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CONVERGENCE AND BUDGETARY QUESTIONS

(Communication from the Commission to the Council)

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I. INTRODUCTION

1. At the European Council in Strasbourg in June 1979 Member States were invited, as a result of the discussion on convergence and budgetary questions, to circulate their opinions and requests on these issues after a reference paper had been produced by the Commission. The Commission's reference paper (COM(79)462) was transmitted to the Council of Ministers on 12 September. The present paper takes account of the ensuing discussions in the Council and of "opinions and requests" which have been received in written form, and especially those from the Delegations of Ireland, Italy and the United Kingdom.

2. The Commission believes that at this stage in the discussion of convergence and budgetary issues it is important that Member States should be able to consider the advantages and disadvantages attached to a wide range of possible approaches. The Commission naturally intends to exercise its prerogative to make a proposal. This will be put forward at the moment it judges the best chosen in order to contribute to a resolution of the serious difficulties which at present threaten the cohesion of the Community.

3. In considering the position of those Member States who have circulated their views, the Commission believes that a more balanced development of policies will provide a better balance of expenditure within the Community budget and the long term resolution of these matters. In the medium term it will be necessary to continue to correct the spending priorities within the Community budget, in respect of which certain ideas have been put forward by the Italian Delegation. Finally there is the short term question of the position of Member States in respect of the budget, where the issue concerns essentially one Member State, the United Kingdom. This paper deals essentially with the medium and short term issues which have been raised.

4. From the outset the Commission wishes to stress the fundamental principle that in considering approaches to these problems neither the legal framework of the Community nor the Community's policies should be called into question. In this context the Commission draws the Council's attention to the overall framework, which was outlined in the Reference Document, against which these matters need to be seen. It does so since decisions which may be taken by the Community in order to deal with problems which have been raised by Member States will need as far as possible to be judged by the degree to which they are compatible with this framework. The basic elements are that:

(i) The Community budget is only one aspect of Community membership. Other factors such as the advantages of a single market, of private and public capital flows across the Community, and of the common commercial policy are harder to quantify but are basic to membership of the Community. Moreover it should be recognised that not all policies are of equal benefit to all Member States and that the advantages or disadvantages of Community membership must necessarily be seen as a whole.

(ii) The budget is the expression of certain Community policies. It is not to be judged essentially in the light of the position of each Member State but by the effectiveness with which its expenditure ensures that these policies operate to the benefit of the Community as a whole.

(iii) While agriculture takes up the major portion of budgetary expenditure this is because it represents the single integrated policy hitherto managed at Community level. In practice the budgetary incidence of the policy is less significant than its wider economic consequences. Moreover budgetary expenditure on the CAP in Member States can give a misleading impression of benefit. For example interventions and restitution payments do not necessarily benefit a particular Member State but the market price throughout the Community: thus the rate and scale of budgetary support is more significant than the place where it occurs. It does however favour those Member States in which agricultural production is relatively important. At the same time, insofar as the policy assures the stability of markets and the availability of food supplies to consumers at reasonable prices, it represents an economic benefit and a degree of security to those Member States whose degree of agricultural self-sufficiency is relatively low.

(iv) The approach of Member States to the Community should not be one of calculating the cost or benefit to themselves of the Community budget. Such an approach leads directly to the notion of "juste retour" which would make even more complex the creation of new policies if they had to be judged mainly in terms of their effect on the financial position of Member States.

5. The Commission is mindful of the need both to eliminate distortions in certain existing policies and to develop policies which will lead to balanced growth through the Community, in conformity with the objectives of the Treaty. Its overall approach to these questions is designed to achieve results on these lines.

6. Any measures which may be taken in the light of these difficulties have to be seen in the context of the present limitations on own resources. The moment at which own resources will be exhausted depends essentially on the rate of expenditure on agriculture. This issue is more fully discussed in Section V below.

II. THE BUDGETARY PROBLEM

7. The K Delegation has stated its problem in respect of the Community budget in the following terms: The size of the UKs net deficit is such that action by the Community in respect of it is required. Since the UK has a GNP per head below the Community average a solution should be found to ensure that this Member State is at least in "broad balance" in respect of its financing and receipts from the budget. The solution should apply immediately - i.e. to the 1980 budget - and should last as long as the problem continues to exist. To this end some form of corrective mechanism is indispensable. The mechanism should operate on both the UKs low receipts as well as on her excessive contributions.

8. The Commission's reference document forecast a net deficit for the UK in 1980 of some 1550 MEUA (MCAs being attributed to importing Member States). In considering the approach proposed by the UK to rectify the deficit the Council needs to bear in mind that the fundamental features affecting the UKs position are capable of improvement in the medium term. For example the UKs imports from the EEC as a percentage of her total imports have risen by some 10% since she joined the Community. It is reasonable to suppose that a continuation of this trend will lead to a reduction in the UKs share of customs duties and levies. Second, as the Community budget increases, so will the proportionate share which is at present financed by VAT. This will in turn bring the UKs share in financing the budget closer to her share of Community GNP. Third, on the expenditure side of the budget, a determined effort by the Community to eliminate certain problems associated with the CAP and in particular reduce proportionate expenditure on dairy products and sugar would produce a better balance within the Community budget.

The cumulative impact of these factors will only be gradual and it is difficult to judge at what point they will become significant. They will however facilitate an improvement in the budgetary situation of the UK as regards both the financing and the expenditure of the budget. It follows that measures to be taken at the present time need only have a temporary character.

9. Before considering ways in which the position of the UK in respect of the Community budget might be improved through the further application of financial mechanisms, it is worth considering whether a rapid development of structural policies within the Community financial instruments as at present conceived would have a significant impact on the budgetary problem of the United Kingdom. An examination of this point was undertaken by the Commission at the request of Member States during discussions of the Reference Document. Calculations show that on the assumption that the distribution of these instruments' expenditure remains constant, even if the Community's structural funds were increased by a sum of 5000 MEUA in the preliminary draft budget for 1980, the UKs net deficit would only be reduced to some 1200 MEUA, i.e. a reduction of 350 MEUA. On the other hand, the net surplus of Ireland would be increased by some 330 MEUA, and that of Italy by about 970 MEUA.

10. The possibility of developing as may be deemed appropriate new policies needs to be considered. Such policies could have a particular relevance to the situation of the UK in respect of the Community budget. For example the interest subsidy arrangements in the framework of the EMS could be developed to enable the Community to help the UK - when it joins - to combat certain economic weaknesses noticeable in her economic performance in recent decades, such as the low levels of investment linked to problems of industrial decline. But the greater the financial scope of such policies, the more directly would they raise the question of the exhaustion of the Community's own resources.

III. FINANCIAL MECHANISM

11. Description: The starting point for an examination of the action which the Community might take in respect of the UKs budgetary problem is logically the existing Financial Mechanism. The aim of the Mechanism, which was established in 1976, was to correct a disproportionate burden in the financing of the Community budget. The details of this Mechanism are shown in Annex I.

The Commission's Reference Document has shown that under present conditions, the net payment to the UK from the Mechanism in respect of 1980 would be no more than 250 MEUA if there were to be a balance of payments deficit, and nothing if there were a balance of payments surplus.

12. One possibility would be to remove some or all of the restrictions limiting the payments which would otherwise be made under the Financial Mechanism.

13. The most important restriction is the one which provides that if there is a balance of payments surplus the calculation of the excess contribution must be related solely to the VAT payments. A calculation on this basis would not give the UK a payment in respect of 1980, nor probably for several years after 1980.

14. If this restriction were to be removed the Mechanism would operate in favour of the UK whether or not it had a balance of payments surplus. The payment would continue to be restricted, however, by two other limitations:

(a) the tranche system which provides that only a part of the excess contribution is reimbursed;

(b) the ceiling of 3% of the budget.

If the tranche system were to be modified or abolished, the net payment would rise from 250 MEUA - 520 MEUA depending on the degree of modification involved. Payment would however be restricted to 405 MEUA net unless the 3% ceiling were also removed. The maximum which the UK could therefore receive in respect of 1980 would be 520 MEUA net (630 MEUA gross).

15. The Mechanism is also governed by the following criteria for qualification:

(a) The per capita GNP of the Member State must be less than 85% of the Community average.

(b) The growth rate of per capita GNP of the Member State must be less than 120% of the Community average.

(c) The Member State's total contribution to the budget must be 110% of what it would have been if the budget had been financed on a GNP basis.

The UK has suggested that these criteria too should be made less rigorous. In present circumstances, however, it is unlikely that they would disqualify the United Kingdom from a repayment, at least before the enlargement of the Community.

16. Appreciation: The Financial Mechanism was developed to deal with a particular situation. A case could be made out for the removal of the constraints in paragraphs 13 - 14 above on the grounds that the UKs budgetary imbalance has become considerably greater than that foreseen when the Mechanism was first set up.

IV. NEW MECHANISMS

17. It is possible to envisage a number of new mechanisms which could operate either separately, or together with a Financial Mechanism where some or all of the constraints had been removed.

(a) A Mechanism to compensate for increases in contributions

18. Description: It could be held that the problem of the UKs excessive share in financing the budget is due to the sharp increase which will take place in this share from 1979 to 1980 (from 17.58% to 20.49%). An increase of this kind imposes an abnormal burden on the United Kingdom, given that as is indicated in Section II to this note the relative share of the United Kingdom in financing the budget should over a period stabilise at a level below that forecast for 1980.

19. It would be possible to correct the burden by taking into account the quite special situation of the UK through a new ad hoc mechanism which would compensate for any UK contribution of full own resources - these remaining payable in full - which went beyond a pre-determined percentage increase in a given year. As an order of magnitude as to its financial effects, such a system would reduce the UK share in financing the budget by some 390 MEUA net (around 500 MEUA gross) in 1980 if no percentage increase over 1979 were allowed.

20. Appreciation: The advantage of such a Mechanism would be that it would be addressing itself to what can be held to be a temporary situation while leaving a Member State in the situation of the UK a strong incentive to help develop Community policies.

(b) A "weighted" Financial Mechanism

21. Description: At present the Financial Mechanism compares a Member State's share in financing the budget with its share in Community GNP. Thus the "excess contribution" of a Member State is the difference between the total contribution actually made to the budget (duties, levies and VAT) and the contribution which would have been made, had it been limited to a Member State's share of total Community GNP. In this way relative GNP shares are taken to imply relative ability to bear Community taxation. But in the case where two Member States have the same share of total Community GNP but one has a lower per capita GNP, it could be held that the latter has the lower ability to bear Community taxation. Account could be taken of this principle by weighting the relative GNP of a Member State eligible for the Financial Mechanism by its relative GNP per head (with GNP measured either by current exchange rates or by purchasing power parities). For example, if a Member State has a GNP per head equal to 75% of the Community average, its "excess contribution" could be calculated as the excess of its relative revenue share going beyond 75% of its GNP share, thereby significantly improving the extent of any refund under the Financial Mechanism, although it would be important that, as in the case of the existing Financial Mechanism, the payment should not exceed the amount of a Member State's VAT contribution. At present exchange rates[1] a mechanism of this kind would produce a payment to the UK of around 1100 MEUA net (1300 MEUA gross) if the limitations referred to in paragraphs 13 and 14 were removed.

22. Appreciation: As regards the possible adjustment to the basis of the mechanism outlined in paragraph 21 it could be argued that it would be preferable to adapt however radically the existing Mechanism, as opposed to creating a new one, in a context where the Community was politically ready to adjust the situation of a Member State in respect of the budget.

23. On the other hand certain disadvantages as regards weighting the Financial Mechanism need to be borne in mind. The first concerns the possible implications for the Community of introducing a mechanism based

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[1] At present exchange rates the UKs relative GNP per head is 76% of the Community average. At purchasing power parities it is 90%. A payment to the UK based on purchasing power parities would amount to some 750 MEUA net (900 MEUA gross).

on GNP per head to deal with the net problem of a Member State, at a time when the Community is proceeding towards an enlargement through the inclusion of three states with a GNP per head considerably below the Community average. For example the scope of such arrangements could become wide in other cases where net contributors to the budget had below average GNP. The second issue is the implication for financing the budget of introducing the concept of contributions related to GNP per head in order to solve a problem of net deficit.

(c) Mechanisms to reduce possible disparities in budgetary expenditure

24. Description: As described in paragraph 7 above, the UK has proposed that the Community should adopt a Mechanism which will act effectively on the UKs net position in respect of the Community budget. The British Government state that the removal of restrictions on the Financial Mechanism alone does not meet the greater part of the problem of the UKs net deficit, and that any solution restricted to the existing Financial Mechanism would have to involve amendment to compensate for the low level of Community expenditure within the UK. One approach put forward by the UK and based on the principle of compensating for a low share in Community expenditure is that of a Mechanism "designed to remedy the fact that the UKs receipts from Community expenditure are low in relation to the Community average and in relation to the UKs share of Community GNP". It is suggested that a new Mechanism could in principle be devised to bring the UKs receipts per head into line with the Community average receipts per head from the Community budget; or that the UKs share of receipts could be brought into line with her share of Community GNP.

25. The Reference Document identified the shortfall in UK receipts in comparison with the UKs GNP share at around 850 MEUA. Mechanisms of the kind advocated by the UK can be devised to make up all or part of the deficiency.

26. An alternative approach suggested by the UK would be to fix a limit to her total net contribution. There are various ways in which this could be expressed. For example as regards a Member State with below average GNP:

(i) the net contribution might not exceed a fixed proportion of the gross contribution; or

(ii) the gross payments should not exceed a fixed percentage of its share in Community expenditure; or

(iii) the net deficit might be limited to a certain proportion of the GNP of a Member State.

27. Appreciation: The larger part of the current UK problem is reflected in a deficient share of the expenditure side of the budget. A Mechanism which deals directly with this problem has the advantage of simplicity. Moreover if it complements Mechanisms designed to reduce the burden of an excessive share in financing the Community budget, the interplay of the two can be adapted to a wide range of situations. The Commission believes however that the following considerations have considerable force:

(i) Mechanisms on the expenditure side of the budget raise even more directly than do other mechanisms the problem of "juste retour" to which the Community has always resolutely been opposed. It is clear that no financial solution adopted by the Community should put a Member State in a position where it feels completely safeguarded from the financial consequences of policies which it has taken part in creating, or where it is indifferent towards the development of new Community policies. These considerations apply with particular force to any net Mechanism.

(ii) There are problems within the Community over the definition of Community expenditure and its attribution.

(iii) Mechanisms on the expenditure side involve a more radical departure than Mechanisms designed to correct budgetary financing. They would need to contribute to the Community's overall aim of convergence by being linked directly to certain Community objectives. If not they would in effect amount to payments designed to compensate for apparent shortcomings in the operation of Community policies, rather than as part of the policies themselves.

V. FINANCIAL ASPECTS

28. Solutions to the problems posed in this paper have to be seen against the possibilities for the Community budget to finance them.

29. The Community is already approaching the ceiling of 1% of VAT and, as already stated, the Commission will shortly be making a proposal for an increase in the Community's own resources to meet this situation. But given the procedures of both the Council and the parliaments of Member States it is

very possible that such new own resources will not be available for the next two years. In the near future, therefore, the task of attaining a better balance of expenditure will have to be undertaken within the existing limits of the Community's financial resources. How much can be achieved depends crucially on the evolution of agricultural expenditure.

30. If the proposals which the Commission will make in the near future in order to establish a better balance in markets in structural surplus are accepted, the rate of growth of agricultural expenditure will be substantially slowed down. Even so apart from the shift in emphasis indicated in Section VIII below, in 1981 the resources available within the 1% ceiling for structural and investment policies are likely only to meet payments that will be necessary to cover commitments already entered into. Any further substantial expansion of structural policies will be conditioned by the time at which additional own resources are made available.

31. Any solution which involved a payment from the Community budget to the United Kingdom under one or more of the Mechanisms described above would increase budgetary expenditure. The payment would normally be financed by all Member States (including the United Kingdom) at the marginal - i.e. VAT - rate of their budget contributions unless the present 1% ceiling of VAT had been passed and additional resources, other than an increase in the VAT ceiling, had been introduced. On an assumption that VAT key forecast for 1980 is also the key for the year in which the payment is made, this would mean that the payment would be financed, whatever its size, in the following proportions:

Belgium	4.54%	Italy	10.90%
Denmark	2.62%	Luxembourg	0.20%
Germany	32.80%	Netherlands	6.05%
France	24.67%	United Kingdom	17.36%
Ireland	0.86%		

32. Although the Commission takes the view that all the policies of the Community should be financed by all Member States, certain delegations, in particular that of Italy, have indicated that the less prosperous Member States should not have to bear the extra financial burden of correcting the net budgetary situation of a member of the Community. If this were to be the case in respect of Ireland and Italy, and if any agreed payment to the UK was not to be reduced by the UK itself contributing to the cost, the remaining six Member States would contribute to the payment in the following proportions:

Belgium	6.41%	France	34.81%
Denmark	3.70%	Luxembourg	0.28%
Germany	46.26%	Netherlands	8.54%

VI. LEGAL ASPECTS

33. The existing Financial Mechanism is based on a Council Regulation grounded in Article 235. This incorporated the agreement reached at the European Council and involved consultation with the European Parliament.

34. Certain legal considerations need to be taken into account when it comes to proposals either to amend the existing Financial Mechanism or to set up new mechanisms. Article 235 could remain the basis of such actions. However:

(i) The use of Article 235 must contribute "to the realisation of the objectives of the Community" and not the contrary. Furthermore it can only be applied where the Treaty has not elsewhere provided the necessary powers for the action proposed. Certainly, convergence of the economies of Member States can be considered one of the objectives of the Treaty particularly if its basic dispositions are considered generally and in the light of the preamble to the Treaty. Indeed the existing Financial Mechanism was set up within this context. The lack of necessary powers was also taken into account when Article 235 was chosen as its basis in an attempt to deal with "a situation incompatible with the correct functioning of the Community".

(ii) As was the case with the Financial Mechanism, care needs to be taken that any new measures do not conflict with the "acquis communautaire". New measures need to accompany instruments designed to promote convergence or to conduct common policies, not to undermine them. The alternative would be to risk introducing distorted procedures or even incoherence in Community policy-making. For this reason the Regulation setting up the Financial Mechanism takes care not to treat own resources collected on the territory of Member States as national contributions, and makes a distinction between customs duties and levies on the one hand, and VAT on the other in order to measure the degree to which a Member State is entitled to benefits under the Mechanism.

(iii) As regards the system of own resources, this has been created by an action which amounts to an extension of the Treaty. The own resources are therefore a fundamental element of the "acquis communautaire". Thus any mechanism created with the object of modifying, even temporarily, the financial incidence on the economy of a Member State of the own resources system must, in correcting any unforeseen effects of the system, not have the result of undermining its objectives. If this were not the case, there would be a risk of infringing the Decision of 1970. In the same way Community preference, and particularly the system of agricultural levies and restitutions forms another part of the Community acquis and helps to develop trade within the Community.

35. In the light of these considerations, it may be concluded that in principle the correction of any abnormal effects flowing from the application of intruments of Community law (e.g. own resources or rules for the operation of common policies) should take the form of making the appropriate adjustments to the instruments concerned. It follows that any corrective mechanisms should be envisaged as temporary pending the necessary adjustments to the Community instruments.

36. It might be asked whether, in view of the present budgetary constraints facing the Community, mechanisms operating outside the budget by means of financial transfers between Member States, on the analogy of the initial stages of the implementation of the Decision of 1970 and of the Accession Treaty, could be employed. The Commission's view is against this possibility. The main objection is that any unforeseen effects arising from patterns of receipts and expenditure by the Community are the responsibility of the Community in the same way as the policies which give rise to them. Nor should the difficulties be ignored which would arise from any financial mechanism that was outside the control of the budgetary authority (the Council and the European Parliament) and intended to compensate for a net situation produced by the operations of the budget.

37. A further consideration is whether a settlement by Member States could be reached on the basis of an agreement outside the Treaty. The Commission's view is also against this consideration. The reason is that if the conditions for the use of Article 235 of the Treaty can be satisfied, then the Treaty itself imposes an obligation on Member States to make use of it.

VII. WIDER CONVERGENCE QUESTIONS

38. In the document containing its opinions and concrete requests, the Italian Delegation has put forward two propositions.

39. The first proposition is that a new balance should be struck in agricultural expenditure, in order to reduce the imbalance perceived by the Italian Government between priorities accorded to northern and southern products within the CAP. To this end it is proposed that support for the dairy sector should be reduced in countries producing surpluses; the marketing and processing of Italian fruit and vegetables should be encouraged; and that there should be appropriate compensation for the impact of tariff concessions on Mediterranean agricultural products. At the same time measures should be taken to encourage the development in Italy of agricultural products of which she is a net importer, in the interest of reducing the import burden on her balance of payments.

40. The second proposition is that expenditure in respect of structural and investment policies should be increased with quantified objectives over a given period. It is suggested by way of example that 25% of budget might be devoted to structural policies and 5% to general investment policies by 1982.

VIII. COMMON AGRICULTURAL POLICY

41. The Commission has examined carefully the points put forward by the Italian Government. As regards a new internal balance of agricultural expenditure, the Commission stresses that a recognition of the importance of Mediterranean production has led the Community to adopt in recent years useful measures for the direct or indirect support of the incomes of the producers concerned. During the years 1975-80 FEOGA guarantee expenditure will have developed for these products to a comparable degree with expenditure relative to other products. Indeed in certain cases, for example, processed fruit and vegetables the evolution will be even greater. In this context the Commission would underline the changes and adaptations which have been made to the market organisations of Mediterranean products such as olive oil, fresh fruits and vegetables, and other products.

42. The Commission recalls that the Common Agricultural Policy is based on the concept of Community preference. Nonetheless, as regards products

in respect of which Italy is a net importer the Commission recalls the assistance which is given by the market organisation for cereals and particularly for maize and hard wheat of which Italy is a major producer. Furthermore:

(i) As regards meat, special aids are in force for beef in order to assist production in the Italian regions. Moreover as regards sheepmeat and beef, the Commission presented in March this year new proposals on agricultural structures which included special measures for developing beef cattle and sheep production in Italy. The Commission will make a major effort to ensure the rapid adoption of these measures by the Council.

(ii) In respect of other products of special interest to Italy, the Commission is intensively studying the need for formulating new measures for marketing and transformation. It should be borne in mind that any measures would need particularly to take account of the forthcoming enlargement of the Community.

43. At the same time the Commission, like the Italian government, takes the view that a new balance within the FEOGA cannot be brought about exclusively by increasing expenditure in favour of Mediterranean products. Expenditure in a certain number of other sectors now needs to be controlled. For example:

(i) The Commission considers that the Community must take drastic measures to reestablish a structural balance in the dairy market, and that it must take care that imbalances which are currently appearing in other markets do not assume the dimensions of that of the dairy market. If the present situation continues the Community will rapidly have to face budgetary problems which will be insurmountable.

(ii) In the above context, the Commission will shortly be making certain proposals particularly in respect of dairy products and sugar within the limits of maintaining a tolerable social situation in the agricultural sector.

(iii) The Commission will also be taking certain actions which lie within its own competence in the direction of reducing agricultural expenditure.

To the extent that the Council is ready to go along with the Commission's proposals, these initiatives should make a considerable contribution towards reducing the imbalances identified in the Italian paper.

44. As regards the guidelines which are needed in the structural field to bring about a better balance of expenditure the pre-occupations expressed by the Italian government are very close to those of the Commission. It should be noted that as regards agricultural structures the level of the FEOGA guidance fund has been fixed at 3600 MEUA for the period 1980-85, that is to say 720 MEUA per year in comparison with the former ceiling of 325 MEUA. These resources will reinforce the programme of common actions designed to improve agricultural structures and certain other socio-structural measures within the framework of the " editerranean package". Moreover the Commission has put forward to the ouncil proposals for a number of radical changes to the structural policy f the Community which has hitherto been followed in respect of agricul ure which will facilitate a shift in the balance of Community resources in favour in particular of Italy. It intends to study all possible means of ensuring that the disbursement of financial resources which should result from these modifications takes place at an increasing pace.

45. The Commission is convinced that if the Council accepts its proposals Community funds will be better placed to contribute to the elimination of structural imbalances particularly by means of ad hoc measures whose objective would be to deal with the problems of the least favoured regions and least favoured areas of agricultural production such as are to be found in certain parts of Ireland and Italy.

IX. THE DEVELOPMENT OF STRUCTURAL POLICIES

46. The Irish, Italian and British Delegations have all raised the question of the overall structure of the Community budget. Their preoccupations correspond closely to those of the Commission as was made clear in the Commission's latest three-year forecast presented with the 1980 preliminary draft budget.

47. The Commission's overall policy has for long been based on the twin objectives of the development of Community policies, particularly those in the structural field, and the better control of agricultural expenditure. Some of the long term overall objectives which the Commission believes right

for the Community are clearly only possible in the framework of an expanded Community budget.

48. So far as the immediate future is concerned, the draft budget for 1980 proposed significant increases in resources for social and regional policy. The Commission hopes that the budgetary authority will maintain the major part of these proposed increases as concrete evidence of a political will within the Community to improve the expenditure balance of the budget. For its part the Commission will continue not only to make the most effective use of available resources by ensuring a further concentration of the Community's structural funds on priority objectives, but will also seek to increase the volume of resources for structural and investment problems. At the same time the Commission will pursue vigorously its aim of correcting agricultural surpluses and of bringing under greater control the expenditure to which they give rise. But a significant movement in the direction of more balanced Community expenditure can only take place if there is a decision to increase the resources available for financing the budget.

General description of the financial mechanism

1. On a reasoned application from a Member State, submitted not later than 30 June, the Commission assesses the facts of the situation, having established that the following conditions are met simultaneously:

(a) the per capita gross national product (GNP) of the Member State is less than 85% of the average per capita GNP for the Community (moving average of the three years preceding the current financial year at current market exchange rates);

(b) the growth rate of the per capita GNP in real terms of the Member State is less than 120% of the average rate for the Community (moving average of the previous three years);

(c) the total payments made by the Member State to the Budget of the Communities for the financial year in progress, pursuant to the Decision of 21 April 1970, exceed by more than 10% the amount it would have had to pay if the part of the Budget covered by the aforementioned Decision (i.e. customs duties, agricultural levies, VA or GNP-based contributions) were financed by the Member States on the basis of the proportion of their GNP to the total GNP of the Member States. The figures relating to the GNP refer to the financial year in progress and are thus estimates.

2. However, where the balance of current payments of the Member State, as calculated at current market exchange rates from a moving average of the three years preceding the financial year in progress, shows a surplus, the total payments by the Member State (total customs duties, agricultural levies and resources from VAT or GNP-based contributions) are not taken into consideration, but only its VAT or GNP payments. The condition set out at point 1(c) is thus met where these payments exceed by more than 10% the amount the Member State would have had to pay (to finance the expenditure not covered by customs duties and agricultural levies) on the basis of the proportion of its GNP to the total GNP of the Member States, these figures being estimates relating to the financial year in progress.

3. The excess amount referred to at point 1(c) (or at point 2) is divided into tranches equal to 5% of the amount which the Member State would have had to pay on the basis of its GNP. The payment is determined as follows:

Tranches	Payment
from 1% to 5%	nil
from 5,0001% to 10%	50%
from 10,0001% to 15%	60%
from 15,0001% to 20%	70%
from 20,0001% to 25%	80%
from 25,0001% to 30%	90%
above 30%	100%

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4. The payment, as calculated under point 3, may not exceed the smaller of the following two amounts:

(a) the amount of the deficit for the Member State in question between its payments to the Community Budget and the payments to it from the Budget(1). This balance is determined without taking account of payments made through this mechanism.

Payments received by the Member State include payments made on its behalf by other Member States in the form of monetary compensatory amounts(2).

All the payments referred to above relate to the financial year in progress and are therefore estimates.

(b) the amount of the VAT or GNP-based contributions made by the Member State to the Budget for the financial year in progress.

The total amount of the payment (or payments, if several Member States receive them) may not exceed the greater of the following two amounts:

250 m EUA; or 3% of the expenditure chargeable to the financial year in progress.

Should the total amount of the payments exceed that ceiling, the payments are reduced proportionally for the Member State(s) concerned.

5. At the request of the Member State concerned, an advance equal to 75% of the provisional amount is paid at the beginning of the following year. When the Commission has the final data at its disposal, it calculates the final amount of the payment.

(1) Where the Member State concerned registers a surplus, this mechanism is not applicable.

(2) Article 2a of Regulation No 974/71.