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The Single Act: A new frontier for Europe

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to the European Parliament**

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The Single Act: A new frontier for Europe

Introduction

The signing and forthcoming entry into force of the Single European Act and the accession to the Community of Spain and Portugal (following that of Greece in 1981) have brought with them fundamental changes in the structure of the Community and the obligations of the Member States. The Single European Act improves significantly the institutional system and sets new objectives for the Community, notably the completion of the internal market by 1992 and the strengthening of economic and social cohesion. The realization of these two objectives will also respond to the hopes and needs of the countries which have just joined and which rightly expect that their involvement in the Community should underpin their development and help raise their living standards through a combination of their own efforts and support from their partners.

In order to succeed in its new responsibilities, the Community must first complete the reforms it has started, especially since 1984, with the aim of adapting its old policies to the new conditions: the reform of the common agricultural policy to take account of new production and trade conditions, the reform of the structural funds to make of them instruments of economic development, and the reform of the financing rules to ensure a budgetary discipline as rigorous as that which the Member States impose upon themselves.

Once these reforms have been implemented, the Community will have to have the resources needed to be in a position to achieve the objectives of the Single Act.

By amending the Treaty of Rome in this way, the Member States have set a new frontier for European integration. They have made a qualitative leap forward which must be turned to good account to equip our economies so that they can meet the challenges from abroad and return to more vigorous economic growth trends, creating more jobs.

For this reason, the Commission feels that it should set out the conditions that must be met if this great venture is to succeed. This is the thinking behind the proposals it is laying before the Council and Parliament, and these have a medium-term context, looking towards 1992 as the date by which the large market, without internal frontiers, will be complete.

I — The conditions for success

Before examining the reforms already under way or that have to be undertaken in order to implement the Single Act, it would be useful to review briefly the prospects before us and the conditions governing success. It is hardly necessary to point out that this 'new frontier' entails the simultaneous implementation of the six policies highlighted by the Single European Act:¹ the establishment of a large market without internal frontiers, economic and social cohesion (in other words greater convergence as regards both the methods used and the results obtained), a common policy for scientific and technological development, the strengthening of the European Monetary System, the emergence of a European social dimension and coordinated action relating to the environment. It is easy to show that these policies have to go hand-in-hand if the single economic area is really to be achieved, which is the only outcome compatible with the overriding idea of European Union, as formally restated in the preamble to the Act. And our efforts will never be crowned with success unless we also have a common, strong and coherent external policy.

A — A common economic area

In political terms, this is not a new idea. Article 2 of the Treaty of Rome provides that the Community should promote 'throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability [and] an accelerated raising of the standard of living'.

In economic terms, it is self-evident that a large market without internal frontiers could not be completed or operate properly unless the Community had instruments enabling it to avoid imbalances interfering with competitiveness and inhibiting the growth of the Community as a whole.

Let us be quite clear. This does not mean transferring all powers in the fields of economic and social policy to the European level. But experience has shown that it is impossible to achieve freedom of movement of persons, goods, services and capital without a common exchange-rate discipline and without increased cooperation between national policies. The recent difficulties of the European Monetary System are proof enough of this, if proof were needed.

In other words, the ship of Europe needs a helmsman. The large market without internal frontiers cannot, on its own, properly be responsible for the three main functions of economic policy: the quest for greater stability (the fight against inflation and external imbalances), the optimum allocation of resources to obtain the benefit of economies of scale and to stimulate innovation and competitiveness, and the balanced distribution of wealth allowing for individual merit.

Thus it is, for example, that the Community will this year take the final step as regards the liberalization of capital movements. The implementation of this step implies strengthening the European Monetary System in such a way as to enable capital markets to be regulated and imbalances to be corrected. Likewise, it will be necessary at the same time to ensure, for the purpose of fair competition, that the basic rules regarding banking legislation and supervisory standards are harmonized. Lastly, national monetary policies should be mutually compatible so that this common financial area is as stable as possible.

A further example drawn from past experience: the economic integration brought about by the large market will entail considerable economic benefits. However, all regions of the Community ought to be able to share progressively in these benefits. It is no easy matter to bring the fruits of progress to all, whether as regards technical progress, the effect of competition in bringing cheaper and better quality goods and even as regards the financial innovations that are essential for investment and development. It is for this reason that the 'transparency' of the large market should be facilitated by supporting the efforts of regions with ill-adapted structures and those in the throes of painful restructuring. Community policies can be of assistance to these regions, which in no way absolves them from assuming their own responsibilities and from making their own effort. The Commission has conceived the 'structural' policies in this spirit, firmly resolved that they should have a genuine economic impact and that they should not consist merely of budget transfers, which would be far too costly and inadequate as well.

To put it plainly, Community instruments must cease to be seen as mere elements in a system of offsetting payments. Their role is the central one of bringing about the convergence of national economies alongside and in harmony with national and regional policies.

¹ Supplement 2/86 — Bull. EC.

Community action must be more closely related to real economic circumstances and there must be closer cooperation between national policies: it is on the basis of these two conditions that we can hope to reap all the benefits—for all concerned—of a large market without internal frontiers. But in striking to the heart of the problem, i.e. by leaving the fullest scope for decentralized measures, the 'new frontier Community' has greater need of selective incentives and schemes than of any further proliferation of intervention and regulations. Common sense dictates and the large market demands that it be so.

If Community action and decentralization are to be effectively reconciled, a number of adjustments are proposed. These include:

(i) as regards the large market, the most important measures should be selected to ensure that the necessary impetus is provided, such as the liberalization of public contracts and capital movements. The principle of mutual recognition of standards and rules should be adopted in the place of an endless and fruitless search for agreement on common standards and rules;

(ii) as regards the control of national aid schemes and the objective of cohesion, the necessary steps should be taken to ensure that the conditions for fair competition are met, and in this context to take account of the level of development of the regions to show the flexibility necessary to take account of the evaluation of the local context;

(iii) the concept of 'programme' should replace, for the most part, that of 'projects'. Rather than being responsible for the management of thousands of dossiers, the Commission would fix its attention, as is the case with the integrated Mediterranean programmes,¹ on supplementing the efforts of the multiannual programmes drawn up by backward regions and regions undergoing restructuring;

(iv) social policy should be concentrated on one or two main priorities and the Community should now avoid a wide scatter of individual schemes born of a plethora of objectives and criteria. But these priorities should become the building blocks of Europe and effective sources of innovation, and should be perceived as such by their beneficiaries and by public opinion. What is the central issue, the most harrowing problem that faces us?—unemployment. The Community must show through the implementation of two major policies that it is able to help solve this problem; on the one hand, through a specific policy aimed at helping young people to find their first job and, on the other hand, by

taking measures to tackle actively long-term unemployment.

B — More vigorous economic growth

The Commission is not afraid of disequilibria which the introduction of the large market could entail. But it has been studying the Community's short history—with its successes, but also its failures, with its ambitious ideas, but also the obstacles which have hampered their implementation—and its conclusion must be that a background of weak economic growth has severely inhibited progress. This is one of the reasons why a cooperative growth and employment strategy was proposed in 1985 enabling more rapid development of activity and employment to be achieved throughout the Community, through the specific contributions of each country.

This strategy is still relevant, given the rather disappointing results achieved by our economies, despite the stimuli from the fall in oil prices, and, initially, the decline in the dollar. The strategy is needed all the more because it would make it possible, as a result of the additional wealth created, to provide substantial assistance to each country in carrying through the necessary adjustment to the large market and the new world economic pattern.

This is not a question of legislation, although the Council's decision of 18 February 1974 on convergence will have to be reviewed.² This decision, it must be recognized, has not lived up to the expectations of its authors. Indeed, it has got bogged down in routine and sterile procedures. What is really at stake is political will and economic imagination. Are the member countries really determined to go beyond their short-term view of the situation and outdated concept of independence with regard to economic and financial decisions? Will they be reasonable enough to discern and accept the network of interdependence of which their own activities form part and will they be in a position to turn this situation to best account by a sort of 'positive sum' game?

In addition, the slowdown in world trade over the past decade makes it more necessary than ever to exploit the internal potential for growth within the Community. This is what is at stake in the effort to achieve completion of the large internal market.

¹ OJ L 197, 27.7.1985; Bull. EC 7/8-1985, point 2.1.106.

² OJ L 63, 5.3.1974.

C — Greater effectiveness on the part of the institutions

The word 'routine' was mentioned in the context of the 'convergence of economic policies'. This word can be applied to Community life in all its aspects, Europe takes the wrong decisions too late and is rarely able to implement effectively what decisions it takes. And this has spawned a paralysing and over-interventionist process of bureaucratization.

The Single Act sets out to remedy these shortcomings. Even so, the will must be found to implement it in the right spirit. Failing this, Europe will never recover from its congenital disease: a succession of good resolutions that sink into the sands of long drawn-out and sometimes inconclusive deliberations. In order to escape from the morass, the Council should make full use of qualified-majority voting, the Commission should at last be given the powers that it has been denied so far and Parliament should assume full responsibility as co-legislator in the cooperation procedure.

Indeed, the true interests of Europe demand that one should go even further in improving the effectiveness of the institutional triangle composed of the Council, Parliament and the Commission. This is particularly true as regards the budget, if revenue and expenditure are to be brought under greater control, thereby fulfilling the objectives of the Single Act whilst ensuring that the European taxpayer's money is put to the best possible use. The Commission is making a number of proposals as regards budgetary discipline which should not reactivate the institutional squabble. In other words, it does not wish, for the moment, to add to the difficulties of 'le grand rendez-vous' on the implementation of the Single Act, but it is convinced that the day will come when the provisions of the Treaty will have to be revised to enable the Commission, in the manner of the 'cooperation' procedure, to assume fully its initiative-making role and to involve the Council and Parliament as equal partners at every stage of the budget procedure.

However, the Council should, without delay, tackle its own internal workings in order to put right what has to be recognized as the disintegration of the decision-making process. To return to the question of the budget—there is at present no arbitration body within the Council, which is one of the reasons for the failure of the budgetary discipline procedure adopted at Fontainebleau in June 1984.¹ Each Council is at liberty to adopt its own positions and its own measures. The Agricultural Council has a

relatively free hand as regards its policy and the expenditure that results therefrom. The Council of Ministers for Economic Affairs and Finance, for its part, determines the maximum level of expenditure... but it is the Budget Council that is responsible for actual implementation in an acrimonious and often not very dignified quarrel with Parliament. No political entity can operate properly under such conditions.

D — Strengthened budgetary discipline

These last considerations lead on directly to what is for the Commission another major condition to be met if the Single Act is to be properly implemented: strengthened budgetary discipline.

At a time when, rightly or wrongly, the member countries are keen to reduce their budgetary expenditure and cut public deficits and, in some cases, to lower taxes, it is no easy task to persuade public opinion that the Community needs more money. It is true that the EEC is growing fast and therefore needs practical policies to reach the new frontier proposed by the Single Act. It is true that the substitution effect is important — what is spent by the Community often represents sums saved from the national budgets. More than this, every single ECU which is well spent jointly by the Twelve can yield more than equivalent national expenditure. It can easily be shown that this is the case at present for the common agricultural policy and for research, and will be the case in future for transport and major infrastructures.

These are points which must be emphasized, for much of the unjustified criticism of the Community budget is born of a curious attitude held by some observers who are all too apt to treat Community finance as if their countries were not in fact members of the Twelve.

The inconsistency would be even more obvious if, having signed the Single Act, the authorities refused to allocate the resources to implement it!

But the Community — that is to say the Council, Parliament and the Commission — must, as a counterpart to acceptance of the new responsibilities conferred on the member countries under the Single Act, manage its budget in the spirit of the 'prudent citizen' and ensure the best possible use of the resources allocated to it. This will depend on the quality of the policies implement-

¹ Bull. EC 6-1984, point 1.1.9.

ed, on their effective execution, and on a spirit of rigour, which must prevail everywhere.

By presenting this new plan for budgetary discipline, the Commission is drawing on the experience gained from 1985 to 1987 and correcting the defects of the present system: the disintegration — already noted — of the decision-making process; the lack of control over commitment appropriations and the difficulty in getting agricultural expenditure under control (while acknowledging, on this last point, the major role played by an entirely unpredictable external parameter: the extreme volatility of the dollar).

The new budgetary discipline is a sort of fiscal contract for the Community: the assurance that before 1992 the European tax charge will not exceed a ceiling fixed at 1.40% of the Community's gross 'national' product, the adoption of tighter rules concerning agricultural expenditure, and the optimum allocation of resources to the other policies which are essential to the success of the Single Act.

E — A common and strong external economic policy

The European Community is the world's leading trading power. As such, it is sometimes courted and sometimes criticized. Courted, because it represents a formidable potential in terms of purchasing power and because it is in a position to play an even more important role in stimulating multilateral trade and commerce. Criticized, because other countries feel that it is not open enough to their products and because it has fully exploited its agricultural potential.

First and foremost, it must be underlined that the Community is, in fact, the most open trading unit in the world. Although the Commission believes that the Community must go further on the road to helping the developing countries, it

can only reject attacks from elsewhere. Especially from countries whose protectionism is sometimes not even disguised.

Of course, the Community's political position would be stronger if it could take promptly the initiative required to solve the problems of world currency disorder, the inefficient allocation of financial resources or the quite inadequate growth of world trade. But all hope should not be lost. The positions adopted at the outset of the Uruguay Round, the exemplary measures implemented under the Lomé III Convention or in connection with food aid, and the proposals for the adaptation of the roles played by the IMF and the World Bank are all points on the credit side of a Community acting with a proper sense of responsibility. But this is obviously not enough.

How are we to explain to our farmers that they must adapt to a world situation in which the excess of supply over demand is structural in character, if other agricultural powers are not making the same effort?

How are we to assert the need for technical progress to sharpen our competitive edge and boost employment, if we are incapable of meeting threats from elsewhere?

How are we to state effectively the case for better relations between the North and South if we haggle endlessly over a few tens of millions of ECU in trade advantages or aids for countries suffering the direst poverty?

One thing we have got to realize is this. There will be no tangible progress in European integration if the Community does not speak clearly to the outside world, with strength, courage and magnanimity. In fact, this is an aspect of Community life which is all too often neglected or even ignored. Let there be no mistake about it, the Community will prove its mettle, also, in the way it resists, now and in the future, the wrong kind of pressure, but yields to those in real need.

II — Reforms needed

A — A common agricultural policy adapted to the world context

Closely dovetailed into the rest of the economy, agriculture is, for the Community, a sector of fundamental economic and strategic importance, not only as a supplier of essential raw materials but also as a purchaser of a wide range of inputs. It is therefore vital for the Community that this industry should go forward on economically sound bases, so as to provide real prospects for those who depend on it directly or indirectly, and that the common agricultural policy (CAP) should allow for and adjust to change.

The factors which, in the early 1960s, led to the formulation of the CAP still hold good, as do its basic principles of Community preference, a single market and financial solidarity.

On the other hand the general economic context and the situation on agricultural markets have changed radically: growth has slowed, unemployment has increased, extraordinary progress in productivity and advances in biotechnology have led to surpluses on world markets, currencies are fluctuating and there are budget difficulties.

The Commission has, therefore, repeatedly and emphatically stressed the need for progressive efforts to bring about changes in agriculture in order to eliminate surpluses and check the steady increase in the budget burden to which they lead. This is all the more necessary as, given the present circumstances of structural imbalances between supply and demand, difficulties have emerged in reaching the desired objectives of stabilizing market prices and supporting farm incomes, even though the amount of money committed to this has been rising steadily.

Similar efforts have also had to be made in other major industries in the Community. This is essential if Europe is, in the long term, to maintain its competitive edge and thus its standard of living. This does not mean that we can ignore the special features of the agricultural sector—especially the fact that most farms are family enterprises and the role of farming in protecting the countryside. The Commission consequently intends to see that efforts are undertaken at the same time to help rural development.

It is therefore up to agriculture to join in the common effort which is vital for the future of all the countries of Europe and of which the

citizens of Europe will have to bear the consequences, whether it is successful or not.

In its previous communications, and especially the one made following the consultations for the 'Green Paper',¹ the Commission clearly indicated the approach it intends to adopt in seeking better balance on agricultural markets. This involves:

- (i) a restrictive pricing policy,
- (ii) more flexibility in guarantees and intervention mechanisms,
- (iii) a greater degree of producer co-responsibility, including recourse to quota systems.

If the Community cannot manage to give market prices a greater role in the interplay of supply and demand, the CAP will sink ever deeper into a morass of administrative measures and rules for the quantitative regulation of production. This will provoke resistance from consumers and the development of substitute products, and will in addition cut off agriculture from the potential for developing industrial and food outlets through exports.

The Community must continue to try to bring intervention back to its original role of short-term market adjustment. Intervention must no longer be seen as an artificial supplement to the market, automatic and permanent, ironing out all market effects and preventing any action to bring supply into line with demand.

Since 1985 a large number of proposals have been put to the Council and Parliament in pursuit of this approach. The decisions so far taken, in particular those of April and December 1986 on milk and beef,² have been in the right direction and have set in train the process of adjustment which is required. Through the disposal programme implemented since last year, which the financial decisions adopted by the Council on 9 and 10 February will make it possible to accelerate, stocks may be brought down to more acceptable levels.

Thus, in its proposals for future marketing years, the Commission intends to give clear signals to producers, by freezing or even reducing prices, in the light of the situation for each product concerned.

The Commission also intends to continue adjusting intervention mechanisms for the products where the major problems arise, especially by limiting buying-in to certain periods of the

¹ Bull. EC 12-1985, point 1.2.1 *et seq.*

² Bull. EC 12-1986, point 1.2.1 *et seq.*

year or, as recently proposed in the milk sector, by altering the arrangements when quantities delivered exceed certain limits. The Commission also intends to reinforce measures to guide production towards those qualities which the market really requires. The general aim is that farmer should gradually be induced to take greater responsibility for their choices of types of product and for finding unsubsidized outlets.

Particular attention will be paid this year to the oils and fats sectors, where the prospects for balance have been greatly modified by the enlargement of the Community to include Spain and Portugal. This sector is also affected by erratic developments on the world market due, at least in part, to monetary factors independent of agriculture. The Commission's proposals here will be aimed at stabilizing production, by means of definite quantitative objectives, and stabilizing consumer prices on the basis of the underlying trends on world markets over previous years. The Commission thus intends to see that the growing budget burden of this sector is shared fairly between producers, consumers and taxpayers.

The Commission also wishes to give all our agricultural regions the possibility of developing products in which there is a shortage, in order to contribute to more harmonious development of the different regions.

In order to promote the rationalization of the various CAP mechanisms and to improve their mutual consistency, the Commission also intends to propose changes to the agri-monetary system, in order to bring the 'green' currencies progressively into line with general monetary arrangements and also to prevent the elimination of monetary compensatory amounts (MCAs) stimulating inflation and, through an artificial increase in prices when expressed in national currency, offsetting some or even of the effect of the measures adopted at Community level.

In formulating its proposals the Commission is none the less aware that the changes required in the CAP will be brought to bear on an agricultural situation which, in a Community of Twelve, is extremely diverse. There are great differences in natural and structural conditions of production and in the impact of agriculture on socio-economic balances and on the environment. The measures taken will bite more in the case of those farms which are economically and structurally weaker. Their consequences will be of varying impact for society in general depending on certain regional characteristics.

The action the Community is to take must allow for these facts; at the same time it must also

avoid any tendency to sideslip into national or Community measures which may lead to unfair distortion of competition within a single market.

Over the last few years the Commission's proposals and the decisions adopted by the Council have differentiated measures to take account of the special situations of some farmers or some regions. For example, the milk levy has been varied. Aids have been introduced for small grain farmers, and the special features of certain regions or countries have been adopted as criteria in deciding on production quotas. In its proposals for the next few years the Commission intends to continue along these lines, ensuring that small farmers have a future.

It would be foolish to imagine, however, that this will solve all the problems arising in this area. In particular, such differentiation cannot go beyond the limits imposed by a policy of improving the allocation of resources in the light of the comparative advantages enjoyed by each country and region.

In order to achieve greater balance between the imperatives of the market and the need for solidarity, the Commission therefore takes the view that there must be, at Community level, a supplementary mechanism for supporting incomes. In addition, schemes operated by the member countries must be brought within the same framework. If restricted to economically weaker holdings, accounting for only a limited share of Community output, two-pronged action along these lines could well enable the socially unwelcome consequences of such a Community policy to be reduced. This could be a decisive factor in putting such a policy into effect and successfully completing it in the time available.

To this end the policy as regards national aids in agriculture will have to be supplemented by a strict framework for income supports, setting out precise limits at Community level. We must ensure that any national aid granted does not distort competition or have the effect of cancelling out the Community effort being made to achieve a balance between supply and demand. Account must also be taken of individual Member States' financial capacities, in order not to increase existing disparities.

In addition, regional measures—included in the three Community support programmes¹—would complement existing instruments such as

¹ See what is said on 'structural' policies in the next chapter.

the compensatory allowance for mountain and hill and less-favoured areas.

The measures envisaged will, together, lead to more balanced Community action, with a better distribution between market support and income support. This should make such support fairer as between the different categories of farmers, thus making a considerable contribution to the Community's social and economic cohesion. It will also serve the need to make greater allowance, in the process of adjusting the farm sector, for constraints regarding the management of the countryside, the environment or the general economic development of outlying regions. It will entail better coordination between the different policies at Community level and with national measures in this sphere.

The Community economy is part and parcel of the world economy. This is true for all industries, and agriculture is no exception. The Community is the world's largest importer of farm products and its second largest exporter. The Community is not alone in facing a growing imbalance between supply and demand and ever larger stocks which it is difficult to dispose of. Only through concerted action with our partners can the Community hope to deal with the problem of erratic prices on world markets, aggravated by monetary factors which lie quite outside agriculture and therefore cannot be handled by agricultural policy measures alone.

The Community must therefore vigorously maintain its right to pursue and develop an agricultural policy meeting the requirements of economic efficiency, solidarity and management of the countryside. It is also entitled to ask for more consistent behaviour on the part of its trading partners. It must, however, also resist the lure of protectionism. The rate of growth of the Community economy is largely dependant on trends on world markets. Any approach ignoring this fact will be of little benefit, even from the point of view of the farming sector alone. There would inevitably be a reaction which would be harmful to our agriculture, whose future depends not only on European policy decisions but also on developments in the world at large.

B — Community policies with real economic impact

It is not the purpose of the Community's structural policies merely to serve as compensatory devices. Together with national or regional poli-

cies, they should bring the weight of European solidarity to bear in encouraging greater competitiveness and more convergence between Member States in paving the way for the future. This is already the purpose of the current policy of scientific and technological development and it is what lies behind the reform of structural instruments and the new transport and environment policies.

A common policy for the development of science and technology

In clearing away obstacles to the large internal market, the Community is providing opportunities internally, but it is also opening Europe to the outside world. Under these circumstances, 'to strengthen the scientific and technological basis of European industry and to encourage it to become more competitive at international level', as the Single Act states, will be a Community requirement of prime importance.

Brought together in a framework programme for research and technological cooperation, Community policies should concentrate on essentials, i.e. on measures which are sure to have a multiplier effect. Policies should thus aim to stimulate cooperation between undertakings and research institutes in different countries, to facilitate pooling of resources and the definition of common standards at the stage of pre-competitive research. Finally, these policies should encourage the mobility of academics and scientists.

Activities conducted through the structural Funds

The Community's structural policies will in future pursue a limited number of simple, clear objectives. They stem from the Single Act and are expressed in terms of needs felt by European citizens. They illustrate the political determination of the Community to reinforce its economic and social cohesion:

- (i) achieving growth and adaptation in regional economies showing structural backwardness, so that they can be fully integrated into the Community area (Objective No 1);
- (ii) converting declining, sometimes devastated, industrial regions, by helping them to develop new activities (Objective No 2);
- (iii) combating long-term unemployment, which is now affecting all age groups of Europe's working population (Objective No 3);

(iv) integration into employment of young people, especially first jobs (Objective No 4);

(v) speeding up the adjustment of agricultural production structures and encouraging rural development in line with the European social model, with a view to the reform of the common agricultural policy (Objective No 5).

By giving priority to these five objectives, aids or loans for structural purposes will reach the threshold for effectiveness at Community level; they will serve to reinforce the macroeconomic growth policies required for cohesion. They will increase their effectiveness by facilitating the optimum allocation of resources, by preventing excessive disparities in growth rates between regions, and by fostering balanced distribution of saving at Community level. From these various viewpoints, the Community's structural policies form part of an ambitious macroeconomic growth strategy with an eye to 1992.

The Commission is proposing that the budget funds committed via the structural Funds to the achievement of these five objectives should be doubled in real terms by 1992. The resources deployed must be consistent with the stated aspirations, and in particular with the main objective of enabling the less-favoured regions to catch up.

Enabling the less-developed regions to catch up is an objective of paramount importance

Among the objectives selected, that of aiding regions which have fallen significantly behind in terms of structure to catch up is the real crux when it comes to cohesion, as the Community is nowadays more heterogeneous and therefore more vulnerable than before. Two figures are sufficient to indicate the extent of this change: before Spain and Portugal joined, one European in eight had an annual income 30% below the Community average—the figure now is one in five.

That is why the reform of the structural Funds entails a significant effort to concentrate Community budget funds in the least-favoured regions, i.e. all of Portugal, Ireland and Greece, some parts of Spain, the south of Italy, Northern Ireland and the French overseas departments.

The reform of the Community's structural instruments centres around two principal ideas.

Firstly, it is programmes which will constitute the central plank: the aim is to make sure that the Community's support for the Member States' efforts and initiatives is located at the

right level. As opposed to action through projects, programmes will combine the following advantages:

(i) they will associate effectively the specific intervention operations conducted by the various subsidy and loan facilities, each having its own responsibility and experience as regards regional development, employment policy and agricultural techniques;

(ii) they will lead to decentralization of Community action by giving maximum scope for local or regional initiatives, which are the most effective for investment and employment. Programmes will involve contracts between the Community, the Member States and the regions. They will involve joint preparation, monitoring and assessment, and they will thus lead to a fully-fledged partnership.

The same principles will hold good for the regions which are undergoing conversion, which will thus be able to draw on the technical assistance and financial solidarity of the Community. For this purpose it will be necessary to adopt a new approach to the structural Funds.

Eligibility for structural instruments will take two distinct forms, either on the basis of geographical criteria as regards the first two objectives, or irrespective of geography and open to all the Member States as regards the last three objectives, which relate to the policies on employment and rural development.

Thus Community aid will be able to adjust to different aims, some of which will be naturally limited at regional or local level while others will run throughout the Community.

These guidelines determine the new operating rules particular to each of the structural instruments.

European Regional Development Fund (ERDF)

The ERDF will be the main instrument for achieving the first two objectives. There will have to be a significant increase in its capacity to intervene, together with the other structural instruments. The reform of the ERDF is the continuation of the movement which started in 1984 and takes advantage of experience gained, particularly in the implementation of the integrated Mediterranean programmes.

To achieve the objective of helping regions lagging behind structurally to catch up, ERDF funds will be concentrated on them to a greater

extent. The amounts set aside for those regions may be up to 80% of the total.

As regards the second objective, the ERDF will represent a 'European presence' in depressed areas particularly affected by the decline of a dominant economic sector.

ERDF action will come within the framework of Community programmes providing backing for development or conversion. Such programmes, which will be multiannual, will be based on proposals initially put forward by the national or regional authorities at the relevant geographical level. The experiment in regional development programmes stemming from the reform of the ERDF in June 1984 will thus be continued and extended.¹

Part of the Fund's resources will continue to be set aside for Commission initiatives. It will be used in particular to develop technical assistance, foster cooperation between regions and promote European regional development across national frontiers. It will also enable funds to be allocated harmoniously, offering recipients the necessary guarantees of fairness and providing the vital incentive for quality and effort.

The ERDF's rates of contribution to expenditure for investments in the poorest regions will be raised, in compliance with the general rules on competition and without affecting the natural complementarity between loans and subsidies.

As regards the control of aids and the objective of cohesion, the Commission will ensure that the conditions for fair competition are met and, in this context, take account of the level of development of the regions and show the flexibility necessary to take account of the evaluation of the local context.

European Social Fund (ESF)

One side of the ESF's activities will follow regional eligibility rules, and thus contribute towards objectives 1 and 2 in the framework of integrated programmes.

The second side, of a horizontal nature, will give priority to two main aims: combating long-term unemployment (Objective No 3) and integration into employment of young people, especially first jobs (Objective No 4).

Community action in these two fields will be formulated at the stage when the employment policies of the Member States are being drawn up and will take place in the framework of programmes. The allocation of funds will take

maximum account of the seriousness of problems of unemployment and the employment of young people. Quality criteria will be defined precisely when the guidelines of the ESF are laid down each year. Innovations will be encouraged and, if successful, applied throughout the Community.

EAGGF Guidance Section

The existing regulations are to be amended around the two main aims covered by Objective No 5, namely supporting rural development and encouraging the adaptation and diversification of agricultural production throughout the regions most affected by the reform of the common agricultural policy.

Guidance Section management rules will be amended to facilitate its application within programmes also involving the other structural Funds.

The Guidance Section will thus make a direct contribution to the aim of enabling regions with a structural lag to catch up. In particular, aid for investment in processing and marketing will be redirected to these regions; Guidance Section aid for infrastructure projects (except irrigation) will be transferred to the ERDF.

The idea of a limit on expenditure over a five-year period will be replaced by an organizational outline laying down three-yearly guidelines consistent with the multiannual framework of agricultural policy.

An overall proposal will be put to the Council, under Article 130 D, setting out the details for the reform of the three structural Funds. This proposal will include the necessary transitions between the present situation and the organization which the reform is to achieve by 1992, in particular the Funds' contribution to the integrated Mediterranean programmes.

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Just as the structural Funds represent experience peculiar to the Community, so the loan instruments may contribute effectively to achieving the same structural priorities.

This is particularly true for the European Investment Bank, which accounts for almost 75% of Community loans. It concentrates on financing infrastructures or productive investments (in transport, telecommunications and energy, and in new technologies and small and medium-sized

¹ OJ L 169, 28.6.1984; Bull. EC 6-1984, point 1.3.1 *et seq.*

undertakings), allocating more than 50% of its loans for regional objectives to regions where development is lagging behind.

In accordance with the relevant provisions of the Treaty, the Bank will continue to play a major role in the development of such regions by providing financial aid of an exceptional quality, attracting private finance as well.

Similarly, ECSC loans and those of the New Community Instrument (NCI), which was renewed by the Council in December 1986,¹ will continue to play an active role in some declining industrial regions or in the financing of innovative investments in small and medium-sized undertakings.

The innovatory role played by the NCI in influencing loan policy objectives in the light of economic needs should be remembered. The Commission must retain the possibility of taking new initiatives along these lines.

Thus the Commission will in due course forward proposals to the Council with a view to setting up a financing instrument fully adapted to investment needs in regions lagging behind in development or whose industry is declining.

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A real single economic area cannot be achieved without major progress in the policies for transport and infrastructures and for the environment.

Transport and infrastructures policy

Complete freedom of movement of goods and persons can make full economic sense only if transport policy makes substantial progress towards a genuinely competitive system enabling unit costs to be reduced significantly; travel within Europe must be made easier, while maintaining high quality and safety standards and adequate welfare rules.

But action in the area of competition will not in itself offset handicaps affecting some areas and regions, either because they are far from communication routes or—the opposite evil—because they are congested by excessive traffic.

This raises the problem, alongside the completion of the large market, of creating certain infrastructures (roads, railways, ports and airports) which have already been identified (medium-term European transport infrastructures programme²), the financing for which will have to be found by greater mobilization of private money. The Community, which is responsible

for identifying such vital projects, could decree that they are of European significance and play the part of financial catalyst, in close relationship, if necessary, with its development or structural support programmes.

A Community policy for the environment

Europe's environmental policy is based on a system of high standards, and it must live up to public expectations. The quality of the environment may not show up in any balance sheet, but it is none the less a gain both economically and in well-being.

A single economic area is by definition the very dimension in which environmental problems are posed, either because nuisances and pollution of industrial origin or from energy consumption or production ignore national frontiers (as made obvious by recent events, such as the Chernobyl catastrophe or the accidental pollution of the Rhine), or because full freedom of movement must entail the positive harmonization of national rules relating to pollutant emissions and dangerous waste.

In real terms this means that the measures in the new five-year programme for the environment³ will be tackled constructively and in a spirit of solidarity, in accordance with the provisions of the Single Act (Article 130 S), which states that the Council 'shall define those matters on which decisions are to be taken by a qualified majority'.

C — Sufficient, stable and guaranteed financial resources

The Community's own resources currently break down into about one third 'traditional' own resources (customs duties and agricultural levies) and two thirds the VAT call-in, on which there is at present a ceiling of a 1.4% rate of VAT for each Member State.

These arrangements were decided upon at the European Council in Fontainebleau in 1984⁴ and their limits have now been reached. It will not be possible for 1987 expenditure to be financed in full within these limits and at some stage the Commission will have to take the steps needed to bring expenditure down to match the resources available.

¹ Bull. EC 12-1984, point 2.1.4.

² Bull. EC 11-1985, point 2.1.227.

³ OJ C 3, 7.1.1987; Bull. EC 12-1986, point 2.1.178.

⁴ Bull. EC 6-1984, point 1.1.9.

There is no reason to be surprised at this: only by resorting to various makeshifts, such as the storage of agricultural produce, the carryover of appropriations and the time-lag between commitment and payment appropriations, has it been possible, artificially, to keep the budget within the ceiling. Since 1983, there has been a deficit in the Community budget, disguised by bad accounting practice.

This is brought out clearly by the following comparison between the budgets as adopted by the budgetary authority and what the true budgets should have been, with the expenditure which should have been allocated to each year actually being so allocated. The table shows that at the time when the VAT ceiling took effect in 1986 the VAT call-in rate necessary for sound financing was already in excess of it.

Budgets approved and real costs

(as % of VAT rate necessary for financing)

	1983	1984	1985	1986	1987 ¹
1. Expenditure set in the budgets approved ²	1.00	1.14	1.23	1.40	1.39
2. Expenditure not in the budget:					
(a) Current deficit ³	—	—	—	0.10	0.23
(b) Non-depreciation of agricultural stocks	0.13	0.08	0.08	0.10	0.03
(c) Cost of the past	0.09	0.06	0.09	—	—
3. VAT ceiling required for financing (1 + 2)	1.22	1.28	1.40	1.60	1.65
4. Overrun not covered by own resources and non-reimbursable intergovernmental advances					
(a) expressed as VAT rate	0.22	0.20	0.17	0.20	0.25
(b) expressed in million ECU:					
(i) per year	3.02	2.95	2.67	3.56	4.8
(ii) accumulated from year to year	3.02	5.97	8.64	12.20	17.0

¹ Estimate.

² Incorporating, for the relevant period, the cost in terms of VAT rate of the compensation to correct budgetary imbalances made in the form of a reduction in VAT payment and the incidence of intergovernmental advances.

³ EAGGF guarantee deficit and shortfall in traditional own resources for 1986 and 1987.

The Commission takes the view that neither in the short nor in the medium term is this situation tenable and that the Community must have a system of own resources which is adequate, stable and guaranteed, giving it a long enough period of 'budgetary security' to allow it to plan its own development, especially while the internal market is being completed.

Recent and current developments in expenditure show that the present system of own resources is inadequate and this has disrupted the continuity of Community activity and forced it into stop-gap expedients.

The Community has, however, recently entered into major policy commitments, formally adopted by its institutions and ratified, or soon to be so, by each Member State.

The Community must thus be consistent with itself.

In fact, political commitments which the Community is to enter into

under the Single Act are reflected in the following main hypotheses with regard to the development of expenditure:¹

(i) the maximum growth laid down for the EAGGF Guarantee Section by the policy of budgetary discipline would lead to a budget share, in 1992, of slightly over 50%, as against 60% at the present time;

(ii) in real terms funds for the improvement of structures would double by 1992, in appropriations for commitment. They would come to represent about 25% of the budget, compared with 16% at the present time;

(iii) expenditure on research, on the basis of proposals for the next framework programme,² would represent 3% of the budget, as against 2.5% at present;

¹ Cf. Chapter II.B.: Community policies with real economic impact.

² OJ C 275, 31.10.1986; Bull. EC 7/8-1986, point 1.2.1 *et seq.*

(iv) a margin is provided for new policies;¹ this would increase progressively up to about 5% in 1992.

It is thus clear that the 1.4% ceiling is already outdated. Even raising the rate to 1.6% would offer no lasting solution to the financial problem. The retention of this system of financing would mean perpetuating improper practices in order to conceal a deficit which now has a structural character.

Also, maintenance of the present policies alone requires new resources, without which the policies that have already been agreed could no longer be properly executed.

Accordingly the Commission proposes that the Community should be assured of adequate, stable and guaranteed own resources at least until 1992 in order to restore 'budgetary truth' and put an end to unacceptable practices.

The Community cannot progress by lurching from financial crisis to financial crisis. The alterations to the systems of own resources in general presuppose ratification by the national parliaments. Such procedures ought not to be unduly frequent.

The proposals made as regards budgetary discipline and management would ensure that a period of 'budgetary security' was clearly given to the Community.

From the point of view of stability, the present system has a key defect: the basis of the resources is gradually being eroded, and the decline in the resources available under the present ceiling has a structural character. This is because:

- (i) traditional own resources (customs duties and agricultural levies) are steadily diminishing as a result of multilateral tariff reductions and the Community's growing self-sufficiency in farm products;
- (ii) the VAT base itself is increasing more slowly than economic activity in the Community, because of a decline in the share of consumer expenditure in the GNP. Thus, at a time when the main beneficiaries of Community policies (such as farmers and inhabitants of less-favoured areas) are, quite rightly, comparing their situation with those in other sectors of the economy, financing of these policies has run into trouble;
- (iii) the Fontainebleau correction mechanism has reduced the resources available in so far as the VAT ceiling applies to the Member States financing the correction and not to the Community as such.

The existing revenues provide neither the volume, nor the stability, nor the flexibility which the Community needs now and in the future.

Accordingly, the Commission proposes use of a fourth resource in addition to customs duties (the arrangements for which would be slightly altered), agricultural levies, and VAT (1% of the basis described below) to cover the whole of the budget.

The basis of this supplementary resource would be provided by the difference between the GNP of each country and the basis of assessment of VAT. It would cover economic aggregates such as investment, part of public consumption and net exports. It would thus adjust the impact of the VAT system by referring to the Member States' actual ability to pay.

If it is to provide the Community with the security it needs in the medium term, the own resources system must also provide proper safeguards for the Member States, and must therefore have a ceiling.

Reflecting a tendency in the Member States, the Commission proposes that this ceiling should take the form of a 'maximum rate of the compulsory Community levy', and should be fixed by reference to the Community GNP. This would be the safeguard given to the citizens of Europe and to the Member States. For this purpose:

- (i) the quantity of resources is related to the most representative indicator of economic activity. This practice is being followed more and more in the member countries, which define their budgetary objectives by reference to GNP. The Community would be aligning itself on this practice;
- (ii) the decision to allocate to the Community a given volume of budgetary resources would become more 'transparent' and more reliable in that it would no longer be exposed to the erosion effects or to the instability besetting the present own resources;
- (iii) it will no longer be necessary to set ceilings by type of resource. A single ceiling will suffice. The Community will thus enjoy greater stability, but also greater flexibility in the composition and the allocation of the resources financing the Community budget.

The Commission proposes that the ceiling on available resources should be set at 1.4% of the Community's GNP, a figure which should

¹ The expenditure on development cooperation would rise very sharply at the end of the period if the Seventh European Development Fund is included in the budget.

suffice until at least 1992. It emphasizes that this ceiling is certainly not too high, since it does not give the Community an expenditure growth capacity beyond that which it has enjoyed during the 1980-87 period, although the Community must clear the backlog of costs and stocks of agricultural products that has built up.

The Commission's aim is to ensure the provision of the funds needed to implement the common policies, especially those provided for by the Single Act, to restore sound conditions as regards the present situation (agricultural stocks and commitments still to be settled) and to give the Community a long enough period of 'budgetary security'.

The resources available within 1.4% of the Community GNP break down as follows:

- (i) customs duties;
- (ii) agricultural levies,

with the following adjustments for these two resources:

(a) the 10% reimbursement to the Member States to be discontinued,

(b) allocation to the Community of customs duties on ECSC products;

(iii) the VAT revenues which would accrue by a 1% levy on the basis actually subject to VAT. As the link between the Community and those engaged in economic life would become more direct, the 'own resources' character of VAT would be reinforced. The basis constituted by zero-duty products in certain Member States would also be subject to the same 1% levy;

(iv) a fourth resource: a levy on the 'supplementary basis' as additional resources to cover the whole of the budget. This would come from a financial contribution from the Member States obtained by applying a uniform call-in rate to a basis defined as being the difference between the GNP and the actual basis of VAT used for the 1% levy;

(v) Lastly, the Commission wishes to retain the possibility of adding a further resource between now and 1992 to those indicated above, within the ceiling of 1.4% of GNP.

This fifth resource is to be provided for in the basic decision creating the new own resources arrangements. Its implementation would require unanimous endorsement of the Member States and ratification by their parliaments.

The Commission emphasizes that its proposal for new resources would ensure, overall, that the contribution to the financing of the budget

matches more closely relative levels of prosperity in the various countries.

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The European Council at Fontainebleau, in 1984, accepted the concept of a 'Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity'. It also adopted a standard system on the revenue side to measure this excessive burden.

The Commission would point out that the idea of a budget excess or shortfall is inconsistent with that of the own resources of the Community. Nor can the budgetary benefit (or disadvantage) a country may draw (or suffer) from its membership in any circumstances reflect, much less measure, its interest in belonging to the Community. Also the European Council expressly referred to expenditure policy as a means of solving in the longer term the problem of budgetary disequilibria.

The Commission also takes the view that the origin of budgetary disequilibria must be assessed in the light of the nature of the expenditure and the way it changes. A considerable share of the budget (but one which will be contracting) goes to the financing of guarantee expenditure under the common agricultural policy, the only type of expenditure which is wholly borne by the Community.

Expenditure designed to promote greater economic and social cohesion and expenditure on new policies will be accounting for an ever larger proportion of the budget, and this is a factor which is highly relevant for the future.

For the moment, analysis of the budget outturn shows that EAGGF guarantee expenditure, and its financing, are the main sources of disequilibria. The problems also have a structural character, connected with the nature and structures of agriculture in certain countries.

This applies particularly to the United Kingdom, where agriculture, although very efficient, makes only a modest contribution to GNP. There is thus a very large gap between the UK's share of Community GNP and its share of agricultural guarantee expenditure, which entails a specific burden which it is very difficult for a country whose relative prosperity is only slightly above the Community average to bear.

The other categories of Community expenditure have to be looked at differently. For instance, it is reasonable that the most prosperous countries should make a full contribution to financing structural policies which are aimed mainly at supporting the economic and social develop-

ment of the less prosperous countries, with a view to economic and social cohesion. In the same way, any offsetting mechanism in the management of the other Community policies must be ruled out, be it in the Community's international activities or in the financing of its operation.

The aim being to lay down medium- and long-term rules for financing the Community, the bases for any budgetary correction mechanism must be as objective as possible. Making good the loss of the United Kingdom in the management of guarantee expenditure would seem to be legitimate. Growing control over production and over agricultural expenditure should, in any case, eventually help to narrow down this gap. The scale of the correction must be assessed in the light of the changes made in the own resources system (as indicated below), which would yield a significant reduction in the charge to the United Kingdom. The Commission proposes a rate of 50%.

The correction should be made in a way which is fair within the Community of Twelve, where the situation is very different from that of 1984. The Commission takes the view that the Community's four least prosperous countries (Portugal, Greece, Ireland and Spain) should not, as things stand at present, be required to make any contribution to financing the correction. This arrangement should be reviewed periodically (as should the whole of the correction system), looking towards greater convergence between the economies of the Member States.

Subject to the special rule laid down for the Federal Republic of Germany, as indicated below, the other Community countries will therefore bear the cost of financing the correction, on a modulated scale related to prosperity levels.

The European Council in Fontainebleau acknowledged a special situation for the Federal Republic when it established the budgetary compensatory mechanism. In view of the size of the German contribution and its low participation in the policies conducted under the structural Funds, the burden on that country incumbent upon it as a result of the United Kingdom compensation could be lightened. It could be reduced to 25% of its normal share in the financing of the United Kingdom compensation. This would allow for the special situation of this country, without there being any need to set up a special mechanism. The Commission is anxious to avoid any dangerous precedent which would abandon the spirit of the Community. The aim is, therefore, for the period up to the completion

of a single economic area (1992), to make a gesture to accommodate the misgivings expressed by this country as to budgetary matters. But the Commission does hope that the successes achieved in the area of economic integration will be such as to convince all the member countries of the advantages they reap from a market of 320 million consumers and the development of the common and cooperation policies.

The correction could take the form of a direct payment to the beneficiary, from the Community budget, financed according to the procedures described above.

D — Ways to strengthen budgetary discipline

Efforts to achieve budgetary discipline as agreed by the European Councils held in Brussels and Fontainebleau have not so far yielded satisfactory results.

There are a number of reasons for this, some of them of a short-term, incidental, nature (mainly in the area of agriculture), and others of a structural character, reflecting the difficulties inherent in the present institutional system.

In the first place, the authorities have not been able to contain agricultural expenditure within the 'reference framework' and the 'financial guidelines' in accordance with the conclusions of the Council of 4 December 1984,¹ adopted at a time when the dollar and world prices were both very high. The limits have been overrun partly because of unforeseeable external events (the sharp decline in the dollar, currency realignments) and partly because of the Council's failure to endorse the Commission's proposals unamended or failure to act promptly; another point is that the current regulations are not well adapted to ensuring consistency between budgetary decisions and agricultural decisions. This is one of the reasons why the Commission proposes that work on the reform of the common agricultural policy should continue.

In the second place, the fact that Parliament has not taken part in the procedures concerning budgetary discipline has entailed each year growing difficulties for the adoption of the budget, as was the case for the 1986 and 1987 budgets.

For non-compulsory expenditure, Parliament has not endorsed the Council's guidelines. Thus

¹ Bull. EC 12-1984, point 1.3.1 *et seq.*

the Council has found itself alone as the object of budgetary discipline guidelines. The result has been a power conflict between the Council and Parliament on the ability to increase the non-compulsory expenditure. This shows that a system of budgetary discipline which does not have clear rules, binding on all the institutions, bears in itself all the seeds of a lasting institutional conflict, and thus of excessively restricted effectiveness.

The Council's guidelines for non-compulsory expenditure have also proved inapplicable because they concerned only the appropriations for payment, although the 'cost of the past', generated by the scale of the commitments entered into in previous years, has to be worked off.

In general, the present decision-making processes within the Council are not such as to enable it to act as a referee in the way that authorities in the Member States can reconcile the bodies having law-making or regulating power on the one hand and those responsible for the budget and finance on the other.

Accordingly, the Commission proposes the introduction of rules of budgetary discipline which would help to promote consensus between two two branches of the budgetary authority.

First and foremost, the management of the Community's budget must be such that the new ceiling set on the Community's own resources is complied with at least until 1992.

For this purpose, on the basis of the multiannual 1987-92 estimates which it has established, the Commission will propose that the decision on the Community's own resources should state (as a percentage of the GNP and in absolute values) the ceiling each year on the own resources that can be called in, and should do this within a ceiling of 1.4% of the Community GNP, until 1992.

This provision, which will have been endorsed by the Parliaments of the 12 Member States, in accordance with Article 201 of the EEC Treaty, will be the basis of budgetary discipline. It will therefore have force of law.

Within this framework, the Commission proposes the conclusion of an inter-institutional agreement between Parliament, the Council and the Commission, under which the three institutions would enter into the following formal undertakings with a view to ensuring harmonious execution of the budgetary procedure laid down in Article 203 of the EEC Treaty:

1. the rate of increase in the non-compulsory expenditure, both for appropriations for com-

mitment and for appropriations for payment, will be fixed at the beginning of the budgetary procedure, by agreement between the three institutions;

2. there will be no overrun of the maximum rate of increase such as that set out in Article 203(8), except for expenditure connected with the implementation of the policies in the Single European Act;

3. increases in the various categories of expenditure during the 1988-92 period will be worked out on the basis of multiannual estimates proposed by the Commission and agreed by the budgetary authority.

For the implementation of the inter-institutional agreement, compliance with budgetary discipline will rest on the following rules:

- (a) The appropriations authorized for each year (within the annual ceilings on resources) must suffice to cover expenditure necessary to clear the 'cost of the past' and dispose of agriculture stocks. This rule will lead to a relative slowdown (in terms of appropriations for commitment) of the growth of the Community's budget as compared with its growth during the 1980-87 period.

- (b) The annual expenditure allocated to the management of the agricultural markets must not increase more rapidly than the base for the own resources. Such control will be implemented during a three-year period and in accordance with the definitions adopted in the conclusions of the Council of 4 December 1984. The appropriate adaptations will have to be made to allow for the gradual incorporation of Spain and Portugal in the CAP financing arrangements.

For this purpose, the regulations designed to ensure lasting control of production will be supplemented by budget stabilizers, which will be added to those already in force or proposed by the Commission for 1987/88 (oilseeds, olive oil). These stabilizers should be binding in character and even automatic, so that there can be no overrun of the budget limits set.

In this connection, it is important that the financing of the common agricultural policy should be properly 'transparent'. In particular, a procedure for the 'budgetization' of stock depreciation will be set up to cover the relevant costs. The system of advance payments will be discontinued and replaced by a system of reimbursement of expenditure committed by the Member States.

The agricultural regulations will have to authorize the Commission to adapt the intervention system should there be any danger of overrunning available funds. Should such arrangements

prove insufficient, the Commission will be required to lay before the Council such stabilization measures as would be necessary and the Council will be under the obligation to take decisions within short and specified time-limits.

To meet exceptional circumstances, notably with regard to exchange rates, the annual limitation laid down for budgetary discipline will include a reserve. Savings made in terms of a basic parity of currencies (ECU/dollar relationship) would be paid into a reserve fund. Conversely, this fund would be used to finance extra expenditure entailed by exchange rates necessitating increases in export refunds or deficiency payments.

(c) By observing the annual ceilings on the own resources, the multiannual estimates become an important instrument for the management of the budget and compliance with budgetary discipline. They will be expressed both in appropriations for commitment (expression of the policy to be conducted) and in appropriations for payment. The ceiling on the own resources for 1992 will therefore have to be complied with also for the appropriations for commitment.

E — New rules for managing the budget

The introduction and observance of strict budgetary discipline by the three institutions calls for changes both in the practices and in the rules governing the preparation and execution of the budget, so as to limit the necessary call-in of resources and improve their allocation in the light of the objectives sought. These changes are the essential complement of the requirements of budgetary discipline and are designed to facilitate its observance. The ultimate aim is to achieve more control over expenditure and to increase its effectiveness.

The Commission takes the view that the most critical aspects from the point of view of improving management are the following:

(i) the over-budgetization of many headings, especially of differentiated appropriations, caused by overestimating expenditure capacity or underestimating the time required to obtain from the Council the legal basis enabling the appropriations to be used. This phenomenon is encouraged by the possibility of carrying over appropriations;

(ii) incomplete observance of the principle of the 'annuality' of the budget, reflected in heavy carryovers of appropriations from one year to the next. This obscures budget 'transparency' in

that the appropriations available for a given financial year lack homogeneity, some being adopted by the budgetary authority for the year in question and others being substantial left-overs from past decisions which could not be carried out;

(iii) insufficient monitoring of measures or programmes under way, which leads to considerable deviations from the timetables planned and largely accounts for the fragility and insufficient take-up of budget appropriations. It also results in the build-up of a substantial volume of 'sleeping commitments', i.e. commitments which no longer have a real counterpart in terms of projects or programmes to be financed;

(iv) Community action is not always of maximum effectiveness in terms of objectives pursued. This means that in some cases the same objectives could be achieved with less expenditure and/or by different methods.

This is why the Commission is proposing changes in the rules and practices governing the preparation and execution of the budget, in four respects.

Firstly, to reduce to a minimum the risks of over-budgetization, the Commission proposes the following twofold approach.

On the one hand, as far as practice is concerned, it undertakes to ensure that its requests for appropriations correspond as closely as possible to the actual scope for execution, not forgetting the actual take-up capacity of potential beneficiaries. It calls upon the budgetary authority to pay more attention to this aspect, during the budget procedure, when it wishes to make changes to the Commission's evaluations.

A multiannual approach to the planning of expenditure would also enable those concerned to allow more fully for any expression of a political will to strengthen certain operations, and its realism.

Secondly, as an incentive to prudence in the entry of appropriations in each line, so as to achieve an overall saving effect, the Commission is proposing that, independently of the agricultural reserve referred to in Chapter II.C, a certain amount in unallocated appropriations should be entered in the budget.

Thirdly, the Commission proposes that the principle of budget 'annuality' and of transparency of available appropriations should be strengthened by the following measures:

(i) abolishing the automatic nature of the appropriations outstanding and the carryover of payment appropriations by adapting the Finan-

cial Regulation and the specific regulations, particularly those relating to the structural funds, where necessary. As a result, any appropriation unused during a given financial year ('n') and for which the Commission had not proposed an alternative use for the following year ('n + 1') would lapse;

(ii) proposing to the budgetary authority, at the start of the year, the use it intends to make of the appropriations which have not been cancelled. This use can take three forms: carryover under the same heading, carryover under another heading and carryover to the global reserve.

The budgetary authority would have explicit information on the appropriations available line by line for the new financial year. In these circumstances, the global reserve may take on the nature of a permanent reserve.

Fourthly, the Commission will make the necessary internal arrangements to establish a system

under which the appropriations allocated can be executed in accordance with the estimates and under which the appropriations which cannot be used as stated can be cancelled without delay.

The multiannual forecasts must become an instrument of budget management by providing for a regular and gradual flow of expenditure and preventing the new resources available from being eaten into too soon. They will act as a 'sliding' plan enabling the Community to keep to a line of conduct in the medium term. In addition, better than the current procedures, they will ensure that appropriations were used efficiently. This is why the 'annuality' rule, instead of generating losses, encourages the introduction and implementation of realistic, effective programmes.

These new management procedures will entail substantial reform of the financial regulations.

Introduction of the Commission's programme
for 1987

**Mr Jacques Delors,
President of the Commission**

*Mr President, ladies and gentlemen,
Mr President*

In January 1985, in my statement on the thrust of Commission policy as our term of office began, I spoke of what is closest to my heart: Europe's credibility. Last February, during the debate on the Commission's programme, I referred to the two pitfalls that bedevil European integration: impatience and inertia. I even spoke, at the risk of causing displeasure, of the dangers of labels.

You will therefore appreciate why the Commission, after two years in office, wants to measure, with you, the gap between words and deeds, between promises made and goods delivered, so that it can do better and advance more rapidly on the road to European Union.

What have we done over the last two years to breath new life into European integration? What do we need to do this year and next?

In 1985 we relaunched the large internal market and proposed that the Community should become a frontier-free area by 1992. Guided by past experience we proposed a timetable for attaining this objective. We believed then, and we believe today, that the large internal market will fuel European economic integration.

And it is the pace of economic integration that will determine the outcome of the world race against the clock on which Europe's survival depends. This is why we had to change gear, this is why we had to do something about the obsession with unanimity, which had gradually vitiated the Commission's institutional system.

In 1986 we negotiated and adopted the single Act. Our mutual hope was that this reform would not be confined to a mere revamping of procedures. Together we pressed for the inclusion of new areas: a European research and technology policy; the environment; working conditions. Although many people—myself included—feel that it did not go far enough, the Single Act is in fact more demanding than it appears on first sight. It will be for us, this year and next, to translate the Single Act into action and proposals and to ensure that the 12 Member States are made aware of the implications. Make no mistake about it—it will be no easy task. The contract is virtually signed, but the political will may be lacking.

That at least is the impression I got on my 'tour of the capitals' over the last few months at the

request of the European Council. Let me remind you that the sole purpose of this tour was to listen to the views of the 12 governments before the Commission put the final touches to its proposals for what I have termed 'le grand rendez-vous'.

There was no question of trying to reconcile viewpoints or letting governments take over the initiative. It was, rather, a matter of explaining what was at stake, raising awareness, getting people thinking. Experience has shown that this is essential whenever the threat of a Community crisis looms on the horizon.

The Commission has listened to the Member States. It has listened to your representatives whom we met last week. The Commission has worked hard—in fact it only finished its discussions last Sunday. It took the decision to unveil its proposals in this House, because it senses that they stand no chance of adoption without the support of those who are actively campaigning for European integration, without the support of members of this House, the elected representatives of the people of Europe.

(Applause)

I admit that we wavered and argued. But at the end of the day we opted for clarity. Because it is our duty to face the 12 governments with the choices that must be made if European integration is to progress as quickly as we would like. The approach we are proposing hinges on two simple ideas: more cohesion, more discipline. Whether we look at the common agricultural policy, the structural policies or the financial system, the choice is between a hazy free-trade area embellished with a few financial transfers and a truly common economic area, a precondition for Europe's vitality, a precondition for European Union, solemnly proclaimed in the Preamble to the Single Act.

This is what is at stake, ladies and gentlemen. The report we have sent to your governments spells it out.

This is the mission on which the Commission has embarked.

I would like to begin by commenting on proposals the Commission has made. Their adoption will be central to the Community's activities in 1987. But there is more to be done. If you bear with me, I will therefore go on to give you a brief outline of what the Commission intends to do to underpin the foundations laid in 1985 and 1986 for revitalizing the Community.

First and foremost we must make the Single Act work. In a nutshell, the obligation imposed by the Single Act is nothing less than the simultaneous achievement of the large frontier-free market, greater economic and social cohesion, a European research and technology policy, a stronger European Monetary System, the beginnings of a European social area and meaningful measures for the environment. You will notice that I said 'simultaneous achievement'.

If this is to be done, the Commission must get to grips with difficult problems and satisfy the four basic conditions discussed in our report to Parliament and the Council: an agricultural policy adapted to the new world context; Community policies with real economic impact; sufficient, stable and guaranteed own resources; and effective budgetary discipline.

Let us look first of all at a common agricultural policy adapted to the new world context.

Agriculture, which employs more than 10 million people in the Community—and provides work for many more—is the basis of an essential agri-food chain. It is an economically and strategically vital industry for Europe.

The common agricultural policy has been a success over the last 25 years. The underlying principles are still valid: Community preference, a unified market and financial solidarity.

But today, ladies and gentlemen, the general economic environment and the world market situation compel us to strive for a finer balance between supply, which has been amplified by technological progress, and demand, which is growing less rapidly. This is the background to action taken by the Commission since 1985, which it now proposes to strengthen with a restrictive pricing policy, more flexibility in guarantees and intervention mechanisms and a higher degree of producer co-responsibility, including recourse to quota systems.

The general aim is to encourage farmers to adapt gradually to conditions on the European and world markets and to seek new outlets for their produce. The Community has taken the first steps in this direction. But it must go further.

Together, the reforms introduced since 1984 and the 1987 price package represent an annual budgetary saving of some 6 000 million ECU in constant dollars. This is a measure of the sacrifices accepted by our farmers. It should silence mistaken criticism of the common agricultural policy.

This new approach clearly poses a threat to the incomes of the least well-off. Our rural areas, moulded by the tradition of family farms, may be completely transformed. And yet, culturally and socially, this tradition has proved its worth in economic and ecological terms and must therefore be preserved. It can be done. All we have to do is to differentiate measures to allow for the special situations of certain farmers or regions.

We have already modulated the milk levy, introduced aids for small grain farmers, taken the special features of certain regions or countries as criteria for modulating production quotas, and introduced aids for cattle farmers.

Should these measures prove inadequate the Community will have to consider the possibility of incomes support. If it doesn't, others will, with all the dangers of renationalization that we are so anxious to avoid.

(Applause)

The Commission therefore proposes to introduce a strict framework for income support, setting out precise limits at Community level. This framework will ensure that aids do not distort competition or undo our efforts to contain production. It is the future of the common agricultural market that is at stake, but the framework will also help to avoid aggravating existing disparities between the regions.

In essence, the objective is more balanced Community action and a better breakdown between market support and income support. But we must also provide the basis for rural development, striking a balance between man and his environment, and above all sustain a way of life that gives character to many regions in both northern and southern Europe.

Our farmers, ladies and gentlemen, would have difficulty in accepting that the Community alone was making this painful effort to adapt to the new world context. The Community's partners must be made to understand this. It is only by concerted international action that we can cushion the adverse effects on world markets of erratic exchange rates, aggravated by monetary turmoil, and avoid the consequent subsidies war.

But let us first put our own house in order. Only then can we insist that our partners do the same. In this way the common agricultural policy can once again play its essential role and contribute on an equal footing with other Community policies to greater economic and social cohesion.

(Applause)

The Community needs a common agricultural policy adapted to the new world context, but it also needs other policies with real economic impact.

It is unacceptable, ladies and gentlemen, that the common agricultural policy should be the only Community policy with genuine economic impact; today's enlarged Community needs new frontiers.

There are two possible approaches to structural action by the Community.

The first, purely macro-economic, is based on the principle of the invisible hand operating in this instance in financial flows; providing they are sufficiently substantial, transfers of resources between the Member States should guarantee economic convergence.

The second, micro-economic and structural, is designed to speed up the dissemination of innovation, to reduce bottlenecks and to promote economies of scale. To put it in a nutshell, this approach would bring structural policy 'down to earth'.

Encouraged by the success of the integrated Mediterranean programmes the Commission has opted for the second approach as being not only less costly but also more efficient.

Reform of the structural Funds must therefore be geared to real economic objectives. Just like the framework programme for research and technological development, the new transport and environment policies assume their full significance when they are set in the Community framework and seen as a component of the single economic area.

Five priority objectives have been identified for the structural Funds: helping backward areas to catch up, restructuring regions in decline—for which, incidentally, we are not doing enough—combating long-term unemployment, integrating young people into the working environment and, lastly, developing rural areas, notably but not exclusively through the adjustment of agricultural structures.

These, then, are the five priority objectives to be pursued if we are to give our policies punch and make them work.

As to the practicalities, I would ask you to concentrate on two key principles.

Firstly, preference will be given to multiannual programmes designed to complement action by the Member States and the regions themselves.

Secondly, management will be decentralized as far as possible. Brussels must not become yet another centralizing force but rather a base for generating and disseminating initiatives.

(Applause)

The Commission is therefore proposing that the Community should give itself the resources it needs to manage Community operations which genuinely boost national and regional programmes. This is the background to its proposal to double the volume of the structural Funds in real terms between now and 1992.

(Applause)

If the Community is to reform the common agricultural policy, if the Community is to ensure that its other policies have real economic impact, it must have sufficient, stable and guaranteed own resources.

It is quite unacceptable that the Community should be plunged into crisis every two or three years and have to call on national parliaments to bail it out. This is why the Commission has deliberately chosen to take a medium-term view.

If the Community's political credibility is to be restored it is essential that we press ahead with reform of the common agricultural policy and boost action under the structural Funds. And, as I have just said, these objectives are inseparable from reform of the Community's finances.

The present own resources system, born of the 2 April 1970 decision and the Fontainebleau European Council, is bankrupt.

Everybody knows that there is not enough in the kitty to finance spending throughout 1987 and that the Commission will be left to cope with the consequences. This House is aware of the stop-gap expedients used since 1983 to mask the real deficit on the Community's budget. When I was asked to take the floor at the London European Council I warned the Heads of State or Government that I would refuse to resort to unacceptable practices in 1987 or any subsequent year.

It is common knowledge that the own resources base is being eroded since the various components are growing less rapidly than economic activity.

But despite its shaky finances, the Community has recently taken on large-scale political commitments with negotiation of the Single Act and the accession of Spain and Portugal.

What will the Community budget look like in 1992? This is the question that the Commission has been addressing, the question it needed to address. And the factors we took into consideration were our plans to rebalance agricultural spending, to double the structural Funds in real terms, to fund the framework programme for research, action on transport and the environment, and, I would add, the need to expand our development aid policy.

The Community cannot limp on from crisis to crisis, nor can it muddle through by means of stopgaps which the Commission will not tolerate.

What the Community needs today is budgetary security and this can be achieved by making two major changes to its financial resources.

The first change is to define the new ceiling on resources by reference to Community GNP, a better reflection of its prosperity, and to fix the new ceiling at 1.4% of GNP for 1992. This political decision provides a guarantee that the compulsory Community levy will not be open-ended.

The second change is to alter the make-up of resources within this ceiling, not only to achieve a better match between each country's budget contribution and its relative prosperity but also to provide a measure of flexibility. The sources of revenue would then be stable and sufficient.

Under the Commission's proposal, the resources available within the limit of 1.4% of GNP would be as follows.

First, customs duties; second, agricultural levies; third, revenue from VAT, representing 1% of the base actually subject to VAT. This would reinforce the own resources aspect of VAT. Fourth, a 'balancing' resource, calculated on an additional base defined as the difference between GNP—I have already spoken of the advantages of this—and the actual VAT base used for the 1% levy.

These four items would be the new sources of revenue.

However, the Commission wants to keep a fifth option open. This resource could be added between now and 1992 but—let me be quite clear on this—without exceeding the 1.4% ceiling. One possibility, for instance, might be a minimal stamp duty on financial transactions, but I hasten to add that we are making no proposals at this stage.

I would like to make the point here that with the proposed ceiling corresponding to 1.4% of GNP the growth of own resources will be no higher than in the years 1980 to 1987. In fact it will be lower if you allow for the fact that existing liabilities will have to be absorbed within this ceiling.

What exactly are these liabilities? Disposing of agricultural stocks, settling the cost of the past—too many commitments and not enough payments—and finally the growing and completely normal impact of enlargement of the Community to include Spain and Portugal. I feel bound to stress this point to prove to you that the Commission has shown financial moderation.

Finally, we come to the burning question of compensation for budgetary imbalances. Let me be quite frank on this one: the Commission had four possible solutions:

(i) To sit back and do nothing, arguing that it was not the Commission but the Heads of State or Government at the Fontainebleau European Council who devised the mechanism; this approach would have been compatible with Community logic but the Commission, in its desire to be realistic and responsible has preferred to make a proposal on this aspect too.

(ii) To extend the Fontainebleau mechanism. But the situation has changed since 1984 with the accession of two new members with a standard of living way below the Community average.

(iii) To start calculating all the net balances and introduce a mechanism to reduce the size of the biggest. There had been much talk of this prior to Fontainebleau, but because the idea is at odds with the Community spirit, the Commission is resolutely opposed to it. The advantages and disadvantages of Community membership simply cannot be measured by the yardstick of budget contributions. Such an approach is unacceptable. In any event, the Commission is not prepared to take that road.

(Applause)

(iv) To come up with a new, and let me stress, a provisional mechanism. We considered this to honour the undertakings given at the Fontainebleau European Council. We worked on the basis of the notion—to quote the Fontainebleau text—of 'a budgetary burden which is excessive in relation to the relative prosperity of a Member State'.

To cater for the special position of the United Kingdom, we have chosen to base this correction on the underlying reason for the imbalance, that is to say, the utterly different structure of agriculture in the United Kingdom and in the other Community countries. What we have come up with, to revert to Community jargon, is a 'green scale' for compensation.

Last but not least, we come to tighter budgetary discipline and improved budget management. There is no doubt that this is an area in which you have to field a lot of questions. Why should the Community be given new resources if it can't show good stewardship in the organization of its finances? Why should the Community be given new resources if it acts like a run-of-the-mill international organization rather than a genuine community? It must be said that the budgetary discipline introduced following the Fontainebleau European Council has failed. Why? Because there is little point in taking one set of decisions at an agricultural council or at a research council and then fixing a reference framework at a budget council which is routinely exceeded. The fault lies with a decision-making process in disarray.

(Applause)

There is little point in unilaterally fixing a maximum rate of increase for non-compulsory expenditure and then refusing to discuss the matter with Parliament in defiance of the spirit of Article 203 of the Treaty.

(Applause)

Budgetary discipline will remain an illusion until such time as Parliament is involved in the procedure from the outset, until such time as the Council stops taking contradictory decisions.

The Community cannot go on with this petty institutional war. It must take unequivocal, firm decisions.

But it needs budgetary discipline too. Budgetary discipline should emerge from an interinstitutional consensus.

This is why the Commission is proposing that Parliament, the Council and the Commission should enter into a five-year pact which fixes the ceiling and the broad outlines of budgetary expenditure in advance. The budgetary procedure will then take place within this pre-defined framework, after the institutions have set a ceiling on resources for each of the five

years, that is to say 1988, 1989, 1990, 1991 and 1992.

Unambiguous criteria must be fixed for non-compulsory expenditure. But the containment of agricultural expenditure must finally be taken seriously, firstly by pressing ahead with reform of the common agricultural policy and secondly by introducing budgetary stabilizers, which will operate strictly, perhaps even automatically, within the existing framework of budgetary discipline applicable to farm spending.

Of course allowance must be made for exceptional monetary circumstances, which is why the Commission is proposing that a special reserve be created alongside the annual endowment for agriculture to cushion the shocks caused by the ups and down of the dollar.

As this House has urged again and again, the multiannual budget forecasts would then become an important tool for managing the budget and ensuring observance of budgetary discipline. Changes to the rules and practices of budget management should help too. The Commission proposes that the main aim here, as applies to national budgets, should be to adhere more strictly to the annuality principle, by limiting the scope for over-budgetization and by increasing the transparency of appropriations available. This will require a radical reform of the financial regulations.

It is time, ladies and gentlemen, that the two arms of the budgetary authority gave themselves the means to manage Community resources in a serious, responsible way. The people of Europe demand it!

(Applause)

These, then, are the main lines of proposals which the Commission has made in the context of what I have termed 'le grand rendez-vous'. But the Commission will also have to pursue its efforts in 1987 to strengthen the base for revitalizing the Community.

The most useful contribution we can make to the debate which has now opened on how we are to make the Single Act work is to demonstrate that it is already in operation, that progress is possible, that more progress is on the way. Since movement builds up momentum, we must broaden and strengthen the base for revitalization in 1987 by advancing towards completion of the internal market and implementation of Community policies which this implies, by moving to a new phase of the

European Monetary System, by taking the people of Europe and the two sides of industry with us, by viewing the year ahead as a test of the improved functioning of the institutions in line with the Single Act.

To take the internal market and Community policies first. As I have said, the large market remains the prime objective. In 1987 the Commission will take two initiatives which it regards as particularly significant.

The first relates to the liberalization of public contracts in areas which are still shielded from competition: energy, transport, water and telecommunications. At the same time we will propose that the Commission be given greater powers to monitor tendering procedures.

The second relates to the approximation of the rates of VAT and excise duties and the distribution of products between rates. This should make it possible to underpin the large market with a tax system compatible with fair competition.

Here then are two new tests of the determination of the Member States to meet the 1992 deadline for completion of the internal market. There is no need to remind you that other important issues, including air transport, car exhaust emissions and a new approach to standards, are still before the Council and must be settled this year. Finally, the Commission will honour its undertaking to present a general survey of the consequences of completion of the internal market for the Community's commercial policy. This will meet the wishes this House has already expressed, notably last month when you adopted Mr Beazley's impressive report on the automobile industry.

You know as well as I do that the large market implies greater cooperation and modern and efficient Community policies. You also know that the top priority in this context is mastery of the new technologies, the key to the competitive and prosperous economy which the large market can help produce for us if only a start can be made.

Ladies and gentlemen, although the crucial importance of Community action is recognized by the Single Act, although it has been accepted at the highest political level, the framework programme for 1987-91 has still not been adopted. This is not good enough. Are programmes as important as Esprit, Race and Brite to die for lack of funds? I ask the question because here again our credibility and the credibility of the Community are at stake.

(Applause)

The Commission with the backing of this House and, in particular, the excellent work of your Committee on Energy, Research and Technology, has already taken steps to ensure that the Councils meeting this month and next take an early decision. May I add my thanks to the Belgian Presidency for the resolute approach it has adopted.

Are we to interpret these hold-ups, particularly on research, as an indication that the Member States are suspicious of the Community? This would be mistaken and unjust. The Community is not setting itself up as a rival to the Member States. Its aim is rather to stimulate that desirable and even essential cooperation between all those involved in any of the aspects of research. Our open and vigilant attitude to the Eureka project is proof of this.

The framework-programme approach means help not hegemony, as was shown recently with the adoption of the integrated Mediterranean programmes. Ladies and gentlemen, Parliament has proved to be a great ally. And I must say that this experience has been most encouraging since a new *modus operandi* has emerged: a permanent dialogue and a new form of consultation between the Community and the regions, which remain responsible for identifying their own needs and deciding how these needs can best be met.

The Commission's role is really that of a regional development engineer. It is far from being the ivory-tower bureaucracy of popular imagination.

But most important of all — and this is why we have extended the use of this approach in our proposals — the regions thus stimulated have become aware of their strengths and weaknesses and have demonstrated their willingness to find new ways of developing.

So we will continue working towards completion of the internal market, we will continue striving to consolidate these Community policies, but in 1987 we will also — and there can be no delay — take stock of the European Monetary System. What happened in December and January shows that the EMS is under threat, that it is at a turning point. Broadening the base for revitalizing the Community means strengthening the bonds of monetary cooperation between Europeans.

It can be said that the first phase of the EMS is coming to an end. Moderate inflation, monetary stability and budgetary prudence are now the

common coin of the countries belonging to the exchange-rate mechanism. We must not forget that during this first phase the EMS has played a vital part in leading most countries into the virtuous spiral of battling against inflation and imbalances.

We must now place the European Monetary System at the centre of an economic system which offers higher performance in terms of growth, competitiveness and employment. The spectacular progress in liberalizing capital movements within the Community leaves us with one choice: to widen the area of economic and monetary cooperation.

The unprecedented upsurge of speculation on capital markets has led some to advocate the relaxation of exchange-rate discipline — a view that we cannot share. Others are thinking in terms of some kind of control over exchange rate movements between key currencies within the international monetary system. But that is another story.

Uncertainty about parities is an unacceptable price to pay for greater financial integration of Europe's economies since it undermines the stability which is vital to the expansion of trade. Indeed I would argue that a common agricultural policy and a frontier-free market which really works is unthinkable unless all currencies are subject to the same exchange rate disciplines by 1992.

The Commission will shortly set out the essential conditions for complete liberalization of capital movements: continuing patient work on the coordination of monetary, budgetary and fiscal policies and the parallel approximation of the rules of prudential management and basic regulations for banks and other financial institutions. At the prompting of the President of the Council of ministers of economic and financial affairs, an initial discussion of these problems will be held in April.

At the same time, the Commission will contribute, as it has done since 1985, to the debate on how the European Monetary System can be strengthened as part of a plan for greater economic convergence. The best ways forward must be found.

The first step is more effective coordination of interest rate policies, which has been conspicuously absent in recent weeks. That at least is one lesson to be learned from that experience.

Then the divergence indicator provided for by the Bremen European Council needs to be reap-

praised. This indicator could become a positive trigger for coordinated and balanced intervention by the central banks. The final step is a wider regulating role for the European Monetary Cooperation Fund, which in turn implies, in our view, increased use of the ECU.

These are only the first steps towards controlling our common financial area and, more generally, ensuring that the large frontier-free market yields all the expected benefits.

In this way, ladies and gentlemen, Europe will be in a position to make the ECU a reserve currency and a means of payment. In this way, and this way only, can it make an effective contribution to restoring international monetary order.

Thirdly, we intend to pursue cooperation with those active in the economy and in industrial relations. Over the last two years, the Commission has endeavoured, with some success, to promote a fresh dialogue between employers and trade unions. It has also won their support for its cooperative growth strategy.

We must hold on to these facts at a time of universal disappointment at how little has been achieved in the area of economic growth and job creation despite the stimulation provided by the fall in oil prices and the value of the dollar.

The Belgian Presidency has shown that it is extremely anxious to reopen the economic debate on growth and the social debate on the organization of work, changes in working time, introduction of the new technologies and operation of the labour market. The Commission has convened working parties of employers and trade unions to study these topics.

In 1987, the Commission in liaison with the Belgian Presidency, will continue to encourage the social dialogue and will call for fresh discussions within the Council on ways of achieving stronger job-creating growth throughout the Community — a perfectly attainable objective. As the Commission stresses in its report on what I have termed 'le grand rendez-vous', this is a precondition for actual completion of the internal market.

I cannot present the Commission's programme without referring to a people's Europe, however disappointed this House and the Commission may be about what has been achieved.

Now that we are trying to get the Community moving again, it is essential that the people of

Europe should feel that this new movement is relevant, that it is of immediate concern to them. The widespread approval which greeted the donation of food surpluses to charitable organizations is a good example of what I mean. 'So Europe does have a heart after all' was the reaction to the measures which were taken, admittedly rather late in the day, although they will remain in operation for some time.

We must pay more attention to a people's Europe, a Europe in which its citizens are free to move and reside, a Europe in which their qualifications are recognized wherever they are.

(Applause)

Our critics claim that Europe is synonymous with bureaucracy. But nothing could be further from the truth. Just think of the formalities and mountains of paperwork that will disappear with the frontier-free area, with the mutual recognition of standards and diplomas.

We will encourage young people to be mobile within the frontier-free area. The Comett programme, enabling thousands of students to benefit from on-the-job training with firms in other Member States, has been adopted already. The Erasmus programme should be approved shortly, following the commitment given by the Heads of State or Government at the London European Council. This will allow tens of thousands of students to follow part of their courses of study at universities in other Community countries. Lastly, there is the YES programme to promote youth exchanges.

To the man in the street, Europe is his everyday life, his health. This is why we have taken a number of initiatives in the fight against cancer that have proved remarkably effective in strengthening cooperation. We will do the same for AIDS. We need to demonstrate that, thanks to scientific cooperation, the exchange of information and experience, and the resolute efforts of specialists and academics, the Community can enhance the value of individual contributions and multiply the effectiveness of action taken.

To the ordinary citizen, Europe stands for change which strengthens the feeling of belonging to one and the same community. At the heart of this sense of community lies our cultural heritage in all its rich diversity. I would draw your attention in passing to the conference being organized by the Commission in Florence next month, which will, we trust, serve as the starting point for a debate on the relationship between culture, the economy and technology.

I would like to say a few words, difficult though that may be, about radio, television and the cinema to make the point that, behind the growing multiplicity and profusion of sounds and images being generated by the new technology, it is our cultural identity and technical capacity that is being threatened.

Ladies and gentlemen, unless we join forces we cannot hope to meet the new demand for programmes. If we fail to establish common standards we cannot hope to control the production and distribution process. The stakes are enormous in industrial and cultural terms. With an eye to the large internal market, the Commission has proposed a comprehensive policy for this area, including the 'television without frontiers' directive, which this House will be examining in the near future. This lays down minimum rules governing the distribution of television broadcasts and provides for the implementation, beginning this year, of the Media programme, which will involve the professionals in a diagnosis of the European broadcasting and film industry and the production and distribution of films and programmes. We need to find a way of ensuring that the industry becomes a vehicle for the promotion of our cultural heritage. European Cinema and Television Year will be an important milestone. Let me say again that the stakes are enormous, for Europe cannot live by economic performance alone. Our civilization, our culture, our creative artists demand that we seize an historic opportunity.

The year ahead will also be a test of whether our institutions can operate more effectively.

Within the triangle there are three essential requirements: the Council must improve its decision-making, Parliament must be more closely involved in the legislative process, and the Commission must be given more effective executive powers.

Last December the Council finally agreed to revise its rules of procedure. The formula adopted is far from perfect, but the essential fact is that in practice there is now an obligation of sorts to proceed to a vote. This is undoubtedly an improvement. Last year the Council voted on something like a hundred occasions.

This augurs well for the success of the cooperation procedure, which, as you are aware, is based on the assumption that Parliament and the Council will be conscientious in the matter of voting to avoid delay and deadlock.

Sensibly applied, the cooperation procedure promises to be far more fruitful than seemed

likely at first and certainly for more effective in terms of involving Parliament in the legislative process.

The first requirement for success is that Parliament and the Commission should consult more closely. Indeed, this is what Mr Prout proposes in his report. For its part the Commission has tried to identify in its programme for 1987 the proposals which are likely to be subject to the cooperation procedure. Our two institutions can now negotiate an agreed timetable on this basis. The second requirement for success is the opening of a permanent dialogue between our two institutions and, above all, the need for agreement on first reading of a proposal. That is the approach advocated in your resolution on the Planas-Puchades Report and the Commission is thinking along the same lines.

Finally there is the question — though here I am more pessimistic — of strengthening the Commission's executive powers. The fears I expressed in this House during the debate on the Hänsch Report have, regrettably, proved only too well-founded.

Although our proposal was perfectly realistic, some Member States are obdurately opposed to change, in the future as in the past, and want to perpetuate the army of committees which undermines the effectiveness of Community action.

Be that as it may, the Commission refuses to be deflected in its day-to-day business from the principles of simplicity, transparency and effectiveness which inspired its proposal.

Europe stands at a crossroads this year and has to choose a new path. The Single Act obliges it

to do so. The Commission's proposals form a complete and coherent package of policies and suggestions for implementing the Single Act, the whole Single Act and nothing but the Single Act. What is involved here is Europe's credibility, a demonstration of what the Community can do for the people of Europe, the moral duty of our governments, in the face of the growing disillusionment of Europeans deprived of a common ideal and a vision of their collective destiny.

The Community, ladies and gentlemen, must assert itself at home by finding lasting solutions rather than stop-gap palliatives. It must highlight the close link between what the Community can do and what the Member States can do. But it must also assert itself abroad, taking concerted action to defend its legitimate interests and to make its contribution on the key issues of underdevelopment and peace. It must learn to say 'no' on occasion, it must be generous to the have-nots (hence the priority given to development aid in our programme), it must give itself the means of attaining prosperity and competitiveness.

Being able to say 'no', being generous, being competitive — this is the essence of the struggle which is constantly renewed. The Commission has faced up to its responsibilities without flinching in the hope that, with the support of this House, the coming year will see a major positive advance towards the integration of Europe.

(Loud applause)

...

The Commission's programme for 1987

I—Europe at the crossroads

1. A year after the accession of Spain and Portugal the Single Act is due to enter into force. The Community is thus experiencing in rapid succession two of the most important changes that it has known since its inception 30 years ago.

The timing is no accident. If a larger Community was not to be a weaker one, the level of its ambitions had to be raised and its institutional system renovated. This is the purpose of the Single Act. It represents a long overdue strengthening of the institutions rendered imperative by enlargements. But, more significantly, it sets new objectives for the Community, including completion of the internal market and the achievement of economic and social cohesion. Completion of the internal market is vital for progress in other areas and for the economic future of Europe. Greater cohesion is a political necessity following enlargement of the Community to include less-favoured countries in southern Europe. But it is an economic necessity too if the Community is to find a coherent response to the challenges facing it.

2. The importance of this period in the Community's history did not escape the governments of the Member States and led to a number of major decisions — at Fontainebleau in 1984 on financial resources and in Luxembourg in 1985 on the structural Funds in the context of greater cohesion. A decision has also been taken to press ahead with the change of direction given to management of the common agricultural policy two years ago. Recent debates in Parliament indicate that it too is keen to see early decisions being taken in these three areas.

Technically these three areas form a single whole. The same is true politically because the Member States' response to the Commission's proposals in these three areas will shape the new Community of Twelve in the years to come.

3. Without prejudice to any new initiatives regarding foreign policy or joint security, it is the pace of economic integration that will determine the outcome of Europe's fight for survival. This pace has still to be set: the Community must choose between a common market embellished with a few financial transfers between Member States with differing standards of living, and the construction of a common economic area in which national and common policies combine to promote stronger growth and more jobs thanks to greater concentration in fields where the Community can achieve more than the

Member States acting individually. Examples are R&D and the environment — both specifically mentioned in the Single Act — and the establishment of the basic transport and telecommunications infrastructure that is essential for the smooth functioning of the internal market.

The Commission's proposals are, then, more than mere technical adjustments. Discussions in the European Council, and the experience of recent years, have shown just how politically sensitive these three areas are and how easily disagreements about them can paralyse the Community. In all three areas — the common agricultural policy, the structural Funds and the budget — the Commission's main conclusion is the same: if the Community is to continue to progress, the Member States must make a fresh effort and the institutions must accept stricter discipline.

Further adjustment of the common agricultural policy

4. Implementation of a common agricultural policy was a key component of the political and economic balance that lay behind the creation of the Community. The policy is based on three principles: Community preference, a unified market and financial solidarity. A further feature is the will to preserve a European farming system characterized by a preponderance of family-run farms. Although this system is not restricted to the less prosperous countries of the Community, it is particularly important where a high proportion of the workforce is engaged in agriculture. Central to the policy is the desire to guarantee consumers security of supply at stable, reasonable prices.

The results obtained from the policy bear witness to the validity of the basic choices made. Improved productivity and technical progress have considerably strengthened European agriculture and made the Community one of the world's agri-food superpowers.

5. But this stimulation of production cannot continue. Today stocks are manifestly excessive, the Community's external trade deficit in agricultural products has dropped over the past 20 years, and world markets are glutted because of a structural imbalance between supply and demand: the long-term increase in the volume of production is 1.5 to 2% a year, while the increase in consumption no more than 0.5%. There is every indication that technological pro-

gress (particularly in biology) will lead to further increases in productivity, which will be spectacular and difficult to assess in economic and ecological terms.

This will prompt a number of countries at present lagging behind to mobilize the substantial production capacity available to them and hence buy less and sell more on world markets. There is therefore a clear need to adjust the common agricultural policy mechanisms in cases where they lead to more and more costly overproduction. Expenditure on agriculture has increased by more than 5% a year in real terms since the early 1980s, and by more than 8% if related to the number of farmers.

6. Market support and income support, which were originally seen as identical and were to be secured by fixing high prices, must now be differentiated. Hence the change of direction begun in 1984, and given further impetus at the end of 1986, aimed at containing both production of and expenditure on certain categories of product.

The 1985 Green Paper outlined the Commission's ideas on how production could be curbed: greater price restraint, less open-ended and more selective intervention, and the fixing of quotas and guarantee thresholds at levels that would bite.

Experience showed, however, that these measures were neither immediately nor totally effective and that further mechanisms would be needed to stabilize expenditure. The budgetary discipline proposed by the Commission was intended to be such a mechanism but exceptional circumstances helped block its acceptance. More specific measures applying to certain product areas were therefore considered or put into effect: these put a ceiling on expenditure by restricting it either to a given quantity produced or to a maximum per production unit, or by imposing charges or co-responsibility levies on producers.

Progress has been made here, but many rules and regulations and some ingrained habits still have to be changed if the common organizations of the market are to regain the necessary flexibility to contain production and restore a balance between supply and demand, thereby curbing budget expenditure on agriculture. The common agricultural policy will then be perceived as genuinely contributing to improved economic and social cohesion. In addition, existing stocks will have to be run down to reasonable levels, in ways the Commission has already proposed.

7. But the position of farmers in our countries must not be placed in jeopardy; that would have

grave social consequences. Adjustments to the common agricultural policy and stricter market and price management may progressively affect farmers' incomes or their capacity to make a living in inverse proportion to their economic size. There is therefore a need for complementary income support measures to prevent the disappearance of yet more agricultural holdings in certain regions, with the consequences this would have for regional planning and conservation of the environment. Such preoccupations are not absent from the common agricultural policy as it stands: certain aids are already targeted to particular types of farmer, product or area. Various socio-structural measures are also being examined by the Council (early retirement, extensification of production etc.). But the new impetus that will be given to the containment of production will undoubtedly call for a change of dimension and the devising of techniques that will allow the aids and measures to reach their targets without exceeding previously defined budget limits. A greater degree of coordination between EAGGF Guarantee and EAGGF Guidance, and between EAGGF Guidance and the Regional Fund, will also be needed.

This policy approach involves a risk, namely that the pressure to grant national aids will increase. The Commission is resolutely opposed to any renationalization of the common agricultural policy, that is, any increase in national aids not in conformity with policies adopted at Community level, generating new imbalances between Member States, clashing with the policy of restricting production, creating a barrier to competition and the free movement of goods, and hindering greater market transparency.

Lastly, more effort and more discipline in agricultural matters on the part of the Community will not have its full impact on world markets unless concerted action along the same lines is taken internationally. Since the potential for the world's leading producers to increase their exports is now limited, the different international forums of negotiation should concentrate their attention on the supply issue. The Community, as the world's biggest importer and second biggest exporter, will have to use all its powers of persuasion to induce its partners, notably the United States, to move towards a healthier agricultural industry and reaffirm, as necessary, the importance of a common external trade policy. This would give our farmers an assurance that the sacrifices associated with the containment of production worldwide will be fairly shared by the world's main producers.

Reform of the structural Funds

8. The Single Act instructs the Commission to submit to the Council 'a comprehensive proposal . . . the purpose of which will be to make such amendments to the structure and operational rules of the existing structural Funds . . . as are necessary to clarify and rationalize their tasks in order to contribute to the achievement of the objectives (of cohesion) . . ., to increase their efficiency and to coordinate their activities between themselves and with the operations of the existing financial instruments' (Article 130 D).

General reform is needed to give new impetus to reducing regional disparities, which successive enlargements have widened. Reform is also essential to deal with the problems of the existing Funds: the Regional Fund, the Social Fund and the EAGGF Guidance Fund.

9. The first problem is the consistency and complementarity of national action and Community support. This is epitomized by the need for consistency between the Commission's activities and its powers to monitor and authorize national aids. The Commission must ensure that advantages in terms of location cause no distortion of competition, and at the same time that aid to assist regions which are structurally backward or suffering deindustrialization is effective.

The second problem is the visible utility of Community support. As in other areas, Community action through the structural Funds is justified if it gives a genuine additional boost to national measures. This can be difficult to identify in certain types of operation; hence the multiplication of targets and criteria leading to the scattering of assistance over small-scale projects, whose capacity to generate local initiatives is poor and whose impact is difficult to assess. Moreover, the financial resources at present earmarked for these Funds are too modest to secure any marked reduction in macro-economic terms of regional imbalances in the Community.

10. It follows that the planned reform must clarify objectives, ensure greater selectivity in the choice of targets, concentrate resources and improve the way in which the Community intervenes.

The priorities must be to help underdeveloped regions to catch up, to restructure regions in decline, to combat long-term unemployment and to preserve the countryside. These objectives relate variously to regional economic develop-

ment, the functioning of the labour market, and the pattern of agricultural activities. For this reason the Commission considers that a merger of the structural Funds would inevitably lead to a mere budgetary redistribution among the Member States. This would be a retrograde step since it would kill the seeds of new policies that could, in the long term, bear fruit in the form of new developments.

Greater selectivity will make it easier for action to be concentrated, to an extent to be determined, on the least-favoured regions (Portugal, Ireland and Greece; certain parts of Spain, Italy and the United Kingdom; the French Overseas Departments).

Lastly, Community intervention must become more and more integrated into programmes negotiated with national, regional and local government. These programmes should embrace not only aid for investment, further vocational training and other measures to encourage geographical mobility, but also aid for the development of an environment that will foster the continuation of existing activities and the introduction of new ones. The programme approach implies coordination between the three separate Funds, thereby allowing sufficiently specialized know-how to be developed. It should also open the door to more decentralization of the execution of operations and the diversion into technical assistance and monitoring capacity of resources at present devoted to administrative tasks.

11. By looking at essentials, by helping build up local know-how—often lacking in the least-favoured regions—and by concentrating their resources on reduction of structural handicaps, the structural Funds can be expected to play a leading role in achieving economic and social cohesion. They cannot however be identified too closely with the achievement of cohesion because the Community's financial instruments are not restricted to the three structural Funds. Not only that, the attempt to improve the allocation of resources and to distribute activities more harmoniously, the very foundation of the Community plan for greater economic and social cohesion, is part of a broad area of cooperation, as the Single Act makes clear: conduct and coordination of Member States' economic policies, implementation of common policies, including monetary cooperation, and completion of the internal market, bringing with it advantages of scale and economic and technical progress. The reform of the structural Funds must, then, be seen in the context of stronger economic growth for everyone, including the more prosperous regions, which can expect

greater cohesion to create new outlets for their products, their services and their human and financial resources.

New own resources

12. A greater degree of control over farm spending and greater economic effectiveness in the use of the structural Funds should substantially alter the future prospects for the Community budget, but the financial system, as set up by the Treaty of Rome and revised in 1970, can no longer be simply the sum of expenditures to be financed by the Member States. Experience has shown this system to have its own inadequacies, which are now so obvious that major reform is necessary here too if the future development of the Community is to be founded on bases which are sound and credible both for the Member States and Parliament, and for the people of Europe.

The Community budget is different from those of the Member States in that there is a legal requirement for it to be in balance. In theory no budget deficit is allowed and expenditure is thus strictly limited by the different resources available, the bulk of which are themselves subject to a ceiling. Things are quite different in practice and, from one budget crisis to another, a number of devices have been resorted to in order to circumvent these limits, by deferring expenditure for which funds were not immediately available: the accounting arrangements for agricultural stocks are such that, in the very short term, it is much less of a burden on the Community budget to increase stocks of agricultural products than to market them; the growth of commitment appropriations and of payment appropriations are not subject to the same constraints, so that, again in the short run, the former may increase much faster than the latter, though the commitments have nonetheless to be honoured in the end; and the arrangements for carrying over appropriations from year to year allow certain adjustments to be made, which also generate expenditure in the future.

13. Why have these devices been employed and on what scale? The answer is to be found on both the expenditure side and the revenue side, and in the various repayment and compensation mechanisms.

On the expenditure side, we have already seen that in addition to the foreseeable and politically desirable increase in the allocations for new policies there has also been the budgetary bur-

den of the common agricultural policy, which it has not been possible to contain over the last few years despite the budgetary discipline imposed in 1980 and the major reforms since 1984.

As regards revenue, one-third of which comes from traditional own resources (customs duties and agricultural levies) and two-thirds from VAT contributions, the trend is in the opposite direction, the inevitable result being a structural shrinking of the Community's revenue base: customs duties and agricultural levies are diminishing regularly as a result of multilateral tariff dismantling and the Community's growing self-sufficiency in farm products, while the VAT base increases more slowly than economic activity in the Community because of the fall in the proportion of gross domestic product accounted for by consumer expenditure. This trend affects the Member States to differing extents, and accentuates the inherent inadequacies of the VAT base.

There has also been the sharp increase in compensation provided for by the Fontainebleau mechanism and more recently by the accession arrangements for Spain and Portugal, together with other existing types of repayment to Member States. The effect of this has been to keep the resources actually available well below the 1.4% VAT ceiling.

It can thus be seen that the situation cannot be described solely in terms of the runaway growth of overall expenditure. While there can be no denying that the VAT call-in rate has practically doubled between 1980 and 1986 (from 0.73% to nearly 1.4%), the reconstitution of a 'true' budget gives a more accurate picture of how the situation has developed and what the real cost is. The VAT call-in rate required for actual expenditure was already around 1.2% in 1983, when the ceiling was set at 1%, and exceeds 1.6% for 1987.

14. The Commission considers that neither in the short nor in the medium term is this situation tenable.

The likely deficit for 1987 is currently estimated at 4 000 million ECU. This sum is more than can be made up by the expenditure-shifting expedients referred to earlier, and there is thus a serious risk of a cash crisis, with the Commission being unable to honour commitments provided for in the budget. Measures to reduce agricultural stocks, which are currently over-valued by two-thirds, and the accumulated cost of the past for the structural Funds will also lead to unavoidable expenditure for which there is at present no budget provision.

For later years, there must be sounder guarantees both for the Community and for the Member States. The Commission takes the view that the Community needs budgetary security for long enough to allow it to plan its own development and to avoid hiccups which jeopardize the continuity and consistency of Community action. The possibility must exist for decisions on the strengthening of structural policies and on the development of new policies (including policies on research and technology, infrastructure policies to facilitate completion of the internal market, environmental policies) to be taken on their own merits and in the light of the benefits that will accrue to Member States and the possible saving to their budgets, without it being necessary each year for the 12 national parliaments to go through a ratification procedure for a new ceiling on resources.

Community financing must not only be put on a sounder footing; it must also be fairer. The Commission considers that arrangements must be made for the burden of financing to be so distributed among the Member States that it is not out of proportion to their relative prosperity.

15. At the same time the Commission for its part is prepared to propose and to implement a

major reform of the current financial regulations, which experience has shown to be inadequate for strict budget management. These new rules which the Community would impose on itself would provide the Member States and Parliament with more effective guarantees as regards transparency and the implementation of the budgetary authority's decisions.

These arrangements could be accompanied by a limit on the total Community tax levy, to be expressed as a proportion of gross domestic product ('compulsory Community levy'). Such a ceiling would assume an economic and political significance which would justify thorough discussion in national parliaments every five or ten years. Up to this ceiling the Community's various own resources would be adjusted by the budgetary authority in accordance with procedures to be determined.

Finally, the Commission is convinced that a strict budget system is impossible without a multiannual reference framework to underpin arrangements for real budgetary discipline, i.e. which are binding upon Member States, Parliament and Commission alike. The Commission for its part is ready to outline such a framework.

II — The large market

An area without frontiers

16. The Community's overriding concern in 1987 must be to keep up — if not step up — the momentum created at the end of 1986 so that work on completion of the internal market can proceed in accordance with the programme set out in the Commission's White Paper. Attainment of this objective is a prerequisite for a efficient, modern Europe that will provide industry and commerce with a structural framework in which they can be fully competitive.

Each institution has a key role to play. Thanks to the Single Act the 1992 deadline for creation of a frontier-free area will be enshrined in the Community's constitution. The Council has been given the means of speeding up decision-making while the new cooperation procedure gives Parliament a far wider role than in the past in this area which is crucial for the development of the Community.

The abolition of internal frontiers calls for parallel progress in harmonizing import and export arrangements at Community level. Many physical inspections at internal borders relate to trade between the Community and other countries and are the direct result of the continued existence of national or regionalized quantitative restrictions. The Commission will therefore look further into these problems, which are linked to the need to strengthen the Community's commercial policy, which will in turn affect the Community's ability to play an active and constructive role in the world economy.

17. It should be possible to advance more rapidly in 1987 and dispel any doubts that industry and commerce may harbour concerning the credibility of the Community's efforts to create a frontier-free area. The measures approved by the Council last December (standardization in information and telecommunications technologies, intellectual and commercial safeguards in data-processing and telecommunications, marketing of pharmaceuticals) are steps in the right direction, as is the progress registered during the year in a number of important areas: capital movements, universities and technology (Comett), application of the new approach to standardization, right of establishment. etc.

But on the debit side it must be admitted that the Council was very late with its undertakings on taxation, and that progress on the veterinary, plant health and agri-foodstuffs side was par-

ticularly disappointing. This is where the Council comes up against the problem of the procedure for delegating powers to the Commission.

It is important therefore that definite progress be made in a number of key areas in 1987.

18. The first of these is public contracts. Apart from those awarded by central government and regional or local authorities (accounting for 8-9% of Community GDP), there are the public procurement contracts of the non-competitive sector governed by private law. They epitomize the scale of what is at stake, even though a quarter of the orders are for military equipment and as such fall under Article 223 of the Treaty. The industrial and technological impact of public contracts is quite substantial too, since it frequently affects key sectors such as telecommunications, construction, major infrastructure projects, energy, transport, education and health.

It is for this reason, faced with the poor results produced by the relevant Directives, that the Commission adopted an action programme designed to adapt and improve existing instruments, to ensure that they are properly applied and to develop a Community procurement discipline in areas not yet covered.

Last year the Council agreed on a compromise solution as regards the improvements to the supplies Directive. In 1987 it will take a decision on the Commission's proposals for improving the works Directive. This advance will have to be sustained by proper application of Community law. To this end the Commission will be making proposals in the near future for tightening up monitoring and intervention powers before completion of tendering procedures. The Commission will also tackle the four major sectors which are outside the scope of the Directives (transport, energy, water and telecommunications). Its aim will be to secure greater transparency in these key sectors and open contracts to competition from economic operators throughout the Community.

19. A second key area is tax frontiers. The Council has yet to examine the Commission's standstill proposal presented at the end of 1985 as required by the timetable.

A start must be made as a matter of urgency on the harmonization and approximation of indirect taxation, since tax controls remain a major barrier to the crossing of internal frontiers. At the beginning of the year the Commission will present proposals for reducing the

disparities between rates and the distribution of products between rates.

At the same time it will propose an appropriate clearing house mechanism to ensure correct allocation of revenue and to prevent the new system leading to distortions of trade. It is also vital that the Council reach agreement on various harmonization measures still pending (VAT Directives eliminating certain concessions and further harmonizing provisions on particular categories of goods).

20. Then there is standardization, the linchpin of European policy on new products and new technologies. The Commission has outlined a new approach to the elimination of technical barriers to trade which will imply increased activity by European standardization agencies and further work to prevent the creation of obstacles. The first proposals are already with the Council and further proposals will follow in the course of 1987 (safety of machines and radio electric interference). Discussions on the mutual recognition of tests and certificates issued by national laboratories — an essential complement to an effective European standardization policy — should be brought to a successful conclusion in 1987.

These activities assume particular importance in relation to the new technologies. The agreements reached last year in the Council (first stage of standardization in the field of information and telecommunications technologies, mutual recognition of type-approval for telecommunication terminal equipment, technical specifications for direct relay of satellite television) will have to be consolidated in 1987 if material progress is to be made towards standardization in other areas related to the new technologies (biotechnology, radio and television services, mobile telephony, electronic payment systems etc.). The early establishment of European standards in these areas is vital to the creation of a reliable Community-wide framework capable of sustaining technical innovation through the interoperability of systems.

These standardization activities are closely linked to the progress of research programmes, the Esprit and Race programmes in particular. They also have a bearing on the Eureka programme, offering joint research projects the advantage of a larger market.

21. Last but not least, there is the full financial dimension of the internal market. Significant progress was made last year with the adoption of a new Directive as part of the programme for liberalizing capital movements in the Com-

munity. This move towards the interlinking of financial markets will afford much wider opportunities for the circulation of securities, the development of collective forms of investment, access for borrowers to the capital markets of other Member States, and the quotation of securities on other stock exchanges. It is a first step towards achieving a unified financial market by 1992, especially as it is accompanied by similar developments in the Member States which have made it possible, for instance, to discontinue application of the safeguard clause which has operated in France since 1968 and to restrict the scope of the arrangements applying in Italy.

Progress must continue in 1987, along the lines laid down for implementation of the final stage of the Commission's programme. In the spring the Commission will propose terms for transition to the complete liberalization of movements of a monetary nature. But before then it will present the Council and Parliament with a report, produced in close liaison with the Committee of Governors and the Monetary Committee, on the multiple implications of full financial integration, so as to ensure that the creation of a European financial area proceeds under optimum conditions, yielding positive benefits for the economies of all the Member States.

22. Again in the specific area of financial services — which is developing on an extraordinary scale and is directly linked to the process of full financial integration — decisive progress will have to be made.

With regard to insurance, the way towards free movement was made clearer by recent Court of Justice judgments. Harmonization should now proceed rapidly in the key sector of banking. The recent recommendations concerning deposit guarantee schemes and monitoring large exposures have gone to make up a consistent package of measures. In following up the Directive recently approved by the Council on annual accounts and consolidated accounts, progress must be made on the aspects of financial stability (equity capital, reorganization and winding up, mortgage credit). The Commission will present a second Directive before the end of the year to round off harmonization of the essential elements of banking law.

23. A continuing priority will be affirmation of European identity so that the man in the street is aware of living in a frontier-free area: the Commission's proposals on the easing of frontier controls, the right of residence and the general system for the mutual recognition of diplomas, are steps in that direction. The Hague

European Council in June 1986 had hoped for definite progress in these areas and on the Erasmus plan. But it must be admitted that nothing concrete emerged despite the impetus given by the European Council itself. The Commission will be urging the Council to produce tangible results without delay. As soon as its proposal on personal checks is adopted the Commission will launch an information campaign to make the public aware of the easing of border controls, a significant step towards freedom of

movement. The abolition of checks at internal borders must be offset by tighter controls at the Community's external frontiers to counter the threat of terrorism, drug trafficking, illegal entry, and so on. At a meeting last October the Interior Ministers recognized the importance of increased cooperation on these matters given the objectives set by the Single Act. This essential process must move forward in 1987 under the impetus provided by the conclusions reached by the European Council in London last December.

Internal market

Physical barriers

- Elimination of statistical formalities at internal borders
- Preparations for the introduction in 1988 of two major customs reforms: the Single Administrative Document and a harmonized system for the designation and classification of goods
- * Proposal on control of the acquisition and possession of arms
- Various measures relating to animal health, public health and plant health provided for in the White Paper

Technical barriers

- * Various proposals (in particular a new approach to standardization) in the fields of mechanical engineering, electrical engineering, metrology, etc. (safety of machines, radioelectric interference, pressure gauges, etc.)
- * Proposals to amend several existing directives in the motor vehicles sector (field of vision, anti-blocking devices, rear protective devices, lighting, etc.); test procedures, supplementary directive on emission control test cycles, etc.
- * Proposals to amend several existing directives on tractors and agricultural machinery (steering equipment, driver's seat, lighting, etc.)
- * Proposals on foodstuffs
- * Proposal to extend the existing directives to include pharmaceutical products not yet covered; amendments relating to veterinary medicinal products
- * Proposal relating to the kinds of fertilizers covered by the 1976 general Directive on fertilizers, secondary fertilizers, methods of analysis, etc.
- * Proposals relating to individual protective devices (eyes, breathing, clothes, etc.)

Public contracts

- * Liberalization of public works and supply contracts in hitherto excluded sectors (telecommunications, energy, transport, water); liberalization of public service contracts

Free movement of workers and members of the professions

- * Proposals to adapt and amend existing directives for several professional categories (veterinary surgeons, doctors, nurses, etc.), to facilitate access to the professions, to extend the mutual recognition of diplomas and certificates, etc

Capital movements and the services market

- Communication on the implications of complete liberalization of capital movements and a proposal for a directive on the recognition of the principle of complete freedom of capital movements within the Community
- * Continuation of efforts to induce the Council to adopt directives proposed in 1985/86 in accordance with the White Paper (mortgage credit, equity capital, reorganization and winding up, treatment of branches of foreign banks)
- * Proposals for a second directive on the coordination of laws, regulations and administrative provisions on the taking up and pursuit of the business of credit institutions; harmonization of solvency ratios
- * Efforts to induce the Council, in the light of recent Court rulings, to adopt the second directive coordinating laws, regulations and administrative provisions on non-life insurance and directives on insurance contracts, legal protection, credit insurance, winding up and annual accounts; proposal for directives on third-party motor vehicle insurance and freedom to provide life assurance services
- * Proposals for directives on investment advisers and insider trading
- Encouragement of the adoption of a code of conduct relating to the principles of use of new means of payment

Creation of an environment favourable to industrial cooperation

- * Continuation of work in the area of company law (fifth, tenth, eleventh, fourth and seventh directives)
- * Proposal for a directive on takeover bids and the winding up of companies
- Publication of a Green Paper on priority matters relating to copyright
- Proposals relating to the legal protection of biotechnological inventions and computer programs
- General Commission communications, under Article 30 of the Treaty, on several sectors (food products, motor vehicles, works of art, customs disputes, etc.)
- Presentation of a White Paper on company taxation
- Proposal for a mutual assistance procedure for the forced recovery of direct tax claims and for common rules to determine the taxable profits of companies
- Further efforts to induce the Council to adopt the proposals for directives on the harmonization of indirect taxes on transactions in securities, the establishment of a common system for the taxation of mergers, divisions and contributions of assets, the establishment of a common tax arrangement applicable to parent companies and subsidiaries and the establishment of an arbitration procedure to eliminate double taxation between associated enterprises

Tax barriers

- Proposals on the harmonization of VAT rates and the distribution of products between rates and the establishment of a clearing-house mechanism
- Proposal on the harmonization of the structure of excise duties, the approximation of rates and the gradual abolition or reduction of excise duties not covered by the common system and giving rise to border formalities

Competition

24. The Commission will seek to ensure that the competition rules continue to play their role as a unifying force enabling the common market to function without distortion.

The Commission will continue to enforce the competition rules as they apply to conventional forms of restrictive practice and abuse of dominance, and will also press ahead with work on new aspects of antitrust law, work which is already far advanced. Guidelines on joint ventures will be published after the Member States have been consulted for a second time. Draft regulations on know-how and franchising agreements will be notified to Member States for their comments in 1987.

State aids do not merely distort competition; in the long term they undermine efforts to increase competitiveness. The Commission proposes to take a stricter approach in this field; 1987 will see a continuation of the gradual opening up to competition of particularly sensitive industries such as steel and shipyards. The Commission will continue its work with a view to publishing as soon as possible the White Paper setting out an inventory of State aids in the Community.

Research and technological development

25. Research and technological development is a decisive area for the creation of a large, modern and competitive market, an area in which it is becoming increasingly clear that the Community has a specific and indispensable role to play. In 1986 the Commission drew up a framework programme for research and technological development (1987-91) to enable the Community to play that role to best advantage. The programme was not adopted by the end of the year as initially hoped and expected. The Commission's first aim in 1987 will therefore be to ensure that the programme is adopted and put into operation. It will be the first instance of application of the Single Act, which provides a legal basis for giving a new impetus to the Community's scientific and technological base. The support given to the Commission's proposal by Parliament and others bears witness to the interest aroused by the framework programme and the remaining reservations within the Council should be withdrawn before long.

The framework programme identifies a number of areas on which the Community's activities

can be focused and in which the Commission will take a number of initiatives in 1987. The Commission's new plans for financial engineering operations will help to translate R&TD activities into industrial applications.

26. To begin with the quality of life, 1987 should see implementation of a new programme to coordinate medical research which will pay considerable attention to cancer and AIDS. In addition the environment and radiation protection programmes will be reviewed.

In the field of information technology and telecommunications, the second phase of Esprit and the main phase of RACE will be adopted this year. Other programmes designed to stimulate the integration of information technology in new applications—computer-aided teaching, road safety and medical information—are in preparation. The pilot projects for testing transnational integrated data-communication applications for public users will continue (Insis and Caddia). Other operations will start in the field of electronic data transfer for business users (Tedis).

To make advanced telecommunications and information services more easily and rapidly available to the user, other important proposals will be made, involving broadband networks for commercial traffic, radio telephony, specialized information, and so on. The major structural changes occurring in the telecommunications market will now mean considerable changes in Europe: the Commission will produce a discussion document on this topic.

27. One of the Community's priority aims is to put Community research at the service of European industrial development. To this end the Commission will review the materials and biotechnology research programmes and present a proposal for an action programme on biotechnology applications in the agro-industrial sector; it will also review research programmes. The Brite programme will be reviewed and Brite II will get under way. The preparation and launching of a new programme for the Community Bureau of References should make it possible to expand the role the Community is an ideal position to play in the field of standardization, a crucial element in completion of the internal market. As far as energy is concerned, the Commission will be guided by the desire to maintain and develop within the Community a technological capacity which is as diversified as possible and applicable in the short, medium and long term. In 1987 this will be reflected in the review of the non-nuclear energy research programme, a number of programmes in the

nuclear fission energy field, and the launching of a new programme of fusion research.

This year should also see the implementation of a new research programme on development aid and the addition of a new area—marine science and technology—in which research at Community level offers indisputable advantages. This year should also see further progress in the building of a Research Workers' Europe, with the expansion of the programme to encourage scientific exchanges and the launching of a back-up programme for large research equipment. In addition, the launching of a new forecasting programme (FAST) and a new plan for the evaluation of research should enable the Community to exert more control over its scientific and technological future and ways and means of achieving it.

The industrial revival which should result from this technological effort is the essential culmi-

nation of the research-industrialization chain. The Commission hopes that 1987 will see implementation of the practical suggestions put forward in 1986 as part of the Community-level financial engineering initiatives to aid technological progress.

28. For the Joint Research Centre 1987 will be a year of decision. Various measures will be examined and implemented to improve the functioning of the JRC which is vital to the Community; its relations with other research centres and industry will be strengthened and its activities will be brought into line with the main aims of the framework programme by intensifying pre-standardization research (materials, environment, energy technologies, etc.). To that end, the Commission will present a proposal on the future role of the JRC to the Council in 1987.

Research and technological development

Implementation of the framework programme for research and technological development (1987-91)

- * Proposal on the future role of the Joint Research Centre (1988-91)

Quality of life

- * Implementation of the 1987-89 programme for the coordination of medical research
- * Review of the radiation protection programme (1985-89)

Information technology, telecommunications, innovation

- * Implementation of the main phase of the RACE (Research in advanced communication technologies in Europe) programme
- * Implementation of the Esprit programme for 1987, proposal for a regulation on the second phase of the Esprit programme, fourth Esprit conference in September, and presentation of the detailed work plan for the second phase of the Esprit programme for 1988
- * Finalization of preparatory work on proposals on the pilot phase of the Delta (Development of European learning by technological advance), DRIVE (Dedicated road and intelligent vehicles in Europe) and Euroaim (European advanced informatics in medicine) programmes
- * Implementation of the preparatory phase of the Tedis (trade electronic data interchange system) programme

Biotechnology

- * Review of the biotechnology programme (1985-89)
- * Proposal for the pilot phase of an action programme on biotechnology applications in the agro-industrial sector

Industrial technologies

- * Review of the Brite (Basic research in industrial technology for Europe) programme (1985-88) and proposal for Brite II
- * Proposal on a programme for the Community Bureau of References (CBR) (1988-91)
- * Review of the materials research programme (1986-89)

Energy

- * Fusion research programme for 1987-91 and amendment to the statutes of the JET joint undertaking (extension to 1992 and accession of Spain and Portugal)
- * Review of the research programme on non-nuclear energy (1985-88)
- * Review of the research programme on the management and storage of radioactive waste (1985-89)
- * Review of the research programme on the decommissioning of nuclear facilities (1984-88)

Research workers' Europe

- * Review of the stimulation plan (1985-88) and proposal on a plan for Community support for large-scale scientific facilities of European interest
- * Proposal for a new FAST programme (Community forecasting and assessment in science and technology) (1988-91)
- * Proposal on adaptation of the multilingualism programme approved by the Commission
- * Communications on the evaluation of specific programmes and on the dissemination and utilization of results from the Community's R&TD activities

Science and technology activities outside the framework programme

- Continuation of the Insis (Interinstitutional integrated services information system) and Caddia (cooperation in the automation of data and documentation for imports/exports and agriculture) programmes
- Presentation of a Green Paper on the structural reorganization of telecommunications
- Communication on the setting up of a transnational broadband backbone (TBB)
- Proposals on the introduction of a common policy for the development of information services
- Proposal on the coordinated introduction of second-generation mobile telephony services
- Proposal on the continuation of the revised Sprint (Strategic programme for innovation and technology transfer) programme
- Proposal for steel research projects.

Industrial policy

29. The success of the large internal market will depend on the performance of the Community's main industries, especially those most immediately affected by the need to do away with frontiers. Particular attention will have to be paid in this respect to the steel industry, the motor industry and shipbuilding.

As far as the steel industry is concerned, 1987 will see the continuation of efforts to deal with the remaining consequences of the long-standing crisis. The Commission will ensure that the special measures in operation since 1980 are dismantled in an orderly fashion in order to facilitate the restructuring of the industry and that appropriate flanking social measures are introduced. As far as the motor industry is concerned, the Commission will continue to press for the introduction of a Community policy, the aim being to remove technical barriers to trade and to achieve greater uniformity in the matter of access to the Community market for cars from non-member countries. As far as shipbuilding is concerned, restructuring in 1987 should focus on the new approach initiated by the Sixth Aid Directive with a view to making the industry more efficient and more competitive. The Commission will present a general communication expanding on the guidelines submitted last year on the industrial, social and regional aspects of this sensitive sector.

Transport

30. The Community's transport policy, aimed at a liberalized system, is a component of the large internal market. Progress will therefore need to be made in a number of significant respects in 1987. The Commission will pursue its efforts to secure gradual application of the principle of freedom to provide services and to eliminate distortions of competition in a sector which has a direct economic impact on trade and industry.

31. The *Nouvelles Frontières* judgment was a milestone on the road to achieving the goals set in the 1984 Memorandum on air transport. The impetus it provided was strengthened by the conclusions of the European Council in The Hague in June 1986. At the end of 1986 the discussions within the Council allowed some progress to be made. The Council and the Commission will continue their efforts to achieve rapidly the degree of competition and deregu-

lation required by the Treaty. The Commission's efforts will also be aimed at achieving easier access to the interregional market, along the lines set out in the communication submitted last September.

32. As far as shipping is concerned, the regulations aimed at ensuring healthier competition both within and outside the Community (ocean trades, competition, tariffs, freedom to provide services) have been adopted at last. Approval of these four components of the shipping package means that the Commission can move on to a new stage of the programme for implementing the Community's shipping policy, under which freedom to provide services would be backed by measures to approximate social legislation, technical aspects and State aid. Proposals may also be made for recourse to a Community flag as a means of combating the crisis being experienced by the Community fleet.

33. As far as inland transport is concerned, the Commission will concentrate on the transition to the new organization of the road haulage market from 1992 and freedom to provide freight and passenger transport services. The Commission's main objective on rail transport will continue to be the financial reorganization of the railways. A similar objective will be pursued in relation to inland waterway transport (scrapping).

Completion of the internal market in 1992 will imply a new approach to relations with non-member countries which are of vital importance in the transport sector. The top priority in the immediate future will be inland freight transport. The Commission will submit a communication with proposals on the problem of goods transiting through non-member countries.

34. There is also a need for a Community dimension in the matter of transport infrastructure, which has considerable implications for completion of the internal market and increased economic and social cohesion within the Community. Under the medium-term programme of transport infrastructure of European interest which the Commission proposed last year, 1987 should see effective recognition of the major importance and specific nature of action by the Community to develop this powerful factor for integration which will create new outlets and guarantee the competitiveness of industry.

The Commission has now clarified the catalytic role the Community can play in the promotion of major projects in this area which is full of potential. It is important that, in addition to existing instruments, financial engineering techniques should be used from 1987 onwards to

create conditions favourable to the planning and realization of major projects and to mobilize the market for new forms of Community funding (budget guarantees and project financing).

Initiatives of this kind will provide concrete examples of what the Community can do to supplement its cooperative growth strategy for more employment.

Transport

Road transport

- Proposal to amend Regulations 117/66, 516/72 and 517/72 (common rules on international passenger transport)
- Proposal concerning the conditions under which non-resident carriers can carry out national passenger transport operations
- Proposal for a directive designed to tighten up the conditions relating to access to the occupation of freight transport operator and passenger transport operator
- Communication and proposals concerning inland transport of goods through non-member countries
- Proposals on negotiations with Yugoslavia for a limited agreement on occasional international road passenger services and the conclusion of an agreement on combined transport with various non-member countries

Air transport

- Continuation of the determined effort made in 1986 to achieve greater flexibility in the organization of air transport (fares, capacity, competition) in line with the objectives set out in Memorandum No 2 in 1984
- Proposals on easier access to the air transport market, the principles underlying airport charges, consultations between airports and users

Shipping

- Next phase of a Community shipping policy (approximation of legislation, technical aspects, State aid)
- Proposals on the use of a Community flag, and studies on the possibility of introducing a ship-scraping scheme

Follow-up to Road Safety Year

- Proposals on safety, the environment and social matters (safety belts, technical characteristics of tyres, transport of dangerous goods, mutual recognition of licences and certificates etc.)

III — Economic recovery and cohesion

35. Achieving a significant and lasting fall in unemployment will continue to be the priority in 1987. The Community's strategy has been in place since 1985 with the adoption of an integrated approach to the macroeconomic and microeconomic aspects and the social dimension of this fundamental problem (moderate real wage increases that fall short of productivity growth; greater market adaptability; and a strengthening of domestic demand through an increase in private and public investment and the promotion of venture capital).

36. Moderate recovery continued in 1986 but failed to reach the level which would produce a significant reduction in the rate of unemployment. Growth remained at about 2.5%. In 1987 the figure for the Community as a whole is likely to range between 2.5% and 3%, and employment is expected to increase by about 0.8% per annum. The rate of unemployment will fall only slightly, working out at about 11.7% (EUR 12).

Although these results are insufficient the Commission believes that the Community's cooperative growth strategy for more employment has lost nothing of its relevance. Quite the reverse, the substantial improvement in the terms of trade brought about by falling oil prices and the falling dollar, the expectation that investment growth will be sustained in 1987, the fresh fall in inflation rates and their more rapid convergence towards greater stability, are all factors militating in favour of more determined and deliberate implementation of the cooperative strategy in order to boost the current improvement in supply and demand conditions and to encourage changes in behaviour patterns in the interests of more rapid growth in employment. As far as public finance policy is concerned, the objective of medium-term budgetary consolidation must be maintained, and full use made of existing or emerging room for manoeuvre to improve supply and demand conditions while taking account of the specific situations of the individual Member States.

37. The support for the basic thrust of the cooperative strategy expressed in November in a joint opinion by the two sides of industry (represented by UNICE, CEEP and ETUC), and the emerging agreement on the microeconomic aspects, bode well for its effective application. It is essential that social dialogue on the themes

of the cooperative strategy should get under way at national level. In 1987 the Commission, in response to the request made by the Council last December, will act with determination to induce governments, employers and unions to enter into dialogue in each Member State. Widening the base for the dialogue will be crucial in persuading all concerned to adhere to the guidelines implicit in the cooperative strategy.

As promised in the Annual Report approved by the Council last December, the Commission will present an interim report on application of the cooperative strategy in July, based on reports to be drawn up by each Member State by the beginning of May.

38. The European Monetary System is vital to the implementation of the cooperative strategy on two counts. Firstly, the relative stability of exchange rates provides participants with a guarantee that the efforts they undertake in pursuit of modernization and competitiveness will not be undermined by aggressive exchange-rate policies. Secondly, effective use of Community instruments for medium-term balance-of-payments support facilitates implementation of the most difficult cyclical adjustments.

The importance of the EMS as a basis for closer monetary cooperation between Member States is recognized in the Single Act. It is a prerequisite for rapid economic growth in the Community and consequently a major force for cohesion.

In 1987 it will be desirable and necessary to strengthen the working of the EMS as the basis of monetary cooperation in response to two developments:

- (a) thanks to increased convergence in macroeconomic performances on inflation, the rates of price increases in the various Member States will be closer together than they have been for 15 years, around an average of 3%;
- (b) the liberalization of capital movements will make significant progress; seven Member States are already giving full effect to the recent Directive on the complete liberalization of movements linked to financial market transactions.

For its part the Commission will work to three main deadlines.

In April it will submit a report to the Council (Economic and Financial Affairs) on the necessary conditions for a complete liberalization of capital movements. This will be produced in collaboration with the Monetary Committee and the Committee of Governors of Central

Banks, in accordance with the timetable in the programme for the liberalization of capital movements published last June.

In the course of 1987 it will send the Council a draft Directive on the complete liberalization of capital movements, together with proposals on the renovation of the Community instruments for balance-of-payments support and an updating of the 1972 Directive on capital movements between the Community and non-member countries.

Before the end of the year it will draw up a progress report on operation of the EMS and progress on the liberalization of capital movements, as it was requested to do by the Heads of State or Government at the Luxembourg European Council in December 1985.

39. To further the objective of economic and social cohesion, everything must also be done to ensure that the structural instruments can begin operating on a new basis from January 1988. The Council, Parliament and the Economic and Social Committee will have to give this matter the necessary priority. The Commission will put forward proposals on the definition of the role of each instrument in the context of a Community structural policy based on objectives, optimum concentration of resources and measures; and the proper framework for coordination between the structural instruments themselves and between these and the financial instruments, the aim being to simplify management and make Community assistance more efficient. The Commission will also complete the in-depth consultations now in progress with interested parties (government departments, regional development agencies and recipient local and regional authorities), so that the tools of social and regional development in the Community can operate on a sound and solid basis from the start of the new arrangements.

40. Side by side with work on reform of the structural instruments, the measures and policies launched last year will be continued in 1987. They form part of an ongoing effort to simplify, decentralize and concentrate Community assistance.

There will be several significant applications of the integrated approach, involving the restructuring of areas affected by the steel crisis, industrial development (Portugal), regional development (Spain), and the conversion of regions in decline.

As far as the integrated Mediterranean programmes are concerned, 1987 will be devoted in

the main to continued appraisal of the projects submitted so that programme contracts for Greece, Italy and France can be concluded by the end of the year. Monitoring structures will be set up in close collaboration with the national and regional authorities and associated technical assistance measures will be taken. The Commission will produce an initial report on the IMPs, dealing with financial aspects, implementation and evaluation.

41. The Commission will continue its project financing activity, seeking to assist those investments which best serve the Community interest. It will also act to step up Regional Fund operations in several priority fields.

The Community STAR and Valoren programmes, which link energy and telecommunications policy objectives to the development of less-favoured regions, will come into operation in 1987. Other Community programmes will be proposed in the course of the year; apart from measures to assist regions affected by the restructuring of the steel industry, the Commission will put forward proposals aimed at helping less-favoured regions to work towards Community environmental objectives, facilitating the conversion of areas affected by the restructuring of the shipbuilding industry, and tying in regional development with technological research and development objectives.

42. A more determined effort will be made to combat unemployment, particularly long-term unemployment. The Commission will draw up a report on the pilot projects for labour market development launched in 1986 to improve local and regional management. It will carry out a general industry-by-industry survey of new fields of employment and new types of job, generated in particular by local initiatives and the cooperative sector.

In line with the programme adopted by the Council at the end of last year, the Commission will implement schemes to promote the training of young people and adults in the new technologies, to regenerate regions lagging behind or in decline, to help the worst-off sections of the population and to get the long-term unemployed back into work.

43. As far as the social dimension is concerned, the progress being made in the context of the social dialogue at microeconomic level is pointing to better ways of coping with structural and technological change. The dialogue will have to be broadened in certain industries.

In 1987 the major subjects of study, discussion and action with the two sides of industry will

be worker training and motivation, worker information and consultation, new forms of work organization and the internal and external adaptability of firms.

As far as the labour market is concerned, the Commission plans to make the forthcoming reform of the Social Fund part of a more selective effort to combat long-term unemployment.

Economic recovery and cohesion

Recovery and cooperation

- Quarterly monitoring of the implementation in the Member States of the various aspects of the Community cooperative strategy (macroeconomic trends and convergence, assessment of budgetary and monetary policies and of wage trends, progress towards greater market adaptability) and mid-year interim report
- As part of the cooperative strategy, adoption of economic policy guidelines to be followed by the Member States in accordance with Articles 1 to 4 of the convergence Decision (70/120/EEC)
- Presentation of the Annual Economic Report for 1987-88
- Steps to facilitate borrowing (a more flexible timetable for issues, diversification of geographical areas and types of issue, etc.)

Cohesion: reform of structural instruments

- Presentation of a comprehensive proposal for rationalizing the tasks of the structural Funds to improve coordination and efficiency (better identification of targets, adaptation of the means used and concentration on specific ends, intensification of vertical integration, etc.), with appropriate proposals for the reform of each Fund

Regional measures

- Continued appraisal of IMP projects with a view to their adoption by the end of 1987; presentation of an initial report
- Presentation of the Third Periodic Report on the social and economic situation and development of the regions, the first to cover the Community of Twelve
- Greater use of conversion loans carrying interest subsidies (Article 56 of the ECSC Treaty) to stimulate employment-creating investment in the productive sector in areas affected by restructuring of the steel industry
- Proposals for Community programmes designed to help the less-favoured regions to work towards Community environmental objectives, to provide a better link between regional policy objectives and technological research and development objectives, and to assist the regions affected by the restructuring of the steel and shipbuilding industries
- Opinions on 'third-generation' regional development programmes (1986-90)
- Financing of projects which contribute to job creation, have an optimal impact on regional development and the environment and establish a better balance between different categories of infrastructure, etc.
- Continued action to develop the network of business and innovation centres throughout the Community
- Steps to establish more structured relations with the organizations representing regional and local authorities

Social measures

- Development of the labour market (report on the pilot projects for forward-looking labour market management at regional and local level)
- New fields of employment and new types of job
- Long-term unemployment (including the young)
- Internal and external adaptation of firms in relation to employment
- Measures relating to the status of women and equal treatment (reversal of the burden of proof, vocational training, social security etc.)
- Intensification of action on vocational training for adults (social dialogue, small businesses, etc.)
- Further steps to ensure the comparability of vocational training qualifications in several sectors
- Integration of disabled children in education
- Second action programme for the promotion of the social and economic integration of the disabled people; communication on the integration of disabled people in education systems
- Communication on working and living conditions
- Communication on the new poor
- Recommendation on racism and xenophobia
- Improvements in social security for migrant workers (pensions, family benefits)
- * Protection of workers' health (substances which cause cancer and other diseases)
- Surveys and studies on the labour force, wages and salaries, manpower supervision, etc.

Industrial competitiveness and large-scale infrastructure projects

- Implementation of the proposed measures to encourage the development of financial instruments adapted to the various stages of technological cooperation between firms
- Application of the proposed financial engineering measures to allow the Community to play a more active role in the launching, financing and management of large-scale infrastructure projects of European interest

IV — Flanking policies

Financial engineering

44. The Commission will be implementing its financial engineering programme in 1987. This is a new instrument which will be used to provide support in a wide range of areas such as R & TD, transport and small businesses with a view to promoting the economic cohesion of the Community, the completion of the internal market and the free movement of capital. Pursuing the course which it embarked upon last year in the area of infrastructures, the Commission will be presenting two new communications on the financing of small businesses and of new technologies.

The Commission also plans to apply this new policy in the budgetary field in order to further progress this year. For instance, wider use will be made of budgetary techniques other than direct subsidies: this will involve extending repayable aid schemes and financial mechanisms such as the provision of loan guarantees and venture capital. These formulas will be applied in various fields of activity such as fisheries, the IMPs and integrated operations in areas of severe unemployment. Nor is the progress which this policy aims to achieve during the year limited to the Community: financial engineering, particularly at the service of small businesses, will be used to strengthen relations with other regions of the world such as the southern Mediterranean, Latin America and South Asia.

Small businesses

45. Faced with the challenge of making firms more competitive and developing Europe's technological potential, it is vital that the Community should do more to help businesses, particularly small ones, with an eye to completion of the internal market.

Business policy is part of the Community's cooperative growth strategy for more employment.

The general guidelines approved by the Council in October 1986 are designed to create an

environment favourable to the formation and expansion of small businesses by adjusting legislative, administrative and tax arrangements, making more allowance for the cultural and social aspects, providing better information, increasing inter-firm cooperation, facilitating access to training and innovation, and improving the availability of capital through a new programme of loans and financial innovations.

The first projects implementing these guidelines will be put in hand in 1987.

46. With a view to improving the business environment, a more detailed assessment will be made of the impact of all new proposals for Community legislation on competitiveness and employment. Specific proposals will be made on taxation, company law and cooperatives. A committee set up to pool Member States' experience with the application of more flexible rules and regulations will meet for the first time in 1987.

In addition, a number of positive steps will be taken to compensate for the handicaps suffered by certain businesses precisely because they are small. These will cover information (pilot 'Community Information Centres'), training (increased access to the Social Fund, specific programmes Comett, etc), measures to encourage the setting-up of firms (partnership schemes, extending the network of business and innovation centres, support for local employment initiatives, etc.) and export promotion (more intensive market research, provision of appropriate services, etc.).

In the matter of funding the Commission's efforts will reflect the guidelines for the Community's financial engineering activities: adaptation and reinforcement of existing lending instruments (EIB, NCI), development of equity capital mechanisms (including venture capital) and provision of services related to the transnational activities of small businesses.

Lastly, a special effort will be made to promote and support inter-firm cooperation. The activities of the Business Cooperation Centre will be extended — notably thanks to the BC-Net system — to ensure that its activities become better known to small businesses and their intermediaries, and the transnational programme of assistance for innovation and technology transfer (Sprint), an extension of which was recently proposed by the Commission, will continue to operate.

Small businesses

- Assessment of the impact on competitiveness and employment of all new proposals for Community legislation; forwarding of statements to Council and Parliament; continued assessment of the impact of existing Community legislation
- * Proposals on company law and taxation
- Promoting the spirit of enterprise (information campaigns, pilot projects, etc.)
- Preparation of legislative and technical manuals on subcontracting
- Creation of Community Information Centres (selection, pilot networks, training)
- Proposals on the development of continuous training in small businesses
- Initiatives on financing
- Implementation of the BC-Net system to expand the activities of the Business Cooperation Centre

Environment

47. In the months ahead priority will be given to incorporating the environmental dimension into other Community policies. In 1987 — European Year of the Environment — various model projects will be carried out and the new five-year action programme proposed last year will get under way in accordance with guidelines and priorities to be established by the Council before the end of June.

The importance which the Single Act attaches to environment policy should therefore be acknowledged, the hitherto reactive attitude to environmental problems being replaced by an overall preventive approach based on strict standards and rational economic choices.

48. A major multimedia Community action programme will be implemented to mark European year of the Environment. It will include projects designed to heighten public awareness of issues such as the quality of life, the environment's contribution to growth and employment, environmental concerns in agriculture and industry, clean technologies, water quality etc. Various events throughout Europe will endeavour to sell the message to young people and specialized circles.

49. As in previous years, one of the Commission's priorities for 1987 will be the adoption of the 1983 proposal for a directive in the crucial sphere of emissions from large combustion plants and agreement on pending measures on motor vehicle emissions.

Another major concern in 1987 will be the issues raised by the Sandoz accident. The Commission

will do all in its power to ensure that existing Community legislation is applied to the letter and to promote the adoption of comparable standards by the Community and neighbouring States. It will look into the possibility of negotiating arrangements similar to the Community information system on inland waterway pollution and will continue to examine ways and means of ensuring that full compensation is forthcoming in the wake of major accidents.

The first step in the establishment of control strategies will be a proposal for an action programme on cadmium pollution. In the matter of water pollution the Commission will propose new limit values and quality objectives for dangerous substances. In the growth sector of biotechnology, the Commission will present proposals on classification, confinement and risk control. Similarly, it will present a proposal to expand existing rules on movements of hazardous wastes. Action at international level will be actively pursued. In particular, the Commission will implement the action programme for the protection of the Mediterranean and play an active part at the North Sea Conference to be held in London in the autumn.

Lastly, to emphasize the importance of a stricter environmental policy, the Commission will propose the launching of a multiannual Community programme of demonstration projects to highlight the favourable impact which environmental measures can have on job creation.

Environment

- 1987 — European Year of the Environment (national and Community programmes of operations, events and model projects throughout Europe)
- First year of the fourth environmental action programme (1987-92); this will include:
 - a communication on the state of the environment in the Community
 - an all-out effort to persuade the Council to adopt the directive on emissions into the atmosphere from large combustion plants
 - presentation of an action programme on cadmium pollution
 - setting new limit values and quality objectives for dangerous substances discharged into the aquatic environment
 - * • proposals for Community legislation on biotechnology (confinement and deliberate use)
 - development of existing legislation concerning movements of hazardous wastes
 - submission of a report on the application of the directive on the conservation of wild birds
 - proposal for a directive introducing and harmonizing provisions relating to information reports to be drawn up by the Member States under Community directives and regulations concerning the environment

Consumer protection

50. The Commission will remain committed to the development of consumer protection policy and its integration into other policies, notably as regards improvements in product quality and product safety.

To this end it will expand information systems on product safety and reactivate proposals which have encountered a series of set-backs within the Council. The agreement reached at

the end of last year in the important area of consumer credit offers improved prospects of a successful conclusion to work done in the past.

The main areas in which progress now needs to be made are accidents caused by defective products, accidents to children, rules governing cosmetics and textiles, and consumers' economic interests (guarantees and after-sales service for consumer durables, electronic payment systems, etc.). An awareness campaign will be mounted in the course of the year on the prevention of accidents to children.

Consumer protection

- Strengthening of internal coordination procedures with a view to the integration of consumer policy into other Community policies
- First progress report on the integration of consumer policy into other Community policies; interim report on implementation of the new Community information system on accidents involving consumer products
- Awareness campaign on the prevention of accidents to children
- * Report on product safety; proposals for legislation on products intended for children
- * Amendment of existing rules governing cosmetics and textiles and reactivation of several proposals for regulations on consumers' economic interests (package holidays, electronic payment systems, guarantees and after-sales service for consumer durables, calculation of interest rates for consumer credit, access to the courts, unfair clauses, etc.)

Energy

51. New Community energy objectives for 1995 were adopted last September. They confirm that reducing the Community's import dependence to a reasonable level is still the focal point of energy policy. The Commission will take all necessary steps, in the light of the economic situation and its possible consequences, to ensure that the process of restructuring the energy balance continues.

In 1987 particular attention will be paid to the convergence of Member States' policies and the extent to which they are in line with these new Community objectives. The Commission will also be mindful of the implications of these objectives for the environment and the less-favoured regions. It will conduct the first periodic review of progress to date and the problems encountered in relation to the priorities implicit in the new Community objectives. To promote greater energy efficiency, the Commission will submit proposals for directives on the certification of the energy characteristics of buildings and the performance of heat generators. It will also consider the possibility of encouraging third-party financing of investment in energy saving.

On the supply side, the Commission will continue to keep a close watch on trends in the refining industry and the international petroleum products market. It will submit proposals to ensure more effective application of the Community's strategic oil stocks scheme. It will continue to analyse supply and demand prospects for natural gas and will present new guidelines to promote the consumption of solid fuels. The Commission also plans to do more to encourage the utilization of new and renewable energy sources.

Nuclear safety

52. Public acceptability of nuclear energy has been in decline since the Chernobyl accident. The Commission's main concern in 1987 will be to pursue activities undertaken in 1986 to protect workers, the public and the environment. Two communications presented last summer outline the action to be taken in the priority areas of health protection, contamination of products, the safety and safe operation of installations, procedures in the event of an emergency, international action and research.

The crucial issue of the acceptable level of radioactivity in foodstuffs and drinking water will be the subject of an international scientific conference to be held in the spring. The conclusions should make it possible to supplement last year's proposal for a regulation. Once the requisite consultations have taken place, the Commission will propose the setting-up of a Community system for the efficient exchange of information on radioactivity levels in the wake of a nuclear accident and the development of mutual assistance mechanisms within the Community.

The Commission intends to contribute to increased international cooperation in the field of nuclear safety by monitoring implementation of two conventions concluded in September under the aegis of the IAEA. On the question of safeguards the Commission will take steps to ensure that its checks are as effective as possible.

Furthermore, a trilateral safeguards agreement will have to be concluded between Spain, the Community and IAEA at the earliest possible date. The Commission will make every effort to ensure that negotiations are conducted in 1987.

Energy and nuclear safety

- Attainment of the Community energy objectives for 1995 adopted by the Council in September 1986, and preparations for the detailed periodic review
- Continued implementation of Regulations 3639/85 and 3640/85 on the development and demonstration of new energy technologies and energy planning activities
- Solid fuels: presentation of new guidelines to promote consumption of such fuels, continued analysis of problems arising in this area

- Oil and gas: analyses and follow-up action on the oil market, especially on Community exploration and production, refining, imports of petroleum products and strategic oil stocks; study of supply and demand prospects for natural gas
- Energy efficiency and new and renewable energy sources: proposals on the energy certification of buildings and heat generators; promotion of the utilization of new and renewable energy sources
- Electricity: communication on the role of electricity in energy supply
- Nuclear energy: continuation of post-Chernobyl action along the lines set out in the communications presented last summer; study of developments in the nuclear sector in the Community

Fisheries

53. The common fisheries policy is now at the third-generation stage. The revision (fleet restructuring and modernization) provided for in the new ten-year structural plan which is due to enter into force this year will provide a single, more diversified legislative framework for future action (exploratory voyages, port equipment, sensitive regions, etc.). Particularly important will be implementation of the specific programmes and establishment of a 'fleet file'.

Now that the Community market in fishery products has become one of the biggest in the world, the market organization will be altered and adjusted to take account of its increased diversity. Surveillance activities will be stepped up on the basis of the new Regulation approved by the Council.

In addition, the negotiations begun with non-member countries in 1986 will continue so that the relevant agreements can be fully integrated into a Community framework in 1987.

Towards a European society

54. Creation of a frontier-free area will not be enough to make Europe a tangible reality. People need to experience Europe at first hand and see how it affects them, their interests and the society in which they live. To heighten this awareness of Europe the Commission will intensify its efforts in the months ahead in a number of selected areas: health, the anti-drug campaign, civil defence, training programmes and youth exchanges.

The three-year information and education campaign recently proposed under the 'Europe against cancer' programme should lead to a

major offensive in 1988 and 1989 against the scourge of the century. In 1987 the Commission will begin work on the public information campaigns to be mounted over the next few years and on schemes for training health workers, the various activities planned culminating in 'European cancer information year' in 1989. At the same time, work under current R&D projects will be intensified. In response to the concern expressed by the European Council in London last December the Commission will present a first proposal to the Council in May for action against AIDS, the plague which presents such a serious threat to the future.

Several measures will be introduced over the next few years to combat drug abuse. In addition to action on the circulation of drugs to prevent the spread of addiction, the Commission will mount an early awareness and information campaign aimed at the public in general but young people in particular.

The European dimension can be very valuable in the context of natural and technological disasters. In addition to steps already taken in relation to R&D and protection of man and the environment against industrial risks and pollution, the Commission has begun consultations with a view to civil defence, cooperation between the Member States, with particular reference to action to be taken in response to a disaster. A ministerial meeting will be organized in the first half of the year to discuss ways in which Community potential could be used to improve the capacity of individual Member States to respond.

Training will also enter a new phase in 1987. Progress will have to be made this year towards a common vocational training policy, involving schools, the universities and the business world. While considerable impetus will undoubtedly come from the Erasmus and YES programmes for youth and student exchanges and mobility,

further measures will be needed, particularly in the light of the communication recently presented by the Commission on continuing on-the-job training for adults in small and medium-sized firms and the communication about to be presented on training for young people to prepare them for adult life and work. The Commission will also study measures likely to promote and diversify the teaching of foreign languages in the Community following its recent report on the implementation of the conclusions of the 1984 Education Council.

Because symbols are readily understood they can contribute to public perception of Community identity. In 1987 the Commission will therefore present proposals on car registration plates and postage stamps and will ensure a Community presence at sporting events to help people feel that they are part of one and the same community.

Culture and communication

55. The Commission will organize a major symposium in Florence in March to give those in the forefront of current thinking an opportunity

to discuss the relationship between culture, the economy and technological progress. The Commission hopes that the conference will spawn a wide range of ideas which can be used to devise initiatives in this area with a view to evaluating the interaction between these factors, so vital to an awareness of Europe and its riches, and providing a sounder basis for future planning.

Other initiatives will be launched too (audiovisual policy, promotion of a top-quality publication, architectural heritage, etc.).

Under the multiannual information programme adopted by the Commission in 1986, the main themes this year will be the abolition of internal frontiers, reform of the agricultural policy and development aid.

This year marks the 30th anniversary of the signing of the Treaty of Rome. The occasion will be celebrated with a series of events aimed at the general public to be held over a period of several weeks. Information campaigns will also be mounted in four Member States and the image and symbols of the Community (flag, anthem) will be publicized in various ways.

Towards a European society, culture, communication

- Implementation of three-year information and education campaign (1987/89) as part of the 'Europe against cancer' programme; first proposals for measures to combat AIDS
- Various initiatives at European level in a number of target areas (anti-drug campaign, civil protection, training, etc.)
- Launching of youth exchange and mobility programmes (Erasmus and YES for Europe)
- Launching of a new action programme (1987-91) to train young people for adult and working life
- Presentation of a comprehensive report on teacher training to the European Education Ministers' Conference (Council of Europe) to be held in Helsinki in May
- Organization of a major symposium on the interaction between culture, the economy and technological progress in Florence, 'European City of Culture', in March
- Launching of the preparatory phase of the Media programme to encourage the development of the audiovisual industry, the organization of exchanges of young television journalists, etc.
- Information campaigns on priority topics (abolition of internal frontiers, European Union, reform of the common agricultural policy, etc.)
- Top-level publication giving the views of prominent persons on the Community and its problems
- Series of events throughout Europe to celebrate the 30th anniversary of the signing of the Treaty of Rome
- Sporting events (sailing, cycling, tennis, etc.)
- Preparations for European Cinema and Television Year (1988) in conjunction with the Council of Europe

V — The Community in the world

56. The Single Act, which combines provisions amending the Treaties establishing the Communities and provisions relating to political cooperation, is evidence of a determination to consolidate the Community's presence in the world. Beginning in 1987, European foreign policy cooperation can therefore be expected to strengthen the Community's position on the international scene. The Commission, which is fully involved in the process, intends to play its role to the full to ensure that future progress in the area of political cooperation keeps pace with developments on the Community front.

57. Despite certain favourable trends (a steady shrinking of inflation and recent interest rate movements) economic growth in 1987 will be on a modest scale in most of the industrialized countries. At the same time, the economies of most of the developing countries will continue to suffer from the effects of high foreign indebtedness and low commodity prices.

Given this outlook, an increase in net Community imports to satisfy stronger internal demand could prove to be a positive contribution to world growth.

In the medium term, increased trade would also help to sustain growth throughout the world. This is why the Commission sees the Uruguay Round as a top priority for the Community, which played a leading role in the preparatory meetings. A successful outcome, leading to a more open world trading system, could make a major contribution to the success of the Community's cooperative growth strategy.

Multilateral relations

58. The major event of 1987 will be the opening in Geneva of the new round of multilateral trade negotiations agreed last September in Punta del Este. The Commission, as the Community's spokesman, will make its own contribution, promoting and defending the Community's specific objectives and drawing on its experience in GATT to help reconcile opposing positions.

As proceedings gather pace in Geneva, the Commission will recommend appropriate negotiating directives to the Council. It will stress the importance of a consistent, united approach to new subjects and current issues, to give

maximum impact to the Community's position at the negotiations.

59. The OECD ministerial meeting scheduled for the spring will give the Community a further opportunity of playing its multilateral role, having particular regard to the agricultural discussions under way in this forum.

The seventh United Nations Conference on Trade and Development will be held in Geneva in July. It will be the main event of the year as far as North-South relations are concerned. The topics for discussion are of direct concern to the Community (resources for development, commodities and trade). The Commission will play a very active part in the conference, which will coincide with the opening of the Uruguay Round negotiations. More generally the Commission will seek to involve the Community in the debate on international economic policy issues.

The Commission will also endeavour to ensure that the Community's institutional role is recognized.

Lomé policy

60. Implementation of the third Lomé Convention has begun. In 1987 the Commission's main task will be to put the indicative cooperation programmes negotiated with the 66 ACP States into effect. It will ensure that commitments made by both sides under the aid programmes are honoured with a view to achieving the agreed objectives. To this end emphasis will be placed on continuing dialogue on the spot, utilization of all the instruments provided for in the Convention (traditional projects, rehabilitation operations, sectoral import programmes, etc.), and improved coordination with other donors. The 'programme' approach will be used wherever possible and particular attention will be paid to regional cooperation.

Relations with Latin America, Asia and the Mediterranean

61. Following the new approach proposed last November, the Commission plans to extend the Community's industrial cooperation with the countries of Latin America, Asia, the Gulf and the Mediterranean in 1987. It will seek ways of encouraging private business, notably small and medium-sized firms, to play a more active part in the economic development of these countries,

for example through the creation of joint ventures and scientific and technical cooperation. It will endeavour to maintain and develop exchanges with these countries on the whole spectrum of their relations with the Community.

62. In the Mediterranean area the Commission hopes that early 1987 will see the completion of the current negotiations with our Mediterranean partners following the enlargement of the Community to include Spain and Portugal and the conclusion of the third generation of financial protocols to replace those which expired in 1986. It will continue to seek a gradual normalization of the Community's relations with Turkey.

As far as Latin America is concerned, the Commission will give high priority to consolidating the Community's relations with the countries concerned, on the basis of the guidelines recently presented to the Council.

With a view to strengthening the Community's relations with the countries of South and South-East Asia, the main task in 1987 will be to implement the recommendations of the high-level group on investment approved at the EEC-Asean ministerial meeting in Jakarta last autumn, the aim being to increase the Community's economic presence in the region.

As far as the Gulf is concerned, the Commission plans to present proposals to the Council by the middle of the year for the negotiation of an economic and commercial cooperation agreement with the member countries of the Gulf Cooperation Council.

Regarding China, the entry into force of the new trade and economic cooperation agreement and China's growing trade deficit with the Community will force the Commission to pay particular attention to the development of closer relations, the expansion of two-way trade and the stepping-up of economic cooperation.

Food aid

63. Following the reform approved last year, the Commission will take steps to ensure that food aid serves as an effective instrument of development, helping directly to combat hunger and guarantee food security. Everything will be done to simplify mobilization and delivery procedures and to adapt management structures accordingly. The reform places special emphasis on the development of a multiannual approach to food aid. The Commission plans to implement this in conjunction with the food

strategies of the recipient countries and rural development operations under the Lomé Convention.

Relations with industrialized countries

64. Relations between the Community and the United States of America, the centre of gravity of the free world, are crucial to the functioning of the international economic system. Bilateral relations in 1987 will operate against a background of a US Administration which no longer has a majority in Congress and a continuing US deficit on current account. The Commission will keep a vigilant eye on any protectionist action by the Administration and any protectionist tendencies emerging in Congress. As in the past, it will remain in close contact with the US Administration with a view to averting or resolving the disputes which are inevitable between two trading powers of the magnitude of the Community and the United States.

65. As far as Japan is concerned, the Commission will pursue the line of action approved and confirmed by the Council in 1986. The basic objective remains the same, namely to extend, strengthen and restore balance to bilateral relations, notably on the trade front. The Community's growing trade deficit with Japan not only feeds tension between the parties but has an adverse effect on the world economy.

In 1987 the Commission will make an even more determined effort to persuade Japan to open up its market and to ensure that Community firms in that country enjoy commercial, industrial and financial terms of access comparable to those enjoyed by Japanese concerns operating in the Community. Discrimination against imports of alcoholic beverages into Japan is a measure of the effort still required to improve market access. The Commission intends to mount further specific campaigns to eliminate barriers to trade still persisting on the Japanese market. The Commission will continue its work in the field of trade promotion and training and will endeavour to encourage closer cooperation between European and Japanese firms, both in the Community and in Japan.

The Maeckawa report made a number of proposals for structural reform, which the Commission has welcomed. It intends to take a keen interest in their implementation by the Japanese authorities.

66. As far as relations with Canada are concerned, the Commission will endeavour to

ensure that an early, satisfactory solution is found to the numerous trade issues under discussion between Canada and the Community. To this end, the Commission's policy will be one of firmness both bilaterally and, if necessary, in the multilateral context. In addition the Commission expects to complete the joint review of the implementation of the Framework Agreement, which will also deal with opportunities for increased cooperation.

67. The Commission will continue its endeavours to intensify the bilateral dialogue with Australia and New Zealand and extend it beyond the traditional agricultural issues. However, agriculture will remain in the forefront, notably in the context of the Uruguay Round, since Australia and New Zealand are members of the Cairns Group of countries which are heavily dependent on agricultural exports.

68. As far as relations with the Community's EFTA neighbours are concerned, the objective

will continue to be the creation of a wider European 'economic space', as envisaged in the Luxembourg Declaration of April 1984, which the Council endorsed last autumn. This will require EFTA countries to coordinate their efforts with progress towards completion of the Community's own internal market.

69. The Commission will press ahead with the process of normalizing relations with the countries of Eastern Europe and the CMEA begun in 1986. It will open negotiations for bilateral agreements with Romania and Czechoslovakia and is awaiting directives for negotiations with Hungary. Exploratory talks with other Eastern European countries will continue, and the Commission will maintain contact with the CMEA with a view to reaching agreement on a joint declaration establishing official relations between the CMEA and the Community.

The Community in the world

- Launch of the Uruguay Round
- Preparation for and participation in the OECD meeting
- Implementation of the indicative programmes agreed in 1986 with the 66 ACP countries signatory to the Third Lomé Convention.
- Implementation of the reform approved in 1986 with a view to increasing the effectiveness of food aid as a development instrument, a tool with which to combat hunger and a means to ensure food security.
- Active participation in the seventh United Nations Conference on Trade and Development.
- A new industrial cooperation approach in the context of relations with Latin America, Asia and the Mediterranean.
- USA*: maintenance of a close dialogue, notably with regard to action to combat trade protectionism.
- Japan*: pursuit of efforts to step up and broaden relations and to open up the Japanese market so that European firms have the same access to the Japanese market as Japanese firms have to the European market.
- Canada*: active search for satisfactory solutions to the many trade issues under discussion and review of the Framework Agreement.
- Eastern Europe*: pursuit of the process of normalization of relations with the Eastern European countries and with the CMEA (negotiations with Romania and Czechoslovakia, brief for negotiations with Hungary, continuing exploratory talks with the others and contacts with the CMEA Secretariat with a view to a joint declaration establishing official relations with the Community)
- EFTA*: continuation of the process initiated in Luxembourg in 1984 with a view to the creation of a wider European economic area
- Mediterranean*: negotiation and conclusion of a third generation of financial protocols and continuation of the progressive normalization of relations with Turkey

- Latin America*: strengthening of relations, coordination of official aid (in particular for the least-developed Latin American countries), support for regional integration, macroeconomic consolidation, etc.
- Asean*: implementation of the conclusions of the ministerial meeting of October 1986 with a view to increasing the Community's economic presence in the region
- Gulf States*: negotiation of a trade and economic cooperation agreement with the GCC member countries
- China*: development of economic cooperation within the framework of the Cooperation Agreement which entered into force in autumn 1986.

European Communities — Commission

The Single Act: A new frontier for Europe

Programme of the Commission for 1987

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The Single Act: A new frontier for Europe

The signing and forthcoming entry into force of the Single European Act and the accession to the Community of Spain and Portugal (following that of Greece in 1981) have brought with them fundamental changes in the structure of the Community and the obligations of the Member States. The Single European Act improves significantly the institutional system and sets new objectives for the Community, notably the completion of the internal market by 1992 and the strengthening of economic and social cohesion.

If it is to succeed in its new responsibilities, the Community must first complete the reforms undertaken, especially since 1984, with the aim of adapting old policies to new conditions: reform of the common agricultural policy, reform of the structural Funds, and reform of the financing system. Once these reforms have been implemented, the Community will have to be given the resources needed to achieve the objectives of the Single act.

By amending the Treaty of Rome in this way, the Member States have set a new frontier for European integration. They have made a qualitative leap forward which must be turned to good account to equip our economies so that they can meet the challenges from abroad and return to more vigorous, job-creating growth.

For this reason, the Commission feels that it should set out the conditions to be met if this great venture is to succeed. This is the thinking behind the proposals it is laying before the Council and Parliament. They are set in a medium-term context, looking towards 1992, the deadline for completion of the large frontier-free market.

Programme of the Commission for 1987

This Supplement also contains the Commission's programme for 1987, as presented to Parliament by Mr Delors in February 1987.