



COMMISSION OF THE EUROPEAN COMMUNITIES

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PROPOSAL FOR THE REVISION OF THE FINANCIAL PERSPECTIVE

Presented by the Commission to
the European Parliament and the Council
under paragraphs 11 and 12 of the Interinstitutional Agreement
of 29 October 1993
on budgetary discipline and improvement of the budgetary procedure

FOREWORD

The Commission's proposal for adjusting appropriations within the overall ceiling of the financial perspective for 1993-99 satisfies two requirements:

- it respects orthodox and tight budget management, which are particularly important in the run-up to Economic and Monetary Union;
- it is a response to the wishes expressed by the European Council, the Council and the European Parliament to attach particular importance to expenditure which stimulates growth, competitiveness and employment.

The object is to release the resources required to give a new impetus to the trans-European networks, research and SMEs by redeploying expenditure within headings and between headings. As regards transfers from one heading to another, the Commission is proposing that certain items of agricultural expenditure, currently included in headings 3 (internal policies) and 2 (Structural Funds) of the financial perspective, be reclassified in heading 1 (agricultural guideline). This transfer is made possible by the fact that agricultural expenditure will remain well below the guideline in the years ahead. The adjustment, which was already envisaged in the conclusions of the Edinburgh European Council, will not affect the financing of the CAP and will also be compatible with any pre-accession measures for the Central and Eastern European countries in the agricultural field.

The transfer of some ECU 2 billion over three years will provide an equivalent margin in headings 3 and 2. Virtually all this amount (ECU 1.7 billion) will be for the trans-European networks, research and SMEs, which are regarded as priority areas for stimulating growth, competitiveness and employment. The Commission's proposal is thus a response to the wishes expressed by the European Council and avoids calling in any additional resources in excess of the financial framework set in 1992.

The question of boosting the funding available for the trans-European networks was raised by the Essen European Council, which called on the Ecofin Council "to adopt the necessary decisions, acting on proposals from the Commission, to top up the funds currently available for the trans-European networks". A year later the Madrid European Council repeated this call in the same terms. According to the Commission's estimates, based on the applications made by the Member States, the amount still to be found for the period 1997-99 is nearly ECU 1.7 billion. Because of the current budget difficulties, the Commission is confining itself to planning an extra ECU 1 billion only, taking the view that the leverage exerted by the Community contributions will attract other sources of funding. Real public sector/private sector partnership could be envisaged.

As regards research, the Council and the European Parliament, as joint legislative authority, provided, when adjusting the fourth framework programme in 1994, for the possibility of supplementary financing of ECU 700 million to be decided in 1996. The Commission's proposal, based on a detailed analysis of requirements, is the response.

As also requested by the Madrid European Council, the Commission proposes to step up operations in favour of SMEs in view of the role they play in promoting employment, growth and competitiveness.

The proposal is also a response to specific requests from the Ecofin Council and to agreements between the Council and Parliament on matters such as emergency aid or the Northern Ireland peace process.

The proposal concerning administrative expenditure (heading 5) will make it possible to honour the undertaking given by the Council under the German Presidency to review heading 5 expenditure to take account of the recruitment requirements for nationals of the new Member States.

The Commission is fully aware of the need to apply tight budgetary management at Union level as well as at national level. 1997 will be a vital year for assessing the EMU convergence criteria. This is why the Commission has sought to concentrate the impact of its proposal on 1998 and 1999 rather than on 1997. For the same reason it will be preparing a very restrictive preliminary draft budget for 1997, with a growth rate well below that for 1996. In that connection an agreement will have to be found with the budgetary authority for retaining significant margins beneath the ceilings for all categories of expenditure. And for the same reason too, the Commission will not be asking for any additional staff for itself other than what is already planned in connection with enlargement.

INTRODUCTION

The financial perspective adopted by the Edinburgh European Council for 1993-99 is now halfway through its period of application and no longer offers much of a margin of flexibility.

The main Community internal policy and external action programmes have now been adopted and their implementation will continue over the remainder of the period. Furthermore, the Community GNP deflator in ecus has been revised downwards in each of the last technical adjustments of the financial framework, with the result that, in nominal terms, the ceilings for the headings are now lower than previously envisaged.

In these circumstances, it is no longer possible to boost certain Community policies which the Council had assumed could be covered within the existing framework. These policies mainly relate to the trans-European transport networks and research. Yet the provision of additional resources for these purposes would be a sign of the necessary focusing of Community operations on the problems of growth and employment and would help to establish a "pact of confidence" on these preoccupying issues.

Although there are still substantial margins beneath the own resources ceiling, raising the ceiling on appropriations for payments between now and 1999 must be avoided in view of current budgetary difficulties and the issues involved.

The proposed revision of the financial perspective attempts to reconcile these two constraints as the additional requirements identified can be covered by reallocating expenditure within and between the headings of the existing financial framework.

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This communication deals with these two aspects in turn. To make discussion easier, the figures are shown at 1997 prices, unless otherwise indicated. However, the changes to the ceilings of the financial perspective set out in the decision itself must be expressed in terms of 1992 prices since this was the basis of the current framework when originally fixed and when adjusted for enlargement.

I. Requirements to be taken into account

Apart from an increase in the allocations for the trans-European transport networks, the additional financing for the fourth research and technological development framework programme and support for small businesses, the requirements identified relate to a number of more specific external operations and the administrative expenditure on the institutions' buildings and on staff requirements for the new Member States.

1. Internal policies (heading 3) and structural operations (heading 2)

1.1 Increased financing for the trans-European networks

The question of increased funding for the trans-European networks, in particular for the transport infrastructure projects, was first raised at the Essen European Council. The Madrid European Council stressed that the networks could make an essential contribution to competitiveness, job creation and the cohesion of the Union. Taking note of the Commission's progress report, it repeated the call made at the Essen European Council that "the Ecofin Council adopt the necessary decisions, acting on proposals from the Commission, to top up the funds currently available for the trans-European networks".

The current financial programme for the budget heading for the trans-European transport networks (not including the Regional Fund, the Cohesion Fund and the European Investment Fund) provides a total allocation of around ECU 1.8 billion for the period 1995-99. According to the latest estimates, a further ECU 1.7 billion in Community financing is needed if the projects are to be carried out in accordance with the schedule and the priorities adopted. For two of the transport infrastructure projects for which the Member States concerned have asked for Community finance - the TGV Est and PBKAL high-speed trains - uncovered requirements, assuming a maximum level of private finance, currently amount to around ECU 760 million.

In view of the constraints imposed for the revision of the financial perspective, the additional appropriations proposed for the trans-European transport networks are limited to a total of ECU 1 billion for 1997-99.

Even though this is less than the amount actually required, it would allow projects to be unblocked or speeded up. Although low in relation to total investment costs (less than 5%), it would still be extremely significant in view of the leverage it might give for attracting other sources of finance and, in particular, promoting partnership between the public and private sectors. It should also be seen in the context of the socio-economic benefits which completion of these major infrastructures would produce for the Community, as stated in the second Ciampi report.

By way of illustration, a study carried out in early 1995 by the high-level working party on the European high-speed train network highlighted the expected impact of this type of network on the Community economy, taking account of:

- the direct investment-induced effects (investment expenditure itself, induced effects on intermediate consumption and final consumption);
- the indirect or structure-creating effects (development of industrial activities and services resulting from establishment of the network).

The study came to the conclusion that establishment of the European high-speed train network as planned over the period 1990-2010 would lead to the creation or preservation of a large number of jobs.

1.2 Supplementary financing for the Fourth RDT framework programme

The decisions on the EC and Euratom framework programmes adopted on 24 April 1994 provide for the possibility of supplementary financing of **ECU 700 million** at current prices¹ to be decided in 1996. The Commission recently sent Parliament and the Council its proposals (COM(96) 12) on the use of these extra funds, subject to a revision of the financial perspective to accommodate the supplement, which would bring the maximum amount for the framework programmes to ECU 13.8 billion over the period 1995-98.

This supplementary allocation would be for the last two years of the framework programme (1997 and 1998). It would be devoted to certain priority sectors through existing specific programmes and on the basis of requirements assessed by research-industry task forces.

A number of Community reports such as the White Paper on growth, competitiveness and employment, the Green Paper on innovation and the Ciampi report on the improvement of European competitiveness have stressed the fundamental macro-economic role played by research and technological development in growth and competitiveness. For each firm, technology is a vital production factor just like manpower or material investment.

However, efforts within the European Union lag far behind those of our main competitors. Between 1987 and 1993 public funds going to industrial research in the Community came to less than 40% of the total in the United States; the proportion of public aid for this purpose came to only 14%, compared with 27%. From a more qualitative viewpoint, as highlighted in the Green Paper, the problem in Europe is converting progress in research into new production processes, new products and new geographical markets.

What the Community needs to do is maintain and strengthen its comparative advantages if it is not to lose its attractiveness and competitiveness in terms of activity and investment, with all the adverse consequences this would entail for the preservation and creation of jobs. In this sense, tomorrow's jobs largely depend on research.

As set out in far more detail in the Commission's proposals concerning the supplementary financing for the fourth framework programme, the main objective should be to provide a better guarantee that this RTD is converted into new products and markets:

- by analysing requirements in collaboration with the scientific community and industry;
- and, to achieve significant results, by concentrating aid on a number of key generic sectors selected in the light of existing industrial bases, market opportunities, the favourable effect on employment and environmental problems.

¹ ECU 690 million at 1997 prices.

The priority areas proposed are matched to these objectives. They are designed to focus RTD programmes on the actual requirements of the public and economic operators.

1.3 Support for small businesses

Having taken note of the Commission's report on the role played by small businesses as a source of employment, growth and competitiveness, the Madrid European Council asked the Commission to give practical effect to its objectives as quickly as possible in the forthcoming integrated programme for small businesses.

The Commission accordingly adopted a proposal for a Council Decision on a third framework programme to run from 1997 to 2000. The support proposed at Community level is to amplify national measures through the dissemination of information, experience and knowhow and by establishing transnational partnership arrangements. An aggregate package of ECU 140 million for this programme would be compatible with the existing ceiling for heading 3.

The Commission proposes that provision be made for an additional allocation of ECU 40 million for small businesses, spread in equal shares over the years 1998 and 1999.

1.4 Refinancing of the Structural Funds for the programme in support of the peace process in Ireland

When the financial perspective was adjusted to take account of enlargement, the institutions decided to raise the ceiling for heading 2 by ECU 200 million to cover a programme in support of the peace process in Ireland. However, as the allocation for this programme was set at ECU 300 million, **ECU 100 million** was drawn from the reserve for Community initiatives. This amount must be returned to the reserve.

2. External action (headings 4 and 6 of the financial perspective)

2.1 The annual ceilings for heading 4 should allow a balanced development of the Community's external operations up to 1999.

The Cannes European Council reached agreement on the appropriations to be provided for financial cooperation with the countries of Central and Eastern Europe and the Mediterranean countries. On this basis, and allowing for the programmes which the Community has initiated in other parts of the world, the current financial framework will cover a contribution of a maximum of ECU 1 billion to financing the reconstruction of former Yugoslavia.

2.2 There are two other requirements prompting the Commission's proposal for a revision. Because no margin is available beneath the heading 4 ceiling in 1996 and 1997, the necessary funds cannot be provided to deal with the following limited, but nonetheless urgent problems:

(a) *Economic difficulties in Armenia, Georgia (and Tajikistan)*

Armenia, Georgia and Tajikistan are facing extremely serious economic and financial difficulties and are unable to service their external debt, notably to the Community. By the end of 1995 Armenia and Georgia had run up arrears of ECU 119.3 million (of which ECU 107.4 million is the principal), not including the default penalties. In January 1996 these arrears grew by ECU 30.7 million (including ECU 29.4 million in principal).² The Guarantee Fund had to be drawn on to allow payments to be made on the due dates in 1995.

However, use of the Guarantee Fund does not solve the basic problem since these countries still owe money to the Community. This situation makes it virtually impossible for these countries to pursue the adjustment and reform programmes which the Community and its Member States otherwise support. The IMF has just concluded new three-year programmes with these countries which need to be backed with concessionary aid. Georgia and Armenia have undertaken to service their debts to the Community and the Ecofin Council of 27 November asked the Commission to present budgetary proposals for these countries.

In several respects, the economic situation in Tajikistan is similar. It too has run up arrears of ECU 63.2 million (including ECU 54.5 million in principal) towards the Community. At present, Tajikistan is still negotiating with the IMF. The Community's exceptional financial aid could be extended to Tajikistan if the necessary conditions are satisfied, i.e. if it manages to reach agreement with the IMF and if it undertakes to service its debt to the Community in full.

The Commission proposal would provide exceptional financial aid in the form of donations to contribute to the macro-economic recovery of these countries and finance their programmes with the IMF as appropriate, thus enabling them to service their debts to the Community. The Commission considers that exceptional financial aid of ECU 170 million (1996 prices) in 1996 would resolve most of these countries' difficulties.

(b) *Food aid to the countries of the Caucasus and Central Asia*

Over the past two years, the Community has provided food aid of ECU 200 million a year to the countries of the Caucasus (Armenia, Georgia and Azerbaijan) and Central Asia (Kyrgyzstan and Tajikistan). Most of this food aid was financed from the EAGGF Guarantee Section.

The Commission, at the Council's express request, has now undertaken to abandon this unorthodox method of budgetary financing. It has therefore proposed that these countries, and other new States which qualify, should be included in the list in the annex to Council Regulation (EEC) No 3972/86 of 22 December 1986 on food-aid policy and food-aid management and specific operations to promote food

² A final capital repayment of ECU 34 million is due in 1997.

security, which will mean that the food aid they are granted will have to be financed under heading 4 of the financial perspective.

The cost of food aid to these countries - **ECU 65 million in 1996, ECU 70 million in 1997 and ECU 50 million a year in 1998 and 1999** (*estimates at current prices*) will now have to be added to the expenditure already programmed for heading 4. The decline in the cost of these operations reflects the probable reduction in these countries' food dependence as a result of the supply of farm inputs by the Community since 1995.

- 2.3 Finally, the Commission proposes that some of the appropriations from the **emergency aid reserve (heading 6)** be transferred to heading 4 of the financial perspective, without any change to the total amount involved.

After three years of application it is possible to draw the initial conclusions on how this reserve has operated. It has certainly achieved its main objective since it has allowed action to be taken in response to emergency situations without having to resort to repeated revisions of the financial perspective as was the case under the previous financial framework for 1988-92. However, the rules introduced by the 1993 Interinstitutional Agreement have not always proved easy to apply:

- The annual appropriations allocated to the budget headings covered by heading 4 have always proved insufficient, even for coping with recurrent situations. The reserve has had to be drawn upon regularly as a result, even though this is not strictly in keeping with the spirit of the Interinstitutional Agreement.
- In this area it is always difficult to distinguish clearly the requirements which are foreseeable when the budget is drawn up (to be covered by heading 4) and those relating to unforeseeable events (to be drawn subsequently from the reserve).
- In spite of the urgency displayed by the budgetary authority, the procedure for mobilizing the reserve may be a cause of delay, contrary to what is demanded in emergencies.

It is therefore proposed that the ceiling for this reserve be lowered from **ECU 329 million to ECU 200 million** and that the ceiling in heading 4 for humanitarian aid requirements be raised by the same amount.

3. Administrative expenditure (heading 5)

At the time of enlargement, the institutions undertook to review the situation in heading 5 of the financial perspective in 1996 to take account of requirements in connection with the institutions' buildings and the recruitment of officials from the new Member States.

The work carried out by an interinstitutional technical working party³ revealed that the building programmes planned by the institutions would mean that other administrative expenditure would have to be kept at the same proportion of the total for the heading in 1997 as in 1996. In view of the probable increase in expenditure on pensions, the increase in other staff and administrative expenditure between 1996 and 1997 (including routine expenditure in connection with the occupation of buildings) would then be limited to around 3% in money terms. As a result, in many areas it will merely be a case of rolling over the previous year's appropriations.

After this extremely tight situation in 1997, expenditure on buildings by all the institutions will increase appreciably in 1998 as a proportion of the ceiling for heading 5, mainly because of Parliament's buildings programme at Strasbourg. For the same reason, expenditure on buildings will remain at this higher level in relative terms in 1999.

As regards the Commission at least, the recruitment of nationals of the new Member States (other than language staff) is proceeding in line with the plan set at the time of enlargement, with two thirds to existing posts as part of turnover and one third to newly created posts, for which the margin of manoeuvre will be appreciably smaller. Continuing this approach may well become increasingly difficult if there is to be a coherent renewal of staff which does not discriminate against nationals of the older Member States. A small additional margin of ECU 7 million in 1998 and ECU 16 million in 1999 would ease this constraint.

For these two reasons the ceiling for the heading should be raised by a total of **ECU 57 million** for 1998 and **ECU 66 million** for 1999.

II The financing of additional requirements

The Commission has adopted its proposals under the self-imposed constraint of not raising the ceiling on payment appropriations currently laid down in the financial perspective. This means that additional requirements will have to be financed by reallocating appropriations, first within the headings covered by the revision and then between the headings.

1. Reallocation of expenditure within the headings concerned

The first and second subparagraphs of paragraph 13 of the Interinstitutional Agreement, concerning the revision of the financial perspective, state that "the institutions, acting on a proposal from the Commission, will examine the scope for reallocating expenditure between the programmes covered by the heading concerned by the revision, with particular reference to any expected underutilization of appropriations", stipulating that "the objective should be that a significant amount, in absolute terms and as a percentage of the new expenditure planned, should be within the existing ceiling for the heading".

³ Report by the interinstitutional technical working party on building programmes and financing arrangements, submitted to the budgetary authority on 8 February 1996.

1.1 The Commission considers that appropriations could be reallocated as follows within the headings concerned:

- The Commission proposes that ECU 200 million of the new expenditure in heading 3 for the trans-European networks, research and support for small businesses should be covered by the current ceiling for heading 3 (ECU 100 million in 1998 and ECU 100 million in 1999), reducing the necessary increase in the ceiling to **ECU 1 530 million (at 1997 prices)**.
- An increase of **ECU 70 million** in the ceiling for heading 4 for food aid to the countries of Central Asia and the Caucasus would not be needed until 1997. Requirements in 1996 can be covered by existing budget appropriations, mainly by re-using revenue from previous operations. As the cost of the operations is gradually declining, it should be possible to finance additional requirements under the current ceiling for heading 4 from 1998 onwards.

1.2 However, there is no justification for reallocating expenditure within the same heading for the other cases, where the amounts involved are far more limited.

- As regards the reserve for Community initiatives, which was used in 1995 for the programme in support of peace in Ireland, no appropriations can be reallocated since all expenditure in heading 2 has already been programmed.
- Redeployment of appropriations for the exceptional financial aid to Armenia and Georgia would be contrary to the spirit of the Interinstitutional Agreement. The situation in heading 4 is particularly tight in the 1996 budget because of the negative reserve of ECU 200 million which might be required to increase the appropriations for cooperation with the Mediterranean countries. Furthermore, the objective of this financial operation is to help the recipient countries repay their debts to the Community, thereby allowing the Guarantee Fund to be replenished. However, the institutions agreed in a statement annexed to the Interinstitutional Agreement that default should not affect budget appropriations earmarked for other purposes, even in the absence of a margin under heading 4.
- For administrative expenditure, the proposal follows on from the decision adopted in connection with enlargement, under which the institutions agreed that expenditure under heading 5 should be reviewed to take account of financing requirements for the buildings of the European institutions and staff requirements for the new Member States.

2. Reallocation of expenditure between the headings of the financial perspective

As there is insufficient scope for reallocating appropriations within the headings while retaining the ceiling on appropriations for payments, the second stage of the exercise is to examine the possibility of reallocating expenditure between the headings. This approach is expressly provided for by the third subparagraph of paragraph 13 of the Interinstitutional Agreement which states that "the institutions will also examine the scope for offsetting raising the ceiling for one heading by lowering the ceiling for another".

2.1 Reclassification of certain expenditure under the agricultural guideline

- (a) The conclusions of the Edinburgh European Council explicitly state that the coverage of the guideline should be reviewed in 1996.

The current estimate of the development of agricultural expenditure under the EAGGF Guarantee Section, based on existing and proposed legislation, suggests that there will be a narrow margin under the ceiling for heading 1 in 1997, but that this will gradually increase towards the end of the period, reaching around ECU 1 billion in 1998 and ECU 3 billion in 1999. The Commission accordingly proposes that the scope of the agricultural guideline should be extended without changing the method of calculation or the level of the base.

- (b) The expenditure reclassified under heading 1 must of course be closely linked to the agricultural sector; the Commission therefore proposes that the two following categories of expenditure should be reallocated:

- Agricultural expenditure relating to the internal agricultural market, veterinary controls and other operations in the agricultural sector (Chapter B2-51), at present covered by heading 3.

If this expenditure were brought under the guideline, the increase in the heading 3 ceiling needed to cover new requirements could be reduced by the same amount.

- Expenditure covered by objective 5a of the Structural Funds (outside objective 1 and 6 areas). This transfer is justified as this expenditure on the adjustment of agricultural structures is in fact fairly similar to expenditure under the reformed CAP. This transfer does not cover objective 5a expenditure in objective 1 and 6 areas, which is an integral part of the amounts allocated by the European Council to objectives 1 and 6 and is not therefore programmed separately.

The ceiling for heading 2 would be lowered by the amount of expenditure transferred to the agricultural guideline. It would then be possible to raise the other ceilings without affecting the overall volume of expenditure.

(c) This transfer of expenditure to the agricultural guideline is of course conditional on the availability of a sufficient margin between the guideline and planned EAGGF Guarantee expenditure. In drawing up its proposals, the Commission has been careful not to jeopardize the financing of either the CAP, including the market organizations in the process of being reformed, or the Structural Funds. It has therefore decided to proceed cautiously in three stages:

- Only the agricultural expenditure now covered by Chapter B2-51 (some ECU 160 million a year in commitment appropriations) would be transferred to the guideline in 1997.
- In 1998 "pure" objective 5a expenditure (outside objectives 1 and 6 and objective 5b areas) amounting today to ECU 558 million in commitment appropriations (1997 prices) could be transferred.
- In 1999 all objective 5a expenditure (outside objectives 1 and 6) could be contained under the agricultural guideline, a total of ECU 1 031 million in commitment appropriations (1997 prices), without ruling out the possibility that some commitments may have to be made up in 1999.

If necessary, this approach would allow pre-accession measures to be introduced for the countries of Central and Eastern Europe under the strategy laid down by the Madrid European Council.

2.2 Implications of this reclassification of expenditure for appropriations transferred to heading 1

- (a) This reclassification of budget items under heading 1 of the financial perspective will have no other effect on this expenditure, which will still be covered by the same management procedures. In particular, it will not be incorporated in the EAGGF Guarantee Section and will remain subject to the same rules as today. The classification as non-compulsory expenditure and differentiated appropriations would not be called into question.
- (b) In the specific case of objective 5a expenditure (outside objectives 1 and 6), neither the rules, nor the programming in force, nor the amounts already fixed will be affected by this operation. This expenditure will thus be considered in exactly the same way as that remaining within heading 2. In particular, it will retain its status of "privileged expenditure" provided for in the second subparagraph of paragraph 10 and in paragraph 21 of the Interinstitutional Agreement. For the determination of the appropriations for the three new Member States at current prices, the 1995 prices will continue to serve as a reference base in accordance with the Act of Accession and the decision on the adjustment of the financial perspective with a view to enlargement.
- (c) This revision of the financial perspective will at the same time entail amendment of the decision on budgetary discipline in order to specify that the guideline covers not only the EAGGF Guarantee Section but also measures relating to the internal agricultural market and objective 5a (outside objective 1 and 6 areas).

This proposal for an amendment is attached for information. It will be formally presented by the Commission if the budgetary authority approves the proposal concerning the revision of the financial perspective.

3. **The margin for manoeuvre released by this reclassification of expenditure**

This reallocation of expenditure within the headings covered by the revision and by the transfer of expenditure to the agricultural guideline will release margins for manoeuvre to cover the new requirements. The Commission proposal would thus mean that the ceiling on appropriations for commitments would be lowered by a total of some ECU 250 million over the final three years of the financial framework.

In this way, the breakdown of the totals for appropriations for commitments from year to year is slightly different from that envisaged in the original financial perspective, while the overall ceiling on appropriations for payments can be kept at the same level throughout the period. In actual fact the total appropriations for payments required would be reduced. This is because the financial perspective was based on the assumption that heading 1 would contain only non-differentiated appropriations. However, the inclusion of differentiated appropriations as a result of this revision leads to a staggering of the average schedule for appropriations for payments.

4. **The specific case of 1996**

Since there is no possibility of reclassifying expenditure under the agricultural guideline in 1996, any raising of the ceiling for an individual heading will inevitably entail an increase in the overall ceiling for appropriations for commitments. However, the Commission is not proposing any increase in the overall ceiling for appropriations for payments since the margin now left available beneath the ceiling on appropriations for payments by the 1996 budget allows the appropriations for payments needed as a result of this revision to be accommodated without any change in the current ceiling. They could even be financed within the initial budget.

III. Practical arrangements for the revision of the financial perspective

1. The attached table sets out the changes proposed to the various ceilings of the financial perspective at 1997 prices.
2. However, it is proposed that the decision on the revision of the financial perspective should be expressed in 1992 prices⁴ in line with the practice adopted by the budgetary authority for the adjustment of the financial perspective to take account of enlargement. This approach is essential for heading 2 since the reference decisions were adopted at 1992 prices (for twelve Member States).

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The attached proposal for a decision on the revision of the financial perspective is being put to the budgetary authority for adoption. The financial perspective table, in 1997 prices, after adjustment and revision is set out in the annex for information. The results of the decision which the budgetary authority may take on the adjustment in line with the conditions of implementation will be incorporated in due course.

⁴ To draw up the decision on the revision of the financial perspective at 1992 prices, the 9.5% deflator underlying the technical adjustment for 1997 must be used (except for the Structural Fund appropriations for the three new Member States which are subject to special indexation rules). The 8.6% deflator underlying the 1996 budget must be used for raising the 1996 ceiling for heading 4.

Changes in financial perspective headings
New requirements and reallocation of expenditure

ECU million	1996	1997	1998	1999	TOTAL
	<i>1996 prices</i>		<i>1997 prices</i>		
Heading 1					
Change in ceiling		0	0	0	0
<i>New expenditure covered</i>					
Transfer of B2-51		(160)	(160)	(160)	
Transfer of "pure" objective 5a			(558)	(566)	
Transfer of objective 5a in 5b areas				(465)	
Heading 2					
Change in ceiling			-508	-981	-1489
Reduction after transfer of objective 5a			-558	-1031	
Increase for Community initiatives			+50	+50	
Heading 3					
Change in ceiling		140	550	360	1050
Research		+200	+490 ⁵		
Trans-European networks		+100	+300	+600	
Reallocation of appropriations			-100	-100	
Transfer of B2-51		-160	-160	-160	
Heading 4					
Change in ceiling	170	199	129	129	627
Exceptional financial aid	170				
Food aid for Caucasus, Central Asia		70			
Emergency aid (transfer from the reserve)		129	129	129	
Heading 5					
Change in ceiling			57	66	123
Buildings			50	50	
Recruitment (enlargement)			7	16	
Heading 6					
Emergency aid reserve		-129	-129	-129	-387
Change in ceiling on appropriations for commitments	170	210	99	-555	-76
Change in ceiling on appropriations for payments	0	0	0	0	0
<i>p.m. Change in appropriations for payments necessary</i>	+170	-19	-179	-397	-425

⁵ ECU 500 million at current prices.

PROPOSAL FOR THE REVISION OF THE FINANCIAL PERSPECTIVE

annexed to the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure

The European Parliament and the Council of the European Union,

Having regard to paragraphs 11 and 12 of the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure,¹

Having regard to the proposal from the Commission,

Whereas, in order to help restimulate economic growth and employment at European level, it is necessary to strengthen the internal Community policies which are likely to have a positive impact and which have accordingly been recognized as priorities by the legislative and budgetary authorities and by the European Council; whereas, in this connection, raising the ceiling for heading 3 should allow supplementary financing of the fourth framework programme of research and technological development, an increase in the allocations for the trans-European transport networks and an additional allocation for support for small businesses;

Whereas, when the financial perspective was adjusted to take account of the accession of Austria, Finland and Sweden, the heading 2 ceiling was raised to finance a programme in support of the peace process in Ireland; whereas additional financing was provided from the reserve for Community initiatives, which must now be replenished;

Whereas the unfavourable economic and financial situation in Armenia, Georgia and Tajikistan has so far not allowed these countries to settle their debts with the Community; whereas the International Monetary Fund has concluded agreements with Georgia and Armenia, accompanied by concessionary aid; whereas these two countries have undertaken to service their debt to the Community; whereas the Community should support the adjustment process by means of exceptional financial aid; whereas Tajikistan could also receive this aid if similar conditions were met, notably an agreement with the IMF; whereas these measures cannot be financed within the current ceiling for heading 4 of the financial perspective;

Whereas the current ceiling for heading 4 will not allow food aid to be granted to the countries of the Caucasus and Central Asia in 1997; whereas this operation requires that the ceiling for heading 4 be raised for that year;

Whereas, when the financial perspective was adjusted to take account of the accession of Austria, Finland and Sweden, the institutions agreed to undertake a review in 1996 of the requirements under heading 5 of the financial perspective for the financing of the institutions' buildings and the staff requirements for the new Member States;

Whereas the emergency aid reserve has not worked smoothly in certain cases with regard to the objectives pursued; whereas it has also been necessary to draw systematically on

¹ OJ C 331, 7.12.1993, p. 1.

this reserve; whereas part of the allocation of the emergency aid reserve must therefore be transferred to heading 4 of the financial perspective;

Whereas, at a time when severe constraints are being imposed on the public finances of the Member States, it is essential not to call in additional own resources between now and 1999 and avoid any overall raising of the ceilings of the financial perspective by reallocating appropriations not only within but also between the headings of the financial perspective;

Whereas the European Council meeting in Edinburgh on 11 and 12 December 1992 concluded that "the coverage of the agricultural guideline should be reviewed in 1996"; whereas certain expenditure of an agricultural nature now financed under headings 2 and 3 of the financial perspective could be transferred to the agricultural guideline without compromising the financing of the common agricultural policy;

HAVE DECIDED AS FOLLOWS

Article 1

1. The expenditure to be charged to Chapter B2-51 of the budget in the nomenclature adopted for the 1996 budget shall be transferred from heading 3 of the financial perspective to heading 1 with effect from 1997.
2. Expenditure on objective 5a of the Structural Funds, outside objectives 1 and 6 and objective 5b areas, which is covered by Item B2-1001 of the budget in the nomenclature adopted for the 1996 budget, shall be transferred from heading 2 of the financial perspective to heading 1 with effect from 1998.

Expenditure on objective 5a of the Structural Funds in objective 5b areas, which is covered by Item B2-1002 of the budget in the nomenclature adopted for the 1996 budget, shall be transferred from heading 2 of the financial perspective to heading 1 with effect from 1999.

The transfer of this expenditure from heading 2 to heading 1 of the financial perspective shall be without prejudice to application of the second subparagraph of paragraph 10 and paragraph 21 of the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure. The amounts for the Structural Funds shall continue to be those laid down in Council Regulation (EEC) No 2081/93,² irrespective of whether they are classified under heading 1 or heading 2 of the financial perspective.

This transfer shall not affect the method of calculation adopted on the accession of Austria, Finland and Sweden for the annual technical adjustment of the amounts intended for the new Member States under the Structural Funds up to 1999.

² OJ L 193, 31.7.1993, p. 5.

Article 2

1. The ceilings of the financial perspective adapted by the decision on the adjustment of the financial perspective annexed to the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure³ shall be amended as follows:

*Appropriations for commitments, ECU million
1992 prices*

	1996	1997	1998	1999
Heading 2 Structural Funds			- 463	- 893
Heading 3		+ 128	+ 502	+ 329
Heading 4	+ 157	+ 182	+ 118	+ 118
Heading 5			+ 52	+ 60
Heading 6 Emergency aid		- 118	- 118	- 118
Total	+ 157	+ 192	+ 91	- 504

2. The ceiling on appropriations for payments necessary shall remain unchanged over the period 1996-99.

For the European Parliament,

For the Council of the European Union,

³ Decision 94/C 395/01 of 13.12.1994 by the European Parliament, the Council and the Commission, OJ C 395, 31.12.1994, p. 1.

PROPOSAL FOR THE AMENDMENT OF COUNCIL DECISION 94/729/EC
OF 31 OCTOBER 1994 ON BUDGETARY DISCIPLINE

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Articles 43, 209 and 235 thereof,

Having regard to the proposal from the Commission,¹

Having regard to the opinion of the European Parliament,²

Having regard to the opinion of the Court of Auditors,³

Whereas, at its meeting in Edinburgh on 11 and 12 December 1992, the European Council agreed that the coverage of the agricultural guideline should be reviewed in 1996;

Whereas certain expenditure of a structural nature and expenditure relating to the completion of the internal market, controls and other operations in the agricultural sector contribute to the same objectives as those currently covered by the agricultural guideline;

Whereas the coverage of the agricultural guideline can be gradually extended to this expenditure without compromising the financing of the EAGGF Guarantee Section,

HAS DECIDED AS FOLLOWS:

Article 1

The following subparagraph shall be added to Article 4(1) of Council Decision 94/729/EC of 31 October 1994 on budgetary discipline:⁴

"In addition to EAGGF Guarantee Section expenditure, the agricultural guideline shall cover the following expenditure in the nomenclature adopted for the 1996 budget:

- with effect from 1997, expenditure under Chapter B2-51 (Completion of the internal market, controls and other operations in the agricultural sector);
- with effect from 1998, expenditure on objective 5a of the Structural Funds, outside objectives 1 and 6 and objective 5b areas, which is covered by Item B2-1001 of the budget;
- with effect from 1999, expenditure on objective 5a of the Structural Funds in objective 5b areas, which is covered by Item B2-1002 of the budget."

¹ OJ C

² OJ C

³ OJ C

⁴ OJ L 293, 12.11.1994, p. 14.

Article 2

This Decision is addressed to the Member States.

Done at ,

For the Council

The President

**FINANCIAL PERSPECTIVE FOR 1997 AFTER TECHNICAL
ADJUSTMENT AND REVISION***

**APPROPRIATIONS FOR COMMITMENTS
ECU MILLION**

	Current prices			1997 prices	
	1995	1996	1997	1998	1999
1. COMMON AGRICULTURAL POLICY	37944	40828	41791	42557	43342
2. STRUCTURAL OPERATIONS	26329	29131	31086	31549	32922
Structural Funds	24069	26579	28240	28649	30075
Cohesion Fund	2152	2444	2738	2792	2847
EEA financial mechanism	108	108	108	108	0
3. INTERNAL POLICIES	5060	5337	5743	6387	6420
4. EXTERNAL ACTION	4895	5434	5821	6159	6648
5. ADMINISTRATION	4022	4191	4352	4473	4548
6. RESERVES	1146	1152	1029	1029	1029
Monetary reserve	500	500	500	500	500
Guarantee reserve	323	326	329	329	329
Emergency aid reserve	323	326	200	200	200
7. COMPENSATION	1547	701	212	99	0
8. TOTAL APPROPRIATIONS FOR COMMITMENTS	80943	86774	90034	92253	94909
9. TOTAL APPROPRIATIONS FOR PAYMENTS	77229	82223	85607	88280	91046
Appropriations for payments as % of GNP (**)	1,20	1,20	1,22	1,23	1,24
MARGIN AS % of GNP	0,01	0,02	0,02	0,03	0,03
OWN RESOURCES CEILING as % of GNP	1,21	1,22	1,24	1,26	1,27

(*) Excluding the Commission's proposals for the adjustment to take account of conditions of implementation. (SEC(96)336)

(**) The figure for 1995 is based on the GNP used for the adjustment of the financial perspective as a result of enlargement.
The figure for 1996 is based on the GNP used for the technical adjustment for that year.