
EUROPEAN PARLIAMENT

Working Documents

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DOCUMENT 400/78

Report

drawn up on behalf of the Committee on Budgets

on the/draft general budget of the European Communities for the financial
year 1979 (Doc. 296/78)

Rapporteur: Mr M. BANGEMANN

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On 13 March 1978, the Committee on Budgets appointed Mr Martin BANGEMANN rapporteur on the draft general budget of the European Communities for the financial year 1979 (with particular reference to Section III - Commission).

On 17 March 1978, the European Parliament adopted its guidelines for the budgetary and financial policy of the European Communities in 1979 (Part I: General budgetary and financial policy problems, institutional matters and budget law questions connected with the revenue section - Doc. 3/78); on 14 April 1978, it adopted Part II of the guidelines (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 - Doc. 54/78).

On 20 June 1978, the Commissioner responsible for the budget presented the preliminary draft general budget to the Committee on Budgets.

On 3 July 1978, the preliminary draft general budget was presented to the plenary Assembly.

A delegation from the European Parliament met the Council on 18 July 1978.

The draft general budget of the European Communities, drawn up by the Council, was forwarded to the European Parliament on 6 September 1978, within the time limit laid down by the Treaties.

On 11 September 1978, the European Parliament referred this draft budget to the Committee on Budgets as the committee responsible, and to the other committees which expressed a wish to deliver an opinion on it.

On 28 September, the Commission forwarded a preliminary draft letter of amendment. This document was submitted by the Council on 9 October as a draft (Doc. 377/78).

The draft general budget was considered in the presence of the Commission and Council on 20/21 September, 2/3 October and 16/17 October 1978.

The draft amendments and proposed modifications were considered by the committee on 16/17 October 1978. At the same meeting the draft report drawn up by Mr Bangemann was examined and the motion for a resolution was adopted unanimously with one abstention.

Present: Mr Lange, chairman; Mr Aigner, vice-chairman;
Mr Bangemann, vice-chairman and rapporteur; Lord Bessborough,
Lord Bruce of Donington, Mr Dalyell, Mr Dankert, Mr Früh, Mr Meintz,
Mr B. Nielsen, Mr Radoux, Mr Ripamonti, Mr Rossi, Mr Schreiber, Mr Shaw,
Mr Spinelli, Mr Würtz and Mr Verhaegen (deputizing for Mr H.W. Müller).

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ANNEX I : Decisions of the Committee on Budgets

The opinions of the other committees are published in a separate document

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 draft general budget of the European Communities for the financial year 1979

The European Parliament,

- having regard to the preliminary draft general budget of the European Communities and in particular the general introduction to Section III (Commission) (COM(78)250) and the letter of amendment (COM(78)450),
- having regard to the draft general budget of the European Communities for 1979 drawn up by the Council and the Council's explanatory memorandum (Doc. 296/78) and to the letter of amendment (Doc. 377/78),
- having regard to the budgetary dialogue undertaken with the Commission and Council, and in particular the outcome of the meeting between the delegation from the European Parliament and the Council on 18 July 1978,
- having regard to the guidelines adopted (Doc. 3/78 and Doc. 54/78),
- having regard to the report of the Committee on Budgets, the opinions of the other committees and the draft amendments and proposed modifications annexed to this report (Doc. 400/78),

I. Political significance of the 1979 budget

1. Points out that the budgetary procedure for 1979 is the last before direct elections and for this reason represents the conclusion of a stage in the evolution of budgetary policy characterized by

- (a) the first steps towards financial autonomy,
- (b) the establishment of the Court of Auditors and
- (c) the extension of its budgetary powers

and has created a solid basis for the future work of the directly-elected Parliament in the budgetary and financial spheres;

II. Cooperation between the institutions in the budgetary sector

Discussions on the guidelines

2. Hopes that the dialogue on the guidelines of the Commission and the Parliament will be incorporated to a greater extent in the budgetary procedure proper;

The dialogue between the two parts of the budgetary authority

3. Also advocates a pragmatic and political dialogue between the two parts of the budgetary authority directed towards the political and economic needs of the financial year in question;

The Commission's right of initiative

4. Points out with concern that in some cases the Commission has not taken initiatives in time and has thereby put the Council in a position to delete appropriations from the preliminary draft budget on the grounds that there was as yet no proposal on which a decision could be based;

Budgetary powers and legislative powers

5. Rejects the Council's view, which the Commission unfortunately supports, that as a rule appropriations must be justified by material legislative decisions; consequently insists that regulations should not be allowed to anticipate budgetary decisions;

Improvement of the conciliation procedure

6. Insists that the fundamental problems of the relationship between legislative and budgetary powers should be resolved as soon as possible by way of conciliation; will meanwhile ensure that it participates in the legislative process, through the conciliation procedure provided for in the joint declaration of 1975, wherever the financial implications may prejudice budgetary decisions;

Implementation of the budget

7. Urges that the dialogue between the two parts of the budgetary authority on the validity of the budget decision as a specific authorization to incur expenditure be pursued until a satisfactory conclusion is reached, so as to strengthen the functions of the Commission under Article 205 of the EEC Treaty; to this end has formulated the 'remarks' in such a way as to distinguish those budget lines which can be directly implemented;
8. Deplores the fact that the inadequate rate at which appropriations are utilized deprives the executive power of the Commission of virtually any meaning, and urges that the Commission should remedy the situation by taking appropriate measures and making appropriate proposals;

III. Progress on the structure of the budget

Loans policy

9. Expresses once again its support for the budgetization of loans so that a coherent Community policy can be pursued in this area, and is of the opinion that Part II of Section III 'Commission' of the preliminary draft budget represents a first step in this direction;

Global nature of the budget

10. Again affirms its desire to bring together all the political activities of the Community in one budget and intends therefore to incorporate the European Cooperation Association (ECA) into the general staff structure of the Commission;

Budget transparency

11. Points out in connection with the necessary budget transparency that the meagre outflow of appropriations must lead to notional appropriations in the budget;

Nomenclature

12. Considers that the following comments are called for on the nomenclature employed:
 - (a) regards the presentation of research appropriations in Chapter 23 as correct as this limits the number of budgetary lines and lends clarity to the layout of Section III, which in turn makes it easier for the budgetary authority to take decisions on research appropriations and
 - (b) is unable to accept the nomenclature in respect of fishing policy, and in particular the overlapping (Articles 860-862) of expenditure on the EAGGF (Guidance Section) with expenditure on the new fisheries policy under Title 8 since this artificially inflates the agricultural structure policy conducted until now by introducing a completely new and different series of measures; proposes therefore the inclusion of policy on the sea including fisheries policy in a new Chapter 38;
 - (c) considers inadmissible the inclusion in the expenditure section of an appropriation entitled 'negative expenditure' to cover revenue from the milk producers' co-responsibility levy (Article 628) under Regulation (EEC) No. 1079/77; these funds should be entered in the revenue section even if they are not subject to the principle that revenue should not be earmarked for a specific purpose;

Financial estimates

13. Demands that a more pronounced political slant be given to the financial estimates while acknowledging that the alternative calculations presented this year have increased the budgetary authority's political options; urges however that the estimates should be linked more closely to the budgetary guidelines and other Community economy data, which is not possible without a five-year planning period;

European unit of account

14. Takes the view that the European unit of account has a central role to play in the new move towards greater monetary cooperation in the Community;
supports in this connection the increased introduction of the European unit of account in agricultural policy as this makes it possible to remove the largest agro-monetary difficulties (monetary compensatory amounts) on condition that undesirable effects for price policy and social policy can be headed off in time;
therefore proposes that the European unit of account should be used progressively not only as an accounting unit but also as a transaction unit and monetary unit;

Revenue side of the budget

15. Issues a warning that any further delay in the implementation of the Sixth VAT Directive will jeopardize the financial autonomy of the Community; points to the resolution of 16 June 1978 in which the Commission is called upon to initiate the procedure provided for in Article 169 of the EEC Treaty against the defaulting Member States;
16. Fears that, with regard to the future extent of the budget as a result of the budgetization of the European Development Fund and other Community activities, the possibility of financing the Community budget within the ceiling of 1% of the basis for assessing VAT, laid down in the Treaty, will soon be exhausted; therefore considers it essential that the Commission should present forthwith its promised study of new sources of finance for the Community budget;

IV. 1979 Budget

Volume

17. Rejects the idea of an 'austerity budget' and points out that this concept adopted by the Commission has been inappropriate from the start and was also clearly rejected by the European Council in Bremen;
18. Notes that both the preliminary draft and the triennial financial estimates no longer correspond to the present political situation after the two summit meetings in Bremen and Bonn and that the budgetary authority must try to update the draft as far as possible by submitting amendments;
19. Criticises the Council for cutting down even this minimum Commission draft instead of modelling it on the decisions of the Heads of State and Government;
20. Points out that in view of the existing economic interdependence no effective stimulation of investment activity will be achieved without Community cooperation;

Community structural policy

21. Sees the 1979 Community budget mainly as an instrument of medium-term structural policy, giving particular emphasis to regions and sectors; is convinced that on the one hand a common structural policy can further those projects which will obviate the need for the temporary stabilization of unprofitable branches of industry at great cost to national economies and on the other hand that a Community structural policy can give greater support to sectors of growth than would be possible by using market mechanisms alone;

V. The main aims of Community activity

Social policy

22. Emphasizes that in the present difficult economic and labour market conditions European social policy must be directed towards measures which will increase the direct outflow of appropriations and the direct effect of the policy on those concerned; hopes that the Community package for combating unemployment amongst young people and women will be implemented on this basis;

Regional policy

23. Calls for tangible strengthening of the regional policy effort to be expressed in an increase of appropriations for the Regional Fund, including the non-quota appropriations;

Agricultural structures

24. Calls for an extension of the agricultural structures policy since
- (a) despite efforts of Member States in this sphere there is still a fundamental incongruity between agricultural price policy and agricultural structures policy,
 - (b) an improvement of agricultural structures could help to solve structural surpluses,
 - (c) an improvement of this kind is an absolute prerequisite for the accession of Greece, Portugal and Spain;

therefore considers the letter of amendment inadequate;

Transport

25. Takes the view that the common transport policy deserves much greater attention than hitherto and demands concrete action in infrastructure policy; is therefore prepared to give a clear indication to the public, in the run-up to direct elections, that the technocratically ponderous approach of the other institutions should be overcome;

Policy on the sea

26. Considers it necessary to launch a uniform Community policy on the sea embracing fishery policy, surveillance of maritime waters, inspection of sea routes and protection of the maritime environment;

Energy policy

27. Considers it urgent that, on the basis of the outcome of the summit conferences, the common energy policy should pursue three general aims:
- (a) to reduce dependence on energy imports partly by creating a European reserve of primary energy stocks,
 - (b) to encourage alternative sources of energy,
 - (c) to push through energy conservation programmes;

Industry

28. Urges that announcements of a common industrial policy should at long last be converted into practical policy; otherwise expectations are aroused which cannot be fulfilled;

Environment and consumer protection

29. Calls on the Commission to move on from the stage of preliminary investigations and research work to a stage of realisation of tangible results in the field of environment and consumer protection;

Research

30. Believes that the separation of direct and indirect actions frequently leads to artificial distinctions, which must be avoided, and that programmes must be more closely linked to the Community's political objectives;

Education

31. Calls for a coherent education policy and has consequently undertaken budgetary initiatives

- (a) to finance the European Foundation from Community resources from the outset,
- (b) to provide a broader financial basis for the University Institute in Florence and
- (c) to encourage language teaching and the exchange of teachers and pupils;

Cooperation and development aid

32. Notes that the traditional development policy of the Community is being complemented by a policy towards the non-associated developing countries, towards the countries of the Maghreb, Mashrek and Israel, by cooperation with non-governmental organizations, by an increase in food aid and by cooperation with the developing countries in respect of energy policy;
33. Therefore believes that the Community should reformulate the general principles of its policy and sees a good opportunity for this in the forthcoming renegotiation of the Lomé Convention; here the following questions must be answered:
- (a) what importance does the Community give to the maintenance of human rights and how is it to ensure that human rights are observed,
 - (b) what forms of economic cooperation (energy, raw materials, seabed mining) can be developed,
 - (c) what opportunities for evaluation exist and can be utilized,

(d) what development policy activities carried on by Member States could be transferred to Community level;

34. Asks at all events for an increase in appropriations to give this aid real political significance and for an improvement in allocation procedures to speed up the outflow of funds; from the technical point of view, proposes the use in the future for food aid of commitment authorizations and a different formulation for the 'remarks';

Enlargement

35. Calls for the creation of a special reserve in Title 10, Chapter 101, to fund the financial preparations for enlargement in the period leading up to accession itself;

VI. The development of agricultural expenditure

36. Points to the various proposed solutions made in the past to monitor and curb agricultural expenditure; considers however that there must first be a pragmatic approach to develop closer links between budgetary and agricultural policy, as symbolized by the creation of a joint working party of the committees responsible;
37. Takes the view that in the preliminary stage an information system should be set up to sound an alarm when during the budgetary year certain budgetary appropriations are relatively overdrawn; this warning would make it possible to resort more rapidly to politically acceptable and feasible measures;

VII. Staff and material expenditure

38. Regrets that the staff policy of the institutions and in particular of the Commission is characterized by a very low level of internal and inter-institutional mobility and in this respect calls for increased efforts regarding vocational training measures and the connected promotion opportunities;
39. Recognizes that the new areas of Commission activity cannot be tackled by staff transfers alone; is however unable to approve blanket increases in the number and grade of posts, since such increases result in an uncontrolled personnel policy; has therefore - without interfering with the Commission's organizational prerogatives - approved extra posts in respect of new operations, to be allocated specifically to certain departments;

40. Considers it necessary to make greater savings in material expenditure particularly on

- (a) installation costs
- (b) rents

and therefore proposes:

- (a) the holding of inter-institutional competitions and
- (b) investigation of the possibilities of taking over ownership of buildings;

VIII. Prospects for the directly elected Parliament

Separation of powers

41. Notes that the directly elected Parliament will find that the terrain as regards budgetary and financial policy has been well prepared and that budgetary powers have been established which can be further developed; a basis has been laid by the two parts of the budgetary authority for a kind of two-chamber system; apart from budgetary decisions proper, budgetary powers are also exerted in the material legislative sphere through the conciliation procedure applied in the case of legal acts with appreciable financial implications;
42. Therefore considers that future developments should be based on the present situation rather than on futile attempts to produce abstract models, and stresses in this connection the special nature of the development of the European Community which does not admit imitation of national models;
43. Proposes that in taking this path the following principles should be observed:
- (a) the decision-making process of the Community must be made transparent and clearly subject to democratic scrutiny,
 - (b) it must not be allowed to be blocked by the inaction of one body,
 - (c) the policy of the Community should not be seen only as a complement to or coordination of national policies,
 - (d) to the extent to which it takes over tasks from the Member States it must provide for suitable scrutiny;

The 1980 budgetary procedure

44. Believes that the budgetary procedure for the 1980 budget must conform with the present conditions irrespective of the date of direct elections;

Administrative structures

45. Calls on the administrations of all the institutions to adjust their administrative structures to the new characteristics of a directly-elected European representative assembly;

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IX. Conclusions

46. Therefore proposes:

- (a) that the nomenclature of the budget should be amended in accordance with the proposed amendments,
- (b) that appropriations for payments should be fixed at a level of
m EUA and appropriations for
commitments at a level of m EUA,
- (c) that consequently the percentage level of the basis of assessment for VAT should be fixed at

47. Instructs its President to forward to the Council

- the amended draft budget
- the resolution
- the minutes of today's sitting and
- the report of the Committee on Budgets.

EXPLANATORY STATEMENTINTRODUCTION - 25 YEARS OF EFFORT AND STRUGGLE TO MAKE COMMUNITY FINANCES
MORE DEMOCRATIC

1. The directly elected European Parliament will from the outset have a budgetary instrument that, if not complete, is at least sufficiently developed to enable it to exercise effective supervision over the Commission in an area which, as history has shown, is essential to the construction of parliamentary democracy. This state of affairs is exceptional enough to justify giving a brief summary of the events leading up to it¹.

A. Development of the Community budget

2. Although originally the ECSC Treaty made provision for a genuine budgetary structure, it was quite different from the traditional budget of parliamentary democracies and was primarily the responsibility of the High Authority. In 1957, however, Parliament managed to become involved in the procedure for fixing the ECSC levy. It subsequently introduced a procedure for granting a discharge in respect of the implementation of the ECSC operational budget.

3. The budgetary procedure laid down in the Treaties of Rome for the EEC and Euratom was more like the traditional budget in form. But the original distribution of powers among the institutions left very little scope for parliamentary control. Admittedly, Parliament had the right to propose modifications to the draft budget, but in fact the Council took very little notice of them and during the first few years adopted the budget practically on its own.

4. After the signing of the Treaties of Rome, the financing of Community activities was very haphazard and there was a motley assortment of financial instruments: ECSC, administrative expenditure, Euratom, various EEC funds (EDF, ESF, EAGGF), EIB. By incorporating most of these instruments in the general budget, the 1965 Merger Treaty provided one of the first prerequisites for parliamentary control: an integrated budget.

5. The problem of financing the EAGGF gave rise to the question of whether the Communities should have their own resources, as provided for in Article 201 of the EEC Treaty.

¹ See Daniel STRASSER's 'Les Finances de l'Europe'.

Initiatives taken by the Commission and representations made by Parliament both in the Community institutions and in the national parliaments succeeded in overcoming the reservations of some Member States.

6. The Treaty and decision of April 1970 provided the foundation for the Community's financial autonomy and conferred responsibility for its development and management to a budgetary authority in which Parliament soon acquired a larger say.

7. At the same time as this institutional development of the budget took place, the volume of Community expenditure increased appreciably. After an initial period when the volume fluctuated between 50 and 100m u.a., it gradually increased until it has now reached the point where its economic role can no longer be ignored. This is especially true in some sectors, although its role is often limited to providing incentives.

B. The main steps towards establishing the Community's budgetary power

8. The European Parliament's acquisition of genuine budgetary powers and its election by direct universal suffrage constitute one of the main steps towards making the Community more democratic. The two aspects are closely connected; it will be remembered that the opponents of direct elections tried to baffle the Assembly with logic by claiming that without any real powers it could not be directly elected and that unless it was directly elected, it could not be given any far-reaching powers.

9. The deadlock was broken in 1970 when, thanks to the faith and tenacity of some of its Members, Parliament was granted its first budgetary powers of any significance. When these powers were confirmed in 1975, it was possible to re-open the case for direct elections, which culminated in the Council decision of 20 September 1976.

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10. This is not the place to go into all the ups and downs of the great trek towards achieving budgetary powers, but it would perhaps be useful to recall the basic principles and main stages.

Why budgetary powers?

11. Together with the protection of individual liberties, the role and raison d'être of any parliamentary institution is without question its right to levy taxes and then to determine and supervise the expenditure of revenue.

12. At Community level, only a democratic institution can exercise this right, and it is difficult to imagine it conferred jointly on six, nine or twelve national parliaments. Moreover, since 1970, the Community has gradually adopted a system of own resources, i.e. its revenue is now obtained directly from national resources without going through national budgets or even being authorized by the parliaments of the Member States. Increased democratic control of these resources is therefore needed.

13. The exercise of budgetary powers in the Community has thus already to a large extent become the responsibility of Parliament alone.

What sort of budgetary powers?

14. A brief summary of the main stages in the development of budgetary powers in the Community will show how much progress Parliament has made.

1. The original system

15. Under the system originally provided for in the EEC Treaty, the budget was financed entirely by contributions from the Member States calculated in accordance with a special scale.

Most of the budgetary power was in the hands of the Council of Ministers.

16. Each year, the draft Community budget drawn up by the Council was submitted to the European Parliament. Parliament could propose modifications to the draft; the Council discussed them with the Commission and adopted the budget by a qualified majority. Parliament's budgetary powers were more or less limited to forcing the Council to give some parts of the draft budget a second reading, after which the Council acted by the same majority as that needed to draw up the draft budget. Control of implementation of the budget was exercised by the Council, which alone granted a discharge to the Commission and informed Parliament of the fact.

2. The abortive reform of 1965

17. In 1965, when the system of financing the common agricultural policy was introduced, a first attempt to create own resources and at the same time increase Parliament's budgetary powers failed for political reasons, but the Council undertook to initiate the procedure laid down in Article 201, i.e. to replace financial contributions by own resources.

3. The first revision in 1970

18. Financial contributions were gradually replaced by own resources under the Council's decision of 21 April 1970, and the Treaty of 22 April 1970 provided for a corresponding strengthening of the Assembly's budgetary powers. The budgetary procedure was thus modified and provision made for two systems, the first to be applied during the interim period (1971 to 1975) and the second as from 1975.

19. Basically, the interim procedure embodied the former 'second reading' system, but forced the Council to decide either to reject a proposed modification not increasing the overall expenditure of an institution or to accept a proposed modification increasing expenditure, after which the Council established that the budget had been finally adopted.

20. The procedure applicable as from 1975, when the Community's budget was to be financed entirely by own resources, granted Parliament further powers and introduced a proper budgetary consultation procedure between Parliament and the Council. Parliament had the right to amend expenditure 'not necessarily resulting from the Treaties or from acts adopted in accordance therewith'; subject to certain majority requirements, Parliament had the last word on this type of expenditure, which however represented only a small fraction of the total budget - estimated to be 3.5% in 1970 (and 13% in 1974) - and was moreover subject to a maximum annual rate of increase. Parliament could also propose modifications 'relating to expenditure necessarily resulting from the Treaty or from acts adopted in accordance therewith' but it was the Council which had the final say on them. Finally, under this procedure it was up to the Assembly to declare that the budget had been finally adopted.

The Treaty of 22 April 1970 also laid down that, during the interim period and the 'final' period 'the Council and the Assembly shall give a discharge to the Commission in respect of the implementation of the budget'.

4. The second revision in 1975

21. The abolition of national contributions as from 1975 weakened the control exercised by the national parliaments. At that time the only form of democratic control over adoption and implementation of the Community budget was thus that exercised as described above by the European Parliament. However, some Member States and Parliament itself felt that its powers of control were unduly limited, and the Council undertook to reconsider possibly strengthening Parliament's budgetary powers for the so-called 'final' period, i.e. as from 1975.

Long and difficult negotiations culminated in the Treaty of 22 July 1975.

22. Parliament's powers of authorization were increased in that the Council required a larger majority to reject the Assembly's proposed modifications and Parliament obtained the right, if there were important reasons, to reject the draft budget as a whole and ask for a new draft to be submitted to it.

23. As regards control, Parliament alone was given the right, acting on a mere recommendation from the Council, to grant a discharge in respect of implementation of the budget. A Court of Auditors was also created to 'examine whether all revenue has been received and all expenditure incurred in a lawful and regular manner and whether the financial management has been sound'.

PART ONE: THE BUDGETARY POWERS OF THE EUROPEAN PARLIAMENT
ON THE EVE OF DIRECT ELECTIONS

I. The state of relations between the budgetary institutions

A. Cooperation between Parliament and Council in the context
of the budgetary authority

24. The winning, by the European Parliament, of certain budgetary powers has created a dichotomy in the decision-making process of the Community whereby, over budgetary matters, Parliament now has the last word while over legislative matters the last word remains with the Council.

25. It is clear that such a dichotomy could give rise to conflict. It is not the intention of your rapporteur or of Parliament to seek a means of transforming Parliament's budgetary powers into legislative ones. It is his view that the distinction laid down in the treaties must remain. In practice, each institution must respect the powers held by the other and not use its powers to usurp or undermine the rights given to the other.

26. The budgetary powers of the Parliament are laid out from article 199 to article 209 of the Treaty. It has become apparent that the key to this relationship between the legislative powers of Council and the budgetary rights of Parliament is contained in article 205 of the Treaty the first paragraph of which states:

"The Commission shall implement the budget, in accordance with the provisions of the regulations made pursuant to Article 209, on its own responsibility and within the limits of the appropriations."

A clear and unambiguous interpretation of this Article, shared by the different institutions, has been shown to be of vital importance in the last few years. Parliament has been obliged to observe that the development of budgetary policy and its own budgetary powers have been hampered and, to a certain extent, undermined as a result of:

- the failure of the Commission to implement the budget as voted;

- the conferring on inter-governmental organisations of a decision-making role as regards the release of Community funds to finance projects, approved under Community regulations ("management committees);
- the attempt to predetermine non-compulsory expenditure by the setting of a ceiling on appropriations in regulations.

27. These related problems clearly affect the interinstitutional balance and have become a major source of concern for the Committee on Budgets and the European Parliament. As representatives of the Committee have been obliged to make frequent representations to the Commission and to the Council on these two points, it has been agreed that a conciliation procedure should take place. A conciliation procedure should begin in the autumn and should continue as long as necessary to resolve the problems.

28. The essential views of Parliament have been expressed in the Opinion of the Committee on Budgets, drawn up by Mr AIGNER, (PE 47.932) on the interpretation of Article 205 for the attention of the Committee on Legal Affairs, and in the Report tabled by Mr COINTAT on the interinstitutional dialogue for 1978 (Doc. 150/78). Mr LANGE, Chairman of the Committee on Budgets, drew up a working document (PE 52.740) on the problems linked with the execution of the budget for the ad hoc working group.

29. The conclusions of this document, which were accepted, first by the ad hoc working group, then by the Committee on Budgets and then by Parliament as a whole, can be summarised as follows:

- (i) that in certain cases, still to be defined, the budget can constitute a legal basis for activities undertaken by the Executive;
- (ii) that the classification should be established to distinguish between those budgetary lines where appropriations can be committed without a separate legislative basis and those which require such a basis. This list should be established on the basis of common agreement between the Council and Parliament;
- (iii) that neither the Council nor inter-governmental management committees should interfere with the Commission's right to implement the budget by deciding on individual projects in the context of common policies;
- (iv) that the management committees' procedures should be reviewed in order to avoid the weakening of the Commission's executive powers.

30. The Commission's reaction to this document has been submitted in the form of a reply to the report drawn up by Mr COINTAT on the interinstitutional dialogue and which was forwarded on 28 July 1978.¹ This document reiterates certain points already made by Mr TUGENDHAT in the debate on 11 October 1977 on the implementation of the Community budget for 1977. His statement to the plenary was annexed to the minutes of the Conciliation Committee held on 7 and 22 November and 7 December 1977 on the Financial Regulation's review and on the general budget for 1978. Furthermore, the Commission has included a page of remarks on the principles of entering new policies in the budget in Volume VIIA of the preliminary draft budget.²

31. The Commission's views on these problems can be summarised as follows:

- (i) that a budget entry represents a necessary but not always sufficient condition for the commitment of expenditure;
- (ii) that a legislative basis is required for acts of Community policy, and this basis should be enshrined in the remarks column of the budget;
- (iii) that where disagreements occur, the conciliation procedure should be introduced;
- (iv) that for the management committees it is proposed that they should have a purely advisory role in the non-agricultural sectors (for agriculture the Commission believes that the conferring on those committees of certain suspensive powers is legally defensible);
- (v) that freezing of appropriations by the European Parliament amounts to an abuse of power.

32. Your rapporteur regrets that the Commission adopts a narrow legalistic approach to what he believes to be a political problem. Furthermore, the Commission does not appear to acknowledge the strength of feeling which exists within the European Parliament as regards its determination to defend its budgetary rights.

33. Moreover, the Commission is not completely consistent. The very fact that the Commission envisages the possibilities of difference of opinion about the legal basis, with recourse to the conciliation procedure, makes it clear that it acknowledges that certain kinds of budget entry do not require a supplementary legal basis. Everything, according to the Commission, hinges on what is defined as "Community policy" nor is the Commission completely consistent even within the bounds of its own definitions, as we shall see.

¹ XIX/402/78

² Page 101

34. Without in any way calling into question the positions adopted by the European Parliament, unanimously, and on several occasions, as regards the problems linked with the implementation of the budget, and whilst not wishing to prejudge in any way the results of the conciliation procedure with Council and the Commission, your rapporteur would like to advance certain ideas which could, if accepted, act as a guideline to Parliament's attitude and decisions during the 1979 budgetary procedure.

The inability of the Commission to implement the budget as voted

35. The dilemma for Parliament's rapporteur, and for the institution as a whole, is that, on the one hand, it is wished to stimulate new activities by entering appropriations for new lines in the budget for which no legislative basis exists and, on the other hand, that Parliament's rights to increase the budget are, in any case, limited and, therefore, it will be particularly regrettable if part of that margin were unused as a result of votes for budgetary lines neither the Commission nor the Council accept that it is possible to implement in the budget.

36. This problem has emerged in each of the four budgetary exercises since 1975. It became particularly acute in 1977 and 1978. The overall situation, as regards Parliament's amendments to the 1978 budget is, of course, not yet known. As regards 1977, at any rate, it would appear that a considerable part of the extra appropriations voted by Parliament, with the agreement of Council, during the 1977 budgetary procedure, went unspent. Given the intense debate, both within the institution and between it and Council and the Commission, to establish its rights for increasing expenditure, it is particularly exasperating to find that those hard fought for rights are devalued as a result of basic flaws in the decision-making processes of the Community which are in no way Parliament's responsibility.

37. Your rapporteur believes that the problem posed can only be resolved by political means. Legal opinions may differ as to the exact significance of Article 205, but it is clear that the political will must be established to overcome the difficulties outlined.

38. Indeed, this political, even pragmatic, approach has been adopted by the institutions over the question of the appropriations voted for aid to non-associated developing countries, as well as for various other lines.¹ For the past three years, Parliament has used its last word to vote appropriations for this line (Article 930) following a Commission proposal of 5 March 1975 (COM(75) 95 final) and following a fairly general Council resolution of 16 July 1974. The remarks column of the budget refers to this basis for action and describes the kind of projects to be undertaken.

39. Since March 1975, and despite the rapid rendering of an Opinion by the European Parliament and frequent appeals by Parliament to Council to adopt the overall regulation, no final decision on the regulation has been taken.² So in the view of Council a sufficient legal basis did not exist for actions to be financed from the budget. Parliament, on the other hand, believes that given the nature of the activity and the way in which the remarks column had been phrased and, above all, the fact that Council and Parliament had agreed to the entering of appropriations in the context of the annual budgetary procedure, that this expenditure should be committed. The Commission, in 1976 and 1977, hesitated considerably before committing funds.

40. It publicly averred that this hesitation was the result of its desire to await Council adoption of the draft regulation which would serve as the legal basis for committing expenditure and act as an indication to the Third World that the Community intended to persevere with aid to the non-associated developing countries. This hesitation almost certainly also resulted from the fears in the Commission that it might be taken to court by Council for overstepping its powers.

¹ Article 256 "pre consultations with trade unions" Chapter 59
"Aid to disaster victims in the Community etc."

² At the time of drafting, Council has just emitted its common guidelines which will be the subject of a conciliation procedure with Parliament.

41. Nonetheless, after this hesitation the Commission did proceed to commit funds and it is noteworthy to observe that it did this for largely political reasons, despite its doubts about the legal position. According to the reply of Mr CHEYSSON, then both Commissioner for the budget and for development, during the debate on 16 June 1976, the Commission felt able to spend this money because at that stage it had not submitted proposals (it simply addressed a communication to the Council on general policy guidelines). Therefore, according to the Commission, no decision on the proposals was necessary and agreement between the institutions on establishing the 1976 budget with the remarks associated with Article 930, acted in itself as sufficient grounds.

42. Why then does the Commission not follow this procedure invariably? Why, for example, as regards the implementation of expenditure in the energy and industrial policy sectors, has the Commission almost always awaited specific Council decisions on draft regulations submitted, even to the point of not implementing the budget (aerospace, coal for power-stations etc)?

43. It seems to your rapporteur that the Commission's relative boldness over Article 930 was a consequence of the strength of this particular file. A gamble was taken that the Council would be too politically embarrassed, particularly vis-à-vis third countries, over its own failure to decide, to challenge the Commission's right to spend the appropriations voted. The dossier was almost a political imperative. Furthermore, the remarks column of the budget emphasised the ad hoc nature of the projects and did not, in any way, call for a legislative basis to be established. The only condition that was proposed (for the 1977 budget) was that the appropriations should be frozen, to be released by the European Parliament after the "appropriate contacts" had been established with Commission and Council.

44. The incident shows, therefore, that political rather than legal criteria are used by all three institutions when it comes to decisions relating to the implementation of the budget.

45. Your rapporteur believes that a general political solution will have to be found to this problem in the context of the conciliation procedure already proposed. This agreement will have to take account of the impending election of the European Parliament by direct universal suffrage when it would no longer be politically conceivable to seek to cut back on Parliament's budgetary powers by using its absence of legislative control as an obstacle to the implementation of the budget.

B. The development of the budgetary procedure

46. For the 1979 budgetary procedure it is unlikely that final agreement on the principles will be attained. Your rapporteur has, therefore, felt it his duty to make certain practical suggestions which should guide Parliament in order to achieve a budget which is capable of being fully implemented.

47. In the framing of preliminary draft and draft amendments it will be particularly necessary to recall the importance of the remarks column of the budget. Remarks accompany the budgetary line, in accordance with the provisions of Article 16 of the Financial Regulation of 21 December 1977. The content of the remarks is decided through the budgetary procedure and the last word over the remarks, at least as regards those associated with non-compulsory items, has been conferred, in practice, on the European Parliament. It is because of this that the European Parliament has, for several years, been able to attach conditions to spending, such as the freezing of appropriations, to be unfrozen with the agreement of the Parliament. Despite certain doctrinal hesitations on the part of the Council and the Commission, this precedent is now well established.

48. The remarks usually provide the authorisation for the Commission to spend the appropriations by indicating the legal context for the line, as well as any conditions for implementation (such as freezing). That legal context varies from item to item. For example, a subsidy for pre-consultations with trade unions (Article 256) can be accompanied simply with a statement of the purpose of this expenditure. Others will state the appropriate Treaty articles providing a general context for Community action and different Council decisions and Commission recommendations.

49. To take a new and developing sphere of activity, the energy sector, it is apparent that a variety of types of remarks exists. For example, for joint projects in the prospection of hydrocarbons (Item 3201) the Commission bases the expenditure simply on a draft regulation submitted by it in 1974. The absence of a definitive decision on this regulation has not prevented the Commission from implementing the budget.

50. For the Community energy saving programme (Item 3240) where the proposal was submitted to Council in 1977, the Commission appears to be waiting for a decision from Council on this proposal. For coal gasification and liquefaction (Item 3241), on the other hand, no legal basis appears in the budget whatsoever and, therefore, theoretically at any rate, the only conditions emitted on the spending of the appropriations are those contained in the budgetary heading itself.

51. What should be clear to the institutions from this situation is that where no extra conditions are imposed in the remarks column of the budget, the Commission should implement the budget within the limits laid down.

Even where a supplementary legal act is necessary then the Commission should undertake preliminary work to create the conditions whereby an immediate start on the projects can be made, once that act has been established. ¹

52. In the rapporteur's view, when each and every amendment comes up for examination within the Committee on Budgets, the Commission and/or Council representatives should inform the Committee when, in their view, this amendment could not be implemented as the situation stands now and what action would need to be taken before implementation could be achieved. Where no such statement is made, or where the Commission and/or Council expressly states that the line can be implemented under present conditions, it is to be assumed that the amendment can be carried into effect without further action.

53. Where the Council or the Commission states that as things stand the budgetary line can not be implemented, in the absence of a Council decision, then this will be an extra element of information to be taken into account by the budgetary authority. It would also be a matter for discussion during the budgetary collaboration meetings. One could fully envisage that concessions could be made on either side on particular items as part of a general agreement in December.

54. In the view of your rapporteur, it is vital that for the 1979 budgetary procedure, the ambiguity of the present situation is overcome. If it is not overcome, then distrust between the institutions grows and the development of budgetary policy is hindered. The budget, as adopted at the end of the year, should be one in which no doubts persist as to whether or not it can be carried out. Parliament will be increasingly reluctant to vote funds for lines where experience has shown that the lines are not implemented by the Commission.

¹ The Commission has a good example of this in "Financial operations in Transport infrastructure projects" (Article 378) which is divided between Item 3780 (Studies preliminary to the financial measures) where it hopes this year to commit appropriations, and Item 3781 (Financial support for projects) where only a token entry figures in the 1978 Budget.

55. In order to give an extra impulsion to the budget, your rapporteur will be making specific proposals for certain ad hoc or once-and-for-all measures which will not require the application of the full legislative process but which will provide the Commission with an authorisation on the basis of the general principles, the aims of the Treaty and, of course, the joint decision of the budgetary authority.

C. Coordination between budgetary and legislative power

56. Your rapporteur has tried to suggest a practical and pragmatic means of resolving the current difficulties concerning the implementation of the budget arising from Council's pre-eminence in the legislative sphere and Parliament's powers in the budgetary domain.

57. Neither legally nor politically is it acceptable that there should be a kind of rivalry between legislative and budgetary powers. A mutual respect of the competences of the different institutions necessitates coordination of those powers.

58. The Commission should take its responsibilities here. It should only make proposals for expenditure in the preliminary draft budget for those budgetary lines where it has already made a proposal for a programme of action, which has already received a favourable reaction from at least the European Parliament. Sometimes the Commission places an amount in the preliminary draft budget, and then subsequently comes forward with proposals for action in the autumn. Given the speed of the Community's legislative process, it is not realistic to imagine that the institutions will have agreed on that action programme in time for the expenditure to be committed during the following financial year. It is to be hoped that the Commission will abide by its statement of intent in Volume VIIA of the preliminary draft budget, page 101, that it will enter appropriations where it has submitted its proposal by 15 June of the previous year. This would certainly represent an improvement. However, already in certain cases (aid to intra-Community trade in coal) where a large sum was included in the preliminary draft, no definitive proposal has yet been made by the Commission, which is relying on a very general Communication, which it itself recognises would not provide a sufficient legal basis.

59. Where Council's delay causes the Commission to hesitate before committing expenditure, Commission and Parliament should react in the appropriate manner. The Commission should examine the possibilities of recourse to Article 175 of the Treaty, inviting the Council to act. It seems to your rapporteur that a threat to the implementation of the budget fulfills the criterion set out in the first paragraph of Article 175. Parliament should use the political weapons at its disposal by drawing public attention to any dilatoriness on the part of Council and by, if necessary, invoking a conciliation procedure.

60. Through this improved coordination it should be possible to overcome the artificial conflict between legislative and budgetary power that has been created. Council must face up to the fact that the small but significant powers that have been accorded to Parliament in the budgetary domain are going to be abandoned by neither the present Parliament nor the directly elected Parliament. However, Parliament is fully prepared to enter into discussions with the Council and with the Commission in order to coordinate the exercise of its budgetary competences with those in the legislative domain held by Council. Your rapporteur welcomes Commissioner TUGENDHAT's approach that the conciliation procedure should be used on individual lines where problems of implementation arise

61. In addition your rapporteur proposes a first practical improvement relating to the remarks which, in their present form, do not appear to him to meet Parliament's requirements. They do not show with the necessary clarity:

- whether and to what extent additional decisions are required for the utilization of specific appropriations;
- what stage has been reached in the preparation of the corresponding decisions.

62. In cases where further decisions are required, the remarks concerned should systematically be introduced by the following formula:

'The appropriation is based on :

- Commission proposal ...
- Opinion of the European Parliament ...
- Council decision ...

The appropriation is intended for' (the normal text follows at this point)

63. Where items of the budget can be directly implemented, the remarks should begin with the words: 'This appropriation will be used by the Commission to finance the following measures'.

64. These two formulae will make it clear in which instances

- a legislative decision already exists;
- a legislative decision is in preparation;
- the European Parliament has already delivered its opinion;
- no additional decision is required apart from the budgetary decisions.

65. The Committee on Budgets will table corresponding amendments to achieve greater budgetary transparency in respect of the legislative activities which are needed in certain cases for budgetary management purposes. For practical reasons it will however confine itself, in the case of the 1979 financial year, to showing clearly in the remarks those budget lines which require no additional legal acts for their implementation. The Commission is requested to systematically present the remarks in the above form in the case of the 1980 budget.

The conferring on inter-governmental organizations of a decision-making role as regards the release of Community funds to finance projects, approved under Community regulations ("management committees")

66. The Commission's tendency to confer on inter-governmental organisations (the management committees) a decision-making role as regards the release of funds to finance projects in the context of Community regulations has already met with a firm riposte from the Committee on Budgets and Parliament.

67. The concrete expression of this was in the report drawn up by Mr RYAN on a proposal from the Commission of the European Communities to the Council for a Regulation laying down general rules for the financing of certain intervention by the EAGGF Guarantee Section (Doc. 78/78), in which it was agreed that where a dispute arose on any aspect of the approval of such projects between the Commission and the Management Committee, then that dispute should be referred equally to Council and Parliament, as the budgetary authority, for arbitration. The Commission could only be overruled by Council and Parliament.

68. In the reply to the debate on the proposal from the Commission of the European Communities to the Council for a regulation on a common measure for forestry in certain dry Mediterranean zones of the Community, at which time Mr HANSEN, on behalf of the Committee on Budgets, had tabled an amendment along the same lines as those contained in the report by Mr RYAN, the Commission stated in the plenary (7 July 1978) that they would be prepared to accept the Parliamentary amendment, at least pending the conciliation procedure on the problems linked with implementing the budget.

69. For management committees set up in the non-agricultural sphere, your rapporteur notes the Commission's intention stated in its replies to Mr COINTAT's report, that it will only propose consultative powers for these bodies. Parliament will seek to hold the Commission to its word.

the attempt to predetermine non-compulsory expenditure by the setting of a ceiling on appropriations in regulations

70. Another irritant is the Commission's keenness in certain areas of policy, notably research, for placing at Article 2 in the draft regulation or programme a ceiling for expenditure, even though any expenditure arising is of a non-compulsory nature and, therefore, within the last word powers of the European Parliament. The argument that such an approach is a guarantee to third parties or for the Commission itself that the appropriate funds will be available, is not valid because Parliament, in any case, possesses the right, under its budgetary powers, to withhold expenditure or to increase the annual appropriation.

71. At practically every session of the European Parliament this question is raised and currently a whole series of draft programmes has been submitted with this "ceiling" included within Article 2 of the draft regulation. It must be explained to the Commission that Parliament cannot tolerate an interference with its budgetary rights and will not consider itself bound by any attempt to include ceilings within regulations for expenditure of the non-compulsory type, which it remains perfectly at liberty to alter during the budgetary procedure.

72. There has been, however, some evolution of the Commission's attitude in recent months. For the proposals governing the financing of hydrocarbon exploration, where the Commission has amended its original proposal, COM (78) 383 final, the Parliamentary amendment seeking to underline that the finance necessary would be made available within the general budget without specifying any amounts or ceilings, has been accepted. It is to be hoped that the Commission will consistently pursue this line.

Freezing of appropriations

73. Parliament has noted persistent reticence on the part of Council and Commission concerning its right to freeze appropriations within the budget. The precedent has nonetheless been created that this right is generally respected. In its replies to Mr COINTAT's report, the Commission returns to the attack on the principle, maintaining that the right to freeze appropriations amounts to an abuse of power. Your rapporteur cannot accept such an argument because the conferring of the power of last word on the European Parliament, as regards non-compulsory expenditure and as regards the remarks associated with such expenditure, implies the Parliament is free to attach conditions to spending by way of changing those remarks. The Commission seems to make a confusion between the right to transfer appropriations and the right to freeze them. Even with the powers accorded the European Parliament under the new Financial Regulations (Article 21), the notion of a transfer from one budgetary line to another, over which the Parliament may possess last word, is, nonetheless, distinct from the statement of political will to freeze appropriations until certain conditions have been met. For example, it is particularly appropriate to freeze appropriations for decentralised bodies, where those bodies have yet to forward full estimates and programmes for the coming year.

This, in any case, is an already established right which Parliament will not be prepared to relinquish.

II. Changes in the structure of the budget

74. Just as relations between the institutions involved in the preparation of the budget have changed, the content and presentation of the Community budget have gradually developed more and more along the lines of the traditional budget structure familiar in parliamentary democracies. Parliament has attached the greatest importance to the soundness of the budgetary procedure. Its Committee on Budgets set up an ad hoc working party which, each year since 1976, has taken stock of the changes brought about and proposed appropriate reforms to the other institutions.

75. It is not necessary to reproduce the conclusions reached in this year's report here, but the budgetary procedure for the 1979 financial year could provide an opportunity for following up this work in certain areas.

A. Global nature of the budget

76. A proper budget has been obtained by grouping together various sectoral accounts, funds and budgets. The major stages in this process were the Merger Treaty, the decision of 21 April 1970 and the Treaty of 22 April 1970. But there is still a long way to go before the Community budget is integrated. It is to be expected that during the 1979 financial year some progress, however limited, will be made as regards the EDF, loans and the ECSC.

1. The EDF

77. Virtually by accident, the decision of 21 April 1970 excluded the EDF from the activities to be financed by the general budget from the Communities' own resources. When the Lomé Convention was concluded, the EDF was not budgetized for much the same reason: the general budget was not yet ready to use the EUA whereas it had to be used in the operations of the fourth EDF. However, an undertaking was given at that time to budgetize the fifth EDF.

78. Last year, Parliament decided that the budget should do more than just assign a few chapters to the EDF. It felt that a workable budgetary structure was needed to cover not only Community activities under the Lomé Convention which, though financed indirectly by the budget, would for various reasons have to be financed directly, but also activities at present wrongly financed by the EDF.

2. ECSC

79. The ECSC operational budget was not integrated into the general budget at the time of the merger because of the special nature of the financing involved and the different allocation of responsibilities: under the Treaty the Commission has decision-making as well as implementing responsibilities.

80. In recent years, however, the ECSC budget has developed a closer relationship and similarity to the general budget. Because of the discharge, the Commission is answerable to Parliament in respect of the implementation of the ECSC operational budget. Measures connected with the coal and iron and steel industries are financed by the general budget. The compartmentalization of revenue in the general budget and the ECSC budget has become less watertight.

81. Something decisive remains to be done, but it has to be done with care. One condition is about to be met however: borrowing and lending operations will soon be budgetized.

3. Loans

82. Both through its ad hoc working party and in special reports, Parliament has often and long called for the budgetization of borrowing and lending operations, but it is only very recently that any progress has actually been made.

83. So far, borrowing and lending operations have been entered under budget headings in the revenue section, which provided a framework in which to record the financial consequences of decisions to authorize them. Token entries were also made under budget headings in the expenditure section as the guarantee provided by the Community against default by recipients of loans. The budgets also included annexes recording capital transactions and the reimbursement or payment of interest or expenses.

84. In the 1979 preliminary draft, the Commission has proposed that a proper capital budget be included as Part 2 of Section III. At the time of the Financial Regulation negotiations, it was agreed that the problem of budgetizing loans could be settled when the financial regulation was subsequently reviewed.

85. When the Ortoli loan was launched, it turned out that the Commission, the Council and Parliament had very different views on the form if not the principle of such budgetization.

86. The situation is currently as follows:

- The letter from the President-in-Office of the Council to the President of the European Parliament dated 22 September 1978 outlined an acceptable interpretation of the regulation in question with the exception of the two points made below. This letter might be made an integral part of a joint declaration.
- As to the experimental nature of the procedure: the amount of 1,000 million EUA relates to a transitional period which should not last for more than two years from the date of adoption of the regulation; the Commission can report on the definitive introduction of this instrument as soon as the total value of the loan operations has reached 500 million EUA.
- As to budgetization: the budgetary provisions relating to the Community's borrowing and lending operations as embodied in the current revision of the Financial Regulation are applicable to this procedure.

87. In brief, a decision on the principle of budgetization and the amount of borrowing and lending budgetized will be taken by the budgetary authority. It would be preferable for the methods referred to in Article 209 to be determined before the end of the budgetary procedure, whether in general terms or on an ad hoc basis.

It is to be expected that a decision of principle will be taken during the conciliation meeting on the Ortolini loan.

B. Budgetary transparency and presentation

Nomenclature

(a) Research appropriations under Chapter 33

88. The bulk of the appropriations entered under Chapter 33 (Expenditure on Research and Investment) relate to multi-annual programmes. This means that once a programme has been approved appropriations are allocated to it more or less automatically and are no longer subject to political decisions. It is therefore extremely important that this chapter in the budget should be presented clearly and transparently in order to facilitate political control.

89. Expenditure on research and investment was originally shown only in an annex to the budget. A new, more comprehensive presentation of Chapter 33 was introduced in the 1977 budget on the basis of an amendment by Parliament, but the functional presentation of the appropriations was not changed.

90. The ad-hoc working party of the Committee on Budgets has tackled these problems of presentation on many occasions¹. In its last report on the inter-institutional dialogue on certain budgetary questions it expressed the view that the following main principles should govern the presentation of research appropriations in the budget:

- limitation of the number of budgetary lines under Chapter 33;
- creation of an annex to Section III in which the subitems and the multi-annual schedule of expenditure would be grouped together in the form of a summary table;
- decision on research staff in the context of the adoption of the Commission's list of posts;
- determination by the budgetary authority of the nomenclature for expenditure.

91. It is pleasing to note that the European Parliament's demands in this respect have been taken into account in the Commission's preliminary draft budget. The numerous subitems now no longer appear and the Commission has included timetables of payments against commitments in keeping with the practice adopted for the other chapters. In addition, the annex to Section III provides the necessary detailed information in tables containing a breakdown of expenditure on staff and administration and multi-annual schedules of commitments and payments by research objectives, giving total appropriations for each programme. An establishment plan for research and investment staff (indirect action and Joint Research Centre) are also appended to Section III.

¹ Doc. 119/77 and Doc. 150/78

92. However, the Commission did not adopt the European Parliament's proposal for the abolition of the system of appropriations for commitment in respect of research staff and administration. It gives its reasons for this on page 119 of Volume 7A.

(b) Title 8, EAGGF - Guidance Section and fisheries policy

93. One aspect of the Commission's budgetary presentation which Parliament cannot approve is the overlapping of expenditure on the EAGGF (Guidance Section) with expenditure on the new fisheries policy under Title 8.

There are two reasons for this:

- It is politically unacceptable for agricultural structural policy to be artificially extended to cover the new fisheries policy thus giving the impression that expenditure on the former has risen as much as expenditure on the Guarantee Section of the EAGGF. In fact, if expenditure on the new fisheries policy is deducted from expenditure on agricultural structural policy, the relationship between price and sales guarantees on the one hand and structural policy on the other is just as bad as it ever was.
- Secondly, it runs counter to the principle of budgetary transparency to continue to include in the old EAGGF, Guidance Section

| | |
|-------------|---|
| Article 860 | 'Common measures to improve the structures of non-industrial inshore fisheries', |
| Article 861 | 'Common measures to improve the structures of the deep-sea fishing industry', and |
| Article 862 | 'Producer groups in the fisheries sector'. |

The Committee on Budgets proposes that these three articles should be incorporated in a separate Guidance Section for fisheries policy.

C. The multi-annual aspects of the budget

(1) Differentiated appropriations

94. In recent budgets the Commission has increasingly made a distinction between 'commitment appropriations' and 'payment appropriations'. These 'differentiated appropriations' are always accompanied by a 'timetable of payments against commitments' in the remarks column. This practice has been standardized in the 1979 budget. The Committee on Budgets welcomes the presentation adopted, which in particular shows the total of appropriations outstanding from previous financial years.

95. The system used is as follows:

When the preliminary budget for the financial year $n + 1$ (in this case financial year 1979) is drawn up, assessments must always be made of the four components listed below for all those budget headings to which 'differentiation' has applied since the financial year $n - 1$ (= 1977):

- | | | |
|--|---|---|
| - Commitments made before 1978 to be paid from new appropriations for payment; | } | Components arising from the state of accounts, i.e. the revenue and expenditure account for 1977. |
| - appropriations for commitment that remain standing from 1977 to 1978; | } | |
| - appropriations for commitment authorized for 1978; | } | Components arising from the budget for 1978 and the preliminary draft budget for 1979. |
| - appropriations for commitment requested for 1979. | } | |

96. A small number of problems of presentation are probably due to differences in approach deriving from the legal situation in the individual Member States. These problems should not be brought up again since they are irrelevant to a political debate.

97. The Commission has also preferred to use the system of differentiation for appropriations to be paid over a period of more than two years. There are no objections to this practice.

98. However, these technical matters of presentation hide political dangers. The Commission should use the system of differentiated appropriations to increase efficiency. Multi-annual programmes call for a multi-annual budgetary presentation. The system should not be used to widen the gap between appearances and reality, i.e. between promises and actual payments. Commitment appropriations represent appearances, i.e. promises, which deceptively give the impression of a good balance on current accounts, whereas payment appropriations represent the sad reality. The implementation of the Regional Fund and the Social Fund shows that there are good reasons for suspecting that commitment appropriations form part of a political charade and payment appropriations provide the only realistic reflection of the practical effectiveness of the funds. A serious budgetary policy should not lay itself open to such suspicions.

(2) Financial estimates

99. As part of the budgetary authority, the European Parliament has repeatedly called for a more pronounced political slant in the estimates. The budgetary authority's political options would undoubtedly be increased if alternative calculations were made available. Such is the case this year, since the Commission has worked on two 'assumptions', a move welcomed by the Committee on Budgets.

100. The Community's economic and monetary policy, the general budgetary guidelines, which represent the preliminary stage in the budgetary procedure, and the financial estimates, have not been coordinated. The general budgetary guidelines were submitted so early in the year that probable economic and monetary trends could not be anticipated. The financial estimates were submitted at the same time as the preliminary draft and can only be interpreted as the basis for this document. The Community's economic and monetary policy was outlined initially at the July Summit Conference, i.e. at a time when the Council had already drawn up the draft budget for 1979. The timing of these events made coordination impossible. The economic and financial policy proposals and decisions were adopted without any coordination.

101. In addition, the three-year period covered by the forecasts seems too short. The Community's spending policy often extends over periods longer than three years, in particular in the case of regional policy and cooperation with the developing countries. The Commission should therefore give some thought to whether the five-year period increasingly chosen in international financial policy should not perhaps also be used by the Communities.

D. The European unit of account

102. The Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities¹ lays down that the general budget of the European Communities is to be drawn up in European units of account (EUA). This unit of account was used for the first time in the 1978 budget. Since then it has also been used for accounting purposes, for the submission of the revenue and expenditure account and for the survey of the Community's assets and liabilities.

103. An immediate changeover to the exclusive use of the EUA in all legal acts of the institutions of the European Communities is out of the question. Thus, although it has been defined in Decision No. 3289/75/ECSC² as the unit of account to be used in decisions, recommendations, opinions and communications in the fields covered by the Treaty establishing the European Coal and Steel Community, a gold-based unit, equal to 0.88867088 grams of fine gold, is still used for the common agricultural policy, to name just one important example. In point of fact, representative exchange rates based on market exchange rates are established at intervals by Council decision for the conversion of the common prices laid down in agricultural units of account into the currencies of the Member States.

104. In a Community which develops, adopts and implements common policies, all transactions charged to the budget, which in actual fact are simply an expression of these common policies, must be recorded and expressed in a common accounting unit. Thus, the unit of account is a crucially important instrument for drawing up and implementing the budget. However, it must also be used, for example in the field of agricultural policy, as a means of expressing prices. Moreover, it should serve as a reference point for expressing Community rights and obligations in economic and legislative matters and, finally, it could in certain cases contribute to economic and monetary union.

105. On 6 October 1976 the Commission submitted to the Council a proposal for a regulation on the procedure for applying the European unit of account (EUA) to legal acts adopted by the institutions of the European Communities³.

¹ OJ No L 356, 31.12.1977, p.1

² OJ No L 327, 19.12.1975, p.4

³ OJ No C 271, 17.11.1976, p.5

The European Parliament delivered an opinion welcoming this proposal and pointing out in particular that the generalized use of the EUA would contribute to budgetary transparency¹.

106. On 1 April 1977 the Commission submitted to the Council a proposal for a regulation introducing the EUA into the Staff Regulations of Officials of the European Communities². The European Parliament delivered a favourable opinion on this proposal³.

107. Finally, on 10 February 1978, the Commission published a document on the use of the EUA in the common agricultural policy⁴, the conclusions of which Parliament welcomed⁵.

108. When drawing up its guidelines for the budgetary and financial policy of the European Communities in 1979 the European Parliament called for measures to ensure that the EUA was used not only as an accounting instrument in all sectors, but increasingly for the Community's payments, so that it could gradually come to serve as a parallel currency⁶.

109. In assessing the need and scope for increasing the application of the EUA, a distinction should be drawn between the following three factors:

- the EUA as an accounting unit;
- the EUA as a transaction unit; and
- the EUA as a monetary unit.

The EUA as an accounting unit

110. It would be wrong to underestimate the importance of the EUA as an accounting unit in the real sense of the term. The mere fact that transactions which are carried out in different currencies are recorded in the budget of the Communities in a common unit of account serves to improve budgetary transparency and control. However, it is essential that the exchange rate used is that applicable on the day on which the entry was made in the accounts. Despite initial difficulties, this is now the case. The implementation of the budget and the control activities of the Commission, Parliament and the Court of Auditors would be considerably easier if the EUA were also introduced as the exclusive transaction unit in all fields of European Community policy.

¹ SHAW report - Doc. 569/76

² OJ No C 99, 22.4.1977, p.5

³ COINTAT report - Doc. 218/77

⁴ COM(78) 480 fin.

⁵ Doc. 120/78

⁶ BANGEMANN report - Doc. 3/78

The EUA as a transaction unit

111. The EUA is also suitable as a unit for handling the obligations and rights of the European Communities, and it has already been used for this purpose in a number of cases. This is an economically and politically important application of the EUA, going beyond its use as an accounting instrument.

An example of this application might run as follows: tenders are invited in EUA in the field of research. After comparison of the various offers, a contract to purchase is concluded for 20,000 EUA. The goods are supplied three months after the conclusion of the contract. The supplier receives 20,000 EUA paid in his national currency at the daily exchange rate.

Thus, although the amount in EUA will not have changed, its equivalent in national currency will depend on the exchange value at the time of payment. The use of the EUA as a transaction unit in the Community's budget provides a large measure of transparency since there is no difference between the amount recorded initially and the amount paid out on completion of the transaction.

The principle underlying the use of the EUA as a transaction unit is as follows: the Community's rights and obligations are determined in EUA and where appropriate, converted into national currency at daily exchange rates.

112. However, the EUA can only fulfil this function, which is desirable for economic budgetary and general political reasons, if an automatic system of adjustment is strictly applied, i.e. if the equivalents in national currencies are automatically adjusted to the value expressed in EUA when exchange rates change.

An automatic system of this type has always been applied, but it naturally caused fewer problems when parity units were used. However, the automatic system of adjustment is also quite acceptable when a basket unit of account is used in a currency system where exchange rates fluctuate because price movements are not so extreme and in the ultimate analysis result from changes in the market situation.

113. It should be noted, however, that the full application of this automatic system places the exchange risk on the Community's business partners. The Community operates virtually in the same way as an exporter who transfers the exchange rate risk in his invoices. For the Community budget this offers the

advantage that no distortions arise as a result of fluctuations in exchange rates. No compensatory items are required for currency losses or gains, and the control of the implementation of the budget becomes considerably easier. On the other hand it is a moot point whether the Community can always afford to shift the exchange rate risk in this way in its official trade.

114. In this connection it should be remembered that the unity of Community policy can only be guaranteed if the automatic system of adjustment is applied. If this unity is destroyed, common policies will disintegrate into individual national policies. Such disintegration is at present one of the main problems of, for example, the common agricultural policy.

115. In addition, the European Community's trading partners should be expected to bear the exchange rate risk. In fact, the EUA is a good way of minimizing it. It should be noted that the application of the EUA in the Convention of Lomé has not placed the recipient countries at any disadvantage. The Community should therefore increasingly use the EUA as a transaction unit in all fields.

The EUA as a monetary unit

116. The fact that the EUA is used as an accounting unit and as a transaction unit does not make it a monetary unit, since it fails to fulfil a number of basic conditions. In the first place, it has no independent exchange rate, its value being determined on the basis of the values of the currencies in the basket. Secondly, the Community does not issue European units of account and thirdly no one is under an obligation to accept EUA as a medium of payment. Thus, the European unit of account does not enjoy an independent monetary existence.

117. However, this situation could change. The use of the EUA as a transaction unit in itself represents a step towards the creation of a monetary unit. The Commission has opened EUA accounts in a number of banks for transactions in the ECSC sector, where the EUA is already used for incoming and outgoing payments. These banks are admittedly required to split up the EUA amounts into their component currencies as represented in the basket and to cover them by appropriate transactions on the currency markets, but the opening of EUA accounts nevertheless undoubtedly represents qualitative progress towards an independent currency.

118. The political importance of this move will be apparent in the light of renewed efforts to achieve economic and monetary union.

119. At the Hague Conference in December 1969 the six Heads of State and of Government decided to carry the European Economic Community a stage further and create an economic and monetary union. A working party chaired by Pierre Werner submitted a report containing detailed proposals on how this objective should be achieved. From the very beginning the dollar crisis made it difficult to pursue this phased plan, with the result that the ambitious project failed.

120. However, the unsatisfactory state of the international monetary system, aggravated by the effects of the oil crisis, has made it necessary for the European Community to renew its efforts.

In a speech in Florence in October 1977, which rightly attracted a great deal of attention, and in statements at the European Parliament's part-session in January this year, the President of the Commission revived interest in economic and monetary union. In November 1977, the Commission submitted to the European Council a report on problems of economic and monetary union¹, which was supplemented by its action programme for 1978².

121. On 10 and 11 July 1978 in Bremen, the European Council called for closer monetary cooperation in order to create a zone of stability in Europe. After the finance ministers have considered the necessary measures, the European Council will decide on practical proposals on 4 and 5 December.

122. The Franco-German monetary compromise reached in Aix-la-Chapelle and fully endorsed by the Council of Finance Ministers in Brussels on 18 September set out initial practical decisions on the shape of the new European monetary system. Following the pattern of the present monetary snake, the system will be based on a bilateral parity grid of the participating currencies and not on a currency basket involving daily fluctuation. Fixed margins between the rates of any two given currencies will condition compulsory intervention by the issuing banks. The Belgian Finance Minister has proposed that the trend of exchange rates in the currency basket on which the existing EUA is based should be used as an additional indicator from which conclusions might be drawn for the guidance of exchange rate policy. If the currencies drift too far apart, negotiations might begin on appropriate corrections to the system. In practice the basket should be the reference base for all transactions apart from determination of the obligation for central bank intervention. The fixed parity grid of the new monetary system would be expressed in the unit of account of the European currency basket, to be known as the ECU. However, a fixed value for the ECU will be written down on the date of entry into force of the system.

¹ COM(77) 620

² COM(78) 52

No decisions have yet been taken on the European Monetary Fund and on the final volume of short and medium-term credit support.

123. In the past the debate on what steps should be taken to achieve monetary union has been hampered by the fact that two different approaches have been strongly advocated. The monetary experts believe that such a union can emerge only if the right monetary policy conditions are created whereas the economists say that economic measures are an essential prerequisite. The dangers inherent in such apparent alternatives still exist today. In actual fact there is no one solution consisting solely of monetary or economic measures.

The achievement of monetary union calls both for the harmonization of economic policies - including the necessary measures in the budgetary, conjunctural, fiscal and financial fields - and, in the narrower sense, for joint monetary policy measures.

124. A comprehensive monetary union implies that a single currency, administered by a central bank, will be circulating in a given currency zone. A currency union may in practice be regarded as complete if individual currencies still exist but are permanently pegged to each other, with the result that individual changes in parity never occur, margins of fluctuations are eliminated and full convertibility is established.

The creation of a monetary union will bring with it four individual economic advantages:

- increased productivity as a result of the simplification of payments and calculations and the elimination of the exchange rate risk;
- elimination of traditional balance of payments problems as a result of increased capital mobility (although, of course, developments will occur which might create regional rather than external economic problems);
- economization on reserves as a result of the establishment of Community currency reserves;
- the potential restoration of monetary independence in Europe.

125. The advantages of a monetary union cannot be fully realized unless the union is complete. However, complete union must remain the ultimate objective. Limited unification can, however, also bring with it a number of the advantages of final integration. The EUA could also play a part in this.

Conclusions

126. Three political conclusions may be drawn from the above comments on the basis of the European unit of account's functions as:

- an accounting unit;
- a transaction unit; and
- a monetary unit.

127. The EUA should be used as an accounting unit even by the decentralized organs of the Community.

128. It should also be used increasingly as a transaction unit, starting perhaps with statutory payments. The specific problems of agricultural policy could also be tackled, with the provisional exception of the Guarantee Section of the EAGGF. Parliament has also proposed that administrative fines imposed by the Community should be expressed in EUA.

129. The European Parliament has noted the statements concerning renewed efforts in the field of monetary policy delivered after the Bremen Summit and calls on the Commission to adopt the necessary measures to ensure that these declarations of political intent can be translated into European reality.

In connection with such measures, the EUA could be used as a monetary instrument which will not only further the aim of European economic integration but will also contribute to the elimination of the instability at present inherent in the monetary system at Community and international level.

PART TWO: THE 1979 BUDGET PLACED IN ITS POLITICAL CONTEXT

130. Whereas from the institutional standpoint the dominant event for the preparation of the 1979 budget is without a doubt the forthcoming direct election to Parliament, the political impact of the 1979 budget will be determined by the willingness of the budgetary authority to take into proper account the economic significance of Community expenditure, from both an overall and a sectoral point of view. In this sense the 1979 budget will have established the concept of 'critical mass'.

I. Overall significance of the 1979 budget

131. The preparation of the 1979 budget is determined by two events of fundamental importance for the Community:

- (a) The economic crisis, though becoming less severe, is still with us. It has brought to light the Community's structural weaknesses. Nevertheless, after prolonged hesitancy, the Community's political leaders have taken firm and quantified decisions designed to launch a revival based on the concept of convergence of the economies.
- (b) At the same time it was decided that these measures should be accompanied by the establishment of mechanisms enabling the Community to move forward towards economic and monetary union. The Community budget has to be placed in the context of this strategy.

A. Financial and political impact of the Community budget

132. It is hardly necessary to point out that until now the Community budget has borne no relation to the fundamental economic data of the Community and that, given the lack of proportion between it and the national budgets, it could not perform the same functions as the latter.

Table: The Community budget and some economic data

| | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|-------|-------|-------|-----------------|--------------------|
| Increase in budget in relation to preceding year | 10.3% | 20.8% | 3.4% | 28.9% | 12.1% ¹ |
| Community budget in relation to budget of Member States | 1.8% | 2.1% | 2.2% | 2.7% | - |
| Community budget in relation to Community GDP | 0.55% | 0.62% | 0.66% | 0.81% | 0.88% |
| Rate of inflation in the Community | 13.8% | 11.3% | 10.3% | 8% ² | - |

¹ Preliminary draft - payment appropriations

² Estimate

Table: Basic data concerning the 1979 budget

in m EUA

| | Commitment appropriations | % | Payment appropriations | % |
|--|---------------------------|-------|------------------------|-------|
| 1978 budget | 12,702 | 28.8 | 12,362 | 28.9 |
| 1979 preliminary draft | 14,667 | | 13,859 | |
| Difference compared with 1978 | + 1,964 | +15.4 | +1,496 | +12.1 |
| 1979 draft | 13,797 | | 13,020 | |
| Difference compared with 1978 | +1,094 | +8.6 | +658 | +5.3 |
| Difference compared with preliminary draft | -870 | -5.9 | -839 | - 6 |

133. It would be wrong, however, to think that the Community budget has remained the accounting instrument of the financial implications of the application of measures decided under the close supervision of the Member States. The Community budget is no longer a superposition of Funds.

For one thing, institutional changes have taken place, such as the progressive establishment of the budgetary authority and a redistribution of budgetary powers along lines more appropriate to a real Community. For another, the rate of growth of the Community budget has been such that it can no longer be regarded as a negligible sum¹.

134. The Community budget will appear negligible only if its function is measured against that of national budgets. It is quite plain that the Community budget is not an instrument of economic stabilization. It would at the same time be mistaken to think that it has no political or economic significance. In a resolution adopted in April 1978² Parliament indicated that it intended to use the Community budget as an instrument of economic and financial integration of the Community, with action at three levels:

- (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: shipbuilding, iron and steel, textiles, data processing and aviation.
- (b) Community coordination of national activities which could in this way be made more efficient and profitable, particularly the research and environment sectors, which the Commission tends to ignore in its guidelines. Through coordination of and consultation on the 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.

¹ See table above

² Doc. 54/78

135. Seen in this light, the overall volume of the Community budget is inadequate since it reflects the incomplete state of the Community, which in turn explains the serious imbalance in the structure of the budget, notably the strong emphasis on the agricultural sector.

The fact that the Community budget has been growing more rapidly than the mean of the Member States' budgets¹ is therefore largely explained by the desire to complete integration.

136. The rate of growth of the budget thus provides an index of the Community's political resolve to carry through integration. The slower rate of growth proposed by the Commission in its preliminary draft appears therefore to be an indication of its inability to make the Community move forward. This resignation is of course extremely dangerous, for stagnation inevitably leads to decline.

137. This attempt at 'prudence' on the part of the Commission is all the more regrettable as the Council has drawn up its draft - which must be regarded as a starting point for the budgetary shuttle - on that basis. The effort needed from the budgetary authority to maintain a rate of growth becomes all the greater.

138. In trying to define a rate of growth of the budget compatible with the objectives set out above, it is possible to approach the problem in various ways:

(a) If one takes the view that the present rate of growth of the budget corresponds to what is at present politically feasible, one can:

- either consider that the previous year's rate of increase should be maintained, which would give a 1979 budget total of

- commitment appropriations: $12,700 + 2,800 = 15,500$ m EUA

- payment appropriations : $12,300 + 2,800 = 15,200$ m EUA

- or else base the calculation on a mean rate of about 20% over the last five years:

- commitment appropriations: $12,700 + 2,500 = 15,200$ m EUA

- payment appropriations : $12,300 + 2,400 = 14,800$ m EUA

(b) One may take the view, on the other hand, that the financial and economic impact of the Community budget is directly related to the Community GDP. The Commission's proposals then give the following development :

¹Some national budgets may show a more rapid growth than that of the Community budget

TABLE

Percentage ratio of the volume of the Community budget
to the Community GDP

| 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | (1980) | 1981 |
|--------|------|------|------|------|------|------|--------|--|
| (u.a.) | 0.53 | 0.51 | 0.55 | 0.62 | 0.66 | | | |
| (EUA) | | | | 0.70 | 0.81 | 0.88 | | 0.90 ¹ 0.97 ² |

¹On the assumption that present trends are continued

²Assuming greater political resolve

Even on the most optimistic assumption, the Commission plainly expects the relation between the volume of the budget and the GDP to stagnate. In other words, the budgetary policy proposed by the Commission means that the construction of the Community will slow down. This is all the more scandalous as the Commission itself has published a report showing the desirable relation between the Community budget and the GDP as between 2 and 7%.

139. On the basis of Parliament's guidelines, in support of which attention should be called to the decisions taken at the summits in Brussels, Copenhagen, and above all Bremen and Bonn, the preliminary draft budget can only be regarded as an admission of a policy of stagnation and as an accounting document setting out its financial implications. If it wants to prevent the budget triggering off a process of decline in the Community, the budgetary authority is bound to seize the initiative, a role in principle vested in the Commission.

140. Although the technical quality of the triennial estimates has been further improved, they are quite simply unacceptable, since they represent a programme for a Community decline. Mention also needs to be made of the blatant contrast between the estimates contained in this document, characteristic of the Commission's awareness of its own capabilities, and the pious intentions proclaimed in the guidelines of 24 February.

B. The budget as an economic instrument

141. The purpose of the Community budget is not merely to assist in the process of economic and financial integration. It is not solely designed as a vehicle for the transfer to Community level of the financing and management of activities which, because of their scale, are for economic or political reasons partially or totally beyond the means of the Member States.

The Community budget also has a part to play in the Community's overall economic strategy.

142. This was also stressed by the Commission in its communication to the Council and Parliament of March 1978 on the overall assessment of the Community's budgetary problems. In this forward-looking document, the Commission attempted to define, in the context of a long-term programme, priorities for drawing up the budget.

143. The Commission highlights the following long-term tasks for the Community:

- restructuring of the production apparatus, having regard to the regional and social consequences;
- the promotion of growth sectors;
- reduction of dependence on external energy supplies;
- reduction of regional imbalances;
- curtailment of agricultural expenditure;
- strengthening of international cooperation (Lomé II).

144. In its report on the guidelines for the European Community budgetary and financial policy (Part II) dealing with the Commission's proposals, Parliament defined its own position and also pointed to the structural policy objectives of Community action.

145. The political leadership of the Community, and in particular the European Council at its last three meetings in Brussels, Copenhagen and Bremen, has based the Community's economic strategy around two closely linked objectives:

- a renewed effort to progress towards economic and monetary union,
- attempts to establish a Community strategy of growth in order to get the economy moving and curb unemployment.

146. These two objectives require that energetic action be taken to achieve greater convergence of the national economies. In Parliament's view, it is here that the Community budget fits into the common economic policy. In setting out its guidelines for the 1979 budget, it suggested that the primary objective of the Community's budgetary policy should be to assist economic recovery by reducing the structural imbalances in and between the economies of the Member States¹. In the report on certain structural aspects of growth which the Commission submitted to the Bremen European Council, this is broadly speaking the role it assigned to the Community budget.

147. With an eye to both giving a fresh impetus to economic and monetary union² and the strategy of economic growth³, the Community has laid down the objectives to be pursued by the budgetary policies of the Member States: coordination of budgetary policies directed towards economic recovery. Although the Community budget is not directly affected by these guidelines, it would be altogether wrong for it to be divorced from the joint effort. After all, it is an instrument of the highest importance for certain tasks essential to the joint strategy, such as correcting the structural imbalances and strengthening the economic structures of the less prosperous Member States.

148. Integration of the Community's budgetary policy into the process of coordinating the national budgetary policies is restricted by the role and volume of the Community budget, which at present lends itself rather to long-term structural measures.

149. At the Commission's request, a study⁴ has been undertaken to assess the order of magnitude required for Community financing to make a real political and financial impact in terms of the redistribution of revenue within the Community. By analogy with what is done within the Member States, and based on an analysis of financial patterns, the report concludes that the relation between the volume of the Community budget and the Community GDP should be between 2 and 2.5% at a conservative estimate and between 5 and 7% if a more ambitious policy were pursued.

¹ Doc. 54/78 - paragraph 9 of the resolution

² The Commission's action programme for 1978 in the context of the five-year plan for the revival of economic and monetary union

³ Conclusions of the President of the European Council in Bremen - decisions of the Council of Economic and Finance Ministers of 24 July 1978 - Bonn Summit

⁴ McDougall report on 'The role of public finance in European integration', April 1977.

150. Following the guidelines set out by Parliament, the Committee on Budgets therefore proposes to integrate the Community's budgetary policy into the strategy of growth and the fight against unemployment, and also in the measures to accelerate progress towards economic and monetary union decided on by the Brussels, Copenhagen and Bremen Summits. It therefore takes the view that the orders of magnitude proposed in the Commission's preliminary draft and the Council's draft are commensurate neither with these objectives nor with the role which the budget ought to play in helping to achieve those objectives.

C. Revenue side of the budget

(a) Presentation of revenue in the 1979 budget

151. Parliament notes with satisfaction that, following its efforts in that direction in previous years, the revenue section of the budget has been given a solid structure which makes it possible for the budgetary authority to exercise its new powers in relation to approval and supervision of the budget.

152. This year the Committee on Budgets will propose only two minor changes in the nomenclature.

Firstly, it considers that the entry of 'negative expenditure' in the expenditure side is unacceptable, the revenue in question (Article 628) being collected pursuant to Regulation (EEC) No. 1079/77 on financial contributions by milk producers. These sums should be shown on the revenue side, even if they are allotted to a specific purpose.

Secondly, the remarks on the revenue side showing the loss of revenue resulting from the customs preferences under the financial protocols should be arranged according to the third countries concerned.

(b) Critical situation resulting from the delay in implementing the Council's Sixth VAT Directive of 17 May 1977

153. In this connection the political situation has come to a head. The European Parliament has fought for many years for the replacement of Member States' financial contributions by the Communities' own

resources¹. It cannot allow implementation of the Sixth VAT Directive in the Member States to be delayed year after year, so that even the deadline of 1 January 1979 is being called into question.

154. The European Parliament's most recent political warning dates from 14 June 1978. The report on the proposal from the Commission of the European Communities to the Council (Doc. 155/78) for a ninth directive on the harmonization of the laws of the Member States relating to turnover taxes (derogation from Article 1 of the Sixth Council VAT Directive of 17 May 1977) (rapporteur: Mr NOTENBOOM - Doc. 168/78) points out that according to the decision of 21 April 1970, ratified by all the Member States, Community VAT should have been introduced from 1 January 1975.

155. The Council adopted the Sixth Directive unanimously on 17 May 1977. Under the terms of Article 1, the Member States undertook to adopt the necessary secondary provisions so that the systems entered into force at the earliest opportunity and by 1 January 1978 at the latest.

156. The European Parliament was subsequently obliged to note that certain Member States had infringed Article 1 of the Sixth Directive, thus delaying full implementation of the system of the Communities' own resources. In June 1978 Parliament stressed that the derogation could not be renewed and called on the Commission to initiate the procedure laid down in Article 169 (failure by a Member State to fulfil an obligation) against any Member State failing to adopt the necessary secondary provisions by 1 January 1979, thus infringing Article 1.

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- ¹-NOTENBOOM Report on the adoption by the Council of the European Communities of the draft Sixth Directive on VAT (Doc. 58/77)
-NOTENBOOM Report on the proposals from the Commission of the European Communities to the Council (Doc. 274/77) for
- I. a Regulation (EEC, EURATOM, ECSC) implementing the decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources
 - II. a second amended proposal under Articles 149 of the EEC Treaty and 119 of the EAEC Treaty for a regulation (ECSC, EEC, EURATOM) amending the financial regulation of 25 April 1973 applicable to the general budget of the European Communities
 - III. an amended proposal for a regulation implementing, in respect of the own resources from VAT, the decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources (Doc. 326/77)
- NOTENBOOM Report on the joint position adopted by the Council on:
- a regulation (EEC, EURATOM, ECSC) implementing the decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources
 - an amended proposal for a regulation implementing, in respect of the own resources from VAT, the decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources (Doc. 432/77) (Doc. 445/77)

157. The Committee on Budgets realizes that discussions in the parliaments of the Member States are giving rise to considerable difficulties and also that taxpayers must be allowed a certain period for adjustment.

158. Public hearings in the Member States have revealed substantial reservations on the part of representatives from industry, commerce, trade, etc., particularly as regards the proposed scheme for small undertakings, taxation of international transactions and possibilities of exemption (possibility of applying a reduced rate of tax).

159. Despite its awareness of these difficulties, the European Parliament should employ all the political and legal instruments at its disposal in order to bring pressure, whether direct or indirect, to bear on the dilatory Member States and speed up implementation.

(c) Other types of revenue for the future

160. Given the likely increase in the size of the budget through the budgetization of the EDF and other Community activities, and the ceiling of 1% of the basis for assessing VAT, the possibilities of financing the Community budget will soon be exhausted. It is therefore necessary to look into new ways of collecting revenue for the ordinary budget.

161. The following possibilities should be carefully studied:

- increase in the percentage of the basis for assessing VAT
- percentage of another national tax
- introduction of a Community tax.

162. It is therefore important that the Commission should submit without delay a report on the investigation it has promised to make into new possibilities of financing the ordinary budget of the Communities, so that preparatory measures can also be put in hand in the Member States.

163. Furthermore, even during the period in which the revenue continues to cover the Community's future requirements under the ordinary budget, thought should be given to the expansion of revenue through the creation of an extraordinary budget, i.e. through borrowing. This possibility may in fact not be open to the Community because it is exhausted in the budgets of all the Member States, being used in the case of some investments as the only economic financing method.

II. Sectoral policy guidelines in the 1979 Budget

164. The greatest weakness of the Community institutions lies undoubtedly in their inability to give practical effect to general decisions, to transform decisions of principle into concrete achievements.

The Committee on Budgets is aware of the fact that it is one thing to propose that a certain rate of growth in the budget be maintained, but quite another to determine not only the sectors but also the specific projects requiring support if that rate is in fact to be maintained.

165. That is why, in analysing the appropriations shown in the Commission's preliminary draft and the Council's draft budgets, in accordance with the guidelines laid down in April, the Committee on Budgets adopted the strictest possible approach to the sums entered, taking special account of the rate of utilization of appropriations in previous financial years and the effectiveness of expenditure in relation to the objectives concerned. In this regard it fully shares the Council's concern for economy. At the same time, however, it has taken the view that, in the face of the 'prudence' shown by the other institutions, it is up to Parliament to take such action as is necessary to preserve and strengthen the dynamic and political role of the budget.

166. In adopting this approach it felt it had the backing of the decisions taken by the European Council in Bremen and the Summit in Bonn, which, in its opinion, altered the bases on which the Commission's preliminary draft and, in large measure, the Council's draft were drawn up. If there is any logic in the procedure of the amending letter, then it is surely to allow the budgetary authority to take account of such radical changes in the political situation.

A. Implementation of priorities laid down by Parliament

167. In connection with the dialogue between the institutions concerned in the drawing up of the budget, exchanges of views have taken place on a number of occasions. The President-in-office of the Council conveyed to the Committee on Budgets the Council's reactions to the Commission's communication; these guidelines were at the centre of the discussion held on 18 July as part of the budgetary consultation procedure. It emerged that, whilst there were some differences of opinion as to the means to be employed, the objectives were basically identical. For the purpose of the further stages of the budgetary procedure, therefore, Parliament can base its decisions on the guidelines laid down in the spring without fear of catching its partners unawares.

(1) SOCIAL POLICY

(a) European Social Fund

How the Fund works

168. The European Social Fund was set up on the basis of Articles 123-128 of the EEC Treaty

'in order to improve employment opportunities for workers in the common market and to contribute thereby to raising the standard of living.'

It has the task of

'rendering the employment of workers easier and of increasing their geographical and occupational mobility within the Community'.

On 1 February 1971, the Council of Ministers adopted a decision to reform the Social Fund¹ which entered into force on 1 May 1972².

In the decision of 1 February 1971, the areas of intervention of the Fund are laid down in two separate articles:

- Article 4 stipulates that the Fund can take action when the employment situation is affected or in danger of being affected either by special measures adopted by the Council in the framework of Community policies or by operations to further the objectives of the Community. Five categories of persons can be assisted under Article 4:
 - persons employed in agriculture ;
 - persons employed in the textile industry³;
 - handicapped persons ;
 - migrant workers⁴;
 - young people who are unemployed or seeking their first employment⁵.
- Article 5 enables the Commission, without involving the Council, to grant financial aid from the Fund where the employment situation in certain regions, in certain branches of the economy or in certain groups of undertakings is affected by difficulties which result indirectly from the working of the common market or impede the harmonious development of the Community.

¹ OJ No. L 28, 4.2.1971

² Council Regulation (EEC) No. 2396/71 of 8.11.1971 implementing the Council Decision of 1.2.1971 on the reform of the European Social Fund, amended by Council Regulation (EEC) No. 2893/77 of 20.12.1977 (OJ No. L 249, 10.11.1971, p. 54; and OJ No. L 337, 27.12.1977, p.1)

³ Decision of 19.12.72 - OJ No. L 291, 28.12.72

⁴ Decision of 27.6.74 - OJ No. L 185, 9.7.74

⁵ Decision of 22.7.75 - OJ No. L 199, 30.7.75

172. However, the 1971 reform was not far-reaching enough. With a further recession of the economy and unemployment now affecting some 6 million workers, a new attempt was made in 1977 to adapt the Fund to the rapidly deteriorating employment situation:

- in certain underdeveloped regions of the Community, the Fund's intervention ceiling was raised from 50% to 65%;
- to cope with the rise in unemployment among young people, new forms of employment policy may be adopted which do not fall within the traditional pattern of aid.

Unsatisfactory outflow of appropriations

173. The European Parliament and the other control bodies of the Community have in previous years repeatedly pointed out that the outflow of appropriations from the Social Fund is extremely slow on account of the ponderous nature of the decision-making process, and that too large a percentage of these appropriations goes unused because of cuts in the programmes or refusals to make payments. In 1975 and 1976, for example, payments amounted to barely 2% of commitments for the financial year, which confirms the impression that the decision-making process used for the fund is chronically slow. It is regrettable to note that about a year elapses between a Member State's application for a subsidy from the Fund and the Commission's decision on the matter.

174. The Commission is aware of the difficulties involved in the administration of the Fund. In the last two years it has intensified its efforts to increase the outflow of appropriations. The following documents should be noted in this connection:

- the communication from the Commission concerning the review of the rules governing the tasks and operations of the European Social Fund (Doc. 50/77);
- the proposal for a regulation concerning operations qualifying for the higher rate of intervention by the European Social Fund (Doc. 313/77);
- the guidelines for the management of the European Social Fund during 1979-1981, and the transitional guidelines for 1978.

175. The European Parliament has repeatedly expressed concern at the shortcomings of the administration of the Fund, notably in the following documents:

- report on the Fourth Report on the Activities of the European Social Fund - 1975 (rapporteur: Mr J.M. CARO; Doc. 578/76);

- report on the communication from the Commission (Doc. 50/77) concerning the review of the rules governing the tasks and operations of the European Social Fund (rapporteur: Mr ADAMS; Doc. 84/77); and
- report on the draft budget of the European Communities for the 1978 financial year (rapporteur: Mr SHAW; Doc. 341/77, page 39).

The Commission's preliminary draft

176. The appropriations entered by the Commission in the 1979 budget are much higher than they were in 1978:

- + 49% in commitment appropriations
- + 33% in payment appropriations

| | in mEUA | |
|---------------------------|------------------|------------------|
| | CA | PA |
| Chapter 50 ¹ | 355 | 304 |
| Chapter 51 ² | 492 ³ | 411 ⁴ |
| Total (Chapters 50 to 52) | 850 ³ | 718 ⁴ |

177. The main budget entries for 1979 in this field are as follows:

- aid for vocational training (covering young people and handicapped persons) 617 million CA
- aid to promote the employment of young people 110 million CA
- social aid for industrial conversion, 50 million CA in Chap. 100
- measures for certain economic sectors (agriculture, textiles) and certain social categories (handicapped persons and women) 70 million CA

178. The new measures planned for 1979 are as follows:

- promotion of the employment of young people (110m EUA) by means of financial aid for the recruitment of young people by private undertakings (hiring premiums) or by the public authorities (subsidies for programmes).

This measure is of considerable social and political importance. It is the subject of a Commission proposal (10.4.78) on which the European Parliament delivered a favourable opinion during its part-session in June 1978.

¹ Measures in the context of Community policy

² Measures to support national policies

³ Including 50 million EUA entered under Chapter 100

⁴ Including 15 million EUA entered under Chapter 100

The Council has still not approved this proposal. However, the European Council adopted a favourable position on it in Bremen.

- Social aid for persons who lose their jobs as a result of industrial conversion in sectors in difficulty. This measure is founded on the basic regulation governing the Social Fund as amended in 1977. This is the first time the Commission has proposed appropriations for such operations.

179. The Commission's approach is to be welcomed. The extremely difficult social situation in the Community calls for far-reaching financial measures. According to the guidelines adopted by Parliament and the Commission, symbolic amounts are not enough. The fact that the outflow of appropriations from the Social Fund has in the past been extremely slow has no bearing on this matter. In July 1978, the Commission submitted the Second European Social Budget (1976-1978) which analyses overall social payments in relation to the economic situation¹. The Commission states that for the Community as a whole the social expenditure covered by the European Social Budget will amount in 1980 to 25% of the gross domestic product, i.e. it will be slightly less than in 1975, when it was 25.4%. This decrease undoubtedly reflects the effects of the measures taken in individual countries to reduce the growth in public expenditure. However, the major social requirements arising from the Community's present economic difficulties cannot be met by means of reduced appropriations for social measures in the budget.

The Council's draft

180. Nevertheless, the Council has considerably reduced the appropriations set aside for the Social Fund:

- in the case of commitment appropriations from 800 million to 672.5 million on the line (+ 40 million under Chapter 100);
- in the case of payment appropriations from 703 million to 470 million (+ 18 million under Chapter 100).

181. In justifying the cut in payment appropriations, the Council states that despite the new system of advance payments introduced in 1977 the appropriations for the financial year 1978 are still being used up relatively slowly. The Council, however, is ready to meet any shortfall in payment appropriations by means of a transfer or a supplementary budget.²

182. The Council was not able to accept the appropriations proposed by the Commission in its preliminary draft for new measures in favour of young people (Items 5010, 5011, 5100, 5101, 5110 and 5111). In June a decision of the Council of Ministers on the entire package of measures was vetoed by one Member State, which felt that employment policy should be a national

¹ COM 78/318 final

² Council's explanatory memorandum, p. 42

preserve and that the necessary social measures should not be implemented via the European Social Fund but by the Member States themselves.

183. The European Council ignored the 'social protectionism' of the Ministers concerned and called on them to adopt the Community measures to combat unemployment among young people in time for them to enter into force on 1 January 1979.

184. Despite the unequivocal position adopted by the European Council, the Finance Ministers decided to:

- delete items 5010, 5011, 5100, 5101, 5110 and 5111;
- to create a provisional Chapter 53 entitled 'New measures proposed by the Commission to help young people' and to make a token entry under this Chapter;
- to enter under Chapter 100 40m EUA in commitment appropriations and 18m EUA in payment appropriations, representing only part of the appropriations originally entered on the line.

185. The inclusion of this new chapter and of the amounts under Chapter 100 will not, however, prejudice 'the decision to be taken by the Council. As soon as that decision is taken, appropriations will be entered under the appropriate headings and Chapter 53 will become superfluous'.

Conclusions

186. The Council's approach - i.e. the temporary creation of a new chapter which will later be deleted - cannot be accepted. Parliament should delete Article 530 and at the very least reinstate the appropriations originally entered in the preliminary draft.

(b) Other social policy measures

187. The Community's social policy is not aimed at full employment, but at a general improvement in employment policy:

- further vocational training;
- improvement of working conditions;
- equality between men and women at work;
- dialogue between the social partners.

The following tables give a breakdown of the appropriations entered under Titles 2 and 3 for these operations.

The appropriations for European social policy are as follows:

in EUA

| Article/Heading | 1978 Budget | 1979 prelim. draft | 1979 draft |
|--|----------------|--------------------------|--|
| TITLE 2 | | | |
| 254 Measures for young people | CA | | |
| | PA 220,000 | 360,500 | 275,000 |
| ----- | | | |
| 256 Expenditure on pre-consultation meetings with trade union representatives | CA | | |
| | PA 157,000 | 165,000 | 165,000 |
| ----- | | | |
| 264 Statistical studies and surveys | CA | | |
| | PA 7.8m | 9.25m | 6.44m |
| ----- | | | |
| TITLE 3 | | | |
| 300 Administrative Commission on social security for migrant workers | CA | | |
| | PA 645,000 | 750,000 | 720,000 |
| ----- | | | |
| 3010 European Centre for the deve- lopment of vocational training | CA | | |
| | PA 2.8m | 3.252m | 3.2m |
| ----- | | | |
| 3011 Other activi- ties relating to vocational training | CA | | |
| | PA 150,000 | 100,000 | 100,000 |
| ----- | | | |
| 302 Tasks entrusted to the Institu- tion to promote exchange of young workers | CA | | |
| | PA 150,000 | 1m | Token entry 650,000 in Ch.100 |
| ----- | | | |
| 3030 Contribution to pilot projects on better housing for handi- capped workers | CA 560,000 | 600,000 | 600,000 |
| | PA 200,000 | 465,000 | 380,000 |
| ----- | | | |

| Article/Heading | 1978 Budget | 1979 prelim. draft | 1979 draft |
|---|----------------|--------------------------|---------------|
| 3031 Contribution to pilot projects on better housing for migrant workers | CA 560,000 | 600,000 | 600,000 |
| | PA 170,000 | 365,000 | 300,000 |
| 306 Pilot research projects on action to combat poverty | CA 5m | 5.75m | 5.75m |
| | PA 2.904m | 4m | 4m |
| 3070 European trade union institute | CA | | |
| | PA 500,000 | 550,000 | 550,000 |
| 3071 Aid to employers' and workers' organizations | CA | | |
| | PA new item | token entry | token entry |
| 308 Assistance to victims of accidents in the coal and steel industries | CA | | |
| | PA 300,000 | 300,000 | 300,000 |
| 309 Community aid to workers made redundant in the Italian sulphur mines | CA | | |
| | PA 50,000 | token entry | token entry |
| TITLE 5 | | | |
| 500 Aid to the agricultural and textiles sectors | CA 35m | 35m | 35m |
| | PA 61m | 53m | 32m |
| 5010 Measures in the field of vocational training for young people | CA 179m | 230m | 230m |
| | PA 119m | 201m | 145m |
| 5011 Measures to promote the employment of young people | CA | 55m | Deletion |
| | PA | 14m | |

in Art.501

| Article/Heading | 1978 Budget | 1979 prelim. draft | 1979 draft | |
|--|----------------|----------------------------|----------------|---------------------------|
| Measures for 502 handicapped persons | CA | | | |
| | PA 18m | 2m | 600,000 | |
| Measures for 503 migrant workers | CA 16m | 23m | 23m | |
| | PA 25m | 27m | 15.4m | |
| Measures to 505 help women | CA 8m | 12m | 12m | |
| | PA 2.5m | 7m | 7m | |
| Consequences 506 of industrial conversion (Art. 4) | CA | | token entry | } New lines by Council |
| | PA | | token entry | |
| 5100 Measures in the field of vocational training | CA 281m | 326m | 315m | } in Art.510 |
| | PA 275m | 323m | 231m | |
| 5101 Measures to promote employment of young people | CA | 48m | Deletion | |
| | PA | 14m | | |
| 5110 Measures in the field of vocational training | CA 49m | 61m | 55m | } in Art.511 |
| | PA 37m | 47m | 36.5m | |
| 5111 Measures to promote employment of young people | CA | 7m | Deletion | |
| | PA | 2m | | |
| Consequences 512 of industrial conversion (Art. 5) | CA | | | |
| | PA | token entry new Art. | token entry | |

in EUA

| Article/Heading | 1978 Budget | 1979 prelim. draft | 1979 draft |
|---|-------------|--------------------|---------------------------------|
| Social Fund - 520 pilot schemes and preparatory studies | CA 1.5m | 3m | 2.5m |
| | PA 1.3m | 3m | 2.5m |
| Employment 53 of young people | CA | | token entry 40m in Ch.100 |
| | PA | | token entry 20m in Ch.100 |

(2) REGIONAL POLICY

(a) The early years of European regional policy

188. Between 1958 and 1975 there was virtually no European regional policy. The Community merely undertook general studies and held discussions to coordinate national regional policy and planning measures.

189. Only after protracted initial difficulties and after the relevant decisions had been taken at European summit meetings did the Community finally acquire an implementing instrument in the form of the European Regional Development Fund established in March 1975¹. For its first three years of operation it was allocated 1,300 m.u.a., broken down as follows:

300 m u.a. 1975
500 m u.a. 1976
500 m u.a. 1977.

190. These appropriations were intended to correct the main regional imbalances in the Community. The Fund gives aid for investment and infrastructure measures in industrial, handicrafts or service activities situated in those regions of the Member States which have been recognized at national level as needing promotion. Pursuant to Article 2 of Regulation No. 724/75, the resources are distributed to the Member States according to a special table.

191. The Community's contributions are handed over as and when payments are made by the Member States, upon presentation by them of quarterly statements certifying expenditure.

192. In this way the Community began in 1975 to make a European contribution to both sectoral and regional structural policy.

193. In the Triennial Financial Estimates, which accompanied the preliminary draft budget for 1978, the Commission proposed an amount of 3000 million EUA. On 5/6 December the European Council cut this amount to 1850 million EUA, to be broken down in annual instalments as follows:

580m EUA 1978
620m EUA 1979
650m EUA 1980.

Last year the European Parliament increased the 580 million EUA by a symbolic 1 million EUA.

¹ Regulation (EEC) No. 724/75 of the Council of 18 March 1975 establishing a European Regional Development Fund (OJ No. L 73 of 21.3.1975)

Commitment appropriations and payment appropriations

194. There was no indication whether the above figures adopted by the European Council represented commitment or payment appropriations. Later, the finance ministers decided that they were to be commitment appropriations. This considerably diminished the effectiveness of the Regional Fund. As a result, the political resolve of the heads of government to actually pay out 620 million EUA in 1979 - for this was how their political resolve was understood by the general public - was thwarted, since the three-year period of application of the Regional Fund was extended to at least five years by the qualitative change of the figures into commitment appropriations. This means that the 1850 million EUA decided upon at the summit are to be spent not over three years but over five. The residue will be more or less openly deducted when the new Fund is endowed.

(b) Objectives and methods of a Community regional policy

195. There are four main reasons for establishing an overall regional policy:

- the creation of a common market has contributed considerably to economic growth, yet regional disparities have not narrowed;
- the economic crisis has intensified the problems of traditionally weak areas;
- sectoral Community policy decisions can also have adverse effects on the regions;
- the continued existence of regional disparities is an obstacle to the convergence of the individual States' economic policies without which no progress can be made towards integration.

196. The Commission has set itself a lofty regional policy objective. In view of the continuing unemployment and inflation and the considerable differences in earnings, it intends to attack the typical main problems in the following regions:

- peripheral agricultural areas,
- backward industrial regions,
- highly congested areas.

197. The reasons for such a Community regional policy are many:

- some regional problems can no longer be resolved by national measures,
- market economy mechanisms must be supplemented,
- the economies of the nine Member States must be strengthened before further enlargement of the Community.

Parliament is not unaware of the difficulties which will of course arise in the pursuit of these aims. These difficulties are linked to the problem of quantifying the elements of decision-making regional policy in the following fields:

- grading of States according to their revenue-raising power,
- aid capacity of the individual states,
- multiplier effect of the aid measures,
- the geographical concentration of regional policy measures and
- the need for sectoral concentration, though with due regard to the defensive effect of the EEC Treaty (Article 85 ff.).

198. In the past the European Parliament and its Committee on Regional Policy, Regional Planning and Transport has devoted considerable attention to the Community's regional policy problems and the possible solutions to them.

199. In this connection the following documents deserve special mention:

- report on the first annual report of the Commission of the European Communities on activities of the European Regional Development Fund in 1975 (rapporteur Mr DELMOTTE: - Doc. 440/76)
- report on aspects of the Community's regional policy to be developed in the future (rapporteur: Mr DELMOTTE - Doc. 35/77),
- report on the communication from the Commission of the European Communities to the Council on the guidelines for the Community's regional policy (rapporteur: Mr NOE' - Doc. 307/77)
- working paper of the Committee on Regional Policy, Regional Planning and Transport on the endowment of the European Development Fund for 1979 (draftsman: Mrs KELLET-BOWMAN - PE 53.653).

(c) Financial and budgetary prospects for regional policy in the 1979 financial year

200. This year regional policy is once again at a decisive turning point since the regulation on the Regional Fund is to be revised. This regulation has given rise to differences of opinion between the Council and Parliament on the following points:

- the Commission's executive powers,
- flexible implementing machinery instead of fixed national quotas,
- more 'non-quota' resources and wider field of application of these resources,
- greater participation by the Community through the Fund in individual national measures and use of subsidies on a larger scale to increase the outflow of Community resources,
- greater publicity to the contributions made by the Community.

Commission

201. Independently of this legislative decision, which remains open and in respect of which Parliament is taking part in a conciliation procedure, the Commission has proposed the following appropriations for regional policy in its preliminary draft budget:

Article 550 'Community measures in support of national regional policies'
(subject to quotas)

620m EUA CA

390m EUA PA.

202. In deciding on these amounts the Commission has been guided by two principles:

- the figure of 620 million EUA set by the European summit,
- the need to take into account what can actually be paid out as payment appropriations, in other words, one third of the CA amount, i.e., 222 million EUA out of 620 million EUA CA (the total of 390m EUA is explained by the 168 million EUA CA residue from previous years which has been committed but not yet paid).

Under Article 560 'Specific Community measures' (non-quota), the Commission merely entered a token entry in the preliminary draft budget.

Council

203. The Council has adopted an even more restrictive policy in the 1979 draft budget by entering the following appropriations:

620m EUA CA

320m EUA PA.

This means that it has cut the appropriations (leaving aside the CA residue) by 70 million EUA CA from 222 million EUA CA to 152 million EUA CA.

Considering that the political resolve to use 620 million EUA for regional policy in 1979 was publicly announced and that in fact only 152 million EUA are proposed as new PA, this discrepancy can no longer be excused on the pretext of technical difficulties and the need to improve methods of payment.

European Parliament

204. The Community, and in particular the European Parliament with its political responsibilities, must see to it that this gap between appearance and fact is closed.

In order to satisfy political requirements and to close this inexcusable gap between the publicized CA appropriations and the PA appropriations actually to be paid, the Committee on Budgets proposes the following solution:

1000 m EUA CA
518 m EUA PA.

This appropriation is in line with the following two principles:
- approximation of the actual payment appropriations to the 620 million EUA called for by the European Council,
- observance of the one-third ratio between CA and PA (i.e., 350 million EUA out of 1000 million EUA).

205. In making this proposal the committee has taken account of the declared view of the President of the Council who stated last year during the conciliation talks with the European Parliament delegation that the Regional Fund appropriations for 1979 had not been fixed in advance but would be the subject of political discussions to be held between the two institutions making up the budgetary authority.

'Non-quota' appropriations

206. The European Parliament considers that specific appropriations should be entered for 'non-quota' Community measures, and not merely a token entry. The Committee on Budgets therefore proposes:

100 m EUA CA
35 m EUA PA.

These appropriations represent 10% of the appropriations subject to quotas and also maintain the one-third ratio between CA and PA. After the initial period, the annual PA and CA appropriations can be set considerably higher.

207. For the rest, the European Parliament agrees with the Commission proposal that the so-called 'non-quota' appropriations should be specified in Article 560. The European Parliament does not agree with the Council's proposed breakdown into two articles under Chapter 55.

208. The budgetary appropriations for the Regional Fund would then look as follows:

in million EUA

| Art. | Heading | 1978 budget | 1979 prelim. draft | 1979 draft | Rapporteur's proposals |
|------|---------------------------|-------------|--------------------|------------|------------------------|
| 55 | Regional Fund (quota) | CA 581 | 620 | 620 | 1 000 |
| | | PA 525 | 390 | 320 | 518 |
| 56 | Regional Fund (non-quota) | CA | - | | 100 |
| | | PA | token entry | | 35 |
| | | | | | |

(3) AGRICULTURAL STRUCTURES

209. Community action on agricultural structures has from the outset been supported by the Member States, but only to a very limited extent. The relevant regulations in fact set a financial ceiling of 285 m u.a. and then of 325 m u.a. after enlargement.

210. This concept was, however, very quickly abandoned and the ceiling on expenditure was replaced by a reserve. The figure mentioned in the regulations was then no longer an upper limit but a guarantee to farmers that they would be allocated a minimum in the budget.

211. This development reflected a change in the Community budget and the establishment of a genuine budgetary authority. It was in fact unthinkable that a regulation should limit the budgetary authority's power to enter appropriations in the budget. So far the stratagem of a reserve has been maintained and the ceiling has been exceeded only up to the limits of the reserve.

212. But this stratagem cannot be continued much longer. The Council has in fact asked the Commission to submit proposals for solving the problem of the ceiling for the EAGGF Guidance Section. Parliament has on several occasions expressed the view that a final solution should be found and the concept of a ceiling for the Guidance Section abolished. The Committee on Budgets therefore proposes that in the case of the 1979 budget it should merely be noted that the ceiling laid down in the regulations in fact no longer exists and that no reference should be made to the stratagem of a reserve.

(a) Agricultural structures policy

213. Regulation No. 17/64 introducing the common agricultural policy merely provided for ad hoc action in the form of aid to individual agricultural structures projects. The aim of Regulation No. 729/70 was more far-reaching, namely the establishment of a genuine policy. It therefore provided for common measures and special measures. However, as the individual projects were deemed a success by the recipients of aid, it was decided only to abolish them gradually as the common measures were introduced.

214. Directives on structural reform were drawn up as part of this new policy but there were considerable delays in implementing them. It was only in 1978 that the individual projects were finally replaced by common measures. There are thus no longer commitment appropriations for projects but merely payment appropriations for projects already under consideration.

215. Apart from the delays, the Community agricultural structures policy has from the start suffered from the fact that the volume of funds available is negligible compared with that allocated to the Guarantee Section. Whereas the Community administers practically the whole of the market support policy, more than 90% of the structural policy remains in the hands of the Member States.

216. Whatever one's attitude to this distribution of responsibilities between the Community and the Member States, the imbalance as regards both powers and appropriations can only have a detrimental effect on the coherence of the agricultural policy as a whole. That is why for years Parliament has called for a rapid increase in Community expenditure on agricultural structures.

(b) The Commission's proposals in the 1979 preliminary draft budget

217. On the whole, the proposals cannot but be considered inadequate by Parliament. Although commitment appropriations have increased by 18.5%, slightly more than the overall increase in the preliminary draft, payment appropriations have decreased by 4.5%.

218. A look at the sectors in which there has been either no change or a regression shows that the biggest reductions affect structural measures in the dairy products sector. This policy may seem strange in view of the present situation on the dairy market.

219. Increases worth noting among the appropriations proposed by the Commission relate to:

- 'socio-structural' directives: after a very slow start, these projects are now becoming operational,
- new projects: limited to regions in special difficulties, for instance because of enlargement or structural unemployment,
- fisheries: it should be possible for structural projects in the fisheries sector to get under way in 1979.

(c) Action to be taken under the 1979 budget

220. For the above reasons, the Committee on Budgets proposes to delete the reference to the Mansholt reserve in the remarks column following the chapters (80 to 86) devoted to the ~~EAGGF~~ Guidance Section. It feels that with relations as they are in the budgetary authority, this legal artifice can be regarded as superfluous.

221. The Committee on Budgets feels that the freezing of some of the appropriations intended for implementation of the socio-structural directives (Articles 810, 811, 812 and 813) in Chapter 100, as proposed by the Council, is unjustified. The Council has not even explained its proposal.

222. It feels however that the freezing in Chapter 100 of the appropriations proposed by the Commission for measures not yet the subject of regulations is acceptable in the case of Articles 814, 815, 816, 843 and 860 and Items 8351 and 8361. The appropriations in question should, however, be entered under Chapter 100. This also applies for the measures for which the Commission has not yet submitted any proposals (Article 861).

223. No position can be taken on the overall volume of appropriations until the letter of amendment has been forwarded.

(4) TRANSPORT POLICY

(a) Previous Commission action

224. It is no exaggeration to say that until 1977 the Community's transport policy was in mortal trouble. In spite of the proposals put forward by the Commission, the Council of Transport Ministers never met at all in some years and no breakthrough proved possible.

225. Nevertheless the Commission continued to draw up and submit proposals covering the main areas of the common transport policy. In 1977 the Council of Transport Ministers met three times and decided on various measures which represent real progress towards a common transport policy.

Following this, on 28 November 1977, the Commission forwarded a programme of priority items in the field of transport for the period to 1980. Although the importance of these measures must not be overestimated, 1977 can still be described as the year when tangible progress was made in transport policy and the preparatory work carried out by the Commission in close cooperation with Parliament finally began to bear fruit.

(b) The Commission's programme

226. The wide field to be covered by European transport policy can be divided into four main groups:

- organization of inland transport markets,
- traffic routes,
- alignment of the structures of transport and industrial legislation,
- shipping, ports and air transport.

The Commission has set the following priorities until the end of 1978:

- transport infrastructure programme, including financial support for projects of Community interest,
- summer time,
- first directive on motor vehicle taxation,
- costs and tariffs for the carriage of goods by rail, inland waterway and road,
- Rhine shipping problems and shipping practices of the state-trading countries;

for 1979:

- direct tariffs for railways,
- development of combined transport,
- mutual acceptance of seafarers' qualifications,
- preparatory work to define rules of competition in air transport,

for 1980:

- practical measures for the application of taxes for the international carriage of goods,
- dates and conditions for achieving the financial balance of the railways,
- European driving licences,
- extending the scope of services for passengers by road between and through Community countries.

227. However, the Committee on Budgets feels that the Commission is running the risk of restricting itself in the important area - important because it involves cross-frontier movement - of transport policy to studies, forecasts and compilation of data and of confining its activities merely to observing transport markets, establishing contacts with the national authorities and international transport policy bodies and arranging exchanges of information with the latter.

(c) First implementing measures in transport policy

228. The European Parliament, and especially its Committee on Regional Policy, has always called for implementation of the Commission's transport policy proposals. Hitherto the qualitative leap from preparatory studies to embarking on practical implementing measures has not been achieved. The Commission has recognized the direction to be followed by submitting a proposal for a 'Regulation concerning aid to projects of Community interest in the field of transport infrastructure' (Doc. 244/76). Parliament

adopted a favourable opinion on this proposal (Doc.) and the Committee on Budgets also recommended that the first implementing measures should be adopted¹.

229. In this regulation the Commission proposed a Community instrument to provide financial aid for the following projects:

- projects to prevent bottlenecks in Community traffic,
- cross-frontier projects which are technically viable,
- projects which are of great benefit from the Community point of view but are not sufficiently profitable at national level,
- projects to facilitate the standardization of communications.

The financing can take the form of any of the Community's aid instruments.

¹ Opinion of the Committee on Budgets (draftsman: Mr Meintz), PE 47.371/fin.

230. This Commission proposal responds to Parliament's repeated requests. With the growing importance of international transport, the question of traffic routes has become a priority Community issue. Each Member State is being increasingly affected by the inadequacies in the traffic network of the other Member States, and even of third countries, since the gradual consolidation of the common market has generally produced an increase in traffic to the Member States of the Community which is out of proportion to the increase in purely national traffic.

231. Over the years the Community has proposed or considered a number of projects. The Committee on Budgets suggests detailed examination by the Commission of the following projects:

- a high-speed rail link between Brussels and Strasbourg,
- a bridge over the Straits of Messina.

232. There are also projects for which the planning stage has been completed and which involve areas outside the present frontiers of the Community of the Nine:

- improvement of the road links via Yugoslavia to Greece,
- improvement of the road network over the Alps to Italy,
- traffic links between the Iberian peninsula and the Community of the Nine.

233. In this year of direct elections the Community should try to achieve a breakthrough in these projects, some of which are ready for implementation, by providing financial aid. Parliament would thus indicate to the general public that it is willing and able to overcome the technocratically ponderous approach of the other Community institutions in specific cases.

(d) Budgetary implications of the proposals for 1979

234. Community aid for infrastructure projects in the field of Community transport is included in the budgetary nomenclature. In the preliminary draft budget the Commission was willing to earmark only 1 million EUA under Article 378, Item 3780, for preliminary studies. Under Item 3781 - financial support for projects - we find no more than a token entry.

235. The Committee on Budgets would like to go further and make an overall budget appropriation available to the Commission under this item to enable it to support projects ready for implementation by:

- a non-reimbursable initial grant and/or
- interest relief.

236. Given an interest relief of, say, 5%, appropriations of 200 million would produce a financial incentive for an overall volume of investment of 4,000 million EUA.

237. In the light of the preliminary talks that have been held, it seems that the European Investment Bank might be willing to finance the aid for these projects.

238. As regards surveillance of shipping lanes in the Channel, a small increase in the 40 million EUA CA and 16 million EUA PA (for financial participation in inspection and surveillance operations in the maritime waters of Denmark and Ireland) might well be sufficient to finance these new and additional inspection operations. This would also finance the activities of the patrol fleet which would have to be made available.

This means that the budget appropriations for transport policy would look as follows:

| Art. | Heading | 1978 budget | 1979 prelim. draft | 1979 draft | Rapporteur's proposals |
|------|---|-------------------|--------------------|------------|------------------------|
| 3780 | Preliminary studies, transport infrastructure | CA | 1 | | 1 |
| | | PA 1 ¹ | 1 | | 1 |
| 3781 | Financial support for projects | CA | | | 200 |
| | | PA token entry | token entry | | 100 |
| 871 | Maritime inspection and surveillance | CA | 40 | | - ² |
| | | PA token entry | 16 | | - ² |

¹ entered under Chapter 100 (token entry on the line)

² entered under new Chapter 58. which see

(5) POLICY ON THE SEA

239. Community activities have so far extended only to individual aspects of what would, taken overall, constitute a policy on the sea. The Community has taken part in the United Nations Conference on the Law of the Sea, it has set up a common fishing zone, and there have been a number of isolated measures, for example attempts to put an end to the dumping practices of the Eastern bloc states in regard to shipping tariffs.

240. There is as yet no coherent policy under which the entire complex of activities could be administered and regulated. However, the Community's interests demand that Parliament take steps to get such a policy established.

241. The objectives of future European policy on the sea might be summarized as follows:

- fisheries policy, to secure supplies of protein from the sea, with provision for further improvements in the relevant technology;
- unimpeded movement for shipping with clearly defined navigational channels;
- legally controlled and non-discriminatory access for undersea drilling operations;
- rules on the protection of the marine environment;
- opportunities for developing scientific marine research;
- compulsory arbitration of international disputes arising from the exploitation of the resources of the sea (Common International Law of the Sea).

242. The Community should therefore take steps to incorporate the policy on the sea in the budget. It is therefore proposed that a new Chapter 58 be created, covering the following areas in the 1979 financial year:

- Chapters 86 to 89 - the entire fisheries policy, i.e. common measures to improve fisheries structures, special measures in the fisheries sector, market organization in the fisheries sector including Art. 871 of the preliminary draft (financial participation in inspection and surveillance operations in the maritime waters of Denmark and Ireland in connection with the Community arrangements for the conservation and management of fishery resources). The aim here is to provide specific inspection and surveillance facilities covering these fishing zones, i.e. coastguard vessels, aircraft and shore installations;

- a new article for the creation, on an experimental basis, of Community facilities for the surveillance of shipping lanes in the English Channel. The Amoco Cadiz disaster left no doubt that immediate Community action is essential. It would be worth considering whether the vessels to be provided for inspection and surveillance of fishing resources could also be used for the surveillance of shipping lanes. If so, more efficient use could be made of these vessels and the cost of providing surveillance of shipping lanes could be kept down. An appropriation of 10 m EUA CA and 5 m EUA PA would therefore appear to be adequate for 1979;
- a new article would provide for a programme to protect Community waters from pollution, in particular by hydrocarbons. An appropriation of 10 m EAU CA and 5 m EUA PA might provide a sufficient initial financial contribution in this case also.

243. The budget appropriations for a European policy on the sea under Chapter 58 would therefore be as follows:

- Chapter 58 → Policy on the sea
- Art. 581 → former Chap. 86
- Art. 582 → former Chap. 87 (excl. Art. 871)
- Art. 583 → former Chap. 88
- Art. 584 → former Chap. 89

in m EUA

| Art. | Heading | 1978 Budget | 1979 Prelim. draft | 1979 Draft | Rapp. Prop. |
|------|---|----------------------|--------------------------|----------------|----------------|
| 585 | Fin. participation in inspection and surveillance operations | CA | 40 | | 40 |
| | | token PA entry | 16 | token entry | 16 |
| 586 | Surveillance of shipping lanes | CA | | | 10 |
| | | PA | | | 5 |
| 587 | Protection of maritime environment | CA | | | 10 |
| | | PA | | | 5 |

(6) ENERGY

244. Since the energy crisis rocked the world five years ago, oil prices have quadrupled and the Western economic and monetary system has still not recovered from its effects.

245. The European Community, too, was set back many years in its development and was forced by the economic turbulence to trim its ambitious plans for economic and monetary union. Nevertheless, the worldwide recession which set in at the time gave the Community a chance to demonstrate its worth: it would have been far more difficult for isolated states to withstand the effects of the economic crisis and, even though the Council failed to agree on an overall energy policy strategy, a number of individual Community measures were taken in this field.

(a) Principles of Community energy policy

246. Despite the 1973 crisis and the repeated calls by the Commission for joint efforts to be made in the energy sector, energy policy has hitherto played a relatively minor role in the budget of the European Communities. The rise in expenditure in this sector is shown in the table below:

| in u.a. x 1000 | | | | in EUA x 1000 | |
|-------------------|--------|--------|--------|---------------|-------------------|
| 1974 ¹ | 1975 | 1976 | 1977 | 1978 | 1979 ² |
| PA | 25,000 | 30,000 | 34,000 | 41,300 | 209,900 |
| CA | - | - | 80,000 | 65,000 | 162,000 |

As may be seen, it is only from the 1979 financial year that a spectacular - in percentage terms - increase in energy expenditure is provided for in the preliminary draft.

247. As long ago as September 1974 the Council reacted to the energy crisis by adopting a resolution on energy policy³ with a view to mapping out energy production and consumption in the Community in the period up to 1985 and drawing the necessary conclusions from these forecasts.

A second resolution of 17 December 1974 set out Community energy policy objectives for 1985⁴, these being essentially to reduce the Community's dependence on imported energy.

¹ No special programmes at that stage, except in the research sector

² Preliminary draft

³ OJ No, C 153 of 9.7.1975, p.1

⁴ OJ No. C 153 of 9.7.1975, p. 2 ff.

248. In 1973 the Community's dependence on imported energy was 63% and it was estimated at the time that it would fall to 50% by 1985. The target was to bring this figure down to 40% by 1985.

249. Specific objectives in connection with demand were to reduce the rate of growth and alter the pattern of energy consumption. The following targets were set on the supply side: coal production of 180 mtoe (oil equivalent), natural gas production of at least 175 mtoe, nuclear power station capacity of at least 160 GWe, Community oil production of 180 mtoe and a reduction in imports to 540 mtoe. A further aim was to ensure ... by an appropriate technological research and development policy that, in the long term, demand could be met by new sources of energy.

250. On 3 August 1977 the Commission submitted to the Council its second report on the achievement of Community energy policy objectives for 1985¹.

(b) Energy policy objectives and measures as seen by the Commission and Parliament
Commission

251. In its second report on the achievement of Community energy policy objectives for 1985, the Commission revised some of the forecasts for that year and put forward the following three main Community energy policy objectives:

- oil imports should not exceed 500 mtoe,
- the proportion of overall energy consumption accounted for by oil should be significantly reduced,
- the Community's dependence on imported energy should be limited to 50% (the Commission has thus abandoned its more ambitious target of 40%).

252. The revised objectives and present forecasts concerning the Community's own energy production as against the Council's December 1974 objectives are set out in the following table (compiled from Commission data given in Doc. 248/77):

| In mtoe | Dec. 1974 objective | Present forecast | New objective |
|--------------------|---------------------|------------------|---------------|
| Solid fuels | 210 | 184.2 | 185/205 |
| Oil | 180 | 111/161 | 140/160 |
| Natural gas | 175 | 143/158 | 150/160 |
| Nuclear | 190 | 120/140 | - |
| Hydro + geothermal | 45 | - | - |

253. The estimated 1985 energy structure does not differ all that much from the 1974 objectives. In actual fact, however, it was found already in 1976 that, apart from natural gas, we were still far from achieving these objectives.

¹ COM(77) 395 final (Doc. 248/77)

| | 1973 | 1976 | 1985 | |
|--------------|------------|------------|-----------------------|------------------|
| | | | Dec.1974 objective | Present forecast |
| Solid fuels | 22.6 | 22.5 | 17.0 | 17.2 |
| Oil | 61.4 | 55.3 | 49.0 | 51.9/50.7 |
| Natural gas | 11.6 | 16.9 | 18.0 | 17.2/18.4 |
| Nuclear | 1.4 | 2.3 | 13.0 | 10.8 |
| Hydro | 3.0 | 3.0 | 3.0 | 3.0 |
| Total | 100 | 100 | 100 | 100 |

(Doc. 248/77, Annex 2, p.12)

254. In its action programme for 1978 the Commission proposed the following specific measures¹:

- Promotion of energy independence through energy savings and the development of new sources of energy
- Creation of a common energy market
- Use of common financial instruments to solve these problems (Euratom borrowing, lending, financial support)

Parliament

255. In its opinion on the Commission's second report², Parliament on the whole approved the Commission's objectives. It urged that greater efforts be made to develop nuclear energy and that objectives and projections be established beyond 1990. It considered that fuller use should be made of coal for electricity production and called for the development of new energy sources and for the creation of a full common market in energy.

256. In the report on the European Parliament guidelines on the budgetary and financial policy of the European Communities for 1979³ the Committee on Budgets set out the following priorities, which were approved by Parliament:

- financial support for energy conservation measures,
- financing of research into and development of new energy sources,
- support for the coal industry and promotion of the use of coal.

¹COM(78) 52 final

²Doc. 433/77

³Doc. 54/78

257. The objectives pursued by the Commission and Parliament in the energy policy sector largely coincide, as is underlined by the approval given by Parliament to the individual measures proposed by the Commission so far (July 1978), which are in fact to some extent based on demands put forward by Parliament:

- amended proposal from the Commission to the Council for a regulation on support for joint hydrocarbon-exploration projects (Doc. 583/77 and Doc. 90/78);
- proposal from the Commission to the Council for a regulation on Community financial measures to promote the use of coal for electricity generation (Doc. 535/76 and Doc. 45/77);
- proposal from the Commission to the Council for a regulation concerning Community aid for financing cyclical stocks of hard coal, coke and patent fuel (Doc. 49/77 and Doc. 226/77);
- communication from the Commission to the Council on the introduction of a Community aid system for intra-Community trade in power station coal (Doc. 9/78 and Doc. 199/78);
- proposals from the Commission to the Council for
 1. a regulation on the granting of financial aid to demonstration projects in the field of energy saving,
 2. a regulation on the granting of financial support for projects to exploit alternative energy sources (Doc. 158/77 and Doc. 362/77).

(c) Results so far

258. Five years after the first energy crisis the time has come for the Community to act. Major efforts must be made in the field of energy policy to reduce the Community's dependence on oil and other imported primary energy.

259. There has been no lack of proposals from the Commission. Parliament, for its part, has broadly endorsed the Commission's objectives. Most of the proposals have, however, come to nothing, because the Council has proved incapable of taking the necessary decisions.

260. At the moment of writing not a single one of the Commission's proposals has been adopted by the Council only in the case of the proposals for energy saving¹ and the development of new energy sources² did the Council, on 30 May 1978, take decisions of principle.

¹ Proposal for a Council regulation (EEC) on the granting of financial aid to demonstration projects in the field of energy saving (Doc. 158/77)

² Proposal for a Council regulation (EEC) on the granting of financial support for projects to exploit alternative energy sources (Doc. 158/77)

261. No agreement has yet been reached on the level of financial support or the content of the programmes. In its draft regulations the Commission proposed sums totalling 144 m EUA CA over a period of five years (48 m CA for 1979) for energy saving and approximately 118 m EUA CA (38 m CA for 1979) for projects for the exploitation of geothermal energy and gasification and liquefaction of coal. The sums set aside in the preliminary draft budget for 1979 are, respectively, 16 m CA/7m PA and 16 m CA/9.5 m PA. Before a final decision is taken, the Commission has been asked to submit a survey and analysis of the projects already in hand in the Member States.

262. Closer examination of the appropriations put forward by the Commission in its preliminary draft budget of the European Community for 1979 reveals plainly that the apparently spectacular increase in expenditure in the energy sector in no way measures up to expectations, never mind the requirements of the situation: if one deducts from the 210 m EUA in payment appropriations the 140 m EUA earmarked for the promotion of the use of coal for electricity generation and for intra-Community trade in coal, that leaves approximately 70 m EUA¹ for specific measures that are not merely designed to provide a temporary solution in the event of a new energy shortage. In other words this would not even double the extremely small appropriation of 41.3 m PA earmarked for 1978.

263. The Council has taken the view - and this is one which Parliament as watchdog over the efficient utilization of appropriations will fully endorse - that Community support measures are justified only if due account is taken of the projects already in hand in the Member States. Only in this way is it possible to ensure that Community funds, which are almost negligible when compared with national budgets, are effectively employed. Before any money is allocated to a project it is therefore essential to consider to what extent industry in the Member States is prepared to undertake its own investment and research. Duplication of research and support for projects and investments that would have been carried out any way would not be consonant with the Community's budgetary policy.

In this connection it is worth citing some figures which illustrate the scale of Community spending:

According to Commission estimates, Member States' investments in the energy sector in the period 1976-1985 will be of the order of 228,000 m EUA. Community expenditure for all categories of energy measures would amount to about 2,000 m EUA, on the basis of an optimistic assumption of 200 m EUA for 1979, extrapolated to 1985 at an average increase of 10% per annum. Community expenditure would thus correspond to 0.9% of national spending.

¹ Chapter 32 only

264. In contrast, the European Council meeting in Bremen at the beginning of July 1978 announced far-reaching objectives:

- 'to reduce the Community's dependence in terms of energy supplies to 50%;
- to limit net oil imports by the Community;
- to reduce to 0.8% the ratio between the rate of increase in energy consumption and the rate of increase in gross domestic production.'

265. The Summit Conference of Heads of State or Government of the seven major industrial nations of the western world, meeting on 16 and 17 July 1978, welcomed these guidelines and declared that

'in spite of some improvement, the present energy situation remains unsatisfactory. Much more needs to be done. We are committed to reduce our dependence on imported oil.'

(d) Conclusions

266. The fact that the Council has only taken a decision of principle on the proposals for energy saving and on new energy sources provides an opportunity to launch a genuine dialogue between Parliament and the Council in the course of the budgetary procedure on the appropriations to be set aside for these two projects. The Council will have to put its cards on the table and show to what extent it stands by its decisions of 30 May as well as those taken by the European Council.

Whatever happens, Parliament should feel justified, on the strength of the decisions of principle, including those taken in Bremen, in entering the appropriations required for 1979 in full.

On the other hand there is little sense in entering appropriations for projects where there is little likelihood of the money being needed in the course of the financial year.

267. The appropriations in the energy sector thus amount to:

in EUA x 1000

| Art. | Heading | 1978 Budget | 1979 prelim. draft | 1979 draft | Rapporteur's proposals |
|--------------------------|------------------------------------|-----------------------------|-----------------------|----------------------|---------------------------|
| 3200 | Hydrocarb technol. dev. | CA 35,000 | 20,000 | 20,000 | 20,000 |
| | | PA 30,000 | 31,000 | 27,000 | 31,000 |
| 3201 | Prospect- ing | CA 15,000 (Chap. 100) | 15,000 | | 15,000 |
| | | PA 5,000 (Chap. 100) | 13,000 | t.e. | 13,000 |
| 3210 | Uranium Prospect- ing | CA 5,000 | 20,000 | 5,000 | |
| | | PA 5,300 | 9,000 | 3,000 | |
| 3211 (new) | Uranium Prosp. outside EC | CA - | | - | |
| | | PA - | t.e. | - | t.e. |
| 3212 (new) | Uranium storage | CA - | | - | |
| | | PA - | t.e. | - | |
| 3230 | Coal in power stations | CA 10,000 (Chap. 100) | 75,000 | t.e. | |
| | | PA t.e. | 40,000 | t.e. | |
| 3231 | Coal stocks | CA t.e. | t.e. | t.e. | |
| | | PA t.e. | t.e. | t.e. | |
| 3232 | Trade in coal | CA - | - | - | |
| | | PA - | 100,000 | t.e. | |
| 3240 | Energy saving | CA 4,000 | 16,000 | 16,000 (Chap.100) | 16,000 |
| | | PA 2,000 | 7,000 | 7,000 (Chap.100) | 7,000 |
| 3241 | New energy sources | CA 11,000 | 16,000 | 16,000 (Chap.100) | 16,000 |
| | | PA 4,000 | 9,500 | 9,500 (Chap.100) | 9,500 |
| 325 (new) | Building modern- ization | CA - | | deleted | 20,000 |
| | | PA - | t.e. | | 10,000 |
| 328 (new) | Studies | CA - | | t.e. | |
| | | PA - | 400 | t.e. | |
| TOTAL (incl.Chap.100) | | CA 80,000 | 162,000 | 57,000 | |
| | | PA 46,300 | 209,900 | 46,500 | |

(7) INDUSTRIAL POLICY

(a) Principles of industrial policy to date

268. The oil crisis showed up both the energy problems and the structural weaknesses of European industry. Too little attention was paid to these questions during the years when the economy was healthy. Given that industrial production in the Community is based on high wages and costs, during times of economic crisis the failure to rationalize, innovate or reorganize becomes particularly obvious.

269. It has not proved possible to date to solve the structural problems referred to above, although the Member States have found it necessary to attach greater priority than before to restructuring production factors in the framework of their economic policy.

That is why the Community must develop an industrial policy that will overcome these inadequacies.

270. A first general survey of the aims of this industrial policy can be found in a memorandum from the Commission to the Council on the Community's industrial policy, dating from 1970. Here too the main aim of industrial policy is to create the requisite conditions for an internal Community market and set up a framework for cooperation and mergers between undertakings in the Community.

271. It is only very recently that the Commission has taken tangible, practical, economic steps to establish an industrial policy, in the form of 'structural policies'¹.

272. Indeed, industrial policy measures do not constitute a specific policy, since the instruments overlap with those of many other policies. The motives for evolving a specific type of industrial policy can also be very varied, e.g. :

- to ensure the Community's independence in a strategically important sector (steel, energy),
- to offer incentives to some promising industries in order to promote growth and further development in certain sectors,
- to encourage innovation and technical progress.

¹ Action programme for 1978, p. 16 (COM(78) 52 final)

273. In any case, the individual measures must be integrated in an overall policy so that they do not contradict or counteract each other.

274. The main aims of industrial policy can be described as follows :

- to improve productivity, generally;
- to maintain a high level of employment;
- to maintain and/or increase the ability of enterprises to compete;
- to help to improve the quality of life of workers, conditions of work and the environment¹.

275. At present industrial policy must certainly give priority to employment policy and to improving competitiveness. Yet a practical industrial policy must also help achieve the aims of other policies, (e.g. energy, research and structural policy).

276. So its aims are necessarily closely related to and interdependent with other Community policies : social and regional policy, economic and monetary policy, and also development, environmental, agricultural and even educational policy.

277. Some years ago Parliament pointed out that industrial policy plays an important role in the achievement of economic union, without which there can be no monetary union². The current revival of practical steps leading towards economic and monetary union by establishing closer monetary ties should also make it possible to adopt industrial policy measures which will improve competitiveness and bring Member States' economic systems into closer alignment. The chances to improve growth and employment can be increased only if a better balance is established and the divergences between Member States are reduced. The wider margin for action available today must be exploited in order to restore continuous growth without endangering the success of the efforts to combat inflation. This can be done only through cooperative action at Community level.

(b) Conditions for industrial policy measures

278. Measures of industrial policy should normally be kept as general as possible and help undertakings to gain easier access to financing sources in times of recession or other difficulty, and also stimulate demand and improve the overall profitability of the economy.

¹ See also the COUSTE report on the Community's industrial policy (Doc. 277/73), p. 9)

² See Doc. 277/73

279. Where it proves unavoidable to take individual support measures or even protectionist action in certain sectors or branches of industry, the following criteria should be applied with a view to employing Community resources in a sound and economic manner :

- the measures should be taken for a limited time only and be phased out according to a fixed timetable,
- they should be aimed at reducing surplus or obsolescent capacities as quickly as possible in order to enable the industry to produce at competitive prices again,
- private risk capital should also participate,
- they should go hand in hand with the establishment of a tight business policy based on efficient management,
- they should be backed by social and regional policy measures,
- last but not least, they should be transparent for the general public and be clearly integrated into a specific overall policy.

280. Suitable conditions of competition must in any case remain the basic requirement and foundation of an industrial structural policy. Hitherto the most efficient instrument for converting obsolescent structures has always proved to be the free play of market forces and the regeneration of industries and industrial sectors on the basis of free competition and an open market. Central steering mechanisms and support measures have proved ineffectual in the long run.

281. There should be no intervention in the free play of the market mechanism unless future economic and social requirements in some sectors or markets were not recognized or satisfied on time, for instance in the research and energy sector, the environment and health sector or even the area of infrastructure.

282. Intervention is also acceptable if major industrial branches find it impossible to reorganize without external assistance and social and regional policy support measures prove necessary.

283. The Community can and should intervene only in order to coordinate existing national measures and aids and integrate them into a common overall policy so as to prevent the disintegration of the Community as a result of individual states taking protectionist measures.

(c) Industrial policy priorities of the Commission and Parliament
Commission

284. Industrial policy occupies an important place in the Commission's action programme for 1978. In particular, the Commission considered it necessary to create an early-warning system for sensitive sectors and to carry out analyses of the sectors experiencing structural difficulties. It announced measures for crisis-hit sectors, such as steel, shipbuilding, textiles, footwear and paper, and for growth sectors such as technology, electronics and data processing. It also announced aid for the iron and steel industry, together with regional and social support measures.

285. Industrial policy is also regarded as a general and medium-term priority with implications for the 1979 budget in the Commission's 'Global appraisal of the budgetary problems of the Community'¹. The budget is clearly allocated the function of an instrument of redistribution and stabilization: in the medium term it is considered necessary to restructure the productive apparatus, which will have social and regional consequences, and to promote the growth sectors. The continuation of measures begun in 1978, such as giving loans and interest relief grants and earmarking appropriations to enable the Community to apply a direct stimulus to reorganization efforts and to upgrade existing financial instruments (EIB, Social Fund and Regional Fund), should also have practical repercussions on the 1979 budget.

Parliament

286. The industrial sector is also one of the priorities set by Parliament in its 'Guidelines on the budgetary and financial policy of the European Communities for 1979' (Part II)². Here Parliament is in agreement with the Commission in calling for increased Community aid to reorganize the critical sectors of iron and steel, textiles and shipbuilding. It also supports the promotion of growth industries such as aviation.

(d) Conclusions

287. The Commission's total budget appropriations in the preliminary draft budget for 1979 for crisis-hit sectors in Article 375 are 22 million EUA PA and 30 million EUA CA. Five million EUA PA and 10 million EUA CA are earmarked specifically for the oil-refining sector.

¹ COM(78) 64 final

² Doc. 54/78

As regards growth sectors, the Commission has entered appropriations only in respect of two areas :

- data processing - 8 million EUA PA, 17 million EUA CA
- aerospace - 7 million EUA PA, 5 million EUA CA.

Electronics was only given a token entry.

288. No specific provision is made for the steel industry, shipbuilding, textiles, paper or telecommunications.

Here too, however, as has been pointed out several times, industrial policy must be seen as interrelated with policies in other fields. This gives the following general picture, taking account of the appropriations earmarked and of the accompanying measures under the Regional Fund and the Social Fund and in the energy field :

Measures specifically in the industrial policy field (Chapter 37)

in EUA x 1000

| | 1978 budget | 1979 prelim. draft | 1979 draft | Rapp. prop. |
|---|---------------------------------|--------------------------|----------------------------|----------------|
| Crisis sectors (3750, 3751) | CA 20,000 | 40,000 | t.e. | 40,000 |
| | PA 17,000 | 27,000 | t.e. | 27,000 |
| <u>Growth sectors</u> Data processing (370) | CA 2,920 | 17,000 | 2,000 (Chap.100) | 17,000 |
| | PA 1,700 | 8,832 | 832 1,000 (Chap.100) | 8,832 |
| Aerospace (3710) (Technol. research) | CA 15,000 (Chap. 100) | 5,000 | t.e. | 5,000 |
| | PA 8,000 1,000 (Chap.100) | 7,000 | t.e. | 7,000 |
| Other measures | CA | | t.e. | |
| | PA 750 (Chap.100) | 2,000 | t.e. 750 (Chap.100) | |

Support measures under other budget headings

| | | | | |
|--|------------|---------|---------|--|
| - Agriculture & industry (workers) (Art. 500) ¹ | CA 35,000 | 35,000 | 35,000 | |
| | PA 61,000 | 53,000 | 32,000 | |
| - Improvement of employment sit. (Item 5100) ¹ | CA 281,000 | 326,000 | 315,000 | |
| | PA 275,000 | 333,000 | 231,000 | |

¹ No differentiation between industry and agriculture possible

(8) ENVIRONMENT AND CONSUMER PROTECTION

289. In its guidelines for the 1979 budget¹, Parliament gave budgetary priority to the environment policy. It did so in order to make it quite clear that it intended to develop this policy beyond its present embryonic stage and bring it in the coming years to the critical point at which Community budget expenditure begins to have an appreciable effect on structures. It would be deplorable to expose the Community's environment policy to criticism on the grounds that it amounted to no more than a charade because of the symbolic nature of the expenditure involved.

(a) Background

290. The foundations of the Community's environment policy were laid by the European Council in Paris on 19 and 20 October 1972, when the Heads of State or of Government declared that 'economic expansion is not an end in itself. Its firm aim should be to enable disparities in living conditions to be reduced. It must take place with the participation of all the social partners. It should result in an improvement in the quality of life as well as in standards of living. As befits the genius of Europe, particular attention will be given to intangible values and to protecting the environment, so that progress may really be put at the service of mankind'. They also emphasized 'the importance of a Community environmental policy' and invited the Community institutions to establish a programme of action accompanied by a precise timetable.

Following this initiative, the Community adopted the first and second Community environmental action programmes. The present environment policy is based on the second programme (1977 to 1981), adopted by the Council on 17 May 1977.

(b) The broad lines of the Community's policy so far

291. As part of its two environmental action programmes, the Community has put into effect various measures to prevent pollution and improve the environment.

292. It has three ways of implementing its policy:

- studies and research programmes to define objectives and assess the results of the measures taken;
- directives coordinating Member States' action in the various fields covered by the action programme;

¹ BANGEMANN report, Doc. 54/78, paragraph 9 of the resolution

- participation by the Community itself or by the Member States in relevant international projects.

Quite recently it has also organized various promotional and information programmes on environmental problems.

293. So far, the Commission's efforts to extend Community action to all fields of pollution control and environmental improvement have achieved the following results:

- some forty texts have been adopted by the Council and another thirty are currently being discussed;
- more than 130 laws have been drawn up in the Member States and 50 of them are already in force;
- research and studies have provided impetus and drive throughout the Community, leading to a gradual awakening of public interest in environment problems;
- participation by the Commission in the management of international organizations and conventions plays a major role in generating support for the idea of taking more account of the environment in economic development.

294. Unfortunately, the Commission's activities have been subject to considerable delays, which have often been criticized by Parliament and which in the main are due to the slowness of the Council.

Under the pressure of public opinion or on dramatic occasions the Council makes noble statements of intent. But when it comes to finalizing the texts of directives or ensuring that they are applied, it lacks the enthusiasm to take rapid decisions.

295. Parliament, for its part, has often used resolutions and written or oral questions to express its political support for Commission proposals or suggest that it extend the scope of its activities in some areas. So far, however, the budget has been put to little use in this field.

(c) Commission proposals in the 1979 preliminary draft budget

296. For technical rather than political reasons, the management of the consumer protection and information policy and the management of the environment policy have been grouped together under one administrative heading.

As regards consumer protection and information, the Commission proposes that appropriations be entered for the following measures:

- consumer protection studies (Item 3550) : 324,000 EUA, a 20% increase justified by the continuation and intensification of studies already underway;
- subsidies to European consumer organizations (Item 3551) : 324,000 EUA, an 8% increase. The amount of these subsidies depends on the contributions made by the European consumer organizations;
- consumer protection and information measures (Item 3552) : 120,000 EUA, a 20% increase. A pilot study and other special measures in the form of subsidies and contributions were undertaken for the first time in 1978. It would be desirable to reinforce the Community's consumer information campaign by publishing a brochure informing European consumers of the peculiarities and terms of intra-Community trade (customs franchise privileges, differences in price from one Member State to another, formalities regulating intra-Community consumer trade and monetary parities).

(d) Community environmental protection activities

297. With the exception of Item 2986, which is devoted to Community participation in certain international conventions, the Commission has grouped appropriations together under Article 354 of the 1979 budget.

The appropriations requested relate to:

- environment studies: 1,800,000 EUA, an increase of 20%. The studies financed are intended to define the objectives of the environment policy. It is worth noting that as part of its research policy the Commission administers a five-year environmental research programme with far more appropriations at its disposal for both direct and indirect activities.
- specific public awareness schemes and educational activities (Item 3541): 240,000 EUA. These appropriations should make a basically scientific policy more comprehensible to the public.
- evaluation of the environmental risks associated with pollutants, and setting up of atmospheric pollution monitoring networks (Item 3542: 325,000 EUA. This measure consists of meetings of national experts, colloquiums, study contracts, information visits and the publication of scientific reports. The increase in appropriations is justified

by the need to cope with new tasks: management of the fresh and salt-water monitoring network and harmonization of pollution measurement techniques.

- new measures to implement the directives on the environment (Item 3543): 400,000 EUA. This new measure and the corresponding appropriation are justified by the fact that the Commission requires the cooperation of external agencies and experts and has to organize pollution measurement campaigns in order to manage the numerous directives.
- permanent inventory of sources of information on the environment (Item 3544): 100,000 EUA. This new item represents the implementation of a Council decision of 8 December 1975.

(e) Action to be taken on the 1979 budget

298. The proposals made by the Commission in the preliminary draft budget have been formulated with a view to intensifying Community action along the present lines, bearing in mind that the Community decision-making bodies are perfectly willing to stress their desire for progress in declarations of intent and resolutions, but the actual rate of progress is extremely slow.

It is also in this spirit that the Council has reduced the Commission's already very modest proposals by a further 658,000 EUA in the draft budget.

299. On the basis of the guidelines laid down by Parliament in April, the Committee on Budgets feels that the Community's environment activities should be converted into a genuine Community policy, i.e. study and research should be translated into action. It therefore proposes to use the budget and the entering of the appropriations to provide an impetus by giving the Community the funds it needs to deal effectively with environmental problems that are beyond the scope of the Member States.

(f) Appropriations

300. As regards consumer protection, an additional appropriation of 100,000 EUA under Item 3552 would make it possible to provide the European consumer with more complete information. Additional appropriations for Article 355 as a whole would help the Community to cover the European and intra-Community aspects of consumer protection in its programme.

301. In the environmental sector, the Committee on Budgets proposes that:

- an additional subsidy should be provided to increase the administrative resources of the Berne International Convention for the protection of the Rhine against pollution;
- considerable increases should be made in the appropriations, and eventually the staff, for the permanent inventory of sources of information on the environment in order to create a proper documentation service on the environment and natural resources;
- a Community environment programme of relevance to employment should be implemented as soon as possible;
- a plan to protect marine resources and prevent pollution by hydrocarbons should be put into effect without delay;
- the Commission should be given the means to apply and manage the directives on the environment.

(g) Staff

302. The unsatisfactory state of the present environment policy - it must be admitted that the Community's action has not yet produced the desired results - is largely due to the fact that the Commission does not have enough staff to manage the policies and in particular the directives for which it is responsible. The Committee on Budgets therefore proposes that:

- the Commission should be allocated an adequate number of qualified staff to manage the policy;
- the posts needed to launch the proposed new measures should be created.

T A B L E

| | 1978 Budget | 1979 Prelim. draft | 1979 Draft | Rapp. prop. |
|------------------|----------------|---|---------------|--------------|
| Item 2986 | | | | |
| Rhine Convention | | 17,950 | 17,950 | + 20,000 |
| Item 3540 | 1,500,000 | 1,800,000 | 1,800,000 | |
| 3541 | 200,000 | 240,000 | 220,000 | |
| 3542 | 268,000 | 325,000 | 300,000 | |
| 3543 | - | 400,000 | token entry | + 400,000 |
| 3544 | - | 100,000 | 50,000 | + 100,000 |
| | | Community environment programme of relevance to employment | | + 10,000,000 |
| 3550 | 270,000 | 324,000 | 300,000 | + 50,000 |
| 3551 | 300,000 | 342,000 | 315,000 | |
| 3552 | 100,000 | 120,000 | 110,000 | + 100,000 |

(9) RESEARCH

303. The Community's research and science policy has reached a stage of consolidation, in which coordination of the measures taken by the individual states assumes considerable importance. The direct actions of the Joint Research Centre and indirect actions are roughly in equilibrium. The priority sectors are primary raw materials supply, development of industries in a state of crisis and protection of the environment. Research is thus an important sector for the 1979 budget in that it has a stimulating effect on the other policy sectors.

(a) Principles and objectives of a common research policy

304. The Heads of State or Government of the Member States of the European Community, meeting in Paris on 19/20 October 1972, announced their determination to define common objectives and ensure a common policy in the field of science and technology.

305. This policy required the coordination of national policies and joint implementation of projects of interest to the Community. At the Copenhagen Summit Conference of 14/15 December 1973, too, the Community was called upon to develop more actively a common policy on industrial, scientific and technological cooperation in all fields.

306. On 1 August 1973 the Commission submitted to the Council a scientific and technological policy programme¹, based essentially on the Commission's communication of 14 June 1972 on 'objectives and instruments of a common policy for scientific research and technological development'².

307. On 14 January 1974 the Council adopted four resolutions³ on the promotion of the common policy for science and technology. These resolutions concern

- coordination of national policies and the definition of projects of interest to the Community in the field of science and technology,
- participation of the European Communities in the European Science Foundation,

¹ Supplement 14/73 - Bull. EC

² Supplement 6/72 - Bull. EC

³ OJ No. C 7 of 29.1.1974

- an initial outline programme of the European Communities in the field of science and technology,
- a programme of research as an instrument of forecasting, assessment and methodology in the European Community.

308. As a result of these activities by the Council and Commission a Scientific and Technical Research Committee was established and the Commission was instructed to draw up, by the end of 1976, a report on the conclusions to be drawn from the experience gained during the initial period (1974 - 1976).

309. At the end of October 1975, acting on the Council's instructions, the Commission submitted an interim report on research and development¹. For the first time, the Commission's proposals for research and development were accompanied by detailed budget estimates. The relevant expenditure figures for the period 1976-1980 for JRC direct action and indirect action (based on activities already adopted by the Council or proposed by the Commission or in preparation at the Commission) are shown in the table below. The actual budget appropriations for 1978 and 1979 are given in parentheses (the 1979 figures relate to the preliminary draft).

| Financing category | in u.a. x 1000 | | | | |
|--------------------|----------------|---------|---------------------|-----------------------------------|-------------------|
| | 1976 | 1977 | 1978 ² | 1979 | 1980 ² |
| JRC direct action | 70,587 | 89,000 | 94,000 (114,345) | 100,500 (117,485) ³ | 106,500 |
| Indirect action | 89,111 | 120,164 | 127,499 (80,879) | 126,405 (81,205) | 130,902 |

As may be seen from the table, the appropriations entered for 1978 and proposed for 1979 under JRC direct action are roughly in line with the 1975 forecasts. Only in the case of indirect action does one note a substantial shortfall in the appropriations.

310. At the end of June 1977 the Commission submitted to the Council a communication on the common policy in the field of science and technology⁴, containing new guidelines for the period 1977-1980.

¹ Objectives, priorities and resources for a common research and development policy (Communication from the Commission to the Council) COM(75) 535 final

² Compiled from the Commission's table in COM(75) 535 final, p. 10, and the preliminary draft budget for 1979 (in EUA)

³ JRC total, including JET, excluding Chapter 100

⁴ COM(77) 283 final (Doc. 229/77)

Parliament delivered its opinion on this communication at the November 1977 part-session¹.

311. In its document the Commission states that some Member States still adhere to a restrictive, non-committal concept of coordination which is basically not in line with the Council resolution of 1974, so that the efforts at coordination made hitherto do not appear to have met with success. The Commission rightly regards coordination as the backbone of the Community's research and development policy.

312. The four main general objectives of the Community research and technology policy are:

- the long-term supply of resources (raw materials, energy, agriculture and water),
- promotion of internationally competitive economic development of the Community,
- improvement of living and working conditions,
- protection of the environment and nature.

313. Furthermore, by comparing and examining the policies of the Member States (research potential, plans, projects, budgets, methods) and by identifying, analysing and comparing the research objectives of the Member States, the following four fundamental goals are to be achieved:

- elimination of unnecessary and unwarranted duplication of effort in national programmes,
- avoidance of divergent tendencies which would be contrary to the interests of the Member States,
- improvement of efficiency or reduction of the cost of national and Community projects,
- gradual harmonization of procedures for the formulation and implementation of scientific policies within the Community.

¹ Doc. 361/77, report by the Committee on Energy and Research, rapporteur Mr HOLST

(b) Financial and budgetary prospects of the common research and technology policy

314. The Commission's communication to the Council on the common policy in the field of science and technology, the most recent fundamental document in this area, offers an opportunity to assess the medium-term financial and budgetary prospects of that policy. The communication makes plain that research activities, hitherto decided on in a haphazard manner by the Council, must be welded into a coherent policy; furthermore, the content of the policy must be defined in terms of objectives and criteria so as to stimulate new actions. That must be a fundamental and abiding Community aim.

315. The Commission also points out that 'a simplification of the present planning and decision-making processes, greater efficacy and a more responsive and dynamic Community research and technology policy' can be attained only by analysing the individual structures and procedures, advisory bodies and decision-making processes to determine their effectiveness¹.

316. The Commission has as yet no suitable system of evaluation that would enable it to make a precise and systematic assessment of the effectiveness of projects, without which there can be no solid foundation for determining and deciding on new research activities. This second proposal for a Council decision is designed to create such an instrument. It is to be hoped that the Council will quickly take such a decision, not least because it will assist sound utilization of budget appropriations.

317. As the Committee on Budgets has already shown in its report on the European Parliament's guidelines on the budgetary and financial policy of the European Communities for 1979 (Part II)² Community expenditure on research is negligible when compared with the funds allocated by all the Member States put together, and indeed also in relation to the funds applied by them for international - other than Community - cooperation in this sector:

¹ Doc. 229/77, p. 44

² Doc. 54/78, p. 16

| | National budgets (in EUA x 1000) | | | Community budget | | |
|----------------------|----------------------------------|-------------------|----------------|------------------|-------------------|----------------|
| | Total | % of nat. budgets | % of EC budget | Total | % of nat. budgets | % of EC budget |
| Research expenditure | 7,234,000 | 3.25 | 98.7 | 93,000 | 1.87 | 1.3 |

318. The objectives and programmes recently proposed by the Commission have no chance of success unless public financing for the Community as a whole is sharply stepped up. In other words a better balance must be struck between share of Community expenditure in relation to national expenditure, and the research appropriations in the Community's budget must be increased.

319. The fundamental aim must be coordination of national activities and transfer of activities and programmes to Community level in those cases where the Member States' technical and financial resources are stretched to the limit.

(c) Conclusions

320. The appropriations allocated to the scientific and research policy may be summarized as follows:

RESEARCH

(in EUA x 1000
amounts rounded off)

| Art. or Item | Heading | 1978 Budget | 1979 Prelim. Draft | 1979 Draft |
|--------------|---------------------------|------------------------|--------------------------------|---------------------------------|
| 3300 | Nuclear safety | CA 38,876 | 39,443 | idem |
| | | PA 39,100 | 39,382 | idem |
| 3301 | future energy | CA 14,752 | 14,128 | idem |
| | | PA 14,615 | 14,335 | idem |
| 3302 | Environ. resources | CA 9,387 | 9,115 | idem |
| | | PA 9,712 | 8,733 | idem |
| 3303 | Reference techniques | CA 15,728 | 16,009 | idem |
| | | PA 15,731 | 15,919 | idem |
| 3304 | Service activities | CA 8,380 | 8,558 | idem |
| | | PA 8,593 | 8,495 | idem |
| 3310 | HFR reactor | CA 11,479 | 12,006 | idem |
| | | PA 10,632 | 10,851 | idem |
| 3330 | Essor reactor | CA 9,561 | 13,209 | 10,686 |
| | | PA 9,552 | 13,209 | 10,686 |
| 3331 & 3332 | Services | CA 1,967 | 3,269 | idem |
| | | PA 1,996 | 3,270 | idem |
| 3333 | Protection JRC establ. | CA 5,500 | 4,212 | 2,000 2,212 (in Chap.100) |
| | | PA 4,455 | 3,292 | 2,000 1,292 (in Chap.100) |
| 3350 | Training | CA 1,332 | 1,317 | idem |
| | | PA 1,535 | 1,386 | idem |
| 3351 | Fusion and plasma physics | CA 6,453 | 6,412 50,000 (Chap.100) | 6,412 20,000 (Chap.100) |
| | | PA 25,852 | 26,812 26,500 (Chap.100) | 26,812 10,000 (Chap.100) |
| | JET | CA 8,029 (Chap.100) | t.e. | t.e. |
| | | PA 5,600 | 28,000 | idem |
| 3352 | Radiation protection | CA 5,562 | 3,890 | idem |
| | | PA 8,461 | 8,190 | idem |

RESEARCH

(in EUA x 1000
amount rounded off)

| Art. or Item | Heading | 1978 Budget | 1979 Prelim. Draft | 1979 Draft |
|---------------|----------------------------|---------------------------|------------------------------|------------------------------|
| 3353 | Reference materials | CA 955 | 2,817 (Chap.100) | idem |
| | | PA 1,291 | 2,140 | idem |
| 3354 | Environ- ment | CA 2,307 | 677 4,800 (Chap.100) | idem |
| | | PA 5,357 | 2,977 2,400 (Chap.100) | idem |
| 3355 | Plutonium recycling | CA 694 | 260 | 260 (Chap.100) |
| | | PA 1,902 | 1,344 | 1,084 260 (Chap.100) |
| 3356 | Storage radioactive waste | CA 4,399 | 627 | idem |
| | | PA 4,199 | 5,133 | idem |
| 3357 | Energy research & dev. | CA 22,157 | 1,241 7,000 (Chap.100) | 1,241 4,000 (Chap.100) |
| | | PA 23,907 | 9,744 3,428 (Chap.100) | 9,744 2,000 (Chap.100) |
| 3358 | Reprocessing | No appropriations entered | | |
| 3359 | Decommiss. nuclear instal. | CA 500 | 2,296 | 500 (Chap.100) |
| | | PA 500 (Chap.100) | 996 | 500 (Chap.100) |
| 3360 (new) | Sec. raw materials | CA - | 4,295 (Chap.100) | t.e. |
| | | PA - | 1,795 (Chap.100) | t.e. |
| 3361 | Prim. raw materials | CA 5,000 | 6,549 | idem |
| | | PA 2,000 | 4,049 | idem |
| 3362 | Long-term forecasts | CA 179 | 957 | idem |
| | | PA 533 | 857 | 857 (Chap.100) |

RESEARCH

(in EUA x 1000
amount rounded off)

| Art. or Item | Heading | 1978 Budget | 1979 Prelim. Draft | 1979 Draft |
|---------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| 3363 | Water-cool. reactor safety | CA t.e. | 3,319 | 3,319 (Chap.100) |
| | | PA t.e. | 1,219 | 1,219 (Chap.100) |
| 3364 | Uranium prospect. | CA 2,846 | 193 | 154 |
| | | PA 800 | 993 | 954 |
| 3365 | Paper and board recycling | CA t.e. | 1,621 | idem |
| | | PA t.e. | 621 | idem |
| 3366 (new) | Climatology | CA - | 2,117 (Chap.100) | t.e. |
| | | PA - | 717 (Chap.100) | t.e. |
| 3370 | Nuclear safety | CA 408 | 426 | idem |
| | | PA 408 | 426 | idem |
| 3371 | Coordinated projects | CA 60 615 (Chap.100) | 750 1,547 (Chap.100) | 524 1,900 (Chap.100) |
| | | PA 41 475 (Chap.100) | 780 1,045 (Chap.100) | 554 874 (Chap.100) |
| 3372 | Staff | CA 257 | 48 | idem |
| | | PA 257 | 48 | idem |
| 3380 | Staff BR 2 reactor | CA 1,339 | 1,276 | idem |
| | | PA 1,339 | 1,276 | idem |
| 3381 | Other res. staff | CA 1,219 | 1,231 | idem |
| | | PA 1,219 | 1,231 | idem |
| 3388 | Services | CA t.e. | t.e. | t.e. |
| | | PA t.e. | t.e. | t.e. |
| Total (incl. Chap.100) | | CA 179,941 | 225,615 | 181,972 |
| | | PA 200,062 | 251,593 | 227,698 |

(10) EDUCATION

321. No well-defined Community education policy exists as such. Neither is it possible to formulate one in the context of the budgetary procedure. We shall therefore examine whether the available budget appropriations could provide a realistic basis for such a policy in the future.

(a) The European University Institute in Florence

322. The situation as regards the European University Institute in Florence is dictated by the Convention setting up the Institute of 19 April 1972 (OJ No C 29, 9.2.1976).

323. In spite of joint financing by the Member States, the University Institute in Florence has not made as much headway as expected. The Community does not want a stagnant University Institute; it expects dynamic university work which will exert a direct and positive influence on European integration.

324. The Commission is therefore justified in its efforts to ensure that the University Institute is financed from Community funds at the earliest possible date, the Convention making provision for such financing as from 1 January 1978. It has entered an appropriation of 400,000 EUA in Article 288, which can be used pursuant to Article 19 (2) of the Convention to cover the expenditure of the European University Institute without having to wait until a number of provisions of this Convention are amended. At this intermediate stage, the Commission proposes that the following amounts be made available:

| | |
|-----------------------|-------------|
| for scholarships | 180,000 EUA |
| for the research fund | 120,000 EUA |
| for fellowships | 100,000 EUA |

325. This appropriation seems inadequate. When visiting the University Institute, the rapporteur formed the conviction that a minimum appropriation of 600,000 EUA was required for an effective scholarship policy.

(b) Financing the European Foundation

326. At the beginning of April 1978 in Copenhagen the European Council agreed on the legal basis and seat of the Foundation. It was decided that the Foundation should be set up in Paris and the legal basis laid down in a special Convention, although the Commission and several Member States had advocated a common legal instrument on the basis of Article 235 of the EEC Treaty.

327. The financing of the Foundation, which the European Council decided to set up at its meeting of 6/7 December 1977 on a proposal from the Belgian Prime Minister, Mr Leo Tindemans, still presents problems. However, it is expected that all outstanding problems will be solved by the second half of 1978, so that the Foundation, which is intended to familiarize European citizens with the notion of European integration, can begin its work.

328. As regards financing, the Commission has so far proposed a Community subsidy amounting to 5 million, 10 million and 20 million UA for the Foundation's first, second and third years of operation respectively. The Member States have put forward a variety of suggestions, but it is clear that the contributions they have in mind are of a considerably lower order. Neither is there any information concerning the contributions which could be expected from public or private sources.

329. Seven of the Member States recommend Community participation in the Convention setting up the Foundation, because they find it inconceivable that the Community as such should not have a share in a European Foundation specifically created to further understanding of European integration and to promote this ideal.

330. So far, however, it has not been possible to overcome the basic reservations of two Member States regarding Community participation in the setting up of the Foundation.

331. The Committee on Budgets

- urges that all expenditure connected with the setting up of the Foundation be entered in the draft budget;
- calls on the Commission to submit without delay a comprehensive financial statement justifying the financial aid required;
- urges the Commission, with regard to the administrative structure of the proposed Foundation, to submit full details of staff requirements, the establishment plan being subject every year to Parliament's approval in the context of the budgetary procedure;
- urges that the Foundation's multi-annual work programme be submitted to Parliament for its approval and that an annual programme be submitted to the budgetary authority together with the Foundation's estimates and establishment plan.

(c) Individual projects

332. The Committee on Budgets calls for the appropriations entered in the preliminary draft to be reinstated for the following projects:

- Item 3920 - Implementation of the education programme - 2,015,000 EUA
- Item 3930 - Expenditure on 'protection of the architectural heritage and promotion of cultural exchanges' - 240,000 EUA;

the creation of new lines:

- Item 3932 - Promotion of residential adult education
(see KELLETT-BOWMAN Report, Doc. 158/78 and the relevant opinion of the Committee on Budgets)
- Items 3933, - Promotion of language teaching in schools, and exchanges
3934 and of pupils and teachers
3935

The budget appropriations for the above mentioned educational sectors are therefore as follows:

in EUA

| Art. | Heading | 1978 budget | 1979 prel.draft | 1979 draft | Rapp. props |
|---------------|----------------------------------|----------------|-----------------|------------|-------------|
| 289 | European Schools | CA | | | |
| | | PA 27,291,900 | 30,060,400 | idem | 31,560,400 |
| 100 | European Schools | CA | | | |
| | | PA 1,082,000 | 750,000 | idem | 750,000 |
| 288 | European Univ.Inst. in Florence | CA | | | |
| | | PA token entry | 400,000 | t.e. | 600,000 |
| 396 | Subsidy for Eur. Found. | PA 500,000 | 5,000,000 | 500,000 | 8,000,000 |
| 3930 | Expenditure on cultural projects | PA 180,000 | 240,000 | 200,000 | 240,000 |
| 3931 | Cultural events | PA | 75,000 | 75,000 | |
| New line 3932 | Adult Education | PA - | - | - | 100,000 |
| New line 3933 | Language teach. in schools | CA | | | 3,000,000 |
| | | PA | | | 1,000,000 |
| New line 3934 | Exchange of pupils | CA | | | 5,000,000 |
| | | PA | | | 2,000,000 |
| New line 3935 | Exchange of teachers | CA | | | 5,000,000 |
| | | PA | | | 2,000,000 |

(11) COOPERATION AND DEVELOPMENT AID

333. For the 1979 budget Parliament has singled out cooperation with the non-associated developing countries as its only priority in the field of development aid and cooperation.

It feels that the development of the other activities covered by this policy will be impeded in the short term by a number of obstacles.

- Before Parliament can consider any substantial increase in food aid, the decision-making machinery, methods of implementation and principles will have to be reviewed (this is currently being done).
- Parliament will not be able to exert any decisive or significant influence on the policy of association with the ACP States before the Lomé Convention is renewed. It therefore expects the Commission to submit financial proposals.
- The Mediterranean policy is subject to delays because of the inadequacy of the current procedures for the parliamentary supervision of decisions.

The proposals of the Committee on Budgets will also reflect the desire to implement the decisions of the European Council in Bremen¹ at budgetary level.

(a) The Community's development aid and cooperation policy

334. This policy is a typical example of the scope offered by the EEC Treaty for developing the Community's activities.

In the first place, Part Four of the EEC Treaty originally provided for an association only with the overseas countries and territories. Subsequently, the association was extended to the AASM and then the ACP and will soon be allocated a place in the general budget.

Secondly, a genuine Community food aid policy has developed solely on the basis of international conventions.

A policy of aid for the non-associated developing countries was recently implemented on the Commission's initiative by means of a simple decision by the budgetary authority.

Lastly, the Community has concluded a series of financial and technical cooperation agreements as part of the 'overall Mediterranean approach'.

¹ See para. 10 of the conclusions of the President of the European Council

335. These spontaneous developments have adversely affected the consistency of the policy but the Commission has made laudable efforts to remedy the situation.

It has tried to bring all food aid activities together in a medium-term triennial target programme that provides the setting for the individual programmes adopted each year.

It has proposed defining the principles of a policy towards the non-associated developing countries in a regulation and has adopted guidelines in a communication to the Council.

336. This, however, is not enough. The present policy centres on four or five sectors characterized by disparate principles and methods. Moreover, the present state of budgetary management is often very unsatisfactory, especially in the field of food aid, and the delays in implementation are chronic.

(b) The Commission's proposals for 1979

337. Although they represent a considerable increase over the 1978 budget (26.22% for commitments and 48.3% for payments), the proposals made by the Commission in the preliminary draft do not reflect its view that 'development cooperation is one of the four priority areas'. The Commission was admittedly thinking of medium-term budgetary prospects, but the 1979 preliminary draft in no way reflects the qualitative and quantitative leap forward announced in the guidelines; instead it merely continues the present policy into the future.

(c) Food aid

338. In the main the Commission adheres to the estimates made in its triennial target programme for 1977 - 1979.

As regards skimmed milk powder, it has proposed a total of 150,000 tonnes, which corresponds to the minimum hypothesis in its programme, but for butter oil it proposes 10,000 tonnes more than the minimum.

As regards cereals, although the Commission's proposals show an increase of 414,500 tonnes over the preceding financial year, they are far below the minimum laid down in the target programme. It should also be noted that these proposals imply that the increase provided for in the new Food Aid Convention now being negotiated will be entirely the responsibility of the Community.

As regards sugar, apart from the 6,153 tonnes for UNWRA (the same as last year), the Commission proposes granting 3,847 tonnes to various developing countries which put in applications.

(d) Cooperation with non-associated developing countries

339. This is perhaps the only sector in which the Commission's proposals correspond to its guidelines. It in fact proposes an overall increase of 40 m EUA in commitments and 15 m EUA in payments. It is therefore entitled to state that 'this gives a total which begins to look more meaningful both from the political angle and in relation to the scope of possible operations'.

(e) Community contribution towards schemes concerning developing countries carried out by NGOs

340. The Commission proposes no increase in commitments for this article but merely keeps to the same level as for the preceding financial year. Its justification for this is that the increase in the workload involved in entering the appropriations has not been offset by a corresponding increase in staff. Although this of course has to be taken into consideration, it is certainly not a decisive factor.

(f) Contractual cooperation in the Mediterranean basin

341. Far from proposing an increase in this sector, the Commission has been obliged to propose a 14.5% reduction in commitment appropriations as compared with the preceding financial year. Furthermore, after proposing a total of 136.8 m EUA in payments appropriations, it then reduced them by 8.1 m EUA. This is fully justified because of the delay in implementing all the cooperation agreements. The present procedure for ratification by the Member States is inadequate.

(g) Action to be taken within the framework of the 1979 budget

342. In the draft budget, the Council states what its starting position will be in the budget negotiations in the autumn. It again takes the view that the normal rate of development advocated by the Commission is excessive and it merely proposes that the various activities should be maintained at the same level as last year which, in view of the various cost increases, in fact constitutes a regression and amounts to a refusal to take any initiative. But it is not the Council's role or duty to act as a driving force; it should rather provide a restraining influence.

343. As in previous years, Parliament must provide the dynamic element. It should act in the following two ways:

- Where cooperation policy cannot be developed at the rate desired because of the procedural shortcomings, Parliament could propose modifications of a technical nature which would show its willingness to find alternative solutions; it could not increase the appropriations proposed in the 1979 preliminary draft.
- Wherever possible in the various sectors, Parliament's objective could be to raise appropriations to a level at which expenditure would have political significance and a real budgetary impact.

(h) Action of a technical nature

344. The objective proposed by the Committee on Budgets is to ensure that the development cooperation policy is consistent, but that is only possible if the distribution of responsibility does not vary over the policy as a whole. The budget is admittedly not the place for resolving this problem but as it has a bearing on Parliament's budgetary powers it ought to be mentioned. The Committee on Budgets proposes that the following action be taken in the 1979 budget:

- introduction of the principle of commitment appropriations for food aid;
- the inclusion of a remark inviting the Commission to submit proposals for direct aid for the execution of specific projects, as in the case of 'Flood II', with a view to the implementation of food aid appropriations;
- creation of an adequate budgetary structure for EAC expenditure;
- creation of an operational budgetary structure for the EDF;
- the entering of appropriations for food aid refunds under Title IX;
- the maintenance of the minimum quantities of food aid proposed by the Commission.

(i) Increases in the appropriations proposed

345. The Committee on Budgets proposes that new impetus should be given to the policy of aid for the developing countries and that the Commission's proposal for helping these countries to develop their own sources of energy should be implemented as from 1979.

This action would supplement the increased aid for the non-associated developing countries proposed by the Commission.

346. It also proposes that the budgetary measures for financing aid to developing countries, jointly with the NGOs, should be pursued, but the Commission must at the same time be provided with the staff needed to carry out this task.

T A B L E

(mEUA)

| | 1978 appropriations | | 1979 Prelim. draft | | 1979 Draft | | Rapp. prop. | |
|--|---------------------|-------|--------------------|-------|------------------|------------------|---|--------------------------------|
| | CA | PA | CA | PA | CA | PA | CA | PA |
| Chapter 92 - Food aid plus refunds | 223.7 | 223.7 | 345 | 345 | 287.3 | 287.3 | + 57.7 (+ 408.6) (compensation Title 6) | + 57.7 (+ 408.6) |
| Chapter 93 non-associated developing countries | 86.19 | 45.19 | 139.6 | 60.6 | 89.6 | 49.7 | + 50 | + 10.9 |
| Chapter 94 specific measures | | | | | | | | |
| Art.940 = UNWRA | 3.29 | 3.29 | 2.6 | 2.6 | 2.6 ¹ | 2.6 ¹ | - 1.6 | - 1.6 |
| Art.943 = EAC | 3.79 | 3.79 | 5.3 | 5.3 | 3.75 | 3.75 | + 25 (and nomenclature) | + 25 |
| Art.945 = NGOs | 12 | 6 | 12 | 9 | 12 | 6 | + 3 | + 3 |
| Art.946 = ICIDI | - | - | 0.1 | 0.1 | 0.1 | 0.1 | (- 0.1 ²) | (- 0.1 ²) |
| Art.949 = Lomé II negotiations | - | - | 1.1 | 1.1 | 1.1 | 1.1 | (developing countries (energy negotiation ⁺¹⁰) | -1.1 -1.1 ⁺¹⁰ |
| Chapter 95 = disasters | 0.9 | 0.9 | 3 | 3 | 1 | 1 | + 2 | + 2 |
| Chapter 96 | 228.3 | 97.5 | 195.1 | 136.8 | 187 | 128.7 | - | - |
| TITLE 9 | | | | | | | | |
| | | | | | TOTAL : | | + 144.9 | + 105.8 |

¹ Chapter 100

² Delete this item - create a new Item 2932 - NGO of relevance to Europe seeking a solution to the North South conflict

(12) ENLARGEMENT

(a) The political challenge of enlargement

347. With their applications for accession to the Community, Greece, Portugal and Spain, having only recently restored democracy after a long period of dictatorship, have now committed themselves to a political choice.

348. The European Community must:

- conclude the basic negotiations with Greece on its accession;
- open negotiations with Portugal; and
- create the right conditions for a decision on the opening of negotiations with Spain to be taken before the end of this year.

The President of the Council has stated that, in the negotiations on the accession of new Member States, the political necessity will be given a clear priority and that economic considerations, important though they are, will be considered as no more than a means to an end¹.

349. This will have considerable financial implications for the existing Member States. The economic problems of the three applicant countries are huge:

- lower growth rates than in the Community of the Nine;
- serious regional imbalances;
- excessive dependence on agriculture;
- higher unemployment and worker emigration than in the Nine;
- a weak infrastructure with a low level of public sector investment.

350. Considerably greater demands will also be made on the Community institutions. The Community of the Twelve must not become unmanageable. There will have to be a return to majority decision-making as laid down by the Treaty.

351. Spain, Greece and Portugal are seeking to become members of a strong Community. A watered-down, weakened Community amounting to no more than a free-trade zone or a customs union would be of little interest either to the applicant countries or to the existing nine Member States.

¹ German Foreign Minister, Mr Genscher, addressing the European Parliament as President-in-Office of the Council on 4 July 1978

352. From an economic point of view, the accession of these countries can be accomplished without serious difficulties only if satisfactory economic growth is secured. If the Nine can achieve a high growth rate and this is matched by even higher growth in the applicant countries, it should be possible to achieve integration without splitting the Member countries into two distinct groups.

(b) Commission studies

353. In a communication forwarded to the Council on 20 April 1978, the Commission submitted its general considerations on the problems of enlargement.

This was followed by a supplement entitled 'The transitional period and the institutional implications of enlargement'.

A comprehensive study of the problems associated with enlargement was published on 27 April 1978 in a document entitled 'Economic and sectoral aspects: Commission analyses supplementing its views on enlargement' (COM (78) 200 final).

354. From the point of view of budgetary and financial policy these special studies using a simulated notional budget for a Community of Twelve in 1978 are of considerable interest. They provide a rough estimate using macro-economic indicators, but no projections are made for the budgets in the period 1979-82.

The estimates of total expenditure - broken down according to the major categories of intervention and by applicant state - are also extremely interesting.

Recapitulation of 1978 expenditure in million EUA

| | EUR-9 | Greece | Spain | Portugal | The Three (very round figures) | EUR-12 |
|---|-------------------|----------------------|--------------------------------|------------------------------|---|---------------------|
| 1. Guarantee Section of the EAGGF | 8666 ¹ | 400 | 600 | 100-150 | 1100-1150 or in rounder figures 1000-1500 | 9,700-10,200 |
| 2. Guidance Section of the EAGGF | 473 | 100 | 200-250 | 50-100 | 350-450 | 800-900 |
| 3. Social Fund | 570 | 20-50 | 80-120 | 90-130 | 190-300 | 750-900 |
| 4. Regional Fund | 581 | 105 | 190 | 125 | 420 | 1,000 |
| 5. Other items excluding fixed 10% reimbursement | 1382 | 50 | 200 | 50 | 300 | 1,600-1,700 |
| 6. Total exclud- ing 10% reimbursement | 11672 | rounded to 700 | rounded to 1250- 1350 | rounded to 400- 560 | 2300- 2900 | 14,300 +/- 400 |
| 7. 10% reimburs- ment | 690 | 20 | 60 | 10 | rounded to 100 | 800 |
| 8. TOTAL (very round figures) | 12362 | 700- 750 | 1300- 1400 | 400- 600 | 2400- 3000 | rounded to 15000 |

¹Including incidence of dual rate and MCAs.

355. Estimated revenue is as follows:

Recapitulation of resources in million EUA¹

| | EUR-9 | Greece | Spain | Portugal | The Three | EUR-12 |
|--------------------------------------|--------------------|----------|----------|----------|-----------|-------------------|
| 1. Customs duties | 4,833 ² | 100+/-20 | 350+/-50 | 30+/-10 | 480+/-80 | |
| 2. Levies and sugar contributions | 2,063 | 100+/-20 | 275+/-50 | 75+/-15 | 450+/-85 | |
| 3. VAT | | | | | | |
| (a) 1% | 8,290 | 170 | 610 | 110 | 890 | |
| (b) EUR-9 rate for 1978: 0.6429% | 5,330 | - | - | - | - | |
| (c) "Enlarged" EUR-12 rate: 0.77% | 6,380 | 130 | 470 | 85 | 685 | |
| Other revenue | 136 | | | | | |
| 5. TOTAL (1 to 4) | | | | | | |
| (a) 1% VAT | 15,322 | 370 | 1,235 | 215 | 1,820 | rounded to 17,000 |
| (b) EUR-9 rate for 1978: 0.6429% VAT | 12,362 | - | - | - | - | - |
| (c) EUR-12 rate: 0.77% VAT | 13,400 | 330 | 1,100 | 190 | 1,620 | rounded to 15,000 |

¹The three applicant countries' national currencies have been converted at a recent rate - that recorded on 2 January 1978. At the 2 January 1977 rate used for the 1978 budget and the EUR-9 column, the total for the Three would be 2,300 instead of 1,820, i.e. about 25% more.

²It should be pointed out that if the Three were to become full members in 1978, the Nine would suffer a major loss of customs revenue. It may be expected, however, that accession will actually take place after duties have progressively been abolished through the application of the various association agreements. This process has caused minimal annual losses for the Nine and this will continue to be the case, account being taken of the compensation resulting from the expansion of trade between the Three and the Nine (an aspect to be examined in greater detail).

356. The estimated additional expenditure of 2,400-3,000 m EUA is a clear pointer to the huge increase in the size of the budget in the year of accession. It would be absurd not to make appropriate prior financial arrangements in the financial years preceding accession, so that the necessary appropriations would be readily available to make the transition to accession easier for the Community of the Nine as well as for the three applicant countries. Just as there should be a transitional period after accession, there should also be a preparatory period before accession to

ease the transition to a Community of Twelve and give more time to make the necessary adjustments.

357. The conflict between the Community and Spain over fishing zones shows that enlargement cannot be accomplished from one day to the next but must be prepared for gradually in every sector of Community activity by making appropriate financial arrangements.

If this is not done the Community will simply complicate the problems of enlargement by its own conduct. Conflicting policies in the period before accession must inevitably increase the overall cost to the future Community of Twelve.

358. In the part of its preliminary draft budget for 1979 relating to the Guidance Section of the EAGGF, the Commission has made only very modest arrangements for alleviating the impact on the existing Member States of competition from agricultural products imported from the three applicant countries.

359. The existing budgetary position in relation to the three applicant countries, as set out in the preliminary draft, is as follows:

- Appropriations under Article 962 for financial cooperation with Greece on the basis of the Financial Protocol;
- Appropriations under Item 9601 for financial cooperation with Portugal on the basis of the Financial Protocol; (no further interest-rate subsidies under the programme of emergency aid to Portugal);
- no provisions in the budget for measures in favour of Spain;
- there is the possibility of transferring appropriations from the global operational reserve in Chapter 100 to cover new expenditure in connection with enlargement under Chapter 96.

(c) Adoption of the draft budget by the Council

360. The Council was tempted to cut the appropriations under Chapter 96 by putting pressure on the Commission, but had to recognize that reduction of commitment appropriations would hardly be acceptable. It therefore confined its reductions to payment appropriations for the Financial Protocols with Algeria, Egypt, Jordan, Lebanon and Syria. Greece and Portugal are not affected.

361. It is, however, to be regretted that the Council has deleted the global operational reserve in Chapter 100, thereby excluding the possibility of making prior financial arrangements for enlargement.

(d) Arrangements to be made by the European Parliament for 1979

362. The Committee on Budgets takes the view that only through a greater financial commitment in 1979 will it be possible to prepare adequately for the accession of the three countries concerned. The Commission was right to set aside appropriations for this purpose in the form of the global contingency reserve. It would after all be difficult to increase the Financial Protocols with Greece and Portugal during their currency.

There have also been proposals along the same lines from the semi-official bodies. For instance, on 23 June 1978 in Madrid, the European Chambers of Commerce proposed setting up a special fund for enlargement which would promote measures to facilitate adjustment alongside the Regional Fund and aid from the EIB¹.

363. The Committee on Budgets therefore finds it regrettable that the Council has deleted the modest appropriation of 15 m EUA PA and 50 m EUA CA. These appropriations were not to be applied solely in connection with enlargement but were also intended to constitute a reserve for energy, industrial and fishery policies.

The Committee on Budgets proposes that the global operational reserve should be reinstated in the budget. Even so, this would still not guarantee that any priority would be given to expenditure in connection with enlargement.

364. It would therefore be prudent to create a special reserve under a separate chapter to be applied exclusively to preparations for enlargement through joint financing of specific investment projects². Priority should be given to the following:

- financing of infrastructures (in conjunction with internal Community measures, e.g. structural policy on transport and agriculture);
- integration with action in the private sector;
- using the EIB to arrange interest-rate subsidies. The resulting multiplier effect could have an extremely positive impact with an appropriation as small as 30 m EUA CA and 10 m EUA PA.

¹Opinion of the Permanent Conference of Chambers of Commerce and Industry of the EEC on Spain's application for membership of the European Community of 23 June 1978, p.5.

²See also the opinion of the Committee on Budgets for the Political Affairs Committee on the prospects of enlargement of the Community (PE 54.579).

365. The appropriations for enlargement can be broken down as follows:

in m EUA

| Art./ Item | Heading | 1978 Budget | 1979 Prelim. draft | 1979 Draft | Rapp. prop. |
|---------------|--|---------------------|--------------------------|---------------|-----------------|
| 9600 | Emergency aid to Portugal | CA | | | |
| | | PA | | | |
| 9601 | Financial Protocol with Portugal | CA 7.5 ¹ | 2.5 ¹ | 2.5 | 2.5 |
| | | PA 3.0 | 3.0 | 3.0 | 3.0 |
| 962 | Financial Protocol with Greece | CA 22 ² | 16.5 ² | 16.5 | 16.5 |
| | | PA 14.5 | 13.5 | 13.5 | 13.5 |
| Chap. | | | | | |
| 100 | Global opera- tional reserve for, <u>inter alia</u> , new expenditure relating to enlargement | CA | 50 | | 45 ³ |
| | | PA | 15 | | 10 |
| 103 | Special reserve for enlargement | CA | | | 30 |
| | | PA | | | 10 |

¹ 30 m EUA for five years

² 55 m EUA until 31 October 1981

³ Remarks to be applied (no longer for enlargement in view of new Chapter 103)

B. Curtailement of agricultural expenditure (EAGGF, Guarantee Section)

366. Three main proposals for holding down agricultural expenditure have been discussed during the budgetary procedure in previous years:

- fixing a ceiling on agricultural expenditure in the budget;
- freezing agricultural expenditure against specific budget lines at the previous year's level, with the simultaneous creation of a corresponding reserve in Chapter 100; the additional expenditure expected each year should thus be covered by transfers of appropriations subject to authorization by the budgetary authority;
- requiring the Council to amend the basic agricultural policy regulations, thus modifying the legislative provisions which cause agricultural expenditure to be incurred.

None of these proposals has been implemented.

367. The Commission makes repeated reference in this context to four factors which condition its action in this politically sensitive area:

- cautious price policy;
- reform of certain market organizations;
- progressive elimination of the monetary compensatory amounts;
- introduction, on an experimental basis, of producer levies.

However, the indications given by the Commission are not in themselves sufficient for the pursuit of a successful strategy.

368. In the spring of this year, the European Parliament accordingly reformulated its political objectives as follows¹:

- better balance between expenditure on the common agricultural price policy and the other appropriations shown in the budget, this balance to be arrived at in such a way that the objectives of Article 39 of the EEC Treaty are not obstructed;

¹ Report 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 Martin BANGEMANN (Doc. 54/78).

- avoidance of supplementary budgets in the -agricultural policy sector by bringing agricultural price decisions under the normal budgetary authorization procedure;
- creation of an information system to give advance warning of exhaustion of the available appropriations.

369. With a view to the attainment of these aims, the Committee on Budgets and the Committee on Agriculture have instructed a joint working party to present practical proposals, particularly in respect of the 'warning system'. The working party has begun its activities with the Commission's full support.

370. The fundamental principles of agricultural expenditure are laid down in regulations stipulating the types of intervention. Efforts at reform will therefore concentrate initially on these regulations:

- the Council and Parliament, as the two branches of the budgetary authority, must cooperate in the enactment of agricultural legislation;
- the two institutions must keep the implementation of the agricultural budget under constant review once the budget has been established.

371. The information system, as the second instrument for the attainment of the objectives referred to above, must be designed in such a way that an 'alarm' is sounded when a specific percentage of the appropriations available for a particular market organization has been paid out and it seems likely that the remaining appropriations will not be sufficient to meet requirements arising before the end of the current budgetary year.

This information system would provide the budgetary authority in good time with data to decide whether

- a supplementary budget is necessary,
- the financial requirements can be covered by the transfer of appropriations, or
- other price or structural policy measures are called for.

c. Staff and material requirements for implementation of the Community policies

(a) Staff expenditure

372. each year the Commission's personnel policy confronts the budgetary authority with special problems. The Community's new activities, reflected in new or increased budgetary appropriations, can only be effectively performed if the Commission has suitably qualified staff at its disposal. There are two ways of making staff available for new activities:

- by transfers within the Commission's administrative apparatus, or
- by the creation of new posts.

Staff transfers

373. The transfer of staff within an administrative organization is only possible if certain conditions are met. The first requirement is that suitable personnel policy instruments must be available to enable these staff movements to be effected under the conditions laid down in the relevant staff regulations. The Commission should make greater use of the possibilities open to it in 1979. The Commission must be in a position to adapt smoothly to rapidly changing requirements. If necessary it should put forward proposals for amending the staff regulations or take organizational measures to facilitate transfers within its own establishment.

Inter-institutional mobility

374. In addition to staff movements within the institution, the Commission should make greater use of inter-institutional mobility. Given that staff are rarely recruited in the higher grades - recruitment normally takes place in the lowest career bracket - it is vitally important for the Commission to improve the general level of qualification of Community staff through a balanced system of job rotation. In view of the different modes of operation and tasks of the individual institutions, movements between them could broaden the horizons of the staff concerned.

New blood

375. The fact that recruitment is effected in the lowest grade of each career effectively excludes the injection of new blood into the staff establishment. The negative effects of this phenomenon could be counteracted by practical in-service training arrangements. Far-reaching measures of occupational training are of benefit not only to the staff but also to the institution. Through carefully planned training and retraining measures the institution could facilitate the mobility referred to above.

New posts

376. Apart from the possibility of transferring existing staff, the only course of action open to the Commission for the implementation of its activities is to ask the budgetary authority for new posts. These requests have been examined by the rapporteur at two levels:

- at the level of the functional administrative unit required to perform the new tasks (generally a directorate-general), and
- at the level of the Commission as an institution.

377. In the course of his enquiry the rapporteur has found that the Commission cannot easily harmonize and balance its personnel requirements at institutional level. The European Parliament must see to it that its political intentions, reflected in specific requests for appropriations, are also accompanied by corresponding personnel policy decisions; only then can the budgetary decision become politically effective.

378. This year, therefore, the European Parliament will give its authorization for the posts requiring approval by the budgetary authority on a specific basis, in such a way that the link between the request for appropriations and the increase in staff is made clear in each case. The budgetary authority will not in any way interfere with the organizational prerogatives of the Commission; it wishes merely to create the material possibilities for its political budgetary decisions to be translated into practical action.

379. Exactly as in the case of transfers of appropriations, the Commission is at liberty to consult the budgetary authority on the 'staff transfers' necessary in the current budgetary year.

Detailed consideration of the requests for posts

380. In 1978 the Commission has a total staff complement of

- 8,121 established posts
- 257 temporary posts.

In its preliminary draft budget, the Commission has requested the following new posts for 1979:

- 488 additional established posts, and
- 36 temporary posts.

381. In accordance with Article 12 (4)a of the Financial Regulation of 21.12.1977, the Commission has explained its requests for posts in a 100-page document broken down into sectors:

- established posts in the normal careers:

123 A - 129 B - 140 C - 20 D

- language service:

27 LA

- temporary staff:

28 A - 8 B

The total staff complement would thus be as follows:

| | | |
|---|-----------------------|--|
| Established posts: | 8,606 | |
| Supply Agency: | 22 | |
| Temporary staff: | 293 | |
| Publication Office: | 242 | |
| Research activities (indirect actions): | 355 established posts | |
| | 125 temporary posts | |
| | (JET) | |
| Research centres: | 2,300 | |

382. In its draft budget the Council has only met the Commission's requests for posts on a very limited scale, i.e.

- 1 A2 instead of 3 A2
- 1 A3 instead of 5 A3
- 1 A3 temporary instead of 3 A3 temporary
- 1 post conversion (A5/4 to A3) instead of 9
- 24 A4 to A7 posts instead of 115
- 26 B posts instead of 129
- 39 C posts instead of 140
- 9 D posts instead of 20
- 27 LA posts as requested.

383. In addition to the temporary A3 posts, the Commission had also requested 25 temporary A and 8 temporary B posts. The Council granted 15 A posts and 5 B posts and no post conversions in the LA career, where two conversions of LA 5/4 posts to LA 3 had been proposed.

With a view to a more balanced distribution in the different career brackets, the Council only decided to convert 1 B3 post to B2.

In the case of local staff, 20 D posts were approved instead of the requested 40 C posts.

384. The Committee on Budgets is of the opinion that the Commission cannot always transfer the staff needed for the new policies from directorates-general with a less heavy workload. It therefore feels that the Commission should be granted new staff for its new tasks. The Council's hard line does not correspond to the committee's political views in certain areas. It therefore proposes that Parliament should make the following further posts available:

- new actions

135 established posts (52 in grade A, 46 in grade B and 37 in grade C)

- Euratom safety control

31 established posts (8 in grade A, 20 in grade B and 3 in grade C)

- development of administrative structure

98 established posts (26 in grade A, 19 in grade B, 43 in grade C and 10 in grade D)

- initial incorporation of staff of the EAC

26 established posts (18 in grade A, 1 in grade B, 7 in grade C) and 81 temporary staff (40 in grade A, 17 in grade B and 24 in grade C)

The latter request does not involve any increase in expenditure.

(b) Decentralized agencies

385. The agencies which do not form part of the Community's normal structure continue to present a problem as they lessen the transparency of the budget and are very difficult for the budgetary authority to control.

386. The following table lists the agencies concerned, together with the appropriations made available to them for the financial year 1979.

Leaving aside the Statistical Office and the Publications Office - because of the close administrative links existing with them - and the European Centre for Vocational Training and the Foundation for the Improvement of Living and Working Conditions - because of their special position - it appears necessary in the first instance to solve the problem of the European Association for Cooperation (EAC), given the substantial appropriations earmarked for it.

To ensure improved control over subsidies to the decentralized bodies, it is proposed that the subsidies be broken down as follows in the nomenclature :

- Staff expenditure
- Expenditure on materials
- Operational expenditure.

LIST OF GRANTS AND SUBSIDIES PAID BY THE COMMUNITY
TO AGENCIES OUTSIDE THE NORMAL INSTITUTIONAL STRUCTURE -
EXCLUDING GRANTS TO NON-COMMUNITY AGENCIES AND TO THE EUROPEAN SCHOOL
AND THE UNIVERSITY INSTITUTE IN FLORENCE

| AGENCY | Article in budget | Type of administrative relationship | Amount in 1979 budget | Remarks |
|---|-------------------|--|---|---|
| Computer Centre (CIRCE) plus CETIS refunds | 224 | Community agency with partial autonomy | Prel.draft 11,293,000 Draft 11,293,000 | Subject of PETRE report (DOC 486/74, PE 38.485) |
| Statistical Office | 264 | Corresponds to DG at Commission | Prel.draft 9,250,000 Draft 6,440,000 | |
| Supply Agency | 280 | Community agency with some administrative autonomy | Prel.draft 905,300 Draft 875,300 | |
| Business Cooperation Centre | 281 | | Prel.draft 135,000 Draft 90,000 | Established by Com. decision of 2.5.73 |
| EC Institute for Economic Analysis and Research | 282 | Community agency with some administrative autonomy | Prel.draft token entry (1,500,000 in Chap.100) Draft token entry | Not yet established |
| Office for Official Publications | 287 | Community agency with some administrative autonomy | Prel.draft 12,200,000 Draft 12,118,000 | |
| European University Institute of Florence | 288 | Ancillary agency of the Community enjoying administrative autonomy | Prel.draft 400,000 Draft token entry | Partial incorporation at request of EP |

.../...

| AGENCY | Article in budget | Type of administrative relationship | Amount in 1979 budget | Remarks |
|---|-------------------|---|---|-----------------------------|
| Administrative Commission on Social Security for Migrant Workers | 300 | | Prel.draft 750,000 Draft 720,000 | |
| European Centre for Development of Vocational Training | 3010 | Community agency with administrative autonomy | Prel.draft 3,252,000 Draft 3,200,000 | Discharge refused for 197.. |
| Grant towards Foundation for Improvement of living and Working Conditions | 359 | Community agency with administrative autonomy | Prel.draft 2,590,000 Draft 2,590,000 | Discharge refused for 197.. |
| European Foundation | 396 | Ancillary agency of Community | Prel.draft 5,000,000 Draft 500,000 | Not yet established |
| Subsidy towards European Association for Cooperation (EAC) | 943 | Ancillary agency of Community - administrative autonomy | Prel.draft 5,312,900 Draft 3,759,100 | |

European Association for Cooperation

387. The Committee on Budgets is of the opinion that the staff of the European Association for Cooperation should on no account retain their present status of private employees of a Belgian limited company. Regardless of whether a decision is taken to create an agency under public law, as proposed by the Commission (Doc. 43/78) or whether the more far-reaching step is taken of arranging for the incorporation of the EAC into the Community administrative structure (Aigner opinion PE 53.857), the staff concerned should definitely appear as officials on the Commission's establishment plan.

388. The Committee on Budgets considers it important for the staff of all the peripheral agencies to be clearly shown in a single document. This is the only way of ensuring political control.

Joint Research Centres

389. The Committee on Budgets has the impression that there are certain management problems at the Joint Research Centres. The personnel policy imposed by the Council in recent years has led to a reduction in senior research staff. Staff losses have not been made good. The committee has therefore proposed a number of post conversions for the 1979 budget which comply with the prohibition of any increase in the number of posts but nevertheless alleviate the structural problems of personnel policy.

The problem of budgetary presentation of ancillary staff in the research sector has now been satisfactorily solved with item 3333. Personnel expenditure is shown separately from actual programme expenditure.

(c) Increase in appropriations for miscellaneous administrative purposes

390. Chapters 20-27 cover the Commission's miscellaneous administrative requirements. (However, Article 254 in Chapter 25 and Articles 272 and 273 in Chapter 27 do not fall under this category). The Committee on Budgets views with some misgiving the increase in expenditure between 1978 and the 1979 preliminary draft:

| | |
|-------------------------|-----------------|
| Budget 1978: | 105,594,200 EUA |
| Preliminary draft 1979: | 121,140,500 EUA |

This is an increase of 15,546,300 EUA (14.72%).

The greatest increase is accounted for by movable property (vehicles, furniture etc.) representing

5.7m EUA (44%)

and rental of buildings at

4.9m EUA (11.7%)

391. The Committee on Budgets has reservations about approving this increase and calls upon the Commission to present proposals without delay for cur-tailing expenditure on rental and movable property.

