



EUROPEAN UNION

FINANCIAL REPORT 1997



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Cataloguing data can be found at the end of this publication.

Luxembourg: Office for Official Publications of the European Communities, 1998

ISBN 92-828-3777-7

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Printed in Belgium



FOREWORD

The year 1997 was marked by exceptionally good interinstitutional relations on budgetary matters, which saw Parliament and Council agree a stringent 1998 budget to match the efforts being made by Member States with a view to the third stage of EMU.

Throughout the year the Commission continued to implement the SEM 2000 programme launched in 1995 to promote sound and efficient management of resources. Within the Commission most of the measures to improve the efficiency of Community financial management which were envisaged when the programme was launched have now been implemented.

Under the partnership arrangement with the Member States, work focused on the management of the Structural Funds. The Commission clarified the rules on eligibility of expenditure and adopted a regulation on financial control by Member States of operations part-financed by the Structural Funds.

Two progress reports were sent to the Council which, in its conclusions, welcomed the advances made and underlined its attachment to the dialogue, in matters of sound financial management, between the Commission, the Member States and the Court of Auditors.

In July the Commission presented a communication entitled 'Agenda 2000: For a stronger and wider Union' which proposes a reference financial framework for 2000-06. The Commission sought to reconcile the development of reformed Community policies and the financing of Union enlargement while keeping the own resources ceiling unchanged at 1.27 % of GNP.

There was only one supplementary and amending budget in 1997; it was presented on 30 April and definitively adopted on 30 November. On the expenditure side it was mainly concerned with the budgetary impact of the Commission's follow-up action on the report of Parliament's temporary committee of inquiry into bovine spongiform encephalopathy (BSE), providing the necessary resources to boost consumer protection policy. It also provided additional staff for the Court of Auditors to increase its audit capacity.

The utilisation rates for 1997 appropriations were higher than for 1996. The increase was particularly marked for structural operations, where for the first time all the payment appropriations for the Community support frameworks were used. The utilisation rate for internal policies was 97.0 % in commitments and 91.9 % in payments. For external action the rates were 98.4 % in commitments and 86 % in payments. For the EAGGF Guarantee Section utilisation was 99 %.

On the revenue side own resources under the 1997 budget totalled ECU 80.5 billion, 1.147 % of Community GNP.



Erkki LIIKANEN
Member of the Commission
with responsibility for budgetary affairs

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The basic budget principles

The budget of the European Union is governed by six basic principles.

Unity

This principle, enshrined in Article 199 of the Treaty, requires that all EU expenditure and revenue must be incorporated in a single budget document.

In the early years of the Community, the autonomy of the institutions set up under the ECSC, EEC and Euratom Treaties resulted in up to five separate budgets being produced to cover any one year. After the Luxembourg Treaty of 22 April 1970, documents covering the majority of the Community's financial activities were gradually merged so that, now, there are only two: the general budget and the ECSC operating budget.

However, there are still two categories of financial operation outside this structure: the European Development Fund (EDF) and borrowing and lending activities.

The EDF was set up by the EEC Treaty with a view to increasing trade with associated developing countries and assisting them in carrying out economic and social development projects. The resources of the EDF are provided by contributions from the Member States. For what are essentially political reasons, the Member States wish to retain their direct influence over certain development aid operations by maintaining an independent financial regime and management procedures which are not subject to the ordinary rules.

The EEC Treaty made no express provision for borrowing and lending operations. However, as the achievement of the Community's objectives made it necessary to lay down rules for operations on the capital market, borrowing and lending activities were finally authorised in 1975, on the basis of Article 235 of the EEC Treaty. Most borrowing and lending operations (with the exception of ECSC operations) are included in the balance sheet of the European Communities.

The two annexes to this report contain a summary of the budgetary and financial operations of the ECSC (operating budget and borrowing and lending operations) and the EDF.

Universality

This principle comprises two rules: the rule of non-assignment, meaning that budget revenue must not be earmarked for specific items of expenditure, and the gross budget rule, meaning that revenue and expenditure are entered in full in the budget without any adjustment against each other.

Annuality

The budget for the year is cast at two levels: a commitment budget and a payment budget.

Commitment appropriations cover new commitments for the year, whereas payment appropriations must cover the amounts payable against both new and existing commitments.

Annuality means that a budget is adopted for a single year and that the appropriations it contains, both for commitments and payments, must be used during that year.

The principle does not rule out the possibility that certain commitments may last for more than one year. Clearly, in sectors such as the Structural Funds, research and external co-operation, the EU needs to enter into some commitments which exceed the period of one year. In these sectors, a mechanism known as 'differentiated appropriations' allows for a separate annual vote of commitments and payments.

Under certain clearly defined conditions, some unused appropriations may be carried over to the following year.

Equilibrium

Estimated revenue for the year must equal payment appropriations for that year. There is no Community legal instrument authorising

borrowing to cover a budget deficit. Any surplus for the year is carried forward to the following year. A modest operating deficit can also be carried forward. On the other hand, a significant departure from the original budget during the year requires the adoption of a supplementary or amending budget.

Specification

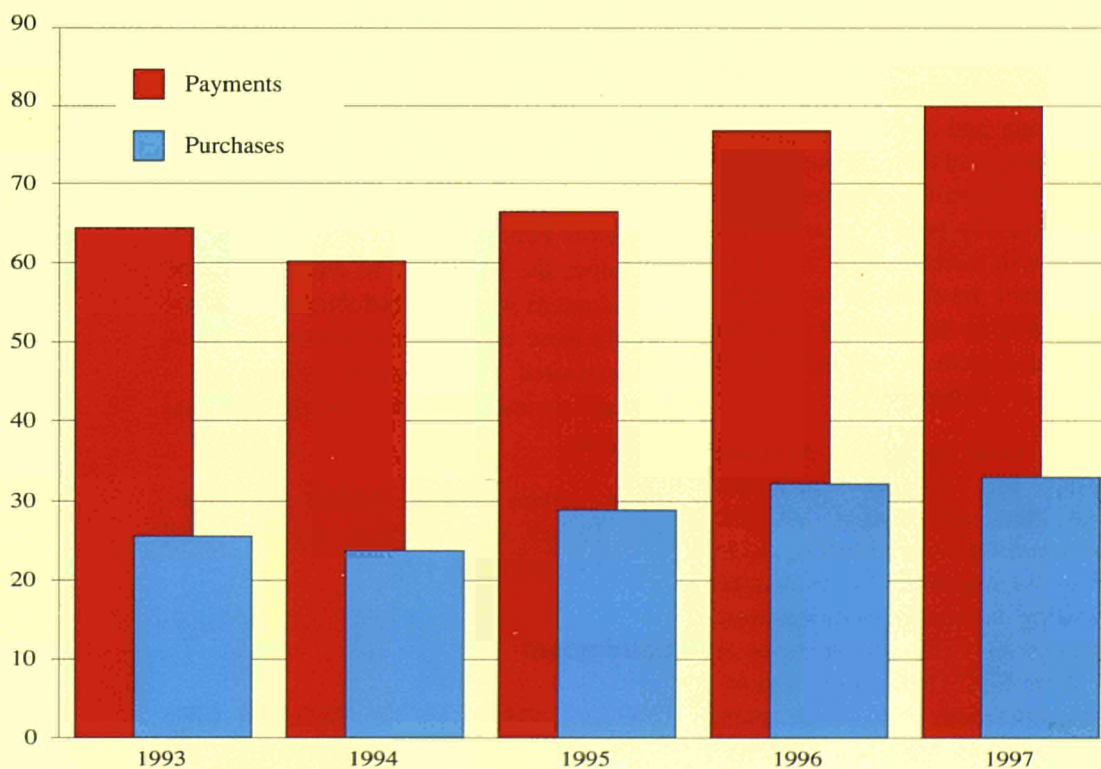
This principle requires that each appropriation be assigned to a specific purpose and a specif-

ic objective. It is intended to prevent any blurring of the lines between two appropriations when they are authorised and used. This ensures that the budget is drawn up with the requisite transparency and implemented in compliance with the will of the legislative authority.

The principle of specification determines the horizontal structure (distinction between the statement of revenue and the statement of expenditure, and subdivision of the statement of expenditure into six individual sections (one

FIGURE 1
Purchases of ecus, 1993-97

(billion ECU)



for each of the institutions) and the vertical structure of the budget (the budget nomenclature distinguishes appropriations according to their nature and purpose by subdividing sections — and in particular Section III, which contains all EU expenditure on operations — into titles, chapters, articles and items).

A certain flexibility in the application of the rule of specification is achieved by means of transfers of appropriations, which, subject to certain conditions, allow appropriations to be moved to headings other than those to which they were assigned when the budget was established. The Treaty itself makes provision for transfers, the object being to ensure the best possible utilisation of budget appropriations.

The use of the ecu

The currency unit of the European Union is the ecu, made up of a 'basket' of 12 national currencies. Its composition should remain unchanged until the introduction of the single currency.

Since 1992 the Commission has been using ecu-denominated accounts at the French and Irish Treasuries.

The Commission promotes the adoption of the ecu as the single currency by using it as much as possible in the execution of the budget. Most EU programmes, other than EAGGF-Guarantee operations, are implemented in ecus. In 1996, for example, 95 % of the budget and 44 % of operational programmes (excluding EAGGF-Guarantee operations) were implemented in ecus.

The economic situation in the European Union in 1997

The EU's economy has been rapidly picking up speed since mid-1997. The year was marked by remarkable export performance, due to high demand abroad and a strong dollar. It is thought that net exports contributed 0.4 percentage points to the Fifteen's annual

GDP growth figure of 2.7 %. The most striking feature of 1997 was the Asian crisis which broke out in July. The crisis hit the currency and stock markets first but spread to banking systems and manufacturing in the affected countries, which are now facing the prospect of a major recession in 1998. Through international trade, the crisis will also affect the economies of the USA and Europe, though its impact will be relatively limited. Otherwise, the short-term outlook for the European economy is quite encouraging, to judge by the very positive surveys of consumer and business opinion. For both groups, the results are almost as good as they were at the peak of the 1987-91 cycle. Growth is likely to be led more by internal demand than by exports, with the launch of the euro with 11 countries acting as a catalyst. Furthermore, interest rates should stay low as a result of the deflationary impact of the Asian crisis and shrinking budget deficits.

The labour market began to pick up in 1997. After 1996, when there was virtually no growth in the number of jobs, 600 000 new jobs were created in 1997, pushing the employment rate up by 0.4 %. Unemployment in the EU fell from almost 11 % of the active population in 1996 (calculated in accordance with Eurostat's harmonised definition) to 10.7 % in 1997. The downward trend should continue in 1998.

The European Union's inflation performance was again good in 1997. Consumer prices in the EU as a whole rose by 2.1 % in 1997, down from 2.6 % in 1996. And there was a remarkable convergence between the different Member States. The low inflation figure is due not only to a sustained economic policy of stable prices and wage restraint but also to the fall in the price of oil and raw materials triggered primarily by the Asian crisis.

Budget deficits in the Union peaked in 1993 at 6.2 % of GDP. Since then they have steadily contracted to reach an estimated 2.4 % of GDP in 1997. This was achieved by means of the consolidation efforts which governments

have been making for a number of years, with the help of growth and also as a result of the drop in interest rates which affect public debt. The steadily shrinking deficits enabled the EU to reduce its public debt-to-GDP ratio for the first time — from 73.0 % in 1996 to 72.1 % in 1997. And the deficit-reduction measures made it possible for 11 Member States to meet the criteria for monetary union and create the 'euro zone' on 1 January 1999.

Financial perspective 1993-99

The 1997 procedure came within the framework of the financial perspective as adjusted in December 1994 following the enlargement of the Community to include Austria, Finland and Sweden in accordance with paragraph 24 of the interinstitutional agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure.

In February 1996, acting under paragraph 9 of the interinstitutional agreement, the Commission made the technical adjustment to the financial perspective for 1997 on the basis of the most recent macroeconomic forecasts available for gross national product and prices. The data for these forecasts concerned the 12-member Community from 1992 to 1995 and the 15-member Community from 1995 to 1996. Following the adjustment, the ceiling for payment appropriations was set at ECU 85 807 million for 1997, leaving a margin of 0.03 % of GNP beneath the own resources ceiling, set at 1.24 % of GNP by the 1994 decision on own resources, which has been ratified by all Member States.

At the interinstitutional dialogue meeting on 16 April 1996, Parliament, the Council and the Commission reached agreement on the adjustment of the financial perspective to take account of the conditions of implementation. The commitment appropriations for the Structural Funds which were not used in 1995 were transferred to 1997, 1998 and 1999 (ECU 380 million, 1 000 million and 693 mil-

lion respectively). Some ECU 11 million not used for the Cohesion Fund was transferred to 1997. The overall ceiling on appropriations for payments was also raised by ECU 186 million for 1997, ECU 633 million for 1998 and ECU 632 million for 1999 in line with the commitment appropriations transferred for the Structural Funds and the Cohesion Fund. With this higher ceiling on appropriations for payments, the margin available beneath the own resources ceiling in 1997 is 0.02 % of GNP.

On 18 March 1996 the Commission adopted a proposal amending the financial perspective for 1996 to 1999. The intention was to meet new requirements by giving priority to spending that would stimulate growth, competitiveness and employment (trans-European transport networks, research and small and medium-sized enterprises). There was no need to raise the overall ceiling on commitments for the period as a whole, however, since the expected margins under the agricultural guidelines for 1998 and 1999 allowed some room for the redeployment of certain items of expenditure from heading 1 (agricultural policy). The payments ceiling was also left unchanged by the Commission proposal. However, on 14 October 1996 the Council noted that it was unable to muster a qualified majority on this proposal.

Budget for the 1997 financial year

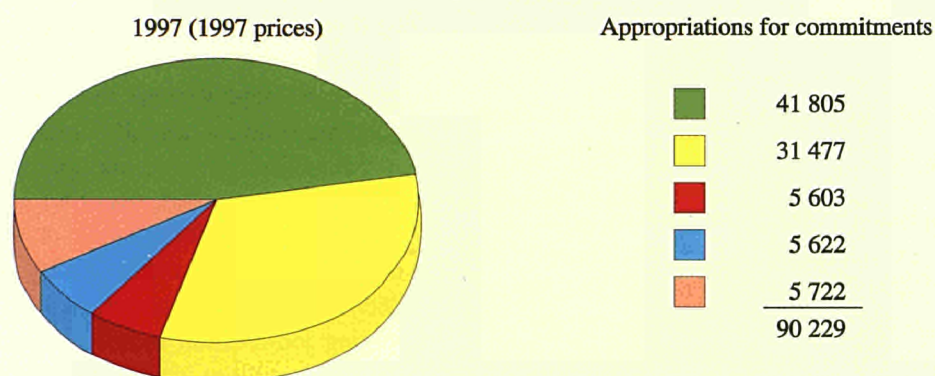
Following the second reading in Parliament on 12 December 1996, the President of Parliament declared the 1997 budget adopted on 18 December 1996.

The budget totalled ECU 89 137 million in appropriations for commitments and ECU 82 366 million in appropriations for payments. While commitments were 2.95 % up on the 1996 budget, the zero-growth target aimed for by the two arms of the budgetary authority was virtually achieved for payments (an increase of only 0.52 %) with cuts of ECU

FIGURE 2

Financial perspective, 1993-99 — Enlarged Community

(million ECU)



	Appropriations 1997	Commitments 1997
EAGGF Guarantee Section	40 805	40 423
Structural operations (EAGGF-Guidance, ERDF, ESF, etc.)	31 477	30 078
Internal policies (research, education and training, fisheries and the sea, energy, industry, trans-European networks, etc.)	5 594	5 505
External action (food aid, cooperation, etc.)	5 607	5 448
Miscellaneous (administrative expenditure, reserves, guarantees, compensation)	5 653	4 704
	<u>89 136</u>	<u>86 158</u>

2 000 million from the allocations for agricultural expenditure and structural operations in the initial preliminary draft budget (before the letters of amendment). The appropriations for payments were equivalent to 1.17 % of GNP.

With margins of ECU 1 092 million for commitment appropriations and ECU 3 441 million for payments, the 1997 budget was no-

table for its stringency. As economic and monetary union approaches, the two arms of the budget authority were determined that budget austerity should be applied not only to the Member States' finances but also to the Union's.

Nevertheless, the budget allowed extra funding to be provided for the Union's priority

areas (ECU 300 million for the peace initiative in Northern Ireland, research and trans-European networks) without exceeding the ceilings laid down by the financial perspective.

A total of ECU 40 805 million was allocated for agricultural expenditure. This amount was ECU 1 000 million down on the Commission's initial preliminary draft and took account of letters of amendment Nos 1 and 2/97. It was large enough to fund the emergency action plan agreed on by the Council (Agriculture) of 30 October 1996. This was designed to help the beef market to cope with the consequences of BSE.

Some ECU 31 477 million was allocated to spending on structural measures. The commitments allocated to the Structural Funds totalled ECU 28 620 million — the amount decided on at Edinburgh, adjusted for enlargement. The amount finally settled on for Northern Ireland was the amount proposed in the preliminary draft, though the financial perspective was not increased accordingly, despite the fact that RETEX and Rechar had since been allocated an additional ECU 100 million. However, it was possible to stay within the ceiling for the heading by setting up a negative reserve for an equivalent amount, to be funded from the Structural Funds as a whole. Furthermore, ECU 1 000 million was cut from the Commission's proposed figures for payment appropriations.

Up 5.26 % on 1996, the allocation for internal policies almost touched the ceiling at ECU 5 601 million.

□ The allocation for research was increased to ECU 3 500 million. Research is one of the Union's three priority areas identified by Parliament. Accordingly the fourth framework programme has been allocated an additional ECU 100 million (in the reserve chapter). Since there was no room for such an increase within the ceiling for the heading, it was accommodated by establishing a negative reserve of ECU 26 million.

□ The allocation for trans-European networks under the heading was 27 % higher than in the 1996 budget. The increase was targeted on priority transport networks. Under heading 4, an additional ECU 100 million was set aside for extending the networks beyond the Union's external borders.

□ As for other policies, appropriations were provided for implementation of a number of measures which the budgetary authority deemed particularly important such as promoting job-creation in non-market sectors (ECU 10 million), cooperation with NGOs working with the disabled (ECU 6 million) and aid for refugees (ECU 10 million under the first pillar and ECU 3.75 million under the third).

The allocation for external action totalled ECU 5 601 million, up 6.4 % on the 1996 budget, leaving ECU 21.5 million under the ceiling for the heading. The increase was linked to aid for economic restructuring in central and eastern Europe (ECU 1 206 million) and implementation of an EU-Mediterranean partnership as part of the expansion of the Union's Mediterranean policy (ECU 995 million). Particular importance was also attached to reconstruction in the former Yugoslavia. The allocation for food and humanitarian aid was much the same as in 1996. New budget headings were inserted, e.g. return of refugees (ECU 10 million), support for international courts (ECU 3 million) and the role of women in development (ECU 3 million). Lastly, in line with the Union's priorities, heading 4 was increased by ECU 100 million to fund the extension of trans-European transport networks beyond the Union's external borders.

Appropriations for administrative expenditure saw a 2.4 % increase compared with 1996, to ECU 4 284 million. Of this figure, ECU 2 377 million was for the Commission and ECU 1 486 million was for the other institutions (excluding pensions).

The budget approved in December was modified by a supplementary and amending budget, which was finally adopted on 13 November 1997. The expenditure side was intended to cover the budgetary cost of the action taken by the Commission on the report by the temporary committee of inquiry into bovine spongiform encephalopathy, by providing the necessary resources to implement

the consumer health protection policy. It also provided for the redeployment of the Court of Auditors' administrative expenditure and the creation of new posts at the Court. The revenue side concerned the entry in the budget of the balance from the 1996 financial year (ECU 4 384 million) and the updating of the correction of budgetary imbalances.

TABLE 1

Implementation of the budget in 1997

Revenue

(million ECU)

Revenue forecast in the 1997 budget	82 365.5
Actual revenue in 1997	80 547.7

Expenditure

	Differentiated appropriations (multiannual operations)		Non-differentiated appropriations (administrative expenditure and annual operations)		Total	
	Commitments	Payments	Commitments	Payments	Commitments	Payments
Available appropriations:						
— Entered in 1997 budget	43 077.3	36 291.5	46 131.1	46 131.1	89 208.4	82 422.7
— Other	112.1	91.6			112.1	91.6
— Carried over from 1996:	112.1	422.8	379.4	880.4	491.5	1 303.3
• automatic carryovers				(501.0)		(501.0)
• other carryovers	(112.1)	(422.8)	(379.4)	(379.4)	(491.5)	(802.2)
Total available,	43 301.4	36 805.9	46 510.5	47 011.6	89 811.9	83 817.5
of which:						
— appropriations used in 1997:	41 240.1	34 985.9	45 387.1	45 250.5	86 627.2	80 236.4
• entered in 1997 budget	(41 133.3)	(34 671.9)	(45 127.3)	(44 607.5)	(86 260.5)	(79 279.4)
• other	(49.1)	(22.1)			(49.1)	(22.1)
• carried over from 1996	(57.8)	(291.9)	(259.8)	(643.1)	(317.7)	(934.9)
— appropriations carried over to 1998:	162.2	233.4	4.5	513.5	166.7	746.9
• automatic carryovers				(509.0)		(509.0)
• other carryovers	(162.2)	(233.4)	(4.5)	(4.5)	(166.7)	(237.9)
— appropriations cancelled	1 899.1	1 586.6	1 118.9	1 247.6	3 018.0	2 834.2
Utilisation rate	95%	95%	98%	96%	96%	96%
Commitments outstanding at 1 January 1997.	47 911.1		501.0		48 412.1	
of which:						
— cancelled:	1 641.3		116.6		1 757.9	
• corresponding appropriations made available again in 1998	(130.6)				(130.6)	
• other	(1 510.6)				(1 510.6)	
— Paid	20 489.7		384.4		20 874.1	
— Outstanding at 31 December 1997	25 780.1		—		25 780.1	
Commitments made in 1997,	41 240.1		45 387.1		86 627.2	
of which:						
— Paid	14 496.2		44 866.1		59 362.3	
— Cancellation of commitments not used			12.0			
— Outstanding at 31 December 1997	26 744.0		509.0		27 252.9	
Total commitments outstanding at 31 December 1997	52 524.1		509.0		53 033.1	

The budget of the European Union was financed from a number of sources in 1997, the breakdown being shown in Figure 3. Total revenue came to ECU 80.6 billion.

Traditional own resources

The EU's traditional own resources are made up of customs duties, agricultural duties and sugar levies. They are established by the Member States, which keep 10 % to cover collection costs.

Customs duties are levied on trade with non-member countries, at rates based on the Common Customs Tariff. These rates have often been subject to reductions as a result of negotiation rounds under the General Agreement on Tariffs and Trade (GATT) and specific agreements granting preferential tariffs to certain trading partners. The amount of customs duties collected was up by 4.1 % on last year. This was due to a surge in imports in 1997, which was, however, partly offset by a fall in the average rate from 2.5 to 2.3 %.

Agricultural duties are charged when a Member State imports agricultural products from a non-member country. The yield was 26.5 % up on last year.

In the cereals sector the purpose of the duties is to offset differences between the world price and the Community price.

The proportion of total levies accounted for by levies on cereals is declining as the reform of the agricultural policy brings internal prices closer to world prices.

In most other sectors the fall in the proportion of revenue provided by levies has been due mainly to negotiated commitments for a steady reduction in agricultural duties (by 6 % per year).

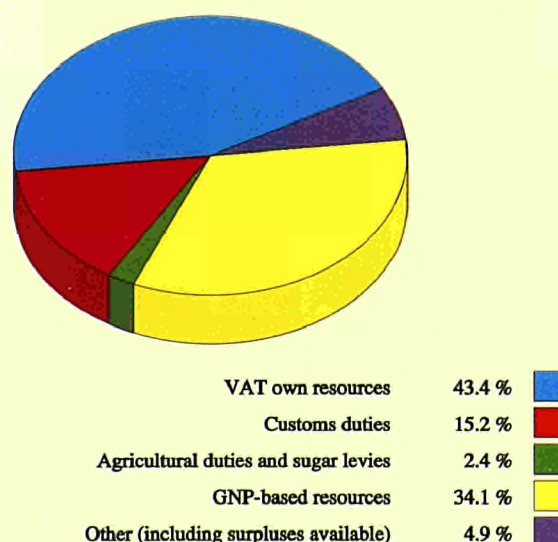
Sugar and isoglucose producers pay levies on production to cover market-support arrangements and to finance a system for the equalisation of sugar-storage costs, thus ensuring that sugar supplies reach the market steadily throughout the year. These levies offset expenditure of virtually the same amount. This

year revenue from this source was 8.2 % lower than in 1996, mainly because of the fall in storage levies.

VAT own resources

The VAT own resources are calculated by applying a uniform rate to the national VAT bases, which are determined in accordance with Community rules. In accordance with the June 1988 reform and the recently ratified decision on the Communities' own-resources system, the uniform rate is determined by applying a percentage, set at 1.16 % for 1997, to the VAT base and deducting the compensation for the United Kingdom. The base used must not exceed the percentage of the Member State's GNP laid down in the decision on own resources. For 1997, this limit was 50 % for four Member States and 52 % for the others. This year the VAT base for Ireland, Luxembourg and Portugal was capped under these rules.

FIGURE 3
Community revenue, 1997



Payments for a given year derive from the forecasts for that year and the negative or positive adjustments for previous years established using the final statements of the bases.

In 1997, the VAT resource amounted to ECU 34 919 million.

This year, negative adjustments totalling ECU 567 million were made, particularly in respect

of 1996, the budget forecasts having over-estimated economic growth.

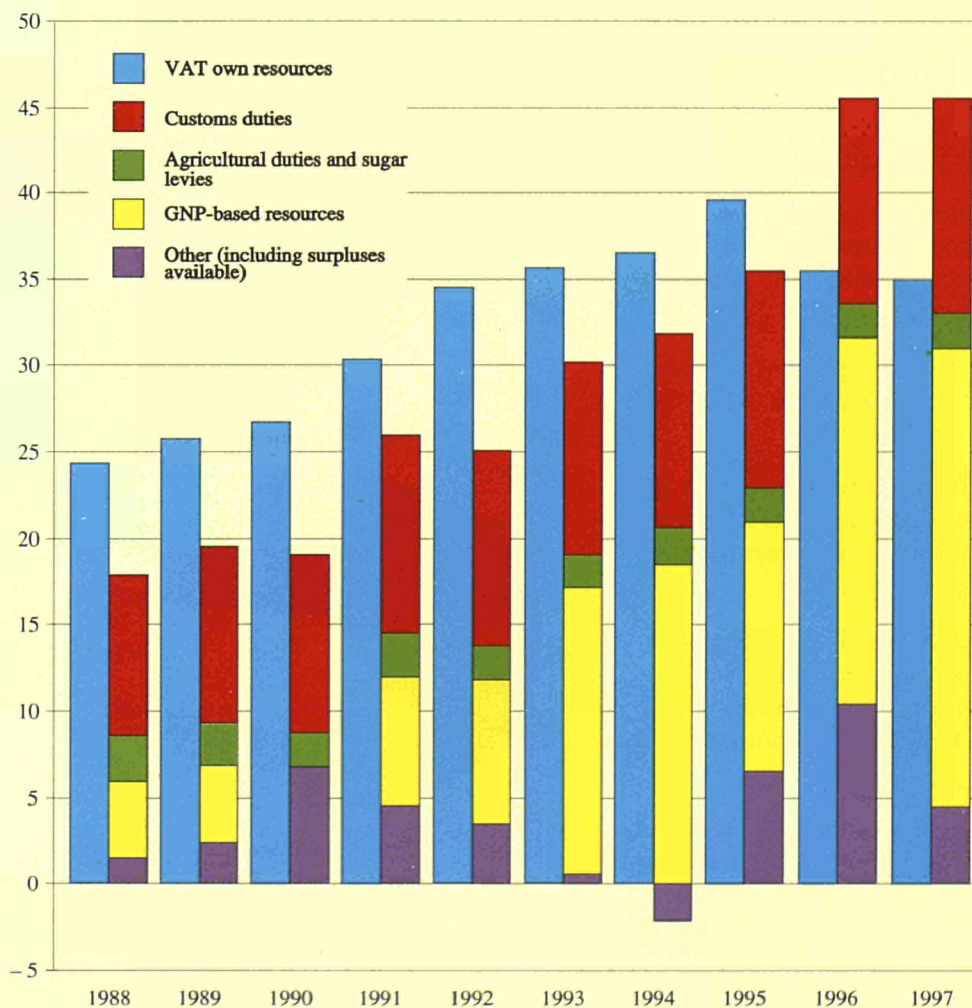
GNP-based own resources

A new source of revenue based on a proportion of each Member State's GNP was first introduced in 1988 to balance budget revenue

FIGURE 4

Revenue, 1988-97

(billion ECU)



and expenditure, i.e. to finance the part of the budget not covered by other revenue. The rate is fixed during the budgetary procedure and depends on the total of other revenue; the rate is applied to the aggregate GNP of all the Member States, determined in accordance with Community rules.

This year this additional resource was called in, with each Member State paying 0.384 % of its GNP (not including the EAGGF mon-

etary reserve, the loan guarantee reserve and the emergency aid reserve). In addition, five Member States had to finance their share of the compensation for the United Kingdom by making a payment based on GNP as their VAT payments had reached the maximum rate, i.e. 1.16 % of their base.

In 1997, the GNP resource amounted to ECU 27 150 million (not including reserves).

FIGURE 5

Total revenue, 1988-97

(billion ECU)

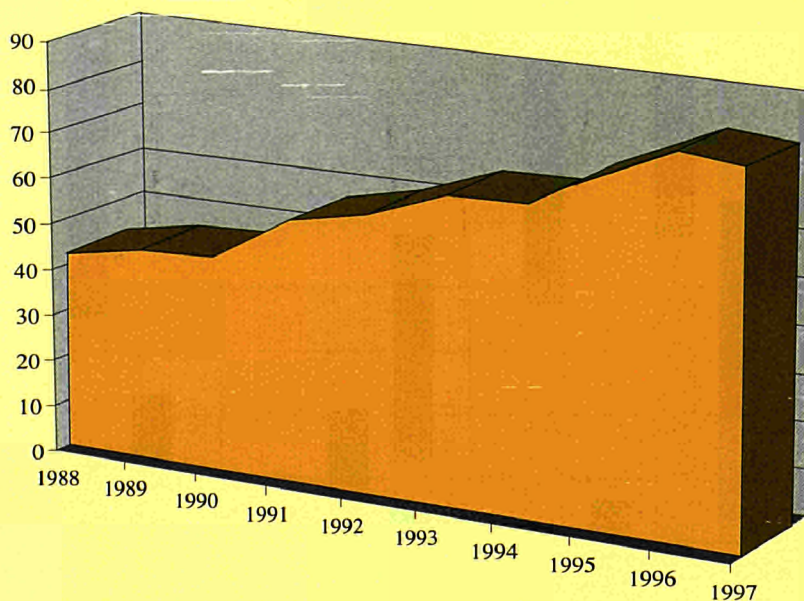
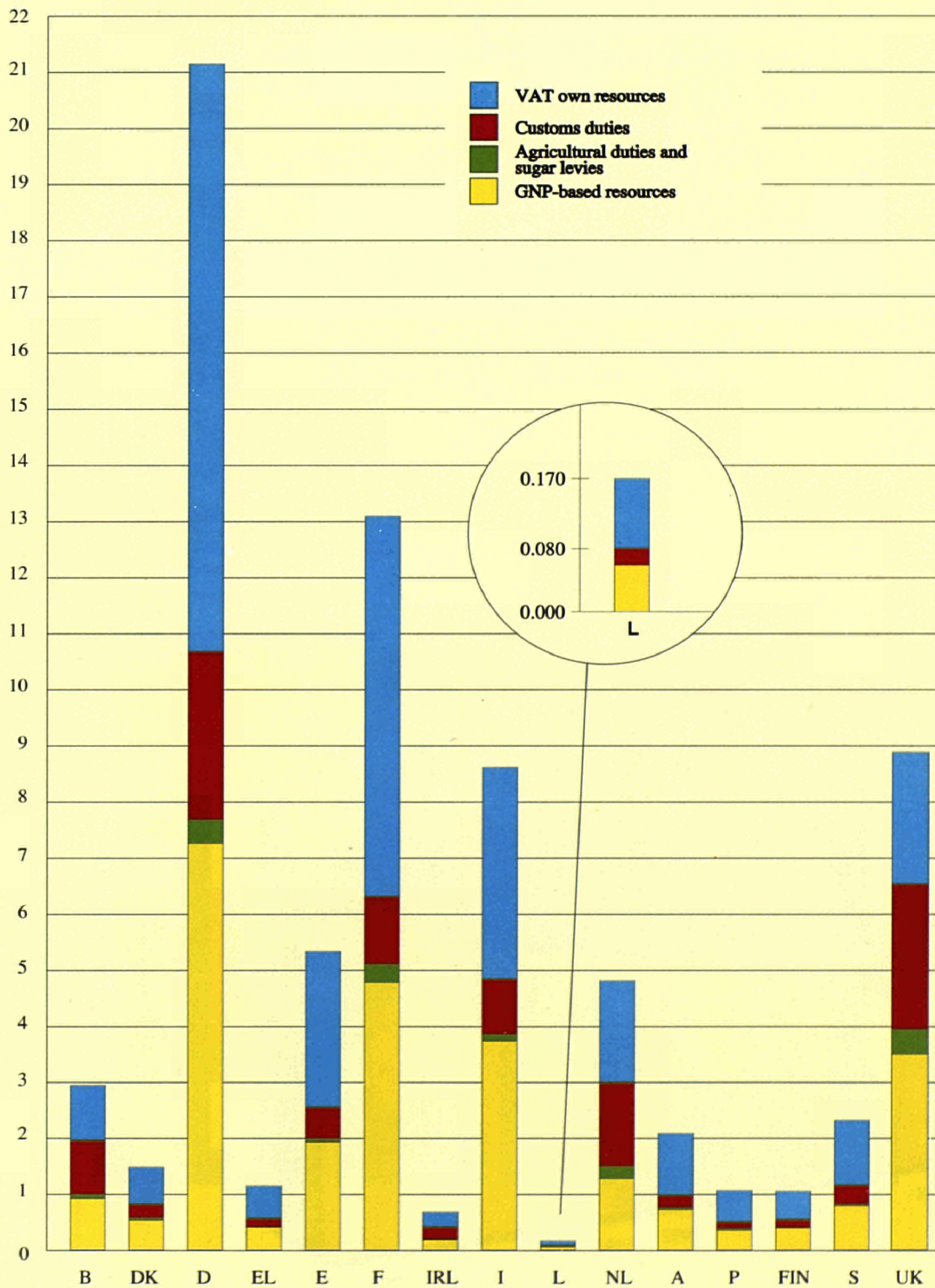


FIGURE 6
Own resources by Member State, 1997

(billion ECU)



Net negative adjustments totalling ECU 544 million were made for 1988-96.

Miscellaneous revenue

The general budget is also financed by miscellaneous revenue, including tax and other deductions from staff remuneration, bank in-

terest, outside contributions to research programmes, repayments of unused aid and interest on late payments. Together, these sources generated revenue amounting to ECU 871 million.

The revenue for 1997 also includes the ECU 4.384 billion surplus from 1996.

EXPENDITURE

Heading 1 — Agricultural market guarantees

Objectives and means

Article 38 of the EEC Treaty provides that the common market shall extend to agriculture and trade in agricultural products, and that the operation and development of the common market for agricultural products must be accompanied by the establishment of a common agricultural policy among the Member States. Article 39 defines the objectives of the common agricultural policy as:

- to increase agricultural productivity;
- to ensure a fair standard of living for the agricultural community;
- to stabilise markets;

- to assure the availability of supplies;

- to ensure that supplies reach consumers at reasonable prices.

Although these objectives have largely been met, certain permanent adjustments have had to be made, the most recent of which is the reform of the common agricultural policy adopted by the Council in May 1992. The reform is based on more competitive prices and direct aid to the farmers in greatest need. Its aim is to reduce surpluses, stem the tide of rural depopulation and preserve the environment by discouraging intensive production.

In pursuit of the above objectives, the common market in agricultural produce is based on three principles: the single market, Community preference and financial solidarity. The third of these principles is fundamental to the policy, and in April 1962 the Member States accordingly decided to set up a Community fund, the European Agricultural Guidance and Guarantee Fund (EAGGF), which is part of the EU budget. It is subject to the general budgetary rules, with the addition of specific provisions.

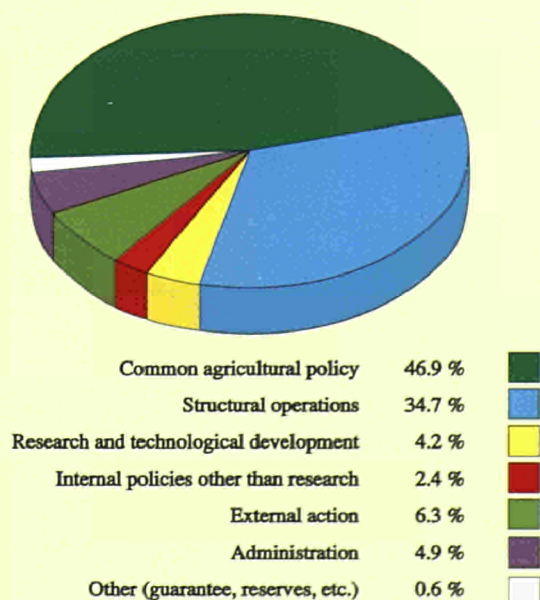
The Fund was subdivided into two sections in 1964: the Guarantee Section covers expenditure on markets and prices and the Guidance Section covers expenditure on farm structures.

Constraints

In June 1988, when own resources had run out as a result of ever-increasing agricultural expenditure triggered by imbalances on certain markets, the European Council agreed on principles of budgetary discipline in order to establish a better balance between the various categories of expenditure and keep their growth under control. These principles were reaffirmed by the Edinburgh European Council in December 1992.

To bring agricultural expenditure under control, the European Council adopted the princi-

FIGURE 7
Community expenditure, 1997



ple of a guideline. Within this guideline the EAGGF Guarantee Section has to finance:

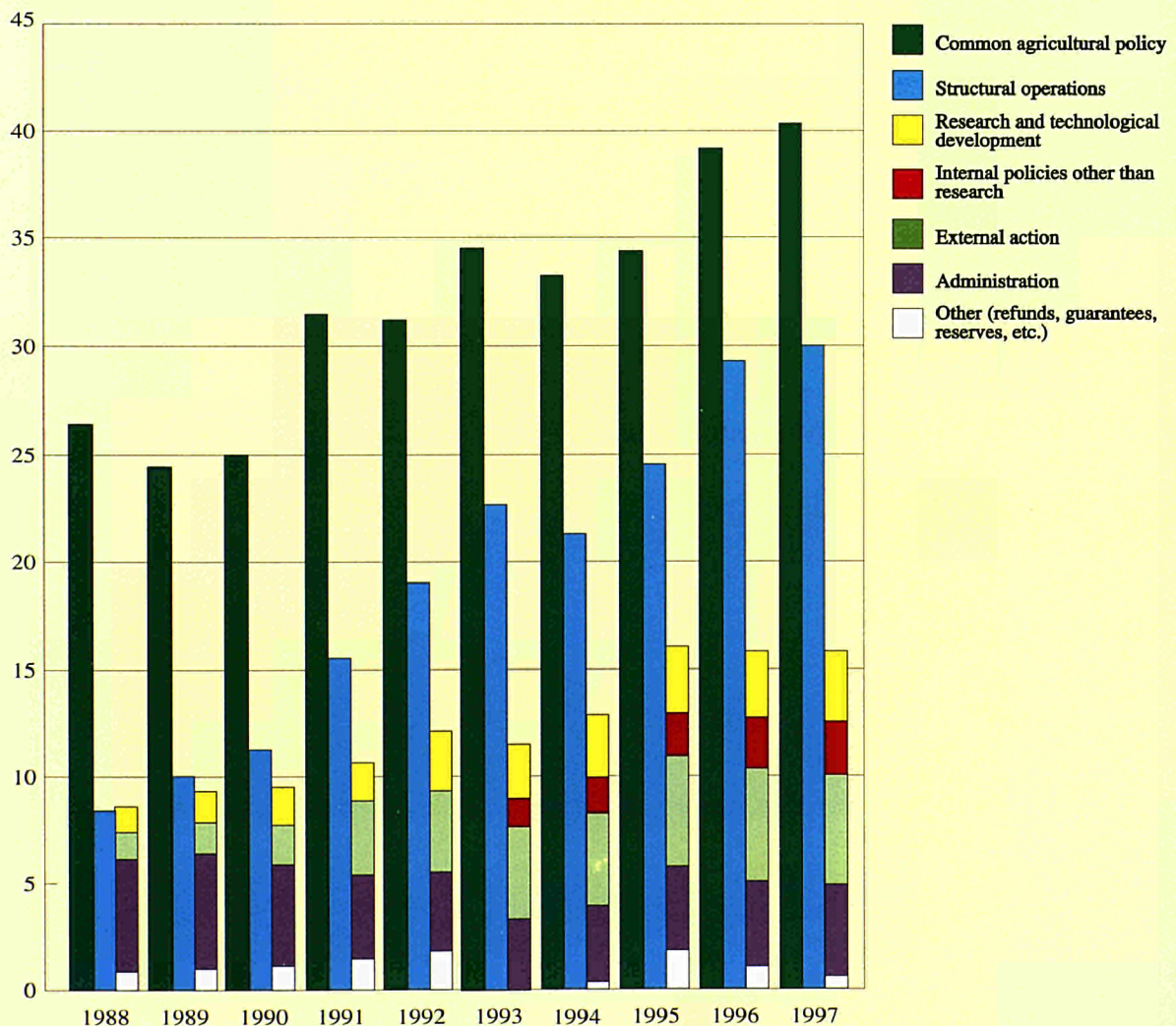
- export refunds;
- market intervention operations, including depreciation of 'new' stocks;
- market-related rural development operations and measures to combat fraud.

However, in line with the conclusions of the Edinburgh European Council, the guideline was extended with effect from 1993 to cover:

- new flanking measures to accompany the reform of the common agricultural policy (early retirement, environment, afforestation);

FIGURE 8
Expenditure, 1988-97

(billion ECU)



- all set-aside expenditure, which had been shared equally between the EAGGF Guidance Section and Guarantee Section until 1992 (heading 2);
- expenditure on income aid (under heading 2 of the financial perspective in 1992);
- spending from the fisheries guarantee fund.

1997 budget

Initial appropriations

The appropriations covered by heading 1 of the financial perspective amounted to ECU 40 805 million, not counting the ECU 500 million monetary reserve, which is called on only if needed. The figure does, however,

FIGURE 9

Total expenditure, 1988-97

(billion ECU)

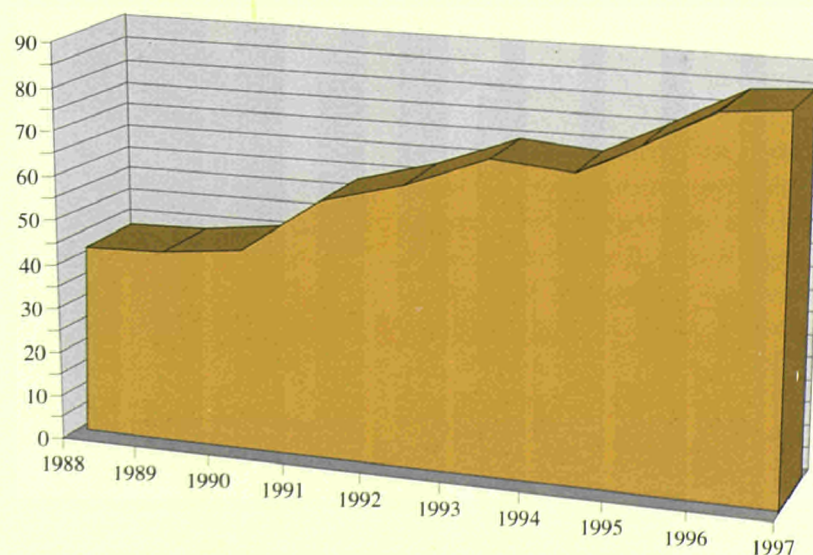
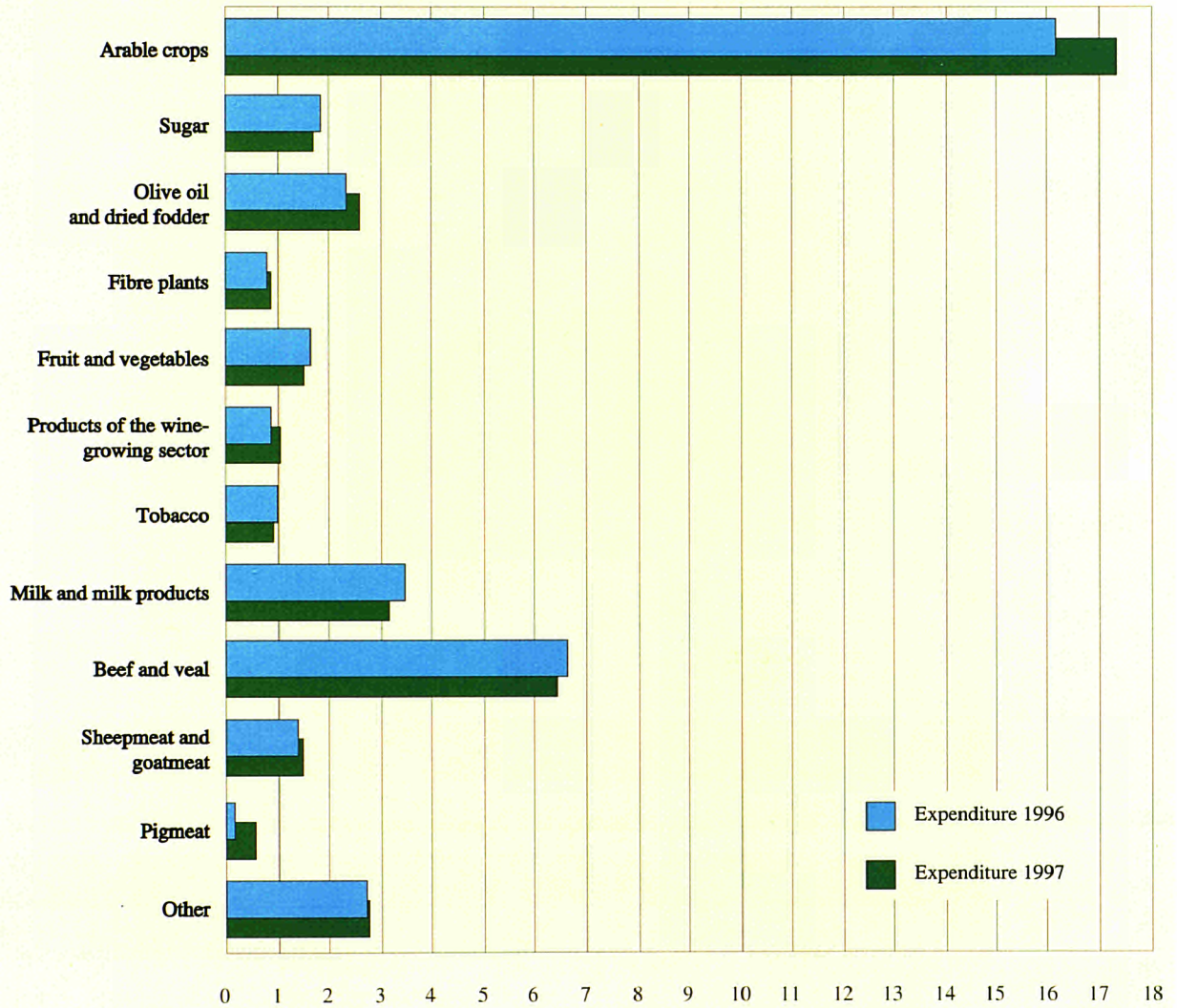


FIGURE 10

Expenditure on agricultural market guarantee, 1997

(billion ECU)

(million ECU)

Chapter	Sector	Budget	Expenditure	Expenditure — budget	
a	b	c	d	e = d - c	% of c
10	Arable crops	16 160.4	17 414.0	1 253.7	7.8
11	Sugar	1 833.5	1 607.8	- 225.7	- 12.3
12	Olive oil	2 167.7	2 196.0	28.3	1.3
13	Dried fodder and dry vegetables	393.5	367.4	- 26.1	- 6.6
14	Fibre plants	832.7	906.9	74.2	8.9
15	Fruit and vegetables	1 680.9	1 569.0	- 111.9	- 6.7
16	Wine	862.8	1 030.1	167.3	19.4
17	Tobacco	1 021.2	998.0	- 23.2	- 2.3
18	Other crop measures	265.3	274.4	9.1	3.4
20	Milk and milk products	3 632.0	3 101.2	- 530.8	- 14.6
21	Beef and veal	7 451.0	6 580.4	- 870.6	- 11.7
22	Sheepmeat	2 021.7	1 424.9	- 596.8	- 29.5
23	Pigmeat	168.0	478.8	310.8	185.0
24	Eggs and poultry	137.8	78.7	- 59.1	- 42.9
25	Other livestock product measures	112.7	94.4	- 18.3	- 16.3
26	Fisheries	42.8	33.5	- 9.3	- 21.7
30	Non-Annex II products	519.8	565.9	46.1	8.9
33	Food aid	94.3	15.0	- 79.3	- 84.1
35	Distribution to the needy	194.3	183.8	- 10.5	- 5.4
36	Anti-fraud measures	42.8	42.8	0.0	0.0
37	Clearance of accounts	- 910.0	- 867.6	42.4	- 4.7
38	Promotion measures	93.8	54.2	- 39.8	- 42.4
39	Other measures	140.9	204.2	63.3	44.9
	Titles 1, 2 and 3 — Total	38 959.9	38 353.7	- 606.1	- 1.6
40	Income aids	9.7	4.5	- 5.2	- 53.6
50	Accompanying measures	1 835.4	2 064.8	229.4	12.5
	EAGGF-Guarantee — Total	40 805.0	40 423.0	- 381.9	- 0.9
	Percentage difference			- 0.94	

include the ECU 72 million entered in Chapter B0-40, 'Provisions'.

The Commission had thought that the full ECU 41 805 million allowed for under the agricultural guideline would be required. In order to support the Member States' drive for budget restraint in the run-up to monetary union, the budget authority decided, on the basis of out-turns from previous years, to cut ECU 1 billion off the requests for appropriations proposed by the Commission.

Implementation of the budget

Expenditure for 1997 totalled ECU 40 423 million, which represents an underspend of:

- ECU 382.0 million (0.94 %) relative to the ECU 40 805 million appropriations entered in the budget;
- ECU 1 382.0 million (3.31 %) relative to the requirements on which the budget was based (ECU 41 805 million).

Breakdown of differences by chapter

The table above shows, for each chapter, the difference between actual expenditure and the amount in the budget. While the difference between initial appropriations and the budget as a whole is relatively modest, individual chapters show large discrepancies. For some chapters (arable crops, pigmeat, accompanying measures, wine and fibre plants) expenditure was quite significantly overspent, whereas others were underspent (milk, beef and veal and sheepmeat).

For the main chapters of the budget the differences in million ECU are accounted for below.

• Arable crops

<i>Initial appropriations</i>	<i>Expenditure</i>	<i>Difference</i>
16 160.4	17 414.1	+ 1 253.7

Expenditure exceeded the amount in the budget because oilseed advances for 1997/98 were paid in 1997. The budget was based on the Commission proposal to change the payment date, with the result that the advances would be covered by the 1998 budget. When the Council failed to adopt the proposal, however, the Commission paid the advance in accordance with the existing rules. This added an extra ECU 1.3 million to the spending total. Set-aside accounted for a further ECU 150 million extra spending. On the other hand, market-support measures cost around ECU 200 million less than the amount in the budget, thanks primarily to the appreciation of the dollar against the ecu.

• Sugar

<i>Initial appropriations</i>	<i>Expenditure</i>	<i>Difference</i>
1 833.5	1 607.8	- 225.7

Most of the savings result from underspending on the export programme and the strong dollar.

Only 2 725 tonnes were exported — some 200 000 tonnes less than the 2 940 000 tonnes on which the initial budget was based. In addition the average refund was ECU 443 per tonne for 1996/97, against the budget figure of ECU 470 per tonne. This was mainly the result of the rise of the dollar.

• Fibre plants

<i>Initial appropriations</i>	<i>Expenditure</i>	<i>Difference</i>
832.7	906.9	+ 74.2

In the cotton sector, spending outstripped appropriations by some ECU 50 million as the result of a small reduction in cotton aid. The unit amount of aid for cotton depends on the quantity produced. If it exceeds the maximum quantity guaranteed, a penalty is applied to reduce the amount of aid. In the budget, the reduction in aid was based on the hypothesis that Greece would produce 1 300 000 tonnes. In August 1996, Greece reported that its forecast was 1 220 000 tonnes. In the event, actual declared production totalled no more than 928 000 tonnes with the result that the penalty actually applied was lower than the budget forecast.

For flax and hemp, the areas cultivated were greater than anticipated in the budget (132 000 hectares against 105 000 hectares for flax and 13 700 hectares against 10 000 hectares for hemp).

• Fruit and vegetables

<i>Initial appropriations</i>	<i>Expenditure</i>	<i>Difference</i>
1 680.9	1 569.0	- 111.9

The under-utilisation of appropriations is due mainly to the low uptake of appropriations intended for the operational funds of producer organisations, i.e. slower than anticipated rate of reform.

• Wine

<i>Initial appropriations</i>	<i>Expenditure</i>	<i>Difference</i>
862.8	1 030.1	+167.3

Though expenditure easily exceeded the allocation for 1997, it was a normal level from a historical perspective. As with fruit and vegetables, the wine harvest varies greatly from year to year in terms of both quantity and quality. Consequently expenditure is very volatile. Spending overshoot the Commission's forecast in the 1997 preliminary draft (i.e. be-

fore the across-the-board cut) by ECU 142 million. Producers made greater use of private storage arrangements and claimed more aid for the use of must than expected, leading to an overspend of ECU 17 million for 'private storage' and ECU 43 million for 'use of must'.

At a conservative estimate, a further ECU 70 million was charged to the budget for the depreciation of 742 000 hectolitres of alcohol distilled from wine in Italy.

Aid for distillation cost ECU 33 million more than the amount forecast in the budget, but ECU 23 million of that was offset by savings on alcohol storage. There has been a shift away from compulsory distillation to preventive distillation and, though this attracts higher aid payments, the alcohol produced is not charged to the Community budget.

• Milk

<i>Initial appropriations</i>	<i>Expenditure</i>	<i>Difference</i>
3 632.0	3 101.2	- 530.8

The reason for the under-utilisation of the appropriations is that the additional milk levy for 1995/96 and 1996/97 (around ECU 240 million and ECU 310 million respectively) was entered in the accounts for 1997, though it did not appear in the budget.

• Beef and veal

<i>Initial appropriations</i>	<i>Expenditure</i>	<i>Difference</i>
7 451.0	6 580.4	- 870.6

The very large savings in this sector are mainly due to two factors.

Firstly, around 350 000 tonnes were bought in, against the 530 000 tonnes allowed for in the budget. This was the result of lower-than-expected production and a smaller fall in consumption. When the 1997 budget was adopt-

ed, all observers thought that the outlook for the market and consumption in particular was rather bleak. This positive trend has led to savings of around ECU 560 million.

Secondly, expenditure on premiums for the early slaughter of calves was not as high as expected. The budget was based on a figure of 6.35 million calves. In the event only a million animals were slaughtered, saving some ECU 340 million.

- Sheepmeat

<i>Initial appropriations</i>	<i>Expenditure</i>	<i>Difference</i>
2 021.7	1 424.9	- 596.8

The average market price was very high in 1996 (ECU 3 634 per tonne against ECU 3 250 in the budget) and climbed even higher in 1997. In addition fewer animals qualified for the premium than were forecast in the budget (73.4 million for 1996 and 73.6 million for 1997 against 77.9 million in the budget for both years), giving rise to lower expenditure.

- Pigmeat

<i>Initial appropriations</i>	<i>Expenditure</i>	<i>Difference</i>
168.0	478.8	+ 310.8

In this sector, expenditure (ECU 478.8 million) exceeded the budget allocation (ECU 168 million). An outbreak of classical swine fever in Belgium, Germany, the Netherlands and Spain was responsible for the overspending, which would have been even more serious if the reduction in supply on the internal market had meant that fewer exports were subsidised.

As one of the measures taken to eradicate the epidemic, the Commission authorised the slaughter of some 9.8 million animals, of which 8.8 million were in the Netherlands. This cost the Community budget an estimated

ECU 550 million, of which ECU 407 million was charged to the 1997 budget, with its allocation of only 9.7 million.

This unexpected expenditure was partially offset by savings of ECU 63 million resulting from a relative shortage of supply on the internal market, which pushed both refund rates and the quantities qualifying for refunds down lower than anticipated. Furthermore, there was no need for private storage arrangements, which saved another ECU 23 million.

- Eggs and poultry

<i>Initial appropriations</i>	<i>Expenditure</i>	<i>Difference</i>
137.8	78.7	- 59.1

For eggs, the refund rates were significantly lower than anticipated (35 to 45 % lower depending on the product), as were the amounts exported (44 % lower).

The forecasts concerning poultry exports proved fairly accurate. However, actual refund rates were far lower than the budget had predicted (between 40 and 45 % lower, depending on the specific product).

- Non-Annex II products

<i>Initial appropriations</i>	<i>Expenditure</i>	<i>Difference</i>
519.8	565.9	+ 46.1

Expenditure on refunds for processed products was some ECU 56 million higher than the budget allocation of ECU 499.4 million. This was essentially due to the fact that the volume of exports of sugar, skimmed milk and butter in the form of processed products were higher than forecast in the budget — 70 000 tonnes higher in the case of sugar, 33 000 tonnes for skimmed milk and 1 000 tonnes for butter. The refund rate for sugar was lower than predicted, however, offsetting at least part of the overspend.

At 2 200 000 tonnes, the volume of cereal exported was somewhat lower than the budget forecast of 2 645 000 tonnes. However, the average refund rate was higher than the budget predicted, wiping out virtually all of the savings made through lower export volumes.

• Food aid

<i>Initial appropriations</i>	<i>Expenditure</i>	<i>Difference</i>
94.3	15.0	- 79.3

Expenditure was generally lower than expected, with the exception of spending on sugar. For all other products, the quantities supplied were at most a quarter of the quantities allowed for in the budget. World market prices for milk powder and cereals were also higher than predicted. As a result, only half the budget allocation for refunds was actually used.

• Other measures

<i>Initial appropriations</i>	<i>Expenditure</i>	<i>Difference</i>
140.9	204.2	+ 63.3

In the 1997 budget the Commission had forecast requirements of ECU 144.6 million, for disbursement of the second tranche of agri-monetary aid to Belgium, Luxembourg, Denmark, the Netherlands, Germany, Austria and Sweden in line with Council Regulations (EC) Nos 1527/95 and 2990/95. The Council settled on an allocation of ECU 140.9 million.

There have been a number of developments since the budget was drawn up which account for the additional spending. Most significantly, in 1997 ECU 87 million was spent on Ireland as part of the first tranche of the new aid provided for by Council Regulations (EC) Nos 1451/96 and 724/97. This was in response to agri-monetary developments. Requirements in 1997 were, however, reduced by some ECU 32.9 million as a result of the swift disbursement, in 1996, of a large part of the second tranche for the Netherlands.

• Accompanying measures

<i>Initial appropriations</i>	<i>Expenditure</i>	<i>Difference</i>
1 835.4	2 064.8	+ 229.4

Most of the additional spending stems from the success of the environment-friendly farming programmes in Austria, Ireland and Italy for instance: the backlog of payments was cleared.

Heading 2 — Structural operations

Community initiatives and most of the Community support frameworks (CSFs) and the single programming documents (SPDs) were adopted in 1994, 1995 and 1997. As part of the effort to put European policy at the service of growth and employment, plans for industrial aid to regions in decline were completed in 1997, a year which was also marked by the adoption of territorial pacts for employment. Important policy papers concerning Community structural measures, employment, cohesion policy and the environment were adopted by the Commission, usually in the form of communications to the Council:

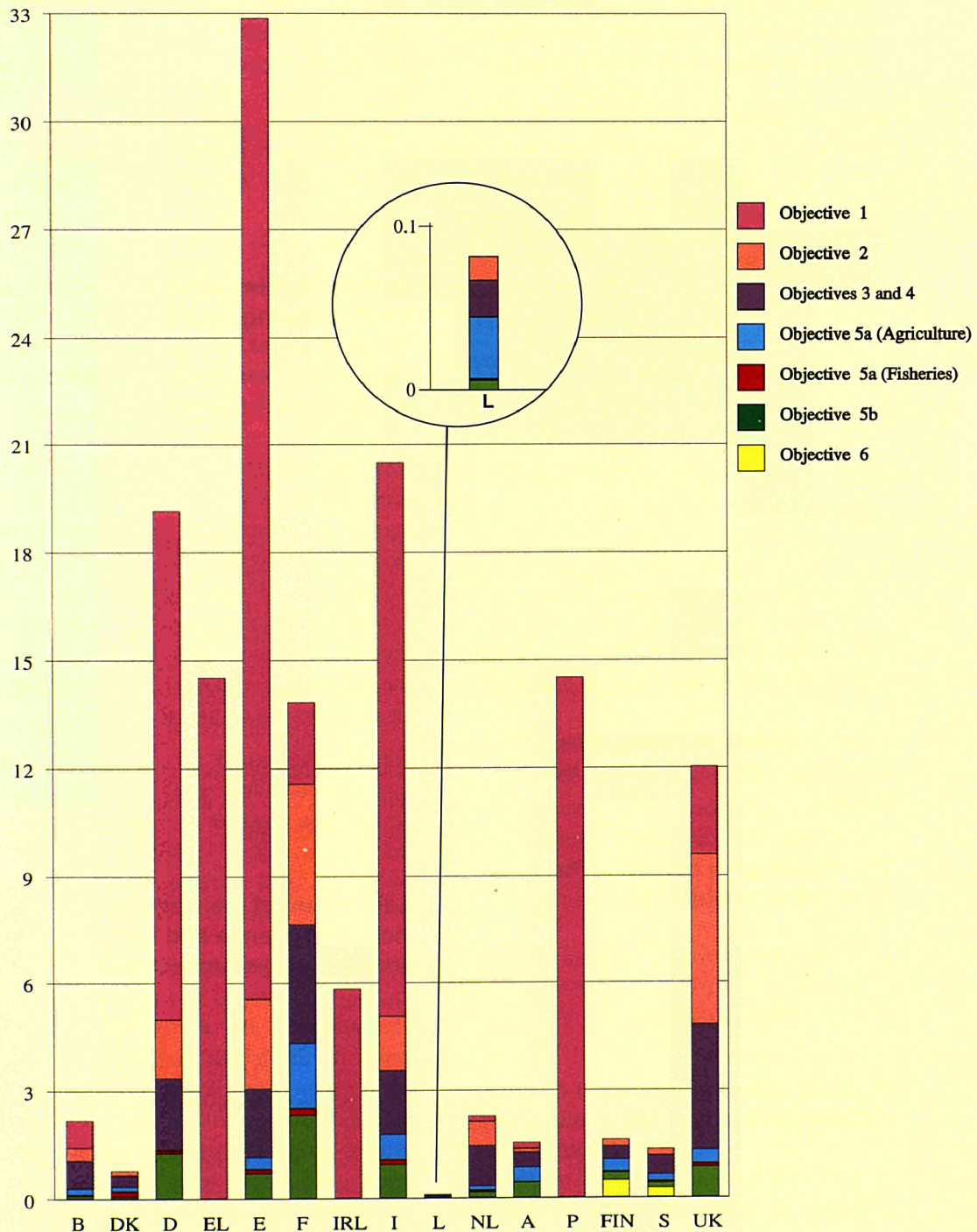
□ in July, in its communication 'Agenda 2000: a stronger and wider union', the Commission set out its position on the future development of the policy of economic and social cohesion: greater geographical concentration and continuing to strive for cohesion (in April a European Cohesion Forum was held);

□ on 30 May, in connection with the mid-term review of the 1994-99 Structural Funds programmes, the Commission defined its priorities with a view to the possible adjustment of some of its programmes (basic infrastructures, innovation, RTD, environment and sustainable development,

FIGURE 11

Breakdown by Member State of Community contribution under the various objectives of the Structural Funds (current prices)

(billion ECU)



NB: Figures relate to the period 1994-99, except in the case of the three new Member States — Austria, Finland and Sweden (1995-99)

development of human resources and equal opportunities):

- on 6 May, the Commission adopted a communication entitled 'Towards an urban agenda in the European Union' and organised a European summit of regions and towns on 16 and 17 May in Amsterdam.

The 1997 budget earmarked ECU 28 625 million for operations under the three Structural Funds and the Financial Instrument for Fisheries Guidance (FIFG). Of this total, ECU 27 230 million was actually committed. This breaks down as follows:

	<i>(billion ECU)</i>
EAGGF Guidance Section	4.133
ERDF	14.387
ESF	8.315
FIFG	0.395
Total	27.230

The Union supports six specific objectives through the Structural Funds and the FIFG.

Community support frameworks (CSFs) and single programming documents (SPDs)

Regions lagging behind in their development (Objective 1)

The Community's total contribution for 1997 came to ECU 17 039 million, of which ECU 17 016 million was committed.

Regions suffering industrial decline (Objective 2)

In 1997 the Commission approved 65 new SPDs and, for Spain, a new CSF, covering the period 1997-99. The new SPD for Finland had been approved in 1996. In a communication adopted on 14 November, the Commission

presented all of this new programming, which reflects the priorities set out in the guidelines adopted in 1996. Employment has remained the main priority, and the other priority areas are small businesses, including local development and employment initiatives, research and development, the environment and sustainable development, and equal opportunities.

The Community's total contribution for 1997 came to ECU 2 902 million, all of which was committed.

Combating long-term unemployment and facilitating the integration into working life of young people and of people exposed to exclusion from the labour market (Objective 3)

The following priorities were selected in partnership with the national authorities: improving the job prospects of the long-term unemployed; promoting the integration into working life of young people seeking jobs; improving the job prospects of people threatened by exclusion from the labour market; and promoting equality of opportunity for men and women on the labour market.

The Community's total contribution for 1997 came to ECU 2 203 million, all of which was actually committed.

Adjustment of the workforce to industrial change and to changes in production systems (Objective 4)

The priorities are as follows: anticipating trends on the labour market and vocational qualification needs; developing training, guidance and advice facilities; improving new and existing training schemes so that workers are better qualified to meet new requirements; and technical assistance measures in the fields of information, counselling, services and assessment. The measures taken concentrate on training workers to meet the need for skills

identified by advanced measures. Priority is given to small firms and workers threatened by unemployment as a result of industrial change.

The Community's total contribution for 1997 came to ECU 477 million, all of which was committed.

Adjustment of agricultural structures (Objective 5a)

Objective	<i>(billion ECU)</i>	
	<i>Appropriations available in 1997</i>	<i>Appropriations committed</i>
5a not in 1a and 5b	0.422	0.422
5a in 5b	0.553	0.553
Total	0.975	0.975

In order to clarify, simplify and rationalise the rules on Objective 5a (on improving agricultural structures, improving the processing and marketing conditions for agricultural products and producer groups and associations thereof), the Council recast these rules on 20 May. On 24 February, it also extended by two years the special provisions for the granting of compensatory payments in the less-favoured areas of Portugal in order to improve agricultural structures there. On 11 November, the Commission also proposed to draw up the list of less-favoured areas in Denmark.

The Community's total contribution came to ECU 975 million, all of which was committed.

Fisheries structures (Objective 5a)

In 1996 the Council adopted amendments to Regulation (EC) No 3699/93 laying down the criteria and arrangements regarding Community structural assistance in the fisheries and aquaculture sector, and the processing and marketing of its products:

- limiting the premiums for the scrapping of vessels over 30 years old and introducing a ceiling on aid from the Financial Instrument for Fisheries Guidance (FIFG) for the temporary laying-up of vessels;
- introducing a reference to the new aid scheme for producer organisations;
- confirming that only the budgetary rate for the ecu would be used, and not the agricultural rate.

The Community's total contribution for 1997 came to ECU 164 million, of which 59 million was committed.

Development of rural areas (Objective 5b)

Objective 5b is concerned with the development of rural areas in difficult circumstances which are not located in Objective 1 regions; 12 Member States are involved. The Objective 5b areas designated for the period 1994-99 have a total population of approximately 32 745 000, including the new Member States, and a combined surface area of 840 876 km².

On 22 January the Community approved an SPD (1997-99) for France. The purpose of this document is to provide technical assistance to improve the effectiveness and mutual consistency of operations carried out under the 20 Objective 5b SPDs covering regions in France.

The Community's total contribution for 1997 came to ECU 1 248 million, all of which was committed.

Regions with a low population density (Objective 6)

Finland and Sweden are the only regions affected by this objective. Its main priorities are economic and commercial development, human resources, promotion of know-how,

agriculture, forestry, fisheries, farmland improvement, the environment and Community social measures.

The Community's total contribution for 1997 came to ECU 138 million, all of which was committed.

Community initiatives

Total funding for the Community initiatives represents 9 % of the total volume of the Structural Funds, in accordance with Article 12 of Council Regulation (EEC) No 2081/93. This figure was obtained by taking 8 % of the total funding allocated to each objective (including transitional measures and innovative schemes) and adding 1 % taken from the allocations for Objectives 3 and 4.

On 8 May 1996, the Commission adopted the decision on the use of the reserve for the Community initiatives. The total came to ECU 1 665 million at 1996 prices.

Appropriations available for 1997 totalled ECU 3 173 million, of which 1 949 million was committed.

Other structural measures

Transitional and innovative measures

In 1997, as in the previous year, the Commission selected pilot projects or innovative demonstration projects covered by the guidelines adopted in its communications:

- under Article 10 of Regulation (EEC) No 4254/88, in regional and local economic development (land use planning, urban development), 113 innovative projects were chosen, and for interregional cooperation, more than 25 projects;
- under Article 6 of Regulation (EEC) No 4255/88, as regards the Social Fund, 48 pilot projects were selected in training, or-

ganisation of work, job creation or employment services. Technical assistance was granted for the implementation of territorial pacts for employment to prepare concrete action plans. Ninety pacts were concluded in the regions and certain towns;

- pilot or demonstration projects under Regulation (EEC) No 4256/88 were also given technical assistance. These projects concerned non-food crops, agri-environmental aspects, the forest economy and rural development;
- in the fields of small-scale coastal fishing, studies, technical assistance and information, the FIG selected over 36 projects.

Appropriations available for 1997 totalled ECU 301.448 million, of which ECU 262.323 million was committed.

Action against fraud in the field of structural action

The unit for combating fraud provided the Member States with technical assistance, mainly with on-the-spot checks. Appropriations available for 1997 totalled ECU 0.75 million, all of which was committed.

Implementation, monitoring and evaluation of programmes and projects

This concerns the implementation, monitoring and evaluation of the environmental dimension of the programmes and projects undertaken under Chapters B2-10, 11, 12, 13, 14, 18, 20 and 40 of the budget, to achieve the objectives set out in the Community programme of policy and action in relation to the environment and sustainable development. Appropriations available for 1997 totalled ECU 3 million, of which ECU 1.6 million was committed.

Cohesion Fund

The Cohesion Fund was set up by the Treaty on European Union and first started operation in 1993. Its allocation for the period covered by the financial perspective for 1993-99 amounts to ECU 15.15 million (at 1992 prices).

On 23 June the Commission adopted its annual report on the work of the Cohesion Fund in 1997. It states that 99.99 % of the 1996 commitment appropriations were used up.

The Commission also launched its first evaluation of the results of the projects financed by the Cohesion Fund. The stress is placed on

Amount of commitments in 1997

(million ECU)

Member State	Environment		Transport		Total	Share
	Amount	%	Amount	%	Amount	%
Greece	210.453	14.0	283.031	22.7	493.484	18.0
Spain	853.072	56.9	661.523	53.1	1 514.595	55.1
Ireland	134.054	8.9	111.489	8.9	245.543	8.9
Portugal	302.363	20.2	190.870	15.3	483.233	17.9
Technical assistance					1.845	0.1
Grand total	1 499.942	100.0	1 246.913	100.0	2 748.700	100.0

achieving a balance in financing between environmental and transport projects, while giving priority to rail transport.

In accordance with Article 6 of Regulation (EEC) No 1164/94 setting up the Cohesion Fund, the Commission examined the budgetary situation of the Member States which had an excessive deficit and were eligible under the Cohesion Fund. It emerged that the government deficits of the eligible countries (Spain, Greece, Portugal), while excessive, remained within the limits of the objectives recommended by the Council. In accordance with Article 6 of the regulation setting up the Cohesion Fund, assistance to those countries would continue.

In 1997, the appropriations committed to financing projects in Ireland, Greece, Portugal and Spain totalled ECU 2 748.7 million. The breakdown by country of these appropriations is shown in the table above.

In 1997, a total of 228 projects were financed by the Cohesion Fund (59 in Greece, 33 in Ireland, 45 in Portugal and 91 in Spain).

Heading 3 — Internal policies

Research and technological development

The year 1997 was the third year of the fourth framework programme (1994-98). The initial appropriations amounted to ECU 3 400 million. They were supplemented during the course of the year by ECU 100 million in a supplementary and amending budget. Budgetary implementation was close to 99 % for commitment appropriations and, for the payment appropriations, improved on the 94 % rate of the previous years.

The appropriations available in 1997 for RTD were as follows:

	<i>(million ECU)</i>
<i>Budget, not including European Economic Area (EEA) support</i>	
Indirect action by shared-cost projects	3 255
Direct action by Joint Research Centre	245
<i>EEA contribution</i>	
Indirect action by shared-cost projects	55
Direct action by Joint Research Centre	3

The additional appropriations for cooperation with the European Economic Area concerned the non-nuclear appropriations of the framework programme. The ECU 3 250 million in commitments for the different areas of shared-cost projects breaks down as follows:

	<i>(million ECU)</i>
Information technology and communications	1 054
Industrial technologies	541
Environment	198
Life sciences and technologies	381
Non-nuclear energy	288
Transport	85
Targeted socioeconomic research	40
Scientific and technical support for Community policies	37
Cooperation with third countries and international organisations	177
Dissemination and utilisation of research results	81
Training and mobility of researchers	173
Nuclear fission safety	13
Controlled thermonuclear fusion	187

This year the Joint Research Centre (JRC) continued to implement two framework programmes which it is carrying out for the European Community in the non-nuclear field

and the European Atomic Energy Community in the nuclear field. Parallel to these activities, it carried out institutional research and scientific and technical support for the European Union's policies, competitive activities involving participation in shared-cost projects and work carried out under contract with third parties.

The Commission continued its international cooperation activities under European cooperation in the field of scientific and technical research (COST) and Eureka with EFTA and with the main industrialised countries. Pursuant to the agreement on the European Economic Area (EEA), Iceland, Norway and Liechtenstein took part in the specific non-nuclear programmes of the fourth RTD framework programme. The agreements signed with Israel and South Africa in 1996 enabled participants from these countries to take part on an equal footing with their European partners.

The Council and Parliament decided in 1997 to grant an additional ECU 115 million for the fourth framework programme, thus bringing the overall maximum amount to ECU 13 215 million. More than half of this supplement was concentrated on two issues which became priorities as a result of topical events: research on bovine spongiform encephalopathy (ECU 35 million) and anti-personnel mines (ECU 27 million).

In 1997, the Commission made its proposal for the fifth framework programme (1998-2002), based on a concentration of resources on precise socioeconomic objectives. The proposed financial allocation is ECU 16 300 million, and reflects the priority given by the Commission in its communication, Agenda 2000, under the financial perspectives for the period 2000-06, to research and innovation as an active policy for growth and employment.

Transport

To pave the way for the common transport policy, the Community budget helped finance

a variety of measures relating to pilot schemes for combined transport, the development of long-term transport policy and transport safety. The appropriations entered in the 1997 budget for this purpose (ECU 21.6 million) were committed in their entirety.

In 1997, the Commission concentrated on achieving a better balance between the various transport modes. Its communications on intermodal freight transport and trans-European rail freight freeways were directed towards this goal. Another priority area was transport safety, where the Commission adopted a communication on the promotion of road safety, a proposal for a directive on the application of international maritime safety standards and two proposals for directives on aviation safety.

Education, vocational training and youth policy

Appropriations available for 1997 totalled ECU 382 million for the whole of this field.

As regards education, the Socrates programme (1995-99), which covers the entire educational spectrum, was continued: available appropriations totalled ECU 171.4 million in 1997. In accordance with the original decision, on 14 March 1997 the Commission adopted a report on the results obtained in the first two years of the programme. This report was accompanied by a proposal for a decision aiming to increase the financial package for the programme for the last two years, 1998 and 1999. In December 1997, Parliament and the Council reached a political agreement on the basis of an ECU 70 million increase. The financial package for the Socrates programme consequently increased from ECU 850 to 920 million.

In addition to the Socrates programme, the Commission also gave its support to promoting and safeguarding regional and minority languages and cultures, as well as to the activ-

ities of the European Bureau for Lesser-Used Languages (ECU 3.7 million).

The field of education, vocational training and youth has two other programmes, which, like the Socrates programme, cover the period 1995-99. The Leonardo da Vinci programme, whose main objective is to ensure the implementation of a vocational training policy supplementing and supporting the actions of the Member States, was allocated ECU 150 million in 1997. In the field of youth, the Youth for Europe programme was awarded ECU 24.5 million in its third year of implementation. These two programmes, and the Socrates programme, were also opened up to participation from the countries of central Europe and Cyprus, with a view to enlargement.

On 12 November 1997, in its communication 'Towards a Europe of knowledge', the Commission presented its new general guidelines for the future Community measures intended to replace these programmes.

The 'European voluntary service' pilot scheme was allocated ECU 11.8 million in 1997, the second year of its implementation. The aim of this pilot scheme is to prepare a programme which would enable young people aged 18 to 25 to gain a formative experience, recognised at European level, consisting of activities that benefit the community. At the end of 1996 the Commission presented a proposal for a decision aiming to establish such a voluntary service programme for the period 1998-2002. In 1997, the legislative procedure reached the stage where the Council was able to adopt a joint position on 16 December.

The European Centre for the Development of Vocational Training (Cedefop) received a subsidy of ECU 12.3 million, with a further ECU 2 million to cover the cost of its relocation to Thessaloniki.

The remainder of the available appropriations were allocated to cooperation with non-member countries (ECU 2.1 million), and to

preparatory measures for stepping up cooperation in the fields of education (ECU 3.2 million) and vocational training (ECU 1.4 million).

Culture and audiovisual media

Appropriations available for 1997 totalled ECU 114 million for the whole of this field. As regards culture, 1997 was marked by the adoption by Parliament and the Council of two new programmes: Ariane and Raphael. The Ariane programme, which concerns books and reading, covers the period 1998-99. In 1997, it was allocated ECU 2.8 million. The overall budget provided for this programme is ECU 7 million. The Raphael programme concerns the European cultural heritage. For the period 1997-2000, a budget of ECU 30 million has been allocated. The appropriations available under this programme came to ECU 10.6 million in 1997.

The Commission also continued to pursue measures under the Kaleidoscope programme, the aim of which is to support artistic and cultural activities with a European dimension. The programme, which covers the period 1996-98, has a budget of ECU 26.5 million. In 1997, it was allocated ECU 8.6 million. Apart from the multiannual programmes, an amount of ECU 6.0 million was allocated to the other cultural actions implemented in the Community and in cooperation with non-member countries.

In the audiovisual field, most of the activities, totalling ECU 58.3 million, were carried out under the MEDIA II programme. The programme, covering the period 1996-2000, has two parts: one devoted to development and distribution, and the other relating to the training of professionals in the audiovisual sector. In addition to the activities under MEDIA II measures were financed to promote the European dimension in the audiovisual field (ECU 2.5 million) and multilingual television and radio services (ECU 5.9 million).

The advanced European television programme was concluded in mid-1997. In its last year of existence, the two parts of this action plan, concerned with the production and conversion of 16/9 format television programmes and their broadcasting, were allocated ECU 9.7 million and 9.5 million respectively.

Information and communication

The appropriations available under the information and communication activities totalled ECU 120.8 million. These activities can be divided into two groups: Prince, the information programme for European citizens (ECU 55 million), and the other information and communication activities (ECU 65.8 million).

As far as activities other than Prince are concerned, the available appropriations under the heading 'General information and communication work' totalled ECU 44.5 million: one priority was funding celebrations to mark the 40th anniversary of the signing of the Treaties of Rome in March 1997. Information programmes for non-member countries were allocated ECU 7.4 million. Some ECU 7.7 million was allocated to the information relays. Sport received ECU 3.0 million and the Jean Monnet project for university teaching on European integration, ECU 3.2 million.

Social dimension and employment

Appropriations available for 1997 totalled ECU 189 million for the whole of this field.

To complement the measures financed by the European Social Fund, the Community has developed a policy aimed at encouraging dialogue between the social partners and stimulating employment (ECU 61.9 million available in 1997). In this context, the Commission undertook action such as continuing its work for equality between men and women (ECU 8.3 million), and developing the European

employment services (EURES) network (ECU 10.5 million), which includes a database with job vacancies and information on working and living conditions in the Member States of the Union. Within the same framework, the Commission also launched the pilot scheme 'Third system and employment', with funding of ECU 11.3 million to study the employment potential of the 'third sector', principally non-profit-making organisations of various kinds.

In the field of social protection and the free movement of workers, appropriations available in 1997 totalled ECU 51.9 million. The Community's activities in this field mainly related to general social security guarantees and the protection of certain disadvantaged groups.

The Commission carried out programmes to promote equal opportunities for the disabled (budget of ECU 5.8 million), and also cooperated with non-governmental organisations and associations of disabled people and supported their activities (budget of ECU 6.0 million).

Some ECU 4 million was allocated for co-operation with charitable organisations and ECU 2.8 million for measures in favour of the family and children. The Community also implemented measures for combating violence against children, adolescents and women. Some ECU 3.0 million was allocated for this purpose.

As 1997 was the European Year against Racism, special emphasis was placed on measures for combating racism, xenophobia and anti-Semitism (ECU 8.0 million available). Some ECU 10.5 million was also allocated to measures to assist refugees, with the aim of preventing social exclusion and helping refugees become independent, particularly by supporting vocational training for them.

In public health, the Commission continued its programmes adopted for the period 1996-2000. These programmes relate to promotion,

information, education and training in public health (ECU 7.0 million available for 1997), the fight against cancer (ECU 11.25 million), the prevention of AIDS and other transmissible diseases (ECU 9.01 million), and the fight against drug abuse (ECU 4.85 million).

Parliament and the Council also reached an agreement on a Community action programme on health monitoring (1997-2001), aiming to provide reliable, comparable data on trends and patterns in health status and its determinants. The budget provided for this programme is ECU 13.8 million. Appropriations available for 1997 totalled ECU 2.3 million.

Some of the appropriations were allocated to measures to improve the quality of life of people suffering from neurodegenerative diseases, such as Alzheimer's disease (ECU 2.5 million available in 1997), health protection, hygiene and safety at work (ECU 4.5 million) and the action for safety at work in Europe (SAFE) (ECU 8.8 million). The European Agency for Safety and Health at Work was also awarded a subsidy of ECU 4 million.

These activities were supplemented by those carried out by the European Foundation for the Improvement of Living and Working Conditions, which was subsidised to the tune of ECU 13.6 million, and by those of the European Monitoring Centre for Drugs and Drug Addiction (subsidy of ECU 6.3 million).

Energy

Appropriations available for 1997 totalled ECU 37 million.

In 1997 the Commission gave particular priority to improving the transparency of the energy actions at Community level. To this end, it adopted a communication on 23 April 1997, entitled 'An overall view of energy policy and actions'. In this White Paper on energy policy, the Commission included a table showing all the Union's energy programmes.

On the basis of the information in the White Paper, on 18 November 1997 the Commission adopted a proposal for a decision setting up a framework programme for actions in the energy sector (1998 to 2002). The framework programme groups all the current actions and programmes (especially SAVE, Altener and Synergy), and aims to improve their efficiency and ensure that they are consistent with the objectives for energy. In any case, these programmes and actions continued in 1997 according to the original plan.

Under the existing SAVE II programme (to promote energy efficiency), which covers the period 1996 to 2000 with a reference amount of ECU 45 million, ECU 17.9 million was committed in 1997 (second year of the programme).

The Altener I programme, intended to promote renewable energy sources in the European Union, was completed. It covers the period 1993-97 and its overall budget is ECU 40 million. The initial appropriations of the 1997 budget, ECU 5.2 million, were increased by a budget transfer of ECU 3.85 million. Almost all the available appropriations were committed during 1997, the fifth and final year of the programme, which meant that ECU 47 million was spent between 1993 and 1997. As regards the continuation of this promotion of renewable sources of energy, on 12 March 1997 the Commission adopted a proposal for an Altener II programme to run from 1998 to 2002, with a reference amount of ECU 30 million for the first two years, 1998 and 1999. On 8 December 1997, the Council reached a political agreement on a common position (with ECU 22 million as a reference amount).

On 14 April 1997 the Council adopted the Synergy programme for the year 1997 with a reference amount of ECU 7 million. All the budget appropriations, ECU 6.9 million, were committed in 1997. In order to avoid an interruption of Synergy's activities, on 18 December 1997 the Council decided to continue the programme in 1998.

Euratom nuclear safeguards

The Commission continued — within its sphere of responsibility — to perform its role of coordinating international efforts to raise the level of nuclear safeguards throughout Europe, in particular as regards plant safety. Commitments were at the same level as the previous year (ECU 16 million), taking account of the transfer to the external policies heading of appropriations for activities relating to the training of experts and application of an accounting and monitoring system for fissile matter in the countries of central and eastern Europe and the former Soviet Union from 1997.

As in 1996, the Euratom security inspection carried out accounting and physical checks on the stocks of plutonium, uranium, thorium and heavy water held in the European Union. The materials, held in some 750 nuclear plants across the European Union, were the subject of more than one and a half million operator entries (+7 % compared with 1996) concerning physical movements and stocks. The 1997 Euratom security inspection carried out controls on average stocks of 445 tonnes of plutonium (+6 % compared with 1996), 11 tonnes of highly enriched uranium, 300 000 tonnes of uranium (low-enrichment, natural and depleted), thorium and heavy water.

Under the safeguards heading, the installation and fine-tuning of highly-automated safeguards systems for the major plutonium-processing plants was completed, in particular Melox, UP3 and UP2-800 in France, and Thorp and SMP (Sellafield Mox Plant) in the United Kingdom. The Euratom laboratory at Sellafield came into service in December, and work continued on the establishment of the Hague laboratory.

Environment

Appropriations available for 1997 totalled ECU 132 million for the entire field.

The Union continued to implement the fifth action programme on the environment and development. In 1997 the Commission spent ECU 16.6 million on preparing and monitoring the whole range of legal instruments used, particularly in the protection of water, biodiversity, emissions from industrial installations, pollutant emissions from motor vehicles, climate change, chemical substances, biotechnology, waste management, and radiation protection and nuclear safety.

This work was accompanied by awareness-raising, information, education and training activities, and financial support was awarded to non-governmental organisations involved in environmental protection. Some ECU 8.6 million was allocated to organisations and projects selected by calls for proposals.

A Community subsidy of ECU 16.5 million was paid to the European Environment Agency in Copenhagen in order to consolidate its implementation. The work programme of this agency aims to provide the Commission and the Member States with the necessary objective information to formulate and implement environmental policies, to ensure wide dissemination of the information and to set up and coordinate a European network of observation and information on the environment.

The financial instrument for the environment (LIFE II) provides, during its second implementation phase (1996-99), for the concentration of activities in certain priority areas, such as the Natura 2000 network, the promotion of sustainable development in industry and the integration of the environment into land use planning. In 1997, the Commission financed 172 projects, including 60 (ECU 45 million) concerning nature conservation activities and 112 concerning other activities (also ECU 45 million) aiming to implement Community policies and legislation on the environment.

Consumer protection

Appropriations available for 1997 totalled ECU 20 million.

Activities relating to consumers can be grouped in four main areas:

1. protecting consumers' health and safety by preventive measures and risk assessment, plus control and inspection measures;
2. educating and informing consumers about their rights and their protection in the single market;
3. protecting consumers' economic interests in matters of advertising, contractual terms, dispute prevention and settlement, particularly in cross-border transactions (retail sales, distance sales, electronic commerce);
4. promoting and representing consumers' interests at European level, so that their voices can be heard and their opinion solicited prior to the preparation and implementation of Community policies.

Following the bovine spongiform encephalopathy (BSE) crisis and the measures that it required, activities in the first field became a priority in 1997, particularly increasing consumer health protection, as well as improving food safety and consumer confidence. The Commission totally reorganised these services: activities relating to inspection and the formulation of scientific opinion were separated from the drafting of legislation and incorporated into consumer policy. Eight new committees on consumer health were created and the Community Office for Veterinary and Phytosanitary Inspection and Control was converted into a Food and Veterinary Office. At the end of 1997, the necessary human and financial resources (notably 47 new posts) were made available by means of a supplementary and amending budget.

As regards the second field, ECU 8.8 million was entered in the 1997 budget for informa-

tion campaigns, including ECU 4.6 million for an information campaign on unfair terms in contracts, in connection with the Commission's general information campaign 'Citizens first'.

Some ECU 10.3 million was also awarded for promotion activities and actions to protect consumer interests (third and fourth fields).

At the end of 1997, a proposal for a Parliament and Council decision establishing a general framework for Community activities in favour of consumers was prepared, in order to create a solid base for all Community support activities in this field in years to come.

Aid for reconstruction

As in previous years, the European Union continued to provide interest subsidies on special loans in the regions of Italy and Greece affected by the earthquakes of 1980, 1981 and 1986, and Portugal (Madeira), affected by the 1993 cyclone. The appropriations available in 1997 for these measures totalled ECU 4 million.

Internal market

Appropriations available for 1997 totalled ECU 150 million for the whole of this field.

The single market, together with the policies to assist business, is one of the main instruments for achieving the objectives of competitiveness, economic dynamism, growth and job-creation.

Measures relating to the completion of the internal market focused on checking transposal of the directives by the Member States and implementation of administrative cooperation and standardisation. Expenditure on the completion of the internal market came to ECU 45 million in 1997.

The functioning of the internal market was given a further boost when the Office for

Harmonisation in the Internal Market (trade marks and designs) in Alicante and the European Agency for the Evaluation of Medicinal Products in London became operational. In 1997, the latter received a subsidy of ECU 14 million. The Office for Harmonisation was so successful that it needed no subsidy in 1997.

Lastly, by standardising and automating the information system the Commission managed to achieve a continual reduction in the unit price of the contract notices published in the Official Journal, keeping the total publication cost down to some ECU 50 million, in spite of a 10 % increase in the number of notices to be published each year.

To make the single market fully effective, the above measures were accompanied by an enterprise policy concentrating mainly on small and medium-sized businesses.

In particular, the new 1997-2000 multiannual programme in favour of small firms and the craft sector was intended to improve the administrative and financial environment for small businesses through a number of initiatives and to support their development via information (Euro Info Centres) and cooperation networks, advisory audits carried out in small firms by specialist consultants, and specific measures to help the craft sector and small firms in distributive trades. The total cost of the activities carried out in the first year of this programme came to ECU 35.5 million. At the end of 1997, the Commission launched a new mechanism within this framework to support the creation of joint transnational business ventures by small businesses (joint European ventures), in anticipation of the initiative in favour of growth and employment, which will be started in 1998.

A pilot project on growth and employment, with ECU 5 million, also makes it easier for small businesses to obtain EIB-guaranteed bank loans for investment projects which contribute to the protection of the environment.

Industry, services and information market

Appropriations available for 1997 totalled ECU 141 million for the whole of this field.

The Commission continued its efforts to improve the Union's industrial competitiveness, a key factor for economic growth, job-creation and greater economic and social cohesion. In particular, the objective of the Community action programme to promote the competitiveness of European industry of 25 June 1996, with appropriations in 1997 of ECU 5.2 million, is to modernise the industrial role of public authorities, to strengthen industrial cooperation and to promote intangible factors for competitiveness. Within this framework, the Commission promoted the application of the 'benchmarking' method to improving the competitiveness of European industry.

The Commission is also continuing to implement a 1995 regulation granting financial assistance to Portugal for a specific programme for the modernisation of the Portuguese textile and clothing industry, at a cost of ECU 82.1 million in 1997.

Activities relating to information services revolved around analyses and raising awareness of the challenges of the information society, the development of a European multimedia content industry and a multimedia information market (INFO 2000 programme) and the development of the linguistic dimension of the information society. In total, ECU 34 million was reserved for this purpose in 1997, including ECU 10 million for awareness-raising, ECU 20 million for INFO 2000 and ECU 4 million for the linguistic dimension.

As part of its telecommunications liberalisation policy — a key element in the rapid development of the information society — the Commission adopted a directive which sets the date by which the telecommunications market must be completely opened up to competition at 1 January 1998. It also took a

number of initiatives to accompany this liberalisation with a view to creating a common regulatory framework for telecommunications and postal services, and to promote standardisation by consultation with the main parties concerned. Expenditure on this was ECU 15 million in 1997.

Statistical information

With a view to establishing a 'Community statistical area', based on a set of standards, methods and organisational structures for producing comparable, reliable and relevant statistics throughout the Community, Eurostat finished implementing its framework programme for priority actions in the field of statistical information (1993-97), for which ECU 28 million was allocated in 1997.

Throughout the year particular emphasis was placed on arrangements to ensure efficient statistical support for all the decisions to be taken in connection with economic and monetary union.

Trans-European networks

The development of trans-European networks (TENs) is a priority for the European Union. Their importance was recognised in the Treaty on European Union and stressed in the Commission's White Paper on growth, competitiveness and employment, and has been reiterated at several European Councils. Union action to develop the TENs is geared towards supplying the missing links in Europe's networks, thus making the economy more competitive, creating jobs and strengthening cohesion.

The appropriations entered in the 1997 budget to finance the TENs came to a total of ECU 486 million. They were intended primarily for financial support for infrastructure projects in the fields of transport (ECU 352 million), energy (ECU 24 million) and telecommunica-

tions (ECU 26.7 million), networks for the interchange of data between administrations (ECU 37.5 million) and the Community's contribution to the capital of the European Investment Fund (EIF) (ECU 30 million).

The high-level group on the financing of priority projects in transport TENs by public/private partnerships, set up in 1996, submitted its report to the Commission. On 10 September the Commission adopted a communication setting out the actions which it intends to undertake to implement the high-level group's recommendations for these partnerships.

On 17 June, Parliament and the Council signed Decision 1336/97/EC setting out guidelines for trans-European telecommunications networks. These guidelines cover all telecommunications networks, including satellites and mobile networks. They incorporate the guidelines adopted in 1995 for integrated services digital networks (ISDN). They also identify projects of common interest likely to receive financial assistance from the Community. These projects concern the basic ISDN and IBC (integrated broadband communications) networks, generic services and about 10 sectoral applications.

In order to ensure the continuation of the IDA I (interchange of data between administrations) programme, which expired at the end of the year, on 12 December the Commission adopted two proposals aiming to lay down guidelines and outline projects of common interest in trans-European networks for the exchange of information between administrations, and to ensure the interoperability of and access to these networks. These two proposals for a decision aimed to implement an IDA II programme for the period 1998-2000 with a budget of around ECU 70 million.

The Commission made the last annual payment (ECU 30 million) to the European Investment Fund under the Community's budget contribution to its subscribed capital. The Fund's chief activities are the financing of in-

vestment projects associated with the trans-European networks and the funding of small and medium-sized businesses. Most of the loan guarantees have been granted to projects connected with the TENs, especially in the field of energy distribution and transport infrastructures, and in particular certain projects identified as priorities by the Essen European Council.

Cooperation in the fields of justice and home affairs

The Treaty on European Union (TEU) introduced a system of cooperation in the fields of justice and home affairs (JHA). Title VI of the Treaty covers all the provisions in this area. Cooperation between the Member States is put into practice largely by implementing joint actions in the following fields: asylum policy, immigration policy, combating drug addiction, combating international fraud, judicial cooperation in civil and criminal matters, customs cooperation and police cooperation.

Financing for cooperation in the fields of justice and home affairs is governed by Article K.8 of the Treaty on European Union. This states that the Council may decide unanimously that operational expenditure to which the implementation of Title VI gives rise is to be charged to the budget of the European Communities.

The available appropriations (ECU 8 million) were used to implement the 1997 tranche of the multiannual programmes for exchanges, training and cooperation in various fields that were adopted at the end of 1996.

Some ECU 3.75 million was also allocated to finance specific projects for asylum-seekers and refugees on the basis of a joint action adopted by the Council on 22 July.

The purpose of the proposal for a joint action setting up a programme of training, exchanges and cooperation in the field of asylum, immi-

gration and crossing external borders (Odysseus), adopted by the Commission on 9 July, is to help strengthen cooperation between the departments responsible at national level, by setting up a multiannual framework supported by the Community budget.

As part of the implementation of the action plan for the fight against organised crime, approved by the Amsterdam European Council, on 20 October the Commission adopted a proposal for a joint action establishing a programme of exchanges, training and cooperation for persons responsible for action to combat organised crime (Falcone).

Heading 4 — External action

External action takes various forms:

1. financial, technical and economic cooperation strictly by geographical zone in key areas of economic activity:
 - aid for the restructuring of the economies of central and eastern Europe, particularly as part of the European Union's pre-accession strategy vis-à-vis associated countries in that region;
 - the establishment of a Europe-Mediterranean partnership;
 - cooperation with the new independent States and Mongolia;
 - cooperation with the republics of former Yugoslavia;
 - cooperation with developing countries in Asia and Latin America;
 - the European programme for reconstruction and development in South Africa;
2. cooperation and aid measures, often of a horizontal nature, which cannot easily be

distinguished by geographical area, for example:

- food aid and humanitarian aid;
- the ECIP facility — promotion of Community investment in the Asian, Latin American and Mediterranean developing countries and South Africa;

3. accompanying measures, including:

- external aspects of certain Community policies — environment, international fisheries agreements and commercial policy;
- Community participation in projects carried out by non-governmental organisations to assist developing countries;
- initiatives in the field of democracy and protection of human rights;
- measures in favour of the environment, tropical forests and health in the developing countries.

4. joint action and common positions relating to the common foreign and security policy.

The appropriations available for commitment under the 1997 budget were as follows:

	<i>(million ECU)</i>
Common foreign and security policy	32.0
Cooperation with the countries of central and eastern Europe	1 055.0
Cooperation between the former Soviet Union and the Independent States	496.5
Cooperation with the republics of former Yugoslavia	254.1
Food aid and humanitarian aid (including the emergency aid reserve and aid to uprooted populations in Asian and Latin American developing countries)	1 356.2

Cooperation with Asia, Latin America and South Africa	802.1
Cooperation with Mediterranean non-member countries	1 101.1
Other forms of cooperation with developing countries and non-member countries	424.7
European initiative for democracy and the protection of human rights	90.1
External aspects of Community policies (international fisheries environment)	313.7
Support expenditure for external policies	15.0
Total	5 940.5

Virtually all these appropriations were committed.

Priorities for external action are the development of cooperation with the countries of central and eastern Europe and with the non-member countries of the Mediterranean and the Middle East, on the basis of the indicative financial plans for these areas laid down at the Cannes European Council on 26 and 27 June 1995.

The overall aim of cooperation with the countries of central and eastern Europe (the PHARE programme) is to support the economic restructuring process and encourage the changeover from a planned economy to a market economy and free enterprise.

Six 'strategic' areas have been selected for economic reform:

- the restructuring of public companies, in particular in industry and agriculture;
- the modernisation of financial services (restructuring of the banking system, reform of credit, national accounting and taxation systems, development of capital and stock markets and of the insurance system);

- promotion of the private sector (development of support services tailored to small and medium-sized enterprises, in particular training and promotion of exports);
- nuclear safeguards and safety;
- development of the labour market and social protection (restructuring of employment and vocational training services);
- support for the democratisation process and the development of civil society.

However, the Community's financial assistance is not limited to these strategic areas alone. Other key sectors of economic activity such as health, housing, education, transport and telecommunications also require modernisation, restructuring and new equipment.

The initial aims of the PHARE programme were extended at the European Councils in Copenhagen (June 1993) and Essen (December 1994) to include preparations for the accession of the associated central and eastern European countries to the European Union. The timetable for the various stages in this process was laid down at the Madrid European Council in December 1995, and in June 1997 the Amsterdam European Council decided to strengthen the pre-accession strategy. Under the new guidelines PHARE will concentrate on institution-building (30 %) and investment (70 %) in connection with the *acquis communautaire*.

A total of ECU 1.0524 billion was committed for these operations in 1997, ECU 150 million less than the initial allocation, as it was felt that the 1997 programme should not be pursued too far in a direction that was incompatible with the new guidelines. The unused appropriations will be re-entered in the budget in 1998, so that the overall allocation agreed at the Cannes European Council is maintained.

The areas benefiting most from commitments in 1997 were public administration and institutions, infrastructure, in particular transport (trans-European networks), education, restructuring and privatisation, social measures, the environment, nuclear safety and regional development.

The MEDA programme, which supports the reform of social and economic structures in the Mediterranean region, is the chief instrument for implementing the Euro-Mediterranean partnership decided on at the Euro-Mediterranean Conference in Barcelona in November 1995. The partnership has three components:

- a political and security partnership to establish a common area of peace and stability;
- a partnership in social, cultural and human affairs to promote understanding between peoples;
- an economic and financial partnership to create an area of shared prosperity.

The most important objectives include:

- creating a shared area of prosperity by speeding up and maintaining the pace of our Mediterranean partners' social and economic development;
- improving living conditions for the people, particularly by increasing the level of employment and reducing discrepancies in development in the region;
- supporting cooperation and regional integration and exchanges in civil society.

One of the features that will have the greatest impact on the economies of the Mediterranean countries is the gradual establishment of a free-trade area, as provided for by the Euro-Mediterranean association agreements which

the Community has signed or is about to conclude with a number of countries. The MEDA programme aims to assist the gradual creation of a Euro-Mediterranean economic area by supporting economic transition, supporting better socioeconomic balance and regional integration.

Accordingly, many of the projects financed in 1997 were concerned with social issues (education, health, unemployment), socioeconomic improvements — such as structural adjustment programmes and the modernisation of public administration and management — and environmental protection, including projects on water sanitation, rural development and the management of natural resources.

Other cooperation measures with non-member Mediterranean countries include:

- the finalising of financial protocols with the southern Mediterranean countries;
- financial protocols with Malta and Cyprus with a view to financing or helping to finance cooperation projects to strengthen their economic ties with the Community, for the mutual benefit of both sides, by developing cooperation in industry, agriculture, training and research, technology, trade and other services. A decision had been taken to conclude a fourth protocol with both countries to prepare them for the economic efforts they would have to make in order to join the European Union. Following the political changes in Malta after the elections on 26 October 1996, its application to join the Union was frozen and implementation of the fourth protocol with Malta was therefore suspended;
- Community action linked to the peace agreement between Israel and the Palestine Liberation Organisation (PLO). Special emphasis has been placed on education, municipal infrastructures, the management of water, sanitation and solid waste, sup-

port for the private sector and support and technical assistance for institution-building;

- the ninth agreement with UNRWA (United Nations Relief and Works Agency for Palestinian Refugees in the Near East); the Union's contribution will be used to finance education and health programmes.

The purpose of the TACIS programme of cooperation with the new independent States and Mongolia is to support the process of reform and transition to a market economy in these countries, strengthen their democratic structures and establish a pluralist society. The measures to be financed form part of indicative programmes aimed at supporting the macroeconomic and sectoral policies pursued by the authorities in the partner countries, concentrating on the medium-term priorities of economic reform.

Under the plan for 1996-99, the main areas to be covered are:

- development of human resources;
- restructuring and development of firms;
- transport and telecommunications infrastructures;
- energy, including nuclear safety;
- the environment.

In 1997 the key sectors in which funds were concentrated were nuclear safety and the environment, support for businesses, human resources and energy.

Cooperation with the republics of former Yugoslavia is geared to helping the reconstruction and rehabilitation of these countries. Community programmes are concentrated in particular on parts of Bosnia-Herzegovina and eastern Slavonia (Croatia) devastated by the

war and in areas of Bosnia-Herzegovina where there are likely to be large numbers of refugees.

Cooperation with the developing countries of Asia and Latin America comprises financial and technical development aid and economic cooperation in the mutual interests of the EU and its partners.

Financial and technical aid is mainly directed towards the poorest sections of the population and the poorest Asian and Latin American countries through programmes or projects in sectors where EU aid can play an important role in sustainable development, particularly as regards the rural sector and greater security of food supply, and in human development, education, health and institution-building.

Economic cooperation covers a range of measures such as technical assistance, training, technology transfers, institutional support in connection with trade promotion, energy, the environment, management, etc., to improve the economic, social, cultural, legislative and regulatory situation, to facilitate economic relations and trade with Asia and Latin America, to promote regional integration and the transfer of know-how and to encourage meetings and associations of economic operators from both sides.

Regional cooperation is important both for financial and technical aid and for economic cooperation.

Special attention is also paid to cooperation on the environment and the protection of natural resources.

In 1997 a major effort was made to promote the self-sufficiency of refugees and displaced persons in these countries. Some ECU 57 million was committed for this purpose.

A total of ECU 127.8 million was committed in 1997 for the implementation of development cooperation projects in South Africa. An indicative programme has been drawn up for

the period 1997-99 aimed at developing and consolidating democracy and institutions, promoting the private sector and helping the poorest sections of the population. This programme comprises four priority areas of cooperation:

- basic social services (health, education, training, water and sanitation);
- assistance for the private sector;
- good governance;
- regional cooperation.

The programme will also cover the development of human resources, equal opportunities between men and women, environmental protection and cross-sectoral issues.

Food aid figures are among the forms of assistance given to developing countries. Food aid operations (aid in products and financial aid) are carried out in line with other sectoral policies and development policy and in conjunction with other donors. The Community's food aid is part of a global effort on the part of the developed countries to improve the food situation in the developing countries, an effort which is shown in their commitment to participate in the international Food Aid Convention. The aid in products supplied under this convention is, however, insufficient. The Community has therefore regularly added extra aid in the form of cereals, powdered milk, butter oil, vegetable oil, sugar and various other products (legumes, groundnuts, etc.). It is given with the aim of raising the general standard of nutrition, improving food security and, through integrated development programmes, contributing to the balanced economic and social development of the assisted areas.

Depending on specific needs, food aid may be given for free distribution to the population, or for sale on local markets (the proceeds

being used to finance rural or other projects in the recipient country) or, in certain cases, in the form of food purchased in one developing country and given as aid to another (triangular operations).

Aid in kind includes not only delivering foodstuffs, but also providing seeds, fertilisers, tools or other agricultural inputs. It may be backed up by technical and financial assistance and awareness-raising and training measures.

The year 1997 was generally a good agricultural year, clouded only by the North Korean crisis and the worrying effects of the El Niño phenomenon. This made it easier to concentrate the financial resources available on setting up long-term reform programmes to bring about the structural reforms needed to tackle the underlying causes of food insecurity in countries suffering from a structural deficit and a high insecurity index.

The year 1997 was also the first fully programmed year after the entry into force of the new regulation on food aid policy and management and special operations in support of food security, which was adopted on 27 June 1996. The new regulation provides for two new instruments — foreign currency facilities and operations in support of food security.

The currency facilities are designed to provide financial assistance for countries which have a private sector that is able to import food products but does not have access to the necessary hard currency. Specific measures are to be encouraged to support small firms in these countries in order to make markets more efficient by involving more traders.

Operations in support of food security will take the form of financial and technical assistance, the aim being to support the framing and execution of a food strategy or other measures fostering the food security of the population concerned and to encourage the countries in question to reduce their food

dependency and hence their dependence on food aid. Special attention is to be paid to low-income countries with serious food shortages.

The geographical breakdown of food aid operations in support of food security in 1997 was as follows:

- ACP countries — 47.4 %;
- new independent States of the Caucasus and Central Asia — 12 %;
- developing countries in Latin America — 12 %;
- developing countries in Asia — 19.5 %, including 9.2 % for the crisis in North Korea;
- non-member countries in the Mediterranean — 4.4 %.

Financial aid (direct budgetary aid, foreign currency and support operations) accounted for 41.6 % of the total.

The European Community Humanitarian Office (ECHO), set up in April 1992, carries out humanitarian aid operations.

The overall purpose of these operations is to emphasise the EU's presence and to enhance its capacity to react to exceptional events, i.e. to come to the assistance of people in distress (victims of disasters or armed conflicts). Depending on the situation, ECHO finances food aid, the provision of shelter and medicines, water supplies, war surgery, emergency repairs and vaccinations, psycho-social assistance, air lifts and landmine clearance. It also manages a programme to prepare for and prevent natural disasters in high-risk regions. All aid financed by ECHO is granted without any discrimination on the grounds of race, ethnic origin or religion.

Over the last five years, as the number and scale of international humanitarian crises have expanded, the humanitarian operations under-

taken by the Commission on behalf of the Union have increased dramatically. The European Union is now the largest single public donor of humanitarian aid. A sum of ECU 441.6 million was committed in 1997. The main areas for intervention were still the former Yugoslavia (29.1 %) and the ACP countries (26.7 %), in particular sub-Saharan Africa. However, the Community also continued to supply humanitarian aid to some 60 countries in crisis around the world, including Albania, Armenia, Azerbaijan, Georgia, Tajikistan, Iraq, Afghanistan, North Korea and Cuba, in order to respond to the urgent requirements of the victims of natural or man-made disasters.

As in the past, operations were conducted in partnership with nearly 170 — mainly European — non-governmental organisations (58.3 % of the budget), the agencies of the United Nations and the Red Cross, almost all of them signatories of a framework partnership agreement with the Commission. Cooperation between ECHO and its partners enables the Community to respond quickly and flexibly to humanitarian emergencies. In 1997 aid was again given to the millions of human beings who were victims of natural disasters and long-running man-made crises, chiefly civil wars.

A total of ECU 370.5 million was committed under the heading of other cooperation action, which consists of a series of specific, horizontal projects centred on four main areas:

- Community participation in projects carried out by non-governmental organisations in the developing countries, particularly in agriculture, health and training; special attention was also paid to measures aimed at raising European public awareness of development issues;
- health and the environment in the developing countries (including tropical rainforests, drugs and the fight against AIDS);
- reconstruction programmes for southern Africa and all developing countries, the aim being to launch recipient countries on the course towards real development;
- coordination of development policy, evaluation of the results of Community aid, and monitoring and inspection measures;
- special operations in conjunction with non-member countries including Community participation in the Korean Peninsula Energy Development Organisation (KEDO) and action on anti-personnel landmines.

A sum of ECU 89.9 million was committed for the European initiative for democracy and the protection of human rights. This initiative aims to gather under one heading all projects aiming to support democracy and the protection of human rights and to sustain peace-making processes and ease tensions in certain regions.

These projects are complemented by support for the protection of human rights, especially in Turkey, and support for victims of torture or human rights violations.

A total of ECU 307.4 million was committed for the external aspects of certain Community policies, including:

- ECU 222.9 million for international fisheries agreements;
- ECU 17.4 million for external aspects of the common commercial policy (external trade relations and the World Trade Organisation, the promotion of European Union exports to Japan and access to markets in non-member countries);
- ECU 50.5 million for the promotion of Community investment in the developing countries of Latin America, Asia and the Mediterranean within the framework of

economic and trade cooperation agreements.

Finally, ECU 18.1 million was committed under the common foreign and security policy, mainly to finance the following forms of joint action:

- further contributions to the United Nations Voluntary Fund for Assistance in Mine Clearance and to the International Committee of the Red Cross for assistance to mine victims;
- support for elections in Bosnia-Herzegovina and European Union participation in the structures for implementing the peace agreement;
- the programme of European Union assistance to support the Palestinian Authority in its efforts to combat terrorism and to contribute to the Middle East peace process.

Community expenditure in the Baltic Sea region

The Florence European Council stressed the importance of the European Union's cooperation initiative in the Baltic Sea region, which had been presented to the Council of the States of the Baltic Sea in May 1996. With four Member States, four future members of the Union and Russia, the Baltic Sea region is of paramount importance to the EU. Regional cooperation will be intensified in three main fields, namely, strengthening democracy and stability in the region, deepening economic cooperation and promoting regional development.

Expenditure in this region outside the Union's borders falls mainly into categories 2, 3 and 4 of the financial perspective with the major part in category 4. The sums involved are not always easy to determine, as they may come under budget headings covering wider geo-

graphical areas. Financing can also be obtained from the European Investment Bank (EIB).

The appropriations entered in headings in the 1997 budget which clearly show expenditure in the Baltic Sea area total ECU 142 million. The attached table shows all the budget headings in which a fairly accurate estimate can be made of expenditure in the region together with the corresponding amounts for the 1996-98 period.

The PHARE programme is responsible for the major part of expenditure in the region. Appropriations granted under PHARE and TACIS are for proposed projects which meet specific criteria. In order not to prejudge the final geographical destination of these funds, the Commission does not allocate them beforehand during the budgetary procedure and the budget does not give a full breakdown by country. There are many multiannual programmes per country for the period 1995-99, but they are intended merely as a guide.

In 1997, the budget of the European Union channelled over ECU 117 million through the national PHARE programmes for projects in the three Baltic States. Aid went mainly to integration, economic development, including the private sector, the promotion of exports, human resources, institutional reforms, regional development and the development of infrastructures.

A separate budget heading was created for the Baltic Sea region in the 1998 budget (special action in favour of the Baltic region), although no appropriations have been entered to date. The cross-border cooperation programme for the Baltic Sea region, launched as part of the cross-border PHARE programme, was allocated ECU 14 million in 1997. It provides aid for the part of Poland bordering the Baltic Sea and the three Baltic States, with special emphasis on transport infrastructures, the construction and modernisation of strategic road infrastructures (Via Baltica-Helsinki-Tallinn-Riga-Kaunas-Warsaw), the

environment (in particular waste and waste water management), economic development and financing for small projects in the Baltic Sea region.

The TACIS programme mainly finances technical assistance for infrastructure projects such as the Helsinki-St Petersburg-Moscow corridor and the Via Hanseatica (Riga-Sovietsk-Kaliningrad-Gdansk-Szczecin-Bremen).

Where Union financial aid is necessary for regions in the EU Member States, it comes from the Structural Funds, in particular Interreg. Interreg programmes (links between border regions) have been approved for Denmark, northern Germany, Sweden and Finland and also cover certain border regions outside the Union, such as the Baltic Sea region, including Russia.

Partial expenditure in the Baltic Sea region

(million ECU)

			1996 out-turn	1997 out-turn	1998 forecasts	Totals
B2-1410	Interreg II		(*)	(*)	(*)	
B7-500	Estonia	COP	26.000	32.000	16.000	74.000
B7-500	Latvia	COP	32.000	39.400	21.475	92.875
B7-500	Lithuania	COP	47.000	46.000	35.000	128.000
B7-500	Poland	COP	(¹)	(¹)	(¹)	
B7-500	Baltic eastern borders		0.000	6.000	Open	
B7-500	CREDO	(co-fin)		(²)	Open	
B7-502	Baltic Sea	(co-fin)	34.000	14.000	13.000	61.000
	<i>of which:</i>					
	<i>Estonia</i>		<i>5.000</i>	<i>3.100</i>	<i>2.500</i>	
	<i>Latvia</i>		<i>5.000</i>	<i>3.200</i>	<i>2.500</i>	
	<i>Lithuania</i>		<i>6.000</i>	<i>4.300</i>	<i>4.000</i>	
	<i>Poland</i>		<i>4.000</i>	<i>3.400</i>	<i>4.000</i>	
	<i>facilities</i>		<i>14.000</i>			
B7-502	Poland/Germany		(³)	(³)	(³)	
B7-520	Russia		(⁴)	(⁴)	(⁴)	
B7-521	Cross-border programme		(⁵)	(⁵)	(⁵)	
B7-535	Euratom safeguards		0.000	1.800	1.400	3.200
B7-537	Special action in favour of the Baltic region				p.m.	
B7-800	Fisheries		2.195	2.341	4.840	
B7-810	LIFE		2.129	To be determined	To be determined	
B7-811	Environment			To be determined	To be determined	
Minimum total assistance			143.324	141.541	91.715	
<p>(*) 1994-99 programme — ECU 171.1 million.</p> <p>(¹) Part of the ECU 150 million for 1996, 1997 and 1998.</p> <p>(²) Part of the ECU 12 million for 1997.</p> <p>(³) Part of the ECU 49 million for 1996, 1997 and 1998.</p> <p>(⁴) Part of the ECU 107 million for 1996 and ECU 102 million for 1997 and 1998.</p> <p>(⁵) Part of the ECU 30 million for 1996, 1997 and 1998.</p>						

Prince: an information programme for European citizens

Following the Commission's decision in October 1995 to raise public awareness of the achievements and challenges of building Europe, the Community budget allocated a total of ECU 105 million (ECU 50 million in 1996 and ECU 55 million in 1997) for three priority public information campaigns to be mounted as part of the Prince programme:

- 'Citizens first';
- 'The euro, a currency for Europe'; and
- 'Building Europe together'.

This coordinated programme is designed to supplement the Commission's general information work. It meets the public's need for information at crucial stages in the integration process such as the reform of the Treaties and preparations for the single currency. The campaigns were launched in 1996 — each with its own separate timetable — on the basis of communication plans combining the use of different and complementary information and communication media. 'Citizens first' ran mainly in 1996 and 1997 and 'Building Europe together' in 1997 and 1998, while the campaign on the euro will run alongside the process of preparing for the single currency up to its completion. The broad guidelines of the Prince programme are agreed in an advisory working party drawn from the European Parliament and the European Commission, which holds regular meetings.

The guiding principles behind the setting-up of these campaigns were decentralisation, subsidiarity, partnership between the various institutions involved and a concern to bring the EU closer to its citizens. The campaigns are therefore carried out by a number of partners working together — Parliament, the Commission and their offices in the Member States, the Commission's relays and networks, national governments, regional and local authorities and organisations representing civil

society (non-profit-making bodies, institutions, foundations, movements and NGOs).

All this adds up to a very special effort, with a significant volume of budget resources being concentrated on priority objectives in line with the communication plans and the timetable for implementation. Moreover, once these initiatives have been completed and evaluated, they may well provide inspiration for — or become an integral part of — general information policy.

Citizens first

The aim of the 'Citizens first' initiative is to make European citizens more aware of their rights. The first phase — in 1996 and 1997 — dealt with the rights of citizens to live, work and study in another European Union country. It consisted of three components:

- a public awareness campaign via television, the press and radio, together with projects carried out by NGOs and public relations events, reaching a total audience of 75 million people;
- publication and distribution in all the Member States of three user-friendly guides and 25 factsheets in all languages. Each guide was published in 25 different versions and over 4 000 factsheets were produced. In all, 12 million copies of the guides were sent out via information networks, while members of the public could order the guides and factsheets direct by calling a freephone (or cheap-rate) number or consulting a site on the Internet. Some 969 000 people either contacted the call centre or accessed the Internet site;
- a 'signpost' service which provided expert advice to several thousand people who needed detailed information to solve particular problems.

The second phase of the campaign was launched at the end of 1997 and will run

throughout the first half of 1998. It deals with the rights of European citizens to purchase goods and services, to travel and to enjoy equal opportunities.

The campaign will end in June 1998. It has been a testing-ground for a new and more dynamic approach to public information policy, the results of which will be put to full use in preparing the Commission's dialogue with the public.

The euro, a currency for Europe

The campaign on the euro runs alongside the preparations for the single currency and will have a crucial role to play in the success of the changeover to the euro. Given the broad scope of this transition, which will affect 370 million Europeans and the whole of the Union's economic and social fabric, there is a case for a major effort by the Community, together with the other institutions and the Member States, to meet the public's expectations to be kept informed.

The communication strategy launched in 1996 pursues a twofold objective: to strengthen the idea that economic and monetary union will take place as provided for in the Treaty on European Union and to raise awareness among banks, the financial services industry and large companies that they must begin immediately on preparations for the changeover. These objectives have largely been attained with the help of information and communication measures carried out by the Commission and the European Parliament in partnership with the Member States and a multitude of organisations representing civil society, in particular major professional bodies.

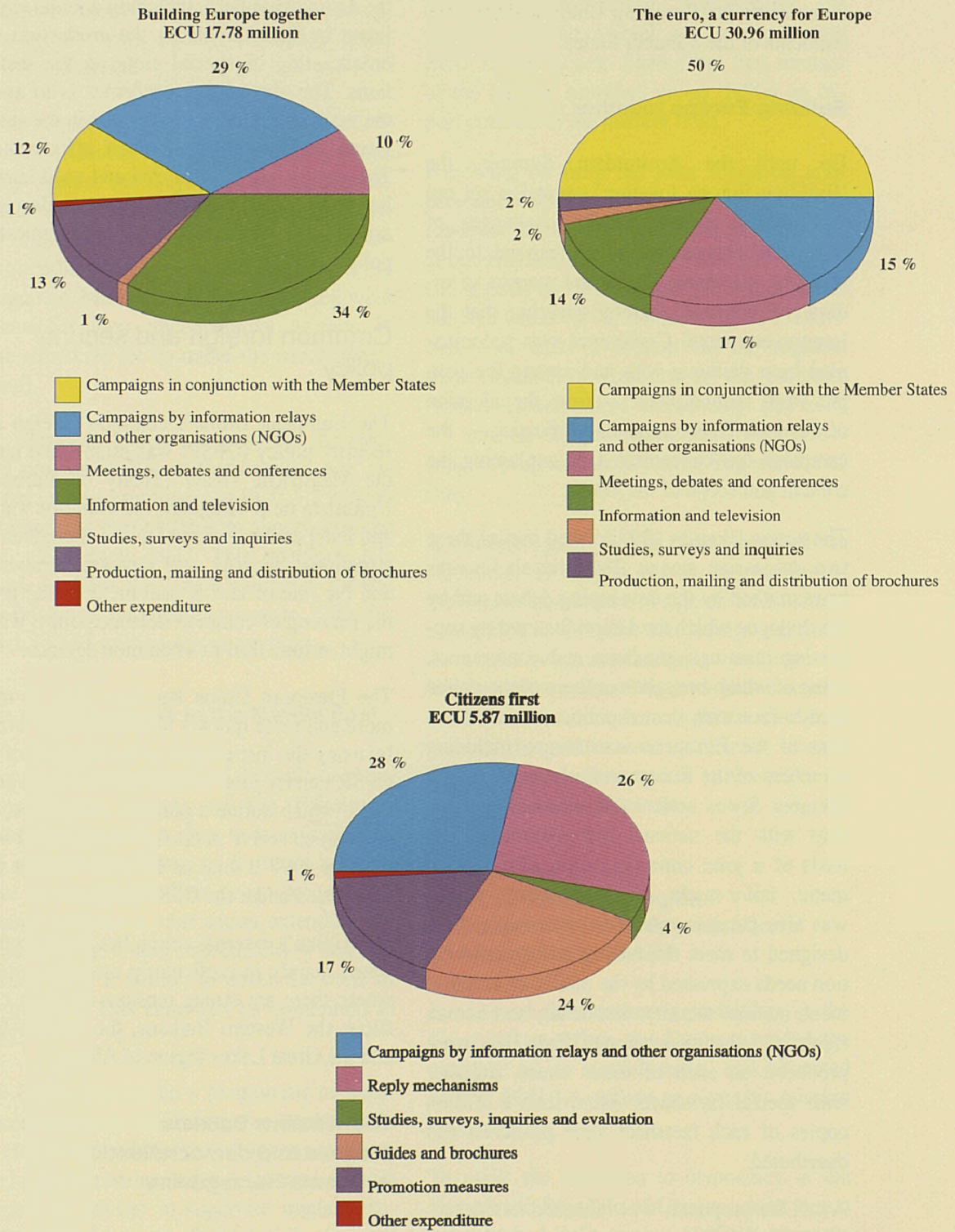
In this campaign the institutions cooperate very closely with the Member States in formulating and implementing the communication plans, which are tailor-made to each target audience. The plans are co-financed by means of agreements allowing the combined and complementary use of Union resources and those of the Member States.

After the initial start-up phase, the campaign's objectives have been primarily to explain the euro to as broad a public as possible, giving them an opportunity to familiarise themselves with the new currency and appreciate its value, and to encourage small and medium-sized firms to prepare actively for the single currency.

In 1997 partnerships with seven Member States accounted for ECU 16 million of the ECU 31 million used for the campaign. In 1998 the partnerships will be extended to 11 countries and should take up two thirds of the resources available. The practical results of these partnerships include the widespread distribution of basic brochures on the euro, the production and broadcasting of television programmes and public information slots reaching an audience of millions and a host of information events on the euro. Freephone lines and Internet sites have been opened in the Member States to give direct answers to questions from the public. At the same time the European Commission set up an Internet site on the euro in support of these initiatives, complete with a question-and-answer database. A specialised team of speakers, 'Groupeuro', has completed its first full year of activity, speaking at nearly 500 engagements and reaching a target audience of 40 000 people, in particular small firms. An extensive support programme has been established — with a budget of around ECU 10 million — to stimulate and assist initiatives by various sections of civil society, in particular professional organisations and NGOs, including the holding of conferences and workshops. As a result of this project, the effects of the campaign have been multiplied and a wide range of material has been produced and distributed which is tailor-made to the specific needs of the various socio-professional groups concerned.

Eurobarometer No 48, published in March 1998 and based on surveys conducted in November 1997, found that in 14 of the 15

FIGURE 12
Implementation of priority information campaigns under the Prince programme



Member States the public now feel much better informed about the euro — an improvement that is due in part to the information campaigns conducted in 1997, which were co-financed by the European Union and the governments of the Member States.

Building Europe together

Up until the Amsterdam Summit, the 'Building Europe together' campaign set out to stimulate debate on the challenges of European integration and to respond to the principal questions, hopes and worries of ordinary Europeans, thereby ensuring that the Intergovernmental Conference was accompanied by a dialogue with and among the people. In its second phase — from the adoption of the draft Treaty up to its ratification — the campaign has concentrated on explaining the content and scope of the Treaty.

The action taken in 1997 formed part of these two successive stages. The first six months were marked by the developing debate and by the dialogue which the Union fostered by supporting meetings, seminars and conferences, some of which brought members of the public face-to-face with elected politicians and members of the European institutions, including Members of the European Parliament. In two Member States action was taken in partnership with the national government on the basis of a joint communication plan. A thematic, tailor-made communications project was also put into operation over this period, designed to meet the most pressing information needs expressed by the public on employment, internal security, democracy and human rights and the environment. Fact files were produced on each of these issues, together with special factsheets. More than a million copies of each factsheet were produced and distributed.

A call for proposals was launched in the second half of the year, as a result of which nearly 110 projects have been financed throughout

the Union on various issues relating to the Amsterdam Treaty. More than ECU 3 million of Community funds has been devoted to this initiative. Pilot schemes were carried out in the audiovisual field, including a novel experiment in Spain involving the production and broadcasting of special slots on the institutions. The aim of these schemes is to assess the various avenues that are open in the audiovisual sector and to test their effectiveness. The results will be analysed and used later to lay down new guidelines on the audiovisual aspects of information and communication policy.

Common foreign and security policy

The European Union's common foreign and security policy (CFSP) was established under the Maastricht Treaty (Treaty on European Union) to help safeguard the common values and independence of the Union, strengthen international security and develop democracy and the rule of law. It also includes the gradual framing of common defence policy, which might in time lead to a common defence.

The European Union has been able to react more and more quickly to international events by using the instruments at the disposal of the CFSP, chiefly joint actions and common positions, which define a political framework, accompanied where necessary by financial support. In 1997 a total of ECU 24 million was committed under the CFSP budget.

The Union's external action has been concentrated mainly in particularly unstable regions where there are strong tensions or open conflicts: the Western Balkans, the Middle East and the Great Lakes region of Africa.

The Western Balkans — the peace process and democratisation in Bosnia-Herzegovina

As part of its contribution to implementing the Dayton peace agreements, the European

Union appointed a high representative in Bosnia-Herzegovina in 1996. In July 1997 an additional ECU 11 million — over a period of two years — was granted to the mission of the high representative, Mr Carlos Westendorp, after offices were opened in Banja Luka, Mostar and Brcko.

At the request of the high representative, restrictive measures were taken against persons acting against the Dayton peace agreements (common position denying entry to the territory of the Member States of the Union to certain members of the joint presidency and the Council of Ministers of Bosnia-Herzegovina because of their uncooperative attitude in State structures set up under the peace agreements).

The European Union's support for the electoral process in Bosnia-Herzegovina was reflected in the commitment of ECU 5.5 million to finance its participation in supervising the local elections in 1997. This operation followed on from the Union's support for the supervision of national elections in 1996, for which ECU 3 million was committed.

The peace process in the Middle East

Against the background of difficult negotiations between Israel and the Palestinian Authority and with a view to maintaining — and indeed intensifying — Europe's involvement in the Middle East peace process, the Council adopted a joint action extending the mandate of the Union's special envoy and earmarked ECU 2 million to cover the costs of his mission. This sum will be committed in 1998.

The Union also set up a programme of assistance to support the Palestinian Authority in its efforts to combat terrorist actions originating in the territories under its control and appointed an adviser to supervise implementation of the programme, which was allocated ECU 3.6 million.

Nuclear non-proliferation and eradication of anti-personnel mines

To encourage a tightening-up of international nuclear non-proliferation arrangements, the Council adopted a joint action contributing ECU 75 000 to help finance the first seminar of the nuclear suppliers group (NSG) on export controls in the nuclear field.

Following on from the joint action on anti-personnel landmines adopted in 1996, the European Union decided to make an additional contribution of ECU 8 million for the special appeals by the International Committee of the Red Cross for landmine victims, a contribution of ECU 2 million for the regional mine-clearance programme of the Southern African Development Community and ECU 1.4 million for prevention and mine-victim support programmes in former Yugoslavia and Iraq.

A further joint action was adopted in November 1997, just before the opening of the Ottawa conference to sign an international convention banning the use, storage and transfer of anti-personnel landmines and concerning their destruction. The joint action renews the Union's commitment to pursue its efforts towards the goal of total eradication of anti-personnel landmines and a moratorium on their production and transfer.

Africa — the crises in the Great Lakes region and support for the Organisation of African Unity (OAU)

In view of the continuing instability in the Great Lakes region, the Union extended the mandate of its special envoy and allocated around ECU 1.4 million to cover his mission costs.

To assist the transition to democracy in the Democratic Republic of Congo, a joint action was adopted in December 1997 allowing the European Union to provide aid worth ECU 4

million to prepare the democratic elections announced by the new government.

The deterioration of the political situation made it impossible to implement the joint action.

The Union launched a wider initiative in adopting a common position on conflict pre-

vention and resolution in Africa, together with an implementing decision providing for a contribution of ECU 860 000 to help finance the mechanism for conflict prevention, management and resolution established by the Organisation for African Unity. The contribution could not be made because of subsequent political events in Africa.

Heading 5 — Administrative expenditure

The general budget includes appropriations to cover the institutions' staff and administrative expenditure.

This expenditure accounted for 4.8 % of total expenditure in 1997 and covered the following sectors:

- expenditure by the institutions on staff, buildings and equipment, various activities (formal and other meetings, studies, etc.), the Official Journal, publications, data-

processing and the staff and administrative expenditure of delegations;

- expenditure resulting from special functions such as general subsidies, subsidies to bodies such as the European University Institute in Florence or the College of Europe in Bruges and participation in events of interest to the European Union;
- certain expenditure of an interinstitutional nature, including the pensions of officials and temporary staff of all the institutions, the European Union subsidy to the European Schools and the administrative expenditure of the Publications Office.

TABLE 2

Administrative expenditure in 1997

Institution	Establishment plan in 1997 budget (permanent and temporary posts)	Staff (million ECU)	Administration (million ECU)
European Parliament and Ombudsman	4 109	501.3	370.9
Council	2 529	188.3	123.5
Commission, of which:	21 190	1 748.8	1 001.4
— administration	(17 478)	(1 444.8)	(987.3)
— research	(3 712)	(304.0)	(14.1)
Court of Justice	953	91.1	31.1
Court of Auditors	503	48.1	5.5
Economic and Social Committee	135	10.0	15.7
Committee of the Regions	85	6.4	8.5
Joint structure	519	35.6	14.8
Total	30 023	2 629.7	1 571.3

BORROWING AND LENDING OPERATIONS

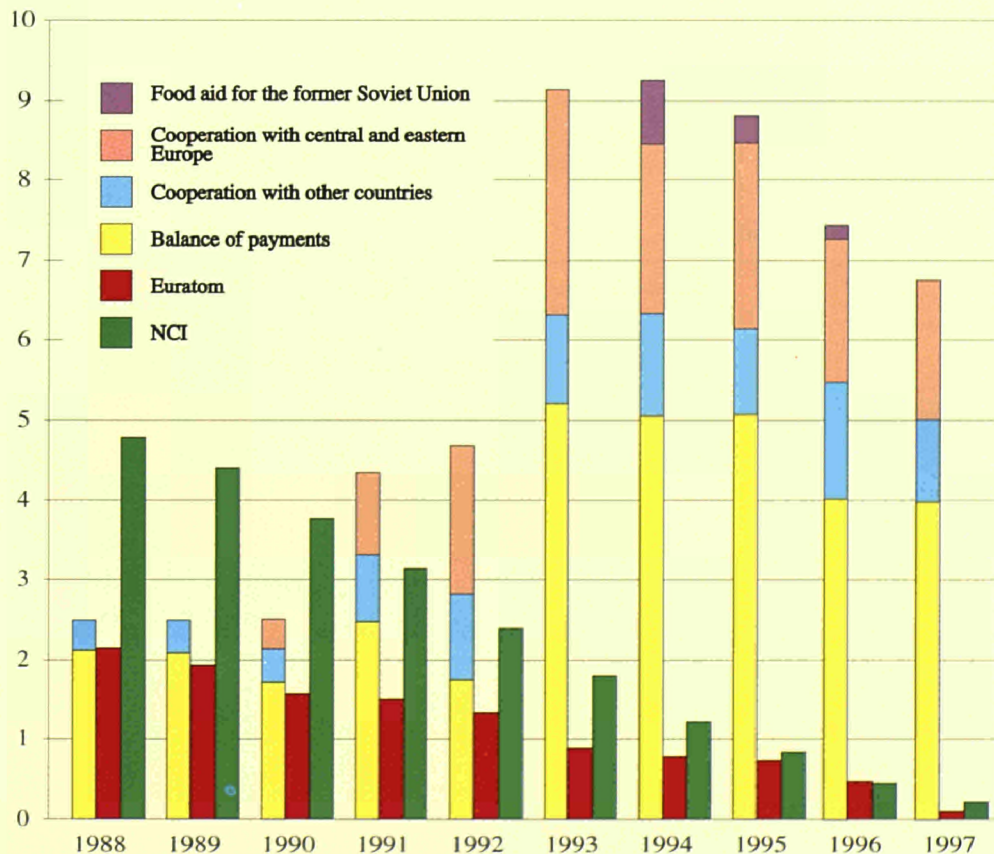
In addition to the measures financed by the general budget, a number of Community operations are carried out using borrowed funds. The Communities have developed several instruments which give them access to capital markets and are used to finance various categories of loans. In addition to these loans from borrowed funds, a smaller number of loans are granted from budget appropriations. This report deals only with borrowing and lending operations included in the EU's balance sheet; it ignores operations carried out

under the financial provisions of the ECSC Treaty (ECU 3 583 million in loans outstanding at 31 December 1997) and those carried out by the European Investment Bank from its own resources under the EEC Treaty (ECU 119 273 million in loans outstanding at 31 December 1997).

Should the recipient of a loan granted by the Union default, the corresponding funds borrowed by the Union would be repaid from the general budget. Some of the loans granted by

FIGURE 13
Community loans outstanding, 1988-97

(billion ECU)



the European Investment Bank from its own resources are backed by a guarantee from the general budget.

Where a non-member country defaults on a loan granted or guaranteed by the Union, the creditors will be repaid from the Guarantee Fund set up by the Council regulation of 31 October 1994.

Borrowing and lending for balance-of-payments support

After the first oil shock a Community borrowing facility was devised to help Member States whose balance of payments had been upset as a result of the rise in oil prices. The first loans were granted in 1976. The Council increased the volume of Community borrowings authorised under this facility to ECU 8 000 million in 1984 and to ECU 14 000 million in 1988. At 31 December 1997 loans outstanding totalled ECU 3 948 million.

Euratom borrowing and lending

Since 1977 the European Union has made use of this facility, which was devised to finance investment projects involving the industrial generation of nuclear power and industrial fuel-cycle installations, in order to reduce dependence on imported energy. In 1990 a Council decision increased the amount of borrowings which the Commission is authorised to raise under this facility to ECU 4 000 million. At 31 December 1997 outstanding loans totalled ECU 118 million.

On 9 December 1992 the Commission proposed that the balance of borrowings not used in the Member States could be used to finance improvements in the efficiency and safety of nuclear power stations in central and eastern Europe and in the Commonwealth of Independent States. On 21 March 1994 the Council decided to amend Decision 77/270/Euratom to authorise the Commission to contract Euratom borrowings to help fi-

nance improvements in the safety and efficiency of nuclear power stations in certain non-member countries. This decision will enable use to be made of a considerable proportion of Euratom's available borrowing capacity (some ECU 1 100 million).

The idea of international financial aid for the closure of the Chernobyl nuclear power plant was entered in the conclusions of both the Corfu European Council of 24 and 25 June 1994 and the G7 summit at Naples on 7 and 8 July 1994.

NCI borrowing and lending

The New Community Instrument (NCI) was created in 1978 to help finance investment projects for developing Europe's industrial competitiveness. These projects must meet the EU's priority objectives concerning energy, industry and infrastructure and must, in particular, promote regional development and help to reduce unemployment. The New Community Instrument was strengthened in 1982, 1983 and 1987 and its field of application now extends to the dissemination of new technologies and innovation, mainly for the benefit of small and medium-sized businesses. Overall, the volume of borrowings authorised by the Council has risen to ECU 6 830 million and has been used to grant loans of ECU 6 197 million, including ECU 679 million to finance reconstruction projects following the earthquakes in Italy in 1980 and in Greece in 1981. At 31 December 1997 the loans outstanding came to ECU 219 million.

Borrowing and lending in connection with cooperation with non-member countries

The Community grants financial assistance in the form of medium-term loans to a number of countries which are currently implementing economic reforms. These loans are financed from its borrowing operations.

As part of the ECU 125 million granted as medium-term financial assistance to Romania, a second tranche of ECU 70 million was paid in two tranches (ECU 30 and 40 million) on 30 September and 23 December 1997. At the end of 1997 outstanding loans to Romania thus totalled ECU 580 million.

As part of the ECU 200 million granted as additional macrofinancial assistance to Ukraine (approved by the Council on 23 October 1995), the second tranche of ECU 100 million was paid on 25 September 1997. At the end of 1997 outstanding loans to Ukraine thus totalled ECU 285 million.

On 22 July 1997 the Council decided to grant the Former Yugoslav Republic of Macedonia (FYROM) long-term macrofinancial assistance of ECU 40 million in two tranches. The first tranche of ECU 25 million was paid to FYROM on 30 September 1997.

Financial assistance of ECU 1 250 million has also been granted to the republics of the former Soviet Union. At 31 December 1997 outstanding loans totalled ECU 216 million (unpaid capital amounts due).

On 17 November 1997 the Council decided to grant exceptional financial assistance to Armenia and Georgia in the form of long-term loans of ECU 170 million and grants of ECU 95 million.

At 31 December 1997 the total amount of outstanding loans financed from borrowings came to ECU 2 121 million.

Loans from budget appropriations

Besides these loans from borrowed funds, loans are also granted from budget appropriations as part of the policy of cooperation with non-member countries. The Communities have concluded agreements with most of the Mediterranean countries which combine commercial cooperation with financial and technical cooperation. In the case of financial and

technical cooperation, Community aid consists partly of non-repayable grants and partly of loans on particularly favourable terms or risk-capital operations.* At 31 December 1997 the outstanding balance of loans on special terms and risk-capital operations came to ECU 511.6 million.

Since 1988 the EU has been able to grant loans and advances, likewise from budget appropriations, to finance joint ventures between European firms and firms in Asia, Latin America and the Mediterranean countries. At 31 December 1997 the outstanding balance of these operations came to ECU 94.1 million.

Budget guarantees

Should a debtor default, the amounts borrowed to finance any of the loans listed above would be repaid from the general budget.

A budget guarantee also covers the loans granted by the European Investment Bank from its own resources to 12 Mediterranean countries under the financial protocols annexed to the relevant cooperation agreements.

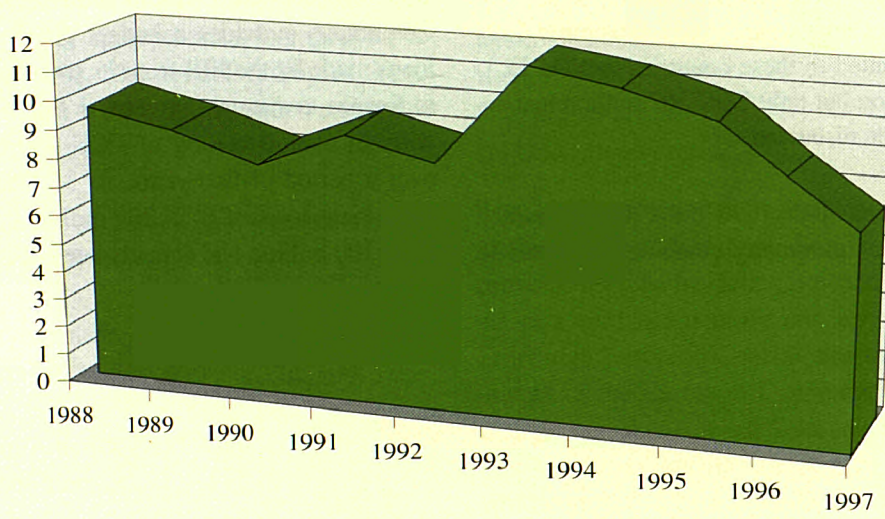
At 31 December 1997 outstanding loans totalled ECU 3 248 million (ECU 212 million in Spain, Greece and Portugal and ECU 3 036 million in non-member Mediterranean countries).

The guarantee also extends to loans granted by the EIB from its own resources to the countries of central and eastern Europe. The overall ceiling on guaranteed loans to these countries is ECU 4 700 million. At 31 December 1997 loans granted to these countries totalled ECU 4 628 million but only ECU 1 888 million had actually been disbursed.

The purpose of this financial support is to promote the development of infrastructures (in particular trans-European networks) for energy, research, telecommunications and the environment, and to provide backing for the private sector, in particular small businesses.

FIGURE 14

Total Community loans outstanding, 1988-97

(billion ECU)

Under a Council decision of 15 February 1993 the Community provides a budget guarantee for loans made by the EIB from its own resources to finance investment projects of mutual interest in the developing countries of Asia and Latin America which have signed cooperation agreements with the Community. These loans total ECU 250 million a year for a period of three years. At 31 December 1997 loans granted to these countries totalled ECU 657 million but only ECU 307 million had actually been disbursed.

On 12 December 1996 the Council granted the EIB a Community guarantee on loans to

certain developing countries in Asia and Latin America. This guarantee is limited to an overall ceiling of ECU 275 million to be granted in 1996. At 31 December 1997 loans granted to the countries concerned totalled ECU 153 million and ECU 78 million had been paid.

Under a Council decision of 1 June 1995, the Community provides a budget guarantee for loans made by the EIB from its own resources to finance investment projects in South Africa with an overall ceiling of ECU 300 million over a period of two years. At 31 December 1997 loans totalled ECU 300 million but only ECU 100 million had actually been disbursed.

TABLE 3

Capital operations covered by the general budget
at 31 December 1997

(million ECU)

Borrowing/lending operation	Volume of borrowing/lending authorised	Total outstanding at 31 December 1997 covered by a budget guarantee
Balance-of-payments support	14 000	3 948
Euratom	4 000	118
NCI (including reconstruction projects)	6 830	219
EIB Mediterranean (Spain, Greece, Portugal)	1 500	212
Financial assistance	4 465	2 121
	30 795	6 618
EIB loans:		
— Mediterranean countries	8 672	3 150
— Central and eastern Europe	8 220	1 919
— Asia and Latin America	1 925	385
— South Africa	675	100
	19 492	5 553
Total	50 287	12 171

On 14 April 1997, the Council granted an overall Community guarantee to the EIB for loans for investment in the countries of central and eastern Europe, Mediterranean countries, Latin America and Asia, and the Republic of South Africa.

This guarantee is limited to 70 % of the overall amount of appropriations lent, plus all related amounts. The overall ceiling of appropriations lent is ECU 7 105 million and breaks down as follows:

- countries of central and eastern Europe: ECU 3 520 million;
- Mediterranean countries: ECU 2 310 million;
- Latin American and Asian countries: ECU 900 million;
- Republic of South Africa: ECU 375 million.

It covers a period of three years from 31 January 1997 for the countries of central and eastern Europe, the Mediterranean countries and Latin America and Asia, and from 1 July 1997 for the Republic of South Africa. The period of validity of this decision is automatically extended by six months, if, on expiry of the period, the loans granted by the EIB have not reached the total amounts mentioned above.

The European Investment Bank is asked to consider the rate of 25 % as a target for coverage of the commercial risk with non-sovereign guarantees.

At 31 December 1997 loans granted to the countries concerned totalled ECU 2 615 million but only ECU 144 million had been paid.

Table 3 gives an overview of the Community's borrowing and lending operations at 31 December 1997.

The guarantee mechanism

In view of the growing volume of guaranteed loans to non-member countries and the consequent risk to the budget, the Commission proposed that a dual mechanism be established consisting of a guarantee reserve entered in the financial perspective and in the budget and a Guarantee Fund endowed from this reserve.

(a) Guarantee reserve

The interinstitutional agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure provided, in accordance with the conclusions of the Edinburgh European Council, that the general budget of the European Communities should include a guarantee reserve to cover loans to non-member countries. This reserve is intended to endow the Guarantee Fund and, if necessary, cover any guarantee called in which exceeds the amount available from the Fund, so that it can be charged to the budget.

The amount of the guarantee reserve is that stipulated in the financial perspective: ECU 300 million at 1992 prices. In 1997, it was ECU 329 million.

(b) Guarantee Fund

On 31 October 1994 the Council adopted Regulation No 2728/94 establishing a Guarantee Fund for external actions, so that the Community's creditors can be repaid in the event of default by a non-member country in receipt of a loan granted or guaranteed by the Community.

The Guarantee Fund is endowed by:

- payments from the general budget of the European Communities equal to 14 % of the capital value of the lending and guarantee operations until the Fund reaches its target amount;

- interest earned from the investment of the Fund's available resources;
- amounts recovered from defaulting debtors where the Fund has already honoured the guarantee.

In the course of 1997, calls made on the Fund totalled ECU 54.29 million. Transfers amounted to ECU 286.095 million, financial interest and late recoveries representing ECU 34.51 million and ECU 45.03 million respectively.

At 31 December 1997, the resources of the Guarantee Fund stood at ECU 861.798 mil-

lion, or 10.83 % of the amount outstanding on the lending and guarantee operations to non-member countries, plus unpaid interest due. The resulting ratio* between the Fund's resources and the outstanding capital liabilities is therefore greater than the target rate of 10 % set in the regulation establishing the Fund.

The surplus therefore had to be 'paid back to a special heading in the statement of revenue in the general budget of the Communities', as provided for in the regulation. The surplus came to ECU 66 million at the end of the 1997 financial year.

The Commission holds accounts with the treasuries and/or central banks of Member States, on which it receives revenue and through which it pays the bulk of its transactions, in particular those relating to the EAGGF Guarantee Section and some of the expenditure on the Structural Funds.

Each month the revenue received (expressed in national currencies) is equivalent to one twelfth of the amounts provided in the budget for value added tax (VAT)- and gross national product (GNP)-based resources plus the amount actually established each month for customs duties and agricultural levies.

Ordinary commercial bank accounts are used for administrative expenditure and direct payments to recipients other than national authorities, in national currencies and in ecus.

To ensure that funds are made available to the direct recipients as rapidly and as cost-effectively as possible, the Commission opens accounts in national currencies and in ecus in the Member States by invitation to tender. It also now uses the SWIFT international payments network. In 1997 it launched an invitation to tender for a new selection of commercial banks, except in the three Member States which joined the European Union in 1995. This new banking structure was completed at the beginning of 1998.

In July 1990 the Commission adopted a regulation on arrangements for using the ecu for the purpose of the budgetary management of the Structural Funds; this regulation provides that assistance granted by the Commission is to be paid in ecus to the authority designated by the Member States to receive the payments.

Ecus are mainly purchased on the interbank exchange market. The Commission tries to spread its purchases as evenly as possibly so as not to destabilise the market. In 1996 its purchases totalled ECU 33.8 billion as against ECU 33.7 billion in 1996, including forward purchases of ECU 3.0 billion during the last quarter. This was used mainly for payments

under the Structural Funds (ECU 26.3 billion in 1996 compared with ECU 24.1 billion in 1996).

The Commission has opened ecu-denominated accounts with the French and Irish Treasuries for making payments in connection with operations under the Structural Funds. This should accustom treasuries to using the ecu in anticipation of economic and monetary union. The Commission is willing to open similar accounts with any Member State which so wishes.

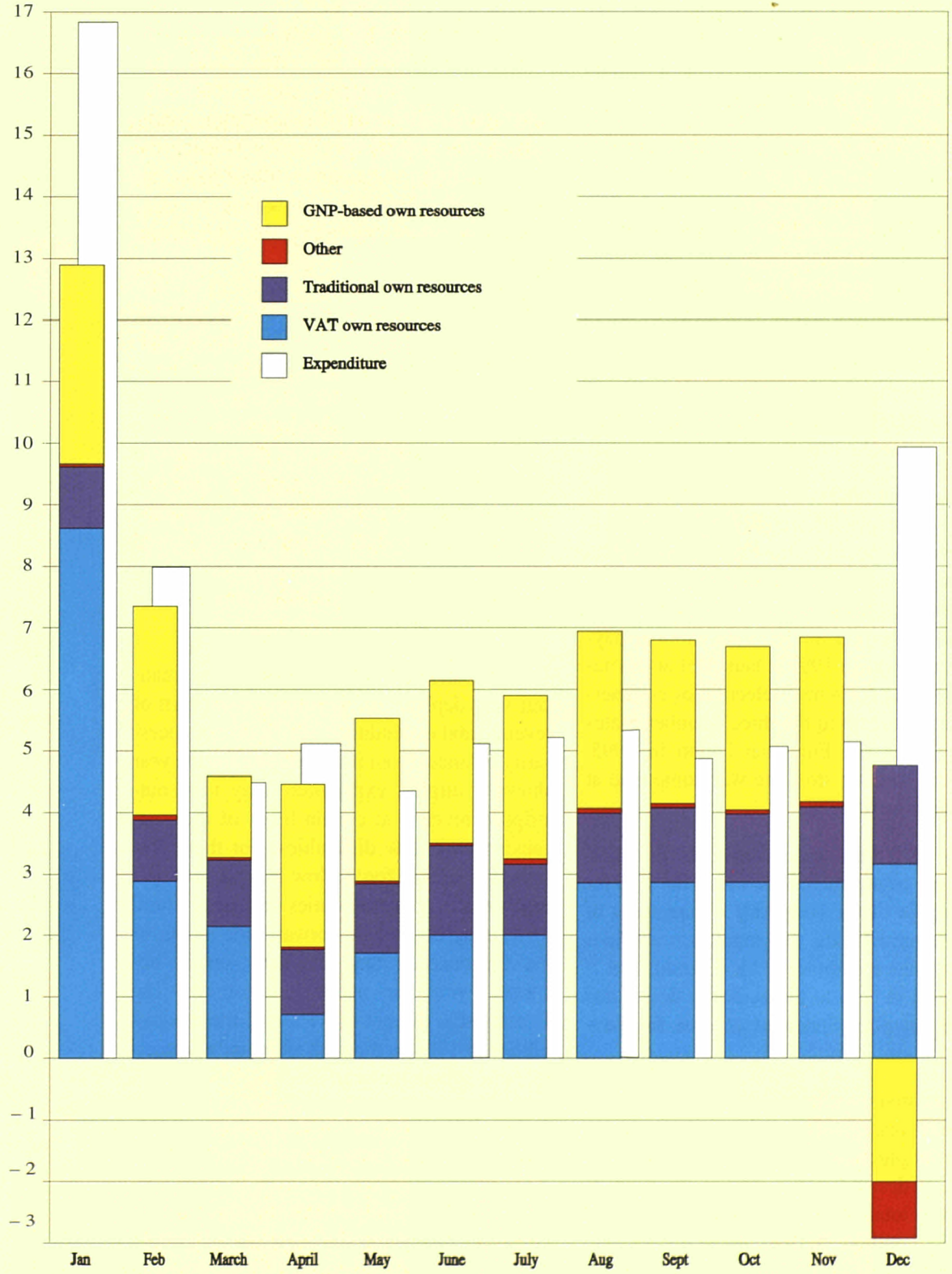
The budget out-turn, in revenue and expenditure, for a given year may differ from the initial estimates, producing a positive or negative balance. A surplus can result from under-utilisation of appropriations or from a revenue out-turn higher than the forecast in the budget or from a combination of these two factors. Since spending must not exceed the limit set by the budget, a deficit can be caused only by the revenue out-turn being lower than the forecast in the budget. This was the case in 1984 and 1986.

The cash situation in the course of the financial year depends on the monthly out-turn of revenue and expenditure, which do not necessarily balance. Even if the balance for the year shows a surplus, expenditure may have outstripped revenue at certain times of the year, causing cash-flow difficulties. For these reasons, the rules in force allow two possibilities: payments of customs duties and agricultural levies may be brought forward one month or the Commission may overdraw on its accounts with the national treasuries. The Commission did not make use of these possibilities in 1996 as the cash situation was positive throughout the year.

In late-1993 the Council adopted an amendment which also allowed early payment of VAT- and GNP-based resources to meet specific EAGGF requirements, in particular to cover payments for the set-aside of certain arable land. Use was made of this option in 1995, 1996 and 1997.

FIGURE 15
Monthly revenue and expenditure, 1997

(billion ECU)



The rules also stipulate that the positive and negative balances resulting from payment and revenue transactions should be spread over the year in proportion to each Member State's estimated contribution to the budget as a whole. This balance is maintained by transfers between the central banks.

A rolling forecast of cash-flow is used to monitor and coordinate these currency transactions. Cash-flow management is strictly regulated: no borrowing is allowed to cover possible deficits, surpluses may not be invested and no interest is receivable or payable on balances with Member States.

TABLE 4

Consolidated revenue and expenditure account — five-year summary

(million ECU)

Heading	1993	1994	1995	1996	1997
Revenue					
Own resources	65 101.1	68 082.1	68 603.3	70 258.5	76 406.5
Surpluses available	- 123.8	- 2 922.1	5 764.8	10 055.4	3 270.5
Other revenue	695.3	842.2	709.0	961.2	870.7
Total	65 672.7	66 002.1	75 077.1	81 275.0	80 547.7
Expenditure					
<i>1. Common agricultural policy</i>					
Markets (B1-1 to B1-3)	34 767.0	32 450.3	33 634.3	37 596.7	38 353.7
Accompanying measures (B1-4 and B1-5)	333.4	520.1	868.5	1 871.9	2 069.3
<i>Heading 1 — subtotal</i>	<i>35 100.4</i>	<i>32 970.4</i>	<i>34 502.7</i>	<i>39 468.6</i>	<i>40 423.0</i>
<i>2. Structural operations</i>					
EAGGF-Guidance (B2-10)	2 725.6	2 533.3	2 530.6	3 360.3	3 580.0
FIFG (B2-11)	364.9	395.0	248.1	421.6	486.9
ERDF (B2-12)	8 253.8	6 331.2	8 373.6	10 610.3	11 521.4
ESF (B2-13)	5 060.7	4 333.4	4 546.9	6 031.6	6 143.4
Community initiatives (B2-14)	1 551.9	957.7	1 320.1	1 691.4	1 677.3
Transitional measures, innovation schemes and action against fraud (B2-15, B2-18 and B2-19)	1 472.5	541.9	200.0	337.2	202.9
Other structural operations (B2-2)	262.5	122.2	37.3	47.2	10.9
Cohesion Fund (B2-3)	795.0	851.6	1 699.3	1 872.2	2 323.0
EEA financial mechanism (B2-4)	—	—	89.8	87.1	102.5
<i>Heading 2 — subtotal</i>	<i>20 486.8</i>	<i>16 066.5</i>	<i>19 045.6</i>	<i>24 458.8</i>	<i>26 048.4</i>
<i>3. Internal policies</i>					
Research (B6)	2 354.9	2 544.2	2 601.5	2 971.7	3 111.2
Other agricultural operations (B2-5)	108.9	126.3	107.3	98.9	156.2
Other regional operations (B2-6)	46.9	29.9	42.1	46.2	33.2
Transport (B2-7)	4.0	12.3	18.2	30.5	28.5
Fisheries and the sea (B2-9)	16.2	26.6	15.8	16.2	20.4
Education, vocational training, youth (B3-1)	258.4	290.2	292.4	379.6	367.5
Culture and audiovisual media (B3-2)	62.2	111.1	126.7	100.0	113.9
Information and communication (B3-3)	18.6	37.6	47.7	99.2	106.2
Other social operations (B3-4)	102.5	136.4	151.3	155.4	148.4
Energy (B4-1)	41.7	36.3	33.7	35.4	35.8
Euratom nuclear safeguards (B4-2)	6.8	11.5	17.3	15.8	15.5
Environment (B4-3)	71.2	107.2	91.9	120.9	129.5
Consumer protection (B5-1)	9.4	14.3	17.8	14.6	17.4
Aid for reconstruction (B5-2)	12.8	9.6	6.1	4.2	3.9
Internal market (B5-3)	91.8	165.0	134.5	168.8	188.5
Industry (B5-4)	39.2	31.6	76.7	42.4	96.0
Information market (B5-5)	14.6	12.6	14.0	5.8	—
Statistical information (B5-6)	34.8	35.3	33.7	35.2	34.8
Trans-European networks (B5-7)	134.9	179.3	250.5	264.1	373.9
Cooperation in the fields of justice and home affairs (B5-8)	—	—	2.6	2.2	6.8
Action against fraud (B5-9)	—	0.2	0.8	3.4	10.7
<i>Heading 3 — subtotal</i>	<i>3 429.8</i>	<i>3 917.4</i>	<i>4 082.5</i>	<i>4 610.4</i>	<i>4 998.2</i>

TABLE 4 (continued)

(million ECU)

Heading	1993	1994	1995	1996	1997
<i>4. External action</i>					
EDF (B7-1)	—	—	—	—	—
Food aid (B7-20)	431.0	446.0	497.7	413.1	407.7
Humanitarian aid (B7-21)	534.9	472.6	452.0	624.3	503.9
Cooperation —					
Asian developing countries (B7-30)	154.2	164.9	226.0	283.9	252.3
Cooperation —					
Latin American developing countries (B7-31)	137.4	138.3	145.7	152.3	148.9
Cooperation — Developing countries in southern Africa and South Africa (B7-32)	77.5	69.9	55.6	37.3	71.0
Cooperation — Mediterranean third countries and the Middle East (B7-4)	338.7	304.8	278.8	357.5	405.4
Cooperation — Central and eastern European countries (B7-50)	543.5	704.7	768.9	836.7	824.9
Cooperation — Independent States of former Soviet Union (B7-52)	180.3	300.0	370.0	369.5	396.1
Cooperation — Republics formerly part of Yugoslavia (B7-54)	—	1.8	4.8	26.9	42.4
Other cooperation measures (B7-6, B7-51, B7-53)	231.9	238.7	246.5	296.4	335.1
Human rights and democracy (B7-7)	3.6	27.5	47.0	65.2	59.3
International fisheries agreements (B7-80)	188.9	140.6	158.1	251.0	284.7
Other external aspects of certain Community policies (B7-81 to B7-87)	37.3	50.6	76.0	99.1	75.2
Support expenditure (B7-95)	—	—	—	—	3.6
Common foreign and security policy (B8-0)	14.2	10.0	82.6	60.5	24.2
<i>Heading 4 — subtotal</i>	<i>2 873.4</i>	<i>3 070.3</i>	<i>3 409.7</i>	<i>3 873.8</i>	<i>3 834.7</i>
<i>5. Administrative expenditure</i>					
Staff and administration	3 363.8	3 590.9	3 919.3	4 106.1	4 201.0
<i>Heading 5 — subtotal</i>	<i>3 363.8</i>	<i>3 590.9</i>	<i>3 919.3</i>	<i>4 106.1</i>	<i>4 201.0</i>
<i>6. Reserves</i>					
Guarantee (B0-2)	14.2	293.7	250.8	235.4	286.1
Refunds to Member States	—	—	—	—	—
<i>Heading 6 — subtotal</i>	<i>14.2</i>	<i>293.7</i>	<i>250.8</i>	<i>235.4</i>	<i>286.1</i>
<i>7. Compensation</i>					
Compensation (B0-5)	—	—	1 547.0	701.0	212.0
<i>Heading 7 — subtotal</i>	<i>—</i>	<i>—</i>	<i>1 547.0</i>	<i>701.0</i>	<i>212.0</i>
Total	65 268.5	59 909.2	66 757.7	77 454.1	80 003.4
<i>Out-turn for the year</i>	404.1	6 093.0	8 319.5	3 821.0	544.3
Cancellation of unused appropriations carried over from previous year	301.1	443.0	498.3	143.9	323.1
Exchange differences for the year	265.9	4.4	402.8	423.5	95.0
<i>Balance for the year</i>	<i>971.1</i>	<i>6 540.5</i>	<i>9 220.5</i>	<i>4 388.3</i>	<i>962.3</i>

THE ECSC'S FINANCIAL AND BUDGETARY ACTIVITIES IN 1997

Economic background and developments in ECSC industries

Steel industry

After the economic slowdown which occurred half-way through 1995, characterised by the general trend of reducing stocks, since the last few months of 1996 the Community economy has been slowly but steadily picking up.

The gradual improvement in economic conditions, which was confirmed in the first part of 1997, picked up speed in the second half of the year, so much so that the expected results for the whole year will be considerably better than those for 1996. Manufacturers are therefore more optimistic and there is even a slight improvement in consumer confidence.

On the Community steel market, the improvement noted during the last few months of 1996 became stronger and stronger, particularly as a result of the high levels of exports, an increase in domestic demand and less pressure from imports. The gradual improvement in the situation of the Community market will have thus contributed to a gradual increase in prices, having caught up a good part of the cumulated decrease over the previous period of decline.

Although the most recent economic surveys clearly show manufacturers' confidence in the Union's economic prospects, steel producers were guarded in their optimism at recent meetings because of the fragility of conditions in the steel market, which remains overshadowed by the latent risk of an increase in certain imports, potentially compromising its precarious equilibrium. However, they do consider the current situation to be quite positive, particularly as regards flat coated products, with more than optimal use of capacities for several months, but they confirm that the situation for long products remains less favourable.

The production of crude steel in the Community in 1997 was 159.4 million tonnes, compared with 147.2 million in 1996, a considerable (8.3 %) increase. At the same time, the maximum production capacity for raw steel decreased by 1.2 % from 200.2 million to 197.9 million tonnes, principally as a result of the restructuring of the steel industry in Italy.

The rate of steel use for 1997 thus improved very consistently, increasing from 73.4 % (revised figure) in 1996 to 80.2 % in 1997.

As regards the maximum production capacity of hot rolling plant, it remained virtually unchanged between 1996 and 1997, at around 179.5 million tonnes.

Investment in the steel industry in 1997 was around ECU 3 950 million, without notable changes compared with 1996 (ECU 4 016 million).

Coal industry

In contrast to the growth of the Community economy between 1996 and 1997, estimated at approximately 2.6 % in real terms, the total demand for energy declined by about 1.2 % in gross domestic consumption over the same period, mainly because of generally favourable climatic conditions.

If we consider demand by energy source, only nuclear and hydro-power increased, by 2.4 and 1.4 % respectively compared with the same period of the previous year, while oil consumption remained more or less stable. For all other sources of energy, there was a drop in consumption, the most significant decreases being in solid fuels (- 5.2 %) (demand declined by 5.1 % for hard coal and 5.6 % for brown coal and peat) and in natural gas (- 3 %).

It is increasingly clear from the information available that the pace of economic activity will continue to accelerate in 1998. In fact,

favourable developments can already be seen in the domestic economy, from the combined effect of the continuation of budgetary improvement, moderate salary increases, reasonably low interest rates, renewed consumer confidence and increased profitability of investments. GDP should see an average increase of 3 % in 1998.

For 1998, taking account of the discounted economic results, and if climatic conditions are stable, the forecasts for energy demand anticipate a rise of 1.8 %. However, as regards solid fuel, demand could decrease by 4 % for hard coal and 2 % for brown coal.

In 1997, total coal deliveries in the Community came to 268.2 million tonnes, i.e. a decrease of nearly 3.3 million tonnes compared with the previous year. There were decreases in almost all the consumer sectors and particularly in deliveries to public power stations, which fell to 172.9 million tonnes, i.e. a decline of 2.9 million tonnes (– 1.7 %), deliveries to coking plants (– 0.9 million tonnes, – 1.7 %) and deliveries to other industries (– 0.8 million tonnes, – 3.9 %), though a rise of nearly 0.4 million tonnes (+ 6.8 %) in deliveries to autoproducers is likely.

Deliveries to the steel industry also increased (+ 1.2 million tonnes, + 14.7 %). The largest decreases are expected in the United Kingdom (– 3.0 million tonnes), Germany (– 2.2 million tonnes) and France (– 1.7 million tonnes). However, slight increases are anticipated in Spain (+ 1.4 million tonnes), Finland (+ 0.8 million tonnes) and Italy (+ 0.6 million tonnes).

Community coal production is still affected, to varying degrees, by restructuring, rationalisation and modernisation plans. For 1997, it stood at 123.1 million tonnes, which is a drop of 3.6 million tonnes (– 2.9 %) compared with 1996. All the Member States have seen their production drop, ranging from – 1.3 million tonnes in France (– 18.2 %) through – 1.2 million tonnes in Germany (– 2.2 %) and

– 0.9 million tonnes in the United Kingdom (– 1.8 %) to – 0.3 million tonnes in Spain (– 1.4 %).

Domestic coal deliveries should drop by 24.7 million tonnes in 1998 to 243.5 million tonnes. This reduction will be mainly due to a reduction in deliveries to power stations (21.1 million tonnes, 86 % of the total). Industrial use could decline by some 0.9 million tonnes and a drop of 0.8 million tonnes on the domestic market is forecast, though deliveries to the steel industry could increase very slightly (by a little more than 0.1 million tonnes). The largest decreases are expected in the United Kingdom (– 15.5 million tonnes), France (– 4.3 million tonnes), Denmark (– 3.0 million tonnes) and, to a lesser degree, Portugal (– 1.0 million tonnes) and Belgium (– 0.5 million tonnes).

In 1997, because of the increase in steel production, coke deliveries to the steel industry more than offset previous decreases and could reach 42.3 million tonnes (+ 1.2 %), while other deliveries of coke in the Community represented about 5.6 million tonnes, an increase of 2.1 % on the previous year.

Aid to the coal-mining industry continues to be governed by the provisions of Framework Decision No 3632/93/ECSC ⁽¹⁾ establishing Community rules for State aid to the coal industry for the period from 1994 to the expiry of the ECSC Treaty in 2002.

In addition to the specific criterion applicable to each category of aid, the decision stipulates that aid granted to the coal industry may be considered compatible with the proper functioning of the common market provided it helps to achieve at least one of the following objectives:

- to make further progress, in the light of coal prices on international markets,

⁽¹⁾ OJ L 329, 30.12.1993, p.12.

towards economic viability with the aim of reducing the level of aid:

- to solve the social and regional problems created by total or partial reductions in the activity of production units;
- to help the coal industry adjust to environmental protection standards.

The decision also contains provisions designed to increase the transparency of the existing aid scheme. Upon expiry of a transitional period not exceeding three years (i.e. ending on 31 December 1996), aid may be authorised only if it is recorded in Member States' national, regional or local public budgets or channelled through strictly equivalent mechanisms. Moreover, since the beginning of 1994, any aid received by a firm has had to be shown in its profit-and-loss account as a separate item of revenue, distinct from turnover.

Member States planning to grant coal companies operating aid in the period 1994 to 2002 are asked to submit to the Commission in advance a modernisation, rationalisation and restructuring plan designed to improve the economic viability of the company concerned by reducing production costs. For firms which are unable to satisfy these conditions, aid may be considered compatible provided it is part of a closure plan whose deadline falls before the expiry of Decision No 3632/93/ECSC or, under exceptional social and regional circumstances, if the closure plan is implemented after expiry of the decision.

On 30 April 1997, the Commission authorised ⁽¹⁾ the United Kingdom to grant financial aid of ECU 1 285.6 million (GBP 891 million) under the budget for 1998/99, to be paid over the period ending with expiry of the ECSC Treaty in July 2002, to cover inherited liabilities.

On 3 May 1997, the Commission published in the Official Journal ⁽²⁾ a letter of formal notice to Spain regarding the failure to provide sufficient information on a notification relating to the award of additional aid for the years 1994, 1995 and 1996.

On 23 August 1997, the Commission published in the Official Journal ⁽³⁾ a letter of formal notice to Germany regarding alleged abuse of State aid, following a complaint brought at the end of 1996 by a British anthracite producer.

Financial activities

Article 49 of the ECSC Treaty of 18 April 1951 empowers the High Authority (the Commission since the 1967 Merger Treaty) to borrow funds provided that they are used solely for the granting of loans.

Loans are granted for three main purposes:

- to finance investment in the coal and steel sector;
- to finance conversion programmes for restructuring the coal and steel industry;
- to finance the construction of housing for coal and steel workers.

At 31 December 1997 the ECSC had, since starting its financial activities, paid ECU 23.46 billion in loans, of which ECU 22.98 billion was from borrowed funds and ECU 482.8 million from its own funds (special reserve and former pension fund).

If guarantees over the same period are included, total ECSC financing at the end of 1997 came to ECU 23.55 billion, as against ECU 22.49 billion at 31 December 1996.

⁽¹⁾ Decision 96/577/ECSC (OJ L 237, 28.8.1997, p. 13).

⁽²⁾ Notice 97/C137/06 (OJ L 137, 3.5.1997, p. 6).

⁽³⁾ Notice 97/C258/02 (OJ C258, 23.8.1997, p. 2).

The change is due partly to new loans (ECU 541.2 million) and partly to exchange rate adjustments (+ ECU 521.4 million).

Following the adjustment of the ECSC's borrowing and lending activities by the Commission in June 1994 ⁽¹⁾ with a view to the expiry of the ECSC on 23 July 2002, new loan payments within the Community came to ECU 541.2 million.

The reason for this figure is that 1997 was the last year for the payment of ECSC loans, except for a number of cases covered by a State guarantee.

ECSC operating budget

Over the course of the last decade, the ECSC budget rose from ECU 330 million in 1986 to a maximum of ECU 596 million in 1993, before starting a decrease which will continue until the ECSC Treaty expires in 2002.

The details of the resources and expenditure, as far as the 1997 budget is concerned, are given below.

In addition to its activities based on borrowing and lending operations, the ECSC finances a number of measures from its operating budget.

ECSC budget revenue

The High Authority (Commission) is empowered to procure the funds it requires to carry out its tasks by imposing levies on the production of coal and steel.

ECSC levies go towards financing expenditure under the operating budget; historically, they are the first genuine 'Community' tax.

The levy is fixed annually for the various coal and steel products according to their average

value. In 1997 the ECSC levy was set at 0.17 % and yielded ECU 101.6 million.

The other major resources in addition to the levy derive from:

- the 'net balance' from annual financial operations, in particular the interest on the investments, reserves and provisions entered in the ECSC balance sheet;
- the cancellation of commitments which are not implemented;
- unused resources from the previous year.

For 1997, this revenue is ECU 109.7, 195.2 and 49.1 million respectively.

Total revenue in the ECSC's operating budget came to ECU 459.8 million for 1997.

ECSC budget expenditure in 1997

The revenue in the operating budget is intended to cover the various categories of expenditure provided for in the ECSC Treaty.

Social aid

In 1997 ECU 95 million was committed for aid for the social redeployment of coal and steel workers under Article 56(2)(b) and (1)(c) of the ECSC Treaty (traditional redeployment and social measures in the coal and steel industry).

When permanent closures, cutbacks or changes of activity lead to job losses, the Community attempts to mitigate the social repercussions for the workers through redeployment measures under Article 56. It helps finance aid measures to provide income support for the workers affected or to enable them, through training courses and resettlement allowances, to remain in employment and make a productive contribution to the economy.

This contribution to social aid is subject to payment by the Member State in question of a

⁽¹⁾ OJ C 175, 28.6.1994.

special contribution at least equal to the ECSC's contribution.

Social aid is granted under arrangements defined in bilateral agreements concluded with the Member States (early retirement, unemployment, transfer, retraining and vocational training).

It should be noted that under the arrangements for 'phasing in' the coal and steel sectors within the general framework of European policies, aid for the training of coal and steel

workers has been granted only through the European Social Fund.

ECSC social assistance may be granted over and above other forms of aid or loans granted under the Community support frameworks.

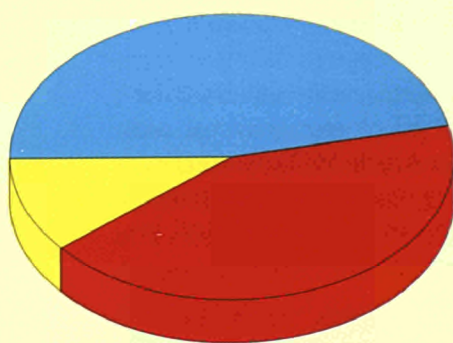
Research aid

Under Article 55 of the ECSC Treaty, ECU 84 million was granted in aid for technical research in the coal and steel sector in 1997.

FIGURE 16

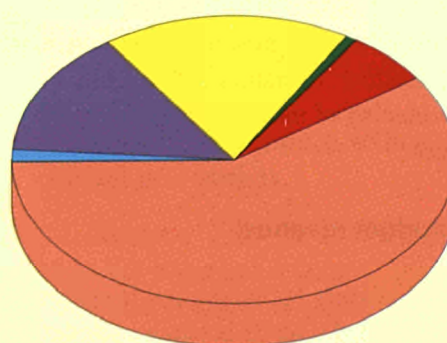
ECSC operating budget revenue, 1997

(million ECU)



ECSC operating budget expenditure, 1997

(million ECU)



Current revenue	215.5	Administration	5.0
— Yield from 0.17 %	101.6	Redeployment aid	66.0
— Net balance	109.7	Research aid	84.0
— Miscellaneous	4.2	Conversion aid	1.8
Cancellation of commitments	195.2	Social measures for the coal industry	29.0
Unused resources from previous year	49.1	Provision for the financing of the ECSC operating budget	274.0
	<u>459.8</u>		<u>459.8</u>

The main aims of the aid for steel industry research (ECU 55 million) are to reduce manufacturing costs, improve the quality and performance of products, promote and extend the uses of steel, and adapt production conditions to environmental demands.

The main objectives of the aid for coal industry research (ECU 29 million) are to lower production costs, raise underground and pit-head productivity, improve safety and working conditions, safeguard existing markets, open up new outlets and, above all, improve the use made of coal, with a view to better environmental protection.

Conversion aid

Finally, the ECSC budget provides aid (ECU 1.8 million in 1997) in the form of interest subsidies on conversion loans granted under Article 56(2)(a) of the ECSC Treaty. The aim of these loans, granted to finance job-creating investments in the economically healthy sec-

tors, is to revitalise the economy of the regions affected by the contraction of ECSC activity. The practical rules for granting these loans and interest subsidies were last adopted by the Commission in 1990 and were supplemented in 1992 with the adoption of rules for coordination with the Structural Funds.

In accordance with the Commission's decision to adjust the ECSC's borrowing and lending policy in view of the expiry of the Treaty ⁽¹⁾, 1997 will mark the end of ECSC financing of interest subsidies on conversion loans.

Provision for financing the ECSC's operating budget

Some ECU 274 million, representing the resources available and unused in 1997, constitutes a provision which, from 1998 on, is being used gradually as needs arise to compensate for the disappearance of the ECSC levy.

⁽¹⁾ OJ C 175, 28.6.1994.

FINANCIAL OUT-TURN OF THE EDF IN 1997

Legal and financial framework

The European Development Fund (EDF) was established under Article 1 of the Implementing Convention on the Association of the Overseas Countries and Territories with the Community, signed at the same time as the Treaty of Rome on 25 March 1957; its role has since been extended to cover:

- countries which shortly afterwards became independent but wished to retain OCT status;
- a growing number of countries in different continents with which the Community wished to enter into agreements ⁽¹⁾.

Under the most recent arrangements, which entered into force on 1 September 1991, 70 African, Caribbean and Pacific (ACP) States ⁽²⁾ and 20 OCTs ⁽³⁾ are today involved in EDF operations; the Fund's budget has increased substantially to ECU 10 940 million (including ECU 140 million for the OCTs alone) for the period 1991-95 and ECU

13 132 million (including ECU 165 million for the OCTs alone) for the period 1996-2000.

The internal agreement on the financing and administration of Community aid under the first financial protocol (seventh EDF) to the Fourth Lomé Convention describes the procedure for allocating resources, which include an extra ECU 1 225 million in loans granted by the EIB (ECU 25 million for the OCTs) from its own resources. The internal agreement on the second financial protocol (eighth EDF) to the Fourth Lomé Convention also specifies, among other things, the way in which the resources are to be divided. The funds available include an extra ECU 1 693 million in loans granted by the EIB from its own resources (ECU 35 million for the OCTs).

EDF operations mainly involve:

- grants for projects and programmes and to assist structural adjustment, for which a specific amount has been set aside;
- Stabex transfers;
- risk capital managed by the EIB;
- subsidies under Sysmin;
- emergency aid and aid for refugees.

The EDF is quite different from the other Community financial instruments included in the general budget in that:

- it is administered by the Commission and its resources consist of extra-budgetary payments by the Member States on a fixed-scale basis for each fund;
- each EDF has a separate financial regulation, on the same lines as for the general budget, which lays down implementing provisions for the abovementioned internal agreement, particularly in respect of financial and legal aspects;

⁽¹⁾ The most recent, the Lomé IV Convention, signed on 15 December 1989, follows on from the Yaoundé I and II Conventions and, since 1975, the Lomé I, II and III Conventions. Lomé IV is scheduled to last 10 years; only its financial protocol needs to be renegotiated after five years. This mid-term revision was enshrined in the agreement signed in Mauritius on 4 November 1995.

⁽²⁾ In 1993, Eritrea, which had split from Ethiopia, joined the 69 countries which had signed the Lomé IV Convention. However, because of its political situation, Somalia has not yet ratified Lomé IV or established its national indicative programme. South Africa also partially acceded to the Lomé IV Convention in 1997.

⁽³⁾ By a decision establishing association with the Community and allowing them to benefit from the resources available under the internal agreement governing Lomé IV: ECU 140 million under the first financial protocol to Lomé IV and ECU 165 million under the second financial protocol to Lomé IV.

- the normal rules on budgetary appropriations do not apply to the EDF; its appropriations are allocated to a limited number of operations, i.e. multiannual operations for a period of at least five years, with precise ceilings which are laid down when the financing agreement is signed. The Commission thus administers several EDFs simultaneously until their respective closing dates. These appropriations are not presented in budget form but are recorded at a later date in an accounting statement which provides a breakdown of revenue and expenditure (commitments and payments).

On 28 February 1994 the ACP States and the Community exchanged their requests for amendments under the mid-term review of the Lomé Convention, in accordance with the procedure laid down in Article 366 of the Convention. As this is a partial review and not a full-scale renegotiation of the Convention, the proposed amendments cover only a limited number of fields.

The negotiations were opened officially when the ACP-EU Council of Ministers met in Mbabane, Swaziland, on 19 May 1994.

On 4 November 1995, the Member States, the Council of the European Union, the European Commission and the ACP States signed the agreement amending the fourth ACP-EC Lomé Convention. This review, the first of its kind, resulted not only in financial adjustments (see above) but also in certain changes to take account of developments since Lomé IV came into force on 1 September 1991:

- the political dimension of the ACP-EC relationship was strengthened through a broadening of the political dialogue and, above all, a new determination to make the respect of human rights, democratic principles and the rule of law an essential element in the relationship;
- cooperation was made more effective by improving the consistency of the various instruments and by promoting greater flexi-

bility, especially with regard to the planning of financial aid. To this end, the two-tranche principle has been introduced to provide an incentive for the proper implementation of indicative programmes;

- the economic aspect of cooperation was redirected towards development of the private sector and the pursuit of greater competitiveness for ACP products, reflecting a new approach to trade in the context of ACP-EC cooperation.

Economic and political situation

In 1997, the sixth EDF was virtually exhausted; the seventh continued its downward trend and the eighth will not enter into force until after the ratification of the revised Lomé IV Convention. The figures show that implementation was slower than in previous years, decisions being more indicative of the vitality of the fund than payments. Other factors may also be involved: depletion of allocations for quick-disbursing instruments, aid restrictions or even suspension in countries such as Liberia, Nigeria, Somalia, Sudan, and the Democratic Republic of Congo, as a result of political developments.

The political situation and outlook have a direct effect on the rate at which EDF activities are implemented. In recent years, political developments in several ACP countries and the linkage established by the European Union and by the Convention itself (Article 5) between certain political principles and development cooperation have slowed down the pace of consumption of appropriations. Other constraints, inherent in the very nature of Community aid, may also have had an effect, although they should be eased by the agreement amending the Lomé IV Convention for the next five years.

EDF financing in 1997

The EDF was able to finance its operations as usual throughout 1997. The Member States contributed a total of ECU 1.2 billion.

Aid granted by the EDF in 1997

This year, for the sixth EDF, decisions ⁽¹⁾ came to ECU 24.22 million.

The reason for this level of payment — ECU 173.84 million as compared with ECU 199.13 million in 1996 — is that the funds available for non-programmable aid have been used up. Thus, of this ECU 173.84 million, ECU 151.3 million was used for payments relating to the implementation of the national indicative programmes (NIPs).

As for the seventh EDF, this year decisions came to only ECU 591.77 million as compared with ECU 1 017.87 in 1996, a drop of 42 %. Of the ECU 591.77 million in financing decisions, ECU 9.1 million is to be used by way of an advance against the eighth EDF (to finance the CID's budget and Stabex transfers for the 1995 application year).

The slowdown in decisions in 1996 (down 31 % from 1995) and 1997 (down 42 % on 1996) is only to be expected given that over 87.63 % of the appropriation has been used and the seventh EDF appropriations for the quick-disbursing instruments such as Stabex and the structural adjustment facility have been virtually exhausted. The same applies to aid for refugees and emergency aid, which are being financed from the Commission budget pending the entry into force of the eighth EDF. The decisions therefore relate essentially to programmable aid (ECU 355.85 million, of which ECU 25.6 million advanced against

the eighth EDF), risk capital (ECU 13.39 million), Sysmin (ECU 168.14 million), fifth EDF balances (ECU 19.46 million) and the structural adjustment facility (ECU 40.7 million).

This year, the amount of payments comes to ECU 1 039 million, including ECU 15.8 million advanced against the eighth EDF. Payments relate essentially to programmable aid (ECU 695.16 million of which ECU 21.2 advanced against the eighth EDF), Stabex (ECU 18.73 million of which ECU 4.3 million advanced against the eighth EDF), risk capital (ECU 110.05 million) and the structural adjustment facility (ECU 74.31 million) and interest subsidies (ECU 53.13 million).

Current payments under the sixth and seventh EDFs

<i>(million ECU)</i>			
<i>Year</i>	<i>Current payments</i>	<i>Stabex</i>	<i>Total</i>
1993	1 320	33	1 353
1994	1 430	351	1 781
1995	1 261	303	1 564
1996	1 152	165	1 317
1997	1 194	19	1 213
<i>(million ECU)</i>			
<i>1997</i>	<i>Current payments</i>	<i>Stabex</i>	<i>Total</i>
Sixth EDF	174	—	174
Seventh EDF	1 020	19	1 039

⁽¹⁾ The term 'decision' is used in this report to mean the difference between commitments and decommitments.

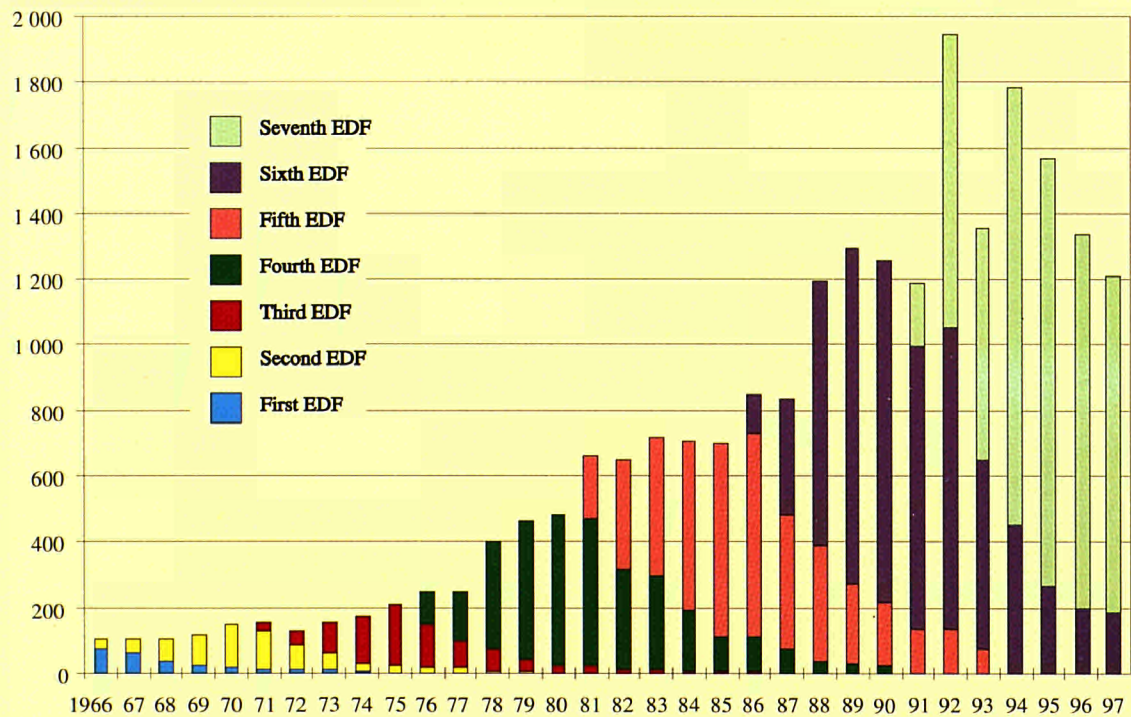
EDF — Financing and payment decisions (all funds)

(million ECU)

Instrument	Decision	Payment
Programmable aid	384.58	846.44
Structural adjustment	40.70	74.35
Risk capital	13.05	118.07
Interest subsidies	- 7.30	52.94
Emergency aid	- 4.37	10.07
Aid for refugees	1.73	8.29
Sysmin	168.35	38.98
Stabex	—	18.73
Previous EDF transfers to the sixth EDF	19.24	44.80
Total	615.98	1 212.69

FIGURE 17
Annual EDF payments, 1966-97

(million ECU)





CONSOLIDATED ACCOUNTS OF THE EUROPEAN UNION

ACCOUNTING PRINCIPLES

1. According to international standards ⁽¹⁾ the aims of a financial statement must be to describe the nature and range of an institution's activities, explain how it is financed and supply definitive information on its operations.

These are certainly the objectives of the consolidated revenue and expenditure account and balance sheet produced annually by the European Commission.

If they are to present a true and fair picture, financial statements must not only supply relevant information, but do so in a clear and comprehensible manner which allows comparisons between financial years.

2. The accounting system of the European institutions comprises general accounts and budget accounts. These accounts are kept by calendar year in ecus.

2.1. Using the 'double-entry method' the general accounts show all expenditure and revenue over the financial year and are designed to establish the financial position of the institutions in the form of a balance sheet of assets and liabilities at 31 December the previous year.

The general accounts are based on the following principles:

- the principle of the continuity of activities;
- the principle of prudence, whereby assets are not overvalued and liabilities are not undervalued;
- the principle of consistent accounting methods;

- the principle of no-netting between assets and liabilities.

2.2. The budget accounts give a detailed picture of the implementation of the budget. They are designed to establish:

- the consolidated revenue and expenditure account referred to in Title VI of the financial regulation;
- the figures showing the implementation of the budget referred to in Article 34 of the financial regulation.

ACCOUNTING RULES AND METHODS

1. The accounts are kept in accordance with the financial regulation of 21 December 1977 (last amended on 18 September 1995) and a regulation laying down certain implementing rules.

2. Conversion into ecus

2.1. Accounts are kept in ecus.

2.2. The ecu conversion rates used to prepare the balance sheet were the rates applying on 31 December 1997, except for the following:

- tangible assets (furniture and equipment), which are valued at their purchase value in ecus at the accounting rate that applied when they were purchased;
- appropriations carried over, some of which are to cover commitments in national currencies converted into ecus at the monthly accounting rates for December; the total amount in ecus of appropriations carried over cannot be subsequently revalued;
- advances paid under the Guarantee Section of the European Agricultural Guidance and Guarantee Fund, which are converted at the exchange rates applying on the 10th day of the second month preceding the month for which they are paid;

⁽¹⁾ International Organisation of Supreme Audit Institutions (Intosai) Accounting Standard Framework, September 1995.

- some operations relating to staff, which are converted at special rates.

Other operations are converted at the monthly accounting rates in force when they are carried out.

3. Revenue

3.1. The amounts of own resources and financial contributions entered in the accounts are those credited in the course of the year to the accounts opened in the Commission's name by the governments of the Member States.

The difference between the amount of VAT own resources, GNP-based resources and financial contributions entered in the budget and the amount actually due is calculated by 1 July of the following year and entered in an amending budget for that year.

3.2. The amounts of other revenue entered in the accounts are sums actually received in the course of the year.

4. Expenditure

4.1. For the purposes of calculating the balance for the year, expenditure covers payments made against the year's appropriations for payments plus any of those same appropriations that are carried over.

4.2. Payments made against the year's appropriations for payments means payments for which authorisation reaches the financial controller by 31 December and which are paid by the accounting officer by 15 January of the following year.

In the case of the Guarantee Section of the European Agricultural Guidance and Guarantee Fund, the payments are those effected by the Member States between 16 October 1996 and 15 October 1997, provided that the accounting officer was notified of the commitment and authorisation by 31 January 1998.

4.3. Appropriations for payments may be carried over to the following financial year only. The procedure is as follows:

- non-differentiated appropriations: carry-over is generally automatic if it is to cover outstanding commitments; otherwise the budgetary authority has to give prior authorisation;
- differentiated appropriations: unused payment appropriations are usually cancelled; however, the Commission may decide to carry them over if the payment appropriations for the following year are not sufficient to meet previous commitments or commitments made against commitment appropriations which have themselves been carried over.

5. Rules on valuation

Except where indicated in the explanatory notes to the balance sheet, the various headings are valued as follows:

5.1. Tangible and intangible fixed assets are valued at their historic value converted into ecus at the rate applying when they were purchased. The Commission's fixed assets must also be subject to depreciation for each full year, according to the linear method (Section 8 of the Commission's inventory regulation).

5.2. Stocks are valued at the price of the last supplies received, converted at the ecu rate applying on 31 December.

5.3. Financial assets are valued at their purchase price. If denominated in foreign currency, they are converted at the ecu rate applying on 31 December. In line with the principle of prudence, an adjustment must be made where there is a probable loss.

5.4. Entitlements are entered in the accounts at their face value, converted at the ecu rate applying on 31 December, with the exception of entitlements denominated at a fixed rate.

Save in exceptional cases, no adjustments are made to entitlements. The Commission is considering this possibility for the future. Where this is the case, a special indication is given in the notes on the balance sheet.

5.5. Cash investments and disposable assets are valued at their face value converted into ecus at the rate applying on 31 December. For the sake of prudence, an adjustment must be made where there is a probable loss.

5.6. Debts are valued at their face value in ecus at the rate applying on 31 December if they are denominated in a foreign currency.

6. Payments on account and accelerated payments

Payments on account for operational purposes, other than the advances paid under the common agricultural policy, are included in the year's expenditure and do not appear as assets in the balance sheet.

7. EFTA involvement in the 1997 general budget

The figures in the accompanying tables include the appropriations entered to cover the involvement in the Community budget of the EFTA countries belonging to the European Economic Area.

8. Balance for the year

The balance for the year consists of two components (the result of the European Union and the result of the involvement of the EFTA countries belonging to the EEA). It represents the difference between:

- total revenue received for that year; and
- total payments made against that year's appropriations plus the total amount of that year's appropriations carried over (definition of expenditure at 2.4.2)⁽¹⁾.

The following are added to or deducted from the resulting figure:

- the net balance of carryovers from previous years cancelled and any payments which, because of fluctuations in the ecu rate, exceed non-differentiated appropriations carried over from the previous year;
- the balance of exchange-rate gains and losses recorded during the year.

9. Consolidation

The consolidated accounts cover the accounts of the European Parliament (including the Ombudsman), the Council, the Commission (including the Publications Office and the Joint Research Centre), the Court of Justice, the Court of Auditors, the Economic and Social Committee and the Committee of the Regions.

The method used is that of full consolidation.

⁽¹⁾ In the case of the EFTA-EEA countries, the volume of appropriations carried over from year n to year n+1 is known after the accounts have been closed. As a result the calculation of the balance includes carryovers of appropriations from year n-1 to year n.

CONSOLIDATED REVENUE AND EXPENDITURE ACCOUNT FOR 1997

TABLE I
Balance for the year

(million ECU)

Breakdown	1997	1996
Revenue (Table II)		
Own resources	76 406.489	70 258.527
Surpluses available	3 270.542	10 055.361
Other revenue	870.667	961.184
<i>of which: EFTA-EEA contribution</i>	57.172	45.258
<i>Total (a)</i>	80 547.698	81 275.072
Expenditure		
Payments for the year (Table III)	79 301.509	76 165.595
<i>of which: EFTA-EEA contribution</i>	54.965	40.986
Carryovers to the next financial year (Table III)	701.596	1 288.467
EFTA-EEA appropriations carried over from 1996 to 1997 (1)	0.343	0.055
<i>Total (b)</i>	80 003.448	77 454.117
Out-turn for the year: (a) – (b)	544.250	3 820.955
Appropriations carried over from previous year which lapsed (Table IV)	323.055	143.861
<i>of which: EFTA-EEA contribution</i>	0.112	0.017
Exchange differences for the year	95.024	423.465
Over-run on carryovers	0.000	0.000
Adjustment balance 1996 (2)	0.000	0.000
<i>of which: European Community</i>	– 0.392	
<i>of which: EFTA-EEA contribution</i>	0.392	
Balance for the year	962.329	4 388.281
<i>of which: EFTA-EEA contribution</i>	2.368	4.234
<p>(1) This amount could not be included in the 1996 balance since the corresponding appropriations were carried over after the closure of the revenue and expenditure account for 1996.</p> <p>(2) This adjustment corresponds to the 1994 out-turn which was deducted from the EFTA countries' contribution to the 1996 budget.</p>		

TABLE II
Revenue for 1997

(million ECU)

Category	Forecasts	Entitlements established			Amounts recovered	Amounts to be recovered
		1997	Carried over from 1996	Total		
Agricultural levies (Chap. 10)	873.400	1 551.117	6.814	1 557.931	1 025.186	532.745
Sugar and isoglucose levies (Chap. 11)	1 366.000	1 117.007	9.767	1 126.774	1 114.038	12.736
Customs duties (Chap. 12)	13 559.100	14 581.672	17.692	14 599.364	13 607.743	991.621
VAT resources (Chap. 13)	34 864.154	34 918.966	0.000	34 918.966	34 918.966	0.000
GNP-based resources (Chap. 14)	28 286.495	27 436.618	0.000	27 436.618	27 436.618	0.000
Correction of budgetary imbalances (Chap. 15)	0.000	- 121.365	0.000	- 121.365	- 121.365	0.000
Own resources collection costs (Chap. 19)	- 1 579.850	- 1 724.979	- 3.427	- 1 728.406	- 1 574.697	- 153.709
Surpluses available (Title 3)	4 384.047	3 276.616	0.000	3 276.616	3 270.542	6.074
Miscellaneous Community taxes, levies and dues (Title 4)	484.290	432.714	1.071	433.785	432.515	1.270
Revenue accruing from the administrative operation of the institutions (Title 5)	97.284	89.719	19.737	109.456	97.024	12.432
Contributions to Community programmes, repayment of expenditure and revenue from services rendered against payment (Title 6)	7.180	288.769	41.589	330.358	288.208	42.150
Interest on late payments and fines (Title 7) (1)	0.000	20.631	545.938	566.569	8.632	557.937
Borrowing and lending operations (Title 8)	18.258	26.109	191.451	217.560	29.280	188.280
Miscellaneous revenue (Title 9)	5.177	14.089	10.426	24.515	15.008	9.507
Total	82 365.535	81 907.683	841.058	82 748.741	80 547.698	2 201.043

(1) Of the total amount to be recovered in respect of fines and penalty payments, ECU 50 611 348.95 has been collected and entered provisionally in an account in the balance sheet for revenue collected in respect of fines pending the final decision of the Court of Justice.

TABLE III
Expenditure

(million ECU)

Heading (headings other than 'Administrative expenditure' concern only the Commission)	Payments for the year		Carryovers to the next year		Total	
	1997	1996	1997	1996	1997	1996
1. Common agricultural policy						
Market expenditure (B1-1 to B1-3 and B1-7)	38 271.323	37 169.770	82.384	426.913	38 353.707	37 596.683
Accompanying measures (B1-4 and B1-5)	2 069.301	1 871.874			2 069.301	1 871.874
<i>Subtotal — Heading 1</i>	<i>40 340.624</i>	<i>39 041.645</i>	<i>82.384</i>	<i>426.913</i>	<i>40 423.008</i>	<i>39 468.558</i>
2. Structural operations						
EAGGF-Guidance (B2-10)	3 580.000	3 360.294			3 580.000	3 360.294
FIFG (B2-11)	486.893	421.585			486.893	421.585
ERDF (B2-12)	11 521.436	10 610.257			11 521.436	10 610.257
ESF (B2-13)	6 143.400	6 031.600			6 143.400	6 031.600
Community initiatives (B2-14)	1 677.321	1 691.388			1 677.321	1 691.388
Transitional measures, innovation schemes and action against fraud (B2-15, B2-16, B2-18 and B2-19)	202.920	307.996		29.180	202.920	337.176
Other structural operations (B2-2)	10.927	40.046		7.173	10.927	47.219
Cohesion Fund (B2-3)	2 322.983	1 872.188			2 322.983	1 872.188
EEA financial mechanism (B2-4)	102.518	87.076			102.518	87.076
<i>Subtotal — Heading 2</i>	<i>26 048.398</i>	<i>24 422.429</i>	<i>0.000</i>	<i>36.353</i>	<i>26 048.398</i>	<i>24 458.782</i>
3. Internal policies						
Research (B6)						
— B6-1: Joint Research Centre — Staff and resources	211.021	204.029	2.690		213.712	204.029
— B6-2: Joint Research Centre — Direct operating appropriations — EC framework programme 1994 to 1998	31.566	33.668	7.894	9.411	39.460	43.078
— B6-3: Joint Research Centre — Direct operating appropriations — EAEC framework programme (1994 to 1998)	7.226	8.695	0.865	0.656	8.091	9.351
— B6-4: Joint Research Centre — Direct action — Completion of the former joint and supplementary programmes	3.815	11.668	14.446	22.575	18.261	34.243
— B6-5: Indirect action (Shared-cost projects) and concerted action — Completion of earlier projects	401.119	750.447	36.739	40.508	437.858	790.955
— B6-7: Indirect action (shared-cost projects), concerted action and supplementary programmes — EC framework programme (1994 to 1998)	2 160.271	1 646.986	29.780	8.454	2 190.051	1 655.440
— B6-8: Indirect action (shared-cost activities) concerted action and supplementary programmes — EAEC framework programme (1994 to 1998)	203.575	234.533			203.575	234.533
— B6-9: Indirect action (shared-cost) — Measures to combat fraud and global reserve for research		0.037			0.000	0.037
<i>Research — total</i>	<i>3 018.594</i>	<i>2 890.061</i>	<i>92.414</i>	<i>81.604</i>	<i>3 111.008</i>	<i>2 971.666</i>
Other agricultural operations (B2-5)	154.246	97.891	2.000	1.000	156.246	98.891
Other regional operations (B2-6)	33.163	43.169		3.000	33.163	46.169
Transport (B2-7)	28.454	30.521			28.454	30.521
Fisheries and the sea (B2-9)	20.399	16.201			20.399	16.201
Education, vocational training, youth (B3-1)	361.854	379.602	5.643		367.497	379.602
Culture and audiovisual media (B3-2)	111.056	82.950	2.800	17.000	113.856	99.950
Information and communication (B3-3)	105.527	79.205	0.700	20.000	106.227	99.205
Other social operations (B3-4)	141.092	139.834	7.164	15.569	148.256	155.403
Energy (B4-1)	35.802	35.429			35.802	35.429
Euratom nuclear safeguards (B4-2)	15.541	15.776			15.541	15.776
Environment (B4-3)	128.540	120.077	1.000	0.820	129.540	120.897
Consumer protection (B5-1)	17.441	14.629			17.441	14.629
Aid for reconstruction (B5-2)	3.933	4.235			3.933	4.235
Internal market (B5-3)	183.419	168.763	5.000		188.419	168.763
Industry (B5-4)	96.028	39.771		2.622	96.028	42.393
Information market (B5-5)						

TABLE III (continued)

(million ECU)

Heading (headings other than 'Administrative expenditure' concern only the Commission)	Payments for the year		Carryovers to the next year		Total	
	1997	1996	1997	1996	1997	1996
Statistical information (B5-6)		5.821			0.000	5.821
Trans-European networks (B5-7)	34.791	35.237			34.791	35.237
Cooperation in the fields of justice and home affairs (B5-8)	363.067	259.499	10.800	4.586	373.867	264.085
Measures to combat fraud (B5-9)	2.268	2.194	4.500		6.768	2.194
<i>Subtotal — Heading 3</i>	5.157	3.356	5.500		10.657	3.356
4. External action	4 860.371	4 464.222	137.522	146.201	4 997.893	4 610.423
EDF (B7-1)						
Food aid (B7-20)						
Humanitarian aid (B7-21)	407.686	413.090			407.686	413.090
Cooperation —	484.234	439.252	19.660	185.068	503.894	624.320
Asia (B7-30)						
Cooperation —	252.292	283.941			252.292	283.941
Latin America (B7-31)						
Cooperation —	148.888	152.331			148.888	152.331
southern Africa (B7-32)						
Cooperation — Mediterranean third countries and the Middle East (B7-4)	70.991	37.336			70.991	37.336
Cooperation —	403.879	357.499	1.550		405.429	357.499
central and eastern Europe (B7-50)						
Cooperation —	824.861	836.714			824.861	836.714
new independent States (B7-52)						
Cooperation —	396.127	369.450			396.127	369.450
former Yugoslavia (B7-54)						
Other cooperation measures (B7-6, B7-51, B7-53)	42.375	12.887		14.000	42.375	26.887
Democracy and human rights (B7-7)	318.530	282.101	16.600	14.336	335.130	296.437
International fisheries agreements (B7-80)	59.323	65.246			59.323	65.246
External aspects of Community policies (B7-81 to B7-87)	284.706	250.954			284.706	250.954
Support expenditure (B7-95)	75.231	96.657		2.400	75.231	99.057
Common foreign and security policy (B8-0)	0.035	0.000	3.520			
<i>Subtotal — Heading 4</i>	16.118	50.889	8.116	9.637	24.233	60.526
5. Administrative expenditure	3 785.277	3 648.348	49.446	225.441	3 834.723	3 873.789
<i>Staff</i>						
— Commission						
— Publications Office	1 665.066	1 716.255	51.649	63.896	1 716.715	1 780.151
— European Parliament (including Ombudsman)	31.449	30.267	0.648	1.197	32.097	31.464
— Council	481.396	479.239	19.915	18.870	501.310	498.109
— Economic and Social Committee	186.519	184.676	1.805	1.449	188.324	186.125
— Committee of the Regions	9.821	10.193	0.176	0.151	9.998	10.344
— Joint Structure	6.221	5.547	0.181	0.263	6.403	5.810
— Court of Justice	34.660	33.910	0.936	0.626	35.596	34.535
— Court of Auditors	88.515	87.986	2.576	1.309	91.091	89.295
<i>Administration</i>	47.521	47.763	0.618	0.514	48.139	48.277
— Commission						
— Publications Office	753.852	620.671	225.570	194.140	979.422	814.811
— European Parliament (including Ombudsman)	18.274	17.635	3.716	3.946	21.990	21.580
— Council	295.779	202.403	75.148	119.067	370.927	321.470
— Economic and Social Committee	86.562	105.599	36.903	37.009	123.466	142.608
— Committee of the Regions	13.265	13.174	2.430	2.982	15.695	16.156
— Joint Structure	5.637	4.440	2.824	1.550	8.461	5.991
— Court of Justice	11.659	12.562	3.101	2.555	14.759	15.117
— Court of Auditors	28.432	76.251	2.619	2.285	31.050	78.536
<i>Subtotal — Heading 5</i>	4.116	3.991	1.429	1.749	5.545	5.740
6. Reserves	3 768.743	3 652.561	432.245	453.558	4 200.987	4 106.120
Monetary reserve (B1-6)						
Guarantee reserve (B0-23)						
Emergency aid reserve (B7-91)	286.095	235.390			286.095	235.390
Negative reserve (B0-45)						
<i>Subtotal — Heading 6</i>						
7. Compensation	286.095	235.390	0.000	0.000	286.095	235.390
Compensation (B0-5)						
<i>Subtotal — Heading 7</i>	212.000	701.000			212.000	701.000

TABLEAU IV
Appropriations for payments carried over from 1996

(million ECU)

Heading (headings other than 'Administrative expenditure' concern only the Commission)	Carryover from 1996	Payments effected in 1997	Appropriations carried over to 1998	Appropriations lapsing 1997	Appropriations lapsing 1996
1. Common agricultural policy					
Market expenditure (B1-1 to B1-3 and B1-7))	426.913	282.603		144.309	12.394
Accompanying measures (B1-4 and B1-5)					
<i>Subtotal — Heading 1</i>	<i>426.913</i>	<i>282.603</i>	<i>0.000</i>	<i>144.309</i>	<i>12.394</i>
2. Structural operations					
EAGGF-Guidance (B2-10)					
FIFG (B2-11)					
ERDF (B2-12)					
ESF (B2-13)					0.001
Community initiatives (B2-14)					
Transitional measures, innovation schemes and action against fraud (B2-15, B2-16, B2-18 and B2-19)	29.180	10.820		18.360	
Other structural operations (B2-2)	7.173			7.173	
Cohesion Fund (B2-3)					
EEA financial mechanism (B2-4)					
<i>Subtotal — Heading 2</i>	<i>36.353</i>	<i>10.820</i>	<i>0.000</i>	<i>25.533</i>	<i>0.001</i>
3. Internal policies					
Research (B6)					
— B6-1: Joint Research Centre — Staff and resources	12.817	12.650	0.167	0.000	
— B6-2: Joint Research Centre — Direct operating appropriations — EC framework programme 1994 to 1998	6.726	2.963	3.763		
— B6-3: Joint Research Centre — Direct operating appropriations — EAEC framework programme (1994 to 1998)	0.656	0.129	0.527	0.000	
— B6-4: Joint Research Centre — Direct action — Completion of the former joint and supplementary programmes	19.263	10.702	8.561	0.000	
— B6-5: Indirect action (shared-cost projects) and concerted action — Completion of earlier projects	47.113	15.887	31.226	0.000	0.000
— B6-7: Indirect action (shared-cost projects), concerted action and supplementary programmes — EC framework programme (1994 to 1998)	8.606	4.667		3.939	
<i>Research — total</i>	<i>95.180</i>	<i>46.998</i>	<i>44.243</i>	<i>3.939</i>	<i>67.302</i>
Other agricultural operations (B2-5)	1.000	0.039		0.961	
Other regional operations (B2-6)	3.000	3.000			6.426
Transport (B2-7)					
Fisheries and the sea (B2-9)					
Education, vocational training, youth (B3-1)	0.333	0.011	0.322	0.000	1.016
Culture and audiovisual media (B3-2)	17.000	1.618		15.382	
Information and communication (B3-3)	20.000	7.089	0.000	12.911	
Other social operations (B3-4)	15.687	11.440		4.247	
Energy (B4-1)					
Euratom nuclear safeguards (B4-2)					
Environment (B4-3)	0.820	0.256		0.564	
Consumer protection (B5-1)					
Aid for reconstruction (B5-2)					
Internal market (B5-3)	5.273	3.550	0.226	1.497	2.000
Industry (B5-4)					0.000
Information market (B5-5)					0.083
Statistical information (B5-6)					

TABLE IV (continued)

(million ECU)

Heading (headings other than 'Administrative expenditure' concern only the Commission)	Carryover from 1996	Payments effected in 1997	Appropriations carried over to 1998	Appropriations lapsing 1997	Appropriations lapsing 1996
Trans-European networks (B5-7)	2.246	0.360		1.886	0.032
Cooperation in the fields of justice and home affairs (B5-8)					2.600
Measures to combat fraud (B5-9)					
<i>Subtotal — Heading 3</i>	<i>160.540</i>	<i>74.360</i>	<i>44.791</i>	<i>41.388</i>	<i>79.459</i>
4. External action					
EDF (B7-1)					
Food aid (B7-20)					
Humanitarian aid (B7-21)	186.380	185.704	0.037	0.639	0.017
Cooperation — Asia (B7-30)	0.243		0.243		
Cooperation — Latin America (B7-31)					
Cooperation — southern Africa (B7-32)					
Cooperation — Mediterranean third countries and the Middle East (B7-4)					
Cooperation — central and eastern Europe (B7-50)					0.195
Cooperation — new independent States (B7-52)					
Cooperation — former Yugoslavia (B7-54)	14.000			14.000	
Other cooperation measures (B7-6, B7-51, B7-53)	13.146	10.967	0.085	2.094	0.000
Democracy and human rights (B7-7)					
International fisheries agreements (B7-80)					
External aspects of Community policies (B7-81 to B7-87)	2.400	1.554		0.846	
Common foreign and security policy (B8-0)	9.637	8.451		1.186	6.484
<i>Subtotal — Heading 3</i>	<i>225.807</i>	<i>206.677</i>	<i>0.366</i>	<i>18.764</i>	<i>6.696</i>
5. Administrative expenditure					
<i>Staff</i>					
— Commission	61.520	52.425	0.113	8.981	13.958
— Publications Office	1.197	0.855		0.343	0.069
— European Parliament (including Ombudsman)	18.870	15.497		3.373	1.705
— Council	1.449	1.065		0.384	0.136
— Economic and Social Committee	0.151	0.076		0.075	0.055
— Committee of the Regions	0.263	0.157		0.107	0.364
— Joint Structure	0.626	0.420		0.205	0.769
— Court of Justice	1.309	1.026		0.283	0.398
— Court of Auditors	0.514	0.470		0.045	0.075
<i>Administration</i>					
— Commission	196.595	173.479		23.116	17.037
— Publications Office	3.946	3.711		0.234	0.251
— European Parliament (including Ombudsman)	119.067	67.733		51.334	7.690
— Council	37.009	33.324		3.685	0.925
— Economic and Social Committee	2.982	2.708		0.274	0.285
— Committee of the Regions	1.550	1.278		0.273	1.352
— Joint Structure	2.555	2.405		0.150	0.072
— Court of Justice	2.285	2.199		0.086	0.093
— Court of Auditors	1.749	1.636		0.113	0.077
<i>Subtotal — Heading 5</i>	<i>453.637</i>	<i>360.463</i>	<i>0.113</i>	<i>93.061</i>	<i>45.311</i>
6. Reserves					
Monetary reserve (B1-6)					
Guarantee reserve (B0-23)					
Emergency aid reserve (B7-91)					
Negative reserve (B0-42)					
<i>Subtotal — Heading 6</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>

TABLE IV (continued)

(million ECU)

Heading (headings other than 'Administrative expenditure' concern only the Commission)	Carryover from 1996	Payments effected in 1997	Appropriations carried over to 1998	Appropriations cancelled 1997	Appropriations cancelled 1996
7. Compensation					
Compensation (B0-5)					
<i>Subtotal — Heading 7</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>
Grand total	1 303.249	934.924	45.270	323.055	143.861
Breakdown by institution					
Commission	1 112.870	804.931	45.270	262.669	129.867
— of which: non-differentiated appropriations	690.058	513.074	0.000	176.984	43.710
— of which: differentiated appropriations	422.812	291.857	45.270	85.685	86.156
European Parliament	137.937	83.230	0.000	54.706	9.395
Council	38.458	34.389	0.000	4.069	1.062
Economic and Social Committee	3.133	2.783	0.000	0.350	0.339
Committee of the Regions	1.814	1.435	0.000	0.379	1.715
Joint Structure	3.181	2.825	0.000	0.355	0.840
Court of Justice	3.593	3.225	0.000	0.369	0.491
Court of Auditors	2.264	2.106	0.000	0.158	0.152
Grand total	1 303.249	934.924	45.270	323.055	143.861

TABLE V

Out-turn of budget implementation of the contribution
by the EFTA countries belonging to the EEA

(ECU)

I. Revenue (contributions paid)			51 171 809.00
	1997 appropriations	Carryover	
II. Expenditure (payments)	54 964 579.21	231 360.85	55 195 940.06
<i>Heading 3 — Internal policies</i>	<i>53 401 579.21</i>	<i>231 360.85</i>	
Research (B6)	43 779 085.56	82 519.74	
Education, vocational training, youth (B3-1)	6 012 348.94	0.00	
Culture and audiovisual media (B3-2)	1 152 543.22	0.00	
Other social operations (B3-4)	751 583.90	98 742.47	
Energy (B4-1)	201 434.38	0.00	
Environment (B4-3)	280 408.39	0.00	
Internal market (B5-3)	778 836.88	50 098.64	
Statistical information (B5-6)	445 337.94	0.00	
Trans-European networks (B5-7)	0.00	0.00	
<i>Heading 5 — Administrative expenditure</i>	<i>1 563 000.00</i>		
Staff	764 000.00		
Administration	799 000.00		
Balance			1 975 868.94
Adjustment balance 1996			391 766.97
Out-turn			2 367 635.91

TABLE VI

Commitments from differentiated appropriations outstanding at 31 December 1997

Classification by heading in financial perspective

Heading	Year in which the commitments										were contracted										Total		
	Before 1988		1988		1989		1990		1991		1992		1993		1994		1995		1996			1997	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%		Amount	%
2. Structural operations																							
EAGGF-Guidance (B2-10)					11.987	0.3	16.267	0.4	7.080	0.2	53.475	1.4	249.918	6.6	29.674	0.8	28.871	0.8	508.110	13.5	2 868.772	76.0	3 774.153
FIFG (B2-11)	0.638	0.2	0.000		0.871	0.2	0.208	0.1	4.611	1.2	25.223	6.3	37.218	9.3	7.778	1.9	53.234	13.3	85.199	21.3	184.665	46.2	399.646
ERDF (B2-12)	166.480	1.2	110.807	0.8	50.806	0.4	27.373	0.2	110.658	0.8	201.407	1.5	1 108.337	8.0	138.393	1.0	732.807	5.3	2 960.827	21.4	8 214.216	59.4	13 822.112
ESF (B2-13)	11.902	0.2	11.411	0.2	18.468	0.3	4.360	0.1	13.484	0.2	106.993	1.5	452.248	6.5	133.514	1.9	118.218	1.7	1 375.206	19.7	4 726.393	67.8	6 972.197
Community initiatives(B2-14)					2.223	0.1	1.228	0.0	57.586	1.5	82.227	2.1	310.037	7.9	63.085	1.6	1 002.374	25.4	1 266.168	32.1	1 156.454	29.3	3 941.382
Transitional measures, innovation schemes and action against fraud (B2-15, B2-16, B2-18 and B2-19)	19.461		7.073	1.4	2.099	0.4	4.114	0.8	14.433	2.1	31.830	6.2	124.817	24.4	37.863	7.4	18.221	3.6	72.352	14.2	178.473	34.9	510.737
Other structural operations (B2-2)	2.887	3.5	0.673	0.8	0.358	0.4	0.508	0.6	0.289	0.1	20.997	25.3	57.177	69.0									82.889
Cohesion Fund (B2-3)													59.425	1.9	295.617	9.5	542.610	17.5	812.113	26.2	1 387.206	44.8	3 096.971
Subtotal — Heading 2	201.367	0.6	129.963	0.4	86.812	0.3	54.058	0.2	208.141	0.8	522.154	1.6	2 399.177	7.4	705.924	2.2	2 496.335	7.7	7 079.976	21.7	18 716.179	57.4	32 600.087
3. Internal policies																							
Research (B6)	0.111	0.0	1.044	0.0	2.199	0.0	4.757	0.1	21.428	0.1	58.049	1.2	139.777	3.0	267.032	5.7	621.306	13.3	1 293.557	27.6	2 276.670	48.6	4 685.930
Other agricultural operations (B2-5)					0.146	0.1	0.665	0.2	0.867	0.0	3.454	1.2	6.907	2.4	20.638	7.2	56.175	19.5	96.599	33.5	103.102	35.7	288.553
Other regional operations (B2-6)					0.010	0.0	0.078	0.3	4.571	18.0	3.294	13.6	1.647	6.8	1.298	5.4	6.998	28.9	0.707	2.9	5.590	23.1	24.192
Transport (B2-7)															0.026	0.1	0.886	4.6	4.440	22.8	14.115	72.5	19.467
Fisheries and the sea (B2-9)															1.715	2.6	8.646	13.0	19.109	28.7	37.007	55.7	66.477
Education, vocational training, youth (B3-1)															5.725	3.1	18.473	10.0	55.259	29.8	104.631	56.4	185.534
Culture and audiovisual media (B3-2)															0.363	0.3	13.837	12.6	16.131	14.6	26.122	23.7	110.153
Information and communication (B3-3)															0.009	0.0	0.789	0.9	7.329	8.2	19.177	21.4	62.172
Other social operations (B3-4)									0.195	0.0	0.327	0.2	2.236	1.3	2.409	1.4	7.255	4.3	43.910	26.1	111.770	66.5	168.102
Energy (B4-1)	2.271	3.1	0.486	0.7	4.240	5.9	0.048	0.1	0.256	0.0	0.755	1.0	0.926	1.3	3.145	4.4	10.027	13.9	17.801	24.7	32.205	44.6	72.160
Euratom nuclear safeguards (B4-2)															0.070	0.4	0.110	0.7	2.488	15.8	3.065	19.5	9.973
Environment (B4-3)	0.002	0.0	0.029	0.0	0.596	0.2	0.677	0.3	2.492	0.0	11.070	4.2	14.573	5.5	33.275	12.7	49.601	18.9	64.075	24.4	86.501	32.9	262.891
Consumer protection (B5-1)															0.030	0.2	0.315	1.7	0.889	4.7	5.053	26.6	12.741
Aid for reconstruction (B5-2)																			0.051	70.3	0.021	29.7	0.072
Internal market (B5-3)	0.126	0.0	0.509	0.2	1.263	0.5	6.326	2.4	7.210	2.0	8.265	3.1	14.921	5.6	16.320	6.2	25.777	9.7	61.973	23.4	122.475	46.2	265.165
Industry (B5-4)	1.211	1.1	0.020	0.0	0.072	0.1									0.600	0.5			30.385	26.5	82.208	71.8	114.497
Statistical information (B5-6)															1.106	3.6	2.264	7.4	8.825	29.0	17.880	58.8	30.412
Trans-European networks (B5-7)	19.500	2.3	8.704	1.0	20.055	2.3	11.575	1.3	34.152	4.8	44.641	5.2	63.474	7.4	82.598	9.6	112.267	13.0	159.663	18.6	303.906	35.3	860.535
Cooperation in the fields of justice and home affairs (B5-8)																			0.778	6.3	10.619	86.4	12.291
Measures to combat fraud (B5-9)															0.081	1.2	0.044	0.6	0.290	4.1	6.646	94.1	7.062
Subtotal — Heading 3	23.221	0.3	10.792	0.1	28.580	0.4	24.127	0.3	71.171	1.0	130.084	1.8	246.487	3.4	451.019	6.2	947.335	13.0	1 910.953	26.2	3 453.934	47.3	7 297.701
4. External action																							
EDF (B7-1)																							0.000
Food aid (B7-20)	1.660	0.2					0.797	0.1	2.220	0.2	0.000		4.754	0.5	41.963	4.6	172.980	18.9	262.339	28.7	426.561	46.7	913.273
Humanitarian aid (B7-21)							0.006	0.0			0.393	0.1	0.450	0.1	6.315	1.3	24.940	5.2	144.133	30.0	303.542	63.3	479.779
Cooperation — Asia (B7-30)	46.622	2.7	17.582	1.0	44.844	2.6	45.129	2.6	41.579	2.4	126.419	7.3	138.602	8.0	115.102	6.6	388.749	22.4	378.752	21.8	392.910	22.6	1 736.291
Cooperation — Latin America (B7-31)	5.399	0.5	16.186	1.6	27.214	2.7	2.895	0.3	11.088	1.1	35.008	3.5	90.939	9.0	123.326	12.2	221.597	21.9	230.059	22.7	248.816	24.6	1 012.529
Cooperation — southern Africa (B7-32)	0.372	0.1	0.493	0.1	0.388	0.1	0.370	0.1	0.231	0.1	5.769	1.5	11.464	3.0	16.605	4.4	76.267	20.1	126.602	33.3	141.535	37.2	380.096
Cooperation — Mediterranean third countries and the Middle East (B7-4)	25.884	1.3	8.472	0.4	18.260	0.9	18.316	0.9	25.078	1.2	69.914	3.4	129.810	6.3	175.172	8.5	281.588	13.6	363.629	17.6	950.502	46.0	2 066.624
Cooperation — central and eastern Europe (B7-50)							2.099	0.1	31.085	1.0	40.266	1.3	145.761	4.7	280.165	9.1	652.165	21.1	943.402	30.5	995.852	32.2	3 090.796
Cooperation — new independent States (B7-52)									30.085	1.9	41.555	2.6	127.107	8.0	176.145	11.1	293.945	18.5	456.259	28.7	464.860	29.2	1 589.957
Cooperation — former Yugoslavia (B7-54)															2.293	0.7	1.804	0.6	73.301	23.6	232.628	75.0	310.026
Other cooperation measures (B7-6, B7-51, B7-53)			0.154	0.0	0.013	0.0	0.361	0.1	1.923	0.3	13.465	1.9	34.354	4.8	54.462	7.7	120.517	17.0	214.594	30.3	269.454	38.0	709.297
Democracy and human rights (B7-7)															1.007	0.8	5.082	4.2	12.719	10.4	33.532	27.5	69.455
International fisheries agreements (B7-80)															0.712	1.6	14.129	31.9	7.924	17.9	18.617	42.0	2.716
External aspects of Community policies (B7-81 to B7-87)			0.103	0.1	1.663	1.1	2.575	1.7	0.795	0.5	8.343	5.5	10.368	6.8	14.432	9.4	25.296	16.5	27.967	18.3	61.331	40.1	152.872
Support expenditure (B7-95)																					5.236	3.4	5.236
Common foreign and security policy (B8-0)																	0.115	0.9	4.735	38.0	7.614	61.1	12.464
Subtotal — Heading 4	79.937	0.6	42.990	0.3	92.382	0.7	72.551	0.6	144.084	1.1	341.344	2.7	695.328	5.5	1 025.190	8.1	2 280.606	18.1	3 277.919	26.0	4 573.015	36.2	12 625.346
5. Administrative expenditure																							
Administration — Part A																			0.079	8.2	0.034	3.6	0.848
Subtotal — Heading 5																							0.962
Grand total	304.525	0.6	183.745	0.3	207.774	0.4	150.736	0.3	423.396	0.8	993.582	1.9	3 340.992	6.4	2 182.133	4.2	5 724.355	10.9	12 268.882	23.4	26 743.977	50.9	52 524.096

(million ECU)

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 1997

Assets

(ECU)

	31 December 1997	31 December 1996
I. Initial costs	0.00	19 562.13
II. Intangible fixed assets	3 329 094.58	0.00
III. Tangible fixed assets	2 243 068 143.21	1 527 883 570.73
A. Land and buildings	526 765 304.38	453 831 081.39
B. Fixtures and fittings, machinery and tools	77 522 755.81	0.00
C. Furniture and vehicles	370 467 829.95	486 864 317.58
D. Computer equipment	271 912 712.85	246 279 220.85
E. Leasing, financing and similar entitlements	645 335 953.42	0.00
F. Other tangible fixed assets	2 568 982.22	0.00
G. Fixed assets under construction and advances in respect of tangible fixed assets	348 494 604.58	340 908 950.91
IV. Investments	1 235 070 520.12	1 096 486 881.71
A. Investments in related organisations	210 000 000.00	210 000 000.00
1. Subscriptions and participations	210 000 000.00	210 000 000.00
2. Receivables		
B. Other investments	1 025 070 520.12	886 486 881.71
1. Subscriptions and participations	28 909 224.79	28 121 659.50
2. Receivables		
3. Guarantees and advances granted	866 377 149.75	562 635 974.61
4. Other	129 784 145.58	295 729 247.60
V. Long-term assets	4 932 858 972.96	7 150 359 483.17
A. Loans granted from the budget	807 178 726.83	791 064 121.11
B. Loans granted from borrowed funds	4 125 680 246.13	6 359 295 362.06
VI. Stocks	90 198 397.73	100 583 209.71
A. Office supplies and other consumables	7 242 651.95	9 579 575.27
B. Scientific equipment	74 185 111.70	76 235 187.40
C. Publications Office stocks	8 770 634.08	14 768 447.04
VII. Short-term assets	4 959 905 396.41	4 317 361 402.78
A. Short-term financial assets	2 202 134 300.36	1 434 651 499.55
1. Loans granted from the budget	884 948.33	0.00
2. Loans granted from borrowed funds	2 201 249 352.03	1 434 651 499.55
B. Current assets	2 748 716 832.77	2 874 122 492.99
1. Advances paid to Member States	41 916 092.71	0.00
2. Amounts owed by Member States	1 756 506 813.97	1 981 635 540.68
a. EAGGF	266 272 101.11	817 515 506.57
b. VAT paid and recoverable from Member States	16 461 818.10	13 504 557.02
c. Other receivables	1 473 772 894.76	1 150 615 477.09
3. Amounts owed by Community institutions and bodies	6 180 561.75	13 968 772.68
4. Sundry debtors	944 113 364.34	878 518 179.63
C. Sundry receivables	9 054 263.28	8 587 410.24
1. Amounts owed by staff	8 031 347.25	7 572 621.06
2. Other	1 022 916.03	1 014 789.18
VIII. Cash investments	99 358 920.48	102 807 369.67
IX. Disposable assets	6 307 822 531.81	11 593 919 380.97
X. Suspense accounts	357 537 626.20	430 286 921.26
Total	20 229 149 603.50	26 319 707 782.13

Liabilities

(ECU)

	31 December 1997	31 December 1997
I. Own capital	6 408 083 324.21	9 856 520 045.89
A. Net capital resulting from economic adjustments	5 369 114 897.14	5 395 507 563.17
B. Balance for the year	962 328 696.32	4 388 281 339.94
C. Surplus of revenue over expenditure from borrowing/lending operations	76 639 730.75	72 731 142.78
II. Provisions for risks and liabilities	872 391 061.38	569 080 703.05
A. Provisions for major repairs and maintenance		
B. Other provisions for risks and liabilities	872 391 061.38	569 080 703.05
III. Long-term liabilities	4 762 748 990.14	6 141 105 807.92
A. Financial liabilities	3 943 523 886.03	6 024 397 379.18
B. Other long-term debts	819 225 104.11	116 708 428.74
IV. Short-term liabilities	7 664 113 931.95	9 316 523 088.83
A. Debts on borrowings	2 246 647 419.04	1 953 419 370.53
B. Other short-term financial liabilities	4 504 922 607.86	5 933 263 895.33
C. Current liabilities	900 731 696.22	1 409 710 848.62
1. Member States and EFTA countries	5 172 903.98	6 174 955.93
2. Community institutions and bodies	15 501 490.60	40 639 055.36
3. Appropriations to be carried over	746 866 173.73	1 302 905 924.46
4. Sundry creditors	133 191 127.91	59 990 912.87
D. Other liabilities	11 812 208.83	20 128 974.35
V. Suspense accounts	521 812 295.82	436 478 136.44
Total	20 229 149 603.50	26 319 707 782.13

NOTE FOR THE READER

1. The following improvements have been made to the structure of the balance sheet at 31 December 1997.
 - The balance sheet is more succinct and its structure follows the pattern laid down in the fourth Council directive, while making allowances for the special accounting circumstances of a public institution like the European Community. Details are given in the explanatory notes.
 - The 1996 figures included for comparison have been classified in the same way as those for 1997.
 - Payments outstanding on the capital subscribed to the EBRD and the EIF which has not been called up are now entered as a potential liability in the off-balance-sheet commitments rather than a long-term liability. As a result, the final total in the 1996 balance sheet is ECU 690 million lower than that given in the 1996 financial statements.
 - Intangible fixed assets are included in the accounts.
 2. Pursuant to Article 7 of the inventory regulation, rented property is included in the intangible assets for the first time, provided that it meets three conditions (see point III.E of the explanatory notes to the balance sheet).
 3. In accordance with Section 8 of the inventory regulation ⁽¹⁾, the Commission must allow for the depreciation of every asset except land. Depreciation is calculated for each full year (not pro rata temporis), using the linear method. The annual depreciation rates applicable from 1 January 1987 are given in Annex 6 to the inventory regulation.
- Since no calculation could be made for four of the management centres and the other institutions are not required to allow for depreciation ⁽²⁾, the Commission has not included any depreciations in the accounts in order to produce a consistent balance sheet.

⁽¹⁾ Document E/96/280, adopted on 22 January 1997.

⁽²⁾ The interinstitutional inventory regulation has not yet been adopted.

Assets

I. Initial costs

This heading includes the issuing costs for Euratom borrowings — an item that has been reclassified in this balance sheet. In previous years it was included under prepayments.

II. Intangible fixed assets

This heading includes computer software with a purchase value of at least ECU 400, in accordance with Article 130 of Commission Regulation (EC) No 3418/93 laying down detailed rules for implementing the financial regulation. These assets have been entered in the Commission's balance sheet for the first time to take account of the rules laid down in the regulation on inventories and management of the property of the European Commission, which came into effect on 1 January 1997. Although the other institutions are not required to include such assets in their accounts ⁽¹⁾, the Court of Justice has in fact done so.

The cumulative depreciation calculated from 31 December 1997 for the Commission alone on an amount of ECU 3 121 532 comes to ECU 1 251 731.79.

III. Tangible fixed assets

The costs of purchasing tangible fixed assets are included in budget expenditure for the year of purchase. They continue to appear in the balance sheet until they are no longer the property of the Commission.

Tangible fixed assets include all property with a purchase value of at least ECU 400, in accordance with Article 130 of Commission Regulation (EC) No 3418/93 laying down de-

tailed rules for implementing the financial regulation. The balance sheet also takes account of the rules laid down in the regulation on inventories and management of the property of the European Commission, which came into effect on 1 January 1997.

The Commission considers that the volume of fixed assets in the balance sheet is correct, subject to adjustments which might be made later if a physical inventory is carried out at the Joint Research Centre (JRC). Two points are worth noting here: first, an inventory exercise is under way on the buildings and land belonging to the JRC, the results of which should be available in the course of 1998; and second, the figures for tangible fixed assets do not include the computer equipment, movable property and vehicle fleet at the Seville Research Centre.

The Commission has tried to explain the differences between the figures entered in the 1996 and 1997 balance sheets.

A. Land and buildings

Land and buildings acquired after 1992 in Brussels and at sites where the Commission has offices and delegations are entered in the balance sheet at their purchase value, converted into ecus at the rate applying when they were purchased. Buildings in Brussels purchased before 1981 have been entered using the ecu conversion rate for January 1981.

Land and buildings purchased before 1992 at delegation sites have been revalued in the light of market prices. Revaluation was carried out by independent experts and the resulting figures incorporated in the balance sheet as at 31 December 1997.

The building of the delegation to the OECD is a special case. It was acquired from the European Coal and Steel Community (ECSC) free of charge in December 1994 and the figure entered in the balance sheet is the market value assessed by independent experts.

⁽¹⁾ The interinstitutional inventory regulation has not yet been adopted.

In 1984 the JRC buildings were revalued by 14 % and other infrastructures by 20 %. Added to these revaluations is the value of investments, which have increased the value of the buildings and/or their lifetime.

B. Fixtures and fittings, machinery and tools

Some assets previously entered under movable and immovable property have been reclassified in this year's balance sheet.

E. Leasing, financing and similar entitlements

In accordance with Article 7 of the Commission's inventory regulation, leasing, long-term rental operations and property held under a long lease conferring a right *in rem* are entered in the inventory if the following three conditions are met:

- the risks and advantages are transferred to the lessee;
- the rental is terminable only on payment by the lessee of an indemnity of a deterrent amount;
- the rental enables the lessor to recover the cost of the investment plus remuneration.

If one of the above conditions is not met, the assets are entered in the off-balance-sheet commitments. Since the other institutions are not required to enter these assets in the accounts, the amounts due for leasing/financing and similar entitlements are entered in the off-balance-sheet commitments.

G. Fixed assets under construction and advances in respect of tangible fixed assets

The buildings for some Commission offices or delegations which were originally financed by the ECSC have been included under this heading in the balance sheet. Although the

ECSC had been repaid in full for them at the end of 1995, they are still included in the ECSC's balance sheet since the deeds of transfer have not been signed.

IV. Investments

This heading covers, first, capital investments made with a view to establishing permanent links and which are seen as supporting the activities of the European Union, and, second, investments made to help beneficiaries develop their business activities but with no long-term participation.

It also includes permanent guarantees and advances granted and the net assets of the Guarantee Fund. A distinction should be drawn between guarantees granted by the European Community to third parties and the Guarantee Fund, which is designed to cover risks associated with loans granted to non-member countries.

A. Investments in related organisations

A.1. Subscriptions and participations

• EBRD subscription

The European Bank for Reconstruction and Development was given initial capital of ECU 10 billion, of which 3 % was subscribed by the Community. The proportion of this capital called up — 30 % — has been paid in full.

This item covers the full amount of the Commission's subscription to the EBRD's capital which has been called up and paid.

On 15 April 1996, at their annual meeting, the Bank's governors decided to double the amount of authorised capital. Under this decision, the Community is to subscribe for 30 000 additional shares with a face value of ECU 10 000 each. This operation will involve paid-in shares and callable shares in the following proportions: 22.5 % of the subscribed

shares will be a full number of paid-in shares and the remainder will be callable shares.

The presentation in the Commission's balance sheet at 31 December 1997 is different from that adopted in the balance sheet at 31 December 1996. Payments outstanding on non-called up capital, amounting to ECU 210 million, are now included in the off-balance-sheet commitments and not in long-term liabilities as was the case in previous years. The corresponding figures for the 1996 financial year have been presented in the same way. As a result the 1996 balance-sheet total appearing in the 1996 financial statements differs from that presented in the 1997 financial statements.

- European Investment Fund (EIF) subscription

Under the Council decision of 6 June 1994 the European Community, represented by the Commission, is to subscribe a total of ECU 600 million to the EIF's capital. This represents 30 % of the EIF's capital. The Commission has paid all the called-up capital, which amounts to 20 %.

The presentation in the Commission's balance sheet at 31 December 1997 is different from that adopted in the balance sheet at 31 December 1996. As for subscriptions to the EBRD, the payments outstanding on non-called-up capital (80 %), amounting to ECU 480 million, are now included in the off-balance-sheet commitments.

B. Other investments

B.1. Subscriptions and participations

This heading includes subscriptions and participations purchased to help beneficiaries develop their business activities.

- ECIP programme equity

This heading covers Community participation in the provision of equity and subordinated loan capital for joint ventures set up under the

European Community investment partners (ECIP) programme.

- Eurotech capital and Venture consort

The entry for Eurotech capital covers payments since 1990, in the form of advances repayable in certain circumstances when contracts run out. The Venture consort instrument covers contributions since 1985 for investments in small and medium-sized enterprises (SMEs) engaging in innovatory projects.

Since both of these are risk capital operations for transnational high-technology start-up projects, it is very difficult to assess the real current value of the contributions.

In line with the principle of prudence, a 100 % adjustment has been made for the value of these contributions.

B.3. Guarantees and advances granted

This heading incorporates fixed assets not included under tangible assets, such as deposits and guarantees paid, permanent advances for building charges, the operating funds advanced to a transport firm and the Guarantee Fund.

- Guarantee Fund

This Fund is designed to cover the risks associated with loans and loan guarantees for non-member countries or projects carried out in those countries. It was set up by Council Regulation (EC) No 2728/94 of 31 October 1994.

The Fund is endowed by payments from the Community budget, the proceeds from interest on investments made from the Fund's assets, and sums recovered from defaulting debtors for whom the Fund has had to activate its guarantee.

The Fund is managed by the European Investment Bank (EIB) under a mandate from the Community.

The first payments to the Fund from the Community budget were made in December 1994.

The entry in the assets side of the Commission's balance sheet represents the Fund's net assets at 31 December 1997.

Since the Fund may be called on to cover defaulting debtors at any time, a provision has been created for risks and liabilities corresponding to the total net assets of the Fund in line with the principle of prudence.

V. Long-term assets

This heading includes amounts owed to the European Union by Member States and non-member countries on loans granted either from borrowed funds or from budget appropriations.

A. Loans granted from the budget

This item principally covers loans granted under the heading of cooperation with non-member countries. It also covers loans granted under the ECIP programme to promote the setting-up of investment joint ventures in Asia, Latin America, the Mediterranean region and South Africa.

In 1991 Turkey was granted a loan of ECU 175 million as part of the effort to assist the countries most affected by the Gulf crisis.

Loans granted under the MEDIA I programme to promote the development of the audiovisual industry in Europe were also included under this item at 31 December 1996. Since the contracts were not concluded directly between the Commission and the final recipients, the loans have been reclassified in the balance sheet and are now entered under sundry debtors. The corresponding figures for 1996 have been classified in the same way.

Amounts owed under the MEDIA II programme are included under the heading 'Loans granted from the budget' as the Commission concluded the contracts directly with the recipients.

The item also includes other, much smaller loans granted from the budget: loans for migrant workers and building loans for Community officials.

B. Loans granted from borrowed funds

Under the Treaty, the Council, acting unanimously, has the power to adopt guarantee or borrowing programmes if it considers this necessary to attain the objectives of the Community. Community borrowings are direct commitments by the Community itself and not by any individual Member State.

As these loans are financial assets covered by borrowings, in order to give a true and fair view of the Union's assets and liabilities, financial position and results, all the operations are now set out in the form of a balance sheet and revenue and expenditure account.

The balance sheets of these financial operations have been incorporated in the combined balance sheet by means of full consolidation.

For the borrowing and lending operations, the yield on loans and costs of borrowings in 1997 are as follows.

Under an agreement with the EIB, the latter bears the risks of the NCI treasury instrument. Consequently, the surplus of loan proceeds over borrowing costs is charged to the EIB.

The amounts outstanding on ECIP loans and loans granted from borrowed funds at 31 December 1997 are entered under long-term assets in the case of loans due in more than a year and under short-term assets in the case of loans due in less than one year. No such distinction could be made at 31 December for other loans granted from the budget. They are therefore included under long-term assets.

Borrowing and lending operations in 1997
Summary of yield on loans and cost of loans raised

Description	Cost of loans raised	Yield on loans
Medium-term financial assistance	252 789 846.65	252 806 572.32
Food aid	16 048 917.77	16 048 937.79
Balance of payments	275 938 043.98	275 938 043.98
NCI		
— Cash resources	69 667 323.30	57 740 396.11
— Normal	3 948 693.18	5 978 724.77
Euratom	19 383 210.68	20 954 362.41
Total	637 776 035.56	629 467 037.38

VI. Stocks

This item covers the stocks of office supplies and consumables at 31 December 1997, valued at the price of the last supplies received and converted to ecus at the closing rate, in line with the interinstitutional method for valuing stocks.

It also includes the stocks of publications held by the Office for Official Publications of the

European Communities, valued according to its own valuation rules.

The heading also covers supplies of scientific and technical equipment, fissile material and heavy water for the Joint Research Centre. In line with the principle of prudence, the stocks of heavy water, fissile material and samples for industrial and scientific use are valued every year and entered in the balance sheet at their commercial value, which is less than the real historic cost.

	Due in > 1 year	Due in < 1 year	Loans outstanding at 31 December 1997
1. Loans granted from the budget			
ECIP	93 218 574.01	884 948.33	94 103 522.34
Others	713 960 152.82	0.00	713 960 152.82
<i>Subtotal</i>	<i>807 178 726.83</i>	<i>884 948.33</i>	<i>808 063 675.16</i>
2. Loans granted from borrowed funds			
Financial assistance	1 280 000 000.00	625 000 000.00	1 905 000 000.00
Balance of payments	2 467 373 704.67	1 480 990 932.64	3 948 364 637.31
NCI	350 858 866.57	4 299 878.70	355 158 745.27
Euratom	27 447 674.89	90 958 540.69	118 406 215.58
<i>Subtotal</i>	<i>4 125 680 246.13</i>	<i>2 201 249 352.03</i>	<i>6 326 929 598.16</i>
Total	4 932 858 972.96	2 202 134 300.36	7 134 993 273.32

VII. Short-term assets

A. Financial assets

This heading contains the amounts owed in respect of loans which are due in less than one year.

B. Current assets

B.1. Advances paid to Member States

This item contains the amounts to be recovered in respect of advances paid to certain Member States.

B.2. Amounts owed by Member States

- EAGGF: amounts payable by the Member States mainly in relation to the clearance of EAGGF Guarantee Section accounts.
- VAT paid by the Community and recoverable from the Member States: this item covers the amounts due in respect of taxes paid by the Community and recoverable from the Member States.
- Other receivables: this item mainly concerns amounts due in respect of own resources still to be recovered.

B.3. Amounts owed by Community institutions and bodies

This heading contains various amounts owed by Community bodies not covered by the scope of consolidation, for which the institutions pay certain expenditure, which will subsequently be repaid.

B.4. Sundry debtors

This item covers amounts owed as a result of the Commission's activities plus, for example, the recovery orders entered in the revenue accounts as established entitlements outstanding. It also contains outstanding fines and

fines which have been suspended and for which a bank guarantee has been lodged. The volume of bank guarantees received to cover fines comes to ECU 420 695 411.

This item includes all debtors owing sums resulting from loans paid from borrowed funds and all amounts owed as a result of Guarantee Fund operations. These amounts break down as follows:

<i>(million ECU)</i>		
	31 Decem- ber 1997	31 Decem- ber 1996
Capital	270.9	207.9
Loan interest	18.2	60.1
Default interest	26.7	16.0
Total	315.8	284.1
Adjustment	- 315.8	- 284.1
Net book value	0.0	0.0

In view of the risk of non-recovery and in accordance with the principle of prudence, a 100 % adjustment was made for all Guarantee Fund operations which had not been repaid by debtors at 31 December 1997. This was deducted from the value of these entitlements on the assets side of the balance sheet.

C. Sundry receivables

This item covers mainly amounts owed to the Commission by its staff.

IX. Disposable assets

This heading covers all the funds which the Commission keeps in its accounts in each Member State and EFTA country (treasury or central bank), in current accounts and imprest accounts, petty cash and the proceeds of loans made from borrowed funds and loans granted to improve housing conditions for migrant workers.

It also includes the financial operations under the imprest accounts of Community delegations which had not been reconciled with the accounts at headquarters on the date for closure of the accounts.

Funds totalling ECU 1 288 513.83 kept in current accounts with three banks outside the Community which have gone bankrupt will probably prove irrecoverable. As a result, and in accordance with the principle of prudence, an adjustment has been made for these accounts and entered on the assets side (reducing the value of the 'Imprest accounts' heading).

<i>(ECU)</i>		
Description	31.12.1997	31.12.1996
Imprest accounts	88 478 322.09	111 607 522.42
Adjustment	- 1 288 513.83	- 949 998.43
Net book value	87 189 808.26	110 657 523.99

X. Suspense accounts

This heading includes interest receivable, mainly accrued interest on loans, investments and swaps, miscellaneous expenditure still to be booked, which could not be finally booked before the closing date, and prepaid expenses.

Liabilities

I. Liabilities

A. Net capital resulting from economic adjustments

	Balance at 31 December 1996	Change over year	Balance at 31 December 1997
A.1. Net capital resulting from economic adjustments			
(a) Initial costs	0.00	0.00	0.00
(b) Intangible fixed assets	0.00	3 329 094.58	3 329 094.58
(c) Tangible fixed assets	1 527 010 291.73	84 367 540.64	1 611 377 832.37
(d) Investments (excluding guarantees)	779 563 906.60	334 646 072.09	1 114 209 978.69
(e) Loans granted from the budget	809 513 646.61	- 1 449 971.45	808 063 675.16
(f) Stocks	85 814 762.67	4 383 635.06	90 198 397.73
(g) Amounts outstanding ⁽¹⁾	2 765 997 201.09	- 147 472 014.75	2 618 525 186.34
Total net value	5 967 899 808.70	277 804 356.17	6 245 704 164.87
A.2. Adjustments to assets other than those under A.1 ⁽²⁾	- 949 998.43	- 338 515.40	- 1 288 513.83
A.3. Adjustments to assets under A.1 ⁽²⁾	- 14 036 438.00	522 742.00	- 13 513 696.00
A.4. Allocation for risks and liabilities ⁽²⁾	- 557 405 809.10	- 304 381 248.80	- 861 787 057.90
Net capital resulting from adjustments to balance sheet	5 395 507 563.17	- 26 392 666.03	5 369 114 897.14

(1) This item is the contra entry for the entitlements contained in the various current assets headings which will not be included with revenue until they are collected. It has been reclassified in this balance sheet.

(2) This amount is the contra entry for the adjustment to the financial accounts and investments and the provision for risks and liabilities in the Guarantee Fund, since the annual balance may be affected only by the budget out-turn and exchange gains or losses.

B. Balance for the year

Balance for the year	31 December 1996	31 December 1997
European Community	4 388 281 339.94	962 328 696.32
<i>(of which EFTA States belonging to the EEA)</i>	<i>4 234 160.12</i>	<i>2 367 635.91</i>

C. Surpluses of loan proceeds over borrowing/lending costs

This heading covers out-turns carried over and the out-turn for the year of loans granted from borrowed funds. These surpluses are not available even though they have not yet been allocated.

Borrowing/lending instrument	Balance at 31 December 1996	Result of financial year	Balance at 31 December 1997
Medium-term financial assistance	613 779.43	108 303.95	722 083.38
Food aid to former USSR	16 796.21	1 649.43	18 445.64
Balance of payments	8 233.14	7 243.09	15 476.23
Euratom	27 441 959.03	1 810 772.77	29 252 731.80
NCI (New Community instrument)	44 650 374.97	1 980 618.73	46 630 993.70
Total	72 731 142.78	3 908 587.97	76 639 730.75

III. Long-term liabilities

This heading includes liabilities due in more than one year.

Description	31 December 1996	Change over year	31 December 1997
1. Borrowings			
NCI	216 010 954.62	- 47 308 448.15	168 702 506.47
Euratom	119 821 105.76	- 92 373 430.87	27 447 674.89
Balance of payments	3 978 565 318.80	- 1 511 191 614.13	2 467 373 704.67
Financial assistance	1 710 000 000.00	- 430 000 000.00	1 280 000 000.00
Food aid	0.00	0.00	0.00
<i>Subtotal</i>	<i>6 024 397 379.18</i>	<i>- 2 080 873 493.15</i>	<i>3 943 523 886.03</i>
2. Other long-term liabilities			
Staff funds (1)	9 482 588.73	4 238 415.61	13 721 004.34
Deposits and guarantees received (2)	2 909 455.60	- 5 019.00	2 904 436.60
NCI	104 316 384.41	153 778 981.02	258 095 365.43
Leasing (3)	0.00	544 504 297.74	544 504 297.74
<i>Subtotal</i>	<i>116 708 428.74</i>	<i>702 516 675.37</i>	<i>819 225 104.11</i>
Total	6 141 105 807.92	- 1 378 356 817.78	4 762 748 990.14

(1) Staff funds: this heading covers the unemployment fund for temporary staff at all the institutions (ECU 8 million) and the welfare fund for Commission local staff in non-member countries (ECU 5.7 million).

(2) Deposits and guarantees received: these are sums deducted as guarantees for the payment of construction work and the guarantee accounts for accounting officers, delegate accounting officers and imprest administrators.

(3) Leasing: this heading contains leasing debts due in more than one year.

The detailed movements in borrowing operations in 1997 are as follows:

Description	Balance at 31 December 1996	New borrowings	Repayments	Variations in rates	Balance at 31 December 1997
I. Borrowings					
MTA	2 535 000 000.00	195 000 000 .00	825 000 000.00	0.00	1 905 000 000.00
FMA	143 657 826.15		143 657 826.15	0.00	0.00
BOP	3 978 565 318.80			- 30 200 681.49	3 948 364 637.31
NCI	748 114 813.89		527 300 544.00	2 413 817.71	218 400 452.18
Euratom	572 478 790.87		483 199 511.00	29 126 935.71	118 406 215.58
Total	7 977 816 749.71	195 000 000.00	1 979 157 881.15	- 3 487 563.49	6 190 171 305.07

NB: FMA = food aid; MTA = financial assistance; BOP = balance of payments.

The amounts outstanding on borrowings at 31 December 1997 are entered under long-term liabilities in the case of loans due in more than a year and under short-term liabilities in the case of loans due in less than one year.

Description	Due in > 1 year	Due in < 1 year	Balance (ECU)
I. Borrowings			
MTA	1 280 000 000.00	625 000 000.00	1 905 000 000.00
BOP	2 467 373 704.67	1 480 990 932.64	3 948 364 637.31
Euratom	27 447 674.89	90 958 540.69	118 406 215.58
NCI	168 702 506.47	49 697 945.71	218 400 452.18
<i>Subtotal</i>	<i>3 943 523 886.03</i>	<i>2 246 647 419.04</i>	<i>6 190 171 305.07</i>
2. Others	818 225 104.11		819 225 104.11
Total	4 762 748 990.14	2 246 647 419.04	7 009 396 409.18

NB: MTA = financial assistance; BOP = balance of payments.

IV. Short-term liabilities

A. Debts on borrowings

This heading includes borrowings which fall due for payment in less than one year's time.

C. Current liabilities

C.1. Member States and EFTA countries

This heading covers amounts owed by the Commission to Member States. In this case it

is an advance by the Netherlands for joint financing of aid operations for Bangladesh.

This heading also includes the 1996 balance of contributions from the EFTA States belonging to the EEA which has not yet been regularised.

C.2. Community institutions and bodies

This item covers amounts owed by the Community to certain Community bodies which do not come under the scope of consolidation.

C.3. Appropriations to be carried over

At 31 December 1997 the breakdown of appropriations to be carried over, taking all the institutions together, was as follows:

(ECU)

Automatic carryovers of non-differentiated appropriations	508 955 314.16
Differentiated appropriations carried over by the budgetary authority	4 522 000.00
Differentiated appropriations carried over by Commission decision	118 689 623.00
Differentiated current year's appropriations in respect to contributions by third parties	69 429 138.81
Differentiated appropriations carried over from 1996 in respect to contributions by third parties	45 270 097.76
Total	746 866 173.73

C.4. Sundry creditors

This item covers debts arising from the Commission's activities.

D. Other liabilities

These are mainly amounts owed to staff and revenue to be transferred to various organisations or other third parties.

V. Suspense accounts

This item relates to loans granted from borrowed funds. It covers accrued interest on borrowings and swaps and swap operations.

It also includes revenue not booked, i.e. revenue which could not be definitively booked to the budget before the close of the year and revenue available for reuse.

Revenue from fines for infringements of the competition rules (ECU 50 611 348.95) is now entered in an unbooked revenue account if an appeal is made to the Court of Justice by a third party. If the Court finds in favour of the appellant, the sum in question has to be refunded at once. Until the Court has given judgment, such revenue cannot be booked to the budget immediately on receipt.

**OFF-BALANCE-SHEET COMMITMENTS
AT 31 DECEMBER 1997**
Potential liabilities at 31 December 1997

(ECU)

1 (1)	Commitments against differentiated appropriations not covered by carryovers of payment appropriations		52 290 707 510
2 (1)	Aid planned but not committed in respect of:		72 359 814 961
	2.1. Structural Funds (aid planned but not committed for the period 1994-99) for the period 1994-99)		
	Objective 1	65 616 211 000	
	Objective 2	38 262 240 000	
	Objective 3 and 4	6 624 764 000	
	Objective 5a — agriculture	6 327 071 000	
	Objective 5a — fisheries	2 662 856 000	
	Objective 5b	444 654 000	
	Objective 6	3 784 226 000	
	Community initiatives	398 063 000	
		7 112 337 000	
	2.2. Cohesion Fund	5 988 400 000	
	2.3. Protocols with the Mediterranean countries	113 160 000	
	2.4. Cooperation with Asian countries	40 145 211	
	2.5. Fisheries agreements	601 898 750	
3 (1)	EAGGF-Guarantee		21 058 264 271
	3.1. Expenditure by Member States under the EAGGF Guarantee Section between 16 October 1997 and 31 December 1997	20 442 863 478	
	3.2. Potential liabilities connected with the clearance of the EAGGF Guarantee accounts pending judgment by the Court of Justice	615 400 793	
	Belgium	10 138 213	
	Denmark	3 834 753	
	Germany	67 632 724	
	Greece	225 645 476	
	Spain	54 803 331	
	France	39 943 247	
	Ireland	76 563 599	
	Italy	93 208 388	
	Netherlands	38 597 729	
	United Kingdom	5 033 333	
4 (1)	Repayment guarantee		19 323 774 714
	4.1. On loans granted by the EIB from its own resources to non-member countries to non-member countries	13 003 987 780	
	70 % guarantee	1 830 150 000	
	75 % guarantee	5 294 437 523	
	100 % guarantee	5 879 400 258	
	4.2. On borrowings contracted by the European Communities (amounts carrying a budget guarantee at 31 December 1997)	6 190 171 305	
		<i>Total authorised ceiling</i>	
		<i>(million ECU)</i>	
	Balance of payments support	14 000	3 948 364 637
	Euratom	4 000	118 406 216
	NCI (including reconstruction)	6 830	218 400 452
	Financial assistance	4 465	1 905 000 000
	4.3. Signed by EIF (EC holds 30 % of EIF authorised capital)		129 615 629

Potential liabilities at 31 December 1997 (continued)

(ECU)

5 (1)	Leasing and long-term rental commitments		2 031 999 219
	5.1. Leasing of buildings	1 205 066 462	
	Institutions		
	5.1.1. Buildings — Parliament	1 104 000 000	
	5.1.2. Annexe — Court of Justice	101 066 462	
	5.2. Long-term rental — lease		
	Commission	698 983 433	
	5.2.1. Land	1	
	5.2.2. Buildings, Brussels	671 044 766	
	5.2.3. Buildings, Luxembourg	27 938 666	
	Institutions	125 764 207	
	5.2.4. 'Palais' Court of Justice	2 046 730	
	5.2.5. Buildings — ESC	27 338 239	
	5.2.6. Buildings — Publications Office	79 141 000	
	5.2.7. Buildings — Council	17 238 238	
	5.3. Operational leasing		
	Institutions	2 185 117	
	Computer equipment — Parliament	1 300 000	
	Computer equipment — Publications Office	820 019	
	Equipment — Publications Office	65 098	
6	Swaps		1 535 492 647
	6.1. Currency swaps to be delivered: NCI	55 492 647	
	6.2. Exchange rates swaps to be delivered	1 480 000 000	
	Balance of payments support	475 000 000	
	Financial assistance	1 005 000 000	
7	Correction of budgetary imbalances		p.m.
8 (1)	Commitments in respect of pensions		14 000 000 000
9 (1)	Potential liabilities in respect of contributions to related organisations		990 000 000
10 (1)	Other potential liabilities		15 442 510
	10.1. Brussels Capital Region tax	10 282 900	
	10.2. Demolition of the Expo 92 pavilion in Seville	300 000	
	10.3. Creditors holding guarantees from third parties	35 694	
	10.4. Working capital — JRC	4 823 917	
	Total		183 605 495 833

(1) See explanatory notes.

Potential assets at 31 December 1997

(ECU)

1 (1)	Commitments against differentiated appropriations not covered by carryovers of payment appropriations		52 290 707 510
4 (1)	Guarantees received from third-party guarantors in respect of loans granted by:		17 425 917 378
	4.1. the EIB and covered by a Community guarantee	13 003 987 780	
	4.2. the Commission	4 421 929 598	
	<i>Balance of payments</i>	3 948 364 637	
	<i>Euratom</i>	118 406 216	
	<i>NCI</i>	355 158 745	
5 (1)	Leasing and long-term rental commitments		2 031 999 219
	5.1. Leasing of buildings	1 205 066 462	
	Institutions		
	5.1.1. <i>Buildings — Parliament</i>	1 104 000 000	
	5.1.2. <i>Annexe — Court of Justice</i>	101 066 462	
	5.2. Long-term rental — lease		
	Commission	698 983 433	
	5.2.1. <i>Land (1)</i>	1	
	5.2.2. <i>Buildings, Brussels</i>	671 044 766	
	5.2.3. <i>Buildings, Luxembourg</i>	27 938 666	
	Institutions	125 764 207	
	5.2.4. <i>'Palais' — Court of Justice</i>	2 046 730	
	5.2.5. <i>Buildings — ESC</i>	27 338 239	
	5.2.6. <i>Buildings — Publications Office</i>	79 141 000	
	5.2.7. <i>Buildings — Council</i>	17 238 238	
	5.3. Operational leasing		
	Institutions	2 185 117	
	<i>Computer equipment — Parliament</i>	1 300 000	
	<i>Computer equipment — Publications Office</i>	820 019	
	<i>Equipment — Publications Office</i>	65 098	
6	Swaps		1 527 250 000
	6.1. Currency swaps to be received: NCI	47 250 000	
	6.2. Exchange rate swaps to be received	1 480 000 000	
	<i>Balance of payments support</i>	475 000 000	
	<i>Financial assistance</i>	1 005 000 000	
7	Correction of budgetary imbalances		p.m.
8 (1)	Commitments in respect of pensions		14 000 000 000
10	Other commitments received		4 859 610
	10.3. Creditors holding guarantees from third parties	35 694	
	10.4. Working capital — JRC	4 823 917	
11 (1)	Commitments received in respect of fines still awaiting finalisation at 31 December 1997 (bank guarantees)		420 695 411

Potential assets at 31 December 1997 (continued)

(ECU)

12 (1)	Potential assets relating to cases of fraud and irregularities in the field of: <i>EAGGF-Guarantee</i> <i>Structural operations</i> <i>Direct action</i>	1 493 000 000 124 962 000 58 888 000	1 676 850 000
13 (1)	EAGGF-Guarantee 13.1. Claims on EAGGF-Guarantee beneficiaries 13.2. Net potential gain on disposal of agriculture stocks <i>Foreseeable sales at 30 September 1997</i> <i>Value of stocks</i>	655 811 860 34 430 000 <i>ECU 794.55 million</i> <i>ECU - 760.12 million</i>	690 241 860
14	Foreward estimates: — 1 435 items — 309 items	p.m. 137 977 695	137 977 695
	Total		90 206 498 683

(1) See explanatory note. Potential assets linked to potential liabilities have the same number in the explanatory notes.

EXPLANATORY NOTES CONCERNING OFF-BALANCE-SHEET COMMITMENTS — POTENTIAL LIABILITIES AND CLAIMS

Point 1

Commitments against differentiated appropriations still outstanding at 31 December totalled ECU 52 524 096 369.13, of which ECU 233 388 859.97 is covered by carry-overs of payment appropriations.

Point 2

Some aid remained uncommitted because the Commission decided to enter into commitments in respect of amounts that were not covered by commitment appropriations in the budget.

2.1 and 2.2. The Commission regards the overall budget allocation agreed at Edinburgh as a spending commitment by the Community vis-à-vis the Member States. This allocation will have to be respected in establishing the 1999 budget. As a consequence, the amount of aid earmarked but not committed under the Structural Funds and the Cohesion Fund is calculated by subtracting the budget commitments made for the period 1994-97 from the Edinburgh allocation. The difference represents total commitments vis-à-vis the Member States after 31 December 1997 for Community support frameworks, Community initiatives and the Cohesion Fund (except appropriations for combating fraud, evaluating the environment, and transitional and innovatory measures) for the programming period 1994-99. In accordance with the principle of prudence, it reflects the maximum potential liabilities for these two funds.

Point 3

EAGGF-Guarantee

3.1. The payments taken into account for the Guarantee Section of the European Agricultural Guidance and Guarantee Fund are those made by the Member States between 16 Octo-

ber and 15 October of the following year, provided that the accounting officer was notified of the commitment and authorisation by the following 31 January. Payments made by Member States between 16 October and 31 December 1997 are included in the off-balance-sheet commitments.

Following Decision 97/608/EC on the clearance of the EAGGF Guarantee Section accounts, a total of ECU 107 646 127.42 ⁽¹⁾ was offset by declared expenditure in November 1997, which is payable on 2 January 1998.

3.2. The determination of the final amount of the liability and the year in which it will be charged to the budget will depend on the length of the procedure before the Court of Justice.

Point 4

4.1. As formulated, the guarantee legally covers the loans signed by the EIB at 31 December 1997 (including loans granted to three Member States before accession). However, it should be noted that these loans have not been fully paid out. At 31 December 1997 the amount paid out totalled ECU 5 746.2 million (ECU 5 534.3 million when the countries which have become Member States are excluded) and this, therefore, is the amount of the risk incurred by the Union. Of the ECU 7 040.43 million paid out up to 31 December 1997, ECU 1 294.23 million has already been repaid.

The following table shows the annual forecasts of amounts outstanding on these EIB loans guaranteed under the general budget

⁽¹⁾ At the rate applicable on 31 December 1997.

(with the exception of those for third countries which have joined the Community) on the basis of the amounts paid out at 31 December 1997.

<i>Amount outstanding at 31 December</i>	<i>million ECU</i>
1997	5 554 (1)
1998	5 267
1999	4 906
2000	4 485
2001	3 995
2002	3 509
2003	3 034
2004	2 604
2005	2 191
2006	1 787
2007	1 382
2008	1 058
2009	778
2010	547
2011	360
2012	225
2013	121
2014	62
2015	27

(1) ECU 5 534.3 million outstanding plus ECU 19.04 million in respect of capital due and unpaid by the republics of the former Yugoslavia at 31 December 1997.

For the loans granted by the EIB covered by the Community budget guarantee (ECU 13 003 987 780), the third-country guarantees break down as follows:

- 85 % sovereign guarantees or similar;
- 1 % guarantees by public or semi-public institutions;

14 % guarantees by private financial institutions.

4.2. The Community has received guarantees from third-party guarantors in respect of guarantees it has granted on loans under its borrowing and lending activities. The guarantees received may be classified as follows:

	<i>(ECU)</i>
Guarantees by Member States	4 106 483 762
Guarantees by public institutions in the Member States	99 638 828
Guarantees in the form of securities against other assets — loans to Member States	3 998 460
Guarantees by public institutions or companies controlled by the Member States	1 415 539
Loans to banks or to credit institutions	126 792 658
Guarantees by public institutions in the Member States	23 090 127
Loans to Member States	60 510 224
Total	4 421 929 598

The Community has not received third-party guarantees for loans granted under the financial assistance scheme. However, these loans, totalling ECU 1 905 000 000, are guaranteed by the Guarantee Fund.

4.3. At 31 December 1997 the EIF had signed guarantees totalling ECU 2 171.8 million; as 89.3 % of EIF capital has been subscribed, this represents a maximum potential risk of ECU 729.6 million for the European Community. As the Community contributes a total of ECU 600 million to the capital of the EIF, the latter might, in the worst possible scenario, repay ECU 129.6 million. The proportion of the capital subscribed by the European Community which has not been called up (80 %,

amounting to ECU 480 million) is also included in the off-balance-sheet commitments as a potential liability (point 9).

Point 5

5.1. As these assets come from outside the accounts, the figures shown for this item are not exhaustive. This item also covers buildings occupied under a leasing contract with purchase option.

5.1.1. Parliament

In January 1992 Parliament concluded a framework long-term leasing contract with a purchase option for a complex in Brussels comprising three buildings for which the estimated cost of the original investment (1992 figure) came to around ECU 1 030 million (BEF/ECU exchange rate at 31 December 1997). Under this contract, the lease will be taken over in stages as the buildings in question are provided.

At 31 December 1997 the three buildings had been handed over to Parliament at a final investment cost of ECU 1.127 million (BEF/ECU exchange rate at 31 December 1997), of which ECU 477 million had already been paid by the date on which the balance sheet was drawn up. The last amount covers the entire final investment cost of two buildings and part of the final investment cost of the third. The Belgian Government has undertaken to cover the cost of the land occupied by the third building plus part of the development costs, thus reducing under certain conditions the total final investment cost for the three buildings to ECU 954 million (BEF/ECU exchange rate at 31 December 1997).

In March 1994 Parliament signed a long-term leasing contract with a purchase option for a complex in Strasbourg for which the estimated provisional investment cost (figure updated in September 1996) is ECU 454 million

(FRF/ECU exchange rate at 31 December 1997). No fee had been paid when the balance sheet was drawn up.

All the estimates of investment costs are net of the long-term financing cost.

Parliament has also concluded contracts to hire computer equipment under which it is committed to pay around ECU 1.3 million.

5.1.2. Court of Justice

On 15 November 1994 the Court signed a lease-purchase contract with the Luxembourg Government for Annexes A, B and C of the Palais building with a total surface area of 26 635 m², 24 505 m² and 14 809 m² respectively.

The Court will rent the buildings for the whole term of the agreement and will not be able to exercise the purchase option until the selling price has been paid in full (Article 8(4)); at the latest this will be on 31 December 2015. Under supplementary agreement No 1 to the main agreement, the annual charge payable by the Court was reduced to LUF 405 million from 1 January 1997.

The selling price is determined by an independent expert agreed upon by both parties (Article 9). The consultancy KPMG has been appointed.

If the budgetary authority had decided to pay the balance due at 31 December 1997 instead of the annual charge laid down in the contract, the payment would thus have been LUF 2.92 billion (ECU 71.6 million). The reduction in this amount compared with the situation at 31 December 1996 is due to the early payment of ECU 3.19 million which the Court made in 1997 under Article 8(2) of the agreement with the Luxembourg State.

The marked drop in expenditure (ECU 22.7 million in 1997 compared with ECU 70.6 million in 1996) is accounted for by the early payment of ECU 50 million in 1996 as part of

Selling price at 31 December 1996

	Current value (LUF)	Discounting 1980-96 (LUF)	Present value (LUF)
Costs	8 554 551 577	1 004 636 402	9 559 187 979
Payments	(4 711 935 090)	(619 908 814)	(5 331 843 904)
VAT	(617 720 031)	(383 191 604)	(1 000 911 635)
Selling price	3 224 896 456	1 535 984	3 226 432 440

Selling price at 31 December 1997 (estimate)

	Current value (LUF)	Discounting 1980-97 (LUF)	Present value (LUF)
Costs	8 770 248 101	1 478 560 945	10 248 809 046
Payments	(5 246 875 591)	(1 009 548 226)	(6 256 423 817)
VAT	(617 720 031)	(454 156 239)	(1 071 876 270)
Selling price	2 905 652 479	14 856 480	2 920 508 959 ⁽¹⁾

⁽¹⁾ ECU 71 638 167 (rate: ECU 1 = LUF 40.7675).

the lease-purchase agreement for the annexes to the Palais building. As a result of this one-off payment, the annual charge under Article 4 of the agreement was reduced by a third with effect from 1 January 1997 under a supplementary agreement. The margins left in other chapters as a result of the ecu's rise in value against the Belgian and Luxembourg franc paved the way for a transfer of appropriations enabling the Court to make another early payment of ECU 3.2 million in 1997 under Article 8(2) of the agreement.

5.2. As these assets come from outside the accounts, the figures shown for this item are not exhaustive. This heading covers buildings occupied under a long-term leasing contract (with an initial term of more than five years)

without any purchase option. These contracts may take various forms such as a rental contract or long-term lease. The amounts indicated correspond to commitments still to be paid during the term of the contract, except for the Court of Justice's Palais building, which is occupied under an indefinite lease; here, the amounts correspond to the annual rent.

5.2.1. Some 2.29 ha of land held in Luxembourg under a 29-year lease.

5.2.2. This heading covers buildings occupied by the Commission under a long-term rental or leasing contract which do not meet the three conditions laid down in Article 7 of the inventory regulation (see point III.E of the explanatory notes to the balance sheet). The amounts entered correspond to the rents still

to be paid in accordance with the conditions of the contract, plus tax on immovable property. The total amount breaks down as follows:

	<i>(ECU)</i>
Leases	502 762 136
Buildings	8 093 405
Long-term lease	160 189 225
Total	671 044 766

5.2.3. Buildings occupied by the Commission in Luxembourg under leasing contracts. Note that these buildings should have been included in the Commission's off-balance-sheet commitments.

5.3. As these amounts come from outside the accounts, the figures shown for this item are not exhaustive. This heading covers buildings occupied under a long-term operational leasing contract (more than five years). The amounts entered correspond to the rents still to be paid in accordance with the conditions of the contract.

Point 8

Commitments in respect of pensions

1. Introduction

The rules governing the Community pension scheme are laid down in the staff regulations of officials of the European Communities, in particular Chapter 3 (Pensions) of Title V (Emoluments and social security benefits of officials) and Annex VIII (Pension scheme). They are directly applicable in all the Member States.

The scheme covers different types of pension (retirement, invalidity, survivor's) and the payment of family benefits.

2. Expenditure and financing of the scheme

Under Article 83 of the staff regulations, benefits paid under the pension scheme are

charged to the budget of the Communities (Chapter A-19 (Pensions and severance grants) covering all the institutions). Member States jointly guarantee payment of such benefits in accordance with the scale laid down for financing such expenditure (first subparagraph of paragraph 1).

Officials contribute one third of the long-term cost of financing the scheme by means of a compulsory levy set at 8.25 % of the basic salary (second subparagraph of Article 83(1)).

Thus the scheme is covered both by the budget (it is booked to the Commission budget) and by contributions, while the payments are guaranteed collectively by the Member States.

3. Commitments under the scheme

Under the staff regulations, the institutions guarantee various pension entitlements to their officials and other servants in exchange for the payment of contributions. When given an actuarial value, the pension entitlements constitute budgetary commitments.

These commitments correspond to the actuarial value at 31 December 1997 of the benefits promised to staff still in employment and the benefits currently being paid to pensioners.

4. Monitoring the balance of the scheme

Under Article 83(4), 'should an actuarial assessment of the pension scheme, carried out by one of more qualified experts at the request of the Council, show the contributions of officials to be insufficient to finance one third of the benefits payable under the pension scheme, the budgetary authorities shall, acting in accordance with the budgetary procedure and after consulting the Staff Regulations Committee ..., determine what changes are to be made to the rates of contribution or to the retirement age'.

The actuarial assessments conducted in 1986 and 1989 revealed that, if it had been a real pension fund, the scheme would have been in balance over the long term.

Early in 1998 the Commission launched a new actuarial study to check that the balance is still guaranteed under present conditions. The results should be known at the end of September.

5. *Entry in the off-balance-sheet commitments*

An actuarial study has been made of future commitments in respect of pensions. It is based on the demographics of the regular staff of the Community institutions and agencies at 31 December 1997 (including staff in employment and those receiving pensions and allowances), with allowances made for the trends in this population since 1968.

The analysis, based on the vested pension benefits credits method, came up with a figure of ECU 14 billion, which must be regarded as provisional pending the actuarial study currently under way, which employs specific tools and more comprehensive ways of extracting statistics.

Point 9

Potential liabilities due to contributions to related organisations.

This sum represents:

- payments outstanding on non-called-up capital subscribed by the Commission to:
 - EBRD: ECU 210 000 000
 - EIF: ECU 480 000 000
- a subscription to the EBRD's capital of 30 000 shares each worth ECU 10 000. On 15 April 1996, at their annual meeting, the Bank's governors decided to double the amount of authorised capital. Accordingly, the Commission undertook to subscribe the above amount (Decision 97/135/EC of 17 February 1997). The operation will com-

prise whole paid-in shares and callable shares in the following proportions:

- 22.5 % whole paid-in shares at a total cost of ECU 67.5 million, to be committed and paid as follows: 1998: ECU 33 750 000; 1999: ECU 33 750 000;
- 77.5 % callable shares, amounting to ECU 232.5 million.

Point 10

10.1. The Brussels Capital Region has introduced a tax on office workers. The Commission asked the regional authorities about its exemption under the protocol on privileges and immunities. The initial reply given was favourable.

However, the local authorities took the question to court, where the judge confirmed that the Commission qualified for exemption under the protocol.

A final ruling still has to be made. If the verdict goes against the Commission, this will cost about ECU 2 million a year.

Point 11

The following table, classified by year of Commission decision, shows all the cases involving fines for infringement of the rules of competition which were still pending at 31 December 1997. It does not show cases completely settled by that date.

In view of the complicated nature of these cases, the number of companies involved and the possible options, this table cannot reflect historical developments over a number of years. It therefore merely gives the current situation for each case pending in relation to the Commission's initial decision.

Point 12

The table below is based on the formal reports submitted by the Member States in accor-

dance with Regulations (EEC) Nos 595/91 (1), 1681/94 (2) and 1831/94, with amounts being broken down by Member State. The table shows the difference between amounts identified by the Member States as still to be recovered (calculated on the basis of

established entitlements or estimates) and amounts already recovered or declared irrecoverable.

It is worth noting that the figures given in this table represent a theoretical maximum rather than the amounts which will actually be made

(1) EAGGF Guarantee Section.

(2) Structural operations.

(ECU)

Year of decision	Number of companies involved	Total fines initially imposed	Appeals pending against Commission decision		No appeal (i.e. definitive payment)
			Without payment (with bank guarantee)	With payment (provisionally)	
1986	15 7	57 850 000 (15) 45 500 000 (7)	56 850 000 (14) 45 500 000 (7)		1 000 000 (1)
1987	2 2	410 000 (2) 410 000 (2)	400 000 (1) 400 000 (1)	10 000 (1) 10 000 (1)	
1989	14 2	9 501 000 (14) 3 000 000 (1)	8 664 000 (11) 3 000 000 (1)		837 000 (3)
1990	3 2	48 000 000 (3) 47 000 000 (2)	47 000 000 (2) <i>(without guarantee)</i>		1 000 000 (1)
1992	50 13	48 906 200 (50) 11 861 550 (13)	14 272 500 (10) <i>(without guarantee)</i>	17 795 845 (18 + 2 in part) 9 090 000 (4)	15 167 700 (12)
1994	50 45	162 770 000 (50) 160 450 000 (45)	154 416 411 (39 + 2 in part) 143 396 411 (36 + 2 in part)	3 813 589 (1 + 2 in part) 14 823 589 (3 + 2 in part)	2 310 000 (4)
1995	47 46	265 476 000 (47) 265 174 000 (46)	226 543 000 (34) 228 399 000 (35)	25 475 000 (10) 25 275 000 (10)	102 000 (1)
1996 <i>for the record</i>	6	745 000 (6)		745 000 (6)	
1997	1 1	8 800 000 (1) 8 800 000 (1)		8 800 000 (1) 8 800 000 (1)	
Total decisions notified	182 117	601 713 200 (182) 542 195 550 (117)	508 145 911 (111 + 2 in part) 420 695 411 (80 + 2 in part)	55 894 434 (37 + 4 in part) 57 998 589 (19 + 2 in part)	20 416 700 (22)

NB: Fines still pending are shown in italics.

available to the Community budget, for the following reasons:

- The Member States do not always report the results of their recovery operations (and certainly not promptly).
- Although Member States must inform the Commission of the likelihood of recovery, it is impossible to determine exactly what proportion of the amounts still to be recovered will actually be recovered. National laws sometimes provide for a 30-year limitation period, which may well make the national authorities think twice about formally giving up on recovery even if the chances of success are only theoretical. Nevertheless, the Commission regularly asks the Member States to revise the list of cases which have been pending for a number of years in order to exclude amounts that should be written off as irrecoverable.
- If, for objective reasons, recovery proves impossible in a particular case, the Commission must decide whether the irrecoverable amount should be charged to the Community budget or to the Member State which failed to fulfil its obligations. This decision may be taken after several years have elapsed (in the case of EAGGF Guarantee Section expenditure, as part of the clearance of accounts procedure). By way of example, the Commission is currently preparing the clearance of accounts for the 1994 financial year.
- Even if the Member State concerned launches recovery proceedings in time, a positive outcome is not guaranteed. This is particularly true where recovery orders are contested in the courts.
- In the field of structural operations, individual projects are co-financed as part of multiannual programmes. As long as a multiannual programme has not been closed, it is impossible to put an exact figure on the amounts to be recovered because the sums involved in irregularities may, in certain circumstances, be reallocated to

other, legitimate projects and because payment by instalments, in particular final payments, can sometimes be used as a means of adjusting expenditure.

On the date when the revenue and expenditure account was drawn up, the annual report for 1997 on the fight against fraud had not yet been adopted.

Point 13

1. Amounts payable to the EAGGF Guarantee Section which have been entered in the register of debtors and declared by the Member States at the end of the financial year (15 October 1997). Since the information received is incomplete and a summary examination by the Commission departments suggests that the figures may be unreliable, these debts must be considered as not fulfilling the criteria of being a tangible and valid obligation to pay.

2. At 30 September 1997, with potential liabilities of ECU 1.5 million and potential gains of ECU 35.9 million, there was a net potential gain of ECU 34.4 million for the disposal of agricultural stocks — a much lower figure than in the previous year. These differences result from a number of factors:

- More than half the total potential gain is still accounted for by cereals (ECU 19.7 million), although this amount has fallen considerably. The reason is that the value of stocks is on the increase, both in quantitative terms and in book value, while the foreseeable sales value of the product is in decline because of falling world prices.
- The other sector for which a considerable gain is expected (ECU 9.1 million) is once again olive oil. As explained in the 1996 revenue and expenditure account, this is due to the fact that the depreciation at the end of 1993 for Italy (which accounts for half the Community's stocks) proved to be too high and cut the book value of all the stocks to a level far below the foreseeable

sales value at the end of 1994. This excessive depreciation resulted from an over-evaluation of the book value of the stocks declared by Italy before the depreciation at the end of 1993. It is still continuing to produce a relatively substantial potential gain in 1997.

The value of new stocks is written down from the date on which they are formed. The 1998 budget contains ECU 644 million for the depreciation of these stocks (subsection B1), broken down as follows:

	<i>(million ECU)</i>
Cereals	82.0
Rice	35.0
Olive oil	11.0
Alcohol	140.0
Skimmed milk powder	49.0
Butter	19.0
Beef and veal	308.0
Total	644.0

European Commission

Financial Report 1997

Luxembourg: Office for Official Publications of the European Communities

1998 — 122 pp. — 21 x 29.7 cm

ISBN 92-828-3777-7

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