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Report

drawn up on behalf of the Committee on Budgets

on the ~~draft~~ general budget of the European
Communities for 1980 (Section III - Commission)
as amended by Parliament and modified by
Council, and on the total rejection of the 1980
draft budget

Rapporteur : Mr Pieter DANKERT

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This report is being submitted pursuant to paragraph 8 of Article 203 of the Treaty and to Article 6 of Annex I of the Rules of Procedure of the European Parliament.

At its meeting of 28 November 1979, the Committee on Budgets examined Council's modifications to the amendments that Parliament had adopted to the draft general budget at its session of 7 November 1979. By 28 votes to 2 with 3 abstentions it decided that it could not recommend to Parliament that it should adopt the draft budget for 1980 as modified by Council, as it then stood.

The rapporteur for Section III of the draft general budget Pieter DANKERT was instructed to draw up a draft report and motion for a resolution for examination at the next meeting.

At its meeting of 5 December 1979, the Committee on Budgets examined the following draft report and the motion for a resolution, which was adopted by 28 votes to 2 with 4 abstentions.

Present: Mr Notenboom, acting Chairman; Mr Spinelli, second Vice-Chairman; Mr Dankert, rapporteur; Mr Adonnino, Mr Aigner, Mr Balfe, Mr Barbi, Mr Bonde, Mr Cohen (deputizing for Mr Arndt), Mr Colla, Mr D'Angelosante (deputizing for Mrs Boserup) Mr Delmotte (deputizing for Mrs Gredal), Mr Didò (deputizing for Mr Lange), Mr Enright (deputizing for Mrs Gaspard), Mr Flanagan, Mr Forth, Mr Gouthier, Mr Hord, Mr Robert Jackson, Mr Lega, Mr McCartin (deputizing for Mr Ryan), Mr Megahy (deputizing for Mr O'Leary), Mr Motchane, Mr Nord, Lord O'Hagan, Mr Orlandi, Mr Pfennig, Mrs Pruvot (deputizing for Mr Rossi), Mr Konrad Schön, Mr Scrivener, Mr Seal (deputizing for Mrs Hoff), Mr Simonnet, Mr J.M. Taylor and Mr Tuckman.

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The Committee on Budgets hereby submits to the European Parliament the following motion of censure resolution together with explanatory statement:

MOTION OF CENSURE RESOLUTION

on the draft general budget of the European Communities for 1988 (Section III F - Commission's amendments by Parliament and modified by Council) and on the total rejection of the 1988 draft budget

The European Parliament,

- having regard to the guidelines adopted by it at the beginning of the budgetary procedure
- having regard to the draft general budget as presented by Council on 11 September 1979 (Doc 1-378/79),
- having regard to its own modifications and amendments adopted at its meeting of 7 November 1979,
- having regard to its participation in the resolution of the same date¹,
- having regard to the deliberations of Council of 23 November 1979, (Doc 1-363/79),
- having regard to the report of the Committee on Budgets (Doc 1-581/79),
- in application of paragraph B of Article 180 of the Treaty (EEC)

¹ OJONOC C3020 of 8.12.1979 p.4040

1. Recalls that in its resolution of 7 November 1979 it stated the conditions under which it could agree to the adoption of the budget; namely, if the unjustified cuts carried out by Council for non-compulsory sectors were overturned and if the first moves to control agricultural expenditure had been achieved, and if the European Development Fund and all the Community's lending and borrowing activities had been included within the budget;
2. Points out that Council, in its examination of Parliament's amendments, has not agreed to overturn the unjustified cuts to non-compulsory sectors, which it had made when it drew up the draft budget;
3. Points out that Council has not agreed to those proposals of Parliament which constituted the first moves to control agricultural expenditure;
4. Points out that Council did not agree to the including within the budget of the European Development Fund and the Community's lending and borrowing activities;
5. Concludes that none of the conditions set out in its resolution of 7 November 1979 has been fulfilled;
6. Believes that Council has not permitted the European Parliament to act positively as a part of the Budgetary Authority, responsible for the budget as a whole;
7. Recognizes the political challenge to its future posed by Council's refusal to exercise its own political responsibilities, as a Council, within the Budgetary Authority;
8. Therefore rejects the 1980 draft budget as modified by Council;
9. Calls upon the Commission to present a new preliminary draft budget to take account of paragraph 38 of its resolution of 7 November 1979, on the basis of which, Council, pursuant to Article 203, paragraph 8, of the Treaty (EEC) should present a new draft budget.

EXPLANATORY STATEMENTThe decision of the European Parliament on 7 November 1979

1. The European Parliament, in adopting the budgetary package presented to it by its Committee on Budgets, during the special budgetary part session, on November 7 1979, accepted overwhelmingly the basic analysis of the Community's financial situation and the objectives for dealing with it, formulated by the competent Committee.
2. The point of departure for this analysis was that the Community budget should play some rôle in stimulating Community policies and in encouraging convergence. This rôle was not being fulfilled because of the unfair incidence of the budget on certain less prosperous Member States, resulting from a disproportionate amount of Community funds destined to cover agricultural market support for a limited number of products and because of the threat to the Community budget posed by the near exhaustion of the Community's own resources.
3. The Committee on Budgets substantiated its analysis with a wealth of information, demonstrating that a failure to curtail agricultural market support spending would inevitably lead to the exhaustion of the Community's own resources, and the curtailment of all Community financial support for other activities, and, in the not distant future, the **break-down** of the European Agricultural Guidance and Guarantee Fund itself.
4. Such a development would call into question not merely the Community's potential for financial solidarity between Member States and between regions, it would lead to the destruction of the only integrated Community policy, namely the common agricultural policy. The bringing down of the central pillars on which the Community had been constructed would ultimately bring the temple down with it.
5. Therefore, the Committee on Budgets put the greatest emphasis, during the 1980 budgetary procedure, on the charting of the first moves to bring common agricultural spending under control. The method chosen was found after much reflection and consultation and with very widespread support within the Parliament. It seemed to the Committee on Budgets that the priority would have to be the milk sector which accounted for more than 33% of all expenditure in the 1980 draft budget, drawn up by Council. The Committee recognised that whilst the straightforward transfer of funds from Chapter 62 "milk and milk products" would be within the possibilities given to Parliament under Article 203 of the Treaty, it was necessary for Parliament to explain and to demonstrate how such a saving could be achieved.

6. For this reason Parliament decided to create a budgetary context into which a revision of the policy, to be proposed by the Commission and approved by the Council of agricultural ministers, could be inserted. The major element of such a policy would be a strengthening of the co-responsibility policy in the milk sector, which would give rise to negative expenditure in the Community budget which could then be used to finance structural measures in the dairy sector to discourage production and to encourage consumption, thus leading to 'a considerable medium term reduction in expenditure. It should be recalled that Council itself, in its decisions of 18-22 June 1979 ⁽¹⁾ acknowledged that if the total quantity of milk delivered to dairies in 1979 were more than 2% above the quantities delivered in 1978, the normal rate of the co-responsibility levy would be raised by 1% of the direct price in 1980/1981. Already the total quantity of milk delivered is showing an increase of more than 2%.

7. Parliament therefore adopted two proposed modifications (301/rev., and 311). Proposed modification 301/rev., created negative expenditure in Chapter 100 (-280m EUA), resulting from a strengthened co-responsibility policy in the milk sector, which would be used to finance structural policy in the milk sector.

8. Proposed modification no. 311 sought to decrease expenditure in Chapter 62 (by 280m EUA) which would be transferred, for the most part, to Chapter 100, again to be allocated to support measures strengthening agricultural structural policy in the dairy sector.

9. Parliament also introduced a proposed modification (314) to reduce appropriations for item 6210 'skimmed milk powder for use as feed' by 100m EUA, again to be transferred to Chapter 100, again to be provisionally allocated for structural measures. This possible saving emerged from information made available to the Committee on Budgets and which had as its basis the short term decline in skimmed milk powder stocks.

10. This package of modifications did not in any way represent a constitutional innovation in the Community. Parliament used the provisions of Article 203. It did not seek to subvert the rights of the agricultural ministers to decide over essential points of the common agricultural policy. By placing the amounts in Chapter 100

(1) See press release PE 58.880

Parliament clearly indicated, that if no decision by Council was taken on co-responsibility, then the amounts placed in the reserve would not be allocated to the agricultural structural measures.

11. These modifications did not give rise to any increase in expenditure. The increase proposed for structural policy was entirely dependent on, and compensated by, the decrease arising from a possible decision on co-responsibility.

12. Because Parliament had set its first priorities as the bringing of agricultural expenditure under control, and because it recognised the financial difficulties encountered in all the Member States, it presented as regards non-compulsory expenditure, a very moderate package for increase in this sector, which was considerably less than many members of Parliament would have liked and was the historically smallest rise suggested in the reading for several years.

13. The total increase for non-compulsory appropriations, put forward by Parliament was 276m EUA and 913m EUA in commitments, i.e. less than 2% of the total budget in payment and not more than 5% in commitments.

14. This very moderate increase took account of the commitment and spending possibilities indicated by the Commission. By concentrating this increase on key sectors (the European Regional Fund, the European Social Fund, development aid policy and the coal sector and new energy sources) Parliament hoped to obtain the best value for money for its amendments and to avoid the difficulties in implementing the budget that had been encountered in previous years. Nonetheless this package, had it been approved, would have given to the Community budget a more politically significant role. It would have helped to correct the internal imbalance as between agricultural and non-agricultural spending. It would have marked the first step towards achieving a fair incidence of the Community budget as between Member States.

15. The motion for a resolution adopted by Parliament clearly indicated the strategy outlined above. In particular it drew attention to the indelible link between Parliament's proposals to curtail agricultural spending and the moderation and restraint it exercised as regards increases in non-compulsory spending.

Point 38 of the resolution reads as follows:

'Is acutely aware of the current economic and financial difficulties confronting all the Member States and for that reason has, as regards amendments tabled, exercised utmost restraint: in view of this, hopes to be able to conclude the budgetary procedure for 1980 by the adoption of the draft budget at its second reading: but insists that it could only agree to the

adoption of the budget if the unjustified cuts carried out by Council for non-compulsory sectors are over-turned and if the first moves to control agricultural expenditure have been achieved, and if the European Development Fund and all the Community's lending and borrowing activities are included within the budget.'

This was the clearest possible statement of Parliament's determination to use its budgetary powers to the full to reform the Community budget for 1980.

16. Its direct election by universal suffrage implies that Parliament exploits to the full the budgetary responsibilities assigned to it under the Treaties. It indicated its firm intention that it wished to play a full and responsible part within the Budgetary Authority.

17. Parliament therefore was prepared to assume co-responsibility for the development of the budget, not only in the non-compulsory sector but in the compulsory sector as well. Therefore, this responsibility for the whole of the budget was dependent on Council being prepared to accept a similar role.

However, as we shall see, Council refused to reply in kind.

The decisions of Council of 23 November 1979

18. Your rapporteur, along with the Members of the Committee on Budgets, particularly those who accompanied the President of Parliament at the delegation meeting with Council, prior to the latter's second reading of the budget on 23 November, made considerable efforts to explain the strategy of the Parliament to members of the Council. In particular, your rapporteur met with all the members of the Permanent Representation Committee on the eve of the Council meeting in order to answer questions relating to the agricultural modifications and to clear up certain misunderstandings which seemed to have arisen in the minds of representatives of certain Member States.

19. He demonstrated that the proposed modifications did not result in any autonomous increase in expenditure and did not threaten the institutional balance as between the Community institutions. In particular they did not in any way impinge on the legislative prerogatives of the agricultural Council of Ministers.

20. In particular, Parliament was merely following the customary practice of including, within the budget, expenditure and revenue which seemed likely to arise, and which should arise, in 1980. Parliament takes account of Commission proposals where they are likely to give rise to Council decisions, as well as its own resolution. In

this particular instance it took account of the decisions of the agricultural ministers of 22 June 1979, when Council had expressly indicated that it would increase co-responsibility after certain conditions, now fulfilled, arose. ⁽¹⁾ At no stage were counter-arguments supplied on these two key points by any member of the Council or representative of the Member States.

21. Council then proceeded to reject the three modifications by the qualified majority (the United Kingdom, the Federal Republic of Germany, France, Denmark, Ireland, Belgium and Luxembourg). The explanation, provided by Council, for this rejection, indicates that they had not taken into account the supplementary explanations provided by the delegation. It was not the intention of Parliament to modify the common agricultural policy through the budgetary procedure. On the contrary Parliament wishes to protect the common agricultural policy from the dangers in one sector which threaten the policy as a whole. Through the budget it intended to indicate this political choice and to create the budgetary context for the necessary legislative decisions.

22. Whilst your rapporteur can understand the attitude of certain delegations, with particular interest in the maintenance of very high levels of agricultural expenditure, he can find no rational justification for the attitude of certain Member States who scarcely cease to complain publicly and at great length about the growth in agricultural spending and who have failed to react when the opportunity was afforded them.

23. The only explanation that can be adduced is that these Member States, sympathise with the approach but cannot accept that the initiative should come from Parliament. In other words, their reluctance to allow Parliament to exercise its budgetary responsibilities exceeds their desire to reform the budget.

24. Council also rejected every single proposed modification to the compulsory expenditure in the budget.

As regards non-compulsory expenditure Council did not find the qualified majority to reject 26 amendments.

It rejected outright 92 amendments.

Of the 26 for which no qualified majority was found for rejection, however, only 9 were approved entirely.

Of the 9 approved, without modification, only 3 involve a net increase in expenditure. This net increase amounts to 2,217,600 in payments.

(1) See Council press release PE 58.880.

25. For the rest of the other amendments partially accepted, Council applied a maximum rate to commitments, after the decisions on individual amendments had been made, limiting all the increases to a ceiling of 255,240,820 EUA.

26. Subsequently, and after somewhat opaque procedures, corresponding cuts in payments were made, resulting in an overall increase of 86,990,820 EUA in payments.

27. These retroactive proportional cuts, following the decisions on individual amendments, represent a major innovation and result from the unacceptable interpretation of Article 203 of the Treaty voted for by 8 delegations, following the 1979 budget hiatus.

The full tables of the cuts, made by Council, are contained in the accompanying annex.

Analysis of Council's decisions

28. As regards staff, none of the increases in staff, of any significance, sought by Parliament, following a most thorough examination of the Commission's staff needs, have been agreed to. Council, in the end, was not even able to accept the reductions in appropriations for administrative expenditure, proposed by the rapporteur, following an examination of the rate of expenditure in previous financial years, for the simple reason that the reductions were proposed by Parliament and not by Council.

29. For most of the miscellaneous expenditure under Title 3, Council approved minute increases (approximately 10% of those sought by Parliament) for such items as education and youth expenditure, better housing for handicapped workers, better housing for migrant workers, etc. For energy, Council refused to support key amendments for the coal sector where various urgent decisions are awaited. It rejected the amendment to provide funds for the development of new energy resources. On the other hand it partially accepted amendments for increasing appropriations for hydrocarbon prospecting and uranium prospecting.

For research only minute increases were approved.

For consumer and environmental protection, all of Parliament's amendments were either rejected or severely cut back.

For industrial policy only token entries were approved, except as regards information concerning the textile industry (Item 3723).

For transport, Council approved a small increase for studies but rejected a proposal to give financial support for transport infrastructure projects.

30. For the Social Fund, where Parliament had increased commitment appropriations by 186m EUA and payment appropriations by 26m EUA Council approved increases of only 50m EUA and 15m EUA in payments. It deleted appropriations for employment measures for women.

31. For the European Regional Fund where Parliament had proposed increasing commitments by 332.5m EUA in commitments and 83.125m EUA in payments, Council agreed to half the increase in commitments (156,750,000 EUA in commitments and 55m EUA in payments): for the non-quota sector of the Fund, half the increase (8.25m EUA instead of 17.5m EUA in commitments) was agreed to.

All the amendments concerning sea policy were rejected.

Council also rejected the proposal to budgetise the European Development Fund and all Community borrowing and lending activities.

All Parliament's proposals to increase food aid were rejected.

32. As regards aid to non-associated developing countries, the 30m EUA in commitments proposed by Parliament was reduced to 20m EUA and all the increases sought for commitments in the context of the financial cooperation with third countries were rejected, as was the proposed enlargement reserve.

33. In general, it emerges from the above the Council's attitude towards Parliament's very moderate package, the most restrained for many years, was one of hostility and ill will. Its provocative attitude will not encourage those who believe that Parliament was right to take the restrained attitude demonstrated during the first reading of the budget.

34. It has accepted both in terms of the numbers of amendments accepted and in terms of the amounts voted, less than in previous years, when Parliament could have been criticised for a too maximalist approach to non-compulsory Community spending.

35. More serious than even its failure to come to terms with the budgetary strategy capable of reforming the budget, is the Council's systematic attempt to undermine and subvert the budgetary procedure through illegal means.

Procedures adopted by Council

36. Council does not have the right to proceed to a retrospective cut back in appropriations, once it has examined the amendments. The Treaty and the financial regulation oblige Council examination amendment by amendment. Once that examination is completed, its reading of the budget is at an end. It cannot then impose an overall ceiling, into which it fits revised figures for each line. Council had already indicated this ceiling from the outset of the budgetary procedure on September 11 1979. At the time of the drawing up of the draft budget, certain delegations indicated that they would not be prepared to go beyond the existing maximum rate which therefore imposed this ceiling and thus prevented an examination of individual amendments on their merits.

37. Council does not have the right to pre-empt Parliament's exercise of its own margin for increasing appropriations by selecting among Parliament's amendments up to the limit of that margin. This would be to render the second reading of the budget by Parliament, without object and would destroy the institutional balance, which indicates the respective prerogatives within the Budgetary Authority.

38. Council does not have the right to apply unilaterally the maximum rate for payments to commitments. In trying so to do it violates the terms of the agreement between the institutions in the context of the agreement of the financial regulation of 21 December 1977. In particular, this agreement recognised, that the provisions of Article 203 of the EEC Treaty would apply separately to appropriations for commitment and appropriations for payment. (1)

39. Parliament is always willing to examine the most appropriate means of determining the level of commitments with Council. However, if a dispute arises between the two, as to the interpretation of the 1977 agreement, then the Treaty applies the maximum rate only to payments.

40. It should be pointed out that the Budgetary Authority 'also agreed that commitment appropriations could be subject to a maximum rate separate from and parallel to that which applies to non-compulsory expenditure under Article 203'. (2)

(1) Doc. 434/77, paragraph 12 of the motion for a resolution.

(2) Doc. 434/77, paragraph 26 of the explanatory statement.

41. This, of course, corresponds to the logic of Article 203 which makes no reference whatsoever to commitment.

42. Parliament at that time, given the prevailing spirit of cooperation between two institutions, was prepared to accede to an ad hoc agreement on some limitation of its right to increase its commitments, always subject to review, particularly in the light of developments as to Council's general attitude.

43. But, it would be utterly absurd to apply the same rate of increase to annual payments as to multi-annual commitments. It is clear that the statistical factors which give rise to the maximum rate, referred to purely annual phenomena (e.g. public expenditure in the Member States etc.). Therefore, it would be wrong to apply that figure to both commitments and to payments. Furthermore, there is a certain relationship between payments and commitments, varying from policy to policy, but which implies for the most part a much higher level of commitments than payments, because commitments give rise to payments over a number of years. Indeed various regulations set a specific ratio of commitments to payments.

44. As regards this budgetary procedure, the result of the application of this procedure is that the budget emerges, in its penultimate stage, as a much weaker instrument than that as moved by Parliament on November 7 1979. Furthermore the effect of Council's approach has been to threaten to undermine the rights of Parliament. This threat cannot go unanswered.

The approach of the Committee on Budgets

45. The Committee on Budgets is the servant of the institution and is bound by the resolutions adopted by Parliament. It should be recalled in this context that Parliament, in order to take account of the impending exhaustion of own resources, exercised utmost restraint at the first reading of the budget, at which it added, to the non-compulsory sectors of the budget, the minimum necessary to provide some effective response to the regional, social and energy supply difficulties confronting the Community.

46. The indispensable accompaniment of this restraint was the taking of the first measures to bring compulsory expenditure under control, notably where waste arises from surpluses, which result from a defective application of the principles of the Common Agricultural Policy. These measures were not intended in any way to reduce incomes of small farmers but rather to modify market structures by encouraging consumption and by discouraging excess production by 'industrialized' agricultural holdings. The Committee on Budgets was very much aware of the need to create a better balance within the budget, - this concern is shared openly and publicly by members of the Council and by the Commission.

47. Parliament has already stated, in its resolution of 7 November 1979 that it could not accept a budget in which there was no attempt to control agricultural expenditure and in which Parliament's amendments to strengthen structural policies were not incorporated. Therefore, the Committee on Budgets cannot recommend to the Parliament that the 1980 draft budget, as amended by Council, be accepted.

48. Council, at its meeting of 23 November 1979, rejected all the modifications proposed by Parliament to limit the growth in agricultural expenditure, which contradicted Council's own clear decision of 22 June 1979, which envisaged similar measures for the dairy sector if production continued to increase.

49. Council rejected outright two-thirds of Parliament's amendments to the other sectors of the budget and accepted, in their totality, less than one-tenth of all the amendments tabled.

50. Council refused to accept, despite previous commitments, and despite the terms of Article 199 of the Treaty, the including within the budget of the European Development Fund and the Community's lending and borrowing operations.

51. Furthermore, the procedure adopted by Council for examining the amendments and modifications of Parliament was not, in the view of the Committee on Budgets, in conformity with Article 203 of the Treaty which envisages examination of each amendment of the European Parliament separately on its merits. Council sought to apply unilaterally the same maximum rate intended for payments, under Article 203, to commitments, whilst it would, in current circumstances, be more appropriate to envisage a separate application of the rate, given the very different nature of payments and commitments. Council's procedure partially distorted the relationship between payments and commitments.

52. It should be pointed out that when a dispute arises over the meaning of the agreement between Council and Parliament, as regards the growth of commitment appropriations, the basis for budgetary deliberations is the Treaty itself, which applies the maximum rate only to payments.

53. As an indication of Council's reluctance to participate constructively in the budgetary procedure, with Parliament, it even rejected those amendments which achieved small savings of taxpayers' money on the administrative expenditure of the Commission.

54. For the rest it provided no justification of substance for its decisions on the overwhelming majority of amendments.

55. Throughout the budgetary procedure for 1980 Council demonstrated its inability to operate as a joint Budgetary Authority with Parliament. By its decisions it sought to undermine the established budgetary rights of the European Parliament whose direct election by universal suffrage has placed it even more under the obligation to exploit to the full its budgetary responsibilities. The key reason for the failure to reach agreement is that the Budget Council itself does not take sufficient responsibility, as a Council, to act as a full partner in the Budgetary Authority, therefore undermining the significance of this concept.

56. As things stand now, with the budget as modified by Council, the prospects for agreement with Council are not good.

As stated above Parliament clearly linked its very moderate attitude on non-compulsory expenditure to its proposals for the compulsory sector. The problem with this approach is that, according to the Treaty, which gives Council the last word on compulsory expenditure, it is not now possible for Parliament to retable its modifications to that sector. Parliament is bound to accept this provision of the Treaty which effectively precludes the possibility of an indispensable part of Parliament's wishes being put into effect.

Therefore, and in view of the fact that the draft budget for 1980 is now totally inadequate as an instrument of Community policy, your rapporteur has no alternative but to advise the rejection of the 1980 draft budget, as modified by Council, as it now stands.

57. This rejection is based upon the following considerations:

- i) The growing imbalance of the budget, as between compulsory and non-compulsory expenditure, and as regards its effect on convergence, and in the context of the rapid exhaustion of own resources ;
- ii) the lack of will on Council's part to harmonize its responsibility for the budget with its responsibility for agricultural policy ;
- iii) the lack of willingness of the budgets Council to share its budgetary responsibilities with Parliament ;
- iv) the absence of justification for Council's negative attitude on the overwhelming majority of Parliament's amendments.

58. It emerges from the 1980 budgetary procedure, so far, that the budgets Council is not willing to cooperate with Parliament on any important aspect of the shaping of the 1980 budget. This results from a fear in certain Member States about the institutional balance between Parliament and Council.

59. These Member States have not come to terms with the fact that the Treaty provides for a particular share of responsibilities as regards the budget. The whole concept of the Budgetary Authority requires constructive cooperation, between two separate independent institutions, respecting each other's prerogatives, prepared to accept jointly full responsibility for the budget as a whole. This condition for the functioning of the Budgetary Authority is not now met because of Council's attitude.

60. In these circumstances - in the view of the overwhelming majority of the Committee on Budgets - rejection of the 1980 draft budget is the only course available.

ANNEX I

Table showing those amendments and proposed modifications adopted by the European Parliament on 7 November 1979 on the occasion of the first reading of the 1980 general budget, and forwarded to Council; and the deliberations of Council on each of them on 23 November 1979.