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CONVERGENCE AND BUDGETARY QUESTIONS

(Communication from the Commission to the Council)

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I. INTRODUCTION

1. At its meeting on 29/30 November the European Council reached certain conclusions on convergence and budgetary questions. Those examined in this communication are:

"The Council re-affirmed the conclusions reached at their meetings in Brussels and Paris that achievement of the convergence of economic performance requires measures for which the Member States concerned are primarily responsible, that Community policies can and must play a supporting role within the framework of increased solidarity and that steps must be taken to strengthen the economic potential of the less prosperous countries of the Community.

To these ends the European Council expressed its determination to promote the adoption of measures to improve the working of Community policies, to reinforce those policies most likely to favour the harmonious growth of the economies of the Member States and to reduce the disparities between these economies. They further declared the need, particularly with a view to the enlargement of the Community and necessary provisions for Mediterranean agriculture to strengthen Community action in the structural field.

The European Council has carried out a thorough examination of the problem of the British contribution to the Community budget. It was agreed that the Commission's proposals concerning the adaptation of the financial mechanism could constitute a useful basis for a solution which would respect Community achievement and solidarity. This solution should not result in raising the 1 per cent VAT ceiling. In addition, the Commission is requested to pursue the examination of proposals for developing supplementary Community measures within the United Kingdom which will contribute to greater economic convergence; and which will also lead to a greater participation by the United Kingdom in Community expenditure. The Commission is asked to make proposals which will enable the Council of Ministers to pursue the search for appropriate solutions to be reached at the next meeting of the European Council."

2. The above conclusions of the Dublin European Council were consistent with the proposals which the Commission put to the Council on 21 November (COM(79) 680).

II. STRUCTURAL QUESTIONS

3. In its Communication to the Council of 21 November the Commission had already drawn attention to the need to strengthen structural and general investment policies within the Community. It has submitted a variety of proposals to the Council covering such key areas as energy, transport and industrial development. The Commission now urges the Council to reach rapid agreement on the proposals which it made on 30 November designed to help balance the agricultural markets and stabilize expenditure. The price proposals for the market year 1980-81 should be examined by the Council with the same objective in mind.

4. There are a number of other actions of particular relevance to the issues already raised by certain Member States. The Commission believes that the Council should give rapid consideration to them.

5. First the Council should pursue the new policy of rural regional investment programmes which was inaugurated by the adoption of the Mediterranean package in 1978 and 1979. In this respect, the Commission put to the Council in March 1979 a further series of structural proposals building on the principles developed in the Mediterranean package. The adoption of these proposals would virtually complete the regulations necessary for the implementation of the new five-year programme in the agricultural structural field based on the expenditure of 3 600 million ECU over the period 1980-1984.

6. Second the Council needs to consider how it can give effect to the declared willingness of the European Council to continue to strengthen the economic potential of the less prosperous countries. One method would be to take further steps designed to direct a greater volume of Community resources to those Member States. In this context the Commission has recently proposed that as regards the second tranche of the New Community Instrument a wider interpretation of infrastructure proposals which it made on 30 November designed to help balance the

should apply to priority regions or to zones affected by economic difficulties, and that this should cover in particular some carefully selected housing projects. The Commission believes that in considering this proposal the Council could also consider increasing the volume of resources currently available to certain Member States participating in the European Monetary System for use as interest rebates. A specific regulation to give additional resources for regional development in these countries (on the lines of the programmes discussed in more detail in Section IV D) and to improve the working of Community policies, could be considered as a first move to give more help to the less prosperous members of the Community.

7. Actions of this kind on the part of the Council would be in line with the Commission proposal to the European Council that the rate of increase in structural and general investment policies should in future be significantly greater than the rate of increase in the size of the Community budget overall. The conclusions of the European Council, which are also consistent with the Resolution of the European Parliament on the draft 1980 budget, lead the Commission to re-affirm this proposition. If during the budgetary process this principle is not respected, the Commission undertakes to draw the attention of the Institutions to the situation without delay. The Commission will bear these aspects fully in mind in bringing forward its budgetary proposal for 1980 and will seek to go further in subsequent years.

III. THE FINANCIAL MECHANISM

8. As regards the United Kingdom's share of financing the Community budget, the Commission in its proposals of 21 November invited the Council to consider certain adaptations to the existing Financial Mechanism. In particular the Commission recommended the removal of the balance of payments limitation and suggested that the European Council in Dublin should define the conditions under which two further restrictions on the operation of the Mechanism could be lifted, i.e. the tranche system of repayment and the ceiling of 3% of the budget. The European Council agreed that these proposals "could constitute a useful basis for a solution". Since under the present Regulation the operation of the Financial Mechanism is due to be reviewed in 1981, the Commission proposes in the light of the European Council's conclusions, that an adapted Mechanism

should be a part of the solution to the problems of the United Kingdom over the Community budget, on the basis that its period of operation should cover the same period as that of such supplementary measures for expenditure as may be agreed.

IV. SUPPLEMENTARY COMMUNITY MEASURES FOR THE UNITED KINGDOM

9. In its proposals of 21 November, the Commission also stated that any measures on the expenditure side of the budget relating to the United Kingdom should be "special temporary and ad hoc". The Commission reaffirms the views and indications set out in part III of its November communication. It points out that the scope of the measures proposed, and therefore the speed of the solution, will depend very largely on the volume of resources which the European Council agrees should be devoted to them. As regards the basis of supplementary measures, different approaches are possible.

(A) Use of existing Community Instruments

10. One possibility would be to enlarge certain Community funds by attributing extra resources to the United Kingdom over a defined period.

11. The two instruments which come to mind are the Social Fund and the Regional Development Fund. As regards the Social Fund, expenditure on projects in the Member States under the Fund regulations is not governed by quota arrangements and the actual shares in expenditure have been very variable. This has in the past arisen partly as a result of the internal economic policies followed by Member States. The Commission hopes that the United Kingdom will be able to draw the maximum benefit from the Fund in future years; it also draws attention to the possibilities open to the steel sector within the framework of the European Coal and Steel Community.

12. In the case of the Regional fund, a distinction must be drawn between the 'quota' and 'non-quota' sections. Any changes in the shares laid down in the basic fund regulation would require formal modification by the Council on a Commission proposal. Quota shares could be changed either within the existing Regional fund, or by an increase in the total resources available to it. Whilst an addition of resources to the Regional fund would enable the absolute amounts to other Member States to be maintained, it would of course give rise to a reduction in their percentage shares. As in the case of the Social fund, even relatively modest increases in the Regional fund, if devoted wholly to the United Kingdom, would give rise to a disproportionate percentage share. This could remove much of the balance within the fund achieved only after long and arduous negotiations with the Member States.

13. The non-quota section of the Regional fund was set ~~on~~ by the Council at 5% of the full fund. An increase in the resources available to the non-quota section would also require a formal modification to the regulation concerned. Whilst some increase in the total size of the non-quota section could certainly be envisaged, it is clear that it would only be possible to make very limited adjustments within the existing endowment.

14. For these reasons, the Commission believes that to increase expenditure on an ad hoc basis from either the Regional or Social fund within a single Member State would have a seriously distorting effect on policies of major importance to the Community as a whole.

(B) A Council Regulation based on Article 235

15. In the light of these considerations, the Commission believes that a Council Regulation governing expenditure within the United Kingdom and based on Article 235 of the Treaty, is a preferable option. However, the Commission stresses that to avoid wasteful use of Community resources any system of additional expenditure on this basis would need to be placed within a coherent framework and in line with existing and new Community policies. It would be necessary to ensure that the

solution adopted made a positive contribution, not only to the immediate problem of budgetary imbalance, but also to the promotion of economic convergence in the longer term.

Here the Commission recalls the emphasis given by the European Council at Dublin to the need for complementarity between the role of the Member States themselves in adopting policies designed to bring about convergence of economic performance, and the role of the Community in supporting such policies.

16. Thus an approach based on Article 235, rather than one within the existing structural funds, needs to be placed firmly within the framework of Community structural policies. Additional expenditure should be clearly identified as being consistent with the policy directions already adopted by the Community in respect of the structural funds, and therefore with two basic principles.

17. First there needs to be an approach to expenditures based on specific programmes. The concept of indicative programmes within which specific project expenditures are undertaken, has played an important role in the quota section of the Regional Fund, leading to the adoption of programmes for each Member State in May 1979. It has been taken further in the non-quota section of the Regional Fund and was also established in the Regulation for the interest rebate subsidy scheme in respect of the European Monetary System. It would therefore be appropriate that in a solution based on Article 235, Community expenditure be clearly established as a contribution to clearly defined programmes.

18. Second there should be a component related to specific regions or problem areas. The Community has developed such an approach in all of its major structural expenditure. This is evident in the case of the Regional Fund, but is of major importance also in the Social Fund where half of expenditures are based on a specifically regionalized approach. Within the structural part of the Common Agricultural Policy, the development of a strong regional basis has been the main new policy element of recent proposals and decisions in this field.

These developments should be seen in the light of the Community's over-riding interest in promoting the convergence of its economies, and it would therefore be consistent with this interest that additional expenditures should be territorially defined.

19. The Commission therefore suggests an approach based upon a number of specific programmes in which the Community could participate, and from which it could as a whole draw benefit. These should in the first instance be directed to specially disadvantaged regions or problem areas. Programmes for regions of Community-wide interest such as Northern Ireland, or for those suffering from special industrial problems or from remoteness, could provide an appropriate framework for a scheme of expenditures based on Article 235. These programmes could in certain cases cover expenditure on such sectors as those mentioned in the Commission's communication of 21 November 1979 (exploitation of coal resources, measures to promote transport infrastructure), as well as those designed to link the United Kingdom more closely to the rest of the Community and to facilitate intra Community trade. The Commission believes that these programmes could be further broadened to cover certain problems such as urban decay which, while constituting a major factor of regional disadvantage, occur in parts of the United Kingdom. This additional contribution should help the United Kingdom in the efforts it is already making in some of these fields.

20. Within this approach the basic Regulation could:

- specify the amount and duration of assistance
- define the regions or problem areas to be assisted
- set out the procedure for agreement to the programmes between the Commission and the Member State concerned
- define the rate of Community participation and the kinds of infrastructure and other investment eligible for assistance within the regions or problem areas
- contain provision for a review before the expiry of the assistance (see paragraph 21).

21. The Commission believes that it will be necessary to agree on a review procedure well before the expiry of the measures for supplementary expenditure within the United Kingdom. The purpose of this review would be to examine the effectiveness of the actions taken in respect of the United Kingdom as regards both the Financial Mechanism and the special measures, in the framework of progress towards a better balance between Community policies and of expenditure within the Community budget.

V. CONCLUSION

22. In this paper the Commission has suggested a framework for the Community measures requested by the European Council in the fields of convergence and the budget. The Council will now wish to consider these ideas. Real progress will anyway need to be made towards a better balance within Community policies, in terms of stabilizing expenditure on surpluses under the agricultural policy, strengthening the existing structural policies, and establishing policies whose need is not questioned but on which the Council have not yet succeeded in reaching agreement.

In the meantime the Commission proposes to work out with the Member States concerned the details of possible programmes which might fit into the framework of the kind suggested. Formal proposals for regulations under Article 235 will come forward as and when appropriate.