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COMMUNICATION FROM THE COMMISSION  
TO THE JOINT COUNCIL  
OF MINISTERS OF FOREIGN AFFAIRS AND MINISTERS OF FINANCE  
AND TO THE EUROPEAN PARLIAMENT

Overall assessment of the Community's  
budgetary problems

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PREFACE

At the request of the European Council at its meeting of 1 and 2 December 1975, a joint Council meeting of Ministers for Foreign Affairs and Ministers of Finance took place in Luxembourg on 5 April 1976, at which an overall assessment was made, together with the Commission, of budgetary problems in the context of the Community's general policy (COM(76)83 final of 10 March 1976).

As this meeting proved useful, the Council has agreed to hold a similar meeting in 1977. This Communication is intended to serve as a basis for discussion.

This Communication is also being sent to Parliament, as one of the holders of the budgetary authority, to enable it to state its views on the guidelines herein set out.

## I. PERSPECTIVES FOR THE COMMUNITY BUDGET IN 1978

### Introduction and Summary

The Community Budget has become a central political issue in the Community. It is the instrument by which many of the main Community activities find their expression. As their size and scope have increased, so has the role of the Budget. So also has the importance of the decisions taken in the Budget about the purpose of the different sections of activity. In turn the political problem of financing the Budget has become more immediate, especially in economic circumstances which have led to pressures in all Member States to limit public spending. More significant, the Budget in itself is one of the most developed Community mechanisms, in the establishment and execution of which the balance between the Parliament, the Council and the Commission has evolved furthest; nevertheless, this balance is a matter of continuing interinstitutional debate.

The Commission welcomes the occasion to debate in general terms and outside the budget procedures the problems which the Budget poses with a Council of both Finance and Foreign Ministers and with the European Parliament, for many of these problems have to be placed in a general political context and are hard to resolve amongst the more detailed issues which necessarily arise during the establishment of the annual Budget itself.

The characteristics of the Community Budget clearly distinguish it from national budgets. While during the last few years it has a similar rate of growth, its level of administrative expenditure is low, and the level of intervention spending very high because of its concentration on largely automatic agricultural expenditure. This means that the scope for saving on some activities to finance others, which is often available in national budgets, simply does not exist to any useful extent in the Community Budget. Yet, unless we are to accept a standstill in the Community's evolution, the Budget must grow. The emphasis must therefore be on developing Community policies which can better or more cheaply secure objectives already being

pursued or which would be essential at national level. In this way, the growth of the Community Budget need not add to overall public expenditure and taxation.

Even so, looking ahead the existing structure of Budget financing may prove insufficient and different types of financing should be considered which could in due course provide solutions to this problem. Perhaps the most promising is the development of the Community's capacity to borrow. Quite apart from the need for such borrowing as one means of coping with short term problems of cash flow, which will arise in the future, longer term borrowing would be an appropriate form of funding for specific actions for which lending is a suitable form of finance. This would allow an expansion of such actions without requiring additional current revenue. Indeed, this form of financing would be particularly appropriate for certain Community activities which could be particularly adapted to the alleviation of present employment and structural needs.

Meanwhile, the Commission is doing all it can to make the most of the budgetary resources currently available; it is strengthening its examination of new expenditure proposals and of day to day management, and has taken important steps to improve the impact of its structural policies by improving the coordination of the intervention funds.

But there is a separate series of issues which demand urgent attention, for they are related to changes in the Budget which should occur in 1978.. In that year, the final stage of the own resources system will come into effect as laid down in the Treaty, the collection of a Community percentage of Value Added Tax should begin, the European Unit of Account should be introduced to the Budget, and the new Financial Regulation should be adopted.

These decisions are of great significance. It is politically essential that the last obstacle to the implementation of a Community VAT should be overcome, not least as a test of the Council's ability to meet

its own declared intent. It is equally essential that the new unit of account should be adopted: without it important Community activities - external commitments - will be hindered, while both anomalies of presentation and difficulties of expenditure control will persist to the discredit of the Budget. In parallel, the new Financial Regulation is urgently needed to complement these other two steps, as well as to bring into force other important changes.

The Commission very much hopes that the Council will be able to resolve outstanding difficulties on the Sixth Directive (should any persist). It calls on the Council on 6 April to adopt the draft resolution already before it (and of which a copy is at Annex A) which engages the Community to apply the Unit of Account from 1 January 1978; this cannot be delayed longer without calling in question the date of the change. And, this done, the deadline must be fixed by which the necessary implementing revisions of 30 June 1977, and the revised Financial Regulation as a whole, should be adopted.

There is a second group of important institutional problems to which the attention of the Council and the Parliament is drawn - the establishment of the Court of Auditors, the search for an agreement between the Council and the Parliament about the procedures for the adoption of the Budget, development of the concertation procedures which have become central to the establishment of the Community budget, and further reinforcement of financial control. These matters are less likely to require debate on this occasion. But they are essential if the Community is to devise the mechanisms for effective discussion and control to which lip service is often paid. The Commission hopes that the Parliament and the Council as appropriate will take the necessary steps to ensure that each of these is dealt with expeditiously.

But what of the structure of the Budget for 1978? The options are limited. As in earlier years, the major part of expenditure must continue to be open-ended spending on agricultural support. The Commission must emphasise the need to take measures which will reduce

this predominance of agricultural spending. In practice that means attention must be given urgently and determinedly to reducing structural surpluses in the production of a very few products, which have heavy budgetary costs. It also requires the establishment of a system of obligatory degressivity for monetary compensatory amounts, to reduce the budgetary costs and other economic distortions at present so very evident. The Commission believes the Council should at an early date decide on the principle of obligatory degressivity and fix a deadline by which the appropriate mechanisms can be put in place.

Apart from agricultural spending, the Budget must be constructed in the light of current economic problems. In every Member State, public spending is limited, although the pressures for public actions to relieve economic problems are high and have led to shifts of resources and the areas of spending. The Community Budget must accept similar discipline, even if the scope for offsetting savings is small. Only priority actions can be considered for new or increased activity. And the test of priority must be whether action proposed relates to the economic problems which confront the Community. In these circumstances, rigorous coordination of the Community's decisive instruments for action is essential.

Clearly, the main priority must be the attack on unemployment, and on the reinforcing of the Community's economic structure. Regional and Social Fund expenditure is critical in this context. The fixing of the amounts of these Funds, and their use, will be a central feature of this year's budget process while separate examination of proposals for the review of their working will be necessary. The Commission hopes the Council and the Parliament will confirm their willingness to see that these activities develop with increased Regional Fund and consolidated Social Fund activity in 1978. Industrial, research and transport policies also all have a major contribution to make to the strengthening of the Community's economic foundations. The Commission believes that actions in these areas also must be given priority.

It remains as important as ever that the Community should reduce its dependence on imported energy. Measures to this end should also be regarded, the Commission believes, as an important priority.

Finally, the economic difficulties the Community faces are shared by many other countries, and bear more heavily on the developing world than on the developed. The Community's effort towards developing countries must, the Commission believes, remain a priority. It hopes the Council will confirm this view.

The Commission hopes that on these points the Council and the Parliament will give a clear indication of their views. In the light of such views the further work on the interinstitutional problems, and the drafting of the expenditure side of the Budget for 1978 can be carried forward.



## II. THE FEATURES OF THE GENERAL BUDGET

The content of the General Budget of the European Communities is rather unusual and differs considerably from that of national budgets. This state of affairs, the outcome of the present stage of European integration, shapes the features of the General Budget, which in turn influence the budget policies of the European Communities.

### A. THE GENERAL BUDGET: AN INTERVENTION BUDGET

Expressed as a percentage of the GNP of the Community, Community expenditure has risen from virtually zero in 1959 to some 0.4% in 1968 and 0.6% in 1976. During the same period, public expenditure in all the Member States has risen, in general, from 25-35% to some 45-50% of the respective GNPs (spreads between the lowest and highest percentages). The growth rate of the Budget of the European Communities is running roughly parallel to - and not faster than - the national budgets.

Compared with the national budgets, the General Budget is still very small therefore - about 2% of the total of the national budgets. Although the annual fixation of agricultural prices has a macro-economic influence, this small volume renders it impossible for the Budget to exert any regulating influence on the overall economy - by use either of the revenue or of the expenditure. It can have no real macroeconomic influence. This situation has arisen because the powers and the means for action granted to the Community are still very limited.

The General Budget is essentially an intervention budget (87.2%).

Only 6.2% is devoted to expenditure on the administrative machinery, and 6.6% is taken by the flat-rate reimbursements to the Member States of 10% of own resources for the costs incurred in collecting them (customs duties and agricultural levies). (The rate of staff expenditure in the national budgets is around 25%.)

The financing of the intervention policies is concentrated in certain major fields, with a marked - but decreasing - predominance of agriculture; expenditure on agriculture 74.7%; social policy 2%;

regional policy 4.5%; research/energy/industry/transport 2.9%; development cooperation 3.1%. The expenditure for the EAGGF Guidance Section, for the Regional Fund and part of the expenditure for the energy/industry/transport sector are investment aids and thus represent transfers of capital; the other intervention expenditure - in particular, that of the EAGGF Guarantee Section - are current transfers.

The considerable proportion accounted for by expenditure under the EAGGF Guarantee Section - 72.9% - is not due to a Community policy under which agriculture would be intrinsically more important than the other sectors of the economy: this situation merely reflects the fact that this policy is the only one in which action by the Community replaces action by the Member States. In the other sectors - including the other agricultural sectors such as the EAGGF Guarantee Section - Community action generally complements that of the Member States. Policy regarding agricultural markets is however completely integrated and financed entirely by the General Budget, and is the result of almost automatic intervention mechanisms which leave little scope for discretionary adjustments. In contrast, the other items of intervention expenditure are assessed on a flat-rate basis; they are allocated amounts fixed by the budgetary authority, often in a restrictive spirit.

#### B. THE DYNAMICS OF THE GENERAL BUDGET

This budget structure makes it difficult to expand existing operations to any great extent or to initiate new ones. Because the budgetary resources available are limited and it is difficult to contain or reduce the level of agricultural expenditure, difficult compromises are inevitable as regards other policies. The Community Budget is not as flexible as national budgets, which are infinitely bigger and more diversified.

The increase in Community activity need not necessarily lead to a general increase in the level of public expenditure or taxes. The measures which should be taken at Community level are those that can be carried out more economically and efficiently at Community level than by the national governments.

However, if the activity of the Community is to expand, there will have to be an increase in its budgetary resources.

For example, during the last ten years, the Budget expenditure of the Community has risen from 1 500 m u.a. in 1968 to 8 800 m u.a. in 1977 (and to 9 600 m u.a. in appropriations for commitment).

This trend reflects the following developments:

- (a) in the agricultural sector, the establishment of the various market organizations, and the gradual bringing into the Community purview of eligible expenditure; this process was completed in 1969;
- (b) since 1973, the progressive integration of the new Member States;
- (c) the launching in 1975 of a Community regional policy (the genesis of the Regional Fund), and
- (d) the initiation and growth of other financial intervention operations, especially in the energy sector.

#### C. THE WAY AHEAD: OUTLOOK FOR THE GENERAL BUDGET

The future pattern of the General Budget cannot be determined by a fixed and immutable ratio between, say, its present volume and the present volume of the national budgets. It will be governed by:

- (a) the firm resolve of the Governments and the peoples of the Community to advance along the road towards economic and monetary union;
- (b) a detailed investigation of the criteria for an effective distribution of the tasks between the Community and the various national levels of government and, consequently, a broadening of the range of Community intervention activities;
- (c) specific requirements arising from economic situations which cannot always be predicted;
- (d) the growth of the Community's own resources;
- (e) the future role to be played by the non-repayable subsidies, on the one hand, and loans financed from borrowings, on the other.

Of the specific requirements, special attention should be paid to the situation of the coal and steel industries which are now in very serious difficulty. Since the rate of the levies on coal and steel production cannot easily be changed, it is difficult to expand activities substantially in respect of these industries under the ECSC Budget. The possibility of resorting to the General Budget should be considered for these sectors. The principle of this has already been recognized, in particular by the insertion in the Commission Budget for 1977 of Article 322, Aids for coal stocks. Similarly, the Commission has introduced a proposal for the granting of aid to promote the use of coal in thermal power stations.

In 1978 the entire and definitive own resources arrangements should be in operation. The current level of Community expenditure already absorbs around two-thirds of the total potential of own resources as defined by the Council Decision of 21 April 1970 (which has the status of a Treaty) and which consist of agricultural levies, customs duties and a maximum 1% of VAT revenue. However, it must be pointed out that this margin could be substantially eroded in the future because of certain external factors, even if expenditure were to follow the trend of the Community GNP. More specifically, these factors are as follows:

(a) the VAT assessment base has always expanded less rapidly than the GNP, and there is every reason to suppose that this trend will continue;

(b) customs duties are following the same trend, and this could be accentuated even more as a result of widespread tariff dismantling;

(c) the existence and possible application of a "financial mechanism" representing up to 3% of expenditure;

(d) the inclusion in the Budget of the financial resources of the European Development Fund (EDF) starting from the next Association Convention, since until 1980 these resources are to be provided by the Member States, outside the General Budget;

(e) the consequences, in the form of a probable increase in expenditure, of the possible entry of new Member States which could join after 1978.

It should be noted here, however, that the European Communities already deploy a variety of methods in their financial policy: in addition to the total of 8 900 m u.a., earmarked for non-repayable expenditure in 1976 (8 470 m u.a. under the General Budget, 110 m u.a. under the ECSC operational budget and 320 m u.a. under the third and fourth EDF), they have borrowed a total of 2 720 m u.a. (i.e. 950 m u.a. under the ECSC, 750 m u.a. under the EIB and 1 020 m u.a. as "Community" borrowings to be used as loans to redress the balance of payments in some Member States). It would therefore be possible to develop more systematically a borrowing policy to finance appropriate activities; this, by avoiding recourse to current funds, could reduce the possible impact of the levelling-out of own resources. Though this prospect is distant enough, a policy of this type could be suitable for certain more immediate activities particularly in keeping with the current economic problems.

#### D. MORE EFFICIENT IMPLEMENTATION OF THE GENERAL BUDGET

As an adjunct to the foregoing considerations, a few thoughts should be aired concerning the improved coordination of Community expenditure, a task incumbent on the Commission. With this aim in view, the new Commission has taken two important decisions.

First, the new Commission has stressed the need to continue the efforts to increase discipline and rigour at all stages in the life of the Budget - preparation, implementation, proposals for new operations, internal control - in order to ensure that the Budget has the maximum possible economic impact compatible with the resources available. As

announced, the Commission has placed the responsibility for the Budget in the hands of a Commission Member who is not responsible for an intervention policy as well.

Secondly, one Commission Member is now responsible for coordination of the management of the Funds and other means of intervention in the structural field. There will therefore be unity of policy and objectives in the Community's financial intervention policy (the ERDF, the Social Fund, the EAGGF Guidance Section, Credit and Investment, and EIB loans).

A more consistent financial policy is obviously not an end in itself. The policy must be designed to serve the general purposes of the Community's economic and social policy, especially the objectives it has set itself in its medium-term economic policy - the control of inflation and unemployment, alignment of the Member States' economies, the balance between the Community's internal cohesion and the unity of its external policy - in such a way that the means of intervention not only fulfil their specific objectives more effectively, but may also be dovetailed to meet the priority objectives of the Community.

III. 1978, A TURNING-POINT IN THE HISTORY OF THE BUDGET OF THE EUROPEAN COMMUNITIES

The year 1978 is a year of new departures: the Budget of the European Communities stands at a turning-point in its history. 1978 marks the final stage of the own resources system for the six original Member States and the penultimate stage of the system of payments by the three new Member States. 1978 has been declared the year in which the Sixth Directive on VAT will come into force. 1978 is the year when the European unit of account (EUA) will be applied to the General Budget. 1978 will be the first year of full operation for the European Court of Auditors. 1978 is to be the financial year in preparation for which an inter-institutional agreement will be reached regarding the procedure for adopting the Budget. 1978 is to be the year in which the amendments to the Financial Regulation proposed by the Commission come into force. And finally, 1978 is to be marked by a further reinforcement of financial control.

The first of these seven major events is but the culmination of an automatic mechanism brought in by the Decision of 2 April 1970 on own resources and by Article 131 of the Act of Accession and does not necessitate any specific decision at the present stage. This paper does, however, discuss the other six events, which the Commission regards as being within sight, and without which there can be no dynamism in the Community's financial activities.

A. VAT, THE NEW OWN RESOURCE; AND FULL FINANCIAL AUTONOMY

An important event in 1978 is to be the allocation of a part of the revenue from Value Added Tax as an own resource of the Communities. The Council has announced its intention to approve very soon the Sixth Directive on Value Added Tax, which provides for a uniform assessment base in all the Member States, subject to certain exceptions which will not affect the amount of own resources.

It will then be possible to apply a Community rate (fixed for each year during the budgetary procedure and not to exceed 1%) to a uniform base of assessment of VAT in all Member States, with effect from 1 January 1978, and for the proceeds to be paid into the Budget of the Communities. This resource will replace the present contributions which are based on the share of each Member State to the gross national product of the Community.

The Commission strongly urges the Council to adopt the Sixth Directive in time for all the Member States to apply it with effect from 1 January 1978, so that the inception of the financial autonomy of the Communities will not be again postponed. The Commission intends to draw up the preliminary draft Budget for 1978 on the assumption that all the Member States will be paying own resources derived from VAT revenue. Should the Council fail to approve the Sixth Directive in time for this to happen, the Commission will have to make the necessary adjustments to the revenue side of the Budget during the course of the budgetary procedure.

It was because the Commission believed that in 1978 the final stages of the new financial autonomy of the Communities would be initiated that in June 1976 it sent to the Council and the Parliament proposals for amending parts of the Financial Regulation and for amending Regulation No 2/71 on the procedures for applying the Decision of 1970. These proposals will also have to be adapted as soon as the Council has approved the Sixth Directive. A proposal on the application of own resources from VAT is to be introduced shortly. The Commission most strongly urges the Council to approve these amendments, so that the principle of financial autonomy can be upheld.

What are the implications of this financial autonomy? It makes the Communities more self-reliant: but it in no way implies any encroachment on the powers of the two Institutions with budgetary authority, i.e. the Council and Parliament. It imposes on the Communities greater obligations and greater responsibilities; it imposes greater constraints in some areas as well as giving a wider latitude in others. The main consequences of financial autonomy are as follows:



1. Although the Budget must be in balance, its implementation can produce a surplus or deficit because the forecasts of own resources in the Budget can never be absolutely precise. These surpluses or deficits will be carried forward to the Budgets of subsequent years; but during the year they will be the responsibility of the Commission, representing the Communities. Ways must therefore be found of reducing both deficits and surpluses. This means that the forecasting of own resources must be more precise and that expenditure must be subject to more stringent control. Nevertheless, it may be necessary to adjust the annual rate of VAT during the financial year, particularly if a supplementary budget is introduced.

2. The Commission will not necessarily be able to cover its daily cash needs by advances from the Member States; it will have to rely on the actual out-turn of the forecasts of own resources made in the Budget. This will have two important effects. Firstly, there will be a shortfall corresponding to three months of payments (about 2 000 m u.a.) at the beginning of 1978, which will not be covered by the flow of revenue from customs duties, agricultural levies and VAT established in 1978. This is a particular problem which could be solved in various ways: for example, by an advance from the Member States, or by borrowing on the capital market, under the powers conferred on the Council by subparagraph (b) of Article 209 of the Treaty establishing the European Economic Community as amended by Article 18 of the Treaty of July 1975. In both cases repayment could be made over several years through the Budget of the Communities. A second important effect, quite apart from this problem, is that there will always be the possibility that the flow of revenue as own resources will temporarily not match the expenditure flow and that short-term borrowings will be needed. The Commission will shortly make proposals for dealing with these difficulties.

3. Since the own resources will belong to the Communities, and not to the Member States, from the moment of their establishment the Commission should be able to exercise firmer control over their management, and in particular should have the guarantee that they will retain their value in terms of the European unit of account.

### Conclusions

The Commission urgently requests that the Council adopt at the earliest opportunity the Sixth Directive on a uniform basis of assessment of VAT, and subsequently adopt the texts which the Commission hereby undertakes to forward shortly thereafter. A concertation procedure with the European Parliament may prove necessary.

### B. USE OF THE EUA IN THE GENERAL BUDGET

The EUA has been used for the EDF since the Lomé Convention, the EIB since 31 December 1974 and the ECSC since 1 January 1976, and is to be used in the General Budget as from 1 January 1978.

The General Budget of the European Communities is currently drawn up in "IMF" units of account equivalent to 0.88867088 grams of fine gold and linked to the national currencies by officially declared fixed parities (the oldest declaration dates back to 1949 in the case of the Belgian and Luxembourg franc).

The growing discrepancy between the official parities and the actual rates of exchange has created a number of problems: the introduction of specific rates of conversion closer to the market rates for the common agricultural policy, and for some administrative appropriations

and the transfer of funds between Member States, gives rise, in the statement of expenditure, to a "dual rate of exchange" - particularly significant for the EAGGF Guarantee Section - and, in the statement of revenue, to appreciable gains and losses on exchange rates resulting from the requisite transfer of funds between Member States, the net impact of which is absorbed by the Budget.

In the proposal for a Council Regulation amending the Financial Regulation of April 1973 applicable to the General Budget of the European Communities, the Commission envisaged the replacement - on 1 January 1978 - of the current unit of account by a European unit of account (EUA) based on a basket of the Member States' currencies; its fixed composition has been worked out on the basis of economic indicators and its daily value in terms of the various national currencies is calculated from the rates operating on the exchange markets<sup>1</sup>. A draft resolution forwarded to the Council on 30 September 1976 is intended to confirm the Council's determination to apply the new European unit of account in the 1978 financial year. Despite its urgency, this resolution remains pending.

The transition to the use of the EUA requires that a number of problems be solved beforehand. To resolve these, the Commission forwarded to the budgetary authority in October 1976 a proposal for a Regulation on the procedure for applying the EUA to the legal acts adopted by the institutions of the European Communities.

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<sup>1</sup>The provisions relating to the EUA are contained in Articles 10, 71 and 119 of the proposal.

The proposal for a Regulation on the procedure for applying the EUA provides for the use of the new unit of account as an instrument of external and internal management. The use of the EUA for external management involves the use of the EUA for the expression of the Communities' rights and obligations "expressed in EUA", and the replacement of the u.a. by the EUA in all Community legislation (regulations, directives, decisions). Tenders in respect of supply contracts and applications for aid from the various Funds will have to be submitted in EUA; the contracts awarded and aids granted will be expressed in EUA.

There are at present some exceptions to the principle of expressing sums in EUA, the most important being in respect of the common agricultural policy: for the time being the EUA will not be applied to CAP legislation; the prices and amounts at present expressed in u.a. will continue to be converted into national currencies by means of the representative rates, and prices to farmers and consumers will therefore remain unchanged. Agricultural appropriations will, nevertheless, be entered in the Budget in EUA. As stressed in the explanatory memorandum the application of the EUA must be an act of continuous creation, as the Commission - which is striving to generalize the use of the new unit of account as swiftly as possible - is considering the possibility of extending it to the common agricultural policy.

The use of the EUA as an instrument of internal management means that the Budget will be drawn up, the accounts kept, and the revenue and expenditure accounts and the financial balance sheet presented, in EUA. The conversion between national currencies and the EUA is to be made at the rate of the day. The Commission will keep bank accounts in EUA. In view of certain administrative difficulties, some exceptions have been allowed as regards the "rate of the day". In particular, during the 1978 budget year, expenditure in respect of the EAGGF Guarantee Section and the Food Aid operations financed by means of advances are to be entered in the accounts on the basis of the rate applying on a specific reference day.

As the consequence of the proposed rules, the replacement of the IMF u.a. by the EUA means that the drawing up and implementation of the Budget will be closer to reality, resulting in an appreciable reduction in the exchange rate gains and losses and the new consequences arising from the bookkeeping effect of the "dual rate of exchange". On the other hand, the national currency equivalents of the total payments to be made by the Member States to the Community Budget will hardly change at all as a result of the disappearance - also on 1 January 1978 - of the "dynamic brakes" which have to date limited the annual variation in the "relative shares" of the Member States.

The Budgetary Authority, which is examining the Commission's proposals, has not yet made its position known. The Commission cannot but prepare the 1978 Budget on the assumption, as the basis for its work, that the EUA will be used as from 1 January 1978.

The Commission has, at the Council's wish, forwarded to the Budgetary Authority proposals confirming the principle of adopting the EUA on 1 January 1978 and setting the rules of application. The transition to the new unit of account (coupled with the implementation of the proposed amendments to the Financial Regulation) calls for early decisions if the deadline of 1 January 1978 is to be met.

### Conclusions

The Commission urges the Council to adopt on 6 April the Resolution (see Annex A) whereby the EUA will be used in the Budget as from 1 January 1978.

The Commission stresses the need for the Council to adopt, no later than 30 June 1977 - following the Opinion of Parliament which is expected in March 1977 - the proposal for a Regulation on the procedures for applying the EUA. If necessary, a concertation procedure with Parliament should be initiated.

C. THE EARLY ESTABLISHMENT OF THE EUROPEAN COURT OF AUDITORS

The Treaty of July 1975 provides for the creation of a Court of Auditors for the European Communities to replace the present Audit Board and the ECSC Auditor. Once the ratification procedures for the Treaty have been completed - this should happen in the very near future - the Court can be set up, since it is laid down that the members of the Court of Auditors shall be appointed by the Council upon the entry into force of this Treaty.

The establishment of this control body, with the status of an institution, obviously means that a number of new provisions will have to be adopted to ensure that the appointment and operation of the Court proceed smoothly.

To this end, the Commission forwarded to the Council at the end of December last year a communication listing the principal measures which will have to be undertaken to facilitate the appointment of the Court of Auditors.

The Commission has already incorporated the requisite proposals in its draft amendment of the Financial Regulation to prevent any break in continuity between the work of the Audit Board and that of the Court of Auditors. It has also made provision in the draft for a review of the Articles of the Financial Regulation which deal with the jurisdiction and powers of the Audit Board, once the Court of Auditors itself is able to pronounce on them.

In addition, a draft amendment to the Staff Regulations - incorporating the Court of Auditors into the Institutions of the Community, whereby the Staff Regulations would apply to its agents - is being prepared and will be laid before the Council shortly.

Conclusion

The Commission draws the attention of the Budgetary Authority to the following points:

- to enable the Court of Auditors to take up its duties, Article 28 of the Treaty of July 1975 must be implemented: appointment of the Members of the Court by the Council, after consulting Parliament, once the Treaty enters into force;

- the statutory provisions (amendments to the Financial Regulation and the Staff Regulations) concerning the Court of Auditors must be adopted by the Council as soon as possible, as Parliament has already given its opinion in December 1976 and a concertation procedure may be required.

D. THE HARMONIZED APPLICATION OF ARTICLE 203/EEC

Articles 203/EEC, 177/EAEK and 78/ECSC govern the budget process. Their provisions have three main objectives. First, they divide the Budget into two areas: compulsory expenditure, over which the Council has virtually exclusive control; and non-compulsory expenditure, over which Parliament has some control. Secondly, they control the increase in non-compulsory expenditure through the establishment of a maximum rate determined each year. And finally, they give Parliament exclusive control over a specific amount of non-compulsory expenditure, the "margin for manoeuvre".

A feature of the 1977 Budget is that much greater use has been made than hitherto of differentiated appropriations (a distinction being made between appropriations for commitment and appropriations for payment). Most non-compulsory expenditure is now presented in this new way. However, the authors of the Treaties did not make specific provision for this innovation in budgetary presentation, and the relevant Articles must be interpreted in accordance with objective criteria. This is what the Budgetary Authority asked the Commission to do during the last budget discussions.

Consequently, the Commission recently suggested an interpretation to the Budgetary Authority: the gist is that, where a distinction is made between appropriations, the appropriations for commitment represent the real budgetary decisions which express the financial implications of the action concerned. In this case, appropriations for payment, however, are then the inevitable consequence of these commitment authorizations.

As a result, the various aspects of Article 203 (application of the maximum rate, the margin for manoeuvre, etc.) are to apply in future, when a distinction is made between appropriations, to the appropriations for commitment and not to the appropriations for payment.

As regards procedure, the Commission suggests that the interpretation of Article 203, along the lines indicated above, should be embodied in a joint declaration to be drawn up by the Institutions concerned, i.e. the Parliament, the Council and the Commission.

### Conclusion

The Commission feels that the inter-institutional agreement which it is proposing should be sought swiftly, and in any case before it embarks on the process of establishing the 1978 Budget, a process which will start on 15 June.

### E. THE UPDATING OF THE FINANCIAL REGULATION OF 25 APRIL 1973

The Community Budget is prepared, drawn up and implemented in accordance with the provisions of one single Financial Regulation, which was adopted in April 1973. After three years of application it became obvious, however, that certain amendments would have to be made to the Regulation to keep it in step with the fairly rapid changes which have taken place in Community finances. The proposed provisions hinge on three main points, the third of which - financial autonomy - was discussed in point II.A above.

#### 1. The budgetary powers of the Institutions

The entry into force in 1977 of the Treaty of July 1975 amending certain financial provisions of the Treaties establishing the European Communities and of the Treaty establishing a Single Council and a Single Commission of the European Communities necessitates the amendment of the present provisions.



The European Parliament's say in the budgetary procedure has been increased, and so its powers must also be increased as regards the implementation of expenditure, i.e. transfers.

2. The updating, modernizing and simplifying of budgetary procedures

This heading embraces the proposals concerning the application of the European unit of account to the Community Budget (already discussed in point II.B), expanding the use of the distinction between appropriations for commitment and appropriations for payment, streamlining the function-orientated budget for research, making the presentation and management of the budget of the Official Publications Office more function-orientated, and modifying the budget nomenclature.

The Commission submitted its draft amendment of the Financial Regulation to the Council in May 1976. The European Parliament was consulted by the Council and delivered its Opinion in December 1976. The Commission has amended its initial draft on the basis of this Opinion. It is now up to the Council to give its ruling, resorting, if necessary, to the concertation procedure expressly requested by Parliament.

Conclusion

Since the 1978 Budget must be drawn up on the basis of a Financial Regulation which is in keeping with the provisions of the Treaty of July 1975 and takes account of recent developments, the Commission stresses the need for the Council to adopt the draft submitted to it by not later than June of this year. The budget process will already have started by then, but the first Council meeting on the Budget is due to take place before the end of July 1977. If necessary, a concertation procedure with Parliament should be initiated.

F. TOWARDS A REINFORCEMENT OF FINANCIAL CONTROL

The Commission has sent to the Council a proposal for a directive on the scrutiny, by the Member States, of transactions forming part of the system of financing by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund, which is intended to improve and harmonize the auditing of accounts kept by recipients of EAGGF subsidies.

The Council has not yet made its position known on the proposal for a Regulation on mutual assistance, despite the urgent reminder sent by the Commission to the President of the Council and to the Ministers for Foreign Affairs. It is, however, precisely in this field of cooperation (in the widest sense of the word) that the Commission has become increasingly aware of the need for progress. For this reason the Commission intends to take practical steps to organize direct and effective cooperation between the Community and the national authorities involved in the management of Community funds.

The Commission will also direct its internal financial control more to the monitoring of sound management (in the broad sense of the word). This will involve eliminating all disparities in the application of Community rules between the Member States. To this end it would be well if some Member States would make a special push to rationalize their own national departments, and in particular the customs, whose administration work is of particular importance in this connection.

The Commission is also aware of the significance of the conditions in which the financial operations are conducted. With this in mind, the Commission intends to concentrate on the simplification of the regulations, so making them easier to apply and helping to ensure that financial mechanisms are foolproof. This applies both to the agricultural sector and to the Social Fund.

The Commission will also set up the requisite monitoring system to meet the new exigencies of EDF control deriving from the Lomé Convention.

Conclusion

The draft directive on the scrutiny, by the Member States, of transactions forming part of the system of financing by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund and the draft Regulation on mutual assistance should be adopted by the Council as soon as possible.

#### IV. OBJECTIVES OF THE BUDGET

Throughout Europe the economic circumstances of recent years have imposed strict limits on the growth of public spending, if only because the circumstances themselves have caused governments to incur fresh expenditure. Although there are now prospects of an improvement in the economic situation, it is clear that it will still be necessary to curb the growth of government expenditure.

Consequently, the General Budget should be expanded only for top-priority Community operations which may help to remedy the difficulties and the weaknesses of the Community economy.

In view of these factors of constraint there is also a need to group together the budgetary resources of the various Community intervention mechanisms by establishing a general intervention policy. The Commission has taken the requisite steps to achieve this coordination. To the Commission's way of thinking, the objective is not uniformity, since the specific character of each instrument must be preserved, bearing in mind their different roles - Social Fund, Regional Fund, EAGGF Guidance, intervention in the industry and energy sectors. The attempt should be made to define a common conception of the financial intervention policy with the aid of greater flexibility. In addition, it will be necessary to examine the objectives of these activities and how far they complement and support each other, in such a way as to reveal any obstacles to the combined use and dovetailing of the instruments, and subsequently to consider the extent to which the mechanisms are suited to their specific objectives and their effectiveness in meeting these objectives.

The point is to ensure that, over and above a mere redistribution of money in various directions, these interventions actually serve the Community's priority socio-economic objectives. If they can attain these objectives, they will, in so doing, make a contribution to the process of integration.

In view of these considerations, the Commission believes that next year's General Budget should focus mainly on the following four themes: containment of agricultural expenditure; employment and economic structures; greater independence as regards energy; aid to developing countries.

A. CONTAINMENT OF AGRICULTURAL EXPENDITURE

Agricultural expenditure accounts for three-quarters of the Community Budget. Virtually all the spending goes on market management and agri-monetary expenditure. In view of the present economic circumstances and current pressures on public spending levels, it is vital to examine every means of cutting agricultural expenditure which is compatible with the healthy development of the common agricultural policy. This applies in particular to efforts to balance certain product markets, day-to-day management and monetary compensatory amounts.

1. A better balance on the agricultural markets

Following up the Commission's memorandum of 1973 and the report on the state of the common agricultural policy presented in February 1975, a number of improvements to market organizations have been decided upon, are now before the Council or are in preparation. These improvements are intended to achieve a better balance on the agricultural markets. They therefore have a favourable impact on the Budget which should be perceptible in 1978.

Measures taken to stabilize agricultural markets will, by their nature, occasionally result in temporary stocks of various products. Such stocks must be accepted as an inherent element in the common policy, intended to stabilize prices and secure supplies.

Nevertheless, when stocks result from structural imbalances and are more persistent they can no longer be regarded as a normal element of agricultural policy.

Moreover, the measures necessary to dispose of them are extremely expensive in budgetary terms.

The major problem with structural surpluses is, of course, in the milk-products sector.

The surplus in the milk-products sector represents about 10% of total production and at present there is no outlet for over half the production of skimmed milk powder. But problems also arise in other sectors: wine, olive oil, apples and pears. In the cereals sector, however, earlier problems (i.e. denaturing) are diminishing with the move that has now begun a single intervention price system.

In 1976 the Commission sent the Council a set of proposals for modifying the common organization of the market in milk products, which is affected by a serious imbalance requiring very heavy expenditure on intervention (2 000 m u.a. budgeted for 1977 - after allowing for the fact that part of the operation is financed by the co-responsibility levy).

Until the Council takes a decision, the problem of structural imbalance in the milk-products sector will remain unchanged. The Commission added to its initial proposals when presenting the farm prices for 1977/78 in February 1977.

The Commission is already planning to make proposals by July 1977 for a number of improvements to the present market organizations, particularly in respect of beef and veal, olive oil and starch.

In its proposals to improve the market organizations, the Commission will see to it that the budgetary resources allocated are used to the greatest effect. It will also see to it that the farm prices fixed will permit the attainment of balance on the various agricultural markets, a very important objective in view of the need for better balance. This constraint was borne in mind in the Commission's proposal on the fixing of farm prices for 1977/78.

Further, special attention will be paid to the potential long-term contribution of socio-structural policy to the achievement of balance on the markets.

Finally, careful thought must be given to the consequences for Community agriculture of the accession of any new Member States after 1978, and of the preferential agreements with the Mediterranean countries. Both are

liable to have substantial repercussions, particularly in the oils and fats sector and the fruit and vegetables sector.

#### Conclusion

Notwithstanding the uncertainty of expenditure on the agricultural markets because of fluctuations on the world market, containment of agricultural expenditure requires the combined efforts of all the institutions to achieve balance on the principal agricultural markets.

Particular attention should be paid to the structural imbalance in the milk sector, which alone accounts for more than 40% of expenditure under the EAGGF Guarantee Section, or 25% of Community expenditure in the 1977 Budget; the Commission has already made proposals on the matter, and has asked Council and Parliament to make allowance for this when fixing the farm prices for 1977, and has urged that the decisions be taken as soon as possible.

#### 2. Agri-monetary expenditure

Expenditure under this head - more than 1 500 m u.a. in the 1977 Budget - comprises the monetary compensatory amounts (MCA) and the expenditure resulting from the application of different rates of exchange (dual rate).

The agricultural common market was constructed upon the principle of the unity of prices expressed in units of account. For some years past, the common prices policy has been dislocated by monetary upheavals. In order to protect producers and consumers against the sudden effects of fluctuations in exchange rates, an MAC system was introduced and representative rates for the agricultural policy (green rates), calculated by reference to representative rates for the agricultural policy, were brought in. However, the monetary fluctuations have continued and as a result the MCA system has become a permanent feature.

At present, the "common" prices are higher or lower, as the case may be, depending on the state of the currencies concerned, for the purposes of trade in agricultural products. At the end of February 1977, the frontier compensations were + 1.4% for Benelux; 9.3% in Germany; - 19.9% in Italy; - 34.7% in Great Britain; - 10.4% in Ireland and - 16.2% in France; only Denmark was not applying MCAs at its borders.

Although these measures have protected the single market despite the currency fluctuations, they have also produced many adverse effects - deflection of trade, distortion of competition between products, poor allocation of resources, and sometimes high budget costs.

In October 1976 the Commission proposed to the Council changes to the present system of monetary compensatory amounts which would allow the MCAs to adapt to the real market situation. This system, if adopted, would palliate the most glaring disadvantages, including the cost to the Budget. The Commission has also proposed a reduction in the differences between the "green rates" as part of its farm prices proposal for 1977.

It is clear that the monetary upheavals are largely the product of the divergent economic trends of Member States and Community regions.

None the less, to put an end to the serious economic distortions, which are liable to become permanent, and to contain agricultural expenditure it is vital to confine the role of the MCAs to their prime task as strictly temporary, preventive measures to counter the economic impact of exchange rate fluctuations. To this end, the Commission stresses the principle, already embodied in the proposals before Council, of compulsory phased reduction over a period of time.



## Conclusions

The Commission asks the Council, now that Parliament has accepted the Commission's proposal, to accept the principle of compulsory degressivity over a period of time and to fix a time limit for setting up the requisite machinery.

### 3. The policy in respect of agricultural structures

The Community policy for agricultural structures was designed to be the indispensable complement to the prices policy. An effective common structural policy would hold down increases in Community agricultural prices to levels more favourable to the consumer, while guaranteeing the achievement of the other objectives laid down for the common agricultural policy by Article 39 of the Treaty, "to ensure a fair standard of living for the agricultural community".

However, it must be admitted that while the agricultural markets support policy is almost entirely decided upon and financed by the Community, things are very different for structural policy: witness the paucity of appropriations allocated to the Guidance Section compared with the Guarantee Section and with total public expenditure on agriculture by both the Community and the Member States.

The report on the application of the 1972 Directives (COM/76/87/final), published by the Commission in March 1976, showed the snail's pace of the common structural policy. In France it was not until 1974, and in Italy 1975, that the necessary national legislation was brought in, while the corresponding administrative measures were not promulgated until 1976 in France, while in Italy the regional legislation is still being adopted.

The financial implementation of the Directive on hill and mountain farming did not really begin until 1976. In that year payments from the EAGGF Guidance Section for all socio-structural measures amounted to only 44.6 m u.a. instead of the sum of 91 m u.a. in the original Budget.

Although it was originally intended that, as from 1977, appropriations should no longer be committed for individual projects, in accordance with Regulation No 17/64, the delay in the application of the common measures has meant that individual projects continue. In 1976 the sum of 264.2 m u.a.<sup>1</sup> was used to finance 808 projects. An appropriation of 91.2 m u.a. is allocated for 1977.

Expenditure under the EAGGF Guidance Section in 1978 will be characterized by the expansion of the common measures referred to in Article 6 of Regulation No 17/64 and drawings on the Mansholt reserve.

- (a) The Commission will continue to supplement and reinforce the impact of the socio-structural directives by suitable measures (differentiating among the instruments on a regional basis and adjusting the ceilings for aids to match price movements in the Member States).
- (b) It will continue its common sectoral measures to restore the balance of the market wherever it is endangered, particularly as regards wine, some fruits and, above all, milk products, as well as special measures to improve production and marketing structures in the citrus fruits sector.
- (c) The Council adopted the Commission's proposal on improving structures in the marketing and processing of agricultural products. Furthermore, common action in the small-scale inshore fisheries sector is currently before the Council.

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<sup>1</sup>Of which 235.5 m u.a. are transfers of 1976 appropriations (Council Decision of 23 November 1976) and 28.7 m u.a. appropriations released in 1976 under Regulation (EEC) No 3171/75.

- (d) Finally, the Commission has sent proposals to the Council, under its milk-products programme, to speed up the eradication of certain contagious diseases in animals. If these measures are applied from 1977, the estimated expenditure under the EAGGF Guidance Section in 1978 will be 39 m u.a. against which can be set off savings in the EAGGF Guarantee Section.

The Commission plans to submit appropriate measures by July 1977 to improve the present structural policy, taking particular account of the special problems of the structurally worst-off regions.

The Commission plans to begin to draw on the Mansholt reserve from 1978, always provided that the socio-structural projects and new common measures progress as planned.

The Commission is examining the effectiveness of what is now being done in this sector. The directives on the reform of agricultural structures should be implemented more fully in 1978, and this will have financial repercussions on the 1979 Budget.

#### Conclusions

As these measures must be part of a general plan for coordinating the various types of Community intervention, the Commission will endeavour to enhance their effectiveness.

B. MEASURES RELATING TO EMPLOYMENT AND ECONOMIC STRUCTURES

To cope with the economic problems mentioned at the beginning of this chapter, absolute priority must be given to Community measures which can help to reduce unemployment in the Community and improve its economic structures. Obviously, given the limited scope of Community instruments, these measures can only serve to supplement economic action taken by Member States and the Community must also make efforts to improve coordination of economic policies in general. Nevertheless, these efforts must be backed up by the best possible use of the resources which the Commission may allocate for its various measures.

To this end, three types of instruments should be used more extensively:

- the Social Fund and the Regional Fund which have a special role to play in creating employment and training workers;
- sectoral industrial development measures capable of having a salutary effect on employment levels while at the same time pursuing other ends;
- measures relating to research and transport which will help the Community to change its economic base, without which it cannot maintain its growth rate in the face of continual economic difficulties.
- furthermore, some of the measures aimed at self-sufficiency in energy, which are dealt with elsewhere in this paper (see p. 44), could help to create employment.

1. European Regional Development Fund

(a) Situation of the Regional Fund (1975-77)

The European Regional Development Fund (ERDF), set up in 1975 to help towards remedying regional imbalances in the Community by contributing to the financing of investments, was allocated 1 300 m u.a. for a period of three years. Council Regulation (EEC) No 724/75 establishing the Fund restricted the annual allocations to 300 m u.a. in 1975, 500 m u.a. in 1976 and 500 m u.a. in 1977. At 31 December 1976, 799.9 m u.a. had been committed and 368 m u.a. paid out. The ratio between payments and commitments was about 46% for the first 18 months of operation and, generally speaking, the deployment of Community regional aid can be regarded as a success.

During its first 18 months in operation the ERDF gave financial support to more than 2 700 projects; some 100 of these involved investments of more than 10 m u.a. and accounted for about 50% of the total aid. The ratio of aid for infrastructure investments to that for industrial, small business ("artisanat") and service-sector investments is of the order of 69% : 31%. It should be pointed out that, in line with its aims of remedying the most acute regional imbalances, more than 90% of the support provided by the Fund has been channelled to the Mezzogiorno, Ireland, the development areas of the United Kingdom, the largely agricultural backward areas of France and to Greenland.

(b) Future prospects

(i) Any budgetary forecast relating to the ERDF must be placed in the context of the coordinating of all means of intervention and consequently must form part of endeavours to use these means for the better attainment of the Community's priority objectives. In the present economic situation one objective is the restoration of full employment, despite the problem raised by an increase in public spending. There must, then, be the greatest possible improvement in the contribution that the ERDF, together with other policy instruments, can make to the creation of new jobs and the retention of existing ones.

Almost all regions are affected by unemployment; certain new, structural regional problems may arise from changes going hand in hand with developments or resulting from them. In any event the crisis is having an impact on the relative situations of the regions.

As far as the less-favoured areas of the Community are concerned, it is likely that their development prospects will suffer more from declining investment opportunity, owing to their lesser ability to attract new investment. Furthermore, unemployment in the industrial areas will reduce immigration opportunities and, in some cases, may induce immigrant workers to return home. This situation therefore demands a greater effort to achieve a more rational and coordinated utilization of all the Community's financial instruments.

This is the priority task which the Commission wishes to tackle in this field in 1978.

(ii) It is still too early to make precise estimates of the ERDF's budgetary allocation for 1978. Indeed, the Commission is only now beginning to discuss the new proposals it may submit to the Council, under the review of regional policy and the regulations governing the operation of the ERDF provided for in Article 2(2) of Regulation (EEC) No 724/75.

(iii) As to procedure for determining the annual amount of the Fund, the Commission's wish, in view of the consensus reached in connection with the consultation procedure relating to the non-compulsory nature of this expenditure, is to use the budgetary procedure. The sum to be entered in the budget for 1978 should therefore be determined when the budget is prepared and adopted.

(iv) The operating rules of the Fund must also be reviewed in the context of coordinating all means of intervention, bearing in mind that this demands greater flexibility in the handling of policy instruments, and that this greater flexibility will also make for a substantial simplification of certain procedures, and thereby more efficient administration. But the impact of Community intervention on regional development is not a matter of concern solely to the ERDF. The review of the Social Fund, at about the same time as the review of the Regional Fund, provides an opportunity to begin a process of coordination with a view to bringing the two into greater convergence. The same will apply when the Commission has reviewed the results of work begun earlier on regional aspects of structural measures in agriculture (EAGGF Guidance Section). The development of comprehensive regional policy, i.e. one which takes into account the land-use aspects of the various structural policies, should be the most tangible outcome of the coordination of policies and policy instruments.

This action is also to be linked closely with the review of the method of coordinating regional aid schemes, which expires at the end of this year.

The Regional Fund was brought into operation very quickly, in one of the worst economic and social situations that the Community has ever experienced. The Commission's review of the Regulation governing the Fund and its proposals relating to regional policy will therefore be made in circumstances totally different from those which prevailed when the Commission put forward its 1973 proposals. This demands a greater effort in the coordinated and convergent use of the means of intervention and of the policies which can help to correct regional imbalances, so that the Community's priority objectives will be achieved all the more effectively. These proposals, and simplification of the Fund's operating rules, will therefore fit into an overall approach which can be all the better initiated because at approximately the same time a review of the Social Fund will be carried out.

### Conclusion

The Commission proposes that the Budgetary Authority recognize that in the current economic situation the Regional Fund should be in a position to contribute more to correcting the regional imbalance in the Community.

## 2. European Social Fund

### (a) Social Fund activities

In actual fact the Social Fund takes a hand in projects designed:

- (i) to provide support, in the field of employment, for action taken under other Community policies (farmers leaving the land; workers from the textile and garment industries needing different vocational skills; migrant workers; handicapped people) or to ensure that supply and demand for labour within the Community are better matched (unemployed persons below the age of 25);
- (ii) to take action against protracted structural unemployment and under-employment (workers in underdeveloped regions or regions where the chief forms of economic activity are declining; workers affected by problems of certain groups of firms; labour which has to be retrained owing to technical progress).

The Social Fund's commitments have grown rapidly: 250 m u.a. in 1971, 560 m u.a. in 1976. Since the financial year 1976 assistance from the Social Fund has chiefly gone to projects designed to combat unemployment among young people (particularly first-job seekers), and unemployment in underdeveloped regions or those where the chief forms of economic activity are in decline.

Unemployment among young people has gradually grown worse since the recession began and the problem is not going to be overcome in the next few years. Underdeveloped and declining regions are one of the Community's constant concerns and the depression has widened the gap relative to other regions.

(b) Prospects

In order to deal with the situation the budgetary authority has earmarked a total allocation of 617 m u.a. for the Social Fund, for the financial year 1977: 45% for the first category of projects and 55% for the second.

In view of the fact that the employment position has not changed in the Community as a whole, and that applications for assistance from the Social Fund are constantly increasing (more than twice the available appropriations in 1976), the Social Fund is still at the centre of the top-priority Community operations. It is therefore essential that the effort made under the Budget in 1977 should be continued in 1978, with the same ratio between the two categories of projects and a substantial increase in the Fund's activities.

The Council Decision of 1971 on the reform of the European Social Fund requires that the Council review the Decision in 1977.

Concurrently with this Communication, the Commission is to send the Council another in which it will set out its ideas about the review of the 1971 Decision. It will be accompanied by an Opinion on the amendments to be made to the 1971 Decision and proposals for changes to a number of rules governing intervention under the Fund and its operation. The review and resulting changes must bring about:

- (i) greater concentration of intervention by the Fund on priority needs and a greater economic and social impact by such intervention;



- (ii) improved - and more expeditious - administrative and financial procedures for the granting and payment of aids from the Fund, which should result in an increase in the appropriations for payment provided in the 1978 Budget. It should be pointed out, however, that the switch, from 1977 onwards, to the system of differentiated appropriations is a major advance, since it enables the appropriations for payment to be spaced out.

#### Conclusion

After rapid expansion, which is to continue, the Social Fund now has an urgent need to consolidate what it has achieved so far with a view to becoming more efficient.

The review of its operating rules, which was wisely planned for 1977 from the outset, will provide an opportunity for this, by means of discussions between the Institutions which must begin without delay.

3. Financing sectoral projects in industry

(a) Sectoral reorganization

The economic crisis has revealed and aggravated the structural weaknesses of certain industries which are being forced by external competition and the new international division of labour to redouble their efforts to modernize and reorganize. If the Community intends to maintain freedom of trade throughout the crisis and prevent protectionist reflexes,

it must participate in the requisite restructuring by bringing into play all the means at its disposal: either commercial policy, competition policy, placing of public contracts, harmonization of legislation, etc, or the introduction in certain well-defined cases of a Community element of financial solidarity. The financial instruments at present at the Community's disposal, although diverse, are inadequate for dealing with the biggest sectoral problems confronting the Community's industry, its workers and the public authorities. Although the forthcoming revision of the social and regional funds provides an opportunity for remedying some of the inadequacies, others will remain, and for these appropriate financial tools may be envisaged.

In consultation with the sectors concerned, the Commission is establishing an inventory of the chief aspects involved in restructuring the sectors most affected. The Commission reserves the right in due course to submit to the Budgetary Authority such financial proposals as relate to any sectoral projects that may be introduced.

(b) Specific action on data processing and the aerospace industry

In two specific sectors, studies with a view to Community action are already well advanced.

On the basis of the Council Resolution of July 1974 on naming the data-processing sector more competitive, the Council approved the first data-processing programme in July 1976.

A Commission proposal of September 1975 concerned a second set of projects. Taking into account work in hand, and with the aim of evolving a policy under a four-year plan, the Commission submitted a document to the Council in November 1976 summarizing its medium-term policy in this field.

The Community Budget for 1977 contains the entry of the appropriations needed for launching this programme. The action should be continued and followed up by implementing the four-year plan as from 1978.

Moreover, it is also essential to work out a policy for the aircraft industry if the Community wishes to preserve an industrial capability in this sector. In a document, the Commission has already communicated to the Council and to Parliament preliminary proposals for an aerospace policy. The Commission intends to make a more detailed proposal shortly on the actual implementation of the measures envisaged.

Community action is an essential priority in this sector.

#### Conclusion

The Commission therefore requests the Budgetary Authority to treat action on industry as an important priority when establishing the 1978 budget.

#### 4. Financing transport policy

Reinforcing the Community's economic infrastructure in this sector cannot but help the Community to adjust in the present difficult economic climate. The Commission advocates direct financial intervention for the purpose of coordinating investments and promoting projects of interest to the Community. This action, which will chiefly take the form of subsidies to infrastructure projects of European significance, are described in a proposal to the Council submitted in July 1976.

#### Conclusion

It is most important for the decision on this proposal to be handed down at the earliest possible date and to note that the cost of these operations, to begin in 1978, would be moderate.

5. More intensive Community research in respect of the Communities' policies

As regards scientific research and technological development proper, the Commission will in 1978 concentrate on pursuing important activities already begun and introducing others shortly, particularly under the JRC multi-annual research programme for 1977-80 and in the form of indirect action.

Among the latter, mention should be made of the plans to continue the major thermonuclear fusion programme with the building of JET (Joint European Torus). The Commission is relying on the Council taking a decision on the programme in the very near future. This would make it possible to resolve the present impasse, which is causing great concern. The Commission also intends to continue the multi-annual programmes on new sources of energy in the following fields: energy savings, production and use of hydrogen, solar energy, geothermal energy and systems analysis.

There is thus a need to step up work on new sources of energy which will certainly be required in years to come, even if it proves possible to continue the major projects in the nuclear sector.

In the next few years, therefore, one point of focus in scientific research will be the development of programmes with a more or less direct bearing on the overall energy policy advocated by the Commission, using the four JRC establishments (set up under Article 8 of the EAEC Treaty) for direct action programmes and the "indirect action" research, usually done under contract by national research institutes.

In addition to these questions, of which the Community authorities are already aware and which have been the subject of earlier proposals, the Commission intends to propose new measures in a report on the Community's activities since January 1974, whose purpose is to define the general guidelines for a common policy on science and technology.

The Commission is planning to submit proposals for common research and development measures on, for example:

- raw materials with a view to increasing the Community's self-sufficiency,
- energy storage,
- long-term forecasts and assessments for science and technology,
- medical research

We must therefore expect increased financial outlays for the whole sector, corresponding to the requirements described above. In the 1977 Budget it has been possible to increase the financial intervention for this sector compared with other categories of Community expenditure. But the Commission has never dissimulated its view that these efforts are still inadequate compared with the primary importance of the objectives and total Community expenditure

#### Conclusion

The Commission requests that the Budgetary Authority enter the requisite appropriations to cover the research programmes, including the section of the thermonuclear fusion programme concerning the construction of JET and the multi-annual JRC programme.

The Commission also hopes that the European Parliament and the Council will examine as quickly as possible the new proposals discussed above that the Commission may submit in 1977.

C. GREATER COMMUNITY SELF-SUFFICIENCY IN ENERGY

The 1973 oil crisis demonstrated the Community's weakness as regards energy and the disastrous consequences that the absence of any common policy or effort to find alternative sources of energy could have for the entire economy of the Community. The European Council which met at Rome on 1 and 2 December 1975 expressed the common concern when it gave the Commission a mandate to implement energy policy guidelines by means of suitable proposals to be submitted to the Council.

As the pressure of the oil crisis which prompted the Community to launch its energy policy was not maintained, the original aims were not achieved. The Community remains extremely dependent on external supplies, and would again be ill-prepared in the event of renewed supply difficulties. It must therefore plan, as a matter of priority, new measures on a substantial scale to achieve the objective of reducing the Community's dependence on external energy supplies from 63 to 50%, since the even more ambitious target of a dependence level of only 40% is now unattainable. Any further delay must now be avoided.

Furthermore, Community action in the energy sector would enable considerable savings of public funds in many fields as it would help avoid costly duplication of effort at national level.

Certain important projects are already under way, particularly as regards support for technological development in the field of hydrocarbons and the initial phase of uranium prospecting. These activities will continue, and the Commission also envisages an early start on a hydrocarbons prospecting programme; the basic regulation on this subject is already before the Council. The Commission also intends to lay before the Council proposals for new operations, including measures to promote the use of - and to obtain the best possible return from - Community energy reserves.

As regards borrowing operations, it should be remembered that in 1974 the Commission submitted a proposal to the Council with a view to raising loans to finance nuclear power stations. Although this proposal was examined in detail by the Council and aroused great interest, it has not yet been finally approved.

Yet this is an action which does not use the Community's financial resources but simply provides a Community guarantee for the financing of those borrowing and lending operations of special interest in connection with the diversification of energy resources.

#### Conclusion

In view of the priority which should be accorded to greater Community self-sufficiency in energy, the Commission requests that the Budgetary Authority enter the appropriations required to implement the programmes and proposals which the Commission has already introduced or which will be submitted to the Council and the Parliament in the near future.

#### D. CONTINUATION AND IMPROVEMENT OF AID TO DEVELOPING COUNTRIES AND TO NON-MEMBER COUNTRIES

The Commission proposes that in 1978 priority should be accorded to the furtherance of projects already started; it does not intend to propose any new projects for 1978 apart from those resulting from treaties already signed or agreements under negotiation for which part of the costs will be charged to the Community Budget (e.g., Maghreb, Mashrek, Euro-Arab Dialogue).

It will merely pursue and improve Community activity already under way: technical and financial aid to non-associated developing countries, food aid, promotion of trade and regional cooperation and cooperation with non-governmental organizations.

The Commission is particularly concerned that the Community make an effort substantially to increase the volume of food aid, and would refer to the proposals it put to the Council in its three-year indicative food aid programme, 1977-79, in September 1976.

#### Conclusion

The Commission would emphasize to the Budgetary Authority the importance of continuing and intensifying programmes of aid to developing countries already undertaken by the Community.

V. CONCLUSIONS

To sum up, the Commission submits the following items for the attention of the Budgetary Authority:

as regards the institutional aspects

(a) Decision on a uniform basis of assessment for VAT

The Council should take the requisite steps to adopt the sixth directive on a uniform basis of assessment for VAT as soon as possible and subsequently to approve the regulations for its application which the Commission will submit shortly thereafter. A concertation procedure with the European Parliament could prove necessary.

(b) Application of the EUA

The Council should adopt the resolution proposed by the Commission under which the EUA would be applied to the Budget as from 1 January 1978.

The Council should approve the proposal for a regulation on the application of the EUA by 30 June 1977 at the latest. A concertation procedure with the European Parliament could prove necessary.

(c) Setting up the Court of Auditors

The Council should take the necessary steps to appoint the members of the Court, after consulting the Parliament, once the Treaty of 22 July 1975 comes into force.

The Council should adopt the necessary provisions for the administration of the Court of Auditors (amendment of the Financial Regulation and of the Staff Regulations) as soon as possible. A concertation procedure with the European Parliament could prove necessary.

(d) Interpretation of Article 203/EEG, 177/EAEC and 78/ECSC

Before 15 June next - when the next budgetary procedure commences - the Council should reach agreement with the Parliament along the lines suggested by the Commission, as regards the interpretation of the provisions of Article 203 of the Treaty, taking into account the new distinction between appropriations for commitment and appropriations for payment.



(e) Adoption of the revised Financial Regulation

The Council should adopt the revised Financial Regulation by the end of June at the latest. A concertation procedure with the European Parliament could prove necessary.

(f) Reinforcing financial control

As soon as possible, the Council should approve the draft directive on control by Member States of operations which come under the system of financing by the EAGGF Guarantee Section and the draft regulation on mutual assistance.

as regards implementing policies

(g) Common agricultural policy

A better balance on the agricultural market

Although agricultural expenditure is unpredictable because of fluctuations on the world market, it is nevertheless essential in order to improve control over agricultural expenditure that all the institutions unite their efforts in order to achieve balance on the main agricultural markets.

Particular attention should be given to the structural imbalance on the market in dairy products which alone accounts for 40% of EAGGF Guarantee expenditure, or 25% of Community expenditure (1977 Budget). The Commission has already put forward proposals on the subject and would ask the Council and the Parliament to take these into account when fixing the agricultural prices for 1977; and the Commission also asks them to take their decisions as rapidly as possible.

Agri-monetary expenditure

As the Parliament has accepted its proposal, the Commission would ask that the Council accept the principle of compulsory phased reduction and set itself a deadline for setting up the necessary machinery.

Agricultural structure policy

As measures taken in this field should be integrated into a general scheme for coordinating the various intervention measures of the Community, the Commission will make attempts to make them more effective.

(h) European Regional Development Fund

The Commission is proposing that the Budgetary Authority recognize that the present economic circumstances dictate that the Regional Fund be in a position to make a greater effort to correct the regional imbalances in the Community.

(i) Social Fund

Following a period of rapid expansion - which must go on - the Social Fund now has an urgent need to consolidate its achievements with a view to being more effective.

(j) Sectoral measures for industry

The Commission calls upon the Budgetary Authority to ensure that industrial measures be accepted as top priority in drawing up the 1978 Budget.

(k) Community research activities

The Commission requests the Budgetary Authority to enter the necessary appropriations to carry out the research programmes including that part of the programme concerned with "Thermonuclear Fusion", involving the construction of JET and the JRC multiannual programme.

In addition, the Commission requests the Parliament and the Council to examine at the earliest opportunity the new proposals which the Commission will be putting forward in 1977, to which reference has been made earlier.

(l) Transport policy

It is vital that decisions be taken as quickly as possible on this proposal, bearing in mind that the financial impact of operations due to begin in 1978 will be limited.

(m) Energy policy

In view of the priority which must be given to increasing the Community's independence with regard to energy, the Commission calls upon the Budgetary Authority to make available the necessary appropriations to implement the programmes and proposals which it has put forward.

(n) Improving aid to the developing countries and non-member countries

The Commission would draw the Budgetary Authorities attention to the importance of continuing and expanding the measures already undertaken by the Community to provide aid to the developing countries.

DRAFT COUNCIL RESOLUTION

The Council takes note that the Commission has put forward a proposal for a Regulation introducing application of the European unit of account to the Budget of the Communities from 1 January 1978.

It notes that this proposal\* is substantially based on the relevant provisions contained in the document submitted to it on 26 May 1976 setting out a general revision of the Financial Regulation of 25 April 1973.

In view of the urgent reasons underlying the tabling of a proposal, the Council undertakes to act immediately on this proposal\* in order that the European unit of account be effectively applied to the Budget of the Communities by the 1978 financial year at the latest.

\* This proposal for a Resolution was forwarded by the Commission to the Council in September 1976 (COM(76)515 final).

EVOLUTION OF THE BUDGETS OF THE EUROPEAN COMMUNITIES

in m u.a.

A. REVENUE	1971	1972	1973	1974	1975	1976*	1977*
1. OWN RESOURCES							
Customs duties	582,3	957,3	1.986,3	2.737,8	3.151,0	4.117,3	4.849,3
Agricultural levies	713,3	799,5	510,2	329,9	590,1	911,0	995,5
SUB-TOTAL	1.295,1	1.756,3	2.496,5	3.067,7	3.741,1	5.028,3	5.844,8
2. ECSC PAYMENTS	18,0	18,0	18,0	18,0	18,0	18,0	18,0
3. DEDUCTIONS/staff	13,1	15,5	19,7	24,7	29,0	35,2	37,4
4. FINANCIAL CONTRIBUTIONS	923,3	1.236,6	2.087,3	1.903,8	2.152,0	3.210,4	2.871,9
5. MISCELLANEOUS	38,4	47,5	19,5	22,5	273,5	217,8	47,9
TOTAL	2.239,4	3.074,4	4.641,0	5.036,7	6.213,6	8.509,7	8.821,0

\* Including 39.1 m u.a. surplus.

\* Including 21.0 m u.a. surplus.

B. EXPENDITURE	1971	1972	1973	1974	1975	1976*	1977*
1. COMMISSION							
EAGGF Guarantee	1.883,6	2.302,7	3.593,8	3.389,9	4.327,0	5.877,7	6.418,4
EAGGF Guidance	-	174,9	175,1	261,4	259,6	325,0	157,8
Social Fund	56,5	97,5	269,2	290,7	360,2	501,0	172,4
Regional Fund	-	-	-	-	150,0	300,0	400,0
Research, energy and miscellaneous	65,8	78,7	77,4	159,0	138,3	205,8	254,1
Cooperation, developing countries	13,2	69,7	30,1	324,1	241,7	277,9	269,7
Administrative expenditure	110,5	133,7	189,1	229,7	269,8	352,6	394,9
Refunds to Member States	129,6	175,7	250,1	306,3	374,2	502,8	584,6
TOTAL	2.259,2	3.032,9	4.584,6	4.951,2	6.120,8	8.342,3	8.651,9
2. OTHER INSTITUTIONS							
Parliament	11,0	14,9	22,8	32,0	39,2	52,1	65,8
Council	16,7	23,1	27,9	36,6	45,6	64,5	70,2
Court of Justice	2,5	3,5	5,7	6,9	8,0	11,2	12,1
TOTAL	30,2	41,5	56,4	75,5	92,8	127,8	148,1
GRAND TOTAL	2.289,4	3.074,4	4.641,0	5.036,7	6.213,6	8.470,6	8.800,0

\* Appropriations included in the Budget.

\* Including 60 m u.a. under Chapter 58: Community aid to the Friuli disaster area.

EDF EXPENDITURE	1971	1972	1973	1974	1975	1976	1977
SECOND EDF	3,3	7,2	-	-	-	-	-
THIRD EDF	232,8	205,5	201,0	157,0	71,0	100,0	-
FOURTH EDF	-	-	-	-	-	220,0	300,0
TOTAL	236,1	212,7	201,0	157,0	71,0	320,0	300,0

NB: The figures relate to expenditure commitments carried out for the years 1971 to 1975 and estimated commitments for 1976 and 1977.

Summary of appropriations made available under  
the Budget for the 1977 financial year

ANNEX C

in m u.a..

	Expressed as appropriations for commitment <sup>1</sup>		Expressed as appropriations for payment <sup>2</sup>	
		%		%
<b>1. COMMISSION</b>				
EAGGF - Guarantee	6 418.4	66.87	6 418.4	72.94
EAGGF - Guidance	325.0	3.39	157.8	1.79
Social Fund	617.1	6.43	172.4	1.96
Regional Fund	500.0	5.21	400.0	4.55
Research, energy and miscelleous	340.1	3.54	254.1	2.88
Cooperation with developing countries	269.7	2.81	269.7	3.07
Administrative expenditure	394.9	4.12	394.9	4.49
Refunds to Member States	584.6	6.09	584.6	6.64
<b>TOTAL</b>	<b>9 449.8</b>	<b>98.46</b>	<b>8 651.9</b>	<b>98.32</b>
<b>2. OTHER INSTITUTIONS</b>				
Parliament	65.8	0.69	65.8	0.75
Council	70.2	0.73	70.2	0.80
Court of Justice	12.1	0.12	12.1	0.13
<b>TOTAL</b>	<b>148.1</b>	<b>1.54</b>	<b>148.1</b>	<b>1.68</b>
<b>GRAND TOTAL</b>	<b>9 597.9</b>	<b>100.00</b>	<b>8 800.0</b>	<b>100.00</b>

<sup>1</sup> = Non-differentiated appropriations + appropriations for commitment.  
<sup>2</sup> = Non-differentiated appropriations + appropriations for payment.