EUROPEAN COMMUNITIES

FINANCIAL REPORT 1992

FOREWORD

Nineteen hundred and ninety-two was a key year for the Community, marked by a number of important events which also had a bearing on the Community's finances:

- Under Article 8a of the EEC Treaty, the internal market was due to be completed by 31 December 1992, requiring considerable preparation.

- The downturn in the world economy began to have a more serious effect on the Community economy and, inevitably, on the Community budget.

- In signing the Treaty on European Union at Maastricht on 7 February 1992, the Member States signalled their intention of stepping up European integration; however, there were considerable delays in ratifying the Treaty.

- Nineteen hundred and ninety-two was the last year covered by the financial perspective adopted in 1988 and the Interinstitutional Agreement on budgetary discipline. A new financial perspective for 1993-99 was adopted by the Edinburgh European Council in December 1992; as yet, no new interinstitutional agreement has been concluded.

The execution of the 1992 budget described in this report clearly illustrates the Community's determination to adapt the resources for implementing its policies and programmes to take account of these developments and the objectives of European integration.

This resolve was reflected in the amount of resources devoted to both internal and external policies. As regards internal policies, the Structural Fund appropriations were increased in line with the plan for doubling their allocation over the period 1988-93; substantial amounts were also devoted to research and the completion of the internal market, areas deemed important for the future. On the external front, priority was given to assistance to Central and Eastern Europe and closer cooperation with the developing countries of Latin America, Asia and the Mediterranean.

To meet these new challenges, there were major revisions to increase the financial perspective, which sets annual expenditure ceilings for the main policy areas. Extra resources were thus released for a number of external measures involving technical assistance for the Commonwealth of Independent States and protection of tropical forests. Emergency aid was granted to combat famine in Africa and help refugees in former Yugoslavia. Additional appropriations were also allocated to keep up with the faster rate of payments in respect of structural aid for the new *Länder* and certain research programmes.

The total appropriations for commitments available in 1992 rose to ECU 65 076 million.

The financial report shows how these resources have allowed the Community to meet the challenges confronting it.

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ECONOMIC AND FINANCIAL FRAMEWORK

Since the process of European integration began, there have been a number of major developments in the Community's financial system.

Progress towards financial autonomy

The European Coal and Steel Community was given financial autonomy from the outset with the introduction of a real Community levy. The process was completed in 1971 when own resources were introduced as a specific source of revenue for the Community to replace the system of financial contributions by the Member States set up under the Treaty of Rome in 1957.

Development of common policies

In view of the financial autonomy afforded to its common policies, the Community was able to pursue the objectives of European integration.

The establishment of the European Agricultural Guidance and Guarantee Fund in 1962 paved the way for a common agricultural policy, while expenditure on structural policies helped promote economic and social cohesion in the Community.

For energy, industry, technology and research, Community spending acted as a catalyst for projects of common interest. Expenditure on cooperation with developing and other non-member countries reflected the Community's determination to be receptive to international problems.

The search for a balance between the institutions in the exercise of budgetary powers

In view of the growing independence of the Community's finances, the need arose for democratic control of the financial resources transferred to the Community. An important step was taken in 1975 when the present rules were laid down by the Treaty of Brussels.

Decision-making powers on budgetary matters are shared between the Council and the European Parliament, except for the ECSC budget, for which all powers are exercised by the High Authority under the 1951 Treaty of Paris. Budget control is exercised by the Court of Auditors which was set up by the Treaty of Brussels.

Moves towards the unification of the budgetary instruments

After a gradual process of unification, there are now only two budgets: the general budget and the ECSC operating budget.

The Community policies provided for by the 1957 Rome Treaties (European Economic Community and European Atomic Energy Community) and the administrative expenditure of the Community institutions are financed by the general budget of the European Communities.

Community operations provided for by the 1951 Treaty of Paris (European Coal and Steel Community) are financed by a specific operating budget (totalling ECU 535 million in 1992). The legal status of the provisions governing the ECSC operating budget prohibit any formal incorporation in the general budget.

Article 199 of the EEC Treaty lays down that, 'All items of revenue and expenditure of the Community... shall be included in estimates to be drawn up for each financial year and shall be shown in the budget.'

This rule means that all Community revenue and expenditure must be incorporated in a single budget document to ensure that the conditions for use of the Community's resources can be monitored effectively.

However, there are two categories of financial operation for which the revenue and expenditure are not covered by any Community budget — the operations of the European Development Fund (EDF) and borrowing and lending activities.

The EDF was set up by the EEC Treaty with a view to stepping up trade with associated developing countries and assisting them in carrying out economic and social development projects. The resources of the EDF are provided by contributions from the Member

States. For largely political reasons, the Member States have, until now, wished to retain their direct influence over certain development aid operations by maintaining an independent financial regime and management procedures which are not subject to the Community rules.

The EEC Treaty made no express provision for borrowing and lending activities. However, as the achievement of the Community's objectives was dependent on rules for its operations on the capital market, borrowing and lending activities were finally authorized in 1975 on the basis of Article 235 of the EEC Treaty. Most borrowing and lending operations, with the exception of those of the ECSC, are included in the Community's financial balance sheet.

The financial activities of the ECSC (operating budget and borrowing and lending operations) and the EDF are summarized in Annexes 1 and 2.

The economic situation in 1992

Growth in the Community economy again slowed from 1.4% of GDP in 1991 to 1.1% in 1992, with a marked deterioriation towards the end of the year. The downturn in the economic cycle which began at the end of 1990 was exacerbated in 1992 by the fall in business confidence and the persistence of tight monetary policies.

The rate of inflation fell from 5.3% in 1991 to 4.6% in 1992, although the improvement was in fact more pronounced in most countries with the exception of Germany, where inflationary pressure tended to increase.

The initial effect of German unification had been to help cushion the Community economy from a depressed international situation by boosting demand. In 1992 however, it contributed to the persistence of high interest rates which, combined with delays in the ratification of the Maastricht Treaty, led to devaluations in the EMS in the autumn. These monetary problems and political uncertainties, such as the failure to reach agreement in the GATT negotiations further weakened confidence in the economy.

Domestic demand was weak. Household consumption rose by only 1.4% compared with 1.9% in 1991, held back by the sharp increase in unemployment from 8.8% of the active population at the end of 1991 to 10.1% at the end of 1992. High interest rates and other factors discouraged investment, which stagnated for the second year running: the 0.4% growth rate recorded in 1992 represents a drop of 0.3% in real terms if the new *Länder* are not taken into account.

Public deficits grew (from 4.6% of GDP in 1991 to 5.3% in 1992) in nearly all countries, reflecting in some cases the difficulty in keeping large-scale debt under control at a time of low economic activity or a desire to let 'automatic stabilizing factors' take effect. At any rate, the room for manoeuvre in budgets was sharply reduced.

Unlike the previous year, exports were the most dynamic factor in demand in the European economy, but they rose by no more than 2.5% because of the sluggish recovery in the United States, the slowdown in the Japanese economy and a loss of competitiveness among European producers due to the increase in the average value of European currencies since the late 1980s.

Financial perspective 1988-92

In February 1988 the Brussels European Council adopted the broad outlines of a financial reform involving tighter budgetary discipline to ensure an orderly increase in budget spending and a better balance between the various categories of expenditure. In particular, the increase in agricultural expenditure was limited and the amounts allocated to the Structural Funds were to be doubled in real terms over a period of five years.

In June 1988 an interinstitutional agreement was reached between Parliament, the Council and the Commission to place these objectives in a financial perspective for the period 1988-92, which sets annual ceilings for expenditure on broad policy areas.

The Commission updates the financial perspective every year before the start of the budgetary procedure in order to adjust the figures in line with movements in GNP and prices. On a proposal from the Commission, Parliament and the Council may also decide to adjust the financial perspective to take account of the actual conditions of implementation in the previous year. This was done in 1992. Finally, the financial perspective may be revised; this too requires a decision by Parliament and the Council on a proposal from the Commission.

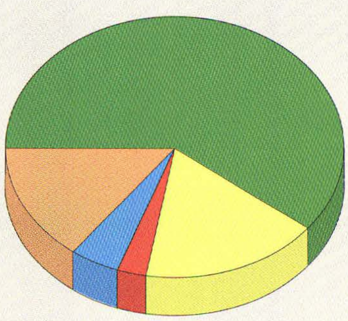
The financial perspective was revised four times in 1992, primarily to release additional funds for external measures: ECU 450 million for technical assistance to the republics of the CIS and ECU 50 million for tropical forests, while two further revisions were needed to provide emergency aid to combat famine in Africa (ECU 200 million) and assist refugees in former Yugoslavia (ECU 120 million). A further ECU 550 million in payment appropriations had to be provided to keep up with the faster rate of payments in respect of structural aid for the new *Länder* and certain research programmes.

The original ceilings in the financial perspective for 1992 had already been revised in 1990 to take account of the financial consequences of German unification and to finance aid for Central and Eastern Europe.

FIGURE 1
Financial perspective 1988-92

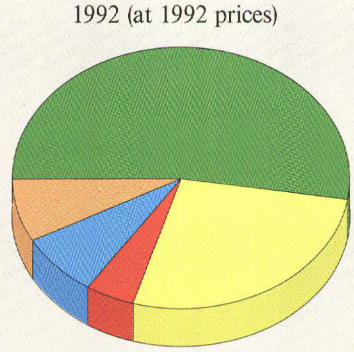
(million ECU)

1988 (at 1988 prices)



1988	*Appropriations for commitment*	1992
27 500	EAGGF Guarantee	35 039
7 790	Structural operations	18 009
1 210	Policies with multiannual allocations	3 115
2 103	Other policies	5 224
6 741	Miscellaneous	5 205
45 344		66 592

1992 (at 1992 prices)



	appropriations 1992	committed 1992
EAGGF Guarantee	32 036	31 118
Structural operations (EAGGF Guidance Section, ERDF, ESF, etc.)	18 109	17 864
Policies with multiannual allocations (IMPs, research)	2 905	2 648
Other policies (Education and vocational training, fisheries and the sea, energy and industry, cooperation, etc.)	5 993	5 843
Miscellaneous (Repayments, monetary reserve, administration)	4 864	3 783
	63 907	61 256

In December 1992 the Edinburgh European Council adopted a new financial perspective for the next seven years on a proposal from the Commission.

The principles underlying the budget

Commitments and payments

Firstly, the budget for the year is cast at two levels: a commitment budget and a payment budget.

Commitment appropriations are intended to cover the total amount of legal obligations entered into during the year. In practice, the significance of a legal obligation depends on the sector concerned. Typically, when the Community enters into a contract for ECU 1 million, it uses up ECU 1 million of its commitment appropriations.

Payment appropriations are to cover actual disbursements during the year against new and existing commitments. The amount committed at any time is obviously greater than the amount paid, the difference between the two representing the balance of outstanding commitments. To balance the budget, the payment appropriations for the year must be covered by the revenue for the year.

Equilibrium

The second principle is that the budget drawn up must balance.

Estimated revenue for the year must equal payment appropriations for the year. There is no provision for borrowing to cover a budgetary deficit. Any surplus for the year is carried forward to the following year. A modest operating deficit can also be carried forward. On the other hand, a significant departure from the original budget during the year requires the adoption of a supplementary or amending budget.

Annuality

The principle of annuality means that the budget is voted for one year at a time and the appropriations of the year for both commitments and payments should be used during the year.

Commitment appropriations cover new commitments for the year, whereas payment appropriations must cover the amounts payable against both new and existing commitments.

The principle of annuality does not exclude the possibility that certain commitments may last for more than one year. Clearly, in sectors such as the Structural Funds, research and external cooperation, the Community needs to take some commitments which exceed the period of one financial year. In these sectors, a mechanism known as differentiated appropriations allows for a separate annual vote of commitments and payments.

Under certain clearly defined conditions, some unused appropriations may be carried over to the next year.

Execution of the 1992 budget

Table 1 presents a summary of the execution of the general budget of the European Communities in 1992. The revenue forecast came to ECU 61 097 million, corresponding to the appropriations for payments entered in the budget.

Actual revenue was ECU 59 712 million, consisting mainly of own resources, for which the overall outturn came to 97.0% of the forecasts.

The amount of traditional own resources fell by 4.9% compared with 1991.

- ☐ The yield from agricultural levies was lower because of the relative stability of world prices and a reduction in the volume of imported cereals, in particular maize.
- ☐ The amount of customs duty collected was 1.6% down on the previous year, reflecting a sharp drop in oil prices which reduced the value of energy imports. Other primary products were similarly affected.

TABLE 1

Implementation of the budget in 1992

Revenue

(million ECU)

Forecasts of revenue in the 1992 budget	61 096.8
Revenue in 1992	59 711.8

Expenditure

	Differentiated appropriations (multiannual operations)		Non-differentiated appropriations (administrative expenditure and annual operations)		Total	
	Commitments	Payments	Commitments	Payments	Commitments	Payments
Available appropriations:						
Entered in 1992 budget	25 641.1	22 830.8	38 265.9	38 265.9	63 907.0	61 096.7
Other	472.6	180.8	3.1	3.1	475.7	183.9
Carried over from 1991:	521.3	264.3	171.7	860.7	693.0	1 125.0
• automatic carry-overs				(689.0)		(689.0)
• other carry-overs	(521.3)	(264.3)	(171.7)	(171.7)	(693.0)	(436.0)
Total available	26 635.0	23 275.9	38 440.7	39 129.7	65 075.7	62 405.6
of which:						
Appropriations used in 1992	26 093.3	22 507.4	36 299.6	36 065.8	62 392.9	58 573.2
• entered in 1992 budget	(25 117.5)	(22 224.2)	(36 139.3)	(35 311.7)	(61 256.8)	(57 535.9)
• other	(464.9)	(53.7)			(464.9)	(53.7)
• carried over from 1991	(510.9)	(229.5)	(160.3)	(754.1)	(671.2)	(983.6)
Appropriations carried over to 1993	315.9	354.6	179.5	1 004.6	495.4	1 359.2
• automatic carry-overs				(825.1)		(825.1)
• other carry-overs	(315.9)	(354.6)	(179.5)	(179.5)	(495.4)	(534.1)
Appropriations lapsing	225.8	414.0	1 961.6	2 059.2	2 187.4	2 473.2
Utilization rate	98%	97%	94%	92%	96%	94%
Commitments outstanding at 1.1.1992	21 233.1		688.9		21 922.0	
of which:						
Cancelled	628.1		92.9		721.0	
• corresponding appropriations made available again in 1993	(64.5)					
• other	(563.6)					
Paid	8 814.4		596.0		9 410.4	
Outstanding at 31.12.1992	11 790.6		—		11 790.6	
Commitments made in 1992	26 093.4		36 299.5		62 392.9	
of which:						
Paid	13 693.1		35 469.7		49 162.8	
Outstanding at 31.12.1992	12 400.3		829.8		13 230.1	
Total commitments outstanding at 31.12.1992	24 190.9		829.8		25 020.7	

The revenue from VAT own resources and the additional GNP-based resource was 99.8% of the amount forecast.

On the expenditure side, a total of ECU 62 393 million was committed — a utilization rate of 95.8%. For appropriations for payments, the rate was 94.1%, with under-utilization affecting mainly the EAGGF Guarantee Section, the IMPs, research and other internal and external policies.

Taking into account all the commitments and payments made during the year and the commitments outstanding at the end of 1991, the total amount of commitments to be settled in 1993 or subsequent years is ECU 24 191 million. Table 10 contains a breakdown of this amount for measures allocated differentiated appropriations.

Table 1 shows the year's results (as defined and presented in the second part of the report) as the difference between the year's revenue of ECU 59 712 million and the 1992 appropriations for payments used during the year (ECU 57 513 million) plus the ECU 1 334 million in appropriations for payments carried over to 1993.

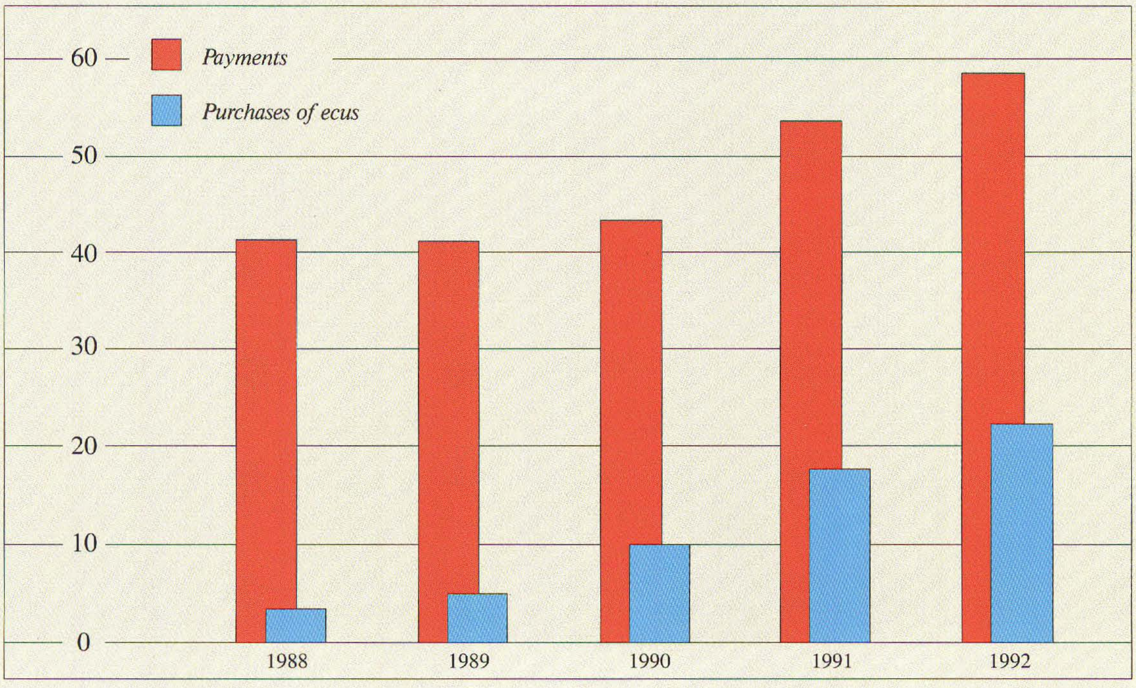
The ecu

The Communities' currency unit is the ecu, a 'basket' of the 12 Community currencies, the composition of which is shown in Table 2.

The Commission promotes the adoption of the ecu as a single currency by using it as much as possible in the execution of the budget. Some major sections of the budget,

FIGURE 2
Volume of payments and purchases of ecus, 1988-92

(billion ECU)



such as research and energy policy, have been implemented mainly in ecus for several years now. Since the last quarter of 1990 the Commission has also used ecus for the payment of financial assistance under the Structural Funds. In 1992 38% of the budget was implemented in ecus.

During the year the Commission opened accounts in ecus with the French and Irish treasuries.

TABLE 2
Composition of the ecu

Member State	Composition of the ecu		Share in the ecu %
Germany	*DM*	*0.6242*	*30.7*
France	*FF*	*1.332*	*19.1*
United Kingdom	*UKL*	*0.08784*	*12.3*
Italy	*LIT*	*151.8*	*9.8*
The Netherlands	*HFL*	*0.2198*	*9.6*
Belgium	*BFR*	*3.301*	*7.9*
Spain	*PTA*	*6.885*	*5.3*
Denmark	*DKR*	*0.1976*	*2.5*
Ireland	*IRL*	*0.008552*	*1.1*
Portugal	*ESC*	*1.393*	*0.8*
Greece	*DR*	*1.440*	*0.6*
Luxembourg	*LFR*	*0.130*	*0.3*
	ECU	*1*	*100*

REVENUE

The Community budget was financed from a number of sources in 1992, in the proportions shown in Figure 3. Total revenue came to ECU 59 712 million.

Traditional own resources

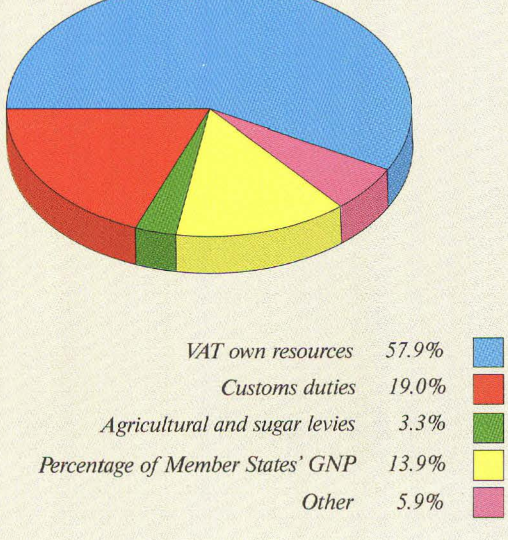
The Communities' traditional own resources are made up of customs duties, agricultural levies and sugar levies. They are established by the Member States, which keep 10% to cover collection costs.

The Communities receive customs duties in respect of trade with non-member countries, based on the Common Customs Tariff. These rates are subject to regular reductions as a result of negotiation rounds under the General Agreement on Tariffs and Trade (GATT) and specific agreements granting preferential tariffs to certain trade partners. The amount of customs duty collected in 1992 was less than expected and 1.6% lower than in 1991. The fall in the value of imports was caused by a drop in world prices, the depreciation of the US dollar and the weaker economic situation.

Agricultural levies are charged when a Member State imports agricultural products from a non-member country. Their purpose is to offset differences between world prices and the Community price. The proportion of Community revenue accounted for by agricultural levies has tended to decline because the Member States have become increasingly self-sufficient in agricultural products. However, the sharp fall in yield in 1992 (25% down on 1991) was caused mainly by the unexpectedly low level of imports and the fact that levy rates remained below the forecasts.

Sugar and isoglucose producers pay levies on production to cover market support arrangements and to finance a system of equalization of sugar storage costs introduced to ensure that sugar is released on the market regularly throughout the year. These levies do not increase the Community's net resources, since they are offset by expenditure of virtually the same amount. In 1992 the yield was reduced by the abolition of the additional levy and a reduction in the coefficient for the 'B levy'.

FIGURE 3
Revenue of the Communities in 1992



VAT own resources

The VAT own resources are calculated by applying a uniform rate to the uniform VAT bases of the Member States, which are determined in accordance with Community rules. The maximum rate applicable has been fixed at 1.4%, and the base used must not exceed 55% of a Member State's GNP. In 1992, as in 1991, this capping of the VAT base applied in five Member States — Greece, Ireland, Luxembourg, Portugal and the United Kingdom.

The uniform rate (1.265%) is determined by applying 1.4% to the Member States' VAT bases, capped where necessary at 55% of GNP, and incorporating the correction made to compensate the United Kingdom for the imbalance in its net contributions to the budget. The payments of the other Member States are increased by their share in financing this compensation subject to the maximum rate of 1.4%.

Payments for a given year derive from the estimates for that year and the negative or positive adjustments for previous years established from the final statements of the bases.

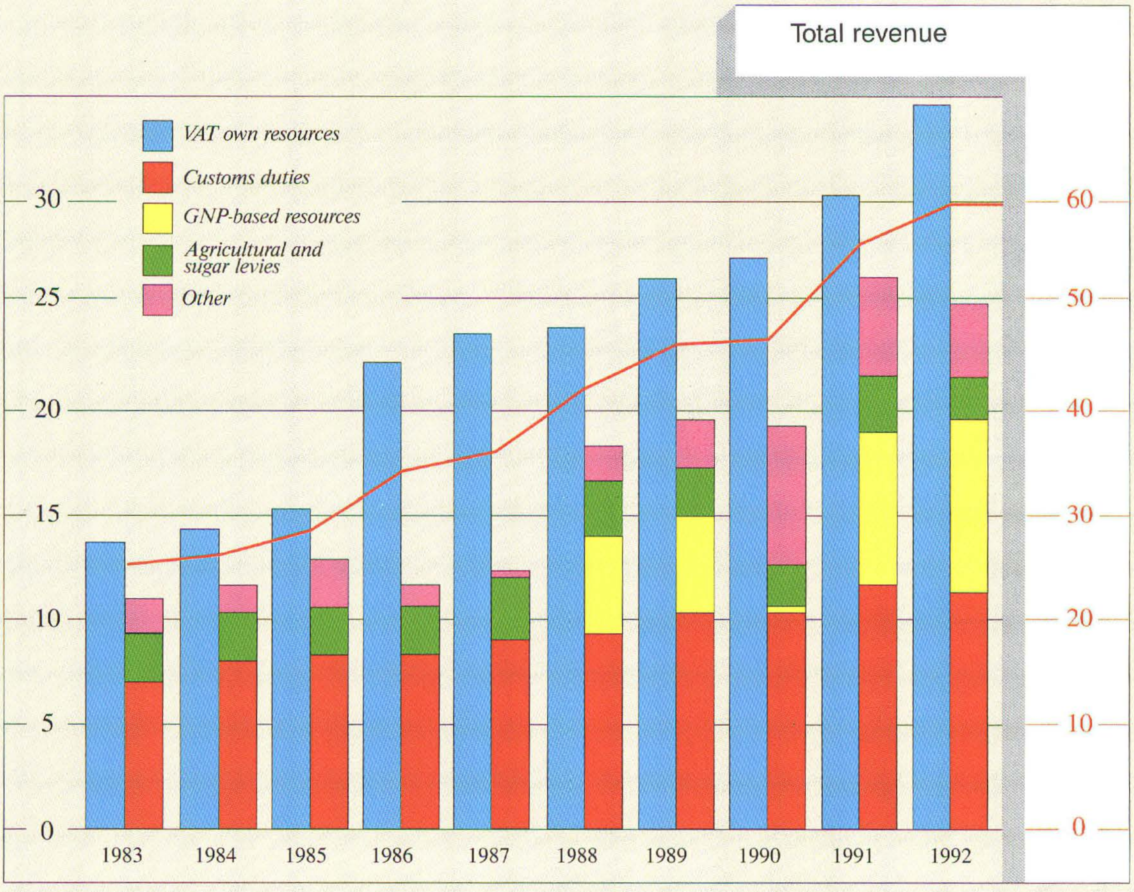
In 1992 some minor positive adjustments were made in respect of 1991.

GNP-based own resources

A new source of revenue based on a proportion of each Member State's GNP was first introduced in 1988 to balance budget revenue and expenditure, i.e. to finance the part of the budget not covered by other revenue. The rate is fixed during the budgetary procedure and

FIGURE 4
Revenue 1983-92

(billion ECU)



depends on the total of other revenue; the rate is applied to the aggregate GNP of all the Member States, determined in accordance with Community rules.

This additional resource was called in 1992 with each Member State paying 0.149% of their GNP (not including the EAGGF monetary reserve). In addition, three Member States had to finance their share of the compensation for the United Kingdom by making a payment based on GNP as their VAT payments had reached the maximum rate of 1.4% of their base.

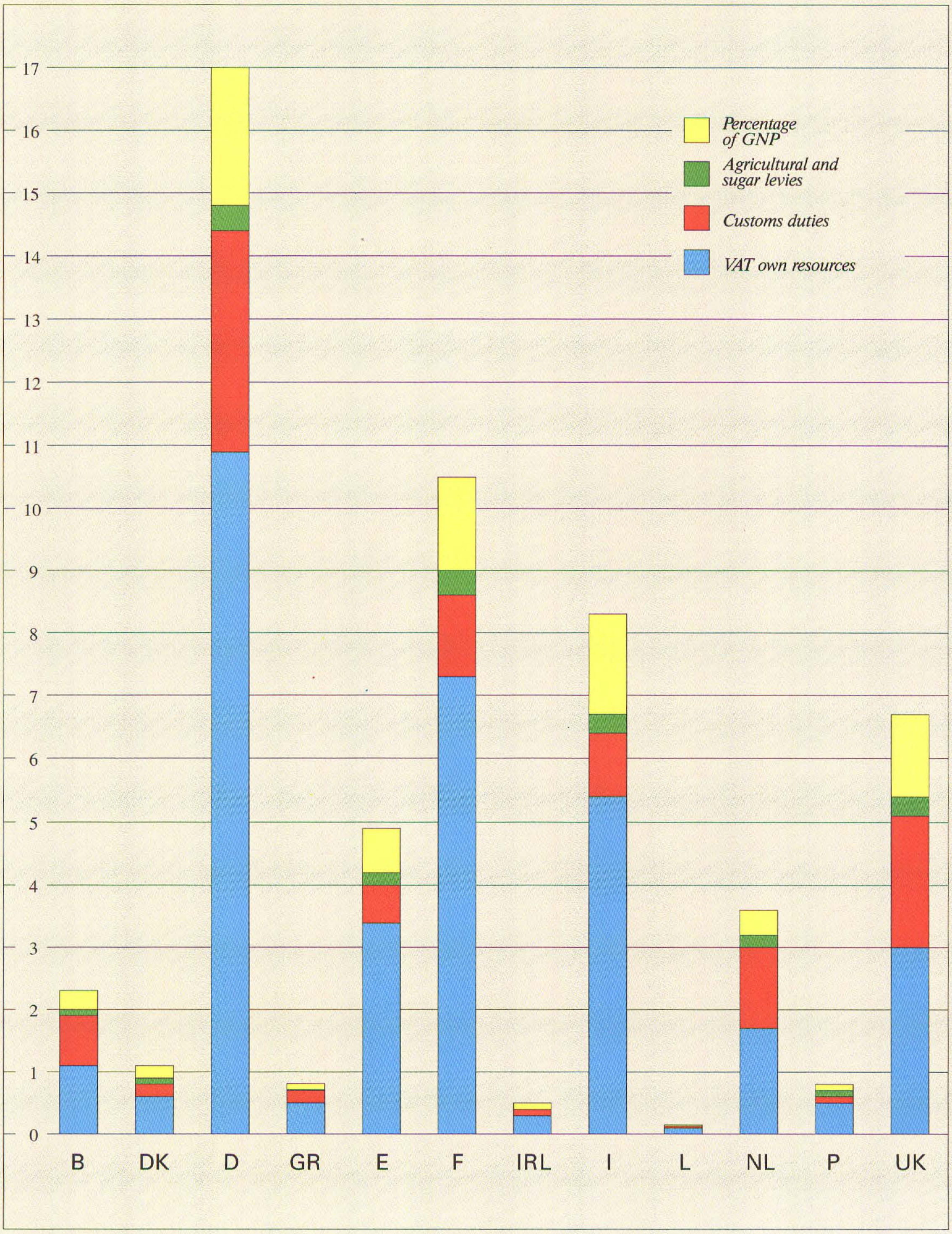
Miscellaneous revenue

The general budget is also financed by miscellaneous revenue, including tax and other deductions from staff remuneration, bank interest, contributions to research programmes, repayments of unused Community aid and interest on late payments.

The revenue for 1992 also includes the surplus from 1991 — ECU 2 763 million.

FIGURE 5
Own resources by Member State in 1992

(billion ECU)



EXPENDITURE

Appropriations for commitments available in 1992 totalled ECU 65 076 million. Figure 6 gives the breakdown by sector of amounts actually committed.

Agricultural market guarantees

Objectives and means

Article 38 of the EEC Treaty provides that the common market shall extend to agriculture and trade in agricultural products, and that the operation and development of the common market for agricultural products must be accompanied by the establishment of a common agricultural policy among the Member States. Article 39 defines the objectives of the common agricultural policy as:

(a) to increase agricultural productivity;

(b) to ensure a fair standard of living for the agricultural community;

(c) to stabilize markets;

(d) to assure the availability of supplies;

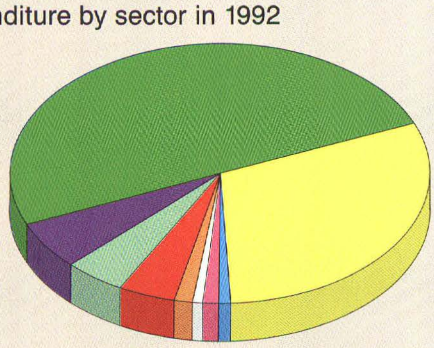
(e) to ensure that supplies reach consumers at reasonable prices.

Although these objectives have largely been met, certain permanent adjustments have had to be made, the most recent of which is the reform of the common agricultural policy adopted by the Council in May 1992. The reform is based on more competitive prices and direct aid to the farmers in greatest need. Its aim is to reduce surpluses, stem the tide of rural depopulation and preserve the environment by discouraging intensive production.

In pursuit of the above objectives, the common market in agricultural produce is based on three principles: the single market, Community preference and financial solidarity. The third of these principles is fundamental to the policy, and in April 1962 the Member States accordingly decided to set up a Community fund — the European Agricultural Guidance and Guarantee Fund (EAGGF) — which is part of the Community budget. It is subject to the general budgetary rules, with the addition of specific provisions.

The Fund was subdivided into two sections in 1964: the Guarantee Section covers Community expenditure on markets and prices and the Guidance Section covers expenditure on farm structures.

FIGURE 6
Expenditure by sector in 1992



Agricultural market guarantees	*50.1%*
Fisheries and the sea	*0.9%*
Structural operations	*30.5%*
A people's Europe	*1.2%*
Research and technological development	*4.4%*
Energy, industry and the internal market	*0.8%*
Cooperation with non-member countries	*6.0%*
Repayments to Member States	*1.4%*
Administrative expenditure	*4.7%*

Constraints

In June 1988, when own resources had run out as a result of ever-increasing agricultural expenditure triggered by imbalances in certain markets, the European Council agreed principles of budgetary discipline in order to establish a better balance between the various categories of expenditure and keep their growth under control. These principles were confirmed by the Edinburgh European Council in December 1992.

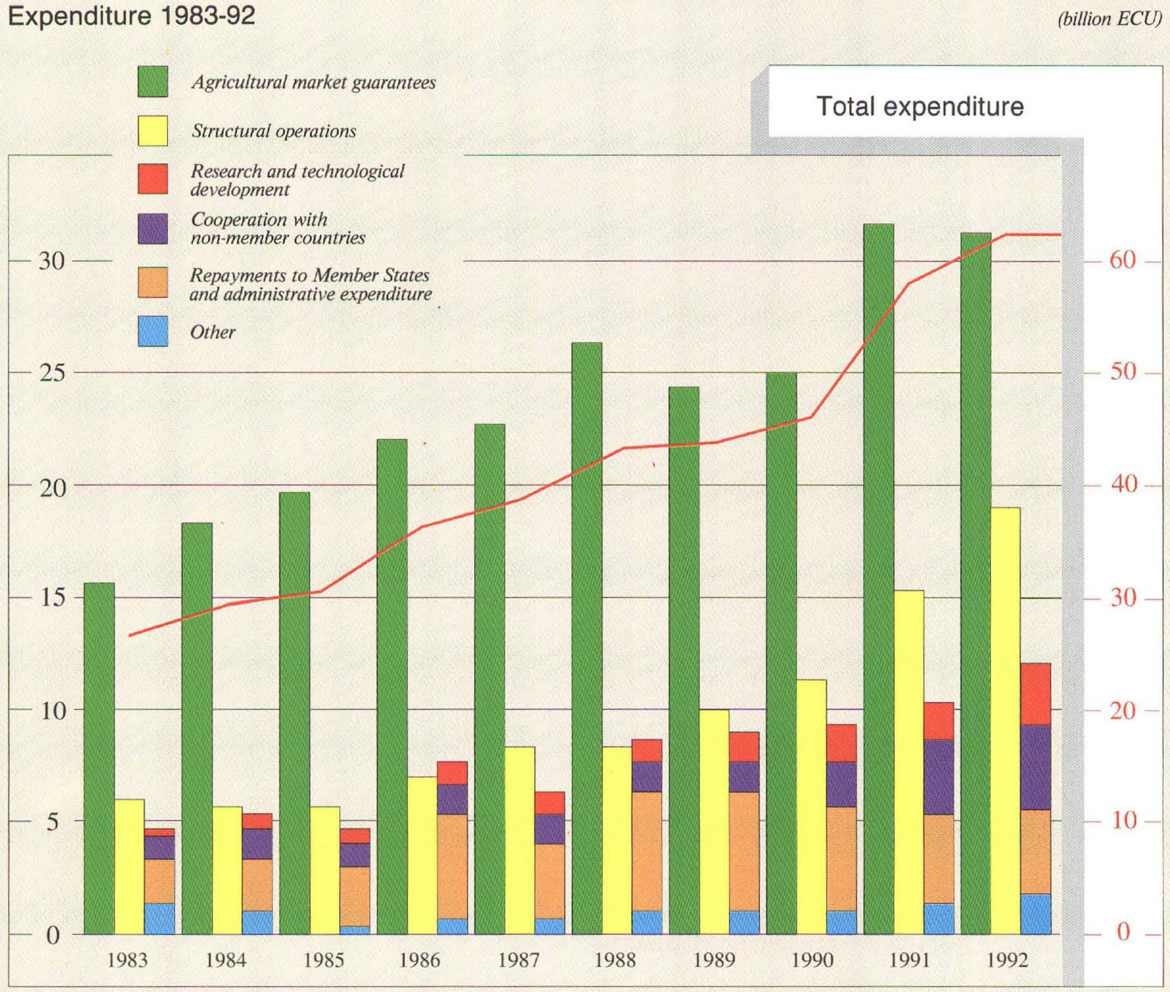
To bring agricultural expenditure under control, the European Council adopted the principle of a guideline. Within this guideline the EAGGF Guarantee Section has to finance:

- ☐ export refunds;
- ☐ market intervention operations, including depreciation of new stocks;
- ☐ half of set-aside expenditure;
- ☐ market-related rural development operations and measures to combat fraud.

However, in line with the conclusions of the Edinburgh European Council, the guideline will be extended from 1993 to cover:

- ☐ new support measures under the reform of the common agricultural policy (early retirement, afforestation);
- ☐ all set-aside expenditure, for which financing was shared equally between the EAGGF Guidance Section and Guarantee Section until 1992 (heading 2 of the financial perspective);

FIGURE 7
Expenditure 1983-92



- expenditure on income aid (previously included in heading 2 of the financial perspective);

- Guarantee Fund expenditure on fisheries (previously included in heading 4).

1992 appropriations

The 1992 budget contained ECU 35 039 million for the EAGGF Guarantee Section, including ECU 17 million for reserves and provisions but not the ECU 1 billion set aside for the monetary reserve. This left no margin under the agricultural guideline.

A total of ECU 810 million was earmarked for the reimbursement to the Member States of amounts advanced by them to finance the disposal of butter from public stocks.

Functioning of agricultural markets

At ECU 31 118 million, the appropriations finally used were ECU 3 920 million less than the initial appropriations. There were various reasons for this discrepancy:

- *The fall in value of the US dollar*

  The average dollar/ecu rate over the year (USD 1 = ECU 0.79) was four points higher than was assumed in the budget (USD 1 = ECU 0.75), thereby reducing expenditure for 1992 by ECU 355 million.

- *Repayment by Germany for exports of abnormal stocks from the former GDR*

  The amount in question — ECU 307 million — had been financed from the 1991 Community budget.

- *Financing of food aid measures*

  The Council adopted several food aid measures for Central and Eastern Europe to be financed by the EAGGF Guarantee Section. Of the ECU 398 million earmarked for these operations, some ECU 177 million was used.

- *Budgetary consequences of the clearance of previous years' accounts*

  The ECU 78.9 million recovered from France in the 1988 clearance operation was repaid after investigations confirmed that the expenditure in question had been justified.

- *Fluctuations in the agricultural markets*

  Market-related factors accounted for a reduction in requirements of ECU 3 497 million compared with the initial budget.

There was a surplus of appropriations in some chapters. The main areas involved were milk products, wine, cereals, fruit and vegetables, sugar, pigmeat, rural development schemes linked to market operations, refunds for food aid measures, tobacco, sheepmeat and goatmeat, eggs and poultrymeat and beef/veal.

Compared with the initial budget, appropriations for milk products were considerably underspent as a result of the favourable market situation, due mainly to the very low level of milk production in the five new German *Länder.*

The lower level of expenditure on wine was the result of a poor table wine harvest, which reduced the volume of distilled wine, and a fall in the amount of alcohol bought at intervention prices.

The under-utilization of appropriations for cereals was caused mainly by the unexpectedly strong recovery in world prices.

Requirements for fruit and vegetables were lower than expected because of a poor harvest of apples and citrus fruit which was reflected in a sharp fall in withdrawals.

Requirements for sugar fell as the Community surplus was reduced to meet strong domestic demand.

The savings in the pigmeat sector were the result of a favourable market situation which meant that no contracts had to be concluded for private storage.

Underspending on rural development schemes linked to market operations was due mainly to the unexpectedly low level of expenditure on aid per hectare for small arable farmers and the suckler cow premium for mixed herds.

The reduction in requirements for food aid refunds was caused chiefly by the general decline in the level of refunds for the products concerned.

Underspending on tobacco was a result of the low level of intervention buying and the unexpectedly high volume of sales from public stocks at higher prices than those assumed in the budget estimates.

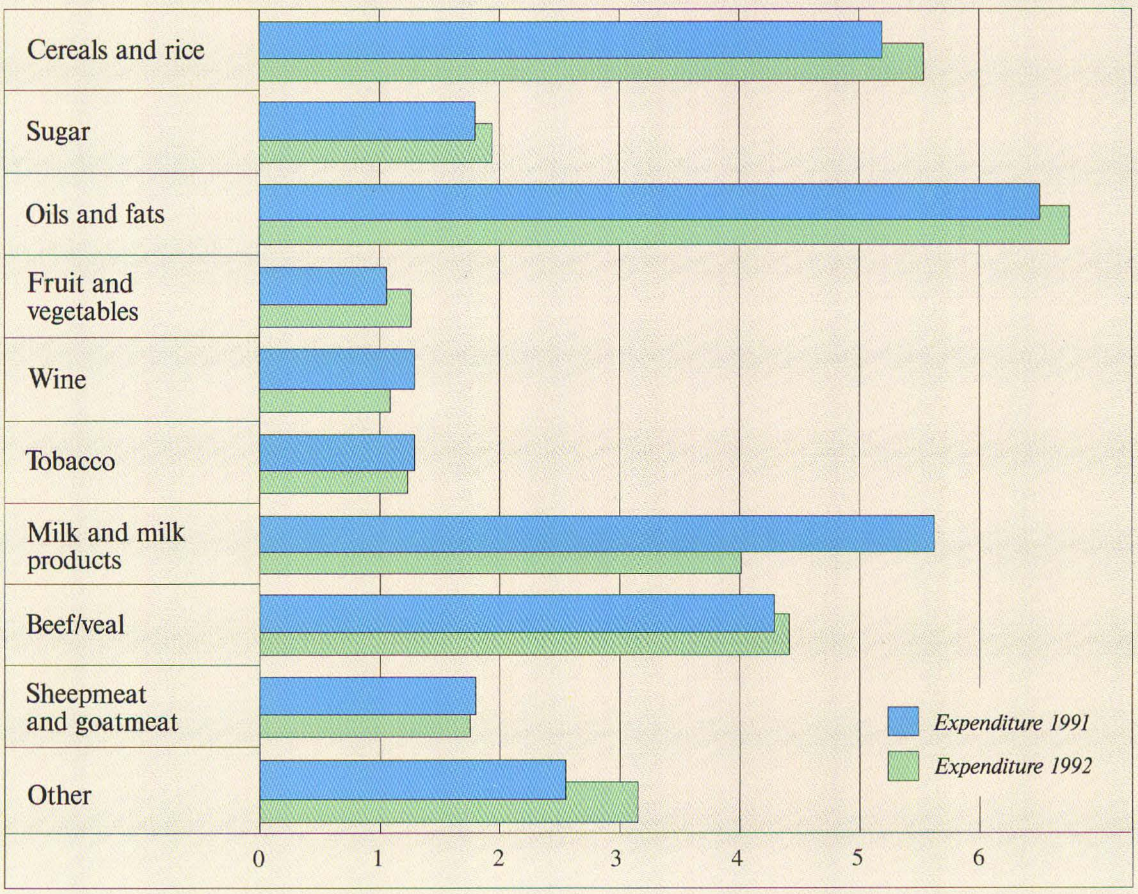
Appropriations for sheepmeat and goatmeat were underspent mainly because contracts for private storage involved very small quantities (less than 2 000 tonnes compared with the 25 000 tonnes assumed in the budget).

Refunds for eggs and poultrymeat were lower than expected because of firm world cereal prices.

Appropriations for beef and veal were underspent chiefly because stocks at the end of the

FIGURE 8
Agricultural expenditure by sector in 1992

(billion ECU)



year were lower than forecast, after a major disposal operation for exports, and no aid was granted for private storage.

However, in other chapters the initial appropriations were insufficient. The main areas involved were oils and fats and textile plants.

The additional costs for oils and fats were incurred in the oilseeds sector, as Community production of colza and sunflower in the 1991/92 marketing year exceeded the estimates used in drawing up the budget.

The shortfall in appropriations for textile plants was caused by the fall in world cotton prices and a level of cotton production which exceeded estimates, with the result that the reduction in aid was fixed too low.

Set-aside

Expenditure on the traditional set-aside scheme was ECU 276 million in 1992 (50% being charged to the EAGGF Guarantee Section and 50% to structural operations). A further ECU 10 million was spent on the temporary scheme.

Repayments to the Member States

In accordance with the Council Decision on budgetary discipline, the budgetary authority decided to enter in the 1992 budget a total of ECU 810 million for the repayment to the Member States of expenditure on the special disposal of butter in 1987 and 1988. A final disbursement of ECU 799.5 million was made in 1992.

Fisheries and the sea

The Community devotes a growing volume of resources to its policy on fisheries and the sea. In 1992 appropriations were ECU 640 million.[1] The main areas of this policy are:

- ☐ Community rules on access to, conservation and management of resources: the Community helps fund the development of the inspection and surveillance methods needed to apply these rules;
- ☐ the common organization of markets: the financing of intervention measures (carry-over premium, compensatory allowance, storage aid, etc.);
- ☐ Community financing of obligations arising from international fisheries agreements: compensation is paid to non-member countries for fishing rights in their waters, the amount being fixed for two or three years by international agreements. These agreements secure access to new fishery resources for shipowners who are nationals of Member States and help restock the sea-bed in Community waters;
- ☐ structural improvements: the Community finances measures to modernize equipment, without creating excess fishing capacity, on the basis of multiannual guidance programmes which are revised annually. The appropriations in the 1992 budget were used to grant Community aid to over 600 modernization projects, around 50 projects for the construction of fishing vessels, more than 200 installation projects involving aquaculture and artificial reefs and about 40 projects to equip fishing ports. They also financed the withdrawal of 1 400 fishing vessels with a total tonnage of 77 800 GRT.

Structural operations

Since the beginning of the European integration process, three Structural Funds have been set up to promote harmonious economic and social development in Europe: the European Social Fund (ESF) in 1958, the Guidance Section of the European Agricultural Guidance and Guarantee Fund

1 Including ECU 81 million earmarked for fisheries in the EAGGF Guidance Section.

(EAGGF) in 1964 and the European Regional Development Fund (ERDF) in 1975.

The 1986 Single European Act provides for close cooperation between the three Funds so that they may contribute effectively, with a large injection of additional funds, to the achievement of five priority objectives: the development and structural adjustment of the regions whose development is lagging behind (Objective 1), conversion of the regions seriously affected by industrial decline (Objective 2), the fight against long-term unemployment (Objective 3), the occupational integration of young people (Objective 4), and, finally, the adjustment of agricultural structures (Objective 5a) and the development of rural areas (Objective 5b).

Following German unification in 1990 the Community extended its structural operations to the five new German *Länder* and East Berlin; a total budget of ECU 3 billion (at 1991 prices) was earmarked for operations under the three Funds in eastern Germany over the period 1991-93.

The Community's structural policy also includes other activities, in particular operations in the transport sector and major programmes which are now in their final stages — the integrated Mediterranean programmes (IMPs) and the specific industrial development programme for Portugal (PEDIP).

The following appropriations for commitments were available in 1992:

	million ECU
EAGGF Guidance Section	2 978
ERDF	8 394
ESF	5 683
New German *Länder*	1 046
Other structural operations	1 358
Total	19 459

Activity of the three Structural Funds

The 1992 budget earmarked ECU 17 055 million for operations under the three Structural Funds (not including appropriations for the new German *Länder*). Out of this total ECU 16 925 million was actually committed — ECU 2 956 million under the EAGGF Guidance Section, ECU 8 386 million under the ERDF and ECU 5 583 million under the ESF.

Appropriations were committed for three categories of operation in 1992: Community support frameworks (CSFs), Community initiative programmes and transitional and innovatory measures. All these operations were financed from the total of ECU 60 315 million (at 1989 prices) earmarked by the Community for the Structural Funds for the period 1989-93, with a doubling of appropriations between 1987 and 1993.

Work continued in 1992 on implementing the Community support frameworks, which now have only one more year to run. These frameworks lay down the priorities, rules and schedules for Community structural operations on a multiannual basis. For Objective 2 (conversion of regions seriously affected by industrial decline), it was decided that the structural measures for each region would be planned in two successive frameworks, the first covering the period 1989-91 and the second 1992 and 1993. Most CSFs for this second stage had been adopted at the end of 1991, with the remainder being adopted in 1992; work began on implementing the frameworks during the year.

When the CSFs were drawn up in 1989, ECU 3 800 million was set aside for Community initiative programmes in areas of particular interest to the Community, to be adopted by the Member States on a proposal from the Commission. Work began on implementing these programmes in 1991 and continued throughout 1992, accounting for 11.6% of commitments under the Structural Funds over the year.

Finally, a total of ECU 340 million was committed for transitional measures, which correspond to old programmes adopted before the reform of the Funds in 1988 and are not covered by its objectives, and for innovatory projects.

Despite a high implementation rate (99.2%), a total of ECU 130 million remained unused in 1992; ECU 94 million was carried over for commitment in 1993 to finance operations which were virtually ready to be implemented at the end of the year.

During 1992 the Commission evaluated Community structural policies since the 1988 reform. This mid-term review of operations under the Funds for the period 1988-93 illustrated the vital role they play in strengthening economic and social cohesion in Europe (for example, in Greece, Ireland and Portugal, countries whose entire territory is eligible for Objective 1 (regions whose development is lagging behind), assistance from the Funds represents respectively 2.9%, 2.3% and 3.5% of GDP). The review also confirmed the main aspects of the strategy adopted under the reform: the concentration of operations on five priority objectives, the development of effective partnership between the Commission and national, regional and local authorities in the Member States, the placing of Community operations in a multiannual framework consistent with Member States' regional development policies, the coordination of operations under the three Funds between themselves and with other forms of financing, in particular loans from the European Investment Bank. The Commission therefore proposes that the activity of the Funds after 1993 be governed by the same principles, with certain adjustments to incorporate the lessons learned since 1989.

Since German unification, the Community has also been active in the five new German *Länder* and East Berlin; 1992 was the second year of implementation of the CSF adopted early in 1991 and allocated a total budget of ECU 3 000 million (at 1991 prices) in addition to the ECU 60 315 million (at 1989 prices) earmarked for other assisted regions. All the appropriations in the 1992 budget (ECU 1 046 million) were committed. The programmes co-financed by the Funds in eastern Germany have been implemented at a particularly rapid pace, so that payment appropriations for these operations had to be increased during the year.

Other structural operations

The integrated Mediterranean programmes (IMPs) under way in Greece, France and Italy since 1986 are now in their final stages. They received ECU 465 million in 1992, which would normally have been the last year of implementation, giving a total allocation of ECU 1 600 million over the period 1986-92. Under the Regulation governing the IMPs, however, implementation may be extended for one year. A total of ECU 186 million which could not be committed in 1992 has therefore been carried over to 1993.

The year 1992 was also the last year of implementation of the specific industrial development programme for Portugal, which was adopted in 1988 to promote the structural adjustments required to increase competitiveness. All the appropriations available in 1992 (ECU 128 million) were committed, bringing the total assistance granted to Portuguese industry between 1988 and 1992 up to the original target of ECU 500 million (at 1988 prices).

Finally, ECU 156 million was committed for operations in the transport and tourism sector in 1992, most of it to fund transport infrastructure projects. These operations will be stepped up in future as part of the development of trans-European networks provided for by the Treaty on European Union.

A people's Europe

The Community also pays particular attention to the human dimension of Europe and has increased the resources available for developing this aspect. The appropriations for commitments available in 1992 for the main sectors of activity were as follows:

	million ECU
Education, vocational training and youth policy	241
Employment, social protection and public health	117
Information and communication	33
Culture and audiovisual media	64
Consumer protection	20
Protection of the environment	148
Aid to disaster victims in the Community	18

In the first sector — education, vocational training and youth — the Community seeks to promote European awareness among young people, in particular by encouraging exchanges — between schools and universities and in other contexts. The Community's activities include major programmes such as Erasmus and Lingua (for students), PETRA (for young people not at university), FORCE (for young workers) and Comett (cooperation between universities and industry), and other more horizontal measures focusing on intercultural education, less-widespread languages and youth policy. These Community measures are geared not only to young people, but also to teachers, education workers and youth leaders. They help young people to integrate into working life and give them a practical opportunity to forge and consolidate links at European level.

The appropriations for this sector are also used to finance exchanges with other parts of the world (Central and Eastern Europe, Latin America and the Mediterranean countries), which are organized in cooperation with national bodies, institutions and associations and benefit growing numbers of young people each year.

To complement the measures financed by the European Social Fund, the Community pursues a policy under the Charter of Fundamental Social Rights of Workers aimed at encouraging dialogue between the two sides of industry, either on its own initiative or working through the various trade unions and professional organizations. It also finances measures to boost employment — information on job vacancies and applications, and support for local and regional initiatives — and pursues a policy of equal opportunities. In the social protection field, the Community's activities are concerned with the general level of social security provision and the relevant legislation, as well as the protection of particularly vulnerable groups (families and children, the disabled, the poor and the elderly) and the free movement of migrant workers. Finally, appropriations are also used for the protection of public health and the prevention of major health risks (campaigns against cancer, AIDS, alcohol and drug abuse, and measures to improve health and safety at work).

In the information and communication field, appropriations are used for general measures, both inside and outside the Community, to publicize the wide range of Community activities and promote the European idea, and to maintain a Community presence at sporting events, in universities and at international fairs and exhibitions (e.g. Expo '92 in Seville). Special priority has been given to the development of the European audiovisual industry through the Media programme, together with measures to support the European dimension in the audiovisual industry and multilingual TV and radio services.

Most resources in the cultural field went towards the protection and promotion of the European architectural heritage and support for initiatives with a European dimension, including cultural and artistic events and the promotion of literary or musical works.

Turning to consumer protection, 1992 was a decisive year in the implementation of the three-year action plan (1990-92), with the adoption by the Council of a Directive on general product safety and a common position on the proposal for a Directive on unfair terms in consumer contracts. As part of the strategy to improve consumer protection, the Council adopted a resolution on future priorities for consumer protection measures.

As regards the environment, the majority of the appropriations available — ECU 101.8 million — were to finance multiannual direct action programmes, such as ACNAT,[1] Norspa[2] and Medspa,[3] which are now incorporated in the new financial instrument for the environment, LIFE, adopted by the Council on 21 May 1992. Pending a decision on the seat of the European Environment Agency, which the Council decided to set up on 7 May 1990, a total of ECU 2.3 million of the ECU 6 million entered by the budgetary authority in the same article as the LIFE appropriations was used for specific measures to pave the way for its establishment. On 15 December 1992, the Council adopted the fifth Community action programme on the environment and sustainable development, which is targeted on all those involved with the environment. The programme emphasizes integration and coordination with other Community policies, sets specific targets, describes the means to be employed and indicates the role of the principal players.

In 1992 the Community continued its measures (interest subsidies on exceptional loans) to reconstruct the regions of Italy hit by the 1980 earthquake and the regions of Greece hit by earthquakes in 1981 and 1986.

Research and technological development

The main feature in the research and technological development (R&TD) field in 1992 was that a new strategy, involving a redirection of Community research activity, was developed and launched.

On 7 April, the Commission sent the Council and the European Parliament a communication entitled 'Research after Maastricht: an assessment, a strategy' in connection with the financial perspective put forward for 1993-97.

After evaluating the second framework programme (1987-91), the Commission, at the invitation of the Council also proposed additional funding for the third framework programme (1990-94) on 15 July (the Council adopted a common position in December) along with guidelines for a fourth framework programme of research and technological development (1994-98).

In view of the time it is likely to take to adopt the fourth framework programme and in order to avoid any reduction in the funding available for Community research in 1993 and 1994 which might compromise the continuity of research efforts, the Council decided to provide an extra ECU 900 million for the third framework programme, raising the total from ECU 5 700 million to ECU 6 600 million.

The appropriations available for R&TD in 1992 amounted to ECU 2 853 million, allocated as follows:

	million ECU
Indirect action and shared-cost projects	2 562
Direct action carried out by the Joint Research Centre	291

Work continued on the implementation and budgetary commitment of the third framework programme in 1992. The Council adopted Decisions on the last three specific programmes under the framework programme, namely on human capital and mobility, biotechnology, and measurement and testing. Calls for proposals were published immediately and, after assessment, initial series of projects were launched. Meanwhile, all the projects selected following the calls for proposals published within the framework of the 12 programmes adopted in 1991 have now got properly under way and new calls have been published for certain programmes.

1 Action by the Community relating to nature conservation.

2 Community action to protect the environment in the coastal areas and coastal waters of the Irish Sea, North Sea, English Channel, Baltic Sea and North-East Atlantic Ocean.

3 Mediterranean special programme of action.

During the year, the eight institutes of the Joint Research Centre (JRC) continued their work in the Centre's four areas of activity: specific research programmes under the framework programme; support for Commission departments; work under contract for outside bodies; and exploratory research. There was a considerable increase in the amount of work to provide scientific and technical support for the Commission and even greater attention was given to the customer/contractor principle.

In a resolution of 29 April on all the activities to be undertaken by the JRC in the years ahead, the Council reaffirmed the Community character of the JRC and its role in strengthening the scientific and technological basis of European industry. On the same day, it adopted specific research programmes to be implemented by the JRC under the EEC and Euratom Treaties for 1992-94, the forecast amounts being ECU 341.55 million and ECU 202.95 million, and a supplementary programme on the operation of the high-flux reactor (HFR) at Petten (1992-95), which is classed as work for outside bodies and will cost an estimated ECU 75 million.

In addition to international cooperation activities under COST, EFTA, Eureka or with the main industrialized countries, 1992 saw scientific and technological cooperation with the countries of Central Europe getting off the ground. A preparatory initiative was launched for more substantial scientific and technological cooperation with all the countries of Central Europe, including the Baltic States, with a total budget of ECU 55 million for 1992. Of this, ECU 40 million has been earmarked for mobility grants, pan-European scientific networks, joint research projects and conferences and seminars, ECU 10 million will go towards supporting the participation of bodies from Central European countries in five specific programmes under the framework programme (1990-94) which are open to them, and ECU 5 million is for participation in COST operations. Following a call for proposals published in April, 3 039 projects were selected for funding.

On 23 June, the Commission signed an agreement on international cooperation between the Community and Russia, Belarus and Ukraine concerning research into the consequences of the nuclear accident at Chernobyl. The programme will receive ECU 4 million from the Community. The Council decided to conclude an agreement with the Russian Federation, the United States of America and Japan on the setting-up of an International Science and Technology Centre in Moscow. On 3 July, the Commission decided to set up and finance (ECU 4 million) an international association for the promotion of cooperation with scientists from the independent States of the former Soviet Union.

Financing Community research and technological development

Programming changes: from the third to the fourth framework programme

1992 — A year of transition for Community R&TD — From the Single Act to the Maastricht Treaty

Although accounting for only a small proportion of the general budget — a little less than 4% of total 1992 budget expenditure — research and technological development (R&TD) is a crucial area of the Community's activities.

If Community industry is becoming less competitive than its two main rivals, Japan and the United States, this may be due to the relatively low overall level of R&TD expenditure and to the failure to make the best use of the available funds because Member States run too many overlapping programmes.

Research expenditure (*% of GDP*)

	1982	1986	1991
EUR 12	1.8	1.99	2.1
USA	2.62	2.92	2.8
Japan	2.23	2.59	3.5

Source: OECD

R&TD is a prime area for applying the subsidiarity principle laid down in the Maastricht Treaty, a view shared by 75% of the Community's citizens who believe that research policy is best conducted within a Community framework.[1]

In 1992, the Commission outlined the main thrust of a new strategy which introduced some important changes of approach reflecting the new principles set out in the Maastricht Treaty and based on an analysis of the results of the second framework programme (1987-91) and an initial assessment of the third framework programme (1990-94).

These adjustments to the Community's strategy form part of the reform of financial programming.

Framework programmes are not an invention of the Maastricht Treaty as there have been three since 1984 (1984-87, 1987-91 and 1990-94). In its provisions amending the Treaty establishing the European Community the Single European Act (1986) introduced a new title (Title VI) on R&TD, expressly confirming the Community's powers in this field and laying down a detailed legal framework for its financial programming. There are two main programming instruments:

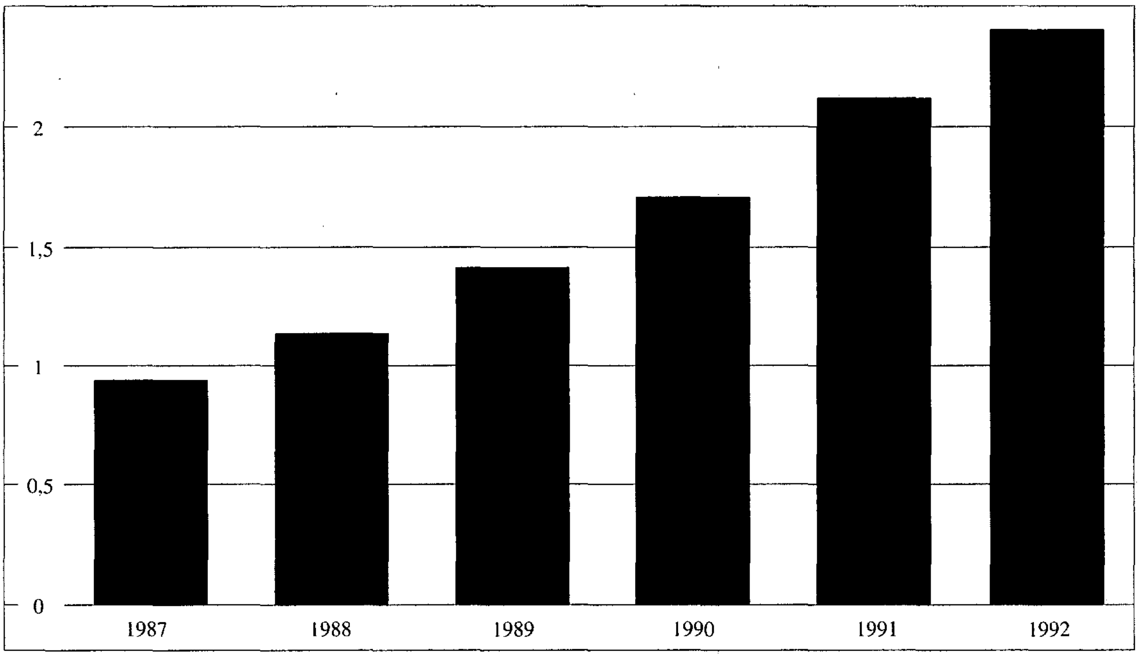
- □ the multiannual framework programme which 'shall lay down the scientific and technical objectives, define their respective priorities, set out the main lines of the activities envisaged and fix the amount deemed necessary, the detailed rules for financial participation by the Community in the programme as a whole and the breakdown of this amount between the various activities envisaged';
- □ specific programmes developed within each activity through which the framework programme is implemented. 'Each specific programme shall define the detailed rules for implementing it, fix its duration and provide for the means deemed necessary'.

With regard to adoption, different rules apply to the two instruments. Under Article 130q, the Council must act unanimously, on a proposal from the Commission and after consulting Parliament and the Economic and Social Committee, in adopting the provisions of the framework programme; the adoption of specific programmes, however, falls under the cooperation procedure with Parliament — a procedure introduced by Article 6 of the Single Act.

[1] *Source: Eurobarometer* No 33, June 1990.

FIGURE 9
Community research expenditure

(billion ECU)



The existence of two separate instruments with different adoption procedures explains why there can be a time-lag of as much as two years between the adoption of the framework programme and the implementation of all the operations involved. The adjustments made by the Maastricht Treaty to the legal and institutional framework should make it easier to dovetail the two programming frameworks.

It was against this background of change, both strategic and legal, that the Community took the decision to pursue its efforts in the R&TD field at the Edinburgh European Council and when approving additional funding for the third framework programme.

I — A new strategy within a changed legal and institutional framework

A. Strategic approaches: improved targeting of R&TD objectives

Article 130f(1) of the Maastricht Treaty reaffirms the link between R&TD and industrial competitiveness. The Commission, in three communications published during 1992,[1] outlined its new strategy in this area.

[1] Assessment of the second framework programme, April 1992; 'Research after Maastricht: an assessment, a strategy,' April 1992; Working paper on the fourth framework programme for Community research and technological development activities (1994-98), October 1992.

The conclusions of the Edinburgh European Council restate the priority to be given to 'generic and precompetitive research'. Traditional R&TD activities are not abandoned, but all the programmes under the four main areas of activity listed in Article 130g of the Treaty are given greater consistency through a 'horizontal approach' to R&TD in line with sectoral policies.

B. Strengthening the horizontal approach to R&TD policy

1. Article 130f of the Maastricht Treaty confirms the horizontal element of R&TD policy and consolidates it further:

   - the influence of Community R&TD should permeate all Community policies;
   - the R&TD components of these policies are all grouped together under the provisions of the Treaty's new Title XV.

2. New components of the framework programme

(a) Henceforth, the framework programme for Community R&TD activities will include, in accordance with Article 130i, other elements not covered previously:

   - the R&TD component of other policies: energy, transport, health, etc.;
   - multiannual research activities not previously included in the framework programme;
   - 'research' aspects of Community activities having no specific basis and carried out under Article 235;
   - the important preparatory, accompanying, support and promotion activities which had hitherto been carried out in isolation: forecasts, analyses and technology watch, evaluations, compilation of statistics, feasibility studies, experimental and demonstration projects, promotion and dissemination of technology; integrating all these activities has been possible without exceeding the Commission's powers of initiative and execution;
   - international scientific cooperation activities previously conducted on a yearly basis without any organized programming.

(b) Another main feature of the Commission's approach to the fourth framework programme (1994-98) is the number of R&TD activities that are now directly linked to the implementation of common policies: the role of research is now to back up these policies.

C. An improved legal and financial mechanism

1. *General legislative framework*

The Treaty on European Union has maintained the principle of the two-tier legislative procedure established by the Single Act: adoption of the framework programme as a whole, followed by adoption of each specific programme. The Treaty differs in one respect from the Single Act in that the provisions for adopting the rules governing the participation of undertakings, research centres and universities in Community programmes have been modified. Previously, these rules were adopted at the same time as each of the specific programmes but they now require a special decision by the Council. This also applies to the provisions on intellectual property which are now laid down in the specific programme on the dissemination and exploitation of knowledge.

Once the Maastricht Treaty enters into force, implementation of the fourth framework programme will be a four-stage process:

(a) A Council decision on the framework programme itself. In accordance with the provisions of the Maastricht Treaty, it will need to be adopted by the Council acting unanimously in accordance with the co-decision procedure with Parliament (Article 189b).

(b) A Council decision adopting each of the specific programmes. The Maastricht Treaty has simplified the procedure for approving the specific programmes which will now be adopted by the Council acting by a qualified majority after consulting Parliament.

(c) A Council decision on the rules for the participation of undertakings, research centres and universities in the framework programme, and on the rules applicable to the dissemination of research findings. This decision is mentioned in the new Article 130j of the Treaty and will be adopted in cooperation with Parliament (i.e. the procedure laid down in Article 189c of the new Treaty).

(d) All the measures involving the adoption of decisions relating to the creation of other (optional) instruments for implementing the framework programme: supplementary programmes, participation in research programmes undertaken by more than one Member State, cooperation with international organizations, joint ventures. These all come under Articles 130k, l and m of the Treaty.

2. *Financial aspects: the 'maximum overall amount'*

The procedural changes are accompanied by new financial provisions.

The new Article 130i states that the framework programme 'shall fix the maximum overall amount and the detailed rules for Community financial participation in the framework programme and the respective shares in each of the activities provided for'. Each specific programme 'shall provide for the means deemed necessary' to implement it, and the 'sum of the amounts deemed necessary ... may not exceed the overall maximum amount fixed for the framework programme and each activity'.

II — From the third to the fourth framework programme — a difficult transition towards a new approach

The legal and financial mechanism established under the Maastricht Treaty should have speeded up the procedures for adopting and implementing the framework programme. Unfortunately, delays in ratifying the Treaty by the Member States have held up its entry into force and made the transitional period which started in 1992 much more difficult. The Community's determination to build on its R&TD efforts is, however, clearly evidenced by its decision to provide additional funding for the third framework programme.

A. 1992-94: Ensuring a smooth transition from one programming mechanism to another

1. *Completion of the 1990-94 framework programme*

There were so many stages involved between the proposal for the framework programme and execution of the operational programmes that the preparatory and implementing procedures laid down in rules based on the Single Act took an unusually long time. Although the third framework programme was adopted in the Council Decision of 23 April 1990, the first specific programmes were not definitively adopted until the summer of 1991 and the last three not until 1992.

In view of the various stages necessary to ensure that the implementation procedures functioned smoothly (calls for proposals, selection and evaluation, negotiation and signing of contracts), there was no real delay in actually carrying out the procedures; only around 4% of the means deemed necessary had been committed at 31 December 1991 and around 35% at 31 December 1992, as against the original forecast of 44%. The main delay was for the biotechnology programme which was adopted at a very late stage.

2. *Preparation of the fourth framework programme and initiation of the adoption procedure*

The mechanism provided for under the Maastricht Treaty was meant to reduce delays in programme implementation by concentrating the preparatory procedures upstream (adoption of the framework programme).

This objective will only be partially achieved in respect of the fourth framework programme (1994-98). Although the preparation stage was completed very early with the Commission publishing its communication on 9 October 1992, the adoption procedure scheduled to start on 1 January 1993 could not be initiated because the provisions of the Maastricht Treaty had not yet entered into force.

B. Pursuing Community R&TD efforts

1. *Rolling programmes*

To avoid any break in scientific activities and in funding, the first three framework programmes were organized on a rolling basis, i.e. with a one- or two-year overlap between consecutive programmes. In its 1992 communications the Commission, therefore, proposed launching the fourth framework programme in 1994, the year the third programme was to end.

However, since the adoption procedure could not be launched on 1 January 1993 as scheduled, there will be a much shorter overlap in 1994.

2. *Additional funding for the third framework programme*

Since the fourth framework programme will probably be adopted too late for there to be an effective overlap with its predecessor, it was decided in December 1992 that the Community effort should be continued in the short term by making additional funds available for the third framework programme (1990-94).

On a proposal from the Commission, Article 130i(2) of the Single Act, which states that 'the framework programme shall be adapted or supplemented as the situation changes', was applied for the first time. After completion of the procedure, the Council, in its common position on 31 December 1992 (confirmed by its decision of 1 March 1993), considered that continuing Community research activities would require an extra ECU 900 million in addition to the ECU 5 700 million already programmed for 1990-94; these funds would be allocated on a linear basis by increasing five of the six chapters in the programme by 13%, with 30.6% going to the sixth chapter covering non-nuclear energy, thermonuclear fusion, and nuclear management and safety.

The scientific and technological objectives, priorities and main lines of action laid down in the third framework programme therefore still apply. Moreover, the method of allocating the new resources has the advantage of increasing available funds without any formal changes to the specific programmes which, though possible, would have been time-consuming under the provisions of the Single Act. The extra funding for the framework programme therefore has an immediate effect on the specific programmes provided the relevant committee procedures are observed.

C. Towards the fourth framework programme (1994-98)

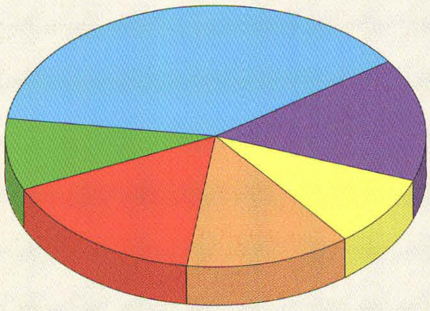
The last two framework programmes have meant a considerable increase in Community funding: in five years from 1987-92 total R&TD expenditure increased from less than ECU 1 000 million to more than ECU 2 500 million.

Although, in absolute terms, this is only a small proportion (about 4%) of total public R&TD expenditure in the 12 Member States, the funding of Community programmes has a substantial impact on European science generally.

This effort will be further consolidated by the fourth framework programme.

FIGURE 10
Financial basis of third framework programme

(million ECU)



	Allocation 1990-94	Additional funds 1993-94	New total
Information technology and communications	2 221	295	2 516
Industrial technology and materials	888	119	1 007
Environment	518	69	587
Life sciences and technologies	741	99	840
Energy	814	249	1 063
Human capital and mobility	518	69	587
Total	5 700	900	6 600

The Edinburgh European Council proposed aligning R&TD expenditure with expenditure on internal policies under heading 3, with R&TD continuing to account for between one-half and two-thirds of the total, which was set at ECU 5 100 million (1992 prices) for 1999.

The Edinburgh conclusions suggest guidelines for making the best use of the resources available. They spring directly from the principles established or reaffirmed in the Maastricht Treaty, such as subsidiarity or coordination of Community activities with those of Member States. Observing these principles will make the Community more responsive to the needs of the economy and of society at large.

Energy, industry and the internal market

Appropriations from the general budget finance a wide range of activities relating to energy, industry and the internal market in connection with the completion and operation of the single market.

The following appropriations for commitments were available in 1992.

	million ECU
Energy	186
Nuclear safeguards	10
Information market and innovation	39
Statistics	49
Internal market and industry	227

Virtually all the appropriations were committed.

In the energy policy sector, the budgetary authority released a third tranche of support under the Thermie programme[1] — ECU 166 million for 1992. The amount deemed necessary for the period 1990-92 comes to ECU 350 million. On 20 May 1992 the Commission also adopted a proposal for a Council Decision on a multiannual programme for the promotion of renewable energy sources in the Community (Altener) with an indicative budget of ECU 40 million over the period 1993-97. The SAVE programme[2] adopted by the Council on 29 October 1991 (ECU 35 million deemed necessary for the period 1991-95) entered its operational stage with the allocation of a second tranche of ECU 5 million for 1992.

Turning to nuclear safeguards, the Commission continued — within its sphere of responsibility — to perform its role of coordinating international efforts to raise the level of nuclear safety throughout Europe, in particular as regards plant safety, workers' training and public information.

As regards the promotion of innovation and technology transfer, the Sprint programme[3] continued under three main headings: facilitating the dissemination of new technology to firms, strengthening innovation and technology transfer support service infrastructure, and improving awareness and understanding of innovation and exchanging experience on national and Community innovation policies (ECU 90 million is deemed necessary for Sprint over the period 1989-93).

As regards the development of the information services market, the Impact II programme[4] continued in 1992. In particular, the information market observatory continued its activities and user support and guidance services continued on the ECHO host.[5]

The Statistical Office concentrated on completing the Community's 1989-92 statistical programme and on preparing the proposal for the forthcoming 1993-97 statistical framework programme which was adopted by the Commission on 18 September and which aims to use a system of standards, methods and organizational structures capable of producing comparable, reliable and relevant statistics throughout the Community, particularly as regards the internal market.

The Commission pursued the task of completing the internal market by 1 January 1993. It also continued its standardization effort in which it entrusts responsibilities to European standardization organizations, which receive substantial funding from the Community budget.

1 European technologies for energy management.
2 Special action programme for vigorous energy efficiency.
3 Strategic programme for the transnational promotion of innovation and technology transfer.
4 Multiannual programme to establish an internal market in information services. ECU 64 million is deemed necessary for the period 1991-95.
5 European Commission host organization.

Work on trans-European telematics networks between administrations (TNA)[6] resulted in the definition of a framework for cooperation between Member States and the Community with a view to carrying out projects of common interest. This involves a guide plan comprising objectives, broad lines of action and priorities common to Member States' administrations and the Community institutions and Community support for projects of common interest (IDA)[7] which finances feasibility studies. The preparation of these initiatives was financed by the Caddia and INSIS programmes.

In the field of telematics systems of general interest, the second stage of the TEDIS programme[8] continued (with ECU 25 million deemed necessary for the period 1991-93).

ECU 25 million was spent on implementing the 1990-93 programme to promote the development of small and medium-sized enterprises (SMEs). On 23 December the Commission also approved a programme of Community measures entitled 'The enterprise dimension — essential to Community growth' and intended as a means of mobilizing businessmen and thereby reviving economic growth. It is accompanied by two proposals for Decisions, one aimed at intensifying priority enterprise policy measures (with a total budget of ECU 86 million in the period 1993-96) and the other at ensuring the continuity of that policy (with a total budget of ECU 28 million in the period 1994-97).

Cooperation with non-member countries

Cooperation with non-member countries financed from the general budget covered the countries of Central and Eastern Europe and the independent States of the former Soviet Union, the Mediterranean, the developing countries of Asia and Latin America; other cooperation measures concerned food aid, humanitarian aid to disaster victims, environment and health, human rights and democracy.

Other operations are financed from the European Development Fund under the Lomé Conventions. ECU 2 063 million was committed in 1992 for the countries of Africa, the Caribbean and the Pacific.

The appropriations for commitment under the general budget available in 1992 were as follows:

	million ECU
Cooperation with the countries of Central and Eastern Europe and the former Soviet Union	1 454
Food aid	801
Cooperation with Asia and Latin America	582
Cooperation with the Mediterranean countries	417
Other forms of cooperation with developing countries and other non-member countries	502

Virtually all these appropriations were committed.

Aid for the economic restructuring of the countries of Central and Eastern Europe began in earnest in 1989/90. Originally organized for Poland and Hungary, it was extended to other countries of the former Warsaw Pact in 1990. By the end of 1991 it also covered Albania, Estonia, Latvia and Lithuania and was extended to Slovenia in 1992. Since 1991 similar large-scale aid has been granted to the independent States of the former Soviet Union. The aim of Community assistance is to support the economic reform process and encourage the change-over to a market economy and free enterprise. Financial and technical assistance is provided so as

6 Telematics networks between administrations.
7 Interchange of data between administrations.
8 Trade electronic data interchange systems.

to help satisfy immediate needs linked to maintaining the production of goods and services which are vital to the economies of the relevant countries, to preparing industry development plans and to supporting projects which may subsequently receive additional assistance from other members of the Group of 24 western countries involved in the PHARE operation. Apart from humanitarian aid, financing decisions taken in this context have been directed primarily towards industry, investment, the private sector, small business, the environment, nuclear safety, education, training and research.

Food aid figures large among the forms of assistance given to developing countries. It is given in various forms ranging from emergency aid to longer-term forms of assistance to raise the general standard of nutrition, improve food security and, through integrated development programmes, to contribute to the balanced economic and social development of the assisted areas.

Depending on specific needs, aid may be given for free distribution to the population, or for sale on local markets (the proceeds being used to finance rural or other projects in the recipient country) or, in certain cases, in the form of food purchased in one developing country for use as food aid to another country (triangular operations). In 1992 an extra ECU 220 million was provided in addition to the appropriations originally entered in the budget to meet the needs arising from the famine in eastern and southern Africa.

In 1992 the Council adopted a Regulation on financial and technical assistance to and economic cooperation with the developing countries in Asia and Latin America and regulations on the implementation of the Protocols on financial and technical cooperation concluded by the Community with Mediterranean non-member countries, providing new guidelines for cooperation with countries in these regions in future years.

Where appropriate, the traditional financial and technical aid directed to the poorest sectors of the population has been supplemented by economic aid adjusted to the development needs of the recipient countries (strengthening manufacturing and services, transfers of know-how, etc.) so that those countries can take better advantage of the new prospects offered by the single market. Regional cooperation is important for both financial and technical aid and economic cooperation. Specific attention is also paid to cooperation as regards the environment and the protection of natural resources.

The major Community effort in favour of developing countries in Asia and Latin America takes the form of a programme of support for projects situated particularly in the least prosperous countries and focused on rural development and the improvement of food production. In 1992 59.4% of these commitments concerned Asia and 40.6% concerned Latin America. Other measures include trade promotion, energy cooperation, joint ventures in investment projects and regional integration.

In 1992 a major effort was made to promote the self-sufficiency of refugees and displaced persons. As fighting has flared up in most parts of the world, the number of refugees has increased, making their position more and more precarious. ECU 82 million has been committed for this purpose.

Aid granted to Mediterranean countries is largely based on a series of financial protocols annexed to agreements with the various recipient countries. The financial protocols provide for a mixture of outright grants for various development projects and loan finance provided by the European Investment Bank, supported in most cases by interest subsidies charged to the general budget. These programmes were slow to get off the ground because of delays in the ratification of the protocols.

Commitments entered into concerning South Africa (ECU 80 million) chiefly cover measures taken via non-governmental organizations in favour of the poorest sectors of the population (training, health, humanitarian and welfare operations, etc.).

Community assistance is also channelled through non-governmental organizations. Development projects benefiting from this assistance are spread worldwide and are mostly small scale, localized schemes in such fields as rural development, training and health.

Emergency and exceptional aid generally takes the form of funds to finance emergency grants in order to demonstrate Community solidarity in support of victims of natural disasters affecting non-associated countries. In 1992 the Community also provided ECU 120 million of relief for victims of fighting in the former Yugoslavia.

Repayments to Member States

The general budget includes appropriations to cover repayments by the Communities to the Member States.

The Act of Accession of Spain and Portugal provided that, over a transitional period from 1986 to 1991, these countries were to be reimbursed part of the Community resources they paid in; the proportion to be reimbursed declined from 87% in 1986 to 5% in 1991. In 1992 they were no longer repaid 5% of their payments in respect of the correction in favour of the United Kingdom. Spain and Portugal are also compensated for their contribution to financing the depreciation of old agricultural stocks.

From 1988 to 1992 the Communities also reimbursed to the Member States amounts advanced by them to cover foreseeable losses on agricultural produce in stock on 31 December 1986 and to finance the exceptional butter sales of 1987 and 1988. The debts relating to the butter disposal operation, for which ECU 800 million was repaid in 1991, have now been cleared.

Administrative expenditure

The general budget includes appropriations to cover the institutions' staff and administrative expenditure, representing 4.8% of total expenditure in 1992.

TABLE 3

Administrative expenditure in 1992

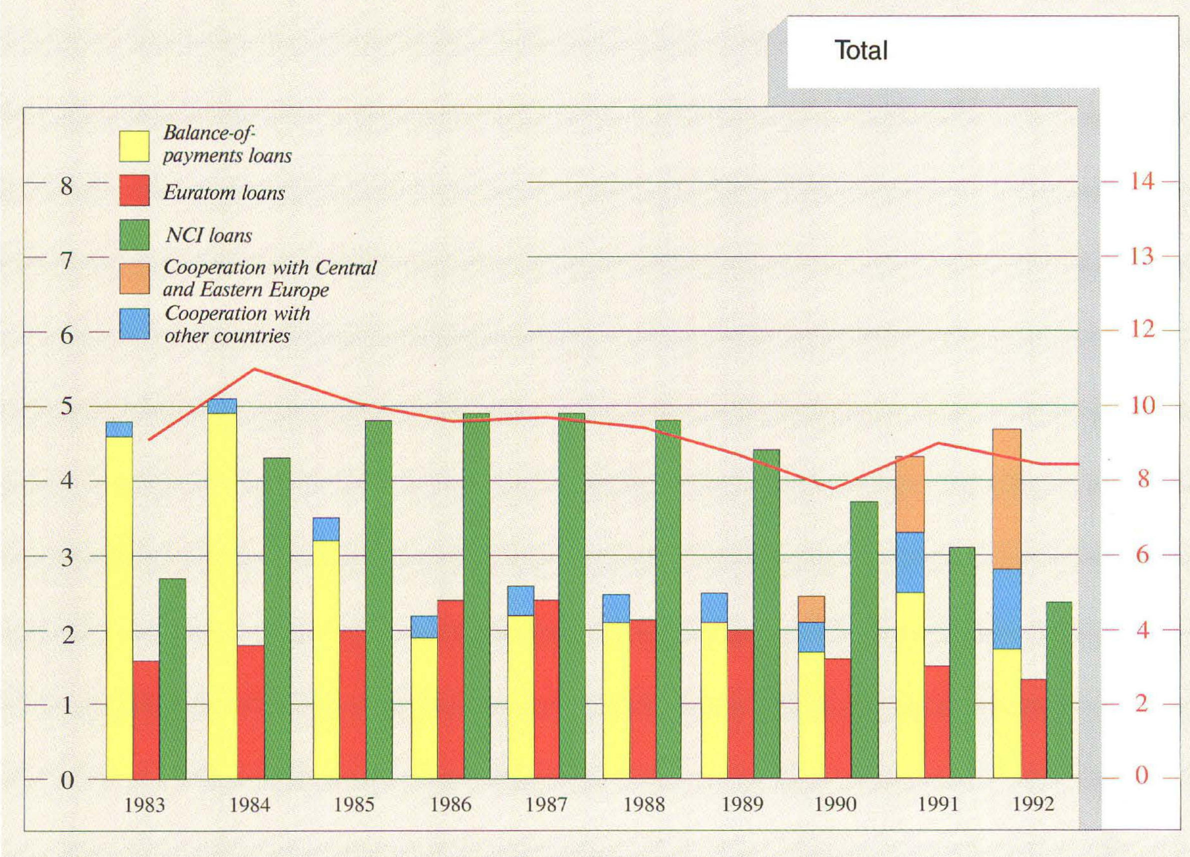
Institution	Establishment plan in 1992 budget (Permanent posts and temporary posts)	Staff (million ECU)	Administration (million ECU)
Parliament	3 641	359.7	220.3
Council	2 725	179.0	167.8
of which:			
Economic and Social Committee	(510)	(32.7)	(18.9)
Commission	17 451	1 466.6	722.2
of which:			
administrative staff	(14 042)	(1 220.8)	(639.9)
research and investment activities	(3 409)	(245.8)	(82.3)
Court of Justice	800	63.7	18.0
Court of Auditors	394	32.0	3.6
Total	25 011	2 101.0	1 131.9

BORROWING AND LENDING OPERATIONS

In addition to the measures financed by the general budget, a number of Community operations are carried out using borrowed funds. The Communities have developed several instruments which give them access to capital markets and are used to finance various categories of loans. In addition to these loans from borrowed funds, a smaller number of loans are granted from budget appropriations. This report deals only with borrowing and lending operations included in the Communities' financial balance sheet; it ignores operations carried out under the financial provisions of the ECSC Treaty (ECU 7 701 million in loans outstanding at 31 December 1992) and those carried out by the European Investment Bank from its own resources under the EEC Treaty (ECU 75 713 million in loans outstanding at 31 December 1992).

Should the recipient of a loan granted by the Communities default, the corresponding borrowing contracted by the Communities would be repaid by the general budget; some of the loans granted by the European Investment Bank from its own resources are backed by a guarantee from the general budget.

FIGURE 11
Community loans outstanding, 1983-92



Borrowing and lending for balance-of-payments support

After the first oil-price shock a Community borrowing facility was devised to help Member States which had had their balances of payments upset as a result of the rise in oil prices. The first loans were granted in 1976; the Council increased the volume of Community borrowings authorized under this facility to ECU 8 000 million in 1984 and to ECU 14 000 million in 1988. At 31 December 1992 loans outstanding totalled ECU 1 875 million.

Euratom borrowing and lending

Since 1977 the Communities have made use of this instrument, which was devised to finance investment projects involving the industrial generation of nuclear-based electricity and industrial fuel cycle installations in order to reduce the Community's dependence on imported energy. In 1990 a Council decision increased the amount of borrowings which the Commission is entitled to raise under this facility to ECU 4 000 million. At 31 December 1992 outstanding loans totalled ECU 1 338 million out of an initial ECU 2 876 million granted.

NCI borrowing and lending

The New Community Instrument (NCI) was created in 1978 to help finance investment projects for developing Europe's industrial competitiveness. These projects must meet the Community's priority objectives concerning energy, industry and infrastructure and, in particular, promote regional development and contribute to the fight against unemployment. The New Community Instrument was strengthened in 1982, 1983 and 1987 and its field of application now extends to the dissemination of new technologies and innovation, mainly for the benefit of small and medium-sized firms. Overall, the volume of borrowings authorized by the Council has

TABLE 4

Capital operations guaranteed by the general budget at 31 December 1992

(million ECU)

Borrowing/lending operation	Volume of borrowing/lending authorized	Total outstanding at 31.12.1992 covered by a budget guarantee
Balance-of-payments support	14 000	1 736
Euratom	4 000	1 339
NCI (including reconstruction projects)	6 830	3 326
Financial assistance	3 900	2 283
	28 730	8 684
EIB loans:		
Mediterranean countries	7 517	2 089
Central and Eastern Europe	1 700	147
	9 217	2 236
Total	37 947	10 920

risen to ECU 5 750 million and has been used to grant loans of ECU 5 542 million. The NCI has also been used to finance reconstruction projects following the earthquakes in Italy in 1980 and in Greece in 1981. At 31 December 1992 the loans outstanding, including those intended for reconstruction after the earthquake, came to ECU 2 385 million.

Borrowing and lending in connection with cooperation with non-member countries

The Community grants medium-term financial assistance to a number of countries which are currently implementing economic reforms. This is financed from its borrowing operations.

As part of the aid programme of ECU 375 million to the Czech and Slovak Republics, a second tranche of ECU 190 million was paid on 2 March 1992.

A second tranche of ECU 140 million was paid on 2 March 1992 to Bulgaria, as part of a global aid programme amounting to ECU 290 million.

On 22 July 1991 the Council decided on a ECU 375 million loan facility for medium-term financial assistance to Romania. The full amount of the loan was paid during 1992.

Pursuant to the Council decision of 22 July 1991 to grant financial assistance to Israel and the populations of the occupied territories, the Community borrowed ECU 160 million which was paid to Israel on 2 March 1992.

Financial assistance amounting to ECU 1 250 million was also granted to the republics of the former Soviet Union. At 31 December 1992, outstanding loans amounted to ECU 123 million.

Loans from budget appropriations

Besides these loans from borrowed funds, loans are also granted from budget appropriations as part of the policy of cooperation with non-member countries. The Communities have concluded agreements combining commercial cooperation and technical and financial cooperation with most of the Mediterranean countries. In the case of financial and technical cooperation, Community aid consists partly of non-repayable grants and partly of loans on particularly favourable terms or risk capital operations. At 31 December 1992 the outstanding balance of loans on special terms and risk-capital operations came to ECU 463 million.

Since 1988 the Communities have been able to grant loans and advances, likewise from budget appropriations, to finance joint ventures between European firms and firms in Asia, Latin America and the Mediterranean countries. At 31 December 1992 the outstanding balance of these operations came to ECU 21 million.

Budget guarantees

Should a debtor default, the amounts borrowed to finance any of the loans listed above would be repaid from the general budget.

The Community decided to guarantee the loan granted to Russia by a consortium of banks for the purposes of financing the import of agricultural and food products from the Community and the countries of Central and Eastern Europe. The Community guarantee covers 98% of any losses on capital or interest up to a maximum of ECU 500 million.

At 31 December 1992 the outstanding balance under this operation amounted to ECU 375 million in capital; the period for drawing on this loan expired on 31 January 1993.

Loans granted by the European Investment Bank from its own resources to 12 Mediterranean countries under the financial protocols annexed to the cooperation agreements with these countries are also covered by a budget guarantee; at 31 December 1992 outstanding loans totalled ECU 2 089 million. The guarantee also extends to loans granted by the EIB from its own resources to Hungary and Poland as part of the Community's cooperation with the countries of Central and Eastern Europe; in May 1991 the Council decided to extend this guarantee to two-year loans totalling a maximum of ECU 700 million to the Czech and Slovak Republics, Bulgaria and Romania. The guarantee ceiling for loans to all these countries is ECU 1 700 million; at 31 December 1992 loans granted to the five countries totalled ECU 820 million but only ECU 147 million had been paid.

Table 4 gives an overview of the total risk to which the general budget is exposed as a result of the Communities' borrowing and lending operations.

On 11 and 12 December 1992, the Edinburgh European Council examined the budgetary treatment of the Community's borrowing and lending and guarantee operations for non-Community countries. As there has been considerable growth in this area, it was decided to set up a Guarantee Fund financed by a reserve in the budget and the financial perspective to improve the way in which these operations were treated.

TREASURY REPORT

The Commission holds accounts with the Treasuries and/or Central Banks of Member States, on which it receives revenue and through which it pays the bulk of its transactions, in particular those relating to the EAGGF Guarantee Section, some of the expenditure on the Structural Funds, and repayments to Member States.

Each month the revenue paid — expressed in national currencies — is equivalent to one-twelfth of the amounts provided in the budget for VAT and GNP-based resources and the amount actually established each month for custom duties and agricultural levies.

Ordinary commercial bank accounts are used for administrative expenditure and direct payments to recipients other than national authorities, in national currencies and in ecus.

To ensure that Community funds are made available to the direct recipients as rapidly and as cost-effectively as possible, the Commission overhauled its commercial banking structure in 1992. It also now uses the SWIFT network for international payments.

In July 1990, the Commission adopted a Regulation on arrangements for using the ecu for the purpose of the budgetary management of the Structural Funds which states that grants made by the Commission are to be paid in ecus to the authority designated by the Member States to receive the payments.

Ecus are mainly purchased on the interbank exchange market. The Commission tries to spread its purchases as evenly as possibly so as not to destabilize the market. It purchased ECU 22 400 million on the money market in 1992 as against ECU 17 600 million in 1991. This was used mainly for payments under the Structural Funds — ECU 16 000 million in 1992 compared with ECU 10 700 million in 1991.

On 1 July 1992, the Commission opened ecu-denominated accounts with the French and Irish Treasuries for making payments in connection with operations under the Structural Funds. This is a new departure which will allow Treasuries to get used to the idea of using the ecu prior to Economic and Monetary Union. The Commission is willing to open similar accounts with any Member State who so wishes.

Budget revenue and expenditure for a given year may differ from the initial estimate, producing a positive or negative balance. A surplus can result from under-utilization of appropriations or from a revenue outturn higher than the forecast in the budget or from a combination of these two factors. Since spending may not exceed the limit set by the appropriations entered in the budget, a deficit can be caused only by the revenue outturn being lower than the forecast in the budget. This was the case from 1984 to 1986.

The cash situation in the course of the financial year depends on the monthly outturn of revenue and expenditure, which do not necessarily balance. Even if the balance for the year shows a surplus, expenditure might have outstripped revenue at certain times of the year, causing cash-flow difficulties. For these reasons, the rules in force allow the Commission to overdraw on its accounts with the national treasuries. The Commission did not make use of this possibility in 1992 as the cash situation was positive throughout the year.

The rules also stipulate that the positive and negative balances resulting from payment and revenue transactions should be spread over the year in proportion to each Member State's estimated contribution to the budget as a whole. This balance is maintained by transfers between the central banks.

A rolling forecast of cash-flow is used to monitor and coordinate these currency transactions. Cash-flow management is strictly regulated: no borrowing is allowed to cover possible deficits, no loans may be made from positive balances and no interest is receivable or payable on balances with Member States.

FIGURE 12
Monthly revenue and expenditure in 1992

(billion ECU)

FUTURE EXPENDITURE AND REVENUE

It is a feature of the accounting system of the Communities that certain sums due but unpaid at 31 December and certain revenue receivable should be charged to the revenue and expenditure account for that year and entered in the balance sheet.

The main items of future expenditure and revenue entered in the accounts at the end of 1992 were:

— payments authorized in December 1992 and made between 1 and 15 January 1993;

— payments to be authorized in 1993 against appropriations for payments not used at the end of 1992 and carried over to 1993;

— interest and other sums due in connection with borrowing and lending operations for the New Community Instrument and the European Atomic Energy Community; this future expenditure is almost entirely offset by interest and other sums receivable in connection with the same borrowing and lending operations.

However, other potential liabilities and resources are not entered in the accounts but are recorded separately:

— certain sums falling due in future years to clear commitments existing at the end of 1992, to meet outstanding financial obligations or to honour protocols concluded with third parties;

— various potential liabilities and resources;

— contingent liabilities.

These future liabilities and resources are listed in this section of the report to provide information in addition to the consolidated accounts of the Communities.

Sums falling due in future financial years

As stated in the section concerning the financial framework, some time elapses between the commitment and payment of expen-

TABLE 5

Sums falling due in future financial years

(million ECU)

	1992	1991
Commitments from differentiated appropriations still to be settled at 31 December 1992	23 836.5	20 968.7
The Communities' financial obligations at 31 December 1992:		
European Agricultural Guidance and Guarantee Fund (EAGGF): Exceptional operation to dispose of butter stocks: debts realized in 1987 and in 1988		799.5
Cooperation with non-member countries: obligations towards Mediterranean countries	752.0	153.0
Total	24 588.5	21 921.2

diture: commitment and payment might not take place in the same financial year. This is frequently the case with multiannual operations (which are allocated differentiated appropriations), for which the budget usually contains different amounts of commitment appropriations and payment appropriations.

At the end of the year there are therefore outstanding commitments for which payments will have to be made in future financial years.

For operations allocated non-differentiated appropriations, the rules allow appropriations needed for payment against commitments to be carried over automatically to the following financial year only; as stated above, the carry-overs to 1993 are included with the liabilities for 1992.

At the end of 1992 the commitments outstanding for operations allocated differentiated appropriations amounted to ECU 24 191 million. Of this, ECU 325 million is covered by payment appropriations carried over to 1993; the corresponding liability is also included in the accounts for 1992. The balance of ECU 23 866 million will have to be covered by payment appropriations in the budgets for 1993 and subsequent financial years. The commitments from differentiated appropriations outstanding at 31 December 1992 are analysed and broken down by probable year of payment in Table 9.

The Communities also have a number of known financial obligations. These obligations consist of debts owing to Member States in connection with the exceptional disposal of butter stocks in 1987 and 1988: to cover the losses arising from the sale of these stocks, the Member States had provided advance finance of ECU 3 178 million to be repaid in instalments of 25% at the beginning of each year between 1989 and 1992.

The final repayment of ECU 800 million was made at the beginning of 1992.

Finally, the Communities have entered into other obligations towards non-member countries which have not yet given rise to the commitment of appropriations: for cooperation with developing and non-member countries, aid provided for but not committed as at the end of 1992 under the third and fourth financial protocols with the Mediterranean countries totalled ECU 952 million.

Potential liabilities and resources

The Communities have potential liabilities and resources. Some of them may never be realized or can only be roughly estimated at 31 December 1992.

The potential liabilities include the cost of disposing of agricultural stocks. At the end of the 1992 financial year for agriculture, this liability had virtually dropped to zero; the new estimate results from comparison between the foreseeable sales value of products in store at 30 September 1992 and their book value, taking into account the depreciation applied in accordance with the decision adopted by the 1988 Brussels European Council. Every annual budget contains a provision for losses on stocks newly bought in. These stocks are depreciated from the date on which they enter the stores. The cost of depreciation is included with EAGGF Guarantee Section expenditure; in 1992 it totalled ECU 4 170 million. The only potential liabilities are those relating to the balance left outstanding because of the differences between the conversion rates used to calculate the foreseeable sales value and the book value; they are nowhere near the level reached during the 1980s.

The major potential liability relating to stocks of products which entered storage before 31 December 1986 and to which the principle of immediate depreciation no longer applied, had disappeared by the end of 1990: during that year the last repayments were made to the Member States of amounts advanced by them to finance the depreciation of these old stocks, two years ahead of schedule.

TABLE 6

Potential liabilities and receipts of the Communities at 31 December 1992

(million ECU)

	1992	1991
Potential liabilities		
European Agricultural Guidance and Guarantee Fund (EAGGF):		
Difference between the guarantee price and selling price of agricultural stocks at 31 December (excluding 1992 butter stocks subject to the exceptional disposal operation and alcohol stocks on which only disposal costs will arise) *(Table 8)*	76.1	12.3
Judgments awaited from the Court of Justice on sums claimed by Member States relating to clearance of accounts	692.3	358.2
Potential liabilities resulting from a provisional refusal of finance	194.8	318.5
	963.2	689.0
Potential receipts		
European Agricultural Guidance and Guarantee Fund (EAGGF):		
Potential receipts arising from frauds and irregularities	(806.9)	(673.0)
Potential claims resulting from the clearance of EAGGF accounts		(15.1)
	(806.9)	(688.1)
Total	(156.3)	(0.9)

The Communities also have potential revenue. For instance, on discovering a fraud or irregularity relating to sums paid under the European Agricultural Guidance and Guarantee Fund, a Member State notifies the Commission and takes steps to recover the amounts involved. The sums likely to be recovered can only be estimated at present on the basis of amounts notified. Similarly, the date of their receipt cannot be estimated with any certainty. Revenue may also have to be paid into the general budget as a result of the Communities' inspections of own resources received in previous years.

Contingent liabilities

The Communities have identified a number of contingent liabilities, only some of which can be quantified.

The Communities undertake to pay pensions to former employees on the basis of years of service. However, although contributions are made by employees, no separate fund is maintained from which the eventual liabilities will be met. There is, therefore, a liability for pension costs, which cannot be determined without an actuarial valuation.

TABLE 7

Contingent liabilities

(million ECU)

	1992	1991
Pension costs	p.m.	p.m.
Guarantees given		
75% guarantee	2 345.8	2 202.8
100% guarantee	961.5	641.5
Total	3 307.3	2 844.3

The Commission also guarantees loans to non-member countries granted by the European Investment Bank from its own funds. Not all loans are guaranteed at 100%, the average being 75% of the capital value of loans guaranteed. Interest may also be guaranteed but is not quantified in Table 7 above.

TABLE 8

Volume, book value, foreseeable-sales value and potential liabilities of stocks at 31 December 1992

Product	Quantity (tonnes)	Book value (ECU)	Foreseeable-sales value (ECU)	Potential liabilities (ECU)
Common wheat	8 340 864	491 063 418	495 313 868	4 250 450
Common wheat, not breadmaking	184 563	11 324 668	10 960 089	– 364 579
Barley	5 962 893	358 391 089	354 100 438	– 4 290 651
Rye	3 132 956	188 404 189	186 047 459	– 2 356 730
Durum wheat	4 550 513	283 657 258	337 784 580	54 127 322
Maize	500 847	28 718 612	29 742 298	1 023 686
Sorghum	0	0	0	0
Cereals — Total	22 672 636	1 361 559 234	1 413 948 732	52 389 498
Rice	16 723	2 236 885	2 267 338	30 453
Olive oil	64 008	69 798 523	81 826 869	12 028 346
Colza	0	0	0	0
Sunflower	0	0	0	0
Leaf tobacco	6	96	1 703	1 607
Manufactured tobacco	11 323	1 354 560	3 213 114	1 858 554
Baled tobacco	18 707	7 917 061	5 308 462	– 2 608 599
Alcohol[1]	2 151 799	10 342 906	9 881 061	– 461 845
Butter	161 156	145 583 132	145 483 579	– 99 553
Skimmed-milk powder	78 425	91 704 825	92 200 643	495 818
Bone in beef	427 736	382 112 061	383 116 719	1 004 658
Boned (boneless) beef	395 551	507 877 250	519 022 245	11 144 995
Total public storage		2 580 486 533	2 656 270 465	75 783 932
Mixed alcohol[1]	2 793 802	12 485 995	12 829 139	343 144
Grand total		2 592 972 528	2 669 099 604	76 127 076

[1] The quantity unit for alcohol is 100 litres.

TABLE 9

Commitments from differentiated appropriations still to be settled at 31 December 1992

(million ECU)

Sector	Year in which the commitments were entered into								Totals	Foreseeable schedule of payment			
	before 1986	1986	1987	1988	1989	1990	1991	1992		1993	1994	1995	after 1995
Fisheries and the sea	0.8	4.8	12.8	21.7	39.7	91.5	155.1	313.7	640.1	209.3	204.2	144.7	81.9
Structural operations,	799.4	380.2	558.6	803.6	634.1	878.8	2 889.9	7 349.4	14 293.9	7 962.9	4 502.8	806.3	1 021.9
of which: ERDF	774.2	351.3	455.9	546.0	395.6	395.4	1 683.8	3 397.2	7 999.3	4 303.6	2 327.8	567.9	799.9
ESF	0.3	5.3	16.5	29.0	78.7	204.3	749.4	2 465.0	3 548.5	2 203.6	1 344.9	0.0	0.0
EAGGF Guidance	7.1	0.3	61.8	184.9	121.9	231.8	248.5	856.7	1 713.0	921.6	498.5	121.6	171.3
other	17.8	23.3	24.3	43.7	37.9	47.2	208.3	630.5	1 033.1	534.1	331.6	116.7	50.6
A people's Europe	5.8	3.3	2.7	5.3	9.0	14.0	44.4	146.2	230.7	123.9	67.1	29.5	10.2
Research and technological development	1.7	8.8	18.2	50.1	88.9	247.0	596.4	1 699.6	2 710.7	1 542.9	900.5	267.3	0.0
Energy, industry and the internal market	15.3	10.3	18.6	29.5	47.7	52.4	146.9	282.0	602.6	226.6	163.9	101.8	110.3
Cooperation with non-member countries	170.8	83.9	196.0	249.3	353.3	589.9	1 460.3	2 609.4	5 712.9	1 799.6	1 473.9	1 142.6	1 296.8
Total	993.8	491.3	806.8	1 159.5	1 172.7	1 873.6	5 293.0	12 400.3	24 190.9	11 865.2	7 312.4	2 492.2	2 521.0

THE CONSOLIDATED ACCOUNTS OF THE COMMUNITIES

ACCOUNTING POLICIES

1. Financial Regulation

The accounts are prepared in accordance with the requirements of the Financial Regulation of 21 December 1977, as supplemented by implementing regulations issued by the Commission. There has been a general revision of the Financial Regulation, with the amended version entering into force on 13 March 1990.

2. The ecu

2.1. The accounts are stated in ecus.

2.2. Advances paid in respect of the Guarantee Section of the European Agricultural Guidance and Guarantee Fund are converted at the exchange rates applying on the 20th of the second month preceding that to which they relate.

Some operations relating to staff are converted at special rates.

Other operations are converted at the monthly accounting rates in force when they are carried out.

2.3. The ecu conversion rate for 31 December 1991 has been used to prepare the balance sheet except as follows:

(i) tangible assets, which are calculated at the accounting rate applying when they were purchased;

(ii) appropriations carried over, some of which are to cover commitments in national currencies converted into ecus at the monthly accounting rates for December.

2.4. The rates applying on 31 December 1992 for converting national currencies into ecus were as follows:

ECU 1 =	BFR	40.1777	HFL	2.19669
	DKR	7.57479	IRL	0.743157
	DM	1.95560	LFR	40.1777
	DRA	260.198	LIT	1 787.42
	ESC	177.760	PTA	138.648
	FF	6.66782	UKL	0.798221

3. Consolidation

3.1. The consolidated accounts show the accounting situation resulting from the operations carried out by the Communities under the general budget. They, therefore, do not include expenditure under the ECSC operating budget and under the European Development Funds.

They consolidate the accounts of the following European institutions: the Parliament, the Council, the Economic and Social Committee, the Commission (including the Publications Office and the Joint Research Centre), the Court of Justice and the Court of Auditors.

3.2. The assets and liabilities resulting from NCI and Euratom borrowing and lending operations are included in the appropriate items of the Communities' balance sheet.

3.3. Balances between the institutions are netted off on consolidation wherever possible. Any residual sums are included in current assets and creditors.

3.4. All figures are in millions of ecus, unless otherwise stated.

4. Revenue

4.1. Own resources and financial contributions are entered in the accounts on the basis of the amounts credited in the course of the year to the accounts opened in the name of the Commission by the governments of the Member States. The difference between the budget entries for VAT own resources, GNP-based own resources and financial contributions and the amount actually due is calculated by 1 July of the following year and entered in an amending budget.

4.2. Other revenue is entered in the accounts on the basis of the amounts actually collected in the course of the year.

5. Expenditure

5.1. Expenditure for the year, as included in the revenue and expenditure account, represents payments against the year's appropriations for payment plus any appropriations for payment for the year which are unused and are carried over.

5.2. The payments against the year's appropriations for payment are those for which authorization reaches the Financial Controller not later than 31 December and which are effected by the Accounting Officer not later than 15 January of the following year.

5.3. The payments taken into consideration for the Guarantee Section of the European Agricultural Guidance and Guarantee Fund are those effected by the Member States between 16 October and 15 October provided that the Accounting Officer is notified of the commitment and authorization not later than 31 January of the following year.

5.4. Appropriations for payment may be carried over to the following financial year:

(i) non-differentiated appropriations: the carry-over is generally automatic when it is to cover commitments outstanding; in other cases the prior authorization of the budgetary authority is required;

(ii) differentiated appropriations: unused payment appropriations usually lapse; however, the Commission may decide to carry them over if the payment appropriations for the following year are not sufficient to meet previous commitments or commitments in connection with commitment appropriations which have themselves been carried over.

6. Payments on account and accelerated payments

6.1. Payments on account for operational purposes, other than those paid in connection with the common agricultural policy, are included with the expenditure for the financial year and do not appear as assets in the balance sheet.

7. Tangible assets

7.1. The movable property of all the institutions (equipment and furniture) is valued at purchase price in national currency converted into ecus at the accounting rate in force at the time of purchase.

7.2. Buildings in Brussels, those of the external offices and delegations and those at the Geel, Karlsruhe and Petten establishments of the Joint Research Centre are included in the balance sheet at their purchase prices. The buildings at the Ispra establishment site are valued in accordance with the valuation conducted in 1982, increased in 1984 by 14% for buildings and by 20% for other infrastructure. Since then, the valuation has been increased every year by the amount of investment which took place that year.

7.3. No depreciation is provided as the full purchase cost of tangible assets is charged to the revenue and expenditure account in the year of acquisition. The full value remains in the balance sheet until items are withdrawn from service, and is balanced by an exactly equivalent figure which forms part of own capital.

8. Stocks

8.1. Stocks represent the consumable stores held by all the institutions, including certain nuclear materials held by the research centres. All items are valued for balance sheet purposes at purchase price, with the exception of nuclear material and heavy water which are valued at commercial valuation, net of reprocessing costs.

CONSOLIDATED REVENUE AND EXPENDITURE ACCOUNT for the year ending 31 December 1992

	Notes	1992 (million ECU)	1991 (million ECU)
Revenue			
Own resources	1	56 189.7	51 676.1
Adjustments to previous years' revenue	2	2 834.6	4 002.0
Other revenue	3	687.5	571.3
Total revenue		59 711.8	56 249.4
Expenditure			
Operational expenditure			
Agricultural market guarantees	4	31 294.1	31 126.8
Fisheries and the sea	5	410.4	334.2
Structural operations	6	18 081.0	13 637.9
A people's Europe	7	671.3	516.2
Research and technological development	8	1 989.8	1 706.3
Energy, industry and the internal market	9	435.7	369.2
Cooperation with non-member countries	10	2 193.0	2 211.2
		55 075.3	49 901.8
Administrative expenditure			
Staff	11	1 855.2	1 785.8
Administration	11	1 049.6	870.7
		2 904.8	2 656.5
Repayments to Member States	12	876.9	1 264.8
Total expenditure	13	58 857.0	53 823.1
Surplus of revenue over expenditure for the year: outturn for the year		854.8	2 426.3
Exchange differences for the year	14	22.7	31.2
Appropriations carried over from previous year which lapse	14	126.5	305.1
Balance for the year	14	1 004.0	2 762.6

CONSOLIDATED BALANCE SHEET
as at 31 December 1992

	Notes	1992 (million ECU)	1991 (million ECU)
Fixed assets			
Tangible assets	15	986.5	885.5
Contributions	16	37.5	18.5
Loans	17	8 400.3	9 084.4
		9 424.3	9 988.4
Long-term debtors	18	7.3	11.4
Current assets			
Stocks	19	100.3	93.2
Amounts owed by Member States	20	304.2	307.2
Amounts owed by Community bodies	21	33.0	10.1
Debtors	22	877.4	775.4
Cash at bank and in hand	23	5 085.2	6 730.4
		6 400.1	7 916.3
Less: Creditors due within one year	24	(4 304.4)	(4 132.9)
Net current assets		2 095.7	3 783.4
Total assets less current liabilities		11 527.3	13 783.2
Creditors due after more than one year	25	(8 683.3)	(9 342.8)
Provisions for liabilities and charges	26	(55.4)	(47.4)
		2 788.6	4 393.0
Fixed capital			
Own capital	27	1 784.6	1 630.4
Balance brought forward	28	—	—
Balance for the year	28	1 004.0	2 762.6
		2 788.6	4 393.0

1. Own resources	1992 (million ECU)	1991 (million ECU)
Agricultural levies	1 206.8	1 621.3
Sugar and isoglucose levies	1 002.4	1 141.8
Customs duties	12 547.9	12 751.0
VAT resources	34 594.7	30 269.0
Percentage of GNP of the Member States	8 314.9	7 445.1
Own resources collection costs	(1 477.0)	(1 552.1)
	56 189.7	51 676.1

2. Adjustments to previous years' revenue

Surplus available from the previous year	2 762.6	2 841.6
Balance of VAT own resources and adjustments to financial contributions for previous year	166.5	787.7
Balance of GNP-based own resources from the previous year	7.1	—
Corrections to the balance of own resources and adjustments to financial contributions for 1979 to 1988	(101.6)	372.7
	2 834.6	4 002.0

ECU 4 464.2 million of the 1989 balance of ECU 5 080.1 million had been entered in the accounts for 1990; the remaining ECU 615.9 million has been entered in the accounts for 1991.

3. Other revenue	1992 (million ECU)	1991 (million ECU)
Miscellaneous Community taxes, levies and dues	298.4	266.4
Revenue accruing from the administrative operation of the institutions	144.3	139.1
Contributions to Community programmes; repayments of expenditure and revenue from services rendered	151.0	97.9
Interest on late payments and fines	43.8	44.4
Borrowing and lending operations	16.0	18.1
Miscellaneous	34.0	5.4
	687.5	571.3

4. Agricultural market guarantees		
Expenditure by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF)	31 146.5	31 049.9
Set-aside and income aid	147.6	76.9
	31 294.1	31 126.8

5. Fisheries and the sea		
Organization of the market	32.1	26.2
Improvement of fishery structures	151.0	127.3
Expenditure in connection with international fisheries agreements	195.7	171.3
Other	31.6	9.4
	410.4	334.2

6. Structural operations		
European Regional Development Fund	8 571.1	6 306.9
European Social Fund	4 310.8	4 030.0
European Agricultural Guidance and Guarantee Fund — Guidance Section	2 860.3	2 085.4
New German *Länder*	1 285.0	450.0
Other structural policy operations:		
Integrated Mediterranean programmes	392.5	283.3
Specific programme for the development of Portuguese industry (PEDIP)	121.6	114.4
Other regional measures	69.9	57.9
Transport and tourism	126.0	97.5
Expenditure in the agricultural sector	179.9	131.8
Set-aside and income aid	163.9	80.7
	18 081.0	13 637.9

7. A people's Europe	1992 (million ECU)	1991 (million ECU)
Education, vocational training and youth policy	289.9	226.2
Employment, social protection and public health	169.2	119.8
Protection of the environment	81.6	73.6
Information, communication and culture	95.0	60.9
Consumer protection	17.9	14.7
Aid to disaster victims in the Community	17.7	21.0
	671.3	516.2

8. Research and technological development		
Research and technological development	1 989.8	1 706.3
	1 989.8	1 706.3

Research and technological development also includes related administrative expenditure incurred in the research centres of Ispra, Karlsruhe, Petten and Geel.

9. Energy, industry and the internal market		
Energy policy	139.8	117.1
Nuclear safeguards	6.7	9.2
Information market and innovation	37.6	32.3
Statistical information policy connected with the completion of the internal market	44.3	41.0
Industry and the internal market	207.3	169.6
	435.7	369.2

10. Cooperation with non-member countries

	1992 (million ECU)	1991 (million ECU)
Aid for economic restructuring of the countries of Central and Eastern Europe	504.1	278.2
Food aid	691.9	637.2
Other cooperation activities with developing and non-member countries	980.7	768.3
Assistance to the countries most directly affected by the Gulf crisis	16.3	527.5
	2 193.0	2 211.2

A further ECU 221.6 million (1991: ECU 217 million) of export refunds made in connection with food aid are included in EAGGF Guarantee Section expenditure.

In addition to the above amounts consolidated:

(i) the European Development Fund made payments of ECU 1 910.0 million (1991: 1 191.3 million) to developing countries;

(ii) the European Investment Bank (EIB) grants loans to developing countries from its own funds, guaranteed by the Commission.

11. Administrative expenditure

	1992 (million ECU)	1991 (million ECU)
Staff		
Parliament	359.7	336.1
Council	146.3	132.5
Economic and Social Committee	32.7	31.0
Commission	1 198.1	1 178.0
Publications Office	22.7	20.4
Court of Justice	63.7	57.8
Court of Auditors	32.0	30.0
	1 855.2	1 785.8
Administration	1 049.6	870.7

The administrative expenditure at the various research establishments is included in 'Research and technological development' (Note 8).

12. Repayments to Member States

	1992 (million ECU)	1991 (million ECU)
Repayments to the Member States in respect of the depreciation of agricultural stocks	799.5	797.4
Refunds and financial compensation to Member States	77.4	467.4
	876.9	1 264.8

13. Total expenditure

Operational expenditure	Payments for the year (million ECU)	Carried over (million ECU)	Expenditure 1992 (million ECU)	Expenditure 1991 (million ECU)
Agricultural market guarantees	31 067.6	226.5	31 294.1	31 126.8
Fisheries and the sea	404.2	6.2	410.4	334.2
Structural operations	17 850.8	230.2	18 081.0	13 637.9
A people's Europe	494.5	176.8	671.3	516.2
Research and technological development	1 887.5	102.3	1 989.8	1 706.3
Energy, industry and the internal market	371.8	63.9	435.7	369.2
Cooperation with non-member countries	1 992.1	200.9	2 193.0	2 211.2
	54 068.5	1 006.8	55 075.3	49 901.8
Administrative expenditure				
Staff	1 822.9	32.3	1 855.2	1 785.8
Administration	744.6	305.0	1 049.6	870.7
	2 567.5	337.3	2 904.8	2 656.5
Repayments to Member States	876.9	0.0	876.9	1 264.8
	57 512.9	1 344.1	58 857.0	53 823.1

	Payments for the year (million ECU)	Carried over (million ECU)	Expenditure 1992 (million ECU)	Expenditure 1991 (million ECU)
Breakdown of expenditure by institution				
Commission:				
non-differentiated appropriations	34 451.0	821.1	35 272.1	35 733.1
differentiated appropriations	22 201.2	339.6	22 540.8	17 145.1
	56 652.2	1 160.7	57 812.9	52 878.2
Parliament	478.5	101.5	580.0	488.7
Council	271.1	75.7	346.8	349.0
Court of Justice	77.7	4.0	81.7	74.2
Court of Auditors	33.4	2.2	35.6	33.0
	57 512.9	1 344.1	58 857.0	53 823.1

Reconciliation with the budget

	Expenditure 1992 (million ECU)	Expenditure 1991 (million ECU)
Payment appropriations approved for the year	61 164.0	56 116.4
Less: Appropriations not used and which lapse	(2 307.0)	(2 293.3)
Expenditure for the year	58 857.0	53 823.1

14. Balance for the year

In accordance with the Financial Regulation, the amount resulting from the lapsing of the appropriations for payment carried over from the previous financial year but not used and the balance of exchange gains and losses recorded during the year are taken into account when determining the balance for the year.

15. Tangible assets

	Buildings	Furniture and equipment	Total 1992 (million ECU)	Total 1991 (million ECU)
Parliament	7.0	70.8	77.8	63.0
Council		23.5	23.5	20.6
Economic and Social Committee		4.4	4.4	4.1
Commission	350.7	496.0	846.7	764.8
Court of Justice		6.2	6.2	5.6
Court of Auditors	23.9	4.0	27.9	27.4
Total	381.6	604.9	986.5	885.5

16. Contributions

	1992 (million ECU)	1991 (million ECU)
Subscription to capital of European Bank for Reconstruction and Development (EBRD)	36.0	18.0
Other contributions	1.5	0.5
	37.5	18.5

17. Loans

Loans granted from the budget	1992 (million ECU)	1991 (million ECU)
Loans in connection with cooperation with non-member countries		
Loans on special terms	434.8	428.9
Risk-capital operations	28.4	15.2
Loans and advances to promote investment joint ventures	21.4	13.3
Loans granted to assist the countries most directly affected by the Gulf crisis	175.0	175.0
Loans in favour of migrant workers	0.4	0.5
Building loans to Community officials	0.2	0.3
	660.2	633.2
Loans granted from borrowed funds		
Community loans for balance-of-payments support	1 735.9	2 471.5
Euratom loans	1 336.3	1 558.9
Loans to promote investment in the Communities (NCI)	2 384.9	3 128.8
Financial assistance to non-member countries	2 283.0	1 292.0
	7 740.1	8 451.2
Total	8 400.3	9 084.4

18. Long-term debtors

	1992 (million ECU)	1991 (million ECU)
Deposits, guarantees and working balances paid to third parties	4.9	6.5
Recoverable costs	2.4	4.9
	7.3	11.4

Recoverable costs arise on NCI and Euratom borrowing and lending operations as a result of the difference between the interest rates charged on loans granted and the lower interest rates paid on loans raised. They are recovered gradually over the lifetime of the borrowings.

19. Stocks

Parliament	1.0	1.1
Council	1.9	1.8
Economic and Social Committee	0.1	0.1
Commission[1]	97.0	90.0
Court of Justice	0.2	0.1
Court of Auditors	0.1	0.1
	100.3	93.2

[1] Includes nuclear materials held at research centres.

20. Amounts owed by Member States

Own resources to be recovered	288.8	296.8
Taxes paid and to be recovered	10.0	5.6
Interest on late payments	4.2	4.4
Outstanding balances of EAGGF advances	1.2	0.4
	304.2	307.2

21. Amounts owed by Community bodies

	1992 (million ECU)	1991 (million ECU)
Due to Parliament	0.2	0.6
Due to the Commission	32.8	9.5
	33.0	10.1

Community bodies include those Communities not consolidated, for example the European Coal and Steel Community (ECSC), and other connected bodies, for example the Medical Insurance Scheme.

22. Debtors

Debtors comprise sundry debtors relating to the institutions and balances relating to the borrowing and lending operations of NCI and Euratom.

	1992	1991
Sundry debtors		
Due from staff of the institutions	7.5	8.2
Due from third parties, including bank interest receivable	24.1	26.1
Advances to be settled	3.0	3.1
Receivable orders to be recovered	442.4	448.3
Prepayments[1]	49.0	21.7
Other	47.2	13.7
	573.2	521.1
NCI and Euratom		
Accrued interest	74.7	85.4
Other	229.5	168.9
	304.2	254.3
	877.4	775.4

[1] Prepayments comprise sums paid during 1992 to be charged to the budget of the following year.

23. Cash at bank and in hand

In addition to the current and deposit accounts which the institutions have with banks in Community and non-Community countries to carry out their financial operations, the Commission also has accounts with each Member State. The amount of established own resources is credited by each Member State to an account opened for this purpose in the Commission's name with its Treasury or with the body it has appointed for the purpose. The Commission may draw on the sums credited to these accounts to the extent necessary to cover its cash requirements arising out of budget execution.

The institutions may establish imprest accounts to cover payment of certain types of expenditure, and particularly to permit the operation of information offices and delegations in non-member countries and to international organizations. The amounts advanced are to cover cash needs for a short period. The funds are reconstituted on presentation of expenditure vouchers.

The total of bank balances and cash is made up as follows:

	1992 (million ECU)	1991 (million ECU)
Securities (held by NCI)	0.2	—
Fixed-term deposit accounts	97.8	78.6
Accounts with treasuries of Member States	2 926.3	4 831.7
Accounts with central banks	446.9	252.0
Current accounts	1 533.9	1 522.3
Imprest accounts	79.6	45.4
Documentary credits	—	—
Cash in hand	0.5	0.4
	5 085.2	6 730.4

The Commission holds accounts with treasuries and central banks. Its deposit and current accounts include ECU 800.1 million (1991: ECU 844.2 million) available from NCI and Euratom borrowing and lending operations. The breakdown of the amounts in the institutions' current accounts is as follows:

	1992	1991
Parliament	5.1	10.8
Council	2.1	7.9
Economic and Social Committee	0.8	0.3
Commission[1]	1 524.8	1 502.3
Court of Justice	0.8	0.7
Court of Auditors	0.3	0.3
	1 533.9	1 522.3

[1] Includes ECU 714.2 million (1991: ECU 770.2 million) for NCI and Euratom borrowing and lending operations.

24. Creditors due within one year

	1992 (million ECU)	1991 (million ECU)
Payable to Member States[1]	35.2	16.5
Amounts owed to Community bodies[2]	3.1	4.0
Appropriations to be carried over[3]	1 358.9	1 125.1
Sundry creditors[4]	40.6	42.1
Revenue to be entered[5]	155.3	244.1
Revenue to be collected[6]	742.6	724.1
Accruals[7]	1 860.4	1 812.6
Accrued interest (NCI and Euratom)	108.3	164.4
Bank balances[8]	—	—
	4 304.4	4 132.9

[1] *Payable to Member States*

This item covers the amounts owed to Member States.

[2] *Amounts owed to Community bodies*

Due by the Council	—	—
Due by the Commission	3.1	4.0
	3.1	4.0

[3] *Appropriations to be carried over*

Non-differentiated appropriations		
Automatic carry-overs	824.8	689.0
Non-automatic carry-overs	179.7	171.7
Differentiated appropriations		
Current year's appropriations carried over	339.4	249.9
Appropriations carried over again	14.9	14.5
	1 358.8	1 125.1

[4] *Sundry creditors*

Revenue to be transferred to other bodies	24.5	30.1
Other	16.1	12.0
	40.6	42.1

	1992 (million ECU)	1991 (million ECU)
[5] *Revenue to be entered*		
Revenue available for use	125.6	195.1
Miscellaneous revenue to be identified and booked to an item of account	29.7	49.0
	155.3	244.1

[6] *Revenue to be collected*

This is an entry to balance those debtor balances which relate to revenue to be entered in the accounts of 1993.

[7] *Accruals*

Payments made between 1 and 15 January 1993 authorized before 31 December 1992 are recorded as expenditure of 1992 and appear in the balance sheet as accruals.

[8] *Bank balances*

	1992 (million ECU)	1991 (million ECU)
Current accounts (NCI)	—	—
Documentary credits	—	—
	—	—

25. Creditors: due after more than one year

Loans raised

	1992 (million ECU)	1991 (million ECU)
Community loans raised for balance-of-payments support	1 735.9	2 471.5
Euratom loans raised	1 338.4	1 563.8
Loans raised to promote investment in the Communities (NCI)[1]	3 326.0	4 015.5
Loans raised for financial assistance to non-member countries	2 283.0	1 292.0
	8 683.3	9 342.8

[1] The NCI loans include ECU 20.9 million as a redemption premium.

26. Provisions for liabilities and charges

	1992 (million ECU)	1991 (million ECU)
NCI	33.5	29.4
Euratom	21.9	18.0
	55.4	47.4

These balances represent surpluses to be allocated by the Commission, and retained to cover costs not yet incurred or to be set against the assets item 'Recoverable costs' recorded in 'Long-term debtors' (Note 18).

27. Own capital

This is the contra-item to various assets which are recorded in the balance sheet after first being charged to budgetary expenditure. Like the corresponding assets, this item varies from one year to the next. The assets are tangible assets, loans granted from the budget and inventories.

28. Balance brought forward and balance for the year

Balance brought forward	—	—
Balance for the year	1 004.0	2 762.6

CONSOLIDATED REVENUE AND EXPENDITURE ACCOUNT: FIVE-YEAR SUMMARY

TABLE 10

(million ECU)

	1988	1989	1990	1991	1992
Revenue					
Own resources	35 842.6	41 881.3	39 695.7	51 676.1	56 189.7
Financial contributions	4 657.2	1 641.8	—	—	—
Adjustments to previous year's revenue	883.6	1 967.8	6 181.6	4 002.0	2 834.6
Other	460.0	408.9	591.9	571.3	687.5
	41 843.4	45 899.8	46 469.2	56 249.4	59 711.8
Expenditure					
Agricultural market guarantees	26 400.3	24 409.1	25 754.7	31 126.8	31 294.1
Fisheries and the sea	257.7	279.2	298.9	334.2	410.4
Structural operations	6 682.9	8 239.1	10 069.4	13 637.9	18 081.0
of which: ERDF	(2 979.8)	(3 920.0)	(4 554.1)	(6 306.9)	(8 571.1)
ESF	(2 298.6)	(2 676.1)	(3 212.0)	(4 030.0)	(4 310.8)
EAGGF Guidance	(1 140.9)	(1 349.0)	(1 825.3)	(2 085.4)	(2 860.3)
other	(263.6)	(294.0)	(478.0)	(1 215.6)	(2 338.8)
A people's Europe	225.6	289.1	346.1	516.2	671.3
Research and technological development	872.2	1 230.4	1 443.9	1 706.3	1 989.8
Energy, industry and the internal market	238.0	259.8	319.4	369.2	435.7
Cooperation with non-member countries	783.0	1 090.6	1 430.6	2 211.2	2 193.0
Operational expenditure	35 459.7	35 797.3	39 663.0	49 901.8	55 075.3
Repayments to Member States	3 729.6	2 961.1	2 362.5	1 264.8	876.9
Administrative expenditure					
Staff	1 340.1	1 449.6	1 597.7	1 785.8	1 855.2
Administration	591.5	642.1	755.7	870.7	1 049.6
	41 120.9	40 850.1	44 378.9	53 823.1	58 857.0
Out-turn for the year	722.5	5 049.7	2 090.3	2 426.3	854.8
Appropriations carried over from previous year which lapse	381.5	98.2	92.4	305.1	126.5
Exchange differences for the year	36.1	(– 67.8)	43.0	31.2	22.7
Balance for the year	1 140.1	5 080.1	2 225.7	2 762.6	1 004.0

THE ECSC'S FINANCIAL AND BUDGETARY ACTIVITIES IN 1992

Economic background and developments in ECSC industries

In 1992, the overall economic situation in the Community was marked by slow growth, slightly lower inflation and a lull in job creation.

Sluggish growth in 1992 did nothing to improve the employment situation and for the first time since the early 1980s the number of people in employment fell; as a result, the number of jobless rose sharply from 8.8% of the workforce in 1991 to 9.5% in 1992.

Coal industry

The reduction of coalmining activity in the Community continued in 1992. Community coal production in 1992 was an estimated 185 million tonnes compared with 193 million tonnes in 1991, a drop of 4%. The average number of underground workers declined further from 174 300 in 1991 to just 155 000 in 1992 (- 11.1%).

Productivity, though, appears to be rising as a direct result of the restructuring measures taken in all the Member States in response to the closure of the most unprofitable and unproductive mines.

Underground productivity improved from 680 kg per man-hour in 1991 to 715 kg in 1992 but could not prevent a further increase in imports from non-Community countries, which rose by 10 million tonnes in 1992 to an estimated 141 million tonnes.

Steel industry

As in previous years, crude steel production in the Community fell, reflecting the sluggish economic situation and downward economic pointers in all industrial sectors.

The maximum production potential for the Community as a whole is estimated at around 190 million tonnes, giving a utilization rate of 69.8% in 1992 as against 70.9% in 1991.

Production of hot-rolled products in 1992 is estimated at 116 million tonnes, compared with a maximum production potential of 169 million tonnes.

Finally, investment by steel companies in 1992 is estimated at ECU 4 887 million, as against ECU 3 655 million for the Community as a whole in 1991.

Financial activities

Article 49 of the ECSC Treaty of 18 April 1951 empowers the High Authority (the Commission since the 1967 Merger Treaty) to borrow funds providing it is for the purpose of granting loans.

Loans are granted for three main purposes:

- to finance investment in the coal and steel sector;
- to finance conversion programmes for restructuring the coal and steel industry;
- to finance the construction of housing for coal and steel workers.

During the year, the Commission continued to support investment by coal and steel firms through ECSC loans amounting to ECU 215.2 million.

Total ECSC loans for 1992 came to ECU 1 486.2 million, as against ECU 1 382.2 million in 1991.

Loans to the steel industry fell from ECU 362.9 million in 1991 to ECU 201.4 million in 1992 while loans to the coal industry fell from ECU 75.8 million in 1991 to ECU 13.8 million in 1992. Investment loans granted under the second paragraph of Article 54 of the ECSC Treaty to promote the consumption of Community steel amounted to ECU 816.4 million, with another ECU 15.5 million going to promote consumption of Community coal.

The ECSC continued its borrowing operations in 1992; ECU 1 474.4 million was

TABLE 11

Loans disbursed in 1992 — breakdown by Member State

(million ECU)

Member State	I					II	III	Total
	Coal industry (Art. 54 (1))	Steel industry (Art. 54 (1))	Thermal power stats (Art. 54 (2))	Other (Art. 54 (2))	Total I	Industrial conversion (Art. 56)	Workers' housing (Art. 54 (2))	I + II + III
Belgium	—	—	—	62.2	62.2	15.3	0.1	77.6
Denmark	—	—	—	299.6	299.6	—	0.0	299.6
Germany	—	143.6	—	7.7	151.3	208.9	5.8	366.0
Greece	—	—	—	—	—	—	—	—
Spain	13.8	—	—	160.3	174.1	2.5	2.2	178.8
France	—	—	—	120.0	120.0	18.7	1.3	140.0
Ireland	—	—	—	—	—	—	0.0	0.0
Italy	—	57.8	—	41.3	99.1	83.1	1.2	183.4
Luxembourg	—	—	—	—	—	—	0.1	0.1
Netherlands	—	—	—	—	—	0.7	1.1	1.8
Portugal	—	—	—	—	—	—	0.5	0.5
United Kingdom	—	—	—	140.7	140.7	97.0	0.7	238.4
Community	13.8	201.4	—	831.8	1 047.0	426.2	13.0	1 486.2
Non-Community	—	—	—	—	—	—	—	—
Total	13.8	201.4	—	831.8	1 047.0	426.2	13.0	1 486.2

raised, ECU 63.4 million for refinancing purposes. The equivalent figures for 1991 were ECU 1 445.7 million and ECU 81.9 million.

Since the ECSC Treaty comes to an end in 2002, the Commission adopted, on 21 October 1992, a paper discussing the future of the activities covered by the Treaty with special reference to the ECSC's financial activities.

ECSC operating budget

In addition to its activities based on borrowing and lending operations, the ECSC finances a number of measures from its operating budget.

ECSC budget revenue

The High Authority (Commission) is empowered to procure the funds it requires to carry out its tasks by imposing levies on the production of coal and steel.

ECSC levies go towards financing expenditure under the operating budget. Historically, they constitute the first genuinely 'Community' tax.

Levies are fixed annually for the various coal and steel products according to their average value at a rate not exceeding 1% unless previously authorized by the Council acting by a two-thirds majority.

In 1992, the ECSC levy was set at 0.27% and yielded ECU 146.2 million.

Most of the funds used in addition to the levies to cover ECSC expenditure derive from the 'net balance' of its annual operations and in particular from the interest on loans from its own resources and the investments corresponding to the reserves and provisions entered in the ECSC balance sheet.

In 1992, loan and investment interest income amounted to ECU 253.5 million. In addition, there were cancelled commitments of

ECU 75.8 million and unused funds of ECU 59.8 milllion carried over from the previous year.

Total revenue in the ECSC's operating budget came to ECU 535.3 million for 1992.

ECSC budget expenditure

The revenue from the operating budget is used to cover the various types of expenditure provided for in the ECSC Treaty.

In 1992, ECU 251 million in redeployment and restructuring aid was provided under Article 56 of the ECSC Treaty.

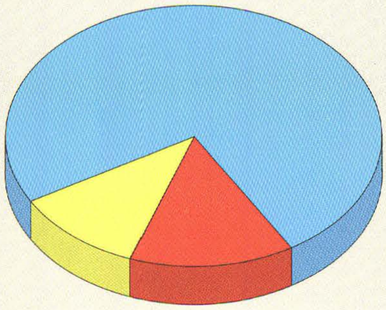
Redeployment aid provides the essential social support for the Community's industrial policy in the ECSC sectors. When permanent closures, cut-backs or changes of activity lead to job losses, the Community attempts to mitigate the social repercussions for the workers through redeployment measures. It thus helps finance aid measures to provide income support for the workers affected or give them the possibility of remaining in employment and making a productive contribution to the economy (training courses and resettlement allowances).

This aid is granted under arrangements defined in bilateral agreements which take ac-

FIGURE 13

ECSC operating budget revenue in 1992

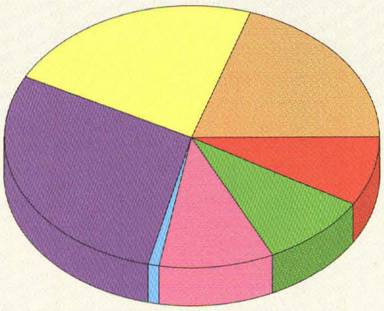
(million ECU)



Current resources		399.7
— Yield from 0.27% levy	146.2	
— Interest from investments and loans	253.5	
Cancellation of commitments		75.8
Unused resources from previous year		59.8
		535.3

ECSC operating budget expenditure in 1992

(million ECU)



Administrative expenditure		5.0
Redeployment aid		154.8
Research aid		120.2
— Steel research	58.0	
— Coal research	47.7	
— Social research	14.5	
Interest subsidies		106.0
Steel industry restructuring measures		46.2
Coal industry restructuring measures		50.0
Surplus		53.1
		535.3

count of the recipients' situation (early retirement, unemployment, transfer, re-training and vocational training).

In 1990 the Commission also decided to implement a new programme in the coal sector, Rechar, to strengthen Community support for the economic redevelopment of the areas most affected by the decline of coalmining. The ERDF, the ESF, the EIB and the ECSC are acting jointly to improve the environment, promote new activities and develop human resources. This assistance is additional to the aids and loans granted elsewhere under Community support frameworks or in the form of traditional ECSC aid for the redeployment of workers.

Under Article 55 of the ECSC Treaty, ECU 120.2 million was granted in aid for steel and coal industry research and for social research.

The main aims of aid for steel industry research (ECU 58 million) are to reduce manufacturing costs, improve the quality and performance of products, promote and extend the uses of steel, and adapt production conditions to environmental demands.

The main objectives of the projects granted and of ECU 47.7 million in the coal research sector are lower production costs, higher underground and pithead productivity, improved safety and working conditions, the maintenance of existing markets and the opening of new outlets, and, above all, improved use of coal with a view to better environmental protection.

In the social sector, ECU 14.5 million in aid was used to finance research programmes in areas such as medical research, pollution in the steel industry, industrial hygiene in mines, ergonomics and safety.

Finally, aid is granted in the form of interest subsidies for priority investments and especially for conversion loans. In 1992, ECU 106 million was allocated for these purposes.

Each year a financial report for the ECSC is drawn up and distributed to financial institutions, rating agencies and investors with financial links with the ECSC.

ANNEX 2

FINANCIAL OUTTURN OF THE EDF IN 1992

Legal and financial framework

The European Development Fund (EDF) is by far the most important supplier of funds for the Community's development cooperation policy.

The Fund was established under Article 1 of the Implementing Convention on the Association of the Overseas Countries and Territories with the Community signed at the same time as the Treaty of Rome on 25 March 1957; its role has since been extended to cover:

— countries which shortly afterwards became independent but wished to retain OCT status;

— a growing number of countries in different continents with whom the Community wished to enter into agreements.[1]

Under the Lomé IV Convention, which was signed on 15 December 1989 and entered into force on 1 September 1991, 69 African, Caribbean and Pacific States (ACP) and 20 OCTs[2] are today involved in EDF operations; the Fund's budget has substantially increased and now stands at ECU 10 940 million, including ECU 140 million for the OCTs alone.

The internal agreement on the financing and administration of Community aid under the Fourth Lomé Convention describes, *inter alia*, the procedure for allocating resources, which include an extra ECU 1 225 million granted by the EIB (ECU 25 million for the OCT) from its own resources.

EDF operations mainly involve:

— grants for projects and programmes and structural adjustment support, for which a specific amount has been set aside;

— Stabex transfers;

— risk capital managed by the EIB;

— special financing facilities under Sysmin.

The EDF is quite different from the other Community financial instruments included in the general budget in that:

— it is administered by the Commission and its resources consist of extra-budgetary payments by the Member States on a fixed-scale basis for each fund;

— each EDF has a separate financial regulation, on the same lines as for the general budget, which lays down implementing provisions for the abovementioned internal agreement, particularly in respect of accounting and legal aspects;

— the normal rules on budgetary appropriations do not apply to the EDF; its appropriations are allocated to a limited number of operations i.e. multiannual operations for a period of at least five years, with ceilings which are precisely laid down when the financing agreement is signed. The Commission thus administers several EDFs simultaneously until their respective closing dates. It should be said that these appropriations are not presented in budget form but are recorded at a later date in an accounting statement analysing the statement of revenue and expenditure (commitments and payments).

EDF financing in 1992

The EDF was able to finance its operations as usual throughout 1992.

The call for contributions to cover EDF expenditure in 1992 was based on estimated overall requirements of ECU 1 650 million, to be called up in four instalments on 20 January, 1 April, 1 July and 1 October.

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1 The latest of these — the Lomé IV Convention — follows on from the Yaoundé I and II Conventions and, since 1975, the Lomé I, II and III Conventions.

2 By a decision establishing association with the Community, allowing them to benefit from the resources available under the internal agreement governing Lomé IV.

The call for contributions is provided for in the internal agreement on the financing and management of the Sixth EDF which states, *inter alia,* 'that upon expiry of this Agreement, Member States shall still be obliged to pay the portion of their contributions not yet called for'. Since, as at the end of 1991, nearly ECU 3 650 million had been called up out of a possible ECU 7 500 million provided for under the Lomé III Convention, the internal agreement on the Sixth EDF remains in force.

In 1992, the following additional resources were available to the EDF:

— an ECU 483 million cash surplus at the beginning of the year, after some expenditure which should have been charged in 1991 was not effected until 1992;

— ECU 39 million in interest income.

In total, the EDF was able to draw on ECU 2 172 million to cover its expenditure in 1992.

EDF expenditure in 1992

EDF expenditure ran at a very high level in 1992 to total ECU 1 910 million, an increase of 60% over the previous year.

(million ECU)

	Current payments (excluding Stabex)	Stabex	Total
1991	1 002	189	1 191
1992	1 298	612	1 910

TABLE 12

EDF (5th, 6th and 7th Funds)
Financing decisions and payments in 1992

(million ECU)

Instruments	Commitments	Payments [1]
Programmed aid	1 360.63	1 086.97
□ National indicative programmes	(1 126.63)	(983.39)
□ Structural adjustment facilities	(234.00)	(103.58)
Stabex	397.53	608.61
Sysmin	70.48	11.11
Risk capital	133.07	85.74
Interest subsidies	36.10	27.97
Emergency aid	37.63	39.07
Aid for refugees	22.50	28.30
Miscellaneous [2]	4.90	22.23
Total	2 062.84	1 910.00

1 Position in the EDF cash accounts.
2 Comprises: measures to combat AIDS, transfers between funds, rehabilitation fund.

Following three years of relative stagnation during which EDF expenditure averaged around ECU 1 200 million a year, there was a sharp rise in 1992.

The main reason for this exceptional level of expenditure was that Stabex expenditure due at the end of 1991 ('transfer in respect of the 1990 application year') was charged to 1992. Moreover, current expenses excluding Stabex were much higher than in 1991.

In addition to a satisfactory level of utilization of the appropriations entered under Lomé III (ECU 896 million), the EDF received a further boost from Lomé IV (ECU 888 million) when it came into force on 1 September 1991, especially as Lomé IV places greater emphasis on rapid payment instruments such as Stabex transfers (ECU 612 million).[1] Indeed, 95% of the primary commitment decisions adopted in 1992 — involving a total ECU 2 063 million — were under the Lomé IV Convention. The fifth EDF, the financial instrument for Lomé II, should be wound up in 1993 which will simplify the Commission's task as it will then only have to manage the sixth and seventh EDFs.

By way of comparison, aid under the Community budget to developing countries in 1992 (food aid, Mediterranean, Latin America and Asia, etc.) amounted to ECU 1 552 million in payments and ECU 2 280 million in commitments.

Overall, in 1992 the Community granted around ECU 3 460 million in payment appropriations and more than ECU 4 340 million in commitment appropriations to developing countries. The size of these amounts testifies to the vigour of the Community's development policy despite the severe internal financial constraints it faces and the additional calls on its resources from other regions which are important for the Community's external relations.

The EDF's good performance in 1992 is all the more surprising when the extremely difficult economic and political context is considered.

Throughout 1992, the Commission operated in accordance with the Council Resolution on human rights, democracy and development and tried to promote a consistent common approach to development cooperation with the Member States.

As a result, implementation of some development programmes was impaired or completely ruled out in ACP countries where the political situation was especially tricky. For example, Stabex transfers of ECU 85 million for 1990 and 1991 were blocked in the case of Haiti, Malawi and Sudan. At an even earlier stage, despite the regional indicative programmes having already been signed, the programming procedure in five ACP countries could not be completed. Apart from the ECU 85 million in blocked Stabex transfers, a total of ECU 1 100 million in EDF resources are now frozen as a result of aid suspension measures.

However, the Community will be liaising with the ACP countries with the intention of improving the joint rules and procedures for implementing its aid and, more generally, the way in which that aid is managed.

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1 1992 outturn — payments.

FIGURE 14
Annual EDF payments (1961-92)

(million ECU)