Commission Communication, From the Single Act to Maastricht and beyond: the means to match our ambitions (11 February 1992)

Caption: In its Communication of 11 February 1992 entitled From the Single Act to Maastricht and beyond: the means to match our ambitions, also known as the 'Delors II Package', the Commission proposes adjustments to the structure of Community funding so as to take greater account of each Member State's ability to pay.

Source: Commission of the European Communities. From the Single Act to Maastricht and beyond: the means to match our ambitions, COM (92) 2000 final. Brussels: 11.02.1992. 39 p.

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From the Single Act to Maastricht and beyond: the means to match our ambitions (11 February 1992)

Introduction

The decisions taken by the European Council in February 1988 were undeniably a milestone on the road to revitalization and successful completion of the European venture. As proposed by the Commission in COM(87) 100, they made it possible to implement the policies and harness the resources needed for application of the Single Act over a five-year period (1988-92).

In 1992 the Commission is proposing a similar operation, as the eight-year deadline for creating the single market and for introducing flanking policies geared to the objectives laid down by the Treaty of Rome and fleshed out by the Single Act draws near.

The COM(87) 100 package contained proposals for innovatory measures designed to curb agricultural spending, to provide the basis for economic and social cohesion, to increase the resources available for the common policies and, finally, to achieve greater budgetary discipline based on an Interinstitutional Agreement providing for rigorous programming over a five-year period - a period which, as it happens, also expires at the end of this year.

Before any new proposals are made, it is necessary to take stock of achievements to date.

The findings are largely positive, as can be seen from the overall assessments in the first part of this report. The Commission highlighted six priorities for Community action over the period 1985 to 1991: the internal market, economic and social cohesion, consolidation of the European Monetary System, environment policy, research and technology, and the social dimension. This was to be the linchpin for the relaunch of the European venture. This was to generate the momentum needed to put the Community on to the path of progress.

Admittedly, there were some disappointments, particularly with regard to the coordination of economic policies and the social dimension, but all in all this was a period of radical change for the Community both in political terms, as borne out by the respect it commands from its partners and by the expansion of external action, and in economic terms, as reflected by the recovery of growth and investment and by the resumption of job creation, at least in the years from 1985 to 1990.

Much has been done. And much remains to be done. We only have to look at what has happened to the Community economy since the world has moved into relative recession. This is affecting the European economies which had hitherto contributed significantly to the expansion of international trade. The conclusion is unfortunately clear for all to see: while it is the world's major trading power and much more outward-looking than some are prepared to admit, the Community does not as yet constitute an autonomous force for growth capable of compensating for shortcomings elsewhere.

This relative weakness is in itself sufficient to justify the decision to move towards an economic and monetary union which would enable the Community to take full advantage of an organized economic area and a single currency.

The aim of the policies proposed by the Commission for the period 1993 to 1997 in this area is consequently twofold: first, to create the conditions for economic convergence needed to make the transition to the final stage of Economic and Monetary Union on 1 January 1997 and, second, to make our economies and our businesses more competitive.

How could the main objective of the European venture - Political Union - be achieved without the backing of a prosperous and dynamic economy? Unless this condition is fulfilled, it would be futile to promise success in the reinforcement of economic and social cohesion within the Community. And on the international front the Community could not hope to play a role in keeping with the tradition of universality, which is the very hallmark of Europe.

In the circumstances, therefore, it is no surprise that the Commission is devoting a chapter of its proposals to the competitiveness of the economy. With industry facing keener competition and needing to digest scientific and technological progress, the Community as such must support the efforts of its people, its workers and the Member States to relieve the tensions and overcome the disruption sometimes caused by these changes.

Competitiveness and cohesion, together with the expansion of our international responsibilities, are the dominant themes of the Commission's proposals.

The structural policies adopted in 1988 paved the way to greater economic and social cohesion. They will have to be slightly adjusted and above all reinforced. This was one of the clearest messages to emerge from the Maastricht European Council: rejection of a multi-speed Europe. Every Member State and every region must be given a chance to cope with the massive unemployment which is undermining our society and aggravating the immigration problem.

But there is a major contradiction here. On the one hand, the criteria used to measure convergence will call in particular for greater budgetary rigour, which cannot be achieved without negative effects on growth and social well-being. On the other hand, the march towards greater cohesion presupposes a dynamic economy so that any adjustments can be made in the best possible conditions, and disparities in development possibilities and living standards can be eliminated. The Maastricht Summit was alive to this when adopting the protocol which establishes economic and social cohesion as one of the pillars of the Community structure, and instituting for this purpose a new financial instrument, the Cohesion Fund, to assist those Member States with the lowest standard of living.

The Commission will have the difficult task of putting forward proposals which make optimum use of the various Community policy instruments in order to reconcile the aims of cohesion, convergence and growth. This will require adequate financial resources: the Commission is proposing that in 1997 an additional ECU 20 billion be allocated compared with 1992. There will also have to be a great deal of coherence in the coordination of national policies. Finally, a more dynamic base is needed for economic growth and job creation. The Ministers of Economic and Financial Affairs in the Council will have a vital role to play here in the context of multilateral surveillance. The Commission sees the generation of sufficient growth and extensive job creation to be a decisive test of the Community's ability to achieve economic integration. More so than today, the convergence of economies will be the proof of political will and demonstration of the capacity to reconcile economic expansion and monetary stability.

This is the way to avoid the inconsistencies threatening to undermine European integration.

This golden rule also applies to external action, where demands are being made from all sides for Community aid and financing. In the last three years, commitments have grown in response to the major upheavals in Europe and the former USSR as well as the cataclysmic events in the Mediterranean and the Middle East.

The Community has decided to adopt a common foreign and security policy. This will be no easy task, to judge from the tone of discussions at the Intergovernmental Conference on Political Union. The compromises enshrined in the new Treaty strike some as adequate, whereas others see them as potential sources of paralysis. But that is not important. The essential thing today is to use the new possibilities offered by the Treaty so as to take the requisite steps forward and meet the challenges of new events - the tragedy of Yugoslavia, the break-up of the old Soviet Union, the economic, political and social difficulties of Central and Eastern Europe, existing or potential tensions in the Maghreb and the Middle East, and the marginalization of Africa, to name but a few. All round the world, there is an immense thirst for economic and social development.

A Community facing all these challenges must, in the hallowed phrase, "speak with one voice" and take the necessary decisions so that it can act together, and on the scale called for. It must do more than it is now doing to ensure consistency between its political stance and its economic action. This is a question of political will, but there is also the question of efficiency and coherence in the processes for taking and implementing decisions. This is not the place to go into these matters, but the Commission is ready to make proposals.

For the moment, the point is to identify the resources to be allocated to external action in the 1993-97 financial perspective. An agreement is also needed on the instruments which will give the best possible effect to the Community's policy. The Commission has identified the financial protocols, which, in a revamped form, would meet many countries' needs; technical and economic assistance, as a means of providing long-term support for the economies of greater Europe; development cooperation, as epitomized by the Lomé Convention; and humanitarian aid (both food aid and emergency aid), where the Community has done so much these last three years.

It would have been virtually impossible, and surely dangerous, to assign sums to each of these instruments; the uncertainties of international life are just too great. Moreover, the European Council has still to debate the criteria and priorities of the Community's foreign policy. The Commission has accordingly concluded that the best solution is to produce a financial blueprint assuming a rapidly expanding budget, with a reserve to deal with new situations, or the possibility of drawing on the margin available up to the own resources limit to accommodate exceptional demands, as has been done in recent years.

The Commission's financial proposal, then, highlights the need to boost competitiveness, strengthen economic and social cohesion and expand external action. But it does not overlook the other policies; it stays within the strict confines of the Treaty and the subsidiarity principle. Quite apart from the amounts needed, the Commission feels bound to reflect the importance it attaches to the social dimension and to a pace-setting environment policy.

In this way Europe will remain faithful to its model of society and its tradition of openness and generosity. The Community must raise the social dimension to the same level as its ideal of justice. It must act vigorously (and on the basis of reliable scientific data)[1] if it is to transmit to future generations a natural environment which has been not simply preserved but improved. This cannot be done unless drastic choices are made with a view to reconciling the ecological imperative with the need for competitiveness and our duties as countries of the North towards those of the South.

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Such are, in general terms, the Commission's ideas for this second phase which begins in 1993. At Maastricht, meanwhile, the Community has set itself ambitious goals commensurate with the hopes entertained by its founding fathers.

Our proposals reflect the need to redesign our common policies (including the common agricultural policy now in the process of reform), to adjust our instruments and to improve the effectiveness of Community interaction.

It remains to translate these proposals into financial terms, taking account of past and future developments in national budget policy. Budget discipline is, to varying degrees, the order of the day in the Member States as they endeavour to combat inflation and to prepare the ground for the completion of economic and monetary union.

At this stage it should be pointed out that consideration of the financial aspects alone provides a narrow and distorted view of the Community, which is in fact a kind of positive-sum game in which there are no losers and everyone gains something in terms of economic growth, the creation of jobs, investments and, therefore, prosperity. The countries or regions which receive financial assistance gradually develop and open up to the richer countries and regions new possibilities for exports and investments. This is also why economic and social cohesion should involve the whole range of economic, financial and social factors.

For the purposes of financial planning, the Commission has assumed an economic growth rate of 2.50%, although this will be far too low to bring about any appreciable drop in unemployment. This assumption does not therefore reflect our hopes but rather the need for caution. In several Member States the increase in public expenditure is expected to be lower than the rate of growth, although it could be difficult to hold that line, given in particular the cost of health services and unemployment benefits.

The Community budget cannot be confined within such strict limits. For this would be tantamount to ignoring the decisions taken at Maastricht and refusing to assume our international responsibilities.

In 1988 the ceiling on Community resources was set at 1.20% of GNP for 1992, the last year of the period. For 1997 the Commission is proposing 1.37%, which would allow the budget to grow by some 5% per year in real terms.

With anything below this figure, one of our three priorities would have to go by the board. These priorities translate into the following increases in the commitment appropriations which need to be provided in 1997 as compared with 1992:

- economic and social cohesion: + ECU 11 billion
- greater competitiveness: + ECU 3.5 billion
- increased external action: + ECU 3.5 billion

In other words, in terms of subsidiarity, ECU 11 billion corresponds to genuinely additional expenditure arising from the priority to be given to economic and social cohesion and ECU 7 billion represents the transfer of expenditure from national to Community level to enable the Community to combine forces to do what each of the Member States would otherwise be preparing to do on its own (external action, research and training programmes, improvement of infrastructure networks, and so on).

The European Council decided that, while the promotion of economic and social cohesion should obviously be reflected primarily in an increase for the structural Funds, there should also be an adjustment of resources to take greater account of each Member State's ability to pay.

The Commission feels that the safest way of achieving this is to shift the boundary between the third resource, which is VAT-based and regressive, and the fourth resource, which is GNP-based and therefore proportional. Details of this proposal are set out in the last part of this paper.

It took a year from February 1987, the date of COM(87) 100, to February 1988 for the European Council to adopt the Commission's proposals and agree the 1987-92 financial perspective. The Commission is hoping for a speedier outcome this time round. It is all too aware of the difficult and slow discussions on the reform of the common agricultural policy, particularly since the absence of a decision is not making the task of our Uruguay Round negotiators any easier. It trusts therefore that this matter, too, can be brought to an early conclusion. But, this admittedly major obstacle apart, there are unlikely to be any other issues which could cause lengthy controversies. The approach adopted by the Commission in producing the 1993-97 financial perspective is a tested one and a logical continuation of the Maastricht decisions.

Prompt examination of the proposals and rapid agreement would enable the Community to get into step, ready to move towards the new frontier of political union and to give its undivided attention to the problems raised by enlargement and the architecture of a Greater Europe.
We would stress once again. History is on the move. We must move with it.

Part One
The Single Act: the verdict

The Internal Market

The White Paper on the completion of the Internal Market contained a programme setting an objective, putting forward a method and spelling out the instruments.

The objective was clear: to create the largest frontier-free market in the world and so increase the Community's competitiveness by stimulating businesses through competition and economic growth through increased trade.

The method was simple: to equip ourselves with efficient procedures and adopt a definite timetable. The Single Act of June 1987 provided the necessary institutional arrangements by introducing qualified majority voting in the Council and improving cooperation with Parliament. The 1992 deadline has mobilized the necessary practical will.

The instruments are now widely known: almost 300 proposals for legislation to remove physical, technical and tax barriers.

We are on the way to pulling off the gamble. Four fifths of the Commission's proposals have already been adopted and their transposition into national law is gathering pace.

Large-scale application of the principle of mutual recognition has made it possible for whole areas of legislation to be replaced by common or compatible open systems between the Member States to ensure the free movement of goods and services. Free movement of capital has been put in place very swiftly and has thus helped to drive the process.

The rules for standardization and procedures for awarding public 'contracts are the same for all, and everyone knows where they stand. The new banking and financial legislation now provides a point of reference.

Border controls on goods are steadily and swiftly disappearing. Through radical reform of indirect taxation the principle of eliminating all customs formalities is accepted. The main instances of double taxation of firms in Member States have been eliminated. Progress on recognizing the right of establishment, on the equivalence of qualifications and on free movement inside the frontier-free area is encouraging labour mobility and closer contacts between people throughout the Community.

The European economic environment has already changed enormously. Business and industry have made no mistake about it: they have gone along with and often anticipated developments, they have opened up to the outside and have increased their competitiveness.

Throughout the programme the Commission has been at pains to report fully on the progress made, the problems encountered and the commitments entered into.

The bulk of the work has been completed, but a few major political decisions still have to be taken before all border controls are removed, in particular on the free movement of persons.
It then remains for the Community - and the Member States - to administer the single market and watch over its operation.

Economic and social cohesion

The commitment contained in the Single Act to strengthening economic and social cohesion in the Community is different in nature from the commitment to completing the single market by 31 December 1992. Achieving cohesion cannot be done in such a short time; it will take longer. The structural policies that have been pursued on the lines set out in COM(87) 100 have provided the necessary impetus and have led to some notable successes.

But although the latest figures show some tendency towards a narrowing of the development gap between regions, there should not be any let-up in the effort.

Among the main factors responsible for lagging development are the state of certain infrastructures, the availability of skilled labour and training opportunities. For example, the percentage of young people between the ages of 15 and 19 who are serving an apprenticeship or undergoing training in the three least advanced Member States is only just over half the corresponding figure for the three most advanced countries.

Of course, the Community cannot do everything, but initial results suggest that the action it embarked on in 1988 has been highly successful. Measured in terms of the economic wealth created, there have been very substantial transfers to the least prosperous regions, with an appreciable economic impact in some Member States. Community aid may well have helped to create some 500 000 jobs in the least prosperous regions and to increase the GNP of some member countries by around 3%.

More detailed scrutiny of the objectives confirms this picture.

First, the regions whose development is lagging behind (Objective 1) are at the heart of the cohesion effort, where the thrust has centred on four areas: reducing their isolation by upgrading the basic infrastructures; strengthening productive sectors (note, in particular, the success of the PEDIP programme to develop Portuguese industry); making better use of human resources potential through apprenticeship and training schemes; and developing farming and fisheries resources.

The measures taken in declining industrial areas (Objective 2) perform a vital function and have produced good results on the whole. The allocation of resources was tailored to these regions' problems in the light of one priority: to create alternative activities, in other words jobs, to revitalize their economic fabric. The emphasis, then, was placed on developing businesses and vocational training rather than focusing on "overall infrastructure" as in the past.

Sadly, worsening unemployment and changes in the structure of unemployment have served to confirm the relevance of Objectives 3 and 4 (long-term unemployment and integration of young people into working life). But the impact achieved has failed to live up to our original ambitions. Viewed against the dramatic rise in unemployment, the scale of Social Fund operations compared with national public expenditure on measures to stimulate employment is still too modest (barely 4%).

Alongside the efforts made to begin the reform of the common agricultural policy, the EAGGF Guidance Section has been improving the quality of agricultural production (Objective 5a).

Finally, action on rural development (Objective 5b) is recent and is limited in financial terms, but its implementation has revealed an undeniable need and a considerable weight of expectation. This innovative move has prompted growing awareness of the importance for our societies of an equitable balance between town and countryside.

All in all, structural operations accounted for 27% of the Community budget in 1992 compared with 17% in 1987. Contrary to one of the main fears voiced at the time of the 1988 reform, practically all the appropriations available for 1989-91 have been taken up. The outlook for 1992-93 is promising. This proves that the partnership built up with the regions and the Member States is a method that works, as was demonstrated by the extension of the cohesion effort to the five new Länder of the Federal Republic of Germany.

The reform of the structural policies, then, has marked a major step forward, even though some minor adjustments and simplifications are needed to tune our instruments to the concrete needs of each region.

The achievements are far from negligible, whether in terms of per capita national wealth, growth, job creation, environmental impact, foreign investment or whatever. But much still needs to be done to enable every region to take full advantage of the benefits offered by the single economic area and Community policies. The Maastricht European Council shared this view, since it confirmed the 1988 guidelines, placing the main emphasis on regions in countries whose per capita GNP is less than 90% of the average.

The European Monetary System

The stabilizing effect of the EMS has contributed towards the establishment of the single market and to the progress made in achieving economic and social cohesion.

The currency parities within the EMS have not been adjusted since the limited general realignment of January 1987, except for the change to accommodate the lira in the narrow fluctuation band in January 1990, which further consolidated the EMS. The entry of the peseta and sterling into the wider band extended the zone of European monetary stability. Performance in the fight against inflation has improved generally of late, and this will be beneficial for growth and job creation.

With these clear successes, the EMS has also demonstrated its ability to adapt in response to international developments. Besides making internal progress, it has withstood outside currency fluctuations, contributing in no small measure to the growing attraction which it holds for non-member countries, some of which have decided to link their currencies to the ecu.

The solidity of the EMS and the credibility of the forthcoming completion of the single market formed the bedrock for the decision to embark on the process leading towards Economic and Monetary Union. Even before revision of the Treaty, the decision was taken to launch the first stage of EMU on 1 July 1990, the day when the Directive on the complete liberalization of capital movements came into force.

The main goals of this first stage are to achieve greater convergence between Member States' economic policies and closer cooperation between central banks, to achieve greater consistency in monetary practices. The second stage, beginning on 1 January 1994, will continue to focus on improved convergence and the European Monetary Institute will be set up.

Environment policy

The Community has recognized the enormity of the environmental challenge by placing its efforts in an international perspective and linking them with other policies. The Community is now a pioneer in this area.

Thanks to the new legal bases provided by the Single Act, the Fourth Environment Programme (1987-92) has enabled the Community to adopt a more comprehensive approach and to make significant progress.

This approach covers environmental concerns in many sectors. In transport, efforts have focused on reducing car pollution and promoting unleaded petrol. In agriculture, the use of fertilizers has been more narrowly circumscribed while measures to encourage extensive farming and the afforestation of agricultural land are improving the natural balance.

Furthermore, scientific research into environmental issues has intensified, while firms have been able to exploit new investment possibilities.

Finally, the Member States have pledged themselves to stabilize their CO_2 emissions at 1990 levels by the year 2000. It remains for the Council to adopt the necessary measures.

Under the structural Funds, substantial resources have been devoted to environmental protection measures, especially in the least prosperous regions (Objective 1).

Research and technological development policy

The powers in relation to research and technological development vested in the Community by the Single Act have provided a basis for developing business competitiveness through research and technology programmes.

This commitment is reflected in increased research appropriations in the Community budget (4% in 1992 as against 3% in 1988).

The second and third framework programmes have each imposed a greater need for consistency. The multiplicity of priorities for multiannual activities continues to hamper the clarity and effectiveness of Community action.

Activity has extended into new areas such as biotechnological and environmental research. Striking achievements have been made in the field of thermonuclear fusion. At the same time, sustained efforts in the field of nuclear safety have served to increase European know-how at a time when the seriousness of nuclear safety problems at the Community's doorstep is becoming all too apparent. Lastly, the priority given to information technology has helped Europe to remain innovative and active in such important fields as electronics, informatics and telematics.

Besides these conspicuous achievements, there have been others, less spectacular but no less important, which bear witness to the process of consolidation which has taken place since 1987. Thanks to the support provided for the mobility of research workers and the dissemination of scientific knowledge throughout the Member States, a European research community has come into being, serving to promote dialogue, exchange of ideas, productive synergy and innovation.

However, there are no grounds for complacency. Three major handicaps prevent research policy from responding fully to current technological challenges. Contrary to Treaty recommendations, Community research has developed without any coordination of initiatives taken by the individual Member States. The procedures, which normally involve both the Council and Parliament, are too cumbersome. The effectiveness of a research programme is substantially reduced when over two years is required for its adoption. Although framework programmes must continue to provide a reference, greater emphasis needs to be placed on coherence and selectivity.

Lastly, working methods which dealt effectively with the problems confronting the Community ten years ago, in the field of information technology for example, can no longer contend, with the research requirements of firms or the speed of technological change.

The social dimension

The revival of the dialogue between management and labour since 1985 and the application of the provisions in the Single Act concerning the health and safety of workers marked advances even before the European Council adopted the Community Charter of Fundamental Social Rights of Workers, putting the social dimension genuinely on course. Admittedly, as we shall see, not everything proposed by the Commission in line with the Charter has been adopted, but the ball has been set rolling. From this point of view Maastricht has laid down the institutional foundations for further progress.

As regards health and safety at the workplace, twelve directives have been adopted to date on the basis of Article 118a, in particular the framework Directive of June 1989, which marks a decisive step forward. These directives define minimum safety requirements but they also represent social advances even in Member States with the highest standards (e.g. the VDU directive, which is particularly important since it is expected that one employee in two will be working on screen by the end of the decade).

Thanks to clearly defined powers and an approach largely based on consensus, the Community can therefore be seen to have steadily built up a corpus of essential rules to protect the health and safety of workers.

As regards freedom of movement for workers, the basic texts are long-standing but actual opportunities for transfrontier mobility have been reinforced by the measures to improve social protection for migrant workers and those concerning the comparability of diplomas.

Both Community legislation and Community case law have done much to make the fundamental principle of equal treatment for men and women a reality.

As regards vocational training - and alongside the Erasmus programme, which has expanded considerably - the Community has in the last few years placed the emphasis on operations such as Comett, Force, Petra, Eurotecnet and Lingua, which encourage exchanges, innovation and foreign language learning.

In the field of health, implementation of the Europe against Cancer project launched by the Milan European Council made it possible to mobilize eminent specialists to improve knowledge of the causes of the disease and to encourage a wide range of initiatives and cooperation schemes.

In response to the impetus provided by the Single Market, the Social Dialogue, launched in 1985 amidst general scepticism and bringing together the Union of Industries and Employers' Confederations of Europe (UNICE), the European Centre of Public Enterprise (CEEP) and the European Trade Union Confederation (ETUC), has developed slowly but surely, making a number of substantial achievements.

Between 1985 and 1991, eight joint opinions were adopted. The most significant of these relate to arrangements for the introduction of new technologies (March 1987), adaptability of the labour market (January 1991) and access to vocational training (September 1991). The dialogue reached an important milestone on 31 October 1991 when the social partners concluded an agreement explicitly opening the way to collective bargaining at European level. This inspired the agreement on social policy adopted by eleven of the Member States at Maastricht.

At the Strasbourg European Council on 8 and 9 December 1989, eleven Heads of State or Government adopted the Community Charter of Fundamental Social Rights for Workers, reaffirming the fundamental importance, in the context of building the Community, of the link between economic progress, job creation and work organization. A work programme was drawn up on this basis. The Council has failed to live up to expectations since, two years later, virtually all the directives proposed are still pending.

The Maastricht European Council tried to remedy this situation by including the provisions needed to implement the Social Charter Guidelines in the Social Protocol. With recourse to qualified majority voting this should provide fresh impetus, always assuming that the political will shown at Maastricht finds practical expression.

The 1988 financial reform

The February 1988 European Council, followed in June the same year by the Interinstitutional Agreement, made substantial innovations to Community practices.

The purpose of this package of decisions was to provide a financial framework which would give the Community institutions, and the Member States, a stable and coherent outlook for the policies and for the means to implement them.

There were three main aspects to this reform:
- containment of expenditure under rules imposing budgetary discipline;
- the provision of adequate, stable and guaranteed resources subject to ceilings expressed in terms of Community GNP for five years (1988-92);
- insertion in the own resources system of a closer link between Member States' contributions to the Community budget and their ability to pay (introduction of the fourth resource).

Experience shows that the arrangements have worked satisfactorily: Community operations have gained in coherence and transparency. The own resources ceilings have been fully respected; the sub-ceilings in the financial perspective were adjusted when unexpected international events (German unification, Central and Eastern Europe, former USSR, Gulf war) required the Community to assume new responsibilities.

The Interinstitutional Agreement has undoubtedly contributed to a smoother budgetary procedure and helped see that budgets were adopted on time. There were no more of the minor conflicts which so often in the past had opposed Council and Parliament, the two arms of the budgetary authority. It is true that this success was to some extent due to the favourable circumstances: economic growth higher than expected, moderate growth of agricultural expenditure to begin with and no major incident affecting borrowing and lending operations.

But by and large the two objectives of the reform were achieved: budgetary discipline was respected, as the payment appropriations entered in the budget were well below the ceilings set by own resources; the financial perspective allowed an orderly and gradual increase in expenditure, in line with the priorities set in 1988, and thus played its role as the financial framework for the implementation of the Single Act.

Part Two
Maastricht: new ambitions

In view of the achievements just described, there is no reason why we should not adopt the same approach as in 1988, though modified to include the innovations required by the Maastricht agreement.

This agreement has in many respects consolidated the objectives of the 1988 reform - to derive the maximum benefit from the single economic area, to strengthen economic and social cohesion, to apply rules governing interinstitutional cooperation and to enforce strict budgetary discipline.

But to make a success of Maastricht, we must also take into account firstly the Community's growing involvement in international affairs and the prospects opened up by the new Treaty on a common foreign and security policy and secondly the desire to make the Community more democratic, in particular by strengthening the powers of the European Parliament.

The Commission's proposals, then, follow the same line of thrust that has carried the Community forward from the Single Act to the Maastricht Treaty. They concern three main areas:

- external action;
- economic and social cohesion.
- a favourable environment for competitiveness;

External action

Quite clearly the upheavals ushered in by the fall of the Berlin Wall and the Gulf War have brought new responsibilities for the Community and raised expectations both among our traditional partners and among the countries aspiring to closer links.

The European Community is now seen as the main focus for peace, democracy and growth by all of Europe and the neighbouring countries to the South and East.

It is vital to consolidate this position if we are to increase the Community's weight and influence for a more stable order in an ever more interdependent, and therefore more vulnerable, world.

More than the other industrialized countries, the Community is dependent on the outside world: one in four jobs in the European market rests on international trade. It also has closer links with the developing countries and is more vulnerable to the economic, social and demographic effects of underdevelopment among its neighbours to the East and South.

However, we must take care not to fall into the trap of trying to do too much at once. The Community must adapt, but avoid dissipating its effort. To do so it must map out an approach, set priorities and adapt and increase the resources at its disposal.

Mapping out an approach

Ever greater demands are being made on the Community under the irresistible pressure of events such as the emergence or re-emergence of democracy and the birth of new states in Europe and because of instability, the threat of conflict and underdevelopment on its southern Mediterranean flank.

First and foremost, the Community must play a part in building up security and stability in Europe, where a fundamental reordering is under way.

Inspired by the same motives, it must pursue its efforts to help the less privileged countries, guided by a sense of responsibility and the resolve to translate solidarity into action and to promote democracy and human rights.

Developing, on a balanced basis, the economic and political relations it has established with the rest of the world remains a constant objective. This means ensuring a better interplay between external policy, commercial policy and development cooperation, and coordinating the Community's activities with those of other economic or trade organizations.

Finally, the Community must be ready to respond to emergencies and prepared to cope with the newly emerging complexes of interlinked problems - such as migration and the fight against pollution and drugs - and the hazards of historical change with its train of conflicts and tragedies.

To pursue such a policy, the Community must help to open up markets, take action of its own and coordinate with its main partners and - as it already does to great effect - with major international organizations like the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development and regional development banks.

What priorities?

The countries of Central and Eastern Europe and the Commonwealth of Independent States

For three years the Community has been closely involved in a growing effort to assist the countries of Central and Eastern Europe.

The Commission was given the task of coordinating aid and other measures undertaken by the group of 24 industrialized countries in cooperation with major international organizations.

The Community itself contributes to these efforts in three main ways -technical and economic assistance under the Phare operation, food aid, and balance of payments support. This approach should be maintained and extended to other countries in the region, starting with the new states emerging from the break-up of Yugoslavia, once the conditions are right. The Community must therefore make provision for an increase in the appropriations earmarked for these purposes, whether under old-style agreements or under the new "Europe Agreements" which have been concluded with a view to closer links. Poland, Czechoslovakia and Hungary will soon be reaping the benefits of agreements of this kind. Others will follow.

As regards the former Soviet Union, the European Council already adopted a programme of technical assistance and food aid in December 1990. There have been great difficulties in implementing these measures because of internal developments in the country. The extent of the needs of the new republics calls for a broad international effort and a sharing of responsibilities. So far the Community has played a leading role, if only by virtue of the amount of financial support it has granted. Here, too, we must expect expenditure to rise, though how much will depend on how events develop in the new republics, on the agreements which are to be negotiated shortly and on the consultation machinery which will have to be established.

The Community's responsibilities towards the Mediterranean

As with Central and Eastern Europe, the Community also has special responsibilities in the Mediterranean region because of its historical and geographical ties.

Most Mediterranean countries are facing political instability, rapid population growth, large movements of population and high unemployment. These problems, especially in the case of the Maghreb countries, are also our problems - such is their influence on the region's security and the potential migratory pressure on the Community. For this reason it is vitally important that we continue to support the economic reforms being implemented there and promote the emergence of democratic values and practices.

The financial protocols concluded for the period 1992-96 will be the main instruments of the Community's Mediterranean policy, entailing substantial loans from the European Investment Bank for long-term measures. They may need boosting further.

On top of this, the Community is involved in the regional economic aspects of the Middle East peace process. In due course this will require a special effort, in concert with others, to promote the economic and social development of the region as well as initiatives to encourage consultation and cooperation between the countries concerned.

<u>Stepping up development cooperation</u>

The Community's commitments to its partners in Africa, Latin America and Asia remain a central plank of its external policy. It would be unthinkable for the Community to reduce its effort at a time when debt and the growing threat of instability demand a strong political presence and continued economic support.

The Community has confirmed its commitment by adopting a multiannual financial framework with increased funds for the ACP countries and the Asian and Latin American developing countries. Although the general content of the Community's measures has already been mapped out, there must be greater consistency between these measures and the action taken by Member States in order to increase the overall effectiveness of our financial effort. In this context, it is vital that the eighth European Development Fund be included in the Community budget and integrated into the Community's development aid policy. The consistency and effectiveness of Europe's contribution depend on this.

<u>Facing up to emergencies and distress</u>

The Community must be able to help people all over the world who are faced with the traumas of war, natural disasters and epidemics. It has already been stepping up the amount of human and financial resources it devotes to these ends.

Straightforward procedures are required to deal with emergencies and the unexpected, allowing financial resources to be mobilized quickly. The Community's international responsibilities leave no room for political foot-dragging or red tape.

This is why the Commission has taken the initiative of setting up a European Office for Humanitarian Aid with a standing reserve that can be mobilized at very short notice. These resources - both financial and material - will give the Community the ability to channel aid to the countries that need it.

<u>What resources?</u>

The Community should be able to call on a range of permanent instruments commensurate with its new responsibilities:

- technical and economic assistance, tailored according to circumstances, will continue to be the main instrument of cooperation with the countries of Central and Eastern Europe and the States of the CIS;
- the financial protocols will continue to be the point of reference for cooperation with the

Mediterranean countries, together with EIB loans for long-term measures;
- borrowing and lending instruments backed by guarantees from the Community budget;
- development cooperation including programmed food aid (ACP countries, Asian and Latin American developing countries);
- emergency humanitarian aid.

For the sake of clarity and efficiency, the financial resources earmarked for each of the above instruments should be spelled out in the annual budget.

The total resources allocated to external action have increased from ECU 1.2 billion in 1988 to ECU 3.6 billion in 1992, with a doubling of resources between 1990 and 1991.

Because of the uncertain international situation it is very hazardous to make any forecast of expenditure. But since external economic and financial action now constitutes a priority for the Community, it is proposed that the financial resources allocated should be doubled between 1992 and 1997, it being understood that Community expenditure will replace expenditure that would have fallen on the Member States. As a precaution, some of these appropriations (ECU 900 million) would be kept in reserve to meet exceptional requirements, such as additional emergency aid, activation of loan guarantees or unforeseen expenditure for one-off measures.

Economic and social cohesion

Structural policies to promote the regions

The Maastricht European Council not only confirmed the principles underlying the 1988 reform but also stressed the political importance of cohesion as one of the pillars of the Community structure. The guidelines adopted foreshadow a Community acting with coherence and solidarity, which will be the cornerstone of Political Union. It goes without saying that, while the Structural Funds play a vital role, all the Community's policies contribute to the strengthening of economic and social cohesion, as spelled out by the new Article 130b of the Treaty. The Commission has allowed for this in its proposals, to spread the advantages of the single market in the application of competition policy, and again in its proposals for reform of the common agricultural policy.

Since the 1988 reform the Structural Funds have been operating on the basis of new principles: concentration on regions whose development is lagging behind, programming, partnership and additionality. These fundamental principles are sound; they have proved their worth and should therefore continue to guide the Funds' activities between now and 1997.

But improvements can and must be made to increase the effectiveness of structural policies by streamlining decision-making procedures, enhancing partnership on the basis of the respective responsibilities of central government and the regions, introducing systematic evaluation and greater flexibility to meet real needs without detracting from concentration.

Simplification of decision-making procedures on programming: the Commission proposes cutting the three present stages to two.

Enhancement of partnership on the basis of more clearly defined responsibilities: the division of responsibilities between the Commission and the regions should be more clearcut to make for more decentralization in the detailed definition of projects and in the implementation of programmes, which should be handed over to those in charge of the operations on the spot.

Systematic evaluation: on the basis of a clear division of responsibilities, the Commission must step up its on-going evaluation effort and intervene to assess the results achieved in the light of the objectives agreed at the outset.

Greater flexibility in three main aspects: programmes for regions whose development is lagging behind could be extended, where necessary, to operations which do not figure at all at present, essentially operations relating to health and education.

Community initiative programmes (the principle of which was laid down in 1988) should be given a much bigger role. Some 15% of the structural policy funds should be devoted to them. They should be organized around a few selected priorities so that there will be real concentration and effectiveness. A current example is the highly successful Interreg initiative (transfrontier cooperation); an example for tomorrow might be a new initiative, not provided for initially, to anticipate the consequences of industrial change, to which there is express reference in the new Treaty. Community initiative programmes would concern areas eligible under the structural Funds and, for a limited amount, other areas too. For these areas, geographical eligibility would be adjusted in borderline cases - drawing on a specially earmarked reserve - on the basis of statistical criteria, in order to satisfy real needs which become evident during or after programming.

Finally, more modulation: steps should be taken to help the countries concerned to achieve tighter discipline and greater efficiency in budgetary policy and thus work for more convergence and cohesion. The rate of assistance could be adjusted accordingly.

This would preserve a margin of manoeuvre to cater for new requirements in the spirit of the decisions which led in 1988 to the selection of five priority objectives.

The assessment of the structural policies presented in Part One and the guidelines agreed by the Maastricht European Council have convinced the Commission of the need to concentrate on regions whose development is lagging behind: what is proposed is a two-thirds increase in the overall allocation for the least prosperous regions, which, with the advent of the new Cohesion Fund, could mean a rise of up to 100% for such regions in countries covered by the Fund.

Allocations for the other structural policy objectives (Objectives 2, 3, 4 and 5b) would be increased by 50%.

Anything less would make it difficult to implement the decisions taken at Maastricht defining cohesion as one of the pillars of the Community structure. What is at stake here is established hierarchies and innovations written into the Treaty, notably as regards the new objectives set for the European Social Fund, the role of rural development as a social phenomenon and its part in the context of reform of the common agricultural policy.

It is proposed that Objective 1 regions should continue to be defined on the basis of the current criteria, the five new German Lander being added to the list of such regions. The Community must demonstrate its solidarity with them by playing its part in the massive reconstruction effort, the brunt of which will continue to be borne by the Federal Government and the German people.

Given the persistent disparities affecting the least developed regions, the Commission considers that it would be appropriate to allow a further significant increase in structural Fund assistance - two-thirds in real terms - between 1992 and 1997. Regions in countries covered by the Maastricht Protocol (Greece, Ireland, Portugal and Spain) would also qualify for assistance from the new Cohesion Fund. This means that for these four countries together, the resources available for the regions in 1997 could rise by as much as 100%. A similar increase could be envisaged for the outermost regions, which suffer all the handicaps associated with geographical remoteness and qualify for assistance under three identical types of programme (Poseidom, Poseima and Poseican).

The process of converting regions affected by industrial decline is far from complete. Given the undisputed success of Objective 2, it is vital that operations of this kind should continue and indeed expand.

The list of eligible regions will continue to be compiled on the basis of unemployment and industrial employment statistics. However, it is not possible to identify, on the basis of Community statistics, all the areas currently affected by industrial decline, nor to allow for the anticipation of the consequences of new industrial change. The Commission should therefore be allowed a measure of discretion, to be used in consultation with the Member States concerned, but with no easing of the geographical concentration. Otherwise, strict interpretation of statistics would make it impossible for the Community to assist the regions most in need of help. The effectiveness and fairness of our endeavours would suffer as a result.

Similarly, and as stated above, to deal with the situations described, Community initiative programmes would be proposed for support from the substantial reserve specially earmarked for the purpose.

The assessment of the implementation of Objectives 3 and 4 points to the need for an adjustment, particularly since Article 123 of the Treaty adds "adaptation to industrial changes and to changes in production systems, in particular through vocational training and retraining" to the missions of the European Social Fund.

As a result, training operations outside Objective 1, Objective 2 and Objective 5b regions will have to concentrate more than in the past on exemplary and innovative schemes. Resources allocated for this purpose should be earmarked for measures to promote the integration of young people and the long-term unemployed into working life, for social categories excluded from the labour market qualifying for vocational reintegration programmes, but also for workers affected by industrial change and advances in production systems.

Measures for the adjustment of agricultural structures (Objective 5a) should be reviewed in the light of the need for coherence with the measures to accompany the reform of the common agricultural policy and with rural development, in particular Objective 5b.

Leaving the diversity of rural areas aside, there is a clear need to promote rural development (Objective 5b); ominous trends are threatening the future in a large part of the Community: the steady decline in agricultural employment, the widening gap between town and country in terms of the availability of services for individuals and firms, the flight of the young people from the land, the absence of factors to attract business, the damage caused to the environment by intensive cultivation and desertification. This situation could endanger the survival of the rural world, one of the pillars of the European development model. It calls for a political response and the marshalling of increased funds to attain clearly defined objectives.

Rural development policy has thus become a key element in economic and social cohesion, enhancing the threefold function - productive, social and environmental - of all rural areas.

Rural development policy must generate prospects for the future which will allow sufficient farmers to stay on the land, diversify employment in rural areas, contribute to better planning, step up the effort in favour of local development, and preserve the countryside.

On the face of it the special requirements of rural development, and the role played by agriculture, would argue in favour of the creation of a specific instrument for rural development, which in due course would take over from the EAGGF Guidance Section. This idea is floated as something to be considered once the consequences of reform of the common agricultural policy and the accompanying measures on early retirement, the environment and afforestation are assessed. On the basis of this assessment it will have to be seen whether some Objective 5a measures should not be counted in the agricultural guideline. If this were the case, the allocation for Objective 5a would, in principle, remain the same; however, this does not rule out a certain reduction in the allocations for marketing and processing measures. This ties in with the general approach to increase concentration. In future Objective 5a measures will be subject to programming and partnership.

Finally, the time for full integration of structural measures for the fishing industry into the structural Funds has come. This would lead to more consistency within the framework of structural policies. The fact is that areas and regions dependent on the fishing industry are already experiencing radical change and will continue to do so because of the serious, persistent imbalance between fishing capacity and available stocks.

Because of the specific features of areas and regions directly dependent on the fishing industry, there might be a case for adding an Objective 6, covering structural programmes for all regions involved in fishing. Its tasks would be to facilitate the essential restructuring with due account being taken of the economic, regional and social impact. Some of the areas concerned are in regions whose development is lagging behind (Objective 1), while others are not. Areas particularly dependent on fishing should therefore be identified. The horizontal measures would have to be converted into measures to accompany the restructuring.

Objective 6 would receive an increase of 50%, as would Objectives 2, 3, 4 and 5b.

The new Cohesion Fund

The Cohesion Fund to be set up before the end of 1993 will add a new dimension to the economic and social cohesion effort in favour of the less prosperous Member States (with a per capita GNP of less than 90% of the Community average). The Cohesion Fund given the go-ahead at Maastricht will be to these Member States (Greece, Ireland, Portugal and Spain) what the structural policies are to the regions.

The special situation of these countries calls for a determined effort, firstly, to promote economic and social cohesion and, secondly, to help them meet the convergence criteria which are a precondition for moving to the third stage of Economic and Monetary Union.

The new Cohesion Fund will operate in this context.

In the case of the environment, joint financing by the Fund will require Community legislation calling for significant investment to ensure effective application. In the case of trans-European networks, the starting point will be the adoption, on the basis of comprehensive blueprints, of programmes of Community interest entailing significant investment in transport infrastructure.

The very nature of the Fund presupposes a high level of Community intervention (85% to 90%).

The second condition is prior adoption by the Council of an economic convergence programme. Implementation of this programme will continue to be monitored by the Community in the context of multilateral surveillance.

Since one of the missions of the Cohesion Fund is to promote convergence towards the economic performance criteria laid down in the context of Economic and Monetary Union, substantial funds must be allocated to it beginning in 1993. To this end, the Commission will be presenting a proposal in the course of 1992 for a regulation on the establishment and operation of the Fund.

A favourable environment for competitiveness

The single market and 1992 has proved to be a. spur to significant progress. In recent years, however, European industry has shown signs of weakness. The indicators are clear: Europe's competitive edge has been blunted, its research potential is being eroded, and it is not in a strong position with regard to future technology.

The decline in the Community balance of manufactured goods between 1985 (+ ECU 116 billion) and 1990 (+ ECU 50.5 billion) shows how fragile the competitive position of European industry is compared with that of US and Japanese industry.

The Community's overall research and development effort falls short of that of its competitors. Its effort in 1991 was comparable to that of Japan ten years earlier (2.1%); R&D expenditure in Japan has now risen to 3.5% of GNP, while expenditure in the United States stands at 2.8% of GNP.

While advanced technology goods account for a third of US exports (31%) and more than a quarter of Japanese exports (27%), they represent a mere fifth of Community exports (17%).

Competitiveness today is determined by human resources, control over future technologies, and better exploitation of the advantages of a large market.

It is true that it is for industry itself to acquire control of these factors in the first instance. But the Community cannot ignore these developments. The same applies to its potential for growth and its capacity to act outside its frontiers. There can be no lasting political influence without a competitive economy. The more European Union develops the more important it will be to provide a favourable competitive environment for business.

The new Treaty emphasizes this need for competitiveness, making it a priority for the Community between 1993 and 1997. For the first time, the new Article 130 makes industrial competitiveness in an open, competitive market a central issue. The provisions on research and development spell out the link between this and other policies. Finally, Title XII allows the Community to create infrastructure networks that will ensure that the single market operates effectively.

Competitiveness means competition

Competition is the main driving force behind the changes now under way; maintaining it is the prime condition for the success of the process of adjustment. The pressure of competition is already producing an impressive wave of change and restructuring in the Community's industrial fabric, added to which, for largely technological reasons, the pace of change is accelerating in terms of production methods and products themselves. And, increasingly, change in one industry means that the repercussions on others must be taken into account, particularly the effect on component suppliers, many of whom are small businesses.

If the Community fails to anticipate change in a rational way there is a danger that change will take longer to introduce and cost more, giving our main competitors an advantage over us. Alternatively, the Community could revert to the nationally fragmented system of uncoordinated sectoral projects that proved so ineffective in the past.

Community action must of necessity complement action undertaken by the Member States and the business world. If it is to be effective, it must proceed from a number of clear principles.

Responsibility and initiative must lie in the first instance with firms themselves. Action undertaken by the public authorities and by firms must stay within the four corners of the Community's international commitments, the rules governing the operation of the single market, and the rules on competition. Otherwise one man's gain will be another's loss and there will be no all-round increase in industrial competitiveness. Community instruments will have to retain their horizontal character, while taking account of the Community initiatives to be proposed under the structural Funds.

Community action should be more future-oriented to anticipate and cushion change, thereby lessening the economic and social cost. In addition, importance must be attached to measures to improve information and cooperation, notably for small businesses.

The convergence of taxation systems within the single market will also help to make firms more competitive. This will involve fostering cooperation between businesses in different Member States, avoiding distortions incompatible with the proper functioning of the single market and, as far as possible, easing the burden borne by small and medium-sized firms.

This approach would not call for the creation of new instruments, rather the adjustment of existing ones.

Trans-European networks are undoubtedly of major importance. But two main instruments as far as Community action is concerned - research and development, and vocational training - will be considered here first.

It is clear that research and technological development should be better adapted to the needs of industry. This new approach means that the principle of subsidiarity (Community action where it is most effective) must be strictly applied and intervention concentrated to a greater extent on a few key, multisectoral technologies.

Technologies targeted on major industrial priorities would be developed side by side with traditional programmes. Clearly, the selection of these key technologies would reflect the needs of industry as it endeavours to innovate and adapt to scientific progress and new work patterns.

The use of vocational training and retraining as tools in an age of industrial change is reflected in the role assigned to the European Social Fund by Article 123. Clear rules must be laid down for intervention by the European Social Fund in the tasks of anticipating the effects of change on employment, adapting to new productive functions and retraining for new skills.

These operations will be covered by programmes drawn up in cooperation with the Member States, the firms concerned and vocational training agencies. Training will be given on the job, or in education and training establishments offering general education and skills training.

As we see it, Community assistance will be available, without discrimination, to every sector of activity and every type of firm. The rules for Social Fund intervention will be drafted in this spirit.

Last but not least, the Community will help to establish and develop trans-European networks in transport, telecommunications and energy. This should multiply the advantages of a single economic area and ensure that all regions benefit.

Community action will promote the interconnection and inter-operability of national networks and improve access to them. Particular attention will be paid to the need to link peripheral regions with the central regions of the Community. On the basis of comprehensive blueprints, the Community will establish guidelines and identify projects of Community interest. It will support Member States' financial efforts by undertaking feasibility studies, and in particular by providing loan guarantees and interest rate subsidies.

Investment projects should be sufficiently profitable to be financed in the main through the market. Responsibility for planning infrastructures will lie with Member States, the Community providing guidance, coordination and encouragement to facilitate the integration of networks.

In addition to horizontal action, the Community could co-finance transport projects included in programmes of Community interest through the Cohesion Fund.

In the case of transport, the main emphasis initially will be on the development of networks with a high service or congestion-relief value, such as motorways, high-speed trains, the organization of airspace, and combined transport.

In the case of telecommunications, the main objective will be to improve transfrontier connections between data networks or digital services networks and to facilitate the development of broad-band Community networks. The Community should also stimulate the development of computer links between the central administrations.

In the case of energy, the reinforcement and gradual integration of networks carrying natural gas and electricity will give a boost to development of the internal market and improve the security of energy supplies.

Part Three
1993-97: ways and means

Volume and allocation of resources 1993-97

New own resources ceiling needed in 1997: 1.37% of GNP

As stated above, the proposal to raise the own resources ceiling from 1.20% to 1.37% of Community GNP between 1992 and 1997 would provide an additional ECU 20 billion in payment appropriations. Economic growth is 2.5% a year.

This proposal is based on a cautious estimate of the financial implications of the decisions taken at Maastricht. It may well be true that in some sectors, Community expenditure will replace some national expenditure. However, the constraints on the national budgets of all Member States during the second stage of Economic and Monetary Union must be taken into account.

The rise in the own resources ceiling is mainly due to increased outlay on cohesion (almost ECU 11 billion), the development of the Community's external action and the need to produce an environment which will enhance European competitiveness (networks, recasting of research policy, vocational training and retraining, a total of ECU 3.5 billion).

Any judgment passed on this new ceiling must allow for the fact that it contains a reserve of ECU 900 million for any exceptional expenditure which may prove necessary.

A margin equivalent to 0.03% of GNP is also provided to allow for the uncertainties of economic growth and give room for any revision of the financial perspective ceilings which may be necessary, in particular for the Community's external operations.

Despite the changes in the Community's political priorities set out in this communication, the Commission has decided to propose only relatively limited adjustments to the financial perspectives table in relation to the one for 1988-92.

The structure reflects the same approach - i.e. sufficiently broad headings to maintain the necessary flexibility and a relatively homogeneous content for the headings with regard to the financial instruments used and the dynamism inherent in each category of expenditure.

As in the past, the financial perspective will consist of six headings:

1. Common agricultural policy
2. Structural operations for economic and social cohesion
3. Internal policies of a horizontal nature
4. . External action
5. The institutions' administrative resources
6. Reserves for exceptional expenditure

The main changes are the splitting of the old heading 4 (Other policies) into two separate headings: internal policies (new heading 3) and external action (new heading 4) and the disappearance of the old heading 3 (Policies with multiannual allocations) resulting in the inclusion of research under internal policies.

Some changes will also have to be made to the areas covered by the various headings:

- Heading 2 is limited exclusively to cohesion policy. Two subheadings are set up: the structural Funds, including structural operations in the fisheries sector, and the Cohesion Fund.

- Heading 3 embraces all internal policies. However, the allocation for research policy is given a reference figure representing an "overall maximum amount" in accordance with the new provisions of the Treaty.

- Heading 5 is changed to take account of the disappearance of the cost of disposing of old agricultural stocks and to set up three separate subheadings: the Commission's staff and administrative costs, the staff and administrative costs of Parliament, the Council and the other institutions, and expenditure on buildings by all the institutions.

- Heading 6 is extended to include a new reserve for exceptional expenditure connected with external policy (emergency humanitarian operations, guarantee for borrowing/lending operations and unforeseen one-off operations) in addition to a reduced agricultural monetary reserve reflecting the new CAP guidelines which have been proposed by the Commission but not yet adopted by the Council.

Consequences of the acquis communautaire: financial resources for the reformed Common Agricultural Policy

For the following financial considerations to be valid, the CAP will have to be reformed along the lines proposed by the Commission in July 1991.

The proposed reform attempts to break with the current philosophy which links agricultural support to the quantities produced, hence the constant incentive to increase and intensify production without any direct link with the market's capacity to absorb these products. Instead of being based almost exclusively on guaranteed prices, support should also revolve around direct aid measures depending on the size of the farm and the number of animals.

While retaining the three basic principles of market unity, Community preference and financial solidarity, the reform proposes changes to the common agricultural policy in order to:

- adjust production to an overall situation which is characterized by continuing surpluses;
- make European agriculture in general more competitive by cutting prices;
- ensure better redistribution of the Community's financial support to give the farmers themselves more direct assistance;
- discourage intensive farming and encourage diversification, which will have more respect for the environment.

This reform will mean adjusting both the scope and profile of the agricultural guideline, which limits expenditure in this sector. Cover will have to be provided for the cost of the reform, for the new accompanying measures, for an adequate safety margin and for the need to introduce greater coherence between the existing structural measures under economic and social cohesion and the common agricultural policy.

The scope of the guideline should be slightly altered and extended to cover:

- all expenditure directly linked to the reformed CAP, i.e. market measures and accompanying measures (afforestation, retirement, environment and all expenditure on set-aside, some of which is at present financed from sources outside the KAGGF Guarantee Section);
- joint financing of existing national agricultural income support schemes;
- the Guarantee Fund for fisheries.

It will therefore be necessary to retain the 1988 agricultural guideline limiting the increase in agricultural expenditure to 74% of GNP growth. This is the framework which must be used to contain expenditure and finance the accompanying measures required.

The guideline will have to be raised by ECU 1.5 billion as soon as the reform of the CAP is effective. This is fair since this is the exact amount of the additional costs resulting from German unification.

Structure of own resources

The 1988 European Council wanted the resources paid by each Member State to coincide more closely with its ability to pay. To achieve this, it decided to expand and alter the composition of own resources. The VAT base was capped at 55% of GNP with the maximum call-in rate maintained at 1.4%; an additional own resource based on the aggregate GNP of the Member States was introduced to ensure that revenue and expenditure balanced in the budget.

The new system placed the Community's finances on a sound footing. However, experience shows that so far, only moderate progress has been made in bringing the structure of resources into line with Member States' ability to pay.

As could be expected, VAT has continued to be the main source of the Community's finances and in 1992 still accounts for over 50% of own resources. However, the regressive nature of the VAT resource is the main cause of the distortions which affect the financing system; this is because the least prosperous Member States as a rule devote a large proportion of their GNP to consumption. Capping the VAT base at a certain percentage of GNP may help to limit this drawback, but the level at which it is capped at present is not low enough to bring the VAT bases of these countries sufficiently into line with the GNP bases.

For some Member States, on the other hand, the present system is particularly advantageous, since the VAT base accounts for a distinctly small proportion of GNP.

The rapid growth of the GNP-based resource may well attenuate this situation. But this resource still accounts for only 20% of Community resources.

The Protocol on Economic and Social Cohesion agreed at Maastricht is designed to confirm the line already taken in 1988: the European Council declares its "intention of taking greater account of the contributive capacity of individual Member States in the system of own resources, and of examining means of correcting, for the less prosperous Member States, the regressive elements existing in the present own resources system".

Two adjustments could be made to the 1988 reform:

- the VAT base could be capped at 50% of GNP instead of 55%, this rate being virtually the average proportion of GNP accounted for by VAT. The least prosperous countries would then derive far more benefit from the arrangement and the advantages caused by situations which are markedly divergent from the Community average would be reduced;

- the relative share of the VAT resource in the structure of Community revenue could be reduced. This could be done by cutting the maximum call-in rate from 1.4% to 1%, to be offset by an increase in the relative share of the fourth, GNP-based resource, which is a better reflection of each Member State's ability to contribute.

Together these two measures would immediately reduce the relative share of VAT from 55% to 35% of Community resources.

Traditional resources, which have only a very low correlation with the relative wealth of the Member States, are declining and account for less than 25% of resources.

The correction of the United Kingdom's budgetary imbalance and the financing arrangements are part of the Community's financing system. In accordance with the own resources decision of 24 June 1988, the Commission will be presenting a report on this subject at a later date.

The new role for borrowing/lending operations and the European Investment Bank

The Community and the EIB conduct financial operations with generally distinct, albeit complementary, objectives, both inside and outside the Community. There is, however, an interaction between certain Community budget commitments and EIB operations. This interaction can and must be intensified.

Community financial operations

For many years the Community devoted its borrowing/lending operations exclusively to medium-term financial support for programmes introduced by Member States to restore a sound balance of payments position. A single facility was set up in 1988 for a maximum of ECU 16 billion backed by a Community budget guarantee.

In the past two years, one-off borrowing/lending operations have been mounted for non-member countries: first the countries of Central and Eastern Europe, followed by the republics of the former USSR and finally Algeria. The scope has been widened. However, balance of payments aid is still the predominant purpose. The budget guarantee which the Community provides in its role as intermediary reduces the borrowing costs for the beneficiaries very appreciably.

It has already been stated that these operations are going to develop. There is therefore a good case for establishing a framework regulation similar to the one governing Community borrowing operations for balance of payments aid. The maximum amount involved would, of course, have to take account of the possibilities offered by the future financial perspective for mobilizing guarantees (reserve for guarantees).

Budget guarantees will also be provided for financial operations other than Community borrowing and lending. EIB loans to non-member countries already enjoy such a guarantee, and it was recently applied to a private bank loan to the former USSR. In line with the Maastricht agreement, the next move will be to provide a guarantee for operations to finance European networks. The solution here will be, when the need arises, to constitute a number of specialized guarantee funds drawing on budget resources and by means of joint financing arrangements with third parties, perhaps including the EIB.

The European Investment Bank

The EIB devotes most of its loans to financing projects in the least prosperous regions of the Community, and in particular objectives 1 and 2 areas. Experience shows, however, that EIB operations must be made to tie in more closely with structural Fund operations. The revised version of Article 130 of the Treaty is quite explicit on this point stating that "in carrying out its task, the Bank shall facilitate the financing of investment programmes in conjunction with assistance from the structural Funds and other Community financial instruments". This should lead to the Bank having credit lines to support the financing of the development programmes.

The Bank should also play an active role in financing trans-European networks and hence in implementing support instruments financed by the Community budget: interest subsidies on its own loans, joint financing of feasibility studies, joint financing of the guarantee fund.

Beyond this the Bank could envisage - even if this involves amending its Statute and/or setting up a subsidiary - assuming more specific risks, such as risk capital operations, global loans for small and medium-sized firms or the financing of Community research and development policy applications.

All these proposals will, of course, have to be discussed by the EIB's governing bodies. Many of them have indeed already been discussed by its Board of Directors.

The administrative resources of the institutions

Application of the financial perspective for 1988-92 placed very tight constraints on the administrative expenditure of the institutions, no real scope having been left in 1988 to plan such expenditure in line with the new tasks facing the Community.

For example, the 1992 budget, adopted in December 1991, makes the normal administrative operation of the institutions and in particular of the Commission impossible.

Within the new financial framework this type of expenditure must no longer be forced to make do with the leftovers. Adequate overall provision must be made for this purpose, in line with the expansion of Community activities and the resulting management workload.

This allocation must be such as to allow:

- effective programming of the necessary staff and of the corresponding personnel and administrative expenditure, with a balance being maintained between the institutions;

- account to be taken of compulsory expenditure on pensions, which will be growing appreciably in coming years;

- orderly development of overall expenditure on buildings, with the necessary coordination of the policies applied in this area by the various institutions.

To this end it is proposed that "Administrative expenditure" should form a specific heading in the future financial perspective and should include subheadings for:

- the Commission's staff and administrative expenditure;

- the staff and administrative expenditure of Parliament, the Council and the other institutions;

- expenditure on buildings by all the institutions.

It should also be agreed that whenever the Community launches new activities which require an adjustment of the financial framework, allowance should be made for the impact on administrative expenditure so that the Commission in particular actually has the capacity to implement the policies decided by the Community without having recourse to procedural expedients.

Budgetary discipline

As seen above, a stocktaking of the 1988 financial reform would indicate that the overall expenditure limits for 1988-92 have been observed, despite the new external challenges which have arisen.

Another such financial framework will be necessary for 1993-97 if strict budgetary discipline is to be maintained and the Community's policy priorities for five years are to be honoured. Containing agricultural expenditure within the guideline remains a basic feature of budgetary discipline.

This said, however, some improvements need to be made to the 1988 Interinstitutional Agreement. Because of the length of the revision procedures, the containment functions of the financial perspective and of the annual budget have tended to merge into one.

To ensure that Community expenditure reflects the general policy priorities of the Community, the three institutions must agree on the main features of the financial framework for 1993-97 and must lay down the rules which they intend to apply for this purpose.

The new Agreement should therefore be based on similar principles, but with three significant alterations. First of all, any revision of the ceilings set by the financial perspective should be agreed by the Council acting simply by a qualified majority, since the available margin is now established beyond dispute. Secondly, some minimum redeployment of expenditure should be possible before any revision of the financial perspective is undertaken. Thirdly, for reasons of monetary logic and sound budget management, the principle of ex post adjustments in line with actual rates of inflation should be abandoned. That is to say, each budget would be drawn up on the basis of the forecasts for the rate of growth and the rise in prices.

More flexible rules do not therefore mean any relaxation of discipline or any surrender of the powers conferred on each institution by the Treaty. Experience over the last three years indicates, however, that if it is to retain its credibility, the Commission must be able to mobilize resources and react quickly to external events, whether this involves granting emergency aid or mounting an aid programme for a country in difficulty.

The Commission is therefore proposing that reserves be provided on which the Community could draw either to increase its capacity and resources for the provision of emergency aid, or to mobilize, without seriously disturbing the implementation of the budget, the resources needed to finance any activation of the guarantees, or to respond to isolated unforeseen events.

In addition, the agricultural reserve set up in the first package would be retained - albeit at a lower level - to offset any unduly erratic variations in the value of the dollar, the currency in which world market prices are expressed.

The conditions for mobilizing these two reserves would be sufficiently flexible to enable the Commission to react as quickly as possible to events which, for obvious reasons, would call for an immediate response from the Community, such as a famine or a massive influx of refugees.

Intervention from the Community budget must be clearly justified in terms of greater cost-effectiveness and the subsidiarity criteria. Current operations must be regularly reviewed to ensure that they are still justified in terms of these principles, and in particular at the time of the annual budgetary procedure. To put an end to excessive fragmentation, the three institutions should agree not to retain - let alone create -budget headings for which the appropriation is less than a given amount.

The new financial framework must allow more rigorous management of expenditure, the essential counterpart of an approach which is to be a better application of the subsidiarity principle, more selective in its objectives and more flexible in its instruments.

Financial perspective

Commitment appropriations*	**1987**	**1992**	**1997**
I. Common agricultural policy	32.7	35.3	39.6
II. Structural operations (including the Cohesion Fund)	9.1	18.6	29.3
III. Internal policies (other than structural operations)	1.9	4	6.9
IV. External action	1.4	3.6	6.3
V. Administrative expenditure (and repayments)	5.9	4	4
VI. Reserves	0	1	1.4
TOTAL	51	66.5	87.5

*billion ecus 1992

Payment appropriations required	49.4	63.2	83.2
-as % of GNP	1.05%	1.15%	1.34%
Own resources ceiling (as % of GNP)	(none, except VAT =1.40%)	1.20%	1.37%

N.B. : Average annual GNP growth
-87-92 (actual) : 3.1%
-92-97 (projected) 2.5%

1 The Commission is pressing for the establishment of the European Environment Agency, which can be set up once a decision has been taken on where it is to be located.