as against 60% at present;

- application of budgetary stabilizers (for instance, production thresholds, co-responsibility) making possible:

  . either the reduction or elimination of additional expenditure

  . or the generation of extra revenue to make up for additional expense.

c) Reducing stocks and financing the transition

The aim is to run down existing stocks of livestock products (butter, skimmed-milk powder, beef) to reasonable levels by 1989.

The cost of this operation would be around 5 000 million ECU, including 3 200 million for butter.

One way of covering this expenditure would be to find a method of financing the transition by separating the physical storage and the reimbursement of Member States (removal from storage in 1987 and 1988, reimbursement from 1989).

d) Preserving a European agricultural model where most farms are family farms

A socio-structural policy to:

- guarantee a fair standard of living for the poorest farmers;

- form a framework for measures at national level, so that they will not conflict with the Community policy concerned;

- by varying the contribution to the Community budget, in accordance with each country's level of economic development, ensure more balanced possibilities for action as between Member States;

- ensure greater transparency as regards the close connection between market support and income support.

This is an objective which must be held to firmly, as its aim is to reinforce measures for income support, which is necessary in order to allow for the consequences of the adjustments to the common agricultural policy, especially those resulting from the greater degree of rigour necessary in the management of prices and markets.

This is why the GUIDANCE function of the EAGGF must be brought into greater balance with the GUARANTEE function, both politically and budgetarily. In this way the CAP's crucial role in ensuring greater cohesion within the Community can be guaranteed.

The socio-economic fabric of many Community regions depends on farming.

The farmer plays a number of roles: the main one is to produce foodstuffs, but this can be done only if his production methods do not conflict with:

- market balance

- safeguarding the environment.

Greater flexibility must be encouraged in farmers' choice of crops or products, and production methods must be changed to take ecological factors into account.

The future of European agriculture, including the budgetary framework to be set at Community level, will to a large extent be determined by these twin functions.

In order that the available support instruments may be made as effective as possible, socio-structural measures must be concentrated primarily on farmers in mountain and hill and less-favoured areas.

A Community framework for national aids is necessary for optimum convergence between policies designed at national level and the Community's socio-structural policy.

e) International cooperation

The Community is the world's largest importer of farm products and its second largest exporter. It is not alone in facing a growing imbalance between supply and demand and ever larger stocks which it is difficult to dispose of. Only through concerted action with our partners can we hope to deal with the problem of erratic prices on world markets, aggravated by monetary factors which lie quite outside agriculture and therefore cannot be handled by agricultural policy measures alone.

The Community must therefore vigorously maintain its right to pursue and develop an agricultural policy meeting the requirements of economic efficiency, solidarity and management of the countryside. It is also entitled to ask for more consistent behaviour on the part of its trading partners. It must, however, also resist the lure of protectionism. The rate of growth of the Community economy is largely dependent on trends on world markets. Any approach ignoring this fact will be of little benefit, even from the point of view of the farming sector alone. There would inevitably be a reaction which would be harmful to our agriculture, whose future depends not only on European policy decisions but also on developments in the world at large.

2. REFORM OF THE STRUCTURAL FUNDS

a) The objectives of action concerning structures

1. Levelling up of backward regions
2. Conversion of declining industrial regions
3. Long-term unemployment
4. Employment for youth, especially first jobs
5. European agriculture tomorrow

b) Geographical concentration of effort

c) Means suited to the ends

d) From projects to programmes

REFORM OF THE STRUCTURAL FUNDS

The reasons for reform

- The European Single Act associates closely the objective of the large market with that of strengthening economic and social cohesion. It also emphasizes (Art. 130 b) the key role to be played, in this connection, by the Community's structural instruments (the European Agricultural Guidance and Guarantee Fund, the European Social Fund, and the European Regional Development Fund).

- For the completion and proper operation of the large market entail a further effort by the Community to help regions lagging behing (now more numerous, Spain and Portugal having joined), industrial redeployment areas, those classes and groups of people suffering most from unemployment, and farmers most affected by the reform of the CAP. This effort will require a higher level of funding.

- The Community arrangements for action with regard to structures are defective and far-reaching changes are required: the dispersion of schemes over a multitude of small projects the impact of which is difficult to assess, the fact that many regulations interact but in ways which it is impossible to assess, and the lack of a multiannual budgetary planning are factors, among others, which inhibit the efficiency and political impact of intervention.

- Carried out at the same time as the liberalization of flows of goods, services and capital, the reform of the structural funds will also benefit the economies of the Member States due to the overall improvement of the European economy.

- The Commission is therefore proposing a general reform hinging on three closely related aims:

  - that of pinpointing and concentrating objectives,
  - that of stepping-up funds available,
  - that of rationalizing intervention methods.

a) The objectives of structural intervention

The reform must concentrate on five main lines of action, under a 1988-1992 programme. These illustrate the Community's political determination to work towards a single economic area.

1. **Levelling-up of backward areas**

This covers all of Portugal, Ireland and Greece, certain regions of Spain, of the South of Italy and of Northern Ireland, and the French Overseas Departments. These regions represent about 20% of the population of the Community.

Development support programmes (drawing upon the experience of the IMPs) will be used as a reference guide for Community intervention.

They will cover, in particular: investment aid (productive investment, infrastructure, energy), vocational training and schemes facilitating geographical mobility, and action to develop endogenous potential (e.g. aid to small industry).

Financial aid from the three funds will take the form of subsidies with higher rates of participation (in particular, the ERDF). Loans will supplement the subsidies.

2. **Conversion of declining industrial regions**

Community intervention will supplement national schemes in the areas where structural unemployment is high, and there is heavy dependence on traditional industries undergoing far-reaching restructuring (steel, shipbuilding, cross-frontier areas, etc.).

Community intervention will help to revitalize the economic fabric by aid to productive investments, by the promotion of an environment favourable to the development of new activities, by vocational training and aids to employment. ERDF and Social Fund subsidies will top up loans and resources made available by financial engineering.

3. <u>Long-term unemployment</u>
and
4. <u>Facilitating employment for young people, especially first jobs</u>

The Community's approach will be very selective and will be concentrated on the long-term unemployed having the most serious problems to contend with, in all Community member countries. Special attention will be given to helping young people to find work, especially first jobs.

The measures co-financed cover both vocational training and geographical mobility, under schemes for the development of small industry, cooperatives, job-creating initiatives or the introduction of new technology.

5. <u>European agriculture tomorrow</u>

Community action will concern all the Member States and will be concentrated on the groups of farmers most affected by the reform of the CAP, especially small farmers.

The schemes will include:

- income supports for farmers most hurt by the reform of the CAP;

- promotion of mobility and agricultural "extensification";

- the creation of a satisfactory socio-economic fabric in the mountain and hill and less-favoured areas;

- the safeguarding of the environment;

- the development of guidance services for farmers.

b) Geographical concentration of effort

To maximize the impact of structural intervention, the Commission is proposing a significant effort to concentrate the overall budget appropriations for the structural Funds on schemes helping the less-favoured regions to catch up:

- all of Portugal, Ireland and Greece,
- certain regions of Spain and the South of Italy,
- Northern Ireland,
- the French Overseas Departments.

The ERDF resources earmarked for these regions may reach 80% of the total.

This geographical concentration would cover about 20% of the population of the Community.

c) Means suited to the ends

The Commission is proposing to establish four operational principles:

- the doubling, in real terms of the structural Funds by 1992 in appropriations for commitment. Their share of the budget would thus be brought to about 25%, against the present 16%;

- wider and more judicious use of loan and finance facilities;

- implementation of multi-annual budgetary planning, within the constraints of "budgetary discipline";

- more rigorous management of the budget.

d) From projects to programmes

The main vehicles of structural Fund intervention will be the programmes.

The programmes will gradually replace the small projects which would entail dispersion of structural Fund resources and seriously inhibit their efficiency. They will be worked out through close collaboration with the national and regional authorities and there will be contracts between the Community, the Member States and the regions. Based on preparation, follow-up, and joint assessment of the schemes, the programmes will thus build up a genuine partnership.

A detailed description of procedures for the reform of the three structural Funds will be given in an overall proposal after the Single Act has entered into force. This proposal will recommend the necessary transitions between the present situation and the organization aimed at by the reform by 1992, for example the participation of the Funds in the implementation of the Integrated Mediterranean Programmes.

3. REFORM OF THE COMMUNITY BUDGET

a) Sufficient and stable resources until 1992.

b) A fairer pattern of contributions from the Member States.

c) Strengthened budgetary discipline.

d) Rigorous management, "transparent" and properly monitored.

a) Sufficient and stable resources until 1992

The current system, established in 1970 and brought up to date at Fontainebleau in 1984 has exhausted its power: revenues are decreasing proportionally, while the setting up of the Single Act requires a capacity for action sufficient for the Community of Twelve.

The objectives are

- to ensure a period of "budgetary stability"
- to organise a greater stability of receipts
- to introduce more flexibility in the combination of resources.

The means proposed by the Commission are:

a) An overall ceiling: valid until 1992: 1.4% of GNP of the Member States (that is "budgetary security" for five years)

b) New resources

1. The traditional resources: customs and agricultural levies

   - including duties on ECSC products,
   - the flat-rate 10% reimbursement to the Member States to cover costs of collecting the own resources to be discontinued.

2. Two new types of revenue to replace the VAT levy based on a harmonized basis of assessment:

   - a 1% levy on the basis actually attracting VAT, that is to say on the VAT actually collected by the Member States and paid directly to the Community,

   - a revenue deriving from an additional base linked to the difference between the GNP and the actual VAT base for each Member State.

   - a fifth resource could possibly be brought in to complete the system.

b) A fairer pattern of contributions from the Member States

1. The Commission shall maintain its refusal on principle to generalize the system of budgetary payments.

2. It is proposed to replace the Fontainebleau mechanism by a "green key" correction based on the gap between the United Kingdom share in Community GNP and its share in agricultural guarantee expenditure. The correction to cover 50% of this gap.

   The Community's four least prosperous countries (Portugal, Greece, Ireland and Spain) will not be required to contribute to the financing of this correction. The other countries will contribute by direct payments according to a key related to GNP per inhabitant.

   The contribution of the Federal Republic of Germany to the financing of the correction in favour of the United Kingdom shall be 25% of the normal financial contribution, in order to take account of the situation.

c) Strengthened budgetary discipline

The facts: budgetary discipline is necessary, but is only feasible with a clear and prior agreement by the three institutions on budgetary procedure.

A contractual basis: a five-year agreement between Parliament, the Council and the Commission

The principles:

1. compliance with the ceiling: 1.4% of GNP and annual fixing of intermediate ceilings

2. control of agricultural expenditure

   a) continued reform of the CAP in order to control agricultural production which is a pre-requisite for the efficient control of agricultural expenditure,

   b) limitation of the increase in EAGGF guarantee expenditure in proportion to the rate of increase of the own resources base (using budgetary stabilizers),

   c) rigorous application of existing restrictive mechanisms (quotas, co-responsibility, limitation on subsidies),

   d) "multiannual perspective" submitted annually to Parliament and the Council,

   e) "budgetary discipline" and the ceiling on the own resources will apply to the appropriations for commitments and the appropriations for payments.

3. The rate of increase of non obligatory expenditure (appropriation for commitment, payment appropriations) shall be fixed at the beginning of the budgetary procedure.

4. There shall be no exceeding this rate of increase of N.O.E. except for enactment of policies linked to the Single Act by agreement between the three institutions;

5. The multiannual budget forecasts shall constitute an important tool which will assist the maintenance of budgetary discipline.

d) Rigorous management, "transparent" and properly monitored

(by the Community institutions, and the government and local government departments)

<u>Objectives</u>:

a) firm adherence to the annuality of the agreed budget.
b) "transparency" of credits.
c) efficient management.

<u>Means</u>:

a) avoidance of over-budgetization of budget headings;

- permanent global reserve for shortfalls under other headings

- present reserve function, but with transfer to other headings in autumn of each year.

b) strict compliance with the principle of annuality

- inscription of credits taking into account the possibility of execution and absorption by the beneficiaries,

- any unused or unreallocated appropriation to lapse,

- justification at the beginning of the year of appropriations maintained

c) improving monitoring of budgetary measures:

- Commission reports to the Budgetary Authority on the execution of the schedules announced at the time of the adoption of the budget.

- verification and, where appropriate, cancellation of dormant commitments

d) systematic examination of the effectiveness of Community intervention in terms of objectives.

e) respect for annual ceilings of own resources; the multiannual forecasts will become a tool for management and budgetary discipline.

SUMMARY