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Financial Self-Sufficiency for the Community after 1974

Commission Proposals for Financing Agriculture and Future Community Activities

The Commission of the European Communities on July 17 submitted to the Council of Ministers proposals for replacing member states' financial contributions by the Community's own resources, for greater budgetary powers for the European Parliament, and for financing the common agricultural policy (CAP).

Taken as a whole, the proposals -- for independent income and for expenditure -- are a decisive step towards a pre-federal Community structure. There are three separate proposals which deal with far more than the mere question of financing the agricultural policy. They comprise:

- A report, incorporating Commission proposals, on the question of replacing the simple financial contributions hitherto made by the member states by the Community's own, independent resources.
- Two proposed regulations, with explanatory memoranda, on expenditure by the European Agricultural Guidance and Guarantee Fund (EAGGF).

If approved by the Council, these last two regulations would replace the present basic regulation on financing the common agricultural policy and pursuant regulations, clearing the way for action to adapt agricultural expenditure to the agricultural policy that will be followed in the years ahead.

Background

Under the present system, the financing of Community activities depends (apart from the levies of the Coal and Steel Community) on contributions from the budgets of the member states, while the Parliament is merely asked to give an advisory opinion on proposals concerning the Community budget. This system has disadvantages both for the Community and for the member states themselves. For the Community, its activities are constantly being inhibited by the internal budget policies of the member states, whose separate needs are different than the common ones of the Community. For the member states, it is difficult to tell beforehand what the Community's financial needs will be. They cannot be fixed by the national authorities, yet these authorities have to take them into account when planning their national budgets and medium-term financing.

Financial autonomy for the Community could solve these difficulties and could also put an end to the reticence with which member states now approach common policies, fearing that the advantages they hope to get will not balance their contributions.

Greater financial autonomy for the Community is probably one of the most important questions for the successful completion of the common market, yet it also is probably one of the most controversial.

Financing the Common Agricultural Policy

Arrangements for financing the CAP are contained, for the most part, in Council Regulation No. 25 of April 4, 1962, which covers financing up to the end of the Community's transitional period on December 31, 1969. (See Farm Report No. 38, page 3.)

For agriculture, the transitional period consists of two stages. During the first, from July 1, 1962 to June 30, 1965, the Community was responsible for one-sixth, then one-third, and finally one-half of eligible expenditures under national market and price policies. Arrangements for subsequent years were made May 11, 1966; but since July 1, 1967, it has been understood that after the transition period, i.e. January 1, 1970, all expenditures resulting from the Community's market and price policy would have to be financed by the Community.

The principle of autonomous financing is contained in the Common Market Treaty and in the 1962 financing regulation, which stated that "since the single market stage price systems will be standardized and agricultural policy will be on a Community basis, the resulting financial implications will fall on the Community." It also said that "revenue from levies charged on imports from third countries shall be the property of the Community and be appropriated to Community expenditure; the budget resources of the Community shall comprise such revenue together with all other revenues decided in accordance with the rules of the Treaty as well as contributions of member states . . ." This is what has been known as independent income or "own resources" for the Common Market, representing a first step towards a sort of federal budget for the Community.

Self-Financing Question Leads to 1965 Crisis

The claim to independent income arising from the 1962 financing regulation together with its corollaries -- wider powers for the European Parliament and increased responsibility for the Community generally -- caused a serious crisis in 1965-66.

Transitional financing arrangements were applicable only up to July 1, 1965. Before this deadline was reached, the Commission submitted proposals to the European Parliament and the Council of Ministers to the effect that the Community should assume responsibility for financing the agricultural policy after July 1, 1965. A large proportion of the necessary funds was to have come from the EEC's own resources -- in other words, from farm levies paid directly into the EEC's common fund and from the duties on industrial and agricultural imports covered by the CET (Common External Tariff).

If levies and import duties were to be used to give the EEC independent resources, the powers of the European Parliament would have to be widened to give that body the beginnings of real budgetary control. The Commission did in fact draft proposals as a first step towards strengthening the Parliament's powers, but the Parliament itself felt that the proposal did not go far enough.

The Council of Ministers, on the other hand, felt the proposals went too far and could not reach agreement on them so that the agricultural policy could not be financed after July 1, 1965, in the way proposed by the Commission.

The crisis that began over agricultural financing, amongst other things, led indirectly to the "Luxembourg compromise" reached by the Council at the end of January 1966. Under this agreement, the Commission's powers were further defined and the Treaty provisions on qualified majority voting within the Council were replaced by the de facto unanimity rule.

After this political set-back to the Community, which brought a sort of permanent crisis in its wake, it did prove possible to find a compromise solution to the problem of financing the CAP. The EAGGF continued to be a sort of clearing house for balancing accounts. To get around the difficulty of member states having to pay their receipts from levies directly into a common fund, it was arranged that contributions to the EAGGF should be in two parts.

The first part was to be equal to 90 per cent of the levies on imports from non-member countries collected by the member states. The remaining part of the expenditure was to be covered by contributions from the member states according to a fixed scale of apportionment.

These provisions made it possible to avoid direct transfers of levies to the Farm Fund. Instead of surrendering their levy receipts directly to the Fund, the member states "payed" a contribution which represented 90 per cent of the levies collected. Thus, a definitive solution to the agricultural financing problem, a crucial one for European integration, was postponed until 1969. Before the end of this year, then, the Council must reach a decision on financing arrangements for 1970 and after.

Establishment of the Communities' Own Resources

In view of the magnitude of the reform involved in covering expenditure from the Community's own resources, the Commission is proposing a program in two phases.

In the first phase, beginning January 1, 1971, provision is made for the direct allocation to the Community of the following resources: agricultural levies, the receipts from a proposed tax on oils and fats, customs revenue from the application of the CET and like receipts, the product of such other taxes as may be introduced at Community level. The Commission proposals exclude ECSC levies on the production of coal and steel. The problem of integrating the ECSC financial activity into the general Community system will have to be settled later when the Treaties are merged.

The Communities' own resources for the first phase will not be adequate to balance the Community budget. The Communities will therefore have to continue to draw on financial contributions from the member states in order to cover the balance of expenditure. For these contributions, the Commission proposes that for the period 1971-1974, the present scales be maintained. (The four scales for the EAGGF, the social fund, the Euratom research budget and the administrative budget will apply to any relevant outlays in that part of the budget not covered from the Communities' own resources.)

As the agricultural levies are already being paid at the rate of 90% to the EAGGF, the new factor will be the allocation to the Communities of the yield of the common customs duties. To soften the impact this reform will have on national budgets, the Commission proposes a progressive allocation, with two-thirds of the CET duties transferred to the Communities on January 1, 1971, three-quarters on January 1, 1972, and the full duties not until January 1, 1973.

The conditions for the second phase, beginning January 1, 1974, (when the Community budget will have to be covered entirely from its own resources), will be the subject of a unanimous decision by the Council, on a Commission proposal, by January 1, 1973. The Commission gives certain guidelines for this second phase and advocates a limit of 1 per cent of the total gross product of the Community to be added to the "own resources" specified for the first phase.

Strengthening the Powers of the European Parliament

The financing of the Communities from their own resources raises the problem of increasing the prerogatives of the European Parliament, since the national parliaments would no longer control large sums paid directly to the Community. The Commission considers that the powers of the European Parliament should be extended, that its budgetary powers should be strengthened as soon as the first phase begins, and that from 1974 on its legislative powers should also be strengthened. The Commission will submit further proposals on this subject by next October.

How the EAGGF Will Spend the Money

As in the past, the EAGGF will still be supplied from the Community budget, of which it forms a part.

The Fund finances all market intervention and export refunds from its Guarantee Section; the Guidance Section can be called upon under plans for structural reform that the Commission submitted at the end of 1968. Once the agricultural policy is fully financed from Community sources, there will, according to the Commission's proposals, have to be closer administrative cooperation with the member states and better arrangements for supervision -- not only by the member states, but also by the Community itself. In administering the Fund the Commission is to be assisted by a committee of representatives of the member states.

Expenditure on export refunds in connection with the Community's market and price policy, together with any losses arising in connection with government buying and selling of agricultural products, is all chargeable to the EAGGF, which is part of the Community's budget.

The item "Financing of Agricultural Policy" -- like the Community's administrative budget, the European Social Fund, the research and investment budget -- is only one of many expenditure items to be met from the joint budget.

The agricultural financing proposals are in two parts:

- The financial regulation itself which deals with the final stage after 1970
- "Additional provisions" to provide a bridge between the present transitional period and the final stage.

At first glance, it might be thought that, because of the expiration of the transition period, the new agricultural financing arrangements must come into force on January 1, 1970. However, this is not so since expenditure on the common agricultural policy results from decisions already taken by the Council, and is a consequence of the existing common market organizations. Extra time will be needed before the new financing arrangements for agriculture come into force, but the end of the transitional period will not be affected. In its proposal the Commission expects that this additional time could extend to January 1, 1971.

It would, however, be highly significant if the political decisions reframing agricultural financing arrangements could be taken before the end of 1969, since this matter could be regarded as one of the basic activities of the Treaty, which calls for the entry into force of all the rules laid down and the completion of all measures required for the establishment of the common market by the end of the transitional period.

The Guarantee Section

The most striking feature of the new role assigned to the Guarantee Section of the EAGGF is that it is to move away from the present clearing system between creditor and debtor states and assume direct financial responsibility on a Community basis along classic budgetary lines.

In the future, the Community's budgetary resources are to be discussed each autumn, a change that will be possible because the Fund's accounting period, which now runs from July 1 to June 30, is to be altered to coincide with the calendar year. This will allow the Council, and the European Parliament, to debate the budget and to decide on measures to be taken in the common organizations of the various agricultural markets, varying and redeploying financial resources in the light of agricultural policy.

Thus, the Community's responsibility, financial and otherwise, will be increased; the present system where the member states incur expenditure which is later refunded will be replaced by full direct financing from the Community's own budget.

The Commission's proposals make scarcely any change in the measures to be financed by the Guarantee Section. Given present agricultural surpluses, however, it can be expected that there will be a shift of expenditure towards intervention measures.

The Commission also proposes that detailed arrangements for financing export refunds be decided on by the Council acting by qualified majority. Direct financing of these measures by the Community, with the Community immediately responsible instead of being responsible at one remove through the member states, means that financing conditions must be thoroughly harmonized. There can no longer be any question, for example, of storage costs for the same quantity of butter under guarantee arrangements for milk producers being 50% higher in one member state than in another -- as they still are today.

The Guidance Section

Structural improvements in agriculture are financed in part from the EAGGF to supplement national financing. Expenditure here corresponds "so far as possible" to one-third of the amount spent under the heading of market support and price policy. To cover the possibility of a sharp increase in expenditure, the Council has made this one-third subject to a ceiling of $285 million.

At the end of the transitional period, the $285 million ceiling on the resources of the Guidance Section will cease to apply. In its proposal the

In the Wake of the "Floating Mark"

The European Communities Commission, on October 8, authorized Germany to levy taxes on certain agricultural imports as a safeguard measure to meet disturbances which Germany's floating mark system could cause in the common agricultural market and its intervention measures.

On September 29, the West German Government let the exchange rate of its currency temporarily fluctuate beyond internationally agreed limits on world money markets. (Immediately following the introduction of this "floating" exchange rate, the mark rose in value to an average 6 per cent above the official fixed parity of marks to the dollar.) Unless compensation taxes were levied, food imports would have entered Germany at lower prices than the Common Market's intervention prices. This would have undercut sales of local produce as well as encouraged speculators to import for certain sale at a higher price to the intervention agencies. For certain exports to non-member countries where difficulties might also arise, the Commission said it could authorize special export subsidies.

The Commission, in authorizing the taxes as a safeguard measure under Article 226 of the Common Market Treaty, stipulated that they should apply only for a temporary period, until the parity of the mark was fixed. Otherwise, the Commission said, the system of the floating exchange rate was in itself incompatible with the Common Market.

The following limits were set by the Commission on Germany's use of the compensatory taxes:

- The tax is to be levied on imports for which an intervention or buying-in price is paid in Germany under common market organization regulations or on products processed from these basic products.
- The maximum compensation is to be 5 per cent applied to the intervention (not the ad valorem) price in Germany, for basic products (cereals, sugar, beef, dried milk, butter, certain cheeses).
- For derived products the maximum compensation will equal the effect of the tax applied to the basic product on the price of the processed product. For example, a 5 per cent tax on cereals would result in a smaller tax on flour, whose price also includes the costs of intermediary processing stages such as the work of the miller, overhead, etc. If the resulting calculation for the tax is less than 3.5 per cent, it would not be applied (see below).
- If the difference between the official parity of the mark and the average exchange rate between the floating mark and the dollar for a week is less than 4 per cent or more than 6 per cent, the Commission can revise, upward or downward, the level of the tax.
- No compensation will be given when the calculated tax rate is less than 3.5 per cent.
- Germany may demand a deposit with imports to guarantee that the compensatory taxes will be paid.

Commission has again stressed that the Guidance Section's sphere of activity has widened now that agriculture has reached its present advanced stage of integration.

The logical way of dealing with this development is to widen the list of structural measures to be jointly financed.

To achieve the objectives set out in the EEC Treaty the following would come within the ambit of the Guidance Section:

- adaptation and guidance of production structures
- retirement of farmers from agricultural activity and use of the land thereby made available to further the aims of the CAP
- adaptation and guidance of production
- adaptation and improvement of the marketing of agricultural products, range of uses to which they are put, and improvement of the available outlets.

Action of this kind can take one of the following forms:

- structural measures in the member states, to be carried out by the Community or by the member states in accordance with Community rules
- measures to be carried out within the Community by private individuals, institutions, or associations in accordance with Community criteria
- special measures to be taken in the interests of the Community.

General Provisions

The general provisions include proposals from the Commission on how effective control should be exercised. There is no denying that a number of difficulties and cases of fraud have arisen in connection with measures to carry out the common market organizations.

Now is the time to plug the administrative loopholes. Arrangements must be made for an automatic two-way exchange of information, and monies improperly acquired must be recovered.

The proposal contains an important provision under which the Community will normally bear losses other than those resulting from negligence on the part of the administrative authorities in the individual states.

The Commission has proposed that the present situation be improved by means of a Council regulation, dealing in particular with arrangements for auditing and inspection. Accounts are to be checked on the spot in the member states.

The introduction of a more flexible and direct method of examining any cases which arise is proposed. The Commission is thinking in terms of officials from the member states conducting inquiries in the other member states. Auditors appointed by the Commission must, on giving prior notice, be allowed access to all documents dealing with expenditure from the Fund.

This enables them to:

- confirm that administrative practice has been in line with Community provisions
- ensure that necessary vouchers, etc. are available and in line with the projects financed from the Fund
- check the conditions under which the projects financed from the Fund have been carried out and verified.

A further proposal is that the Commission should submit a financial report to the Council and the European Parliament each year giving details of all the Fund's operations. The main purpose of these provisions, like those dealing with the powers of the Fund Committee, is to give existing practice a legal form.

The Commission's aim, in this proposed regulation, is progress towards a genuinely Community procedure.

The "Additional Provisions"

The Commission's proposal for a regulation embodying additional provisions on financing the agricultural policy is to:

- provide a bridge between present financial arrangements and the final ones, which according to the Commission's proposals are due to come into force on January 1, 1971. Transitional arrangements must be made for 1970.
- solve a number of problems which will arise in connection with 1969, largely because the Fund's accounting period has so far run from July 1 to June 30. The changeover to the calendar year means that the second half of 1969 is left hanging in the air as far as procedures are concerned.

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