

COMMISSION OF THE EUROPEAN COMMUNITIES

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95/0009 (CNS)

Proposal for a
COUNCIL REGULATION (EC)
concerning Harmonised Consumer Price Indices

(presented by the Commission)

Explanatory Memorandum

1. The aim of the draft Regulation is to provide a framework within which to develop and compile comparable consumer price indices (CPIs) for Member States.
2. Under the Treaty establishing the European Community (Article 109j) the Commission and the EMI are required to report to the Council on the progress made in fulfilment by the Member States of their obligations regarding the achievement of economic and monetary union. One criterion of such progress is a high degree of sustainable convergence in price stability as apparent in the rate of inflation in comparison with the three best performing Member States. Inflation has to be measured by means of the consumer price indices on a comparable basis.
3. The CPIs of Member States presently differ in concepts, methods and practices and a programme of harmonisation is therefore necessary to produce comparable indices. CPIs are politically, socially and economically sensitive statistics and cannot be readily changed. It will therefore be necessary to construct distinct CPIs which are comparable. The indices will be referred to as Harmonised Consumer Price Indices (HCPIs).
4. Within the framework of the Regulation guidelines will be drawn up with Member States for the construction of harmonised national consumer price indices and proposals made for the construction of a Community wide index based on the HCPIs. In doing so due regard will be paid to the primary purpose of the HCPIs which is to provide comparisons of inflation in the macro-economic and international context. As required under the Treaty on European Union the aim will be to provide comparable measures of inflation taking into account differences in national definitions. The recommendations will be based on the best of current practices allowing for precedent and legal and institutional circumstances existing in Member States and according with the principle of subsidiarity. Proposals should be practicable for all Member States and should involve minimum cost consistent with the required degree of comparability of the indices.

Proposal for a
COUNCIL REGULATION (EC)

The Council of the European Union

Having regard to the Treaty establishing the European Community, and in particular Article 213 thereof ;

Having regard to the proposal from the Commission ;

Having regard to the opinion of the European Parliament ;

Having regard to the opinion of the European Monetary Institute;

Having regard to the opinion of the Economic and Social Committee ;

Whereas Article 109j of the Treaty establishing the European Community requires the Commission and the EMI to report to the Council on the progress by Member States in the fulfilment of their obligations regarding the achievement of economic and monetary union in respect of a high degree of price stability ;

Whereas Article 1 of the Protocol on convergence criteria referred to in the said Article 109j states that the required sustainable price performance for Member States should be in terms of inflation measured by means of the consumer price indices on a comparable basis ; and whereas existing consumer price indices are not compiled on a directly comparable basis ;

Whereas there is a need for the European Community and particularly its fiscal and monetary authorities to have regular and timely consumer price indices for the purpose of providing comparisons of inflation in the macro-economic and international context as distinct from national and micro-economic purposes ;

Whereas it is recognised that inflation is a phenomenon manifesting itself in all forms of market transactions including capital purchases, government purchases, payments to labour as well as purchases by consumers, and whereas it is recognised that a range of statistics, of which consumer price indices form an essential part, is relevant for a full understanding of the inflationary process within and between countries of the European Community;

Whereas comparable indices of consumer prices may be produced instead of or in addition to similar indices of consumer prices already produced or to be produced in future by Member States ;

Whereas the production of comparable indices will involve costs to be met partly by the Commission and partly by Member States ;

Whereas, according to the principle of subsidiarity, the creation of common statistical standards for consumer price indices is a task that can only be dealt with effectively at Community level and whereas the collection of data and compilation of comparable consumer price indices will be implemented in each Member State under the aegis of the organisations and institutions responsible for compiling official statistics at a national level ;

Whereas there will, in prospect of the achievement of economic and monetary union, be a need for a consumer price index for the European Community as a whole;

Whereas the Statistical Programme Committee (SPC), established by Council Decision 89/382/EEC¹, has reached a favourable conclusion on the draft Regulation,

HAS ADOPTED THIS REGULATION :

Article 1 - Aim

The aim of this Regulation is to establish Community statistics on consumer prices as follows:

- (1) Each Member State shall produce a comparable consumer price index hereinafter referred to as the Harmonised Consumer Price Index of the Member State (HCPI).*
- (2) The Commission (Statistical Office of the European Communities - Eurostat hereinafter) shall produce a Consumer Price Index for the European Community based on the HCPIs of the Member States and hereinafter referred to as the European Consumer Price Index (ECPI).*
- (3) The Commission (Eurostat) shall produce a Consumer Price Index for the European Monetary Union based on the HCPIs of Member States without a derogation under Article 109k of the Treaty, hereinafter referred to as the*

¹ O.J. No. L 181 of 28.06.1989

Monetary Union Consumer Price Index (MUCPI), as long as there are any such derogations.

Article 2 - Scope

The scope of this Regulation shall be the actual prices of goods and services available for purchase in the economic territory of the Member State for the purposes of the direct satisfaction of individual consumer needs or wants and the associated quantities actually purchased for such purposes.

Article 3 - Comparability Requirement

HCPIs shall be considered to be comparable if they reflect only differences in price changes or consumption patterns between countries. HCPIs which differ on account of differences in the concepts, methods or practices used in their definition and compilation shall not be considered comparable. The Commission (Eurostat), following the procedure described in Article 14, shall set down rules to be followed to ensure the comparability of HCPIs and notably where the difference between the effect on the annual change in the all-items HCPI of a particular concept, method or practice and the effect of its alternatives is more than one tenth of one percentage point.

Article 4 - Timetable and Derogations therefrom

(1) The measures necessary to achieve comparable consumer price indices shall be implemented in a staged process, as follows :

(a) Stage I :

By March 1996 at the latest, the Commission (Eurostat) shall, in collaboration with Member States, produce for the purposes of the report referred to in Article 109j of the Treaty ("convergence criteria") an interim set of consumer price indices for each Member State. These indices shall be based wholly on data underlying existing national consumer price indices, but adjusted as follows :

- i) to exclude owner-occupied housing**
- ii) to exclude health and educational services**

iii) to exclude certain other items not covered or treated differently by a number of Member States.

(b) Stage II :

The HCPI shall start with the index for January 1997 and shall provide estimates of price changes relative to a common index reference period. Estimates of price changes for the twelve months to January 1997 and subsequent months shall also be provided.

(c) Stage III :

By January 1998 Member States shall implement the full range of measures referred to in Article 13.

(2) Where necessary the Commission (Eurostat) may, on request from a Member State and after consulting the European Monetary Institute, grant derogations from the provisions of paragraph (1) not exceeding a period of one year insofar as the Member State's statistical system on consumer prices in the scope of this legal act requires significant adaptation.

Article 5 - Information required

The information required in practice shall be those prices and values of goods and services within scope, which it is necessary to take into account in order to achieve comparable HCPIs as defined in Article 3.

Article 6 - Observation

The price and weighting data used to compile the HCPI shall be collected directly by surveys of statistical units (Council Regulation No. 696/93 of 15 March 1993)² or indirectly from other sources subject to the condition that the resulting HCPIs meet the comparability requirement of Article 3.

² O.J. No. L 76/1 30.03.1993

Article 7 - Sources

The statistical units called upon by Member States to co-operate in the collection or provision of price data shall be obliged to allow observation of the prices actually charged and to give honest and complete information at the time it is requested.

Article 8 - Frequency

- (1) The HCPI shall be compiled each month.*
- (2) The required frequency of price collection is once each month. Where less frequent collection does not result in the failure to produce an HCPI meeting the comparability requirement the Commission (Eurostat) may allow exceptions to monthly collection.*
- (3) The weights of the HCPI shall be updated at a frequency sufficient to meet the comparability requirement.*

Article 9 - Production of Results

Member States shall process the data collected in order to produce the HCPI in the detailed categories listed in Annex I (adapted as necessary to meet the purposes of constructing comparable HCPIs) according to methods, procedures and formulae, which, following the procedure laid down in Article 14, are designed to meet the comparability requirement.

Article 10 - Transmission of Results

Member States shall transmit to the Commission (Eurostat) the results (Article 9) within a period which shall not exceed 30 days of the end of the calendar month to which the indices relate.

Article 11 - Publication

The HCPI, the ECPI, the MUCPI and corresponding sub-indices for a set of categories within those laid down under Article 9 shall be disseminated in mutual co-operation between national authorities and the Commission

(Eurostat) and shall be published within a period which shall not exceed 5 working days from the end of the period referred to in Article 10.

Article 12 - Quality Control

Member States shall provide the Commission (Eurostat) at its request with information, including such data collected pursuant to Article 5 as may be confidential, to evaluate compliance with the comparability requirement and the quality of the HCPIs.

Article 13 - Consultation

(1) The measures for implementing the present Regulation, including measures for adaptation to economic and technical developments, shall be laid down by the Commission (Eurostat) following consultation with the Statistical Programme Committee (hereinafter referred to as the Committee) set up by Council Decision 89/382/EEC, Euratom, and the European Monetary Institute in accordance with the procedure specified in Article 14.

(2) The measures in paragraph (1) shall be limited to those which do not involve significant additional resources in any Member State unless agreed by the Member States concerned or unless the Commission (Eurostat) undertakes to meet two thirds of the additional costs up to the end of the first two years after implementation.

Article 14 - Procedure

(1) The representative of the Commission shall submit to the Committee a draft of the measures to be taken. The Committee shall deliver its opinion on this draft within a time limit which the Chairman may set in the light of the urgency of the matter in hand. The opinion shall be delivered by the majority laid down in Article 148 (2) of the Treaty establishing the European Community for Decisions which the Council of the European Union is required to adopt on a proposal from the Commission. When the Committee votes, the weightings laid down in the above-mentioned Article shall be applied to the votes of the representatives of the Member States. The Chairman shall not take part in the vote.

(2) The Commission shall adopt measures that are immediately applicable. However, if they do not accord with the opinion delivered by the Committee, these measures shall be immediately communicated by the Commission to the Council, in which case the Commission shall postpone the application of the measures it has adopted by three months from the date of such communication.

(3) The Council, acting by a qualified majority, may adopt a different Decision within the time limit laid down in paragraph 2.

Article 15 - Review

The Commission (Eurostat) shall, after consulting the Committee, and within two years of the date of entry into force and again within two years thereafter, submit a report to the Council on the HCPIs constructed pursuant to this Regulation, and in particular in respect of their reliability and the application of the comparability requirement.

Article 16 - Entry into force

This regulation shall enter into force on the 20th day following its publication in the Official Journal of the European Communities.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

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**Classifications of individual consumption by purpose
from which component indices of the HCPI to be compiled
will be determined**

1. FOOD, BEVERAGES AND TOBACCO

- 1.1. **Food**
- 1.1.1. Bread and cereals
- 1.1.2. Meat
- 1.1.3. Fish
- 1.1.4. Milk, cheese and eggs
- 1.1.5. Oils and fats
- 1.1.6. Fruit
- 1.1.7. Vegetables other than potatoes and other tubers
- 1.1.8. Potatoes, manioc and other tubers
- 1.1.9. Sugar
- 1.1.10. Jam, honey, chocolate and confectionery
- 1.1.11. Salt, spices, sauces and food products n.e.c.

- 1.2. **Beverages¹**
- 1.2.1. Coffee, tea, cocoa
- 1.2.2. Other non-alcoholic beverages
- 1.2.3. Alcoholic beverages

- 1.3. **Tobacco**

2. CLOTHING AND FOOTWEAR

- 2.1. **Clothing**
- 2.1.1. Clothing materials
- 2.1.2. Garments
- 2.1.3. Other articles of clothing and clothing accessories
- 2.1.4. Repair and hire of clothing

- 2.2. **Footwear**
- 2.2.1. Shoes and other footwear
- 2.2.2. Repairs to footwear

3. HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS

- 3.1. **Gross rents²**
- 3.1.1. Rents actually paid by tenants³
- 3.1.2. Imputed rents of owner occupiers
- 3.1.3. Other actual or book rents

- 3.2. **Regular maintenance and repair of the dwelling**
- 3.2.1. Products for the regular maintenance and repair of the dwelling
- 3.2.2. Services for the routine maintenance and repair of the dwelling

- 3.3. **Other services relating to the dwelling**

- 3.3.1. Refuse disposal and sanitary services
- 3.3.2. Insurance in respect of the dwelling
- 3.3.3. Water supply

- 3.4. **Electricity, gas and other fuels**

- 3.4.1. Electricity
- 3.4.2. Gas
- 3.4.3. Liquid fuels
- 3.4.4. Other fuels

4. FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE MAINTENANCE OF THE HOUSE

- 4.1. **Furniture, furnishings and decorations, carpets and other floor coverings and repairs**

- 4.1.1. Furniture, furnishings and decoration
- 4.1.2. Carpets and other floor coverings
- 4.1.3. Repair of furniture, furnishings, decorations, carpets and other floor coverings

- 4.2. **Household textiles**

- 4.3. **Heating and cooking appliances, refrigerators, washing machines and similar major household appliances, including fittings and repairs**

- 4.3.1. Electric household appliances
- 4.3.2. Non-electric household appliances
- 4.3.3. Repair of household appliances

- 4.4. **Glassware, tableware and household utensils**

- 4.5. **Tools and equipment for the house and garden**

- 4.5.1. Major tools and equipment
- 4.5.2. Small tools and miscellaneous accessories

- 4.6. **Goods and services for routine household maintenance**

- 4.6.1. Non-durable household goods
- 4.6.2. Domestic services
- 4.6.3. Home care services excluding domestic service

¹ For home consumption.

² Imputed rents of owner occupiers : excluded.

³ Distinguishing private from local authority rents.

- 5. HEALTH**
- 5.1. Medical and pharmaceutical products and therapeutic appliances and equipment**
- 5.1.1. Medicines
- 5.1.2. Other pharmaceutical products
- 5.1.3. Therapeutic appliances and equipment
- 5.2. Non-hospital medical and paramedical services**
- 5.2.1. Services of physicians
- 5.2.2. Dentistry
- 5.2.3. Medical analyses
- 5.2.4. Services of medical auxiliaries
- 5.2.5. Other non-hospital services
- 5.3. Hospital services**
- 5.3.1. Basic hospital services
- 5.3.2. Medical services for hospitalised persons
- 5.3.3. Medical analyses for hospitalised persons
- 5.3.4. Services of medical auxiliaries to hospitalised persons
- 5.3.5. Food and drink for hospitalised persons
- 5.4. Sickness and accident insurance services**
- 5.4.1. Private sickness and accident insurance services
- 5.4.2. Public sickness and accident insurance services
- 6. TRANSPORT**
- 6.1. Purchase of vehicles**
- 6.1.1. Motor cars
- 6.1.2. Cycles and motor cycles
- 6.2. Operation of personal transport equipment**
- 6.2.1. Spare parts and accessories
- 6.2.2. Fuels and lubricants
- 6.2.3. Maintenance and repairs
- 6.2.4. Other services in respect of personal transport equipment
- 6.3. Transport services**
- 6.3.1. Local transport
- 6.3.2. Long-distance transport
- 6.3.3. Removals and furniture storage
- 7. LEISURE, ENTERTAINMENT AND CULTURE⁴**

- 7.1. Equipment and accessories, including repairs**
- 7.1.1. Equipment for the reception, recording and reproduction of sound and pictures
- 7.1.2. Photographic and cinematographic equipment, optical instruments
- 7.1.3. Data processing equipment
- 7.1.4. Other major durables for leisure and culture
- 7.1.5. Games and toys ; equipment for camping and open-air recreation
- 7.1.6. Recording media for pictures and sound
- 7.1.7. Gardening and pets
- 7.1.8. Repair of equipment and accessories for leisure and culture
- 7.2. Recreational and cultural services**
- 7.2.1. Group recreational and cultural services
- 7.2.2. Other recreational and cultural services
- 7.3. Newspapers, books and stationery**
- 7.3.1. Books
- 7.3.2. Newspapers and miscellaneous printed matter
- 7.3.3. Stationery and drawing materials
- 8. EDUCATION**
- 8.1. Educational services**
- 8.1.1. Pre-primary and primary education
- 8.1.2. Secondary education
- 8.1.3. Education at the third level
- 8.1.4. Education not defined by level
- 8.2. Educational materials**
- 8.3. Ancillary educational services**
- 8.3.1. School canteens and university refectories
- 8.3.2. Accommodation services
- 8.3.3. Health care services
- 8.3.4. Other ancillary educational services
- 9. HOTELS, CAFES AND RESTAURANTS**
- 9.1. Catering**
- 9.1.1. Restaurants and cafés⁵

⁴ The classification of package holiday expenditure to be decided.

⁵ Distinguishing meals out from drinks out.

- 9.1.2. Canteens
- 9.2. Accommodation services
- 10. **MISCELLANEOUS GOODS AND SERVICES**
- 10.1. Personal care
- 10.1.1. Hairdressing salons and personal grooming establishments
- 10.1.2. Electrical appliances for personal care
- 10.1.3. Other articles for personal care ; toiletries
- 10.2. Personal effects n.e.c.
- 10.2.1. Jewellery, clocks and watches
- 10.2.2. Other personal effects
- 10.3. Communications
- 10.3.1. Postal services
- 10.3.2. Telephone and telegraph
- 10.4. Social services
- 10.4.1. Social welfare with accommodation
- 10.4.2. Social welfare without accommodation
- 10.5. Financial services n.e.c.
- 10.6. Other services n.e.c.

FINANCIAL STATEMENT

1. TITLE OF OPERATION

Council Regulation concerning the Harmonisation of Consumer Price Indices.

2. BUDGET HEADING INVOLVED

Sub-section B-3 - Price comparisons. B5-600.

Chapter B5-60.

Article B5-600.

3. LEGAL BASIS

- Article 213 of the Treaty

- Treaty on European Union

[- Council Decision 89/382/EEC]

4. DESCRIPTION OF OPERATION

4.1 *Specific objectives of operation*

The aim of the Regulation is to expedite the programme of work leading to comparable indices of consumer prices. It will provide a framework for subsequent detailed Commission regulations requiring Member States to produce a Harmonised Consumer Price Index (HCPI) following concepts methods and practices which have been proposed by the Working Party on CPI Harmonisation and approved by the Statistical Programme Committee following the Regulatory Committee procedure.

4.2 *Duration*

The draft Regulation requires a three stage implementation of progressive harmonisation. The first in March 1996 involving minimal resources will be based almost entirely on existing CPIs. The second by January 1997 will also involve only limited computational changes. The third, by January 1998 is likely to require considerable resources.

5. CLASSIFICATION OF EXPENDITURE OR REVENUE

DNO ; CD.

6. TYPE OF EXPENDITURE OR REVENUE

- *100 % subsidy*
Not applicable.
- *Subsidy for joint financing with other sources in the public and/or private sector*
Not applicable.
- *Interest subsidy*
Not applicable.
- *Other*
Not applicable.
- *Should the operation prove an economic success, is there provision for all or part of the Community contribution to be reimbursed ?*
Not applicable.
- *Will the proposed operation cause any change in the level of revenue ? If so, what sort of change and what type of revenue is involved ?*
Not applicable.

7. FINANCIAL IMPACT ON APPROPRIATIONS FOR OPERATIONS (PART B OF THE BUDGET)

7.1 *Method of calculating total cost of operation*

The proposal is for a framework Regulation which does not commit Member States to any action or expense beyond that of continued participation in discussions leading to Commission Regulations for producing consumer price indices on a comparable basis. Article 13 states that such Regulations shall not involve Member States in significant extra costs unless they agree or unless the Commission undertakes to meet two thirds of such costs up to the end of the first two years of implementation. The actions required to produce comparable CPIs and their costs will be determined in consultation with Member States and arrangements for meeting such costs settled before the Commission Regulations are adopted.

7.2 *Allocation*

The Regulation does not per se involve any costs above those already provided for in ligne B5-600. The costs of sub-subsequent Commission Regulations cannot be estimated until the necessary steps to achieve comparable CPIs are determined.

7.3 *Indicative schedule of commitment and payment appropriations*

Operational expenses for consultancy studies, meetings of experts, etc.

Allocation	94 Budget	95 APB	Var. in %
- Studies	-	-	
- Expert meetings	-	-	
- Conferences and congresses	-	-	
- Information and publications	-	-	
TOTAL	-	-	

8. ANTI-FRAUD MEASURES PLANNED

Statistical data are regarded as an objective instrument of evaluation of the Community action programmes and thus contribute to the consolidation of the anti-fraud mechanism.

Checks on subsidies or benefits, studies of feasibility and evaluations are carried out by the Commission departments before payment, taking into account the contractual obligations, the principles of economy and sound overall financial management. Anti-fraud provisions (control, handing-over of reports, etc.) are included in all the agreements or contracts concluded between the Commission and the recipients of payments.

9. ELEMENTS OF COST-EFFECTIVENESS ANALYSIS

9.1 Objectives and coherence with financial programming

Specific objective(s) of proposed operation.

March 1996	-	Stage 1. Implementation Draft Commission Regulation
January 1997	-	Stage 2. Implementation
Mid-1997	-	Review : Stages 1 + 2
January 1998	-	Stage 3. Implementation complete
End 1999	-	Review

Is the operation incorporated in the financial programming of the DG for the years concerned ?

Yes. But the later Commission Regulations, defining what has to be implemented, are not.

To which broader objective defined in the DG's financial programming does the objective of the proposed operation correspond ?

The sectoral programmes for the Economic and Monetary Union; economic and financial accounts ; the statistics of the public sector, of the balance of payments ; the indicators of co-ordination of the monetary policy and of the ECU; the data of foreign trade.

9.2 Grounds for the operation

Reasons for choosing this operation rather than an alternative which would achieve the same objectives. The justification must be based on three criteria :

- (a) *cost*
The proposed Regulation commits Member States to the Programme of harmonisation at negligible cost.
- (b) *spin-off effect (impact beyond the specific objective(s))*
The Regulation should lead to changes in the CPIs of Member States, some of which will be improvements in methods and practices.
- (c) *multiplier effect (ability to mobilise other sources of finance)*
The Regulation and subsequent Commission Regulations should lead to a sharing of expertise and technological applications on CPI compilation between Member States.

9.3 Monitoring and evaluation of the operation

Performance indicators selected

Performance will be judged against the timetable at 9.1.1 above.

Details and frequency of planned evaluation

The Regulation provides for a review at mid-1997 and again at end 1999.

Main factors of uncertainty which could affect the specific results of the operation.

If the 1996 Intra-governmental Conference changes the EMU timetable, MSs may be more reluctant to adhere to the timetable in 9.1 above.

10. ADMINISTRATIVE EXPENDITURE (part A of the budget)

10.1 Will the proposed operation involve an increase in the number of Commission staff ? If so, how many ?

Yes. Two additional officials A grade and C grade. The former to start early 1995 and the latter early 1996.

The allocation of one A grade official to start in early 1995 will depend on the Commission decision on allocation of resources.

The allocation of one C grade official to start in 1996 will depend both on the results of the budgetary procedure and on the Commission decision on allocation of resources.

10.2 Indicate the amount of staff and administrative expenditure involved in the proposed operation. Explain the method of calculation.
Base : average cost of a post.

Level A7	93.000 Ecus per annum
Level C3	70.000 Ecus per annum

Functionnaires

	Ecus
1995	93.000
1996	163.000
1997	163.000

Statement of impact of the proposal on industry and in particular on small and medium enterprises

Title : COUNCIL REGULATION CONCERNING THE HARMONISATION OF
CONSUMER PRICE INDICES

The proposal

1. The proposal is that Member States should produce comparable consumer price indices based on existing consumer price indices.

Impact

2. The proposed Regulation is a framework Regulation directly affecting only national statistical offices. The Regulation does, however, give the latter power to require enterprises to respond to demands for price and sales data should this be required as a result of subsequent Commission Regulations. Since the harmonised CPIs will be based on the existing CPIs and the data used to compile these any additional burden on enterprises is likely to be minimal.

Consultation

3. The UNICE and the principal European Employer Federations have been informed by means of projects of this proposed Regulation.

Complementary Statement concerning EFTA Countries

Title : COUNCIL REGULATION CONCERNING THE HARMONISATION OF CONSUMER PRICE INDICES

Impact on EFTA countries

EFTA countries have been involved in discussions of the Statistical Programme Committee and the Working Party on the Harmonisation of Consumer Price Indices. They are fully aware of the proposals for a Regulation and their views have been taken into account in preparing the draft.

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DOCUMENTS

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