

EUROPEAN PARLIAMENT

Working Documents

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REPORT

drawn up on behalf of the Committee on Budgets

on the European Parliament's guidelines on the budgetary and financial policy of the European Communities for 1979 (Part II: Sectoral and basic problems relating to budgetary and financial policy - adoption of a position on the communication from the Commission of the European Communities containing a global appraisal of the budgetary problems of the Community)

Rapporteur: Mr M. BANGEMANN

At its meeting of 1 March 1978 the Committee on Budgets appointed Mr Bangemann rapporteur on the European Parliament's guidelines on the budgetary and financial policy of the European Communities for 1979.

It decided that the report on this subject should be drawn up in two parts.

At its meetings of 10 and 11 March 1978 the Committee on Budgets considered Part II of the draft report and adopted it unanimously with one abstention at the latter meeting.

Present. Mr Lange, chairman; Mr Aigner, vice-chairman; Mr Bangemann, vice-chairman and rapporteur; Mr Alber, Mr Baas (deputizing for Mr Meintz), Mr Bersani (deputizing for Mr Notenboom), Lord Bruce of Donington, Mr Caro, Mr Dankert, Mr Früh, Mrs Kellett-Bowman (deputizing for Lord Bessborough), Mr Kofoed, Mr Pipamonti, Mr Shaw and Mr Spinelli.

The memorandum from the Committee on Economic and Monetary Affairs is attached.

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A

The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the European Parliament's guidelines on the budgetary and financial policy of the European Communities for 1979 (Part II: Sectoral and basic problems relating to budgetary and financial policy - adoption of a position on the communication from the Commission of the Communities containing a global appraisal of the budgetary problems of the Community

The European Parliament,

- having regard to the communication from the Commission (COM (78) 64 final),
 - having regard to the report of the Committee on Budgets (Doc. 54/78),
 - having regard to the principles set forth in Part I, in particular in the resolution relating thereto,
1. Will hold an exchange of views with the Council and the Commission, on the basis of the Commission's communication and this resolution, on the general guidelines for Community budgetary and financial policy and their consequences for the 1979 budget, before embarking on the consideration of the decisions on the budget as such;
- I. As regards medium-term measures
- Size of the budget
2. Considers it essential for the Community to equip itself, in adequate time, with a set of budgetary and financial instruments sufficient in scale to cope with future enlargement, economic and monetary union and, at a later date, European union;
 3. Endorses the Commission's proposal for charging to the Community budget measures in respect of which Community action offers economic or political advantages over national action;
 4. Proposes, with due regard to the Community budget's present function mainly as an instrument of coordination, that a more balanced relationship should be established between the size of the budget, the role it must play in the Community's economy and the size of that economy;

5. Considers also that the budget and financial instruments of the Community must henceforth be strengthened and used, as a matter of priority, to achieve greater convergence between the national economies;

The budget as an instrument of structural policy

6. Believes that such convergence could be intensified by means of increased and more effective Community financial support for regional and sectoral structural policies;
7. Stresses the role of the Community budget in contributing to the solution of employment and energy problems, having regard to the European scale of these problems;

II. As regards the financial year 1979

8. Notes the Commission's guidelines and will assess their practical implications in the light of the content of the preliminary draft budget;

Priority objectives

9. Believes that the primary objective of the 1979 budget must be to help to improve those structures which will alone make it possible for economic recovery to progress in a balanced, harmonious and consistent manner; stresses the urgent need for the following measures which are not given in any order of priority:
 - (a) in the social sector:
 - provision of increased appropriations for certain specific projects: direct aid for youth employment measures (direct aid for the training and employment of women); schemes for the redeployment of workers in industrial sectors in extreme difficulty;
 - more rational and, above all, more rapid utilization of ESF appropriations;
 - (b) in the regional sector:
 - creation of a 'non-quota' fund under the ERDF;
 - more Community influence over the fixing of regional policy objectives as a means of ensuring that Community financing really will increase the total amount of support in this sector;

(c) in the industrial sector:

- substantial increase in Community aid for reorganization and redevelopment in connection with the crisis in the iron and steel, textiles and shipbuilding industries;
- exclusive Community financing of aid to the aviation industry;

(d) in the energy sector:

- Community financial support for energy conservation measures;
- financing of research and development projects relating to new sources of energy;
- support for the coal industry and promotion of the use of coal;
- increased financial aid for the development of energy sources in the Community;

(e) Community policies for the next few years:

- preparations for enlargement, with particular emphasis on the adjustment of Mediterranean agricultural structures;
- cooperation with the non-associated developing countries;
- research, science and technology;
- the environment;

10. Invites the Council and the Commission to participate with it, from the beginning of the budgetary procedure, in joint deliberations on whether the conditions necessary for the utilization of appropriations in these areas have been met;

The development of agricultural expenditure

11. Feels that a better balance should be established between agricultural and other expenditure in the budget in a manner which is not at variance with the objectives of Article 39 of the EEC Treaty;
12. Points out that the Commission has undertaken to notify and consult Parliament in good time in cases where an unforeseen contingency has considerable political or financial effects on the budget; takes the view that this system should be extended;

13. Recommends that, in the event of the foreseeable depletion of the appropriations for a given group of products, a warning system be brought into operation;
14. Takes the view that, after such warning, the Budgetary Authority should take appropriate political action; the following options would in theory be open:
 - transfers of appropriations,
 - establishment of a supplementary budget,
 - other price or structural measures;
15. Points out that the reduction of agri-monetary expenditure must take account of the situation as regards costs in the individual Member States;
16. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENTI. THE COMMUNITY BUDGET AND THE FUNCTION OF THE COMMISSION'S GUIDELINES

1. Parliament's policy has always been to exercise its budgetary powers to use the Community budget as a political instrument. It takes the view that the budget must be more than an accounting document for the financial consequences of policies or measures decided at another level. On the contrary, it must represent a budgetary policy programme, which not only records the financial repercussions of policies that have already been implemented, but also sets priorities and even gives a measure of impetus.

2. There are, of course, objections to the role of the Community budget as a political instrument. Budgetary policy in the Member States is primarily geared to the stabilization of their economies and to that end makes use of the considerable resources available for public expenditure, the impact of taxation in all its forms and the achievement of a balance between these two factors. By comparison, the Community budget, in view of its limited resources, can have only a marginal impact on the direction of the economy.

3. At present, therefore, the political role of the Community budget is essentially of a different nature. Its political importance derives from the fact that only the budgetary sphere at present provides scope for coordination and even joint decisions reconciling the Council's aims and Parliament's wishes in respect of the utilization of the resources for which Parliament is accountable to the citizens of the Community.

This means that the Community budget represents a political programme for the utilization of the Council's resources, by virtue of the way in which it is drawn up.

4. In previous years Parliament has endeavoured to confer on the budgetary procedure and on its relations with the Council a strictly political character by reducing to a minimum the amount of time devoted in the budgetary debate to technical problems. As far as the preparation of the 1979 budget is concerned, it is thought desirable to carry this approach still further by initiating the budgetary debate earlier in the year, thus allowing time for a more thorough discussion of the issues and the achievement of a greater measure of agreement.

5. Having dealt in an earlier document with the conditions and technical prerequisites for the establishment of a genuinely political budget, we must now initiate a thorough debate on the budgetary policy guidelines for 1979.

6. The Commission's 'global appraisal of the budgetary problems of the Community',¹ represents a satisfactory point of departure for such a debate. However, the role that the Commission wishes to assign to its document is somewhat obscure. Its purpose is apparently to encourage the Budgetary Authority to take up a position on guidelines which would then presumably be incorporated by the Commission into its preliminary draft budget. Hence, while the Budgetary Authority's approach to the preliminary draft budget may not be established in advance, it could at least be reflected in the criteria which it had either approved or specified.

7. Furthermore, the straightforward debate on the budget recommended by the Commission could well be complicated by the fact that each of the institutions in the Budgetary Authority has adopted different attitudes to these guidelines. The Council takes the view that the debate on the guidelines is a highly theoretical exercise, and it will only indirectly draw the relevant practical conclusions after the preliminary draft budget has been submitted.

8. It is true that the contacts required within the Budgetary Authority for a consensus to be reached on these guidelines may be rendered difficult by the rules governing the present budgetary procedure, assuming that such a consensus is necessary before the preliminary draft budget is drawn up.

9. Nevertheless, it is disappointing to note that, as in previous years, the Joint Council of 3 April 1978 failed to draw any constructive conclusions from its examination of the Commission's communication. It would be highly desirable if the Council were to produce an overall assessment of the Community's budgetary problems before embarking on an examination of specific and concrete decisions within the framework of the budgetary procedure.

10. Finally, there is a risk of confusion and of overlapping between the guidelines on the one hand and the explanatory statement in Volume VII of the preliminary draft budget, which contains triennial estimates, on the other. It must be ensured that these two documents are at least complementary.

11. To sum up, the Commission's guidelines could play a constructive part in the preparation of the budget, provided that the following conditions were satisfied:

- The guidelines must be viewed as the point of departure for a debate and deliberations within the Budgetary Authority, enabling it to tackle the problems involved on an overall basis. In drawing up the preliminary draft budget, the Commission should expect rough pointers from the Budgetary Authority. It should not expect a specific instructions.

¹ COM(78) 64 final

- Before the preliminary draft budget is considered, the guidelines must form the subject of a debate between Parliament and the Council, in order to enable the Budgetary Authority to take more politically oriented and more consistent decisions. This debate should be held not later than the joint consideration of the preliminary draft budget which takes place in July as part of the budgetary consultation procedure.

11a. Parliament would therefore encourage the Commission to repeat this exercise next year and in subsequent years. It will always be necessary to make political choices before taking decisions on their budgetary consequences, and the Commission's preparatory document will for this reason alone always be useful.

II. THE COMMISSION'S GUIDELINES

12. At its meeting in Rome on 1/2 December 1975, the European Council proposed that a Joint Council of Foreign Affairs Ministers and Finance Ministers should undertake, together with the Commission, a comprehensive review of the budgetary problems of the Community in the spring of each year. Since 1976, the Commission has prepared a communication to this end for submission to the Joint Council and, since 1977, to Parliament as well.

The procedure, which originally involved only the Council and the Commission, now simultaneously also involves Parliament.

In fact, the Commission formally presents its document to each of the two institutions, after which a debate is held.

13. Parliament's participation in this procedure has helped to produce a change in the nature and content of the communication submitted by the Commission. Greater emphasis is now placed on political factors and details are given of the objectives to be pursued in the short and medium term. Furthermore, the debate on the communication, which was originally theoretical and academic in tenor, is tending more towards an analysis of practical and immediate consequences.

Finally, budgetary problems, which were originally dealt with in the text as a specific and somewhat secondary and technical area of general Community policy, are now considered to represent a coherent sector with its own objectives.

14. The role of the Community budget which the Commission has sought to convey in its guidelines, namely that of a motive force and an instrument of development, is discussed in those sections of the text relating to medium-term objectives and priorities. The Commission proposes that the development

of the Community budget might be geared to the attainment of the objectives of the enlargement of the Community, monetary and economic union and, at a later date, European union. Parliament would certainly agree that these objectives are of importance in the pursuit of a systematic policy of reinforcing the Community budget. Indeed, it is essential for the Community, which has firmly committed itself to these objectives, to introduce the budgetary and financial instruments necessary for their realization.

15. Furthermore, Parliament has repeatedly pressed for the adoption of the type of criteria proposed as a means of reinforcing the budget, e.g. Community financing of activities where there is an economic or political advantage in operating on a Community rather than a national scale, strengthening of the role of the Community budget in the redistribution of resources and the stabilization of the economy, etc.

16. There are, however, certain passages in the text which are likely to evoke criticism from Parliament. These relate to the Commission's long-term guidelines for containing agricultural expenditure. The Commission clearly favours a stricter measure of containment and even a progressive but substantial reduction of the imbalance between agricultural and other expenditure. However, it takes the view that it would be idle to suppose that tighter controls could be imposed within the framework of the budgetary procedure.

17. The Commission has in this regard adopted a very restrictive approach to the budgetary procedure. It overlooks the obvious fact that the EAGGF Guarantee Section is a fund - even if this may be regretted - and hence a budgetary instrument. The legal provisions governing the implementation of the Community's policy for stabilizing the agricultural markets are the operational rules of a budgetary instrument, and accordingly fall within the ambit of budgetary policy. It would be absurd to separate the political decision to enter an appropriation from the rules governing its implementation.

18. As regards the short term, the Commission enumerates 'some repercussions on the 1979 budget'. It then lists, in a section on 'priority areas in which it is proposed that the Community assume greater responsibility for expenditure', its proposals for new measures which it has submitted or will be submitting to the Council. It emerges from this section that, in the Commission's view, the budget cannot by itself have any influence on the shaping of new policies and is not in fact a political instrument. At most, it is a means of giving a measure of consistency to measures whose one common feature is that they have repercussions on the budget. Thus, there is a considerable discrepancy between the bold and imaginative medium-term guidelines and the methods proposed in the short term for achieving the objectives specified.

19. It is nevertheless true that the Commission has tried to produce a formula for coordinating the legislative and budgetary activities of the Community and made a constructive effort to reduce the present absurd lack of coordination between the powers of Parliament and the Council and mitigate the harmful consequences of this lack of coordination in the legislative and budgetary fields.

20. As for the substance of the Commission's guidelines, it is suggested that in subsequent financial years the first priority should be the 'restructuring of the apparatus of production and its social and regional consequences'.

The Commission considers, then, that among the major problems facing the Community the main impact of the Community budget will be in helping to promote economic recovery. Accordingly, it gives priority to measures for reorganizing the machinery of production and suggests that these measures should be extended to the social and regional sectors.

21. The highly political nature of this priority is to be welcomed. However, Parliament will assess the Commission's ability to translate it into budgetary terms in the light of the content of the preliminary draft budget.

III. PARLIAMENT'S POSITION

22. Parliament cannot adopt a final position until the budgetary procedure has been completed, i.e. when it comes to exercise its power of decision over the adoption of the budget. Before the preliminary draft budget is submitted, it may, however, be useful if Parliament were to deliberate on the general guidelines of the budget now being prepared:

1. so that the debate on the budgetary decision - which is the main practical expression of its power - may be conducted under conditions conducive to the adoption of a coherent political position based on as wide a consensus as possible among its Members, groups and committees,
2. so that, when drawing up its preliminary draft, the Commission may have a further opportunity to take stock of the general views voiced at this stage by Parliament, without there being any question of Parliament encroaching on the Commission's power of initiative,
3. so that a political dialogue may be held with the Council, both before the opening of the budgetary procedure as such, i.e. when such a dialogue can only be of a general and 'global' nature, and also during the budgetary procedure, when the search for some common ground on budgetary options could be based on political criteria.

A. MEDIUM-TERM PRIORITIES OF COMMUNITY BUDGETARY POLICY

23. Medium-term priorities can, of course, be established only when the role and functions of the Community budget are clearly defined and a position has been adopted on the triennial estimates of which they must form the basis. Finally, they will serve no useful purpose unless they are jointly approved by the Budgetary Authority each year before consideration of the budget decisions proper. Parliament therefore proposes the following analysis of Community budgetary policy prospects.

Overall volume of the budget

24. It is perhaps in volume that the difference in structure between the Community budget and national budgets is most marked.

(a) First of all, in the Member States there is a direct connection between the volume of revenue - and the budget in general - and economic activity during the financial year in question. This is not the case with the Community budget.

Table No. 1

Relationship between the budget and economic activity in the Member States and in the Community

	<u>EEC GDP</u>	<u>Central budgets of the Member States</u>		<u>Community budget</u>	
		<u>m.u.a.</u>	<u>% of GDP</u>	<u>m.u.a.</u>	<u>% of GDP</u>
1973	867,550	227,688	26	4,641	0.53
1975	1,110,600	337,496	30	6,214	0.55
1977	1,445,120	433,824	30	9,584	0.66

The volume of the Community budget, on the other hand, is determined in principle by technical and mathematical considerations that have no direct connection with economic activity in the financial year in question.

- The dynamic section of the budget (NCE) is limited by the maximum rate calculated on the basis of theoretical data which have lost their immediacy and are only loosely connected with economic developments in the following year;
- The volume of Community revenue will very soon be limited, de jure if not de facto, by the VAT rate of 1% which was fixed quite arbitrarily.

Table No. 2

Estimates of own resources and of the contribution from VAT on the basis of the Commission's triennial estimates (1978 financial year)

m EUA	<u>Budget revenue</u> <u>(expenditure</u> <u>to be covered)</u>	<u>VAT revenue</u>	<u>VAT rate</u>	<u>1% VAT</u>
1979	13,075	6,075	0.64%	9,516
1980	14,130	6,532	0.62%	10,562

Bearing in mind the fact that the role of the Community budget is quite different from that of national budgets, consideration must now be given to ways of establishing a more balanced relationship between the volume of the budget, the role it has to play in Community economy and the size of the economy. It is with this in mind that Parliament will consider the Commission's proposals. It must now be made clear to everyone that the development of the Community budget should depend on political decisions rather than on the application of rates that have no current political significance.

(b) Secondly, the principle of balancing estimates of revenue and expenditure is not applied as rigidly in the Member States as it is in the Community. It is in fact generally accepted that a national budget can be adopted even though it shows a deficit and that budgetary expenditure - in principle on short-term investments - can be financed by public borrowing.

On the other hand, expenditure financed by the Community budget is never covered by funds obtained through borrowing, although this does not mean that the Community never borrows. The proportion of loans to traditional budget revenue is by no means insignificant, and is even increasing.

Table No. 3

Proportion of loans and traditional revenue in Community financing

	<u>1976</u>
- Revenue to meet non-recoverable expenditure	<u>8,900</u>
. General budget	8,470
. ECSC operational budget	110
. 3rd and 4th EDF	320
- Loans	<u>2,720</u>
. ECSC loans	950
. EIB	750
. Community loans	1,020

25. Once the Community has complete financial autonomy, which should be the case from the 1979 financial year onwards, the funds obtained through all forms of borrowing will have to serve several major functions.

Despite the fact that such revenue can perfectly well be used for the financing of investment expenditure, which by definition figures large in an intervention budget such as the Community's, funds obtained from short or long-term borrowing will be needed to make good cash deficits and to provide greater flexibility in the balancing of revenue against expenditure, especially if a ceiling is put on own resources. It would therefore be realistic to regard funds obtained through borrowing as part of the Community's general budgetary resources, which of course means that they should be budgetized in full.

26. Parliament awaits with interest the Commission's proposals for the removal of the maximum limit on own resources.

The budget as an instrument of structural policy

27. Because the Community is still in a state of flux, trends in expenditure will determine its future development.

The state of flux explains the serious imbalance in the structure of the budget - i.e. the preponderance of agricultural expenditure - and gives rise to uncertainty as to the role and functions of the Community budget. The Community budget's contributions to individual sectors and as a whole differs so appreciably from that of the national budgets that it is difficult to assign to it a function comparable to that of the national budgets.

Table No. 4

Differing importance of the individual sectors in the Community budget and national budgets: extreme examples of agriculture and research in 1976

	<u>National budgets</u>			<u>Community budget</u>		
	<u>Total</u>	<u>Share in the Community</u>	<u>Percentage of all expenditure</u>	<u>Total</u>	<u>Share in the Community</u>	<u>Percentage of all expenditure</u>
Expenditure on market and agricultural price support	310 m u.a.	5%	0.07	5,890 m u.a.	95%	71.4
Research expenditure	7,234 m EUA	98.7%	3.25	93 m EUA	1.3%	1.87

28. The role of the Community budget must therefore be defined in terms of its potential.

With this in mind, a distinction may be made between the budget's role in Community integration and its role in sectoral policies.

29. Instead of giving priority to any particular one of the budget's functions as an instrument of Community integration, it would seem preferable to place equal emphasis on the three aspects indicated below:

- (a) Transferring to the Community responsibility for financing and managing activities that the Member States can no longer handle because of the scale of the problems involved, for instance in sectors affected by an international crisis or in growth sectors where the investments needed are beyond the means of the Member States. In this connection, the Community should concentrate its action in a small number of key sectors: aviation, shipbuilding, data processing, iron and steel and textiles.
- (b) Community coordination of national activities which could in this way be made more efficient and profitable, particularly the research and environmental sectors which the Commission tends to ignore in its guidelines. By coordinating and harmonizing national activities, it would be possible, with relatively limited budgetary resources, to bring the management of certain sectors within a Community framework and thereby increase efficiency.
- (c) Community financing of activities to establish the European identity more firmly in the rest of the world.

30. As regards its role in sectoral policies, the Community budget should for the time being continue to give priority to structural measures. The most important contribution the Community budget can make to the achievement of the prime objective of the Community's economic policy - closer alignment of national economies with a view to giving a new impetus to economic and monetary union - is to restore the balance in the Community's production structures and in its social and regional policies.

31. In connection with the effect of the budget on the economy, the main aim at present should be to establish a framework for future action. The current budget is far too small to have any effect on the economy, except in the agricultural sector. Moreover, even if this were not the case, it could only act as an instrument of coordination in view of differences in national economies and their structures. Nevertheless, it must still contribute as far as possible to the Community policy of economic expansion and recovery, and its financial instruments can provide direct support for the coordination of national activities.

32. It is of course difficult to quantify these budgetary functions. Attempts to do so would require a detailed study, which could be carried out by the ad hoc working party when it considers the McDougall report.

B. IMPLICATIONS FOR THE 1979 BUDGET

33. Parliament will apply the following criteria when deciding which appropriations should be entered in the 1979 budget:

1. The suitability of appropriations for the solution of the major problems confronting the Community

(a) The 1979 Community budget should give priority to the setting up of structures that will pave the way for a well-balanced and durable economic recovery, i.e.:

- in the social sector:
 - . more rational utilization of ESF appropriations;
 - . increased appropriations for certain specific projects:
 - direct aid for youth employment; schemes for the redeployment of workers in industrial sectors in extreme difficulty;
- in the regional sector:
 - . greater Community contribution to projects financed by the budget;
 - . creation of a non-quota fund outside the ERDF;
- in the industrial sector:
 - . substantial increase in Community aid for reorganization and redevelopment in connection with the crisis in the iron and steel, textiles and shipbuilding industries;
 - . exclusive Community financing of aid to the aviation industry;
- reduction of energy dependence:
 - . Community financial support for energy conservation measures;
 - . financing of research and development projects relating to new sources of energy;
 - . support for the coal industry and promotion of the use of coal;
 - . increased financial aid for the development of energy sources in the Community.

(b) From 1979 on, the financial burden of implementing new policies in the following sectors must be borne by the Community budget:

- enlargement, with particular emphasis on the adjustment of Mediterranean agricultural structures;
- cooperation with the non-associated developing countries;
- research, science and technology;
- the environment.

33a. During the budgetary procedure, Parliament will decide on appropriations and their allocation on the basis of these criteria.

2. Dynamism of the budget

34. The Community is in a state of evolution. If it stops evolving or even if it evolves less quickly than the world around it, it will run the risk of losing its influence or disintegrating completely.

By declaring that it must be political, Parliament is drawing attention to its view that the budget should act as a motive force in the development of the Community. It is on this point that Parliament's approach differs from that of the Commission, which admittedly makes medium-term provisions but never places the measures and decisions to be adopted in the budgetary context. The budget remains a statement of account in respect of the financial consequences of measures decided upon elsewhere.

Parliament will try to use its influence to make the budget a motive force in a policy aimed at the development of the Community.

3. Realistic assessment of the prospects for the utilization of appropriations

(a) Consideration of the degree of utilization of appropriations entered in the budget for individual activities during previous financial years

35. Parliament sees its own budgetary control function as a means of preparing its budgetary decisions and has organized its work with this in mind. Investigation of the use of appropriations in previous years will provide a useful guide to the desirability of entering new appropriations. This investigation will be based on the preparatory work on the discharge, but also on the control measures at present carried out by Parliament in the traditional manner with a view to assessing the utilization of appropriations in the course of the current financial year.

(b) Joint consideration with the Council and Commission of the scope for creating, in due time, the material conditions necessary for the utilization of appropriations

36. It would be pointless, and even wrong, to enter appropriations in the budget when it is known for a fact that it will not be possible to use them. Such action would lead to the creation of hidden reserves and reduce budgetary transparency.

It will be necessary to establish, in consultations with the Council and Commission, what conditions will be necessary for the utilization of appropriations in 1979, in particular in cases where such utilization will depend on legal provisions.

It will be possible to resort to the use of reserved credits and freezing on the line only in cases of doubt.

It should be pointed out that, on the basis of the principles enumerated in the first part of this document, Parliament will try to establish a political dialogue with the Council with a view to the adoption, by the Budgetary Authority, of a decision based on common agreement. This means that:

- the Council must not take refuge in its legislative powers during the deliberations on the decision on the budget; and
- the distinction between compulsory and non-compulsory expenditure should be treated as a matter of technical significance and nothing more.

C. THE DEVELOPMENT OF AGRICULTURAL EXPENDITURE

I. The European Parliament's aims

37. The European Parliament's political aims are clear:

- the establishment of a better balance between expenditure on the Community's agricultural price policy and expenditure on other matters, in a manner compatible with the objectives of Article 39 of the EEC Treaty; and
- avoidance of supplementary budgets in connection with the agricultural policy by incorporating agricultural price decisions in the budgetary procedure.

II. The outcome of the debate in 1977

38. During the budgetary procedure in previous years, discussions centred mainly on the following three proposals:

- the imposition of a maximum limit on agricultural expenditure in the budget;
- the freezing of agricultural expenditure at the previous year's level, accompanied by the provision of an appropriate reserve under Chapter 100 intended to cover the yearly increase in expenditure and subject, by way of transfers of appropriations, to a procedure for approval by the Budgetary Authority and
- the amendment by the Council of the basic regulations on agricultural policy with a view to modifying the legislation of which generates expenditure in this field.

III. The Commission's guidelines

39. The global appraisal submitted by the Commission mentions the need to contain expenditure on the common organization of agricultural markets, but confines its comments to one page. It draws attention to the following four factors:

- a cautious price policy;
- the adjustment of certain market organizations;
- the gradual abolition of monetary compensatory amounts; and
- the 'co-responsibility levy' experiment.

These details are inadequate as a basis for a specific procedure for achieving the above objectives.

IV. The scope for influence with a view to the containment of expenditure

40. The agricultural policy could be influenced and modified at the following three levels:

- in the adoption of regulations laying down the arrangements for the organization of the markets;
- in the establishment of the budgets; and
- in the implementation of the budget.

41. The approach to reform has so far been kept mainly within the confines of the budgetary procedure. This framework is too narrow. Once regulations have been adopted, they have immutable budgetary consequences. It therefore follows logically that agricultural regulations should form part of budgetary policy. The budgetary procedure should not be artificially divorced from the legislative process. This means that:

- The Council and Parliament, as the institutions of the Budgetary Authority, must collaborate on agricultural legislation; and
- The Council and Parliament, as the institutions of the Budgetary Authority, must keep the implementation of the agricultural budget under constant review.

V. Regulations

42. The common organization of the agricultural markets is a cornerstone in European unification, which should not be undermined but rather bolstered by placing stress on agricultural structural policy.

43. The establishment of the various types of intervention by means of regulations forms the basis for agricultural expenditure. If agricultural expenditure is to be restricted, the criteria for ~~the~~ interventions must be modified.

44. At present, total price guarantees apply to most organizations of the market, even sectors with production surpluses. This raises the question of whether such guarantees should not perhaps be toned down, specific distinctions being made on the basis of product groups or individual products in order to take account of the various branches of agriculture.

45. The 100% price guarantee has the following disadvantages:

- it means that production is no longer based on demand;
- it may lead to production surpluses;
- it gives rise to social injustice; and
- it leads to the neglect of structural policy measures.

VI. The Introduction of producer levies

46. Producer levies, which have been introduced by the Commission on an experimental basis, are designed precisely to tone down the absolute guarantee. A reduction of intervention payments by the amount of the producer levy would be a simpler way of achieving the same result as that obtained by providing full price guarantees and imposing a producer levy.

VII. The introduction of an 'early warning' system becoming operative after a certain percentage of the appropriations available in a given field of action has been used

47. By its very nature, agricultural expenditure is subject to considerable fluctuations. It would seem to be impossible to place a limit on appropriations each year in advance. For this reason a different system should be devised which

would bring certain measures into operation when a given percentage of appropriations had been used and it was foreseen that the amounts available in the budget would not be adequate.

48. These measures would trigger off a notification procedure.

49. One advantage of such a procedure would be that, unlike fixing an overall maximum limit for the Guarantee Section of the EAGGF, it would make it possible to create a flexible instrument for the organization of each individual market.

50. The Budgetary Authority could then decide whether:

- a supplementary budget was necessary;
- the financial requirements could be covered by means of transfers of appropriations; or
- other price or structural measures should be adopted.

VIII. Special provisions for the implementation of the budget in respect of the Guarantee Section of the EAGGF

51. The 'early warning' system described above cannot be realized under existing legislation since the Commission is not in a position, when it pays the Member States, to establish what percentage of appropriations have been used in any given organization in a market.

52. The reason for this is as follows:

- Under Articles 96 and 97 of the Financial Regulation Member States apply for advances for their expenditure on the Guarantee Section of the EAGGF. The appropriations needed are estimated and requested separately by Chapter, Article and Item.
- However, the Commission then only makes a global commitment of appropriations for all expenditure. It is impossible to establish on the basis of this global commitment whether the appropriations approved by the Budgetary Authority for individual lines (Chapters, Articles and Items) have been adhered to or exceeded.
- After an interval of many weeks, the Member States submit to the Commission their figures on the actual expenditure corresponding to the monthly payment. Only then can the Commission make a detailed commitment, a posteriori, by Article, Chapter and Item, and establish whether the appropriations approved by the Budgetary Authority are adequate or already fall short of requirements.
- If the appropriations have been exceeded, the Commission has to make or request transfers of appropriations, or submit a supplementary budget. In such cases there can be no latitude in the decision-making procedure, because the payments have already been made.

53. To sum up, this procedure fails to take account of the specificity of and quantitative limitations on the appropriations entered in the budget. It therefore runs counter to the budgetary principles of qualitative and quantitative specificity as laid down in the third paragraph of Article 202 of the EEC Treaty.

54. The Commission has admittedly, in the context of the revision of the Financial Regulation, assumed additional responsibilities in respect of providing reports and information and must now notify the Budgetary Authority of instances in which appropriations are exceeded. However, this notification system is inadequate.

55. In particular, the global commitment of appropriations represents a very important obstacle to the 'early warning' system proposed above, since it does not show when the relevant percentage of appropriations has been used in given sectors of expenditure.

56. The global commitment of appropriations must therefore be abandoned. This would appear to be quite feasible. If the Member States can classify their advances into specific categories the Commission must also be able to commit appropriations not only for the Guarantee Section of the EAGGF as a whole but also for specific sectors of agriculture. This being so, it should also be in a position to establish, on the basis of the specific commitments of appropriations, at what point payments to the Member States reach a certain percentage of the appropriations available.

57. The Commission should therefore be required to make specific commitments of appropriations instead of global commitments. Such commitments would of course remain provisional inasmuch as they related only to the advances. The final commitment of appropriations would be made after the Member States had submitted their actual figures.

IX. Containment of agrimonetary expenditure

58. The Community's agrimonetary expenditure is political dynamite and should never be underestimated. For 1978 it amounts to:

Chapter 45	Monetary compensatory amounts collected or granted in respect of trade in agricultural products	992.6 m EUA
Chapter 46	Expenditure resulting from the application of different exchange rates to the EAGGF Guarantee Section	712.9 m EUA

59. It should be emphasized that this expenditure cannot be attributed to the agricultural policy. It results from the chaotic monetary situation in Europe and the Community's inability to make any progress towards European monetary union. However, the Community cannot avoid dismantling monetary compensatory amounts. 1,000 m EUA, i.e. one-twelfth of the 1978 budget as a whole, is too much to be ignored.

60. The European Parliament is fully aware that three proposals have been submitted with a view to reducing monetary compensatory amounts:

- imposition of a maximum limit on MCA;
- reduction of the intervention prices forming the basis for MCA; and
- gradual abolition of MCA in 7 years.

61. Unilateral abolition by individual Member States would not yield satisfactory results since it would lead, without Community agreement, to a unilateral change in agricultural prices which might have severe adverse effects for consumers, and since it would result in one-sided changes in the incomes of agricultural workers in the Member States.

62. Monetary compensatory amounts must therefore be abolished at Community level. However, an automatic system would not be feasible because it would not take into account the cost situation in individual Member States. The measures adopted for this purpose must therefore tie in closely with the annual price decisions.

IV. CONCLUSIONS

63. The Commission is invited, with a view to the effective coordination of the Community's budgetary and legislative activities, to submit proposals for measures having budgetary implications in 1979 sufficiently early in the year for the Budgetary Authority to be able to take them into consideration before initiating the budgetary procedure.

64. Parliament invites the Council to persevere, as in previous years, with its efforts to establish productive cooperation within the Budgetary Authority.

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

MEMORANDUM

concerning

the communication from the Commission to the joint Council of Foreign Affairs Ministers and Finance Ministers and to the European Parliament

on

a global appraisal of the budgetary problems of the Community
(COM(78) 64 final)

At its meetings of 22 March and 10 April 1978, the Committee on Economic and Monetary Affairs considered the memorandum and adopted it unanimously on 10 April 1978.

Present: Mr Glinne, chairman; Sir Brandon Rhys Williams, vice-chairman; Mr Cousté, Mr Mascagni (deputizing for Mr Bordu), Mr Müller-Hermann, Mr Normanton, Mr Nyborg, Mr Schwörer, Mr Spinelli, Mr Starke and Mr Stetter

Taking note of the Committee on Budgets' intention not to adopt the sectoral guidelines for the drawing up of the preliminary draft budget until the parliamentary committees have delivered their opinions on the basis of the Commission's guidelines and after considering the Commission communication on a global appraisal of the budgetary problems of the Community (COM(78) 64 final), the Committee on Economic and Monetary Affairs could adopt the following position:

I. GENERAL CONCEPT OF THE COMMUNITY BUDGET

1. The Committee on Economic and Monetary Affairs believes¹ that the Community budget should express in financial terms the development of Community action and should not merely be an accounting instrument. This view is shared by the Commission, which rightly feels that in its present form the Community budget 'in no way measures up to the role it is required to play towards achieving the objective of economic and monetary union and enlargement'².

¹ See opinion by Mr Müller-Hermann on the 1978 draft budget, point 1 - (Doc. 341/77/Ann.) pp. 11 et seq.

² COM(78) 64 final, p. III

Function of the Community budget

2. In particular, the Commission attributes three basic functions to the Community budget, based on the MacDougall report¹: to finance a number of Community policies and actions, to act as an instrument of redistribution and to act as a stabilizing agent on cyclical trends, revenue and supply.

Volume of the Community budget

3. In 1978 the general budget of the Communities will total 12,400 m EUA in payment appropriations, or 0.8% of the gross domestic product and around 2.5% of the national budgets. Given that it is centred chiefly on a single sector - agriculture - the budget is incapable of playing any macro-economic role whatsoever. As stated in the MacDougall report, to enable the Community budget to play a growing redistributive and stabilizing role, the Community budget as a percentage of the gross domestic product should be between 2% and 2.5% on a lower assumption and between 5% and 7% on a more ambitious assumption, whereas at present it is 0.8%².

Criteria for increasing expenditure at Community level

4. The Commission's request for an increase in the volume of the Community budget should be endorsed. However, this increase in the burden on the Community budget must be based on detailed criteria. Since the main criteria for allocating expenditure to the Community is that of the 'economies of scale', greater effectiveness and lower costs must justify such an allocation and, except for new measures, must result in a corresponding decrease in the burden on national budgets. The Committee on Economic and Monetary Affairs fully supports this view³.

Community resources

5. In its communication the Commission considers - in the long term and assuming an increase in the volume of the budget - the question of the financing of the budget. The margin available on the basis of the system provided for in the Decision of 21 April 1970 is likely to be exhausted by the beginning of the 1980s. The Commission therefore attaches great importance to 'as much use as possible being made of the borrowing and lending machinery'. The Committee on Economic and Monetary Affairs approves this initiative in principle, provided that it is subject to strict control.

¹ Report by the study group on the role of public finance in European integration, pp. 59, et seq.

² COM (78) 64 final, p. 5

³ See Müller-Hermann opinion on the 1978 budget (341/77/Ann., point 2)

II. BUDGET GUIDELINES for 1979

6. As regards the budget guidelines for 1979 the Committee on Economic and Monetary Affairs is able to comment on the sectors for which it is responsible - above all industrial policy which is dealt with in Chapter 37 - but also in general on all measures specifically aimed at progress towards economic and monetary union.

A. Industrial policy

Community strategy aims at restructuring industries in difficulty and developing advanced technology sectors.

(a) Restructuring sectors in difficulty

7. For reasons of coherence and effectiveness, the restructuring of the sectors in difficulty - shipbuilding, textiles and steel - must be carried out at Community level. Restructuring is vital to enable the Community to regain a competitive position on world markets. In its communication the Commission considers that the restructuring of the apparatus of production 'should be put at the top of the list of the priority areas'¹. The Commission should therefore include in the 1979 budget the appropriations needed for this purpose. In the light of present experience the Committee on Economic and Monetary Affairs would like to know the Commission's intentions with regard to future Community reorganization and conversion operation in connection with crises in certain industrial sectors (Article 375). Did the appropriations entered in the 1978 budget prove adequate? Is it enough to 'start'² a policy of using Community resources? Since it is impossible to increase the rate of the ECSC levy, the Committee on Economic and Monetary Affairs further draws the attention of the Commission and Council to the need to cover the additional expenditure arising from the overall restructuring programme for the iron and steel sector by including ECSC customs revenue as part of Community revenue as a whole³.

(b) Growth sectors

8. The development of advanced technology sectors is vital for the expansion and independence of European industry and as an essential complement to the policy of rationalizing the sectors in difficulty. The Committee on Economic and Monetary Affairs has repeatedly emphasized - with regard to the aeronautical sector⁴ and data processing⁵ - the urgent need for Community action aimed at gradually pooling research capacities and using public orders to develop the markets. As stated by the Commission⁶, 'it is to the extent

¹ COM(78) 64 final, p.9

² COM(78) 64 final, p.11

³ See opinion by Mr Notenboom (Doc. 439/77)

⁴ See interim report by Mr Guldberg on an action programme for the European aeronautical sector (Doc. 203/76)

⁵ See report by Mr Cousté on a four-year programme for the development of informatics in the Community (Doc. 235/77), point 1

⁶ COM(78) 64 final, p.12

that it is capable of making a financial contribution that the Commission is most likely to persuade governments and industrialists to cooperate'. The Commission could also propose Community action to help other growth sectors, such as the chemical industry.

9. Finally, the Committee on Economic and Monetary Affairs emphasizes the need for a substantial increase in the appropriations allocated to Community industrial policy. The Community cannot in 1979 make do with a token entry for the implementation of the four-year development programme for the data-processing sector (Item 3702), operations in the aerospace sector (Article 371), and research projects in the field of technology and industry (Article 390). The committee also urges the Council to act consistently when considering the preliminary draft and agree to translate its statements in favour of the development of the Community into budget entries.

B. The budget as an economic instrument

The Community budget must be an instrument of economic development required to play a vital role in moves towards economic and monetary union and in adapting the Community to developments in the world economic situation.

(a) Moves towards economic and monetary union

10. The revival of economic and monetary union must also be reflected in the shaping of Community budgetary policy. The necessary solidarity between the Member States must lead to a sizeable increase in Community expenditure on research and development and on investment in economically weak regions. In this way the Community budget will fulfil its redistributive function, which will become more important as progress is made towards economic and monetary union.

(b) Cooperation with the developing countries

11. As the Commission rightly points out, the problem of restructuring is bound up with the Community policy of cooperation with developing countries in the commercial (generalized preferences), financial and technological sectors. However, Community action in this field should not be limited to 'defensive' restructuring but should also contribute towards 'dynamic' reorganization¹, that is to say Community financial aid should encourage intervention by the Member States on the markets of the developing countries.

(c) Enlargement of the Community

12. Finally, the probable enlargement of the Community to include three new members will involve the implementation of active structural policies in sectors such as iron and steel, shipbuilding and textiles, which in turn will require an increase in aid from the Community budget.

¹ COM(78) 64 final, p.10

CONCLUSIONS

The Committee on Economic and Monetary Affairs:

1. Notes the Commission's view that the Community budget as it now stands is unable to meet the functions of economic integration, redistribution and stabilization which have been assigned to it;
2. Reaffirms its belief that the Community budget should be not only an accounting instrument but also the financial expression of the will to strengthen and develop the Community¹;
3. Emphasizes that, on a selective basis, the Community budget should gradually take over responsibility for policies and measures which, once transferred from national to Community level, are characterized by economies of scale, greater effectiveness and a corresponding reduction in the burden on national budgets;
4. Expects the Commission, therefore, since restructuring policy must be given top priority, to enter in its preliminary draft budget substantial appropriations amounting to more than a mere token gesture, to encourage:
 - the restructuring of industrial sectors in difficulty (shipbuilding, textiles, iron and steel),
 - the development of the growth sectors (data processing and electronic components, aeronautical sector, technological and industrial research);
5. Emphasizes that projects to revive economic and monetary union, the adjustment of the Community to the consequences of introducing a new world economic order and the prospect of enlargement, can succeed only if appropriate entries are made in a Community budget which would then be in a position to discharge fully its redistributive function;
6. Urgently requests the Council to make good its commitment in favour of a Community development policy by adopting a consistent position on budgetary matters.

¹ See opinion by Mr Müller-Hermann (Doc. 341/77/Ann.) p.11, point 1 of conclusions.