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COMMUNICATION FROM THE COMMISSION
TO THE JOINT COUNCIL
OF FOREIGN AFFAIRS MINISTERS AND FINANCE MINISTERS AND TO
THE EUROPEAN PARLIAMENT

Global appraisal of the budgetary problems of the Community

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INTRODUCTION

1. The Council has agreed to continue in 1978 the experiment tried in 1976 and 1977 of holding in spring a joint meeting of Ministers of Foreign Affairs and Finance, so as to engage, with the Commission and in accordance with the wishes expressed by the European Council in December 1975, in a comprehensive review of budget problems in the context of the Community's general policy. This meeting is to be held on 3 April 1978.

The European Parliament, as one co-holder of the budgetary powers, intends to contribute to this policy discussion, and has placed the question on the agenda of its part-session opening on 13 March 1978.

2. While welcoming this opportunity for a wide-ranging exchange of views on budget prospects before the opening of the budgetary procedure, the Commission takes the view that an attempt should be made this year to make the exercise more meaningful. At this stage it is not a question of predetermining the quantitative data for next year's Budget in terms of volume or growth rate, for not only are the factors vital to such an exercise unavailable at this time of the year, the rules of budgetary procedure would forbid it. On the other hand, it would be extremely useful for the Community - and would help the Commission in its task of drawing up the preliminary draft Budget - if a effort were made to provide the basis for a greater coherence between the broad outlines of general policy and their implementation, later in the year and on a multi-annual pattern, in budgetary terms.
3. The Commission therefore hopes that this policy discussion will prepare the ground for an objective discussion of the Budget and bring about a more constructive attitude towards the preliminary draft Budget. The Commission takes the view that the way in which the Council in 1977, during the first reading of the Budget, embarked upon a general and slashing reduction of the non-compulsory expenditure proposed by the Commission showed that the Council lacked a consensus on certain priorities, for if such a consensus had existed it would have been bound to produce a more positive reaction on the Council's part.

4. This Communication is being sent to the Council and the European Parliament to present the Commission's reflexions and suggestions.

It consists of the main section and an annex. The main section has three parts : Part (A) suggests a number of general guidelines ; Part (B) outlines the subjects which the Commission believes should be given priority in a medium-term budgetary perspective ; Part (C) tries to draw a number of conclusions for the 1979 budget.

As the annex is an enlargement of Parts A and B, the main section sometimes makes cross-references to the corresponding pages of the annex.

A. GENERAL GUIDELINES

1. Amounting to around 2.5% of the national budgets of the Member States and 0.8% of GDP, the Community Budget reflects the reality of a very partial and extremely localized financial integration (see Table, p. 1) : ready three quarters of the appropriations are devoted to the common agricultural policy, which is the only common policy the financing of which has been to a large extent transferred to the Community Budget. The Budget in no way measures up to the role it is required to play towards achieving the objectives of economic and monetary union and enlargement to which the highest Community Authorities recently again declared themselves firmly attached. Those who desire to see the Community deepened and enlarged, must also acknowledge the financial consequences.
2. The preponderance of agricultural expenditure must not lead to the budgetary debate treating the Budget as one big lump, with the risk of stifling policies and measures vital to the Community's future: the Budgetary Authority must examine each of the policies with budgetary implications according to its own merits with regard to integration.
3. Both by firmer containment of agricultural expenditure and by the expansion of other Community policies, the relative weight of expenditure in respect of guaranteeing agricultural markets must be gradually but appreciably reduced. But it would be illusory to imagine that the budgetary procedure would be of much use as a means of containing this expenditure, as it is basically determined by decisions taken "upstream" (market organizations, prices, MCAs etc.).
4. In the financial years ahead, priority should still be given to bringing within the Community ambit policies and measures which have a directly integrating effect, i.e. in those sectors where operation on the Community level presents an economic or political advantage over action in the national framework.
5. However, with a view to progress towards economic and monetary union, preparations must be made to apply the Community Budget increasingly as an instrument of redistribution and stabilization. The coordination - and the correspondingly more effective and closely deretailed use - of the financial instruments is already a move in this direction. The funding which would be required to have any significant effect here clearly exceeds the current size of the Budget (see p. 5).

6. It is essential for the funds allocated to the Community to be increased, but the Community should be made responsible only for those tasks which can be best carried out at Community rather than national level or which, for other reasons, determine the progress towards integration. These tasks will therefore be chosen on the basis of well defined criteria (see page 6).
7. The Development of such Community policies should lighten the load on the national budgets. To ensure that the Community policy could have a real and tangible effect, it is absolutely necessary that the Community actions reach the "critical mass", and sometimes even wholly replace nationally - financed actions so as to transform them into real "Community" actions.
8. While the whole range of policies and measures - established or recently started - will be continued, it is therefore necessary in the light of advocating major financial expansion to adopt a more selective and narrow approach which would ensure that responsibility for policies and measures in a small number of priority fields important to European integration is transferred from national to Community level, the costs involved being gradually assumed by the Community Budget.
9. Financing the Budget under the system provided for in the Decision of 21 April 1970 will be a problem in the medium term as the available margin may disappear by the beginning of the 1980 . The Commission will shortly present a report on the question of creating new resources.
10. In this communication, the emphasis is placed, for obvious reasons, on the financing of operations from the Community Budget; but the Commission stresses that it attaches great importance to as much use as possible being made of the borrowing and lending machinery, which must play a growing part in the Community's finances and be used whenever the measure to be financed is suitable for this approach.

B. PRIORITY MATTERS FROM A MEDIUM-TERM BUDGETARY VIEWPOINT

The Commission suggests that certain matters be given priority from a medium-term budgetary viewpoint ; these were included in the President's policy speech to the European Parliament last February and in the Commission's communication to the European Council of 6th and 7th December 1977 on economic and monetary union.

1. Policy on sectoral changes and social and regional consequences

In the face of conjunctural and structural difficulties, it is necessary to make an attempt to restructure the productive apparatus ; this attempt at restructuring, which should also include agriculture, will have social and regional consequences with repercussions at budget level.

To ensure success this restructuring must be able to be carried out at community level, for reasons of efficiency and coherence ; besides, it will only be possible if a parallel attempt is made in the field of development of growth sectors

Community industry in the declining sectors is confronted with the need to adjust production capacities and modernize structures so as to regain the competitiveness which is essential for developing its external markets. What is more, industry must exploit the new development potential which the advanced technology sectors and the environmental and energy sectors contain on its own market.

2. Greater energy self-sufficiency must also take priority if the Community wishes to achieve the objectives it has set itself. The proportion of the Community Budget currently allocated to energy policy proper (approximately 0.4%) is disproportionately small in comparison with what is at stake.

Energy policy - comprising the development of the Community's energy resources and rational utilization of energy - must be vastly expanded.

3. The strengthening of international cooperation must continue to receive the Community's closest attention in the medium and long-term, both by reason of the Community's concern for development in Third World countries and in the Community's own interests. Numerous criteria speak in favour of reinforcing the Community character of the development cooperation policy and the resultant expenditure. Although the short-term aim is to consolidate and deepen what has already been achieved, the early 1980's will be an important milestone in the budgetary activity of the Community with the incorporation of the European Development Fund in the Budget.

4. The reduction of regional imbalances is already a growing concern of the Community. Although the financial allocation planned up to 1980 represents a considerable effort, the impact of the Community contribution will nevertheless be very slight in relation to the scale of the problems to be tackled. Given the foreseeable consequences of the deepening and widening of the Community it would be of vital importance to increase significantly the financial measures made available to the Community.
5. The Commission considers that the budgetary approach to the common agricultural policy must continue to be that of containing the expenditure generated by this policy (see p. 22).

A general medium-term appraisal of budgetary matters must include the enlargement of the Communities, which will have significant budgetary repercussions for the Communities and in particular the reallocation of resources to the advantage of the new Member States (see p. 23). The Commission will shortly make an initial assessment.

C. SOME REPERCUSSIONS ON THE 1979 BUDGET

As regards the 1979 Budget, the main effect of the guidelines and priorities put forward are as follows :

1. As regards industry, the Commission intends to continue the efforts it launched in the 1978 Budget to raise the financial means needed to overcome the crisis.
Though these financial interventions are only part of the overall industrial strategy at Community level, they are nevertheless an indispensable part.
Complementing the action taken by operators and the Member States, Community financial aid will release aid for reorganization and conversion in the form of loans and interest relief grants. A portion of the Community loans intended to finance industrial investment projects should therefore be directed towards these objectives. In addition, appropriations could be entered in the General Budget to enable the Community to apply a direct stimulus to reorganization efforts as well as upgrading the existing financial instruments (EIB, Social Fund and Regional Fund).
2. The agricultural structures policy should grow significantly in 1979 : firstly, the recent Commission proposals with a view to Council decisions during 1978, should allow the existing directives to be applied more fully. Secondly, the Council is also called upon to decide in 1978 on a number of specific proposals on the structure of the Mediterranean regions, the implications of which will be reflected in the 1979 Budget.
3. As for the social policy, the financial year 1979 should - bearing in mind the precarious employment situation - see the following developments :
 - an across-the-board increase in appropriations should raise the intervention level for existing measures ;
 - new forms of aid in respect of youth unemployment should be introduced ;
 - new intervention measures will be necessary, if the policies for the reorganization of certain industrial sectors are to be acceptable on a social level.

4. As regards energy policy and its research aspects, in 1979 budgetary appropriations will be needed in order that the operations to develop the Community's energy resources may be continued and expanded, with the emphasis on the exploitation of hydrocarbons, uranium prospecting and demonstration projects (energy savings, coal gasification, geothermal energy). As regards coal, operations for the upgrading and promotion of coal at Community level (stockpiling, use in power stations, intra-Community trade) will be required.

These operations to develop alternative energy sources, will be backed up by a new operation concerning the energy savings to be made by modernizing buildings.

5. As regards international cooperation - pending important stages in budgetary activity in subsequent financial years - in 1979 emphasis should be placed, as a matter of priority, on :
- food aid : the total quantity of cereals supplied by the Community and the Member States should be increased. The Council took a favourable view of the principle, and this should be translated into practical terms when the Food Aid Convention is renegotiated ;
 - financial and technical aid to non-associated developing countries : present efforts should be intensified to ensure that a truly significant volume of aid is reached at an early date.
6. The need already so strongly felt for a substantial increase in the financial resources ear-marked for alleviating the effects of regional imbalance is felt even more acutely in the perspective of economic and monetary union as well as that of enlargement.

Looking forward to the 1979 Budget, priority must be given to establishing a "non-quota" allocation whose main purpose would be to permit financial intervention at regional level and at the Community's initiative, and thus provide additional support which is essential if this policy is to be fully implemented.

7. Where agricultural market policy is concerned, the 1979 financial year will reflect the adjustments which will have been made on the basis of recent Commission proposals:
- the effects of a cautious agricultural prices policy;
 - the modification of some market organizations should result in a better balance and in more satisfactory functioning of the policy ;
 - the gradual reduction of monetary compensatory amounts will help to restore the situation to normal;
 - the restructuring and improvement of some market organizations for Mediterranean products will make it easier to meet the requirements of certain regions which, so far, have been disadvantaged.
8. The 1979 Budget will reflect the repercussions of the new fisheries policy, which will be introduced in three areas :
- The common market organization will have growing importance. To this will later be added the effects of the new support measures for which provision is to be made (extending the price system to other species, new technologies, marketing and sales ...) ;
 - The structural policy will appear in the 1979 Budget, in the form of the three measures for which the Commission has submitted proposals (conversion of the small scale inshore fishing industry, adjustment of production capacities including social aspects ; protection and surveillance of fishing zones).
 - The external aspects of the fisheries policy will take the form of fisheries agreements (involving a financial consideration) with certain non-Member countries.

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Annex to the document
"A comprehensive review of
the Community's Budget
problems"

MEDIUM-TERM
BUDGET
GUIDELINES

I. Towards a Budget geared to a DEEPENING of the Community

1. PROSPECTS, OPTIONS AND CRITERIA

a. The Budget as it stands, reflecting partial and localized integration

The general public and the Governments of the Member States generally tend to see the volume of the Community Budget as too large and its growth as too rapid. The myth has grown up that the Community costs too much. What is the truth?

In 1978 the General Budget of the Communities will reach the sum of 12.4 thousand million European units of account in appropriations for payment, which corresponds to 0.8% of the GDP and about 2.5% of the national budgets. While, as the table below shows, the relationship between the Community Budget and national budgets shows a slight increase

TABLE 1 : GROWTH OF THE GENERAL BUDGET OF THE COMMUNITIES, 1973-78

	Unit	General Budget of the European Communities			Member States' Budgets (Central govts.)	GDP (EEC)	General Budget as % of	
		Total	of which EAGGF, Guarantee	EAGGF Gar. as. % of Total			National Budgets. (2):(5)	GDP (2):(6)
	1	2	3	4	5	6	7	8
1973	m u.a.	4 641	3 594	77.4%	227 688	867 550	2.0%	0.53%
1974	m u.a.	5 037	3 390	67.3%	268 274	983 470	1.9%	0.51%
1975	m u.a.	6 214	4 327	69.6%	337 496	1 110 600	1.8%	0.55%
1976	m u.a.	7 993	5 710	71.4%	387 908	1 281 610	2.1%	0.62%
1977	m u.a.	9 584	6 133	74.4%	433 824	1 445 120	2.2%	0.66%
1977	m EUA ¹	9 600			(398 600)	1 375 760	(2.4%)	0.70%
1978	m EUA ¹	12 362	8 695	70.3%		1 531 410		0.81%

¹Converted at 1 February 1977 rates for the 1978 Budget.

over the years and while the proportion accounted for by the General Budget in the GDP of the European Communities shows a slight rise, it is nevertheless true that:

- (i) three quarters of the Budget of the European Communities is allocated to a single sector: the common agricultural policy;
- (ii) allocations to other sectors of intervention are such that they seldom cause the Budget to reach the crucial size to enable it to have a real and noticeable impact;
- (iii) the Budget is not of a size allowing it to perform any macro-economic function whatsoever.

The Community Budget, not insignificant in absolute terms yet relatively very small and very heavily weighted in favour of one policy, reflects the reality of a very partial and extremely localized financial integration. At present, it is neither a true instrument for financing a wide range of policies nor a means of redistribution worthy of the name, nor an instrument of economic stabilization.

At the risk of appearing out of step with public opinion, it must be said that, objectively, the Budget today in no way measures up to the part it is expected to play in the move towards greater economic integration. The deepening of the Community requires a major expansion of the financial resources available to it.

b. The risks inherent in the preponderance of agriculture

The only area where the Community Budget measures up to its task is agriculture; even so, this holds only for the Guarantee Section and not for the structural Guidance Section. It is regrettable and indeed very detrimental that the weight of the agricultural policy in the Budget tends to disturb the debate on the Community's budgetary prospects.

In this situation the Community must avoid making a basic mistake: it must prevent the financial resources devoted to agriculture from dominating or even swaying the entire Budget debate. The containing of agricultural expenditure should be one subject and the remaining policies and measures to be financed from the Community Budget another. Yet the Commission finds that the Member States tend to project the effects of agricultural "guarantee" expenditure - considered excessive by some - on to all the other sectors and policies: it begins with that very part of agricultural expenditure which is designed to attack the root of the problem, namely "structural" expenditure, which has been held down for a long time ; and it goes on to "non-compulsory expenditure" which, from the outset, is theoretically contained by the "maximum rate of increase", as if in a Community which is far from having achieved its "cruising speed" there were any economic or political sense in demanding strict parallelism with certain macro-economic factors or with national budgets (which for the most part are operating at "cruising speed").

The Commission must therefore argue in favour of an objective examination of every policy that has budgetary implications, based on its own merits in the light of European integration, and against any too general examination, which is liable, owing to the relating weight of expenditure on the guarantee of agricultural markets, to stifle some of the actions and policies most vital to the future of the Community.

c. The functions of the Budget and the choices to be made

Before attempting to identify the criteria which will point to those priority sectors where, in its opinion, expenditure should be brought more fully under the Community umbrella, the Commission believes that it is worthwhile putting forward a number of considerations on the functions which the Budget might perform with a view to the deepening of the Community, and particularly in the context of economic and monetary union.

First, the Budget has the function of financing a number of policies and measures, Community financing of which constitutes a direct contribution to economic integration. In each case these are areas where there is economic or political advantage in operating on a Community rather than on a national scale.

Secondly, the Budget must have a redistributive function. At present only the Regional Fund is geared to this end. As the Community advances towards economic and monetary union, so the concomitant charges even pooling of the economic and monetary policy instruments which they will entail, mean that the redistributive function of the Budget must grow.

Thirdly, the Budget may be required to act as a stabilizing agent on cyclical trends, revenue and supply..

Although the present Budget already contains elements of these three main functions, it must be said that only the first is performed to any significant extent, the second operates only marginally and the third is effective only in the agricultural sector.

In view of the limited financial resources available to the Community in the medium term, there is little possibility of significant progress being made in all these three areas at once.

In consequence, the Commission recommends that the budgetary authorities :

(i) continue to give priority in the coming budgetary years to the bringing within the Community ambit of policies and measures which have a direct integrating effect. Progress could still be made here within the existing financial framework. Furthermore, the transfer of such expenditure to the Community may often remove a burden from national budgets ;

(ii) prepare to allow the Community Budget eventually to play a growing redistributive and stabilizing role. The financial resources necessary to produce any significant effect on this front far exceed present availabilities. We are not of course thinking in terms of a Community Budget comparable to a central budget in a federal system (20 % to 25 % of the GDP). Nevertheless, a substantial increase in the Community Budget would be essential (1).

(1) The MacDougall report "The role of public finance in European integration", estimates that the Community Budget as a percentage of GDP should fall between 2 % and 2,5 % on a lower assumption, and between 5 % and 7 % on a more ambitious assumption ; at present, the figure is 0,8 %.

d. Some criteria and conditions for determining priorities

While the Commission is advocating an increase in the financial means at the Community's disposal, it wishes at the same time to stress in no uncertain terms that there can be no question of indiscriminately transferring to the Community activities which have an impact on the Budget. On the contrary, only those functions must be entrusted to the Community which it is indisputably better able to perform than national authorities or which, for other reasons, govern the pursuit of the integration process.

First of all there is the "economies of scale" criterion, which argues for a higher degree of Community responsibility for policies and measures in respect of which the greater technical and economic efficacy of operating on a Community scale is easy to demonstrate (key industrial sectors, research, international relations, and so on).

Another criterion which the Commission finds essential is the extent to which the Community financing of a given policy would impinge upon other policies which are already financed by the Community. It would be both detrimental and illogical to divide up the range of measures to be taken to deal with a specific problem by assigning some to the Community and others to national authorities. The greater efficacy of a comprehensive approach is an indisputable argument in favour of pooling the whole complex of measures under the Community's aegis.

A fundamental necessity for persuading the Member States and the public to accept an increase in the Community Budget is that Community expenditure should not simply be an extra burden. As long as people believe that Community budgetary expenditure is an additional call on the national purse, their reaction will be to systematically curb such expenditure for obvious reasons of economy and austerity.

Community financing of measures and policies should not always take the form of expenditure under the Budget additional to national expenditure. On the contrary, the development of Community policies must relieve national budgets, excepting new and hence additional measures which genuinely represent the price to be paid for the advantages of integration.

The best example of a Community-finances policy which has lightened the burden on national budgets is once again the agricultural markets guarantee policy, where "critical mass" or "take-off" level has actually been reached. This explains why it accounts for such a large proportion of the Community Budget : and also why there is no avoiding it, and why it is accepted.

The Commission therefore believes that, although the whole range of Community policies and measures, both tentative and established, should be continued, every effort should henceforth be made, in areas where major financial expansion is advocated, to avoid the policy of "a pinch here and a dash there".

To sum up: the Commission suggests that the Council and Parliament base future Community policy, not on the spawning of a host of small projects, but on a more selective and concentrated approach. This approach would gradually bring about the Community financing - in toto where necessary - of policies and measures in a number of clearly identified priority and (from the viewpoint of European integration) important fields; these policies and measures would be genuinely transferred from the national to Community level, thus easing the pressure on national budgets.

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2. PRIORITY AREAS IN WHICH IT IS PROPOSED THAT THE COMMUNITY ASSUME GREATER RESPONSABILITY FOR EXPENDITURE

a. Policy on sectoral changes and social and regional consequences

The Commission suggests, taking the long-term view, that the restructuring of the apparatus of production and its social and regional consequences should be put at the top of the list of the priority areas which come to mind.

Many large industrial sectors in the Community are not adapted to the present pattern of world demand and are uncompetitive on their own market and, of course, on the international market.

If they are not reorganized, these sectors will either decline or owe their survival only to protectionist measures or national production aids.

The role of the market in the necessary reallocation of resources for restructuring remains and must remain essential.

It is to be feared, however, that the social, regional and financial costs of a restructuring brought about by the play of market forces alone will be considered so high that the governments will take national measures to accelerate and direct the adaptation of the industrial sectors in difficulty. These national measures are liable to be out of step with each other, if not downright contradictory in effect, unless they are concerted at Community level and accompanied by a certain degree of financial solidarity.

This is why the Community must encourage, pragmatically but consistently, the necessary sectoral measures to modernize the industries in order to restore their competitiveness more quickly and that is the aim of the Community measures in the steel, textile and shipbuilding sectors.

The Community's financial assistance must be directed, depending on the case and in keeping with national actions, to assist restructuring when the main obstacle to rationalization is shortage of financial resources, or to assist conversion to other sectors when the main obstacle is opposition to redundancies owing to the lack of alternative jobs in the region.

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Firstly, there is an irrefutable link with commercial policy, a common policy par excellence ; It is largely owing to external competition that a large-scale restructuring and conversion programme needs to be carried out in the European economy. If the Community intends to preserve freedom of trade and ward off protectionist tendencies, it will have to do more than simply call into play at Community level the battery of commercial instruments which, in any case, in the present situation are likely to be primarily defensive.

Industrial policy must also be connected with commercial policy and accordingly pursued at the same level, i.e. Community level. That is why the logical extension of common commercial measures is common structural measures whenever competition from non-member countries is felt in the Member States.

There is also a link with the prospect of the Community's enlargement, which will create new problems of industrial and agricultural reorganization. It would hardly be feasible to move towards enlargement without providing the Community with the funds it needs, by strengthening and adjusting, where necessary, the existing instruments of structural policy.

The regional dimension of the problem of restructuring is obvious : less developed regions will be more seriously affected - hence the need for greater Community financial solidarity.

Finally, the problem of restructuring is bound up to a certain extent with another Community policy, that of development cooperation. The competitive pressures on our economic structures are partly attributable to a deliberate policy of cooperation in commercial (e.g. with the system of generalized tariff preferences), financial, technical, industrial, agricultural and other fields. The Community should therefore bear a greater share of the cost of the adjustment necessitated by its cooperation policy. Alongside "defensive" restructuring, we should not forget the possibilities of "dynamic" reorganization, given the growing importance

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to the Community of the developing countries' markets. Community financial assistance may prove essential to both types of adaptation.

A restructuring program may even extend beyond Community territory in the interests of the Community : raw material and energy supply considerations should prompt the Community - as the Commission has suggested - to provide support in the form of funds from the Budget (if only as guarantees) or through the EIB, as need dictates, for private investment projects in non-Community countries fulfilling these essential objectives.

The Commission proposes for these reasons that restructuring of the apparatus of Community production and the concomitant social readjustments and regional consequences should be the primary framework for the long-term budgetary pattern. The borrowing and lending system will also play an important part here. Measures to ensure greater Community responsibility in public financing must be chosen according to well defined criteria.

(1) As regards the sectors in difficulty, the Commission again stresses that there will be a considerably greater chance of creating a Community framework for restructuring if the Community is able to provide its own financial assistance, for both restructuring and conversion.

An appropriation of 20 m EUA is entered in the 1978 Budget under a new heading, Article 375, "Community reorganization and conversion operations in connection with crises in certain industrial sectors". To the Commission's way of thinking, this marks the start of a policy of using Community resources for common policies in the industrial sector, and it intends to continue this policy of intervention under the Budget in future financial years.

- (2) The growth sectors (in which the development of the advanced technology sectors must be included) will be called upon to play a major role in the expansion of European industry. The economic and social transition of these sectors should be therefore carefully planned.

The Commission's analyses of the development potential of the aerospace, data processing and electronic components sectors reveal, with a clarity that a growing number of Governments and industrialists are beginning to recognize, that a Community approach would make for a worthwhile expansion of these activities. In any case, the problem arises in these sectors of the gradual pooling or at least coordination of research capacities, together with the question of using public procurements as a means of expanding their markets. The Community must make an important contribution to the research effort by providing undertakings with the research facilities which are not available to the Member States acting individually.

In these sectors where intervention by the public authorities is usually on a large scale and often decisive, the Community must give itself the means - including budgetary means - to assume its role as an economic power, as the advanced technology sectors can develop only with the resources and the market of a whole continent.

To sum up, it is to the extent that it is capable of making a financial contribution that the Commission is most likely to persuade Governments and industrialists to cooperate.

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(3) Agricultural restructuring is a matter to which the Community must devote more attention and greater resources. This aspect of agricultural policy is lagging well behind market policy, even though there is quite clearly a close link - a consideration which indeed in the early years prompted the Community to try to set a certain ratio for the two sets of expenditure; in addition, however, its context is changing, in view of the prospective international division of labour and, at the moment, in particular the prospective enlargement of the Community.

Agricultural structures policy has taken a long time to find its feet. Only since the fairly recent launching of the "common measures" can one speak of a structures policy with Community coordination. The 1978 Budget is the first one to provide for the allocation of all the appropriations available for "common measures".

The following guidelines should be followed to secure the necessary reinforcement of agricultural structures policy:

(a) Improvements in the existing directives and more vigorous application

Past experience indicates that specific adjustments are required in order to step up the application of these directives and hence make them more effective. The main adjustments proposed to this end are to bring certain amounts into line with the cost-of-living trend, to introduce more favourable arrangements for the cessation of farming and to increase the rate of the Community's financial participation for certain less favoured areas (in Ireland and in Italy).

The delay in applying several directives has resulted, for example, from a degree of sluggishness in national administrative organization which must be remedied swiftly.

(b) The new proposals

The directives and regulations so far approved already constitute a fairly broad basis for the progressive improvement of agricultural structures. However, in addition to certain ad hoc proposals, it has been found necessary to bring in new "Mediterranean" proposals.

As the Mediterranean regions present a serious problem and there is a serious imbalance with the rest of the Community, the Commission recently submitted a set of proposals with a view to helping to solve the problems of these regions.

The Commission trusts that all these improvements will be agreed to and can therefore be decided on and implemented as soon as possible.

As regards the budgetary implications, it must be assumed that increasing allocations will be required in the years to come. In this particular area, enlargement will probably entail a not insignificant increase in budgetary expenditure.

(4) Social consequences

It is also largely in terms of the prospect of this enormous economic restructuring exercise that certain social policy priorities should be defined.

The social situation in the Community at present is marked by two problems on a very large scale:

- (a) many industries are encountering serious difficulties which are forcing them to take various types of restructuring measures;
- (b) unemployment among young people, increasing every year, is a social evil for which an effective remedy must be found as quickly as possible.

In view of the general lines emerging from debates held in 1977 in the Communities' various bodies, the Commission:

- considers that, where the industries in difficulty are concerned, social action will certainly be necessary - implying large allocations in the Budget for retraining and resettlement operations;

- will shortly submit specific proposals on the new forms of aid for promoting the employment of young people. A preliminary outline of some measures that might be considered was given in a Communication to the Council in October 1977.

These prospects imply a considerable increase in social policy resources.

b. Increasing energy self-sufficiency

In 1977 the Commission repeatedly reminded the Council of its concern regarding the energy situation. The Commission stressed that the relative easing of the energy market at the end of the year should not be allowed to mask the basic medium- and long-term problems which still remain. The Community's target of reducing energy dependence to 50% still holds good and requires a sustained effort by both the Member States and the Community if it is to be achieved. Direct incentives financed by the General Budget will be required to make up for, add to or reinforce the efforts of the member countries.

The proportion of the Community Budget set aside for energy policy proper bears no relation whatsoever to the importance of what is at stake :

in 1978 (excluding appropriations for research) it stands at only 80 m EUA in the form of appropriations for commitment and 46.3 m EUA in appropriations for payment, i.e. approximately 0.38% of the total Budget.

In the next few years, action by the Community in energy matters should be directed to the following aims :

1) Continuation and expansion of measures to develop the Community's energy resources

This includes action already under way (oil and gas, uranium prospecting), and measures that have been proposed or are being prepared (demonstration projects for alternative energy resources, use of coal in power stations, upgrading and promotion of Community coal). The development of new alternative sources of energy such as solar and geothermal energy will be given prominence in the coming years.

In science and technology, the same objective is served by the pursuit of energy research both at the Joint Research Centre under such "indirect action" as the energy research programme, the thermonuclear fusion programme and the construction of the Joint European Torus.

2) Efficient use of energy

The Commission intends to take action in this sector in the coming years by developing activities connected with energy-saving demonstration projects (COM (77) 187).

A large percentage of the energy-savings needed to achieve the Community objectives set for 1985 should be achieved by improving the insulation and heating systems of existing buildings. Such action will require a major financial effort on the part of the public authorities of the Member States, which might prove difficult for some. The Commission believes that it would be necessary to envisage Community financial support in this field, which goes beyond the energy sector proper. Such an effort would have the secondary effect of stimulating economic growth, boosting certain types of investment and creating a large number of jobs in the Community.

c. Strengthening of international cooperation

The Commission considers that this is an area which should be given a high priority in the Budget over the medium and long term: there are many good reasons for the Community to take more responsibility for this policy and for the expenditure it would involve.

Already the Member States increasingly appear as a single unit in negotiations with the rest of the world. From this they are reaping the benefit of a kind of political economy of scale and greater weight in international forums. As political cooperation in external affairs progresses, so the obstacles which can still stand in the way of further action at Community level are being reduced - Community-level action representing the most efficient approach to certain forms of financial and technical cooperation (more efficient management, harmonized criteria, easier terms for the benefiting country, the freeing of supplies within the Community).

Overlapping with other Community policies is another good reason for advancing further along this path: an overall policy subsuming the different instruments of cooperation (commercial, financial, technical) has an infinitely greater impact - witness the agreements of the Lomé type - than the fragmenting of the various instruments across Community and national levels.

Finally, this is an area where, in budget terms, the gradual transfer of responsibility to the Community should not in theory mean an increase in the total financial burden greater than the increase which would otherwise occur at strictly national level, provided that the Member States take seriously the commitment to advance towards the international objective of giving 0.7% of their GNP in public aid. In this context, an increasing part of the joint effort should be conducted under Community auspices.

Having stated this general idea, the Commission adds that the principles it advocates should be introduced gradually and in accordance with specific criteria. The Commission reiterates its view that, whenever the Community intervenes through its Budget, the amounts should very quickly be increased to the "critical mass" which will make for a real, noticeable impact.

This is certainly necessary in "Lomé" policy and to a very large extent in Mediterranean policy. The Commission would refer here to the forthcoming renegotiation of the Lomé Convention which, in the Commission's view, should result in the European Development Fund being incorporated in the Community Budget as from 1980; this would be a not inconsiderable additional charge on the Budget, but an equivalent burden would be removed from the national budgets. The financial protocols under the Mediterranean policy have been shown in the Community Budget since 1978, and their renegotiation will be reflected in the Budget from 1981. Whilst it is not possible to quantify the financial effort to be made under these two heads, since this will depend on external negotiations, it can already be assumed that in real terms it must be at least equivalent to the effort for the previous period.

Food aid has indeed reached "critical mass", with a Community share of almost 60% for aid in the form of cereals. Nevertheless, concern for efficient management is an argument in favour of eventually bringing the whole system within the Community ambit. As regards the general food aid programme, the Commission plans to propose a second indicative three-year programme, along the same lines as the indicative programme for 1977-79 which could continue the cereal bracket but provide for a special effort in milk products, since aid is increasingly directed towards agricultural development projects of the "operation flood" type.

As these cooperation activities are connected with trade, it is surely obvious that an effort must be made by the Community.

Since commercial policy is a field in which Community writ runs, it is becoming incomprehensible that programmes supporting this policy are conducted at different levels (technical assistance for promoting exports from developing countries to the Community market; but at the same time incentives to exports to external markets). What is more, this subject is closely linked to the restructuring exercise which, as the Commission suggests above, should be given top priority.

Finally, the "critical mass" argument should be adduced in favour of increasing aid to the non-associated developing countries. Community action in what is now a new facet of Community development cooperation policy has so far been fairly marginal and aimed at extremely narrow targets. The Commission recommends a gradual and regular increase in the budgetary funds allocated to this sector.

d. Mitigation of regional imbalances

While the priority measures mentioned above are justified mainly by their direct effect on the process of economic integration and relate to sectors where economies of scale, in the widest sense of the term, operate, the Commission considers that any forward-looking view must not ignore the other function which the Community Budget must increasingly assume in the context of economic and monetary union and enlargement: that function is one of redistribution to mitigate regional imbalances (see p. 4).

One of the major obstacles to increased integration is the existence of serious regional imbalances within the Community: it was to remedy this state of affairs that the European Regional Development Fund was set up in 1975.

Budgetary appropriations of about 1 100 m EUA (1 300 m u.a.-IMF) were made available to the Fund in its first three years of operation, 1975-77. After reviewing this Community policy in December 1977, the European Council proposed an allocation of around 1 850 m EUA for the three financial years 1978-80.

Although the previous allocation and that proposed for the period up to 1980 do represent a considerable outlay, the Commission still believes that this financial contribution is very small compared with the scale of the problems.

It must also be remembered that the forthcoming enlargement of the Community and the steps towards economic and monetary union will add to the pressure on the economically weaker regions, both within the Nine and in the enlarged Community.

The Commission considers it of major importance to increase the regional policy appropriations in step with other Community policies, so that the imbalances which they might cause can be tackled effectively. In other words, progress towards economic and monetary union must be matched by better geographical distribution of economic activities and job opportunities: if this is not done, the economic problems and imbalances suffered by the poorest regions could only become more acute.

To sum up, if regional policy is to make the substantial and decisive impact which the situation now and in the foreseeable future calls for, much greater financial resources than at present planned must be provided.

3. THE CONTAINMENT OF AGRICULTURAL EXPENDITURE

While the Commission is calling for an assessment of the budgetary requirements of the various policies that is not distorted by the predominance of agricultural expenditure (see p. 2), it is none the less aware that the increase in the cost of the farm policy is a major source of concern which, to some sectors of the public, undermines a policy which is indisputably one of the Community's greatest achievements.

In view of certain attempts to tackle the problem of agriculture through the Budget, the Commission must emphasize it would be illusory to try to contain agricultural expenditure through the Budget. More than in other fields, agricultural expenditure is determined by decisions further back along the line - on market organizations and the adjustment thereof, prices, monetary compensatory amounts - and becomes virtually unassailable.

This being so, the Commission will continue to push for the policy it advocates for agricultural markets, which would check the increase in expenditure by the following means:

- cautious prices policy

A cautious prices policy, already recommended by the Commission for the most recent marketing years, must be continued. The general economic situation and, in particular, the slowdown in the increase of consumption make caution necessary. The average price increase proposed for the 1978/79 marketing year (2%) is thus based on a spirit of moderation.

- adjustment of certain common market organizations

The efforts to adjust certain existing market organizations must first of all be continued to ensure more effective management, a freer flow of goods within the Community and thus a reduction in certain present structural imbalances. Greater attention is being paid to the products of the Mediterranean regions; this should lead to an improvement of certain market organizations and a better overall balance for the common agricultural policy. The Commission has just sent the budgetary authority its proposals on the matter.

- gradual reduction of the monetary compensatory amounts

The Commission already put forward proposals concerning the dismantling of monetary compensatory amounts in 1976, and repeated them in an amended form in the autumn of 1977. The Commission attaches much importance to these proposals, as it considers that the "representative rates" must be gradually brought into line with the actual monetary situation.

- the "co-responsibility levy" experiment

In an attempt to gain more control over agricultural expenditure, the Council, when deciding on the prices for the marketing year 1977/78, adopted one specific measure - the "co-responsibility levy" - to limit the formation of surpluses of milk products and to promote them on the market.

An agricultural markets policy of this type should be accompanied by a more substantial agricultural structures policy at Community level (see p. 13).

II. Community ENLARGEMENT, source of far-reaching budgetary changes

Work is not sufficiently advanced to offer exact assessment of the budgetary repercussions of enlargement. Nevertheless, some problems have been identified and a number of reference points now exist.

1. Some socio-economic aspects

The enlargement of the Community through the accession of the three applicant countries Greece, Spain and Portugal will increase the population of the Community by approximately 20%, double the number of persons engaged in agriculture, increase the GDP by almost 10 %, slightly increase industrial output and raise shipping capacity by some 50%.

Although this expansion offers the prospect of progress in many areas, integration of the applicant countries will pose a number of major problems, both structural and as regards the widening gap in income between the Member States.

Structural problems: The application of the common agricultural policy will cause problems of competition between the Mediterranean products of the applicant countries (olive oil, wine, citrus fruit, vegetables, tobacco) and the southern part of the present Community. This will necessitate an adjustment programme which will not be made any easier by the structure and poor level of development of agriculture and the financial weakness of the public sector.

For industry, the primary energy production of the applicant countries covers only a very small part of requirements: these countries resort to imports (mostly oil) to an even greater extent than present Community, with a negative effect on the balance of payments. This cannot but further highlight the advantages of a common energy policy geared to reducing energy dependence.

Other important sectors in the applicant countries are among those which in the Nine are in a state of crisis - steel, shipbuilding, textiles, footwear. Hence the need for concerted action on reorganizing the structures.

Differences in income between the Member States: Allowing for purchasing power, Greece and Spain have a slightly lower per capita income than Italy and Ireland. In Portugal, on the other hand, GDP per head of population is only about 60% of Ireland's, at present the Community's poorest country. On top of this there are serious imbalances between regions within the applicant countries. The solidarity of an enlarged Community would therefore require certain transfers to be made, but without detriment to those regions currently receiving assistance.

It is obvious that economic revival in the Community, with the direct effects this would have on exports from the applicant countries and on additional job opportunities for migrant workers (whose remittances are a substantial contribution to the balance of payments), would be a valuable spur to the solution of these problems.

2. Financial aspects

The Community's financial instruments have been designed and developed to meet the present Community's requirements, and take into account.

existing resources and machinery in the Member States. Some of these instruments, such as those for reforming agriculture, are now so refined as to presage practical problems of the organization and the management methods in the sector have not reached a certain level. Even within the present Community, the introduction and application of some directives has had to be gradual. In these circumstances, exigencies of adaptation and "running-in" must be expected.

The Commission will soon be discussing the budgetary aspects paper in the content of its conclusions on the question of enlargement.

Difficult questions are obviously going to arise. For example : given the fact that the Community now operates the full own resources system, should the new Member States be required to pay over own resources in full from the outset or should stage-by-stage arrangements be adopted ?

Another problem will be the adjustment of the present financial instruments or the creation of new ones.

To sum up, the Commission does not intend this Communication to spark off a debate on the budgetary repercussions of enlargement. It does, however, believe that an overall medium-term appraisal of budgetary problems cannot ignore the fact of enlargement : to do so would be to turn aside from an important element in future budget policy as a whole.