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INFORMATION MEMO

Commission proposes independent revenues for EEC, strengthening European Parliament and new rules for financing farm policy.

The Commission sent on April 1 to the Council proposals on financing the common agricultural policy and the replacement of Member States' financial contributions by EEC's own revenues beginning July 1967.

Today the Commission released the details of its proposals.

The Council, at its meeting on 15 December 1964, asked the Commission to submit, before 1 April 1965: 1) a report on the financing of the common agricultural policy since August 1962, and 2) proposals for its financing in the period 1965-1967 and in the single market stage, particularly after common prices are introduced for the different agricultural products. The Council decided last December on the common level of cereals prices and also agreed that, from 1 July 1967, all eligible expenditures would be financed by the EAGGF (European Agricultural Guidance and Guarantee Fund) for grains, pork and pork products, eggs and poultry sectors.

The Commission has sent to the Council three drafts :

(a) The new regulation on financing the common agricultural policy;

(b) The arrangements for replacing the financial contributions of the Member States by the Community's own resources;

(c) The amendment of Articles 201 and 203 of the EEC Treaty (institutional and budgetary matters)

THE NEW EAGGF REGULATION

The existing regulation (no. 25 of January 1962) makes the Community responsible for the financing of its common agricultural policy through the Agricultural Fund. It includes concrete arrangements for financing only for the period 1962/1965.

Period 1965/1967

The financial regulation provides that the joint financing should be built up gradually as the single market stage approaches. Thus for the first year of the common agricultural policy (1962/1963), the Fund's contribution was fixed at one sixth of the eligible expenditures; it was two sixths for 1963/1964 and is three sixths for the present marketing year (1964/1965). Beginning 1 July 1967, all eligible expenditures in respect .../...

of cereals, pork, eggs and poultry are to be borne by the Agricultural Fund in accordance with the Council decision of 15 December 1964. The Commission therefore proposes that in 1965/1966 the Fund should bear four sixths, and in 1966/67 five sixths of the eligible expenditures for all products included under Community financing.

It proposes the following percentages for Member States' financial contributions during these two marketing years:

	1965/1966	1966/1967
Belgium	7.96	7.96
Germany	32.35	30.59
France	32.35	30.59
Italy	18	22
Luxembourg	0.22	0.22
Netherlands	9.12	8.64

The percentages for three countries were already fixed by the Council last December. All that is needed now is to apportion the additional charges fairly between the other three countries (Germany, France, Netherlands).

After July 1967

The Commission proposes that the single market system be applied effective 1 July 1967. Refunds on exports to non-member countries, market support and other measures (aids to growers of durum wheat) will be entirely financed by the Community, provided that they are carried out according to Community rules. These rules provide that a common agricultural policy which includes Community financing must be accompanied by a Community commercial policy. This is why the Commission proposes to make the financing of refunds on exports to non-member countries conditional upon these exports being covered by international agreements of a Community nature; exports made without international arrangements would not be affected, but would not qualify for refunds.

Probably by the time the single market system comes into effect Community financing will be on a considerably larger scale than at present. For 1964/65 Community financing was extended to the dairy produce, beef and veal, rice, and fats sectors where the eligibility rules have yet to be settled, and last December the Council decided to extend Community financing to the fruit and vegetables sector on January 1, 1966 to durum wheat on 1 July 1967 and to tobacco as soon as possible.

When Community financing is fully in effect (from 1 July 1967 on), expenditure may reach about 1 000 million units of account ($) for

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market operations, to which 300 million must be added for structural(guidance) measures. During the years 1967 to 1970 there will also be Community compensation for reduced grain production in Germany, Italy and Luxembourg as decided last December by the Council, totalling 44 million units of account for the period.

According to the Commission's proposal, expenditures by the Guidance Section of the Fund will continue to represent one third of the total for the Guarantee Section. However, to avoid excessive fluctuations from year to year, this expenditure must be at least equal to the average appropriations of the two preceding years. Should the execution of the Community programme decided on by the Council run into any other difficulties the Council will increase the amount allotted to appropriations of the Guidance Section.

FROM JULY 1967: OWN RESOURCES

Financial Regulation No. 25 stipulates that when the single agricultural market comes into effect, the proceeds of agricultural levies shall accrue to the Community. Because of the degree of market integration which will be attained on 1 July 1967, it is important that, with effect from this date, the proceeds of levies and customs duties on imports of goods from non-member countries should accrue to the Community as income in its own right. From this date the prior conditions required under the Treaty, by Regulation No. 25 and by the Council in its December decision, will all be fulfilled (Article 201 of the Treaty expressly provides for the possibility of allocating to the Community revenue from the common customs tariff).

The Commission makes several arguments in favour of replacing the financial contributions of the States by the Community's own resources. If it is desired that the Community's development should be balanced, the abolition of barriers to intra-Community trade cannot remain confined to agricultural products. Economic logic requires that not only agricultural levies but also customs duties on industrial products should be abolished as from July 1967. In its Initiative '64 the Commission proposed that with effect from that date intra-Community customs duties should be abolished and the common customs tariff applied to all industrial and agricultural products.

A problem which confronts all customs unions arises for the Community: the place where levies and customs duties are collected will correspond less and less with that at which the imported goods are consumed. These receipts cannot therefore be credited to the Member State [illegible] in which the point of collection is situated.

The Commission has consequently made its proposals on the financing of the common agricultural policy part of the whole financial and institutional balance of the Community. According to the Commission it is adivsable that the transition from the payment of contributions from the Member States to the Community budget to the stage when the Community has its own revenue should be gradual.

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Period 1967/1971

Different scales are used for the contributions of the Member States to the Community budget: for instance, the scale for the operational budget of EEC and those of the Social Fund and the Agricultural Fund. The Commission has made estimates of the percentage of the total expenditures for 1967 which each State will have to pay following these different scales. These percentages or weighted scale are estimated as follows: Belgium 8.14%, Germany 29.88%, France 29.79%, Italy 22.88%, Luxembourg 0.21%, Netherlands 9.10%.

For the year 1967 the Commission proposes maintaining this weighted scale. The budget will be reckoned in two equal parts:

(a) During the first half-year on the basis of financial contributions from the Member States;

(b) During the second half-year on the Community's own resources.

For this second half-year the Member States will pay to the Community the agricultural levies and a part of the customs duties collected in their respective territories. The total amount of such payments will be equal for each State to its contribution in the first half-year.

The Commission will then note the proportion of the proceeds of levies and customs duties left with each Member State. During the following four years (1968 to 1971) the percentage of receipts remaining with the Member States will be reduced by one fifth each year. In this way all revenue from levies and customs duties will accrue to the Community after 1 January 1972. If in 1967, for example, a country has to allot 60% of its total customs duties and levies to the Community as "own resources", this country will have to pay 68% in 1968 (60 + 1/5 of 40), 76% in 1969, and so on.

Total revenue from levies and customs duties is estimated at 2 300 million units of account. It will go to the Community budget and be used to finance without distinction any expenditure provided for. The total expenditure which the Community will have to meet in accordance with the Commission's proposals is estimated at 1 237 million units of account for 1967 (1968, 1 758 million). Budget receipts and expenditure must be balanced. Account must be taken in drawing up the budget of the economic and social situation in the different regions of the Community and of the need to ensure a certain general financial equilibrium between the Member States.

If the Community's revenue exceeds its normal requirements the Council will decide, on a proposal from the Commission, on the allocation of the available funds for special Community tasks or their redistribution among the Member States. According to present estimates, revenue will exceed expenditure in 1967 and from 1971 onwards. The Council may also decide on the payment of compensation to the Member States by the Community to cover the cost of collecting Community dues incurred by the national administrations.

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If, on the other hand, the Community's receipts in any year do not cover expenditure, the budget will be balanced by contributions from the Member States computed on the 1967 scale. According to forecasts this will be the case in 1968 and 1969.

INSTITUTIONS: NEW POWERS FOR PARLIAMENT

The Commission proposes that the Community have independent revenues, certain other points of principle must be decided :

- the implementation of these measures makes it necessary to re-examine the procedure for approval of the budget laid down in Article 203, and to increase the budgetary powers of the European Parliament. Such an increase is essential in order to ensure adequate parliamentary control at the European Parliament level over the large sums of money from the Community's own resources, the spending of which will no longer be subject to the control of national parliaments. The European Parliament must be enabled to exercise powers of superintendence and control over the Community budget. The Commission proposes that the present procedure under Article 203 of the Treaty be amended in order to strengthen the European Parliament's budgetary powers (see diagram on the following page).
- The Commission proposes an amendment to Article 201 of the Treaty, permitting the adoption of new provisions concerning the Community's revenue. The Council would adopt the necessary provisions by unanimous vote. The Council might, however, act by qualified majority if the Parliament had supported the Commission's proposals by a two-thirds majority of those present constituting an absolute majority of its members.

  The provisions adopted by the Council must be approved by the Member States according to their respective constitutional rules until such time as the Parliament is elected by direct universal suffrage (under Article 138 § 3 of the Treaty).
- From July 1967 the cost of support to agricultural markets and of refunds on exports will be borne entirely by the Community. The Commission will consequently submit to the Council at the appropriate time proposals for the control of the national departments responsible for implementing these measures.

The financial regulation on the Agricultural Fund will have to be amended. Expenditure arising from the common agricultural policy must be considered by both the Council and the Parliament and estimates must be approved before any payments are made.

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The proposals submitted by the Commission on financing the common agricultural policy are closely linked with those in other fields which have already been or will soon be submitted to the Council: for instance the "Initiative 1964" and the proposal for a single market for industrial products from 1 July 1967, the coming proposal for uniform prices in the milk, beef and rice sectors from the same date. The decision on the proposals will have to be taken in time to ensure continuity of financing for the common agricultural policy and to allow of discussion in the Kennedy round of all the main agricultural products on the basis of the Community's margin of support.

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REPORT ON THE FINANCING OF THE COMMON AGRICULTURAL POLICY

Last December the Council requested the Commission to submit to it by 1 April 1964 the review referred to in Article 4 of Financial Regulation No. 25. Not all the data are available yet, for the implementing regulations were not adopted until 1964, and applications for aid were submitted during the second half of the same year. They are now being carefully examined and checked.

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Procedure for approving budget

A Commission	B Council	C European Parliament	D Commission	E Council
Preliminary draft	Draft (maj.: 12 out of 17 votes)	1. Approval 2. Tacit approval, i.e. if no comment within one month) adopted		
			Within 15 days	Within 20 days
		3. Amendment by simple majority	1. Accepts or	1. Council decides by 5/6 maj. against Commission and Parliament
				2. In all other cases: proposal of Parliament and Commission is adopted
			2. Rejects Parliament's amendments	1. Council decides by 5/6 maj. against Comsion and Parliament
				2. Council decides by 4/6 maj. for Commission (and against Parliament)
				3. In all other cases: Parliament's amendments are adopted

A new estimate of expenditure has been established on the basis of these applications: for the first two years the new figures will probably be quite close to those finally decided. The figures for the third year (1964/65) are much more uncertain, since the conditions of eligibility for refund of expenditure in the milk, beef and rice sectors have not been laid down.

The total cost of operations has increased sharply each year:

(million u.a.)

	1962/63	1963/64	1964/65
Guarantee Section	28.4	55	167
Guidance Section	9.5	18.3	56
Total	37.9	73.3	223

In the Guarantee Section a distinction can be made between refunds on exports to non-member countries and support measures on the internal market:

(percentage)

	1962/63	1963/64	1964/65
Refunds	77.3	81.8	79
Market support	22.7	18.2	21

Refunds form by far the larger part of expenditure, for they represent some 60% of the total against, for instance, 25% for structural measures.

In the breakdown of expenditure by market sector, grains occupy an exceptionally important place in the first two years, but then tend to represent a smaller percentage because of other sectors benefiting from the Fund, in particular dairy produce.

Percentage of Guarantee Section total

	Grains	Pigs	Eggs	Poultry	Milk	Beef	Rice	Olive oil
1962/63	97	0.2	1.9	0.9	-	-	-	-
1963/64	92.1	4.8	1.7	1.4	-	-	-	-
1964/65	58.7	4.2	0.9	0.6	29.3	0.3	1.2	4.8

Breakdown by country of applications for reimbursement under the Guarantee Section shows that France was the main beneficiary of the Fund in the first two years. Its percentage in the Fund as a whole will doubtless be smaller but cannot be reckoned until the resources of the Guidance Section have been allocated.

The joint financing of additional sectors will reduce France's share from 1964/65 and increase the Netherlands' percentage considerably.

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The conditions governing eligibility for reimbursement for refunds on exports to non-member countries and support measures on the home market are laid down in the various regulations on the financing of the common agricultural policy (see Regulation No. 25, Article 3, and Regulations Nos. 17/64 and 18/64). If these criteria did not exist, the expenditure to be borne by the Fund would be at least 35% higher for refunds and 60% higher for market support measures than at present.

In the Guidance Section applications are far in excess of the sums available: four times greater for the first period and 2.8 times for the second period. The total amount of investments to which the applications relate is very large: 152.6 million u.a. for the first instalment and 229.5 million u.a. for the second. Aid applied for amounts to:

(i) Nearly 38 million u.a. for the first instalment: 65% for marketing structure, 32% for production and 3% for combined schemes;

(ii) Over 51 million u.a. for the second instalment: 39% for marketing structure, 41% for production and 20% for combined schemes.

For the period 1962/63, contributions to the Fund's expenditure conform to the scale given in Article 200(1) of the Treaty. For the period 1963/64 they are made according to a dual scale, one-tenth of which is based on net imports from non-member countries of products falling under the Community financing scheme. On a provisional calculation, contributions for 1963/64 are as follows:

B.L.E.U.	8.19%
France	25.63%
Germany	28.25%
Italy	28.61%
Netherlands	9.32%

Since Italy's percentage will probably exceed its 28% ceiling, the Commission will propose an arrangement apportioning the excess amount among the other Member States. The Commission, however, needs supplementary data from the Member States before making a final calculation of contributions.
