

COMMISSION OF THE EUROPEAN COMMUNITIES

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CONVERGENCE AND BUDGETARY QUESTIONS

(Communication to the European Council - Dublin,
29 and 30 November 1979)

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COMMUNICATION TO THE COUNCIL
CONVERGENCE AND BUDGETARY QUESTIONS

I. INTRODUCTION

The Commission has made two communications to the Council of Ministers (COM(79) 462 of 12 September and COM(79)620 of 31 October) analysing certain problems connected with economic convergence and budgetary matters within the Community. On the basis of these communications there has been extensive discussion within the institutions of the Community, including the European Parliament, in Member States and by public opinion generally. The Commission believes that the moment is now right to propose to the Council the approach and decisions which will be necessary if present difficulties are to be resolved.

2. These difficulties cover a number of inter-related questions, including some concerned with the Common Agricultural Policy. These need to be dealt with on their merits, and are the subject of a separate paper by the Commission for the European Council. The present communication deals with the Community budget, both as concerns convergence and the particular problems which have arisen for the United Kingdom.

II. THE STRUCTURE OF THE COMMUNITY BUDGET

3. The Commission believes that a larger proportion of budgetary spending should be devoted to the improvement

of structures and to general investment purposes within the Community. Such expenditure was envisaged in the Commission's latest three-year forecast to rise from 14% in 1980 to 22% in 1982 on the assumption that market support expenditure for agriculture would rise over the period at around 6% a year.

4. On expenditure within the agricultural sector, the Commission pointed out in its communication of 31 October that an increasing number of measures had been adopted in recent years to strengthen market support arrangements for Mediterranean products and to improve the incomes of the producers concerned. The Commission will do all it can to secure the rapid execution of these and other measures and the rapid adoption by the Council of further measures in other agricultural sectors of particular interest to Italy and Ireland. This should lead to a better balance in the pattern of agricultural production as a whole.

5. In the view of the Commission the approach suggested by the Italian Government of fixing objectives for a rising proportion of Community expenditure devoted to structures and general investment purposes over a period is useful. The achievement of such objectives will depend on the ability of the Community to bring agricultural expenditure under control. Moreover the significance of the effects will be relatively small so long as present limitations on the size of the budget remain.

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6. In the light of these considerations the Commission invites the European Council to endorse the principle that to achieve a better balance between Community policies, the rate of increase in expenditure on structural and general investment policies should from 1980 onwards be significantly greater than the rate of increase in the size of the Community budget. If during the budgetary process this principle is not respected, the Commission undertakes to draw the attention of the Institutions to the situation without delay.

III. BUDGETARY DIFFICULTIES

7. The Commission believes that the achievement of a better balance within the budget will, together with other factors mentioned in its communication of 31 October, eventually solve most of the present difficulties of the United Kingdom in respect of the Community budget. But it recognises that for the immediate future there is a serious problem.

8. The transitional period for the United Kingdom, Ireland and Denmark was designed to permit the gradual integration of these Member States into the system of Community financing. The Commission believes that this approach was and remains right. In consequence such further measures as may be agreed should be temporary in nature. The necessary resources should be found from within the budget.

9. The Commission believes that any solutions adopted should not only be Community solutions but designed to

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strengthen the cohesion and solidarity of the Community. They should conform to two basic principles. First they should respect the integrity of the own resources system. Second they should not have as their objective to put a Member State in a position of "juste retour" in respect of the Community budget.

10. In its reference document of 12 September the Commission forecast that the United Kingdom's financing share would rise sharply over her forecast share of Community GNP between 1979 and 1980. The main reason is that payments under the transitional arrangements set out in Article 131 of the Accession Treaty will come to an end.

11. One simple way of approaching the problem thus created would be to create a new ad hoc mechanism to compensate for any British contribution of full own resources going beyond a predetermined percentage increase in a given year. In its communication to the Council of 31 October, the Commission indicated that if no percentage increase over 1979 were allowed, the forecast share of the United Kingdom in financing the 1980 budget would be reduced by some 500 MEUA gross (390 MEUA net). But unless the British contribution were to be frozen at a given level, the arrangement would have diminishing impact.

12. A more promising approach would be to adapt the existing Financial Mechanism. The Commission recalls that when the Heads of State and Government agreed in principle to create the Mechanism in 1974, they had expressly in mind

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the Community declaration during the accession negotiations that "if unacceptable situations were to arise the very life of the Community would make it imperative for the Institutions to find equitable solutions". At its meeting in Strasbourg of June 1979, the European Council requested the Commission to examine the extent to which the Mechanism could play its part in 1980 and fulfil the objectives assigned to it.

13. For the reasons set out in the Commission's reference document of 12 September, payments made under the Mechanism as at present constituted could scarcely solve the problem. The Commission believes that the qualifying criteria for the operation of the Mechanism remain a valid measure of the relative prosperity of Member States within the Community and should remain unchanged. But to enable the Mechanism to fulfil more closely the role assigned to it, the Commission recommends removal of the limitation that if there were a balance of payments surplus the calculation of the excess contribution must be related solely to VAT. This would produce a payment of 300 MEUA gross (250 MEUA net) in respect of 1980 whether or not there was a balance of payments surplus. But as the United Kingdom will anyway find itself in payments deficit in 1979 and almost certainly in 1980, the Commission further recommends that the European Council in Dublin should define the conditions under which the two further restrictions on the operation of the Mechanism could be lifted. These are the tranche system which provides that only a part of the excess

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contribution is reimbursed; and the ceiling of 3% of the budget. If these restrictions were also removed, payments under the Mechanism in respect of 1980 would rise from 300 MEUA gross to some 630 MEUA gross (520 MEUA (net)).*

14. There would be difficulty in any approach designed to combine a system of limiting increases in the British share of financing the budget with improvements in the operation of the Financial Mechanism. This is because the reduced share of financing which would result from any such limitation would logically have to be used in applying the Financial Mechanism. Payment under the Financial Mechanism would therefore be reduced by the amount resulting from the limitation.

15. This difficulty would not exist for arrangements affecting the expenditure side of the budget. Such arrangements would have to flow from the strengthening of Community policies which are necessary to improve the cohesion of the Community and are therefore central to the interest of the Community as a whole. It would be possible to envisage special, temporary and ad hoc measures which would ensure a greater participation by the United Kingdom in a number of Community policies and which would increase the present low level of Community expenditure in the United Kingdom. Such arrangements which would need

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* These figures, which were contained in COM(79)620 were based on exchange rates of mid-August 1979.

need to be in full conformity with the principles set out in paragraphs 8 and 9, could, for example, take the form of immediate assistance for exploitation of coal resources, measures to promote transport infrastructure, and some agricultural improvement schemes. If the United Kingdom were to join the European Monetary System an interest rebate system in respect of Community loans could comprise one vehicle for such payments.

16. If this approach were to be pursued, the Commission would stress that any contribution should be made on the basis of the Community budget and should be limited in time (perhaps three or four years). The volume of resources to be found must necessarily be settled by discussion within the Council.

17. So far only short and medium term solutions to the problems of convergence and the budget have been discussed. But as the European Parliament has pointed out, the existing policies of the Community are insufficient to bring about the degree of convergence between the economies of the Member States which is necessary for the progress and cohesion of the Community. The Commission believes that the European Council should bear this longer term consideration in mind when examining the proposals in this paper.