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of the Committee on Budgets

on the future financing of the European Community

Rapporteur: Mr Joan COLOM I NAVAL

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A Series: Reports - B Series: Motions for Resolutions, Oral Questions - C Series: Documents received from other Institutions (e.g. Consultations)

* = Consultation procedure requiring a single reading

**II = Cooperation procedure (second reading) which requires the votes of a majority of the current Members of Parliament for rejection or amendment

**I = Cooperation procedure (first reading)

*** = Parliamentary assent which requires the votes of a majority of the current Members of Parliament

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WORKING DOCUMENT

on

INTERINSTITUTIONAL RELATIONS

Rapporteur: Mr Alain LAMASSOURE

INTRODUCTION

1. The following observations are based on the general approach of the Martin, Colombo and Giscard d'Estaing reports on the Community Institutions: emphasis on the federal nature of the Community; growing financial autonomy at Community level; real Community revenue to finance Community expenditure; full legislative powers for Parliament, including the budgetary field (both revenue and expenditure); gradual development of the Commission into a politically responsible executive and the Council into a 'Chamber of States'.

2. However, uncertainty over the outcome of the current revision of the Treaties makes it necessary to distinguish between:

- procedural adjustments possible within the current framework of the Treaties, which could be implemented before 1993, and
- necessary reforms at Treaty level.

I. POSSIBLE ADJUSTMENTS WITHOUT CHANGING THE TREATIES

3. These should be based on two concerns:

- to improve the form and content of conciliation between the two arms of the budget authority;
- to give the Community budget back its full political significance, beyond its technical dimension.

4. Despite the considerable progress brought about by the pragmatic timetable, conciliation between Parliament and the Council still lacks substance, particularly before the Council's first reading of the budget. This partly because, despite the interinstitutional agreement of 1988, the Council still insists on religiously respecting Article 203 of the Treaty, even if the reading thereby loses its political significance.

5. One of the reasons for this state of affairs is that the Council is not given enough time to examine the Commission's preliminary draft budget. The situation would be improved if the Council could be guaranteed an extra month.

6. At the same time, the first conciliation meeting between Parliament and Council could be brought forward to the beginning of July, i.e. two weeks before the Council's first reading.

7. This would then result in the following timetable:

- February: fixing of Parliament's budget requirements
- April: adoption of preliminary draft budget by the Commission
- early July: first Parliament-Council conciliation
- late July: adoption of draft budget by Council.

8. If the conciliation procedure took place at the beginning of July, the meeting at the Council at the end of July would no longer be necessary. Instead, to ensure good contacts between the institutions, the Council could invite the rapporteurs of the Committee on Budgets to attend its first and second readings of the budget.

9. This innovation would also have the advantage of correcting an unwarranted imbalance. At the moment, Parliament is the only one of the three institutions to debate the budget in the presence of representatives of the other two institutions, at every stage of its deliberation, both in the Committee on Budgets and in plenary. This open practice should be reciprocal. The presence of Parliament representatives, at least at some of its meetings, would provide the Council with more information.

10. Other innovations would be likely to increase the political impact of the vote on the European budget.

11. A proper public debate on revenue is needed. At the moment, this does not happen either before Parliament or even before the Council. The result is outrageous: 55 billion ECU is taken from the Community taxpayer as a result of decisions behind closed doors!

Without waiting for revision of the Treaties, Parliament should debate and vote on revenue, or at least at first reading.

12. In the same vein, Parliament would have more incentive to give the budget its full political importance if the second reading ended with a vote on the budget as a whole.

13. It will be seen that the existence of 'compulsory expenditure' is not so offensive if Parliament has the final say on the overall amount of the budget - and expresses it in a final overall vote.

14. For its part, the Council would benefit from stating its position at second reading at a General Affairs Council or in a joint General Affairs - Budget meeting. In fact, while the debate is limited to the Budget Ministers and their immediate colleagues, the Council cannot act as a real political counterweight to Parliament: the Council sees its role as that of financial safety barrier, which is not the same.

II. FURTHER REFORMS

15. There are two possible approaches to revision of the Treaties.

16. The first procedure would be based on the current system: a first reading by the Council, followed by a first reading by Parliament in which amendments could be introduced by a simple majority, followed by a second reading by the Council in which Parliament's amendments could be rejected by a qualified majority; and final adoption of the budget by Parliament by a qualified majority.

17. This procedure, which has the advantage of being tried and tested, would appreciably strengthen Parliament's role, but it would be less suitable for the new budget situation, in which there would no longer be any distinction between types of expenditure.

18. An alternative solution would be to establish a new institutional balance, with Parliament having the same prerogatives as the Council.

19. The Commission would submit the preliminary draft budget to the budget authority. The two arms of the budget authority would give their positions on the preliminary draft budget as a whole at the same time at first reading.

20. The two texts would then be submitted to a 'conciliation committee' composed of representatives of Parliament and Council. Within a given period, the committee would submit a compromise draft to the budget authority. The budget would then be adopted if the two arms of the budget authority adopted this compromise draft by a simple majority.

21. If the conciliation committee's compromise draft were rejected by a qualified majority by one of the two arms, the text would be returned to the conciliation committee or another round.

22. Parliament would have the final say in so far as it would be the Lower Chamber of a federal system.

This poses two questions.

23. (a) qualified majority or simple majority? If the budget is to represent a real political choice, the principle of the simple majority, universally practised in this area, must be adopted;

(b) Parliament should have the 'overall' final say in the final vote on the budget as a whole. Should it also have the final say on each of the chapters? Obviously the answer is yes, in a truly federal system, which is what we favour.

It is possible that, at least initially, the future Community institutions might in fact give greater importance to the role of the Chamber of States (the present Council) in this area, while giving the Community responsibility for foreign policy.

In this case, if the same distribution of tasks were transferred to the budgetary procedure, then:

- Parliament could have the final say for the overall budget, own resources and 'internal' expenditure (connected with the Community's internal policies), and
- the Council could have the final say for 'external' expenditure (foreign policy and external aid).

Working Document

on

revision of the financial perspective

Rapporteur: Mr Calogero LO GIUDICE

Introduction

1. The sub-report which I have been appointed to draw up for the Working Party on Future Financing must not only deal with revision of the financial perspective in the strict sense, but must also cover revision of the Interinstitutional Agreement proper and its replacement with a better system, and hence extend to expenditure policy as a whole.

Only by adopting this broader perspective can the sub-report follow the two-stage process laid down by the coordinator of the working party, Mr COLOM I NAVAL.

The first stage will conclude with an interim report to be tabled at Parliament's October part-session: it follows that this first document must begin the process by identifying the basic elements of the financial reform of the Community, which, relating as they do to the budgetary provisions of the Treaty, will have an impact on the nature of the agreements between the institutions responsible for the budget and hence on the multiannual forecasts.

Parliament's work might thus be used to good effect as the basis for the proposals to be discussed at the Intergovernmental Conferences on Economic and Monetary Union and on Political Union.

The next step after the Intergovernmental Conferences will be to translate the new system of provisions into new forms of understanding, acts, and regulations. That will be the time when the Community will be able to lay down the new body of rules to govern revenue and expenditure under a budgetary policy based on a philosophy and model that mark a radical departure from the status quo.

2. On the strength of these considerations, your rapporteur believes that, as far as revision of the financial perspective is concerned, the interim report must set out the general principles to form the necessary reference basis. By contrast, the second stage, and the report which I shall have the honour to submit, will afford a prime opportunity for working out the practical and substantive framework within which to begin negotiating the new Interinstitutional Agreement in 1993.

It seems essential that budgetary policy should, to an increasing extent, become the key instrument for defining Community activity, without running counter to acts of major political significance.

3. Indeed, to become fully operative, the Single Act, which, notwithstanding its limitations, has created new problems and established powers not provided for in the Community Treaties, and the decisions of the Heads of State or Government would have required a budgetary policy capable of giving effect to their substance. (It need only be recalled that the Single Act has introduced new Community policies on the environment, research, transport, drugs, etc.).

In the light of the foregoing, and of the experience of recent years, the Interinstitutional Agreement has proved grossly inadequate.

In the paragraphs below, the rapporteur will analyse the main features of the Agreement and the ways in which they have hitherto been given effect, the aim being to identify more clearly the direction which the new budgetary provisions should take.

(a) Negative aspects of the agreement

4. In the opinion of your rapporteur, the Interinstitutional Agreement - though not without its positive features - has failed to attain the important objective of restoring an even balance of power between the two arms of the budget authority.

During the life of the Agreement, at least as far as it has been possible to judge to date, the Council has not taken account of changing circumstances in the interpretation it has given to Article 203 of the Treaty and hence to the relationship with Parliament, which is often considered a purely nominal part of the budget authority.

Two recent examples might be cited as evidence of this attitude:

The Council's inflexible response to Parliament's proposal for the financial perspective to be revised to take account of the new and unforeseen events which confronted the Community in 1989, in other words the development of the situation in Central and Eastern Europe.

Parliament's powers and the balance underlying the Interinstitutional Agreement have been further adversely affected by the Council's failure to comply properly with paragraphs 9 and 12 of the Agreement, the potentially innovative part providing for a kind of dynamic.

Another and still more recent example of the Council's wrong-headed policy relates to the position it took at the second reading of the 1990 supplementary and amending budget No. 2, when, without any legally or politically valid arguments, it maintained that the budget authority, i.e. Parliament, could not amend the revenue side of the Community budget, denying Parliament powers which it claimed solely for itself.

(b) Positive aspects

5. The Interinstitutional Agreement has nevertheless marked a positive stage in the development of Community financial law.

The resolution of 15 June 1988 ratifying the Interinstitutional Agreement (OJ No. C 187, 18.7.1988) referred to its 'importance ... for harmonious cooperation ... with a view to implementing the Single Act'. The Agreement deserves credit to the extent that it has created a climate of greater transparency and trust in the relations between the two arms of the budget authority, moving away from the old strife and tensions.

In addition, the Agreement has made it possible to finance policies aimed at completion of the single market and at bringing about economic and social cohesion (Single Act) and, through the financial perspective, has introduced a system of multiannual expenditure planning such as to enable the Community to develop along ordered lines.

6. The foregoing remarks imply the conclusion that the Intergovernmental Conferences must define a new philosophy on expenditure policy, expressed not only in the form of operating rules, but also in the objectives to be pursued by the Community, both internally and externally. Thoroughgoing revision of the categories used in the financial perspective, as well as of the Interinstitutional Agreement, will accordingly be required, and a new system will have to be laid down to govern expenditure policy.

A new expenditure policy for the Community

7. In anticipation of the Intergovernmental Conferences, our working party must spell out the principles to govern Community expenditure in the years ahead.

(a) The premisses

I shall confine myself here to listing the premisses on which the new expenditure system must be based; in particular:

- political and financial autonomy of the Community, i.e. Community revenue must be determined by the budget authority both within a multiannual reference framework and under the annual procedure;
- restoration of an even balance of power within the budget authority between the Council and Parliament in all acts connected with the budget;
- removal of the now completely obsolete distinction between compulsory and non-compulsory expenditure;
- inclusion in the budget of all Community financial operations - ECSC, European Development Fund, borrowing and lending operations - in accordance with the principle of budget unity.

(b) The principles

8. Expenditure policy must be informed by principles enshrined either in the Treaties or in interinstitutional agreements.

It will be essential in this connection to stress the **redistributive function** of the budget, which must be given effect in a more coherent way. It is not idle to point out that this function is especially important since it now relates to structural and aid policies extending to an ever-growing number of beneficiaries in a Community already numbering twelve Member States and 320 million people.

However, in order to stress the redistributive function of the budget, expenditure has to be classified more rationally, in such a way as to identify the priority objectives of financial operations, and, above all, more substantial resources must be released so as to enable the budget to attain the dimensions required to make it an effective instrument of redistribution.

An appropriate revenue policy will therefore be a *sine qua non* for an expenditure policy enabling the Community to fulfil its role.

9. The essential and necessary first step towards a new expenditure policy is to define Community policies.

The Interinstitutional Agreement as it stands merely lists the areas and sectors of activity, dividing them, moreover, into categories which are not homogeneous, without providing a coherent basis for the specific measures and the corresponding funding. The financial operations are consequently, in some cases, ineffective, and scattered and fragmentary to an extreme degree. Experience teaches us that this verdict also applies to the existing structural policies, whose rules must accordingly be revised from top to bottom.

This need is all the greater in the case of the expenditure now covered in the fourth category listed in the Interinstitutional Agreement.

The Council must therefore rectify its current approach, based on the presumed existence of 'privileged' policies - since these accord with the traditional interests of the Member States - and 'non-privileged' policies, whose appropriations are often meagre and insufficient to enable the Community successfully to achieve the aims which the policies were supposed to achieve.

10. The initial distinction, then, in terms of sectors of activity must be made between Community policies in relation to third countries and the policies required to resolve internal problems.

11. To that end, it will inevitably be necessary to abide by the subsidiarity principle and the requirements of multiannual planning, as is essential in order to classify and rationalize expenditure.

Subsidiarity must thus find expression in budgetary policy. In addition to setting the objectives, the new Treaty or secondary legislation to be drawn up by the Community in agreement with the Member States must provide for a demarcation of powers and responsibilities between the federal and state levels, specifying the basis (exclusive or complementary) of those powers and responsibilities.

It must be made clear from the outset that this will be a particularly complex exercise, since concepts which have hitherto lent themselves more readily to a theoretical approach will have to be translated into policy and budgetary terms. Exploration of the practical application of the principle will no doubt ultimately imply a need to review the present operational system and to draw a clear distinction as regards Community, national, regional, and local measures.

At federal level it will be necessary to finance first and foremost the measures taken under common policies.

A more judicious distinction in terms of tiers of operations should logically enable the Member States to make a number of savings, and application of the subsidiarity principle should help to bring about closer coordination and greater rationalization of expenditure.

12. Having laid down the policies and the nature of Community measures, it will then be necessary to place expenditure within a framework of multiannual planning.

Planning under the current Institutional Agreement has distinguished itself to date more as an obstructive than as a dynamic force. It has also served to restrict Parliament's margin for manoeuvre both in determining longer-term expenditure and in setting the annual volume of expenditure.

Planning, however, must come to be viewed both as an instrument for consolidating measures which cannot by nature be confined within the annual framework and as the means whereby the institutions may make medium-term projections as regards the use of resources to attain the underlying objectives of Community policies.

It must also be perceived as an opportunity for the institutions to work together and cooperate, and be worked out by the two arms of the budget authority - the Council and Parliament - on a footing of equal powers and responsibilities, with no preference being given a priori to the role of the Council or Parliament.

Conclusions

In order to bring about a radical change both to the current Interinstitutional Agreement (which has now been made obsolete as a result of the restrictive ways in which it has been interpreted and will be superseded in the near future by a fundamental reform of the financial and budgetary provisions of the Treaty) and in the understanding of multiannual expenditure planning, the first step for Parliament to take, not least for the benefit of the Intergovernmental Conferences, must be to spell out the principles to form the basis of the Treaty provisions and regulations governing Community revenue and expenditure policy.

To that end, it is essential from the outset for all the rapporteurs to assert the need to amend Article 203 of the Treaty, primarily with a view to restoring a genuine balance of powers between the Council and Parliament in the matter of Community expenditure.

It is also proposed that the rapporteur take account of the foregoing remarks by incorporating the following paragraphs in the motion for a resolution he is to draw up on behalf of Parliament:

The European Parliament,

- Points out that, for the purposes of the Intergovernmental Conferences and, above all, Economic and Monetary Union, it is necessary to adopt a broad perspective, in keeping with the Community's new role, and, on that basis, to lay down a system of budgetary provisions to make the budget a genuine financial instrument for implementing Community policies;
- Is convinced that these imperatives will make it essential to improve upon the existing financial cooperation instruments by means of a new Interinstitutional Agreement;
- Points, in anticipation of the expiry of the current financial rules, to the indispensable need to secure a form of financial autonomy such as to enable the Community budget to perform redistributive functions commensurate with the tasks and role which the Community is called upon to accomplish;

- Considers it essential, therefore, that financially significant Community policies should be laid down by the Council and Parliament, within the scope of Economic and Monetary Union, in accordance with responsibilities and procedures that reflect a new and better balance of powers between the budget authorities;
- Is convinced that application of the subsidiarity principle is a sine qua non for laying down policy measures proper, and an essential condition for more efficient calculation and rationalization of the expenditure entered in the Community budget;
- Stresses also that the aim of a new agreement between the institutions - with a view to attaining the objectives set out in the preceding paragraphs - must be to overcome the existing constraints and rigidity, as seen for instance in the division into expenditure categories;
- Points out similarly that the new Agreement must be able to cope with the imperatives arising from new needs and the new prospects going hand in hand with closer Community integration or the Community's expanding external relations;
- Believes that a rational budgetary policy and hence any new agreement imply acceptance of the principles of multiannual expenditure planning, since this is a method of regulation and provides indispensable back-up for measures requiring contributions spread over several financial years; considers such planning also to be required both in the interests of rationalization of expenditure and to ensure that operations are fully comprehensive in scope; believes that it will serve to underline the dynamic nature of expenditure policy, not least in response to the changed situations within and outside the Community.

Working Document

on

own resources

Rapporteur: Mrs Pasqualina NAPOLETANO

3 July 1990

Future financing and Community own resources

1. Introduction

With a view to the Intergovernmental Conference scheduled for December 1990, it is appropriate to set out for the Working Party on Future Financing some initial views on ways and means of financing the budget.

1. In our view, discussion as to the projected overhaul of the Community's system of financing from 1993 onwards must be based on three considerations:
 - A. The prospect, ultimately, of securing political union or of reallocating national and Community responsibilities, based on the principle of subsidiarity, and hence of striking a fresh balance of power to the European Parliament's advantage;
 - B. As for internal aspects, we must look at the implications of opting to establish a single internal market, in the context of economic and social cohesion, and to achieve economic and monetary union in the short term (with all that this implies for as regards the new environment in which national budgets will have to operate);
 - C. As for international aspects, we must look at the new political responsibilities deriving from the pressing need to take appropriate accompanying measures both to support the radical changes that have been set in train by recent events in the countries of Central and Eastern Europe and in the USSR and to foster a coherent and effective development policy vis-à-vis the Southern Hemisphere nations.

This, then, is what the backdrop must be for the debate on future Community revenue - a debate that must be our response to the radical changes now taking place - since the political, economic and social objectives proposed must be reflected in the budget.

With regard to the impact of Community financing on the content of economic and social policies, every study on the establishment of the internal market and of economic and monetary union¹ has stressed that the redistributive and counterbalancing role of the Community budget must be a major consideration.

What the history of monetary unions has shown is that the process of surrendering power to alter exchange rates has been accompanied by the establishment of budgetary arrangements designed to ensure cohesion between regions or countries.

With regard to the Community's international involvement, increased transfers of resources are to be expected, given both the pressing need to find solutions to the problems of Southern Hemisphere indebtedness and

¹ The Neumark report (1962), the Werner report (1970), the McDougall report (1977) and the Padoa Schioppa report (1987), to mention but the best-known

underdevelopment and the political commitment that has been entered into to associate the countries of Central and Eastern Europe with the Community via a series of agreements, which are likely to contain financial protocols, and to support economic reforms in the USSR.

At this stage, such an approach does not imply an increase in overall public spending in the Community or in taxation levels; rather, we shall have to decide what responsibilities could, or should, be transferred from national level to the Community. We must nevertheless accept the principle that the establishment of monetary and political union must be accompanied by financial integration or by a financial policy approach that has been made more effective as a result of reorganizing public finances and improving coordination between the various levels of government (supranational, national and local). This revamping process must be considered an essential aspect of the conferences that are planned.

At all events, the future debate on Community own resources should take account of the following principles, which Parliament has asserted time and time again¹:

- (A) Individuals' tax burden should not increase;
- (B) The new system will have to take greater account of the relative prosperity of the Community Member States and relative per capita prosperity;
- (C) A new financial policy need not necessarily result in an increased Community budget by comparison with national budgets; rather, the Community budget must be used to complement national or regional measures to a greater extent. The whole range of measures available must be conducive to realizing the Community's objectives;
- (D) The budget must be financed on the basis of actual economic performance of economic operators in the Community without distorting the productive economy, i.e. without additional tax burdens.

2. The current system: how it operates and where the benefits and drawbacks are to be found

2.1. How the system operates

Pursuant to the Council Decision of 24 June 1988 on the system of the Community's own resources (88/376/EEC), the budget is financed from:

- (1) agricultural levies;
- (2) customs duties levied at the Community's external frontiers;
- (3) a percentage of the Member States' VAT receipts;
- (4) an additional resource introduced to bridge the gap between the first three resources and the Community's financing requirements up to a ceiling corresponding to 1.2% of Community GNP (1992);

¹ The Neumark report (1962), the Werner report (1970), the McDougall report (1977) and the Padoa Schioppa report (1987), to mention but the best-known

(5) other revenue which does not represent own resources, mainly specific revenue deriving from the Community's own activities - the most important items being the taxes, contributions and levies deducted from staff salaries - and national contributions provided for in Article 200 of the Treaty in order to balance the budget in the event of a deficit.

In respect of the first two resources the Member States retain, by way of collection costs, 10% of the amounts paid. For agricultural levies, this is very much dependent on the dollar/ECU exchange rate, for customs duties, on developments in international trade and in GATT trade negotiations. The fact is that, as far as financing the budget is concerned, these resources are becoming less important.

The VAT resource is derived by applying a uniform 1.4% rate to the VAT assessment base, which is determined on the basis of Community rules and may not exceed 55% of a Member State's GNP. The sums calculated for the United Kingdom and the Federal Republic of Germany are corrected.

The cost of compensation for the United Kingdom is shared by the other Member States, their shares being calculated by reference to each Member State's share in payments in respect of the GNP-based resource, with the sole exception of the Federal Republic of Germany, which, since 1981, has taken advantage of its position as a net contributor to the Community budget to reduce its share in financing the UK refund by one-third.

The GNP-based resource is an additional resource designed to ensure a balanced budget; it can also guarantee a reasonable increase in the budget in the medium term below the overall ceiling of 1.2% of GNP for the total amount of own resources. This resource furthermore represents an initial effort to make the Community tax system more progressive by relating the contributions of each Member State to its actual level of relative prosperity.

2.2. Benefits and drawbacks

It is undeniable that, compared with past record, the 1988 reform represents significant progress. Indeed, the compromise reached automatically guarantees that the Community's resources will be stable and that the level of revenue required will reflect the increase in budget spending.

In addition, the Interinstitutional Agreement of 24 June 1988 laid down a scheme of financial forecasts for the Community for the period 1988 - 1992 and hence constitutes a further source of stability for budget resources.

There are a number of drawbacks, however, as a result of the way in which the system operates. In the current context of Community integration, the 10% repayment to the Member States is becoming more and more unacceptable.

The compensation for the United Kingdom and the special position of the Federal Republic of Germany with regard to its share in financing this compensation are more and more unacceptable in an integrated Community

capable of promoting a huge range of policies to be implemented over an area that will be enlarged as a result of the recent decision on German reunification.

VAT collection is an area that is not untouched by difficulties either. No agreement has been reached on the collection arrangements, while VAT receipts only partially reflect Member state prosperity as calculated by reference to GNP. Lastly, and this is possibly the most significant constraint, VAT revenue is regressive as the level of prosperity increases.

3. Overhauling the own-resources system: a starting point for the debate

It is well known that the 1988 Decision requires the Commission to submit, by the end of 1991, a report on the operation of the current system. It also makes express provision for the position of the United Kingdom, and hence that of Germany, to be reviewed. Furthermore, under Article 2(2) of that Decision, provision is made for the introduction of new own resources deriving from any new charges introduced under a common policy in accordance with the procedure laid down in Articles 201 and 173 of the EEC Treaty and the Euratom Treaty respectively.

In this connection, though we propose to consider the merits of creating new resources elsewhere in this paper, it should be stressed, looking ahead to the intergovernmental conferences to come, that, as far as the European Parliament is concerned, an essential feature of the process of overhauling the financial system will be to amend Article 201 of the Treaty, so that there is explicit acknowledgement that the European Parliament is vested with power of co-decision as regards revenue, as well as to bring Article 200 of the EEC Treaty up to date.

Whatever the circumstances, account should be taken of the following principles in the revision process:

1. The Community budget must be considered a fully-fledged political document; measures for which funding is earmarked must not, in order to be implemented, require a further legal basis.
2. The budgetary authority alone must be empowered to determine the volume and nature of the Community's revenue in a manner consistent with the division of responsibilities between the Member States and the Community.
3. The 'dynamic' aspect of the process of European integration, as demonstrated by the fact that new Community-level powers are being discussed, must be reflected in a 'dynamic' budget under which policy measures forming part of the supranational sphere of competences can be implemented effectively, involving a scaling down of the national-budget role in certain sectors and a corresponding increase in the role of the Community budget as regards those sectors. Accordingly, the principle of controlling increases in overall public spending would be complied with.

4. Efforts to promote the development of a genuine own-resources system to replace Member States' contributions can be reflected in a practical manner by establishing a direct link between the Community and the taxpayer. Policy measures benefiting the taxpayer would create the climate of trust that would be needed for the Community to be vested with powers of taxation.
5. The budgetary authority must engage in multiannual revenue and expenditure planning.
6. The Community budget must reflect the relative prosperity of those who pay over the contributions (whether this be the Member States or the individual taxpayer). To achieve this, a variety of mechanisms could be proposed in respect of both GNP and per capita income.

Given the environment in which the Community budget is currently operating, with the CAP continuing to account for more than 50% of appropriations, it is perfectly clear that there is insufficient financial autonomy to enable new policies to be developed (save to an extremely limited degree). This holds true in spite of the increase in external-relations appropriations, which is due in large part to the new relations with the countries of Eastern Europe.

What has to be done, then, is to determine the appropriate rate at which new own resources should increase so that new policies laid down on the basis of the principle of subsidiarity can be financed from the budget.

Should this increase be proportionate to the rate at which Community GNP rises or should it reflect the principles of economic rationale embodied in the theory of financial federalism?

The question is whether provision ought to be made at Community level for a budgetary mechanism capable of acting as an economic stabilizer.

Assuming, as we do at present, that economic and monetary union will involve centralized Community policy making, with strict limits on government deficits, and that national governments' budgetary policies may be geared to differing objectives, it could prove essential to bolster Community public-spending powers, provided that this enhanced the democratic legitimacy of the Institutions.

Were the current momentum behind the process of transferring powers to be maintained, this would create the conditions referred to as long ago as 1977 in the McDougall report, which recommended that Community spending should be equivalent to 5-7% of Community GDP (with, therefore, a similar proportion of resources). This would enable the Institutions to play an active role in stabilizing the economy.

4. Possible new resources for the Community

As long ago as 1981, Parliament suggested that taxes on the earnings of physical persons, company taxes and consumption taxes (VAT) should be harmonized at Community level to provide a new basis for the Community's own resources. (Spinelli report).

Although, in respect of VAT, harmonization efforts have enabled the Community to make use of what is now the most important budget resource, little progress has been made on approximating, let alone harmonizing, arrangements for taxing the earnings of physical persons and of companies.

As we know, however, provision is made in Article 2 of the 1988 own-resources Decision for new resources to be created on the basis of charges introduced under a common policy.

The progress made since 1988 towards establishing the internal market and the process of securing economic and monetary union, as well as political union, reflect a gradual move towards a unique type of federal association, and it is logical that such a development should be reflected in the Community's system of financing. The underlying principles for the introduction of a new resource should be as follows:

1. The taxpayer must be directly aware of the link between the individual and the Community, enabling him or her to evaluate his or her own contribution in terms of both cost and benefits;
2. Compliance with the principle of fiscal fairness;
3. A new budget resource must be progressive;
4. A Community tax must be clearly separate from and be in addition to national taxes.

In addition to considering possible new resources, it would be interesting, as part of the debate on Community revenue, to take a look at the notion of a VAT corrective mechanism put forward in the 1977 McDougall report. So that the Member States would share the financial burden on a more equitable basis, the proposal was, essentially, to correct VAT contributions by applying a formula which took account of the relative prosperity of the Community population, i.e. a coefficient in excess of one would be applied to contributions from Member States with a per capita income higher than the Community average, while contributions from Member States with a per capita income lower than the Community average would be calculated by applying a coefficient of less than one.

There are some similarities between this mechanism and that applied in Germany to distribute VAT yield among the more and less prosperous Länder.

In view of the mobility of assets and inputs, and the concept of external effects, economic federalism theory would indicate that two types of tax could be transferred to Community level:

- company profits tax and
- personal income tax.

These two instances will be considered below, though it must be stressed that, whatever system is adopted, the link between power of taxation for the Community and the development of policies benefiting the taxpayer must be an essential feature.

4.1. Company tax

There is an obvious link between company profits and the Community's internal-market policy areas. A proportion of the yield from taxes on the profits of Member State companies, then, could conceivably be paid over direct to the Community. Apart from overcoming the difficulties inherent in harmonizing company taxation, a tax on company profits, as proposed inter alia in the 1988 Padoa Schioppa report, would be advantageous in that it would be a fitting form of Community-level taxation.

To analyze this theory, a number of assumptions have been made:

1. As regards a federal structure for economically more advanced states (OECD countries), experience indicates that it is normal for different forms of company taxation to be in place at more than one level of government;
2. The existence of different forms of company taxation at intermediate levels of government (individual states) or at the lowest level (local authorities) does not prevent the entire territory of a federal state from being a 'single market';
3. Differences, then, in company taxation and the fact that this may be a process carried out at different levels of government would not prevent the establishment of a union.

Our basic assumption is that company taxation receipts accrue to the highest level of government in all federally organized states. Often, the process of collecting such taxes is shared at different levels of government.

This is not the main source of income for federal governments. Indeed, the yield from company tax levied at the highest level of government is equivalent to no more than 0.5 to 3% of GDP. Furthermore, the proportion of company tax yield accruing to the highest level of government in federal states in the OECD exceeds 64%, varying from close to 30% to 100%.

A Community budget to which 64% of company tax yield from the Member States accrued would have at its disposal some 65 billion ECU at 1988 prices, or close to double the level of resources now available to the Community.

It is interesting to note that, if it proved possible to emulate the federal states concerned, company tax could be a major source of funding for the Community budget, though this would not prevent the Governments of the Twelve from keeping part of the tax yield.

4.2. A European income tax

It is common knowledge that the link between the individual citizen and the European Community remains fairly fragile, since the impact of Community policies is not directly visible to individuals, with the possible exception of certain sections of society (farmers). It would not be possible, then, to make out a good case for introducing an additional tax on earnings unless that tax were accompanied by high-profile policy measures (e.g. a European Unemployment Fund).

If a decision were taken to take this possibility further, however, there would have to be a redistributive element, which would mean that Member States' contributions would have to be calculated by reference to per capita GDP and corrected by applying a progressive coefficient. Accordingly, the more prosperous countries' contribution to the Community budget would lessen as inequalities narrowed.

5. Other possible new resources

A debate has been going on for some time at Community level, in the Member States and among experts as to the possibility of introducing an energy tax; more recently there has also been research on the possible tie-in between environmental policy and taxation.

The rapporteur proposes that an examination should be carried out of such research findings and of proposals that have been made on the first issue (energy) and that an in-depth investigation should be conducted into possible approaches as regards the second issue (the environment and taxation), involving exchanges of views with experts.

However, what is liable to happen with an energy tax? A domestic levy on energy products would amount to a tax, while a levy on import would of course amount to a customs duty.

The Commission has already rejected the possibility of a levy on domestic production, since this would penalize countries such as Germany and the United Kingdom. However, a levy on imports on some or all energy products would penalize importing countries already penalized by the scarcity of resources in their own territories and would amount to a measure to protect the internal market that would be at odds with policies on cooperation with third countries.

With regard to a possible tax on consumption, a number of specific points should be looked at.

What types of consumption would be affected by this? (It goes without saying that all renewable energy sources would be promoted and therefore taken out of the tax regime.) This would act as a disincentive to using certain energy sources (oil, fossil fuels, etc.). Naturally, this is bound up with the debate on environmental acceptability; for this reason, a greater role should be found for this aspect as part of Community energy and environmental policies - a possible reduction in the use of fossil fuels, non-biodegradable plastic products, pesticides, fertilizers, etc. - rather than making it a source of funding for the Community budget, a resource which would of course be regressive and not, as should be the case, progressive.

The rapporteur therefore proposes, as a first step, that account should be taken of the fact that the Commission has set up a national experts' group to put forward suggestions forming an input to the Commission proposal to which Commission President Delors made reference when presenting the 1990 programme. It would therefore be interesting to contact the Commission departments responsible to inquire whether, in view of the overhaul of the own-resources system after 1992, it would be conceivable or, alternatively, untimely to put forward relevant ideas.

At all events, it would be useful to have access to a study on 'ecotaxes' which set out both the environmental and budgetary implications thereof.

WORKING DOCUMENT

on

non-budgetized financial instruments

Rapporteur: Mr Jean-Claude PASTY

1. The approaches now being considered by the Committee on Budgets to the future financing of the Community look ahead to the operation of the Single Market from 1993, and to the objectives of economic and monetary union and political union, in proposing financial reforms that would enable the Community to command sufficient financial resources to do justice to its objectives, and allow the two sides of the Budgetary Authority to enjoy an equitable distribution of financing powers.

The reforms would also have to consolidate certain past and present financing practices to avoid perpetuating a number of existing conflicts.

2. Among the problems that call out for political and technical solutions in the context of financial reform are borrowing and lending operations and the European Development Fund, which, together with the special case of the ECSC budget, constitute the major exceptions to the rule of budgetary uniformity that Parliament has always upheld.
3. By virtue of that rule, a moral person in public law must draw up in a single document (the budget) all financial operations relating to the said moral person in the form of a statement of revenue and expenditure.

Future financial reforms must incorporate that principle which, if adopted, will go a long way to meeting the challenge of the new requirements of Community policies, in particular by enabling the following to be secured in the longer term:

-budgetization of borrowing and lending operations;

-budgetization of the EDF;

-integration of the ECSC operating budget into the general budget,

the more necessary as the expiry date of the 50-year term for which the ECSC Treaty was initially concluded approaches.

BUDGETIZATION OF BORROWING AND LENDING OPERATIONS

a) Existing situation

4. Borrowing and lending operations are not budgetized. This is a violation of Article 199 of the EEC Treaty, which stipulates:

All items of revenue and expenditure of the Community [...] shall be included in estimates to be drawn up for each financial year and shall be shown in the budget.

In 1990 revenue and expenditure relating to borrowing and lending amounted to 2,154.4m ECU, broken down as follows:

NCI	927.2
Euratom	393.
Balances of payments	484.4

	1,805.6
 Guarantee for EIB loans (Med. basin)	 345.8

	2,151.4

5. The Council is hiding behind 'technical' budgetary arguments to oppose the political moves by Parliament for budgetization, including for example such devices as non-allocation of revenue, the maximum rate, provisional twelfths and the classification of expenditure, arguments now weakened by the present approach by the Committee on Budgets to have the latter distinction removed by the next budgetary procedure.
6. The present approach to the budgetization of borrowing and lending is still at an embryonic stage, viz:
 - expenditure items are allocated a token entry as a Community guarantee in the event of default by an insolvent debtor (Articles 830, 831 and 832 for balance of payments loans, Euratom and NCI);
 - expenditure items also provide for the financing of interest-rate rebates on certain loans;
 - revenue items are allocated a token entry giving entitlement to the proceeds of any proceedings taken against a defaulting debtor (Arts. 801, 802 and 803);
 - an annex listing borrowing and lending operations is provided every year, but is for information only, and is in no sense authoritative.

Parliament has for some years operated an amendment under the budgetary procedure whereby a framework is provided for future budgetization of borrowing and lending by initiating a Part II of the budget entitled 'Borrowing and lending operations'.

b) Current trends

7. The Commission, at the PDB stage of the 1990 budgetary procedure, reaffirmed its position in favour of budgetization, since it considers that an agreement in principle should be concluded between institutions in advance of the budgetary procedure on the form of presentation of borrowing and lending operations to be used in future.

Since the Single Act the following should be noted:

- on the one hand, the complementarity of budgetary operations and borrowing and lending operations;
- on the other, the increasing recourse to these operations.

This increasing recourse to borrowing and lending operations is also a feature of the forthcoming incorporation of the territory of the German Democratic Republic (GDR), since Community financial operations during the interim period will be operated exclusively by means of Community loans.

8. It therefore appears appropriate in terms of future financing to open negotiations on subsequent developments in this area, both in political terms and in the interests of strict budgetary orthodoxy.

The growing importance of borrowing and lending operations makes it increasingly unacceptable for Parliament to be excluded from all supervision of these operations.

Other points of contention such as the classification of expenditure as compulsory or non-compulsory, and possible implementation of the maximum rate, have lost much of their importance following the conclusion of the Interinstitutional Agreement and the drawing up of the financial perspectives.

The negotiations on a new agreement, possibly with new financial perspectives, which will be entered into in anticipation of future financing, should also look at the option of extending the overall volume of the new financial resources to include provision for borrowing and lending operations following their budgetization.

9. In terms of future financing, the financial situation and the political conditions are considered as sufficiently favourable to enable Parliament to exercise supervision over authorization of these operations, whether:
 - after their budgetization, or
 - by obtaining power of legislative joint decision.
10. Over and above supervision of the authorization of borrowing and lending operations as a whole, there arises, in the case of one of these instruments, namely loans under the single medium-term financial assistance facility, the more fundamental problem of its development in anticipation of economic and monetary union.

Historically, before the establishment of the single medium-term financial assistance facility in 1988, two instruments were in existence:

- the machinery for providing medium-term financial assistance, and
- the Community loan mechanism.

Regulation No 1969/88 of the Council of 24 June 1988 proceeded to merge these two instruments and to implement a single facility providing medium-term financial assistance for Member States' balances of payments.

11. The special feature of this facility is that it is intended to serve a different purpose from the other borrowing and lending instruments, which are to be used to finance investment projects.

Under the new facility the Community uses its credit to borrow on the international markets and to lend, on the same terms, the funds so obtained to Member States experiencing balance of payments difficulties, including Member States that are committed to implementing a programme of capital liberalization in spite of a sensitive balance of payments situation.

Under the facility the Council had decided to grant certain loans to Italy, Ireland, France and Greece.

The guarantee on these loans, on the basis of these instruments, is provided for at present under Article 830 of the general budget: 'EEC guarantee for Community loans raised for balance of payments support', which has simply been allocated a token entry.

12. This instrument was instituted in June 1988. At that time it was incorporated into:
 - on the one hand, the set of instruments relating to the new Community financial arrangements on own resources and budgetary discipline;
 - on the other, moves to secure financial integration of the Communities, the first stage of which was constituted by the programme to liberalize capital movements submitted by the Commission in 1986, and the second stage by:

- . a directive intended to secure complete liberalization of capital movements,
- . the regulation establishing a single facility providing medium-term financial assistance for Member States' balances of payments

The intention in 1988 was to advance by these successive stages to meet the challenge posed by the Single Act, namely achievement of the internal market and economic and social cohesiveness.

It had by then become absolutely essential to implement reforms to the Community system of financing to adapt it to the operational needs of the single market.

13. Economic and monetary union, which presupposes a much deeper and more complex stage of economic integration, will require a financing system on a Community scale capable of spearheading an active financial policy coordinated at both monetary and fiscal levels.

In that connection, efforts to secure complete liberalization of capital movements will have to be speeded up if genuine liberalization is to be achieved by the intended deadlines.

There will also be the problem in this connection of the future development of the single facility providing medium-term financial assistance for Member States' balances of payments, which will also have to be incorporated into the programme for complete liberalization of capital movements, but the development of which, looking ahead to the objective of economic and monetary union and the more complete integration of the economies of the Member States, will take place in different conditions.

The present system stipulates that before a loan can be obtained the applicant Member State must adopt economic policy measures aimed at reestablishing a sustainable balance of payments situation adapted to the seriousness of the situation and the choice of policy.

14. The deeper integration of economic policies will attenuate the specific impact of the economic policy measures having to be taken by the Member State concerned, just as it will limit the potential seriousness of the particular economic situation of that Member State.

Consequently, far from calling into question an instrument that shares fully in economic and financial integration, it would certainly be more appropriate to review the practical details of implementation in anticipation of economic and monetary union and the resultant approximation of national policies.

BUDGETIZATION OF THE EDF

a) Present situation

15. Budgetization of appropriations earmarked for financial cooperation with third countries in their entirety, and in particular in that connection, budgetization of the EDF, is a long-standing claim of Parliament's.

Without repeating all the arguments put forward by the European Parliament at every stage in its efforts to secure EDF budgetization, the following points can be made in justification of the demand:

- The purpose of such budgetization is to give concrete form to the Community's declared resolve to implement a genuine policy of international cooperation, and to integrate that policy with other Community policies;
 - Budgetization will on the one hand enable the European Parliament to ensure democratic parliamentary monitoring of appropriations that at present lie outside its powers of control - a situation it wishes to see discontinued in its search for new powers to make up the existing democratic deficit - and on the other, in the interests of budgetary orthodoxy, budgetization of these operations will be a major contribution to completing the principle of budgetary uniformity on the same basis as the budgetization of borrowing and lending operations.
16. As matters now stand, EDF revenue is drawn from national contributions paid on the basis of a separate allocation scheme. These are funds paid by the Member States independently of the budget.

In terms of expenditure, a 'standby structure' for budgetization already exists in Chapters 90 and 91, since the remarks column stipulates that: *'Chapters 90 and 91 are intended to accommodate the EDF funds once the European Development Fund is included in the budget.'*

Each year Parliament, in the context of the budget procedure, tables an amendment calling for improvements in the information provided on the implementation of the EDF by summarising its data in the remarks column in Chapters 90 and 91 and including provisional figures for the implementation of the budget as featured in an annex to the draft budget entitled 'Financial Information on the European Development Fund'.

It should also be pointed out that Parliament grants discharge to the Commission on the implementation of EDF appropriations.

b) Current trends

17. Recent developments in Eastern Europe oblige the Community to review its overall strategy for cooperation policy with third countries, and to draw up a new policy in this area.

This operation will have to be incorporated into a wider approach aimed at reducing the imbalances that are appearing as a result of events in Eastern Europe between the different operations existing at present, while providing the financial resources necessary to react positively to the strengthening of existing operations and meet the new challenges of cooperation policy.

The Community must effectively implement a genuine international cooperation policy with its new guidelines, integrate that policy with other Community policies, and endow it with the necessary budgetary resources.

Strengthened communitization of the Community's international cooperation policy inevitably presupposes budgetization of the EDF.

18. Economic and political data appear favourable to proceeding in that direction. Approaches to the future reform of the Community's finances converge in acknowledging that the Community must have at its disposal own resources (drawn where necessary from new Community taxes) sufficient to enable it to take up its new duties and assignments in anticipation of economic and monetary union and political union.

Such financial arguments as the lack of resources specifically referred to by the Commission (negotiations on the Delors package) or the problems of contribution scales, once prominently highlighted for the purpose of resisting EDF budgetization, now belong to past history.

19. Moreover, there is no reason why the financial and budgetary impact of this transfer of financing of operations to Community level, which is capable of ensuring increased efficiency, should result in an increase in the overall fiscal burden on the European taxpayer, since any increase in Community resources by one means or another will be matched by equivalent relief at national level.

Consequently, there is a strong case, backed by the requirements of budgetary orthodoxy and adherence to the principle of budgetary uniformity, for proceeding with budgetization of the EDF on the side of both revenue and expenditure.

Consideration might well be given to laying down certain principles in this connection, such as deadlines for implementation, the form of budgetization of appropriations (revenue, expenditure), amendments to the Financial Regulation, incorporation of the EDF into the financial perspectives, etc.

BUDGETIZATION OF THE ECSC

a) Present situation

20. The historical and budgetary development of the Community has led to the emergence of two budgets, the general budget of the EC and the ECSC operating budget, which has special features of its own such that the European Parliament has never considered it as a real budgetary instrument, let alone a real budget.

This operating budget, which is subject to a special budgetary procedure and answers to its own budgetary rules, is subject to Parliament's 'assent'.

21. Parliament has always sought in the opinions it has submitted to the Commission and/or the High Authority to persuade the latter to convert

this operating budget into a genuine budget with, for example, greater transparency, a distinction between commitment and payment appropriations, or to act on any other suggestions intended to consolidate or complete budgetization of all financial operations and bring the operating budget more into line with conventional budgetary practice.

The purpose of this campaign is eventually to secure genuine 'parallelism' between the two budgets, leading ultimately to their consolidation or integration into the Community budget.

22. For some years certain new features have been appearing, creating an increasing de facto approximation between these two budgets and facilitating their integration in the longer term.

In some cases, for example, direct or indirect contributions from the EEC budget to the ECSC budget now take the form of reductions in the ECSC administrative contribution to the EEC budget, or of direct financial transfers from the general budget to the ECSC budget.

Another illustration of the progressive integration of the two budgets results from the June 1988 decision on own resources, whereby customs duties on products of the iron and steel and coal industries are now treated as own resources entered in the EEC budget.

Lastly, certain EEC financial operations, in particular those channelled through the structural funds, now take the form of substantial payments to assist ECSC sectors in difficulty.

23. This dual development, encompassing:
- on the one hand, all the operations undertaken at procedural level by Parliament to align the separate procedure and special features of the ECSC budget as far as possible with the general budget, and
 - on the other, the interpenetration between the two budgets in recent years,

is only a first step towards securing the political objective pursued by Parliament, which has repeatedly indicated that it hoped to see the ECSC operating budget being completely integrated into the general budget.

b) Current trends

24. The objective of ECSC budgetization must consequently be considered in this connection as a determination to see the two budgets combined.

Approaches to future financing must integrate both these aspects as they apply to the ECSC operating budget, but with a greater determination to ensure that ECSC activities as a whole are brought within the ambit of the general budget.

ECSC financial activities must moreover be understood to include that Institution's borrowing and lending operations, which have been expanding steadily.

25. This strategy of consolidating the two budgets, like the budgetization of the EDF and of borrowing and lending operations, is in line with

Parliament's resolve to exercise political and democratic monitoring of Community finances as a whole.

It can and must, in particular in the present more favourable economic circumstances, be carried through with the maximum rapidity, with special consideration being given to the much more sensitive - but no longer far-distant - problem of the future of the ECSC, the Treaty establishing which will expire in 2002.

26. Integration of the ECSC budget into that of the EEC must clear the way for a solution adjusted to the future of the ECSC and to the problem of progressively integrating its operations into the corresponding EEC policies.

Parliament should consequently make a point of insisting that the institutions concerned (Council, Commission, Parliament) must begin immediately to give due consideration to the future of the ECSC as of the deadline laid down by the Treaties, and to the manner in which ECSC operations and responsibilities are to be taken over.

CONCLUSIONS

27. In the rapporteur's view, the future financial reform of the Community must be such as to provide it with the resources necessary to achieve its new objectives and new policies, as drawn up in anticipation of economic and monetary union and of political union.

It must also be accompanied at institutional level by the necessary changes in the balance of financial powers between Parliament and the Council.

28. The rapporteur therefore asks for Parliament to be enabled in this connection to acquire real powers of democratic control over Community finances as a whole and not, as is the case at present, over only a part of them.

Consequently in terms of the budget, apart from the extension of its powers to cover all expenditure in the general budget as it now stands, Parliament must exercise democratic control over all other financial operations relating to the Community.

29. To that end, in the rapporteur's view, the only possible frame of reference and basis for these financial operations as a whole, must, in the interests of rationalisation, clarification and effectiveness of monitoring, be the budget of the Community, which, in addition to existing operations, must include borrowing and lending operations, the EDF and the items of revenue and expenditure of the ECSC operating budget.

30. The rapporteur therefore proposes:
 - a) Having regard to budgetization of borrowing and lending operations, an annual budget entry for these items, which must be made subject to the same budgetary procedure (present or future) as is applicable to all Community resources and expenditure. The Community must rationalize and improve its borrowing and lending policy authorised and monitored by the Budgetary Authority.

Budgetization must be such as to enable the Budgetary Authority to fix the maximum annual overall budget of capital operations on the basis of complete information relating to the debt situation of the Community. In that connection the creation of a 'capital budget' of the Communities would assist in formulating a clear overall approach to the Community's borrowing and lending policy.

There arises more specifically in the context of borrowing and lending operations as a whole the problem of loans under the single medium-term financial assistance facility, and in particular of the development of that facility in the light of progressively deepening economic integration in the lead-up to economic and monetary union.

- b) Budgetization of the EDF, which must give concrete expression to the resolve of the Community to implement a genuine policy on international cooperation on the basis of an acceptable political balance between the different financial operations, not only for Eastern Europe but also for the ACP countries, Latin America and Asia, the Mediterranean countries, etc. A genuine policy of consistent development necessarily presupposes budgetization of all relevant financial operations and not, as at present, only some of them.
- c) Integration, on the basis of financial reforms anticipating future financing arrangements, of the ECSC operating budget into the general budget of the European Communities. That integration must apply not only to the current revenue and expenditure of the ECSC operating budget, but, in the interests of consistency with the resolve to budgetize Community borrowing and lending operations as a whole, also to the different borrowing and lending operations peculiar to the ECSC.

Looking beyond this immediate objective, which must be incorporated into the overall guidelines for future financing that result from it, the rapporteur hopes that studies will be launched with immediate effect, and with the active participation of the European Parliament, into the choice of options for future Community policy in the coal and steel sectors after 2002, the year in which the ECSC Treaty expires, together with the budgetary consequences resulting from them.

WORKING DOCUMENT
ON
FUTURE FINANCIAL PERSPECTIVES IN THE EEC
(after 1992)
- RELATIONS BETWEEN THE COMMUNITY AND
THIRD COUNTRIES

Rapporteur: Mr Joaquim MIRANDA DA SILVA

1. The high degree of integration of the Community into the international system is primarily the result of historical factors originating in the external relations of the Member States, but is also due to the value added created by the Community itself in the context of the completion of an internal market defined by its own customs frontier.
2. The Community, as a regional subsystem, is under permanent pressure from the international system and its tensions. As its history shows, its development is not compatible with isolationist policies, in view of its substantial dependence on international trade both for raw material supplies and for markets for its products.

The Community's status as a major trade power makes it a pole of attraction for third countries, but also points to the need for it to put its potential at the service of the correct administration of international relations in the field of trade and finance.

3. Over the period 1987-1989, the total value of the Community's exports amounted to 1115.4 m ECU, as opposed to 820.1 m for the US and 674.2 m for Japan. The total value of the Community's imports over the same period was 1176.1 m ECU; the corresponding figures for the US and Japan were 1154.5 m and 479.3 m respectively.

It is clear from these figures that the Community's high degree of integration into the international system should not be viewed exclusively from the economic viewpoint; it should, rather, be considered as a basis for obtaining mutually-advantageous conditions for both the Community and its partners and developing the necessary level of solidarity with third countries.

4. However, a number of other factors must be borne in mind: the long periods of worldwide economic depression with their disastrous implications for certain regions of the world, the development gap between regions, the Third World debt, the fact that neither the US nor Japan alone is in a position to be the motor of growth or the regulator of the world economy, and, most recently, the unprecedented wave of changes in Central and Eastern Europe. All these factors are conclusive evidence of the need for a redefinition of the groundrules of international relations, and, in addition, point to the importance at Community level of re-examining the whole basis of external policy.
5. The Community's relations with third countries are based on the powers conferred on it by the Treaties. The exercise of these powers implies the definition of a policy whose implementation is confirmed by various types of intervention.

Such a policy is directly linked to the institutional process, especially in view of the diverse and disparate forms of intervention existing.

It is therefore essential that the resources placed at the disposal of such a policy should be sufficient to ensure consistency in the Community's dealings with third countries, while at the same time contributing to the development of synergies between the Community institutions.

6. The new context arising with the prospect of completion of the large internal market makes it essential to determine clearly the nature of those resources; they should be utilised in such a way as to avoid temporary remedies or situations of institutional paralysis, both of which would, in the long term, inevitably undermine the Community's dynamic as regards relations with third countries.
7. Article 210 of the EEC Treaty endows the Community with legal personality, thus enabling it to cooperate with third countries on the basis of a framework of sectorial provisions which are also set out in the Treaty. This applies to economic and financial cooperation agreements, association agreements, conventions reinforcing economic and social activities and instituting international groupings, accessions to international agreements concerning basic products and policies whose development involves external considerations and requires international cooperation.
8. These forms of cooperation obviously have financial implications, but not all of them are identified in the Community budget, despite the provisions of Article 199 of the Treaty and the principle of budgetary unity which Parliament has always defended.
9. The realization of such Community policies as the customs union or the common agricultural policy, with their respective external effects, has led the Community to examine their impact jointly with its partners and to adopt a system of progressive reductions.

The implementation of the customs union, together with the creation of the common customs tariff, whose economic function is to regulate trade with the rest of the world; the complementary regulatory instruments such as the anti-dumping and compensatory duties; the quantitative restrictions; the agricultural levies; and the levies on ECSC products: all these measures have financial implications for budget revenue, as well as constituting the framework within which cooperation policy with third countries is conducted.

10. In these circumstances, the question of budgetary authority arises; it has to be asked how much influence this factor has on the above-mentioned financial implications, especially at a time when a clear philosophy exists concerning the correct role and functions of the Community budget.
11. In the Community budget system, it is the Member States who determine the resources to be allocated to the Community, on the basis of the intergovernmental conference followed by ratification by the national parliaments. Nevertheless, the Treaty has from the beginning also allotted own resources to the Community, as in the case of duties under the common customs tariff and the agricultural levies.
12. The level of these two sources of revenue is, however, decided by the Council. The agricultural levies are fixed by the Council of Agriculture Ministers, and are viewed less as resources than as a market regulation mechanism.

13. It must be asked whether this practice should be considered satisfactory and whether it leads to correct determination and efficient management of the budget. It may be argued, on the contrary, that it permits situations in which financial resources evade the indispensable control, in the fields of assessment and administration, of the two branches of budgetary authority; the result is a distortion of the process of legitimation of the financial effects of the various policies and a denial of the powers of democratic control of the budgetary authority.
14. This situation is further affected by the question of the management of these resources in the context of the national budgets of the Member States. The existing structural disparities create a situation in which an influx of goods from third countries can have a widely varying impact on the finances of the different Member States.
15. With regard to the quantitative aspects of these resources, one should bear in mind their decreasing importance in the medium and long term. In particular, the agricultural levies, linked as they are to world price fluctuations and exchange rate variations, form a highly unstable own resource. In the case of customs duties, it should be stressed that their determination is conditioned by the GATT agreements, which involve a reduction in levels of duty.
The Community wishes to consider the financial implications of its customs duties in the context of its policy of cooperation with third countries on the basis of clauses concerning the conditions of trade. These clauses are negotiated within the framework of association agreements, whether of the customs union type or the free trade zone type (as in the case of EFTA), trade agreements or the generalized tariff preferences scheme. In general, all the clauses in question provide for a reduction; this makes it clear that the tendency for budget revenue to decrease is a fact which must be faced. Parliament has on several occasions called on the Commission to supply an estimate of the evolution of these sources of revenue - which clearly constitute forms of taxation - in relation to Community expenditure, in accordance with Article 199 of the Treaty.
16. The impact of cooperation on the level of budgetary expenditure in the Community also requires analysis.

Over the 1980s as a whole, the share of the Community budget devoted to cooperation with third countries was constantly reduced, in relative terms; it fell from 5.7% in 1980 to 4.3% in 1986 and 2.7% in 1989. This tendency does not apply equally to all regions: cooperation levels have been roughly stable as regards third countries in the Mediterranean region, Latin America and Asia, whereas there has been a steep fall in the case of the African LDCs. Nevertheless, there is a danger of a new imbalance arising in the Community's relations with third countries. The problem could be worsened by action in favour of the countries of Central and Eastern Europe, given the rapid evolution taking place in that region.

17. In addition, the question of the budgetary powers of the two branches of budgetary authority is affecting policy-making in areas for which no alternative solutions exist. This is the case in the fields of food aid and the classification of expenditure. Consideration should be given to the possibility of introducing rules aimed at more effective policy promotion. In the case of cooperation with Latin American and Asian countries, management of the appropriations is complicated by the climate of uncertainty created by the lack of a policy for defining objectives; this in turn makes it difficult to estimate the appropriations required on a multiannual basis.

18. It may also be asked whether, in fact, the information available to the Community institutions is sufficient for the definition of a policy which would correspond to the needs of each of the above regions.

In view of the marked reduction in the appropriations for these regions, Parliament has already stressed the need to initiate a new policy. It is equally essential that the Commission should, on the basis of the understanding that it has itself recently achieved on the matter, propose criteria for the intelligent utilization of the Community's financial resources, so as to enable the budgetary authority to undertake assessment and planning of the expenditure concerned.

19. At present, the budgetary expression of the concept of cooperation with third countries is largely dependent on geographical distinctions. One side-effect of cooperation is an enhanced awareness of the severe problems affecting the countries concerned, which are also likely to have consequences for the Community. The problem of the tropical forests and their future and the drug question both also affect Europe. The need for effective action on these problems obviously entails the adoption of concrete measures with a view to obtaining a more accurate assessment of the impact of Community expenditure.

20. Within a more restricted geographical area, the Community is tending to base its cooperation with third countries on programmes and actions which were originally intended for the Member States. This is the case with the COMETT and ERASMUS programmes; there may be similar extensions of programmes in the field of research and development. The proliferation of this type of cooperation arrangement points to the need for an assessment of its likely value to both parties and for a more general evaluation of the promotion of policies which are considered of potential interest to third countries. In these circumstances, it is important both to examine the conditions of participation of third countries in each of the initiatives concerned and to estimate the level of funding required.

21. At present, these programmes are identified in the budget by the inclusion of a structure for participation in the revenue section. Within the framework of a cooperation agreement with the EEC, the third country concerned deposits a contribution in order to join the programme in question. This contribution takes into account, among other factors, the country's economic situation. In the case of possible cooperation with third countries on a sectorial basis, the underlying question is whether

third countries are interested in and capable of participating in the various programmes. The state of their economies varies, and in some cases, where a country is interested but cannot fulfil both the above conditions, provision must be made for its participation on a sectorial basis by means of an allocation in the Community budget. In these circumstances, it would clearly be desirable to ensure the release of the necessary funds for each of the initiatives concerned.

22. The recent experience in relation to the countries of Central and Eastern Europe demonstrates that cooperation with these countries is following the same lines as those which have characterized cooperation with the Mediterranean Basin countries, the only difference being that it is being accompanied by the creation of the BERD. It is based, nevertheless, on the principle of developing links with third countries through a series of actions or policies. However, the participation of third countries in various initiatives opens up the possibility of enhanced sectorial cooperation; this would require the determination of political priorities, but would also enable third countries to affirm their own priorities through participation in diverse initiatives.

Conclusions

1. The high degree of integration of the Community into the international system, the non-viability of isolationist policies; the growing importance of the EEC at world level and the fact that neither the US nor Japan alone can be the motor and regulator of growth and world economic activity; the inequalities of development existing in the world and the severe problems confronting Third World countries, especially those created by the external debt and the deterioration of the terms of trade; and, finally, the rapid changes taking place in certain regions, especially Central and Eastern Europe: all these and other factors point to the need for a redefinition of the groundrules of international relations, in which the Community should participate on a fuller, more consistent and more effective basis. In this context, it is also vital to undertake a comprehensive examination of the Community's entire external policy - not solely in the economic context, but also with a view to obtaining mutual advantages and developing the necessary solidarity.
2. The powers conferred on the Community by the Treaties in respect of relations with third countries, and the resources placed at its disposal for the development of those relations should, taken together, provide a sufficient basis for a coherent policy towards third countries. An essential precondition here is the constant creation of synergies between the Community institutions.

The correct identification of the resources concerned must be ensured from the outset, especially in view of the impending completion of the internal market by 1993. It is equally vital that these resources should be utilized in such a way as to avoid temporary remedies or situations of institutional paralysis, both of which would undermine the goal of consistent relations between the Community and third countries.

3. It is also essential that the financial effects of cooperation - without exception, and irrespective of the specific forms taken by cooperation - should be identifiable in the Community budget, in accordance with Article 199 of the Treaty and with the principle of budgetary unity which Parliament has traditionally defended. These are among the necessary preconditions for the 'budgetization' of the EDF, which is another of Parliament's long-standing demands.
The budgetary authority should meanwhile take full responsibility for dealing with the financial implications of Community policies.
4. Article 210 of the EEC Treaty endows the Community with legal personality, while the Treaties give it the right to its own resources.
The fact that the Community's own financial resources are determined and administered by only one branch of the budgetary authority - thus at times reducing those resources to the role of mere market regulation mechanisms - means that the necessary correct assessment and efficient management of the budget are lacking. It also leads to a situation of inadequate monitoring and distorts the process of legitimation of the financial effects.
5. At the same time, in view of the likely tendency for the own resources to be reduced due to the probable fall in certain sources of revenue, there is an urgent need to undertake a detailed forecast of their future evolution, the consequences for expenditure and, in particular, the possible implications for cooperation spending.
6. With regard to the cooperation expenditure included in the budget, the reduction in their relative weight over the 1980s and the different treatment given to the various regions have created the danger, should current trends continue, of a new imbalance arising in the Community's relations with third countries. This could be worsened by action in favour of the countries of Central and Eastern Europe, in view of the speed of developments in the region and the particular attention being paid to it. In view of these tendencies, and of the completion of the internal market (whose impact on the economies of the LDCs will have to be carefully analyzed), consideration must be given to increasing expenditure on cooperation with the various regions of the world.

In this context, it is also important to examine the recent Commission proposals concerning Latin America and Asia (for the period 1991-1995) and Mediterranean third countries (for the period 1992-1996).

7. Consideration should also be given to the possibility of a more efficient implementation of the rules for the promotion of certain policies, such as food aid. Thus, in the case of cooperation with Latin America and Asia, it is essential to remedy the unstable situation with regard to the management of the appropriations, by means of a policy for the definition of objectives - without which it is also difficult to estimate the appropriations required on a multiannual basis.

8. The Community institutions do not possess the necessary information for the definition of a policy suited to the individual needs of the above regions. It is therefore essential that the Commission should propose criteria for the correct utilization of Community resources, so as to enable the budgetary authority to carry out the necessary assessment and planning of the expenditure concerned. Measures must also be adopted to improve the assessment of the impact of the Community's own expenditure.
9. While there is no intention in the present context of abolishing or even reforming the general distinction between compulsory and non-compulsory expenditure, it should be noted that approximately 75% of the expenditure related to cooperation with third countries is classified as non-compulsory expenditure. This raises the question of the reasonableness of classifying the remainder as compulsory expenditure.
10. Cooperation with certain countries is based primarily on the extension to the third countries concerned of actions and programmes which were originally intended for the Member States. It is essential to consider the possibility of extending the field of cooperation with the countries concerned and to determine the possible forms of their participation in the new programmes (including the possibility of financial participation) and the availability of funds. Such a policy, implying greater sectorial cooperation, would obviously require the political priorities to be defined by the Community, but it would simultaneously permit the third countries concerned to affirm their own priorities and options.

