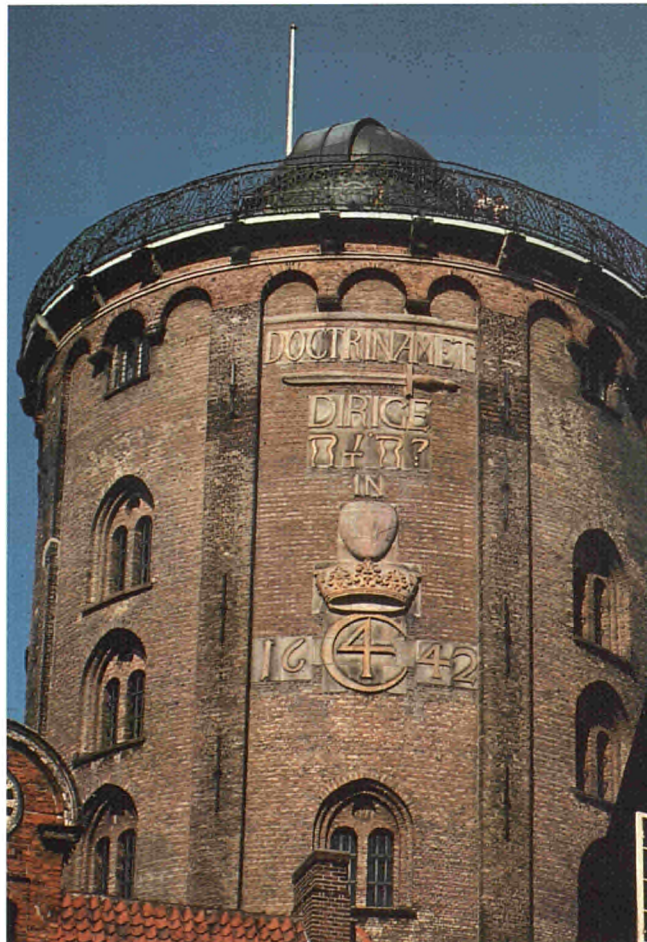




EUROPEAN UNION

# FINANCIAL REPORT 1996



*Cover photo: Copenhagen, European City of Culture 1996 — The Round Tower  
(Photo: Danish Tourist Office, Copenhagen).*

EUROPEAN UNION

**FINANCIAL REPORT**  
**1996**

Work continued on implementing the second phase of the SEM 2000 initiative, aimed at ensuring the sound and efficient management of Community finances. This phase covers four major areas: defining and costing objectives, organising the Commission's financial structures, improving management systems and evaluating Community policies.

The third phase of the initiative also got under way in 1996. The object is to strengthen partnership with the Member States in the management of Community budget expenditure and revenue. A group of personal representatives of Finance and Budget Ministers was set up for this purpose. It held six meetings during the year, which were chaired by the Commission and attended by representatives of Parliament and the Court of Auditors. The Dublin European Council approved the practical recommendations which the group laid before it and confirmed its support for the SEM 2000 initiative, which was also welcomed by Parliament.



Erkki Liikanen  
Member of the Commission  
with responsibility for budgetary affairs

# CONTENTS

	<i>Page</i>
Economic and financial framework	7
Revenue	14
Expenditure	18
Heading 1 — Agricultural market guarantees	18
Heading 2 — Structural operations	27
Heading 3 — Internal policies	32
Research and technological development	32
Transport	34
Education, vocational training and youth policy	34
Culture and audiovisual media	43
Information and communication	43
Other social measures	43
Energy	44
Euratom nuclear safeguards	45
Environment	45
Consumer protection	46
Aid for reconstruction	46
Internal market	46
Industry and information market	47
Statistical information	48
Trans-European networks	48
Cooperation in the fields of justice and home affairs	49
Heading 4 — External action	50
Heading 5 — Administrative expenditure	58
Borrowing and lending operations	59

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Treasury report	65
Annex 1 — The ECSC's financial and budgetary activities in 1996	70
Annex 2 — Financial out-turn of the EDF in 1996	77
The consolidated accounts of the European Union	81
Accounting principles	82
Consolidated revenue and expenditure account for 1996	85
Consolidated balance sheet at 31 December 1996	94
Explanatory notes to the consolidated balance sheet	98
Off-balance-sheet commitments at 31 December 1996	107
Explanatory notes to the off-balance-sheet commitments and potential liabilities and claims	110

## The basic budget principles

Six basic principles govern the budget of the European Union:

### Unity

This principle, which is enshrined in Article 199 of the Treaty, means that all EU expenditure and revenue must be incorporated in a single budget document.

In the early years of the Community, the autonomy of the institutions set up under the ECSC, EEC and Euratom Treaties resulted in up to five separate budgets being produced to cover any one year. Since the Treaty of Luxembourg of 22 April 1970, the Community's essential financial activities have tended to move towards a unified budget, and there are now only two budget documents, the general budget and the ECSC operating budget.

However, two categories of financial operation are still outside this structure: the European Development Fund (EDF) and borrowing and lending activities.

The EDF was set up by the EEC Treaty with a view to stepping up trade with associated developing countries and assisting them in carrying out economic and social development projects. The resources of the EDF are provided by contributions from the Member States. For what are essentially political reasons, the Member States wish to retain their direct influence over certain development aid operations by maintaining an independent financial regime and management procedures which are not subject to the ordinary rules.

The EEC Treaty made no express provision for borrowing and lending operations. However, as the achievement of the Community's objectives made it necessary to lay down rules for operations on the capital market, borrowing and lending activities were finally autho-

risied in 1975, on the basis of Article 235 of the EEC Treaty. Most borrowing and lending operations (with the exception of ECSC operations) are included in the EU's balance sheet.

The two annexes to this report contain a summary of the budgetary and financial operations of the ECSC (operating budget and borrowing and lending operations) and the EDF.

### Universality

This principle comprises two rules: the rule of non-assignment, meaning that budget revenue must not be earmarked for specific items of expenditure, and the gross budget rule, meaning that revenue and expenditure are entered in full in the budget without any adjustment against each other.

### Annuality

The budget for the year is cast at two levels: a commitment budget and a payment budget.

Commitment appropriations cover new commitments for the year, whereas payment appropriations must cover the amounts payable against both new and existing commitments.

Annuality means that a budget is adopted for a single year and that the appropriations it contains, both for commitments and payments, must be used during that year.

The principle does not rule out the possibility that certain commitments may last for more than one year. Clearly, in sectors such as the Structural Funds, research and external cooperation, the EU needs to enter into some commitments which exceed the period of one year. In these sectors, a mechanism known as 'differentiated appropriations' allows for a separate annual vote of commitments and payments.

Under certain clearly defined conditions, some unused appropriations may be carried over to the following year.

### Equilibrium

Estimated revenue for the year must equal payment appropriations for that year. There is no Community legal instrument authorising borrowing to cover a budget deficit. Any surplus for the year is carried forward to the following year. A modest operating deficit can also be carried forward. On the other hand, a significant departure from the original budget during the year requires the adoption of a supplementary or amending budget.

### Specification

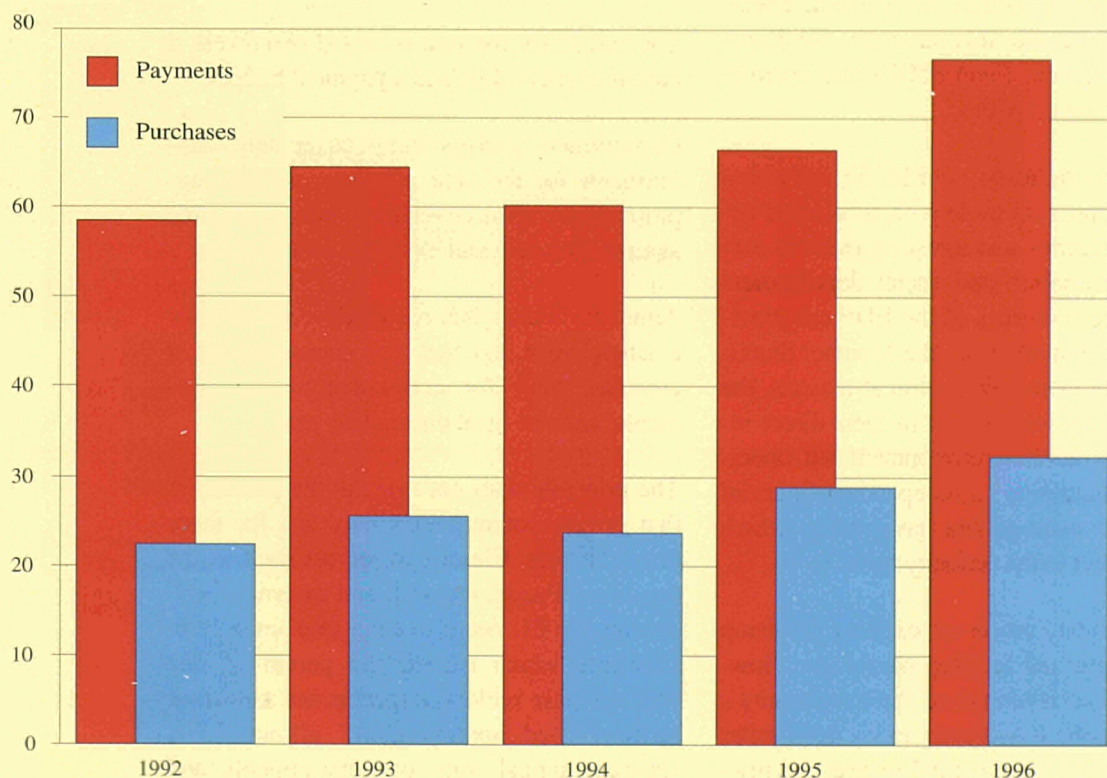
Specification means that each appropriation must have a given purpose and be assigned to a specific objective in order to prevent any confusion between appropriations, at both the authorisation and the execution stage, and thus to ensure that the budget as established is quite unambiguous and that it is executed in accordance with the wishes of the budgetary authority.

The principle of specification determines the horizontal structure (distinction between the statement of revenue and the statement of expenditure and subdivision of the statement of

FIGURE 1

Purchases of ecus 1992-96

(billion ECU)





expenditure into six individual sections for each of the institutions) and the vertical structure of the budget (the budget nomenclature distinguishes appropriations according to their nature and purpose by subdividing sections — and in particular Section III, which contains all EU expenditure on operations — into titles, chapters, articles and items).

A certain flexibility in the application of the rule of specification is achieved by means of transfers of appropriations, which, subject to certain conditions, allow appropriations to be moved to headings other than those to which they were assigned when the budget was established. The Treaty itself makes provision for transfers, the object being to ensure the best possible utilisation of budget appropriations.

### **The use of the ecu**

The currency unit of the European Union is the ecu, made up of a 'basket' of 12 national currencies. Its composition should remain unchanged until the introduction of the single currency.

Since 1992 the Commission has been using ecu-denominated accounts at the French and Irish Treasuries.

The Commission promotes the adoption of the ecu as the single currency by using it as much as possible in the execution of the budget. Most EU programmes, other than EAGGF-Guarantee operations, are implemented in ecu. In 1996, for example, 95 % of the budget and 44 % of the operational programmes other than EAGGF-Guarantee were implemented in ecus.

### **The economic situation in the European Union in 1996**

Economic growth in the Union slackened from the middle of 1995. This was, however,

only temporary, giving way to a certain upturn in economic activity from mid-1996. This slack period was by no means unusual, but lasted longer chiefly because of the restraining effect of the stock cycle, and the delayed effects of the rise in long-term interest rates in 1994 and parity movements in the spring of 1995. There are convergent signs that the Union's economy is in an upward phase: the quarterly GDP figures show that growth is gradually speeding up; order books are filling up, and business confidence has been improving in the last few quarters, mirrored more recently by the consumer confidence indicator. According to the most recent estimates, real GDP growth for the Union as a whole probably averaged 1.6 % in 1996, with some disparities between Member States.

The recovery which started in mid-1996 should continue in 1997. It is sustained by the high level of external demand from outside the Union, good returns on investments, a more flexible mix of economic policies, the decline in interest rates, a better balance in exchange rates both within Europe and against the US dollar and moderate wage growth.

The labour market situation is still unsatisfactory. After three consecutive years of declining employment, caused by the 1992-93 recession and major restructuring operations undertaken by many firms, employment increased in 1995 but tended to level off in 1996 as a result of the slackening in economic growth. Unemployment in the Union in 1996 therefore remained relatively high at 10.9 % of the labour force, the same level as in 1995.

The European Union's inflation performance was again good in 1996. As measured by the private consumption deflator, average inflation in the Union dropped from 3.0 % in 1995 to 2.6 % in 1996 with a marked trend towards convergence between Member States. Labour market trends, wage restraint and, above all, economic policies designed to foster price stability helped to maintain this movement towards lower inflation.

Public sector deficits in the Union have steadily decreased after peaking at 6.2% of GDP in 1993. The average public sector deficit in 1996 was estimated to be 4.4% of GDP. This was achieved by means of the consolidation efforts which governments have been making for a number of years, with the help of growth (albeit on a modest scale) and also as a result of the drop in interest rates which affect public debt. The steady reduction in public sector deficits did not, in 1996, produce any stabilisation in public debt as a percentage of GDP for the Union as a whole. According to the Commission's most recent estimates, public debt rose from 71.3% in 1995 to around 73.5% in 1996. Debt as a proportion of GDP is expected to fall in 1998.

### Financial perspective 1993-99

The 1996 budget procedure came within the framework of the financial perspective as adjusted in December 1994 following the enlargement of the Union to include Austria, Finland and Sweden in accordance with paragraph 24 of the interinstitutional agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure.

In February 1995, acting under paragraph 9 of the interinstitutional agreement, the Commission made the technical adjustment to the financial perspective for 1996 on the basis of the most recent macroeconomic forecasts available for gross national product and prices. The data for these forecasts concerned the 12-member Community from 1992 to 1995 and the 15-member Community from 1995 to 1996. Following this technical adjustment, the ceiling on payment appropriations required for 1996 was ECU 81 267 million, or 1.19% of GNP. This left a margin of 0.03% below the own resources ceiling, which was set at 1.22% when the financial perspective was laid down in 1993.

At a triologue meeting held on 4 April 1995 under the new collaboration procedure introduced by the institutional agreement of 29 October 1993, Parliament, the Council and the Commission agreed not to revise the financial perspective for 1996. They also reached agreement on the adjustment of the financial perspective under paragraph 10 of the interinstitutional agreement to take account of conditions of implementation.

The main effect of this adjustment was to transfer to 1996 and 1997 the appropriations for commitments for the Structural Funds which lapsed in 1994, totalling ECU 1 738 million, half to 1996 and half to 1997. The ceiling on payment appropriations was raised by ECU 935 million for 1996, ECU 696 million for 1997, ECU 434 million for 1998 and by ECU 173 million for 1999. These increases cover the payments corresponding to commitment appropriations transferred for the Structural Funds and also take account of the underutilisation of appropriations in 1994.

After the technical adjustment of the financial perspective and the adjustment to take account of the conditions of implementation, the ceiling for appropriations for payments was 1.20% of GNP for 1996.

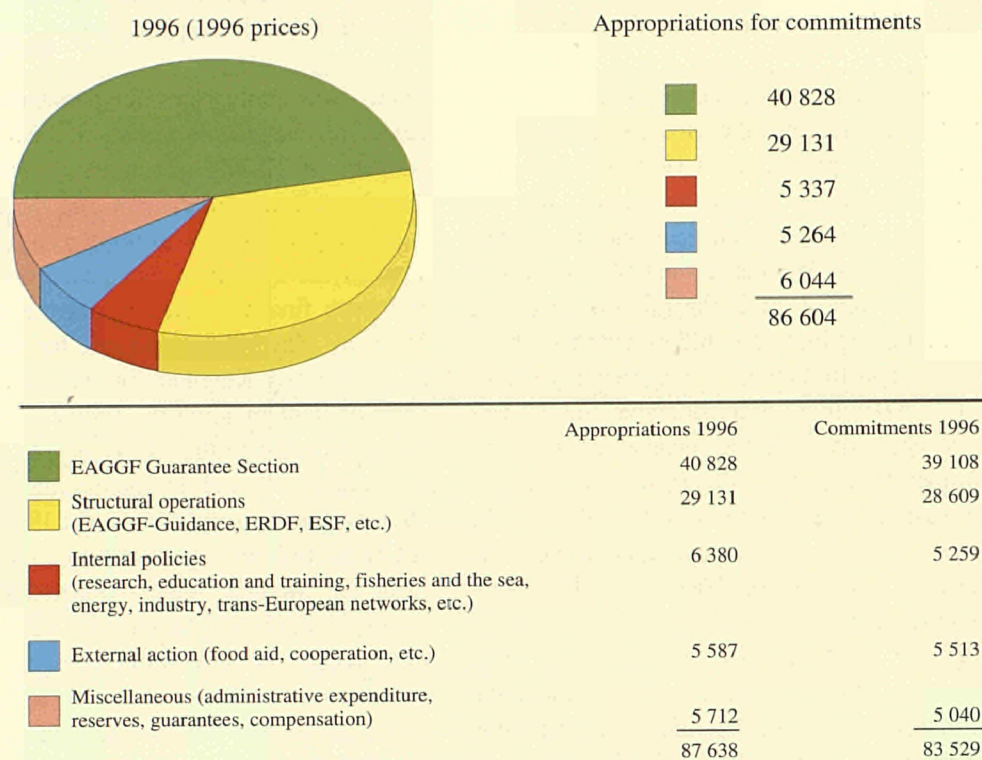
### Budget for the 1996 financial year

The President of Parliament declared the 1996 budget finally adopted on 21 December 1995, one week after Parliament's second reading. The budget complied with the ceilings of the adjusted financial perspective and totalled ECU 86 525 million in appropriations for commitments and ECU 81 888 million in appropriations for payments, 8.37 and 8.55% up on the 1995 budget, including the supplementary and amending budget.

The appropriations for payments were equivalent to 1.196% of GNP.

FIGURE 2

Financial perspective applicable to 1996 financial year

*(million ECU)*

Agricultural expenditure, which was fixed in line with the conclusions of the ad hoc conciliation meeting on compulsory expenditure, was set at the level of the agricultural guideline — ECU 40 828 million.

At ECU 29 131 million, the commitment appropriations for structural operations were the amounts fixed at the Edinburgh Summit in 1992; they also took account of the enlargement of the European Union to cover Austria, Finland and Sweden and included the transfer of ECU 869 million not used in 1994. They were earmarked to finance Community operations under the Structural Funds in 1996, in accordance with the new programming adopted for the period, and under the Cohesion

Fund. Finally, the budget adopted reflected the particular attention to be given to the environmental impact of structural operations.

The commitment appropriations allocated to internal policies totalled ECU 5 324 million (ECU 12.7 million below the ceiling for the heading); ECU 3 183 million, i.e. almost 60% of the total, was for research and technological development. Account was taken of new budget priorities such as information (ECU 50 million for information campaigns — Prince), the establishment of a European voluntary service as a pilot project (ECU 15 million) and continuation of the employment and growth initiative. The agencies (including the Turin Foundation which comes under heading

4) received ECU 99.3 million. The appropriations for the trans-European networks were far higher than in 1995 (up by 7.6%), but some of them were entered in the reserve.

Commitment appropriations totalling ECU 5 261 million were allocated for external action, 8.01 % more than in 1995. This left only ECU 3.4 million below the ceiling for this heading. The biggest increase was for cooperation with the Mediterranean countries, which received almost ECU 900 million, including an additional ECU 200 million entered subject to the constitution of a negative reserve of ECU 200 million. A considerable amount was also earmarked for the reconstruction of the former Yugoslavia (ECU 98 million), some of it entered in a reserve which could also be used, if necessary, for common foreign and security policy action. There was also a substantial increase in the appropriations for the PHARE and TACIS programmes, Latin America, Asia, Africa, the non-governmental organisations (NGOs) and rehabilitation measures in South Africa. Finally, the appropriations for fisheries agreements came to ECU 280 million.

Administrative expenditure came to ECU 4 129 million, an increase of 3.2 % over 1995: ECU 62.4 million was thus still available

below the ceiling for the heading. In all, ECU 1 432 million of the total was for the other institutions and ECU 2 300 million for the Commission (not including pensions).

There was only one supplementary and amending budget in 1996. It was finally adopted on 27 July after a single reading in the Council and Parliament. On the revenue side, the purpose was to implement the decision on the system of own resources, which had been finally ratified by all the Member States by May 1996, to provide for the refund to the United Kingdom of its share in the costs of implementing the Protocol on social policy annexed to the EC Treaty, to which it was not party, and to incorporate into the 1996 budget the surplus from the 1995 budget (ECU 9.2 billion), by deducting this amount from the Member States' contributions. On the expenditure side, its purpose was to adjust the forecasts of agricultural expenditure, taking into account both foreseeable savings due above all to the rise in world prices (ECU 1.5 billion) and the additional requirements connected with 'mad cow' disease (around ECU 1.3 billion, of which 650 million is for compensating producers for income loss), to amend certain budget remarks and to increase the administrative appropriations of the Council and Parliament.

TABLE 1

## Implementation of the budget in 1996

## Revenue

(million ECU)

Revenue forecast in the 1996 budget	82 046.3
Actual revenue in 1996	81 275.1

## Expenditure

	Differentiated appropriations (multiannual operations)		Non-differentiated appropriations (administrative expenditure and annual operations)		Total	
	Commitments	Payments	Commitments	Payments	Commitments	Payments
Available appropriations						
— Entered in 1996 budget	40 097.5	35 433.7	46 540.4	46 540.4	86 637.9	81 974.1
— Other	148.3	149.9			148.3	149.9
— Carried over from 1995:	147.8	324.2	0.5	406.9	148.3	731.1
• automatic carryovers				(406.4)		(406.4)
• other carryovers	(147.8)	(324.2)	(0.5)	(0.5)	(148.3)	(324.7)
Total available,	40 393.6	35 907.8	46 540.9	46 947.3	86 934.5	82 855.1
of which:						
— appropriations used in 1996:	39 588.2	32 776.0	44 148.4	43 979.7	83 736.6	76 755.7
• entered in 1996 budget	(39 381.2)	(32 507.7)	(44 148.1)	(43 630.5)	(83 529.3)	(76 138.2)
• other	(88.4)	(44.7)			(88.4)	(44.7)
• carried over from 1995	(118.7)	(223.6)	(0.3)	(349.2)	(118.9)	(572.8)
— appropriations carried over to 1997:	112.0	422.5	379.4	880.4	491.4	1 302.9
• automatic carryovers				(501.0)		(501.0)
• other carryovers	(112.0)	(422.5)	(379.4)	(379.4)	(491.4)	(801.9)
— appropriations lapsing	693.4	2 709.3	2 013.1	2 087.2	2 706.5	4 796.5
Utilisation rate	98 %	91 %	95 %	94 %	96 %	93 %
Commitments outstanding at 1 January 1996,	42 127.0		406.4		42 533.4	
of which:						
— Cancelled:	1 027.5		57.4		1 084.8	
• corresponding appropriations made available again in 1996	(1.7)				(1.7)	
• other	(1 025.8)				(1 025.8)	
— Paid	17 226.6		349.0		17 575.6	
— Outstanding at 31 December 1996	23 873.0		—		23 873.0	
Commitments made in 1996,	39 588.2		44 148.4		83 736.6	
of which:						
— Paid	15 549.5		43 630.7		59 180.2	
— Outstanding at 31 December 1996	24 038.7		517.7		24 556.4	
Total commitments outstanding at 31 December 1996	47 911.7		517.7		48 429.4	

## REVENUE

The budget of the European Union was financed from a number of sources in 1996, the breakdown being shown in Figure 3. Total revenue came to ECU 81 billion.

### Traditional own resources

The EU's traditional own resources are made up of customs duties, agricultural duties and sugar levies. They are established by the Member States, which keep 10% to cover collection costs.

Customs duties are levied on trade with non-member countries, at rates based on the Common Customs Tariff. These rates have often been subject to reductions as a result of negotiation rounds under the General Agreement on Tariffs and Trade (GATT) and specific agreements granting preferential tariffs to certain trading partners. The amount of customs duties collected was down by 6.0% on last year. This is due to the reduction in the average rate of duty from 2.8% to 2.6%, which was not offset by the modest 1.5% growth in imports.

Agricultural duties are charged when a Member State imports agricultural products from a non-member country. The yield has fallen by 4.2% compared with last year.

In the cereals sector the purpose of the duties is to offset differences between the world price and the Community price.

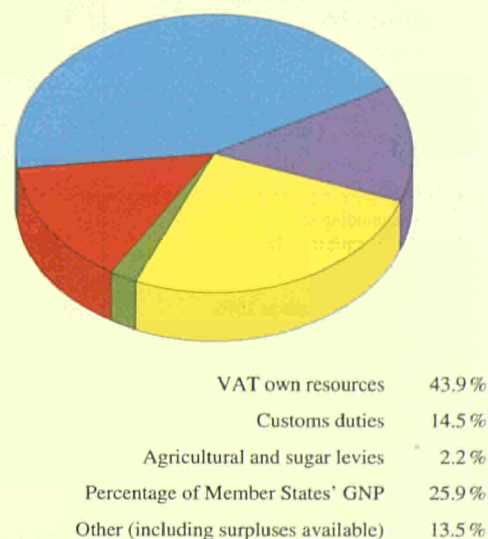
The proportion of EU revenue accounted for by agricultural levies is declining as the reform of the agricultural policy brings internal cereal prices closer to world prices. In most other sectors the fall in the proportion of revenue provided by levies has been due mainly to negotiated commitments for a steady reduction in agricultural duties (by 6% per year).

Sugar and isoglucose producers pay levies on production to cover market support arrangements and to finance a system for the equalisation of sugar-storage costs, thus ensuring that sugar supplies reach the market steadily throughout the year. These levies offset expenditure of virtually the same amount. This year revenue from this source was 7.8% lower than in 1995, mainly because of the fall in production and storage levies.

### VAT own resources

The VAT own resources are calculated by applying a uniform rate to the national VAT bases, which are determined in accordance with Community rules. In accordance with the June 1988 reform and the recently ratified decision on the Communities' own-resources system, the uniform rate is determined by applying a percentage, set at 1.24% for 1996, to

FIGURE 3  
Community revenue in 1996



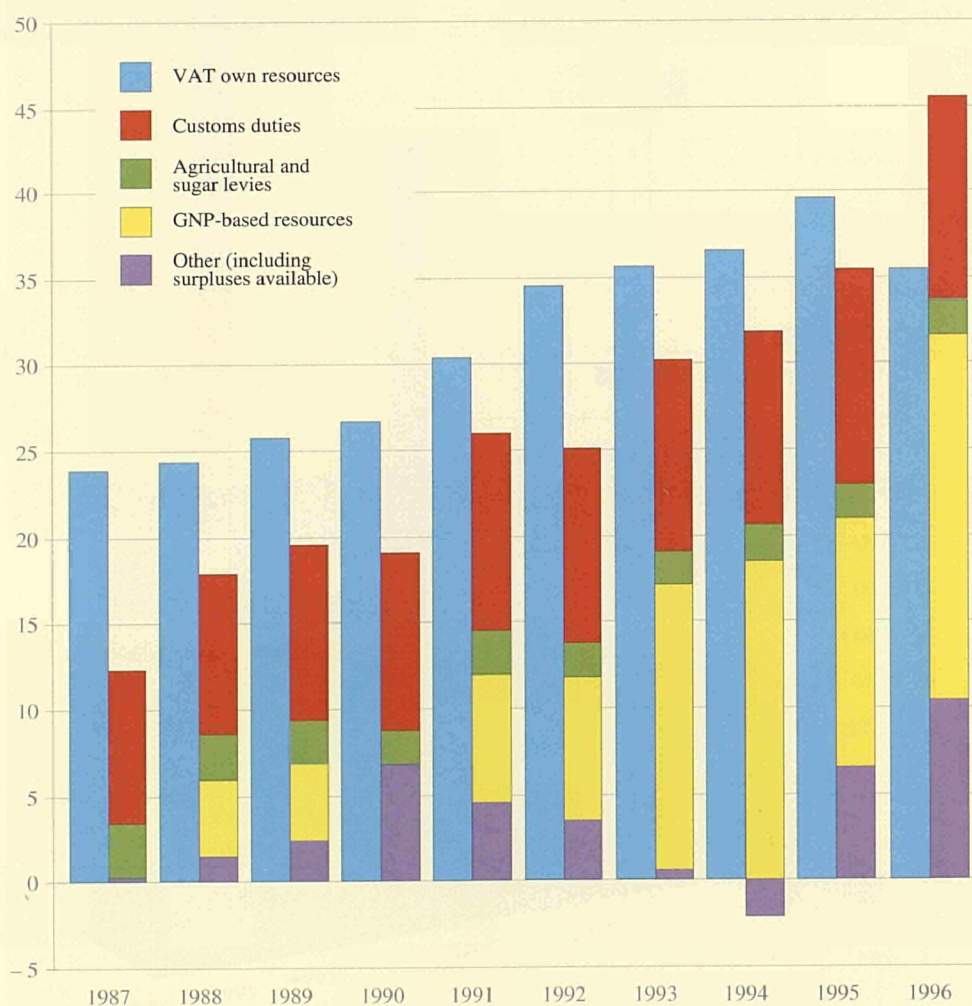
the VAT base and deducting the compensation for the United Kingdom. The base used must not exceed the percentage of the Member State's GNP laid down in the decision on own resources. For 1996, this limit was 50% for four Member States and 53% for the others. This year, the VAT base for Greece, Ireland, Luxembourg and Portugal was capped under these rules.

Payments for a given year derive from the forecasts for that year and the negative or positive adjustments for previous years established using the final statements of the bases.

This year, positive adjustments totalling ECU 858 million were made, particularly in respect of 1995, the budget forecasts having underestimated economic growth.

**FIGURE 4**  
Revenue 1987-96

(billion ECU)



### GNP-based own resources

A new source of revenue based on a proportion of each Member State's GNP was first introduced in 1988 to balance budget revenue and expenditure, i.e. to finance the part of the budget not covered by other revenue. The rate is fixed during the budgetary procedure and depends on the total of other revenue; the rate is applied to the aggregate GNP of all the Member States, determined in accordance with Community rules.

This year, this additional resource was called in, with each Member State paying 0.303 % of its GNP (not including the EAGGF monetary reserve, the loan guarantee reserve and the emergency aid reserve). In addition, five Member States had to finance their share of

the compensation for the United Kingdom by making a payment based on GNP as their VAT payments had reached the maximum rate, i.e. 1.24 % of their base.

Net negative adjustments totalling ECU 27 million were made for 1988-95.

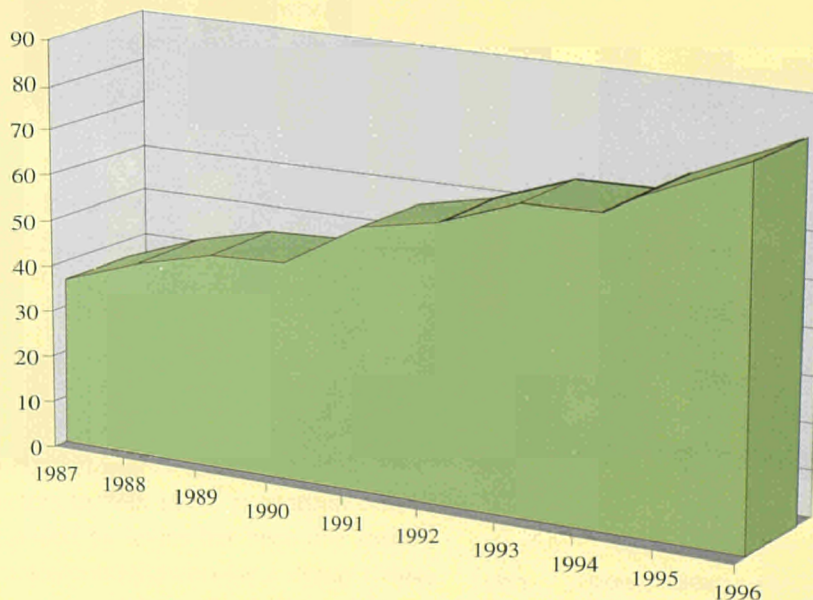
### Miscellaneous revenue

The general budget is also financed by miscellaneous revenue, including tax and other deductions from staff remuneration, bank interest, outside contributions to research programmes, repayments of unused aid and interest on late payments.

The revenue for 1996 also includes the ECU 9.215 billion surplus from 1995.

**FIGURE 5**  
Total revenue 1987-96

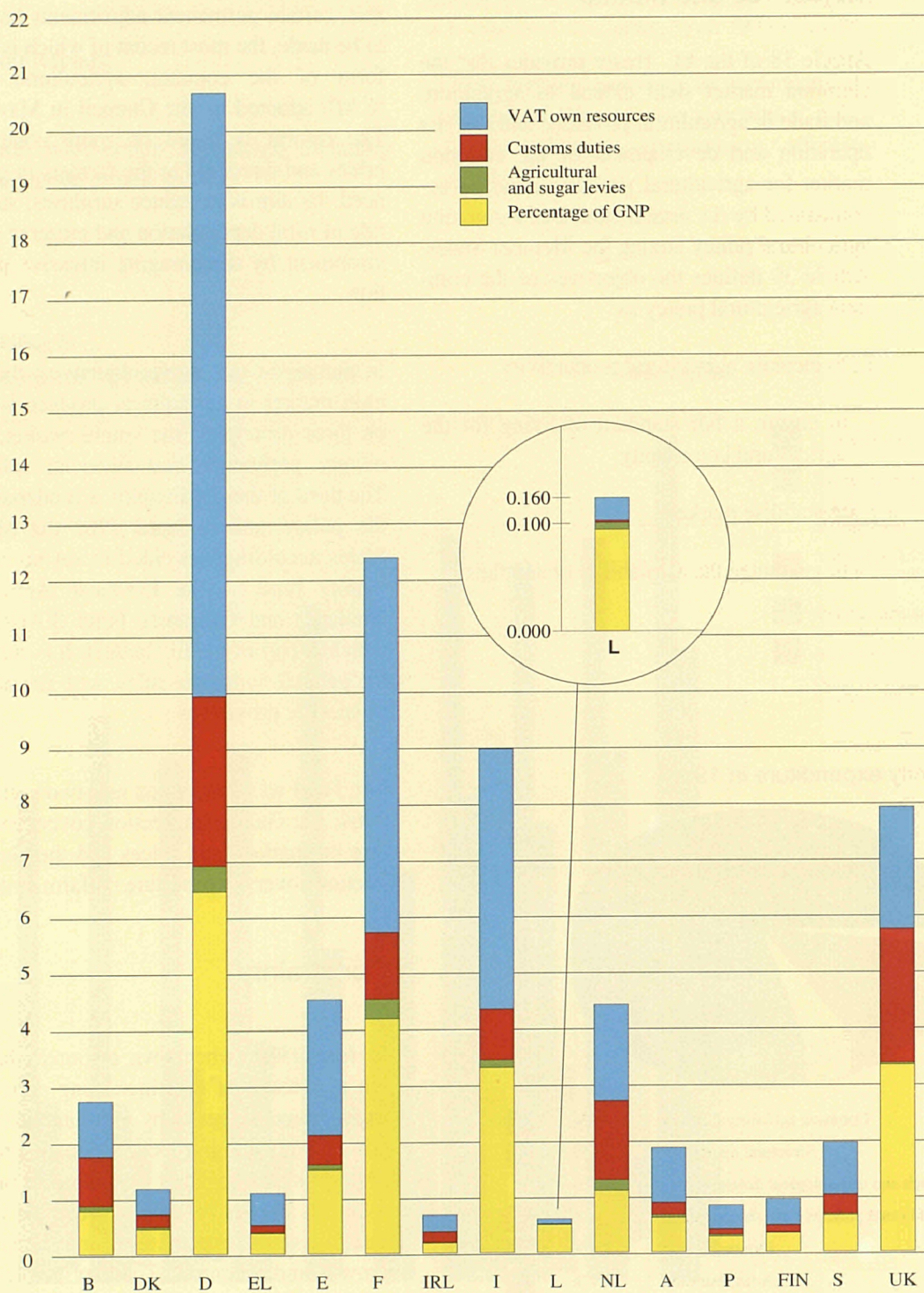
(billion ECU)





**FIGURE 6**  
Own resources by Member State in 1996

(billion ECU)



# EXPENDITURE

## Heading 1 — Agricultural market guarantees

### Objectives and means

Article 38 of the EC Treaty provides that the common market shall extend to agriculture and trade in agricultural products, and that the operation and development of the common market for agricultural products must be accompanied by the establishment of a common agricultural policy among the Member States. Article 39 defines the objectives of the common agricultural policy as:

- to increase agricultural productivity;
- to ensure a fair standard of living for the agricultural community;
- to stabilise markets;
- to guarantee the availability of supplies;

to ensure that supplies reach consumers at reasonable prices.

Although these objectives have largely been met, certain permanent adjustments have had to be made, the most recent of which is the reform of the common agricultural policy (CAP) adopted by the Council in May 1992. The reform is based on more competitive prices and direct aid to the farmers in greatest need. Its aim is to reduce surpluses, stem the tide of rural depopulation and preserve the environment by discouraging intensive production.

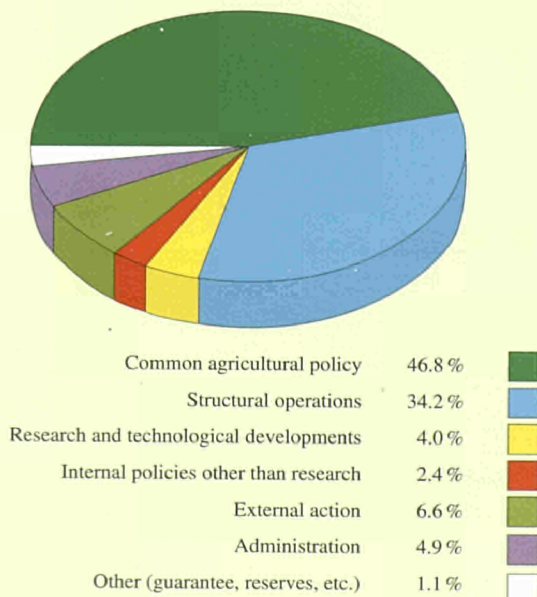
In pursuit of the above objectives, the common market in agricultural produce is based on three principles: the single market, Community preference and financial solidarity. The third of these principles is fundamental to the policy, and in April 1962 the Member States accordingly decided to set up a Community fund — the European Agricultural Guidance and Guarantee Fund (EAGGF) — which is part of the EU budget. It is subject to the general budgetary rules, with the addition of specific provisions.

The Fund was subdivided into two sections in 1964: the Guarantee Section covers expenditure on markets and prices and the Guidance Section covers expenditure on farm structures.

### Constraints

In June 1988, when own resources had run out as a result of ever-increasing agricultural expenditure triggered by imbalances on certain markets, the European Council agreed on principles of budgetary discipline in order to establish a better balance between the various categories of expenditure and keep their growth under control. These principles were reaffirmed by the Edinburgh European Council in December 1992.

FIGURE 7  
Community expenditure in 1996



To bring agricultural expenditure under control, the European Council adopted the principle of a guideline. Within this guideline, the EAGGF Guarantee Section has to finance:

- export refunds;
- market intervention operations, including depreciation of new stocks;

- market-related rural development operations and measures to combat fraud.

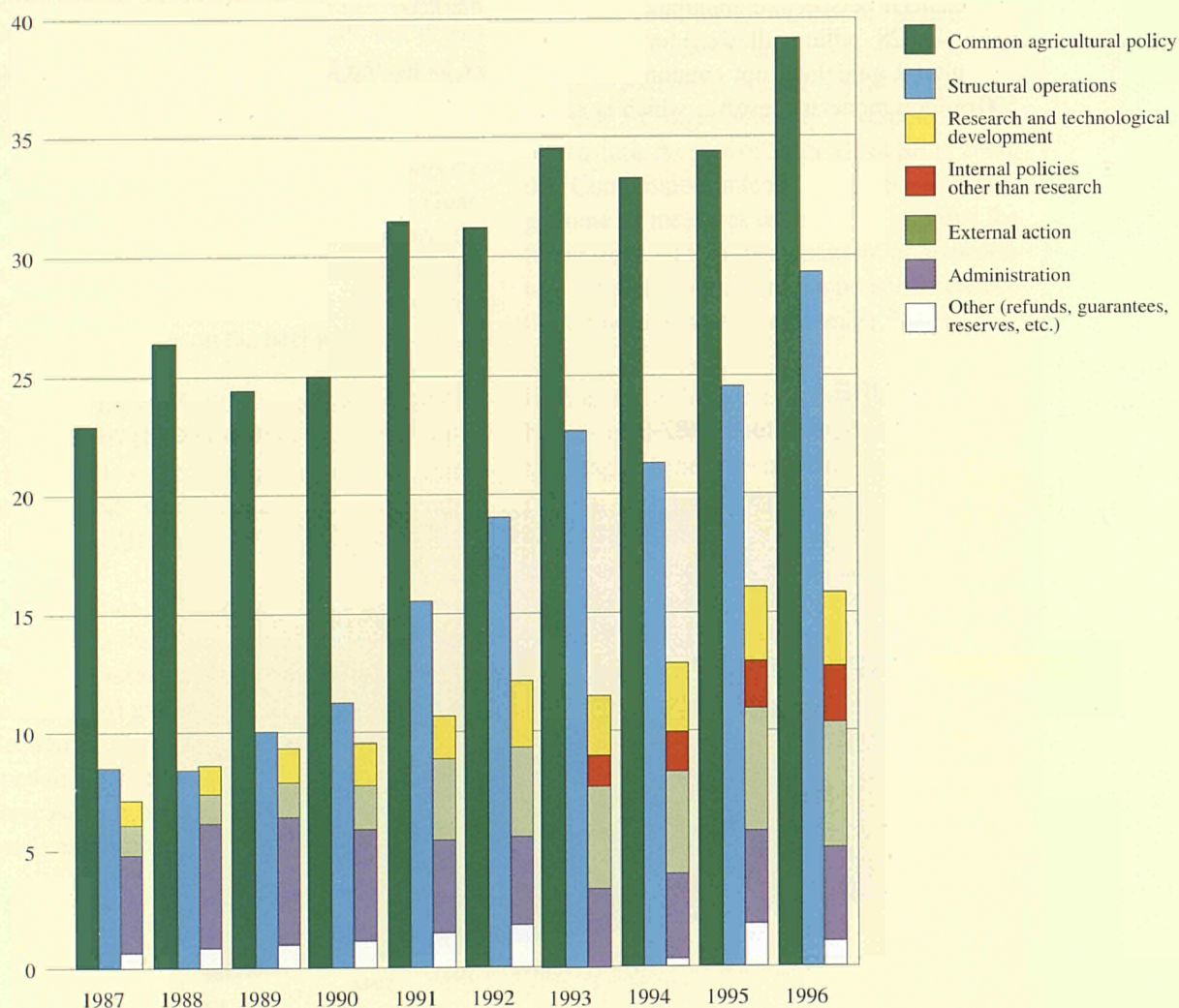
However, in line with the conclusions of the Edinburgh European Council, the guideline was extended with effect from 1993 to cover:

- new flanking measures to accompany the reform of the common agricultural policy (early retirement, environment, afforestation);

FIGURE 8

Development of expenditure 1987-96

(billion ECU)



- all of the expenditure relating to the withdrawal of land from production, 50% of which was financed by the EAGGF-Guarantee (heading 2 of the financial perspective);
- expenditure on income aid (under heading 2 of the financial perspective in 1992);
- Guarantee Fund expenditure on fisheries (under heading 4 in 1992).

### 1996 budget

#### *General assessment*

The appropriations covered by heading 1 of the financial perspective amounted to the full ECU 40.828 billion allowed for under the agricultural guideline, not counting the ECU 500 million monetary reserve, which is called

on only if needed. The figure does include the ECU 69.5 million entered in Chapter B0-40 'Provisional credits'.

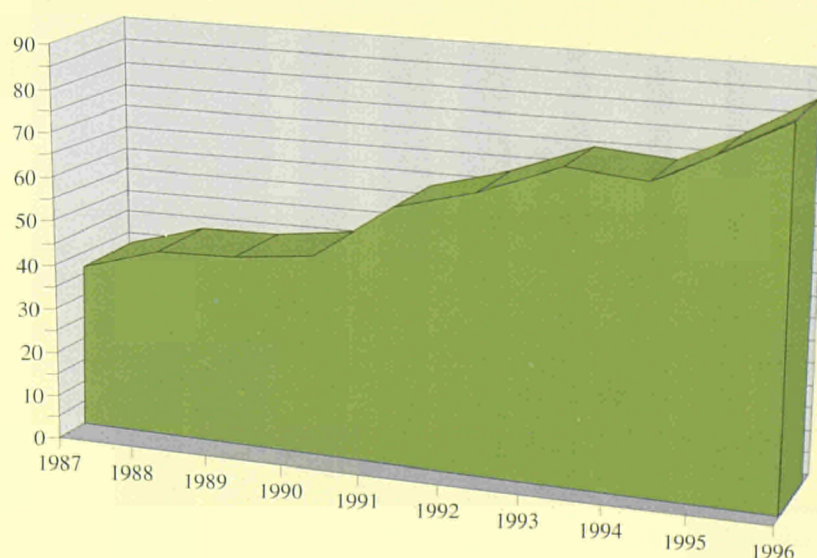
### Supplementary and amending budget No 1/96 (SAB No 1/96)

When the proposal on agricultural prices and related measures for 1996/97 was presented in January, the Commission followed the customary procedure of updating its expenditure forecast. Taking the dollar-ecu rate used for the budget, i.e. USD 1 = ECU 0.79, the Commission forecast that the budget appropriation would exceed requirements for 1996 by ECU 698 million, primarily as a result of favourable trends on a number of agricultural markets.

Over the following months, the situation remained good and, in some cases, improved

**FIGURE 9**  
Total expenditure 1987-96

(billion ECU)



further. However, at the end of March 1996, the bovine spongiform encephalopathy (BSE) crisis struck in the United Kingdom, necessitating some costly measures aimed at eradicating the disease and restoring consumer confidence both inside and outside the Union. In addition, market intervention was required and producers had to be compensated for loss of income. The savings from other unexpectedly buoyant markets were large enough to enable the cost of this operation, amounting to some ECU 1.5 billion, to be funded from the 1996 budget allocation.

The budget authority adopted a supplementary and amending budget (No 1/96) to take account of these events. There was no change in the overall amount of the allocation for the Guarantee Section of the EAGGF, but it was redistributed. Total requirements amounted to ECU 40.630 billion. The balance of ECU 198 million, still available within the agricultural guideline of ECU 40.828 billion, was entered in a temporary reserve within the Guarantee Section of the EAGGF, to finance the compulsory selective cattle-slaughter programme in the United Kingdom and any additional intervention on the beef market.

Spending for 1996, before carryovers, totalled ECU 39.1078 billion, i.e. ECU 1.7208 billion (4.2%) below the appropriation in the initial budget and supplementary and amending budget (SAB) No 1/96.

Discrepancies between spending forecasts and out-turns always raise questions concerning the agricultural forecast. However, it must be remembered that the budget for the Guarantee Section of the EAGGF is a forecast, not a spending target. Most of the Commission's forecasts are based on a large number of unpredictable factors, such as the harvest, world

prices, internal prices, trade flows, exchange rates, etc. Furthermore, the Commission has to make its forecasts in time for its preliminary draft budget, a year before these factors can be gauged with sufficient accuracy.

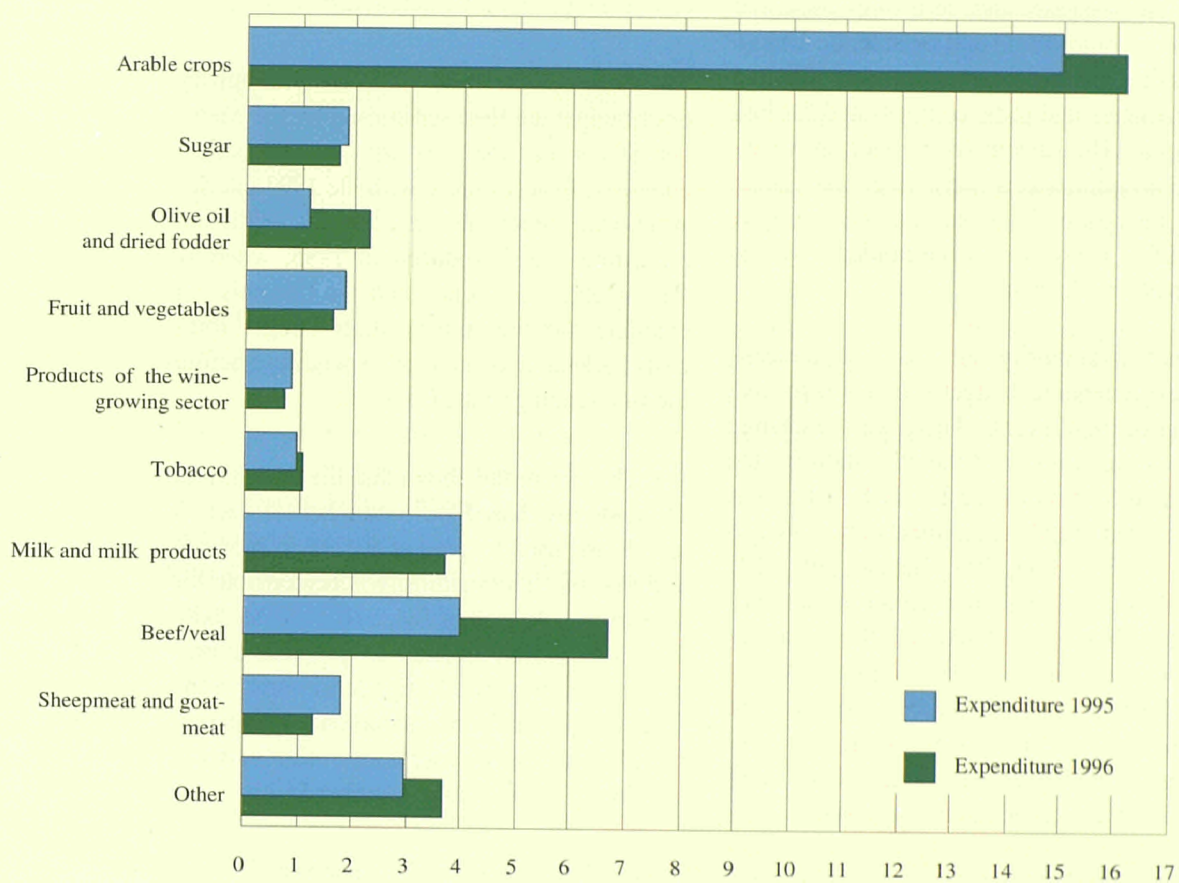
The Commission forecasts in the preliminary draft budget are then scrutinised by the Member States and the two arms of the budget authority. In accordance with the 1993 inter-institutional agreement, an ad hoc conciliation procedure was introduced in 1995, whereby Parliament, the Council and the Commission examine the preliminary draft budget forecasts in detail and agree on expenditure before the first reading in the Council.

It is clear from the above that the agricultural forecasts are based on a number of factors which are hard to predict a year in advance and that no single authority is responsible for forecasting. As part of Stage III of SEM 2000, the Commission intends to propose a programme of measures designed to improve the forecasting and implementation of expenditure through even closer cooperation between the Commission and the Member States.

It should also be borne in mind that the 1996 budget coincided with implementation of the last stage of the reform of the common agricultural policy and was the first to deal with the full budgetary impact of the last enlargement. On top of this came the upheavals on the beef market as a result of the BSE outbreak. Fortunately, the significant costs arising from the crisis were more easily met than they might have been because of the favourable conditions on a number of important markets (high world prices for cereals, sugar and milk) and the fact that the beef crisis drove up internal prices for other meats.

FIGURE 10

Expenditure on agricultural market guarantees 1996

*(billion ECU)*

### Specific comments

The table below compares expenditure for each chapter with appropriations in the initial budget and in the amending budget.

(million ECU)

Chapter	Sector	Budget appropriation	SAB No 1/96 appropriation <sup>(1)</sup>	Expenditure	Expenditure budget	Expenditure SAB
a	b	c	d	e	f = e - c	g = e - d
10	Arable crops	17 185	16 998	16 372.3	- 812.7	- 625.7
11	Sugar	1 942	1 843	1 711.3	- 230.7	- 131.7
12	Olive oil	1 781	2 113	2 007.7	226.7	- 105.3
13	Dried fodder and vegetables	386	385	365.2	- 20.8	- 19.8
14	Fibre plants	894	850	831.6	- 62.4	- 18.4
15	Fruit and vegetables	1 729	1 575	1 589.3	- 139.7	14.3
16	Wine	1 113	805	782.2	- 330.8	- 22.8
17	Tobacco	1 106	1 043	1 025.6	- 80.4	- 17.4
18	Other sectors	314	306	294.9	- 19.1	- 11.1
20	Milk and milk products	4 214	3 718	3 582.0	- 632.0	- 136.0
21	Beef and veal	5 458	6 744	6 687.0	1 229.0	- 57.0
22	Sheepmeat	1 353	1 447	1 321.2	- 31.8	- 125.8
23	Pigmeat	168	126	124.2	- 43.8	- 1.8
24	Eggs and poultry	150	160	138.7	- 11.3	- 21.3
25	Other animal product measures	146	134	116.1	- 29.9	- 17.9
26	Fisheries	48	39	34.1	- 13.9	- 4.9
30	Non-Annex II products	616	541	491.1	- 124.9	- 49.9
33	Food aid	83	66	28.8	- 54.2	- 37.2
34	Pre-financing interest	0	0	0.0	0.0	0.0
35	Distribution to the needy	200	200	102.1	- 97.9	- 97.9
36	Anti-fraud measures	44	44	28.9	- 15.1	- 15.1
37	Clearance of accounts	- 1 090	- 1 122	- 1 122.7	- 32.7	- 0.7
38	Rural development	520	521	498.8	- 21.2	- 22.2
39	Other measures	194	208	225.3	31.3	17.3
	<b>Titles 1, 2 and 3 — Total</b>	<b>38 554</b>	<b>38 744</b>	<b>37 235.9</b>	<b>- 1 318.1</b>	<b>- 1 508.1</b>
40	Income aids	20	20	19.5	- 0.5	- 0.5
50	Accompanying measures	2 254	1 866	1 852.3	- 4 01.7	- 13.7
70	BSE reserve		198	0.0	0.0	- 198.0
	<b>Total EAGGF-Guarantee</b>	<b>40 828</b>	<b>40 828</b>	<b>39 107.8</b>	<b>- 1 720.2</b>	<b>- 1 720.2</b>
	Percentage difference				- 4.21	- 4.21

<sup>(1)</sup> Including transfers after adoption of SAB No 1/96.

As explained above, the difference between the appropriations and expenditure levels is accounted for primarily by market trends in a number of sectors and the BSE outbreak. The differences were greatest for the following sectors (figures for appropriations in the initial budget and SAB No 1/96 and for expenditure are in billion ECU).

• Arable crops

<i>Initial appropriations</i>	<i>SAB No 1/96</i>	<i>Expenditure</i>
17.185	16.998	16.3723

Expenditure came to ECU 812.7 million less than initially budgeted, largely as a result of lower-than-expected refund and storage costs.

This, in turn, was the result of the favourable conditions on the internal market, with domestic consumption up and output lower than forecast (175 million rather than 180 million tonnes). Production was particularly low in Spain and Portugal because of the persistent drought.

This coincided with a poor harvest worldwide and low stocks, pushing up world prices, sometimes to levels above the already high prices on the Union's internal market. These factors together prompted the Commission to suspend export subsidies for a time, which had a dampening effect on exports and reduced refund payments.

Furthermore, to meet domestic demand, more cereal was sold from public stocks at prices exceeding the book value of the products, generating unexpected revenue gains. In addition, intervention-related storage costs were kept down and average stocks were lower than usual.

On the other hand, the difference between supplementary and amending budget No 1/96 and expenditure is only partially explained by favourable market conditions as these had already been taken into account in the SAB. There are other reasons:

- applications for per-hectare aid for rape seed fell, as many producers decided not to sow spring rape on land that was under winter rape destroyed by frost, thus cutting expenditure on the advance on 'oilseed' aid for 1996 by around ECU 130 million;

- around ECU 200 million was saved in additional aid for durum wheat in Italy for the 1994 and 1995 harvests as a result of more rigorous checks by the Italian authorities;

- expenditure on five-year set-aside in Germany and Italy was ECU 70 million lower than expected;

- payments worth ECU 45 million were suspended for failure to meet deadlines, in accordance with Article 13 of the regulation on budget discipline.

• Sugar

<i>Initial appropriations</i>	<i>SAB No 1/96</i>	<i>Expenditure</i>
1.942	1.843	1.7113

The savings made on the initial budget were largely due to the buoyant world price, which kept the average refund rate down to ECU 450 per tonne for 1995/96, compared with the forecast rate of ECU 470.

The supplementary and amending budget took account of this, so the ECU 131.7 million difference between the amended figure and actual expenditure must be attributed to the 150 000 tonne fall in the amount exported under quotas; high world prices led traders to export C sugar in the last few months of the year without refunds.

• Olive oil

<i>Initial appropriations</i>	<i>SAB No 1/96</i>	<i>Expenditure</i>
1.781	2.113	2.0077



Overspending in this sector is linked to the level of olive-oil production, which is used to determine the amount of production aid paid to producers. The budget figure was based on an assumed production figure of 1.1 million tonnes. However, in accordance with the relevant rules, production for 1994/95 was set at 1.408 million tonnes in October 1995 on the basis of requests from the Member States.

This adjustment was taken into account in the supplementary and amending budget. The fact that ECU 105.3 million of the appropriation in that budget was not used is due to the Italian authorities' decision to recover a part of the advances paid by way of production subsidies, since the number of aid applications was overestimated when the production figure for 1994/95 was set. Furthermore, Italy was unable to pay all outstanding production subsidies for 1994/95 within the relevant time limits.

• Fruit and vegetables

<i>Initial appropriations</i>	<i>SAB No 1/96</i>	<i>Expenditure</i>
1.729	1.575	1.5893

The savings with regard to the initial budget can be put down to modest production levels for peaches, nectarines, apples and oranges, which kept withdrawals below the expected levels. The budget was based on forecast withdrawals of 2.2 million tonnes, whereas the actual figure was around 1.2 million.

The ECU 14.3 million overspend at the end of the year was due to bad weather, affecting the quality of the fruit, with the result that more peaches and nectarines had to be withdrawn than forecast in the supplementary and amending budget.

• Wine

<i>Initial appropriations</i>	<i>SAB No 1/96</i>	<i>Expenditure</i>
1.113	0.805	0.7822

The lower-than-expected expenditure figure for this sector reflects historically low production, amounting to only 80 million hectolitres, compared with the 101 million hectolitres forecast in the budget. This led to savings on the cost of distillation and the buying-in of the alcohol obtained. This downward revision of the supply balance was taken into consideration in the supplementary and amending budget and actual expenditure was practically the same as the amount in that budget.

• Milk

<i>Initial appropriations</i>	<i>SAB No 1/96</i>	<i>Expenditure</i>
4.214	3.718	3.582

Here again, there were unused appropriations at the end of the year. As with cereals, the reason was the very favourable conditions on both the world and Community markets, particularly at the beginning of the year.

High world prices led to savings of ECU 373 million in refunds, while on the internal market, around ECU 100 million was saved thanks to reduced spending on special disposal measures for butter.

Lastly, in response to the fact that quotas were exceeded in most Member States, a supplementary levy was raised, generating some ECU 200 million in income.

The main reason why expenditure was still ECU 136 million below the level forecast in the supplementary and amending budget is that the extra revenue from the supplementary levy was expected to total around ECU 90 million, whereas the actual figure was ECU 194 million.

## • Beef and veal

<i>Initial appropriations</i>	<i>SAB No 1/96</i>	<i>Expenditure</i>
5.458	6.744	6.687

The 'mad cow' crisis explains the increase in expenditure in 1996, directly accounting for some ECU 1.450 billion.

Of this additional expenditure, over half (ECU 815 million) was spent on measures linked to the Council's decision to compensate producers for loss of earnings. In addition, the BSE crisis hit beef sales very hard. Before the crisis, the 1996 budget had allocated ECU 221 million to intervention, on the assumption that 150 000 tonnes of beef and veal would be bought in. In the supplementary and amending budget, this figure had risen to 300 000 tonnes. By the end of August, tenders for intervention had been submitted for 296 000 tonnes and the tenders for September, 50 % of which are attributed to the 1996 budget, totalled 48 000 tonnes. Intervention spending had risen to ECU 621 million, ECU 400 million higher than the amount forecast before the crisis.

As one of the measures aimed at eradicating BSE from the United Kingdom through voluntary slaughter, the Commission adopted Regulation (EC) No 716/96 of 19 April 1996, which provides that the budget will supply 70 % of the compensation paid to UK producers for the purchase of animals over the age of 30 months, with a view to their complete destruction. It had been estimated that this would require ECU 194 million for 1996, for the destruction of 480 000 animals. The United Kingdom encountered a number of logistical difficulties, particularly with incineration capacity, leading to delays in getting the destruction of animals under way. However, by 15 October 1996, 632 000 animals had been slaughtered and 550 000 rendered, but only 26 000 had been incinerated after rendering. The entire Community contribution towards

compensation was supposed to be withheld until after complete destruction but, following changes to the relevant regulations, the Commission decided to pay an 80 % advance prior to incineration, as a result of which around ECU 147 million was spent in 1996. A further ECU 8 million was paid out in full compensation, making ECU 155 million in total.

Other related measures include:

- the destruction of fattening calves of British origin in France and the Netherlands, costing ECU 53 million, ECU 11 million more than forecast in the supplementary and amending budget because of the higher-than-expected average weight of the animals, partially compensated for by a smaller number (121 000 instead of 134 000);
- ECU 24 million, the amount forecast in the supplementary and amending budget, which was spent on processing premiums for newborn male calves;
- selective slaughter programmes which were adopted in the United Kingdom and Portugal, the cost of which was put at ECU 102 million and ECU 1 million respectively. Only the Portuguese programme was actually implemented in 1996, and cost ECU 0.93 million. However, the cost of the programmes was not entered in the supplementary and amending budget; ECU 198 million was entered in a special 'temporary BSE reserve' in Chapter B1-70 to meet these and other costs. The reserve was not used.

The cost of these measures was offset by the savings on refunds amounting to some ECU 250 million, partly as a result of the ban on meat exports from the UK and the increase in the amount of frozen beef exports, which attract smaller refunds.

With only ECU 57 million left unused in relation to the supplementary and amending budget, the out-turn is very close to the forecast given that the sector was seriously disrupted throughout the year.

• Sheepmeat

<i>Initial appropriations</i>	<i>SAB No 1/96</i>	<i>Expenditure</i>
1.353	1.447	1.3212

Price trends on the domestic market constitute one of the most significant factors in determining expenditure in this sector. The spending figure was raised in the supplementary and amending budget to allow for delays in the payment of premiums for 1994 and 1995, worth around ECU 200 million. This was partially offset by the fact that, for 1995 and 1996, the market price was higher than forecast in the budget.

Actual expenditure was ECU 125.8 million below the supplementary and amending budget because price trends in 1996 were far more favourable than expected, primarily as a result of the beef crisis, which boosted consumption. The average price for 1996 was around ECU 3 630 per tonne, compared with forecasts of ECU 3 200 in the initial budget and ECU 3 250 in the supplementary and amending budget.

• Non-Annex II products

<i>Initial appropriations</i>	<i>SAB No 1/96</i>	<i>Expenditure</i>
0.616	0.541	0.4911

The relatively high world prices for cereals and dairy produce were the main factor in determining the level of expenditure.

• Distribution to the needy

<i>Initial appropriations</i>	<i>SAB No 1/96</i>	<i>Expenditure</i>
0.200	0.200	0.1021

The low expenditure levels, ECU 97.9 million below the budget, are linked to the delay in the adoption of a Community regulation allowing goods to be bought on the open market. This change was proposed because the low level of public stocks was undermining the effectiveness of the measure.

• Accompanying measures

<i>Initial appropriations</i>	<i>SAB No 1/96</i>	<i>Expenditure</i>
2.254	1.866	1.8523

The allocations for each of the three measures in this chapter were underutilised.

There was little change from 1995 with regard to the early-retirement programme: the schemes were not implemented in full in Spain or Greece and the Italian scheme's teething troubles persisted.

Spending on measures to promote environmentally friendly farming did not quite reach the budget forecast either, despite extra spending in Austria and Finland, which, as new Member States, had been unable to implement the relevant schemes in 1995 and had to catch up. In addition, Austria's target expenditure ceiling was raised to ECU 81 million (ECU 162 million for the two years together).

Lastly, initial appropriations for afforestation programmes were also underutilised, particularly in Italy, Germany and Spain.

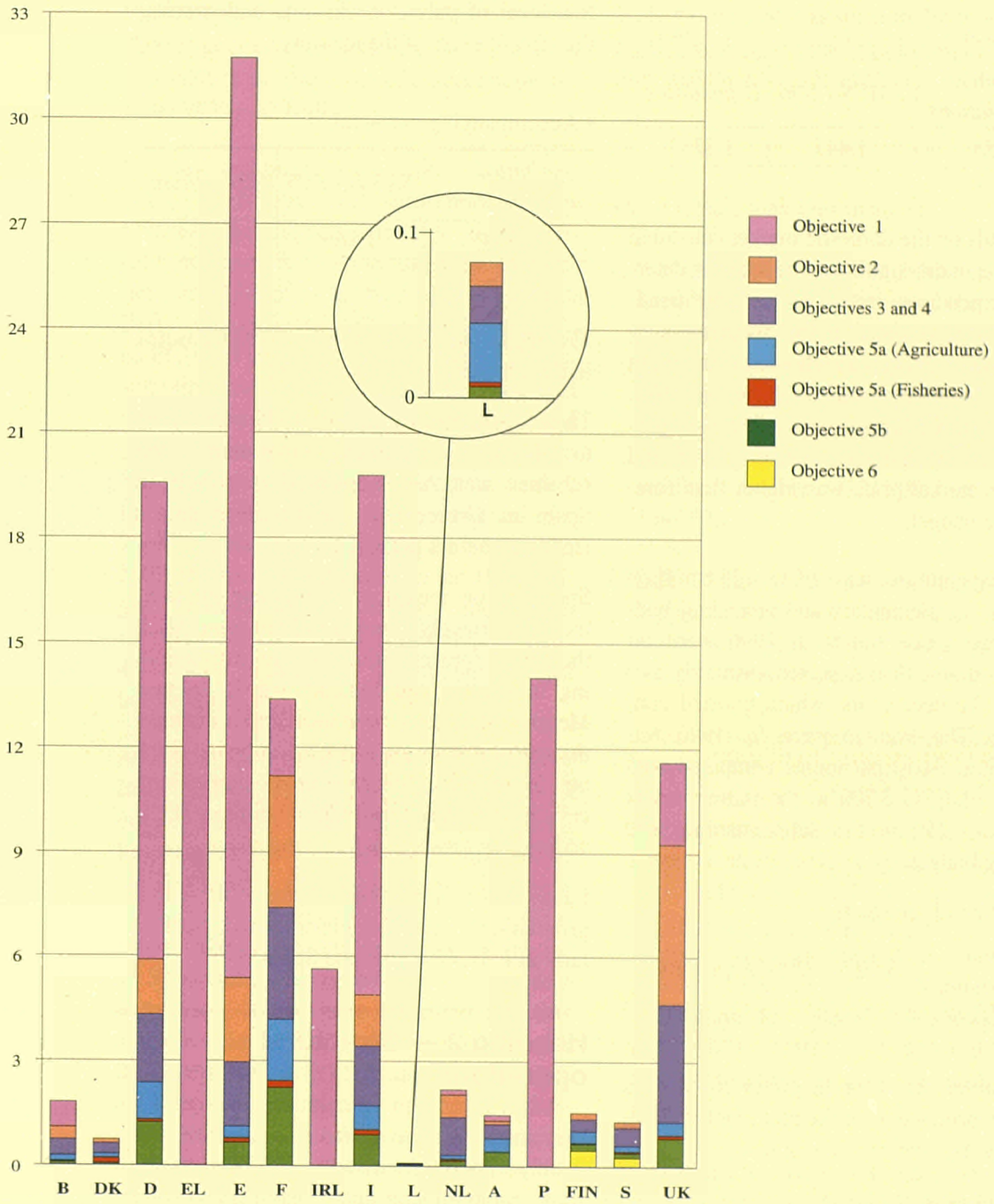
## Heading 2 — Structural operations

Community initiatives and most of the Community support frameworks (CSFs) and the single programming documents (SPDs) were adopted in 1994 and 1995. In 1996 the Objective 2 SPD for Finland, the Objective 3 SPD for the United Kingdom and the Objective 5b SPD for Sweden were adopted.

FIGURE 11

Breakdown by Member State of Community contribution under the various objectives of the Structural Funds

(billion ECU)



NB: Figures relate to the period 1994-99, except in the case of Objective 2 (1994-96) and the three new Member States — Austria, Finland and Sweden (1995-99).

Important policy papers concerning Community structural measures, employment, cohesion policy, the environment and culture were adopted by the Commission, usually in the form of communications to the Council. The 1996 budget earmarked ECU 26.580 billion for operations under the three Structural Funds and the Financial Instrument for Fisheries Guidance (FIFG). Of this total, ECU 26.143 billion was actually committed:

<i>(billion ECU)</i>	
EAGGF Guidance Section	3.935
ERDF	13.812
ESF	7.985
FIFG	0.411
Total	26.143

The Union supports six specific objectives through the Structural Funds and the FIFG.

#### **Regions lagging behind in their development (Objective 1)**

On 4 March and 24 June respectively, the Commission amended the SPDs for Merseyside (United Kingdom) and for Hainaut (Belgium).

The Community's total contribution for 1996 came to ECU 15.439 billion, of which ECU 15.369 billion was committed.

#### **Regions suffering industrial decline (Objective 2)**

On 29 April, the Commission sent Member States a note for guidance setting out the Objective 2 priorities for 1997-99: job creation

(top priority), competitiveness and development of small firms, research, development and innovation, the environment and equal opportunities. On 26 July, it drew up the list of declining industrial areas eligible under Objective 2 for 1997-99. It also set the indicative allocation among the Member States other than Austria, Sweden and Finland of the Structural Fund commitment appropriations for the same period: (Belgium: ECU 86 million; Denmark: ECU 65 million; France: ECU 2.059 billion; Germany: ECU 854 million; Italy: ECU 798 million; Luxembourg: ECU 8 million; Netherlands: ECU 359 million; Spain: ECU 1.318 billion; United Kingdom ECU 2.500 billion). The allocation of appropriations for the three new Member States had been fixed in 1995 prior to preparation of the SPDs (Austria: ECU 101 million; Finland (1995-96): ECU 69 million; Sweden: ECU 160 million).

The Community's total contribution for 1996 came to ECU 2.726 billion, of which ECU 2.705 billion was committed.

#### **Combating long-term unemployment and facilitating the integration into working life of young people and of persons exposed to exclusion from the labour market (Objective 3)**

The SPD for the United Kingdom for 1997-99 was adopted by the Commission on 16 December. The following priorities were selected in partnership with the national authorities: improving the job prospects of the long-term unemployed; promoting the integration into working life of young people seeking jobs; improving the job prospects of persons threatened by exclusion from the labour market; and promoting equality of opportunity for men and women on the labour market.

The Community's total contribution for 1996 came to ECU 2.798 billion, all of which was committed.

### Adjustment of the workforce to industrial change and to changes in production systems (Objective 4)

The priorities are as follows: anticipating trends on the labour market and vocational qualification needs; developing training, guidance and advice facilities; improving new and existing training schemes so that workers are better qualified to meet new requirements; and technical assistance measures in the fields of information, counselling, services and assessment.

The measures taken concentrate on training workers to meet the need for skills identified by advance measures. Priority is given to small firms and workers threatened by unemployment as a result of industrial change.

On 29 May, the Commission amended the SPD for Germany, on 13 September the CSF for Belgium and the SPD for Luxembourg and on 19 December the SPD for Denmark, extending their application for three years in those areas where the initial programme only covered 1994-96.

The Community's total contribution for 1996 came to ECU 271.5 million, all of which was committed.

### Adjustment of agricultural structures (Objective 5a)

Objective	(million ECU)	
	Available appropriations in 1996	Appropriations committed
5a outside 1 and 5b	425.8	425.8
5a in 5b	376.6	376.6
5a	156.0	115.0
Total	958.4	917.4

On 11 March, the Commission adopted the SPD for improving processing and marketing conditions for agricultural and forestry products (Regulations (EEC) Nos 866/90 and 867/90) in Sweden until 1999. The Commission also modified the United Kingdom SPD. On 23 July, the Council amended the Community list of less favoured agricultural areas to include further areas in Ireland. On 26 February, the Commission also adopted three proposals for regulations consolidating Regulations (EEC) Nos 1360/78 on producer groups and associations thereof, 866/90 on improving the processing and marketing conditions for agricultural products and 2328/91 on improving the efficiency of agricultural structures.

The Community's total contribution for 1996 came to ECU 958.4 million, of which 917.2 million was committed.

### Fisheries structure (Objective 5a)

On 28 May, the Council adopted a regulation amending Regulation (EC) No 3699/93 laying down the criteria and arrangements regarding Community structural assistance in the fisheries and aquaculture sector, and the processing and marketing of its products. The new regulation sets out the limits for premiums for the scrapping of vessels over 30 years old and puts a ceiling on aid from the Financial Instrument for Fisheries Guidance for the temporary laying-up of vessels. On 20 December, it adopted a regulation amending Regulation (EC) No 3699/93 to introduce a reference to the new aid scheme for producer organisations and confirm that FIFG assistance would use only the budgetary rate for the ecu, and not the agricultural rate.

The Community's total contribution for 1996 came to ECU 156 million, of which 115 million was committed.

TABLE 2

## Commitment appropriations — Cohesion Fund

	Environment		Transport		Total	Breakdown
	Million ECU	%	Million ECU	%	Million ECU	%
Greece	235.9	53.8	202.4	46.2	438.3	18.0
Spain	663.5	49.4	678.4	50.6	1 341.9	55.0
Ireland	99.9	45.1	121.8	54.9	221.7	9.0
Portugal	218.0	49.6	221.5	50.4	439.5	18.0
Total	1 217.3	49.9	1 224.1	50.1	2 441.4	100.0
Technical assistance						2.2
Anti-fraud measures						0.3

### Development of rural areas (Objective 5b)

Objective 5b is concerned with the development of rural areas in difficult circumstances which are not located in Objective 1 regions; 12 Member States are involved. The Objective 5b areas designated for the period 1994-99 have a total population of approximately 32 745 000, i.e. 8.8% of the Community's population including the three new Member States, and a combined surface area of 840 876 km<sup>2</sup>.

On 8 May, the Commission adopted the Objective 5b SPDs for Sweden.

The Community's total contribution for 1996 came to ECU 971.5 million, of which 917.4 million was committed.

### Regions with an extremely low population density (Objective 6)

Finland and Sweden are the only countries affected by this objective. Its main priorities are economic and commercial development, human resources, promotion of know-how, agriculture, forestry, fisheries, farmland im-

provement, the environment and Community social measures.

The Community's total contribution came to ECU 91.45 million, of which 88.65 million was committed.

### Community initiatives

Total funding for the Community initiatives represents 9% of the total volume of the Structural Funds, in accordance with Article 12 of Council Regulation (EEC) No 2081/93. This figure was obtained by taking 8% of the total funding allocated to each objective (including transitional measures and innovative schemes) and adding 1% of total Structural Fund appropriations, taken from the funding of Objectives 3 and 4.

On 8 May, following consultation of the European Parliament and the Economic and Social Committee, the Commission formally adopted the decision on the allocation of the reserve for the Community initiatives. The total came to ECU 1.665 billion at 1996 prices.

Appropriations available for 1996 totalled ECU 2.989 billion, of which 2.819 billion was committed.

### Other structural operations

These comprise innovative schemes and other regional operations.

In 1996, the Commission selected the first pilot projects covered by the guidelines adopted the previous year under Article 10 of Regulation (EEC) No 4254/88; 135 innovatory projects were selected in the field of regional and local economic development and over 50 projects were chosen involving inter-regional cooperation with non-member countries. Calls for proposals have also been published regarding interregional cooperation schemes within the Community and cooperation networks between local and regional authorities. The Commission also selected 35 pilot or demonstration projects under Regulation (EEC) No 4256/88. These projects concerned non-food crops, agri-environmental aspects, the forest economy and rural development.

Appropriations available for 1996 totalled ECU 334.8 million, of which 200.9 million was committed.

### Cohesion Fund

The Cohesion Fund was set up by the Treaty on European Union and first started operation in 1993. Its allocation for the period covered by the financial perspective for 1993-99 amounts to ECU 15.15 million (at 1992 prices). On 4 September, the Commission adopted its annual report on the work of the Cohesion Fund in 1995, the first full year of operation of the Fund. It stresses the progress made in the search for balance in financing between environmental and transport projects.

On 19 April, Parliament adopted a resolution stressing the need for a careful assessment of the environmental impact of Cohesion Fund projects and the importance of these projects supporting rail rather than road transport.

Article 2(3) of Regulation (EC) No 1164/94 requires a mid-term review to be carried out

in 1996 to ascertain that the GNP in the Member States eligible under the Cohesion Fund (Greece, Spain, Ireland and Portugal) remains below 90% of the Community average. Following the review, the Commission found at its meeting on 12 June that they were still eligible to benefit from the Cohesion Fund. In a communication adopted on 6 November, the Commission confirmed that the government deficits of the countries with an excessive deficit (Greece, Spain and Portugal) were within the limits for the objectives recommended by the Council and that, pursuant to Article 6 of the regulation, assistance to those countries would continue.

In 1996, the appropriations committed to financing projects in Greece, Spain, Ireland and Portugal totalled ECU 2.4414 billion. The breakdown by country of the sums committed is shown in Table 2.

In 1996, a total of 338 projects were financed by the Cohesion Fund (122 in Greece, 109 in Spain, 47 in Ireland and 60 in Portugal).

## Heading 3 — Internal policies

### Research and technological development

The year 1996 was a particularly busy year for Community research policy. The fourth framework programme (1994-98) was in full swing, calls for proposals were published and contracts negotiated throughout the year.

On 4 March, the budget for the fourth framework programme was increased by ECU 800 million to take account of the accession of Austria, Finland and Sweden, bringing the overall amount up to ECU 13.1 billion for the period 1994-98.



On 31 January, the Commission adopted two proposals to amend the fourth framework programme (European Community and Euratom) with a view to using an extra ECU 700 million for the framework programme in accordance with Article 1(3) of the programme decision. This request was made independently of a request for a review of the financial perspective made at the same time which was not adopted by the Council. On 5 December, the Council reached a political agreement on a common position on an amended Commission proposal increasing financing of the fourth research and technological development (RTD) framework programme by ECU 100 million.

The year 1996 was the second year of operation of the new framework programme. Budgetary implementation amounted to over 99% in commitments and over 90% in payments even though funding was increased during the year, by means of an end-of-year overall transfer of ECU 50 million and supplementary appropriations transferred as part of cooperation agreements, notably between the European Economic Area (EEA) and Israel. This additional funding involved appropriations for non-nuclear specific programmes, which were increased by 2.64% in commitment appropriations (1.58% for the EEA and 1.06% for Israel).

The appropriations available for RTD in 1996 (excluding appropriations carried over or made available again) thus came to:

	<i>(million ECU)</i>
<i>(a) Budget, not including EEA support</i>	
Indirect action and shared-cost projects	2 998
Direct action by Joint Research Centre	236
<i>(b) EEA support</i>	
Indirect action and shared-cost projects	42
Direct action by Joint Research Centre	2

In 1996, ECU 3.3 billion was committed for research policy in the form of budgetary appropriations and additional funding, more than 3 billion of which was for indirect action within the framework programme. The breakdown of the commitments for the different areas of shared-cost projects is as follows:

	<i>(million ECU)</i>
Information technology and communications	743
Industrial technologies	495
Environment	171
Life sciences and technologies	553
Non-nuclear energy	174
Transport	85
Targeted socioeconomic research	18
Scientific and technical support for Community policies	28
Cooperation with third countries and international organisations	147
Dissemination and utilisation of research results	61
Training and mobility of researchers	281
Nuclear fission safety	69
Controlled thermonuclear fusion	198

The remaining ECU 278 million was committed for direct action by the Joint Research Centre (JRC) and work under contract with third parties.

This year the Joint Research Centre continued to implement two framework programmes which it is carrying out for the European Community in the non-nuclear field and the European Atomic Energy Community in the nuclear field. Parallel to these activities, it carried out institutional research and scientific and technical support for the European Union's policies, competitive activities involving participation in shared-cost projects and work carried out under contract with third

parties. In June, the Council adopted the new supplementary programme (1996-99) to be implemented by the JRC concerning the Petten high-flux reactor. In order to enable the JRC to continue to perform its role as effectively as possible, the Commission decided on a reorganisation whereby the JRC became an autonomous Directorate-General and two institutes at the Ispra site were merged, thus reducing the number of institutes to seven, at the sites in Ispra (Italy), Geel (Belgium), Petten (Netherlands), Karlsruhe (Germany) and Seville (Spain).

The Commission continued its international cooperation activities under European scientific and technical cooperation (COST) and Eureka with the European Free Trade Association (EFTA) and with the main industrialised countries and also strengthened its links with various European scientific organisations, such as the European Organisation for Nuclear Research (CERN), the European Molecular Biology Laboratory (EMBL), the European Science Foundation (ESF) and the European Space Agency (ESA).

The Commission continued its negotiations with Switzerland concerning a scientific and technical cooperation agreement and continued scientific and technical cooperation with non-European countries. An agreement granting full association to Israel in all non-nuclear programmes in the fourth framework programme was signed in March and entered into force in August, involving the payment of a financial contribution by Israel calculated on the basis of a formula that takes into account its relative strength *vis-à-vis* the European Union (1.06%) and enabling its researchers to participate on an equal footing with their European partners.

## Transport

To pave the way for the common transport policy, the Community budget helped finance a variety of measures relating to transport

safety, pilot schemes for combined transport, the development of long-term transport policy and inland waterways. The appropriations entered in the 1996 budget for this purpose (ECU 41 million) were committed in their entirety.

Specifically addressing multimodal transport, on 24 July the Commission adopted a communication on an action programme to promote the combined transport of goods (PACT), together with a proposal for a regulation authorising the granting of financial support in the period 1997-2001 to major schemes to promote combined goods transport, in continuation of pilot schemes already carried out. The overall budget is ECU 35 million.

As part of its strategy to organise the inland waterway transport market mapped out in 1995, the Council adopted, on 19 November, the regulation providing for new structural improvement measures over the period 1996-98 and the possibility, in 1996 only, of a Community financial contribution (ECU 20 million) to national scrapping schemes.

## Education, vocational training and youth policy

The appropriations available in subsection B3 of the 1996 budget (contributions from EFTA countries excluded) were as follows:

	<i>(million ECU)</i>
Education, vocational training and youth policy	397
Culture and audiovisual media	119
Information and communication	113
Employment, social protection and public health	190

The purpose of Decision 95/2493/EC of 23 October 1995 establishing 1996 as the European Year of Lifelong Learning was to

promote the role of education and training for the personal development of individuals and their integration into working life and society. ECU 5.2 million was allocated for this purpose.

The aim of Community action in the field of education, vocational training and youth is to promote European awareness among young people and help to integrate them into working life. The Socrates programme (with a budget of ECU 173 million in 1996) covers the entire educational spectrum, while the Youth for Europe programme (ECU 24 million) is concerned with cooperation in the field of youth policy. These two programmes cover the period 1995-99.

At the start of 1996, the Commission launched a European voluntary service pilot scheme with a budget for 1996 of ECU 15 million on the basis of guidelines adopted on 24 January 1996. The scheme enabled some 2 500 young people between the ages of 18 and 25 to take part in voluntary activities of a social or humanitarian nature lasting for six months to one year. In view of the response, the Commission adopted on 23 De-

cember a proposal for a decision establishing a multiannual Community action programme. The aim of the proposal is to create a legal framework enabling this initiative to be pursued on a large scale.

In the field of vocational training, implementation of the Leonardo da Vinci programme, covering the years from 1995 to 1999, continued in 1996, with available appropriations for the programme amounting to ECU 152 million. Leonardo da Vinci has four objectives: enhancing the quality of vocational training in Europe; developing exchange schemes; acquiring a better understanding of the way training operates and actual training requirements; and making it easier to adapt to the information society.

Some appropriations were also allocated to the less widespread languages and cultures (ECU 4.0 million) and cooperation with non-member countries (ECU 3.9 million). The European Centre for the Development of Vocational Training (Cedefop) received a subsidy of ECU 12.3 million, with a further ECU 2.3 million to cover the cost of its relocation to Thessaloniki (Greece).



## Education, vocational training and youth policy

Education, vocational training and youth policy are now clearly among the European Union's political priorities. As well as helping to develop skills to improve employment possibilities, this field is closely connected with the desire to bring Europe closer to the people and to guarantee the protection and strengthening of the European social model.

The prospects presented in the White Paper on education and vocational training adopted by the Commission at the end of 1995 must be seen as the most likely scenario and the objective to be aimed at. Our societies are going to become 'cognitive' societies, in the sense that access to knowledge and skills will become a factor determining their future.

This trend is increasingly acquiring a European dimension, in that the Union is seen as the level at which to respond to globalisation, the building of the information society and the scientific and technical revolution. Action at Community level is growing in importance regarding problem analysis, the search for solutions and economies of scale that can be made through cooperation.

Since the Erasmus and Comett programmes were adopted some 10 years ago, Community action in this field has been based on various programmes, which have now been rationalised and reinforced in three programmes covering the period from 1995 to 1999:

- Socrates, covering cooperation in the field of education;
- Leonardo da Vinci, in the field of vocational training;
- Youth for Europe, which covers youth policy.

The 1996 European Year of Lifelong Learning was an opportunity to raise awareness of the importance of education and training for the future of European society. The year also saw the launch of the pilot scheme for a European voluntary service, as a new strand of youth policy.

### *The Socrates programme*

The main aim of the Socrates programme is to contribute to the development of quality education by stimulating cooperation between Member States. The objective of the activities it supports is to further the gradual building of a single European area for education by developing the ability of teaching to adapt and to anticipate political, social, economic and technological change so that young and adult learners may receive an education that enables them to live and work within the new framework of the European Union. This new programme incorporates aspects of the old Erasmus and Lingua programmes, supporting them with new measures addressing all levels of teaching.

Chapter I (Erasmus) deals with higher education, offering financial assistance to universities to help them develop projects with a European dimension: institutional contracts (to increase mobility of students and teachers, to prepare programmes and courses, the European credit transfer system (ECTS), preparatory visits, etc.) and university joint projects on subjects of mutual interest (thematic networks). Chapter I also finances student grants to encourage mobility.

Chapter II (Comenius) deals with school education and is one of the important new elements in the programme. It supports partnership between schools in different countries built around European education projects (including teacher exchanges and visits). This chapter also includes and extends measures for the children of migrant workers, gypsies and travellers and occupational travellers.

Finally, it finances transnational in-service training projects for teachers.

Chapter III of Socrates comprises a series of horizontal measures, notably the Lingua programme promoting the learning of languages (European joint programmes for teachers, in-service training, assistant posts for future teachers, joint projects for language learning). There are specific measures covering open and distance learning and the promotion of the European dimension in adult education. These activities are supported by various measures (the Eurydice education information network, study visits for education policy-makers, etc.).

#### *The Leonardo da Vinci programme*

Its main aim is to ensure the implementation of a vocational training policy, supporting and complementing measures taken by Member States. More precisely, the programme aims to promote cooperation between Member States with the purpose of gradually developing a single area for training and vocational qualifications. It includes former Community programmes such as PETRA (initial training), FORCE (in-service training), Comett (cooperation between universities and companies) and Eurotinet (the promotion of qualifications linked to technological innovation).

The Leonardo da Vinci programme therefore aims to improve the effectiveness and quality of vocational training systems and mechanisms that need to satisfy the training requirements of individuals and business, particularly small firms. It is trying to improve the quality of training methods, processes and tools.

Its aims are also to support innovation in the management, methodology and equipment involved in vocational training, to use vocational training to promote and disseminate technological innovation and developments in production systems, to increase the ability of

training and vocational qualification systems to respond to change and to encourage the development of open and distance learning.

Lastly, it contributes to the development of a European dimension at all levels of training, particularly through the learning and diffusion of Community languages and the support it gives to the European vocational training network.

In order to achieve these objectives, the programme offers Community support to three types of transnational cooperation: pilot projects promoting exchange and pooling of know-how and experience; placements in a company or training body in another country to further the transfer of experience through physical mobility; and studies and analyses carried out at European level to encourage the sharing of ideas and common points of reference.

#### *The Youth for Europe programme*

The Youth for Europe programme is the main mechanism for promoting cooperation in the field of youth policy. Its general objective is to contribute to the educational process for all young people, through activities which are complementary to both those of the Member States and those at Community level in education and training.

The main aspect of the Youth for Europe programme concerns activities directly involving young people. The programme supports youth exchanges, designed to promote greater comprehension of the diversity of European society and the value of that diversity. It also finances projects set up and managed by young people, helping them to develop a sense of initiative and creativity.

This is backed up by other aspects which promote the training of youth workers (exchanges of experience and knowledge,

training activities, development of training courses, study visits, etc.), cooperation between youth structures in the Member States (creation of partnerships and networks designed to step up this cooperation, with particular attention given to regional and local structures with few opportunities for making contacts at European level), exchanges with non-member countries and measures providing information for young people and increasing awareness of the situation of young Europeans.

#### *Pilot scheme for a European voluntary service*

The year 1996 was the first year of implementation of this new scheme for young people.

The main aim of the European voluntary service is to enable young people aged 18 to 25 to gain a formative experience recognised at European level by socioeconomic operators and benefiting the host institutions, in the shape of activities that benefit the community within the European Union or non-member countries (associated countries, Mediterranean countries, developing countries). It is a way of making an active contribution to European integration and solidarity within the Union, by participating in activities such as providing care and social services, protecting the environment, conserving and enhancing the cultural heritage, combating drug abuse, combating racism and xenophobia, and artistic, sporting or cultural activities.

Through this experience, which follows a different path from traditional educational or vocational training channels, young people are offered an original means of integrating into society with, at the same time, the possibility of actively contributing to European integration (especially to a European identity and citizenship) and solidarity between the Union and non-member countries.

Following an *ex ante* preliminary evaluation carried out in 1996, and in view of the experience of the first year of the pilot scheme (which is being extended to 1997), at the end of 1996 the Commission adopted a proposal for a decision with the objective of establishing a European voluntary service programme to cover the period 1998-2002.

#### *Increased financial resources and a broader range*

During the period covered by the current financial perspective, the field of education, training and youth has seen its importance in the Union's internal policies grow. The budgetary resources allocated to this area increased from ECU 270 million in 1993 to nearly ECU 400 million in 1996. These budgets are implemented through two forms of intervention: certain aspects of the programmes mentioned above are directly implemented by the Commission (via calls for projects published in the *Official Journal of the European Communities*, leading to selection with the help of independent experts); other aspects (in particular, those relating to the award of grants or placements and exchanges) are managed in a decentralised fashion, through national agencies established by the participating countries.

Nearly 90 % of the budget allocated to education, training and youth (Title B3-1 of the general budget) concerns the three multiannual programmes, Socrates, Leonardo da Vinci and Youth for Europe.

In 1996, the Socrates programme was allocated ECU 173 million. Its total budget for 1995-99 is ECU 850 million. When the programme was adopted, Parliament, the Council and the Commission agreed that this budget could be revised in the light of the results of its implementation. On this basis, at the beginning of 1997, the Commission proposed an increase of ECU 50 million.

For the Leonardo da Vinci programme, the allocation in the 1996 budget was ECU 152 million. The indicative budget mentioned in the decision establishing the programme is ECU 620 million for 1995-99.

The 1995-99 budget for the Youth for Europe programme is ECU 126 million. The programme was allocated ECU 24 million in 1996, while the pilot scheme for a European voluntary service was awarded ECU 15 million for that year.

There is great interest from outside the Union in Community action on education, training and youth. Just as the Erasmus and Comett programmes were the first to be opened to participation from European Free Trade Association countries (Iceland, Liechtenstein and Norway are continuing to participate as part of the European Economic Area), it is planned that the Socrates, Leonardo da Vinci and Youth for Europe programmes will, in the near future, be opened to participation by the associated countries of central and eastern Europe (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia) and Cyprus. For several of these countries, participation should be possible from 1997.

#### Some figures

The first two years (1995 and 1996) of the implementation of the Socrates programme included the financing of:

- mobility grants enabling a maximum of 316 000 students in higher education to undertake an integrated, recognised period of study in another Member State;

- joint educational projects and exchanges involving over 80 000 pupils;
- integrated teaching programmes abroad for some 26 000 teachers;
- over 2 600 interuniversity cooperation programmes, involving more than 1 800 higher education establishments;
- 28 large thematic networks designed to develop the European dimension across a broad range of disciplines and areas of special interest in higher education, involving more than 70 institutions each, and a total of 85 European associations in the academic world;
- the participation of more than 16 000 language teachers in European in-service training courses;
- 600 transnational projects, involving more than 2 700 institutions, designed to improve cooperation in the fields of open and distance learning, adult education, intercultural education, language learning and initial and in-service teacher training.

In 1995 and 1996, the Leonardo da Vinci programme financed:

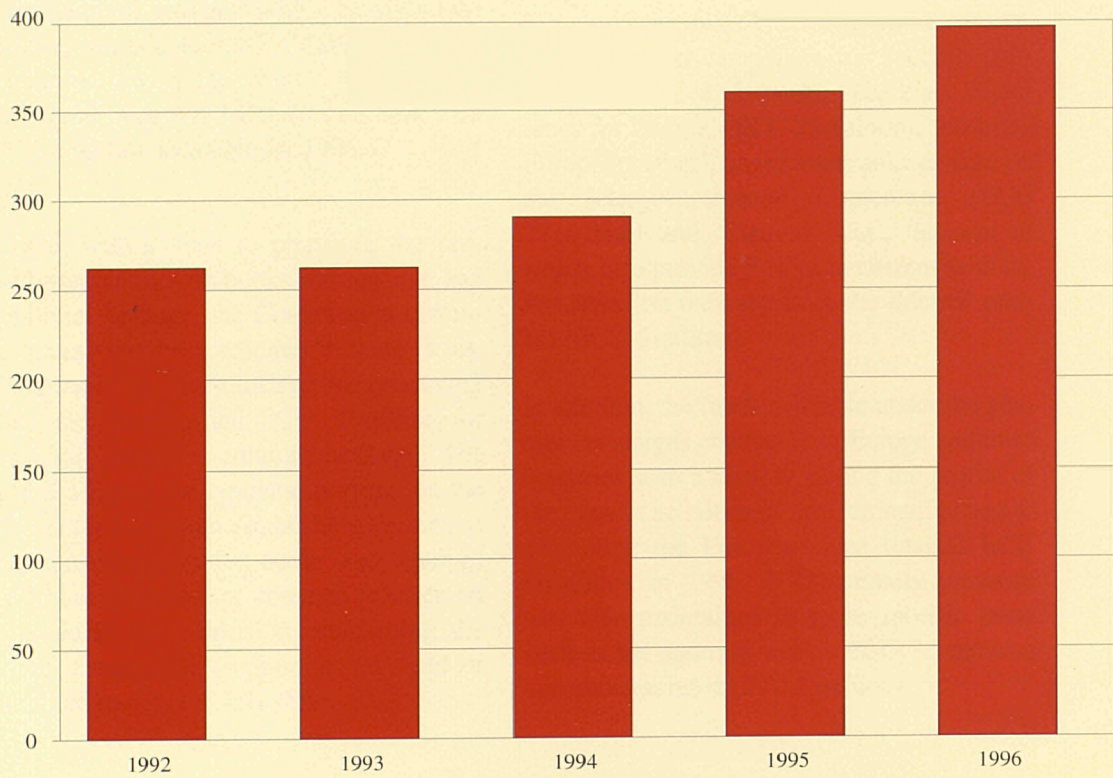
- more than 1 500 transnational pilot projects (out of nearly 8 000 requests for financial support following calls for proposals) involving more than 23 000 partners;
- the participation of over 50 000 young people in placement and exchange programmes;
- the participation of nearly 5 000 trainers, teachers and human resource managers in courses abroad.

Taking all its activities into consideration, in 1995 the Youth for Europe programme financed more than 3 000 projects, in which over 50 000 young people took part.



FIGURE 12  
Resources allocated to education, training and youth policy (1992-96)

*(million ECU)*





## Culture and audiovisual media

In the field of culture, the Kaleidoscope programme, the aim of which is to support artistic and cultural activities with a European dimension, was adopted on 29 March 1996. The programme covers the years 1996 to 1998. The overall budget is ECU 26.5 million, with ECU 7.5 million available for 1996.

In 1996, with a view to preparing the proposed programmes on books and reading, and on cultural heritage, the Commission continued the existing pilot schemes in these fields. ECU 2.5 million was allocated for promoting books and reading, and ECU 10 million for protecting Europe's cultural heritage. The Council adopted the common position on the proposal for a decision establishing the Ariane programme (support for books and reading) on 27 June 1996 and the common position on the proposal for a decision establishing the Raphael programme (support in the field of cultural heritage) on 8 July 1996.

In the audiovisual field, most of the activities, totalling ECU 59.2 million, were carried out under the MEDIA II programme which came on stream on 1 January 1996. The new programme consists of two parts, one devoted to development and distribution, and the other relating to the training of professionals in the sector concerned. MEDIA II covers the years 1996 to 2000 with a total budget of ECU 310 million.

The activities carried out under MEDIA II have been supplemented by measures to promote the European dimension in the audiovisual field (ECU 2 million) and multilingual television and radio services (ECU 5.4 million). In addition, available funds of ECU 26 million were allocated to the production and conversion of 16:9 format television programmes and their broadcasting.

## Information and communication

In the information and communication field, a total of ECU 50 million was available in 1996 under Prince (information programme for European citizens). This programme consists of information campaigns for specific policies. It has three elements: 'The euro: a currency for Europe' (ECU 22 million), 'Building Europe together', an information campaign on the Intergovernmental Conference (ECU 22 million) and 'Citizens first', the aim of which is to provide European citizens with information on their rights in the internal market (ECU 6 million).

In addition, the funds available under the general campaigns conducted in Europe and third countries with a view to raising the profile of the various activities of the Community and to promoting the European idea totalled ECU 56 million in 1996. A Community presence was also maintained in more specific areas such as the sporting world (ECU 3.5 million) and universities (ECU 3.2 million).

## Other social measures

To complement the measures financed by the European Social Fund, the Community has developed a policy aimed at encouraging dialogue between the social partners and stimulating employment (ECU 66.5 million). In particular, it has given support to measures to boost employment by providing information on job vacancies and applications and is continuing to pursue its equal opportunities policy.

Following the order by the President of the Court of Justice on the actions brought by the United Kingdom contesting the legality of implementing the budget headings B3-4103 ('Measures to combat poverty') and B3-4104 ('Measures for the elderly'), the Commission was unable to finance projects in these fields. According to the order, the Commission had made it clear that expenditure commitments

under the headings concerned, were conditional on the final judgment of the Court in these cases. No payment will be made before judgment is given.

With regard to social protection and free movement (ECU 51.0 million), the Community's activities relate to general social security guarantees and the protection of certain disadvantaged groups. For example, the Helios II programme, aimed at promoting the integration of the disabled, was completed in 1996. They also concern the free movement of migrant workers, and the fight against racism and xenophobia.

Part of its funding, ECU 40.0 million, was targeted at protecting the health of its citizens, general health measures, health and safety at work, and the prevention of health risks such as AIDS, cancer and drug abuse. On 29 March 1996, the Community adopted three programmes in the field of public health for 1996-2000. These programmes concern promotion, information, education and training in health (total budget of ECU 35 million, with ECU 12.5 million available in 1996), the fight against cancer (total budget of ECU 64 million, with ECU 12.0 million available in 1996), and the prevention of AIDS and other transmissible diseases (total budget of ECU 49.6 million, with ECU 9.4 million available in 1996). On 16 December 1996, the legislative authority adopted a programme for the prevention of drug addiction covering the period 1996-2000. The budget provided for this programme is ECU 27 million. The appropriations available in 1996 came to ECU 6.5 million.

These activities were supplemented by those carried out by the European Foundation for the Improvement of Living and Working Conditions, which was subsidised to the tune of ECU 13.4 million, and by those of the European Monitoring Centre for Drugs and Drug Addiction (subsidy of ECU 5.8 million).

## Energy

For subsection B4 ('Energy, Euratom nuclear safeguards and environment') the appropriations available were as follows:

	<i>(million ECU)</i>
Energy	38
Euratom nuclear safeguards	19
Environment	136

The year 1996 was marked by a wide-ranging debate throughout the year following the Commission's adoption of the White Paper of 13 December 1995 entitled 'An energy policy for the European Union'. This document was designed to provide a frame of reference and the necessary instruments for the proper functioning of the single market in energy. On the basis of this debate, on 4 October 1996 the Commission adopted a proposal for a decision to centre cooperation between the Community and the Member States around the following objectives: attainment of the energy objectives set out in the Treaties, integration of the Community energy market, fair and transparent prices, integration of energy and environmental objectives, security of supply, coordinated external approach, promotion of renewable energy sources and greater energy efficiency.

The Council subsequently adopted, on 6 December 1996, a new programme for promoting energy efficiency, SAVE II, which covers the period 1996 to 2000 with a reference amount of ECU 45 million. The year 1996 was the first year of this new programme, extending the SAVE I programme (1991-95). Appropriations of ECU 15 million were committed to this programme in 1996.

The Altener programme, intended to promote renewable energy sources in the European Union, was continued. It covers the period 1993-97 and its overall budget is ECU 40 million. All the available appropriations, ECU 10 million for the fourth year of this programme, were committed during 1996.

The Commission also continued with its pilot schemes in the field of energy cooperation with non-member countries (available appropriations of ECU 9 million), with a view to preparing the Synergy programme which is in the process of being adopted.

The ECU 30 million allocated for the proposed Thermie II programme (for the promotion of energy technologies), and for various pilot projects connected with this field, was transferred, as in 1995, to other Community actions. This was because of the lack of a legal basis.

### Euratom nuclear safeguards

With regard to nuclear safeguards, the Commission continued — within its sphere of responsibility — to perform its role of coordinating international efforts to raise the level of nuclear safeguards throughout Europe, in particular as regards plant safety, workers' training and public information. Commitments were 20% lower than in the previous year (ECU 18.9 million as compared with ECU 23.6 million in 1995). This reduction mainly concerned the accounting and physical checks on the stocks of plutonium, uranium, thorium and heavy water held in the Community's 750 or so nuclear plants (as compared with 810 plants in 1995), with more than 1.4 million operator entries being made concerning physical movements and stocks. The 1996 Euratom security inspection carried out controls on average stocks of 420 tonnes of plutonium, 11 tonnes of highly enriched uranium, 300 000

tonnes of uranium (low enrichment, natural and depleted), thorium and heavy water.

The cooperation launched in 1993 with the countries of central Europe and the former Soviet Union, in particular with Russia, was stepped up in 1996 (available appropriations of ECU 3.1 million). Apart from organising seminars and long-term training programmes for Russian experts, the main elements in this cooperation were the organisation in June, in Novosibirsk (Russia), of a second major conference on the control and auditing of nuclear materials and the implementation, in Russia, of three large projects on the control of nuclear materials, the aim of which is to create pilot modules in these countries of the future modern, computerised control system for nuclear materials.

### Environment

The Union continued to implement the fifth action programme on the environment and, in the process, consolidated the new approach which that action embodies. On 24 January, the Commission adopted a proposal for a Parliament and Council decision re-examining the programme in which it defines five priority action areas for the period 1996-2000: integration into other policies, broadening of the range of instruments used, improvement of the application of legislation, raising public awareness and international cooperation).

The foundations were also laid for active collaboration between the European Environment Agency in Copenhagen and the Commission on the basis of Council Regulation (EEC) No 1210/90. The Commission granted this agency a subsidy of ECU 14.5 million. Seven topic centres were set up to prepare projects on air quality, emissions into the air, inland water, the coastal and marine environment, a catalogue of data sources, and soil.

To implement the financial instrument for the environment (LIFE) beyond the 1991-95 period, an amendment to the regulation was adopted by the Council on 15 July. It provides, in particular, during its second implementation phase (1996-99) for the concentration of activities in certain priority areas, such as the Natura 2000 network, the promotion of sustainable development in industry and the integration of the environment into land-use planning. For the period 1996-99, an indicative budget of ECU 450 million has been allocated. For 1996, the available appropriations came to ECU 90 million. In particular, Community financial support was granted to 167 demonstration and technical assistance projects in the field of environmental protection.

In subsection B5 of the 1996 budget, the appropriations (excluding contributions from the EFTA countries) for the individual policy areas were as follows:

	<i>(million ECU)</i>
Consumer protection	20
Aid for reconstruction	5
Internal market	234
Industry and information market	146
Statistical information	36
Trans-European networks	377
Cooperation in the fields of justice and home affairs	13

### Consumer protection

The new action plan for consumer policy (1996-98) highlights the need to address the real problems consumers face and to anticipate changes relating both to technologies and to the opening-up of the European Union.

In 1996, the Commission undertook a series of priority actions designed to improve the structure of consumer representation and stimulate debate in new areas such as utilities and the information society. ECU 5.9 million

was earmarked for measures concerning the quality, safety and monitoring of products and services, ECU 6.1 million for activities promoting consumer representation and access to justice and ECU 8 million for improving consumer information.

At the same time, in order to consolidate the existing legislative system, it adopted proposals for new directives on access to justice, consumer credit and sales of, and guarantees for, consumer goods. It also continued its efforts to increase integration of consumer policy into other Community policies, especially regarding foodstuffs and product safety.

### Aid for reconstruction

As in previous years, the European Union continued to provide interest subsidies on special loans in the regions of Italy and Greece affected by the earthquakes of 1980, 1981 and 1986, and Portugal (Madeira), affected by the 1993 cyclone.

### Internal market

The single market, together with the policies to assist business, is one of the main instruments for achieving the objectives of competitiveness, economic dynamism, growth and job creation.

While the number of new legislative measures proposed in this area has dropped significantly, non-legislative activity has been stepped up. Measures relating to the completion of the internal market focused on checking transposal of the directives by the Member States and implementation of administrative cooperation. Expenditure on the completion of the internal market came to ECU 44.7 million in 1996.

The functioning of the internal market was given a further boost when the Office for Harmonisation in the Internal Market (trade marks and designs) in Alicante and the European Agency for the Evaluation of Medicinal Products in London became operational. They each received a subsidy of nearly ECU 15 million in 1995.

Lastly, the Commission also set up pilot projects for a new information system and managed to achieve a substantial reduction in the unit price of the contract notices published in the Official Journal, keeping the total publication cost down to some ECU 50 million.

To make the single market fully effective, the above measures were accompanied by an enterprise policy concentrating mainly on small and medium-sized businesses.

In particular, the 1993-96 multiannual programme in favour of small firms and the craft sector was intended to improve the administrative and financial environment for small businesses through a number of initiatives and to support their development via information (Euro Info Centres) and cooperation networks, advisory audits carried out in small firms by specialist consultants, and specific measures to help the craft sector and small firms in distributive trades. The total cost of the activities carried out in the last year of this programme came to ECU 31.4 million. On 9 December 1996, the Council also adopted a new programme in favour of small businesses covering the period 1997-2000 with an indicative budget of ECU 127 million.

There is also a lending facility for small firms which provides interest rate subsidies of 2 percentage points on a total volume of ECU 1 billion in European Investment Bank (EIB) loans to small businesses which create new jobs. In 1996, ECU 25 million was paid to the EIB for this purpose. A pilot project on growth and employment also makes it easier for small businesses to obtain EIB-guaranteed

bank loans for investment projects which contribute to the protection of the environment. ECU 12.5 million was used for this purpose in 1996.

The Commission also presented a proposal on loan guarantees to small businesses which create new jobs. The ECU 25 million provided for this purpose was not used, as the legal basis was not adopted.

## Industry and information market

The Commission continued its efforts to improve the Union's industrial competitiveness, a key factor for economic growth, job creation and greater economic and social cohesion.

On 25 June, the Council adopted a Community action programme to promote the competitiveness of European industry. The objectives of this programme, which was allocated appropriations of ECU 5 million in 1996, are to modernise the industrial role of public authorities, to guarantee fair competition inside and outside the Community, to strengthen industrial cooperation and to promote intangible factors for competitiveness. Within this framework, the Commission adopted a communication on applying the 'benchmarking' method to improving the competitiveness of European industry.

The Commission also continued to implement a 1995 regulation granting financial assistance to Portugal for a specific programme for the modernisation of the Portuguese textile and clothing industry, at a cost of ECU 84 million in 1996.

Activities relating to information services revolved around analyses and raising awareness of the challenges of the information society, the development of a European multimedia

content industry and a multimedia information market (INFO 2000 programme) and the development of the linguistic dimension of the information society. ECU 32 million was set aside for this purpose in 1996.

In November, the Commission also adopted an action plan entitled 'Europe at the forefront of the global information society', based on four main priorities — improving the economic environment, investing in the future, putting people first, and meeting the global challenge — as well as a communication on standardisation in the information society, a Green Paper on the social aspects of the information society and a proposal for a directive aimed at ensuring regulatory transparency in the market for information society services. The Commission proposal for a programme in this field, of 12 December 1996, covers the period 1997-2001 and provides for an indicative annual allocation of ECU 9 million.

As part of the policy of liberalising telecommunications — a key element in the rapid development of the information society — the Commission adopted a directive setting 1 January 1998 as the date by which the telecommunications market should be fully open to competition, and also took several initiatives aimed at guaranteeing the provision of universal service at a reasonable price, and the promotion of standardisation in consultation with the main parties concerned. Progress was also made towards creating a common regulatory framework for telecommunications and postal services. Expenditure on this in 1996 was ECU 22.5 million.

### Statistical information

With a view to establishing a 'Community statistical area', based on a set of standards, methods and organisational structures for producing comparable, reliable and relevant statistics throughout the Community, Eurostat continued to implement its framework pro-

gramme for priority actions in the field of statistical information (1993-97), for which ECU 36 million was allocated in 1996.

Throughout the year, particular emphasis was placed on arrangements to ensure efficient statistical support for all the decisions to be taken in connection with economic and monetary union. The year was also marked by the adoption of the new system of national and regional accounts and by the progress made in the field of international cooperation and agriculture following the reform of the CAP.

### Trans-European networks

The development of trans-European networks (TENs) is a priority for the European Union. Their importance was recognised in the Treaty on European Union and stressed in the Commission's White Paper on growth, competitiveness and employment, and has been reiterated at several European Councils. Union action to develop the TENs is geared towards supplying the missing links in Europe's networks, thus making the economy more competitive, creating jobs and strengthening cohesion.

The appropriations entered in the 1996 budget to finance the TENs came to a total of ECU 410 million. They were intended primarily for financial support for infrastructure projects in the fields of transport, energy and telecommunications (ECU 318 million, an increase of 15% on 1995), networks for the interchange of data between administrations (ECU 30 million) and the Community's contribution to the capital of the European Investment Fund (ECU 30 million).

In its proposal for the revision of the financial perspective, in March the Commission proposed allocating an additional ECU 1 billion to financing the TENs during the period 1997-99. The Florence European Council in June took note of the suggestions presented by the President of the Commission on the problem



of financing the 14 priority projects in the field of transport identified by the Essen European Council in December 1994, and asked the Council to study them. At its meeting on 14 October, the Ecofin Council judged that it was then impossible to reach agreement on the revision of the financial perspective for 1998 and 1999.

Continuing its efforts to promote partnerships between the private and public sectors, the Commission set up a high-level group of representatives of these two sectors, chaired by Mr Kinnock, Member of the European Commission responsible for transport, to study the implementation of these partnerships in priority transport projects and submit a report and recommendations to the June 1997 European Council.

Following the annulment by the Court of Justice of the July 1994 decision on interadministration telematics networks for statistics relating to the trading of goods (Edicom), on 8 July the Commission adopted a proposal for a decision based on Article 129d (TENs) of the Treaty with the aim of extending the programme to the period 1996-2000. This decision was adopted by the Council on 9 December, but for a period of just three years (1997-99) with an overall budget of ECU 30 million.

The European Investment Fund (EIF), set up in 1994, held its second ordinary general meeting on 18 June in Lisbon.

The EIF's shareholders include the EIB (40% of the capital), the European Community (30% of the capital) and financial and banking institutions in the Member States. The Community's budget contribution to the EIF's subscribed capital takes the form of four annual payments of ECU 30 million over the period 1994-97. The Fund's chief activities are the financing of investment projects associated with the trans-European networks and the funding of small and medium-sized business-

es. Most of the loan guarantees have been granted to projects connected with the TENs, especially in the fields of energy distribution and transport infrastructures, and above all certain projects identified as priorities by the Essen European Council.

### Cooperation in the fields of justice and home affairs

The Treaty on European Union introduced a system of cooperation in the fields of justice and home affairs (JHA). Title VI of the Treaty covers all the provisions in this area. Cooperation between the Member States is put into practice largely by implementing joint actions in the following fields: asylum policy, immigration policy, combating drug addiction, combating international fraud, judicial cooperation in civil and criminal matters, customs cooperation and police cooperation.

Financing for cooperation in the fields of justice and home affairs is governed by Article K.8 of the Treaty on European Union, which states that the Council may decide unanimously that operational expenditure to which the implementation of Title VI gives rise is to be charged to the budget of the European Communities. The implementation of Article K.8 was discussed at considerable length in the Council.

Taking its decision in accordance with Article K.8, the Council, abandoning the system of specific actions adopted in 1995 in favour of multiannual programmes, approved four joint actions with a budgetary impact:

- Joint Action 96/636/JHA on a programme of incentives and exchanges for practitioners in the justice area (Grotius);

- Joint Action 96/637/JHA introducing a programme of training, exchanges and cooperation in the field of identity documents (Sherlock);
- Joint Action 96/700/JHA establishing an incentive and exchange programme for persons responsible for combating trade in human beings and the sexual exploitation of children (STOP);
- Joint Action 97/12/JHA providing a common programme for the exchange and training of, and cooperation between, law enforcement authorities (OISIN).

Because of the late adoption of these joint actions by the Council, it was possible to release only a small part of the ECU 5.5 million provided for the purpose in the 1996 budget.

#### Heading 4 — External action

External action takes various forms:

1. financial, technical and economic cooperation strictly by geographical zone in key areas of economic activity (aid for the restructuring of economies in transition, establishment of a Euro-Mediterranean partnership, cooperation with the developing countries of Asia and Latin America and with South Africa);
2. cooperation and aid measures, often of a horizontal nature, which cannot easily be distinguished by geographical area (food aid, humanitarian aid, the ECIP facility — promotion of Community investment in the Asian, Latin American and Mediterranean developing countries and South Africa);
3. accompanying measures (external aspects of certain Community policies, Community participation in projects carried out by NGOs to assist developing countries, initiatives in the field of democracy and protection of human rights, environment and health in the developing countries);
4. joint action and common positions relating to the common foreign and security policy.

According to the Commission's report on the implementation of the budget at 31 December 1996, the appropriations available for commitment under the 1996 budget were as follows:

	<i>(million ECU)</i>
Common foreign and security policy	58.5
Cooperation with the countries of central and eastern Europe	1 228.5
Cooperation between the former Soviet Union and the independent States	532.0
Cooperation with the republics of the former Yugoslavia	98.0
Food aid and humanitarian aid (including part of the emergency aid reserve)	1 290.8
Cooperation with Asia, Latin America and South Africa	819.5
Cooperation with Mediterranean countries	672.2
Other forms of cooperation with developing countries and other non-member countries	408.1
European initiative for democracy and the protection of human rights	90.8
External aspects of Community policies (international fisheries agreements, environment)	434.2
<b>Total</b>	<b>5 632.6</b>

Virtually all these appropriations were committed.

Priorities for external action are the development of cooperation with the countries of central and eastern Europe, with the non-member

countries of the Mediterranean on the basis of the indicative financial plans for these areas.

Aid for the economic restructuring of the countries of central and eastern Europe accounts for some 22% of the EU budget for external action. The overall aim of aid from the Community to the countries of central and eastern Europe is to support the economic reform process and encourage the changeover from a planned economy to a market economy and free enterprise. Six 'strategic' areas have been selected for economic reform:

- the restructuring of public companies, in particular in industry and agriculture;
- the modernisation of financial services (restructuring of the banking system, reform of credit, national accounting and taxation, development of capital and stock markets and of the insurance system);
- the promotion of the private sector (development of support services tailored to small and medium-sized enterprises, in particular training and promotion of exports);
- nuclear safeguards and safety;
- the development of the labour market and social protection (restructuring of employment and vocational training services);
- support for the democratisation process and the development of civil society.

However, the Community's financial assistance is not limited to these strategic areas alone. Other key sectors of economic activity such as health, housing, education, transport and telecommunications also require modernisation, restructuring and new equipment.

A sum of ECU 1.2285 billion for all these projects was committed in 1996. This reflects not only the continuation of the Community's contribution to economic reform and stability in the countries in question but also the prepa-

ration of some of these countries (the associated countries of central and eastern Europe) for their future accession to the European Union, as agreed at the Copenhagen European Council in June 1993.

This objective was fully confirmed by the Essen European Council in December 1994, which defined as follows the essential role of the PHARE programme in this aim of integrating the countries of central and eastern Europe into the Union:

- to help the associated countries to absorb the 'accumulated body of EU law';
- to complete the market reforms and the medium-term restructuring of their economies and societies so as to create the conditions required for future membership.

Cooperation with the Mediterranean countries aims to assist the gradual creation of a Euro-Mediterranean economic area by supporting economic transition, supporting better socio-economic balance and national integration. It is largely based on:

- financial protocols with the southern Mediterranean countries;
- cooperation with other non-member Mediterranean countries, especially Malta, Cyprus, Israel and Turkey;
- support for the reform of social and economic structures in the Mediterranean region (MEDA), and, in particular, the modernisation of industry, measures to reduce unemployment, promotion of vocational training, support for family planning, anti-drug campaigns, democracy and the protection of human rights, and the development of university-level cooperation;
- Community action linked to the peace agreement concluded between Israel and the Palestine Liberation Organisation (PLO).

Cooperation with the developing countries of Asia and Latin America comprises financial and technical development aid and economic cooperation in the mutual interests of the EU and its partners.

Financial and technical aid is mainly directed towards the poorest sections of the population and the poorest Asian and Latin American countries through programmes or projects in sectors where EU aid can play an important role in sustainable development, particularly as regards the rural sector and greater security of food supply.

Economic cooperation covers a range of measures such as technical assistance, training, technology transfers, institutional support in connection with trade promotion, energy, the environment, management, etc., to improve the economic, social, cultural, legislative and regulatory situation, to facilitate economic relations and trade with Asia and Latin America, to promote regional integration and the transfer of know-how and to encourage meetings and associations of economic operators from both sides.

Regional cooperation is important both for financial and technical aid and for economic cooperation. Special attention is also paid to cooperation on the environment and the protection of natural resources.

In 1996, a major effort was made to promote the self-sufficiency of refugees and displaced persons in these countries. ECU 60 million was committed for this purpose.

A total of ECU 129.2 million was committed in 1996 for the implementation of the action programme concerning development cooperation with South Africa in key areas such as agriculture and rural development, health, education and training, as well as the environment and the role of women in development.

Food aid figures large among the forms of assistance given to developing countries. The Community's food aid is part of a global effort on the part of the developed countries to improve the food situation in the developing countries, an effort which is shown in their commitment to participate in the international Food Aid Convention. The aid supplied under this convention is, however, insufficient. The Community has therefore regularly added extra aid in the form of cereals, powdered milk, butter oil, vegetable oil, sugar and various other products (legumes, groundnuts, etc.).

It is given in various forms ranging from emergency aid to longer-term assistance to raise the general standard of nutrition, to improve food security and, through integrated development programmes, to contribute to the balanced economic and social development of the assisted areas.

Depending on specific needs, food aid may be given for free distribution to the population, or for sale on local markets (the proceeds being used to finance rural or other projects in the recipient country) or, in certain cases, in the form of food purchased in one developing country and given as aid to another (triangular operations).

The European Community Humanitarian Office (ECHO), set up in April 1992, carries out humanitarian aid operations.

The overall purpose of these operations is to emphasise the EU's presence and to enhance its capacity to react to exceptional events, i.e. to come to the assistance of people in distress (victims of disasters or armed conflicts) without discrimination based on race, religion or political persuasion.

Over the last five years, as the number and scale of international humanitarian crises have expanded, the humanitarian operations undertaken by the Commission on behalf of the

Union have increased sevenfold, with the result that the European Union is now the largest single public donor of humanitarian aid. This increased from ECU 114 million in 1991 to ECU 717 million in 1996. As in 1995, the main areas for intervention were the former Yugoslavia and the crisis in Rwanda and Burundi. However, the Community also continued to supply humanitarian aid to some 60 countries in crisis around the world, including the Russian Federation (Chechnya), Armenia, Azerbaijan, Georgia, Tajikistan, Iraq, Afghanistan and Cuba, in order to respond to the urgent requirements of the victims of natural or man-made disasters.

As in the past, operations were conducted in partnership with nearly 170 non-governmental organisations (mainly European), the agencies of the United Nations and the Red Cross, almost all of them signatories to a framework partnership agreement with the Commission. Aid from ECHO was given without distinction on the basis of race, religion or political ideology to the millions of human beings who were victims in 1995 of natural disasters and long-running man-made crises, chiefly civil wars.

All the appropriations entered in the ECU 323 million emergency aid reserve were used.

A total of ECU 408 million was committed under the heading of 'Other cooperation action', which consists of a series of specific, horizontal projects organised around four main axes:

- the promotion of Community investment in the developing countries of Latin America, Asia and the Mediterranean, within the framework of the economic and trade co-operation agreements;
- Community participation in projects carried out by non-governmental organisations in the developing countries;

- health and the environment in the developing countries (including tropical rainforests and the fight against AIDS);

- reconstruction programmes for both southern Africa and all the developing countries, the aim being to launch recipient countries on the course towards real development.

A sum of ECU 90.8 million was committed for the European initiative for democracy and the protection of human rights. This initiative aims to gather under one heading all projects aiming to support democracy and the protection of human rights and to sustain peacemaking processes and ease tensions in certain regions.

These projects are complemented by support for the protection of human rights, especially in Turkey, and support for victims of torture or human rights violations.

Finally, within the framework of the common foreign and security policy (CFSP), a sum of ECU 58.5 million was committed, mainly to finance the following forms of joint action:

- further contributions to the United Nations Voluntary Trust Fund for Assistance in Mine Clearance;

- supporting elections in Bosnia-Herzegovina and coordination of the international observation operation for these elections;

- extending the mandate to the town of Mostar until 31 December 1996;

- supporting the peace process in the Middle East;

- giving a contribution to the United Nations special fund for the Great Lakes region;

- Community contribution to the special fund of the Korean Energy Development Corporation;

- designation of a special envoy for the Great Lakes region and for the Middle East.

### Community expenditure in the Baltic Sea region

The Florence European Council stressed the importance of the European Union's cooperation initiative in the Baltic Sea region, which had been presented to the Council of the States of the Baltic Sea in May 1996. With four Member States, four future members of the Union and a very important neighbour, the Baltic Sea region is of paramount importance to the EU. Regional cooperation will be intensified in three main fields, namely strengthening of democracy, ensuring stability in the region, deepening economic cooperation and promoting regional development.

In the general budget, expenditure in this region, which is situated outside the Union's borders, falls mainly into categories 2, 3 and 4 of the financial perspective with the major part in category 4. The amounts in question are not always very apparent, because they are sometimes included in headings covering wider geographical areas. Thus, the region can also receive financing from the EU under other budget headings or Community expenditure outside the budget.

The appropriations entered in headings in the 1996 budget which clearly show expenditure in the Baltic Sea area total ECU 144 million. Most often, the total for amounts which are not apparent in the headings is relatively small. The table on page 57 shows the budget headings in which expenditure in the region can be clearly identified and the corresponding amounts for the 1996-98 period. The Commission has taken measures to ensure that its main financial instruments, the PHARE, TACIS and Interreg programmes, operate in tandem. Expenditure under the PHARE and TACIS programmes totalled over ECU 500 million during the period 1990-94.

Community aid for the period 1995-99 should exceed ECU 950 million. The EIB also provides financing. The PHARE programme is responsible for the major part of expenditure in the region. Appropriations granted under PHARE and TACIS are for proposed projects which meet specific criteria. In order not to prejudge the final geographical destination of these appropriations, the Commission does not allocate them beforehand during the budgetary procedure and the budget does not give a breakdown by country. There are many multi-annual programmes per country for the period 1995-99, but they are intended merely as a guide.

In 1996, the budget of the European Union channelled over ECU 105 million through the national PHARE programmes for projects in the three Baltic States. Aid went to, among others, European integration, economic development, including the private sector and the promotion of exports, human resources and institutional reforms, regional development and the development of infrastructures.

Moreover, the cross-border cooperation programme for the Baltic Sea region, launched in 1996 as part of the cross-border PHARE programme, is worth ECU 34 million. It provides aid for the part of Poland bordering the Baltic Sea and the three Baltic States. It is centred on transport infrastructures, including the modernisation of port infrastructures, the building and improving of strategic road infrastructures (Via Baltica-Helsinki-Tallinn-Riga-Kaunas-Warsaw), the environment (with special emphasis on waste management and waste water treatment), economic development, including tourism and support for the small businesses, and the mechanism for small projects for the Baltic Sea (BSPF).

In March 1997, the Commission adopted new guidelines for the PHARE programme. These new guidelines, which replace the traditional approach based on projects introduced by the countries in question with an 'accession'

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approach, focus on two priorities: firstly, the establishment of institutions which will help applicant countries to develop the public administrations necessary to implement Community rules, and, secondly, the financing of investment to help applicant countries to adjust their industry and major infrastructures to EU standards.

The TACIS programme mainly finances technical assistance for infrastructures such as the Helsinki-St Petersburg-Moscow corridor and the Via Hanseatica (Riga-Sovietsk-Kalininograd-Gdansk-Szczecin-Bremen). The Commission is also prepared to continue to contribute to the improvement of the safety of

nuclear reactors in the region. The Russia-Belarus-Poland-Germany gasline is another example of an EU priority project. TACIS can use up to 10% of its budget to finance small infrastructure projects at border crossing points and to acquire shares in small businesses.

Where Union financial aid is necessary for regions in the EU Member States, it comes from the Structural Funds, in particular, Interreg. Interreg programmes (links between border regions) have been approved for Denmark, northern Germany, Sweden and Finland and also cover border regions outside the Union.

## List of Interreg II programmes in the Baltic Sea region

(million ECU)

Programme	Participating countries	Total expenditure <sup>(1)</sup>	EU expenditure
Fyns Amt and KERN <sup>(2)</sup>	Denmark and Germany	3.6	1.8
Bornholm and neighbouring Baltic Sea regions	Denmark, Poland, Estonia, Latvia and Lithuania	4.6	2.0
Arctic cap region	Finland, Sweden and Norway	8.1	2.4
Swedish islands /Finland	Sweden and Finland	9.5	4.0
Storstrøms Amt, Kreis Ostholstein and Lübeck	Denmark and Germany	10.4	5.2
Kvarken-Mittskandía	Finland, Sweden and Norway	16.9	6.6
Planungsraum V <sup>(3)</sup> and Sønderjyllands Amt	Denmark and Germany	22.2	11.1
South Finland coastal region	Finland and Estonia (and Latvia and Lithuania)	22.7	6.1
Öresund region	Denmark and Sweden	28.0	13.0
Karelia	Finland and Russia	31.8	13.9
South-eastern Finland	Finland and Russia	40.7	9.6
Mecklenburg-Western Pomerania	Germany and Poland	84.1	63.1
Southern Sweden <sup>(4)</sup>	Sweden, Poland, Estonia, Latvia, Lithuania and Russia	16.0 <sup>(4)</sup>	8.0 <sup>(4)</sup>
Interreg II C <sup>(5)</sup>	Sweden, Denmark, Finland, Germany, Norway, Poland, Estonia, Latvia, Lithuania (and Russia)	48.2 <sup>(5)</sup>	24.3 <sup>(5)</sup>
<p><sup>(1)</sup> The total includes the EU contribution, the national public contribution and national private contribution, including where appropriate financing by non-EU countries.</p> <p><sup>(2)</sup> Kiel, Eckernförde, Rendsburg and Neumünster.</p> <p><sup>(3)</sup> Nordfriesland, Schleswig-Flensburg and Kreisfreie Stadt Flensburg.</p> <p><sup>(4)</sup> The Swedish authorities have informed the Commission of their intention to establish a new Interreg II A programme in order to promote cooperation with the Baltic States, Poland and Russia.</p> <p><sup>(5)</sup> The draft Interreg II C programme (town and country planning) was presented to the Commission in February 1997. It was to be approved in July 1997.</p>			



(million ECU)

			1996	1997	1998
			Out-turn	Forecasts	
			EC	EC	EC
B2-1410	Interreg II		( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )
B7-500	Estonia	COP	26.000	32.000	( <sup>2</sup> )
B7-500	Latvia	COP	32.000	39.400	( <sup>2</sup> )
B7-500	Lithuania	COP	47.000	46.000	( <sup>2</sup> )
B7-500	Poland	COP	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )
B7-500	Eastern borders of the Baltic States		0.000	6.000	To be determined
B7-500	Credo	(co-financed)	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )
B7-502	Baltic Sea	(co-financed)	34.000	To be determined	To be determined
B7-502	Poland/Germany		( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )
B7-520	Russia		( <sup>6</sup> )	( <sup>6</sup> )	To be determined
B7-521	Cross-border programme		( <sup>7</sup> )	( <sup>7</sup> )	( <sup>7</sup> )
B7-535	Euratom safeguards		0.000	0.000	1.600
B7-800	Fisheries		2.195	4.841	3.650
B7-810	LIFE		2.129	To be determined	To be determined
B7-811	Environment		To be determined	To be determined	To be determined
Minimum total			143.324	128.241	5.250

(<sup>1</sup>) 1994-99 programme, ECU 24.3 million.

(<sup>2</sup>) To be determined on the basis of the new PHARE guidelines.

(<sup>3</sup>) Part of the ECU 150 million for 1996/97/98;

(<sup>4</sup>) Part of the ECU 12 million for 1996, ECU 20 million for 1997, ECU 35 million for 1998.

(<sup>5</sup>) Part of the ECU 49 million for 1996/97/98.

(<sup>6</sup>) Part of the ECU 107 million for 1996, ECU 147 million for 1997.

(<sup>7</sup>) Part of the ECU 30 million for 1996/97/98.

## Heading 5 — Administrative expenditure

The general budget includes appropriations to cover the institutions' staff and administrative expenditure.

This expenditure accounted for 4.7% of total expenditure in 1996 and covered the following sectors:

- expenditure by the institutions on staff, buildings and equipment, various activities (formal and other meetings, studies, etc.), the Official Journal, publications, data

processing and the staff and administrative expenditure of delegations;

- expenditure resulting from special functions such as general subsidies, subsidies to bodies such as the European University Institute in Florence or the College of Europe in Bruges and participation in events of interest to the European Union;

- certain expenditure of an interinstitutional nature, including the pensions of officials and temporary staff of all the institutions, the European Union subsidy to the European Schools and the administrative expenditure of the Publications Office.

TABLE 3

### Administrative expenditure in 1996

Institution	Personnel foreseen in 1996 budget (permanent and temporary posts)	Staff (million ECU)	Administration (million ECU)
European Parliament	4 105	498.1	321.5
Council	2 529	186.1	142.6
Commission, of which:	20 831	2 109.3	853.5
— administration	(17 137)	(1 811.6)	(836.4)
— research	(3 694)	(297.7)	(17.1)
Court of Justice	953	89.3	78.5
Court of Auditors	503	48.3	5.7
Economic and Social Committee	135	10.3	16.2
Committee of the Regions	85	5.8	6.0
Joint structure	507	34.5	15.1
Total	29 648	2 981.8	1 439.1

In addition to the measures financed by the general budget, a number of Community operations are carried out using borrowed funds. The Communities have developed several instruments which give them access to capital markets and are used to finance various categories of loans. In addition to these loans from borrowed funds, a smaller number of loans are granted from budget appropriations. This report deals only with borrowing and lending operations included in the EU's financial balance sheet; it ignores operations carried out under the financial provisions of the ECSC Treaty (ECU 4.582 billion in loans outstanding at 31 December 1996) and those

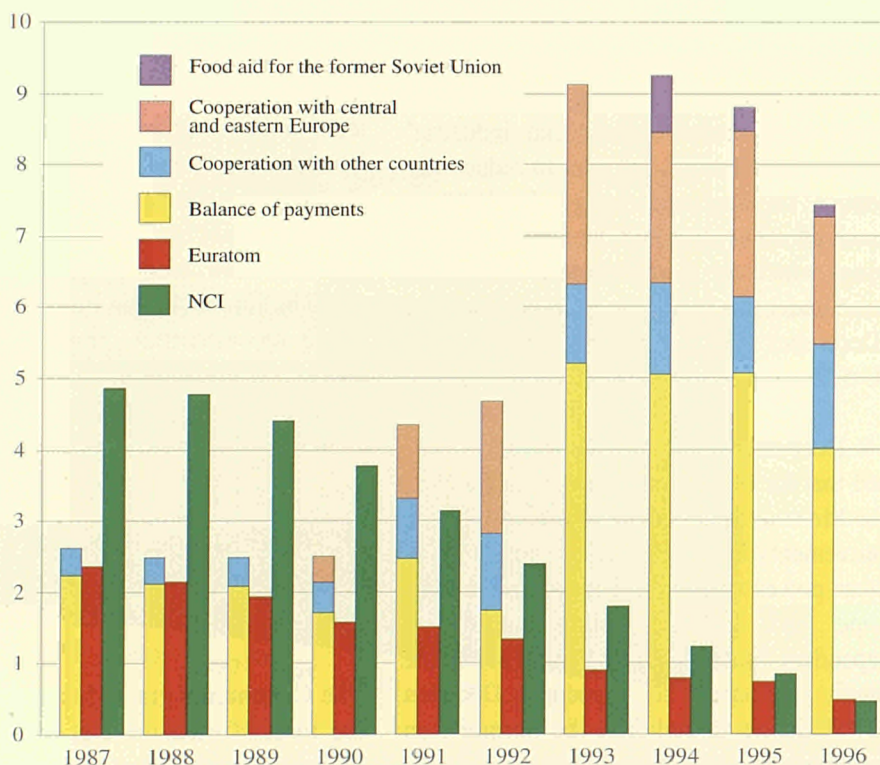
carried out by the European Investment Bank from its own resources under the EC Treaty (ECU 105.692 billion in loans outstanding at 31 December 1996).

Should the recipient of a loan granted by the Union default, the corresponding funds borrowed by the Union would be repaid from the general budget. Some of the loans granted by the European Investment Bank from its own resources are backed by a guarantee from the general budget.

Where a non-member country defaults on a loan granted or guaranteed by the Union, the

**FIGURE 13**  
Community loans outstanding 1987-96

(billion ECU)



creditors will be repaid from the Guarantee Fund set up by the Council regulation of 31 October 1994.

### **Borrowing and lending for balance-of-payments support**

After the first oil-price shock, a Community borrowing facility was devised to help Member States whose balance of payments had been upset as a result of the rise in oil prices. The first loans were granted in 1976. The Council increased the volume of Community borrowings authorised under this facility to ECU 8 billion in 1984 and to ECU 14 billion in 1988. At 31 December 1996, loans outstanding totalled ECU 3.979 billion.

### **Euratom borrowing and lending**

Since 1977, the European Union has made use of this facility, which was devised to finance investment projects involving the industrial generation of nuclear power and industrial fuel-cycle installations, in order to reduce dependence on imported energy. In 1990, a Council decision increased the amount of borrowings which the Commission is authorised to raise under this facility to ECU 4 billion. At 31 December 1996, outstanding loans totalled ECU 572 million.

On 9 December 1992, the Commission proposed that the balance of borrowings not used in the Member States could be used to finance improvements in the efficiency and safety of nuclear power stations in central and eastern Europe and in the Commonwealth of Independent States. On 21 March 1994, the Council decided to amend Decision 77/270/Euratom to authorise the Commission to contract Euratom borrowings to help finance improvements in the safety and efficiency of nuclear power stations in certain

non-member countries. This decision will enable use to be made of a considerable proportion of Euratom's available borrowing capacity (some ECU 1.1 billion).

The idea of international financial aid for the closure of the Chernobyl nuclear power plant was entered in the conclusions of both the Corfu European Council of 24 and 25 June 1994 and the G7 Summit at Naples on 7 and 8 July 1994.

### **NCI borrowing and lending**

The New Community Instrument (NCI) was created in 1978 to help finance investment projects for developing Europe's industrial competitiveness. These projects must meet the EU's priority objectives concerning energy, industry and infrastructure and must, in particular, promote regional development and help to reduce unemployment. The New Community Instrument was strengthened in 1982, 1983 and 1987 and its field of application now extends to the dissemination of new technologies and innovation, mainly for the benefit of small and medium-sized businesses. Overall, the volume of borrowings authorised by the Council has risen to ECU 6.830 billion and has been used to grant loans of ECU 6.197 billion, including ECU 679 million to finance reconstruction projects following the earthquakes in Italy in 1980 and in Greece in 1981. At 31 December 1996, the loans outstanding came to ECU 748 million.

### **Borrowing and lending in connection with cooperation with non-member countries**

The Community grants financial assistance in the form of medium-term loans to a number of countries which are currently implementing economic reforms. These loans are financed from its borrowing operations.

As part of the ECU 110 million granted as medium-term financial assistance to Bulgaria, a second tranche of ECU 40 million was paid on 29 August 1996. At the end of 1996, outstanding loans to Bulgaria totalled ECU 400 million.

As part of the ECU 200 million granted as additional macrofinancial assistance to Ukraine (approved by the Council on 23 October 1995), half of the first tranche of ECU 100 million (ECU 50 million) was paid on 29 August 1996 and the other half on 30 October 1996. At the end of 1996, outstanding loans to Ukraine thus totalled ECU 185 million.

On 25 March 1996, the Council decided to launch a borrowing and lending operation to provide additional macrofinancial assistance to Moldova totalling ECU 15 million, to be

paid in a single tranche. It was paid on 30 December 1996. At 31 December 1996, outstanding loans to Moldova totalled ECU 60 million.

Financial assistance of ECU 1.250 billion has also been granted to the republics of the former Soviet Union. At 31 December 1996, the total amount outstanding under this operation was ECU 143.7 million.

At 31 December 1996, the total amount of outstanding loans financed from borrowings came to ECU 2.679 billion.

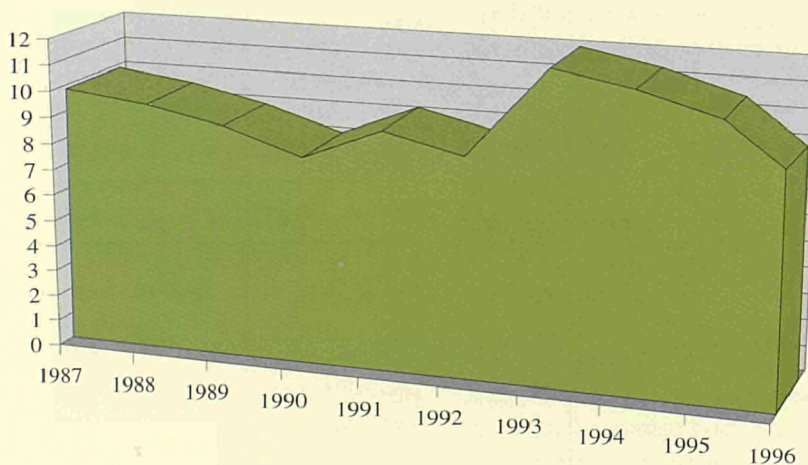
#### Loans from budget appropriations

Besides the loans from borrowed funds, loans are also granted from budget appropriations as

FIGURE 14

Total Community loans outstanding 1987-96

(billion ECU)



part of the policy of cooperation with non-member countries. The Communities have concluded agreements with most of the Mediterranean countries which combine commercial cooperation with financial and technical cooperation. In the case of financial and technical cooperation, Community aid consists partly of non-repayable grants and partly of loans on particularly favourable terms or risk-capital operations. At 31 December 1996 the outstanding balance of loans on special terms and risk-capital operations came to ECU 510.3 million.

Since 1988, the EU has been able to grant loans and advances, likewise from budget appropriations, to finance joint ventures between European firms and firms in Asia, Latin America and the Mediterranean countries. At

31 December 1996 the outstanding balance of these operations came to ECU 115.5 million.

### Budget guarantees

Should a debtor default, the amounts borrowed to finance any of the loans listed above would be repaid from the general budget.

A budget guarantee also covers the loans granted by the European Investment Bank from its own resources to 12 Mediterranean countries under the financial protocols annexed to the relevant cooperation agreements.

At 31 December 1996, outstanding loans totalled ECU 2.357 billion (ECU 265 million in

TABLE 4

Capital operations covered by the general budget at 31 December 1996

(million ECU)

Borrowing/lending operation	Volume of borrowing/lending authorised	Total outstanding at 31 December 1996 covered by a budget guarantee
Balance-of-payments support	14 000	3 979
Euratom	4 000	572
NCI (including reconstruction projects)	6 830	747.5
EIB Mediterranean (Spain, Greece, Portugal)	1 500	265
Financial assistance	5 035	2 679
	31 365	8 242.5
EIB loans		
— Mediterranean countries	6 362	2 092
— Central and eastern Europe	4 700	1 306
— Asia and Latin America	1 025	204
— South Africa	300	32
	12 387	3 634
Total	43 752	11 876.5

Greece, Spain, and Portugal and ECU 2.092 billion in non-member Mediterranean countries).

The guarantee also extends to loans granted by the EIB from its own resources to the countries of central and eastern Europe. The overall ceiling on guaranteed loans to these countries is ECU 4.7 billion. At 31 December 1996, loans granted to these countries totalled ECU 4.608 billion but only ECU 1.361 billion had actually been disbursed.

The purpose of this financial support is to promote the development of infrastructures (in particular trans-European networks) for energy, research, telecommunications and the environment, and to provide backing for the private sector, in particular small businesses.

Under a Council decision of 15 February 1993, the Community provides a budget guarantee for loans made by the EIB from its own resources to finance investment projects of mutual interest in the developing countries of Asia and Latin America which have signed cooperation agreements with the Community. These loans total ECU 250 million a year for a period of three years. At 31 December 1996, loans granted to the countries concerned totalled ECU 647 million but only ECU 204 million had been paid.

On 12 December 1996, the Council granted the EIB a 100% Community guarantee on loans to certain developing countries in Asia and Latin America. This guarantee was limited to an overall ceiling of ECU 275 million to be granted in 1996. At 31 December 1996, none of this amount had been paid to the countries in question.

Under a Council decision of 1 June 1995, the Community provides a budget guarantee for loans made by the EIB from its own resources to finance investment projects in South Africa with an overall ceiling of ECU 300 million over a period of two years. At 31 December

1996, loans granted totalled ECU 101 million but only ECU 32 million had been paid.

Table 4 gives an overview of the Community's borrowing and lending operations at 31 December 1996.

### **The guarantee mechanism**

In view of the growing volume of guaranteed loans to non-member countries and the consequent risk to the budget, the Commission proposed that a dual mechanism be established consisting of a guarantee reserve entered in the financial perspective and in the budget and a Guarantee Fund endowed from this reserve.

#### *(a) Guarantee reserve*

The interinstitutional agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure provided, in accordance with the conclusions of the Edinburgh European Council, that the general budget of the European Communities should include a guarantee reserve to cover loans to non-member countries. This reserve is intended to feed the Guarantee Fund and, if necessary, cover any guarantee called in which exceeds the amount available from the Fund, so that it can be charged to the budget.

The amount of the guarantee reserve is that stipulated in the financial perspective: ECU 300 million at 1992 prices. In 1996, it was ECU 326 million.

#### *(b) Guarantee Fund*

On 31 October 1994, the Council adopted Regulation (EC, Euratom) No 2728/94 establishing a Guarantee Fund for external actions, so that the Community's creditors can be repaid in the event of default by a non-member country in receipt of a loan granted or guaranteed by the Community.

The Guarantee Fund is endowed by:

- payments from the general budget of the European Communities equal to 14% of the capital value of the lending and guarantee operations until the Fund reaches its target amount;
- interest earned from the investment of the Fund's available resources;
- amounts recovered from defaulting debtors where the Fund has already honoured the guarantee.

In the course of 1996, calls made on the Fund totalled ECU 52.5 million. Transfers amounted to ECU 235.4 million, financial interest and late recoveries representing ECU 19.8 million and ECU 55.7 million respectively.

At 31 December 1996, the resources of the Guarantee Fund stood at ECU 557.4 million, or 8.5% of the amount outstanding on the lending and guarantee operations to non-member countries, plus unpaid interest due.



The Commission holds accounts with the treasuries and/or central banks of Member States, on which it receives revenue and through which it pays the bulk of its transactions, in particular those relating to the EAGGF Guarantee Section and some of the expenditure on the Structural Funds.

Each month the revenue received (expressed in national currencies) is equivalent to one twelfth of the amounts provided in the budget for VAT and GNP-based resources plus the amount actually established each month for customs duties and agricultural levies.

Ordinary commercial bank accounts are used for administrative expenditure and direct payments to recipients other than national authorities, in national currencies and in ecus.

To ensure that funds are made available to the direct recipients as rapidly and as cost-effectively as possible, the Commission overhauled its commercial banking structure in 1992. It also now uses the SWIFT international payments network. In 1997, it is to launch an invitation to tender for a new selection of commercial banks, except in the three Member States which joined the European Union in 1995.

In July 1990, the Commission adopted a regulation on arrangements for using the ecu for the purpose of the budgetary management of the Structural Funds; this regulation provides that grants made by the Commission are to be paid in ecus to the authority designated by the Member States to receive the payments.

Ecus are mainly purchased on the interbank exchange market. The Commission tries to spread its purchases as evenly as possible so as not to destabilise the market. In 1996, its purchases totalled ECU 33.7 billion as against ECU 28.9 billion in 1995, including forward purchases of ECU 2.7 billion during the last quarter. This was used mainly for payments under the Structural Funds (ECU 24.1 billion

in 1996 compared with ECU 19.2 billion in 1995).

On 1 July 1992, the Commission opened ecu-denominated accounts with the French and Irish Treasuries for making payments in connection with operations under the Structural Funds. This should accustom treasuries to using the ecu in anticipation of economic and monetary union. The Commission is willing to open similar accounts with any Member State which so wishes.

The budget out-turn, in revenue and expenditure, for a given year may differ from the initial estimates, producing a positive or negative balance. A surplus can result from underutilisation of appropriations or from a revenue out-turn higher than the forecast in the budget or from a combination of these two factors. Since spending must not exceed the limit set by the budget, a deficit can be caused only by the revenue out-turn being lower than the forecast in the budget. This was the case from 1984 to 1986.

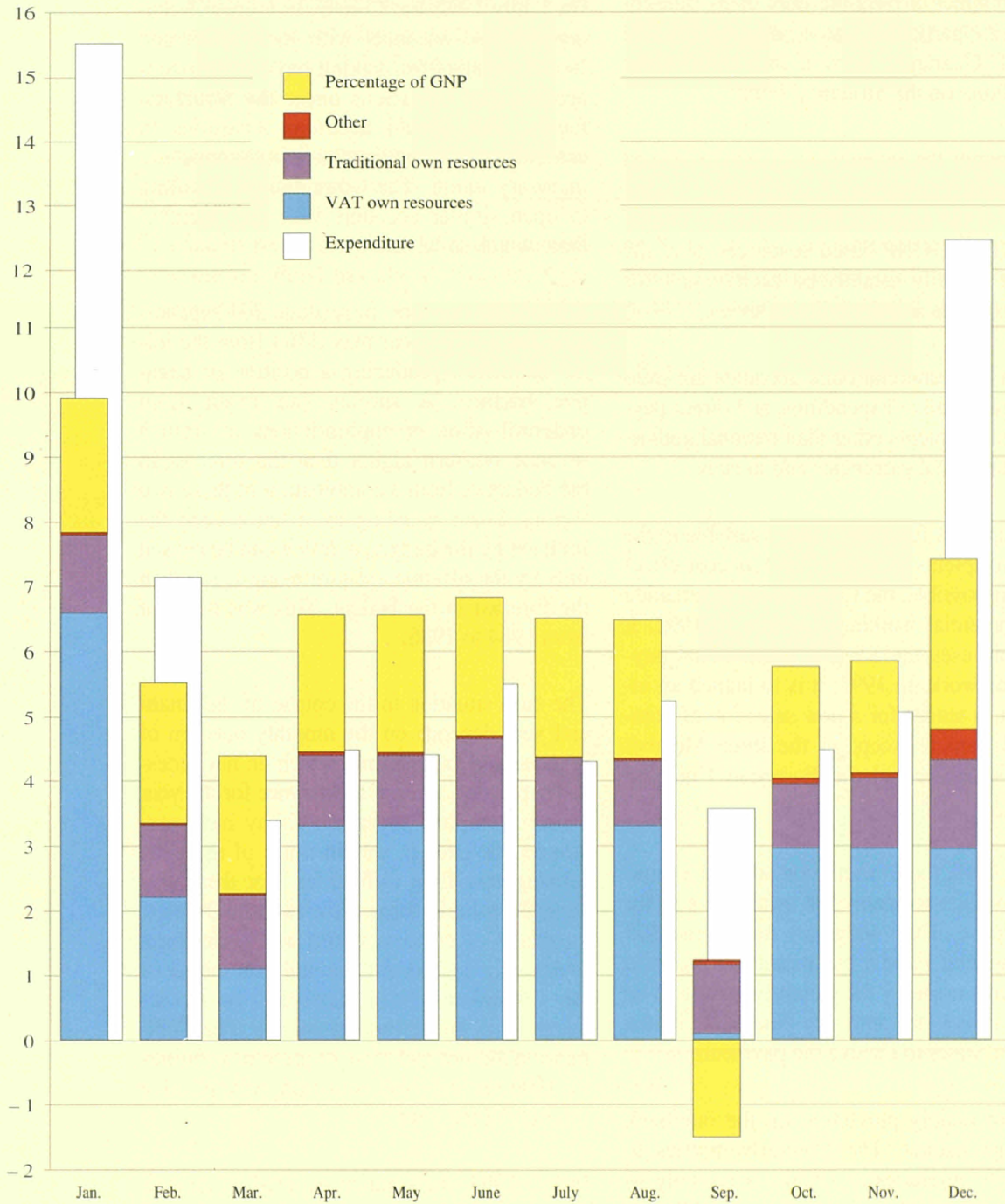
The cash situation in the course of the financial year depends on the monthly out-turn of revenue and expenditure, which do not necessarily balance. Even if the balance for the year shows a surplus, expenditure may have outstripped revenue at certain times of the year, causing cash-flow difficulties. For these reasons, the rules in force allow two possibilities: payments of customs duties and agricultural levies may be brought forward one month or the Commission may overdraw on its accounts with the national treasuries. The Commission did not make use of these possibilities in 1996 as the cash situation was positive throughout the year.

In late 1993, the Council adopted an amendment which also allowed early payment of VAT and GNP-based resources to meet specific EAGGF requirements, in particular to cover payments for the set-aside of certain arable land. Use was made of this option in 1995 and 1996.

FIGURE 15

Monthly revenue and expenditure 1996

(billion ECU)



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The rules also stipulate that the positive and negative balances resulting from payment and revenue transactions should be spread over the year in proportion to each Member State's estimated contribution to the budget as a whole. This balance is maintained by transfers between the central banks.

A rolling forecast of cash flow is used to monitor and coordinate these currency transactions. Cash-flow management is strictly regulated: no borrowing is allowed to cover possible deficits, surpluses may not be invested and no interest is receivable or payable on balances with Member States.

TABLE 5

## Consolidated revenue and expenditure account — Five-year summary

(million ECU)

Heading	1992	1993	1994	1995	1996
<b>Revenue</b>					
Own resources	56 189.7	65 101.1	68 082.1	68 603.3	70 258.5
Surpluses available	2 834.6	- 123.8	- 2 922.1	5 764.8	10 055.4
Other revenue	687.5	695.3	842.2	709.0	961.2
	59 711.8	65 672.7	66 002.1	75 077.1	81 275.0
<b>Expenditure</b>					
<i>1. Common agricultural policy</i>					
Markets (B1-1 to B1-3)	31 326.1	34 767.0	32 450.3	33 634.3	37 596.7
Accompanying measures (B1-4 and B1-5)	163.9	333.4	520.1	868.5	1 871.9
<i>Subtotal — Heading 1</i>	<i>31 490.0</i>	<i>35 100.4</i>	<i>32 970.4</i>	<i>34 502.7</i>	<i>39 468.6</i>
<i>2. Structural operations</i>					
EAGGF-Guidance (B2-1 0)	2 522.0	2 725.6	2 533.3	2 530.6	3 360.3
FIFG (B2-1 1)	214.8	364.9	395.0	248.1	421.6
ERDF (B2-1 2)	7 468.8	8 253.8	6 331.2	8 373.6	10 610.3
ESF (B2-1 3)	4 005.2	5 060.7	4 333.4	4 546.9	6 031.6
Community initiatives (B2-1 4)	1 241.0	1 551.9	957.7	1 320.1	1 691.4
Transitional measures, innovation schemes and actions against fraud (B2-15, B2-18 and B2-19)	1 702.0	1 472.5	541.9	200.0	337.2
Other structural operations (B2-2)	537.7	262.5	122.2	37.3	47.2
Cohesion Fund (B2-3)	—	795.0	851.6	1 699.3	1 872.2
EEA financial mechanism (B2-4)	—	—	—	89.8	87.1
<i>Subtotal — Heading 2</i>	<i>17 691.4</i>	<i>20 486.8</i>	<i>16 066.5</i>	<i>19 045.6</i>	<i>24 458.8</i>
<i>3. Internal policies</i>					
Research (B6)	2 083.7	2 354.9	2 544.2	2 601.5	2 971.7
Other agricultural operations (B2-5)	164.0	108.9	126.3	107.3	98.9
Other regional operations (B2-6)	69.9	46.9	29.9	42.1	46.2
Transport (B2-7)	10.5	4.0	12.3	18.2	30.5
Fisheries and the sea (B2-9)	31.7	16.2	26.6	15.8	16.2
Education, vocational training, youth (B3-1)	289.4	258.4	290.2	292.4	379.6
Culture and audiovisual media (B3-2)	80.3	62.2	111.1	126.7	100.0
Information and communication (B3-3)	35.8	18.6	37.6	47.7	99.2
Other social operations (B3-4)	169.9	102.5	136.4	151.3	155.4
Energy (B4-1)	50.4	41.7	36.3	33.7	35.4
Euratom nuclear safeguards (B4-2)	6.7	6.8	11.5	17.3	15.8
Environment (B4-3)	35.4	71.2	107.2	91.9	120.9
Consumer protection (B5-1)	18.0	9.4	14.3	17.8	14.6
Aid for reconstruction (B5-2)	17.7	12.8	9.6	6.1	4.2
Internal market (B5-3)	145.1	91.8	165.0	134.5	168.8
Industry (B5-4)	38.1	39.2	31.6	76.7	42.4
Information market (B5-5)	12.1	14.6	12.6	14.0	5.8
Statistical information (B5-6)	44.4	34.8	35.3	33.7	35.2
Trans-European networks (B5-7)	158.5	134.9	179.3	250.5	264.1
Cooperation in the fields of justice and home affairs (B5-8)	—	—	—	2.6	2.2
Action against fraud (B5-9)	—	—	0.2	0.8	3.4
<i>Subtotal — Heading 3</i>	<i>3 461.7</i>	<i>3 429.8</i>	<i>3 917.4</i>	<i>4 082.5</i>	<i>4 610.4</i>

TABLE 5 (continued)

(million ECU)

Heading	1992	1993	1994	1995	1996
<i>4. External action</i>					
EDF (B7-1)	—	—	—	—	—
Food aid (B7-20)	652.2	431.0	446.0	497.7	413.1
Humanitarian aid (B7-21)	260.5	534.9	472.6	452.0	624.3
Cooperation — Asian developing countries (B7-30)	161.2	154.2	164.9	226.0	283.9
Cooperation — Latin American developing countries (B7-31)	106.2	137.4	138.3	145.7	152.3
Cooperation — developing countries in southern Africa and South Africa (B7-32)	80.2	77.5	69.9	55.6	37.3
Cooperation — Mediterranean countries and Middle East (B7-4)	214.6	338.7	304.8	278.8	357.5
Cooperation — central and east European countries (B7-50)	489.0	543.5	704.7	768.9	836.7
Cooperation — independent States of the former Soviet Union (B7-52)	37.1	180.3	300.0	370.0	369.5
Cooperation — republics formerly part of Yugoslavia (B7-54)	—	—	1.8	4.8	26.9
Other cooperation measures (B7-6, B7-51 and B7-53)	158.9	231.9	238.7	246.5	296.4
Human rights and democracy (B7-7)	3.0	3.6	27.5	47.0	65.2
International fisheries agreements (B7-80)	195.6	188.9	140.6	158.1	251.0
Other external aspects of certain Community policies (B7-81 to B7-87)	74.9	37.3	50.6	76.0	99.1
Common foreign and security policy (B8-0)	—	14.2	10.0	82.6	60.5
<i>Subtotal — Heading 4</i>	<i>2 433.4</i>	<i>2 873.4</i>	<i>3 070.3</i>	<i>3 409.7</i>	<i>3 873.8</i>
<i>5. Administrative expenditure</i>					
Staff and administration	2 903.6	3 363.8	3 590.9	3 919.3	4 106.1
<i>Subtotal — Heading 5</i>	<i>2 903.6</i>	<i>3 363.8</i>	<i>3 590.9</i>	<i>3 919.3</i>	<i>4 106.1</i>
<i>6. Reserves</i>					
Guarantee (B0-2)	—	14.2	293.7	250.8	235.4
Refunds to Member States	876.8	—	—	—	—
<i>Subtotal — Heading 6</i>	<i>876.8</i>	<i>14.2</i>	<i>293.7</i>	<i>250.8</i>	<i>235.4</i>
<i>7. Compensation</i>					
Compensation (B0-5)	—	—	—	1 547.0	701.0
<i>Subtotal — Heading 7</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>1 547.0</i>	<i>701.0</i>
<b>Total</b>	<b>58 857.0</b>	<b>65 268.5</b>	<b>59 909.2</b>	<b>66 757.7</b>	<b>77 454.1</b>
<i>Out-turn for the year</i>	854.8	404.1	6 093.0	8 319.5	3 821.0
Cancellation of unused appropriations carried over from previous year	126.5	301.1	443.0	498.3	143.9
Exchange differences for the year	22.7	265.9	4.4	402.8	423.5
<i>Balance for the year</i>	<i>1 004.0</i>	<i>971.1</i>	<i>6 540.5</i>	<i>9 220.5</i>	<i>4 388.3</i>

## THE ECSC'S FINANCIAL AND BUDGETARY ACTIVITIES IN 1996

### Economic background and developments in ECSC industries

#### Steel industry

The slowdown in growth observed during the second half of 1995 continued during the first half of 1996, resulting in a fall-off in industrial activity.

The slowdown in the activity of the main steel-user sectors led to a slight fall in demand and a more marked decrease in the consumption of steel, due to the continued fall in stocks.

Since the summer, there has been a gradual improvement in economic conditions thanks to the pick-up in activity in various consumer sectors and continued world economic expansion. Even so, results in terms of actual demand, production and utilisation rates for 1996 were down on the equivalent figures for 1995.

The production of crude steel in the European Union (EU 15) in 1996 was 147.6 million tonnes, compared with 155.8 million tonnes in 1995, representing a decrease of 5.3%. The 1996 production level, which was less than market requirements, allowed the surplus stocks that had accumulated over the previous year to be gradually reabsorbed.

The maximum production capacity for crude steel fell by 3%, from 204.7 to 198.5 million tonnes, chiefly because of a 4.5 million tonne reduction of capacity in Italy.

Steel production trends in 1996 led to a steady reduction in plant utilisation rates, the average falling from 76% in 1995 to 74.4% in 1996.

As regards the maximum production capacity of hot-rolling plant, 1996 saw a fall of 2.4% at 179.5 million tonnes, compared with 184 million tonnes in 1995. As total produc-

tion over the same period was 128 million tonnes, compared with 134.3 million tonnes in 1995, the utilisation rate for this type of plant fell from 74.1% in 1995 to 71.3% in 1996.

The maximum production capacity of cold-rolled sheet and packaging steel remained unchanged, and there was a 1.1 million tonne increase in the capacity of metal-coated sheet.

Investment in the iron and steel industries was around ECU 3.985 billion (EU 15) in 1996, which represents an increase of 24.4% over the previous year and bears out the signs of recovery in the sector.

#### Coal industry

Only four countries are still actively producing coal in the European Union. Investments are concentrated exclusively in Germany, Spain, France and the United Kingdom.

According to the latest Commission estimates, real GDP increased by 1.6% in the Community of Fifteen in 1996. This may boost energy demand by around 2%. However, total demand for solid fuels is believed to have declined by approximately 3% over the previous year, the fall in demand for brown coal being highest at 5%, compared with a drop of between 1 and 2% for hard coal.

Deliveries of coal in the Community fell by 5.6% in 1996 to 272.4 million tonnes, showing that the increase recorded in 1995 was merely a temporary respite in an overall downward trend. All sectors of consumption recorded a fall in demand, deliveries to public power stations falling by 10.5 million tonnes (-5.4%) and deliveries to coking plants by 2.2 million tonnes (-4.2%).

Community production in 1996 fell by 6.7 million tonnes compared with 1995, to 128.4 million tonnes, most of this being attributable to Germany (-5.8 million tonnes) and

the United Kingdom (-0.8 million tonnes). At the same time, while Community imports fell by some 3.3 million tonnes to 137.8 million tonnes, the gap between imports and domestic production widened from around 6 million tonnes in 1995 to 9.5 million tonnes in 1996.

Between 1995 and 1996, deliveries of coke to the iron and steel industries fell by 3.2 million tonnes to 40.7 million tonnes (7.3%), owing to a drop in the production of crude steel. Technological developments would suggest that the overall trend in demand for coke is down, since steam coal is increasingly being used in blast furnaces and the output from arc furnaces is rising.

Aid to the coalmining industry continues to be governed by the provisions of framework Decision No 3632/93/ECSC establishing Community rules for State aid to the coal industry for the period from 1994 to the expiry of the ECSC Treaty in 2002 <sup>(1)</sup>.

In addition to the specific criterion applicable to each category of aid, the decision stipulates that aid granted to the coal industry may be considered compatible with the proper functioning of the common market provided it helps to achieve at least one of the following objectives:

- to make, in the light of coal prices on international markets, further progress towards economic viability with the aim of reducing the level of aid;
- to solve the social and regional problems created by total or partial reductions in the activity of production units;
- to help the coal industry adjust to environmental protection standards.

The decision also contains provisions designed to increase the transparency of the existing aid scheme. Upon expiry of a transitional period not exceeding three years (i.e. ending on 31 December 1996), aid may be authorised only if it is recorded in Member States' national, regional or local public budgets or channelled through strictly equivalent mechanisms. Moreover, since the beginning of 1994, any aid received by a firm has had to be shown in its profit-and-loss account as a separate item of revenue, distinct from turnover.

Member States planning to grant coal companies operating aid in the period 1994-2002 are asked to submit to the Commission in advance a modernisation, rationalisation and restructuring plan designed to improve the economic viability of the company concerned by reducing production costs. For firms which are unable to satisfy these conditions, aid may be considered compatible provided it is part of a closure plan whose deadline falls before the expiry of Decision No 3632/93/ECSC or, under exceptional social and regional circumstances, if the closure plan is implemented after expiry of the decision.

A modernisation, rationalisation and restructuring plan was submitted in 1994 by France, together with an indication of the financial measures planned for 1994 and 1995. Germany, Spain and the United Kingdom all sent in plans in 1994 that were approved by the Commission that same year.

Pursuant to the provisions of Article 2(2) of Decision No 3632/93/ECSC, Germany abolished its 'Kohlepfennig' levy on 1 January 1996 and all subsidies now form part of public budgets. Spain is thus the only Member State that has yet to comply fully with this decision.

<sup>(1)</sup> OJ L 329, 30.12.1993, p. 12.

On 20 March 1996, the Commission authorised the United Kingdom to grant ECU 455.5 million (GBP 378 million) in financial aid for the 1996/97 financial year to cover past commitments <sup>(1)</sup>.

On 30 April 1996, the Commission authorised Germany <sup>(2)</sup> to grant ECU 5.4987 billion (DEM 10.4546 billion) in financial aid for 1996 in the form of compensation to electricity producers under the fifth electricity-from-coal law of 12 December 1995 to maintain the workforce in underground mines ('Bergmannsprämie'), to secure supplies of coal and coke to the Community iron and steel industries and to cover exceptional costs incurred by a number of firms in respect of past commitments and restructuring. The Commission also authorised additional aid of ECU 1.5085 billion (DEM 2.8269 billion) for 1995 for the supply of coal and coke to the Community iron and steel industries and to cover exceptional losses incurred by several firms as a result of restructuring.

When fixing this financial aid, the Commission recognised that the reduction of costs of some 3.6 % between 1992 and 1995 was totally inadequate and reaffirmed the need for companies to reduce their capacity.

On 30 April 1996, the Commission authorised <sup>(3)</sup> France to grant ECU 681.9 million (FRF 4.415 billion) in additional financial assistance for 1996 to cover operating losses, costs arising from past commitments resulting from the modernisation, rationalisation and restructuring of the iron and coal industries and for research and development.

On 30 April 1996, the Commission also authorised <sup>(4)</sup><sup>(5)</sup> Spain to grant ECU 884.6

million (ESP 141.377 billion) in financial aid for 1996 and ECU 867 million (ESP 141.316 billion) for 1995, to cover operating losses incurred by coal enterprises, exceptional social assistance for workers who had lost their jobs following restructuring, the technical costs of closing mines, R & D projects and environmental protection. Spain was authorised to grant ECU 65.2 million (ESP 10.362 billion) of financial aid for 1994 to cover operating losses incurred by coal enterprises.

In authorising the aid for 1996, the Commission noted that Spain was taking the necessary measures to adapt its aid scheme to the provisions of Article 2(2) of Decision No 3632/93/ECSC by 31 December 1996 at the latest.

On 29 May 1996, the Commission authorised Portugal to grant ECU 1.8 million (PTE 345.95 million) in financial aid for 1995 and 1996, to cover redundancy payments to workers who had lost their jobs following closure of the last mine in Portugal <sup>(6)</sup>.

On 18 December 1996, the Commission authorised the United Kingdom to grant ECU 426.39 million (GBP 347 million) in financial aid for the 1997/98 financial year, and ECU 29.5 million (GBP 24 million) in additional financial assistance for the financial year 1996/97 in respect of past commitments <sup>(7)</sup>.

## Financial activities

Article 49 of the ECSC Treaty of 18 April 1951 empowers the High Authority (the Commission since the 1967 Merger Treaty) to borrow funds provided that they are used solely for the granting of loans.

<sup>(1)</sup> Decision 96/514/ECSC (OJ L 216, 27.8.1996, p. 6).

<sup>(2)</sup> Decision 96/560/ECSC (OJ L 244, 25.9.1996, p. 15).

<sup>(3)</sup> Decision 96/458/ECSC (OJ L 191, 1.8.1996, p. 45).

<sup>(4)</sup> Decision 96/575/ECSC (OJ L 253, 5.10.1996, p. 15).

<sup>(5)</sup> Decision 96/591/ECSC (OJ L 259, 12.10.1996, p. 14).

<sup>(6)</sup> Decision 96/576/ECSC (OJ L 253, 5.10.1996, p. 20).

<sup>(7)</sup> Decision 97/.../ECSC (to be published in the Official Journal).



TABLE 6

## Loans granted in 1996 — Breakdown by Member State

(million ECU)

Member State	I				II		III	Total I + II + III
	Coal industry (Article 54, first paragraph)	Steel industry (Article 54, first paragraph)	Other (Article 54, second paragraph)	Total I	Industrial conversion (Article 56)	Cooperation with central and eastern Europe (Article 95)	Workers' housing (Article 54, second paragraph)	
Belgium	—	—	—	—	6.0	—	1.1	7.1
Denmark	—	—	—	—	—	—	0.1	0.1
Germany	—	—	—	—	23.0	—	9.7	32.7
Greece	—	—	—	—	—	—	0.2	0.2
Spain	12.2	—	—	12.2	16.7	—	3.6	32.5
France	—	—	—	—	11.5	—	1.8	13.3
Ireland	—	—	—	—	—	—	0.0	—
Italy	—	5.3	25.2	30.5	58.9	—	1.9	91.3
Luxembourg	—	34.9	—	34.9	—	—	0.2	35.1
Netherlands	—	—	—	—	—	—	0.2	0.2
Austria	—	—	—	—	0.6	—	—	0.6
Portugal	—	—	—	—	—	—	0.2	0.2
Finland	—	—	—	—	—	—	—	—
Sweden	—	—	—	—	—	—	—	—
United Kingdom	—	—	—	—	50.4	—	0.4	50.8
Community	12.2	40.2	25.2	77.6	167.1	—	19.4	264.1
Non-Community	—	—	—	—	—	15.6	—	15.6
Total	12.2	40.2	25.2	77.6	167.1	15.6	19.4	279.7

Loans are granted for three main purposes:

- to finance investment in the coal and steel sectors;
- to finance conversion programmes for restructuring the coal and steel industries;
- to finance the construction of housing for coal and steel workers.

At 31 December 1996, the ECSC had, since starting its financial activities, paid ECU 22.4 billion in loans, of which ECU 21.9 billion was from borrowed funds and ECU 466.6 million from its own funds (special reserve and former pensions fund).

If guarantees over the same period are included, total ECSC financing at the end of 1996 came to ECU 22.48 billion, as against ECU 22.44 billion at 31 December 1995.

The change is due partly to new loans (ECU 279.7 million) and partly to exchange rate adjustments (ECU – 229.1 million).

In 1996, the total loans granted by the ECSC (ECU 279.7 million) were 30.6% down on the 1995 figure of ECU 402.8 million.

This fall was primarily due to the weakness of the recovery in productive investment which affected all the Member States.

Restructuring continued in the coal and steel industries. The volume of industrial loans was therefore particularly low (Article 54).

The guidelines that the Commission approved on 28 June 1994 for the ECSC's future borrowing and lending activities up to the year 2002 (when the ECSC Treaty expires) may

have had a certain dissuasive effect on potential borrowers, who can no longer expect to obtain long-term loans, i.e. maturing after 2002.

### ECSC operating budget

In addition to its activities based on borrowing and lending operations, the ECSC finances a number of measures from its operating budget.

### ECSC budget revenue

The High Authority (Commission) is empowered to procure the funds it requires to carry out its tasks by imposing levies on the production of coal and steel.

ECSC levies go towards financing expenditure under the operating budget. Historically, they are the first genuinely 'Community' tax.

Levies are fixed annually for the various coal and steel products according to their average value. In 1996, the ECSC levy was set at 0.19% and yielded ECU 95.9 million.

Most of the resources other than levies derive from the 'net balance' from annual financial operations, in particular the interest on the investments, reserves and provisions entered in the ECSC balance sheet. The net balance for 1996 amounted to ECU 50.5 million.

In addition, there were cancelled commitments of ECU 90 million and unused funds of ECU 14.6 million from the previous year.

Total revenue in the ECSC's operating budget came to ECU 255.3 million for 1996.

### ECSC budget expenditure

The revenue in the operating budget is intended to cover the various categories of expenditure provided for in the ECSC Treaty.

#### *Social aid*

In 1996, ECU 79.5 million was committed for aid for the social redeployment of coal and steel workers under Article 56(2)(b) and (1)(c) of the ECSC Treaty (traditional redeployment and social measures in the coal and steel industries).

When permanent closures, cutbacks or changes of activity lead to job losses, the Community attempts to mitigate the social repercussions for the workers through redeployment measures under Article 56. It helps finance aid measures to provide income support for the workers affected or to enable them, through training courses and resettlement allowances, to remain in employment and make a productive contribution to the economy.

The grant of this aid is conditional upon the Member State paying a special contribution at least equal to the ECSC contribution.

Social aid is granted under arrangements defined in bilateral agreements concluded with the Member States (early retirement, unemployment, transfer, retraining and vocational training).

Since 1995, under the arrangements for 'phasing in' the coal and steel sectors within the general framework of European policies, aid for the training of coal and steel workers has been granted only through the European Social Fund.

ECSC social assistance may be granted over and above other forms of aid or loans granted under the Community support frameworks.

### *Research aid*

Under Article 55 of the ECSC Treaty, ECU 85 million was granted in aid for technical research in the coal and steel sectors in 1996. This includes ECU 1 million for dissemination of the results of social research.

The main aims of the aid for steel industry research (ECU 53 million) are to reduce manufacturing costs, improve the quality and performance of products, promote and extend the uses of steel, and adapt production conditions to environmental demands.

The main objectives of the aid for coal industry research (ECU 31 million) are to lower production costs, raise underground and pit-head productivity, improve safety and working conditions, safeguard existing markets, open up new outlets and, above all, improve the use made of coal, with a view to better environmental protection.

### *Interest subsidies on ECSC loans*

Finally, the ECSC budget provides aid (ECU 36.7 million in 1996) in the form of interest subsidies on conversion loans granted under Article 56(2)(a) to encourage job-creating investments in healthy economic sectors and to revitalise the economy of regions affected by the decline in ECSC activities. The practical rules for granting these loans and interest subsidies were last adopted by the Commission in 1990 <sup>(1)</sup> and were supplemented in 1992 <sup>(2)</sup> with the adoption of rules for coordination with the Structural Funds.

It should be noted that 1996 was the last year for the receipt of new applications for interest subsidies.

### *Surplus*

The surplus of ECU 49.1 million was attributable to the balance of the adjustments between forecasts and implementation of the operating budget in 1996.

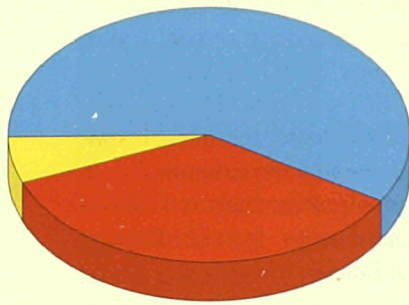
<sup>(1)</sup> OJ L 188, 28.7.1990.

<sup>(2)</sup> OJ C 59, 6.3.1992.

FIGURE 16

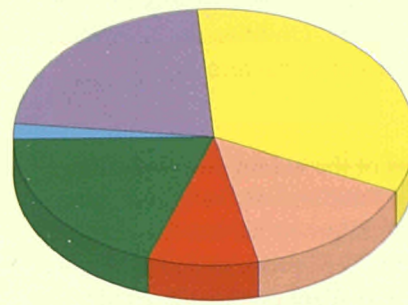
ECSC operating budget revenue 1996

(million ECU)



ECSC operating budget expenditure in 1996

(million ECU)



■ Current revenue	150.7	■ Administration	5.0
— Yield from 0.19% levy	95.9	■ Redeployment aid	56.3
— Net balance	50.5	■ Research aid	85.0
— Fines and surcharges for late payment	0.0	■ Conversion aid	36.7
— Miscellaneous	4.3	■ Social measures for the steel industry	p.m.
■ Cancellation of commitments	90.0	■ Social measures for the coal industry	23.2
■ Unused resources from previous year	14.6	■ Surplus	49.1
■ Exceptional resources	p.m.		
	<u>255.3</u>		<u>255.3</u>

## FINANCIAL OUT-TURN OF THE EDF IN 1996

### Legal and financial framework

The European Development Fund (EDF) was established under Article 1 of the Implementing Convention on the Association of the Overseas Countries and Territories with the Community, signed at the same time as the Treaty of Rome on 25 March 1957; its role has since been extended to cover:

- countries which shortly afterwards became independent but wished to retain OCT status;
- a growing number of countries in different continents with which the Community wished to enter into agreements <sup>(1)</sup>.

Under the Lomé IV Convention, which was signed on 15 December 1989 and which entered into force on 1 September 1991, 70 African, Caribbean and Pacific States (ACP)<sup>(2)</sup> and 20 OCTs <sup>(3)</sup> are today involved in EDF operations; the Fund's budget has increased substantially to ECU 10.940 billion (including ECU 140 million for the OCTs alone) under the first financial protocol (1991-95) and ECU 13.132 billion (including ECU 165 million for the OCTs alone) under the second financial protocol (1996-2000).

The internal agreement on the financing and administration of Community aid under the

first financial protocol (seventh EDF) of the fourth Lomé Convention describes the procedure for allocating resources, which include an extra ECU 1.225 billion in loans granted by the EIB (ECU 25 million for the OCTs) from its own resources. The internal agreement on the second financial protocol (eighth EDF) of the fourth Lomé Convention also specifies, among other things, the way in which the resources are to be divided. The funds available include an extra ECU 1.693 billion in loans granted by the EIB from its own resources (ECU 35 million for the OCTs).

EDF operations mainly involve:

- grants for projects and programmes and to assist structural adjustment, for which a specific amount has been set aside;
- Stabex transfers;
- risk capital managed by the EIB;
- special financing facilities under Sysmin;
- emergency aid and aid for refugees.

The EDF is quite different from the other Community financial instruments included in the general budget in that:

- it is administered by the Commission and its resources consist of extra-budgetary payments by the Member States on a fixed-scale basis for each fund;
- each EDF has a separate financial regulation, on the same lines as for the general budget, which lays down implementing provisions for the abovementioned internal agreement, particularly in respect of financial and legal aspects;
- the normal rules on budgetary appropriations do not apply to the EDF; its appropriations are allocated to a limited number of operations, i.e. multiannual operations for a period of at least five years, with precise

<sup>(1)</sup> The latest of these — the Lomé IV Convention — follows on from the Yaoundé I and II Conventions and, since 1975, the Lomé I, II and III Conventions. Lomé IV is scheduled to last for 10 years; only its financial protocol needs to be renegotiated after five years.

<sup>(2)</sup> In 1993, Eritrea, which had split from Ethiopia, joined the 69 countries which had signed the Lomé IV Convention. However, because of its political situation, Somalia has not yet ratified Lomé IV or established its national indicative programme.

<sup>(3)</sup> By a decision establishing association with the Community and allowing them to benefit from the resources available under the internal agreement governing Lomé IV: ECU 140 million under the first financial protocol of Lomé IV and ECU 165 million under the second financial protocol of Lomé IV.

ceilings which are laid down when the financing agreement is signed. The Commission thus administers several EDFs simultaneously until their respective closing dates. These appropriations are not presented in budget form but are recorded at a later date in an accounting statement which provides a breakdown of revenue and expenditure (commitments and payments).

On 28 February 1994, the ACP States and the Community exchanged their requests for amendments under the mid-term review of the Lomé Convention, in accordance with the procedure laid down in Article 366 of the convention. As this is a partial review and not a full-scale renegotiation of the convention, the proposed amendments cover only a limited number of fields.

The negotiations were opened officially when the ACP-EU Council of Ministers met in Mbabane, Swaziland, on 19 May 1994.

On 4 November 1995, the Member States, the Council of the European Union, the European Commission and the ACP States signed the agreement amending the fourth ACP-EC Lomé Convention. This review, the first of its kind, resulted not only in financial adjustments (see above) but also in certain changes to take account of developments since Lomé IV came into force on 1 September 1991:

- The political dimension of the ACP-EC relationship was strengthened through a broadening of the political dialogue and, above all, a new determination to make the respect of human rights, democratic principles and the rule of law an essential element in the relationship.
- Cooperation was made more effective by improving the consistency of the various instruments and by promoting greater flexibility, especially with regard to the planning of financial aid. To this end, the two-tranche principle has been introduced to

provide an incentive for the proper implementation of indicative programmes.

- The economic aspect of cooperation was redirected towards development of the private sector and the pursuit of greater competitiveness for ACP products, reflecting a new approach to trade in the context of ACP-EC cooperation.

## Economic and political situation

The year 1996 was a turning point in EDF operations: the sixth EDF was virtually exhausted, the seventh continued its downward trend and the eighth will not enter into force until after the ratification of the revised Lomé IV Convention. The figures show that implementation slowed down compared with previous years, decisions being more indicative of the vitality of the Fund than payments. Other factors may also be involved: depletion of allocations for quick-disbursing instruments, aid restrictions or even suspension in countries such as Liberia, Nigeria, Somalia, Sudan, and Zaire, as a result of political developments.

The political situation and outlook have a direct effect on the rate at which EDF activities are implemented. In recent years, political developments in several ACP States and the linkage established by the European Union and by the Convention itself (Article 5) between certain political principles and development cooperation have, on the whole, acted as a brake. Other constraints, inherent in the very nature of Community aid, may also have had an effect, although they should be eased by the agreement amending the Lomé IV Convention for the next five years.

### EDF financing in 1996

The EDF was able to finance its operations as usual throughout 1996. The Member States contributed a total of ECU 950 million.

### Aid granted by the EDF in 1996

For the sixth EDF, net commitments in 1996 totalled ECU -53 million, i.e. decommitments (ECU -157.7 million) exceeded commitments (ECU 104.7 million). Decommitments of programmable aid (at ECU -119.4 million) were not fully matched by new financing decisions (ECU 97 million), and there were no new commitments of non-programmable aid (interest rate subsidies, risk capital, emergency aid and aid to refugees) to offset decommitments.

Payments were 25.8% down on 1995 levels, falling from ECU 268.2 million to ECU 199.1 million.

New commitments and payments are mainly of programmable aid, most decisions and payments relating to non-programmable aid having been made before 1993.

As for the seventh EDF, net commitments in 1996 totalled ECU 1.018 billion with new financing decisions at ECU 1.144 billion running well ahead of decommitments entered in the accounts (ECU -26 million). Of the ECU 1.144 billion in financing decisions, ECU 101.6 million is to be used by way of an advance against the eighth EDF (to finance the CDI's budget and Stabex transfers for the 1995 application year).

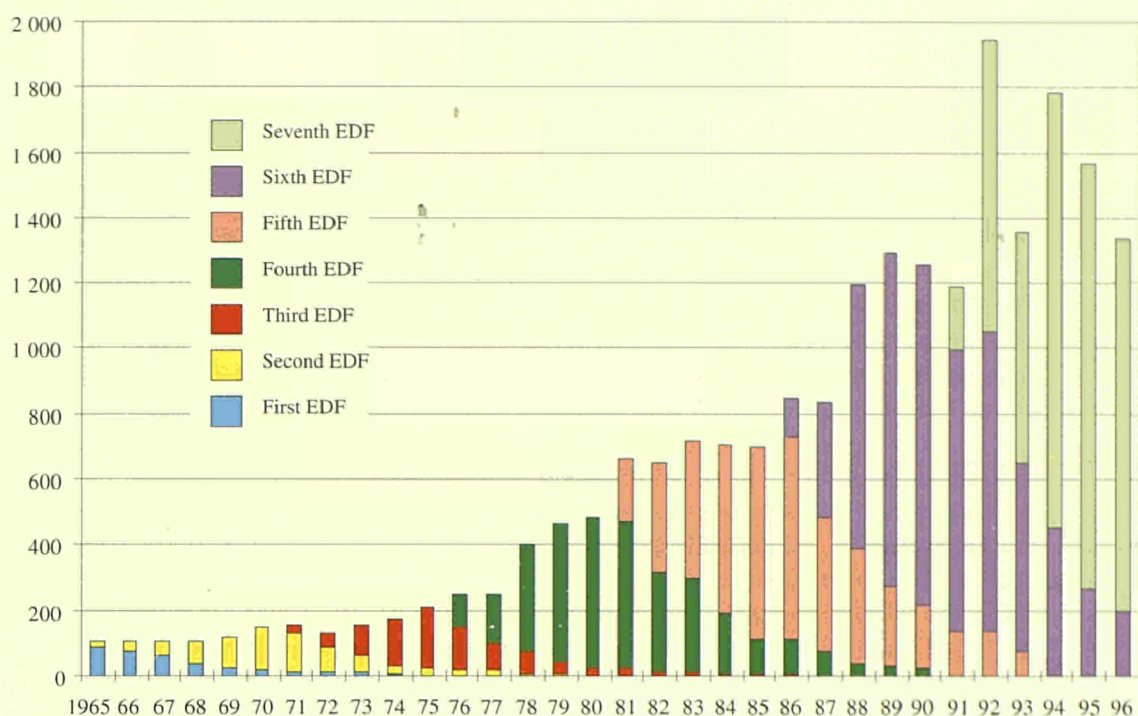
TABLE 7

EDF (all Funds together) —  
Financing decisions and payments

(million ECU)

Instrument	Decisions	Payments
Programmable aid	656.48	833.94
Structural adjustment	51.10	94.65
Risk capital	47.33	122.17
Interest subsidies	31.60	31.90
Emergency aid	- 11.87	33.84
Aid for refugees	1.19	7.74
Sysmin	33.95	28.14
Stabex	155.08	164.99
Total	964.86	1 317.37

FIGURE 17  
Annual EDF payments 1965-96



The slowdown in commitments in 1995 and 1996 (down 39 and 31% respectively from the previous year's figures) is only to be expected given that over 80% of the appropriation has been used and the seventh EDF appropriations for the quick-disbursing instruments such as Stabex and the structural adjustment facility have been virtually exhausted. The same applies to aid for refugees and emergency aid, which are being financed from the Commission budget pending inauguration of the eighth EDF. New decisions therefore relate essentially to programmable aid (ECU 674.6 million, of which ECU 25.3 million advanced against the eighth EDF), Stabex (ECU 155.1 million, of which ECU 76.2 million advanced against the eighth EDF), risk capital (ECU 95.8 million), interest rate subsidies (ECU 64.7 million), fifth EDF balances (ECU 62.3 million) and the structural adjustment facility (ECU 51.1 million).

Payments in 1996 (ECU 1.118 billion, of which ECU 78.3 million by way of an advance against the eighth EDF) were down 13.7% from 1995 and 16.1% from 1994. Payments relate essentially to programmable aid (ECU 617.1 million, of which ECU 9.7

million advanced against the eighth EDF), Stabex (ECU 165 million, of which ECU 68.6 million advanced against the eighth EDF), risk capital (ECU 107.9 million) and the structural adjustment facility (ECU 93.9 million).

#### Current payments under the sixth and seventh EDFs

(million ECU)

Year	Current payments	Stabex	Total
1993	1 320	33	1 353
1994	1 430	351	1 781
1995	1 261	303	1 564
1996	1 152	165	1 317

(million ECU)

1996	Current payments	Stabex	Total
Sixth EDF	199	—	199
Seventh EDF	953	165	1 118



# THE CONSOLIDATED ACCOUNTS OF THE EUROPEAN UNION

## ACCOUNTING PRINCIPLES

### 1. Regulations

1. The accounts are kept in accordance with the Financial Regulation of 21 December 1977 (last amended on 18 September 1995) and a regulation laying down certain implementing rules.

### 2. Conversion into ecus

2.1. Accounts are kept in ecus. The ecu is a 'basket' of specified amounts of the 12 Community currencies, the amounts being adjusted from time to time. Since September 1989, the ecu has been defined as the sum of the following:

BEF	3.301	GRD	1.440
DEM	0.6242	IEP	0.008552
DKK	0.1976	ITL	151.8
ESP	6.885	LUF	0.130
FRF	1.332	NLG	0.2198
GBP	0.08784	PTE	1.393

2.2. Advances paid under the Guarantee Section of the European Agricultural Guidance and Guarantee Fund are converted at the exchange rates applying on the 20th day of the second month preceding the month for which they are paid.

Some operations relating to staff are converted at special rates.

Other operations are converted at the monthly accounting rates in force when they are carried out.

2.3. The ecu conversion rates used to prepare the balance sheet were the rates applying on 31 December 1996, except for the following:

tangible assets (furniture and equipment), which are valued at their purchase value in ecus at the accounting rate that applied when they were purchased;

appropriations carried over, some of which are to cover commitments in national currencies converted into ecus at the monthly accounting rates for December; the total amount in ecus of appropriations carried over cannot be subsequently revalued.

2.4. On 31 December 1996, the rates for converting national currencies into ecus were as follows:

ECU 1 =	ATS	13.696500	GBP	0.737273
	BEF/LUF	40.102100	GRD	309.502000
	DEM	1.946530	IEP	0.745342
	DKK	7.446550	ITL	1913.720000
	ESP	164.167000	NLG	2.184720
	FIM	5.816400	PTE	195.968000
	FRF	6.561930	SEK	8.628000

### 3. Revenue

3.1. The amounts of own resources and financial contributions entered in the accounts are those credited in the course of the year to the accounts opened in the Commission's name by the governments of the Member States.

The difference between the amount of VAT own resources, GNP-based resources and financial contributions entered in the budget and the amount actually due is calculated by 1 July of the following year and entered in an amending budget for that year.

3.2. The amounts of other revenue entered in the accounts are sums actually received in the course of the year.

### 4. Expenditure

4.1. For the purposes of calculating the balance for the year, expenditure is taken to mean payments made against the year's appropriations for payments plus any of those same appropriations that are carried over.

4.2. Payments made against the year's appropriations for payments means payments for which authorisation reaches the Financial Controller by 31 December and which are paid by the accounting officer by 15 January of the following year.

In the case of the Guarantee Section of the European Agricultural Guidance and Guarantee Fund, the payments are those effected by the Member States between 16 October of the preceding year and 15 October of the current year, provided that the accounting officer is notified of the commitment and authorisation by 31 January of the following year.

4.3. Appropriations for payments may be carried over to the following financial year only. The procedure is as follows:

- non-differentiated appropriations: carry-over is generally automatic if it is to cover outstanding commitments; otherwise the budgetary authority has to give prior authorisation;
- differentiated appropriations: unused payment appropriations usually lapse; however, the Commission may decide to carry them over if the payment appropriations for the following year are not sufficient to meet previous commitments or commitments made against commitment appropriations which have themselves been carried over.

## 5. Payments on account and accelerated payments

Payments on account for operational purposes, other than the advances paid under the common agricultural policy, are included in the year's expenditure and do not appear as assets in the balance sheet.

## 6. Receivables

Barring exceptions, there is no value adjustment for amounts receivable. However, where this is the case, it is specifically mentioned in the notes to the balance sheet.

## 7. EFTA involvement in the 1996 general budget

The figures in the accompanying tables include the appropriations entered to cover the involvement in the Community budget of the EFTA countries belonging to the European Economic Area.

A detailed breakdown of the utilisation of these appropriations is given in Table V.

## 8. Balance for the year

The balance for the year consists of two components (the result of the European Union and the result of the involvement of the EFTA countries belonging to the EEA). It represents the difference between:

- total revenue received for that year;
- total payments made against that year's appropriations plus the total amount of that year's appropriations carried over (definition of expenditure at 4.1 above).

The following are added to or deducted from the resulting figure:

- the net balance of lapsing carryovers from previous years and any overrun, due to fluctuations in the ecu rate, of payments against non-differentiated appropriations carried over from the previous year;
- the balance of exchange rate gains and losses recorded during the year.

## 9. Consolidation

The consolidated accounts cover the accounts of the European Parliament, the Council, the Commission (including the Publications Office and the Joint Research Centre), the Court of Justice, the Court of Auditors, the Economic and Social Committee and the Committee of the Regions.

The method used is that of full consolidation.

# CONSOLIDATED REVENUE AND EXPENDITURE ACCOUNT FOR 1996

TABLE I

Consolidated revenue and expenditure account for 1996

(million ECU)

Breakdown	1996	1995
<b>Revenue</b> (Table II)		
Own resources	70 258.527	68 603.334
Surpluses available	10 055.361	5 764.785
Other revenue	961.184	709.001
<i>of which: EFTA-EEA contribution</i>	45.258	31.140
<i>Total (a)</i>	<b>81 275.072</b>	<b>75 077.120</b>
<b>Expenditure</b>		
Payments for the year (Table III)	76 165.595	66 054.291
<i>of which: EFTA-EEA contribution</i>	40.986	25.840
Carryovers to the year (Table III)	1 288.467	703.377
Carryovers from 1995 to 1996 (1)	0.055	
<i>Total (b)</i>	<b>77 454.117</b>	<b>66 757.668</b>
Out-turn for the year: (a) – (b)	3 820.955	8 319.452
Lapsed appropriations carried over from previous year (Table IV)	143.861	498.331
Exchange differences for the year (Table V)	423.465	402.753
Overrun on carryovers (Table VI)		– 0.045
<b>Balance for the year</b>	<b>4 388.281</b>	<b>9 220.491</b>
<i>of which: EFTA-EEA contribution</i>	4.234	5.300
(1) This amount could not be included in the 1995 balance since the corresponding appropriations were carried over after the closure of the revenue and expenditure account for 1995.		

TABLE II  
Revenue

(million ECU)

Heading	1996	1995
<b>1. Own resources (1)</b>		
Agricultural levies	810.146	844.312
Sugar and isoglucose levies	1 213.698	1 316.356
Customs duties	13 069.078	13 898.428
VAT own resources	35 676.823	39 648.650
GNP-based own resources	21 085.069	14 442.036
Correction of budgetary imbalances	- 86.996	59.447
Own-resources collection cost	- 1 509.291	- 1 605.895
<i>Subtotal</i>	<i>70 258.527</i>	<i>68 603.334</i>
<b>2. Surpluses available (2)</b>		
Surplus available from previous year	9 218.237	6 540.476
Surplus of VAT own resources and financial contributions from previous years	858.165	- 521.307
Surplus of GNP-based own resources from previous years	- 27.044	- 269.409
Refunds to Member States	0.014	- 3.596
Surplus of GNP-based own resources resulting from definitive calculation of the financing of the correction of budgetary imbalances for the United Kingdom	5.989	18.621
<i>Subtotal</i>	<i>10 055.361</i>	<i>5 764.785</i>
<b>3. Other revenue (3)</b>		
Miscellaneous Community taxes, levies and dues	417.674	397.785
Revenue accruing from the administrative operation of the institutions	94.256	82.888
Contributions to Community programmes, repayment of expenditure, and revenue from services rendered against payment	309.834	189.331
Interest on late payments and fines	114.665	18.602
Revenue from borrowing and lending operations	17.374	11.764
Miscellaneous revenue	7.381	8.631
<i>Subtotal</i>	<i>961.184</i>	<i>709.001</i>
<b>Grand total</b>	<b>81 275.072</b>	<b>75 077.120</b>
<p>(1) Title 1 of the budget.  (2) Title 3 of the budget.  (3) Titles 4 to 9 of the budget.</p>		

TABLE III  
Expenditure

(million ECU)

Heading Headings other than 'Administrative expenditure' concern only the Commission	Payments for the year		Carryovers to the next year		Total	
	1996	1995	1996	1995	1996	1995
<b>1. Common agricultural policy</b>						
Market expenditure (B1-1 to B1-3)	37 169.770	33 582.600	426.913	51.680	37 596.683	33 634.280
Accompanying measures (B1-4 and B1-5)	1 871.874	868.465			1 871.874	868.465
<i>Subtotal — Heading 1</i>	<i>39 041.645</i>	<i>34 451.064</i>	<i>426.913</i>	<i>51.680</i>	<i>39 468.558</i>	<i>34 502.744</i>
<b>2. Structural operations</b>						
EAGGF-Guidance (B2-10)	3 360.294	2 530.604			3 360.294	2 530.604
FIFG (B2-11)	421.585	248.054			421.585	248.054
ERDF (B2-12)	10 610.257	8 373.583			10 610.257	8 373.583
ESF (B2-13)	6 031.600	4 542.529		4.324	6 031.600	4 546.853
Community initiatives (B2-14)	1 691.388	1 320.062			1 691.388	1 320.062
Transitional measures, innovation schemes and action against fraud (B2-15, B2-18 and B2-19)	307.996	200.004	29.180		337.176	200.004
Other structural operations (B2-2)	40.046	37.341	7.173		47.219	37.341
Cohesion Fund (B2-3)	1 872.188	1 699.341			1 872.188	1 699.341
EEA financial mechanism (B2-4)	87.076	89.793			87.076	89.793
<i>Subtotal — Heading 2</i>	<i>24 422.429</i>	<i>19 041.311</i>	<i>36.353</i>	<i>4.324</i>	<i>24 458.782</i>	<i>19 045.635</i>
<b>3. Internal policies</b>						
Research (B6)						
— B6-1: Joint Research Centre — staff and resources	204.029	205.971			204.029	205.971
— B6-2: Joint Research Centre — direct operating appropriations — EC framework programme (1994-98)	33.668	11.962	9.411		43.078	11.962
— B6-3: Joint Research Centre — direct operating appropriations — EAEC framework programme (1994-98)	8.695	4.854	0.656		9.351	4.854
— B6-4: Joint Research Centre — direct action — completion of the former joint and supplementary programmes	11.668	41.185	22.575	11.848	34.243	53.033
— B6-5: Indirect action (shared-cost projects) and concerted action — completion of earlier projects	750.447	1 505.577	40.508	2.269	790.955	1 507.845
— B6-7: Indirect action (shared-cost projects), concerted action and supplementary programmes — EC framework programme (1994-98)	1 646.986	572.323	8.454	89.500	1 655.440	661.823
— B6-8: Indirect action (shared-cost activities), concerted action and supplementary programmes — EAEC framework programme (1994-98)	234.533	155.955			234.533	155.955
— B6-9: Indirect action (shared-cost activities) — fight against fraud and global reserve for research	0.037	0.039			0.037	0.039
<i>Research — Total</i>	<i>2 890.061</i>	<i>2 497.864</i>	<i>81.604</i>	<i>103.616</i>	<i>2 971.666</i>	<i>2 601.480</i>
Other agricultural operations (B2-5)	97.891	107.260	1.000		98.891	107.260
Other regional operations (B2-6)	43.169	35.648	3.000	6.426	46.169	42.074
Transport (B2-7)	30.521	18.193			30.521	18.193
Fisheries and the sea (B2-9)	16.201	15.754			16.201	15.754
Education, vocational training, youth (B3-1)	379.602	291.323		1.126	379.602	292.448
Culture and audiovisual media (B3-2)	82.950	117.927	17.000	8.763	99.950	126.690
Information and communication (B3-3)	79.205	47.701	20.000		99.205	47.701
Other social operations (B3-4)	139.834	147.079	15.569	4.178	155.403	151.257
Energy (B4-1)	35.429	33.683			35.429	33.683
Euratom nuclear safeguards (B4-2)	15.776	17.330			15.776	17.330
Environment (B4-3)	120.077	91.153	0.820	0.750	120.897	91.903
Consumer protection (B5-1)	14.629	17.800			14.629	17.800
Aid for reconstruction (B5-2)	4.235	6.054			4.235	6.054
Internal market (B5-3)	168.763	129.449		5.051	168.763	134.500
Industry (B5-4)	39.771	76.746	2.622		42.393	76.746
Information market (B5-5)	5.821	11.514		2.500	5.821	14.014
Statistical information (B5-6)	35.237	33.737			35.237	33.737

TABLE III (continued)

(million ECU)

Heading Headings other than 'Administrative expenditure' concern only the Commission	Payments for the year		Carryovers to the next year		Total	
	1996	1995	1996	1995	1996	1995
Trans-European networks (B5-7)	259.499	238.709	4.586	11.745	264.085	250.454
Cooperation in the fields of justice and home affairs (B5-8)	2.194				2.194	0.000
Measures to combat fraud (B5-9)	3.356	0.836		2.600	3.356	3.436
<i>Subtotal — Heading 3</i>	<i>4 464.222</i>	<i>3 935.761</i>	<i>146.201</i>	<i>146.755</i>	<i>4 610.423</i>	<i>4 082.516</i>
<b>4. External action</b>						
EDF (B7-1)					0.000	0.000
Food aid (B7-20)	413.090	498.870			413.090	498.870
Humanitarian aid (B7-21)	439.252	512.788	185.068	136.500	624.320	649.288
Cooperation — Asia (B7-30)	283.941	216.561			283.941	216.561
Cooperation — Latin America (B7-31)	152.331	145.678			152.331	145.678
Cooperation — southern Africa (B7-32)	37.336	57.497			37.336	57.497
Cooperation — Mediterranean countries (B7-4)	357.499	89.824			357.499	89.824
Cooperation — central and eastern Europe (B7-50)	836.714	767.590		1.895	836.714	769.485
Cooperation — new independent States (B7-52)	369.450	370.000			369.450	370.000
Cooperation — former Yugoslavia (B7-54)	12.887	4.773	14.000		26.887	4.773
Other cooperation measures (B7-6, B7-51, B7-53)	282.101	244.608	14.336		296.437	244.608
Democracy and human rights (B7-7)	65.246	47.046			65.246	47.046
International fisheries agreements (B7-80)	250.954	158.097			250.954	158.097
External aspects of Community policies (B7-81 to B7-87)	96.657	75.421	2.400		99.057	75.421
Common foreign and security policy (B8-0)	50.889	75.576	9.637	7.000	60.526	82.576
<i>Subtotal — Heading 4</i>	<i>3 648.348</i>	<i>3 264.329</i>	<i>225.441</i>	<i>145.395</i>	<i>3 873.789</i>	<i>3 409.724</i>
<b>5. Administrative expenditure</b>						
<i>Staff</i>						
— Commission	1 716.255	1 662.050	63.896	97.945	1 780.151	1 759.994
— Publications Office	30.267	29.683	1.197	1.409	31.464	31.092
— European Parliament (including Ombudsman)	479.239	461.059	18.870	14.826	498.109	475.884
— Council	184.676	178.442	1.449	1.662	186.125	180.105
— Economic and Social Committee	10.193	10.354	0.151	0.221	10.344	10.575
— Committee of the Regions	5.547	4.521	0.263	0.529	5.810	5.050
— Joint structure	33.910	32.605	0.626	1.623	34.535	34.229
— Court of Justice	87.986	85.712	1.309	1.974	89.295	87.686
— Court of Auditors	47.763	42.812	0.514	0.745	48.277	43.557
<i>Administration</i>						
— Commission	620.671	563.207	194.140	156.751	814.811	719.958
— Publications Office	17.635	15.736	3.946	5.618	21.580	21.354
— European Parliament (including Ombudsman)	202.403	313.489	119.067	42.737	321.470	356.226
— Council	105.599	108.575	37.009	17.508	142.608	126.083
— Economic and Social Committee	13.174	13.452	2.982	0.989	16.156	14.441
— Committee of the Regions	4.440	3.968	1.550	1.537	5.991	5.505
— Joint structure	12.562	11.152	2.555	4.771	15.117	15.923
— Court of Justice	76.251	22.348	2.285	2.864	78.536	25.211
— Court of Auditors	3.991	4.910	1.749	1.516	5.740	6.425
<i>Subtotal — Heading 5</i>	<i>3 652.561</i>	<i>3 564.075</i>	<i>453.558</i>	<i>355.223</i>	<i>4 106.120</i>	<i>3 919.298</i>
<b>6. Reserves</b>						
Monetary reserve (B1-6)					0.000	0.000
Guarantee (B0-23 and B0-24)	235.390	250.750			235.390	250.750
Emergency aid reserve (B7-91)					0.000	0.000
Negative reserve (B0-42)					0.000	0.000
<i>Subtotal — Heading 6</i>	<i>235.390</i>	<i>250.750</i>	<i>0.000</i>	<i>0.000</i>	<i>235.390</i>	<i>250.750</i>
<b>7. Compensation</b>						
Compensation (B0-5)	701.000	1 547.000			701.000	1 547.000
<i>Subtotal — Heading 7</i>	<i>701.000</i>	<i>1 547.000</i>	<i>0.000</i>	<i>0.000</i>	<i>701.000</i>	<i>1 547.000</i>
<b>Total</b>	<b>76 165.595</b>	<b>66 054.291</b>	<b>1 288.467</b>	<b>703.377</b>	<b>77 454.062</b>	<b>66 757.668</b>



TABLE IV  
Appropriations for payments carried over from 1995

(million ECU)

Heading Headings other than 'Administrative expenditure' concern only the Commission	Carryover from 1995	Payments effected in 1996	Appropriations carried over to 1997	Appropriations lapsing 1996	Appropriations lapsing 1995
<b>1. Common agricultural policy</b>					
Market expenditure (B1-1 to B1-3)	51.680	39.286		12.394	17.625
Accompanying measures (B1-4 and B1-5)					
<i>Subtotal — Heading 1</i>	<i>51.680</i>	<i>39.286</i>	<i>0.000</i>	<i>12.394</i>	<i>17.625</i>
<b>2. Structural operations</b>					
EAGGF-Guidance (B2-10)					56.889
FIFG (B2-11)					
ERDF (B2-12)					
ESF (B2-13)	4.324	4.323		0.001	18.013
Community initiatives (B2-14)					166.631
Transitional measures, innovation schemes and action against fraud (B2-15, B2-18 and B2-19)					92.791
Other structural operations (B2-2)					55.330
Cohesion Fund (B2-3)					
EEA financial mechanism (B2-4)					
<i>Subtotal — Heading 2</i>	<i>4.324</i>	<i>4.323</i>	<i>0.000</i>	<i>0.001</i>	<i>389.655</i>
<b>3. Internal policies</b>					
Research (B6)					
— B6-1: Joint Research Centre — staff and resources	6.617	6.587	0.030		
— B6-2: Joint Research Centre — direct operating appropriations — EC framework programme (1994-98)					
— B6-3: Joint Research Centre — direct operating appropriations — EAEC framework programme (1994-98)					
— B6-4: Joint Research Centre — direct action — completion of the former joint and supplementary programmes	13.090	6.301	6.790		
— B6-5: Indirect action (shared-cost projects) and concerted action — completion of earlier projects	20.468	13.864	6.604	0.000	5.788
— B6-7: Indirect action (shared-cost projects), concerted action and supplementary programmes — EC framework programme (1994-98)	89.500	22.198		67.302	
— B6-8: Indirect action (shared-cost activities), concerted action and supplementary programmes — EAEC framework programme (1994-98)					
— B6-9: Indirect action (shared-cost activities) — fight against fraud and global reserve for research					
<i>Research — Total</i>	<i>129.676</i>	<i>48.951</i>	<i>13.424</i>	<i>67.302</i>	<i>5.788</i>
Other agricultural operations (B2-5)					
Other regional operations (B2-6)	6.426			6.426	0.009
Transport (B2-7)					
Fisheries and the sea (B2-9)					
Education, vocational training, youth (B3-1)	1.443	0.095	0.333	1.016	
Culture and audiovisual media (B3-2)	8.763	8.763			
Information and communication (B3-3)	0.000		0.000		
Other social operations (B3-4)	4.178	4.178			1.141
Energy (B4-1)					
Euratom nuclear safeguards (B4-2)					1.000
Environment (B4-3)	0.750	0.750			30.750
Consumer protection (B5-1)					0.750
Aid for reconstruction (B5-2)					
Internal market (B5-3)	5.051	3.051		2.000	
Industry (B5-4)	0.488	0.250	0.238	0.000	
Information market (B5-5)	2.540	2.456		0.083	
Statistical information (B5-6)					0.448

TABLE IV (continued)

(million ECU)

Heading Headings other than 'Administrative expenditure' concern only the Commission	Carryover from 1995	Payments effected in 1996	Appropriations carried over to 1997	Appropriations lapsing 1996	Appropriations lapsing 1995
Trans-European networks (B5-7)	11.745	11.713		0.032	
Cooperation in the fields of justice and home affairs (B5-8)	2.600			2.600	
Measures to combat fraud (B5-9)					
<i>Subtotal — Heading 3</i>	<i>173.660</i>	<i>80.206</i>	<i>13.995</i>	<i>79.459</i>	<i>39.887</i>
<b>4. External action</b>					
EDF (B7-1)					
Food aid (B7-20)					
Humanitarian aid (B7-21)	136.586	136.532	0.037	0.017	5.351
Cooperation — Asia (B7-30)	0.243		0.243		
Cooperation — Latin America (B7-31)					
Cooperation — southern Africa (B7-32)					
Cooperation — Mediterranean countries (B7-4)					
Cooperation — central and eastern Europe (B7-50)	1.895	1.700		0.195	
Cooperation — new independent States (B7-52)					
Cooperation — former Yugoslavia (B7-54)					
Other cooperation measures (B7-6, B7-51, B7-53)	0.426	0.341	0.085	0.000	
Democracy and human rights (B7-7)					
International fisheries agreements (B7-80)					
External aspects of Community policies (B7-81 to B7-87)					
Common foreign and security policy (B8-0)	7.000	0.516		6.484	
<i>Subtotal — Heading 4</i>	<i>146.151</i>	<i>139.089</i>	<i>0.366</i>	<i>6.696</i>	<i>5.351</i>
<b>5. Administrative expenditure</b>					
<i>Staff</i>					
— Commission	88.786	74.749	0.079	13.958	10.307
— Publications Office	1.409	1.339		0.069	0.485
— European Parliament (including Ombudsman)	14.826	13.121		1.705	2.087
— Council	1.662	1.526		0.136	0.747
— Economic and Social Committee	0.221	0.166		0.055	0.584
— Committee of the Regions	0.529	0.165		0.364	0.736
— Joint structure	1.623	0.855		0.769	0.522
— Court of Justice	1.974	1.576		0.398	0.115
— Court of Auditors	0.745	0.670		0.075	0.077
<i>Administration</i>					
— Commission	165.990	148.953		17.037	21.585
— Publications Office	5.618	5.367		0.251	0.334
— European Parliament (including Ombudsman)	42.737	35.047		7.690	5.702
— Council	17.508	16.583		0.925	1.273
— Economic and Social Committee	0.989	0.704		0.285	0.639
— Committee of the Regions	1.537	0.185		1.352	0.489
— Joint structure	4.771	4.700		0.072	0.028
— Court of Justice	2.864	2.770		0.093	0.064
— Court of Auditors	1.516	1.439		0.077	0.038
<i>Subtotal — Heading 5</i>	<i>355.303</i>	<i>309.914</i>	<i>0.079</i>	<i>45.311</i>	<i>45.813</i>
<b>6. Reserves</b>					
Monetary reserve (B1-6)					
Guarantee (B0-23 and B0-24)					
Emergency aid reserve (B7-91)					
Negative reserve (B0-42)					
<i>Subtotal — Heading 6</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>

TABLE IV (continued)

(million ECU)

Heading Headings other than 'Administrative expenditure' concern only the Commission	Carryover from 1995	Payments effected in 1996	Appropriations carried over to 1997	Appropriations lapsing 1996	Appropriations lapsing 1995
<b>7. Compensation</b>					
Compensation (B0-5)					
<i>Subtotal — Heading 7</i>	0.000	0.000	0.000	0.000	0.000
<b>Grand total</b>	<b>731.118</b>	<b>572.818</b>	<b>14.439</b>	<b>143.861</b>	<b>498.331</b>
<b>Breakdown by institution</b>					
Commission, of which:	637.618	493.312	14.439	129.867	485.229
— non-differentiated appropriations	313.403	269.692	0.000	43.710	50.336
— differentiated appropriations	324.215	223.620	14.439	86.156	434.893
European Parliament	57.562	48.168	0.000	9.395	7.789
Council	19.171	18.109	0.000	1.062	2.021
Economic and Social Committee	1.210	0.870	0.000	0.339	1.223
Committee of the Regions	2.066	0.350	0.000	1.715	1.225
Joint structure	6.395	5.554	0.000	0.840	0.550
Court of Justice	4.837	4.346	0.000	0.491	0.179
Court of Auditors	2.260	2.108	0.000	0.152	0.115
<b>Grand total</b>	<b>731.118</b>	<b>572.818</b>	<b>14.439</b>	<b>143.861</b>	<b>498.331</b>

TABLE V

Out-turn of budget implementation of the contribution  
by the EFTA countries belonging to the EEA

(million ECU)

<b>I — Revenue</b> (contributions paid)			<b>45.258</b>
	1996 appropriations	Carryover	
<b>II — Expenditure</b> (payments)	40.986	0.038	<b>41.024</b>
<i>Heading 3 — Internal policies</i>	39.192	0.038	
Research (B6)	31.112		
Education, vocational training, youth (B3-1)	5.501		
Culture and audiovisual media (B3-2)	0.899		
Other social operations (B3-4)	0.430		
Energy (B4-1)	0.039		
Environment (B4-3)	0.219		
Internal market (B5-3)	0.458		
Industry (B5-4)	0.018		
Information market (B5-5)	0.077	0.038	
Statistical information (B5-6)	0.399		
Trans-European networks (B5-7)	0.039		
<i>Heading 5 — Administrative expenditure</i>	1.794	0.000	
Staff	0.802		
Administration	0.992		
<b>Balance</b>			<b>4.234</b>

TABLE VI

Commitments from differentiated appropriations outstanding at 31 December 1996

Heading	Year in which commitments									
	Before 1986		1987		1988		1989		1990	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>2. Structural operations</b>										
EAGGF-Guidance (B2-10)							12.025	0.4	20.549	0.6
FIIFG (B2-11)			0.646	0.1	0.265	0.0	1.153	0.2	8.762	1.3
ERDF (B2-12)	144.291	1.2	64.438	0.5	122.383	1.0	53.452	0.4	29.475	0.2
ESF (B2-13)	2.932	0.0	9.327	0.2	11.760	0.2	18.982	0.3	8.134	0.1
Community initiatives (B2-14)							14.008	0.4	1.228	0.0
Transitional measures, innovation schemes and action against fraud (B2-15, B2-18 and B2-19)	0.174		22.504	4.5	8.282	1.7	12.609	2.5	8.825	1.1
Other structural operations (B2-2)	1.176	1.2	1.866	1.9	0.765	0.8	0.362	0.4	0.514	0.5
Cohesion Fund (B2-3)										
<i>Subtotal — Heading 2</i>	<i>148.573</i>	<i>0.5</i>	<i>98.781</i>	<i>0.3</i>	<i>143.456</i>	<i>0.5</i>	<i>112.590</i>	<i>0.4</i>	<i>77.487</i>	<i>0.1</i>
<b>3. Internal policies</b>										
Research (B6)	0.075	0.0	0.072	0.0	1.249	0.0	4.315	0.1	14.906	0.1
Other agricultural operations (B2-5)					0.168	0.1	0.243	0.1	2.240	0.1
Other regional operations (B2-6)							0.010	0.0	0.078	0.2
Transport (B2-7)										
Fisheries and the sea (B2-9)										
Education, vocational training, youth (B3-1)										
Culture and audiovisual media (B3-2)										
Information and communication (B3-3)										
Other social operations (B3-4)					0.007	0.0	0.101	0.1	0.006	0.0
Energy (B4-1)	4.946	6.6	1.864	2.5	1.544	2.0	5.240	6.9	0.131	0.2
Euratom nuclear safeguards (B4-2)										
Environment (B4-3)	0.087	0.0	0.002	0.0	0.029	0.0	0.596	0.2	1.057	0.4
Consumer protection (B5-1)										
Aid for reconstruction (B5-2)										
Internal market (B5-3)	0.019	0.0	0.060	0.0	0.718	0.4	2.712	1.5	6.223	3.5
Industry (B5-4)	1.291	0.7	0.091	0.0	0.479	0.3	0.664	0.4	1.795	1.0
Information market (B5-5)					0.044	0.8			0.404	7.1
Statistical information (B5-6)										
Trans-European networks (B5-7)	11.400	1.5	9.930	1.3	15.917	2.0	20.055	2.6	25.314	3.2
Cooperation in the fields of justice and home affairs (B5-8)										
Measures to combat fraud (B5-9)										
<i>Subtotal — Heading 3</i>	<i>17.818</i>	<i>0.3</i>	<i>12.019</i>	<i>0.2</i>	<i>20.155</i>	<i>0.3</i>	<i>33.936</i>	<i>0.5</i>	<i>52.142</i>	<i>0.1</i>
<b>4. External action</b>										
EDF (B7-1)										
Food aid (B7-20)	1.686	0.2							3.856	0.4
Humanitarian aid (B7-21)							0.037	0.0	0.017	0.0
Cooperation — Asia (B7-30)	66.869	3.8	53.703	3.1	63.807	3.6	65.126	3.7	68.001	3.9
Cooperation — Latin America (B7-31)	3.240	0.4	5.423	0.6	25.215	2.7	28.373	3.1	4.290	0.5
Cooperation — southern Africa (B7-32)			0.372	0.1	0.493	0.2	0.433	0.1	0.490	0.2
Cooperation — Mediterranean countries (B7-4)	26.004	1.8	12.497	0.9	14.161	1.0	24.317	1.7	28.058	2.0
Cooperation — central and eastern Europe (B7-50)									4.515	0.2
Cooperation — new independent States (B7-52)										
Cooperation — former Yugoslavia (B7-54)										
Other cooperation measures (B7-6, B7-51 and B7-53)					0.344	0.1	0.704	0.1	2.543	0.4
Democracy and human rights (B7-7)										
International fisheries agreements (B7-80)										
External aspects of Community policies (B7-81 to B7-87)					0.103	0.1	1.716	1.1	3.150	2.1
Common foreign and security policy (B8-0)										
<i>Subtotal — Heading 4</i>	<i>97.798</i>	<i>0.8</i>	<i>71.995</i>	<i>0.6</i>	<i>104.124</i>	<i>0.9</i>	<i>120.706</i>	<i>1.0</i>	<i>114.922</i>	<i>1.0</i>
<b>5. Administrative expenses</b>										
Administration — Part A										
<i>Subtotal — Heading 5</i>										
<b>Grand total</b>	<b>264.189</b>	<b>0.6</b>	<b>182.795</b>	<b>0.4</b>	<b>267.735</b>	<b>0.6</b>	<b>267.232</b>	<b>0.6</b>	<b>244.551</b>	<b>0.5</b>

(million ECU)

were made											Total	
1991		1992		1993		1994		1995		1996		
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
11.499	0.3	93.664	2.8	342.437	10.1	105.124	3.1	393.423	11.6	2 426.725	71.3	3 405.446
16.779	2.9	50.123	8.7	78.334	13.6	27.232	4.7	200.471	34.7	193.303	33.5	577.069
151.642	1.2	298.075	2.4	1 519.105	12.2	668.369	5.4	2 186.372	17.6	7 213.512	57.9	12 451.116
27.629	0.5	214.002	3.6	918.634	15.4	386.408	6.5	970.021	16.3	3 388.099	56.9	5 955.928
91.879	2.4	177.662	4.7	433.984	11.5	102.043	2.7	1 274.415	33.8	1 671.367	44.4	3 766.586
25.011	5.0	41.097	8.2	182.138	36.6	44.637	9.0	34.649	7.0	118.295	23.7	498.221
0.292	0.3	31.938	32.1	62.654	62.9	462.330	16.7	819.264	29.6	1 333.551	48.1	99.567
				156.473	5.6							2 771.619
324.732	1.1	906.560	3.1	3 693.759	12.5	1 796.144	6.1	5 878.616	19.9	16 344.853	55.4	29 525.552
49.178	1.1	128.833	3.0	272.553	6.4	514.321	12.0	1 292.566	30.2	2 007.434	46.8	4 285.501
4.749	1.5	6.774	2.2	13.588	4.3	58.697	18.7	106.452	34.0	120.625	38.5	313.536
6.418	15.6	8.518	20.7	3.002	7.3	3.448	8.4	14.083	34.3	5.548	13.5	41.105
						0.095	0.3	3.721	13.6	23.633	86.1	27.449
						1.948	4.4	9.666	21.9	32.551	73.7	44.166
		0.111	0.1	2.407	1.5	6.848	4.3	32.075	20.3	116.401	73.7	157.841
				0.785	0.6	17.765	13.4	41.914	31.7	71.670	54.2	132.134
				0.115	0.1	2.723	3.2	11.106	13.1	70.699	83.5	84.643
0.414	0.3	0.541	0.3	3.418	2.2	5.685	3.6	30.809	19.7	115.212	73.8	156.181
0.535	0.7	1.030	1.4	2.400	3.2	7.020	9.3	18.355	24.3	32.341	42.9	75.405
		1.093	5.4	0.606	3.0	0.604	3.0	6.106	29.9	11.981	58.8	20.390
4.806	1.8	19.737	7.4	21.898	8.2	49.492	18.5	69.653	26.0	100.341	37.5	267.697
				0.068	0.4	0.828	4.6	3.092	17.0	14.203	78.1	18.191
										0.051	100.0	0.051
8.525	4.8	9.535	5.3	14.807	8.3	17.294	9.7	33.433	18.7	85.542	47.8	178.868
2.033	1.1	1.273	0.7	3.728	2.0	7.627	4.1	55.108	29.6	112.286	60.2	186.375
		0.027	0.5	0.040	0.7	0.216	3.8	4.996	87.2			5.727
		0.217	0.6	0.230	0.6	3.619	9.7	7.035	18.9	26.064	70.1	37.165
53.733	6.9	52.173	6.7	75.576	9.7	97.303	12.4	166.490	21.3	255.079	32.6	782.971
								1.566	52.7	1.403	47.3	2.969
						0.089	7.7	0.051		1.014	87.8	1.154
130.391	1.9	229.861	3.4	415.220	6.1	795.621	11.7	1 908.277	28.0	3 204.078	47.0	6 819.517
												0.000
3.820	0.4	10.326	1.2	75.111	8.6	69.433	8.0	261.593	30.1	444.679	51.1	870.505
3.820	0.4	1.451	0.2	2.921	0.4	23.389	3.4	139.658	20.2	522.900	75.7	690.373
97.295	5.5	156.181	8.9	203.832	11.6	153.072	8.7	422.819	24.1	402.612	23.0	1 753.317
27.918	3.0	56.166	6.1	118.858	13.0	144.411	15.7	251.951	27.5	251.313	27.4	917.158
0.681	0.2	9.629	3.0	15.348	4.9	36.703	11.6	108.264	34.2	143.846	45.5	316.261
34.689	2.4	80.679	5.6	159.321	11.1	204.266	14.2	371.611	25.8	483.211	33.6	1 438.814
57.331	2.0	96.866	3.4	291.749	10.1	455.543	15.8	867.579	30.0	1 116.785	38.6	2 890.368
41.828	2.8	72.895	4.8	195.449	12.9	279.726	18.4	414.416	27.3	513.171	33.8	1 517.484
						4.065	3.8	11.586	10.9	90.216	85.2	105.867
4.388	0.6	23.692	3.5	54.492	8.0	102.387	15.0	186.099	27.2	309.298	45.2	683.947
				3.308	3.3	9.418	9.4	26.895	26.9	60.545	60.4	100.167
		0.272	0.3	0.995	0.9	22.844	21.4	18.835	17.7	63.622	59.7	106.568
0.830	0.5	8.738	5.7	12.597	8.3	16.780	11.0	32.345	21.2	75.983	49.9	152.241
								11.818	50.5	11.598	49.5	23.416
268.780	2.3	516.895	4.5	1 133.981	9.8	1 522.036	13.2	3 125.471	27.0	4 489.778	38.8	11 566.486
						0.079	69.8	0.034	30.2			0.113
						0.079	69.8	0.034	30.2	0.000		0.113
723.903	1.5	1 653.315	3.5	5 242.960	10.9	4 113.880	8.6	10 912.398	22.8	24 038.709	50.23	47 911.668

## CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 1996

### Assets

(ECU)

	1996	1995
<b>I — Fixed assets</b>	<b>11 622 101 713.06</b>	<b>13 328 376 712.43</b>
A — Tangible assets	1 527 883 570.73	1 500 654 962.28
1. Buildings	453 831 081.39	424 313 951.98
2. Advances and payments on account in respect of tangible assets	340 908 950.91	337 083 892.91
3. Equipment and furniture	465 085 766.57	453 031 073.96
4. Vehicle fleet	21 778 551.01	20 615 481.79
5. Computer equipment	246 279 220.85	265 610 561.64
B — Subscriptions and participations	928 121 659.50	920 801 176.20
1. EBRD	300 000 000.00	300 000 000.00
2. ECIP	28 121 659.50	20 801 176.20
3. Eurotech capital	0.00	0.00
4. Venture consort	0.00	0.00
5. EIF	600 000 000.00	600 000 000.00
C — Loans granted from the budget	809 513 646.61	756 226 165.33
1. Building loans from 76 budget appropriations	90 435.57	139 472.92
2. Cooperation with non-member countries — loans on special terms	437 240 593.89	445 796 355.53
— risk-capital operations	63 104 370.67	49 445 949.78
3. Improving housing conditions for migrant workers	227 085.38	271 471.10
4. ECIP	108 457 098.00	80 464 799.00
5. ECIP capitalised interest	6 944 537.60	5 108 117.00
6. MEDIA	18 449 525.50	
7. Assistance for countries affected by the Gulf crisis	175 000 000.00	175 000 000.00
D — Loans granted from borrowed funds	7 793 946 861.61	9 632 342 429.85
1. Balance-of-payments support	3 978 565 318.80	5 069 496 090.70
2. Financial assistance for non-member countries	2 535 000 000.00	2 640 000 000.00
3. Food aid for the former Soviet Union	143 657 826.15	347 265 724.37
4. Euratom loans	580 496 089.88	729 480 896.01
5. NCI	556 227 626.78	846 099 718.77
E — Community budget guarantees	0.00	211 510 253.76
F — Guarantee Fund	557 405 809.10	300 847 830.50
G — Other fixed assets	5 230 165.51	5 993 894.51
1. Commission	4 768 496.91	5 539 237.41
2. Other institutions	461 668.60	454 657.10
<b>II — Stocks</b>	<b>100 583 209.71</b>	<b>100 056 069.68</b>
1. Office supplies	24 348 022.31	26 600 542.99
2. Scientific supplies	76 235 187.40	73 455 526.69

## Assets (continued)

(ECU)

	1996	1995
<b>III — Current assets</b>	<b>3 022 732 383.76</b>	<b>1 968 070 712.48</b>
A — Amounts owed by Member States	1 981 610 168.69	944 961 326.71
1. Commission	1 980 618 141.69	943 837 161.71
2. Other institutions	992 027.00	1 124 165.00
B — Institutions	162 581.43	1 315 031.58
C — Expenditure on the Official Journal owed by the institutions	22 010 873.01	16 100 672.84
D — Community bodies	12 337 294.20	32 646 001.33
1. ECSC	11 141 662.43	31 054 461.18
2. Others	1 195 631.77	1 591 540.15
E — Sundry debtors	872 857 554.16	869 605 112.88
1. Staff	7 048 923.75	8 707 501.29
2. Third parties	12 233 286.74	13 585 170.34
3. Debtors under lending operations	770 466.05	43 004.34
4. Revenue to be collected	852 804 877.62	847 269 436.91
5. Receivables, activation of Guarantee Fund	0.00	0.00
F — Miscellaneous expenditure not booked	133 753 912.27	103 442 567.14
1. Commission	107 486 842.47	84 515 254.30
2. Other institutions	26 267 069.80	18 927 312.84
<b>IV — Cash accounts</b>	<b>11 696 726 750.64</b>	<b>13 528 084 910.70</b>
A — Portfolios		
B — Deposit accounts	99 846 975.81	84 942 996.38
C — Accounts with treasuries	10 773 517 920.80	10 230 326 481.70
D — Accounts with central banks	290 207 329.56	2 741 594 848.87
E — Current accounts	363 974 813.40	284 424 666.67
1. Cash	348 065 197.98	247 286 537.82
2. Borrowing and lending operations	15 909 615.42	37 138 128.85
F — Imprests	110 657 523.99	114 030 591.43
1. Commission	104 608 936.86	108 076 097.49
2. Other institutions	6 048 587.13	5 954 493.94
G — Cash in hand	745 334.81	998 697.30
1. Commission	340 676.40	437 264.52
2. Other institutions	404 658.41	561 432.78
H — Ongoing transfers of funds	57 776 852.27	71 766 628.35
V — Prepayments	567 563 724.97	700 836 745.28
	<b>27 009 707 782.14</b>	<b>29 625 425 150.57</b>

## Liabilities

(ECU)

	1996	1995
<b>I — Fixed capital</b>	<b>16 343 779 173.98</b>	<b>22 676 634 615.90</b>
A — Own capital	2 646 102 086.55	2 527 738 373.49
1. Tangible assets	1 527 883 570.73	1 500 654 962.28
2. Subscriptions and participations	208 121 659.50	170 801 176.20
3. Loans granted from the budget	809 513 646.61	756 226 165.33
4. Stocks	100 583 209.71	100 056 069.68
B — Balance for the year	4 388 281 339.94	9 220 491 842.89
1. European Union	4 384 047 179.82	9 215 192 382.86
2. EFTA	4 234 160.12	5 299 460.03
C — Adjustment to assets	- 949 998.43	
D — Surplus of loan proceeds over borrowing costs	72 731 142.78	69 096 551.35
1. Euratom	27 441 959.03	26 149 982.65
2. NCI	44 650 374.97	42 415 461.56
3. Food aid for the former Soviet Union	16 796.21	10 149.92
4. Financial assistance	613 779.43	518 571.67
5. Balance of payments	8 233.14	2 385.55
E — Provisions	557 405 809.10	300 847 830.50
Risks and liabilities	557 405 809.10	300 847 830.50
F — Loans raised	7 977 816 749.71	9 865 629 837.30
1. Balance-of-payments support	3 978 565 318.80	5 045 096 657.59
2. Financial assistance for non-member countries	2 535 000 000.00	2 640 000 000.00
3. Euratom	572 478 790.87	720 073 710.43
4. NCI	748 114 813.89	1 113 193 744.85
5. Food aid for the former Soviet Union	143 657 826.15	347 265 724.43
G — Payments outstanding on non-called-up capital	690 000 000.00	690 000 000.00
1. EIF	480 000 000.00	480 000 000.00
2. EBRD	210 000 000.00	210 000 000.00
H — Staff funds	9 482 588.73	
I — Deposits and guarantees received	2 909 455.60	2 830 180.37
1. Commission	2 118 025.32	2 099 082.48
2. Other institutions	791 430.28	731 097.89



## Liabilities (continued)

(ECU)

	1996	1995
<b>II — Short-term liabilities</b>	<b>8 776 630 117.35</b>	<b>4 841 428 242.73</b>
A — Amounts owed to Member States	875 495.90	711 538.90
B — Amounts owed to EFTA States	5 299 460.03	0.00
C — Institutions	10 096 228.84	12 607 609.02
Publications Office	10 096 228.84	12 607 609.02
D — Community bodies	17 012 654.60	10 899 818.24
E — Sundry creditors	62 549 887.32	93 976 950.45
1. Third parties	31 599 412.69	33 929 154.07
2. Borrowing and lending operations	950 474.63	47 796.38
3. Acquisition of shares in called-up capital — EIF	30 000 000.00	60 000 000.00
F — Revenue not booked	174 667 811.23	275 085 466.83
1. Revenue from fines	38 140 288.56	130 816 270.89
2. Revenue for reuse	86 403 140.91	116 395 506.12
3. Other	38 319 484.06	27 873 689.82
4. Food aid	11 804 897.70	0.00
G — Revenue to be collected	2 765 424 499.07	1 739 233 513.66
1. Commission	2 760 912 077.56	1 735 087 959.75
2. Other institutions	4 512 421.51	4 145 553.91
H — Appropriations to be carried over	1 302 905 924.46	731 062 915.97
I — Ongoing payments	4 437 798 155.90	1 977 850 429.66
1. Commission	4 429 725 247.23	1 975 874 096.92
2. Other institutions	8 072 908.67	1 976 332.74
<b>III — Cash accounts</b>	<b>1 599 782 123.84</b>	<b>1 595 207 121.77</b>
A — Accounts with treasuries	0.00	0.00
B — Accounts with central banks	179 143 368.03	179 277 982.69
C — Current accounts	1 420 638 755.81	1 408 992 402.56
1. Cash	1 316 322 371.40	1 408 992 402.56
2. Borrowing and lending activities	104 316 384.41	0.00
D — Imprests	0.00	6 936 736.52
<b>IV — Accrued expenses</b>	<b>289 516 366.97</b>	<b>512 155 170.17</b>
	<b>27 009 707 782.14</b>	<b>29 625 425 150.57</b>

## EXPLANATORY NOTES TO THE CONSOLIDATED BALANCE SHEET

### Assets

#### I — Fixed assets

##### A — Tangible assets

###### *Note:*

The costs of purchasing movable and immovable property are included in budget expenditure for the year of purchase. There is no subsequent depreciation. They continue to appear in the balance sheet until they are disposed of or decommissioned.

Following the inventory conducted in 1996, the Commission considers that the volume of fixed assets recorded in the balance sheet is correct, subject to assets which might be found at a later date, value adjustments and additional inventory operations to be conducted in the information offices, the delegations and the JRC. The JRC inventory exercise has started and the results should be available in early 1998.

As far as possible, the Commission has tried to explain the differences between the figures entered in the 1995 and 1996 balance sheets when these data are comparable.

###### *1. Buildings*

Land and buildings acquired after 1992 in Brussels and at sites where the Commission has offices and delegations are entered in the balance sheet at their purchase value, converted into ecus at the rate applying when they were purchased. Buildings in Brussels purchased before 1981 have been entered using the ecu conversion rate for January 1981.

Land and buildings purchased before 1992 at delegation sites have been revalued in the light of market prices. Revaluation was carried out by independent experts and the resulting figures incorporated in the balance sheet as at 31 December 1996.

The building of the delegation to the OECD is a special case. It was acquired from the ECSC free of charge in December 1994 and the figure entered in the balance sheet is the market value assessed by independent experts.

In 1984, the buildings at Ispra were revalued by 14 % and other infrastructures by 20 %. Added to these revaluations is the value of investments, which have increased the value of the buildings and/or their lifetime.

###### *2. Advances and payments on account in respect of tangible assets*

The buildings for some Commission offices or delegations which were originally financed by the ECSC have been included under this heading in the balance sheet. Although the ECSC had been repaid in full for them at the end of 1995, they are still included in the ECSC's balance sheet (except for the Haren, Marseilles and New York buildings) since the deeds of transfer had not been drawn up on the date for closure of the accounts.

###### *3. Equipment and furniture*

###### *4. Vehicle fleet*

These headings in the balance sheet cover movable property entered in the inventory in compliance with the rules in force (regulation laying down detailed rules for implementing certain provisions of the Financial Regulation) at the time of their purchase.

###### *5. Computer equipment*

Since computer equipment now represents such a major item, it is presented separately from other movable property.

## **B — Subscriptions and participations**

### *1. EBRD subscription*

The European Bank for Reconstruction and Development (EBRD) was given initial capital of ECU 10 billion, of which 3 % was subscribed by the Community. The proportion of this capital called up — 30 % — has been paid in full.

This item covers the full amount of the Commission's subscription to the EBRD's capital. This is because the shareholder is liable for the full amount of capital subscribed. Payments outstanding on non-called-up capital, amounting to ECU 210 million, appear as liabilities in the balance sheet (heading I.G).

On 15 April 1996, at their annual meeting, the Bank's governors decided to double the amount of authorised capital. Under this decision, the Community is to subscribe for 30 000 additional shares with a face value of ECU 10 000 each. This operation will involve paid-in shares and callable shares in the following proportions: 22.5 % of the subscribed shares will be a full number of paid-in shares and the remainder will be callable shares. The Community had not yet adopted the decision to subscribe for these shares at 31 December 1996.

### *2. ECIP programme equity*

This heading covers Community participation in the provision of equity and subordinated loan capital for joint ventures set up under the European Community Investment Partners programme (ECIP).

The value of these investments entered in the balance sheet is based on the amounts paid from the general budget.

An independent financial audit of all the centralised accounts is currently in progress. It is only after this exercise that future balance sheets will be drawn up on the basis of the assets actually disbursed.

### *3. Eurotech capital*

### *4. Venture consort*

The entry for Eurotech capital covers payments since 1990, in the form of advances repayable in certain circumstances when contracts run out. The Venture consort instrument covers contributions since 1985 for investments in SMEs engaging in innovatory projects.

Since both of these are risk-capital operations for transnational high-technology start-up projects, it is very difficult to assess the real current value of the contributions.

In line with the principle of prudence, their full value is covered by provisions in the balance sheet and has therefore been entered as nil.

### *5. European Investment Fund*

Under the Council decision of 6 June 1994, the European Community, represented by the Commission, is to subscribe a total of ECU 600 million to the EIF's capital. This represents 30 % of the EIF's capital.

The presentation in the balance sheet is the same as for the subscription to the EBRD's capital.

Payments outstanding on non-called-up capital (80 %), amounting to ECU 480 million, appear as liabilities in the balance sheet (heading I.G).

Payments outstanding on called-up capital (20 %), amounting to ECU 30 million, appear as liabilities in the balance sheet, under short-term debts (heading II.E.3).

## **C — Loans granted from the budget**

This item principally covers loans granted under the heading of cooperation with non-member

**Changes in volume of loans granted from the budget:***(en ECU)*

Loans	Outstanding capital Situation at 31 December 1995	Adjustments	Payments	Repayments	Outstanding capital Situation at 31 December 1996
Risk capital	49 445 949.78	0.00	13 890 977.08	232 556.19	63 104 370.67
Special conditions	445 796 355.53	1 107 818.92	1 686 280.83	11 349 861.39	437 240 593.89
Loan to Turkey	175 000 000.00	0.00	0.00	0.00	175 000 000.00
Total	670 242 305.31	1 107 818.92	15 577 257.91	11 582 417.58	675 344 964.56

countries, comprising loans on special terms (ECU 437.2 million) and risk-capital operations (ECU 63.1 million) for Mediterranean countries.

In 1991, Turkey was granted a loan of ECU 175 million as part of the effort to assist the countries most directly affected by the Gulf crisis.

In addition, loans and advances are granted under the ECIP programme to promote the setting-up of investment joint ventures in Asia, Latin America, the Mediterranean region and South Africa. These loans and advances, including capitalised interest, amount to ECU 115.4 million.

Loans granted under the MEDIA programme to promote the development of the audiovisual industry in Europe are also included under this item (ECU 18.4 million).

The item also includes other, much smaller loans granted from the budget: loans for migrant workers (ECU 0.2 million) and building loans for Community officials (ECU 0.1 million).

**D — Loans granted from borrowed funds**

As these loans are financial assets covered by borrowings, in order to give a true and fair

**Changes in the volume of loans granted from borrowed funds:****Changes in the volume of loans***(ECU)*

	Loans at 31 December 1995 (1)	New loans	Repayments	Loans at 31 December 1996
Medium-term financial assistance	2 640 000 000	155 000 000	260 000 000	2 535 000 000
Food aid	347 265 724	594 134	204 202 032	143 657 826
Balance of payments	5 069 496 091	0	1 090 930 772	3 978 565 319
NCI	846 099 719	0	289 872 092	556 227 627
Euratom	729 480 896	0	148 984 806	580 496 090
<b>Total</b>	<b>9 632 342 430</b>	<b>155 594 134</b>	<b>1 993 989 702</b>	<b>7 793 946 862</b>

(1) At rate on 31 December 1995.

view of the Union's assets and liabilities, financial position and results, all the operations are now set out in the form of a balance sheet and revenue and expenditure account.

The balance sheets of these financial operations have been incorporated in the combined balance sheet by means of full consolidation.

In view of their specific purpose, loans for food aid for the former Soviet Union are entered separately from loans granted by way of medium-term financial assistance to help the countries of central and eastern Europe to modernise their economies and from loans granted by way of financial assistance to Algeria and Israel.

Borrowing and lending operations — yield on 1996 loans:

**Summary table of yield on loans under borrowing and lending operations in 1996**  
(ECU)

	Yield on loans
Medium-term financial assistance	265 407 257.25
Food aid	23 590 514.60
Balance of payments	298 635 565.04
NCI	
— Cash resources	94 636 826.24
— Normal	7 700 715.59
Euratom	77 053 151.95
<b>Total</b>	<b>767 024 030.67</b>

#### **E — Community budget guarantees**

This heading covers payments made by the Commission under the Community performance guarantee for loans raised and granted to promote development in non-member countries.

This item should be eliminated during the consolidation of the balance sheets of financial activities in the Commission balance sheet. However, a cut-off problem at the end of 1995 meant that a payment of ECU 211.5 million charged by the Commission to 1995 but implemented by the accounting officer in the period between 1 and 15 January 1996 could not be entered in the accounts as revenue in the balance sheet of financial activities until January 1996. This amount could not therefore be eliminated from the 1995 balance sheet.

#### **F — Guarantee Fund**

This Fund is designed to cover the risks associated with loans and loan guarantees for non-member countries or projects carried out in those countries.

It was set up by Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994.

The Fund is endowed by payments from the Community budget, the proceeds from interest on investments made from the Fund's assets, and sums recovered from defaulting debtors for whom the Fund has had to activate its guarantee.

The Fund is managed by the European Investment Bank (EIB) under a mandate from the Community.

The first payments to the Fund from the Community budget were made in December 1994.

The entry in the assets side of the Commission's balance sheet represents the Fund's net assets at 31 December 1996.

Since the Fund may be called on to cover defaulting debtors at any time, the principle of prudence dictates that the contra-entry for the Fund on the liabilities side of the balance sheet should not be included under capital. A provision for depreciation of assets equivalent

to the total net assets of the Fund has therefore been created under heading I.E on the liabilities side.

### **G — Other fixed assets**

This heading incorporates fixed assets not included under tangible assets, such as deposits and guarantees paid, permanent advances for building charges and the operating funds advanced to a transport firm.

## **II — Stocks**

This item covers the stocks of office supplies and consumables at 31 December, valued at the price of the last supplies received in 1996 and converted to ecus at the rate applying on 31 December, in line with the interinstitutional method for valuing stocks.

It also includes supplies of scientific and technical equipment for the Joint Research Centre. Pursuant to the principle of prudence, stocks of heavy water, fissile material and samples for industrial and scientific use are valued every year and are entered in the balance sheet at their commercial value, which is less than the real historic cost.

## **III — Current assets**

### **A — Amounts owed by Member States**

This heading covers repayments to be made in respect of EAGGF advances paid to some Member States and amounts due from the Member States in connection with the clearance of the EAGGF-Guarantee accounts (ECU 792.23 million). In 1995, forward estimates were made for the amounts due in connection with the clearance of the EAGGF-Guarantee accounts (ECU 758.098 million),

which were therefore recorded with the commitments not included in the balance sheet.

This heading also covers the amounts due in respect of own resources outstanding and taxes paid by the Commission to be recovered from Member States.

### **B — Institutions**

This heading covers expenditure by Community institutions on behalf of other Community institutions which has not been regularised in the budget at the close of the financial year.

### **C — Expenditure on the Official Journal owed by the institutions**

This item covers expenditure on the *Official Journal of the European Communities* that is incurred by the Publications Office on behalf of the institutions, which then have to make appropriate budgetary adjustments.

### **D — Amounts owed by Community bodies**

These are amounts owed to the Commission by Community bodies for certain expenditure that is paid by the Commission and then refunded.

These bodies are not included in the consolidated balance sheet.

It should be noted that the entry for the ECSC covers the ECU 11.1 million paid by the Commission in 1996 from its cash resources on behalf of the ECSC. These amounts will subsequently be repaid by the ECSC.

### **E — Sundry debtors**

This heading covers various amounts owed to the Commission by its staff and third parties,

plus the amount of recovery orders entered in the revenue accounts as established entitlements outstanding. This heading also contains outstanding fines which have been suspended and for which a bank guarantee has been lodged. The volume of bank guarantees received to cover fines comes to ECU 432 035 411.

This heading also includes all debtors owing sums resulting from loans paid from borrowed funds (see heading I.D — assets).

It also covers all amounts owed as a result of Guarantee Fund operations (III.E.4), as detailed below:

*(million ECU)*

	31 December 1996	31 December 1995
Capital	207.9	262.7 <sup>(1)</sup>
Loan interest	60.1	
Default interest	16.0	5.0
<b>Total</b>	<b>284.1</b>	<b>267.7</b>

(1) Capital and loan interest.

In view of the risk of non-recovery and in accordance with the principle of prudence, a 100 % adjustment was made for all Guarantee Fund operations which had not been repaid by debtors at 31 December 1996. This was deducted from the value of these entitlements on the assets side of the balance sheet.

At 31 December 1996, total loans outstanding from defaulting beneficiaries came to ECU 422.8 million.

#### **F — Miscellaneous expenditure to be booked**

This heading covers expenditure which could not be definitively booked to the budget before the close of the financial year (ECU 133 753 912.27).

It includes ECU 447.7 million in rents and charges paid by the Commission in December 1996 and chargeable to the 1997 budget.

#### **IV — Cash accounts**

This heading covers all the funds which the Commission keeps in its accounts in each Member State (treasury or central bank), in current accounts and imprest accounts, petty cash and the proceeds of loans made from borrowed funds (heading I.D — assets) and loans granted to improve housing conditions for migrant workers (heading I.C.3 — assets).

Following the signature of the transfer agreement between the EAC and the Commission, the cash resources of the former EAC delegations at 1 January 1988 have been included in the Commission accounts at the ecu rate applying on that date.

Item IV.F ('Imprests') includes the financial operations under the imprest accounts of Community delegations and information offices which had not been reconciled with the accounts at headquarters on the date for closure of the accounts. At 31 December 1995, this item was in surplus (heading III.D — liabilities).

Funds totalling ECU 949 998.43 kept in current accounts with three banks outside the Community which have gone bankrupt will probably prove irrecoverable. As a result, and in accordance with the principle of prudence, an adjustment has been made for these accounts and entered on the assets side (reducing the value of heading IV.F ('Imprest accounts — delegations') (see note I.C — liabilities).

<i>(ECU)</i>	
	31 December 96
Imprest accounts, delegations	30 227 274.93
Adjustment	- 949 998.43
<b>Net book value</b>	<b>29 277 276.50</b>

## V — Prepayments

This heading relates to loans granted from borrowed funds (heading I.D — assets).

It covers accrued interest on loans, investments and swaps, issuing costs and redemption premiums to be paid off, as well as EIB-NCI accruals.

## Liabilities

### I — Fixed capital

#### A — Own capital

This item is the contra-entry for various assets in the balance sheet which were initially booked as budget expenditure, i.e. tangible as-

sets, subscriptions and participations, loans granted from the budget and stocks. Like those assets, this item varies from one year to the next.

#### B — Balance for the year

The 1996 budget out-turn was ECU 4 388 281 339.94, which breaks down as follows:

- Balance from the participation of the EFTA countries belonging to the EEA: ECU 4 234 160.12;
- Balance relating to the European Union: ECU 4 384 047 179.82.

#### C — Adjustment to assets

This item is the contra-entry for the adjustment to the financial accounts (see note IV — assets) since the annual balance may be affected only by the budget out-turn and exchange gains or losses.

#### D — Surpluses of loan proceeds over borrowing costs

This heading covers out-turns carried over and the out-turn for the year of loans granted from borrowed funds.

## Changes in loans raised

*(ECU)*

	Situation at 31 December 1995 (1)	New loans	Repayments	Situation at 31 December 1996
Medium-term financial assistance	2 640 000 000	155 000 000	260 000 000	2 535 000 000
Food aid	347 265 724	594 134	204 202 032	143 657 826
Balance of payments	5 045 096 658	0	1 066 531 339	3 978 565 319
NCI	1 113 193 745	0	365 078 931	748 114 814
Euratom	720 073 710	0	147 594 920	572 478 791
<b>Total</b>	<b>9 865 629 837</b>	<b>155 594 134</b>	<b>2 043 407 221</b>	<b>7 977 816 750</b>

(1) At rate on 31 December 1995.



These surpluses are not available even though they have not yet been allocated. They are to be used to cover certain costs.

### **E — Provisions**

The contra-entry for the Guarantee Fund (see note I.F — assets) takes the form of a provision rather than own capital in view of the risks inherent in its operations.

### **F — Loans raised**

The cost of loans raised as part of borrowing and lending operations in 1996 breaks down as follows:

#### **Summary table of the cost of loans raised under borrowing and lending operations in 1996**

	<i>(ECU)</i>
	Cost of loans raised
Medium-term financial assistance	265 401 002.67
Food aid	23 590 514.68
Balance of payments	298 635 565.04
NCI cash resources	110 834 650.23
— Normal	5 335 198.52
Euratom	75 400 342.36
<b>Total</b>	<b>779 197 273.50</b>

### **G — Payments outstanding on non-called-up capital**

These are payments outstanding on the capital of the European Investment Fund not paid up (80 % of subscribed capital) and on the capital of the European Bank for Reconstruction and Development (70 % of subscribed capital) (see notes I.B.1 and I.B.5 — assets).

### **H — Staff funds**

This heading covers the unemployment fund for temporary staff at all the institutions (ECU 6.5 million) and the welfare fund for Commission local staff in non-member countries (ECU 2.9 million).

### **I — Deposits and guarantees received**

These are sums deducted as guarantees for the payment of construction work and the guarantee accounts for accounting officers, assistant accounting officers and imprest administrators.

### **II — Short-term liabilities**

#### **A — Amounts owed to Member States**

This heading covers amounts owed by the Commission to Member States.

In this case, it is an advance by the Netherlands for joint financing of aid operations for Bangladesh.

#### **B — Amounts owed to EFTA States**

This heading comprises the 1995 balance of contributions from the EFTA States belonging to the EEA which was not regularised until January 1997.

#### **C — Amounts owed to the institutions**

This item covers payments to the institutions of the proceeds from the sale of publications by the Publications Office.

#### **D — Amounts owed to Community bodies**

This item covers amounts owed by the Commission to certain Community bodies.

These bodies are not included in the consolidated balance sheet.

This item also contains deductions and repayments in respect of building loans granted to Community officials.

### **E — Sundry creditors**

This item principally covers revenue to be transferred to various bodies or third parties and payments outstanding on the EIF shares called up (see note I.B.5 — assets).

### **F — Revenue not booked**

This item comprises various items of revenue (ECU 88.2 million) that could not be definitively booked to the budget before the close of the year and revenue available for reuse (ECU 86.4 million).

Revenue from fines for infringements of the competition rules (ECU 38.1 million) is now entered in suspense accounts if an appeal is made to the Court of Justice by a third party. If the Court finds in favour of the appellant, the sum in question has to be refunded at once. Until the Court has given judgment, such revenue cannot be booked to the budget immediately on receipt.

### **G — Revenue to be collected**

This heading is the contra-entry for the entitlements contained in the various current assets headings which will not be included with revenue until they are collected. At 31 December 1996, the revenue to be collected totalled ECU 2.765 billion.

### **H — Appropriations to be carried over**

The breakdown of appropriations to be carried over, taking all the institutions together, is as

follows:

<input type="checkbox"/> Automatic carryovers of non-differentiated appropriations	501 020 850.73
<input type="checkbox"/> Differentiated appropriations carried over by the budgetary authority	379 416 000.00
<input type="checkbox"/> Differentiated appropriations carried over by Commission decision	334 845 000.00
<input type="checkbox"/> Differentiated current year's appropriations in respect of contributions by third parties	73 184 772.75
<input type="checkbox"/> Differentiated appropriations carried over from 1994 in respect of contributions by third parties	14 439 300.98
Total	1 302 905 924.46

### **I — Ongoing payments**

This item covers payments booked to the 1996 budget but only effected by the accounting officer between 1 and 15 January 1997.

### **III — Cash accounts**

This heading comprises those accounts showing a credit balance, in terms of accounting dates but not value dates, at 31 December 1996.

### **IV — Accrued expenses**

This item relates to loans granted from borrowed funds.

It covers accrued interest on borrowings and swaps, swap operations, provisions and suspense accounts.

**OFF-BALANCE-SHEET  
COMMITMENTS AT 31 DECEMBER 1996**

**Commitments made**

(ECU)

1	Commitments against differentiated appropriations not covered by carryovers of payment appropriations		47 489 198 592.65
	Commitments under the protocols with the Mediterranean countries (aid planned but not committed)		91 000 000.00
	Commitments under the Structural Funds (aid planned but not committed over the period 1994-99, at 1996 prices)		80 037 133 000.00
	Objective 1	53 208 596 000.00	
	Objective 2	9 222 263 000.00	
	Objectives 3 and 4	8 713 323 000.00	
	Objective 5a agriculture	3 097 502 000.00	
	Objective 5a fisheries	386 264 000.00	
	Objective 5b	4 881 078 000.00	
	Objective 6	528 107 000.00	
	Commitments relating to Community initiatives (aid planned but not committed for the period 1994-99)		8 476 834 000.00
2	Repayment guarantee for loans granted by the EIB from its own funds to non-member countries		10 735 379 028.00
	75% guarantee	5 237 845 666.00	
	100% guarantee	5 497 533 362.00	
	Repayment guarantee for borrowings raised by the European Communities (and carrying a budget guarantee at 31 December 1996) (1)		7 977 816 749.71
		<i>Authorised ceiling (million ECU)</i>	
	Balance-of-payments support	14 000	3 978 565 318.80
	Euratom	4 000	572 478 790.87
	NCI (including reconstruction)	6 830	748 114 813.89
	Financial assistance and food aid	5 035	2 678 657 826.15
	(1) The Community has received guarantees from third parties for loans it has granted as part of these financial activities (see 8 — commitment reserves)		
	Expenditure incurred by the Member States in respect of the EAGGF-Guarantee between 16 October 1996 and 31 December 1996		21 349 694 845.72
3	Potential liabilities relating to the clearance of EAGGF-Guarantee accounts pending a judgment by the Court of Justice		738 357 596.51
	Denmark	3 625 840.15	
	Germany	58 052 020.78	
	Greece	430 313 859.04	
	France	24 383 070.22	
	Ireland	79 158 292.43	
	Italy	98 712 977.87	
	Netherlands	39 364 312.13	
	United Kingdom	4 747 223.89	
4	Potential liabilities relating to the clearance of EAGGF-Guarantee accounts resulting from provisional disallowance		8 324 264.70
	France	121 915.35	
	Italy	8 202 349.35	
	Demolition of Seville Expo 92 pavilion		300 000.00
5	Tax, Brussels Capital region (potential liability)		8 410 000.00
6	Purchase commitment Commission, Cours St Michel 1 building		29 108 201.32

## Commitments made (continued)

(ECU)

7	Leasing and long-term rental commitments		
	7.1. Leasing of buildings		1 372 836 108.00
	7.1.1. Commission	0.00	
	Institutions		
	7.1.2. Buildings — Parliament	1 260 000 000.00	
	7.1.3. Annex buildings — Court of Justice	112 836 108.00	
	7.2. Long-term rental — lease		1 153 372 311.35
	— Commission:		
	7.2.1. Land	1.00	
	7.2.2. Buildings, Brussels — rents	586 430 306.40	
	7.2.3. Buildings, Brussels — long-term lease	467 465 611.60	
	7.2.4. Buildings, Luxembourg	30 251 630.27	
	— Institutions:		
	Buildings — Council	17 200 772.00	
	Palace building — Court of Justice	6 307 093.00	
	Buildings — ESC	31 919 589.48	
	Buildings — Publications Office	13 797 307.60	
	7.3. Operational leasing		3 367 681.80
	— Institutions:		
	Computer equipment — Court of Justice	59 037.00	
	Computer equipment — Parliament	1 644 032.00	
	Computer equipment — Publications Office	900 672.05	
	Equipment — Publications Office	763 940.75	
	Guarantees to be refunded — JRC		33 117.38
	Working capital — JRC		6 423 916.67
	Currency swaps to be delivered		275 191 300.31
	Euratom	153 257 299.03	
	NCI	121 934 001.28	
	Exchange rate swaps to be delivered		2 214 507 533.64
	Balance of payments support	475 000 000.00	
	Euratom	244 507 533.64	
	Financial assistance	1 495 000 000.00	
	Correction of budgetary imbalances		p.m.
13	Guarantees signed by EIF		358 051 511.76
14	Commitments in respect of pensions		p.m.

## Commitments received

(ECU)

1	Commitments against differentiated appropriations not covered by carryovers of payment appropriations, to be covered by payment appropriations from future years		47 489 198 592.65
2	Guarantees received from third-party guarantors in respect of loans granted by the EIB with a Community guarantee Demolition — sale of Seville Expo 92 pavilion		6 763 288 787.64 300 000.00
6	Purchase commitment Commission, Cours St Michel 1 building		29 108 201.32
7	Leasing and long-term rental commitments		
	7.1. Leasing of buildings		1 372 836 108.00
	7.1.1. Commission	0.00	
	Institutions		
	7.1.2. Buildings — Parliament	1 260 000 000.00	
	7.1.3. Annex buildings — Court of Justice	112 836 108.00	
	7.2. Long-term rental — lease		1 153 372 311.35
	— Commission;		
	7.2.1. Land	1.00	
	7.2.2. Buildings, Brussels — rents	586 430 306.40	
	7.2.3. Buildings, Brussels — long-term lease	467 465 611.60	
	7.2.4. Buildings, Luxembourg	30 251 630.27	
	— Institutions:		
	Buildings — Council	17 200 772.00	
	Palace building — Court of Justice	6 307 093.00	
	Buildings — ESC	31 919 589.48	
	Buildings — Publications Office	13 797 307.60	
	7.3. Operational leasing		3 367 681.80
	— Institutions:		
	Computer equipment — Court of Justice	59 037.00	
	Computer equipment — Parliament	1 644 032.00	
	Computer equipment — Publications Office	900 672.05	
	Equipment — Publications Office	763 940.75	
8	Guarantees obtained on loans granted by the Communities		7 650 289 035.44
	Balance-of-payments support	3 978 565 318.80	
	Euratom	580 496 089.88	
	NCI	556 227 626.76	
	Financial assistance and food aid	2 535 000 000.00	
	Currency swaps to be received		268 447 094.40
	Euratom	145 000 000.00	
	NCI	123 447 094.40	
	Exchange rate swaps to be received		2 214 507 533.64
	Balance-of-payments support	475 000 000.00	
	Euratom	244 507 533.64	
	Financial assistance	1 495 000 000.00	
	Guarantees to be refunded — JRC		33 117.38
	Working capital — JRC		6 423 916.67
	Forward estimates		33 152 538.56
	123 items		p.m.
	1 558 items		
9	Commitments received (bank guarantees) in respect of fines (cases still pending at 31 December 1996)		432 035 411.00
10	Potential entitlements relating to cases of fraud and irregularities established in the EAGGF-Guarantee sector		1 469 580 554.00
11	Potential entitlements relating to cases of fraud and irregularities established in the field of structural operations		81 814 774.00
12	Net potential gain from the disposal of agricultural stocks		109 828 458.00
	® Foreseeable sales value at 30 September 1996: ECU 603 760 000		
	® Book value of stocks: ECU - 493 931 542		
	Correction of budgetary imbalances		p.m.
	Entitlements arising from the errors of substance noted by the Court of Auditors in connection with the statement of assurance		p.m.
14	Commitments in respect of pensions		p.m.

## EXPLANATORY NOTES TO THE OFF-BALANCE-SHEET COMMITMENTS AND POTENTIAL LIABILITIES AND CLAIMS

1. Commitments against differentiated appropriations still outstanding at 31 December 1996 totalled ECU 47 911 667 666.38, of which ECU 422 469 073.73 is covered by payment appropriations carried over from 1996 to 1997.

2. As formulated, the guarantee legally covers the loans signed by the EIB at 31 December 1996. However, it should be noted that these loans have not been fully paid out. At 31 December 1996 the amount paid out totalled ECU 3 898 541 974 and this, therefore, is the amount of the risk incurred by the Union. The following table shows the annual forecasts of amounts outstanding on these EIB loans guaranteed under the general budget (with the exception of those for third countries which have joined the Community) on the basis of the amounts paid out at 31 December 1996.

<i>Amount outstanding at 31 December</i>	<i>Million ECU</i>
1996	3 634
1997	3 429
1998	3 171
1999	2 872
2000	2 557
2001	2 213
2002	1 908
2003	1 623
2004	1 354
2005	1 101
2006	858
2007	657
2008	472
2009	330
2010	218
2011	129
2012	70
2013	32
2014	16

The Community has obtained cover from third-party guarantors for approximately 63 % of the guarantees given on loans granted by the EIB from its own resources in non-member countries (see above). These third-party guarantees break down approximately as follows:

- 47 % sovereign guarantees;
- 2 % guarantees by public or semi-public institutions;
- 14 % guarantees by private financial institutions.

3. The determination of the final amount of the liability and the year in which it will be charged to the budget will depend on the length of the procedure before the Court of Justice.

4. These liabilities will be settled when the decision is taken on the clearance of the accounts.

5. The Brussels Capital region has introduced a tax on office workers. The Commission has asked the regional authorities about its exemption under the Protocol on privileges and immunities. The initial reply given was favourable.

However, the local authorities took the question to court, where the judge confirmed that the Commission qualified for exemption under the Protocol.

A final ruling still has to be made. If the verdict goes against the Commission, this would cost about ECU 2 million a year.

The total for 1992-96 would be ECU 8 410 000 and the amount for 1996 would come to ECU 1 700 000.00.

6. This figure comprises the selling price for the Cours St Michel 1 building for which a preliminary contract was signed in late 1996 and for which the contract of sale is subject to the inclusion of an ownership reservation.

7.1. As these amounts come from outside the accounts, the figures shown for this item are

not exhaustive. This item also contained assets covered by a rental contract with a purchase option.

7.1.1. At 31 December 1996, the Commission had not subscribed to any long-term commitments with a purchase option.

7.1.2. In January 1992, Parliament concluded a framework long-term leasing contract with a purchase option for a complex in Brussels comprising three buildings for which the estimated cost of the original investment (1992 figure) came to around ECU 1 047 million (Belgian franc/ecu exchange rate at 31 December 1996). Under this contract, the lease will be taken over in stages as the buildings in question are provided.

By the date on which the balance sheet was drawn up, the first two buildings had been handed over to Parliament at a final investment cost of ECU 343 million, all of which was paid before 31 December 1996. The estimated investment cost of the third building (updated 1997 figure) comes to ECU 803 million (Belgian franc/ecu exchange rate at 31 December 1996). However, in view of the commitment by the Belgian Government to cover the cost of the land occupied by this building subject to certain conditions, this estimate may be reduced to around ECU 627 million.

In March 1994, Parliament signed a long-term leasing contract with a purchase option for a complex in Strasbourg for which the estimated provisional investment cost (figure updated in September 1996) is ECU 457 million (French franc/ecu exchange rate at 31 December 1996). No fee had been paid by the time the balance sheet was drawn up.

All the estimates of investment costs are net of the long-term financing cost.

7.1.3. On 15 November 1994, the Court signed a hire-purchase contract with the Luxembourg Government for annexes A, B and C of the Palais building with a total surface area

of 26 635 m<sup>2</sup>, 24 505 m<sup>2</sup> and 14 809 m<sup>2</sup> respectively.

The Court will rent the buildings for the whole term of the agreement and will not be able to exercise the purchase option until the selling price has been paid in full (Article 8(4)); at the latest this will be on 31 December 2015. From 1 January 1995 onwards, the Court is obliged to pay an annual charge of LUF 633.5 million.

The sales price is determined by an independent expert agreed upon by both parties (Article 9). The consultancy KPMG has been appointed.

If the budgetary authority had decided to pay the balance due at 31 December 1996 instead of the annual charge laid down in the contract, the payment would have been LUF 3.2 billion (ECU 79.9 million). The marked reduction in this amount compared with the situation at 31 December 1995 is due to the two early payments which the Court made in 1996 under Article 8(2) of the agreement with the Luxembourg State.

The Court used the ECU 50 000 000 in Chapter 100 ('Provisional appropriations') to bring forward payment towards the purchase of the annexes to the Palais building in accordance with the option allowed in Article 8(2) of the leasing-purchase contract.

7.2. As these amounts come from outside the accounts, the figures shown for this item are not exhaustive. This heading covers buildings occupied under a long-term leasing contract (with an initial term of more than five years) without any purchase option. These contracts may take various forms such as a rental contract or long-term lease. The amounts entered correspond to the commitments still to be paid during the term of the contract. The only exception is the Court of Justice's Palais building which is occupied under an indefinite lease; here, the amounts correspond to the annual rent.

7.2.1. In all, 2.29 ha of land held in Luxembourg under a 29-year lease.

7.2.2. Buildings occupied by the Commission in Brussels under leasing contracts. Of the ECU 586 430 306.40 in commitments, ECU 10 004 583.65 are met by the Régie des Bâti-ments.

7.2.3. Buildings occupied by the Commission in Brussels under a long-term lease. This heading covers the commitments for the Charlemagne building (ECU 320 930 824.10) for which no payment had been made at 31 December 1996.

7.2.4. Buildings occupied by the Commission in Luxembourg under leasing contracts.

The commitments recorded in items 7.2.2 to 7.2.4 are estimated from the amounts actually paid in 1996.

7.3 As these amounts come from outside the accounts, the figures shown for this item are not exhaustive. This heading covers buildings occupied under a long-term operational leasing contract (more than five years). The amounts entered correspond to the rents still to be paid in accordance with the conditions of the contract.

8. The Community has received guarantees from third-party guarantors in respect of the guarantees it has granted on loans under its

(ECU)

Year of decision	Number of companies involved	Total fines initially imposed	Appeals pending against Commission decision		No appeal (i.e. definitive payment)
			Without payment (with bank guarantee)	With payment (provisionally)	
1986	15 7	57 850 000 <i>45 500 000</i>	56 850 000 <i>45 500 000</i>		1 000 000
1987	2 2	410 000 <i>410 000</i>	400 000 <i>400 000</i>	10 000 <i>10 000</i>	
1989	14 2	9 501 000 <i>3 320 000</i>	8 664 000 <i>3 320 000</i>		837 000
1990	3 2	48 000 000 <i>47 000 000</i>	47 000 000		1 000 000
1991 <i>Memo item</i>	1 0	75 000 000 <i>75 000 000</i>	75 000 000	<i>75 000 000</i>	
1992	50 13	48 906 200 <i>11 861 550</i>	14 272 500	17 795 845 <i>9 282 371</i>	15 167 700
1994	50 46	162 770 000 <i>160 460 000</i>	154 416 411 <i>154 416 411</i>	3 813 589 <i>3 813 589</i>	2 310 000
1995	47 46	265 476 000 <i>265 374 000</i>	226 543 000 <i>228 399 000</i>	25 175 000 <i>25 475 000</i>	102 000
1996	7 6	746 000 <i>745 000</i>			1 000
Totals Decisions notified	188 124	593 659 200 <i>534 670 550</i>	508 145 911 <i>432 035 411</i>	46 794 434 <i>38 580 960</i>	20 417 700

NB: Fines still pending are shown in italics.



**EAGGF-Guarantee: irregularities**  
**Cases reported from before 1996**

(ECU)

Member State	Reported	Recovered	Balance to be recovered
Belgium	20 507 270	1 135 430	19 371 840
Denmark	20 585 609	1 515 372	19 070 237
Germany	136 349 035	7 286 577	129 062 458
Greece	38 203 758	1 246 391	36 957 367
Spain	94 218 336	1 007 960	93 210 376
France	50 768 776	6 164 291	44 604 485
Ireland	12 242 537	2 793 312	9 449 225
Italy	914 980 939	53 366 175	861 614 764
Netherlands	24 636 666	1 085 696	23 550 970
Austria	369 722	0	369 722
Portugal	19 603 409	1 294 199	18 309 210
United Kingdom	29 720 431	3 038 506	26 681 925
<b>Total</b>	<b>1 362 186 488</b>	<b>79 933 909</b>	<b>1 282 252 579</b>

borrowing and lending activities. The guarantees received may be classified as follows:

(ECU)

Guarantees by Member States	599 730 682.97
Guarantees by public institutions in the Member States	183 324 847.35
Guarantees in the form of securities against other assets	7 128 279.99
Guarantees by institutions controlled by the Member States or by public institutions	3 814 635.07
Loans to public institutions	28 210 715.57
Loans to banks or to long-term credit institutions	139 901 220.54
Loans to non-member countries	2 535 000 000.00
Loans to Member States	4 153 178 653.95
<b>Total</b>	<b>7 650 289 035.44</b>

aid scheme. However, these loans, totalling ECU 143 657 826.15, are guaranteed by the Guarantee Fund.

9. The table on page 112, classified by year of Commission decision, shows all the cases involving fines for infringement of the rules of competition which were still pending at 31 December 1996. It does not show cases completely settled by that date.

In view of the complicated nature of these cases, the number of companies involved and the possible options, this table cannot reflect historical developments over a number of years. It therefore merely gives the current situation for each case pending in relation to the Commission's initial decision.

10. The amounts recovered by the Member States as a result of irregularities reported to the Commission in accordance with Article 3 of Regulations (EEC) Nos 283/72 and 595/91 are shown in the tables on pages 113 and 114.

The Community has not received third-party guarantees for loans granted under the food

Under Article 8 of Regulation (EEC) No 729/70, the sums recovered by the Member States are paid to the paying agencies or departments and deducted by them from the expenditure financed by the EAGGF.

The arrangements for acting against irregularities and recovering the sums lost require the Member States to inform the Commission of the state of the administrative and judicial procedures (Article 5 of Regulation (EEC) No 283/72 and Regulation (EEC) No 595/91).

The amounts recovered may not be deducted from EAGGF expenditure until the judicial procedures have been completed. In view of the uncertain duration of these procedures, it is not possible to fix a schedule for recovery. These amounts are therefore subject to constant change.

11. The amounts relating to cases of fraud and irregularities discovered in the field of structural operations are those reported by the

Member States at the end of the third quarter of 1996. The Member States did not supply the figures for the fourth quarter of 1995 in time.

The amounts relating to cases of fraud and irregularities discovered in the field of traditional own resources are those for which recovery orders have been issued; they are therefore included under heading III.A.1 of the balance sheet ('Amounts owed by Member States').

12. At 30 September 1996, with potential liabilities of ECU 4.8 million and potential gains of ECU 114.6 million, there was a net potential gain of ECU 109.8 million for the disposal of agricultural stocks.

These differences result from a number of factors:

- Some two thirds of the total potential gain is accounted for by cereals. This is due to

#### **EAGGF-Guarantee: irregularities Cases reported for 1996**

(ECU)

	Amounts reported	Amounts recovered	Balance to be recovered
Belgium	2 439 279	20 803	2 418 476
Denmark	553 498	516 270	37 228
Germany	25 504 762	4 247 835	21 256 927
Greece	1 361 106	56 403	1 304 703
Spain	16 436 707	203 633	16 233 074
France	5 096 471	340 798	4 755 673
Ireland	7 383 760	6 579 153	804 607
Italy	123 503 793	1 548 069	121 955 724
Netherlands	10 130 519	1 103 747	9 026 772
Austria	0	0	0
Portugal	7 045 267	106 328	6 938 939
Finland	106 969	106 969	0
Sweden	12 506	12 506	0
United Kingdom	4 157 736	1 561 884	2 595 852
<b>Total</b>	<b>203 732 373</b>	<b>16 404 398</b>	<b>187 327 975</b>

NB: Luxembourg reported that no irregularities have been detected.

Volume, book value and expected sales value  
of stocks and potential losses/gains  
at 31 December 1996

Products	Quantity (tonnes)	Book value (ECU) (1)	Expected sales value (ECU) (2)	Potential gains/losses (ECU) (3)
Common wheat, for bread	323 433	30.85	41.72	10.87
Common wheat, not breadmaking				
Barley	840 824	66.81	92.74	25.93
Rye	696 806	47.84	66.12	18.28
Durum wheat	65 690	3.35	9.86	6.51
Maize	1 013	0	0.12	0.12
Sorghum	0	0	0	0
<i>Cereals — Total</i>	<i>1 927 766</i>	<i>148.84</i>	<i>210.56</i>	<i>61.72</i>
Rice	0	0	0	0
Olive oil	27 574	16.79	31.51	14.72
Manufactured tobacco	19	0	0.01	0
Baled tobacco	1 363	0.40	0.44	0.04
<i>Tobacco — Total</i>	<i>1 382</i>	<i>0.40</i>	<i>0.45</i>	<i>0.05</i>
Public alcohol (4)	953 091	5.16	5.85	0.69
Mixed alcohol	1 748 507	12.89	10.77	- 2.12
<i>Alcohol — Total</i>	<i>2 701 598</i>	<i>18.05</i>	<i>16.62</i>	<i>- 1.43</i>
Butter	35 352	32.51	34.46	1.95
Skimmed milk powder	128 837	107.07	104.43	- 2.64
<i>Milk products — Total</i>	<i>164 189</i>	<i>139.58</i>	<i>138.89</i>	<i>- 0.69</i>
Bone-in beef	200 623	101.15	107.71	6.56
Boned (boneless) beef	126 910	69.13	98.02	28.89
<i>Beef — Total</i>	<i>327 533</i>	<i>170.28</i>	<i>205.73</i>	<i>35.45</i>
<b>Grand total</b>		<b>493.93</b>	<b>603.76</b>	<b>109.83</b>

(1) At rates on 30 September 1996.  
(2) Source: working paper on the calculation of the end-1996 depreciation.  
(3) + = gain; - = loss.  
(4) Hectolitres of alcohol.

The value of new stocks is written down from the date on which they are formed. The 1997 budget contains ECU 1 843.1 million for the depreciation of these stocks (Subsection B1), broken down as follows:

	(million ECU)
Cereals	193.6
Rice	p.m.
Olive oil	p.m.
Alcohol	151.5
Tobacco	p.m.
Skimmed milk powder	p.m.
Butter	p.m.
Beef/veal	1 498.0
<b>Total</b>	<b>1 843.1</b>

the distinct recovery in world prices for these products after bad harvests throughout the world led to an increase in foreseeable sales value as regards both the internal market and the world market.

- The other sector for which a considerable gain is expected is olive oil. This is due to the fact that the depreciation at the end of 1993 for Italy (which accounts for half the Community's stocks of this product) proved to be too high and cut the book value of all the stocks to a level far below the foreseeable sales value at the end of 1994. This excessive depreciation resulted from an overvaluation of the book value of the stocks declared by Italy before the depreciation at the end of 1993. It is still continuing to produce a relatively substantial potential gain in 1996.

13. As 20 % of the EIF's subscribed capital has been taken up, the European Union has to pay ECU 120 million between 1994 and 1997 (ECU 30 million a year). At 31 December 1996, the European Union had already paid ECU 90 million.

At the same date, the EIF had signed guarantees totalling ECU 1 423 million; as 89.3 % of EIF capital has been subscribed, this represents a maximum potential risk of ECU 478 million for the European Union. The last capital payment of ECU 30 million is to be made in July 1997, bringing the total capital paid by the European Union to ECU 120 million; in the worst scenario, the European Union would thus have to supplement its payments by around ECU 358 million (ECU 478 million — ECU 120 million).

14. Financing of Community pension commitments

#### 1. Introduction

The Community pensions scheme is set out in Chapter 3 ('Pensions') of Title V ('Emoluments and social security benefits of officials') of the Staff Regulations drawn up in

1962 and in Annex VIII ('Pension scheme') to those Regulations.

Articles 77 to 80 describe the different types of pension covered by the scheme (retirement, invalidity, survivor's) which includes the payment of family benefits.

#### 2. Commitments under the scheme

The commitments flow from all the pension rights of officials and other staff at all the institutions and agencies (including severance grants for persons leaving before completing 10 years of service). Payments are made from Chapter A-19 of the budget ('Pensions and severance grants') which covers all the institutions and includes pension rights transferred from national schemes to the Community scheme (Article 11 of Annex VIII).

These commitments correspond to the actuarial value on 31 December 1996 of the benefits promised to staff still at work and the benefits now being paid to current recipients of pensions.

#### 3. Financing of the scheme

The scheme is financed in accordance with Article 83 of the Staff Regulations:

'Benefits paid under this pension scheme shall be charged to the budget of the Communities. Member States shall jointly guarantee payment of such benefits in accordance with the scale laid down for financing such expenditure' (first subparagraph of paragraph 1).

'Officials shall contribute one third of the cost of financing this pension scheme. The contribution shall be 8.25 % of the official's basic salary' (paragraph 2).

#### 4. Monitoring the balance of the scheme

Under Article 83(4), 'should an actuarial assessment of the pension scheme, carried out by one or more qualified experts at the request of the Council, show the contributions of officials to be insufficient to finance one third of

the benefits payable under the pension scheme, the budgetary authorities shall, acting in accordance with the budgetary procedure and after consulting the Staff Regulations Committee ..., determine what changes are to be made to the rates of contribution or to the retirement age'.

The actuarial assessments conducted in 1986 and 1989 revealed that, if it had been a real pension fund, the scheme would have been in balance with a personal contribution of

6.75 % of the basic salary. This applies even more after the employee's contribution was raised from 6.75 to 8.25 % on 1 January 1993.

#### 5. Entry in the annual balance sheet

The Commission plans to conduct another actuarial study in the course of 1997. This study will include an examination and evaluation of pension commitments in the Community budget. An evaluation of this type may thus be supplied with the final closure of the 1997 balance sheet.



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