

COMMISSION OF THE EUROPEAN COMMUNITIES

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Brussels, 12 March 1979

**GLOBAL APPRAISAL
OF THE BUDGETARY PROBLEMS
OF THE COMMUNITY**

*Communication from the Commission
to the joint Council
of Foreign affairs ministers and Finance ministers and to
the European Parliament*

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

**Comprehensive Review of the Community's Budgetary
Problems**

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INTRODUCTION

1. Following its practice each year since 1976, the Commission is presenting a comprehensive review of the Community's budgetary problems as the basis for an exchange of views, which - as requested by the European Council in December 1975 - is to take place between a Joint Council of Foreign Ministers and Finance Ministers and the Commission before the beginning of the budgetary procedure. The date selected this year is 2 April.

This Communication is also being forwarded to the European Parliament which, as the joint holder of budgetary powers, will certainly wish to participate, as it did for example in 1978, in this policy debate on the Budget.

2. As ever, it is not a question of anticipating the budgetary procedure, but of sizing up the major budgetary problems which the Community will have to face in the years to come, and of determining the key budgetary guidelines, while guaranteeing the requisite consistency with the major developments in Community policy. Hence, the main value of this exercise is that it enables the Community institutions, outside the confines of the budgetary procedure, to place the Budget - the trend in the volume of the Budget, the development of its main lines, and the determination of its functions in the integration process - in the context of the Community's general policy.

3. Because of this approach, the Commission did not give any figures in its previous reviews, but this time it has attempted to meet the wishes of those parties, in particular certain Member States, which considered that an exercise in reviewing budgetary problems without any reference to figures was too abstract. The Commission's thinking, while remaining basically qualitative and policy-orientated, has therefore been supported by a number of statistics (which are, however, given only as a guide). The figures relate mainly to the outlook for the next three years and not specifically to 1980.

Of course, bearing in mind the nature of this statistical information, the Commission does not expect and, in fact, does not wish the Council and the Parliament to make a formal pronouncement on it.

4. In the light of experience and certain topical factors, the Commission has altered the design and structure of its Communication compared with previous years.

As in 1978, this Communication is aligned on the medium-term budgetary outlook; the situation in 1980 can be regarded as a consequence of the trend described.

The projection of expenditure must be seen in close relation to the Communication entitled "Financing the Community Budget - The Way Ahead" (COM(78)531 final of 21 November 1978) which, after assessing foreseeable developments, suggests that urgent thought be given to the creation of new budgetary resources.

The Commission would like this to be discussed as a concomitant or even as a matter of priority.

Lastly, the Commission has thought it appropriate to include in this Communication some thoughts on a matter which it regards as being of unquestionable topicality with regard to the main lines of development of the Community, i.e. the redistributive function of the Community Budget.

This Communication begins with a Chapter entitled "Main Considerations and Guidelines" which is also a summary.

SUMMARY: MAIN CONSIDERATIONS AND GUIDELINES

1. The general considerations which the Commission formulated in its Communication last year (1) still apply. The Commission feels that some of them should be recalled as they are particularly significant in the present context:

- (a) Notwithstanding the present relatively small size of the Budget, it ought to play an increasing part in support of progress towards Economic and Monetary Union and enlargement of the Community.
- (b) The proportion of the market-guarantee side of agricultural expenditure must be gradually but appreciably reduced by controlling agricultural spending more effectively and expanding other Community policies.
- (c) The question of creating new budgetary resources will arise in the medium term, because of the ceiling placed on own resources under the Decision of 21 April 1970.
- (d) The instrument for borrowing and lending operations must play an increasing role in the finances of the Community.
- (e) Ways must be found for the Community Budget to play an increasingly redistributive role commensurate with the progress achieved in the abovementioned areas, without distorting the objectives of the various sectoral policies.

The Commission considers that recent Community developments call for further reflection on these matters in particular.

2. In 1978, the Community made encouraging progress towards deepening and enlargement. The European Monetary System is a decisive step towards Economic and Monetary Union. The negotiations for the accession of another three States have now all begun; the negotiations with Greece are approaching their conclusion.

These two aspects of the development of the Community will primarily determine the budgetary outlook.

The Commission feels that a third aspect should be added to this list: the persistent employment problems which demand much more resolute Community action.

(1) See Chapter A. "General Guidelines" of Doc. O. 1(78)64 final of 27 February 1978.

3. The work on setting up the EMS has revealed that the structural imbalances between countries and regions in the Community could prove an obstacle to greater economic and monetary integration. From a budgetary angle, this should prompt the Community authorities to review the role which the financial instruments and, in particular, the Community Budget can play in helping to reduce these differences.

Apart from the implementation of the specific measures concerning loans covered by interest-relief grants proposed by the European Council of December 1978, the Commission feels that this raises the question of how much the existing funds for the resolution of structural problems can contribute to reducing the imbalances affecting the less prosperous economies.

The Commission holds that the existing mechanisms should be used to the utmost effect by coordinating them more closely. In addition, the monies available to these Funds must be steadily increased and the redistributive effect of the latter reinforced. This process must, however, dovetail with the specific aims of the Community policies, and must not deflect the instruments from their implementation. Overall, this is the major budgetary priority in the medium and longer term.

4. The need to make a greater effort to assist economies suffering from major structural problems puts the possible contribution of borrowing and lending activities in a new light.

The Commission considers that combining the financial means raised on the capital market with the budgetary funds intended to lessen the consequent interest burden will have a valuable multiplier effect on the economic impact for those Member States whose economic potential must be strengthened.

This combination of strictly budgetary monies and monies originating on the financial markets and the link so created constitute an additional reason for including borrowing and lending activities in the second section of the Budget, as proposed by the Commission.

5. The enlargement of the Community is not likely to have a sudden and considerable impact on the Budget, especially viewed from the strictly triennial viewpoint; the budgetary effects of enlargement will appear only gradually.

However, everything seems to indicate, in the longer term, that, without prejudging future measures to tackle structural disparities in the enlarged Community, the mere application to the new Member States of the normal interplay of existing mechanisms and instruments will constitute a considerable net burden; this is one of the decisive reasons for increasing the financial resources beyond what is currently available.

6. Employment is the third preoccupation which should be significantly represented in the budgetary guidelines.

The Commission believes that the Social Fund measures should be stepped up considerably, especially when direct action is required to create jobs, in particular for the young.

In view of the very marked "regional" aspect of Social Fund activities, this policy would be a perfect complement to the measures intended to reduce the structural disparities.

7. As regards the significance of agricultural expenditure and the efforts to contain it more effectively, the Commission is continuing to operate at the stage where this expenditure is determined, i.e. upstream of budgetary procedure. In this connection, the Commission recalls in particular its recent proposals on prices, related measures and the gradual elimination of the MCAs.

8. Alongside these highly "budget-intensive" guidelines and policies, the development of sectoral policies other than agricultural policy (energy, industrial, scientific and technical policies, etc.) which are important for the future of the Community's economy will have only a modest impact on the volume of the budget. Selectivity is called for in respect of these policies; the projects chosen must be given the funds required for a truly significant and genuinely Community operation, and dissipation of effort must be avoided.

The Commission is deeply concerned with the Council's lack of action in connection with some of these policies (energy, industry); but it is well aware in this case that the major problem is not one of surmounting budgetary obstacles.

9. Development cooperation should not only retain the high degree of political priority which the Commission attached to it in last year's communication; with the appearance of the European Development Fund in the Budget and in view of the new obligations which the Community is about to assume in the food aid sector, this policy will occupy a markedly large place in the Community Budget in future. Together with regional policy and social policy, development cooperation will be a decisive factor in budgetary "diversification".

10. The prospects outlined raise, in a very acute manner, the problem of creating new resources, even when a cautious assessment is made of future requirements.

The Commission mentioned this problem in last year's communication; it gave material form to the problem in the triennial forecasts for 1979-1981; the factors which have arisen since then only confirm the Commission's forecasts: new resources appear necessary for the 1982 Budget at the latest.

A. EXPENDITURE: MAIN MEDIUM-TERM BUDGET GUIDELINES

I. Structural policies furthering greater convergence of the economies

The actions grouped under this heading - regional policy; interest relief on loans to benefit the less prosperous Member States; a social policy that encourages employment, particularly in less-favoured regions; the agricultural structural policy - should be given priority.

(1) Regional policy

The fact that there is a serious regional imbalance within the Community is one of the major obstacles to intensifying integration and it is the aim of the Regional Fund, set up in 1975, to help alleviate this imbalance.

It should nevertheless be realized that the resources originally allocated to this Fund were extremely modest compared with its objectives and also that a number of new factors have been added to the original circumstances; all this makes the problems requiring solution more acute. To begin with there is the persistent economic crisis which only emphasizes the structural disparities. Then there is the realization that a substantial Community effort to bring about greater convergence of the economies plays a very important part in creating the necessary preconditions for a greater degree of economic and monetary integration, and, finally, there is the prospect of a further enlargement of the Community in the not so distant future.

In the Commission's view, intervention by the Regional Fund in the medium term will depend on the following steps:

- (a) topping up its resources; this is needed if the actual needs are to be met effectively;
- (b) resources for the "non-quota section" - at present limited to 5% of the whole Regional Fund - must, when the present legislation is revised, be substantially increased as from 1981.

These measures will have the effect of increasing the Regional Fund's resources from 945 m EUA in 1979 (1) to approximately 1 600 m EUA in 1982.

(1) Taking into account the preliminary draft of the First Supplementary Budget for 1979.

(2) EMS support measures

In order to strengthen the economic potential of the less prosperous countries which have joined the European Monetary System, it has been agreed to make available to them, over a period of five years, loans of up to 1 000 million EUA per year. These loans will benefit from the 3% interest rate rebate borne by the general budget, but the total rebate may not exceed 200 million EUA per year.

(3) Social policy and employment

In spite of an expected improvement in the economic situation, it is likely that, in the next few years, unemployment will remain at a high level.

Where employment is concerned, economic growth will be largely outweighed by the arrival on the job market of the school leavers of bulge years (a phenomenon which will continue up to the mid-1980s), and by gains in productivity achieved through modernization and restructuring of industries.

The last few years have also shown that a growing number of young people will be coming onto the job market with training and qualifications unsuited to the jobs available - which together with the continual innovation which characterizes economic life will simply aggravate the situation. The Social Fund will be forced to intervene more and more frequently to alleviate these difficulties.

The high average unemployment level in the Community covers situations which vary greatly from region to region and with the category of persons involved. It is therefore worth stressing the importance of Social Fund activities in the regions: at present about 75% of the Fund's resources are spent on the regions.

The above circumstances are reflected in the growing number of applications for aid from the Social Fund. Total applications in 1978 came to almost twice as much as the Fund's resources. The granting of new forms of aid for young people from 1 January 1979 will only accentuate this trend.

What is more, the continuing crisis in certain sectors - particularly shipbuilding and textiles - will probably mean not merely the restructuring of these industries but also a call for social measures related to such restructuring.

In these circumstances it would seem essential to assign increased resources to the Social Fund for the next few years.

The Commission therefore considers that the resources of the Social Fund - approximately 815 million EUA in 1979 - should be increased gradually to approximately 1.650 million EUA in 1982, giving an annual increase of over 25%.

Within the Social Fund, priority should go to the regions most seriously affected by the economic crisis, young people, and social measures, in connection with restructuring, designed to save jobs.

(4) Agricultural structures: EAGGF Guidance Section

Now more than ever, agricultural structures should be one of the Community's major preoccupations.

First of all, it is clear that, because of the obvious link between them, the structural policy (EAGGF Guidance Section) should be consistent with the policy on the common organization of markets (EAGGF, Guarantee Section), particularly now that an effort is being made to organize the latter more effectively. Certainly, the development of the agricultural structures policy will necessitate an increase in the resources of the EAGGF Guidance Section; however, the results of the structures policy must be looked at bearing in mind the aims followed concerning the markets policy. Then, in view of the current social crisis, especially as reflected in unemployment, the role of the agricultural structures should be re-examined to determine its true value; it is clear that current prospects are no longer the same as those of the '60s. Finally, enlargement of the Community cannot but introduce a new dimension to the problem as a whole, a dimension which must be taken into account in altering and adapting the present policy on agricultural structures.

In this context, development over the next few years in the EAGGF Guidance Section is likely to centre on the following points:

- (a) action to benefit the less-favoured regions (hill farming, farming in the Mediterranean and other specific regions) will grow over the next few years in order to deal more effectively with the sectoral problem;
- (b) general, social and structural measures - such as those relating to the modernization of farms - should be capable of being more effectively applied by the Member States, as the necessary financial and legal preconditions now exist (rates adapted to changes in costs, establishment of internal application procedures);
- (c) finally, with regard to actions in respect of structures where the specific aim is to establish supportive measures to facilitate the operation of the relevant common organization of markets, provision has been made for continuing the main actions already under way (particularly in connection with milk products) and for introducing new actions (particularly in viticulture and viniculture).

The resources of the EAGGF Guidance Section - originally limited to 325 million EUA by a Regulation - have already increased somewhat in the last few financial years. At the end of 1978, the expected development sketched out above led the Commission to propose an increase in the resources for the next two financial years; the requirements are likely to be approximately 840 million EUA per year.

The Commission very much hopes that the Council will be able to decide soon on this proposal, upon which the envisaged development of the policy on agricultural structures depends.

(5) Faster utilization of the appropriations available

In the section of this document devoted to structural instruments, it would seem appropriate to draw the Council's attention to a point particularly dear to the Commission's heart. The implementation of the Budget for the 1978 financial year highlighted certain problems in the operation of the various Funds; remedies must be found.

Where the Social and Regional Funds are concerned, although the rate of utilization of appropriations for commitment was entirely satisfactory (clearly indicating that the corresponding operations are under way at Member State level), the rate of utilization of appropriations for payment leaves a great deal to be desired. Analysis of the facts shows that the main causes for delays lie in the Member States and are mainly due to unwieldy administrative procedures.

The Commission therefore repeats its request to the Member States to take the requisite steps to remedy this situation.

Where the EAGGF Guidance Section is concerned, on the other hand, it should be noted that appropriations for commitment were under-used; this in general reflects the fact that structural policy (particularly the social and structural directives) is not applied by all the Member States. It is therefore the Commission's duty to remind those concerned that it is most important for the structural policy to be applied as actively as possible.

An improvement in this situation is especially essential since it is here in the field of the structural Funds that the Commission is advocating an expansion of resources.

II. Specific sectoral policies

(1) Energy

In the energy sector, the Community's target of reducing its dependence on imported energy to 50% by 1985 must be maintained and will continue to guide national and Community efforts as a whole.

However, the Council's reluctance to develop a real Community policy in this sector means that some caution must be exercised in estimating the amount of money to be spent in the next few years.

- (i) In the coal sector, Community intervention operations must be revised downwards as the coal-stockpiling operation will, it seems, have to be abandoned.
- (ii) In the hydrocarbons sector, support for technological projects, an operation which has been going on for five years, will decline. However, support for hydrocarbon exploration is still of primary importance, even if the Council has not yet given its agreement.
- (iii) As regards demonstration projects, first priority must be given - in accordance with the regulations already approved - to developing energy savings and the exploitation of alternative energy sources, including the liquefaction and gasification of coal, and geothermal and solar energy. The Council has earmarked 95 m EUA over four years for energy savings and 55 m EUA for alternative sources, and these amounts may be revised later in view of the importance of these operations. Inclusion of wind, wave and tidal energy and the exploitation of marginal gas and oil fields, on which there will shortly be a Commission proposal, will entail supplementary appropriations.
- (iv) As regards nuclear fuel, the uranium prospecting campaign in the territory of the Community should reach its normal scale of operation. In 1979, the Commission will submit proposals on uranium prospecting in non-Community countries and on stockpiling.
- (v) Finally, it is necessary to stress the fundamental importance which must be attributed to a new operation concerning cooperation in the energy sector with the developing countries.

(2) Scientific research, technological development, scientific and technical information

The common policy in the field of science and technology involving the coordination of national policies and the joint implementation of operations of Community interest, is based on the Council Resolutions of 14 January 1974.

This Community policy is being implemented in accordance with the guidelines set by the Commission in its Communication to the Council of 30 June 1977 laying down the priorities and criteria for developing Community research and development operations. Indirect action is organized according to four topics of Community interest:

- (i) resources (energy, raw materials)
- (ii) industrial development
- (iii) life in society
- (iv) environment.

Two examples of important long-term programmes are those concerning thermonuclear fusion (including the JET Project) and new non-nuclear energy sources.

The controlled thermonuclear fusion programme aims at producing electricity using fusion energy; this could provide a supply of energy for a very long time. In this sector the endeavours of the Member States are coordinated in a programme to which the Community's financial contribution for the 1976-83 period is estimated at some 300 m EUA. To this must be added the JET Project, which is part of the fusion programme.

As for the "new non-nuclear energy sources" programme (solar energy, geothermal energy, hydrogen, etc.), the Community's financial contribution for this research is estimated at 125 m EUA for the 1979-83 period.

It is necessary to stress not only the increased importance of these Community operations for the development of an overall Community energy policy but also the coordinating and stimulating effect of indirect action as a whole.

As regards the JRC, the Commission will continue, in the years to come, its research endeavours (direct action) as part of the four-year programme from 1977 to 1980, revision of which - for the 1980-83 period - is now in preparation.

In this field, the Commission's policy will continue to be based on major research topics such as reactor safety, new energy sources, the environment and service and support activities.

As regards the scientific and technical documentation and information sector, a number of new or recently-launched activities are destined for major development over the next few years, including:

- (i) machine translation,
- (ii) the EURONET computerized network for scientific and technical information,
- (iii) the encouragement of industrial innovation.

(3) Industry

The economic difficulties which beset the Community require that the Commission continue its efforts to draw up and apply sectoral measures which must be coordinated with the commercial, social and regional policies.

Community action aims both to restructure the declining sectors and to stimulate the growth sectors.

In a recent communication to the Council and in connection with the Regulation relating to Community intervention in respect of industrial reorganization and conversion, sent to the Council in October 1978, the Commission recommended that the shipbuilding and textile sectors be declared eligible for these intervention measures. These special measures which would complement interventions by national authorities and by the Community's other financial instruments, will have to be taken in 1979, the order of magnitude of the sums involved being some 30 m EUA per annum.

The financial resources available to the ECSC for iron and steel policy must be substantially increased.

In its report (1) to the European Council on 22 June 1978 on certain structural aspects of growth, the Commission outlined a Community action aimed at promoting industrial development in the advanced technology sectors (above all, the aerospace and data-processing industries).

(1) Doc. COM(78)255 final.

In the aerospace sector, the research actions to be undertaken at Community level are concerned, essentially, with helicopters and airframes.

In the data-processing sector, future Community actions will be concerned with the data-processing industry in general and will include financial support for some sectors such as software, the peri-informatics and electronic components.

(4) Transport

In the transport sector, stress must be placed on the impetus imparted by the Council meeting of Transport Ministers of 23 November 1978 as regards intervention on behalf of projects of Community interest in the field of transport infrastructures on the basis of a proposal for a Regulation put forward by the Commission in 1976. The European Parliament is known to be very much in favour of this.

The Commission takes the view, in the light of information now at its disposal, that to have operational effect, the Community contribution should amount to about 50 m EUA per year.

(5) Fisheries

The common fisheries policy - deriving, in particular, from the introduction of exclusive economic zones of 200 miles and the need to take stringent measures to preserve fishing resources - makes only a very modest budgetary impact at present, but is extremely important as a Community policy.

At the present stage, the following actions need to be developed:

- (a) in the first place, measures for adapting structures should be launched. For some time the Council has had before it a proposal for large-scale action in the inshore fishing sector and a proposal aimed at adapting the production capacities to changed circumstances. It is highly desirable that a decision be taken as soon as possible, so that they can be implemented at the earliest possible date.

Furthermore, the Commission is now preparing a joint research programme in the fisheries sector, particularly aquaculture, a branch of activity destined to become increasingly important in the future.

- (b) secondly, the common organization of the fisheries market - which comes under the EAGGF Guarantee Section - will undergo development characterized, above all, by changes which will affect catch potentials.
- (c) thirdly, a series of fishing agreements with non-Community countries will require to be concluded, particularly with a number of African countries, Yugoslavia and Sweden.

Expenditure for 1979 amounts to some 70 m EJA: although there are many unknown quantities involved as regards the future - it is, for example, impossible to specify at this stage the quid pro quos to be negotiated with the non-Community countries - the volume of the appropriations for 1982 could well be of the order of some 125 m EJA.

(6) Environment

The recent discussions in the Council on Community environment policy reached the conclusion that this policy should aim not only at combating pollution and nuisances, but also at optimizing management of the natural environment, since it is an important element in both economic development (because it supplies resources: water, air, space and raw materials) and social development (because of its effect on our surroundings).

In view of this conclusion, the Commission considers that, as well as continuing action already in progress, a number of new measures should be brought in to improve the quality and management of water, to monitor air and water pollution, to conserve soils and to develop "clean" technologies; these measures will require a considerable increase in available resources.

III. Development cooperation

The Community's development cooperation policy is part of attempts to set up a new world economic order, to restructure international trade and to develop further the new kind of relationship which has been set up between the industrialized and the developing countries.

With this in mind, the Commission would emphasize firstly the particular importance it attaches to renewing the Lomé Convention and entering in the Community Budget financial resources for the European Development Fund. It is certainly not possible at the present stage of negotiations with the ACP countries to specify the amount of appropriations involved, but the Commission considers that the volume of financial aid granted by the Community should be determined chiefly with a view both to providing aid equivalent in real terms to that provided under the Lomé Convention and to treating those countries acceding to the new agreement for the first time in exactly the same way as the present partners.

Most of the financial protocols of the agreements signed with the Mediterranean countries will expire at the end of 1981 but at the moment it is not possible to give an accurate idea of the appropriations which may be allocated to them from 1982 onwards.

At the same time, the Commission considers that the Community should step up action to help non-associated developing countries. The objective of 200 m EUA, originally fixed for 1981, should be reached in 1982 and there should be a steady increase starting with the 110 m EUA entered in the 1979 budget.

Lastly, Community food aid should be increased so that it continues to have a real effect on people in those poorer countries which are seriously short of food. For cereals, the Commission has already proposed to the Council, for the renegotiation of the Food Aid Convention, that the commitment of the Community be increased (over and above the amount of 1 650 000 tonnes which the Council has already agreed upon) to 1 720 000 tonnes per year, for milk products. The Commission considers that Community aid, which now includes 150 000 tonnes of skimmed milk powder (and the Commission has repeated its proposal to the Council that the amount of butteroil be increased to 55 000 tonnes in 1979) should be substantially increased in the next few years in order to meet the most pressing needs of the poorest developing countries.

Development cooperation thus remains a priority from the budgetary point of view and the appropriations allocated to it will be increased considerably.

IV. Containment of the expenditure on agricultural markets (EAGGF Guarantee)

The EAGGF Guarantee Section predominates in the Community Budget by reason both of the substantial amount of appropriations involved - more than two thirds of the whole - and because of the specific nature of some expenditure (such as that caused by large surpluses), the financial and political justification of which causes delicate problems.

In the Commission's opinion, and without detracting from the real progress which the agricultural policy represents for the Community, it is essential to take steps to eliminate the imbalances on the markets and to correct the monetary disparities. Although this kind of measure cannot be expected to bring about a reduction of agricultural expenditure in absolute terms, this policy would at least check the present rate of increases and thus help to contain the cost of the market organizations.

The main features of the action envisaged are as follows:

- (a) to attempt to bring about a general improvement on the markets by means of a strict pricing policy;
- (b) to modify the operation of the markets with structural surpluses in order to redress the balance on them;
- (c) to dismantle the compensatory amounts.

1. General improvement on the markets

In the proposals recently submitted by the Commission, it suggests that the prices currently in force on all agricultural markets should remain in force for the 1979/80 marketing year. Farmers should be able to tolerate this check on price increases in view of the progress of their incomes.

2. Redressing the balance on the markets with surpluses

This action is chiefly concerned with two markets:

- (a) the milk market, where a coresponsibility levy which varies according to production levels is to be used to check or to discourage further production by reducing the volume of short-term expenditure and by helping in the medium term to reduce expenditure on marketing surplus production;
- (b) the sugar market, where the reduction of the quota qualifying for guaranteed marketing conditions, which began in the 1978/1979 marketing year, should be continued in order to bring the quantities produced into line with actual requirements.

3. Abolishing the compensatory amounts

The introduction of the EMS will have the effect of making the relationships between the European currencies less stable and of reducing fluctuations in the compensatory amounts. This is why it now seems more realistic and more feasible to abolish the compensatory amounts in the near future.

Moreover, the Commission has suggested stricter rules so that in future any compensatory amounts which are introduced should be genuinely temporary and abolished within a very short time.

Apart from the emphasis placed on restoring the balance on certain agricultural markets, the coming period will see two new factors emerge:

- (a) the common organization of the markets in alcohol, sheepmeat and potatoes, the operation of which should finally achieve the aim of developing a Community agricultural system;
- (b) the accession of Greece, which is expected in 1981 and will require special arrangements to take account of this country's specific needs.

To summarize, it is expected that appropriations for the EAGGF Guarantee Section - which stand at around 9.2 million ECU (1) in 1979 - could increase, on the basis of present trends, to around 14 000 m ECU in 1982 if effective measures are not taken to check them. On the other hand, forecasts show an amount of around 11 100 m ECU in 1982 if the containment measures referred to in Items 1 to 3 above are adopted by the Council.

The Commission would emphasize once again the political and financial importance of these proposals and considers it essential that the Council adopt them.

V. Enlargement

Negotiations on the accession of Greece are almost completed, whereas those with Spain and Portugal have only just begun.

A number of qualitative and quantitative aspects of the prospects and problems of enlargement have already been discussed in the communication of 1978.

Enlargement will increase the Community's population by some 20%, doubling the number of people working in agriculture; it will increase GDP by almost 10%; it will moderately increase industrial production and it will mean a 50% increase in the Community fleet. Whereas in Greece and Spain per capita income is fairly close to the low end of the present Community scale (Ireland), in Portugal it is only some 60% of this figure. "General considerations" on Community enlargement and the 1978 "Fresco" emphasize that because of this, we must ensure that the unity of the Community market and the achievement of economic and monetary union are not affected by the new structural disparities caused by enlargement.

Although the degree of difficulty caused by the integration process will largely depend on the rate of economic growth, the Community finances can nevertheless help to ease adjustment. The 1978 "Fresco" estimated the possible contribution on the basis of figures and assumptions for 1978.

Assuming that the new Member States had been fully integrated as early as 1978, had applied all the Community rules on general budget expenditure and had paid all the own resources, the volume of the budget would have increased by 2 500 to 3 000 m ECU, an increase of 20-25%, of which about 1 000 m ECU would have been paid by the nine original Member States in the form of a net transfer.

(1) Effect of food aid not taken into account.

These amounts do not take account of the dynamic effects of the application of common agricultural policy prices to all the production of the three new Member States.

As regards Greece, the transitional provisions provide for the gradual application of CAP prices over the next five years (seven years for some products). As a result, expenditure on the EAGGF Guarantee Section will only reach a third of its total volume in the first year. There are no transitional provisions in the other sectors affecting their application but experience shows that it takes some time to begin making commitments and even more for payments. In these circumstances, total expenditure for Greece can be expected to be around 450 m EUA in 1981 and 500 m EUA in 1982 in total appropriations for commitments. As the transitional provisions on own resources have not yet been adopted, one can only try to estimate the balance which, at the beginning of the transitional period, will be much lower than the amount under the final system.

B. REVENUE: THE NEED FOR ADDITIONAL OWN RESOURCES

In its Communication to the joint Council meeting last year and in the triennial estimates of expenditure 1979-1981, the Commission stated that the Community Budget would soon be too large to be financed solely by existing own resources (customs duties, agricultural levies and application of a Community VAT rate of not more than 1%).

The Commission consequently undertook a study of new methods of financing the Budget and forwarded the results to the Council and Parliament in November in a paper entitled "Financing the Community Budget - the Way Ahead". Council and Parliament are now called upon to state their views on this matter as soon as possible, so that they can be taken into account by the Commission when it prepares its proposals on a new system of financing the Community Budget later in the year. In view of the procedures which have to be observed, a decision must be taken soon if new resources are to be available by 1982.

In its paper, the Commission considers that it has demonstrated that various factors, in particular enlargement, will make it essential for the Community to have further resources of its own fairly soon.

While not yet presenting a formal proposal, the Commission indicates the direction of its own thinking, which is that VAT is a good basis for an own resource for, despite the limitations and problems of the existing system, it has the character of a tax which bears on the individual Community citizen.

Nevertheless, the Commission also emphasizes that another essential aspect must be borne in mind when the final decision is made, i.e. the possibility of introducing "an element of redistribution through adjustments of the overall impact of receipts" (other than revenue from customs duties and agricultural levies), as a result of which less substantial inputs would be needed to attain a given redistribution effect than by acting only on the expenditure side. A progressive system for financing the Budget might be examined.

In any case, the Commission firmly believes that, to avoid the worsening of the existing economic disparities, any element of regressivity should be avoided.

The Commission expects the Council to give its initial views on all these points on 2 April.

C. THE OUTLOOK FOR BORROWING AND LENDING

The issuing of Community loans in 1976 to redress balance of payments marked the inception of a borrowing and lending policy which has steadily developed with the introduction of Euratom loans in 1977 and the approval of the New Community Instrument by the Council at its meeting on 16 October 1978.

Euratom loans will probably reach their ceiling of 500 million EUA by the end of 1980. The Commission has not yet proposed to the Council that a new tranche of loans be issued; an application will, however, be made in accordance with the basic Regulation once the first ceiling of 300 million EUA is reached - probably at the end of this year or beginning of 1980.

In view of the decision taken by the Council on 16 October the Commission is also empowered to raise loans to the value of 1 000 million units of account to finance investment projects furthering greater convergence and integration of national economic policies. This mechanism, which is to be used alone or with other financial instruments, will come into operation this year. At its meeting on 4 and 5 December 1978, the European Council decided to grant less prosperous Member States participating in the European Monetary System interest relief on loans granted to finance projects in their countries. A large proportion of the loans on which interest relief will be granted will be raised by the new Community instrument.

This interest relief which derives from the same Council Decision will be granted on loans issued by the European Investment Bank and/or the Community under the terms of the Council Decision of 16 October 1978. This interest relief will not exceed 1 000 million EUA and will be

granted in annual tranches over five years for the loans granted, up to a total 5 000 million EUA, in the same period.

As regards ECSC borrowing and lending operations, the Commission will continue to contract loans under Articles 49, 54 and 56 of the ECSC Treaty in response to applications by firms for loans to finance investment to maintain the production and competitiveness of these industries and investment for redevelopment.

Total loans raised in 1978 stood at 1 100 million EUA compared with 729 million EUA in 1977 and 956 million EUA in 1976. The sums on-lent during the same periods were 798 million EUA against 742 million EUA and 1 064 million EUA. It is assumed that these operations will continue at the pace needed to meet firms' investment requirements.

D. Longer-term thinking: Strengthening the Budget's redistributive function

1. The Commission takes the view that the view that the broad question must now be asked, what is and what ought to be the role - even if it is only a supporting role - of European public finance in reducing the structural disparities between countries and regions in the Community, in the efforts to achieve greater convergence of the economic development of the Member States.

2. As they now stand, most of the Community policies influencing the Community Budget have been formulated essentially from the point of view of a specific sector. This is the case with agriculture, where market-guarantee spending accounts for nearly 70% of total expenditure.

The same applies to the policies in the other sectors, although the sums of money involved are much smaller. In fact, it would be rather hard to imagine, for example, pursuing an energy policy or a research policy with a marked redistribution objective when other criteria predominate.

The position is different with the financial instruments of a structural character, especially the ERDF, which most obviously has a redistribution objective, since it has the clearly stated aim of helping to reduce the socio-economic disparities of a structural character within the Community. However, the redistributive effect varies according to the specific aims of the different Funds and their operating rules. It is the most marked in the case of the ERDF, less pronounced in the case of the Social Fund and hardly perceptible overall in the case of the EAGGF Guidance Section.

While, on the expenditure side, therefore, only some policies have, to a greater or lesser extent, a redistributive effect which benefits the less prosperous countries or regions in the Community, revenue does not make a redistributive contribution either. As with expenditure, certain categories of revenue by definition do not lend themselves to a redistribution exercise (customs duties, agricultural levies), others (GDP-scale contributions) have had a neutral effect so far, while for VAT the position is less clearly defined.

This rapid survey indicates the complexity of the problem. The inference is that a more detailed examination is needed in order to determine the redistribution possibilities afforded by the different areas of the Budget.

3. It must be accepted, however, that a certain amount of reordering of budgetary objectives to give a higher priority to the redistribution objective is both desirable and possible.

Although we must rule out, straight away, the possibility of giving a systematic redistributive dimension to every sectoral policy, attention should be paid to this aspect in the development and implementation of the common policies. It must be admitted that there are limitations and constraints, since the redistribution objective is often in competition with sectoral objectives which cannot be relegated to second place without weakening policies which are vital to the building-up of the Community.

Attention must therefore necessarily be concentrated on the financial instruments which are designed to help reduce economic disparities within the Community. The following steps must be taken:

- (a) Find out whether the instruments and their principles of operation have any features which might stand in the way of a more marked redistributive effect; on the face of it, there appear to be quite a number of serious obstacles;
- (b) Focus the funds available, without departing from their purpose, on measures given priority in accordance with the gravity of the situation;
- (c) Steadily expand the resources of the Funds so that they can fully respond to the demands made upon them.

The discussion on the new own resources will provide an opportunity for examining the problem from the revenue angle. It will also provide an opportunity to examine the effectiveness of measures on the expenditure side and, if necessary, to expand and improve them.

4. To sum up, while proposing that the Community Budget's redistributive function should be enhanced, the Commission takes the view that the specific nature of the policies must be safeguarded and that these policies should be able to continue to develop, supported by instruments which are consonant with their objectives. Each instrument should therefore have a redistributive effect compatible with its specific objectives and none of these instruments should be devalued by being reduced to a vast clearing operation. However, between such an extreme solution (which the Commission dismisses) and the way in which certain instruments operate at present, there may be a good deal of scope for improvement.

ANNEX 1

TABLE 1: THE TREND IN THE VOLUME OF THE GENERAL BUDGET OF THE EUROPEAN COMMUNITIES 1973-1979

Year	Unit	General Budget of the European Communities			National budgets	GDP (EEC)	General Budget (%)	
		Total	of which EAGGF Guarantee	EAGGF Guarantee 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 %	227.700	867.600	2,0 %	0,53 %
1974	"	5.037	3.390	67,3 %	268.300	983.500	1,9 %	0,51 %
1975	"	6.214	4.327	69,6 %	337.500	1.110.600	1,8 %	0,55 %
1976	"	7.993	5.710	71,4 %	387.900	1.281.600	2,1 %	0,62 %
1977	"	9.584	7.133	74,4 %	442.600	1.515.500	2,2 %	0,63 %
1977	(1) m EUA	9.600			405.000	1.388.100	2,4 %	0,69 %
1978	"	12.363	8.677 (3)	70,2 %	473.500	1.535.200	2,6 %	0,81 %
1979	"	(2) 13.700	a) 9.582 (4) b) 9.232	69,9 % 67,4 %	518.100	1.696.700	2,6 %	0,81 %

(1) At the 1 February rates used for the establishment of the General Budget.

(2) Including the preliminary draft for the First Supplementary and Amending Budget; figure rounded off.

(3) Including refunds for food aid.

(4) Excluding refunds for food aid.

ANNEX 2Statistical outline of the trend for 1979-82

Tables 2 and 3 are an attempt at a statistical summary and a first outline of the possible trend of overall budgetary expenditure until 1982, assuming economic growth of 3.5%-4% a year in real terms and a slower rate of increase in general price levels (from 7.4% in 1979 to 5% in 1982)(1). The grand total tends to underestimate the real requirements in 1982 for the reasons mentioned in particular in the section on cooperation with the developing countries.

In keeping with the main lines of priority indicated, the relative volume of non-agricultural expenditure should increase, especially in the case of hypothesis 2 which reflects a containment of the increase in the costs of the market organizations.

Overall expenditure would increase between 1979 and 1982 at an average rate of 17%-18% according to the strong hypothesis concerning the EAGGF Guarantee Section, and 12%-13% according to the weak hypothesis (the difference between the rate for total appropriations for commitments and that for total appropriations for payments is moderate).

The own resources available are thus likely to be insufficient, a possibility already indicated in the triennial financial estimates for 1979-80-81, the shortfall in 1982 amounting to around 3 000 million EUA under the strong hypothesis or 300 million EUA under the weak hypothesis. Once again, it should be mentioned that the real requirements will probably be greater.

Notes concerning the tables:

- 1979 includes the preliminary draft of the First Supplementary and Amending Budget;
- EAGGF Guarantee Section excludes food aid refunds;
- Development cooperation includes food aid refunds and, from 1980, EDF;
- Reimbursements to the Member States: reimbursement of 10% of the own resources and a refund of 45.4 m EUA a year to the United Kingdom under the EMS arrangements;
- Enlargement: net balance in Greece's favour.

TABLE 2: GENERAL TREND IN EXPENDITURE AND REVENUE 1979-1982 in m EUA (1982 figures rounded off)

HEADING	Total appropriations for commitments			Total appropriations for payments		
	1979 ¹	1982		1979 ¹	1982	
		Hyp. 1	Hyp. 2		Hyp. 1	Hyp. 2
A. EXPENDITURE						
1. Agricultural sector of which:	9.875	15.000	12.100	9.713	15.000	12.100
- EAGGF Guarantee Section	9.232	14.000	11.100	9.232	14.000	11.100
- EAGGF Guidance Section	564	875	875	426	880	880
- Fisheries	71	125	125	47	110	110
2. Social sector	442	1.700		562	1.600	
3. Regional sector	943	1.600		499	1.500	
4. EMS subsidies	200	200		200	200	
5. Energy, research, industry and transport sectors	276	800		296	800	
6. Development cooperation sector	997	2.300		849	1.600	
7. Overall operational reserve	100	100		30	100	
8. Administration (Commission and other institutions)	842	1.100		842	1.100	
9. Reimbursements to the Member States	737	785		737	785	
10. Enlargement (Greece)	-	150		-	150	
11. GRAND TOTAL	14.814	23.700	20.800	13.728	22.600	19.700
B. REVENUE						
1. Miscellaneous revenue				154	200	200
2. Customs duties				4.746	5.500	5.500
3. Agricultural and sugar levies				2.173	1.900	1.900
4. Expenditure to be covered by VAT				6.655	15.000	12.100
5. TOTAL (= line 11)				13.728	22.600	19.700
6. 1% of the VAT assessment base				9.047	11.800	11.800
7. Revenue including 1% of VAT (1+2+3+6)				16.120	19.400	19.400
8. Difference (B.7)-(A.11)				+ 2.392	- 5.200	- 500
9. VAT rate in % (B.4):(B.6)				0,74	(1,27)	(1,02)

(1) Including preliminary draft of the First Supplementary and Amending Budget.

TABLE 3 : GENERAL TREND IN EXPENDITURE 1979-1982BREAKDOWN OF THE TOTAL APPROPRIATIONS FOR COMMITMENTS

HEADING	Proportion of total expenditure accounted for by the various sectors (%)		
	1979	1982	
		Hyp. 1	Hyp. 2
A. EXPENDITURE			
1. Agricultural sector of which:	66,5	63	58
- EAGGF Guarantee Section	62	59	53
- EAGGF Guidance Section	4	3,5	4
- Fisheries	0,5	0,5	0,5
2. Social sector	6	7	8
3. Regional sector	6	7	8
4. EMS subsidies	1	1	1
5. Energy, research, industry and transport sectors	2	3	4
6. Development cooperation sector	7	10	11
7. Overall operational reserve	0,5	0,5	0,5
8. Administration (Commission and other institutions)	6	5	5
9. Reimbursements to the Member States	5	3	4
10. Enlargement (Greece)	-	0,5	0,5
11. GRAND TOTAL	100	100	100