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The Single Act: A new frontier for Europe

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The Single Act: A new frontier for Europe

Introduction

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 trends, creating 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

Before examining the reforms already under way or that have to be undertaken in order to implement the Single Act, it would be useful to review briefly the prospects before us and the conditions governing success. It is hardly necessary to point out that this 'new frontier' entails the simultaneous implementation of the six policies highlighted by the Single European Act:[1] the establishment of a large market without internal frontiers, economic and social cohesion (in other words greater convergence as regards both the methods used and the results obtained), a common policy for scientific and technological development, the strengthening of the European Monetary System, the emergence of a European social dimension and coordinated action relating to the environment. It is easy to show that these policies have to go hand-in-hand if the single economic area is really to be achieved, which is the only outcome compatible with the overriding idea of European Union, as formally restated in the preamble to the Act. And our efforts will never be crowned with success unless we also have a common, strong and coherent external policy.

A — 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 standard of living'.

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

Let us be quite clear. This does not mean transferring all powers in the fields of economic and social policy to the European level. But experience has shown that it is impossible to achieve freedom of movement of persons, goods, services and capital without a common exchange-rate discipline and without increased cooperation between national policies. The recent difficulties of the European Monetary System are proof enough of this, if proof were needed.

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.

Thus it is, for example, that the Community will this year take the final step as regards the liberalization of capital movements. The implementation of this step implies strengthening the European Monetary System in such a way as to enable capital markets to be regulated and imbalances to be corrected. Likewise, it will be necessary at the same time to ensure, for the purpose of fair competition, that the basic rules regarding banking legislation and supervisory standards are harmonized. Lastly, national monetary policies should be mutually compatible so that this common financial area is as stable as possible.

A further example drawn from past experience: the economic integration brought about by the large market will entail considerable economic benefits. However, all regions of the Community ought to be able to share progressively in these benefits. It is no easy matter to bring the fruits of progress to all, whether as regards technical progress, the effect of competition in bringing cheaper and better quality goods and even as regards the financial innovations that are essential for investment and development. It is for this reason that the 'transparency' of the large market should be facilitated by supporting the efforts of regions with ill-adapted structures and those in the throes of painful restructuring. Community policies can be of assistance to these regions, which in no way absolves them from assuming their own responsibilities and from making their own effort. The Commission has conceived the 'structural' policies in this spirit, firmly resolved that they should have a genuine economic impact and that they should not consist merely of budget transfers, which would be far too costly and inadequate as well.

To put it plainly, Community instruments must cease to be seen as mere elements in a system of offsetting payments. Their role is the central one of bringing about the convergence of national economies alongside and in harmony with national and regional policies.

[1] Supplement 2/86 — Bull. EC.

Community action must be more closely related to real economic circumstances and there must be closer cooperation between national policies: it is on the basis of these two conditions that we can hope to reap all the benefits—for all concerned—of a large market without internal frontiers. But in striking to the heart of the problem, i.e. by leaving the fullest scope for decentralized measures, the 'new frontier Community' has greater need of selective incentives and schemes than of any further proliferation of intervention and regulations. Common sense dictates and the large market demands that it be so.

If Community action and decentralization are to be effectively reconciled, a number of adjustments are proposed. These include:

(i) as regards the large market, the most important measures should be selected to ensure that the necessary impetus is provided, such as the liberalization of public contracts and capital movements. The principle of mutual recognition of standards and rules should be adopted in the place of an endless and fruitless search for agreement on common standards and rules;

(ii) as regards the control of national aid schemes and the objective of cohesion, the necessary steps should be taken to ensure that the conditions for fair competition are met, and in this context to take account of the level of development of the regions to show the flexibility necessary to take account of the evaluation of the local context;

(iii) the concept of 'programme' should replace, for the most part, that of 'projects'. Rather than being responsible for the management of thousands of dossiers, the Commission would fix its attention, as is the case with the integrated Mediterranean programmes,[1] on supplementing the efforts of the multiannual programmes drawn up by backward regions and regions undergoing restructuring;

(iv) social policy should be concentrated on one or two main priorities and the Community should now avoid a wide scatter of individual schemes born of a plethora of objectives and criteria. But these priorities should become the building blocks of Europe and effective sources of innovation, and should be perceived as such by their beneficiaries and by public opinion. What is the central issue, the most harrowing problem that faces us?—unemployment. The Community must show through the implementation of two major policies that it is able to help solve this problem; on the one hand, through a specific policy aimed at helping young people to find their first job and, on the other hand, by taking measures to tackle actively long-term unemployment.

B — More vigorous economic growth

The Commission is not afraid of disequilibria which the introduction of the large market could entail. But it has been studying the Community's short history—with its successes, but also its failures, with its ambitious ideas, but also the obstacles which have hampered their implementation—and its conclusion must be that a background of weak economic growth has severely inhibited progress. 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.

This is not a question of legislation, although the Council's decision of 18 February 1974 on convergence will have to be reviewed.[2] This decision, it must be recognized, has not lived up to the expectations of its authors. Indeed, it has got bogged down in routine and sterile procedures. What is really at stake is political will and economic imagination. Are the member countries really determined to go beyond their short-term view of the situation and outdated concept of independence with regard to economic and financial decisions? Will they be reasonable enough to discern and accept the network of interdependence of which their own activities form part and will they be in a position to turn this situation to best account by a sort of 'positive sum' game?

In addition, the slowdown in world trade over the past decade makes it more necessary than ever to exploit the internal potential for growth within the Community. This is what is at stake in the effort to achieve completion of the large internal market.

[1] OJ L 197, 27.7.1985; Bull. EC 7/8-1985, point 2.1.106.
[2] OJ L 63, 5.3.1974.

C — Greater effectiveness on the part of the institutions

The word 'routine' was mentioned in the context of the 'convergence of economic policies'. This word can be applied to Community life in all its aspects, Europe takes the wrong decisions too late and is rarely able to implement effectively what decisions it takes. And this has spawned a paralysing and over-interventionist process of bureaucratization.

The Single Act sets out to remedy these shortcomings. Even so, the will must be found to implement it in the right spirit. Failing this, Europe will never recover from its congenital disease: a succession of good resolutions that sink into the sands of long drawn-out and sometimes inconclusive deliberations. In order to escape from the morass, the Council should 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 cooperation procedure.

Indeed, the true interests of Europe demand that one should go even further in improving the effectiveness of the institutional triangle composed of the Council, Parliament and the Commission. This is particularly true as regards the budget, if revenue and expenditure are to be brought under greater control, thereby fulfilling the objectives of the Single Act whilst ensuring that the European taxpayer's money is put to the best possible use. The Commission is making a number of proposals as regards budgetary discipline which should not reactivate the institutional squabble. In other words, it does not wish, for the moment, to add to the difficulties of 'le grand rendez-vous' on the implementation of the Single Act, but it is convinced that the day will come when the provisions of the Treaty will have to be revised to enable the Commission, in the manner of the 'cooperation' procedure, to assume fully its initiative-making role and to involve the Council and Parliament as equal partners at every stage of the budget procedure.

However, the Council should, without delay, tackle its own internal workings in order to put right what has to be recognized as the disintegration of the decision-making process. To return to the question of the budget—there is at present no arbitration body within the Council, which is one of the reasons for the failure of the budgetary discipline procedure adopted at Fontainebleau in June 1984.[1] Each Council is at liberty to adopt its own positions and its own measures. The Agricultural Council has a relatively free hand as regards its policy and the expenditure that results therefrom. The Council of Ministers for Economic Affairs and Finance, for its part, determines the maximum level of expenditure... but it is the Budget Council that is responsible for actual implementation in an acrimonious and often not very dignified quarrel with Parliament. No political entity can operate properly under such conditions.

D — Strengthened budgetary discipline

These last considerations lead on directly to what is for the Commission another major condition to be met if the Single Act is to be properly implemented: strengthened budgetary discipline.

At a time when, rightly or wrongly, the member countries are keen to reduce 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 growing 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 from the national budgets. More than this, every single ECU which is well spent jointly by the Twelve can yield more than equivalent national expenditure. It can easily be shown that this is the case at present for the common agricultural policy and for research, and will be the case in future for transport and major infrastructures.

These are points which must be emphasized, for much of the unjustified criticism of the Community budget is born of a curious attitude held by some observers who are all too apt to treat Community finance as if their countries were not in fact members of the Twelve.

The inconsistency would be even more obvious if, having signed the Single Act, the authorities refused to allocate the resources to implement it!

But the Community — that is to say the Council, Parliament and the Commission — must, as a counterpart to acceptance of the new responsibilities conferred on the member countries under the Single Act, manage its budget in the spirit of the 'prudent citizen' and ensure the best possible use of the resources allocated to it. This will depend on the quality of the policies implement-

[1] Bull. EC 6-1984, point 1.1.9.

ed, on their effective execution, and on a spirit of rigour, which must prevail everywhere.

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

The new budgetary discipline is a sort of fiscal contract for the Community: the assurance that before 1992 the European tax charge will not exceed a ceiling fixed at 1.40% of the Community's gross 'national' product, the adoption of tighter rules concerning agricultural expenditure, and the optimum allocation of resources to the other policies which are essential to the success of the Single Act.

E — A common and strong external economic policy

The European Community is the world's leading trading power. As such, it is sometimes courted and sometimes criticized. Courted, because it represents a formidable potential in terms of purchasing power and because it is in a position to play an even more important role in stimulating multilateral trade and commerce. Criticized, because other countries feel that it is not open enough to their products and because it has fully exploited its agricultural potential.

First and foremost, it must be underlined that the Community is, in fact, the most open trading unit in the world. Although the Commission believes that the Community must go further on the road to helping the developing countries, it can only reject attacks from elsewhere. Especially from countries whose protectionism is sometimes not even disguised.

Of course, the Community's political position would be stronger if it could take promptly the initiative required to solve the problems of world currency disorder, the inefficient allocation of financial resources or the quite inadequate growth of world trade. But all hope should not be lost. The positions adopted at the outset of the Uruguay Round, the exemplary measures implemented under the Lomé III Convention or in connection with food aid, and the proposals for the adaptation of the roles played by the IMF and the World Bank are all points on the credit side of a Community acting with a proper sense of responsibility. But this is obviously not enough.

How are we to explain to our farmers that they must adapt to a world situation in which the excess of supply over demand is structural in character, if other agricultural powers are not making the same effort?

How are we to assert the need for technical progress to sharpen our competitive edge and boost employment, if we are incapable of meeting threats from elsewhere?

How are we to state effectively the case for better relations between the North and South if wa haggle endlessly over a few tens of millions of ECU in trade advantages or aids for countries suffering the direst poverty?

One thing we have got to realize is this. 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. In fact, this is an aspect of Community life which is all too often neglected or even ignored. Let there be no mistake about it, the Community will prove its mettle, also, in the way it resists, now and in the future, the wrong kind of pressure, but yields to those in real need.

II — Reforms needed

A — A common agricultural policy adapted to the world context

Closely dovetailed into the rest of the economy, agriculture is, for the Community, a sector of fundamental economic and strategic importance, not only as a supplier of essential raw materials but also as a purchaser of a wide range of inputs. It is therefore vital for the Community that this industry should go forward on economically sound bases, so as to provide real prospects for those who depend on it directly or indirectly, and that the common agricultural policy (CAP) should allow for and adjust to change.

The factors which, in the early 1960s, led to the formulation of the CAP still hold good, as do its basic principles of Community preference, a single market and financial solidarity.

On the other hand the general economic context and the situation on agricultural markets have changed radically: growth has slowed, unemployment has increased, extraordinary progress in productivity and advances in biotechnology have led to surpluses on world markets, currencies are fluctuating and there are budget difficulties.

The Commission has, therefore, repeatedly and emphatically stressed the need for progressive efforts to bring about changes in agriculture in order to eliminate surpluses and check the steady increase in the budget burden to which they lead. This is all the more necessary as, given the present circumstances of structural imbalances between supply and demand, difficulties have emerged in reaching the desired objectives of stabilizing market prices and supporting farm incomes, even though the amount of money committed to this has been rising steadily.

Similar efforts have also had to be made in other major industries in the Community. This is essential if Europe is, in the long term, to maintain its competitive edge and thus its standard of living. This does not mean that we can ignore the special features of the agricultural sector—especially the fact that most farms are family enterprises and the role of farming in protecting the countryside. The Commission consequently intends to see that efforts are undertaken at the same time to help rural development.

It is therefore up to agriculture to join in the common effort which is vital for the future of all the countries of Europe and of which the citizens of Europe will have to bear the consequences, whether it is successful or not.

In its previous communications, and especially the one made following the consultations for the 'Green Paper',[1] the Commission clearly indicated the approach it intends to adopt in seeking better balance on agricultural markets. This involves:

(i) a restrictive pricing policy,

(ii) more flexibility in guarantees and intervention mechanisms,

(iii) a greater degree of producer co-responsibility, including recourse to quota systems.

If the Community cannot manage to give market prices a greater role in the interplay of supply and demnd, the CAP will sink ever deeper into a morass of administrative measures and rules for the quantitative regulation of production. This will provoke resistance from consumers and the development of substitute products, and will in addition cut off agriculture from the potential for developing industrial and food outlets through exports.

The Community must continue to try to bring intervention back to its original role of short-term market adjustment. Intervention must no longer be seen as an artificial supplement to the market, automatic and permanent, ironing out all market effects and preventing any action to bring supply into line with demand.

Since 1985 a large number of proposals have been put to the Council and Parliament in pursuit of this approach. The decisions so far taken, in particular those of April and December 1986 on milk and beef,[2] have been in the right direction and have set in train the process of adjustment which is required. Through the disposal programme implemented since last year, which the financial decisions adopted by the Council on 9 and 10 February will make it possible to accelerate, stocks may be brought down to more acceptable levels.

Thus, in its proposals for future marketing years, the Commission intends to give clear signals to producers, by freezing or even reducing prices, in the light of the situation for each product concerned.

The Commission also intends to continue adjusting intervention mechanisms for the products where the major problems arise, especially by limiting buying-in to certain periods of the

[1] Bull. EC 12-1985, point 1.2.1 *et seq.*
[2] Bull. EC 12-1986, point 1.2.1 *et seq.*

year or, as recently proposed in the milk sector, by altering the arrangements when quantities delivered exceed certain limits. The Commission also intends to reinforce measures to guide production towards those qualities which the market really requires. The general aim is that farmer should gradually be induced to take greater responsibility for their choices of types of product and for finding unsubsidized outlets.

Particular attention will be paid this year to the oils and fats sectors, where the prospects for balance have been greatly modified by the enlargement of the Community to include Spain and Portugal. This sector is also affected by erratic developments on the world market due, at least in part, to monetary factors independent of agriculture. The Commission's proposals here will be aimed at stabilizing production, by means of definite quantitative objectives, and stabilizing consumer prices on the basis of the underlying trends on world markets over previous years. The Commission thus intends to see that the growing budget burden of this sector is shared fairly between producers, consumers and taxpayers.

The Commission also wishes to give all our agricultural regions the possibility of developing products in which there is a shortage, in order to contribute to more harmonious development of the different regions.

In order to promote the rationalization of the various CAP mechanisms and to improve their mutual consistency, the Commission also intends to propose changes to the agri-monetary system, in order to bring the 'green' currencies progressively into line with general monetary arrangements and also to prevent the elimination of monetary compensatory amounts (MCAs) stimulating inflation and, through an artificial increase in prices when expressed in national currency, offsetting some or even of the effect of the measures adopted at Community level.

In formulating its proposals the Commission is none the less aware that the changes required in the CAP will be brought to bear on an agricultural situation which, in a Community of Twelve, is extremely diverse. There are great differences in natural and structural conditions of production and in the impact of agriculture on socio-economic balances and on the environment. The measures taken will bite more in the case of those farms which are economically and structurally weaker. Their consequences will be of varying impact for society in general depending on certain regional characteristics.

The action the Community is to take must allow for these facts; at the same time it must also avoid any tendency to sideslip into national or Community measures which may lead to unfair distortion of competition within a single market.

Over the last few years the Commission's proposals and the decisions adopted by the Council have differentiated measures to take account of the special situations of some farmers or some regions. For example, the milk levy has been varied. Aids have been introduced for small grain farmers, and the special features of certain regions or countries have been adopted as criteria in deciding on production quotas. In its proposals for the next few years the Commission intends to continue along these lines, ensuring that small farmers have a future.

It would be foolish to imagine, however, that this will solve all the problems arising in this area. In particular, such differentiation cannot go beyond the limits imposed by a policy of improving the allocation of resources in the light of the comparative advantages enjoyed by each country and region.

In order to achieve greater balance between the imperatives of the market and the need for solidarity, the Commission therefore takes the view that there must be, at Community level, a supplementary mechanism for supporting incomes. In addition, schemes operated by the member countries must be brought within the same framework. If restricted to economically weaker holdings, accounting for only a limited share of Community output, two-pronged action along these lines could well enable the socially unwelcome consequences of such a Community policy to be reduced. This could be a decisive factor in putting such a policy into effect and successfully completing it in the time available.

To this end the policy as regards national aids in agriculture will have to be supplemented by a strict framework for income supports, setting out precise limits at Community level. We must ensure that any national aid granted does not distort competition or have the effect of cancelling out the Community effort being made to achieve a balance between supply and demand. Account must also be taken of individual Member States' financial capacities, in order not to increase existing disparities.

In addition, regional measures—included in the three Community support programmes [1]—would complement existing instruments such as

[1] See what is said on 'structural' policies in the next chapter.

the compensatory allowance for mountain and hill and less-favoured areas.

The measures envisaged will, together, lead to more balanced Community action, with a better distribution between market support and income support. This should make such support fairer as between the different categories of farmers, thus making a considerable contribution to the Community's social and economic cohesion. It will also serve the need to make greater allowance, in the process of adjusting the farm sector, for constraints regarding the management of the countryside, the environment or the general economic development of outlying regions. It will entail better coordination between the different policies at Community level and with national measures in this sphere.

The Community economy is part and parcel of the world economy. This is true for all industries, and agriculture is no exception. The Community is the world's largest importer of farm products and its second largest exporter. The Community 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 the Community 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 maintian 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 dependant 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.

B — Community policies with real economic impact

It is not the purpose of the Community's structural policies merely to serve as compensatory devices. Together with national or regional policies, they should bring the weight of European solidarity to bear in encouraging greater competitiveness and more convergence between Member States in paving the way for the future. This is already the purpose of the current policy of scientific and technological development and it is what lies behind the reform of structural instruments and the new transport and environment policies.

A common policy for the development of science and technology

In clearing away obstacles to the large internal market, the Community is providing opportunities internally, but it is also opening Europe to the outside world. Under these circumstances, 'to strengthen the scientific and technological basis of European industry and to encourage it to become more competitive at international level', as the Single Act states, will be a Community requirement of prime importance.

Brought together in a framework programme for research and technological cooperation, Community policies should concentrate on essentials, i.e. on measures which are sure to have a multiplier effect. Policies should thus aim to stimulate cooperation between undertakings and research institutes in different countries, to facilitate pooling of resources and the definition of common standards at the stage of pre-competitive research. Finally, these policies should encourage the mobility of academics and scientists.

Activities conducted through the structural Funds

The Community's structural policies will in future pursue a limited number of simple, clear objectives. They stem from the Single Act and are expressed in terms of needs felt by European citizens. They illustrate the political determination of the Community to reinforce its economic and social cohesion:

(i) achieving growth and adaptation in regional economies showing structural backwardness, so that they can be fully integrated into the Community area (Objective No 1);

(ii) converting declining, sometimes devastated, industrial regions, by helping them to develop new activities (Objective No 2);

(iii) combating long-term unemployment, which is now affecting all age groups of Europe's working population (Objective No 3);

(iv) integration into employment of young people, especially first jobs (Objective No 4);

(v) speeding up the adjustment of agricultural production structures and encouraging rural development in line with the European social model, with a view to the reform of the common agricultural policy (Objective No 5).

By giving priority to these five objectives, aids or loans for structural purposes will reach the threshold for effectiveness at Community level; they will serve to reinforce the macroeconomic growth policies required for cohesion. They will increase their effectiveness by facilitating the optimum allocation of resources, by preventing excessive disparities in growth rates between regions, and by fostering balanced distribution of saving at Community level. From these various viewpoints, the Community's structural policies form part of an ambitions macroeconomic growth strategy with an eye to 1992.

The Commission is proposing that the budget funds committed via the structural Funds to the achievement of these five objectives should be doubled in real terms by 1992. The resources deployed must be consistent with the stated aspirations, and in particular with the main objective of enabling the less-favoured regions to catch up.

Enabling the less-developed regions to catch up is an objective of paramount importance

Among the objectives selcted, that of aiding regions which have fallen significantly behind in terms of structure to catch up is the real crux when it come to cohesion, as the Community is nowadays more heterogeneous and therefore more vulnerable than before. Two figures are sufficient to indicate the extent of this change: before Spain and Portugal joined, one European in eight had an annual income 30 % below the Community average—the figure now is one in five.

That is why the reform of the structural Funds entails a significant effort to concentrate Community budget funds in the least-favoured regions, i.e. all of Portugal, Ireland and Greece, some parts of Spain, the south of Italy, Northern Ireland and the French overseas departments.

The reform of the Community's structural instruments centres around two principal ideas.

Firstly, it is programmes which will constitute the central plank: the aim is to make sure that the Community's support for the Member States' efforts and initiatives is located at the right level. As opposed to action through projects, programmes will combine the following advantages:

(i) they will associate effectively the specific intervention operations conducted by the various subsidy and loan facilities, each having its own responsibility and experience as regards regional development, employment policy and agricultural techniques;

(ii) they will lead to decentralization of Community action by giving maximum scope for local or regional initiatives, which are the most effective for investment and employment. Programmes will involve contracts between the Community, the Member States and the regions. They will involve joint preparation, monitoring and assessment, and they will thus lead to a fully-fledged partnership.

The same principles will hold good for the regions which are undergoing conversion, which will thus be able to draw on the technical assistance and financial solidarity of the Community. For this purpose it will be necessary to adopt a new approach to the structural Funds.

Eligibility for structural instruments will take two distinct forms, either on the basis of geographical criteria as regards the first two objectives, or irrespective of geography and open to all the Member States as regards the last three objectives, which relate to the policies on employment and rural development.

Thus Community aid will be able to adjust to different aims, some of which will be naturally limited at regional or local level while others will run throughout the Community.

These guidelines determine the new operating rules particular to each of the structural instruments.

European Regional Development Fund (ERDF)

The ERDF will be the main instrument for achieving the first two objectives. There will have to be a significant increase in its capacity to intervene, together with the other structural instruments. The reform of the ERDF is the continuation of the movement which started in 1984 and takes advantage of experience gained, particularly in the implementation of the integrated Mediterranean programmes.

To achieve the objective of helping regions lagging behind structurally to catch up, ERDF funds will be concentrated on them to a greater extent. The amounts set aside for those regions may be up to 80% of the total.

As regards the second objective, the ERDF will represent a 'European presence' in depressed areas particularly affected by the decline of a dominant economic sector.

ERDF action will come within the framework of Community programmes providing backing for development or conversion. Such programmes, which will be multiannual, will be based on proposals initially put forward by the national or regional authorities at the relevant geographical level. The experiment in regional development programmes stemming from the reform of the ERDF in June 1984 will thus be continued and extended.[1]

Part of the Fund's resources will continue to be set aside for Commission initiatives. It will be used in particular to develop technical assistance, foster cooperation between regions and promote European regional development across national fronteirs. It will also enable funds to be allocated harmoniously, offering recipients the necessary guarantees of fairness and providing the vital incentive for quality and effort.

The ERDF's rates of contribution to expenditure for investments in the poorest regions will be raised, in compliance with the general rules on competition and without affecting the natural complementarity between loans and subsidies.

As regards the control of aids and the objective of cohesion, the Commission will ensure that the conditions for fair competition are met and, in this context, take account of the level of development of the regions and show the flexibility necessary to take account of the evaluation of the local context.

European Social Fund (ESF)

One side of the ESF's activities will follow regional eligibility rules, and thus contribute towards objectives 1 and 2 in the framework of programmes.

The second side, of a horizontal nature, will give priority to two main aims: combating long-term unemployment (Objective No 3) and integration into employment of young people, especially first jobs (Objective No 4).

Community action in these two fields will be formulated at the stage when the employment policies of the Member States are being drawn up and will take place in the framework of programmes. The allocation of funds will take maximum account of the seriousness of problems of unemployment and the employment of young people. Quality criteria will be defined precisely when the guidelines of the ESF are laid down each year. Innovations will be encouraged and, if successful, applied throughout the Community.

EAGGF Guidance Section

The existing regulations are to be amended around the two main aims covered by Objective No 5, namely supporting rural development and encouraging the adaptation and diversification of agricultural production throughout the regions most affected by the reform of the common agricultural policy.

Guidance Section management rules will be amended to facilitate its application within programmes also involving the other structural Funds.

The Guidance Section will thus make a direct contribution to the aim of enabling regions with a structural lag to catch up. In particular, aid for investment in processing and marketing will be redirected to these regions; Guidance Section aid for infrastructure projects (except irrigation) will be transferred to the ERDF.

The idea of a limit on expenditure over a five-year period will be replaced by an organizational outline laying down three-yearly guidelines consistent with the multiannual framework of agricultural policy.

An overall proposal will be put to the Council, under Article 130 D, setting out the details for the reform of the three structural Funds. This proposal will include the necessary transitions between the present situation and the organization which the reform is to achieve by 1992, in particular the Funds' contribution to the integrated Mediterranean programmes.

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Just as the structural Funds represent experience peculiar to the Community, so the loan instruments may contribute effectively to achieving the same structural priorities.

This is particularly true for the European Investment Bank, which accounts for almost 75% of Community loans. It concentrates on financing infrastructures or productive investments (in transport, telecommunications and energy, and in new technologies and small and medium-sized

[1] OJ L 169, 28.6.1984; Bull. EC 6-1984, point 1.3.1 *et seq.*

undertakings), allocating more than 50% of its loans for regional objectives to regions where development is lagging behind.

In accordance with the relevant provisions of the Treaty, the Bank will continue to play a major role in the development of such regions by providing financial aid of an exceptional quality, attracting private finance as well.

Similarly, ECSC loans and those of the New Community Instrument (NCI), which was renewed by the Council in December 1986,[1] will continue to play an active role in some declining industrial regions or in the financing of innovative investments in small and medium-sized undertakings.

The innovatory role played by the NCI in influencing loan policy objectives in the light of economic needs should be remembered. The Commission must retain the possibility of taking new initiatives along these lines.

Thus the Commission will in due course forward proposals to the Council with a view to setting up a financing instrument fully adapted to investment needs in regions lagging behind in development or whose industry is declining.

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A real single economic area cannot be achieved without major progress in the policies for transport and infrastructures and for the environment.

Transport and infrastructures policy

Complete freedom of movement of goods and persons can make full economic sense only if transport policy makes substantial progress towards a genuinely competitive system enabling unit costs to be reduced significantly; travel within Europe must be made easier, while maintaining high quality and safety standards and adequate welfare rules.

But action in the area of competition will not in itself offset handicaps affecting some areas and regions, either because they are far from communication routes or—the opposite evil—because they are congested by excessive traffic.

This raises the problem, alongside the completion of the large market, of creating certain infrastructures (roads, railways, ports and airports) which have already been identified (medium-term European transport infrastructures programme[2]), the financing for which will have to be found by greater mobilization of private money. The Community, which is responsible for identifying such vital projects, could decree that they are of European significance and play the part of financial catalyst, in close relationship, if necessary, with its development or structural support programmes.

A Community policy for the environment

Europe's environmental policy is based on a system of high standards, and it must live up to public expectations. The quality of the environment may not show up in any balance sheet, but it is none the less a gain both economically and in well-being.

A single economic area is by definition the very dimension in which environmental problems are posed, either because nuisances and pollution of industrial origin or from energy consumption or production ignore national frontiers (as made obvious by recent events, such as the Chernobyl catastrophe or the accidental pollution of the Rhine), or because full freedom of movement must entail the positive harmonization of national rules relating to pollutant emissions and dangerous waste.

In real terms this means that the measures in the new five-year programme for the environment[3] will be tackled constructively and in a spirit of solidarity, in accordance with the provisions of the Single Act (Article 130 S), which states that the Council 'shall define those matters on which decisions are to be taken by a qualified majority'.

C — Sufficient, stable and guaranteed financial resources

The Community's own resources currently break down into about one third 'traditional' own resources (customs duties and agricultural levies) and two thirds the VAT call-in, on which there is at present a ceiling of a 1.4% rate of VAT for each Member State.

These arrangements were decided upon at the European Council in Fontainebleau in 1984[4] and their limits have now been reached. It will not be possible for 1987 expenditure to be financed in full within these limits and at some stage the Commission will have to take the steps needed to bring expenditure down to match the resources available.

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[1] Bull. EC 12-1984, point 2.1.4.
[2] Bull. EC 11-1985, point 2.1.227.
[3] OJ C 3, 7.1.1987; Bull. EC 12-1986, point 2.1.178.
[4] Bull. EC 6-1984, point 1.1.9.

There is no reason to be surprised at this: only by resorting to various makeshifts, such as the storage of agricultural produce, the carryover of appropriations and the time-lag between commitment and payment appropriations, has it been possible, artifically, to keep the budget within the ceiling. Since 1983, there has been a deficit in the Community budget, disguised by bad accounting practice.

This is brought out clearly by the following comparison between the budgets as adopted by the budgetary authority and what the true budgets should have been, with the expenditure which should have been allocated to each year actually being so allocated. The table shows that at the time when the VAT ceiling took effect in 1986 the VAT call-in rate necessary for sound financing was already in excess of it.

Budgets approved and real costs

(as % of VAT rate necessary for financing)

	1983	1984	1985	1986	1987[1]
1. Expenditure set in the budgets approved[2]	1.00	1.14	1.23	1.40	1.39
2. Expenditure not in the budget:					
(a) Current deficit[3]	—	—	—	0.10	0.23
(b) Non-depreciation of agricultural stocks	0.13	0.08	0.08	0.10	0.03
(c) Cost of the past	0.09	0.06	0.09	—	—
3. VAT ceiling required for financing (1+2)	1.22	1.28	1.40	1.60	1.65
4. Overrun not covered by own resources and non-reimbursable intergovernmental advances					
(a) expressed as VAT rate	0.22	0.20	0.17	0.20	0.25
(b) expressed in million ECU:					
(i) per year	3.02	2.95	2.67	3.56	4.8
(ii) accumulated from year to year	3.02	5.97	8.64	12.20	17.0

[1] Estimate.
[2] Incorporating, for the relevant period, the cost in terms of VAT rate of the compensation to correct budgetary imbalances made in the form of a reduction in VAT payment and the incidence of intergovernmental advances.
[3] EAGGF guarantee deficit and shortfall in traditional own resources for 1986 and 1987.

The Commission takes the view that neither in the short nor in the medium term is this situation tenable and that the Community must have a system of own resources which is adequate, stable and guaranteed, giving it a long enough period of 'budgetary security' to allow it to plan its own development, especially while the internal market is being completed.

Recent and current developments in expenditure show that the present system of own resources is inadequate and this has disrupted the continuity of Community activity and forced it into stop-gap expedients.

The Community has, however, recently entered into major policy commitments, formally adopted by its institutions and ratified, or soon to be so, by each Member State.

The Community must thus be consistent with itself.

In fact, political commitments which the Commitments which the Community is to enter into under the Single Act are reflected in the following main hypotheses with regard to the development of expenditure: [1]

(i) the maximum growth laid down for the EAGGF Guarantee Section by the policy of budgetary discipline would lead to a budget share, in 1992, of slightly over 50%, as against 60% at the present time;

(ii) in real terms funds for the improvement of structures would double by 1992, in appropriations for commitment. They would come to represent about 25% of the budget, compared with 16% at the present time;

(iii) expenditure on research, on the basis of proposals for the next framework programme, [2] would represent 3% of the budget, as against 2.5% at present;

[1] Cf. Chapter II.B.: Community policies with real economic impact.
[2] OJ C 275, 31.10.1986; Bull. EC 7/8-1986, point 1.2.1 *et seq*.

(iv) a margin is provided for new policies;[1] this would increase progressively up to about 5% in 1992.

It is thus clear that the 1.4% ceiling is already outdated. Even raising the rate to 1.6% would offer no lasting solution to the financial problem. The retention of this system of financing would mean perpetuating improper practices in order to conceal a deficit which now has a structural character.

Also, maintenance of the present policies alone requires new resources, without which the policies that have already been agreed could no longer be properly executed.

Accordingly the Commission proposes that the Community should be assured of adequate, stable and guaranteed own resources at least until 1992 in order to restore 'budgetary truth' and put an end to unacceptable practices.

The Community cannot progress by lurching from financial crisis to financial crisis. The alterations to the systems of own resources in general presuppose ratification by the national parliaments. Such procedures ought not to be unduly frequent.

The proposals made as regards budgetary discipline and management would ensure that a period of 'budgetary security' was clearly given to the Community.

From the point of view of stability, the present system has a key defect: the basis of the resources is gradually being eroded, and the decline in the resources available under the present ceiling has a structural character. This is because:

(i) traditional own resources (customs duties and agricultural levies) are steadily diminishing as a result of multilateral tariff reductions and the Community's growing self-sufficiency in farm products;

(ii) the VAT base itself is increasing more slowly than economic activity in the Community, because of a decline in the share of consumer expenditure in the GNP. Thus, at a time when the main beneficiaries of Community policies (such as farmers and inhabitants of less-favoured areas) are, quite rightly, comparing their situation with those in other sectors of the economy, financing of these policies has run into trouble;

(iii) the Fontainebleau correction mechanism has reduced the resources available in so far as the VAT ceiling applies to the Member States financing the correction and not to the Community as such.

The existing revenues provide neither the volume, nor the stability, nor the flexibility which the Community needs now and in the future.

Accordingly, the Commission proposes use of a fourth resource in addition to customs duties (the arrangements for which would be slightly altered), agricultural levies, and VAT (1% of the basis described below) to cover the whole of the budget.

The basis of this supplementary resource would be provided by the difference between the GNP of each country and the basis of assessment of VAT. It would cover economic aggregates such as investment, part of public consumption and net exports. It would thus adjust the impact of the VAT system by referring to the Member States' actual ability to pay.

If it is to provide the Community with the security it needs in the medium term, the own resources system must also provide proper safeguards for the Member States, and must therefore have a ceiling.

Reflecting a tendency in the Member States, the Commission proposes that this ceiling should take the form of a 'maximum rate of the compulsory Community levy', and should be fixed by reference to the Community GNP. This would be the safeguard given to the citizens of Europe and to the Member States. For this purpose:

(i) the quantity of resources is related to the most representative indicator of economic activity. This practice is being followed more and more in the member countries, which define their budgetary objectives by reference to GNP. The Community would be aligning itself on this practice;

(ii) the decision to allocate to the Community a given volume of budgetary resources would become more 'transparent' and more reliable in that it would no longer be exposed to the erosion effects or to the instability besetting the present own resources;

(iii) it will no longer be necessary to set ceilings by type of resource. A single ceiling will suffice. The Community will thus enjoy greater stability, but also greater flexibility in the composition and the allocation of the resources financing the Community budget.

The Commission proposes that the ceiling on available resources should be set at 1.4% of the Community's GNP, a figure which should

[1] The expenditure on development cooperation would rise very sharply at the end of the period if the Seventh European Development Fund is included in the budget.

suffice until at least 1992. It emphasizes that this ceiling is certainly not too high, since it does not give the Community an expenditure growth capacity beyond that which it has enjoyed during the 1980-87 period, although the Community must clear the backlog of costs and stocks of agricultural products that has built up.

The Commission's aim is to ensure the provision of the funds needed to implement the common policies, especially those provided for by the Single Act, to restore sound conditions as regards the present situation (agricultural sotcks and commitments still to the settled) and to give the Community a long enough period of 'budgetary security'.

The resources available within 1.4% of the Community GNP break down as follows:

(i) customs duties;

(ii) agricultural levies,

with the following adjustments for these two resources:

(a) the 10% reimbursement to the Member States to be discontinued,

(b) allocation to the Community of customs duties on ECSC products;

(iii) the VAT revenues which would accrue by a 1% levy on the basis actually subject to VAT. As the link between the Community and those engaged in economic life would become more direct, the 'own resources' character of VAT would be reinforced. The basis constituted by zero-duty products in certain Member States would also be subject to the same 1% levy;

(iv) a fourth resource: a levy on the 'supplementary basis' as additional resources to cover the whole of the budget. This would come from a financial contribution from the Member States obtained by applying a uniform call-in rate to a basis defined as being the difference between the GNP and the actual basis of VAT used for the 1% levy;

(v) Lastly, the Commission wishes to retain the possibility of adding a further resource between now and 1992 to those indicated above, within the ceiling of 1.4% of GNP.

This fifth resource is to be provided for in the basic decision creating the new own resources arrangements. Its implementation would require unanimous endorsement of the Member States and ratification by their parliaments.

The Commission emphasizes that its proposal for new resources would ensure, overall, that the contribution to the financing of the budget matches more closely relative levels of prosperity in the various countries.

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The European Council at Fontainebleau, in 1984, accepted the concept of a 'Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity'. It also adopted a standard system on the revenue side to measure this excessive burden.

The Commission would point out that the idea of a budget excess or shortfall is inconsistent with that of the own resources of the Community. Nor can the budgetary benefit (or disadvantage) a country may draw (or suffer) from its membership in any circumstances reflect, much less measure, its interest in belonging to the Community. Also the European Council expressly referred to expenditure policy as a means of solving in the longer term the problem of budgetary disequilibria.

The Commission also takes the view that the origin of budgetary disequilibria must be assessed in the light of the nature of the expenditure and the way it changes. A considerable share of the budget (but one which will be contracting) goes to the financing of guarantee expenditure under the common agricultural policy, the only type of expenditure which is wholly borne by the Community.

Expenditure designed to promote greater economic and social cohesion and expenditure on new policies will be accounting for an ever larger proportion of the budget, and this is a factor which is highly relevant for the future.

For the moment, analysis of the budget outturn shows that EAGGF guarantee expenditure, and its financing, are the main sources of disequilibria. The problems also have a structural character, connected with the nature and structures of agriculture in certain countries.

This applies particularly to the United Kingdom, where agriculture, although very efficient, makes only a modest contribution to GNP. There is thus a very large gap between the UK's share of Community GNP and its share of agricultural guarantee expenditure, which entails a specific burden which it is very difficult for a country whose relative prosperity is only slightly above the Community average to bear.

The other categories of Community expenditure have to be looked at differently. For instance, it is reasonable that the most prosperous countries should make a full contribution to financing structural policies which are aimed mainly at supporting the economic and social development of the less prosperous countries, with a view to economic and social cohesion. In the same way, any offsetting mechanism in the management of the other Community policies must be ruled out, be it in the Community's international activities or in the financing of its operation.

The aim being to lay down medium- and long-term rules for financing the Community, the bases for any budgetary correction mechanism must be as objective as possible. Making good the loss to the United Kingdom in the management of guarantee expenditure would seem to be legitimate. Growing control over production and over agricultural expenditure should, in any case, eventually help to narrow down this gap. The scale of the correction must be assessed in the light of the changes made in the own resources system (as indicated below), which would yield a significant reduction in the charge to the United Kingdom. The Commission proposes a rate of 50%.

The correction should be made in a way which is fair within the Community of Twelve, where the situation is very different from that of 1984. The Commission takes the view that the Community's four least prosperous countries (Portugal, Greece, Ireland and Spain) should not, as things stand at present, be required to make any contribution to financing the corrrection. This arrangement should be reviewed periodically (as should the whole of the correction system), looking towards greater convergence between the economies of the Member States.

Subject to the special rule laid down for the Federal Republic of Germany, as indicated below, the other Community countries will therefore bear the cost of financing the correction, on a modulated scale related to prosperity levels.

The European Council in Fontainebleau acknowledged a special situation for the Federal Republic when it established the budgetary compensatory mechanism. In view of the size of the German contribution and its low participation in the policies conducted under the structural Funds, the burden on that country incumbent upon it as a result of the United Kingdom compensation could be lightened. It could be reduced to 25% of its normal share in the financing of the United Kingdom compensation. This would allow for the special situation of this country, without there being any need to set up a special mechanism. The Commission is anxious to avoid any dangerous precedent which would abandon the spirit of the Community. The aim is, therefore, for the period up to the completion of a single economic area (1992), to make a gesture to accommodate the misgivings expressed by this country as to budgetary matters. But the Commission does hope that the successes achieved in the area of economic integration will be such as to convince all the member countries of the advantages they reap from a market of 320 million consumers and the development of the common and cooperation policies.

The correction could take the form of a direct payment to the beneficiary, from the Community budget, financed according to the procedures described above.

D — Ways to strengthen budgetary discipline

Efforts to achieve budgetary discipline as agreed by the European Councils held in Brussels and Fontainebleau have not so far yielded satisfactory results.

There are a number of reasons for this, some of them of a short-term, incidental, nature (mainly in the area of agriculture), and others of a structural character, reflecting the difficulties inherent in the present institutional system.

In the first place, the authorities have not been able to contain agricultural expenditure within the 'reference framework' and the 'financial guidelines' in accordance with the conclusions of the Council of 4 December 1984,[1] adopted at a time when the dollar and world prices were both very high. The limits have been overrun partly because of unforeseeable external events (the sharp decline in the dollar, currency realignments) and partly because of the Council's failure to endorse the Commission's proposals unamended or failure to act promptly; another point is that the current regulations are not well adapted to ensuring consistency between budgetary decisions and agricultural decisions. This is one of the reasons why the Commission proposes that work on the reform of the common agricultural policy should continue.

In the second place, the fact that Parliament has not taken part in the procedures concerning budgetary discipline has entailed each year growing difficulties for the adoption of the budget, as was the case for the 1986 and 1987 budgets.

For non-compulsory expenditure, Parliament has not endorsed the Council's guidelines. Thus

[1] Bull. EC 12-1984, point 1.3.1 *et seq.*

the Council has found itself alone as the object of budgetary discipline guidelines. The result has been a power conflict between the Council and Parliament on the ability to increase the non-compulsory expenditure. This shows that a system of budgetary discipline which does not have clear rules, binding on all the institutions, bears in itself all the seeds of a lasting institutional conflict, and thus of excessively restricted effectiveness.

The Council's guidelines for non-compulsory expenditure have also proved inapplicable because they concerned only the appropriations for payment, although the 'cost of the past', generated by the scale of the commitments entered into in previous years, has to be worked off.

In general, the present decision-making processes within the Council are not such as to enable it to act as a referee in the way that authorities in the Member States can reconcile the bodies having law-making or regulating power on the one hand and those responsible for the budget and finance on the other.

Accordingly, the Commission proposes the introduction of rules of budgetary discipline which would help to promote consensus between twe two branches of the budgetary authority.

First and foremost, the management of the Community's budget must be such that the new ceiling set on the Community's own resources is complied with at least until 1992.

For this purpose, on the basis of the multiannual 1987-92 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.

This provision, which will have been endorsed by the Parliaments of the 12 Member States, in accordance with Article 201 of the EEC Treaty, will be the basis of budgetary discipline. It will therefore have force of law.

Within this framework, the Commission proposes the conclusion of an inter-institutional agreement between Parliament, the Council and the Commission, under which the three institutions would enter into the following formal undertakings with a view to ensuring harmonious execution of the budgetary procedure laid down in Article 203 of the EEC Treaty:

1. the rate of increase in the non-compulsory expenditure, both for appropriations for commitment and for appropriations for payment, will be fixed at the beginning of the budgetary procedure, by agreement between the three institutions;

2. there will be no overrun of the maximum rate of increase such as that set out in Article 203(8), except for expenditure connected with the implementation of the policies in the Single European Act;

3. increases in the various categories of expenditure during the 1988-92 period will ne worked out on the basis of multiannual estimates proposed by the Commission and agreed by the budgetary authority.

For the implementation of the inter-institutional agreement, compliance with budgetary discipline will rest on the following rules:

(a) The appropriations authorized for each year (within the annual ceilings on resources) must suffice to cover expenditure necessary to clear the 'cost of the past' and dispose of agriculture stocks. This rule will lead to a relative slowdown (in terms of appropriations for commitment) of the growth of the Community's budget as compared with its growth during the 1980-87 period.

(b) The annual expenditure allocated to the management of the agricultural markets must not increase more rapidly than the base for the own resources. Such control will be implemented during a three-year period and in accordance with the definitions adopted in the conclusions of the Council of 4 December 1984. The appropriate adaptations will have to be made to allow for the gradual incorporation of Spain and Portugal in the CAP financing arrangements.

For this purpose, the regulations designed to ensure lasting control of production will be supplemented by budget stabilizers, which will be added to those already in force or proposed by the Commission for 1987/88 (oilseeds, olive oil). These stabilizers should be binding in character and even automatic, so that there can be no overrun of the budget limits set.

In this connection, it is important that the financing of the common agricultural policy should be properly 'transparent'. In particular, a procedure for the 'budgetization' of stock depreciation will be set up to cover the relevant costs. The system of advance payments will be discontinued and replaced by a system of reimbursement of expenditure committed by the Member States.

The agricultural regulations will have to authorize the Commission to adapt the intervention system should there be any danger of overrunning available funds. Should such arrangements prove insufficient, the Commission will be required to lay before the Council such stabilization measures as would be necessary and the Council will be under the obligation to take decisions within short and specified time-limits.

To meet exceptional circumstances, notably with regard to exchange rates, the annual limitation laid down for budgetary discipline will include a reserve. Savings made in terms of a basic parity of currencies (ECU/dollar relationship) would be paid into a reserve fund. Conversely, this fund would be used to finance extra expenditure entailed by exchange rates necessitating increases in export refunds or deficiency payments.

(c) By observing the annual ceilings on the own resources, the multiannual estimates become an important instrument for the management of the budget and compliance with budgetary discipline. They will be expressed both in appropriations for commitment (expression of the policy to be conducted) and in appropriations for payment. The ceiling on the own resources for 1992 will therefore have to be complied with also for the appropriations for commitment.

E — New rules for managing the budget

The introduction and observance of strict budgetary discipline by the three institutions calls for changes both in the practices and in the rules governing the preparation and execution of the budget, so as to limit the necessary call-in of resources and improve their allocation in the light of the objectives sought. These changes are the essential complement of the requirements of budgetary discipline and are designed to facilitate its observance. The ultimate aim is to achieve more control over expenditure and to increase its effectiveness.

The Commission takes the view that the most critical aspects from the point of view of improving management are the following:

(i) the over-budgetization of many headings, especially of differentiated appropriations, caused by overestimating expenditure capacity or underestimating the time required to obtain from the Council the legal basis enabling the appropriations to be used. This phenomenon is encouraged by the possibility of carrying over appropriations;

(ii) incomplete observance of the principle of the 'annuality' of the budget, reflected in heavy carryovers of appropriations from one year to the next. This obscures budget 'transparency' in that the appropriations available for a given financial year lack homogeneity, some being adopted by the budgetary authority for the year in question and others being substantial left-overs from past decisions which could not be carried out;

(iii) insufficient monitoring of measures or programmes under way, which leads to considerable deviations from the timetables planned and largely accounts for the fragility and insufficient take-up of budget appropriations. It also result in the build-up of a substantial volume of 'sleeping commitments'. i.e. commitments which no longer have a real counterpart in terms of projects or programmes to be financed;

(iv) Community action is not always of maximum effectiveness in terms of objectives pursued. This means that in some cases the same objectives could be achieved with less expenditure and/or by different methods.

This is why the Commission is proposing changes in the rules and practices governing the preparation and execution of the budget, in four respects.

Firstly, to reduce to a minimum the risks of over-budgetization, the Commission proposes the following twofold approach.

On the one hand, as far as practice is concerned, it undertakes to ensure that its requests for appropriations correspond as closely as possible to the actual scope for execution, not forgetting the actual take-up capacity of potential beneficiaries. It calls upon the budgetary authority to pay more attention to this aspect, during the budget procedure, when it wishes to make changes to the Commission's evaluations.

A multiannual approach to the planning of expenditure would also enable those concerned to allow more fully for any expression of a political will to strengthen certain operations, and its realism.

Secondly, as an incentive to prudence in the entry of appropriations in each line, so as to achieve an overall saving effect, the Commission is proposing that, independently of the agricultural reserve referred to in Chapter II.C, a certain amount in unallocated appropriations should be entered in the budget.

Thirdly, the Commission proposes that the principle of budget 'annuality' and of transparency of available appropriations should be strengthened by the following measures:

(i) abolishing the automatic nature of the appropriations outstanding and the carryover of payment appropriations by adapting the Financial Regulation and the specific regulations, particularly those relating to the structural funds, where necessary. As a result, any appropriation unused during a given financial year ('n') and for which the Commission had not proposed an alternative use for the following year ('n + 1') would lapse;

(ii) proposing to the budgetary authority, at the start of the year, the use it intends to make of the appropriations which have not been cancelled. This use can take three forms: carryover under the same heading, carryover under another heading and carryover to the global reserve.

The budgetary authority would have explicit information on the appropriations available line by line for the new financial year. In these circumstances, the global reserve may take on the nature of a permanent reserve.

Fourthly, the Commission will make the necessary internal arrangements to establish a system under which the appropriations allocated can be executed in accordance with the estimates and under which the appropriations which cannot be used as stated can be cancelled without delay.

The multiannual forecasts must become an instrument of budget management by providing for a regular and gradual flow of expenditure and preventing the new resources available from being eaten into too soon. They will act as a 'sliding' plan enabling the Community to keep to a line of conduct in the medium term. In addition, better than the current procedures, they will ensure that appropriations were used efficiently. This is why the 'annuality' rule, instead of generating losses, encourages the introduction and implementation of realistic, effective programmes.

These new management procedures will entail substantial reform of the financial regulations.