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BACKGROUND NOTE: ISSUES FACING  
THE BRUSSELS E.C. SUMMIT

Leaders of the 10 European Community member states will make another attempt to relaunch the Community and resolve its financial crisis at a summit meeting March 19 and 20 in Brussels.

The European Council, made up of E.C. heads of state or government, will consider a reform package that was left hanging after a December summit meeting in Athens broke up without agreement. The major issues facing the Council involve reforming the Common Agricultural Policy (CAP), which accounts for almost two-thirds of the Community's budget; restructuring E.C. budgetary procedures, and increasing Community revenues.

E.C. officials have warned that if the Community does not put its financial house in order, it will stagnate and perhaps go bankrupt. Plans to extend E.C. membership to Spain and Portugal and to launch programs in science, energy and industry would be jeopardized.

"Failure at the Brussels European Council would be the beginning of a process of self-destruction which could sweep away the work of the last 25 years," Gaston Thorn, president of the Commission of the European Communities, told the European Parliament last month.

The prospects for a successful summit improved this week when E.C. agricultural ministers reached provisional agreements on two farm reform issues: milk production and "monetary compensatory amounts" (internal border payments and deductions designed to offset the impact of currency fluctuations on farm prices). The ministers said the agreements, however, were contingent on adoption of an overall reform package at the Brussels summit.

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The ministers agreed to limit Community milk production over a five-year period. In 1984-85, production would be set at 98.8 million tons, with harsh levies applied to milk producers, or to dairies, whose deliveries exceed their assigned quotas. E.C. farmers produced more than 100 million tons of milk in 1983, a level far exceeding internal demand.

The ministers also agreed to dismantle existing monetary compensatory amounts in three phases beginning this year. Critics of the system say it tends to subsidize farmers in strong-currency countries.

In addition to those preliminary accords, the European Council will consider these issues:

Agriculture. The E.C. Commission has proposed a virtual freeze in 1984-85 common farm prices in an attempt to restrain Community spending on price supports. It has also recommended "guarantee thresholds" - restrictions on the volume of produce on which farmers can receive a guaranteed price - for a variety of products, including cereals, milk, tomatoes and oilseeds. It has recommended other measures affecting production of wine, beef, sheepmeat and olive oil.

Budget Contributions. The E.C.'s main source of income is the value-added tax (VAT), a form of sales tax. Under present rules, the E.C. may collect only up to 1 percent of the assessed base of VATs collected in member states, and that ceiling has been reached. The United Kingdom has indicated, however, that it will not agree to increase the Community revenues unless agricultural spending is restrained and a fairer financing system is adopted. The U.K. contends that it pays in to E.C. coffers more than it takes out. In previous years, it has received a partial refund of its VAT contributions.

Budgetary Discipline. The Commission has adopted proposals aimed at making the E.C. budget process more rigorous. The budget should be managed in line with clearly defined forecasts and priorities and should follow precise rules, the Commission said. Agricultural expenditures, for example, should grow at a slower rate than Community resources, with the Commission pursuing a restrictive farm price policy. An early-warning system should be implemented to detect any risk of a budgetary overrun.

In his address to Parliament, President Thorn criticized the European Council for its hesitancy in recent years, saying it has spent more time arguing over budget contributions than on "the problems of relaunching Europe, reviving its industry and dealing with unemployment."

But he said the E.C. heads of state and government, political parties and opinion leaders had become aware of the extent to which their divisions were endangering the Community - "a first ray of hope for the Brussels European Council." He also praised François Mitterand, president of France and of the European Council, for his "personal commitment" to reconciling opposing viewpoints.

"All is not lost," Thorn said. "It is essential, and in my view possible, to save the situation."

