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## THE COMMUNITY'S FINANCES

## BETWEEN NOW AND 1997

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Communication from the Commission

to the Council and Parliament

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# THE COMMUNITY'S FINANCES

# BETWEEN NOW AND 1997

## INTRODUCTION

1. 1993 will mark the beginning of a new stage in the Community's development.

The Community's first task will be to do all it can to achieve the new objectives it has set itself. The internal market must be made to operate in such a way as to derive all the potential benefits in terms of efficiency and competitiveness. Cohesion efforts will have to be stepped up in support of the convergence of economic policies so that the conditions for launching stage three of Economic and Monetary Union may be met as fully and as quickly as possible. The Community must also start to exercise the powers which have been granted to it or extended as part of the move towards European Union.

At the same time, the Community must take up a number of challenges stemming, for the most part, from changes in the world order. A far-reaching reform of the common agricultural policy has been proposed which would change the underlying principles of the present system while safeguarding farmers' incomes and increasing control over expenditure. Far-reaching industrial changes will have to be contended with and action taken to anticipate their impact on employment. New relations will have to be built up with non-member countries, particularly those which are physically closest to the Community.

2. The Community's success in achieving these objectives will depend to a large degree on the availability of sufficient resources and a sound budgetary policy. There are four conditions: sufficient own resources, allocation of Community funds to areas of activity in line with the priorities set, strict budgetary discipline and a fair distribution of the financial burden.

The Community already has a foundation on which to build this new structure: the 1988 reform of the Community's finances. Making use of its experience to date, the Community must now adopt and reinforce this foundation so that it will support the new medium-term objectives, particularly economic and social cohesion.

3. In "From the Single Act to Maastricht and beyond",[1] the Commission outlines its plans for developing Community policies in the light of the conclusions of the Maastricht European Council on Economic and Monetary Union and European Union. This communication presents the Commission's proposals for the financial framework of the Community budget from 1993 to 1997 to accommodate these plans in the new policy context. At the centre of this framework will be:

- measures to contain expenditure through the financial perspective;

- the own resources system;

- budget management rules.

The proposals have been drawn up on the basis of a detailed analysis of what has been achieved by, and what can be learnt from, the 1988 reforms[2] and, in particular, the two reports attached to this communication, which the Commission undertook in 1988 to send to the Council and Parliament:

- a report on the implementation of the Interinstitutional Agreement and

- a report on the own resources system.

4. Once the political guidelines have been agreed for this new financial framework, the Commission will present a new draft version of the Interinstitutional Agreement to which the multiannual financial perspective will have to be annexed, together with the various proposals for accompanying measures.

1 COM(92)2000.

2 See the Report on the Financing of the Community Budget – COM(87)101 final of 28 February 1987.

# PART ONE

# DETERMINING FACTORS FOR A NEW FINANCIAL FRAMEWORK

## I. EMPIRICAL DATA: RESULTS OF THE 1988 REFORM

### 1. Budgetary discipline

The instruments introduced to enforce budgetary discipline can be divided into two categories:

- the Interinstitutional Agreement of 29 June 1988, of which the financial perspective forms an integral part;

- the more specific measures designed to give tighter control over agricultural expenditure (Council Decision 88/377/EEC of 24 June 1988 concerning budgetary discipline).

#### 1.1 Application of the Interinstitutional Agreement and the financial perspective

A detailed report on application of the agreement is being presented as required by point 19 of the agreement. The Commission has come to three main conclusions.

(a) The financial framework set originally has been respected (see Annex 1, Table 1)

The successive revisions agreed by the two arms of the budgetary authority have led to an increase in the initial annual expenditure ceilings since 1990. However, over the entire period 1988-92, the aggregate total of appropriations entered in the budget will still have been lower than the overall amount of appropriations originally set. Similarly, the ceiling on payment appropriations required and, even more so, the actual amounts of payment appropriations entered in the budget have remained below the growth path charted in 1988 and expressed as a percentage of GNP, since the increase in GNP has been higher than expected because of stronger economic growth and a statistical revaluation of GNP.

The actual development of the financial perspective framework has produced more marked changes in the structure of expenditure than were initially expected. The decline in the proportion of agricultural expenditure has been quicker than originally envisaged, balanced by a faster rise for structural operations and the other policies covered by heading 4 (mainly non-compulsory expenditure in connection with the Community's external policies).

(b) Overall, application of the Interinstitutional Agreement has been positive.

The objectives pursued by the Agreement - allocation of sufficient and stable resources, an orderly increase in expenditure, improvements in budgetary procedure - have been largely achieved, especially when compared with the situation before 1988. In particular, the budget has been adopted on time every year.

Apart from some recurring problems of interpretation (in particular the method for adjusting the allocation for the structural Funds in line with inflation), the main difficulties encountered have related to the revisions of the financial framework caused by circumstances which had not been foreseen or which had not been properly taken into account at the outset. These revision or adjustment procedures turned out to be relatively lengthy and often merged with the annual budgetary procedure itself, thereby detracting from the instrument's role as a medium-term framework. The two arms of the budgetary authority took different lines on how new requirements were to be financed: Parliament wanted to use the margin available within the own resources ceiling, while the Council favoured redeploying expenditure within or between headings.

There is little doubt, however, that these problems would have been far more contentious without the 1988 financial framework, which kept the debate within agreed limits.

(c) There are still good reasons for a new Interinstitutional Agreement and a new financial perspective.

The 1988 Agreement, which is now about to expire, was the translation into financial terms of the political objectives linked with the Single Act and completion of the internal market. In view of the results achieved, it may be considered that, by and large, these objectives have been attained within the financial framework laid down by the three institutions. Indeed, the hitches which occurred were more a reflection of the extremely rapid and far-reaching changes in the international environment than of problems in connection with the budgetary discipline arrangements introduced in 1988.

The agreement between the institutions on the Community's financial framework for 1993-97 will have to encompass the decisions of the Maastricht European Council on the second stage of EMU and the creation of a European Union.

This financial framework identifies the major policies or measures such as the common agricultural policy, cohesion, research and external operations. It must also provide an overview to ensure that they dovetail with all other expenditure, some of it vital to the operation of the internal market and some relating to the cost of running the institutions.

Article 203 of the Treaty may still be valid, but it is evident that the rules governing application of the maximum rate of increase and any overruns will not be sufficient on their own to lay down - and ensure compliance with - a multiannual financial framework covering both compulsory and non-compulsory expenditure and, in the long run, striking a balance between the funds allocated to the various Community policies to reflect a shared political assessment. The Interinstitutional Agreement, which binds the three institutions to both a financial framework and the procedures for administering this framework, has proved to be an extremely useful instrument in this respect.

An agreement of this type gives the Member States and the Council the budgetary security they need to ensure that the financing of the Community does not again become a frequent source of institutional conflict as it was before 1988. The conclusion of an interinstitutional agreement together with a financial perspective broken down into categories of expenditure and accompanied by appropriate mechanisms for reserves and margins for revision will allow the Member States to accommodate the maximum foreseeable amount of Community expenditure into their own national budgetary and financial planning.

In addition, the negotiation of the agreement and the financial perspective will allow the Council to play an active part in the allocation of appropriations for non-compulsory expenditure between the various Community policies.

The establishment of a medium-term financial framework to which each of the three institutions is committed gives Parliament a decisive influence on the observance by the Commission and the Council of the rules of budgetary discipline agreed for compulsory expenditure. The gradual shift in the Community budget towards non-compulsory expenditure decided in 1988 has certainly been boosted by the rapid development of the Community's external operations. However, observance of the agricultural guideline has been especially strict as it was a condition for Parliament's participation in the Interinstitutional Agreement.

Finally, the adoption of the budget before the start of the financial year helps ensure full utilization of appropriations and, as a result, effective implementation of the corresponding policies. Observance of the principle of annuality and proper application of the principles of cost-effectiveness in the budgetary procedure largely depend on the budget being adopted on time, as it has every year since the Interinstitutional Agreement was signed in 1988. But at the same time an agreement of this type counters the drawbacks involved in dividing the total allocation for a given policy into annual instalments, these instalments now being accommodated in an orderly five-year growth path.

## 1.2 Containment of agricultural expenditure

### (a) The 1988 mechanism

Four instruments were introduced to impose budgetary discipline:

- an overall limit on expenditure, with the maximum annual increase not to exceed 74% of the Community GNP growth rate (agricultural guideline);
- introduction of a monthly early-warning system for each chapter, obliging the Commission to take appropriate corrective measures or propose them to the Council whenever the utilization rate exceeds or threatens to exceed the profile established for each sector.
- the restoration of surplus stocks to normal levels by making provision for the systematic depreciation of new stocks and disposing of old stocks (the cost not counting in the calculation of the agricultural guideline);
- creation of a monetary reserve to counter the financial consequences of fluctuations in the dollar/ecu exchange rate;

At the same time, the mechanisms for stabilizing agricultural production were reinforced and extended to most sectors. Measures to limit production directly by means of incentives to set aside agricultural land temporarily were also adopted.

### (b) Results

The agricultural guideline has been complied with every year throughout the period, despite the additional costs generated by German unification. However, there has been considerable instability in the growth of expenditure, with marked imbalances on some markets. In the first three years covered by the financial perspective expenditure remained well below the guideline figure. However, it has been tending to rise again since the end of 1990 (in particular for beef/veal, cereals and milk products), and budgetary discipline measures have been introduced to ensure that the guideline is respected in 1991.

Two conclusions can be drawn:

- The instability of agricultural expenditure is largely due to sensitivity to outside parameters, especially when production is in surplus. Almost half the expenditure is directly linked to the level of world prices and the dollar exchange rate.

Other factors such as the consequence of Spanish and Portuguese accession and the enlargement of the Community territory to cover the former GDR have also contributed to the increase in budgetary costs from 1990 onwards.

- The stabilizers have proved inadequate.

  It is true that they have helped give more control over expenditure. The reductions in prices and the additional co-responsibility levies charged have produced substantial savings and, to some extent, moderated the budgetary impact of changes in the level of production (in particular in the oilseeds sector).

  However, their economic impact has been far more limited, in particular in the case of major crop products where the reduction in the area cultivated has been neutralized by higher increases in yields and where crops have been substituted. Implementation has also proved difficult and ineffective in the tobacco, sheepmeat and beef/veal sectors.

  Overall, it is clear that, if the external and internal economic circumstances are unfavourable at the same time, the stabilizers alone are unlikely to be sufficient to keep expenditure within the limits of the agricultural guideline.

(c) Reform of the common agricultural policy

The proposed reform is designed to break with the current principle of making support dependent on the quantities produced, which provides a permanent incentive to higher and more intensified production without any direct relation to the market's absorption capacity. Instead of being based almost exclusively on guaranteed prices, support should revolve around direct aid measures depending on the area of the farm and the number of animals kept.

This new approach to support will have two implications for the budget:

- First, the compensation paid to producers in exchange for the lower prices set will increase budgetary costs. However, these additional costs must be weighed against the greater benefits which consumers will derive from the reforms.

- Secondly, expenditure trends will be easier to control and predict. The gradual lowering of prices to world market levels so as to make them more competitive will considerably diminish the budget's vulnerability to changes in external parameters. Furthermore, production will be controlled more effectively as a result of the set-aside measures which will be imposed in exchange for the compensatory aid. Finally, the new forms of support will be based on criteria which make it easier to predict changes in expenditure.

## 2. The own resources system

The size of the Community budget, which had grown very fast in the years before 1988, expanded only slowly relative to GNP after 1988 from 1.08% of GNP to just over 1.15% in 1992. This slowdown in the rate of increase was due mainly to the slower rate of growth of agricultural spending at the turn of the decade.

The structure of own resources has evolved since 1988. The long-term decline in the importance of traditional own resources in the budget has continued. The VAT-based resource is still by far the largest own resource, accounting for around 55% of revenue in 1992. The GNP resource was hardly called in up to 1990, but now in 1992 it accounts for over 20% of the budget (see Annex I, graph 1).

The redistributive elements of the 1988 reform have improved the fairness of the budget. On the financing side, these came basically from the introduction of the GNP resource and the capping of the harmonized VAT base.

Nevertheless, there are still regressive elements existing in the present own resources system, deriving basically from the tendency of poorer Member States to have high VAT bases as a proportion of GNP.

- The uneven distribution of receipts from traditional own resources by Member States is not significant. The receipts from these resources appear to show a disadvantage for the Netherlands, Belgium, Ireland, Portugal and the UK. However, this is largely due to the "Rotterdam Effect", whereby receipts are linked to the port of entry, rather than to the country where the economic burden of the duty is borne.

- The distribution of VAT receipts is regressive in spite of the effect of capping. Spain, Greece, Ireland and Portugal all have uncapped harmonized VAT bases (in 1992) above 55% of GNP. Although capping reduces these countries' VAT bases to 55% of GNP, this is still significantly above the average of capped VAT bases at 49.3% of GNP which leaves them at a disadvantage.

- The GNP resource is levied in proportion to the GNP base in ecus. It is thus closely related to the contributive capacity of Member States.

## 3. Budget management

In its 1987 report on the financing of the Community budget, the Commission identified two types of problem in connection with budget management:

- problems of execution, resulting in insufficient compliance with the principles of annuality and specification and a growing volume of outstanding commitments;

- insufficient efforts to find the best cost-effectiveness relationship for Community operations.

### 3.1 Budget execution

There have been four noteworthy improvements in budget management at the execution stage in line with the objectives adopted in 1987 and as a result of the new provisions in the Financial Regulation (see Annex 1, Table 2).

(a) Compliance with the principle of annuality

- Between 1986 and 1991 the amounts added to the budget allocations by way of carryovers or appropriations made available again have fallen sharply both in absolute terms and as a percentage of total appropriations for commitments. In headings 2, 3 and 4 of the financial perspective, the amount dropped from ECU 2 400 million in 1986 (21% of appropriations available) to around ECU 320 million in 1991 (1.4% of appropriations available).

- The proportion of unused appropriations carried over in these headings fell from 70% in 1987 to 22% in 1991. Similarly, the proportion of cancelled commitments in respect of which appropriations are made available again dropped from 75% to 19% over the same period.

(b) Compliance with the principle of specification

In headings 2, 3 and 4 of the financial perspective the proportion of appropriations transferred between chapters, with the exception of those from the reserve chapter B0-40 expressed as a percentage of the year's appropriations for commitments fell continually between 1987 (3.4%) and 1990 (1.4%). In 1991, with the exception of the transfer within the ERDF involving similar types of operations, the proportion was no more than 0.7% of appropriations.

(c) Rate of utilization for available appropriations

On average, the utilization rates for appropriations for commitments in headings 2, 3 and 4 have been appreciably higher since 1988 (around 96%) than in the years preceding the reform (88% between 1984 and 1987).

The utilization rate for appropriations for payments in these categories is still lower than the rate for appropriations for commitments, but it has improved in recent years (from 89% in 1988 to 92% in 1991). At 91%, the average rate between 1988 and 1991 was appreciably higher than over the previous period (84% between 1984 and 1987).

(d) Rate of clearance of commitments

Both the forecast and actual rates of clearance have picked up considerably.

- At the forecast stage, the rate for headings 2, 3 and 4 in the year of commitment was raised from around 38% in 1987 to around 51% in 1991. The increase was particularly rapid in heading 2, in line with the new rules for the Funds. However, the tendency is towards a slackening for external policies in heading 4.

- The actual clearance rate in the year of commitments has also improved in these headings from 36% in 1987 to 49% in 1991. The clearance rate in headings 2 and 3 is fairly close to the forecast rate. In heading 4, however, it is lagging behind.

3.2 <u>The quest for greater cost-effectiveness</u>

When the Financial Regulation was revised in March 1990 a provision was inserted in Article 2 to the effect that the budget appropriations must be used in accordance with the principles of sound financial management, and in particular those of economy and cost-effectiveness. These principles and requirements were also referred to in other provisions in the Regulation relating to the establishment and implementation of the budget.

After exploratory work and an experimental period the Commission took a number of measures to make the cost-effectiveness approach more systematic when drafting proposals for operations, monitoring their implementation and preparing the budget. In particular, the financial statement accompanying all proposals or communications which the Commission sends to the Council must now contain a section on the cost-effectiveness factors taken into account and the rules proposed to evaluate the results achieved in relation to the objectives pursued.

Each year, when the Commission is preparing its statement of estimates, the authorizing officers supply updated information of this type in support of their requests for appropriations. This information was submitted to the budgetary authority for the first time for the 1992 budgetary procedure in the working papers accompanying the preliminary draft budget.

3.3 <u>Two trends requiring correction</u>

Apart from the problems highlighted in 1987 and now the object of substantial improvements, two trends will need to be corrected in the years ahead.

First, budgetary practice in applying the financial perspective since 1988 has led each year to a budget which is always very close to the ceilings in the various headings. The absence of available margins during the year thus makes it virtually impossible to adopt supplementary budgets without the financial framework having first to be revised, even where the amounts involved are relatively small. The Commission and the budgetary authority must therefore work out a code of conduct for budgetary procedure to avoid this situation as far as possible.

Secondly, the budget nomenclature comprises a large number of headings (1 032 in 1992) with the size of allocations varying enormously. Of the 460 headings covering operating expenditure outside the EAGGF Guarantee Section, nine headings account for over 60% of the appropriations while half the headings account for only 0.7%, none of them carrying more than ECU 3 million. This dispersion represents a potential source of waste since scattered operations involving small amounts will not generally have a significant impact at European level. It is also a hindrance to sound management of the Community budget.

An attempt should therefore be made to recast the budgetary nomenclature and to delete or merge operations where the amount of appropriations is insignificant.

## II. PURPOSE AND METHOD OF COMMUNITY BUDGET INTERVENTION

### 1. Role and scope of Community budget assistance

1.1 <u>The new financial framework will have a twin role to play</u>:

- to support stage II of Economic and Monetary Union, during which a high degree of convergence will have to be achieved in price exchange rate and stability and sound public finances;

- to translate into budgetary terms, where necessary, the increase in the Community's powers in the context of European Union, in particular in fields such as external policy, trans-European networks, research and flanking measures for industrial change.

1.2 <u>Community expenditure on internal policies will have to be concentrated on three main types of operation</u>:

- economic and social cohesion measures designed to further promote the development of backward regions and assist the less prosperous Member States in their convergence efforts;

- horizontal measures - implemented at Community level in accordance with the principle of subsidiarity - to maximize the effectiveness of the internal market and boost the competitiveness of industrial firms;

- external action to enable the Community to provide an effective and credible response, with strict application of the principle of subsidiarity, to the international responsibilities it must assume.

These three types of operation will be based essentially on different financial instruments and different criteria will govern their implementation.

1.3 The basic role of the Community's budgetary operations in most cases will still be to guide and prompt Member States in their allocation of national resources and in the pursuit of their economic policies. The aim will be:

- to encourage less prosperous Member States and regions to devote sufficient resources to measures designed to close the development gap without compromising the rules of budgetary discipline which they have to observe;

- to promote effective coordination of national policies in all areas where the efficiency of the Community as a whole can be increased by joint action;

- to prompt Member States to take over demonstration projects or specific multiannual programmes.

However, the role of the Community budget is not, as a rule, to intervene directly in the supply of collective goods and services.

## 2. The Community budget and the cohesion objective

### 2.1 Reconciling progress towards cohesion with convergence efforts

(a) In the years ahead the Community should step up the measures it has taken to help less-developed regions catch up.

Initial assessments of the structural measures implemented since 1988 show that they have encouraged economic growth in the regions concerned (Objective 1 regions).

However, in spite of a general trend towards convergence in recent years, there are still considerable regional disparities in the Community in terms of per capita income and employment. In some of the less developed regions the level of growth has been below the Community average. The resources devoted to basic economic infrastructure in the richest 10% of regions are nearly three times as high as in the poorest 10% of regions. Differences are at least as wide in training and qualifications.

A substantial and sustained investment effort is needed to reduce these disparities, even if this is done progressively over a relatively long period. By way of example, to increase its per capita income from 50% to 70% of the Community average, a region must achieve a growth rate of nearly two percentage points above that of the Community as a whole every year for 20 years.

(b) The high degree of convergence between economic policies to be achieved by the end of stage II of Economic and Monetary Union will be a factor contributing to cohesion. Experience shows that a stable macroeconomic framework is essential for strong and balanced growth. On the microeconomic front, the establishment of a single currency will considerably enhance the benefits of the single market.

Nevertheless some of the measures for adjusting to the new context will have only a partial or slow effect and might give rise to immediate costs which will be hard to bear. Language and cultural differences are a natural obstacle to the mobility of the workforce. In any case large waves of migration would run counter to the Community's basic objective of achieving the harmonious development of economic activities over the whole of its territory. When firms assess the relative costs and benefits of investing in a certain place, they inevitably take into account the quality of human resources, public utilities and even the quality of life offered by host regions.

In order to reap all the potential benefits of Economic and Monetary Union, less prosperous Member States will have to continue to develop their infrastructures. At the same time they will have to observe strict budgetary discipline in order to fulfil the macroeconomic conditions for entry into stage III. This could lead to a reduction in the financial resources devoted to public investment. Hence - in accordance with the principle of additionality - this could give rise to difficulties in absorbing Community assistance. There is therefore a risk that the process of convergence of economic policies may run counter to the goal of cohesion. The Community must see to it that such negative chain reactions do not occur and ensure compatibility between the two objectives of convergence and cohesion.

Moreover, these countries will be more exposed to economic upheavals while at the same time having to avoid if possible the option of devaluation, which would delay the move to stage III of Economic and Monetary Union without removing the need for appropriate adjustment measures.

## 2.2 Assistance from the Community budget

More mutual support is therefore necessary not only to help less developed regions catch up but also to enable all the Member States to enter stage III on sufficiently fair terms.

Under the new Treaty the Community's budget expenditure will still be directed mainly towards the allocation of productive resources and improvements on the supply side rather than the establishment of a system of redistribution, which falls within the province of interpersonal solidarity.

The Community's structural Funds will remain the main instrument for intervention to promote cohesion, although the aid granted will need to be concentrated more strongly, the rates of Community aid modulated and the criteria for allocating it made more flexible. The role of the Funds will be to provide additional resources to those allocated by national or regional governments for the pursuit of five main objectives: the development of less prosperous regions; the conversion of regions affected by industrial decline; the occupational integration of the long-term unemployed and young people and the reintegration of those excluded from the labour market together with vocational training and retraining for workers affected by industrial change and developments in production systems; rural development; and, as a specific objective, structural operations in the fisheries sector.

The establishment of a new Cohesion Fund will enable the Community, as part of its horizontal action on the environment and trans-European networks, to help finance projects in the less prosperous Member States, thereby effectively supporting their convergence programmes. The financial contribution will help them adapt to Community environmental standards or to include in their investment programmes missing links in transport infrastructure networks duly recognized as being of Community interest.

## 3. Expenditure linked to horizontal Community policies: application of the principle of subsidiarity

According to the principle of subsidiarity, Community intervention in areas in which it does not have exclusive competence is only necessary if and when the objectives of the proposed operation cannot be satisfactorily achieved by the Member States and, given the scale or effects of the proposed operation, are consequently best achieved at Community level. This principle should be applied whenever Community competence is exercised in whatever form, including instances where the proposed operation involves Community financing. The Community must always demonstrate that its financing provides "added value".

3.1 As regards external relations, the new responsibilities relating to the common security policy should have only limited budgetary implications. However, contributions from the Community budget to measures in the various fields of development cooperation and financial assistance for non-member countries must reach a certain critical mass for the sake of efficiency and credibility. The size of this critical mass will, of course, vary depending on the Community's responsibility towards the different categories of beneficiary.

In most cases, Community financing can and must be seen as a substitute for national expenditure which the Member States would otherwise incur with far fewer guarantees as to visible impact and effectiveness. Incorporation of the EDF in the budget would be a move in this direction.

3.2 In recent years Community action on internal policies has been directed mainly towards implementation of the Single Act and the completion of the internal market. In the years ahead more emphasis will be placed on measures designed to increase the effectiveness of the internal market (promotion of trans-European networks), improve the competitiveness of firms and encourage industrial change (research and technological development, training).

In a number of fields, Community action may take the form of legislation (for example, laying down common standards on the environment or establishing blueprints for trans-European networks). If budgetary measures are also required, they will be based on the following principles:

- The role of Community expenditure is - in part at least - to replace national expenditure. This implies close coordination between Community and national programmes on both technical and financial aspects right from the outset.

- The criterion for granting Community financing must be the efficiency of the Community as a whole. If considerations relating to cohesion are involved in the conduct of Community policies, they must be clearly identified, including any financial implications.

- In these circumstances budget assistance provides a guiding framework in most cases. This implies the use of incentives and promotional measures (feasibility studies, demonstration projects, interest subsidies, loan guarantees) rather than true joint financing.

## III. BUDGET DATA AND ECONOMIC ASSUMPTIONS

### 1. The starting point: the 1992 financial perspective

The starting point for the preparation of the new financial framework is the financial perspective in force following the revision in February 1992 to allow for real needs not covered by the budget as adopted. A supplementary/amending budget will therefore be necessary to increase commitment appropriations to ECU 66 592 million and payment appropriations to ECU 63 241 million, 1.21% and 1.15% of GNP respectively. This leaves an unused margin in 1992 of 0.05% in relation to the own resources ceiling of 1.20% of GNP.

### 2. Data to be taken into account after 1992

Earlier decisions determine the amount of budget allocations for the years beyond 1992 in two areas.

2.1 Structural Funds

The target of doubling the structural Funds in 1993 compared with 1987 implies providing a basic allocation of ECU 18 753 for that year at 1992 prices. This includes the allocation for the eastern part of Germany following the amendment of the financial perspective approved in December 1990.

To the basic allocations made in the new financial framework must be added the transfers to be made in respect of appropriations not used in 1990 (ECU 193 million already approved by the budgetary authority) and in 1991 (ECU 350 million according to the Commission's initial estimates) under points 10 and 11 of the current Agreement, plus the appropriations required for the pursuit of the technical assistance and support programmes. For the 1993 budgetary procedure an additional margin should be allowed for financing the programmes for the outermost regions (POSEIDOM, POSEIMA, POSEICAN) and for the inclusion of structural operations relating to fisheries in the structural Funds.

Two other amounts will have to be determined and taken into account at a later date:

- a transfer of any appropriations not used in 1992;

- additional allocations which may be approved to compensate for the fact that actual inflation over the previous period has been higher than estimated, after allowing for any adjustments already made, so that the doubling of the structural Funds will be achieved in real terms in line with the original schedule.

These amounts will have to be counted against the margin available within the own resources ceiling.

### 2.2 Research and technological development framework programme

At this stage the amount deemed necessary for the third framework programme over the period 1990-94 is ECU 5.7 billion. The Council has approved ECU 2.5 billion for the first years of the programme. This leaves ECU 3.2 billion still to be allocated for 1993 and 1994, to which should be added an additional amount for these two years after re-evaluation of the programme.

## 3. Basic economic assumptions for 1993-97

The new financial framework is based on the assumption of an annual average growth rate for Community GNP of 2.5% in real terms from 1993 to 1997. This assumption is based on the medium-term economic forecasts made by the Commission (in particular the economic forecasts for 1992-93 and the medium-term economic convergence scenarios for 1995 contained in the Annual Economic Report 1991-92).

According to the projections, after the current slowdown, economic growth will pick up and move towards its medium-term path. The gains made in the 1980s, in terms of the restoration of fundamental growth factors, have not been compromised. This recovery should be sustained by the effects of the establishment of the internal market - even if these are spread over a longer period than was assumed in the initial simulations - and the impetus provided by the catch-up growth process in the eastern Länder of Germany beginning in 1993.

As there are continuing uncertainties, deriving in particular from economic developments elsewhere in the world, the forecast must remain relatively cautious and rely mainly on factors within the Community rather than on a particularly favourable international environment.

# PART TWO

# THE FINANCIAL PERSPECTIVE 1993-97[3]

## I. GENERAL PRESENTATION OF THE NEW FINANCIAL FRAMEWORK

### 1. Growth of total expenditure

1.1 When determining the framework for the financial perspective for the next five-year period, the Commission analysed the future development of the various Community policies in the light of the new objectives for the Community laid down at the Maastricht European Council and set out in COM(92)2000.

The Commission also took account of constraints on public expenditure in the Member States, in particular during the second stage of Economic and Monetary Union. The same discipline must be displayed at Community level, in particular through strict application of the principle of subsidiarity.

This new framework for the financial perspective is based on the present size of the Community. It would have to be changed if new Member States were to join between now and 1997. However, the proposed financial framework should not be affected by the financial relations which will form between the Community and the EFTA countries following establishment of the European Economic Area. These operations should, nevertheless, be seen to tie up with those in the Community budget.

The proposals put forward also assume that the scope of the general budget will remain unchanged. If the European Development Fund were to be incorporated, a decision would have to be taken on new expenditure ceilings and use of additional budget funds. However, due account has been taken of the necessary links between the Community budget and the development of a borrowing/lending policy along the lines set out in COM(92) 2000. The new financial perspective would also allow some of the expenditure under the ECSC operating budget (research, certain redeployment measures, aid for conversion) to be gradually incorporated into the general budget.

1.2 As in the current financial perspective, the amounts indicated for each heading or, where appropriate, for each subheading are expressed at constant prices (1992 prices). They represent an annual ceiling on expenditure in terms of commitment appropriations.

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3 All the amounts indicated for the new 1993-97 financial perspective are expressed at constant 1992 prices.

A corresponding overall ceiling has been set for payment appropriations on the basis of the ratio between payments and commitments calculated for each category of expenditure and in line with the need to ensure orderly growth in these two types of appropriation.

The ratio between total commitment appropriations and total payment appropriations in the new framework of the financial perspective thus comes to an average of 1.05 over the period 1993-97. In the financial perspective which actually applied between 1988 and 1992, this ratio gradually increased from 1.03 to a little over 1.05. This stabilization of the ratio between commitment appropriations and the payment appropriations required each year is mainly due to the mechanical catch-up effect as the increase in commitment appropriations tends to stabilize after accelerating initially. The new financial framework must also allow the improvements in budgetary execution since 1988 to continue: the time elapsing between commitments and payments has been reduced, thereby avoiding an excessive increase in outstanding commitments, and the utilization rate for payment appropriations has increased.

The proposed new framework does not break down total commitment and payment appropriations into compulsory expenditure and non-compulsory expenditure. At this level, the breakdown between compulsory and non-compulsory expenditure can result only from the choices made by the budgetary authority when it adopts the budget in accordance with the ceilings for the various headings.

A margin of 0.03% of GNP has been left available every year between the own resources ceiling and the ceiling on payment appropriations required. Apart from providing some leeway should growth fail to reach the level assumed, this margin will provide scope for any revision of the financial perspective ceilings which may be necessary.

1.3 The proposed new financial framework sets an overall ceiling of ECU 87 500 million on commitment appropriations in 1997, i.e. 1.41% of GNP and reflecting an annual average increase of 5.6% compared with 1992. The corresponding ceiling on payment appropriations required would be ECU 83 200 million in 1997, i.e. almost ECU 20 billion more than the 1992 ceiling. Allowing for the 0.03% margin for revision, the ceiling on own resources made available to the Community in 1997 would rise to 1.37% of GNP.

The proposed new financial perspective is set out in the table at the end of Part Two.

## 2. Reclassification of expenditure headings

There are three reasons for the proposed changes in the current structure of the financial perspective and the contents of the various headings.

First, the purpose of the financial perspective is to guarantee orderly growth in Community expenditure in accordance with the priorities adopted. The breakdown of total expenditure between the headings must therefore reflect the Community's main policy objectives during the period under consideration, with the change in the ceiling for each heading being conditioned by the inherent dynamism of Community expenditure in the field concerned.

Second, too detailed a breakdown must be avoided in order to maintain sufficient flexibility of budgetary management for the sake of efficiency. Otherwise, the financial perspective would no longer be an overall medium-term framework but something more of a multiannual budget. The headings must be sufficiently broad, but at the same time homogeneous as regards the nature and methods of management of the financial instruments they cover.

Finally, the uncertainties which may affect the medium-term development of certain categories of expenditure, particularly on external policies, and the unforeseeable situations which the Community may have to contend with require that an appropriate margin be allowed, but without compromising the principle of budgetary discipline.

The new financial perspective should consist of six headings:

1. Common agricultural policy
2. Structural operations for economic and social cohesion
3. Internal policies of a horizontal nature
4. External action
5. The institutions' administrative expenditure
6. Reserves for exceptional expenditure

The proposed classification is based largely on the 1988-92 financial perspective. Apart from a number of alterations with respect to the content of certain headings, the main changes are the splitting of the old heading 4 (Other policies) into two separate headings: internal policies (new heading 3) and external action (new heading 4), the disappearance of the old heading 3 (Policies with multiannual allocations), resulting in the inclusion of research under internal policies, and the expansion of heading 6 (Monetary reserve) to include a new reserve for exceptional expenditure connected with external action in addition to the agricultural monetary reserve.

In view of the break-up of the current heading for "Other policies" and the contents of the new heading for "Internal policies", there no longer appears to be any need for a subceiling for non-compulsory expenditure, since the new heading 3 would then contain nothing but non-compulsory expenditure, with the exception of certain expenditure (less than ECU 160 million in 1992) in the agricultural sector, fisheries and industry (Eureka secretariat) which could indeed be considered for reclassification as non-compulsory expenditure.

The financial perspective is mainly an instrument of budgetary discipline and is not intended to provide a function-based classification of the various items of Community expenditure. The different components of a specific operation might come under a number of headings. For example, Community operations in the industrial sector come under research and technological development as well as the Social Fund. Similarly, operations relating to the trans-European networks, the environment and fisheries will call on financial instruments covered by various headings.

## II. AGRICULTURAL EXPENDITURE

In view of the proposed reform, all expenditure relating to the common agricultural policy should be placed under a single heading. The ceiling for this heading would still be determined - on an updated basis - by applying the agricultural guideline as defined in 1988.

### 1. The principle of the agricultural guideline must be retained

The proposed reform will make it easier to control and predict the increase in expenditure, but its implementation will be gradual. Traditional support mechanisms will continue to exist for some time so expenditure will still be vulnerable to external factors, even though their effects will be reduced. Moreover, not all the market organizations are covered by the reform.

The continued reduction in agricultural expenditure in relative terms will remain a political objective, as enshrined in the legal provisions limiting its increase to 74% of GNP growth. In return, retention of the guideline will provide a guarantee for those who benefit from agricultural expenditure that the reform will not result in a reduction in the overall support given to agriculture.

### 2. The scope of the agricultural guideline

(a) The agricultural guideline should apply to all expenditure under the reformed agricultural policy:

- expenditure on market policies, including the proportion of expenditure on set-aside which at present comes under heading 2 of the financial perspective; this category of expenditure is one of the key components of the reform proposals for arable crops;

- expenditure on flanking measures (early retirement, environment, afforestation) including spending in connection with similar measures at present covered by Objective 5a of the structural Funds (ECU 70 million in 1992).

The following categories of expenditure will also be placed under the agricultural guideline:

- expenditure on the Guarantee Fund for fisheries (at present under heading 4, amounting to ECU 29 million in 1992);

- expenditure on income support (at present under heading 2), adopted in 1988 as a measure to support budgetary discipline in agriculture. A maximum amount (ECU 300 million) has been fixed for the period up to 1992. However, the appropriation entered in the 1992 budget is only ECU 100 million and in 1991 only ECU 4 million was used. These measures - at least in their present form - will be phased out gradually after 1993.

(b) The guideline would not apply to the following categories of expenditure:

- other agricultural measures (eradication of diseases, information and inspections, internal market in agriculture) which at present come under heading 4 of the financial perspective and are directed mainly at the operation of the internal market in agriculture; these measures would still be classified alongside other internal policies of a horizontal nature;

- the agricultural monetary reserve.

  The monetary reserve could be reduced to ECU 500 million from 1995, when the reform of the CAP takes effect, as expenditure should then be much less susceptible to fluctuations in the dollar exchange rate. The operating conditions for this reserve would remain unchanged, but the limit set for using it could be reduced to ECU 200 million.

  The reserve would constitute a separate subheading in heading 6 (Reserves for exceptional expenditure).

- the EAGGF Guidance Section operations which at present come under Objective 5a (mainly modernization measures, compensatory allowances and aid for the installation of young farmers).

**3. Raising the agricultural guideline**

The estimate of the cost to the Community budget of the reform of the CAP between 1993 and 1997 shows that, because of the various factors which have to be taken into account, the level of the guideline will have to be adjusted. It will have to be raised by ECU 1.5 billion when the reform is introduced, that is to say, in 1994. This is equal to the estimated cost of German unification.

## III. STRUCTURAL MEASURES FOR ECONOMIC AND SOCIAL COHESION

### 1. Increased Community effort

In accordance with the conclusions of the Maastricht European Council, two instruments will be used to back the proposals for stepping up the measures to promote cohesion, namely the structural Funds and the new Cohesion Fund.

These two instruments will come under the same heading in the financial perspective, but they will have separate allocations, since their operational criteria will be different.

The overall total for structural operations, if distributed as proposed between the types of instrument, could be used for a differentiated approach on the basis of the following considerations:

- to ensure a 2/3 increase in the allocations for Objective 1 regions and hence a stronger concentration of structural Fund operations in those regions;
- the total allocation in 1997 for the four least prosperous Member States (Greece, Spain, Ireland and Portugal), comprising money from the Cohesion Fund and Objective 1 assistance from the structural Funds, would be twice the amount they received in 1992 under Objective 1 (basic allocation);
- the outermost regions (coming under the Poseidom, Poseima and Poseican programmes), which suffer from many handicaps because of their remoteness, should also receive double the amount under structural operations;
- measures relating to the other structural Fund objectives and the allocation of corresponding funding to them would be reviewed, with particular emphasis being placed on flanking measures for industrial restructuring and changing systems of production and on the compatibility of current Objective 5a measures with the flanking measures for the reformed agricultural policy;
- the role of Community initiative programmes should be substantially strengthened and some 15% of the structural Funds should be set aside for them. The Community initiative programmes should be organized in such a way as to focus on a number of priority themes;
- structural measures in the fishing industry would be funded out of the overall allocation for the structural Funds.

### 2. The allocation for cohesion policies

The total allocation for the cohesion policies would be increased to ECU 29 300 million by 1997.

## 2.1 The structural Funds

The increase in the allocation for the structural Funds would be 58%.

(a) In distributing the extra funds, priority should be given to Objective 1 regions (Objective 1 being the promotion of development and structural adjustment in regions whose development is lagging behind). These would continue to be defined in accordance with the current criteria and are due to be extended to include the new German Länder in 1994. The structural Fund resources of ECU 11 000 million allocated to this objective in 1992 (figures for the former GDR included) would be increased by two thirds over five years to around ECU 18 400 million in 1997.

This stronger concentration of structural Fund operations on Objective 1 (around 70% of the total allocation in 1997) should be accompanied by increased flexibility in terms of both the rate of assistance and the eligibility criteria.

(b) The allocation for the current Objectives 2, 3, 4 and 5b (including Objective 5a operations in 5b regions) and for the new fisheries-structures Objective would be increased by 50% from ECU 5 070 million in 1992 to ECU 7 600 million in 1997. The programming period for all these objectives would be the same.

This allocation would go towards boosting measures linked to the four objectives set out below.

- The current Objective 2 (conversion of regions affected by industrial decline) would remain.

- The current Objectives 3 and 4 (combating long-term unemployment and facilitating the occupational integration of young people) would be redefined. Measures of this kind would be financed from the Social Fund and be divided into three categories centred on employment problems:

  . combating long-term unemployment and promoting the occupational integration of young people throughout the Community;

  . across-the-board measures to help those excluded from the labour market coming under occupational integration measures;

  . a major new training and occupational redeployment initiative throughout the Community in anticipation of and keeping pace with industrial and technological changes requiring new skills.

- Objective 5b would be boosted. The criteria for what constitutes an eligible region may be applied more flexibly and the range of measures broadened.

- Structural measures in the fishing industry, currently covered by heading 4 of the financial perspective, would be integrated into the structural Funds as a new Objective 6. This mainly involves:

  . improving and adapting fisheries and aquaculture structures;

  . improving processing and marketing conditions for fisheries and aquaculture products;

  . formulating socio-economic flanking measures for the conversion of areas dependent on fishing.

(c) With regard to the current Objective 5a (adjustment of agricultural structures), some operations will be incorporated into the flanking measures for the reformed agricultural policy (ECU 70 million). Others will be continued with adjustments where necessary to ensure that they mesh in more closely with the reformed CAP (modulation, programming, partnership).
Once the impact of the agricultural policy reform can be assessed, there will have to be a review to decide whether some of these measures should come under the agricultural guideline. At the same time the question will have to be considered whether a specific instrument should be set up for rural development to take the place of the EAGGF Guidance Section in due course.

Outside the Objective 1 and Objective 5b regions some reduction in marketing and processing operations is likely.

Compensatory allowances and installation aid for young farmers would be maintained at 1992 levels in real terms.

The total amount devoted to Objective 5a operations, outside Objective 1 and Objective 5b regions, would be close on ECU 500 million in 1997.

(d) The allocations for transitional and innovatory measures and support programmes would be maintained at their present level of around ECU 300 million.

### 2.2 The Cohesion Fund

In accordance with the decisions adopted at the Maastricht European Council, the Cohesion Fund is intended to provide financial assistance to those Member States whose per capita GNP is less than 90% of the Community average.

The aim of the assistance would be to enable these Member States to shoulder the financial burden arising from Community decisions concerning the environment (e.g. plans to impose Community standards) and transport infrastructure (projects of Community interest covered by blueprints for trans-European networks).

Member States' access to the Fund will be conditional on the introduction of a programme to meet the convergence conditions, particularly on budget deficits, and subject to Community monitoring in the context of multilateral surveillance. Projects will be eligible if they meet the specified criteria in the two areas in question.

The proportion of funds provided by the Community should be high (85% - 90%) and payments of advances against annual tranches could be relatively high.

Given the pressing need for support measures to help the beneficiaries' economies on the way to convergence, there is a case for setting up the Fund straight away in 1993, with an initial annual allocation of ECU 1 500 million to be raised gradually to ECU 2 500 million by 1997.

No breakdown of this allocation between transport infrastructure and environmental measures would be fixed in advance. The Commission will take care to ensure a reasonable balance in the light of the projects planned.

## IV. HORIZONTAL INTERNAL POLICIES

It is proposed that all internal policies applying horizontally throughout the Community be taken under a single heading. This means:

- research and technological development policy, where the allocation to be set under the ceiling for the heading will serve as a benchmark for setting the ceilings for the framework programmes;

- other internal policies, except those coming under the cohesion measures.

### 1. Research and Technological Development (RTD)

#### 1.1 A new approach to RTD policy

The Commission proposes that a new approach to RTD policy should be introduced gradually, directed more towards the needs of business and boosting the competitiveness of the Community's economy.

In addition to continuing the measures taken under the third framework programme, which already involve concentrating efforts on a limited number of themes corresponding to clearly identified objectives, a new approach must be adopted. This would consist of taking an analysis of industry's needs and then, on the basis of industry's initiatives, drawing up multidisciplinary programmes centred on technologies targeted at major industrial priorities. The projects would be selected on the basis of four main criteria:

- subsidiarity - size of project and need for cooperation within the Community so that firms can compete with rivals throughout the world;

- general interest - programmes of general interest to the Member States and industry;

- ability of Community industry to evaluate and control programme development;

- dissemination of technology to the largest possible number of firms.

### 1.2 Financial implications

In 1993 and 1994, the bulk of the allocation available for RTD would be devoted to pursuing and amplifying the third framework programme. But much of the additional resources for those two years, the use of which is subject to the framework programme mid-term review, could be used for technologies targeted at major industrial priorities, and would in any case tend to expand between 1994 and 1997. Total Community RTD expenditure should be able to rise from ECU 2.45 billion in 1992 to ECU 4.2 billion in 1997, or nearly 5% of the Community budget. RTD expenditure would rise at an annual rate of around 11.5% over that period. In line with the Treaty, which provides that all research expenditure be included, the external aspects of research policy would be incorporated in the framework programme.

A new ceiling for Community expenditure will be set, as required by the new Treaty, when the new framework programmes are adopted. It would therefore seem neither necessary nor useful to establish a specific subheading for this category of expenditure in the new financial perspective. However, when the new financial framework is defined, a decision will have to be taken on what is to be earmarked for implementation of research programmes. It is accordingly proposed that a footnote to the "internal policies" heading specify the planned budgetary allocation for research with a statement to the effect that the three institutions undertake to regard the amounts given there as guidelines for the research framework programme.

## 2. Other internal policies

Community action in the next few years should focus on three themes:

### 2.1 Trans-European networks

Under the new Treaty provisions the Community is to contribute to the establishment and development of transport, telecommunications and energy networks. The aim of Community action is to promote interconnection and interoperability between national networks and access to these networks, bearing in mind the need to provide links to central regions from insular, isolated and remote regions.

Apart from Cohesion Fund intervention in favour of transport infrastructure or structural Fund intervention which, on a variety of regional-policy grounds, can be available for certain aspects of infrastructure projects, Community financial support will have to be of a purely subsidiary and incentive nature, and must concentrate, in the normal run of things, on two forms of assistance:

- contributions to feasibility studies on the basis of general plans and projects acknowledged to be of Community interest;

- interest subsidies and/or loan guarantees, as the case may require. The rate of Community assistance would have to be proportionate - depending on the degree of Community interest - to what is necessary to achieve the level of profitability required for the project to be undertaken.

In the overall financial allocation for internal policies, the Commission assumes as a rough guide that by 1997 trans-European networks would receive ECU 900 million.

In transport the emphasis would be on developing networks with a high service value (motorways, high-speed trains, air traffic control). To optimize infrastructure use and environmental protection there must be full consideration for combined use of different transport modes.

In telecommunications priority would go to establishing a network between administrative authorities to help make the internal market work. This would involve improving cross-border links for data communication and digital services networks and promoting the development of a Community wide-band network.

In energy, installing and improving links between electricity and gas grids throughout the Community would make for more rational use of production capacities and offer greater security of supply.

## 2.2 Environment

Community environment policy needs to be built up around three aspects:

- the aspect involving the structural Funds and the Cohesion Fund providing joint financing in the least prosperous Member States;

- the external aspect, for environment problems extending beyond Community territory;

- the internal aspect, for horizontal measures right across the Community, especially those aimed at promoting sustainable development.

The third aspect is the only one covered by the internal policies heading. Community action here should concentrate on preventing and remedying hazards at source. It would be based, at first, on regulatory or fiscal measures. Given the polluter-pays principle, the Community budget should be used to assist with the attainment of three objectives:

- prepare studies and gather information to substantiate Commission proposals for legislation, in particular with the installation of the European Environment Agency;

- secure coherence between legislation in this and other areas;

- promote implementation of the rules (technical assistance, awareness campaigns, pilot projects, demonstration projects).

These operations will be financed in particular by Life, an instrument combining various measures (e.g. Medspa, Norspa, Acnat and Habitat) so as to enhance the effectiveness of Community action.

### 2.3 Community integration - internal flanking policies

Apart from measures directed towards cohesion and those designed to boost competitiveness, Community action under the internal policies heading must comply, especially in budgetary terms, with a strictly applied subsidiarity principle and aim for greater effectiveness.

This being so, two broad lines are to be envisaged:

(a) A first category of activities will seek to ensure and verify the operation of the internal market in all its aspects - eradication of diseases and health controls in the agrifood trade, fisheries patrols, application of Community rules on energy and transport (safety measures included), consumer protection, standardization, etc.

Expenditure here will be broadly permanent and should remain stable as a proportion of the general budget. New activities can be envisaged (e.g. Trademarks Office and Pharmaceutical Products Agency).

(b) The second category aims at a broader objective than the simple operation of the internal market and must also support the policies designed to attain cohesion and boost competitiveness. It will be necessary to take a more selective approach and concentrate more heavily on the Community's primary objectives.

- Duplication must be avoided. Regional development assistance, for instance, even taking account of Article 130b, would as a rule come under the cohesion instruments. For budget purposes RTD measures would come under the framework programmes. Assistance to non-member countries, even if sectoral, should as a rule be covered by the allocation for external activities, provided there is an aid element.

- The overall allocation for such operations must reflect a number of major priorities. But the assignment of sums must not be too rigidly prejudged, as specific measures may be renewed or reoriented in the light of results. That said, Community action should concern the following areas in particular:

  * continued action in the cultural field, collecting and exploiting statistical data;

  * development of information and cooperation networks for firms, in particular small businesses;

  * concentration of action in the social field on support for ESF operations for training and job creation (more thorough analysis of employment problems both in specific industries and as regards exclusion from the labour market, and immigration problems), social protection schemes and the health and safety of workers at the workplace. Special emphasis will be placed on the social dialogue and the implementation of new health programmes as required by the Treaty;

* intensification of the public information and communication activities and of the operations launched in the audiovisual field (development of Media programme and the promotion of programmes, notably in connection with the strategy for introducing HDTV);

* reflecting the new approach to human resources, renewal of education and training programmes provided they can be shown to have had a catalytic effect on what the Member States themselves are doing. New programmes will be developed in such a way as to promote training of a kind that can improve the dissemination and utilization of new technologies.

### 2.4 The overall allocation for internal policies

On the basis of these guidelines, the aggregate resources to be earmarked for research and technological development and trans-European networks should rise to just over ECU 5 billion by 1997.

Between 1988 and 1992 expenditure on other internal policies rose substantially (nearly doubled, in fact) as the internal market project unfolded. With the 1992 target being reached, the annual rate of expansion should settle down at around 5% in the next few years as greater coherence is sought, action is more heavily concentrated and the subsidiarity principle is applied more strictly.

That would give a maximum level for the internal policies heading of ECU 6.9 billion in 1997.

## V. THE COMMUNITY'S EXTERNAL ACTION

The Community must be given the financial resources it needs in order to meet its increased responsibilities in the new international context. But it must also set itself realistic targets. This implies modulating modes of intervention and the intensity of aid in line with the specific requirements of the countries concerned and foreign policy priorities.

Because of the scale of the Community's external action, the Commission proposes that there should be a new heading (heading 4) for this category of expenditure. This would cover:

- existing cooperation and financial assistance policies financed from the Community budget. These policies, strengthened and perhaps extended to take account of new circumstances, should continue to develop with adapted instruments at a pace adjusted for each geographic area.

- as a rule the external elements of Community policies which also have an internal dimension (in particular environment and fisheries).

However, this new heading cannot accommodate all external action at this stage. Allowance must be made for the unpredictability of certain categories of external expenditure. The Community's external action will also be covered by:

- the new reserve for exceptional expenditure in connection with external action (heading 6) for emergency humanitarian and food aid, the implementation of specific operations or the activation of the budget guarantee on borrowing/lending operations. The practical details are discussed in Part Four of this document.

- the European Development Fund which, until its next renewal at least, will remain outside the budget. In the event of the Fund being entered in the budget before 1997, there would have to be a corresponding increase in the own resources ceiling at the appropriate time.

The margin for revision (some ECU 1.8 billion in 1977) could also be used, as in the past, to deal with new situations in particular.

## 1. Continuation and development of existing external action

### 1.1 Relations with the countries of Central and Eastern Europe

The proximity of these countries to the Community, the scale of the economic challenges they face and the need to ensure stability in Europe in the wake of recent political upheavals are all reasons why specific Community action is called for. Europe agreements will be signed or implemented with the countries of Central and Eastern Europe. Current Community aid would continue to be provided in this framework, the content being adapted to changes in requirements. Technical and economic (PHARE-type) assistance would remain the preferred vehicle for Community action and the main thrust of budgetary intervention. It could be supplemented by backing for the structural adjustment or macroeconomic policies implemented by these countries. However, the mounting of such programmes is a matter in the first instance for international financial institutions and the Community would provide additional assistance, above all through guaranteed loans, within a framework still to be defined.

This form of action should be extended when the time is right to the new States emerging from the break-up of Yugoslavia if they so request.

### 1.2 Relations with the Commonwealth of Independent States

It is important, in the context of an international sharing of responsibilities, that the financial contribution of the principal parties should be defined.

A substantial strengthening of technical assistance provided by the Community and the possible development of financial assistance would contribute to the success of stabilization and adjustment programmes to be mounted under the auspices of the relevant international institutions.

### 1.3 Cooperation with the countries of the Mediterranean and the Middle East

As in the case of Central and Eastern Europe, cooperation with the Mediterranean countries is of particular significance to the Community because of their geographical proximity, the closeness of their relations with Europe and the economic and demographic imbalance between the two sides. The Council has adopted a new Mediterranean policy for the period 1992 to 1996 which steps up the Community's financial commitment.

The geo-political situation of the region and the introduction of Community coordination of immigration policies could lead to a reinforcement of this policy, which should nevertheless continue to operate through financial protocols in the main.

The Community must also be in a position to contribute to the financial assistance programmes that may emerge from the Middle East peace conference.

### 1.4 Cooperation with the countries of Latin America and Asia

The fact that the spotlight is on certain regions of the world should in no circumstances lead to a dilution of the Community's presence on the international scene or its commitment to provide assistance to all developing countries. The European Development Fund apart, aid to these countries will increase under the multiannual aid programme for Latin America and Asia approved by the Council in 1990.

### 1.5 Food aid

Expenditure on traditional programmes in this area should remain more or less stable in real terms. Increased requirements cannot be ruled out because of famine in Africa and the increase in shipping costs.

### 1.6 Humanitarian aid

Since Community action on humanitarian aid needs to be rapid and well coordinated, the Commission has taken the initiative of creating a European Office for Emergency Humanitarian Aid within its departments.

It is also vital that the Commission should have rapid access, over and above current budgetary allocations, to additional financial resources for humanitarian or food aid in the event of emergencies arising after presentation of the preliminary draft budget. Recourse to a revision of the financial perspective should be avoided since this process would take too long and budgetization procedures need to be speeded up. This need would be met by the reserve for exceptional expenditure in connection with external action proposed by the Commission and discussed in more detail in Part Four of this document. The amount set aside for this purpose could be around ECU 300 million.

## 2. External elements of certain Community policies

2.1 In many instances environmental action needs to extend beyond the Community's frontiers if the desired objective is to be achieved. Where developing countries are involved, this implies financial support. Involvement in the financial aspects of international treaties and agreements would give the Community more say in the implementation of financial instruments included in such agreements.

2.2 Expenditure related to international agreements on fisheries, now classified with other internal policies (ECU 270 million in the 1992 budget), should appear under the heading for external action in the future.

The main expenditure involved here is compensation paid direct to third countries in exchange for acquisition by the Community of fishing rights in their waters in order to sustain and expand long-range fishing, ease the pressure of fishing in Community waters and secure supplies for the European market. Expenditure for this purpose is bound to grow, though not as sharply as in the past, firstly because agreements are becoming more expensive as they are renegotiated and secondly because fishing rights are being acquired in new countries (Latin America and the countries of Eastern Europe in particular). These additional costs could be reduced by demanding a financial contribution from the owners of fishing vessels under the second generation agreements.

## 3. Guarantee for lending operations

Lending to third countries in which the Community is directly or indirectly involved has grown rapidly and is likely to develop further over the next few years. The Commission therefore plans to bring them under a framework regulation similar to that governing Community loans for balance of payments support.
The budget guarantee comes into play for three different operations:

- loans granted direct by the Community from funds borrowed on the capital markets (as is the case with loans to several countries of Central and Eastern Europe and to Algeria);

- the guarantee for EIB loans;

- the guarantee for loans granted by other financial institutions (the sole case so far being the credits made available to the former Soviet Union).

At end-1992, the budget guarantee in respect of actual or planned transactions should cover loans to third countries totalling some ECU 7.8 billion. The average amount falling due each year in terms of capital and interest covered by the guarantee would be approximately ECU 1.4 billion over the period 1993-97, with a minimum of ECU 1.1 billion in 1997 and a maximum of ECU 1.7 billion in 1995.

Since the guarantee has the backing of the entire budget, with cash resources being drawn on to finance any activation, a procedure must be devised to make it possible to regularize the budgetary situation by replenishing the headings concerned without having to embark on a revision of the financial framework or cutting expenditure drastically.

To this end the Commission proposes the inclusion in the new financial perspective of a reserve to guarantee loans. This reserve would be linked to that proposed for exceptional expenditure on humanitarian aid. The total allocation to this reserve would increase gradually from ECU 500 million in 1993 to ECU 900 million in 1997. Each year, as part of the technical adjustment of the financial perspective, the Commission would determine what proportion of the reserve should be allocated to loan guarantees, by applying a given percentage (20% for example) to amounts falling due.

This being so, a reserve of the order of ECU 600 million by 1997 would be in line with a doubling of current lending to third countries.

## 4. Budget allocation for external action and margin for revision

As far as budgetary expenditure proper is concerned, the Commission considers that the foreseeable development and expansion of existing external action and inclusion in heading 4 of the external elements of certain Community policies, would imply raising the ceiling on financial resources available for external action to ECU 6.3 billion. Assuming comparable content, this would be tantamount to an annual rate of increase of almost 12% a year from 1992 to 1997.

If the reserve for exceptional expenditure is taken into account, the financial capacity of the budget for external action would thus be doubled.

## VI. THE ADMINISTRATIVE EXPENDITURE OF THE INSTITUTIONS

When the future framework of the financial perspective is defined, the institutions' administrative expenditure must not be forced to make do with the leftovers. As the Community's tasks widen in scope and the volume of funds to be managed increases, more resources must be made available and an adequate overall budget must be agreed in advance.

### 1. Contents of the heading

A specific heading must therefore be set aside for administrative expenditure only. Other expenditure included under the present heading 5 of the financial perspective will disappear:

- expenditure on stock disposal measures comes to an end in 1992;
- reimbursements to certain Member States (Greece, Spain and Portugal) may still occur after 1992 as a result of corrections made in respect of earlier years, but it is proposed (see Part Four below) to treat such operations, from 1993 onwards, as a deduction from revenue or as a technical adjustment.

Within this heading, the institutions' expenditure on buildings should be kept separate from other administrative expenditure and made subject to a distinct ceiling. A separate allocation would thus be set aside for buildings, and requirements could be planned. The Commission's staff and administrative expenditure, on the one hand, and expenditure on pensions for all the institutions, which is also included in the Commission's budget, on the other hand, would also have to be distinguished from the personnel and administrative expenditure of Parliament, the Council and the other institutions.

As recommended by the budgetary authority, operations support expenditure (mini-budgets) currently falling within Subsection B.8 should be transferred to Part A of the Commission budget and included in the new heading with effect from 1993.

The 1992 base used as the starting point for the new financial perspective takes account of this reclassification.[4] The base has also been increased, in the case of administrative expenditure, by the amount of the revision agreed in February 1992 (ECU 40 million).

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4 If it were agreed to transfer to Part A not only the mini-budgets in the present Subsection B.8 but also other staff and administrative expenditure arising from outside activities and currently included with the operating appropriations, the ceiling for heading 5 in the new financial perspective would have to be raised accordingly. This would be offset by a corresponding reduction in the operating headings concerned.

## 2. Evaluation of requirements (see Annex 2, Table 1)

### 2.1 The staff and administrative expenditure of the Commission

(a) Non-pension expenditure

In the medium term the level of such expenditure is determined mainly by staff numbers.

Once the staff expenditure currently covered by the mini-budgets is transferred from Part B to Part A in 1993 (1 375 persons), the net additional requirements over the period 1993-97 as a whole are estimated at 1 350 posts. This increase, which is in line with the conclusions of the Screening Report, reflects the new requirements arising from the expanding workload in certain areas (such as external action and EMU) and takes account of the redeployment of staff which would be made possible by a restructuring of Commission departments.

On the assumption that salaries increase in real terms by 1.7% per year, that unit administrative costs increase by 2.5% per year and that the subsidies entered in Part A rise at the same rate, the Commission's total staff and administrative expenditure should be slightly over ECU 2 billion in 1997, an average annual increase of some 3.6%.

(b) Expenditure on pensions

Such expenditure is charged to the "Commission" budget although it concerns all the institutions. Given the age structure of the staff, the allocation for this purpose should be about ECU 450 million in 1997, which represents a sharp rise as compared with 1992 (+12% per year).

### 2.2 The staff and administrative expenditure of Parliament, the Council and the other institutions

Here it is assumed that staff and administrative expenditure (excluding buildings) will increase at the same rate (3.6% per year) as the corresponding expenditure by the Commission[5] (excluding pensions).

### 2.3 Expenditure on buildings (rents, construction and purchase of buildings)

(a) Commission

The estimate of requirements is based on the need to remedy the present shortage of premises and on the trend in staff numbers. It takes account

5 Subject to confirmation by these institutions of the forecasts for their own administrative expenditure.

of rising building costs and the more specific needs of the delegations in non-Community countries. Premises located within the Community will, in the main, be leased or purchased on an instalment plan.

A total allocation of some ECU 250 million is needed for 1997, which means an annual increase of just under 15% (including 6.5% to reflect the rise in real costs in Brussels).

(b) Other institutions

At this stage the programmes submitted by the other institutions indicate that the office accommodation costs of Parliament and the Economic and Social Committee will increase sharply (extension and renovation of premises being purchased on instalments), as will those of the Court of Auditors (stage-by-stage purchase of new buildings). On the other hand, the Council's expenditure on premises should be much lower once the purchase of the new building has been completed. The total annual requirements of these institutions should run at approximately ECU 200 million from 1995 onwards.

2.4 The total allocation to be set aside for the administrative expenditure of all institutions should be ECU 4 billion in 1997, or about 4.5% of the budget.

## VII. PROFILE OF COMMUNITY EXPENDITURE AND OF THE OWN RESOURCES CEILING

On the basis of all these estimated requirements, the Commission proposes the following financial perspective.

In the financial perspective the growth path of expenditure should be more or less a straight line from 1993 to 1997.

FINANCIAL PERSPECTIVE

COMMITMENT APPROPRIATIONS (ECU million 1992 prices)

| 18-Feb-92 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|
| 1.COMMON AGRICULTURAL POLICY | 35348 | 35340 | 37480 | 38150 | 38840 | 39600 |
| 2.STRUCTURAL OPERATIONS | 18559 | 21270 | 22740 | 24930 | 27120 | 29300 |
| Structural Funds | 17965 | 19770 | 20990 | 22930 | 24870 | 26800 |
| Cohesion Funds | | 1500 | 1750 | 2000 | 2250 | 2500 |
| (IMPs/Pedip) | 594 | | | | | |
| 3.INTERNAL POLICIES (1) | 3991 | 4500 | 5035 | 5610 | 6230 | 6900 |
| 4.EXTERNAL ACTION | 3645 | 4070 | 4540 | 5060 | 5650 | 6300 |
| 5.ADMIN. EXP. INSTITUTIONS | 4049 | 3310 | 3465 | 3720 | 3850 | 4000 |
| Staff and administration | | | | | | |
| - Commission | 1696 | 1760 | 1825 | 1890 | 1960 | 2035 |
| - Other institutions (2) | 895 | 930 | 960 | 1000 | 1040 | 1070 |
| - Pensions (all inst.) | 249 | 290 | 325 | 380 | 400 | 445 |
| Buildings | 287 | 330 | 355 | 450 | 450 | 450 |
| (Repayments) | 922 | | | | | |
| 6.RESERVES | 1000 | 1500 | 1600 | 1200 | 1300 | 1400 |
| Monetary reserve | 1000 | 1000 | 1000 | 500 | 500 | 500 |
| Exceptional expenditure | | 500 | 600 | 700 | 800 | 900 |
| TOTAL COMMITMENT APPROPS. | 66592 | 69990 | 74860 | 78670 | 82990 | 87500 |
| PAYMENT APPROPS. REQUIRED | 63241 | 67005 | 71650 | 75110 | 79060 | 83200 |
| PAYMENT APPROPS. (% GNP) | 1.15% | 1.19% | 1.24% | 1.27% | 1.30% | 1.34% |
| MARGIN FOR REVISION (% GNP) | 0.05% | 0.03% | 0.03% | 0.03% | 0.03% | 0.03% |
| OWN RESOURCES (% GNP) | 1.20% | 1.22% | 1.27% | 1.30% | 1.33% | 1.37% |

| | | | | | | |
|---|---|---|---|---|---|---|
| (1) Indicative amounts set for RTD policy: | 2448 | 2730 | 3040 | 3380 | 3770 | 4200 |

(2) Subject to confirmation by the institutions concerned.

# PART THREE

# OWN RESOURCES

## I. POSSIBLE CHANGES IN THE SYSTEM OF OWN RESOURCES

As explained in Part One, the present distribution of own resources is not fair since it is out of line with GNP weights. This is basically due to the regressive nature of the VAT resource, which gives an advantage to Member States with low VAT bases and penalizes those, generally less prosperous countries, with high VAT bases.

In view of the advent of EMU and of the realization of European Union, the Commission's proposals are designed to make the own resource system fairer, in line with the Protocol on Economic and Social Cohesion agreed at the Maastricht European Council. There, the Commission and the Member States declared their intention to take greater account of the contributive capacity of individual Member States in the system of own resources, and to examine means of correcting for the less prosperous Member States degressive elements existing in the present own resources system.

### 1. Increasing the use of the GNP resource

The contributive capacity of Member States can be better taken into account by increasing the use of the GNP resource. This change would be brought about by reducing the uniform call rate on the VAT resource by 0.4 percentage points (reducing the VAT ceiling from the present 1.4% to 1%). This represents a continuation of the approach followed in 1988 when the GNP resource was first introduced with a view to matching the resources paid by each member State more closely with its ability to contribute.

The consequent reduction in the uniform VAT call rate reduces the importance of the VAT resource, which, because of the variability of the base as a proportion of GNP from one Member State to another, constitutes the main regressive element in the own resources system. There would thus be a switch away from the VAT resource to the present GNP resource. As shown in Annex 2, Chart 2 and Table 2, this would help the poorer Member States with capped VAT bases, reducing the advantage of those countries with VAT bases below the Community average as a percentage of GNP. The contributive capacity of the individual Member States would therefore be more taken into account.

### 2. Making the VAT resource less regressive

The regressive elements existing in the present own resource system for the less prosperous Member States can be mitigated by modifying the VAT base for these countries.

The Commission proposes to bring this about by lowering the level of capping of the VAT base from 55% to 50% of GNP. The reduction in the levels of capping of the VAT base would lessen the regressive influence of the VAT resource for the less prosperous Member States by making it more like the present GNP resource. This measure would help those, generally less prosperous, countries with high VAT bases as a percentage of GNP (see Annex 2, Chart 3, Table 3).

**3. The effects of the proposed changes**

Chart 4 and Table 4 of Annex 2 show the combined influence of the two changes proposed above based on the total resource payments of the 1992 budget. The gains for the less prosperous countries from these changes would be balanced by increases in the contribution of the Member States with low VAT bases. However, these countries would nevertheless continue to retain a significant advantage in the own resource system.

The proposed changes would have a profound effect on the importance of the VAT resource in the budget. Taking the 1992 budget as an illustration, the VAT resource yields over ECU 34 billion, or around 55% of total own resources. The effect of the two changes would be to reduce the yield of the VAT resource to around ECU 22 billion, or only 35% of the budget. The GNP resource would rise accordingly from around ECU 13 billion, or 21% of the budget, to ECU 25 billion, or over 40% of the budget. The fourth (GNP) resource would therefore become the most important source of funding for the Community budget.

**4. The search for a new fifth own resource**

In view of its institutional and financial development, it would be good for the Community to introduce a new fifth own resource based on a harmonized tax and with no adverse effects on burden-sharing. This would go some way towards correcting the present unsatisfactory situation where traditional own resources are declining in importance. What is more, not only the GNP resource but the VAT resource as well are perceived by governments and even more so by national parliaments as national contributions rather than the Community's true own resources.

Any tax harmonization would have to be justified on economic grounds. In addition, from a political angle, the introduction of a fifth resource would have to be associated with an increase in the European Parliament's responsibilities for the revenue side of the budget.

The Commission has considered various national taxes whose proceeds might possibly be shared with the Community. It has found that in the Member States' present tax systems there is no tax with a sufficiently harmonized base.

Political developments in the medium term might make a new own resource necessary. The Commission will endeavour to promote the conditions for the creation of such a resource.

## II. THE UK ABATEMENT

The Commission will present its report re-examining the correction of budgetary imbalances granted to the United Kingdom at a later date.

# PART FOUR

## BUDGETARY PROCEDURE AND MANAGEMENT

The annual budgetary procedure will have to be incorporated in the rules agreed in the new interinstitutional agreement, without affecting the budgetary powers granted to the various institutions in the Treaty.

The efforts made since 1988 to improve budget management will have to be continued and stepped up.

### I. RULES OF A NEW INTERINSTITUTIONAL AGREEMENT

The Commission's ideas for the renewal of the Interinstitutional Agreement are set out in the report on application of this Agreement. The proposals concerning the rules which would apply to budgetary expenditure may be summed up as follows:

#### 1. Expenditure ceilings

1.1 The institutions party to the agreement undertake to respect the different annual ceilings laid down in the financial perspective during each budgetary procedure.

These ceilings are fixed for headings and subheadings. They relate to commitment appropriations and are set in constant ecus. An equivalent overall ceiling is set for the payment appropriations required. This ceiling must not exceed the annual amount of own resources assigned to the Community, which will be specified in the revised own resources decision. Under Article 201a of the Treaty, the Commission has to provide the assurance that the proposals it makes or the implementing measures it adopts are capable of being financed within the limit of the Community's own resources.

The financial perspective is originally drawn up in such a way as to leave a margin each year of 0.03% of Community GNP, based on the foreseeable trend in GNP, between the ceiling on payment appropriations and the ceiling on own resources assigned to the Community. This margin is intended to allow possible revisions of the financial framework without the own resources ceiling having to be changed beforehand. If there is a danger of this margin being exhausted in the event of economic growth being substantially lower than expected, the Commission, together with the other institutions concerned, will examine what changes are needed to the financial framework and submit proposals to that effect.

Every year, in advance of the budgetary procedure, the Commission adjusts the expenditure ceilings in line with price increases and, in the case of the agricultural guideline, in line with the increase in GNP on the basis of the latest inflation rates available. No adjustments are made *ex post* in line with inflation. This principle of sound financial management is rendered even more important by the fact that the second stage of Economic and Monetary Union will soon begin. It is also a question of prudent management: if adjustments were made, there would be a considerable risk that the margin for revision would not actually be available.

1.2 As soon as the agreement is concluded, the two arms of the budgetary authority will accept, for each of the years covered by the financial perspective, the maximum rates of increase for non-compulsory expenditure deriving from the budgets drawn up within the limits of the ceilings set.

During the budgetary procedure and when the annual budget is adopted, the three institutions will ensure that a margin is left below the ceilings for the various headings so that any additional appropriations needed may be entered in the course of the year without any need for the financial framework to be revised beforehand.

However, the two arms of the budgetary authority undertake to provide the allocations of commitment appropriations stipulated by the basic regulations, within the framework of the financial perspective, for the structural Funds, the Cohesion Fund and the framework research programme.

**2. Reserves for exceptional expenditure**

A specific heading will cover two separate categories of reserves for exceptional expenditure.

2.1 <u>Agricultural monetary reserve</u>

No changes have been made to the principles underlying the rules governing operation of this reserve.

2.2 <u>Reserve for exceptional expenditure in connection with external action</u>

(a) This reserve is intended to cover exceptional expenditure in two situations:

(i) emergency humanitarian aid and one-off financial assistance to non-member countries in the event of crisis;

(ii) activation of the budget guarantee when an external debtor defaults on borrowing/lending operations.

(b) In the first case, this reserve would be drawn on in the course of the year as follows:

- A joint decision is taken by the two arms of the budgetary authority acting on a proposal from the Commission.
- The reserve may be used for a given operation only between the date on which the preliminary draft budget is presented and the end of the financial year involved. If, from the outset, it appears that the operation will inevitably continue in future years, revision of the financial perspective will have to be considered.

- The reserve will be used only if the margin available under the ceiling for the heading concerned is inadequate. At all events, a certain amount (e.g. the first 10%, with a minimum of ECU 10 million) will not be covered by the reserve.

- Depending on the circumstances of the case and the stage reached in the budgetary procedure, and whatever its link with the financial perspective, the corresponding expenditure will be entered in the budget by means of a letter of amendment or a supplementary/amending budget. The two arms of the budgetary authority will agree to adopt any supplementary/amending budget by expedited procedure (a single reading, preceded by an informal trialogue meeting, and shortened timetable of no more than one month).

- If the reserve were to be drawn on while the budget was being implemented, the possibility of transferring appropriations from budget chapters covered by other headings of the financial perspective would also have to be considered. One strong argument in favour of this procedure is that it would provide advance financial cover for expenditure if necessary.

(c) In the case of loan guarantees, the Commission, as part of the technical adjustment exercise, will, each year, determine what proportion of the reserve should be allocated to covering this type of risk by applying a predetermined percentage (e.g. 20%) to the amount falling due.[6]

**3. Revision of the financial perspective**

The financial perspective (ceilings and/or breakdown by heading) may be revised to cover additional expenditure resulting from the need for new operations not foreseen at the outset or to give a different slant to existing policies.

The revision is proposed by the Commission. This proposal should as a rule be presented ahead of the budgetary procedure for the financial year in question. The revision is adopted by joint decision of the three institutions, with the Council acting by a qualified majority. The decision must be taken within two months of the proposal being submitted. A trialogue meeting should be arranged, at the latest in the month following the proposal. If no decision is agreed within the time limit, the Commission's proposal is deemed to be rejected.

For each of the years covered by the financial perspective, the margin available for revision or successive revisions is the difference between the ceiling on payment appropriations required and the own resources ceiling. Some of the additional spending requirements prompting the revision (e.g. 5% with a minimum of ECU 10 million) may not be taken into consideration for raising the ceiling of the heading in question and appropriations must be redeployed.

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6 If a different method is adopted - creation of a Guarantee Fund, outside the budget, for borrowing and lending operations with non-member countries - the reserve included in the financial perspective could be a fixed amount. It would be drawn on to replenish this Fund in the course of the year in proportion to the amount of new guaranteed loans granted.

**4. Adjustment in line with the conditions of implementation**

Each year, in advance of the budgetary procedure, the budgetary authority, acting on a proposal from the Commission, decides whether any of the appropriations not used in the previous year should be transferred to future years in addition to the amounts available under the expenditure ceiling. This possibility is limited to a number of multiannual programmes (structural Funds, Cohesion Fund, framework research programme).

These adjustments may also apply to the amounts of payment appropriations required so that those appropriations can be raised in line with commitments.

**5. Duration of the Agreement**

The Agreement is concluded for an indefinite period and cannot be changed without the consent of all parties.

The financial perspective framework covers five years. The Commission will propose a new five-year framework no later than twelve months before expiry of the existing framework. It may also propose that the existing framework be replaced by a new five-year framework before it expires, although no earlier than during its third year of application.

**II. IMPROVEMENT OF BUDGETARY MANAGEMENT**

**1. Management of expenditure: stricter budgetary discipline**

1.1 <u>Continuation of measures taken since 1988 as regards execution</u>

As part of its responsibilities for drawing up and implementing the budget, the Commission must continue improving the management of Community expenditure, in particular as regards compliance with the principles of annuality and specification.

In several categories of expenditure, an attempt must be made to increase the rate of utilization of the appropriations available: in most cases, rationalization and simplification of the decision-making procedures for commitment and payment, in collaboration with the parties involved at national level, could make a contribution.

The internal provisions adopted to give more attention to cost-effectiveness in the planning and implementation of Community operations will have to be made more systematic. This should enable the budgetary authority to make a better assessment of the results achieved by each operation when deciding what amounts are to be allocated in the annual budget.

However, the Commission does not see any need to add anything to the existing financial rules.

### 1.2 Stricter application of the principle of subsidiarity

For a large proportion of expenditure, the amount of the Community's contribution and the procedure applied will have to be determined on the basis of subsidiarity criteria. When new operations are being proposed and adopted, it is essential that the principle of subsidiarity should be explicitly considered from three angles:

- precise reasons must be given for the need for a contribution from the Community budget and for the type of financial instrument selected;

- it must be clearly established how Community finance combines with national finance, which means identifying the final recipients of the expenditure, the criteria for allocation and the decision-making bodies, the national machinery for channelling the aid to its destination and the national programmes supported by the contribution from the Community budget;

- steps must be taken to ensure the availability, during implementation, of all the information needed to assess the effectiveness of the financial arrangements introduced;

- in many cases, assistance from the Community budget is mainly intended as a stimulus and an incentive in support of regulations or coordination measures. Such operations must therefore be only temporary or, at least, subject to periodical review of their justification in terms of subsidiarity.

These principles could be written into the Financial Regulation, which would stipulate that they should be applied in the financial statement.

### 1.3 Rationalization of budgetary nomenclature

To avoid excessive fragmentation of the budgetary nomenclature, the three institutions could agree in the new Interinstitutional Agreement that the budget should not as a rule contain headings covering operating expenditure for amounts substantially below ECU 3 million in appropriations for commitments.

The Commission would undertake not to propose new budget headings with amounts substantially below ECU 3 million except in special cases for which full reasons are given. As for existing budget headings below this threshold, the Commission would propose whatever deletions, mergers and reorganizations it deemed necessary.

## 2. Management of revenue: treatment of balances of VAT and GNP-based resources

In the current system, VAT and GNP balances from previous financial years constitute revenue (or a reduction in revenue) for the year in which they are established (Article 6 of the Financial Regulation and Article 10 of Regulation No 1552/89); the balance for that financial year constitutes revenue for the following year.

The amounts of own resources accruing from the third and fourth resources and entered in the budget for a given year are provisional. The VAT and GNP bases used to calculate the resources must be revised at the end of the years that follow in order to take account of the actual changes in the base and the corrections made as a result of Commission controls.

The difference between the amount paid by reference to the provisional bases and the amount which should have been paid by reference to the actual bases is at present calculated by applying to the revised bases the VAT rate and the GNP call-in rate set in the budget for the original financial year.

The Commission feels that it would be more appropriate to adjust the own resources call-in rates in line with the revised bases and budget outturn.

The differences compared with the initial calculation would be entered in the budget by means of a supplementary/amending budget adopted in one reading and not subject to the time limits for presentation currently provided for in the Financial Regulation. They would be paid by the Member States or refunded to them by the Community.

## 3. Management of refunds to Greece, Spain and Portugal

From 1993 onwards, Member States will no longer receive refunds in respect of their payments.

Only corrections to the VAT and GNP balances for 1981-92 could then give rise to refunds (which would be negative if the balances were negative). Depending on various factors (time taken for the Court of Justice to deliver judgment, reservations expressed by the Commission, etc.), this could go on quite some time.

These corrections, which are difficult to quantify at this stage, could be treated as negative revenue in accordance with the formula now used for the costs incurred by Member States in collecting own resources. A token entry would be made in the budget. In this way there would no longer be any need to charge such amounts to allocations in the financial perspective for categories of expenditure which are completely different in type and objective.

Barring this, or at least until provisions to this effect are adopted, allowance for future corrections to these refunds could be made on the expenditure side in due course as part of the technical adjustment which the Commission makes to the financial perspective in line with movements in GNP and prices.

## CONCLUSION: LEGISLATIVE MEASURES TO BE ADOPTED

In addition to the conclusion of a new Interinstitutional Agreement including the new financial perspective for 1993-97, implementation of the proposed new financial system will require the amendment of a number of items of Community legislation. The main ones will be as follows:

### 1. Own resources and management of revenue

(a) Council Decision 88/376/EEC, Euratom of 24 June 1988 and implementing Regulations (EEC, Euratom) No 1552/89 and No 1553/89 of 29 May 1989

- categories of own resources assigned to the Community
- ceiling on own resources and appropriations for commitments
- correction of budgetary imbalances
- treatment of balances of VAT and GNP-based resources
- refunds to certain Member States

(b) Financial Regulation

- treatment of balances of VAT and GNP-based resources

### 2. Growth and management of expenditure

(a) Council Decision 88/377/EEC of 24 June 1988 concerning budgetary discipline:

- agricultural guideline: level and scope
- monetary reserve

(b) Council Regulation (EEC) No 2052/88 of 24 June 1988 on the tasks of the Structural Funds

- financial allocations
- establishment of objectives

(c) Proposal for a Council Regulation setting up a Cohesion Fund

(d) Legal bases for the incorporation of certain ECSC operations in the general budget

(e) Financial Regulation

- principle of subsidiarity and application in the financial statement.

# ANNEXES

**ANNEX 1 FIGURES ON THE FINANCIAL FRAMEWORK AND THE BUDGET FOR THE PERIOD UP TO 1992**

| | |
|---|---|
| Tables 1 | The financial perspective and the budget |
| Tables 2 | Budget outturn |
| Chart 1 | Own resources |

**ANNEX 2 THE NEW FINANCIAL FRAMEWORK PROPOSED FOR 1993-97**

| | |
|---|---|
| Table 1 | Evaluation of needs to be covered by heading 5 (Administrative expenditure of the institutions) |
| Table and chart 2 | VAT call-in rate of 1% |
| Table and chart 3 | Capping of VAT base at 50% of GNP |
| Table and chart 4 | VAT limited to 1% and base capped at 50% |

ANNEX 1

Tables 1 : The financial perspective and the budget

1.1. *Total budget expenditure (commitments) in relation to the initial ceilings set in the financial perspective (after technical adjustment).*

ECU million (current prices)

| | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| 1. Total commitment appropriations in the budget | 45.344 | 46.426 | 49.208 | 59.370 | 66.118 |
| 2. Ceiling set in the financial perspective in 1988 | 45.344 | 48.464 | 52.948 | 57.939 | 63.090 |
| 3. Difference (1-2) | 0 | - 2.038 | - 3.740 | + 1.431 | + 3.028 |

1.2. *Total budget expenditure (payments) and ceilings in the financial perspective as % of GNP* (1)

| | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| 1. Own resources ceiling | 1.15 | 1.17 | 1.18 | 1.19 | 1.20 |
| 2. Ceiling - payment approps required initial financial perspective | 1.12 | 1.14 | 1.15 | 1.16 | 1.17 |
| 3. Ceiling - payment approps required Fin persp after rev and adjustment | 1.12 | 1.07 | 1.09 | 1.13 | 1.15 |
| 4. Total payment appropriations in the budget | 1.12 | 0.99 | 0.97 | 1.09 | 1.15 |

(1) GNP 1989-92 : data used in the technical adjustment for 1992.

1.3. *Structure of expenditure by heading - initial financial perspective and financial perspective in force (%)*

| | 1988 | 1992 | |
|---|---|---|---|
| | | initial | in force |
| 1. EAGGF Guarantee | 60.7 | 56.1 | 52.6 |
| 2. Structural operations | 17.2 | 25.5 | 27.2 |
| 3. Policies with multiannual allocations | 2.7 | 4.5 | 4.4 |
| 4. Other policies | 4.6 | 5.3 | 8.5 |
| of which non-comp. | 3.6 | 3.7 | 7.1 |
| 5. Repayments and administration | 12.6 | 6.7 | 5.8 |
| of which stock disposal | 2.7 | 2.7 | 1.2 |
| 6. Monetary reserve | 2.2 | 1.9 | 1.5 |
| TOTAL | 100 | 100 | 100 |

Tables 2 : Budget outturn

2.1. *Appropriations carried forward or made available again as percentage of total appropriations for commitments (Headings 2, 3 and 4 of the financial perspective).*

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|
| (ECU million) | 2367.1 | 2366.6 | 729.3 | 425.2 | 321.6 | 322.1 |
| Percentage | 20.8 | 19.4 | 6.2 | 3.0 | 1.9 | 1.4 |

2.2. *Percentage of appropriations for commitments for year n not used and carried forward (Headings 2, 3 and 4 of the financial perspective).*

| 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|
| 70.4 | 25.6 | 28.3 | 22.0 |

2.3. *Percentage of cancelled commitments for which corresponding appropriations were made available again (Headings 2, 3 and 4 of the financial perspective).*

| 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|
| 75.3 | 49.5 | 24.6 | 18.7 |

2.4. *Percentage utilization of appropriations for commitments (Headings 2, 3 and 4 of the financial perspective).*

| 1984-1987 | | | | | 1988-1991 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1984 | 1985 | 1986 | 1987 | Average | 1988 | 1989 | 1990 | 1991 | Average |
| 90.6 | 81.9 | 84.7 | 93.7 | 87.7 | 98.6 | 97.5 | 93.3 | 95.4 | 96.2 |

2.5. *Percentage utilization of appropriations for payments (Headings 2, 3 and 4 of the financial perspective).*

| 1984-1987 | | | | | 1988-1991 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1984 | 1985 | 1986 | 1987 | Average | 1988 | 1989 | 1990 | 1991 | Average |
| 84.2 | 83.8 | 83.3 | 85.1 | 84.1 | 89.1 | 90.8 | 92.0 | 91.8 | 90.9 |

2.6. *Percentage of appropriations for commitments transferred between chapters during the year (Headings 2, 3 and 4 of the financial perspective).*

| 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|
| 3.4 | 2.0 | 1.7 | 1.4 | 0.7 |

2.7. *Planned rate of clearance of commitments against differentiated appropriations (expected schedule).*

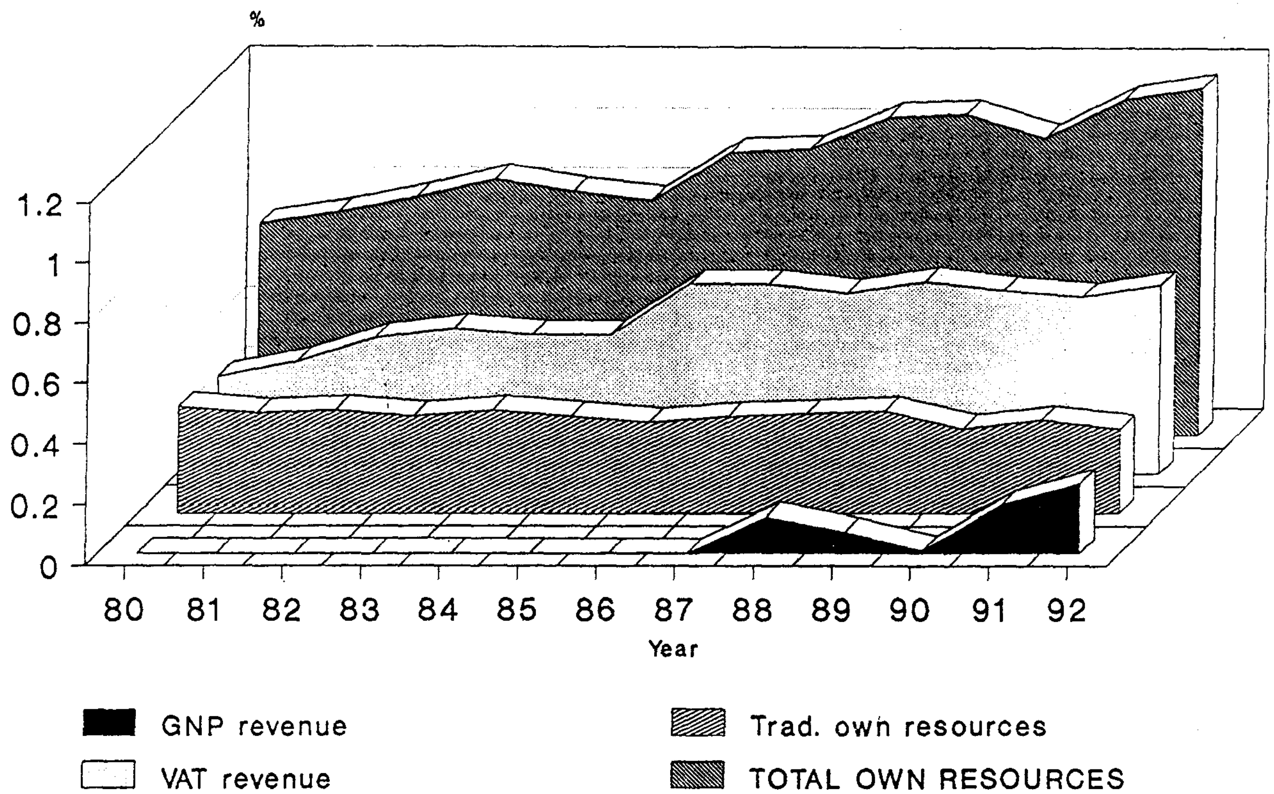
| | Clearance (% planned in year N | (N+1) | (N+2) | >(N+3) |
|---|---|---|---|---|
| Commitments made in 1987 | 39.8 | 24.1 | 18.7 | 17.4 |
| Commitments made in 1988 | 37.0 | 29.3 | 17.0 | 16.7 |
| Commitments made in 1989 | 45.5 | 27.3 | 14.6 | 12.6 |
| Commitments made in 1990 | 51.7 | 24.0 | 14.8 | 9.5 |
| Commitments made in 1991 | 51.0 | 33.7 | 11.3 | 4.0 |

2.8. *Actual rate of clearance of commitments against differentiated appropriations.*

| | Clearance (% planned in year N | (N+1) | (N+2) | >(N+3) |
|---|---|---|---|---|
| Commitments made in 1987 | 36.5 | 30.5 | 14.1 | 18.9 |
| Commitments made in 1988 | 39.4 | 29.0 | 8.5 | 23.1 |
| Commitments made in 1989 | 42.9 | 25.5 | 15.5 | 16.1 |
| Commitments made in 1990 | 48.1 | 27.2 | Outstndg: | 24.7 |
| Commitments made in 1991 | 48.8 | ---Outstanding: | | 51.2 |

GRAPH 1

Evolution of Own Resources as % of Community GNP 1980-1992




ANNEX 1

(54)

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TABLE 1

FINANCIAL PERSPECTIVE 1993-97 - ADMINISTRATION

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|
| I. STAFF AND ADMINISTRATION | 2840 | 2980 | 3110 | 3270 | 3400 | 3550 |
| Commission (excl pensions) | 1696 | 1760 | 1825 | 1890 | 1960 | 2035 |
| Other institutions (1) (2) | 895 | 930 | 960 | 1000 | 1040 | 1070 |
| Pensions (3) | 249 | 290 | 325 | 380 | 400 | 445 |
| II. BUILDINGS (4) | 287 | 330 | 355 | 450 | 440 | 450 |
| Commission | 128 | 180 | 200 | 240 | 242 | 254 |
| Council and Parliament (2) | 149 | 136 | 134 | 179 | 173 | 168 |
| Other institutions (2) | 10 | 14 | 17 | 26 | 27 | 27 |
| TOTAL I.+II. | 3127 | 3310 | 3465 | 3720 | 3840 | 4000 |
| III. REPAYMENTS-STOCK DISPOSAL | 922 | 0 | 0 | 0 | 0 | 0 |
| TOTAL I.+II.+III. | 4049 | 3310 | 3465 | 3720 | 3840 | 4000 |

(1) Growth rate applied: rate for the Commission (excluding pensions).
(2) Subject to confirmation by the other institutions of the forecasts for their own administrative expenditure.
(3) The part relating to all the institutions is included.
(4) Rents, purchase by instalments, purchase.

(56)

ANNEX 2

CHART 2

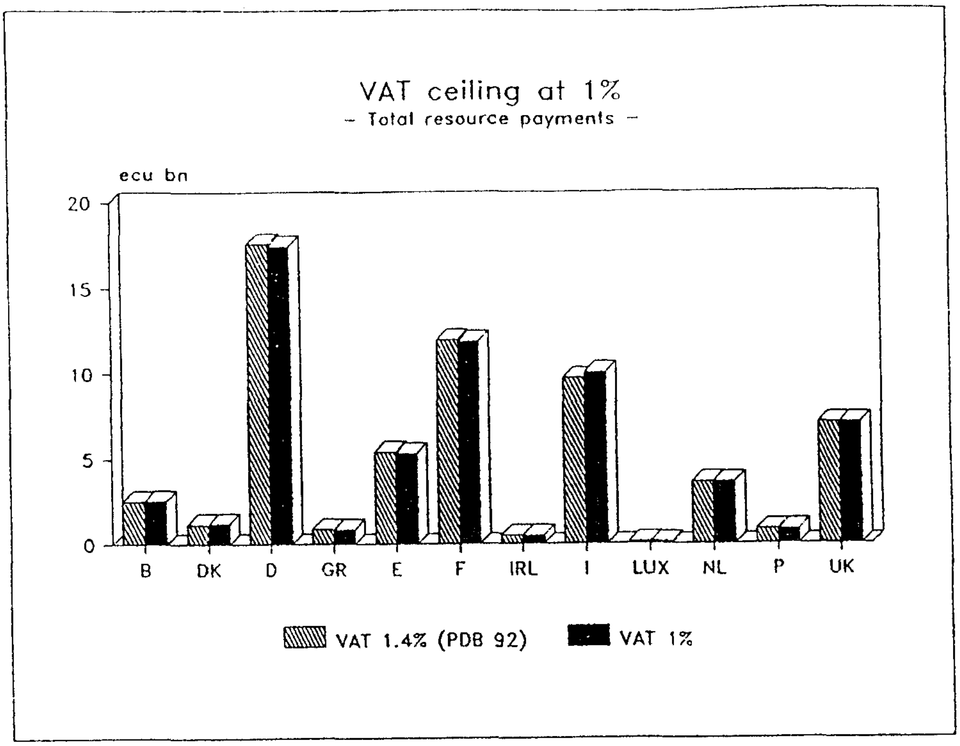


Table 2: TOTAL RESOURCE PAYMENTS IN 1992 (ecu mn)

| Member States | VAT 1.4% | VAT 1% | Difference |
|---|---|---|---|
| B | 2525 | 2551 | 26 |
| DK | 1160 | 1196 | 36 |
| D | 17601 | 17457 | -144 |
| GR | 883 | 869 | -14 |
| E | 5414 | 5315 | -99 |
| F | 11975 | 11861 | -114 |
| IRL | 495 | 488 | -7 |
| I | 9708 | 10052 | 344 |
| LUX | 116 | 114 | -2 |
| NL | 3636 | 3624 | -12 |
| P | 855 | 842 | -13 |
| UK | 7073 | 7073 | 0 |

CHART 3

ANNEX 2

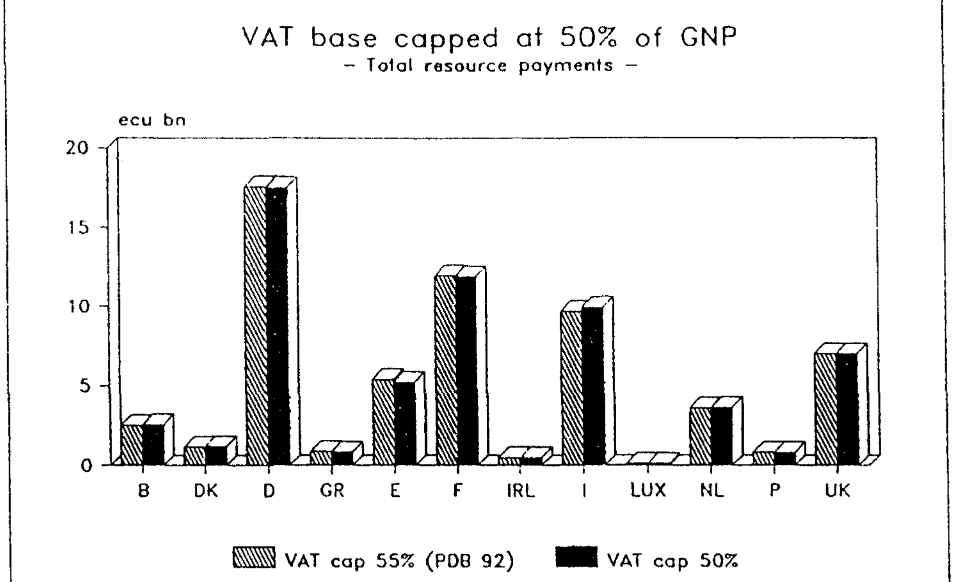


Table 3: TOTAL RESOURCE PAYMENTS IN 1992 (ecu mn)

| Member States | VAT cap 55% | VAT cap 50% | Difference |
|---|---|---|---|
| B | 2525 | 2568 | 43 |
| DK | 1160 | 1187 | 27 |
| D | 17601 | 17540 | -61 |
| GR | 883 | 858 | -25 |
| E | 5414 | 5239 | -175 |
| F | 11975 | 11919 | -56 |
| IRL | 495 | 483 | -12 |
| I | 9708 | 9960 | 252 |
| LUX | 116 | 112 | -4 |
| NL | 3636 | 3669 | 33 |
| P | 855 | 832 | -23 |
| UK | 7073 | 7073 | 0 |

CHART 4 ANNEX 2

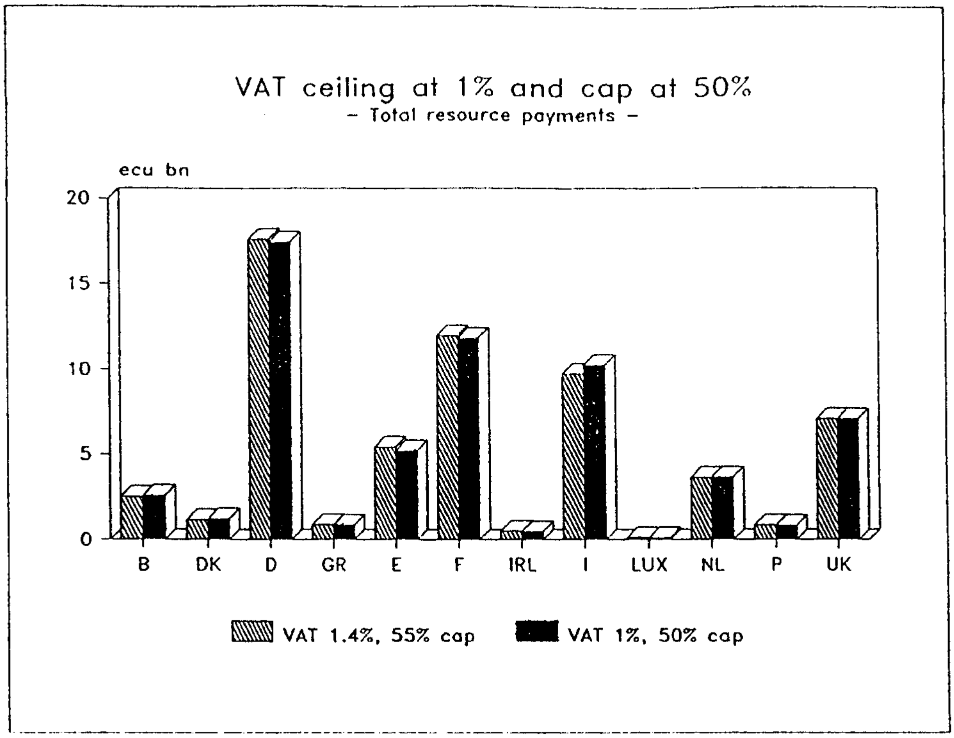


TABLE 4 : TOTAL RESOURCE PAYMENTS IN 1992 (ecu mn)

| Member States | VAT 1.4%, 55% cap | VAT 1%, 50% cap | Difference |
|---|---|---|---|
| B | 2525 | 2581 | 56 |
| DK | 1160 | 1215 | 55 |
| D | 17601 | 17414 | -187 |
| GR | 883 | 852 | -31 |
| E | 5414 | 5196 | -218 |
| F | 11975 | 11823 | -152 |
| IRL | 495 | 480 | -15 |
| I | 9708 | 10225 | 517 |
| LUX | 116 | 111 | -5 |
| NL | 3636 | 3646 | 10 |
| P | 855 | 826 | -29 |
| UK | 7073 | 7073 | 0 |