



EUROPEAN UNION

FINANCIAL REPORT 1998



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FOREWORD

The main events in 1998 were the historical decision to switch to the euro, the European Union's new strategy on employment, the legislative proposals under Agenda 2000 and the launch of the enlargement procedure. The European Union also assumed a new role in international relations. Finally, the year was marked by the institutions' efforts to come closer to the public.

A Council decision of 3 May confirmed the 11 Member States which met the conditions needed to adopt the single currency on 1 January 1999. This marks the transition to stage three of economic and monetary union. The European Central Bank was set up on 1 June and the finishing touches were put to the legislative framework for the introduction of the euro with the establishment of fixed and irrevocable exchange rates between the currencies of the Member States participating in the euro on 31 December.

The Commission gave legal shape to the guidelines in its communication Agenda 2000, which is intended to give the European Union more effective policies and install an appropriate financial framework for implementing them, in particular with a view to enlargement, and presented a series of detailed proposals relating to agriculture, the Structural Funds and the Cohesion Fund, the trans-European networks and the pre-accession instruments.

In this connection, the Commission adopted a communication on 18 March on the establishment of a new financial perspective for the period 2000–06 and a report on the implementation and renewal of the interinstitutional agreement on budgetary discipline and improvement of the budgetary procedure.

Finally, on 7 October, the Commission adopted a report on the operation of the own resources system and possible options in this sector.

These initiatives provided a basis for the negotiations on Agenda 2000, which reached an intermediate stage at the Vienna European Council in December.

The 1998 budget, with an increase of 2.1 % in appropriations for commitments and 1.41 % in appropriations for payments compared with the previous budget, was a very moderate budget testifying to the determination to share in the Member States' budgetary rigour in the run-up to monetary union. With payment appropriations amounting to 1.14 % of GNP, it left a considerable margin below the own resources ceiling of 1.26 % of GNP. However, it did provide funding for the Union's major priorities, particularly the employment initiative introduced by Parliament and confirmed by the extraordinary European Summit on Employment in Luxembourg and the continuation of the major Community programmes as regards research, infrastructures, training and the pre-accession strategy.

Budget execution was affected by the Court of Justice's fundamental judgment in Case C-106/96 in connection with the legal bases needed for implementation. This led to the negotiation of an interinstitutional agreement, signed on 13 October 1998, which sets out a limited number of exceptions to the principle that all Community operations require the prior adoption of a legal base. These exceptions are available to both the Commission and the budgetary authority. They cover the institutional prerogatives of the institutions in matters such as information and the possibility of launching pilot schemes in new fields.

The utilisation rate for the appropriations for commitments authorised by the 1998 budget was, at 97.5 %, higher than in previous years, with a particular increase for EAGGF Guarantee and the Structural Funds. These figures confirm that the provisional suspension of around 100 headings in June 1998 to check their legal bases following the Court of Justice's judgment in Case C-106/96 did not have any significant effect on budget implementation.

There was also a sharp rise in the utilisation of appropriations for payments, mainly as a result of the strict budgetary policy pursued in this connection since 1996.



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Member of the Commission
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ECONOMIC AND FINANCIAL FRAMEWORK

The basic budget principles

The budget of the European Union is governed by six basic principles.

Unity

This principle, enshrined in Article 199 of the Treaty, requires 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. After the Luxembourg Treaty of 22 April 1970, documents covering the majority of the Community's financial activities were gradually merged so that, now, there are only two: the general budget and the ECSC operating budget.

However, there are still two categories of financial operation 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 increasing 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 authorised 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 balance sheet of the European Communities.

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 Community 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 fol-

lowing 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

This principle requires that each appropriation be assigned to a specific purpose and a specific objective. It is intended to prevent any blurring of the lines between two appropriations when they are authorised and used. This ensures that the budget is drawn up with the requisite transparency and implemented in compliance with the will of the legislative authority.

The principle of specification determines the horizontal structure (distinction between the statement of revenue and the statement of ex-

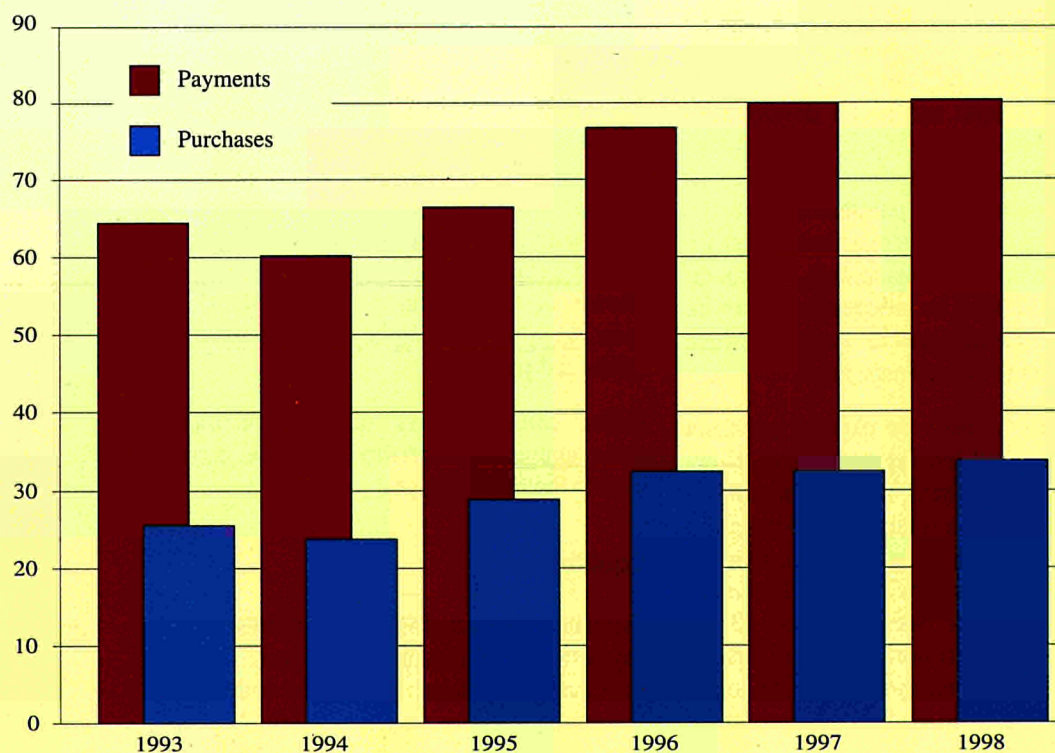
penditure, and subdivision of the statement of expenditure into six individual sections for each of the institutions) and the vertical structure of the budget (the budget nomenclature distinguishes appropriations according to their nature and purpose by subdividing sections — and in particular Section III, which contains all Community 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.

FIGURE 1

Purchases of ecus, 1993–98

(billion ECU)



The use of the ecu

The currency unit of the European Communities in 1998 was still the ecu, made up of a 'basket' of 12 national currencies. Its composition remained 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 has promoted 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 ecus. In 1998, for example, 94 % of the budget (excluding EAGGF Guarantee operations) were implemented in ecus.

A historic decision was taken to switch to the euro in 1999. The main events in 1998 were the European Union's new strategy on employment, the legislative proposals under Agenda 2000 and the launch of the enlargement procedure. The European Union assumed a new role in international relations. Finally, the year was marked by the institutions' efforts to come closer to the public.

A Council decision of 3 May confirmed the 11 Member States which met the conditions needed to adopt the single currency on 1 January 1999. This marks the transition to stage three of economic and monetary union.

The economic situation in the European Union in 1998

With 2.9 % real growth in gross domestic product (GDP), 1998 saw the best performance of the decade (together with 1994), despite the particularly unfavourable international environment resulting from the Asian and Russian crises. The reason for this good performance was the level of domestic demand, which replaced exports as the driving force behind growth. In contrast to previous years, external trade had a negative impact (-0.4 percentage points) on GDP growth. Household consumption and capital expendi-

ture picked up substantially. Even the building sector, which had been fairly stagnant until then, started to recover. However, the asymmetrical nature of the external shock suffered by economic operators in the European Union was also clearly demonstrated in 1998. Household optimism is at its peak in view of the level of job creation. Households are also benefiting from increased purchasing power as a result of falling inflation and profit from the drop in interest rates to increase consumption or invest in housing. Firms on the other hand (especially those most vulnerable to international competition) are reducing their stocks and downsizing their investment projects in reaction to the decline in global demand and the fall in industrial prices. Economic surveys reveal that this gap in confidence between consumers and industrialists continued to grow throughout 1998, suggesting that there will be a sharp decline in growth in the fourth quarter of 1998 extending into the first half of 1999.

The number of jobs created in 1998 was particularly large. Whereas 1997 saw a clear improvement in job creation, employment increased by 1.1 % (or 1.6 million jobs) in 1998, which was by far the best performance since 1990. Unemployment in the EU thus dropped (under the harmonised Eurostat definition) from 10.7 % of the working population in 1997 to 10 % in 1998 and should continue on this downward path in 1999.

The inflation rate in the EU fell once more in 1998. The growth in domestic demand did not generate any inflationary tendencies or excessive wage increases. On the contrary, the main influence was the fall in the prices of petroleum products, most raw materials and goods facing keener competition on the world market. The average inflation rate in the EU, as measured by the private consumption deflator, fell from 2.1 % in 1997 to 1.6 % in 1998.

Public sector deficits in the Union continued to shrink, having reached a peak of 6.1 % of GDP in 1993. In 1998 the average public sector deficit is estimated at 1.6 % of GDP, as compared with 2.3 % in 1997. The bulk of the improvement is attributable to the growth in

GDP and the reduction in interest rates. On the other hand, the structural deficit (i.e. corrected for the effects of the economic cycle) has shown very little improvement, indicating that the efforts made by governments have slackened off as compared with the period 1996–97. As a result of the steady decrease in public sector deficits, the EU's debt ratio (as a proportion of GDP) fell for the first time in 1997 to 71.8 % compared with 72.8 % in 1996. This favourable trend continued in 1998 (70 % of GDP).

Financial perspective 1993–99

The 1998 budget procedure came within the framework of the financial perspective attached to the interinstitutional agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure, as adjusted in December 1994 following the enlargement of the Community to include Austria, Finland and Sweden.

In February 1997, acting under paragraph 9 of the interinstitutional agreement, the Commission made the technical adjustment to the financial perspective for 1998 in line with movements in gross national product and prices on the basis of the most recent macro-economic forecasts available. The data for these forecasts concerned the 12-member Community from 1992 to 1995 and the 15-member Community from 1995 to 1998. For 1998, the ceiling for appropriations for commitments was set at ECU 95 316 million and the ceiling for appropriations for payments at ECU 90 953 million, leaving a margin of 0.02 % of GNP beneath the own resources ceiling, set at 1.26 % of GNP by the Council decision of 31 October 1994 on the system of own resources.

In accordance with paragraph 10 of the interinstitutional agreement, in March 1997 the Commission sent to Parliament and the Council a proposal for the adjustment of the financial perspective to take account of the conditions of implementation, with the objective of transferring to 1999 the allocations for structural operations which were not used in 1996.

In order to support the efforts for budget stringency in 1998, the Commission supplemented its proposal in April 1997 by suggesting that the ceiling on appropriations for commitments and appropriations for payments be reduced by around half the transfers to 1998 decided in 1996.

Parliament and the Council reached agreement on this amended Commission proposal on 24 April 1997. ECU 545 million for commitments for the Structural Funds, which was not used in 1996, was transferred to 1999. The ceiling on appropriations for commitments for the Structural Funds was lowered by ECU 500 million in 1998 and raised by the same amount in 1999, bringing the total increase in 1999 to ECU 1 045 million. ECU 17 million not used for the Cohesion Fund in 1996 was transferred to 1999.

The ceiling on appropriations for payments was reduced by ECU 300 million in 1998 and raised by ECU 300 million in 1999.

Following these operations and with the definitive agricultural guideline as set in the preliminary draft budget, the ceiling on appropriations for commitments for 1998 was ECU 94 744 million and the ceiling on appropriations for payments ECU 90 581 million. The margin available beneath the own resources ceiling thus rose to 0.03 % of GNP in 1998.

Budget for the 1998 financial year

Following the second reading in Parliament, the President of Parliament declared the 1998 budget adopted on 18 December 1997. This budget totalled ECU 91 013 million in commitment appropriations and ECU 83 529 million in payment appropriations, up by 2.10 % on the 1997 budget in commitment appropriations and by 1.41 % in payment appropriations. Substantial margins remained beneath the financial perspective ceilings: ECU 3 731 million in commitment appropriations, and ECU 7 052 million in payment appropriations. The total payment appropriations represent 1.14 % of GNP (compared with the own resources ceiling of 1.26 % of GNP).

Budget expenditure on structural measures was ECU 33 461 in commitment appropriations, and ECU 28 400 in payment appropriations, the same amount as entered in the preliminary draft. The allocations for the Structural Funds came to ECU 30 482 million in commitment appropriations, corresponding to the amounts agreed at Edinburgh and adapted for enlargement. The Peace initiative for Northern Ireland was boosted by ECU 100 million by redeploing non-programmed appropriations from Objectives 1, 3 and 5a. The Community initiative for regions heavily dependent on the textiles and clothing sector (RETEX) and the programme to assist the conversion of coal-mining areas (Rechar) were allocated ECU 42 million and 36 million respectively.

Appropriations allocated to internal policies totalled ECU 5 756 million, an increase of 2.88 % on the 1997 budget. The margin left beneath the ceiling for this heading was an unprecedented ECU 247 million in commitment appropriations.

Appropriations for research stood at ECU 3 491 million, which included an increase of ECU 15 million for the fourth framework programme. Trans-European networks made up the second major item under the heading with ECU 560 million (an increase on 1997 of more than 20 %).

Among the other policies, the most significant effort was that made for the new employment initiative, to which the 1998 budget devoted a new heading, 'Labour market and technological innovation', allocated ECU 191 million. The Socrates programme also received ECU 27.65 million more than in the 1997 budget, thus anticipating the outcome of the conciliation procedure on additional funding for 1998 and 1999. Other programmes, however, suffered significant cuts, such as Leonardo (– ECU 9.6 million), culture and audiovisual media (– ECU 20.7 million), HDTV (allocation cancelled) and awarding and advertising public contracts — OJ S series (– ECU 14.4 million).

For external action, the overall allocation stood at ECU 5 731 million, an increase of 2.2

% on the 1997 budget, which left a margin of ECU 470 million beneath the ceiling for the heading. The most significant increases compared with the 1997 budget were for cooperation with Latin American countries (+ 7.37 %) and Mediterranean non-member countries (+ 14.81 %), and for democracy and the protection of human rights (+ 23.4 %), while food aid and humanitarian aid remained at levels close to those of 1997, as did the other cooperation measures, and cooperation with Asian countries. The amount for cooperation with the countries of central and eastern Europe complied with the financial programming that was decided at the Cannes European Council.

The appropriations allocated for administrative expenditure came to ECU 4 353 million, up by 1.64 % compared with 1997. Of this total ECU 1 510 million was for the other institutions and ECU 2 377 million for the Commission (excluding pensions); this represents, 'zero growth' for the Commission compared with 1997.

The budget adopted in December was modified by a supplementary and amending budget which was adopted late as a result of a particularly complex procedure. On 15 May 1998 the Commission proposed preliminary draft supplementary and amending budget No 1/98, which was followed by two letters of amendment on 30 June and 30 September to enter the 1997 budget surplus of ECU 960 million in the statement of revenue, reduce agricultural expenditure in 1998 by ECU 400 million and register the increase in the revenue forecasts for customs duties and in the VAT and GNP bases. The appropriations released as a result were used to increase the amounts available for Parliament's buildings, allocated to headings 2, 3 and 4 (in particular to the European Social Fund and the Phare programme) or returned to the Member States. The Commission's proposal was substantially altered as part of an overall compromise establishing a link between the supplementary and amending budget, the omnibus transfer and the 1999 budgetary procedure. Supplementary and amending budget No 1/98 was

finally given only one reading by Parliament and the Council and adopted on 15 December 1998; it entered the 1997 balance on the revenue side, provided an additional ECU 150 million for Parliament's buildings, ECU 100 million for the ESF, ECU 100 million for

Phare and ECU 150 million in all for various items covered by headings 2, 3 and 4, and entered in the budget the ECU 400 million in food aid for Russia; this total of ECU 900 million was financed from the 1998 EAGGF Guarantee balance.

TABLE 1

Implementation of the budget in 1998

Revenue

(million ECU)

Revenue forecast in the 1998 budget	83 652.2
Actual revenue in 1998	84 529.7

Expenditure

	Differentiated appropriations (multiannual operations)		Non-differentiated appropriations (administrative expenditure and annual operations)		Total	
	Commitments	Payments	Commitments	Payments	Commitments	Payments
Available appropriations:						
— Entered in 1998 budget	45 359.0	38 212.6	45 379.2	45 379.2	90 738.2	83 591.8
— Other	422.7	241.9			422.7	241.9
— Carried over from 1997:	91.7	194.4	4.5	513.0	96.3	707.5
• automatic carryovers				(508.5)		(508.5)
• other carryovers	(91.7)	(194.4)	(4.5)	(4.5)	(96.3)	(199.0)
Total available,	45 873.5	38 649.0	45 383.7	45 892.2	91 257.2	84 541.2
of which:						
— appropriations used in 1998:	44 954.8	37 312.9	43 385.2	43 400.0	88 340.1	80 713.0
• entered in 1998 budget	(44 537.5)	(37 108.0)	(43 383.5)	(42 953.4)	(87 921.0)	(80 061.4)
• other	(335.5)	(96.1)			(335.5)	(96.1)
• carried over from 1997	(81.9)	(108.8)	(1.7)	(446.7)	(83.6)	(555.5)
— appropriations carried over to 1999:	221.4	571.2	572.0	991.8	793.4	1 563.0
• automatic carryovers				(419.8)		(419.8)
• other carryovers	(221.4)	(571.2)	(572.0)	(572.0)	(793.4)	(1 143.2)
— appropriations lapsing	697.2	764.8	1 426.5	1 500.3	2 123.7	2 265.2
Utilisation rate	98 %	97 %	96 %	95 %	97 %	95 %
Commitments outstanding at 1 January 1998,	52 523.7		508.5		53 032.2	
of which:						
— cancelled:	1 317.2		63.6		1 380.7	
• corresponding appropriations made available again in 1999	(122.1)				(122.1)	
• other	(1 195.0)		(63.6)		(1 258.6)	
— Paid	22 617.1		444.9		23 062.1	
— Outstanding at 31 December 1998	28 589.4				28 589.4	
Commitments made in 1998,	44 954.8		43 385.2		88 340.1	
of which:						
— Paid	14 695.8		42 955.1		57 650.9	
— Cancellation of commitments not used			10.3		10.3	
— Outstanding at 31 December 1998	30 259.0		419.8		30 678.8	
Total commitments outstanding at 31 December 1998	58 848.4		419.8		59 268.2	

The budget of the European Union was financed from a number of sources in 1998, the breakdown being shown in Figure 3. Total revenue came to ECU 84.5 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 0.7 % down on the previous year. Even though the volume of imports rose sharply in 1998 (+ 9.3 %), the fall in the average rate from 2.32 % to 2.11 % more than offset this.

Agricultural duties are charged when a Member State imports agricultural products from a non-member country. The yield was 7.5 % up on the previous 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 3.9 % lower than in 1997.

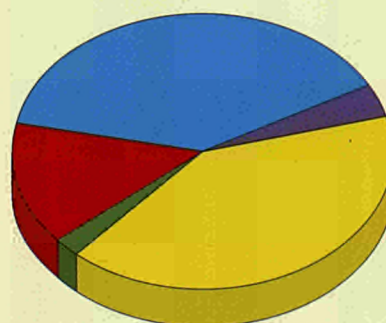
VAT own resources

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 following ratification of the decision on the Communities' own-resources system, the uniform rate is deter-

mined by applying a percentage, set at 1.08 % for 1998, to 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 1998, this limit was 50 % for four Member States and 51 % for the others. This year, five Member States (Greece, Ireland, Luxembourg, Portugal and the United Kingdom) benefited from this limit.

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.

FIGURE 3
Community revenue, 1998








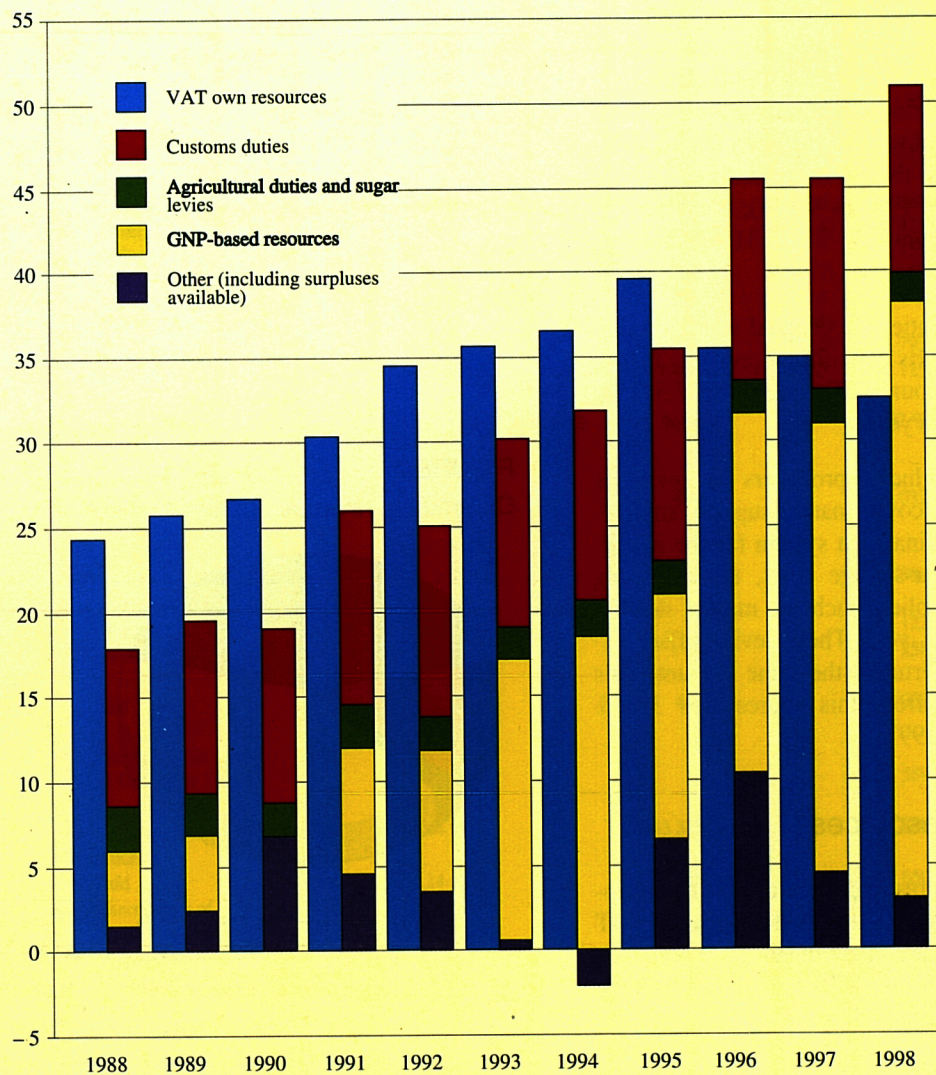
VAT own resources	38.7 %	
Customs duties	14.4 %	
Agricultural duties and sugar levies	2.3 %	
GNP-based resources	40.7 %	
Other (including surpluses available)	3.9 %	

FIGURE 4
Revenue, 1988–98

(billion ECU)



In 1998, the VAT resource amounted to ECU 32 685 million.

This year, positive adjustments totalling ECU 402 million were made, particularly in respect of 1997, the budget forecasts having underestimated economic growth.

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

FIGURE 5

Total revenue, 1988–98

(billion ECU)

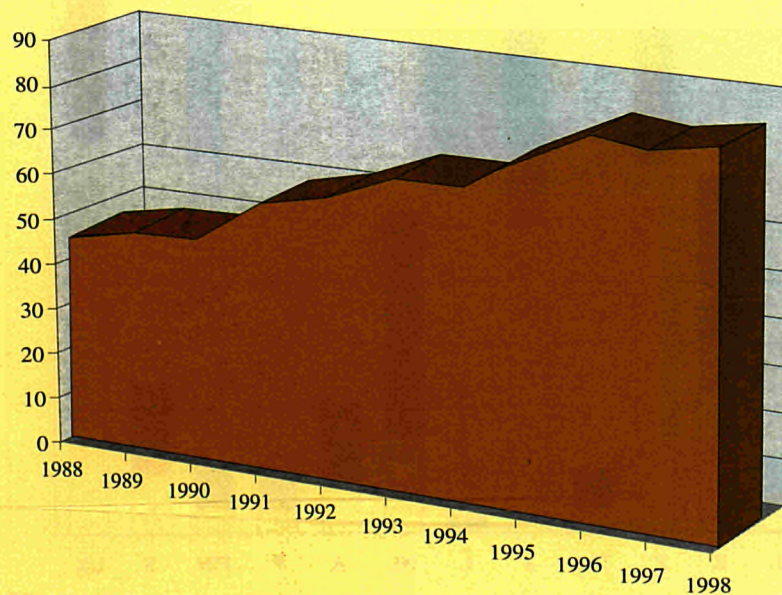
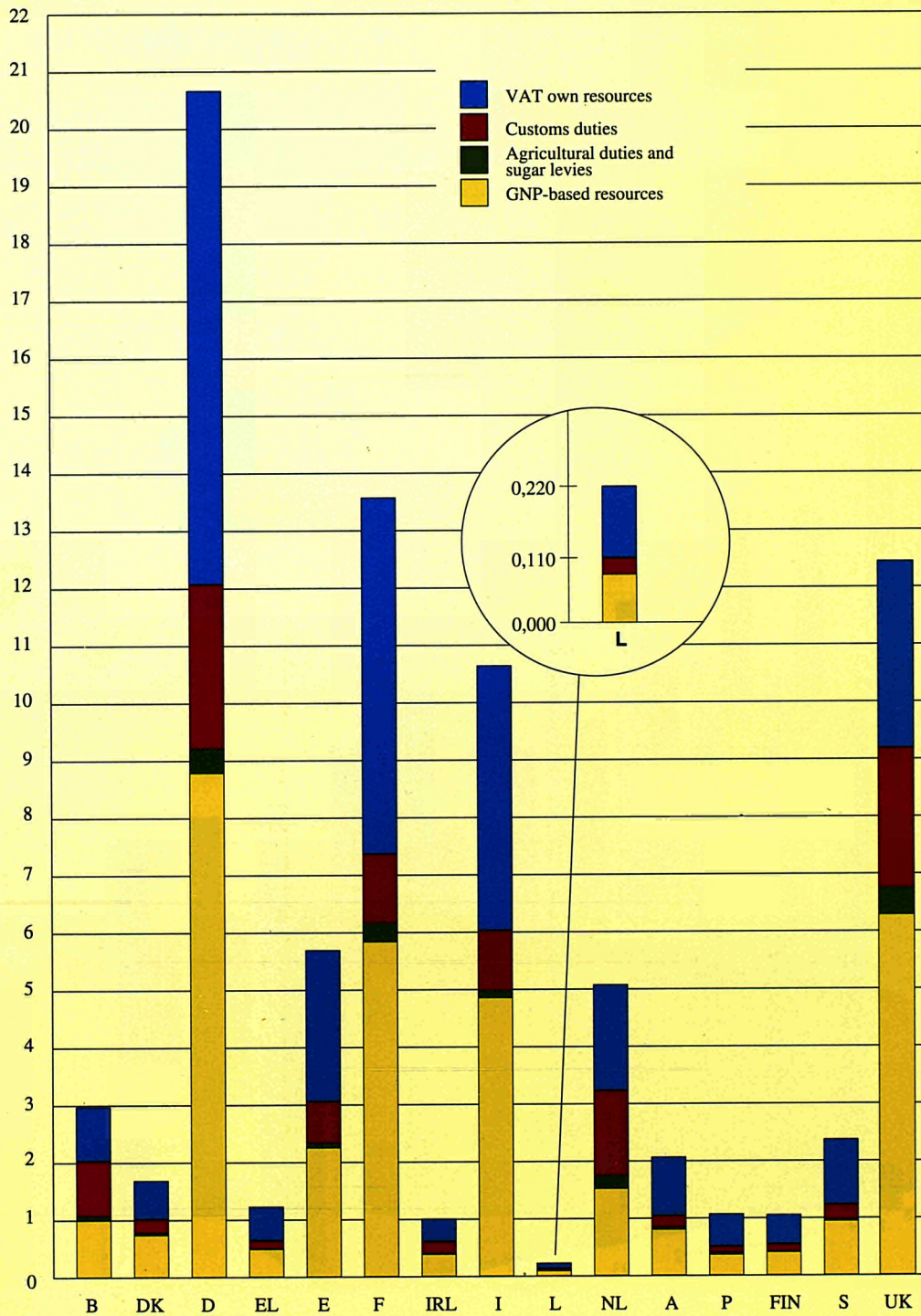


FIGURE 6
Own resources by Member State, 1998

(billion ECU)



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 0.4621 % of its GNP (not including the EAGGF monetary reserve, the loan guarantee reserve and the emergency aid reserve). In addition, four 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. 1.08 % of their base.

In 1998, the GNP resource amounted to ECU 34 157 million (not including reserves).

Net positive adjustments totalling ECU 598 million were made for 1988–97.

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. Together, these sources generated revenue amounting to ECU 1 321 million.

The revenue for 1998 also includes the ECU 916 million surplus from 1997.

EXPENDITURE

Heading 1 — Agricultural market guarantees

Objectives and means

Article 38 of the EEC 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 the following:

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

to assure 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 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 Community 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.

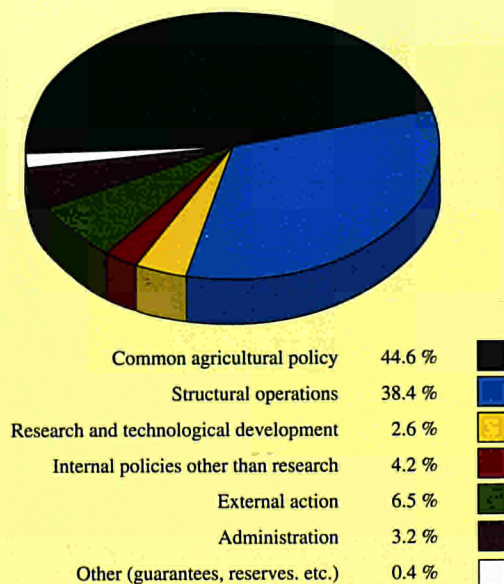
Constraints

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.

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;

FIGURE 7
Community expenditure, 1998



□ 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);

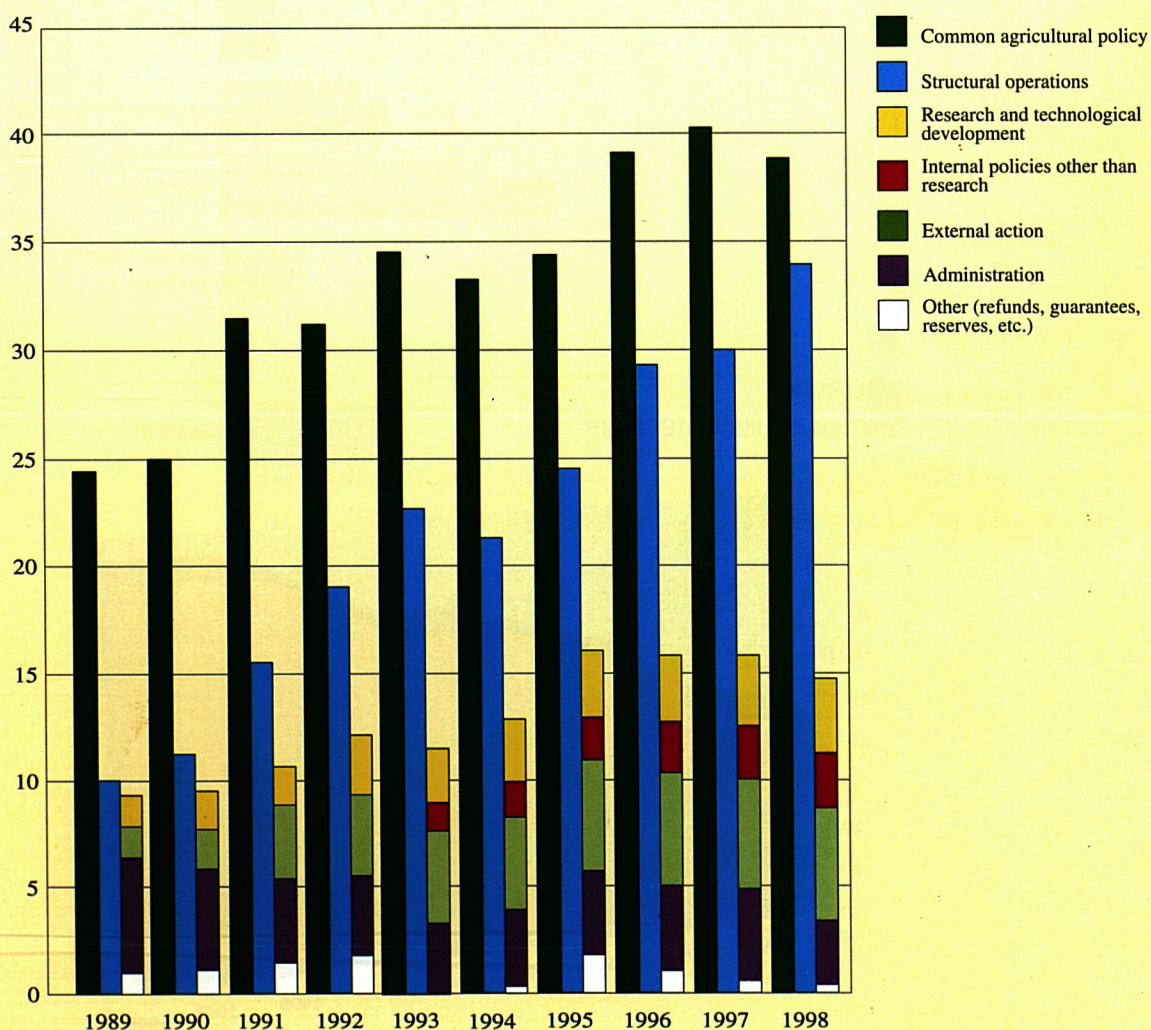
□ all set-aside expenditure, which had been shared equally between the EAGGF Guidance Section and Guarantee Section until 1992 (heading 2);

□ expenditure on income aid (under heading 2 of the financial perspective in 1992);

□ spending from the fisheries guarantee fund.

FIGURE 8
Expenditure, 1989–98

(billion ECU)



Finally, since 1997, the budget forecasts for agriculture, like those for other expenditure, have been produced against the background of the budgetary and financial stability demanded by economic and monetary union. In 1997 budget appropriations were thus set at ECU 40.8 billion, virtually the same level as in 1996. In 1998 this budgetary stringency continued as the appropriations were fixed at ECU 40 437 million, ECU 400 million less than in 1997.

1998 budget

Initial appropriations

The appropriations covered by heading 1 of the financial perspective amounted to ECU 40 437 million, not counting the ECU 500 million monetary reserve, which is called on only if needed. The figure does include the ECU 200 million entered in Chapter B0-40 (Provisions).

FIGURE 9
Total expenditure, 1989–98

(billion ECU)

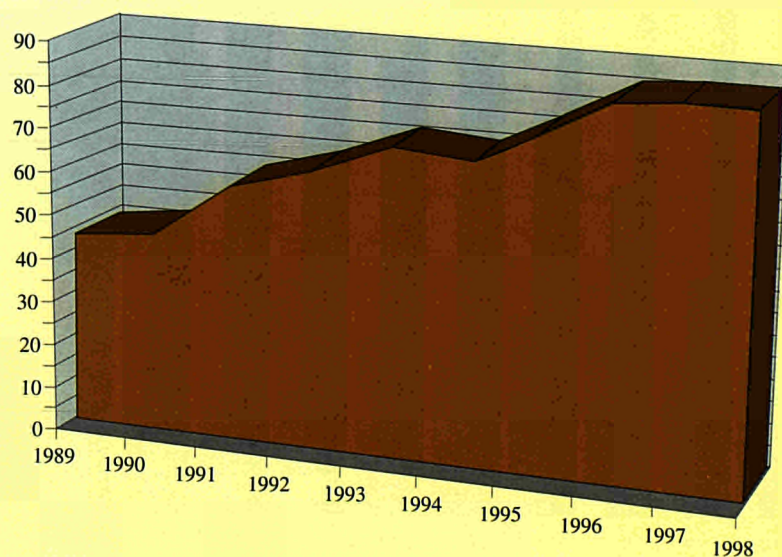
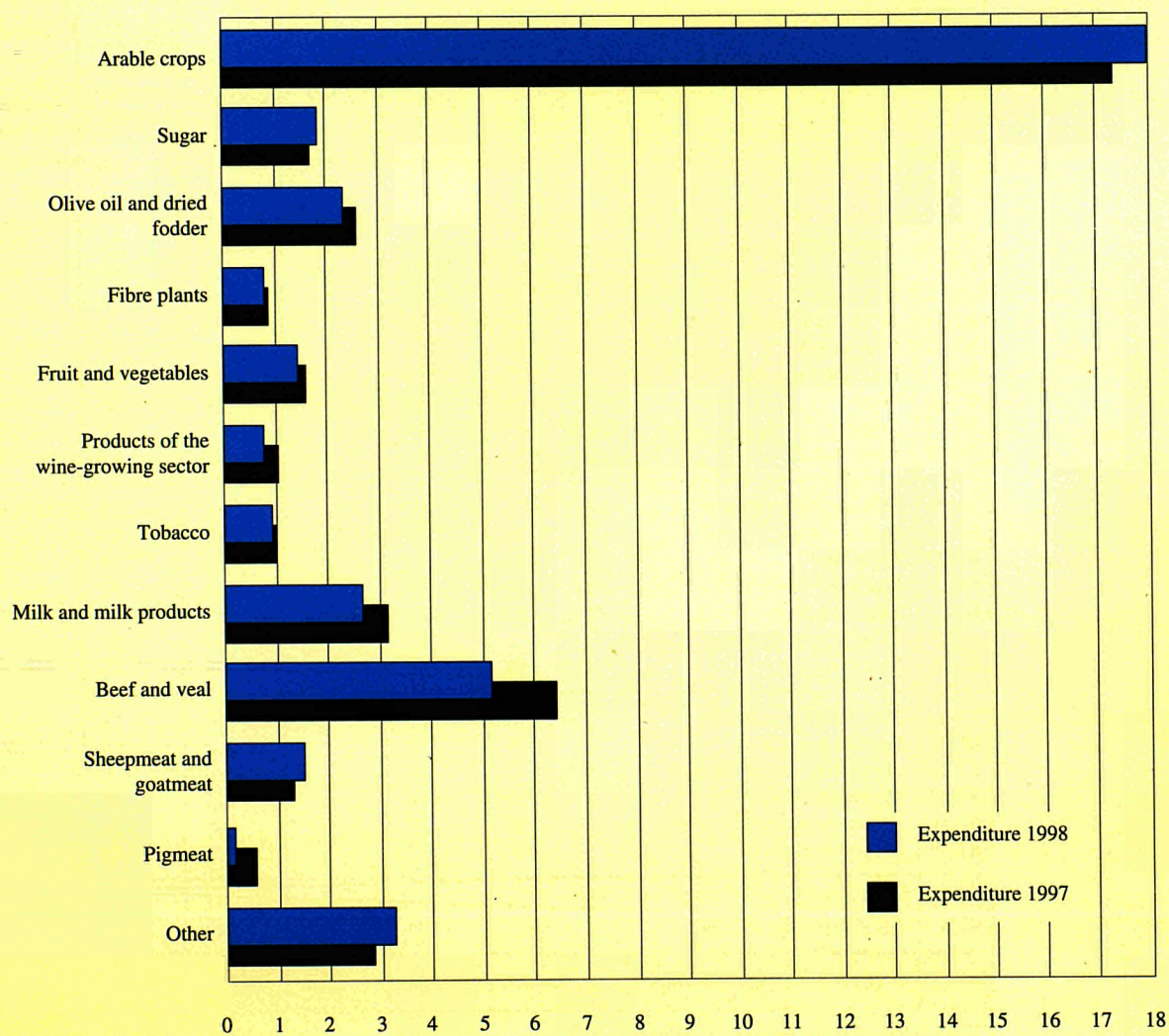


FIGURE 10
Expenditure on agricultural market guarantees, 1998

(billion ECU)



Implementation of the 1998 EAGGF Guarantee budget

(million ECU)

Chapter	Sector	Appropriation in budget USD 1 = ECU 0.85 (¹)	Expenditure USD 1 = ECU 0.91	Effect of dollar	Expenditure USD 1 = ECU 0.85	Expenditure in relation to appropriation in budget	Expenditure at budget dollar rate in relation to appropriation in budget
a	b	c	d	e	f = d - e	g = d - c	h = f - c
B1-10	Arable crops	17 255	17 945	- 185	18 130	690	875
B1-11	Sugar	1 674	1 777	- 55	1 832	103	158
B1-12	Olive oil	2 256	2 267		2 267	11	11
B1-13	Dried fodder and dry vegetables	374	378		378	4	4
B1-14	Fibre plants	870	870		870	0	0
B1-15	Fruit and vegetables	1 921	1 509		1 509	- 412	- 412
B1-16	Wine	806	700		700	- 106	- 106
B1-17	Tobacco	995	870		870	- 125	- 125
B1-18	Other sectors	352	354	- 9	363	2	11
B1-20	Milk and milk products	2 976	2 597		2 597	- 379	- 379
B1-21	Beef and veal	5 786	5 161		5 161	- 625	- 625
B1-22	Sheepmeat	1 413	1 535		1 535	122	122
B1-23	Pigmeat	329	238		238	- 91	- 91
B1-24	Eggs and poultry	86	90		90	4	4
B1-25	Other livestock product measures	113	95		95	- 18	- 18
B1-26	Fisheries	39	21		21	- 18	- 18
B1-30	Non-Annex II products	545	553	- 29	582	8	37
B1-31	Food programmes	429	334		334	- 95	- 95
B1-36	Monitoring and prevention	45	40		40	- 5	- 5
B1-37	Clearance	- 710	- 655		- 655	55	55
B1-38	Promotion measures	95	45		45	- 50	- 50
B1-39	Other measures	505	177		177	- 328	- 328
B1-40	Income aids	3	1		1	- 2	- 2
B1-50	Accompanying measures	2 280	1 847		1 847	- 433	- 433
	EAGGF Guarantee — Total	40 437	38 748	- 278	39 026	- 1 689	- 1 411
(¹) Including ECU 200 million in Chapter B0-40.							

Implementation of the budget

The table below shows that expenditure for 1998 totalled ECU 38 748 million, which represents an underspend of ECU 1 689 million in relation to the initial appropriations in the budget. If it had not been for the favourable trend in the dollar/ecu exchange rate, which led to savings of ECU 278 million, expenditure would have come to ECU 39 026 million, leaving ECU 1 411 million unused.

The differences are accounted for below for the main chapters of the budget (all figures are in million ECU).

Breakdown of differences by chapter

• Arable crops

Initial appropriation	Expenditure	Difference
17 255	17 945.2	+ 690.2

Expenditure exceeded the amount in the budget because of increased spending on market measures; per hectare aid paid directly to cereal producers was roughly equal to budget appropriations.

With production higher than expected and exports lower because of a decline on the world market, there was far more intervention buying-in than planned (13.2 million tonnes as against the 3.3 million tonnes assumed in the budget). The volume placed in intervention was one of the highest ever during a marketing year. In addition to the volume factor, the fall in world prices resulted in considerable expenditure on the depreciation of stocks (ECU 873 million as against the ECU 88 million assumed in the budget).

• Sugar

Initial appropriation	Expenditure	Difference
1 674.0	1 776.6	+ 102.6

Despite the savings from the favourable trend in the dollar rate, expenditure on export refunds overshot appropriations because of an

overspend on export refunds. A total of 2 960 000 tonnes was exported — some 220 000 tonnes more than the 2 742 000 tonnes on which the initial budget was based.

Furthermore, expenditure on refunds for sugar used in the chemical industry overshot the budget allocation as a result of the payment of amounts outstanding for the 1996/97 marketing year and greater quantities eligible for these refunds in the 1997/98 marketing year. In addition, expenditure on the reimbursement of storage costs for sugar was higher due to larger quantities than expected.

• Fruit and vegetables

Initial appropriation	Expenditure	Difference
1 921.0	1 508.5	- 412.5

Most of the extensive underutilisation of appropriations can be attributed to lower expenditure on withdrawals following less production than expected in 1997/98, particularly of peaches, nectarines, apples and oranges.

In addition, payments for the operational funds of producer organisations were slower than expected. Member States did not make the final payments of the 1997 balance until the summer. Payment of advances for 1998 was delayed as a result. Part of these payments could not be made until the next financial year.

Finally, expenditure on financial compensation to encourage the processing of citrus fruits lagged behind the normal payment rate because of the new arrangements introduced by the reform. Penalisation during the marketing year resulted in late fixing of the advance payments and the balance, so that payments were later than in previous years.

• Wine

Initial appropriation	Expenditure	Difference
806	700.0	- 106.0

Virtually half the underutilisation of appropri-

ations is a result of lower than forecast expenditure on the premium for the permanent abandonment of areas under vines. A smaller area was grubbed than anticipated when the budget was being prepared.

Moreover, given the relatively favourable market situation, it was decided not to open compulsory distillation for table wine, which also reduced the need to dispose of the resulting alcohol.

• Tobacco

Initial appropriation	Expenditure	Difference
995	870.3	- 125.0

The underspend in this sector can be chiefly explained by lower expenditure on tobacco premiums for the 1997 harvest. This was because the underutilisation of quotas was larger than expected when the budget was drawn up, especially in Greece.

In addition, payments of tobacco premiums for the new harvest (1998) made during the current financial year and payments of specific aid for the 1996 harvest were lower than expected.

• Milk

Initial appropriation	Expenditure	Difference
2 976.0	2 596.7	- 379.3

The reason for the underutilisation of the appropriations in this sector was the buoyancy of the milk market, which resulted in expenditure on refunds for exports of butter, butter-oil and cheese falling short of appropriations. This is because smaller quantities were exported and refund rates were lower than provided for in the budget.

In addition, revenue from the additional milk levy was higher than expected.

• Beef and veal

Initial appropriation	Expenditure	Difference
5 786.0	5 160.6	- 625.4

The considerable underutilisation of appropriations for this sector was the result of a combination of factors. First, the unexpectedly rapid improvement in the beef and veal market led to less buying-in, accompanied by savings on public storage costs and, in particular, expenditure on depreciation. Savings were also made on refunds because of the combination of lower quantities than expected at the time the budget was drawn up and the drop in certain refund rates.

Finally, there was lower expenditure on special premiums, for which applications lagged behind the forecasts, and on exceptional support measures following the saturation of incinerators in the United Kingdom.

• Sheepmeat

Initial appropriation	Expenditure	Difference
1 413	1 534.6	+ 121.6

The appropriation was overspent as a result of higher payments of the ewe and she-goat premium. The fall in prices at the end of 1997 became more accentuated at the start of the 1998 marketing year; as a result expenditure on the balance of the 1997 premium and the first advance for the 1998 marketing year overshot the forecast.

• Pigmeat

Initial appropriation	Expenditure	Difference
329.0	237.7	- 91.3

Pigmeat production in the Netherlands recovered more slowly than was expected and the export refunds on carcasses and cuts were not reintroduced until later, leading to lower expenditure on refunds. For the same reason, the

private storage measures provided for in the budget were not adopted until September 1998 and will have budgetary repercussions in 1999.

In addition there was lower expenditure on measures to combat swine fever.

• Food programmes

Initial appropriation	Expenditure	Difference
429.0	333.7	- 95.3

The lower level of expenditure was mainly due to underutilisation of the appropriations for food aid refunds because of the lower volume of cereals and milk products exported.

• Clearance

Initial appropriation	Expenditure	Difference
- 710.0	- 654.8	+ 55.2

The amounts credited to the EAGGF Guarantee budget correspond to the financial corrections adopted under the clearance decisions. The amounts credited were lower than forecast when the budget was established since examination of the cases (for 1994) which the Member States referred to the conciliation body took longer than planned.

• Promotion

Initial appropriation	Expenditure	Difference
95.0	45.0	- 50.0

Underutilisation concerns both promotion measures managed:

- by the Member States: expenditure on promotion campaigns for beef and veal and for live plants and cut flowers was lower than expected.
- directly by the Commission: the new promotion campaigns for olive oil and flax were delayed. The relevant expenditure was not committed until 1999.

• Other measures

Initial appropriation	Expenditure	Difference
505	177.4	- 327.6

The underutilisation of appropriations was due to lower expenditure on agrimonetary aid, particularly by the United Kingdom and Italy.

The United Kingdom paid agrimonetary aid only in the beef/veal and sheepmeat sectors and not, as expected when drawing up the budget, in other sectors.

By contrast, Italy confirmed its intention to implement the agrimonetary aid programmes as adopted by the Commission. However, the amounts concerned were not paid until the 1999 calendar year.

• Accompanying measures

Initial appropriation	Expenditure	Difference
2 280.0	1 847.0	- 433.0

At the end of the financial year, implementation of accompanying measures was well short of the forecasts sent to the Commission by the Member States during the year, each month confirming very high expenditure. The Member States' forecasts sent only eight weeks before the end of the budget year exceeded actual expenditure by ECU 600 million.

Implementation of this budget chapter depends, more than for other chapters, on the individual payment rate of each Member State and a very large proportion of expenditure in the sector is normally incurred in the last two weeks of the budget year.

The underutilisation at the end of the budget year is mainly due to Italy, Germany and France. A large part of the amount could not be spent because of a change in administrative procedures in Italy and computer problems in Germany and France.

Heading 2 — Structural operations

The Community initiatives and most of the Community support frameworks (CSFs) and the single programming documents (SPDs) were adopted in 1994, 1995 and 1997. As part of the effort to put European policy at the service of growth and employment, plans for industrial aid to regions in decline were completed in 1997, a year which was also marked by the adoption of territorial pacts for employment.

The 1998 budget earmarked ECU 27 528 million for operations under the three Structural Funds and the Financial Instrument for Fisheries Guidance (FIFG). All these appropriations were actually committed. The breakdown is as follows:

(billion ECU)

EAGGF Guidance Section	4.183
ERDF	14.148
ESF	8.733
FIFG	0.464
Total	27.528

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

Community support frameworks (CSFs) and single programming documents (SPDs)

Regions lagging behind in their development (Objective 1)

The Community's total contribution for 1998 came to ECU 19 308 million, all of which was committed.

Overview of utilisation of commitments and payments and change in level of outstanding commitments over the current programming period 1994–99.

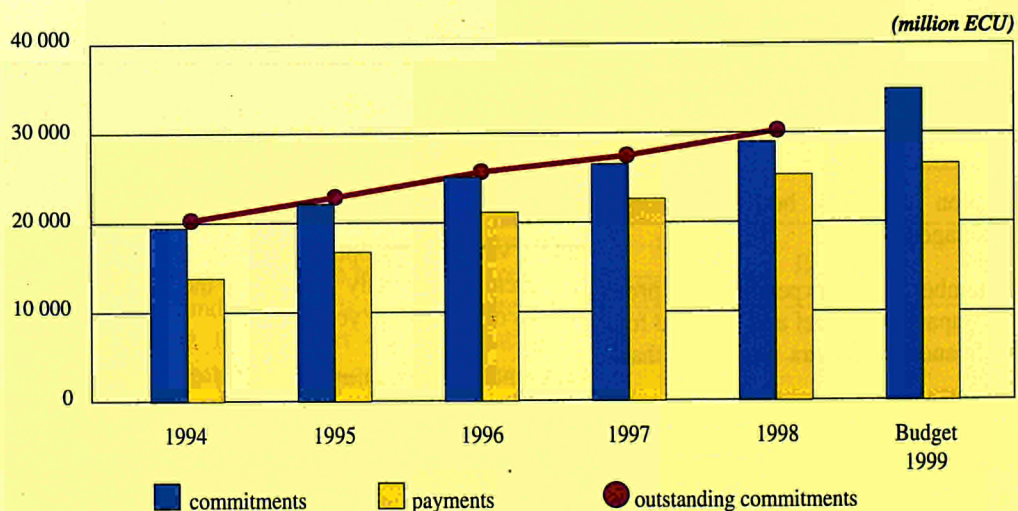
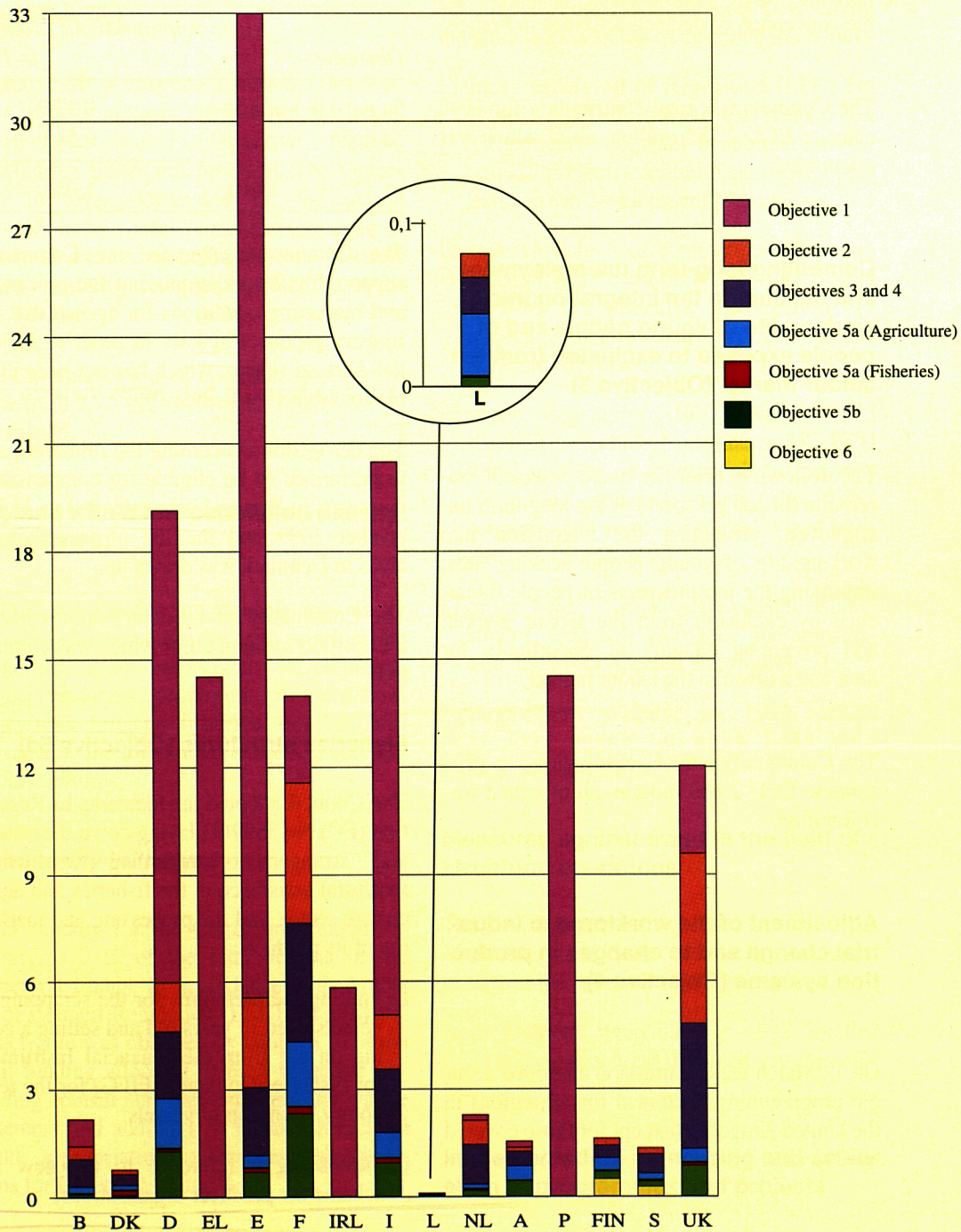


FIGURE 11

Breakdown by Member State of Community contribution under the various objectives of the Structural Funds (current prices)

(billion ECU)



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

Regions suffering industrial decline (Objective 2)

On 29 July the Commission approved a multi-regional single programming document for the conversion of defence activities in France.

The Community's total contribution for 1998 came to ECU 2 182 million, all of which was committed.

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

The following priorities were selected: 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 people threatened by exclusion from the labour market; and promoting equality of opportunity for men and women in the labour market.

The Community's total contribution for 1998 came to ECU 2 639 million, all of which was committed.

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

On 11 March the Commission approved a single programming document for all regions in the United Kingdom (except for those covered by Objective 1).

The Community's total contribution for 1997 came to ECU 621 million, all of which was committed.

Adjustment of agricultural structures (Objective 5a)

The breakdown is as follows:

<i>Objective</i>	<i>(billion ECU)</i>	
	<i>Appropriations available in 1998</i>	
5a outside 1 and 5b	0.524	
5a in 5b	0.542	
Total	1.066	

The Commission changed the Community support framework improving the processing and marketing conditions for agricultural and forestry products in Italy in order to include the Abruzzi region, which has not been eligible for Objective 1 since 1997.

The derogation concerning the minimum area to be farmed to be eligible for compensatory payments in Portugal was extended to 31 December 1999 and the list of less-favoured areas in Denmark was drawn up.

The Community's total contribution came to ECU 1 066 million, all of which was committed.

Fisheries structures (Objective 5a)

The Council adopted amendments to 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:

- limiting the premiums for the scrapping of vessels over 30 years old and setting a ceiling on aid from the Financial Instrument for Fisheries Guidance (FIFG) for the temporary laying-up of vessels;
- introducing a reference to the new aid scheme for producer organisations;
- confirming that only the budgetary rate for the ecu would be used, and not the agricultural rate.

The Community's total contribution for 1998 came to ECU 103 million, all of which was committed.

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 33 million, including the new Member States, and a combined surface area of 840 876 km².

The Community's total contribution for 1998 came to ECU 1 422 million, all of which was committed.

Regions with a low population density (Objective 6)

Finland and Sweden are the only regions affected by this objective. Its main priorities are economic and commercial development, human resources, promotion of know-how, agriculture, forestry, fisheries, farmland improvement, the environment and Community social measures.

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 Funds appropriations, taken from the allocations for Objectives 3 and 4.

Appropriations available for 1998 totalled ECU 2 781 million, of which ECU 2 597 million was committed.

Other structural measures

Transitional and innovative measures

The Commission selected pilot projects or innovative demonstration projects covered by the guidelines adopted in its communications:

- under Article 10 of Regulation (EEC) No 4254/88 (ERDF): interregional cooperation (64 projects), regional economic innovation (17 projects), spatial planning (23 projects), urban development (3 projects);
- under Article 6 of Regulation (EEC) No 4255/88 (ESF): training and organisation of work (12 projects), job creation (17 projects), employment services, social dialogue (6 projects);
- under Regulation (EEC) No 4256/88 (EAGGF): technical assistance of ECU 0.687 million was granted to projects concerning non-food crops, the forest economy and rural development and agri-environmental aspects;
- in the fields of small-scale coastal fishing, studies, technical assistance and information, the FIG selected 18 projects.

Appropriations available for 1998 totalled ECU 306.4 million, of which ECU 281.4 million was committed.

Measures against fraud in the field of structural operations

The unit for combating fraud provided the Member States with technical assistance, mainly in the form of on-the-spot checks.

Appropriations available for 1998 totalled ECU 0.750 million, all of which was committed.

Implementation, monitoring and evaluation of programmes and projects

This concerns the implementation, monitoring and evaluation of the environmental dimension of the programmes and projects under-

taken under the budget chapters for structural operations to achieve the objectives set out in the Community programmes of policy and action in relation to the environment and sustainable development.

The Community's total contribution for 1998 came to ECU 3 million, all of which 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).

In 1998 the appropriations committed to financing projects in Greece, Spain, Ireland and Portugal totalled ECU 2 871 million. The breakdown of these appropriations by country and sector is shown in the table below.

Amount of commitments in 1998 — Cohesion Fund

(million ECU)

Member State	Environment		Transport		Total	
	Amount	%	Amount	%	Amount	%
Greece	209.850	13.74	306.548	22.97	516.398	17.99
Spain	871.041	57.01	704.853	52.82	1 575.894	54.90
Ireland	135.358	8.86	116.352	8.72	258.482 ⁽¹⁾	9.00
Portugal	311.518	20.39	206.743	15.49	518.261	18.05
Technical assistance					1.665	0.06
Grand total	1 527.767	100	1 334.496	100	2 870.700	100

⁽¹⁾ This includes ECU 6.772 million of commitments to areas other than transport and the environment.

Heading 3 — Internal policies

commitments for the different areas of shared-cost projects breaks down as follows:

Research and technological development

The final year of the fourth framework programme (1994–98) saw the closure of the programmes and intense legislative activity leading up to the fifth framework programme (1998–2002) which was adopted by Parliament and the Council on 22 December 1998. The Council adopted the Euratom framework programme on the same day. The total budget for the fifth framework programme comes to EUR 14 960 million, 4.6 % higher in real terms than that for the fourth framework programme (EUR 13 210 million).

The initial appropriations for 1998 amounted to ECU 3 491 million. Budgetary implementation was close to 100 %, both for commitment appropriations (98.1 %) and payment appropriations (98.2 %), a distinct improvement on previous years.

The appropriations available in 1998 for RTD were as follows

	<i>(million ECU)</i>
Information technology and communications	878
Industrial technologies	570
Environment	205
Life sciences and technologies	465
Non-nuclear energy	260
Transport	26
Targeted socio-economic research	40
Scientific and technical support for Community policies	51
Cooperation with third countries and international organisations	195
Dissemination and utilisation of research results	106
Training and mobility of researchers	229
Nuclear safety and safeguards	17
Controlled thermonuclear fusion	190

(million ECU)

Budget, not including European Economic Area (EEA) support

Indirect action and shared-cost projects	3 231
Direct action by Joint Research Centre	260
<i>EEA contribution</i>	
Indirect action and shared-cost projects	57
Direct action by Joint Research Centre	3

The additional appropriations for cooperation with the European Economic Area concerned the non-nuclear appropriations of the framework programme. The ECU 3 231 million in

The Community will have provided financial backing for some 6 000 research projects in the course of the fourth framework programme. The typical shared-cost RTD project has five partners from three Member States and a Community contribution of around ECU 0.7 million. Since it was launched in 1997, the I-TEC pilot project under the programme for the 'dissemination and utilisation of research results' has selected 28 venture capital funds with a total investment capacity of ECU 1 billion, of which about one third will be invested at an early stage in small businesses involved in technological innovation.

The Commission continued its international cooperation activities under COST (European cooperation in the field of scientific and tech-

nical research) and Eureka (European Research Coordination Agency) with EFTA and with the main industrialised countries. In addition to the EFTA countries (Norway, Iceland and Liechtenstein), Israel also took part in the specific non-nuclear programmes in 1998 on an equal footing with their European partners. The discussions which took place in 1998 on the participation of the countries of central and eastern Europe and Switzerland will allow these countries to take part in the fifth framework programme. A scientific and technological cooperation agreement was also concluded with the United States and negotiations are in progress with Canada, Australia and China.

This year the Joint Research Centre (JRC) 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. A new institute was set up to strengthen its role in providing research and scientific and technical support for the European Union's policies: the Institute for Health and Consumer Protection.

Transport

To pave the way for the common transport policy, the Community budget helped finance a variety of measures relating to pilot schemes for combined transport, the development of long-term transport policy and transport safety. The appropriations entered in the 1998 budget for this purpose (ECU 19 million) were committed in their entirety.

Incorporation of the environmental dimension in the common transport policy and achieving a better balance between the various transport modes were again major priorities for the Commission, which adopted an action programme for 1998–2004, a communication on transport and carbon dioxide, a white paper on infrastructure charging, an action programme on local and regional public transport and pro-

posals for the revision of all the legislation on the use of rail infrastructure. Substantial progress was made on rules for transport safety, road infrastructure charging, working conditions, social standards and working hours in the transport sector, in particular road and sea transport.

Education, vocational training and youth policy

Appropriations available for 1998 totalled ECU 411 million for the whole of this field.

As regards education, the Socrates programme (1995–99), which covers the entire educational spectrum, was continued: available appropriations totalled ECU 199 million in 1998. The financial package for the programme was increased by ECU 70 million in Decision No 576/98/EC of the European Parliament and the Council of 23 February 1998, bringing the total to ECU 920 million.

The field of education, vocational training and youth has two other programmes, which, like the Socrates programme, cover the period 1995–99. The Leonardo da Vinci programme, whose main objective is to ensure the implementation of a vocational training policy supplementing and supporting the actions of the Member States, was allocated ECU 140.4 million in 1998. In the field of youth, the Youth for Europe programme was awarded ECU 26 million in its third year of implementation. These two programmes, and the Socrates programme, were also opened up to participation from the countries of central Europe and Cyprus, with a view to enlargement.

A fourth programme, European voluntary service, was adopted on 20 July 1998 for the period 1998–99 with an allocation of ECU 25 million for the first year. (The total budget for the programme has been fixed at ECU 47.5 million.) The aim of this programme is to en-

able young people aged 18 to 25 to gain a formative experience, recognised at European level, consisting of activities that benefit the community.

The European Centre for the Development of Vocational Training received a subsidy of ECU 12.7 million, with a further ECU 0.3 million to cover the cost of its relocation to Thessaloniki.

Culture and audiovisual media

Appropriations available for 1998 totalled ECU 99 million for the whole of this field. The Ariane programme, which concerns books and reading, was allocated ECU 4 million. The Raphaël programme is concerned with European cultural heritage. A budget of ECU 10.6 million was allocated for 1998. The Commission also continued to pursue measures under the Kaleidoscope programme, the aim of which is to support artistic and cultural activities with a European dimension. In 1998 it was allocated ECU 10 million. On 23 September 1998 the Commission proposed that the Ariane and Kaleidoscope programmes, which were scheduled to end on 31 December 1998, should be extended by one year to ensure continuity in the Community's cultural operations pending adoption of the framework programme on culture 2000–04.

In the audiovisual field, most of the activities, totalling ECU 58 million, were carried out under the MEDIA II programme. The programme, covering the period 1996–2000, has two parts: one devoted to development and distribution, and the other relating to the training of professionals in the audiovisual sector.

Information and communication

The appropriations available under the information and communication activities to

totalled ECU 102.5 million. These activities can be divided into two groups: Prince, the information programme for European citizens (ECU 42 million), and the other information and communication activities (ECU 60.5 million). As far as activities other than Prince are concerned, the available appropriations under the heading 'General information and communication work' totalled ECU 39.6 million. Information programmes for non-member countries were allocated ECU 6.4 million. ECU 10.5 million was allocated to the information relays. A further ECU 3 million went to the Jean Monnet project for university teaching on European integration.

Social dimension and employment

Appropriations available for 1998 totalled ECU 165.4 million for the whole of this field.

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 40.9 million available in 1998). In this context, the Commission undertook action such as continuing its work for equality between men and women (ECU 10 million) and developing the European employment services (EURES) network (ECU 10 million), which includes a database with job vacancies and information on working and living conditions in the Member States of the Union. Some of the operations which used to be conducted under this part of the budget were transferred to Chapter B5-50 of the 1998 budget (labour market initiatives), which explains the sharp drop in appropriations in relation to 1997.

In the field of social protection and the free movement of workers, appropriations available in 1998 totalled ECU 47.7 million. The

Community's activities in this field mainly related to general social security guarantees and the protection of certain disadvantaged groups. Several of the operations listed below were blocked as there was no legal base. However, final expenditure came to ECU 42.8 million.

In public health, the Commission continued its programmes adopted for the period 1996–2000. These programmes relate to promotion, information, education and training in public health (ECU 6.5 million available for 1998), the fight against cancer (ECU 12 million), the prevention of AIDS and other transmissible diseases (ECU 10 million) and the fight against drug abuse (ECU 5 million).

ECU 2.3 million was allocated to the Community action programme on health monitoring (1997–2001), aiming to provide reliable, comparable data on trends and patterns in health status and its determinants. In 1998 Chapter B0-40 contained ECU 7 million for action for safety at work in Europe (SAFE); however, these appropriations could not be used as the legislative authority failed to adopt the legal base in the course of the year.

The European Agency for Safety and Health at Work (Bilbao) was also awarded a subsidy of ECU 5.7 million. These activities were supplemented by those carried out by the European Foundation for the Improvement of Living and Working Conditions (Dublin), which was subsidised to the tune of ECU 13.6 million and by those of the European Monitoring Centre for Drugs and Drug Addiction (Lisbon), with a subsidy of ECU 7.6 million. The European Monitoring Centre for Racism and Xenophobia (Vienna) started operation; in its first year its Community subsidy was limited to ECU 2 million.

Energy

Acting on the Commission's proposal for a framework programme for actions in the energy sector (1998–2002) aimed at bringing together under one umbrella all the energy policy activities with a view to making them more effective and compatible with the priority objectives and ensuring closer coordination with energy measures taken under other Community policies, on 14 December the Council adopted a framework decision.

The framework programme is allocated a total of ECU 170 million over the period 1998–2002, with ECU 163 million for measures under heading 3 (internal policies). The appropriations available for the year 2000 totalled ECU 33 million. The framework programme consists of six specific programmes or measures, four of which were adopted on the same date:

- Carnot (encouragement for the clean and efficient use of coal)
- ETAP (studies, analyses, forecasts in the energy sector)
- Synergy (promotion of international cooperation in the energy sector)
- SURE (safe transport of radioactive materials and safeguards in the countries participating in the Tacis programme).

The two other programmes, for which legislative decisions already existed, should be adopted in 1999:

- Altener (promotion of renewable energy sources)
- Save (encouragement of energy efficiency).

The programme adopts an integrated approach, combining horizontal and thematic

measures and lending greater coherence, effectiveness and transparency to the pursuit of energy policy objectives (security of supply, competitiveness and environmental protection).

Appropriations for horizontal measures total ECU 20 million for 1998–2002 and cover the ETAP programme, for which ECU 1.5 million was available for 1998, and the Synergy programme with an allocation of ECU 5 million for 1998. Bearing in mind the growing energy problems in the Union (increasing dependence on external suppliers, emergence of markets with heavy demand for energy, and worldwide environmental problems), the decision of 14 December ensures the continuity of the Synergy programme, which the Council had already extended for one year in December 1997.

The thematic measures, with an estimated ECU 143 million for the whole reference period, correspond to the specific sectors identified as priorities for European energy policy, with particular emphasis on the promotion of environmentally-friendly technologies and sustainable development.

Four specific programmes are proposed under the framework programme:

□ Altener II: a Council decision was adopted concerning this programme for 1998–99 on 18 May 1998. A decision by the Council and Parliament should be adopted in 1999 to extend the programme to 2002. A revised and indicative financial package of ECU 74 million is proposed for the period 1998–2002. ECU 11 million was available in 1998.

□ Save II (1996–2000), for which appropriations totalling ECU 15.5 million were available for 1998. A Council and Parliament decision incorporating this programme into the adopted framework programme should be approved in 1999, and an indicative financial package of ECU 64 million is earmarked for 1998–2002. The

vital role played by Save II was underlined by the pledges made by the industrial nations at the Kyoto International Conference on Climate Change in December 1997 to reduce greenhouse gas emissions by 2010. In 1998 a total of 96 projects received assistance of ECU 15.8 million under this programme ⁽¹⁾. For the first time associated central European countries participated in some of these projects. In addition, 33 new energy agencies were set up under the responsibility of local or regional authorities.

□ The Carnot programme is gaining in importance in the context of environmental protection and the forthcoming enlargement of the European Union. The Community must play a leading role in furthering the market penetration of these technologies and encouraging firms in this sector to draw up the long-term strategies they will require, for example, to replace thermal power stations currently in operation. An indicative allocation of ECU 3 million is proposed for this measure over the period as a whole. No appropriation was available in 1998.

□ The SURE programme involves an indicative financial package of ECU 9 million, with ECU 3 million under heading 3. No appropriation was available in 1998.

Euratom nuclear safeguards

The appropriation available for 1998 totalled ECU 16 million and was intended to finance the obligations conferred by the Member States on the Commission under Chapter VII of the Euratom Treaty, in particular to ensure that nuclear materials are not diverted from their intended uses. The scope of these obligations, the financing of which is covered by

⁽¹⁾ Including ECU 0.3 million committed from EFTA appropriations.

Article 174 of the Treaty, is a direct consequence of current and recent technical, economic and political choices made in each Member State.

The 1998 Euratom security inspection carried out accounting and physical checks on average stocks of 485 tonnes of plutonium, 10 tonnes of highly enriched uranium, 303 000 tonnes of uranium, thorium and heavy water. ECU 3.8 million was available in 1998 for sampling and analyses.

The number of man-days spent on inspections throughout the European Union came to around 9 000. This figure mainly covers inspections of large-scale installations using plutonium, nuclear reactors and large-scale storage facilities, but also includes the more technical missions conducted under the 'new partnership approach' between the Commission and the International Atomic Energy Agency (IAEA). ECU 5.5 million was proposed for inspections and the training of inspectors in 1998.

The security inspection unit installed and fine-tuned highly automated safeguards systems for new facilities in existing plants, in particular the major plutonium-processing plants Melox, UP3 and UP2-800 in France and Thorp and SMP (Sellafield Mox Plant) in the United Kingdom. Already installed equipment underwent a thorough inspection after several years of operation and some systems were upgraded. Work also continued on the establishment of the Euratom laboratories at Sellafield and The Hague. ECU 6.7 million was provided for this purpose.

Environment

Appropriations available for 1998 totalled ECU 141 million for the entire field.

The Union continued to implement the fifth action programme on the environment and development. In 1998 the Commission spent ECU 16 million on preparing and monitoring the whole range of legal instruments used, particularly in the integration of the environmental dimension in other policies (transport, energy, agriculture), biodiversity, pollutant emissions from vehicles and industrial installations, climate change, chemical substances, biotechnology, etc. ECU 1 million was used to launch a new civil protection programme.

This work was accompanied by awareness-raising, information, education and training activities, and financial support was awarded to non-governmental organisations involved in environmental protection. ECU 7 million was allocated to organisations and projects selected by calls for proposals.

A Community subsidy of ECU 16.8 million was paid to the European Environment Agency in Copenhagen in order to implement the part of its 1994-99 work programme relating to 1998. This programme aims to provide the Commission and the Member States with the necessary objective information to formulate and implement environmental policies, to ensure wide dissemination of the information and to set up and coordinate a European network of observation and information on the environment.

The financial instrument for the environment (LIFE II) provides, 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. In 1998, the Commission financed 201 projects, including 85 (ECU 50 million) concerning nature conservation activities and 116 concerning other activities (also ECU 50

million) aiming to implement Community policies and legislation on the environment.

including an information campaign on food safety and consumer health protection.

Consumer protection

Activities relating to consumers can be grouped in four main areas with commitments totalling ECU 18.5 million:

- (1) protecting consumers' health and safety by preventive measures and risk assessment, plus control and inspection measures;
- (2) educating and informing consumers about their rights and their protection in the single market;
- (3) protecting consumers' economic interests in matters of advertising, contractual terms, dispute prevention and settlement, in particular the indication of the price of products, injunctions and consumer credit;
- (4) promoting and representing consumers' interests at European level, so that their voices can be heard and their opinion solicited prior to the preparation and implementation of Community policies.

In the priority area of consumer health protection, 1998 was a year of consolidation. In the wake of the Commission's radical reorganisation of its departments in 1997, progress was made in connection with food and veterinary inspection, and scientific consultation.

As regards the second field, ECU 6.9 million was used in 1998 for information campaigns,

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. The appropriations available in 1998 for these measures was ECU 2.8 million.

Internal market

The single market is one of the main instruments for achieving the objectives of competitiveness, economic dynamism, growth and job-creation. Appropriations available for 1998 totalled ECU 117 million for the whole of this field.

Considerable progress was achieved in relation to the four strategic objectives set out in the action plan for the single market: making the legislation more effective, removing key market distortions, removing sectoral obstacles to market integration, and delivering a single market for the benefit of all citizens.

The most striking developments took place in the fields of taxation, where all the measures laid down in 1997 to combat harmful tax competition and apply the code of conduct for business taxation were implemented. The Customs 2000 programme (1996–2000), which is intended to ensure that the activities of national customs services meet the requirements of a single market, reached its full level of operation in 1998 (taking up ECU 16.8 million) and an action programme (Fiscalis) was launched to improve, by exchanging information and coordinating the training of the civil servants concerned, the practical applica-

tion of the systems of indirect taxation in the internal market (with expenditure totalling ECU 4 million).

As part of the new service 'Europe Direct', a new programme entitled 'Dialogue with citizens and business' was launched in June at the Cardiff European Council, in order to increase awareness of the opportunities offered by the single market and at the same time to identify any gaps in it.

A business test panel was set up. By directly consulting the firms on the panel on certain legislative proposals, the Commission wishes to improve its information about the administrative charges and adjustment costs which may be incurred as a result of these proposals.

Measures relating to the completion of the internal market must continually be pursued. They are focused on checking transposal of the directives by the Member States and implementation of administrative cooperation, standardisation, the notification of technical standards and certification and the evaluation of medicinal products. Expenditure on completion of the internal market came to ECU 51 million in 1998.

Lastly, by replacing the paper version by CD-ROMs and access via the Internet, the Commission managed to reduce the unit price of the contract notices published in the Official Journal, keeping the total publication cost down to some ECU 35 million, compared with ECU 49 million in 1998, in spite of a 5 % increase in the number of notices to be published.

Industry, services and information market

Appropriations available for 1998 totalled ECU 126 million for the whole of this field.

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. In particular, the objective of the Community action programme to promote the competitiveness of European industry of 25 June 1996, with appropriations in 1998 of ECU 6 million, is concentrated on the benchmarking of competitive performance, the contribution of business services, industrial efficiency and overall quality management.

The Commission is also continuing to implement a 1995 regulation granting financial assistance to Portugal for a specific programme for the modernisation of the Portuguese textile and clothing industry (1995-99), at a cost of ECU 82 million in 1998.

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), the development of the linguistic dimension of the information society and preparatory measures for promoting safer use of the Internet by combating illegal and harmful content. In total, ECU 28 million was reserved for this purpose in 1998, including ECU 8.7 million for awareness-raising, ECU 15 million for INFO 2000 and ECU 4 million for the linguistic dimension.

In 1998, the first year in which the telecommunications market was opened up to full competition, the Commission took steps to ensure that Member States properly implemented the relevant legislation, particularly on universal service, and to complete the provisions governing such aspects as number portability, terminal equipment and mobile communications. It also took action on radio frequencies, electronic signatures, the Internet

and the 'millennium bug'. Expenditure on this was ECU 5 million in 1998.

Labour market and technological innovation

The Commission took a number of measures to implement the initiative for employment launched by Parliament and approved by the Luxembourg European Council on employment. It put into effect the Council decision of 18 May 1998 on measures of financial assistance for innovative and job-creating SMEs. Its aim is to support the investment activity of SMEs by providing them with easier access to funding and stimulate their growth and the creation of jobs. The decision provides for the establishment of three complementary facilities: a 'risk-capital window', administered by the European Investment Fund (EIF), which is aimed at SMEs in the start-up phase, a system of financial contributions, under the responsibility of the Commission, to SMEs for the setting-up of new transnational joint ventures within the European Union (joint European ventures), and a system of guarantees, administered by the EIF, to increase the volume of loans accessible to small or newly founded SMEs.

The EIF has been provided with ECU 50 million for risk capital and ECU 50 million for guarantees. ECU 20 million has been allocated for ventures.

The above measures were accompanied by an enterprise policy concentrating mainly on small and medium-sized businesses. In particular, the new 1997–2000 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 by means of a European technology transfer network and specific measures to help the craft sector and small firms in distributive trades. The total cost of the activities carried out in 1998 came to ECU 35.5 million.

Labour market initiatives

In 1988 the Commission also carried out a number of operations in connection with labour market initiatives. ECU 12 million was allocated to projects for innovative approaches in the Member States' labour markets. A further ECU 10 million went to pilot projects on the 'third system' and ECU 8 million was allocated to Community activities concerning analysis, research and cooperation in the field of employment and the labour market (programme adopted for 1998–2000, with a reference amount of ECU 30 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 has developed a Community statistical programme 1998–2002 which, in accordance with the framework programme on Community statistics, sets out the principles, key domains and objectives of the action planned and identifies the strategies and work schedules for each planning period. The Council adopted the programme on 22 December 1998. While pinpointing three top priorities (economic and monetary union; competitiveness, growth and employment; the enlargement of the European Union), it also provides for the maintenance of the current statistical support to decision-making under the existing policies.

Implementation of the framework programme will require a budget of around ECU 30 million a year.

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, competi-

tiveness 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 1998 budget to finance the TENs came to a total of ECU 545.7 million. They were intended primarily for financial support for infrastructure projects in the fields of transport (ECU 475 million), energy (ECU 18.6 million) and telecommunications (ECU 27.6 million), networks for the interchange of data between administrations (ECU 15 million) and networks for Community statistics (ECU 9.5 million).

On 18 March, as part of the process of implementing its Agenda 2000 communication, the Commission proposed a revision of Regulation (EC) No 2236/95 laying down general rules for the granting of Community financial aid in the field of trans-European networks. The Commission proposal is intended primarily to improve the financing of TEN projects, making more use of multiannual programming in order to facilitate public-private partnerships by making funding available for the lifetime of a project and introducing risk-capital participation as a new form of financing. It also raises the maximum rate of Community aid to 20 % in exceptional cases and gives an indication of the spending needed, estimated at ECU 5.5 billion for the period 2000–06, including some ECU 5 billion for transport networks.

As requested by the Luxembourg European Council on employment, the Commission presented to the Cardiff European Council a report on progress with and implementation of the 14 trans-European transport network projects identified by the Essen European Council as having priority. The report gives an overview as well as a timetable and a financial plan for each of the projects. Overall,

significant progress has been made: three projects are near to completion (the Cork–Dublin–Belfast–Larne conventional rail link, Malpensa airport and the Øresund fixed link), and most of the other projects are due for completion by around 2005. Meeting in Cardiff in June, the European Council recalled the importance it attaches to the implementation of the trans-European networks, including the 14 priority projects.

The Commission proposed to update the list of common interest projects in the energy sector provided for by Decision No 1254/96/EC, by adding 15 new projects (11 for gas and 4 for electricity) and amending four existing projects (three for gas and one for electricity).

On 21 December, the Council adopted common positions on the two proposals for decisions concerning the new IDA programme (electronic data interchange between administrations). On 28 May, the Court of Justice annulled Council Decision 95/468/EC concerning the old IDA programme, because it should have had Article 129d of the EC Treaty as legal basis. The effects of the decision prior to its annulment are preserved.

Cooperation in the fields of justice and home affairs

The Treaty on European Union (TEU) 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, judi-

cial 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. This 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.

ECU 15.75 million was available in 1998 for the whole of this field. ECU 11.5 million was used to implement the 1998 tranche of the multiannual programmes for exchanges, training and cooperation in various fields of cooperation in the field of justice and home affairs.

On 19 March, the Council adopted Joint Action 98/244/JHA introducing a programme of training, exchanges and cooperation in the field of asylum, immigration and crossing of external borders (Odysseus); 49 projects were financed on this basis in 1998.

As part of the process of implementing the action programme on the fight against organised crime approved by the Amsterdam European Council, on 19 March the Council adopted Joint Action 98/245/JHA establishing a programme of exchanges, training and cooperation for persons responsible for action to combat organised crime (Falcone). Some 30 European cooperation projects were supported in 1998.

ECU 3.8 million was also allocated to finance specific projects for asylum-seekers and refugees on the basis of a joint action adopted by the Council on 27 April.

On 16 December the Commission adopted a proposal for a joint action establishing measures to provide practical support in relation to the reception and voluntary repatriation of refugees, displaced persons and asylum-seekers, proceeding from the principle that respon-

sibility should be shared among Member States. The Commission proposed ECU 30 million to cover all these measures over the period 1999–2000.

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 the economies of central and eastern Europe, particularly as part of the European Union's pre-accession strategy vis-à-vis associated countries in that region;
 - the establishment of a Euro-Mediterranean partnership;
 - cooperation with the new independent States and Mongolia;
 - cooperation with the republics of former Yugoslavia;
 - cooperation with developing countries in Asia and Latin America;
 - the European programme for reconstruction and development in South Africa.
2. cooperation and aid measures, often of a horizontal nature, which cannot easily be distinguished by geographical area, e.g.:
 - food aid and humanitarian aid;
 - the ECIP facility — promotion of Community investment in the Asian, Latin American and Mediterranean developing countries and South Africa.
3. accompanying measures, including:
 - external aspects of certain Community policies — environment, international

fisheries agreements and commercial policy; <input type="checkbox"/> Community participation in projects carried out by non-governmental organisations to assist developing countries; <input type="checkbox"/> initiatives in the field of democracy and protection of human rights; <input type="checkbox"/> measures in favour of the environment, tropical forests and health in the developing countries.	European initiative for democracy and the protection of human rights 97.4 External aspects of Community policies (international fisheries agreements, environment) 383.8 <hr/> Total 6 068.7
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4. joint actions 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, the appropriations available for commitment under the 1998 budget were as follows:

	<i>(million ECU)</i>
Common foreign and security policy	30.0
Cooperation with the countries of central and eastern Europe	1 152.3
Cooperation between the former Soviet Union and the Independent States	536.4
Cooperation with the republics of former Yugoslavia	259.0
Food aid and humanitarian aid (including the emergency aid reserve and aid to uprooted populations in Asian and Latin American developing countries)	1 252.5
Cooperation with Asia, Latin America and South Africa	808.2
Cooperation with Mediterranean non-member countries	1 142.0
Other forms of cooperation with developing countries and non-member countries	407.1

Virtually all these appropriations were committed.

Priorities for external action are the development of cooperation with the countries of central and eastern Europe and with the non-member countries of the Mediterranean and the Middle East, on the basis of the indicative financial plans for these areas laid down at the Cannes European Council on 26 and 27 June 1995.

The overall aim of cooperation with the countries of central and eastern Europe (the Phare programme) is to support the economic restructuring process and encourage the changeover from a planned economy to a market economy and free enterprise.

The initial aims of the Phare programme were extended at the European Councils at Copenhagen (June 1993) and Essen (December 1994) to include preparations for the accession of the associated central and east European countries to the European Union. The timetable for the initial stages in this process was laid down at the Madrid European Council in December 1995, and in June 1997 the Amsterdam European Council decided to strengthen the pre-accession strategy.

The new guidelines proposed by the Commission for adapting the Phare programme to the new enlargement priorities were implemented following the conclusions of the Luxembourg European Council of 12 and 13 December, adoption of Council Regulation (EC) No 622/98

of 16 March 1998 on assistance to the applicant States in the framework of the pre-accession strategy, and in particular on the establishment of accession partnerships, and the establishment of these partnerships through adoption of the Council decisions of 30 March 1998.

Measures under this programme focus on two main types of horizontal requirements which result from examination of the situation in the applicant countries: institution-building (30 %) and investment (70 %) in connection with the *acquis communautaire*.

The first priority is to help the administrations of the applicant countries to develop an effective capacity to implement the established Community law. This institution-building, which could take up around 30 % of the budget, should make less use of consultants and mobilise other types of operators in the Union: national authorities, the legal professions, academics, etc.

The second requirement is that the applicant countries must make the necessary investments to enable their firms and major infrastructure to come into line with Community standards. This contribution, to which around 70 % of the budget should be devoted, will be particularly necessary in areas where Community standards are increasingly demanding: environment, transport, industrial plant, etc. It will support investments to finance operations connected with implementation of established Community law, for instance on the environment or integrated regional development. It will also involve joint financing with the EIB, EBRD and the World Bank of the major infrastructure projects required to ensure that the proper adjustments are made. Finally it will take the form of an SME financing facility for which the mechanisms will be examined with the EIB and EBRD. Special attention will be paid to promoting intangible investment, in particular to help the applicant countries gain access to the information society.

The MEDA programme, which supports the reform of social and economic structures in the Mediterranean region, is the chief instrument for implementing the Euro-Mediterranean partnership decided on at the Euro-Mediterranean Conference in Barcelona in November 1995. The partnership has three components:

- a political and security partnership to establish a common area of peace and stability;
- a partnership in social, cultural and human affairs to promote understanding between peoples;
- an economic and financial partnership to create an area of shared prosperity.

The most important objectives include:

- creating a shared area of prosperity by speeding up and maintaining the pace of our Mediterranean partners' social and economic development;
- improving living conditions for the people, particularly by increasing the level of employment and reducing discrepancies in development in the region;
- supporting cooperation and regional integration and exchanges in civil society.

One of the features that will have the greatest impact on the economies of the Mediterranean countries is the gradual establishment of a free-trade area, as provided for by the Euro-Mediterranean association agreements which the Community has signed or is about to conclude with a number of countries. The MEDA programme aims to assist the gradual creation of a Euro-Mediterranean economic area by supporting economic transition, supporting better socio-economic balance and regional integration.

Accordingly, many of the projects financed in 1998 were concerned with social issues (edu-

cation, health, unemployment), socio-economic improvements — such as structural adjustment programmes and the modernisation of public administration and management — and environmental protection, including projects on water sanitation, rural development and the management of natural resources.

Other cooperation measures with non-member Mediterranean countries include:

- The finalising of financial protocols with the southern Mediterranean countries (Algeria, Egypt, Jordan, Lebanon, Morocco, Syria and Tunisia);
- Financial protocols with Malta and Cyprus with a view to financing or helping to finance cooperation projects to strengthen their economic ties with the Community, for the mutual benefit of both sides, by developing cooperation in industry, agriculture, training and research, technology, trade and other services. A decision had been taken to conclude a fourth protocol with both countries to prepare them for the economic efforts they would have to make in order to join the European Union. Following the political changes in Malta after the elections on 26 October 1996, its application to join the Union was frozen and implementation of the fourth protocol with Malta was therefore suspended.
- Community action linked to the peace agreement between Israel and the Palestine Liberation Organisation (PLO). Special emphasis has been placed on education, municipal infrastructures, the management of water, sanitation and solid waste, support for the private sector and support and technical assistance for institution-building.
- The ninth agreement with UNRWA (United Nations Relief and Works Agency for Palestine Refugees in the Near East); the Union's contribution will be used to finance education and health programmes.

The purpose of the Tacis programme of cooperation with the new independent States and Mongolia is to support the process of reform and transition to a market economy in these countries, strengthen their democratic structures and establish a pluralist society. The measures to be financed form part of indicative programmes aimed at supporting the macroeconomic and sectoral policies pursued by the authorities in the partner countries, concentrating on the medium-term priorities of economic reform.

Under the plan for 1996–99, the main areas to be covered are as follows:

- development of human resources
- restructuring and development of firms
- transport and telecommunications infrastructures
- energy, including nuclear safety
- the environment.

Financial contributions are thus focused on a narrower range of priorities, involving projects on a greater financial scale, and the structures for implementation on the ground have been rationalised.

The Community's role is to promote close cooperation and coordination within the group of 24 industrial countries in order to ensure that the various steps taken by the donors are fully effective and to avoid any duplication.

Cooperation with the republics of former Yugoslavia is geared to helping the reconstruction and rehabilitation of these countries. Community programmes are concentrated in particular on parts of Bosnia-Herzegovina and eastern Slavonia (Croatia) devastated by the war and in areas of Bosnia-Herzegovina where there are likely to be large numbers of refugees.

In 1998 the Commission continued implementing the new strategies for boosting cooperation with the Asian and Latin American developing countries proposed in 1994 and 1995.

It is important to support the process of growth in the Latin American countries by strengthening the Community's partnership with these countries and by continuing to develop the dialogue with central America, the Rio Group, Mercosur, Mexico and Chile.

The new Asian strategy aims to establish a new Euro-Asian partnership based on promotion of political dialogue, expansion of economic relations (trade, investment and technology transfer) and increased cooperation in a number of sectors (development of human resources, development aid for the poorest sections of the population, the environment).

These operations are covered by Council Regulation (EEC) No 443/92 of 25 February 1992 on financial and technical assistance to and economic cooperation with these countries.

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 Community aid can play an important role in sustainable development, particularly as regards the rural sector and greater security of food supply, and in human development, education, health and institution-building.

Operations with an impact on economic structures and measures relating to the environment receive special attention. The human and cultural dimension of development was taken into account in all areas of intervention. 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.

A total of ECU 127.5 million was committed in 1998 for the implementation of development cooperation projects in South Africa. An indicative programme has been drawn up for the period 1997-99 aimed at developing and consolidating democracy and institutions, promoting the private sector and helping the poorest sections of the population. This programme comprises four priority areas of cooperation:

- basic social services (health, education, training, water and sanitation)
- assistance for the private sector
- good governance
- regional cooperation.

The programme will also cover the development of human resources, equal opportunities between men and women, environmental protection and cross-sectoral issues.

Food aid figures large among the forms of assistance given to developing countries. Food aid operations (aid in products and financial

aid) are carried out in line with other sectoral policies and development policy and in conjunction with other donors. 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 in products 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 with the aim of raising the general standard of nutrition, improving food security and, through integrated development programmes, contributing 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 needy, 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).

Aid in kind includes not only delivering food-stuffs, but also providing seeds, fertilisers, tools or other agricultural inputs. It may be backed up by technical and financial assistance and awareness-raising and training measures.

A new regulation on food-aid policy and management and special operations in support of food security was adopted on 27 June 1996. The new regulation provides for two new instruments — foreign currency facilities and operations in support of food security.

The currency facilities are designed to provide financial assistance for countries which have a private sector that is able to import food products but does not have access to the necessary

hard currency. Specific measures are to be encouraged to support small firms in these countries in order to make markets more efficient by involving more traders.

The food aid operations will take the form of financial and technical assistance, the aim being to support the framing and execution of a food strategy or other measures fostering the food security of the population concerned and to encourage the countries in question to reduce their food dependency and hence the deliveries of food aid. Special attention is to be paid to low-income countries with serious food shortages.

The provision of food aid and measures to support the resumption of farming activities were programmed alongside the long-term reform programmes to bring about the structural reforms needed to tackle the underlying causes of food insecurity in countries suffering from a structural deficit and a high insecurity index. Despite the increase in world food supply, food production in the developing countries fell in 1998: this trend was exacerbated by poor weather conditions due to factors such as El Niño (flooding, drought), wars and civil conflict.

ECU 578.3 million was committed in 1998. The geographical breakdown of food aid operations in support of food security was as follows:

- ACP countries — 48 %
- new independent States of the Caucasus and central Asia — 10 %
- developing countries in Latin America — 13 %
- developing countries in Asia — 23 %, including 13.0 % for Bangladesh
- non-member countries in the Mediterranean and Middle East — 6 %.

Financial aid (direct budgetary aid, foreign currency and support operations) accounted for 61 % of the total.

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 Community'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). Depending on the situation, ECHO finances food aid, the provision of shelter and medicines, water supplies, war surgery, emergency repairs and vaccinations, psycho-social assistance, air lifts and landmine clearance. It also manages a programme to prepare for and prevent natural disasters in high-risk regions. All aid financed by ECHO is granted without any discrimination on the grounds of race, ethnic origin or religion.

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 dramatically. The European Union is now the largest single public donor of humanitarian aid. In 1998 some 1 200 humanitarian operations were carried out in more than 70 countries at a cost of around ECU 517.7 million (ECU 480.3 million from the Community budget and ECU 37.4 million from the European Development Fund) to meet the many requirements in this field, in particular in former Yugoslavia, Albania, Kosovo, central, eastern and the Great Lakes regions in Africa, Asia and central America (as a result of Hurricane Mitch). The main areas for intervention were still the former Yugoslavia (23.8 %), the ACP countries (30.6 %), in particular sub-Saharan Africa, and the developing countries of Asia (12.9 %)

and Latin America (10.7 %). However, the Community also continued to supply humanitarian aid to some 60 countries in crisis around the world, including Guinea-Bissau, Bangladesh, Colombia, Cambodia, Vietnam, Indonesia, Armenia, Azerbaijan, Georgia, Tajikistan, Iraq, Afghanistan, North Korea 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 200 — mainly European — non-governmental organisations, the agencies of the United Nations and the Red Cross, almost all of them signatories of a framework partnership agreement with the Commission. Cooperation between ECHO and its partners enables the Community to respond quickly and flexibly to humanitarian emergencies. In 1998 aid was again given to the millions of human beings who were victims of natural disasters and long-running man-made crises, chiefly civil wars.

A total of ECU 340.1 million was committed under the heading of other cooperation action, which consists of a series of specific, horizontal projects centred on four main areas:

- Community participation in projects carried out by non-governmental organisations in the developing countries, particularly in agriculture, health and training; special attention was also paid to measures aimed at raising European public awareness of development issues;
- health and the environment in the developing countries (including tropical rainforests, drugs and the fight against AIDS);
- reconstruction programmes for southern Africa and all developing countries, the aim being to launch recipient countries on the course towards real development;

- coordination of development policy, evaluation of the results of Community aid, and monitoring and inspection measures;

This also includes special operations in conjunction with non-member countries including Community participation in the Korean Peninsula Energy Development Organisation (KEDO) and action on anti-personnel landmines.

ECU 85.6 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 which aim to support democracy and the protection of human rights and to sustain peace-making 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.

A total of ECU 330.2 million was committed for the external aspects of certain Community policies, including:

- ECU 271.3 million for international fisheries agreements;
- ECU 10.1 million for external aspects of the common commercial policy (external trade relations and the World Trade Organisation, the promotion of European Union exports to Japan and access to markets in non-member countries);
- ECU 28.4 million for the promotion of Community investment in the developing countries of Latin America, Asia and the Mediterranean within the framework of economic and trade cooperation agreements.

Finally, ECU 37.9 million was committed under the common foreign and security policy, mainly to finance the following forms of joint action:

- coordination, supervision and training of specialists and local trainers for mine disposal in Croatia;
- European Union participation in the structures for implementing the peace agreement and support for elections in Bosnia-Herzegovina;
- promotion of the Middle East peace process;
- promotion of the peace process in the Great Lakes region in Africa.

Community expenditure in the Baltic Sea region

The Luxembourg European Council stressed the importance of the European Union's initiative in the Baltic Sea region and called on the Commission to present a report to the Vienna European Council on the northern dimension of the European Union's policies. With four Member States, four future members of the Union and Russia, the Baltic Sea region is of paramount importance to the EU. Regional cooperation will be intensified in three main fields, namely, strengthening democracy and stability in the region, deepening economic cooperation and promoting regional development.

Expenditure in this region 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 sums involved are not always easy to determine, as they may come under budget headings covering wider geographical areas. Financing can also be obtained from the European Investment Bank (EIB). The appropriations entered in headings in the 1998 budget which clearly show expenditure in the Baltic Sea area total ECU 140 million.

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 funds, the Com-

mission does not allocate them beforehand during the budgetary procedure and the budget does not give a full breakdown by country. There are many multiannual programmes per country for the period 1995–99, but they are intended merely as a guide.

In 1998 the budget of the European Union channelled over ECU 99 million through the national Phare programmes and the programme of large-scale infrastructure projects in the three Baltic States. Aid went mainly to integration, economic development, including the private sector, the promotion of exports, human resources, institutional reforms, regional development and the development of infrastructures. The cross-border cooperation programme for the Baltic Sea region, launched as part of the cross-border Phare programme, was allocated ECU 13 million in 1998. It provides aid for the part of Poland bordering the Baltic Sea and the three Baltic States.

A separate budget heading was created for the Baltic Sea region in the 1998 budget (special action in favour of the Baltic region), although no appropriations have been entered to date. In the 1999 budget, this heading has been allocated EUR 10 million from the Phare and Tacis programmes. The budget remarks for this heading refer to the regulations for these two programmes and explicitly mentions projects in the energy and environment sectors.

The accession procedure began with the involvement of Estonia, Latvia, Lithuania and Poland. The Phare programme was redirected to preparations for accession. In future budgets, activities in this region will mainly be administered in a separate subsection devoted solely to preparations for accession.

Heading 5 — Administrative expenditure

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

This expenditure accounted for 4.8 % of total expenditure in 1998 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 grants, 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 2
Administrative expenditure of the Institutions in 1998

Institution	Establishment plan in 1998 budget (permanent and temporary posts)	Staff (million ECU)	Administration (million ECU)
European Parliament and Ombudsman	4 110.0	511.0	544.2
Council	2 534.0	193.0	124.2
Commission,	21 495.0	1 819.5	1 130.1
of which:			
— administration	(17 783.0)	(1 674.0)	(1 116.2)
— research	(3 712.0)	(145.5)	(13.9)
Court of Justice	953.0	93.1	25.9
Court of Auditors	553.0	51.4	6.1
Economic and Social Committee	135.0	10.4	14.8
Committee of the Regions	88.0	6.5	7.2
Joint structure	516.0	35.7	16.1
Total	30 384.0	2 720.5	1 868.5

On 12 May 1998 the Court of Justice delivered a judgment in Case C-106/96. Following an application by the United Kingdom, this judgment found against the Commission for deciding to fund 86 projects in the area of action to combat poverty and social exclusion in 1995, when the basic instrument for the Poverty 4 programme, proposed in September 1993, had been held up by the Council. The Court pointed out that, as a rule, all items of Community expenditure required the prior adoption of a basic act authorising this expenditure, except if it could be shown that this expenditure was in preparation of a new operation.

The judgment had two effects: there was the immediate effect on the implementation of the 1998 budget, which eventually proved limited, and a longer-term effect, which was decisive in the solution of a problem which the institutions had discussed for almost 20 years.

Effect on the implementation of the 1998 budget

On 10 June 1998 the Commission decided for the time being to suspend the commitment of appropriations in all the budget headings which might be in the same situation as the heading covered by the judgment (although it would meet payments against previous commitments). This suspension of commitments provided an opportunity to check whether the conditions laid down by the Court's judgment applied to these headings.

This decision, which affected the implementation of around 100 headings totalling ECU 920 million (i.e. some 1 % of the European Union's budget for 1998), caused a considerable public stir. The Commission conducted its check painstakingly and gradually unblocked the headings once it was satisfied that they met the criteria of the Court's ruling (i.e. they had to be pilot projects, preparatory measures or autonomous operations). Sometimes, it was also possible to find a legal base for some or all of the operations under the heading.

By 14 July 1998 the Commission was able to report on the verification exercise stating:

- 55 headings totalling ECU 390 million had been unblocked in full;
- 20 other headings totalling ECU 170 million had been unblocked in part (i.e. only those operations which were compatible with the Court's judgment, and not all the operations originally planned, could be implemented);
- a legal base had been proposed for 15 headings totalling some ECU 340 million which could not be implemented before the legal base had been adopted. However, the Commission proposed that, given the political sensitivity of some of these headings, such as measures to combat violence against children, adolescents and women, risk analysis and the information campaign on food safety (in the context of the BSE crisis), measures to deal with illegal and harmful content on the Internet, measures relating to human rights and democracy, implementation could continue without a legal base;
- 7 headings totalling 22 ECU million could not be implemented without violating the Court's judgment, but the Commission proposed that account be taken of the need to safeguard Community interests and to cater for the legitimate expectations of potential beneficiaries.

These findings and proposals were adopted by the Council (budgets) on 17 July 1998, in agreement with the delegation from Parliament.

An ad hoc agreement was reached for 1998 and both the Council and Parliament agreed to speed up the procedure for adopting the legal bases currently pending so that the headings which were still blocked could be implemented as soon as possible.

Indeed, the legal bases for 4 of the 15 headings concerned, including the headings for the European voluntary service (ECU 25 million) and schemes concerning developing countries carried out by non-governmental organisa-

tions (ECU 200 million) were adopted within two months.

The effects of this exercise on implementation of the 1998 appropriations was only very marginal. By way of illustration, the following ta-

bles show the final rate of utilisation at 31 December 1998 for the headings covered by the ad hoc agreement and the headings which were still suspended (with due consideration for legitimate expectations) or unblocked in part.

(a) Headings covered by the ad hoc agreement

(ECU)

Article/Item	Heading	1998 budget	Implementation at 31.12.1998
B3-4109	Measures for combating violence against children, adolescents and women	3 800 000	3 778 000
B5-336	Action against illegal and harmful content on the Internet	1 000 000	981 000
B7-700	Support for democracy in the countries of central and eastern Europe, including the republics formerly part of Yugoslavia	15 000 000	14 732 000
B7-701	Support for democracy in the New Independent States and Mongolia	8 000 000	7 624 000
B7-7020	Human rights and democracy in the developing countries	19 700 000	19 127 000
B7-7021	Human rights and democracy in southern African countries	2 300 000	2 253 000
B7-703	Democratisation process in Latin America	12 625 000	10 800 000
B7-7040	Subsidies for certain activities of organisations pursuing human rights objectives	14 700 000	14 498 000
B7-705	MEDA programme for democracy	10 075 000	9 394 000
B7-706	Support for the activities of international criminal tribunals and for the setting up of a standing international criminal tribunal	2 000 000	1 849 000
B7-707	Human rights and democracy in Asian countries	5 000 000	2 273 000
B7-709	Support for, and supervision of, electoral processes		
	Total	94 200 000	87 309 000

(b) Suspended headings

(ECU)

Article/Item	Heading	1998 budget	Implementation at 31.12.1998
B1-3800	Promotion measures in non-member countries	5 000 000	0
B2-706	Action programme to promote the combined transport of goods	6 000 000	6 000 000
B3-1000	Preparatory measures for reinforcing cooperation in the field of education	1 982 000	668 000
B3-1006 (+ reserve)	Promotion and safeguard of regional and minority languages and cultures	4 076 000	3 752 000
B3-2003	European cultural development policy	5 300 000	5 264 000
B3-2020	Sport in Europe	2 675 000	2 634 000
B3-4101	Cooperation with charitable associations	2 000 000	1 949 000
B3-4116	Cooperation with non-governmental organisations and associations formed by the socially-excluded and the elderly	5 000 000	4 740 000
B3-440	Combating drugs — global aspects	25 000	17 000
B5-321	Measures in the social economy sector (cooperatives, mutuals, associations and foundations)	900 000	655 000
B5-324	Action to encourage trans-frontier provision of equity capital for small and medium-sized enterprises		0
B7-611	Integrating gender issues in development cooperation	5 000 000	37 000
B7-851	Promotion of European Union exports to Japan	11 500 000	6 368 000
B7-852	Access to the markets of non-Community countries	3 000 000	2 113 000
	Total	52 458 000	34 197 000

(c) Headings unblocked in part

(ECU)

Article/Item	Heading	1998 budget	Implementation at 31.12.1998
B3-1020	Social dialogue operations and preparatory measures for reinforcing cooperation on vocational training	509 450	341 000
B3-4102	Preparatory actions to encourage cooperation between Member States to combat social exclusion	3 300 000	2 825 000
B3-4108	Measures in favour of the family and children	3 200 000	1 913 000
B3-4110	Free movement of workers and measures to benefit migrants, including immigrants from outside the Union	6 900 000	6 406 000
B3-4304	Health and well-being	800 000	800 000
B4-1040	European Energy Observatory	1 500 000	1 449 000
B4-304	Legislation and other general action based on the fifth action programme on the environment	16 200 000	15 906 000
B5-100	Measures in favour of consumers with regard to products and services	9 400 000	8 485 000
B5-103	Measures to improve consumer health	7 120 000	6 759 000
B5-300	Strategic programme on the internal market	18 798 000	16 460 000
B5-600	Policy on statistical information concerned with non-member countries	30 223 000	30 006 000
B5-7210	Networks for the interchange of data between administrations (IDA)	15 283 000	15 110 000
B7-610	Training and promotion of awareness and development issues including periods of training at the Commission for nationals of third countries	4 500 000	4 179 000
B7-6601	Cooperation agreements with third countries	1 600 000	1 266 000
B7-811	Contribution to international environmental activities including the Global Environment Fund	7 250 000	7 005 000
B7-850	External trade relations and the World Trade Organisation	2 100 000	1 653 000
B7-870	Commercial and economic cooperation agreements with third countries	1 305 000	1 287 000
Total		129 988 450	121 850 000

The interinstitutional agreement on legal bases and implementation of the budget

On 17 July 1998 Parliament, the Council and the Commission also reached a general agreement concerning legal bases and implementation of the budget, successfully concluding four years of negotiations based on the Commission communication of 6 July 1994 on legal bases and maximum amounts. This agreement, which was officially signed on 13 October 1998 and included in the new interinstitutional agreement, should help resolve a source of conflict encountered over a number of years since the issue of legal bases involves the distribution of power between the institutions: the legislative and budgetary power held by Parliament and the Council and the power of initiative and execution held by the Commission.

The text seeks to address the specific concerns of each institution.

- By authorising 'pilot projects', it implicitly accepts that the entry of appropriations in the budget by Parliament often provides impetus in starting up an operation which can, in some cases, result in more system-

atic trials in the form of preparatory actions proposed by the Commission with a view to the drafting of a basic instrument.

- The Commission can now avoid any interruption between the preparatory phase of an action and implementation of the action itself, by allowing the operation to continue on a preparatory basis during the legislative procedure.
- These facilities for budget implementation are hedged around by strict rules concerning ceilings and duration, for both pilot projects and preparatory measures, which satisfies the Council's demand that spending under such headings be limited: the duration of pilot projects and preparatory actions is kept to two and three years respectively, with ceilings of ECU 32 million and ECU 30 million for new preparatory actions; this gives an aggregate amount of no more than ECU 75 million in any given year.

The agreement also seeks to clarify which appropriations may be used without a basic instrument under cover of the Commission's institutional prerogatives and specific powers and the institutions' administrative autonomy.

BORROWING AND LENDING OPERATIONS

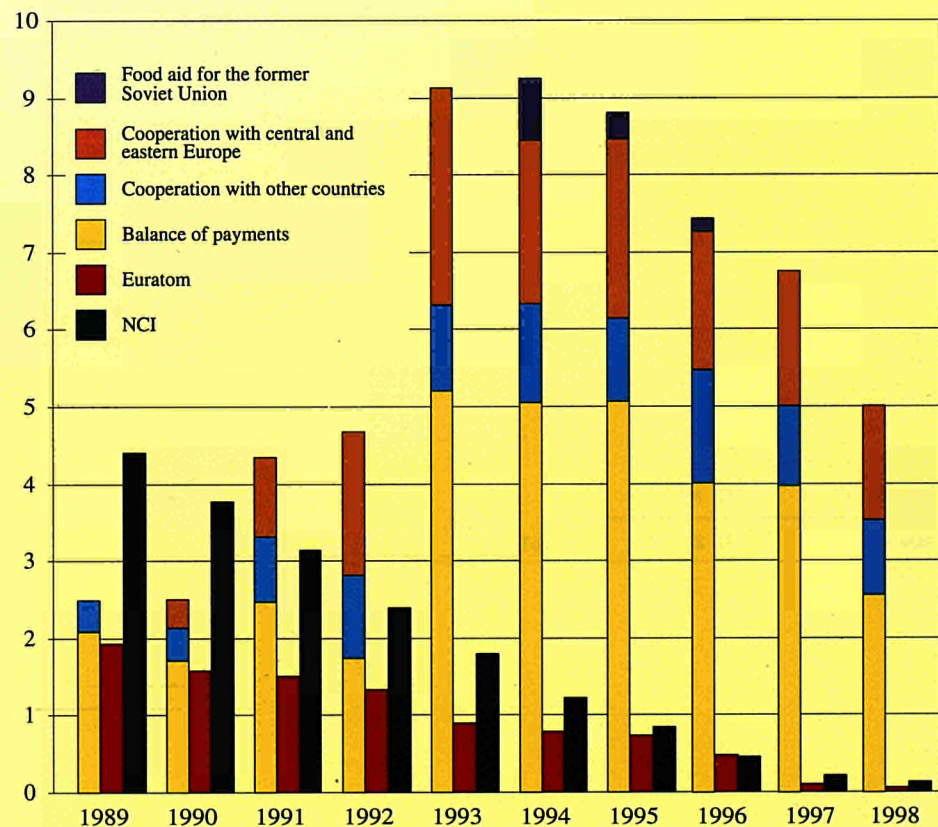
In addition to the measures financed by the general budget, a number of Community operations are carried out using borrowed funds. The Communities have developed several instruments which give them access to capital markets and are used to finance various categories of loans. In addition to these loans 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 balance sheet; it ignores operations carried out under the financial provisions of the ECSC

Treaty (ECU 2 833 million in loans outstanding at 31 December 1998) and those carried out by the European Investment Bank from its own resources under the EEC Treaty (ECU 133 065 million in loans outstanding at 31 December 1998).

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.

FIGURE 12
Community loans outstanding, 1989–98

(billion ECU)



Where a non-member country defaults on a loan granted or guaranteed by the Union, the 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 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 1998 loans outstanding totalled ECU 2 483 million.

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 4.0 billion. At 31 December 1998 outstanding loans totalled ECU 28 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 million and has been used to grant loans of ECU 6 197 million, including ECU 679 million to finance reconstruction projects following the earthquakes in Italy in 1980 and in Greece in 1981. At 31 December 1998 the loans outstanding came to ECU 168 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 40 million granted as macrofinancial assistance to the former Yugoslav Republic of Macedonia (FYROM), the second tranche of ECU 15 million was paid on 13 February 1998. At the end of 1998 outstanding loans to FYROM thus totalled ECU 40 million.

All the ECU 250 million granted as macrofinancial assistance to Bulgaria by a Council decision of 22 July 1997 was paid in two tranches of ECU 125 million on 10 February and 22 December 1998. At the end of 1998 outstanding loans to Bulgaria thus totalled ECU 360 million.

Financial assistance of ECU 1 250 million has also been granted to the republics of the former Soviet Union. At 31 December 1998 outstanding loans totalled ECU 55 million (unpaid capital amounts due).

As part of the ECU 142 million in exceptional macrofinancial assistance to Georgia, the first tranche of ECU 110 million was paid on 24 July 1998. At 31 December 1998 outstanding loans totalled ECU 110 million.

All the ECU 28 million granted as exceptional macrofinancial assistance to Armenia was paid on 30 December 1998. At 31 December 1998 outstanding loans thus totalled ECU 28 million.

At 31 December 1998 the total amount of outstanding loans financed from borrowings came to ECU 1 738 million.

Loans from budget appropriations

Besides these loans from borrowed funds, loans are also granted from budget appropriations as 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 1998 the outstanding balance of loans on special terms and risk-capital operations came to ECU 520.7 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 1998 the outstanding balance of these operations came to ECU 109.7 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 1998 outstanding loans totalled ECU 3 584 million (ECU 94 million in Spain, Greece and Portugal and ECU 3 490 million 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 4 700 million. At 31 December 1998 loans granted to these countries totalled ECU 4 253 million but only ECU 2 432 million had actually been disbursed.

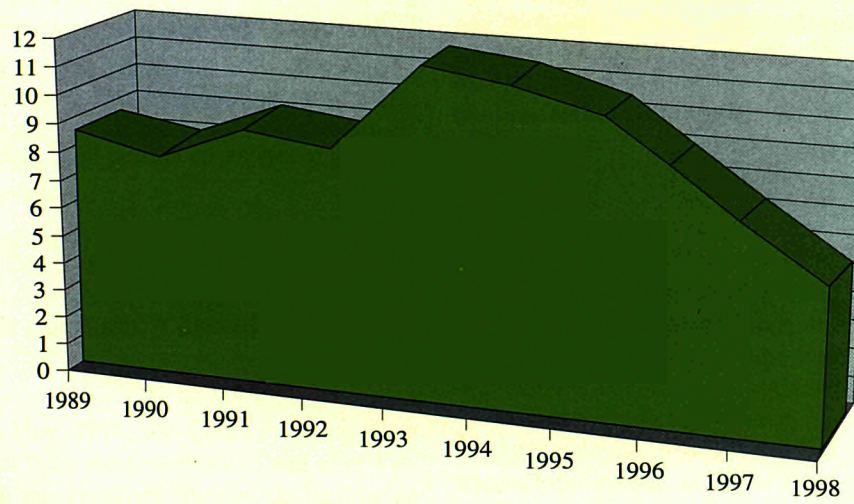
The purpose of this financial support is to promote the development of infrastructures (in particular trans-European networks) for energy, research, telecommunications and the environment, and to provide backing for the private sector, in particular small businesses.

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 1998 loans granted to these countries totalled ECU 657 million but only ECU 399 million had actually been disbursed.

On 12 December 1996 the Council granted the EIB a Community guarantee on loans to

FIGURE 13
Total Community loans outstanding 1989–98

(billion ECU)



certain developing countries in Asia and Latin America. This guarantee is limited to an overall ceiling of ECU 275 million to be granted in 1996. At 31 December 1998 loans granted to the countries concerned totalled ECU 153 million and ECU 150 million had been paid.

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 1998 loans available totalled ECU 300 million but only ECU 151 million had actually been disbursed.

On 14 April 1997, the Council granted an overall Community guarantee to the EIB for loans for investment in the countries of cen-

tral and eastern Europe, Mediterranean countries, Latin America and Asia, and the Republic of South Africa.

This guarantee is limited to 70 % of the overall amount of appropriations lent, plus all related amounts. The overall ceiling of appropriations lent is ECU 7 105 million and breaks down as follows:

- countries of central and eastern Europe: ECU 3 520 million
- Mediterranean countries: ECU 2 310 million
- Latin American and Asian countries: ECU 900 million
- Republic of South Africa: ECU 375 million.

TABLE 3

Capital operations covered by the general budget
at 31 December 1998

(million ECU)

Borrowing/lending operation	Volume of borrowing/lending authorised	Total outstanding at 31 December 1998 covered by a budget guarantee
Balance of payments support	14 000	2 483
Euratom	4 000	28
NCI (including reconstruction projects)	6 830	168
EIB Mediterranean (Spain, Greece, Portugal)	1 500	94
Financial assistance	4 615	1 738
	30 945	4 511
EIB loans:		
— Mediterranean countries	8 672	3 878
— Central and eastern Europe	8 220	3 060
— Asia and Latin America	1 925	638
— South Africa	675	151
— Former Yugoslav Republic of Macedonia	150	15
— Bosnia-Herzegovina	100	
	19 742	7 742
Total	50 687	12 253

It covers a period of three years from 31 January 1997 for the countries of central and eastern Europe, the Mediterranean countries and Latin America and Asia, and from 1 July 1997 for the Republic of South Africa. The period of validity of this decision is automatically extended by six months, if, on expiry of the period, the loans granted by the EIB have not reached the total amounts mentioned above.

The European Investment Bank is asked to consider the rate of 25 % as a target for coverage of the commercial risk with non-sovereign guarantees.

At 31 December 1998 loans granted to the countries concerned totalled ECU 4 715 million but only ECU 1 294 million had been paid.

On 19 May 1998, the Council, acting on a proposal from the Commission and after Parliament had given its opinion, decided again to grant the Community's guarantee to the EIB in respect of the loans granted to investment projects in the Former Yugoslav Republic of Macedonia. This guarantee is limited to an overall ceiling of ECU 150 million to be granted between 1998 and 31 December 2000.

On 14 December 1998, the Council decided to grant the Community's guarantee to the EIB in respect of the loans granted to investment projects in Bosnia-Herzegovina. The guarantee decided on 14 April 1997 was extended to these loans, the amount of which is limited to an overall ceiling of ECU 100 million to be granted over two years.

These two decisions bring the total amount of the new mandates conferred on the EIB to ECU 7 355 million. The total amount of credits opened for the FYROM as at 31 December 1998 was ECU 70 million, and amount outstanding on the same date was only ECU 15 million.

Table 4 gives an overview of the Community's borrowing and lending operations at 31 December 1998.

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 endow 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 1998, it was ECU 338 million.

(b) Guarantee Fund

On 31 October 1994 the Council adopted Regulation (EC) 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 1998, calls made on the Fund totalled ECU 15.4 million. Transfers amounted to ECU 272.389 million, financial interest and late recoveries representing ECU 50.2 million and ECU 185.3 million respectively.

At 31 December 1998 the resources of the Guarantee Fund stood at ECU 1 280.66 million, or 13 % of the amount outstanding on the lending and guarantee operations to non-member countries, plus unpaid interest due. The resulting ratio between the Fund's re-

sources and the outstanding capital liabilities is therefore greater than the target rate of 10 % set in the regulation establishing the Fund.

The surplus therefore had to be 'paid back to a special heading in the statement of revenue in the general budget of the Communities', as provided for in the regulation. The surplus came to ECU 297 million at the end of the 1998 financial year and will be repaid as revenue to the 1999 budget.

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.

Each month the revenue received (expressed in national currencies) is equivalent to one twelfth of the amounts provided in the budget for value added tax (VAT) and gross national product (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 opens accounts in national currencies and in ecus in the Member States by invitation to tender. It also now uses the Society for Worldwide Interbank Financial Transfers (SWIFT) international payments network. In 1997 it launched an invitation to tender for a new selection of commercial banks, except in the three Member States which joined the European Union in 1995. This new banking structure was effective from the beginning of 1998.

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 assistance granted by the Commission is 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 1998 its purchases totalled ECU 35.5 billion as against ECU 33.8 billion in 1997, including forward purchases of ECU 3.0 billion during the last quarter. This was used mainly for payments under the Structural Funds (ECU 28.5 billion

in 1998 compared with ECU 26.3 billion in 1997).

The Commission has 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 the single currency on 1 January 1999.

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 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 forecast in the budget. This was the case from 1984 to 1986.

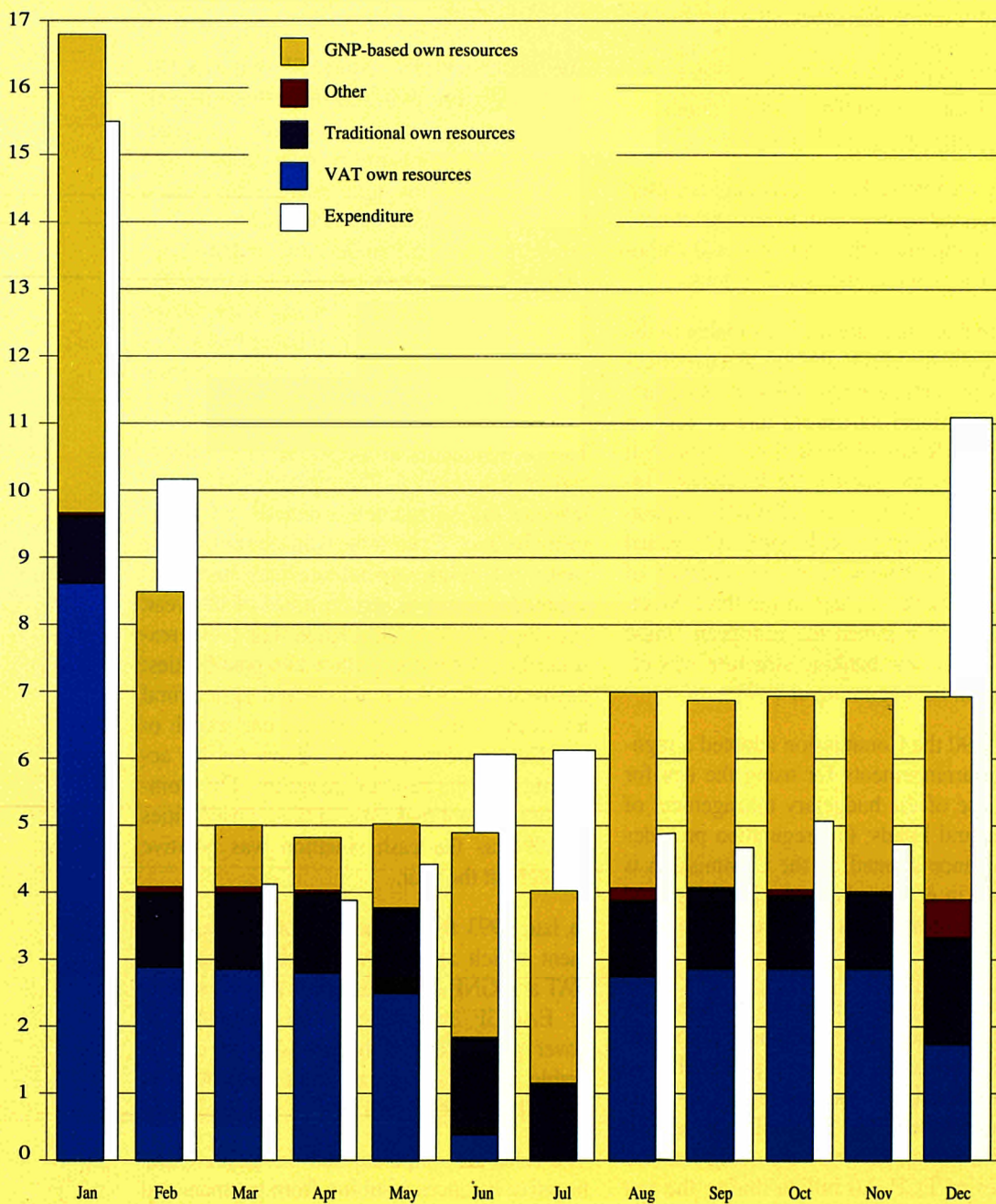
The cash situation in the course of the financial year depends on the monthly out-turn of revenue and expenditure, which do not necessarily balance. Even if the balance for the year shows a surplus, expenditure may have outstripped revenue at certain times of the year, causing cash-flow difficulties. 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 1998 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, 1996, 1997 and 1998.

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

FIGURE 14
Monthly revenue and expenditure, 1998

(billion ECU)



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 trans-

actions. 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 4

Consolidated revenue and expenditure account — five-year summary

(million ECU)

Heading	1994	1995	1996	1997	1998
Revenue					
Own resources	68 082.1	68 603.3	70 258.5	76 406.5	81 284.9
Surpluses available	- 2 922.1	5 764.8	10 055.4	3 270.5	1 924.2
Other revenue	842.2	709.0	961.2	870.7	1 320.6
	66 002.1	75 077.1	81 275.0	80 547.7	84 529.7
Expenditure					
<i>1. Common agricultural policy</i>					
Markets (B1-1 to B1-3)	32 450.3	33 634.3	37 596.7	38 353.7	37 300.5
Accompanying measures (B1-4 and B1-5)	520.1	868.5	1 871.9	2 069.3	1 847.6
<i>Heading 1 — subtotal</i>	32 970.4	34 502.7	39 468.6	40 423.0	39 148.1
<i>2. Structural operations</i>					
EAGGF Guidance (B2-10)	2 533.3	2 530.6	3 360.3	3 580.0	3 521.5
FIFG (B2-11)	395.0	248.1	421.6	486.9	407.7
ERDF (B2-12)	6 331.2	8 373.6	10 610.3	11 521.4	11 796.9
ESF (B2-13)	4 333.4	4 546.9	6 031.6	6 143.4	7 602.8
Community initiatives (B2-14)	957.7	1 320.1	1 691.4	1 677.3	2 401.8
Transitional measures, innovation schemes and action against fraud (B2-15, B2-18 and B2-19)	541.9	200.0	337.2	202.9	266.9
Other structural operations (B2-2)	122.2	37.3	47.2	10.9	—
Cohesion Fund (B2-3)	851.6	1 699.3	1 872.2	2 323.0	2 448.8
EEA financial mechanism (B2-4)	—	89.8	87.1	102.5	106.2
<i>Heading 2 — subtotal</i>	16 066.5	19 045.6	24 458.8	26 048.4	28 552.7
<i>3. Internal policies</i>					
Research (B6)	2 544.2	2 601.5	2 971.7	3 111.2	3 138.8
Other agricultural operations (B2-5)	126.3	107.3	98.9	156.2	139.5
Other regional operations (B2-6)	29.9	42.1	46.2	33.2	21.2
Transport (B2-7)	12.3	18.2	30.5	28.5	19.3
Fisheries and the sea (B2-9)	26.6	15.8	16.2	20.4	30.2
Education, vocational training, youth (B3-1)	290.2	292.4	379.6	367.5	324.7
Culture and audiovisual media (B3-2)	111.1	126.7	100.0	113.9	106.8
Information and communication (B3-3)	37.6	47.7	99.2	106.2	101.0
Other social operations (B3-4)	136.4	151.3	155.4	148.4	131.6
Energy (B4-1)	36.3	33.7	35.4	35.8	30.2
Euratom nuclear safeguards (B4-2)	11.5	17.3	15.8	15.5	15.2
Environment (B4-3)	107.2	91.9	120.9	129.5	120.5
Consumer protection (B5-1)	14.3	17.8	14.6	17.4	18.6
Aid for reconstruction (B5-2)	9.6	6.1	4.2	3.9	2.9
Internal market (B5-3)	165.0	134.5	168.8	188.5	133.9
Industry (B5-4)	31.6	76.7	42.4	96.0	42.2
Information market (B5-5)	12.6	14.0	5.8	—	91.8
Statistical information (B5-6)	35.3	33.7	35.2	34.8	28.6
Trans-European networks (B5-7)	179.3	250.5	264.1	373.9	403.1
Cooperation in the fields of justice and home affairs (B5-8)	—	2.6	2.2	6.8	8.0
Action against fraud (B5-9)	0.2	0.8	3.4	10.7	4.4
<i>Heading 3 — subtotal</i>	3 917.4	4 082.5	4 610.4	4 998.2	4 912.3
<i>4. External action</i>					
EDF (B7-1)	—	—	—	—	—
Food aid (B7-20)	446.0	497.7	413.1	407.7	341.8
Humanitarian aid (B7-21)	472.6	452.0	624.3	503.9	477.9
Cooperation — Asian developing countries (B7-30)	164.9	226.0	283.9	252.3	241.2
Cooperation — Latin-American developing countries (B7-31)	138.3	145.7	152.3	148.9	147.3
Cooperation — Developing countries in southern Africa and South Africa (B7-32)	69.9	55.6	37.3	71.0	84.5
Cooperation — Mediterranean countries and the Middle East (B7-4)	304.8	278.8	357.5	405.4	489.5

TABLE 4 (continued)

(million ECU)

Heading	1994	1995	1996	1997	1998
Cooperation – Central and east European countries (B7-50)	704.7	768.9	836.7	824.9	1 074.5
European Bank for Reconstruction and Development (B7-51)	—	—	—	—	4.4
Cooperation – new independent States and Mongolia (B7-52)	300.0	370.0	369.5	396.1	399.9
Exceptional assistance to Armenia, Georgia and Tajikistan (B7-53)	—	—	—	—	59.2
Cooperation – Republics formerly part of Yugoslavia (B7-54)	1.8	4.8	26.9	42.4	144.9
Other cooperation measures (B7-6, B7-51, B7-53)	238.7	246.5	296.4	335.1	296.5
Human rights and democracy (B7-7)	27.5	47.0	65.2	59.3	80.1
International fisheries agreements (B7-80)	140.6	158.1	251.0	284.7	272.9
Other external aspects of certain Community policies (B7-81 to B7-87)	50.6	76.0	99.1	75.2	85.2
Support expenditure (B7-95)	—	—	—	3.6	—
Common foreign and security policy (B8-0)	10.0	82.6	60.5	24.2	23.3
<i>Heading 4 – subtotal</i>	<i>3 070.3</i>	<i>3 409.7</i>	<i>3 873.8</i>	<i>3 834.7</i>	<i>4 223.3</i>
<i>5. Administrative expenditure</i>					
Staff and administration	3 590.9	3 919.3	4 106.1	4 201.0	4 429.7
<i>Heading 5 – subtotal</i>	<i>3 590.9</i>	<i>3 919.3</i>	<i>4 106.1</i>	<i>4 201.0</i>	<i>4 429.7</i>
<i>6. Reserves</i>					
Guarantee (B0-2)	293.7	250.8	235.4	286.1	272.4
Refunds to Member States	—	—	—	—	—
<i>Heading 6 – subtotal</i>	<i>293.7</i>	<i>250.8</i>	<i>235.4</i>	<i>286.1</i>	<i>272.4</i>
<i>7. Compensation</i>					
Compensation (B0-5)	—	1 547.0	701.0	212.0	99.0
<i>Heading 7 – subtotal</i>	<i>—</i>	<i>1 547.0</i>	<i>701.0</i>	<i>212.0</i>	<i>99.0</i>
Total	59 909.2	66 757.7	77 454.1	80 003.4	81 637.4
<i>Out-turn for the year</i>	<i>6 093.0</i>	<i>8 319.5</i>	<i>3 821.0</i>	<i>544.3</i>	<i>2 892.3</i>
Cancellation of unused appropriations carried over from previous year	443.0	498.3	143.9	323.1	139.9
Exchange differences for the year	4.4	402.8	423.5	95.0	– 9.1
<i>Balance for the year</i>	<i>6 540.5</i>	<i>9 220.5</i>	<i>4 388.3</i>	<i>962.3</i>	<i>3 023.1</i>

THE ECSC'S FINANCIAL AND BUDGETARY ACTIVITIES IN 1998

Economic background and developments in ECSC industries

Iron and steel industry

The marked improvement in general economic conditions in the European Union in 1998, initially helped along by an excellent international economic climate and a stable dollar, gradually restored confidence among EU steel producers and consumers, resulting in increased orders and improved utilisation of capacities. The motor industry was constantly improving its performance, the mechanical engineering and electrical industries had for some time been expanding at a high rate, and even the construction sector showed signs of recovery.

However, EU steel producers, while regarding the situation in the Community steel market as very favourable, nevertheless were primarily concerned by the increasing supply from certain non-member countries, which could upset the balance of the market and adversely affect price stability. And indeed, the first signs of contagion by the Asian crisis were first felt towards the end of the second half of the year, resulting in a gradual deterioration of market conditions and a slowdown in the activity of most steel-consuming sectors.

In view of this, after the significant rise (+ 8 %) in 1997 and a remarkable upward trend throughout the first six months of 1998, EU steel production gradually slowed and levelled off during the third quarter of that year at 162 million tonnes, barely 1.6 % more than in 1997.

At the same time, the maximum production potential (MPP) for crude steel was forecast to bottom out at 198.8 million tonnes before reversing the downward trend of the past four years and rising steadily to 204.2 million tonnes by 2001, which corresponds to an annual growth of 1.8 million tonnes, of which 42 % will be produced by electric-arc furnaces. This upward trend will be observed in all the countries except Luxembourg, where MPP will remain at the same level, and Sweden and Spain, where it will decline.

Similarly, MPP for continuous casting was forecast to continue rising until 2001, with continuous-cast steel being more widely used in the manufacture of long products, which until recently were produced by the ingot process. It was expected to total 190 million tonnes, which means that 93 % of all Community steel will be continuous-cast in 2001.

MPP for hot-rolled products was 182.1 million tonnes in 1998 and was forecast to rise to 186.2 million tonnes in 2001, with hot-rolled wide strip accounting for three quarters of this increase. The forecasts were thus revised upwards in relation to those in the 1997 report.

The production potential for cold-rolled sheet was expected to remain stable at 56 million tonnes, while MPP for metal-coated sheet — particularly by the hot-dip process, which is tending to replace uncoated sheet — should continue its upward trend.

Capital expenditure in the steel industry in 1998 totalled about ECU 4.375 billion, which was a substantial increase on 1997 (ECU 3.875 billion).

Coal industry

In 1998, the European Community's coal industries continued to decline because Community coal was more expensive to produce than imported coal. The low price of coal imported into the Union was mainly the result of lower sea freight charges. Coal consumption also had to compete with other forms of energy, particularly gas and electricity, the markets for which had been liberalised, thus exerting further downward pressure on prices. The market outlook for 1999 was that total coal deliveries would further decline by 3 %. The market for coke, where there was, on the other hand, a slight increase in 1998, was expected to see a reduction of 15 % in deliveries in 1999, mainly as a result of the introduction of new technologies in steel manufacturing.

Hard coal production in the Member States fell to about 107 million tonnes in 1998, compared with 122.2 million in 1997. The fore-

casts for 1999 show a further drop of 15 million tonnes (- 12.5 %).

The fall in production in 1998 compared with 1997 was particularly marked in the United Kingdom and Germany (8 million and 5.7 million tonnes respectively, or - 17 % and - 11.2 %). It was some 0.9 million tonnes in France (- 15 %) and 0.5 million in Spain (- 2.8 %). In Germany the fall in production was part of the restructuring plan devised to reduce the high level of aid in the face of the limited scope for reducing production costs.

The annual production forecasts for 1999 show that the decline in Community production is set to continue, with total production hardly reaching 100 million tonnes, which corresponds to a reduction of 6.2 %. The largest reduction is expected in the United Kingdom, where production should fall a further 15 % to about 33 million tonnes. In contrast, German production should increase slightly in 1999 as a result of mining activity in Saarland or in small mines. France and Spain will continue their restructuring measures.

Imports from non-member countries were 151.3 million tonnes, which meant that Community dependence was 58 %. In 1998 South Africa overtook the United States as the main exporter of coal to Europe. It was expected to supply nearly a quarter of Community coal imports, with 37 million tonnes (one million more than previous estimates), of which 8 million tonnes was delivered to Germany and 5.5 million tonnes to Spain.

Import forecasts for 1999 are 136.1 million tonnes, down by more than 15 million tonnes (- 10 %) on 1998. It is worth noting the increasing importance of other suppliers, including Indonesia and Venezuela, which are beginning to make their presence felt on the international coal market.

Internal deliveries of hard coal in the Member States totalled 251.5 million tonnes in 1998 — a drop of 19.3 million (- 7.1 %) compared with the 1997 figure of 270.8 million. Economic growth in 1997 was less marked than in 1998, mainly as a result of the crisis in

South-East Asia at the end of 1997, the effects of which did not spare the economies of the EU Member States.

As for the volume of deliveries in 1998 by sector, the greatest reduction was in deliveries to power stations — 15 million tonnes (- 8 %) less than the 187.2 million delivered in 1997.

The breakdown of deliveries by country shows that most of the changes reflect the activity of power stations. This situation is well illustrated by the case of the United Kingdom, where overall deliveries increased by 2.5 million tonnes while deliveries to power stations rose by 3 million tonnes, this being offset by reductions in other sectors.

- Supplies of coal to coke ovens in 1998 were expected to reach 48.8 million tonnes.
- In contrast, supplies of coal to the steel industry were expected to decrease. The steel industry definitely benefited from a renewal of stocks and growth in 1997, whereas growth slowed in 1998.
- Deliveries of coal to the 'other industries' sector decreased, totalling only 16.1 million tonnes. This was 3 million tonnes (- 20 %) less than in 1997.

For 1999, deliveries in the Member States are estimated at about 244.1 million tonnes, 7.4 million tonnes (- 3 %) down on 1998. This drop should affect mainly the electricity-producing sector and, to a lesser extent, coke ovens; slight reductions are also expected in other sectors.

State Aid to the coal industry is governed by the provisions of Decision No 3632/93/ECSC ⁽¹⁾ establishing Community rules for State aid to the coal industry for the period from 1994 to the expiry of the ECSC Treaty in July 2002.

⁽¹⁾ OJ L 329, 30.12.1993, p. 12.

Aid granted may be regarded as compatible with the proper functioning of the single market if 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 aid;
- to solve the social and regional problems created by total closure or reductions in the activity of production units;
- to help the coal industry adjust to environmental protection standards.

The decision also contains provisions to increase the transparency of the existing aid system. At the end of a three-year transitional period (which expired on 31 December 1996), aid is to be authorised only if it is entered in Member States' national, regional or local public budgets or channelled through strictly equivalent mechanisms. In addition, since the beginning of 1994, all aid received by companies must be shown in their profit-and-loss accounts as a separate item of revenue, distinct from turnover.

On 3 June 1998, the Commission authorised Spain to grant a total of ESP 438 billion for the financial years 1997 and 1998 and as supplementary aid for 1994, 1995 and 1996. Similarly, on 10 June 1998 the Commission authorised Germany to pay DEM 10.4 billion in aid for 1997. On the other hand, the Commission was unable to authorise the aid notified by France for 1997 and 1998.

Furthermore, a large number of complaints dealing with the European coal market were lodged with the Commission. The Commission adopted a decision addressed to Germany concerning the improper use of state aid following a complaint lodged at the end of 1996 by a UK anthracite producer.

On 20 July 1998, an appeal against the Commission was lodged with the EC Court of First Instance with a view to annulling the Commission decision of 10 June 1998 on German aid to the coal industry.

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.

Loans are granted for three main purposes:

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

In June 1994, in view of the expiry of the ECSC Treaty in July 2002, the Commission readjusted its borrowing/lending policy under the Treaty ⁽¹⁾. The granting of new loans out of borrowed funds was gradually reduced and was virtually nil in 1997 (except for certain exceptional cases covered by government guarantees).

The financing of workers' housing is to come to an end with the 12th programme. The payment of the 1998 tranche (ECU 20.5 million) was the last under this programme.

Since the start of its financial activity, the ECSC has disbursed loans amounting to ECU 23.48 billion, of which ECU 22.98 billion out of borrowed funds and ECU 503.4 million out of own funds (special reserve and former pension fund).

With the guarantees granted during the same period, the total of ECSC financial activity is ECU 23.57 billion.

At 31 December 1998 the amount ECU 2.6 billion remained due on loans from borrowed funds and ECU 160.5 million on loans from own resources.

⁽¹⁾ OJ C 175, 28.6.1994.

ECSC operating budget

Over the course of the last decade, the ECSC budget rose from ECU 547 million in 1988 to a maximum of ECU 596 million in 1993, before starting a decrease which will continue until the ECSC Treaty expires in 2002.

The details of the resources and expenditure, as far as the 1998 budget is concerned, are given below.

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 (the Commission) is empowered to raise the funds needed to carry out its mandate by setting a levy on the production of coal and steel.

However, the Commission decided to set the rate of the levy at 0 % in 1998, since the provisions entered in the ECSC balance sheet at 31 December 1997 were deemed sufficient to maintain the ECSC's budgetary activity at the appropriate level until the expiry of the Treaty.

The resources used to finance the ECSC budget in 1998 came from:

- the 'net balance' of financial operations, particularly interest from the investment of the cash, reserves and other provisions entered in the ECSC balance sheet;
- the cancellation of commitments which were not implemented;
- fines;
- miscellaneous resources.

For 1998 these types of revenue were ECU 38 million, 134 million, 7 million and 6 million respectively.

ECSC budget expenditure in 1998

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

Social aid

Under Article 56(2)(b) and (1)(c) of the ECSC Treaty, ECU 70 million was spent in 1998 on social redeployment aid for ECSC workers (traditional redeployment and social measures in the coal and steel industry).

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.

This contribution to social aid is subject to payment by the Member State in question of a special contribution at least equal to the ECSC's contribution.

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

It should be noted that 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 is no longer covered by the ECSC budget but will be financed in future from the European Social Fund.

Research aid

Under Article 55 of the ECSC Treaty, ECU 84 million was granted in aid for technical research in the coal and steel sector in 1998.

The main aims of the aid for steel industry research (ECU 56 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 28 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.

Conversion aid

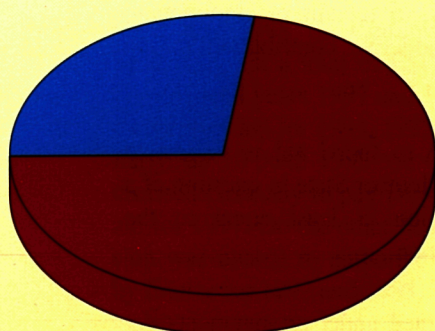
In accordance with the Commission's decision to adjust the ECSC's borrowing and lending policy in view of the expiry of the Treaty ⁽¹⁾, 1997 will mark the end of ECSC financing of interest subsidies on conversion loans.

⁽¹⁾ OJ C 175, 28.6.1994.

FIGURE 15

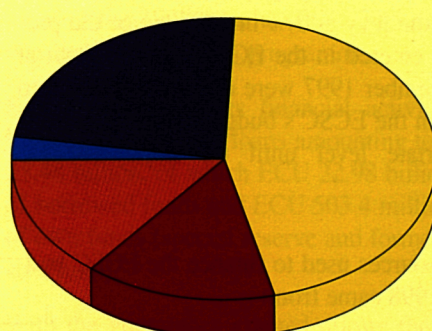
ECSC operating budget in 1998

(million ECU)



ECSC operating budget expenditure in 1998

(million ECU)



■ Current revenue	51.0	■ Administration	5.0
— Yield from 0.0% levy	0.0	■ Redeployment aid	43.0
— Net balance	38.0	■ Research aid	84.0
— Miscellaneous	13.0	■ Conversion aid	0.0
■ Cancellation of commitments	134.0	■ Social measures for the coal industry	27.0
■ Unused resources from previous year	0.0	■ Provision for the financing of the ECSC operating budget	26.0
	<hr/>		<hr/>
	185.0		185.0

In addition, since no assent was forthcoming from the Council, it was not possible to use the ECU 30 million provided for in 1998 (Article 95/ECSC) to top up from the ECSC budget the amounts allocated to the Community initiatives Rechar II and Resider II.

Provision for financing the ECSC's operating budget

ECU 26 million, representing the resources available and unused in 1998, will constitute a

provision which will, from 1999 on, be used gradually as needs arise to compensate for the disappearance of the ECSC levy.

FINANCIAL OUT-TURN OF THE EDF IN 1998

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: its role has since been extended to cover:

In terms of partnership, the North-South cooperation for which the Fund provides the main financial support developed on two planes:

- at the legal level, with the majority of OCTs achieving independence in the early sixties, the relationship switched from one of dependence to a contractual link based on successive international conventions (the two Yaoundé conventions, followed by the four Lomé conventions) concluded between the Community and the States which had become independent; however, some partners retained OCTs status;
- geographically, cooperation was extended to a growing number of countries in different regions and continents. Under the most recent arrangements, resulting from the recent entry into force of the Mauritius agreement amending the Lomé IV Convention signed in 1989, 70 African, Caribbean and Pacific (ACP) States ⁽¹⁾ are today involved in operations under the eighth EDF. This also applies to 20 OCTs, whose relations with the Community are governed by a Council decision of 24 November 1997.

⁽¹⁾ 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 taken part in the negotiation of the Mauritius Agreement. South Africa also partially acceded to the Lomé IV Convention in 1997.

Financially, the Fund's budget has regularly increased with the renewal of the Fund every five years: for the eighth EDF it comes to ECU 13 132 million (including ECU 165 million for the OCTs) for the period 1996–2000.

The internal agreement on the financing and administration of Community aid under 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 million 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;
- subsidies under the special financing facility for ACP and OCT mining products (Sysmin);
- transfers under the system for the stabilisation of ACP and OCT export earnings (Stabex), which are also equivalent to subsidies;
- emergency aid and aid for refugees;
- risk capital managed by the EIB.

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 ceilings which are laid down when the financial protocol is signed. Furthermore, a major element of flexibility has been introduced in the eighth EDF as regards programming which allocates the financial aid and serves as a basis for its reliability: the principle of programming these multiannual appropriations in two tranches has been adopted; the system is intended to encourage sound performance in the application of the ACP States' national and regional indicative programmes by imposing a number of conditions concerning implementation of the first tranche before the second tranche can be allocated; because of the time factor, this mid-term review should be conducted in 1999.

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).

Economic and political situation

1998 was a turning point in EDF activities, marked by two key issues:

- the entry into force on 1 June 1998 of the eighth EDF, following the ratification of the agreement concluded in Mauritius revising the fourth Lomé Convention. This new step, which took longer than expected particularly because of delays on the part of the Member States, meant that implementation — legally dependent on its entry into force — could finally go ahead;
- an upturn in both payments and commitment decisions. This trend is highly significant, coming as it does after a constant downturn in the previous three years. Moreover, it comes at a time when the Community was sometimes forced for political reasons to alter or suspend aid to some ACP countries because of conflicts

(in particular in central Africa) or unsatisfactory situations as regards respect for human rights, democratic principles or the rule of law (Liberia, Nigeria, Somalia, Sudan, Togo, etc.).

EDF financing in 1998

The EDF was able to finance its operations as usual throughout 1998. The Member States contributed a total of ECU 2 060 million.

Aid granted by the EDF in 1998

As stated above, in general there was a significant reversal in the trend in 1998

The downturn in payments has been reversed and total payments in 1998 regained the average level of 1995/96.

By disregarding Stabex, an instrument that is used fairly randomly, the 1998 result of ECU 1 330 million is even more striking — the second best result ever achieved since 1994. It is also, together with 1992 and 1994, the best result ever achieved in the utilisation of programmable resources: indicative programmes and the structural adjustment facility accounted for almost ECU 1.1 billion. This utilisation is possibly the most pertinent indicator for assessing the Lomé partners' capacity to programme and absorb aid.

The trend is even more striking in terms of decisions, since, with a very much reduced Stabex instrument and only six months after ratification in June 1998, the record level of ECU 2.3 billion, until then only achieved in 1988 and 1994, was once again reached.

Non-Stabex decisions reached a historic level of ECU 2.1 billion, never before achieved, as did programmable aid, which totalled almost ECU 1.8 billion.

This result is to a large extent due to the excellent performance of structural adjustment which, with ECU 0.6 billion in commitments, was over half as much again as the record achieved in 1993, confirming its effectiveness

as a structural aid instrument with a rapid take-up. Without equalling the 1987/88 record (launch of Lomé III integrated programmes), 'normal' programmes by no means did badly. They exceeded their 1992 level, when seventh EDF operations were effectively launched after a ratification process that was not as abnormally long as that for the eighth EDF.

Comments on each of the different Funds.

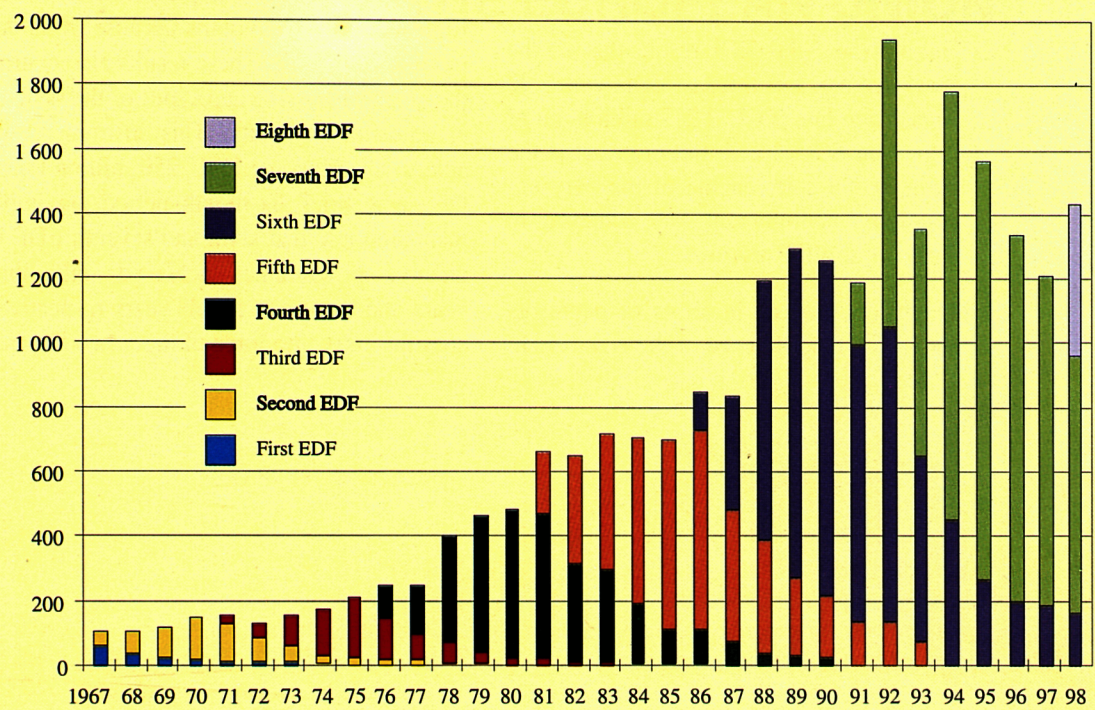
- It comes as no surprise that in its 13th year of implementation, the sixth EDF recorded net negative commitments (– ECU 39 million) and a lower level of payments (ECU 152 million as against ECU 166 million in 1997) although this is only a difference of – 8 %. This trend is therefore entirely normal and heralds the forthcoming closure of this Fund which is scheduled for the end of 1999 or, at the latest, the very beginning of 2000.
- The results of the seventh EDF overall were also lower than 1997. Decisions were ECU 99 million as compared with ECU 582 million and payments were ECU 802 million as against ECU 1 017 million. Comparison of these results may, however, be slightly distorted by accounting cor-

rectives that had to be applied as regards Stabex (– ECU 76 million for decisions and – ECU 62 million for payments).

Therefore, keeping to the comparison of these same overall results, but disregarding Stabex, 1998 can be summed up as follows for the seventh EDF.

- Decisions again fell very sharply (ECU 175 million compared with ECU 582 million). This is relatively normal as the seventh EDF was in its eighth year of implementation and therefore reached a high percentage of commitment for indicative aid programmes (92 %), and total exhaustion of resources available under the structural adjustment support facility.
- Payments fell from ECU 998 million to ECU 864 million and although this was a smaller drop, it none the less caused the Commission serious concern. Although sixth EDF payments had also begun to decline during the eighth year of implementation, the 58 % implementation rate achieved for indicative aid programmes at the end of the seventh year was much higher than the 44 % achieved by the seventh EDF after the same period. The cor-

FIGURE 16
Annual EDF Payments (1967–98)



rective measures taken since then to speed up payments should produce results during 1999.

- But it is the eighth EDF results that are the most striking. It is this last EDF, with a 97 % decision rate (ECU 2 217 million out of a total of ECU 2 277 million), that is the main, if not sole, engine of the very encouraging commitment rate achieved in 1998 for all EDF resources.

Although less marked in terms of payments (about 33 %), the influence of the eighth EDF

was none the less highly significant (ECU 465 million), which is especially encouraging as the effective period of implementation for this EDF was only six months because of its date of entry into force. These results also confirm the quick-disbursing capacities of the structural adjustment facility. This instrument was able to absorb some ECU 250 million during this same brief six-month period, an implementation rate that sixth and seventh EDF indicative programmes achieved only three years and three and a half years respectively after the entry into force of these two Funds.

Annual EFD operations in 1998 (not including OCTs)

(million ECU)

	Decisions ⁽¹⁾				Payments			
	6th EDF	7th EDF	8th EDF	Total	6th EDF	7th EDF	8th EDF	Total
Programmable aid	- 36	160	1 644	1 768	128	664	284	1 076
NIP + RIP ⁽²⁾	- 36	151	1 065	1 180	118	593	45	756
SAF ⁽³⁾	0	8	579	587	0	40	239	279
NIP + RIP + SAF	- 36	159	1 644	1 767	118	633	284	1 035
Remainder	0	1	0	1	10	31	0	41
Sysmin	0	0	0	0	9	33	0	42
Emergency aid	0	3	33	36	0	4	7	11
Aid for refugees	- 1	2	0	1	0	5	0	5
Risk capital	- 2	8	290	296	15	132	23	170
Interest subsidies	0	2	23	25	0	26	0	26
Total, excluding Stabex	- 39	175	1 990	2 126	152	864	314	1 330
Stabex	0	- 76	227	151	0	- 62	151	89
Total	- 39	99	2 217	2 277	152	802	465	1 419

⁽¹⁾ The negative amounts result from cancellations after projects close.

⁽²⁾ NIP = national indicative programmes; RIP = regional indicative programmes.

⁽³⁾ SAF = structural adjustment facility.

**CONSOLIDATED ACCOUNTS
OF THE EUROPEAN UNION**

1. ACCOUNTING PRINCIPLES

1.1. According to international standards ⁽¹⁾, the aims of a financial statement must be to describe the nature and range of an institution's activities, explain how it is financed and supply definitive information on its operations.

These are certainly the objectives of the consolidated revenue and expenditure account and balance sheet produced annually by the European Commission. The manner in which financial operations were conducted in the course of the financial year are described in Volume I, Part 2 (Analysis of financial management).

If they are to present a true and fair picture, financial statements must not only supply relevant information, but do so in a clear and comprehensible manner which allows comparisons between financial years. It is with these goals in mind that the present document has been drawn up.

1.2. The accounting system of the European institutions comprises general accounts and budget accounts. These accounts are kept by calendar year in ecus.

1.2.1. Using the 'double-entry method' the general accounts show all expenditure and revenue over the financial year and are designed to establish the financial position of the institutions in the form of a balance sheet of assets and liabilities at 31 December the previous year.

The general accounts are based on the following principles:

- the principle of the continuity of activities;
- the principle of prudence, whereby assets are not overvalued and liabilities are not undervalued;

- the principle of consistent accounting methods;
- the principle of no-netting between assets and liabilities.

For the future the Commission is studying the possibility of presenting a broader accounting result to ensure that balance sheet entries are transferred from one year to the next via the revenue and expenditure account. The chart of accounts will maintain the distinction between the revenue and expenditure accounts and the balance sheet. To do so it must contain:

- (a) the revenue and expenditure accounts, subdivided as follows:
 - the budgetary revenue and expenditure accounts, providing an overall view of budget implementation, and accounts showing exchange-rate differences; these accounts will serve to determine the year's balance;
 - the additional revenue and expenditure accounts, which can be used to determine the broader accounting result;
- (b) the balance-sheet accounts, which can be used to establish the institution's financial position, and will show the estimated effect of liabilities and entitlements.

1.2.2. The budget accounts give a detailed picture of the implementation of the budget. They are designed to establish:

- the consolidated revenue and expenditure account referred to in Title VI of the financial regulation,
- the figures showing the implementation of the budget referred to in Article 34 of the financial regulation.

2. ACCOUNTING RULES AND METHODS

2.1. The accounts are kept in accordance with the financial regulation of 21 December 1977, as last amended by Council Regulation (EC) No 2779/98 of 17 December 1998 and supplemented by a regulation laying down certain implementing rules.

⁽¹⁾ International Organisation of Supreme Audit Institutions (Intosai) accounting standard framework — September 1995.

2.2. Conversion into ecus

2.2.1. Accounts are kept in ecus.

2.2.2. The ecu conversion rates used to prepare the balance sheet were the rates applying on 31 December 1998, except for the following:

- tangible assets, which retain their 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;
- advances paid under the Guarantee Section of the European Agricultural Guidance and Guarantee Fund, which are converted at the exchange rates applying on the 10th day of the month following the month in which they are granted;
- the transitional accounts which retain their value in ecus at the accounting rate that applied at the time of the accounting operation.

2.3. Revenue

2.3.1. 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.

2.3.2. The other revenue entered in the accounts is the amount actually received in the course of the year.

2.4. Expenditure

2.4.1. For the purposes of calculating the balance for the year, expenditure covers payments made against the year's appropriations for payments plus any of those same appropriations that are carried over.

2.4.2. 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 1997 and 15 October 1998, provided that the accounting officer was notified of the commitment and authorisation by 31 January 1999.

2.4.3. 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.

2.5. 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 2.4.2) (1).

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

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

2.6. Rules on valuation

Except where indicated in the explanatory notes to the balance sheet, the various headings are valued as follows:

2.6.1. Tangible and intangible fixed assets are valued at their historic value converted into ecus at the rate applying when they were purchased. The Commission's fixed assets must also be subject to depreciation for each full year, according to the linear method (Section 8 of the Commission's inventory regulation).

2.6.2. Stocks are valued at the price of the last supplies received, converted at the ecu rate applying on 31 December.

2.6.3. Financial assets are valued at their purchase price. If denominated in foreign currency, they are converted at the ecu rate applying on 31 December. In line with the principle of prudence, an adjustment must be made where there is a probable loss.

2.6.4. Entitlements are entered in the accounts at their face value, converted at the ecu rate applying on 31 December, with the ex-

ception of entitlements denominated at a fixed rate. Although the European Community wishes to comply with the principle of prudence, the value of most of the entitlements is not adjusted. The Commission is considering this possibility for the future. Where this is the case, a special indication is given in the notes on the balance sheet.

2.6.5. Cash investments and disposable assets are valued at their face value converted into ecus at the rate applying on 31 December. For the sake of prudence, an adjustment must be made where there is a probable loss.

2.6.6. Debts are valued at their face value in ecus at the rate applying on 31 December if they are denominated in a foreign currency.

2.7. 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.

2.8. EFTA involvement in the 1998 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.

2.9. Consolidation

The consolidated accounts cover the accounts of the European Parliament (including the Ombudsman), 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.

(1) In the case of the EFTA-EEA countries, the volume of appropriations carried over from year *n* to year *n+1* is known after the accounts have been closed. As a result the calculation of the balance includes carryovers of appropriations from year *n-1* to year *n*.

CONSOLIDATED REVENUE AND EXPENDITURE ACCOUNT FOR 1998

TABLE I
Balance for the year

(million ECU)

Breakdown	1998	1997
Revenue (Table II)		
Own resources	81 284.885	76 406.489
Surpluses available	1 924.245	3 270.542
Other revenue	1 320.558	870.667
<i>of which: EFTA-EEA contribution</i>	61.517	57.172
<i>Total (a)</i>	84 529.688	80 547.698
Expenditure		
Payments for the year (Table III)	80 125.843	79 301.509
<i>of which: EFTA-EEA contribution</i>	60.057	54.965
Carryovers to the next financial year (Table III)	1 510.765	701.596
EFTA-EEA appropriations carried over from 1997 to 1998 ⁽¹⁾	0.802	0.343
<i>Total (b)</i>	81 637.410	80 003.448
Out-turn of the year: (a) – (b)	2 892.278	544.250
Appropriations carried over from previous year which lapsed (Table IV)	139.888	323.055
<i>of which: EFTA-EEA contribution</i>	0.208	0.112
Exchange differences for the year (Table V)	– 9.069	95.024
Overrun on carryovers (Table VI)	0.000	0.000
Adjustment balance 1997 ⁽¹⁾		0.000
<i>of which: European Community</i>		– 0.920
<i>of which: EFTA-EEA contribution</i>		0.392
Balance for the year	3 023.097	962.329
<i>of which: EFTA-EEA balance</i>	0.866	2.368

⁽¹⁾ This amount could not be included in the 1997 balance since the corresponding appropriations were carried over after the closure of the revenue and expenditure account for 1997.

TABLE II
Revenue for 1998

(million ECU)

Category	Forecasts	Entitlements established			Amounts recovered	Amounts to be recovered
		1998	Carried over from 1997	Total		
Agricultural levies (Chap. 10)	693.200	1 619.134	6.493	1 625.627	1 102.212	523.415
Sugar and isoglucose levies (Chap. 11)	1 163.400	1 082.327	0.000	1 082.327	1 070.077	12.250
Customs duties (Chap. 12)	13 413.600	14 914.097	17.270	14 931.367	13 506.235	1 425.132
VAT resources (Chap. 13)	32 752.781	32 684.936	0.000	32 684.936	32 684.936	0.000
GNP-based resources (Chap. 14)	35 405.174	34 428.354	0.000	34 428.354	34 428.354	0.000
Correction of budgetary imbalances (Chap. 15)	0.000	60.923	0.000	60.923	60.923	0.000
Own resources collection costs (Chap. 19)	- 1 527.020	- 1 761.556	- 2.376	- 1 763.932	- 1 567.852	- 196.080
Surpluses available (Title 3)	1 003.961	1 918.161	6.085	1 924.245	1 924.245	0.000
Miscellaneous Community taxes, levies and dues (Title 4)	486.531	452.862	1.269	454.131	452.661	1.470
Revenue accruing from the administrative operation of the institutions (Title 5)	78.171	133.981	12.080	146.061	137.758	8.303
Contributions to Community programmes, repayment of expenditure and revenue from services rendered against payment (Title 6)	158.724	517.224	41.962	559.186	513.723	45.463
Interest on late payments and fines (Title 7) ⁽¹⁾	0.000	526.164	548.229	1 074.393	34.104	1 040.289
Borrowing and lending operations (Title 8)	18.544	382.683	188.272	570.955	84.924	486.031
Miscellaneous revenue (Title 9)	5.165	98.841	9.409	108.250	97.388	10.862
Total	83 652.231	87 058.131	828.693	87 886.814	84 529.688	3 357.135

(1) Of the total amount to be recovered in respect of fines and penalty payments, ECU 136 095 000 has been collected and entered provisionally in an account in the balance sheet for revenue collected in respect of fines pending the final decision of the Court of Justice.

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	
	1998	1997	1998	1997	1998	1997
1. Common agricultural policy						
Market expenditure (B1-1 to B1-3))	36 884.902	38 271.323	415.549	82.384	37 300.451	38 353.707
Accompanying measures (B1-4 and B1-5)	1 847.629	2 069.301			1 847.629	2 069.301
<i>Heading 1 — Subtotal</i>	<i>38 732.531</i>	<i>40 340.624</i>	<i>415.549</i>	<i>82.384</i>	<i>39 148.080</i>	<i>40 423.008</i>
2. Structural operations						
EAGGF-Guidance (B2-10)	3 521.494	3 580.000			3 521.494	3 580.000
FIFG (B2-11)	407.748	486.893			407.748	486.893
ERDF (B2-12)	11 776.361	11 521.436	20.548		11 796.910	11 521.436
ESF (B2-13)	7 602.800	6 143.400			7 602.800	6 143.400
Community initiatives (B2-14)	2 271.572	1 677.321	130.256		2 401.828	1 677.321
Transitional measures, innovation schemes and action against fraud (B2-15, B2-16 and B2-18)	212.854	202.920	54.072		266.925	202.920
Other structural operations (B2-2)		10.927				10.927
Cohesion Fund (B2-3)	2 448.765	2 322.983			2 448.765	2 322.983
EEA financial mechanism (B2-4)	106.232	102.518			106.232	102.518
<i>Heading 2 — Subtotal</i>	<i>28 347.825</i>	<i>26 048.398</i>	<i>204.876</i>		<i>28 552.701</i>	<i>26 048.398</i>
3. Internal policies						
Research (B6)						
— B6-1: Joint Research Centre — Staff and resources	230.656	211.021	0.031	2.690	230.687	213.712
— B6-2: Joint Research Centre — Direct operating appropriations — EC Framework programme 1994 to 1998	37.724	31.566	11.492	7.894	49.216	39.460
— B6-3: Joint Research Centre — Direct operating appropriations — EAEC framework programme (1994 to 1998)	8.363	7.226	1.301	0.865	9.663	8.091
— B6-4: Joint Research Centre — Direct action — Completion of the former joint and supplementary programmes and other JRC activities	8.698	3.815	21.620	14.446	30.317	18.261
— B6-5: Indirect action (Shared-cost projects) and concerted action — Completion of earlier projects and other activities	178.982	401.119	34.909	36.739	213.890	437.858
— B6-7: Indirect action (shared-cost projects), concerted action and supplementary programmes — EC framework programme (1994 to 1998)	2 426.982	2 160.271		29.780	2 426.982	2 190.051
— B6-8: Indirect action (shared-cost activities) concerted action and supplementary programmes — EAEC framework programme (1994 to 1998)	177.433	203.575			177.433	203.575
<i>Research — Total</i>	<i>3 068.837</i>	<i>3 018.594</i>	<i>69.352</i>	<i>92.414</i>	<i>3 138.189</i>	<i>3 111.008</i>
Other agricultural operations (B2-5)	138.316	154.246	1.200	2.000	139.516	156.246
Other regional operations (B2-6)	21.221	33.163			21.221	33.163
Transport (B2-7)	19.299	28.454			19.299	28.454
Fisheries and the sea (B2-9)	30.192	20.399			30.192	20.399
Education, vocational training, youth (B3-1)	296.954	361.854	27.672	5.643	324.626	367.497
Culture and audiovisual media (B3-2)	100.331	111.056	6.427	2.800	106.758	113.856
Information and communication (B3-3)	101.055	105.527		0.700	101.055	106.227
Other social operations (B3-4)	131.572	141.092		7.164	131.572	148.256
Energy (B4-1)	30.192	35.802			30.192	35.802
Euratom nuclear safeguards (B4-2)	14.196	15.541	1.000		15.196	15.541
Environment (B4-3)	120.469	128.540		1.000	120.469	129.540
Consumer protection (B5-1)	18.558	17.441			18.558	17.441
Aid for reconstruction (B5-2)	2.839	3.933			2.839	3.933
Internal market (B5-3)	132.596	183.419	1.300	5.000	133.896	188.419
Industry (B5-4)	42.199	96.028			42.199	96.028
Information market (B5-5)	89.781		2.000		91.781	
Statistical information (B5-6)	25.400	34.791	3.178		28.578	34.791
Trans-European networks (B5-7)	402.950	363.067		10.800	402.950	373.867
Cooperation in the fields of justice and home affairs (B5-8)	8.001	2.268		4.500	8.001	6.768
Measures to combat fraud (B5-9)	4.379	5.157		5.500	4.379	10.657
<i>Heading 3 — Subtotal</i>	<i>4 799.335</i>	<i>4 860.371</i>	<i>112.129</i>	<i>137.522</i>	<i>4 911.464</i>	<i>4 997.893</i>

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	
	1998	1997	1998	1997	1998	1997
4. External action						
EDF (B7-1)						
Food aid (B7-20)	341.771	407.686			341.771	407.686
Humanitarian aid (B7-21)	477.888	484.234		19.660	477.888	503.894
Cooperation — Asia (B7-30)	236.073	252.292	5.157		241.230	252.292
Cooperation — Latin America (B7-31)	142.817	148.888	4.528		147.345	148.888
Cooperation — southern Africa (B7-32)	84.545	70.991			84.545	70.991
Cooperation — Mediterranean countries and the Middle East (B7-4)	421.524	403.879	68.025	1.550	489.549	405.429
Cooperation — central and eastern Europe (B7-50)	1 032.716	824.861	41.768		1 074.484	824.861
European Bank for Reconstruction and Development (B7-51)	4.388				4.388	
Cooperation — new independent States and Mongolia (B7-52)	399.921	396.127			399.921	396.127
Exceptional assistance to Armenia, Georgia and Tajikistan (B7-53)	59.205				59.205	
Cooperation — former Yugoslavia (B7-54)	122.400	42.375	22.501		144.901	42.375
Other cooperation measures (B7-6)	281.556	318.530	14.950	16.600	296.506	335.130
European initiative for democracy and the protection of human rights (B7-7)	65.938	59.323	14.190		80.127	59.323
International fisheries agreements (B7-80)	272.931	284.706			272.931	284.706
External aspects of Community policies (B7-81 to B7-87)	59.248	75.231	25.995		85.242	75.23
Support expenditure (B7-95)		0.035		3.520		3.555
Common foreign and security policy (B8-0)	22.392	16.118	0.895	8.116	23.287	24.233
<i>Heading 4 — Subtotal</i>	<i>4 025.314</i>	<i>3 785.277</i>	<i>198.008</i>	<i>49.446</i>	<i>4 223.322</i>	<i>3 834.723</i>
5. Administrative expenditure						
<i>Staff</i>						
— Commission	1 635.714	1 665.066	5.857	51.649	1 641.571	1 716.715
— Publications Office	32.086	31.449	0.348	0.648	32.434	32.097
— European Parliament (including Ombudsman)	480.488	481.396	30.492	19.915	510.980	501.310
— Council	190.768	186.519	2.252	1.805	193.020	188.324
— Economic and Social Committee	10.321	9.821	0.071	0.176	10.392	9.998
— Committee of the Regions	6.318	6.221	0.167	0.181	6.485	6.403
— Joint Structure	35.339	34.660	0.359	0.936	35.697	35.596
— Court of Justice	91.192	88.515	1.872	2.576	93.064	91.091
— Court of Auditors	50.504	47.521	0.885	0.618	51.389	48.139
<i>Administration</i>						
— Commission	856.361	753.852	238.439	225.570	1 094.799	979.422
— Publications Office	18.564	18.274	2.866	3.716	21.430	21.990
— European Parliament (including Ombudsman)	307.555	295.779	236.670	75.148	544.226	370.927
— Council	78.555	86.562	45.600	36.903	124.154	123.466
— Economic and Social Committee	11.750	13.265	3.004	2.430	14.754	15.695
— Committee of the Regions	6.018	5.637	1.154	2.824	7.171	8.461
— Joint Structure	11.259	11.659	4.843	3.101	16.101	14.759
— Court of Justice	22.012	28.432	3.900	2.619	25.912	31.050
— Court of Auditors	4.645	4.116	1.426	1.429	6.071	5.545
<i>Heading 5 — Subtotal</i>	<i>3 849.449</i>	<i>3 768.743</i>	<i>580.203</i>	<i>432.245</i>	<i>4 429.652</i>	<i>4 200.987</i>
6. Reserves						
Monetary reserve (B1-6)						
Guarantee reserve (B0-23 and B0-24)	272.389	286.095			272.389	286.095
Emergency aid reserve (B7-91)						
Negative reserve (B0-45)						
<i>Heading 6 — Subtotal</i>	<i>272.389</i>	<i>286.095</i>			<i>272.389</i>	<i>286.095</i>
7. Compensation						
Compensation (B0-5)	99.000	212.000			99.000	212.000
<i>Heading 7 — Subtotal</i>	<i>99.000</i>	<i>212.000</i>			<i>99.000</i>	<i>212.000</i>
Total	80 125.843	79 301.508	1 510.765	701.596	81 636.608	80 003.104

TABLE IV
Appropriations for payments carried over from 1997

(million ECU)

Heading (headings other than 'Administrative expenditure' concern only the Commission)	Carryover from 1997	Payments effected in 1998	Appropriations carried over to 1999	Appropriations lapsing 1998	Appropriations lapsing 1997
1. Common agricultural policy					
Market expenditure (B1-1 to B1-3)	82.384	77.453		4.931	144.309
Accompanying measures (B1-4 and B1-5)					
<i>Heading 1 — Subtotal</i>	<i>82.384</i>	<i>77.453</i>		<i>4.931</i>	<i>144.309</i>
2. Structural operations					
EAGGF-Guidance (B2-10)					
FIFG (B2-11)					
ERDF (B2-12)					
ESF (B2-13)					
Community initiatives (B2-14)					
Transitional measures, innovation schemes and action against fraud (B2-15, B2-16 and B2-18)					18.360
Other structural operations (B2-2)					7.173
Cohesion Fund (B2-3)					
EEA financial mechanism (B2-4)					
<i>Heading 2 — Subtotal</i>					<i>25.533</i>
3. Internal policies					
Research (B6)					
— B6-5: Indirect action (Shared-cost projects) and concerted action — Completion of earlier projects and other activities	67.129	17.185	49.944	0.000	
— B6-7: Indirect action (shared-cost projects), concerted action and supplementary programmes — EC framework programme (1994 to 1998)	30.343	30.246		0.097	3.939
<i>Research — total</i>	<i>97.472</i>	<i>47.431</i>	<i>49.944</i>	<i>0.097</i>	<i>3.939</i>
Other agricultural operations (B2-5)					0.961
Other regional operations (B2-6)					
Transport (B2-7)					
Fisheries and the sea (B2-9)	2.000	0.407			
Education, vocational training, youth (B3-1)	5.965	4.780	1.186		
Culture and audiovisual media (B3-2)	2.847	0.746		2.101	15.382
Information and communication (B3-3)	0.700		0.000	0.700	12.911
Other social operations (B3-4)	7.164	5.316		1.848	4.247
Energy (B4-1)					
Euratom nuclear safeguards (B4-2)					
Environment (B4-3)	1.019	1.019			0.564
Consumer protection (B5-1)					
Aid for reconstruction (B5-2)					
Internal market (B5-3)	5.226	0.471	0.225	4.530	1.497
Industry (B5-4)					
Information market (B5-5)					
Statistical information (B5-6)					
Trans-European networks (B5-7)	10.973	7.678		3.295	1.886
Cooperation in the fields of justice and home affairs (B5-8)	4.500	0.338		4.162	
Measures to combat fraud (B5-9)	5.500	2.638		2.862	
<i>Heading 3 — Subtotal</i>	<i>143.367</i>	<i>70.823</i>	<i>51.356</i>	<i>21.188</i>	<i>41.388</i>
4. External action					
EDF (B7-1)					
Food aid (B7-20)					
Humanitarian aid (B7-21)	19.697	18.747	0.037	0.913	0.639
Cooperation — Asia (B7-30)	0.243		0.243		
Cooperation — Latin America (B7-31)					
Cooperation — southern Africa (B7-32)					
Cooperation — Mediterranean countries and the Middle East (B7-4)	1.550	0.371		1.179	
Cooperation — central and eastern Europe (B7-50)					
European Bank for Reconstruction and Development (B7-51)					

TABLE IV (continued)

(million ECU)

Heading (headings other than 'Administrative expenditure' concern only the Commission)	Carryover from 1997	Payments effected in 1998	Appropriations carried over to 1999	Appropriations lapsing 1998	Appropriations lapsing 1997
Cooperation - new independent States and Mongolia (B7-52)					14.000
Exceptional assistance to Armenia, Georgia and Tajikistan (B7-53)	10.000	10.000			2.094
Cooperation — former Yugoslavia (B7-54)					
Other cooperation measures (B7-6)	6.685	0.084	0.085	6.516	
European initiative for democracy and the protection of human rights (B7-7)					0.846
International fisheries agreements (B7-80)					
Other external actions (B7-81 to B7-87)					
External aspects of Community policies (B7-95)	3.520	2.272		1.248	
Common foreign and security policy (B8-0)	8.116	5.826		2.289	1.186
<i>Heading 4 — Subtotal</i>	<i>49.812</i>	<i>37.301</i>	<i>0.366</i>	<i>12.145</i>	<i>18.764</i>
5. Administrative expenditure					
<i>Staff</i>					
— Commission	4.911	3.487		1.425	8.981
— Publications Office	0.648	0.429		0.219	0.343
— European Parliament (including Ombudsman)	19.915	15.993		3.921	3.373
— Council	1.805	1.424		0.381	0.384
— Economic and Social Committee	0.176	0.070		0.106	0.075
— Committee of the Regions	0.181	0.082		0.099	0.107
— Joint Structure	0.480	0.319		0.160	0.205
— Court of Justice	2.576	2.330		0.246	0.283
— Court of Auditors	0.618	0.571		0.047	0.045
<i>Administration</i>					
— Commission	272.420	241.344	0.545	30.531	23.116
— Publications Office	3.716	3.553		0.163	0.234
— European Parliament (including Ombudsman)	75.148	58.001		17.147	51.334
— Council	36.903	32.122		4.781	3.685
— Economic and Social Committee	2.430	1.960		0.471	0.274
— Committee of the Regions	2.824	1.609		1.215	0.273
— Joint Structure	3.101	2.866		0.234	0.150
— Court of Justice	2.619	2.420		0.199	0.086
— Court of Auditors	1.429	1.354		0.076	0.113
<i>Heading 5 — Subtotal</i>	<i>431.901</i>	<i>369.934</i>	<i>0.545</i>	<i>61.422</i>	<i>93.061</i>
6. Reserves					
Monetary reserve (B1-6)					
Guarantee reserve (B0-23 and B0-24)					
Emergency aid reserve (B7-91)					
Negative reserve (B0-42)					
<i>Heading 6 — Subtotal</i>					
7. Compensation					
Compensation (B0-5)					
<i>Heading 7 — Subtotal</i>					
Grand total	707.464	555.512	52.267	99.686	323.055
Breakdown by institution					
Commission	557.258	434.390	52.267	70.602	262.669
— of which: non-differentiated appropriations	362.815	325.546	0.000	37.269	176.984
— of which: differentiated appropriations	194.443	108.844	52.267	33.332	85.685
European Parliament	95.062	73.994		21.068	54.706
Council	38.709	33.546		5.162	4.069
Economic and Social Committee	2.607	2.030		0.577	0.350
Committee of the Regions	3.006	1.691		1.314	0.379
Joint Structure	3.580	3.186		0.395	0.355
Court of Justice	5.195	4.750		0.445	0.369
Court of Auditors	2.047	1.925		0.122	0.158
Grand total	707.464	555.512	52.267	99.686	323.055

TABLE V

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

(ECU)

I. Revenue (contributions paid)			61 517 144.00
	1998 appropriations	Carryover from 1997	
II. Expenditure (payments)	60 057 172.88	593 241.98	60 650 414.86
<i>Heading 3 — Internal policies</i>	58 302 172.88	593 241.98	
Research (B6)	49 318 542.14	561 047.70	
Education, vocational training, youth (B3-1)	4 987 472.99	0.00	
Culture and audiovisual media (B3-2)	1 309 491.55	13 294.28	
Other social operations (B3-4)	761 707.99	0.00	
Energy (B4-1)	292 654.81	0.00	
Environment (B4-3)	309 417.17	18 900.00	
Internal market (B5-3)	324 753.25	0.00	
Labour market and technological innovation (B5-5)	514 073.98	0.00	
Statistical information (B5-6)	294 443.00	0.00	
Trans-European networks (B5-7)	189 616.00	0.00	
<i>Heading 5 — Administrative expenditure</i>	1 755 000.00		
Support staff (A-700)	747 000.00		
Administration	1 008 000.00		
Out-turn			866 729.14

TABLE VI

Commitments from differentiated appropriations outstanding at 31 December 1998
 Classification by heading in financial perspective

Heading	Year in which the commitments									
	Before 1989		1989		1990		1991		1992	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
2. Structural operations										
EAGGF Guidance (B2-10)			1.720	0.0	6.704	0.2	0.704	0.0		9.331
FIFG (B2-11)	0.082	0.0	0.361	0.1	0.202	0.0	0.408	0.1		13.099
Feder (B2-12)	230.549	1.4	50.706	0.3	17.285	0.1	79.245	0.5		162.708
ESF (B2-13)	22.642	0.3	17.026	0.2	4.345	0.1	5.316	0.1		35.491
Community initiatives (B2-14)			2.223	0.1	0.476	0.0	42.474	1.0		59.482
Transitional measures, innovation schemes and action against fraud (B2-15, B2-16 and B2-18)										
Cohesion Fund (B2-3)										
EEA Financial mechanism (B2-4)			27.538	4.6	2.147	0.4	1.425	0.2	7.688	1.3
<i>Heading 2 — Subtotal</i>	<i>280.811</i>	<i>0.8</i>	<i>74.184</i>	<i>0.2</i>	<i>30.437</i>	<i>0.1</i>	<i>135.836</i>	<i>0.4</i>	<i>313.397</i>	
3. Internal policies										
Research (B6)	0.331	0.0	1.214	0.0	1.809	0.0	10.336	0.2		33.663
Other agricultural operations (B2-5)			0.146	0.1	0.462	0.2	0.683	0.3		3.366
Other regional operations (B2-6)			0.010	0.1	0.078	0.5	2.171	13.2		2.712
Transport (B2-7)										
Fisheries and the sea (B2-9)										
Education, vocational training, youth (B3-1)										0.068
Culture and audiovisual media (B3-2)										
Information and communication (B3-3)										
Other social operations (B3-4)							0.203	0.1		0.327
Energy (B4-1)	1.629	2.3	2.104	3.0	0.035	0.0	0.087	0.1		0.378
Euratom nuclear safeguards (B4-2)										
Environment (B4-3)			0.325	0.1	0.547	0.2	1.967	0.7		5.407
Consumer protection (B5-1)										
Aid for reconstruction (B5-2)										
Internal market (B5-3)	0.536	0.3	0.629	0.3	3.778	1.9	3.415	1.7		4.676
Industry (B5-4)	0.722	0.5	0.072	0.0						
Information market (B5-5)	0.051	0.0	0.257	0.2	0.474	0.3	0.593	0.4		0.492
Statistical information (B5-6)										0.153
Trans-European networks (B5-7)	20.950	2.1	20.055	2.0	10.030	1.0	22.600	2.3		22.960
Cooperation in the fields of justice and home affairs (B5-8)										
Measures to combat fraud and support expenditure (B5-91 and B5-95)										
<i>Heading 3 — Subtotal</i>	<i>24.219</i>	<i>0.3</i>	<i>24.812</i>	<i>0.3</i>	<i>17.213</i>	<i>0.2</i>	<i>42.055</i>	<i>0.5</i>	<i>74.202</i>	
4. External action										
EDF (B7-1)										
Food aid (B7-20)	1.660	0.1			0.797	0.1	2.098	0.2		
Humanitarian aid (B7-21)					0.006	0.0				0.349
Cooperation — Asia (B7-30)	56.380	3.0	40.371	2.1	31.825	1.7	30.896	1.6		105.413
Cooperation — Latin America (B7-31)	20.404	1.9	24.084	2.2	2.895	0.3	8.030	0.7		25.231
Cooperation — Southern Africa (B7-32)	0.825	0.2	0.255	0.1	0.237	0.1	0.231	0.1		5.712
Cooperation — Mediterranean countries and Middle East (B7-4)	25.373	1.0	13.563	0.5	12.957	0.5	21.834	0.8		20.017
Cooperation — central and eastern Europe (B7-50)					2.003	0.1	17.695	0.6		25.547
European Bank for Reconstruction and Development (B7-51)										
Cooperation — new independent States and Mongolia (B7-52)							25.997	1.6		28.626
Exceptional assistance to Armenia, Georgia and Tajikistan (B7-53)										
Cooperation — former Yugoslavia (B7-54)										
Other cooperation measures (B7-6)	0.150	0.0			0.301	0.0	1.226	0.2		10.121
European initiative for democracy and the protection of human rights (B7-7)										
International fisheries agreements (B7-80)										0.196
External aspects of Community policies (B7-81 to B7-87)	0.103	0.1	0.389	0.3	2.570	1.8	0.791	0.6		1.945
Support expenditure (B7-95)										
Common foreign and security policy (B8-0)										
<i>Heading 4 — Subtotal</i>	<i>104.895</i>	<i>0.8</i>	<i>78.662</i>	<i>0.6</i>	<i>53.593</i>	<i>0.4</i>	<i>108.797</i>	<i>0.8</i>	<i>223.156</i>	
5. Administrative expenditure										
Administration - Part A										
<i>Heading 5 — Subtotal</i>										
Grand total	409.926	0.7	177.657	0.3	101.244	0.2	286.688	0.5	610.755	

(million ECU)

were contracted											Totals	
1993		1994		1995		1996		1997		1998		
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount		%
46.834	1.6	16.770	0.4	8.260	0.2	139.164	3.3	726.380	17.1	3 262.133	77.0	4 238.002
21.725	5.1	1.101	0.3	26.550	6.2	21.469	5.0	89.280	21.0	250.983	59.0	425.259
107.884	5.5	90.511	0.6	230.161	1.4	1 566.920	9.8	3 058.565	19.1	9 629.076	60.2	16 003.611
104.670	3.5	72.945	0.9	28.419	0.4	166.441	2.1	1 965.654	24.9	5 303.089	67.2	7 896.038
107.390	5.2	31.958	0.8	589.671	14.1	892.632	21.3	734.663	17.5	1 623.669	38.7	4 194.638
101.785	21.8	16.761	2.8	12.699	2.1	41.944	7.0	121.275	20.1	206.732	34.3	603.279
10.150	0.9	186.669	5.3	323.030	9.2	549.440	15.7	887.066	25.3	1 531.344	43.7	3 507.700
101.439	4.4	416.713	1.1	1 218.790	3.3	3 378.070	9.2	7 582.883	20.6	21 807.025	59.1	36 868.527
105.077	1.3	140.933	2.8	296.943	5.9	712.395	14.2	1 449.714	28.8	2 320.502	46.1	5 032.917
4.509	1.7	10.218	3.9	16.667	6.4	46.220	17.8	76.330	29.3	101.685	39.1	260.287
1.485	9.0	0.999	6.1	4.040	24.6	0.338	2.1	0.549	3.3	4.074	24.8	16.454
		0.026	0.1	0.296	1.7	0.675	3.8	5.494	31.0	11.207	63.3	17.698
				0.611	0.8	10.848	13.6	15.406	19.4	52.713	66.2	79.578
0.759	0.2	3.694	1.2	16.219	5.2	49.165	15.7	74.623	23.8	169.277	53.9	313.806
0.049	0.0	3.388	3.2	4.500	4.2	9.550	9.0	22.545	21.3	65.992	62.2	106.024
0.002	0.0	0.128	0.1	1.539	1.7	5.806	6.4	17.865	19.8	64.781	71.9	90.121
1.822	1.2	1.757	1.2	3.208	2.1	20.617	13.7	40.239	26.7	82.441	54.7	150.614
0.189	0.3	1.488	2.1	4.609	6.6	9.573	13.7	18.706	26.8	31.108	44.5	69.906
				1.068	6.7	0.976	6.1	3.973	24.8	9.996	62.4	16.013
10.619	3.9	23.243	8.4	37.135	13.5	48.450	17.6	58.849	21.4	88.890	32.3	275.432
		0.022	0.1	0.064	0.3	1.287	7.0	4.145	22.4	12.981	70.2	18.498
7.183	3.6	9.341	4.6	13.987	6.9	21.949	10.9	42.503	21.0	94.061	46.6	202.059
		0.600	0.4			0.133	0.1	72.685	46.5	82.186	52.5	156.398
0.306	0.2	0.917	0.6	0.991	0.6	4.814	3.1	19.370	12.4	120.643	77.1	148.909
0.033	0.1	0.323	1.0	0.299	0.9	2.745	8.4	6.460	19.7	22.770	69.5	32.783
16.304	3.7	60.649	6.2	90.058	9.1	110.998	11.3	216.170	21.9	374.440	38.0	985.214
				0.009	0.1	0.182	1.1	4.334	25.1	12.763	73.8	17.289
		0.050	1.3	0.044	1.1	0.121	3.0	2.063	51.3	1.741	43.3	4.021
103.336	1.6	257.776	3.2	492.286	6.2	1 056.843	13.2	2 152.026	26.9	3 724.251	46.6	7 994.021
4.696	0.4	19.707	1.8	110.576	10.0	164.938	14.9	285.305	25.7	520.130	46.9	1 109.907
0.349	0.1	4.215	0.9	15.073	3.1	55.353	11.3	103.879	21.3	309.613	63.3	488.837
10.114	6.7	81.769	4.3	346.762	18.4	317.156	16.8	360.345	19.1	390.259	20.7	1 887.291
16.570	6.1	99.864	9.1	182.531	16.7	204.907	18.7	225.091	20.5	236.523	21.6	1 096.131
5.719	1.3	12.582	2.9	57.968	13.5	107.794	25.1	116.232	27.0	122.140	28.4	429.695
10.099	3.3	141.052	5.4	211.966	8.1	275.991	10.6	825.810	31.6	978.002	37.4	2 613.663
19.413	2.2	108.843	3.4	377.802	12.0	651.286	20.6	812.587	25.7	1 092.535	34.6	3 157.709
										29.363	100.0	29.363
17.626	4.7	109.164	6.6	216.402	13.1	353.642	21.5	390.878	23.7	445.519	27.0	1 647.854
				0.827	31.3	1.536	58.1			0.283	10.7	2.645
		0.353	0.1	1.079	0.3	57.325	13.4	174.025	40.8	194.161	45.5	426.944
10.951	3.6	36.121	4.8	84.779	11.2	147.254	19.5	192.107	25.4	256.523	34.0	755.535
0.492	0.4	3.426	2.5	7.069	5.2	16.788	12.2	30.642	22.3	78.778	57.4	137.196
10.670	1.9	7.657	22.0	1.318	3.8	9.295	26.7	1.718	4.9	13.965	40.1	34.818
15.573	6.0	12.032	8.4	17.713	12.4	19.426	13.5	33.048	23.0	46.784	32.6	143.375
								2.914	100.0			2.914
						4.224	20.2	4.346	20.8	12.305	58.9	20.875
14.271	3.4	636.786	4.6	1 631.866	11.7	2 386.916	17.1	3 558.926	25.4	4 726.883	33.8	13 984.751
10.080	7.2	0.001	0.1	0.032	2.9			0.129	11.7	0.863	78.1	1.105
10.080	7.2	0.001	0.1	0.032	2.9			0.129	11.7	0.863	78.1	1.105
10.127	3.8	1 311.276	2.2	3 342.974	5.7	6 821.769	11.6	13 293.964	22.6	30 259.022	51.4	58 848.403

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 1998

Assets

(ECU)

	31 December 1998	31 December 1997
I. Initial costs	0.00	0.00
II. Intangible fixed assets	5 845 764.72	3 329 094.58
III. Tangible fixed assets	3 310 191 517.32	2 243 068 143.21
A. Land and buildings	1 527 174 982.30	526 765 304.38
B. Fixtures and fittings, machinery and tools	101 587 387.31	77 522 755.81
C. Furniture and vehicles	360 594 007.08	370 467 829.95
D. Computer equipment	300 608 459.79	271 912 712.85
E. Leasing, financing and similar entitlements	663 477 528.55	645 335 953.42
F. Other tangible fixed assets	3 774 732.29	2 568 982.22
G. Fixed assets under construction and advances in respect of tangible fixed assets	352 974 420.00	348 494 604.58
IV. Investments	1 759 379 676.18	1 235 070 520.12
A. Investments in related organisations	277 500 000.00	210 000 000.00
1. Subscriptions and participations	277 500 000.00	210 000 000.00
2. Receivables	0.00	0.00
B. Other investments	1 481 879 676.18	1 025 070 520.12
1. Subscriptions and participations	29 959 964.79	28 909 224.79
2. Receivables	0.00	0.00
3. Guarantees and advances granted	1 285 816 312.04	866 377 149.75
4. Other	166 103 399.35	129 784 145.58
V. Long-term assets	5 220 957 624.15	4 948 194 070.98
A. Loans granted from the budget	850 108 996.39	807 178 726.83
B. Loans granted from borrowed funds	4 187 637 999.54	4 125 680 246.13
C. Other long-term assets	183 210 628.22	15 335 098.02
VI. Stocks	115 403 333.57	90 198 397.73
A. Office supplies and other consumables	7 239 972.20	7 242 651.95
B. Scientific equipment	102 331 377.44	74 185 111.70
C. Publications Office stocks	5 831 983.93	8 770 634.08
VII. Short-term assets	3 398 243 672.09	4 944 570 298.39
A. Long-term assets falling due during the year	234 689 960.04	2 202 134 300.36
1. Loans granted from the budget	884 948.33	884 948.33
2. Loans granted from borrowed funds	214 850 886.71	2 201 249 352.03
3. Other assets with a term of over one year falling due during the year	18 954 125.00	0.00
B. Current assets	3 153 480 535.78	2 733 381 734.75
1. Advances paid to Member States	0.00	41 916 092.71
2. Amounts owed by Member States	1 812 995 974.62	1 756 506 813.97
a. EAGGF	262 226.63	266 272 101.11
b. VAT paid and recoverable from Member States	13 430 362.73	16 461 818.10
c. Other receivables	1 799 303 385.26	1 473 772 894.76
3. Amounts owed by Community institutions and bodies	17 037 087.26	6 180 561.75
4. Sundry debtors	1 323 447 473.90	928 778 266.32
C. Sundry receivables	10 073 176.27	9 054 263.28
1. Amounts owed by staff	9 621 147.28	8 031 347.25
2. Other	452 028.99	1 022 916.03
VIII. Cash investments	28 133 056.11	99 358 920.48
IX. Disposable assets	10 369 743 197.83	6 307 822 531.81
X. Suspense accounts	297 899 722.12	357 537 626.20
Total	24 505 797 564.09	20 229 149 603.50

Liabilities

(ECU)

	31 December 1998	31 December 1997
I. Own capital	9 739 965 069.34	6 408 083 324.21
A. Net capital resulting from economic adjustments	6 705 489 678.41	5 369 114 897.14
B. Balance for the year	3 023 097 495.85	962 328 696.32
C. Surplus of revenue over expenditure from Borrowing/lending operations	11 377 895.08	76 639 730.75
II. Provisions for risks and liabilities	1 281 955 805.29	872 391 061.38
A. Provisions for major repairs and maintenance	0.00	
B. Other provisions for risks and liabilities	1 281 955 805.29	872 391 061.38
III. Long-term liabilities	5 445 277 097.45	4 762 748 990.14
A. Financial liabilities	4 110 919 323.71	3 943 523 886.03
B. Other long-term debts	1 334 357 773.74	819 225 104.11
IV. Short-term liabilities	7 588 124 501.33	7 664 113 931.95
A. Debts on borrowings	328 992 174.92	2 333 652 873.13
B. Other short-term financial liabilities	3 818 634 385.89	4 504 922 607.86
C. Current liabilities	3 429 734 833.17	813 726 241.13
1. Member States and EFTA countries	1 782 265 942.45	5 172 903.98
2. Community institutions and bodies	18 429 917.86	15 501 490.59
3. Appropriations to be carried over	1 563 032 402.97	746 866 173.73
4. Sundry creditors	66 006 569.89	46 185 672.83
D. Other liabilities	10 763 107.35	11 812 209.83
V. Suspense accounts	450 475 090.68	521 812 295.82
Total	24 505 797 564.09	20 229 149 603.50

1. This balance sheet takes account of the rules laid down in the regulation on inventories and management of the property of the European Commission, which came into effect on 1 January 1997. The costs of purchasing tangible and intangible fixed assets are included in budget expenditure for the year of purchase. They continue to appear in the balance sheet until they are no longer the property of the Commission. The contra entry in the liabilities section of the balance sheet comes under the own capital heading and under debts for assets purchased under rental contracts but not yet paid.

2. Tangible and intangible fixed assets include all property with a purchase value of at least ECU 400, in accordance with Article 130 of Commission Regulation (EC) No 3418/93

laying down detailed rules for implementing the financial regulation.

3. In accordance with Section 8 of the inventory regulation (1), the Commission must allow for the depreciation of every asset except land. Depreciation is calculated for each full year (not pro rata temporis), using the linear method. The annual depreciation rates applicable from 1 January 1997 are given in Annex 6 to the inventory regulation.

Since no calculation could be made for assets held by the delegations and information offices and the other institutions are not required to allow for depreciation (2), the Commission has not included any depreciations in the accounts in order to produce a consistent balance sheet. However, the aggregate totals calculated at 31 December 1998 are shown in the explanatory notes.

(1) Document E/96/280, adopted on 22 January 1997.

(2) The interinstitutional inventory regulation has not yet been adopted.

Assets

III. Tangible fixed assets

A. Land and buildings

The value of the land and buildings of the Joint Research Centre (JRC) at Ispra and Geel is based on an evaluation conducted by independent experts in the course of 1998.

Land and buildings purchased before 1992 at delegation sites have been revalued by independent experts in the light of market prices.

In May 1998 Parliament invoked its purchase option in respect of a complex in Brussels for which the final investment cost (not including land) comes to ECU 1 097 million. In two memoranda of understanding with Parliament, the Kingdom of Belgium made a contribution to the purchase of the land and the development costs. One clause in the memorandum stipulates that, if Parliament moves to other premises, the land will be returned to the Belgian State for BEF 1 or for its market value. An adjustment has therefore been made for the value of the land, which is now entered in the balance sheet at BEF 1.

E. Leasing, financing and similar entitlements

In accordance with Article 7 of the Commission's inventory regulation, leasing, long-term rental operations and property held under a long lease conferring a right in rem are entered in the inventory if the following three conditions are met:

- the risks and advantages are transferred to the lessee;
- the rental is terminable only on payment by the lessee of an indemnity of a deterrent amount;
- the rental enables the lessor to recover the cost of the investment plus remuneration.

If one of the above conditions is not met, the assets are entered in the off-balance-sheet commitments.

Since the other institutions are not required to enter these assets in the accounts, the amounts due for leasing/financing and similar entitlements are entered in the off-balance-sheet commitments.

G. Fixed assets under construction and advances in respect of tangible fixed 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 since the deeds of transfer have not been signed.

An inventory exercise is under way on the movable property belonging to the JRC and the results should be available in the course of 1999.

IV. Investments

This heading covers, first, capital investments made with a view to establishing permanent links and which are seen as supporting the activities of the European Community, and, second, investments made to help beneficiaries develop their business activities but with no long-term participation.

It also includes permanent guarantees and advances granted and the net assets of the Guarantee Fund. A distinction should be drawn between guarantees granted by the European Community to third parties and the Guarantee Fund, which is designed to cover risks associated with loans granted to non-member countries.

A. Investments in related organisations

A.1. Subscriptions and participations

- EBRD subscription

The European Bank for Reconstruction and Development 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.

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 has subscribed for 30 000 additional shares with a face value of ECU 10 000 each. This operation involves paid-in shares and callable shares in the following proportions: 22.5 % of the subscribed shares represent a full number of paid-in shares and the remainder will be callable shares.

This item covers the full amount of the Commission's subscription to the EBRD's capital which has been called up and paid. Payments outstanding on non-called up capital, amounting to ECU 442.5 million, are included in the off-balance-sheet commitments.

- European Investment Fund (EIF) subscription

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 Commission has paid all the called-up capital, which amounts to 20 %.

As with the EBRD subscription, payments outstanding on non-called up capital (80 %), amounting to ECU 480 million, are included in the off-balance-sheet commitments.

B. Other investments

B.1. Subscriptions and participations

This heading includes subscriptions and participations purchased to help beneficiaries develop their business activities.

- 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 (ECIP) programme.

- Eurotech capital, Venture consort and JOP

The purpose of the Eurotech capital instrument is to encourage the private funding of transnational high-technology projects developed by small and medium-sized undertakings through a network of risk-capital investors. It covers payments since 1990, in the form of advances repayable in certain circumstances when contracts run out.

The purpose of the Venture consort instrument is to promote the transnational syndication of risk-capital operators in small and medium-sized undertakings. It covers contributions since 1985 for investments in small and medium-sized enterprises (SMEs) engaging in innovatory projects.

The purpose of the joint venture programme Phare-Tacis (JOP) is to foster the creation and development of joint ventures in the countries of central and eastern Europe and the new independent States.

Since all three are risk capital operations, it is very difficult to assess the real current value of the contributions. In line with the principle of prudence, a 100 % adjustment has been made for the value of these contributions, which are therefore entered in the balance sheet at zero.

Investment: Participations

(ECU)

	Connected agencies		Outside agencies	
	EBRD	EIF	ECIP	Eurotech Venture consort
A. Acquisition value				
Previous year-end	300 000 000.00	600 000 000.00	28 909 224.79	13 513 696.00
Changes during the year:				
— Acquisitions	300 000 000.00		1 050 740.00	8 103 845.00
— Disposal, withdrawal				- 587 366.00
— Transfers between headings				
<i>Year-end</i>	<i>600 000 000.00</i>	<i>600 000 000.00</i>	<i>29 959 964.79</i>	<i>21 030 175.00</i>
B. Increase in value				
Previous year-end				
Changes during the year:				
— Recorded				
— Acquired from third parties				
— Cancelled				
— Transferred between headings				
<i>Year-end</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	
C. Reductions in value				
Previous year-end				13 513 696.00
Changes during the year:				
— Recorded				8 103 845.00
— Cancelled after disposal, withdrawal				- 587 366.00
— Transferred between headings				
<i>Year-end</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>21 030 175.00</i>
D. Amounts not called up				
Previous year-end	210 000 000.00	480 000 000.00		
Changes during the year	232 500 000.00			
<i>Year-end</i>	<i>442 500 000.00</i>	<i>480 000 000.00</i>	<i>0.00</i>	<i>0.00</i>
Net book value year-end (A+B-C-D)	157 500 000.00	120 000 000.00	29 959 964.79	0.00
Entitlements				
Previous year-end:				
— Additions				
— Repayments				
— Reductions in value				
— Exchange rate differences				
— Other				
Net book value year-end	0.00	0.00	0.00	0.00
Aggregate value reduction on assets year-end				

B.3. Guarantees and advances granted

This heading incorporates fixed assets not included under tangible assets, such as deposits and guarantees paid, permanent advances for building charges, the operating funds advanced to third parties and the Guarantee Fund.

• 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) 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 first payments to the fund from the Community budget were made in

December 1994. The fund is managed by the European Investment Bank (EIB) under a mandate from the Community.

The entry in the assets side of the Commission's balance sheet represents the fund's net assets at 31 December 1998.

Since the fund may be called on to cover defaulting debtors at any time, a provision has been created for risks and liabilities corresponding to the total net assets of the fund in line with the principle of prudence.

V. Long-term assets

This heading includes amounts owed to the European Community by Member States and non-member countries on loans granted to third parties either from borrowed funds or from budget appropriations under the MEDIA II programme.

Changes in volume of loans

	Currency	Balance at 31 December 1997 (A)	New loans (B)	Repayments (C)	Changes in exchange rates (C 1)	Balance at 31 December 1998 (D)=(A)+(B)-(C)+(C 1)
1. Loans granted from the budget						
Loans with special conditions	ECU	425 742 943.92	547 861.68	12 726 692.54		413 564 113.06
Risk capital operations	ECU	85 883 680.11	22 250 345.26	1 018 156.82		107 115 868.55
ECIP loans	ECU	94 103 522.34	15 575 100.50			109 678 622.84
Loans for migrant workers	ECU	188 118.66		31 015.49		157 103.17
Building loans	ECU	76 311.87		15 904.35	- 808.89	61 216.41
Loans to Turkey	ECU	175 000 000.00				175 000 000.00
MEDIA II loans	ECU	27 085 863.38	30 579 570.37	4 642 958.42		53 022 475.33
<i>Subtotal</i>		<i>808 080 440.28</i>	<i>68 952 877.81</i>	<i>18 434 727.62</i>	<i>- 808.89</i>	<i>858 599 399.36</i>
2. Loans granted from borrowed funds						
Medium-term assistance	ECU	1 905 000 000.00	403 000 000.00	625 000 000.00	0.00	1 683 000 000.00
Food aid	ECU	0.00			0.00	0.00
Balance of payments	ECU	3 948 364 637.31		1 486 291 881.20	20 673 699.36	2 482 746 455.47
NCI	ECU	355 158 745.27		140 196 003.30	- 5 963 299.15	208 999 442.82
Euratom	ECU	118 406 215.58		91 729 611.38	1 066 383.76	27 742 987.96
<i>Subtotal</i>		<i>6 326 929 598.16</i>	<i>403 000 000.00</i>	<i>2 343 217 495.88</i>	<i>15 776 783.97</i>	<i>4 402 488 886.25</i>
Total		7 135 010 038.44	471 952 877.81	2 361 652 223.50	15 775 975.08	5 261 088 285.61

A. Loans granted from the budget

This item principally covers risk capital loans on special terms granted as part of cooperation with non-member countries. It also covers loans granted under the ECIP programme to promote the setting-up of investment joint ventures in Asia, Latin America, the Mediterranean region and South Africa.

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

Amounts owed under the MEDIA II programme are also included under the heading 'Loans granted from the budget' as the Commission concluded the contracts directly with the recipients. As loan repayments depend on the always uncertain success of the projects, an adjustment has been made for the loans which have been converted into grants.

The item also includes other, much smaller loans granted from the budget: loans for migrant workers and building loans for Community officials.

B. Loans granted from borrowed funds

Under the Treaty, the Council, acting unanimously, has the power to adopt guarantee or borrowing programmes if it considers this necessary to attain the objectives of the Community. Community borrowings are direct commitments by the Community itself and not by any individual Member State. The amounts outstanding on ECIP loans and loans granted from borrowed funds at 31 December 1998 are entered under long-term assets in the case of loans due in more than a year and under short-term assets in the case of loans due in less than one year. As the duration of the MEDIA II loans is uncertain, the amount outstanding at 31 December 1998 is included under long-term assets.

Reduction in value at 31 december 1997 (E)	Changes during the year (F)	Reduction in value at 31 december 1998 (G)=(E)+(F)	Net value at 31 december 1998 (H)=(D)-(G)
			413 564 113.06 107 115 868.55 109 678 622.84 157 103.17 44 273.58 175 000 000.00 45 433 963.52
16 765.12	177.71 (1) 7 588 511.81	16 942.83 7 588 511.81	
16 765.12	7 588 689.52	7 605 454.64	850 993 944.72
			1 683 000 000.00 0.00 2 482 746 455.47 208 999 442.82 27 742 987.96
0.00	0.00	0.00	4 402 488 886.25
16 765.12	7 588 689.52	7 605 454.64	5 253 482 830.97 (2)

(1) Changes in value reductions during the year are due to exchange rate differences. There was no reduction in value in 1998.

(2) This figure includes assets due in more and in less than one year. The table below makes a distinction between assets due in more than one year and those due in less than one year.

(ECU)

	Due in > 1 year	Due in < 1 year	Loans outstanding at 31 December 1998
1. Loans granted from the budget			
ECIP	108 793 674.51	884 948.33	109 678 622.84
Others	741 315 321.88	0.00	741 315 321.88
<i>Subtotal</i>	<i>850 108 996.39</i>	<i>884 948.33</i>	<i>850 993 944.72</i>
2. Loans granted from borrowed funds			
Financial assistance	1 488 000 000.00	195 000 000.00	1 683 000 000.00
Balance of payments	2 482 746 455.47	0.00	2 482 746 455.47
NCI	204 653 658.86	4 345 783.96	208 999 442.82
Euratom	12 237 885.21	15 505 102.75	27 742 987.96
<i>Subtotal</i>	<i>4 187 637 999.54</i>	<i>214 850 886.71</i>	<i>4 402 488 886.25</i>
3. Other long-term receivables			
MEDIA I	21 140 783.22	0.00	21 140 783.22
Other	162 069 845.00	18 954 125.00	181 023 970.00
<i>Subtotal</i>	<i>183 210 628.22</i>	<i>18 954 125.00</i>	<i>202 164 753.22</i>
Total	5 220 957 624.15	234 689 960.04	5 445 647 584.19

C. Other long-term receivables

Loans granted under the MEDIA I programme to promote the development of the audiovisual industry in Europe are included under this item. Since they are not concluded directly between the Commission and the final recipients, these loans are not entered under the heading for loans granted from the budget. Similarly, repayment of loans under the MEDIA II programme depends on the financial success of the projects. An adjustment of ECU 11.2 million has therefore been made for the loans which have been converted into grants.

These entitlements were included under the heading for short-term sundry receivables in the balance sheet at 31 December 1997, but

have now been reclassified as long-term receivables. The corresponding figures for 1997 have been classified in the same way.

This heading also includes the financial contribution of ECU 176 million from the Kingdom of Belgium (see note III.A) which is to be paid for a minimum of 10 years.

VI. Stocks

This item covers the stocks of office supplies and consumables at 31 December 1998, valued at the price of the last supplies received and converted to ecus at the closing rate, in line with the interinstitutional method for valuing stocks.

The heading also covers the scientific and technical equipment of the Joint Research Centre. In line with the principle of prudence, the stocks of heavy water, fissile material and samples for industrial and scientific use are valued every year and entered in the balance sheet at their commercial value, which is less than the real historic cost.

It also includes the stocks of publications held by the Office for Official Publications of the European Communities, valued according to its own valuation rules ⁽¹⁾.

VII. Short-term assets

A. Long-term receivables due in less than one year

This heading contains the amounts owed in respect of long-term loans which are due in less than one year.

B. Current assets

B.2. Amounts owed by Member States

EAGGF: amounts payable by the Member States in relation to the clearance of EAGGF Guarantee Section accounts.

VAT paid by the Community and recoverable from the Member States: this item covers the amounts due in respect of taxes paid by the Community and recoverable from the Member States.

Other receivables: this item mainly concerns amounts due in respect of own resources still to be recovered.

B.3. Amounts owed by Community institutions and bodies

This heading contains various amounts owed by Community bodies, for which the Commission pays certain expenditure, which will subsequently be repaid.

B.4. Sundry debtors

This item covers amounts owed as a result of the Commission's activities, including the following.

1. The recovery orders entered in the revenue accounts at 31 December 1998 as established entitlements outstanding. The item also contains outstanding fines and 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 647 169 000. In the case of outstanding fines, ECU 1 037 355 550 has been disregarded following an appeal against the Commission decision.
2. All debtors owing sums resulting from loans paid from borrowed funds.
3. All amounts owed as a result of Guarantee Fund operations. These amounts break down as follows:

(million ECU)

	31 December 1997	31 December 1998
Capital	270.9	79.9
Loan interest	18.2	48.9
Default interest	26.7	33.2
Total	315.8	162.0
Adjustment	- 315.8	- 162.0
Net book value	0.0	0.0

⁽¹⁾ See the rules on the valuation of the Publications Office's stocks of publications.

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 1998. This was deducted from the value of these entitlements on the assets side of the balance sheet.

4. Advance payments to technical assistance offices: ECU 33.9 million which had not been paid to the final recipients at 31 December 1998.

C. Sundry receivables

Basically, this item covers amounts owed to the Commission by its staff, in particular advances on salary and other sums to be recovered.

IX. Disposable assets

This heading covers all the funds which the Commission keeps in its accounts in each

Member State and EFTA country (treasury or central bank), in current accounts and imprest accounts, petty cash and the proceeds of loans made from borrowed funds and loans granted to improve housing conditions for migrant workers.

Funds totalling ECU 1 225 013 33 kept in current accounts with two 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 the 'Imprest accounts' heading).

X. Suspense accounts

This heading includes interest receivable, mainly accrued interest on loans, investments and swaps; miscellaneous expenditure still to be booked, which could not be finally booked before the closing date, and prepaid expenses.

(ECU)

Description	31 December 1997	31 December 1998
Interest	229 312 984.02	125 560 016.80
Expenditure to be charged	59 788 808.49	64 034 652.82
Expenditure between institutions	11 873 505.12	44 068 560.33
Charges paid in advance	56 246 997.42	35 159 037.54
Conversion differences	286 549.49	29 077 454.63
Other charges carried over and acquisitions	28 781.66	
Total	357 537 626.20	297 899 722.12

Liabilities

I. Own capital

A. Net capital resulting from economic adjustments

(ECU)

	Balance at 31 December 1997	Change over year	Balance at 31 December 1998
A.1. Net capital resulting from economic adjustments			
(a) Initial costs	0.00	0.00	0.00
(b) Intangible fixed assets	3 329 094.58	2 516 670.14	5 845 764.72
(c) Tangible fixed assets	1 611 377 832.37	751 500 997.98	2 362 878 830.35
(d) Investments (excluding guarantees)	1 114 209 978.69	431 828 709.22	1 546 038 687.91
(e) Loans granted from the budget	808 063 675.16	50 535 724.20	858 599 399.36
(f) Stocks	90 198 397.73	25 204 935.94	115 403 333.67
(g) Amounts outstanding ⁽¹⁾	2 618 525 186.34	681 967 085.42	3 300 492 271.76
Total net value	6 245 704 164.87	1 943 554 122.90	8 189 258 287.77
A.2. Adjustments to assets other than those under A. ⁽²⁾	- 1 288 513.83	63 500.50	- 1 225 013.33
A.3. Adjustments to assets under A. ⁽²⁾	- 13 513 696.00	- 188 368 851.91	- 201 882 547.91
A.4. Allocation for risks and liabilities ⁽³⁾	- 861 787 057.90	- 418 873 990.22	- 1 280 661 048.12
Net capital resulting from adjustments to the balance sheet	5 369 114 897.14	1 336 374 781.27	6 705 489 678.41

(1) This item 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.

(2) These items are the contra entries for the adjustment to the financial accounts, investments and long-term receivables since the annual balance may be affected only by the budget out-turn and exchange gains or losses, which will then be entered in the accounts as liabilities for the financial year.

(3) This item is the contra entry for the provision for risks and liabilities in the Guarantee Fund since the annual balance may be affected only by the budget out-turn and exchange gains or losses.

B. Balance for the year

(ECU)

Balance of the year	1997	1998
European Community	962 328 696.32	3 023 097 495.85
(of which EFTA States belonging to the EEA)	2 367 635.91	866 729.14

C. Surpluses of loan proceeds over borrowing/lending costs

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

(ECU)

Borrowing/lending instrument	Balance at 31 December 1997 (a)	Result of financial year (b)	Aggregate result (c) = (a) + (b)	Amount in budget (d)	Balance at 31 December 1998 (e) = (c) - (d)
Medium-term financial assistance	722 083.38	194 329.43	916 412.81	0.00	916 412.81
Food aid to former USSR	18 445.64	595.37	19 041.01	0.00	19 041.01
Balance of payments	15 476.23	48 958.47	64 434.70	0.00	64 434.70
Euratom	29 252 731.80	8 655 065.75	37 907 797.55	29 781 654.58	8 126 142.97
NCI	46 630 993.70	3 050 878.19	49 681 871.89	47 430 008.30	2 251 863.59
Total	76 639 730.75	11 949 827.21	88 589 557.96	77 211 662.88	11 377 895.08

Following the recommendation by the Court of Auditors in its report on the declaration of assurance for 1995 that profits from borrowing and lending activities should be entered in the budget, the Commission has for the first time entered some of these profits in the budget.

II. Provisions for liabilities and charges

(ECU)

Description	Provision at 31 December 1997	Change over year	Provision at 31 December 1998
A. Major repairs	0.00		0.00
B. Other liabilities and charges			
Guarantee Fund	861 787 057.90	418 873 990.22	1 280 661 048.12
Borrowing-lending:			
— NCI	2 883 340.90	- 1 823 039.80	1 060 301.10
— Euratom	7 686 206.51	- 7 486 206.51	200 000.00
— Balance of payments	34 456.07	0.00	34 456.07
Total provisions liabilities and charges	872 391 061.38	409 564 743.91	1 281 955 805.29

In view of the risks involved in lending activities, a provision for liabilities and charges has been set up for the whole of the Guarantee Fund (see note IV.B.3).

III. Long-term liabilities

This heading includes liabilities due in more than one year.

(ECU)

Description	31 December 1997	Change over year	31 December 1998
1. Borrowings			
NCI	168 702 506.47	- 40 767 523.44	127 934 983.03
Euratom	27 447 674.89	- 15 209 789.68	12 237 885.21
Balance of payments	2 467 373 704.67	15 372 750.80	2 482 746 455.47
Financial assistance	1 280 000 000.00	208 000 000.00	1 488 000 000.00
Food aid	0.00	0.00	0.00
<i>Subtotal</i>	<i>3 943 523 886.03</i>	<i>167 395 437.68</i>	<i>4 110 919 323.71</i>
2. Other long-term liabilities			
Staff funds (1)	13 721 004.34	3 095 852.58	16 816 856.92
Deposits and guarantees (2)	2 904 436.60	- 468 310.14	2 436 126.46
NCI	258 095 365.43	- 56 415 892.32	201 679 473.11
Leasing (3)	544 504 297.74	- 19 638 912.72	524 865 385.02
EBRD subscriptions (4)	0.00	57 712 500.00	57 712 500.00
Other (5)			530 847 432.23
<i>Subtotal</i>	<i>819 225 104.11</i>	<i>- 73 427 262.60</i>	<i>1 334 357 773.74</i>
Total	4 762 748 990.14	93 968 175.08	5 445 277 097.45

(1) Staff funds: this heading covers the unemployment fund for temporary staff at all the institutions (ECU 9.1 million) and the welfare fund for Commission local staff in non-member countries (ECU 7.7 million).

(2) 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.

(3) Leasing: this heading contains leasing debts due in more than one year.

(4) EBRD subscriptions: the part of the subscription called in.

(5) As it has invoked its purchase option, Parliament must repay the cost of investment.

The detailed movements in borrowing operations in 1998 are as follows:

(ECU)

Description	Balance at 31 December 1997	New borrowings	Repayments	Variations in rates	Balance at 31 December 1998
1. Borrowings					
MTA	1 905 000 000.00	403 000 000.00	625 000 000.00	0.00	1 683 000 000.00
FMA	0.00	0.00	0.00	0.00	0.00
BOP (1)	3 948 364 637.31	0.00	1 486 291 881.20	20 673 699.36	2 482 746 455.47
NCI (1)	218 400 452.18	0.00	50 045 694.04	- 104 490.34	168 250 267.80
Euratom (1)	118 406 215.58	0.00	91 729 611.38	1 066 383.76	27 742 987.96
Total	6 190 171 305.07	403 000 000.00	2 253 067 186.62	21 635 592.78	4 361 739 711.23 (1)

(1) As these borrowings have been contracted in various currencies, the balance at 31.12.1997 already includes the variations in rates, BOP = - 30 200 682; NCI = - 2 413 818; Euratom = 29 126 936.

The amounts outstanding on borrowings at 31 December 1998 are entered under long-term liabilities in the case of loans due in more than a year and under short-term liabilities in the case of loans due in less than one year.

(ECU)

Description	Due in > 1 year	Due in < 1 year	Balance
1. Borrowings			
MTA	1 488 000 000.00	195 000 000.00	1 683 000 000.00
BOP	2 482 746 455.47	0.00	2 482 746 455.47
Euratom	12 237 885.21	15 505 102.75	27 742 987.96
NCI	127 934 983.03	40 315 284.77	168 250 267.80
<i>Subtotal</i>	<i>4 110 919 323.71</i>	<i>250 820 387.52</i>	<i>4 361 739 711.23</i>
2. Others	1 334 357 773.74	78 171 787.40	1 412 529 561.14
Total	5 445 277 097.45	328 992 174.92	5 774 269 272.37

IV. Short-term liabilities

A. Long-term liabilities falling due in less than one year

This heading includes borrowings which fall due for payment in less than one year's time and leasing debts of less than one year. (See table below).

B. Other financial liabilities

This item covers payments booked to the budget in 1998 but only effected by the accounting officer between the closure of the accounts and 15 January 1999 (Article 6 of the financial regulation).

C. Current liabilities

C.1. Member States and EFTA countries

This heading covers amounts owed by the Commission to Member States as a result of

supplementary and amending budget No 1/1998, which entered the 1997 balance in the budget, and the revised forecasts for customs duties, VAT and GNP bases and budget corrections. After its adoption by Parliament on 14 December 1998, the Member States deducted ECU 1 780 million from the payments called in for VAT, GNP and the UK correction in January 1999.

This heading also includes the 1997 balance of contributions from the EFTA States belonging to the EEA (ECU 1.9 million), which has not yet been regularised.

C.2. Community institutions and bodies

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

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

(ECU)

Description	Balance at 31 December 1998	Balance at 31 December 1997
Appropriations to be carried over		
— non-differentiated appropriations carried over automatically	419 802 549.59	508 955 314.16
— non-differentiated appropriations carried over by the budgetary authority	572 000 000.00	4 522 000.00
— appropriations carried over by Commission decision	422 212 473.00	118 689 623.00
Differentiated current year's appropriations in respect of contribution	96 750 475.43	69 429 138.81
Differentiated appropriations carried over from 1996 in respect of contributions by third parties	52 266 904.95	45 270 097.76
Total	1 563 032 402.97	746 866 173.73

C.3. Appropriations to be carried over

At 31 December 1998 the breakdown of appropriations to be carried over, taking all the institutions together, was as follows

C.4. Sundry creditors

This item covers debts arising from the Commission's activities.

D. Other liabilities

These are mainly amounts owed to staff and revenue to be transferred to various organisations or other third parties.

V. Suspense accounts

This item relates to loans granted from borrowed funds for which the balance sheets and profit and loss accounts are presented later in this volume. It covers accrued interest on borrowings and swaps and swap operations.

It also includes revenue not booked, i.e. revenue which could not be definitively booked to the budget before the close of the year and revenue available for re-use.

(ECU)

Description	31 December 1998	31 December 1997
Interest	123 206 149.75	210 059 964.47
Revenue to be charged (1)	194 564 215.37	82 255 006.64
Revenue to be charged by other institutions	3 111 766.11	621 008.54
Re-use	127 785 434.38	208 458 536.12
Exchange differences	1 807 525.07	13 740 802.51
Total	450 475 090.68	515 135 318.28

(1) Revenue from fines for infringements of the competition rules (ECU 136 095 000) is entered in an unbooked revenue account 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.

**OFF-BALANCE-SHEET COMMITMENTS
AT 31 DECEMBER 1998**
Potential liabilities at 31 December 1998

(ECU)

1 (1)	Commitments against differentiated appropriations not covered by carryovers of payment appropriations		58 277 174 069
2 (1)	Aid planned but not committed in respect of		39 333 690 000
	2.1. Structural Funds (aid planned but not committed for the period 1994-99)		35 744 000 000
	<i>Objective 1</i>	20 018 000 000	
	<i>Objective 2</i>	3 668 000 000	
	<i>Objectives 3 and 4</i>	3 109 000 000	
	<i>Objective 5a — agriculture</i>	1 536 000 000	
	<i>Objective 5a — fisheries</i>	339 000 000	
	<i>Objective 5b</i>	2 409 000 000	
	<i>Objective 6</i>	234 000 000	
	<i>Community initiatives</i>	4 431 000 000	
	2.2. Cohesion Fund		3 118 000 000
	2.3. Protocols with the Mediterranean countries		119 000 000
	2.4. Fisheries agreements		352 690 000
3 (1)	EAGGF-guarantee		22 035 380 720
	3.1. Expenditure by Member States under the EAGGF Guarantee Section between 16 October 1997 and 31 December 1997		21 685 001 807
	3.2. Potential liabilities connected with the clearance of the EAGGF Guarantee accounts pending judgment by the Court of Justice		350 378 912
	<i>Belgium</i>	10 245 678	
	<i>Germany</i>	68 341 683	
	<i>Greece</i>	122 504 858	
	<i>Spain</i>	55 133 365	
	<i>France</i>	15 855 834	
	<i>Italy</i>	40 789 828	
	<i>Netherlands</i>	37 507 666	
4 (1)	Repayment guarantee:		18 909 318 310
	4.1. On loans granted by the EIB from its own resources to non-member countries		14 286 100 000
	70 % guarantee	3 398 400 000	
	75 % guarantee	5 382 800 000	
	100 % guarantee	5 504 900 000	
	4.2. on borrowings contracted by the European Communities (amounts carrying a budget guarantee at 31.12.1998)		4 361 739 711
		<i>Total authorised ceiling (million ECU)</i>	
	<i>Balance of payments support</i>	14 000	2 482 746 455
	<i>Euratom</i>	4 000	27 742 988
	<i>NCI (including reconstruction)</i>	6 830	168 250 268
	<i>Financial assistance</i>	4 615	1 683 000 000
	4.3. Signed by EIF (EC holds 30 % of EIF authorised capital)		261 478 599

Potential liabilities at 31 December 1998 (continued)

(ECU)

5 (1)	Leasing and long-term rental commitments		1 404 706 629
	5.1. Leasing of buildings	543 678 419	
	other institutions		
	5.1.1. Buildings — Parliament	472 000 000	
	5.1.2. Annex — Court of Justice	71 678 419	
	5.2. Long-term rental - lease		
	Commission	810 975 298	
	5.2.1. Land	1	
	5.2.2. Buildings, Brussels	620 149 807	
	5.2.3. Buildings, Luxembourg	109 779 414	
	5.2.4. Buildings — Publications Office	81 046 076	
	Other institutions	46 951 707	
	5.2.5. 'Palais' — Court of Justice	2 068 425	
	5.2.6. Building — ESC	27 554 558	
	5.2.7. Building — Council	17 328 724	
	5.3. Operational leasing		
	Commission	2 170 117	
	Computer equipment — Publications Office	2 028 040	
	Equipment — Publications Office	142 077	
	Other institutions	931 088	
	Computer equipment — Parliament	931 088	
6	SWAPS		562 448 420
	6.1. Currency swaps to be delivered: NCI	52 448 420	
	6.2. Exchange rates swaps to be delivered		
	Financial assistance	510 000 000	
7	Correction of budgetary imbalances		p.m.
8 (1)	Commitments in respect of pensions		14 990 000 000
9 (1)	Potential liabilities in respect of contributions to related organisations		922 500 000
10 (1)	Other potential liabilities		17 753 730
	10.1. «Brussels Capital Region» tax	14 486 668	
	10.2. Creditors holding guarantees from third parties	43 145	
	10.3. Working capital — JRC	3 223 917	
	Total		156 452 971 878

(1) See explanatory notes.

Potential assets at 31 December 1998

-(ECU)

1 (1)	Commitments against differentiated appropriations not covered by carryovers of payment appropriations		58 277 174 069
4 (1)	Guarantees received from third-party guarantors in respect of loans granted by:		17 005 588 886
	4.1. the EIB and covered by a Community guarantee	14 286 100 000	
	4.2. the Commission	2 719 488 886	
	<i>Balance of payments</i>	2 482 746 455	
	<i>Euratom</i>	27 742 988	
	<i>NCI</i>	208 999 443	
5 (1)	Leasing and long-term rental commitments		1 404 706 629
	5.1. Leasing of buildings	543 678 419	
	Other institutions		
	5.1.1. <i>Buildings — Parliament</i>	472 000 000	
	5.1.2. <i>Annexe — Court of Justice</i>	71 678 419	
	5.2. Long-term rental — lease		
	Commission	810 975 298	
	5.2.1. <i>Land</i>	1	
	5.2.2. <i>Buildings, Brussels</i>	620 149 807	
	5.2.3. <i>Buildings, Luxembourg</i>	109 779 414	
	5.2.4. <i>Buildings — Publications Office</i>	81 046 076	
	Other institutions	46 951 707	
	5.2.5. <i>'Palais' — Court of Justice</i>	2 068 425	
	5.2.6. <i>Building — ESC</i>	27 554 558	
	5.2.7. <i>Building — Council</i>	17 328 724	
	5.3. <i>Operational leasing</i>		
	Commission	2 170 117	
	<i>Computer equipment — Publications, Office.</i>	2 028 040	
	<i>Equipment — Publications Office</i>	142 077	
	Other institutions	931 088	
	<i>Computer equipment — Parliament</i>	931 088	
6	SWAPS		557 250 000
	6.1. Currency swaps to be received: NCI	47 250 000	
	6.2. Exchange rates swaps to be received	510 000 000	
	<i>Financial assistance</i>		
7	Correction of budgetary imbalances		p.m.
8 (1)	Commitments in respect of pensions		14 990 000 000
10	Other commitments received		3 267 062
	10.3. Creditors holding guarantees from third parties	43 145	
	10.4. Working capital — JRC	3 223 917	
11 (1)	Commitments received (bank guarantees) in respect of fines (cases still pending at 31.12.1998)		647 169 000

Potential assets at 31 December 1998 (continued)

(ECU)

12 (1)	Potential assets relating to cases of fraud and irregularities in the field of: <i>EAGGF Guarantee</i> <i>Structural operations</i>	1 747 000 000 133 113 861	1 880 113 861
13 (1)	EAGGF Guarantee 13.1. Potential claims on EAGGF Guarantee beneficiaries 13.2. Net potential gain on disposal of agricultural stocks <i>Foreseeable sales value at 30.9.1998</i> <i>ECU 1 717.8 million</i> <i>Book value of stocks</i> <i>ECU - 1 409.56 millions</i>	862 547 487 307 920 000	1 170 467 487
14	Forward estimates: — 1 108 items — 1 507 items	445 309 821 p.m.	445 309 821
	Total		96 381 046 816

(1) See explanatory note. Potential assets linked to potential liabilities have the same number in the explanatory notes.

EXPLANATORY NOTES CONCERNING OFF-BALANCE-SHEET COMMITMENTS — POTENTIAL LIABILITIES AND ASSETS

Point 1

Commitments against differentiated appropriations still outstanding at 31 December 1998 totalled ECU 58 848 403 922.64 of which ECU 571 229 853.38 is covered by carryovers of payment appropriations from 1998 to 1999.

Point 2

Some aid remained uncommitted because the Commission decided to enter into commitments in respect of amounts that were not covered by commitment appropriations in the budget.

2.1 and 2.2. The Commission regards the overall budget allocation agreed at Edinburgh as a spending commitment by the Community vis-à-vis the Member States. The 1999 budget was established in such a way that this allocation had to be respected. As a consequence, the amount of aid earmarked but not committed under the Structural Funds and the Cohesion Fund is calculated by subtracting the budget commitments made for the period 1994–98 from the Edinburgh allocation. The difference represents total commitments vis-à-vis the Member States after 31 December 1998 for Community support frameworks, Community initiatives and the Cohesion Fund (except appropriations for combating fraud, evaluating the environment, and transitional and innovatory measures) for the programming period 1994–99. In accordance with the principle of prudence, it reflects the maximum potential liabilities for these two funds.

Point 3

EAGGF Guarantee

3.1. The payments taken into account for the Guarantee Section of the European Agricultural Guidance and Guarantee Fund are those made by the Member States between 16 October and 15 October of the following year, provided that the accounting officer was notified

of the commitment and authorisation by the following 31 January. Payments made by Member States between 16 October and 31 December 1998 are included in the off-balance-sheet commitments.

3.2. Potential liabilities towards the Member States connected with the clearance procedures. 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.

Point 4

4.1. As formulated, the guarantee legally covers the loans signed by the EIB at 31 December 1998 (including loans granted to three Member States before accession). However, it should be noted that these loans have not been fully paid out. At 31 December 1998 the amount paid out totalled ECU 7 802 million (ECU 7 708.5 million when the countries which have become Member States are excluded) and this, therefore, is the amount of the risk incurred by the Union. Of the ECU 10 987 million paid out up to 31 December 1998, ECU 3 185 million has already been repaid.

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 1998.

<i>Amount outstanding at 31 December</i>	<i>Million ECU</i>
1998	7 743 (1)
1999	7 541
2000	7 317
2001	7 063
2002	6 781
2003	6 472
2004	6 175
2005	5 882
2006	5 580
2007	5 281
2008	4 769
2009	4 330
2010	3 949
2011	3 619
2012	3 357
2013	3 148
2014	3 023
2015	2 930
2016	2 892

(1) ECU 7 708.5 million outstanding plus ECU 348 million in respect of capital due and unpaid at 31.12.98.

For the loans granted by the EIB covered by the Community budget guarantee (ECU 14 286 100 000), the third-country guarantees break down as follows:

- 84.0 % sovereign guarantees or similar;
- 1.1 % guarantees by public institutions;
- 4.9 % guarantees by private financial institutions;
- 8.7 % guarantees by a consortium of financial institutions;
- 1.3 % guarantees by other institutions.

4.2. The Community has received guarantees from third-party guarantors in respect of guarantees it has granted on loans under its borrowing and lending activities. The guarantees received may be classified as follows:

Guarantees by Member States	2 555 666 130.47
Guarantees by public institutions in the Member States	17 006 876.63
Guarantees in the form of securities against other assets	2 694 320.03
Banks or long-term credit institutions	86 303 447.82
Loans to public institutions	17 582 806.81
Loans to Member States	40 235 303.99
Total	2 719 488 885.75

The Community has not received third-party guarantees for loans granted under the financial assistance scheme or food aid. However, these loans, totalling ECU 1 683 million, are guaranteed by the Guarantee Fund.

4.3. At 31 December 1998 the EIF had signed guarantees totalling ECU 2 583 million; as 89.95 % of EIF capital has been subscribed, this represents a maximum potential risk of ECU 861.4 million for the European Community. As the Community contributes a total of ECU 600 million to the capital of the EIF, the latter might, in the worst possible scenario, repay ECU 261.4 million. The proportion of the capital subscribed by the European Community which has not been called up (80 %, amounting to ECU 480 million) is also included in the off-balance-sheet commitments as a potential liability (point 9).

Point 5

5.1. As these assets come from outside the accounts, the figures shown for this item are not exhaustive. This item also covers buildings occupied under a leasing contract with purchase option.

5.1.1. Parliament

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 June 1998) is ECU 472 million (FRF/ECU exchange rate at 31 December 1998). No fee had been paid when the balance sheet was drawn up.

Parliament has also concluded contracts to hire computer equipment under which it is committed to pay around ECU 0.9 million.

5.1.2. Court of Justice

On 15 November 1994 the Court signed a lease-purchase contract with the Luxembourg Government for Annexes A, B and C of the Palais building with a total surface area of 26 635, 24 505 and 14 809 m² 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. Under supplementary agreement No

1 to the main agreement, the annual charge payable by the Court was reduced to LUF 405 million from 1 January 1997.

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

The latest expert's report in our possession was drawn up on 20 January 1999 and the conclusions are set out below:

If the budgetary authority had decided to pay the balance due at 31 December 1998 instead of the annual charge laid down in the contract, the payment would thus have been LUF 2.89 billion (ECU 71.6 million). The main reason why this balance has remained at a comparable level to that of 31 December 1997 is because a provisional amount of LUF 203 125 182 has been entered to cover the most recent expenditure not yet included with the total cost of these buildings.

Selling price at 31.12.1997

	Current value (LUF)	Discounting 1980-96 (LUF)	Present value (LUF)
Costs	8 770 248 101	1 478 560 945	10 248 809 046
Payments	(5 246 875 591)	(1 009 548 226)	(6 256 423 817)
VAT	(617 720 031)	(454 156 239)	(1 071 876 270)
Selling price	2 905 652 479	14 856 480	2 920 508 959

Selling price at 31.12.1998 (estimate)

	Current value (LUF)	Discounting 1980-97 (LUF)	Present value (LUF)
Costs	8 168 100 582	2 038 432 210	11 206 532 792
Payments	(5 661 915 152)	(1 476 308 622)	(7 138 223 774)
VAT	(644 115 335)	(532 693 429)	(1 176 808 764)
Selling price	2 862 070 095	29 430 159	2 891 500 254 (1)

(1) ECU 71 678 419 (rate: ECU 1 = 40.3399).

5.2. 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 indicated correspond to commitments still to be paid during the term of the contract, except for the Court of Justice's Palais building, which is occupied under an indefinite lease; here, the amounts correspond to the annual rent.

5.2.1. Some 2.29 ha of land held in Luxembourg under a 29-year lease.

5.2.2. This heading covers buildings occupied by the Commission under a long-term rental or leasing contract which do not meet the three conditions laid down in Article 7 of the inventory regulation (see point III.E of the explanatory notes to the balance sheet). The amounts entered correspond to the rents still to be paid in accordance with the conditions of the contract, plus tax on immovable property. The total amount breaks down as follows:

	<i>(ECU)</i>
Leases	460 065 343
Buildings	4 375 918
Long-term leases	155 708 546
Total	620 149 807

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

5.3. 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.

Point 8

Commitments in respect of pensions

The rules governing the Community pension scheme are laid down in the Staff Regulations of Officials of the European Communities, in particular Chapter 3 (Pensions) of Title V (Emoluments and social security benefits of officials) and Annex VIII (Pension scheme). They are directly applicable in all the Member States.

The scheme covers different types of pension (retirement, invalidity, survivor's) and the payment of family benefits.

Under Article 83 of the Staff Regulations, benefits paid under the pension scheme are charged to the budget of the Communities (Chapter A-19 (Pensions and severance grants) covering all the institutions). Member States jointly guarantee payment of such benefits in accordance with the scale laid down for financing such expenditure (first subparagraph of paragraph 1).

Officials contribute one third of the long-term cost of financing the scheme by means of a compulsory levy set at 8.25 % of the basic salary (second subparagraph of Article 83(1)).

Thus the scheme is covered both by the budget (it is booked to the Commission budget) and by contributions, while the payments are guaranteed collectively by the Member States.

The calculation of the estimate of total pensions liabilities (in line with the financing provided for in Article 83 of the Staff Regulations) is consistent with standard IAS 19, an international accounting standard which requires the employer to determine his actuarial commitment on a continuation basis, reflecting service-prorated benefits and taking into account foreseeable salary increases. The actuarial valuation method used to calculate this liability is known as the projected unit credit method (or accumulated entitlements method).

The estimate of total pension liabilities is based on an actuarial study based on the figures at 31 December 1997, but adjusted to 31 December 1998 in line with the additional entitlements acquired in 1998.

The liabilities cover the pension rights of the following persons:

- staff in active employment at 31 December 1998 in all the institutions and agencies covered by the Community pensions scheme;
- persons receiving a retirement pension;
- persons receiving a survivor's pension;
- orphans;
- persons receiving an invalidity pension.

The actuarial calculation is based on standard IAS 19 and, in particular, the following parameters:

- updated mortality tables;
- calculation interest in accordance with standard IAS 19: 2.5 % compound;
- closed-group model (participants at 31.12.1998);
- application of the principle of married staff in active employment, without taking orphans' pensions into account;
- the marital situation of persons no longer at

work, taking orphans' pensions into account;

- elimination of the effect of the weighting, inflation or general revaluation of salaries/pensions;
- average salary progression of around 2 %;
- a pensionable age of 60;
- the statistics on early retirement and invalidity are based on current data.

The calculations of gross pensions and family allowances are based on the provisions of the Staff Regulations.

Point 9

Potential liabilities due to contributions to related organisations.

This sum represents payments outstanding on non-called-up capital subscribed by the Commission to the EBRD and the EIF:

Point 10

10.1. The Brussels Capital Region has introduced a tax on occupiers of office space. The Commission asked the regional authorities about its exemption under the protocol on pri-

EBRD	Total capital EBRD	Commission subscription
Capital	20 000 000 000	600 000 000
Paid-in	5 250 000 000	157 500 000
Callable	14 750 000 000	442 500 000

EIF	Total capital EBRD	Commission subscription
Capital	2 000 000 000	600 000 000
Paid-in	400 000 000	120 000 000
Callable	1 600 000 000	480 000 000

vileges 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.

The Court of Cassation delivered its judgment on 11 February and rejected the Commission's appeal. The Commission must therefore comply with this judgment and pay the tax due.

Point 11

The following table, 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 1998. 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. (A more detailed table is contained in Volume II.)

Point 12

The two tables are based on the formal reports submitted by the Member States in accordance with Regulations (EEC) No 595/91 (1) and (EC) No 1681/94 (2), with amounts being broken down by Member State. The tables show the difference between amounts identified by the Member States as still to be recovered (calculated on the basis of established entitlements or estimates) and amounts already recovered or declared irrecoverable.

(1) EAGGF Guarantee Section.

(2) Structural operations.

The figures given in this table represent a theoretical maximum rather than the amounts which will actually be made available to the Community budget, for the following reasons.

□ The Member States do not always report the results of their recovery operations (and certainly not promptly).

□ Although Member States must inform the Commission of the likelihood of recovery, it is impossible to determine exactly what proportion of the amounts still to be recovered will actually be recovered. National laws sometimes provide for a 30-year limitation period, which may well make the national authorities think twice about formally giving up on recovery even if the chances of success are only theoretical. Nevertheless, the Commission regularly asks

(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 (15) <i>45 500 000 (7)</i>	56 850 000 (14) <i>45 500 000 (7)</i>		1 000 000 (1)
1987	2 2	410 000 (2) <i>410 000 (2)</i>	400 000 (1) <i>400 000 (1)</i>	10 000 (1) <i>10 000 (1)</i>	
1989	14 1	9 501 000 (14) <i>3 000 000 (1)</i>	8 664 000 (11) <i>3 000 000 (1)</i>		837 000 (3)
1990	3 2	48 000 000 (3) <i>47 000 000 (2)</i>	47 000 000 (2) <i>(without Guarantee)</i>		1 000 000 (1)
1992	50 13	48 906 200 (50) <i>11 861 550 (13)</i>	14 272 500 (10) <i>(without Guarantee)</i>	17 795 845 (18 + 2 in part) <i>9 090 000 (4)</i>	15 167 700 (12)
1994	50 37	162 770 000 (50) <i>123 200 000 (37)</i>	154 416 411 (39 + 2 partiel) <i>36 140 000 (26 + 1 in part)</i>	3 813 589 (1 + 2 in part) <i>96 120 000 (11 + 1 in part)</i>	2 310 000 (4)
1995	47 45	265 476 000 (47) <i>265 074 000 (45)</i>	226 543 000 (34) <i>228 399 000 (35)</i>	25 475 000 (10) <i>25 175 000 (9)</i>	102 000 (1)
1997	1 1	8 800 000 (1) <i>8 800 000 (1)</i>		8 800 000 (1) <i>8 800 000 (1)</i>	
1998	38 38	532 510 000 (38) <i>532 510 000 (38)</i>	333 730 000 (13) <i>333 730 000 (13)</i>	6 000 000 (1) <i>6 000 000 (1)</i>	
Total decisions notified	220 146	1 134 223 200 (220) <i>1 037 355 550 (146)</i>	841 875 911 (124 + 2 in part) <i>647 169 000 (83 + 1 in part)</i>	61 894 434 (32 + 4 in part) <i>136 105 000 (23 + 1 in part)</i>	20 416 700 (22)

NB: Fines still pending are shown in italics.

the Member States to revise the list of cases which have been pending for a number of years in order to exclude amounts that should be written off as irrecoverable.

- A large proportion of the total for the EAGGF Guarantee Section will probably have to be charged to the Community budget as the amounts in question are, for objective reasons, irrecoverable for no fault of the Member State concerned.
- If, for objective reasons, recovery proves impossible in a particular case, the Commission must decide whether the irrecoverable amount should be charged to the Community budget or to the Member State which failed to fulfil its obligations. This decision may be taken after several years have elapsed (in the case of EAGGF Guarantee Section expenditure, as part of the clearance of accounts procedure).
- Even if the Member State concerned launches recovery proceedings in time, a positive outcome is not guaranteed. This is particularly true where recovery orders are contested in the courts.
- In the field of structural operations, individual projects are co-financed as part of multiannual programmes. As long as a multiannual programme has not been closed, it is impossible to put an exact figure on the amounts to be recovered because the sums involved in irregularities may, in certain circumstances, be reallocated to other, legitimate projects and because payment by instalments, in particular final payments, can sometimes be used as a means of adjusting expenditure.

The figures in these tables are provisional figures based on the reports received and processed up to the end of March 1999. These figures may therefore be changed in line with further reports arriving late.

The prospects of recovery in individual cases cannot be assessed with sufficient accuracy from the information forwarded by the Member States. Experience in recent years shows that the actual rate of recovery scarcely exceeds 20 %.

On the date when the revenue and expenditure account was drawn up, the annual report on the fight against fraud for 1998 had not yet been adopted.

Point 13

13.1. Amounts payable to the EAGGF Guarantee Section which have been entered in the register of debtors and declared by the Member States at the end of the financial year. Since the information received is incomplete and a summary examination by the Commission departments suggests that the figures may be unreliable, these debts must be considered as not fulfilling the three criteria of being certain, liquid and due.

13.2. At 30 September 1998, with potential liabilities of ECU 10.1 million and potential gains of ECU 318 million, there was a net potential gain of ECU 307.9 million for the disposal of agricultural stocks — a far higher figure than in the previous year.

- Virtually all (ECU 300 million) the total potential gain is accounted for by cereals. At the time when the figures were adopted for the depreciation of cereal-based products, the market situation for these products was not favourable. The amounts were set at a relatively low level in view of the prospects which were then expected. However, the substantial improvement in the market situation which followed led to a considerable rise in the foreseeable value of sales and, consequently, an increase in potential gains.
- The other sector for which a considerable gain is expected (ECU 11 million) is olive oil. The book value of stocks is still affected by the depreciation at the end of 1993 for Italy, which turned out 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 over-evaluation 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 1998.

EAGGF Guarantee

Total irregularities reported and recovery situation

Provisional figures at 27 April 1999 (million EUR)

Member State		1972-94	1995		1996		1997		1998		1994-98	1972-98
		balance to be recovered	declared	recovered	declared	recovered	declared	recovered	declared	recovered (1)	balance to be recovered	balance to be recovered
Belgium	A	57	35	23	24	9	27	16	54		92	149
	B	13	2	1	4	0	1	1	2	0	7	20
Denmark	A	24	38	35	39	37	24	23	42		48	72
	B	13	2	1	1	1	0	0	1	0	2	15
Germany	A	355	347	241	479	308	601	338	511		1 051	1 406
	B	60	60	6	23	7	25	7	37	2	123	183
Greece	A	62	154	113	197	176	160	70	163		315	377
	B	23	13	1	2	0	33	0	9	0	56	79
Spain	A	212	114	36	122	45	261	15	292		693	905
	B	72	15	5	18	6	27	2	11	0	58	130
France	A	105	65	49	76	51	91	62	141		211	316
	B	38	4	2	3	1	3	2	16	1	20	58
Ireland	A	33	20	20	30	28	79	70	80		91	124
	B	5	0	0	7	7	0	0	0	0	0	5
Italy	A	1 284	416	33	472	102	249	43	448		1 407	2 691
	B	751	85	6	121	2	31	2	174	0	401	1 152
Luxembourg	A	0									0	0
	B	0									0	0
Netherlands	A	58	153	142	178	148	130	102	78		147	205
	B	11	7	3	10	3	3	2	8	1	19	30
Austria	A		10	8	14	14	36	16	135		157	157
	B		0	0	0	0	0	0	1	0	1	1
Portugal	A	172	132	36	53	14	81	13	55		258	430
	B	11	7	2	7	0	4	0	3	0	19	30
Finland	A		2	2	5	5	7	6	11		12	12
	B		0	0	0	0	0	0	0	0	0	0
Sweden	A		48	48	58	58	66	65	88		89	89
	B		0	0	0	0	0	0	0	0	0	0
United Kingdom	A	129	218	189	245	196	246	155	328		497	626
	B	22	5	3	5	3	5	2	16	1	22	44
Total	A	2 491	1 752	975	1 992	1 191	2 058	994	2 426	0	5 068	7 559
	B	1 019	200	30	201	30	132	18	278	5	728	1 747

NB : A=number of cases. B = amounts in million EUR. (1) = number of cases recovered in 1998 not available.

(EUR)

Structural operations
Cases of fraud and other irregularities reported by Member States
under Regulations (EC) Nos 1681/94 and 1831/94
— Balance to be recovered —

Member State	Year					Total
	1994	1995	1996	1997	1998	
Belgium			202 728	688 897	166 089	1 057 713
Denmark	8 699		104 719		165 940	279 358
Germany	129 063	964 600	13 652 816	6 829 796	4 520 204	26 096 480
Greece	1 912 355	923 636	686 527	2 659 435	2 865 814	9 047 767
Spain	85 661	2 004 329	2 121 554	3 436 621	7 139 078	14 787 243
France	0		1 046 754	340 200	574 337	1 961 291
Ireland			31 699	69 980	112 020	213 699
Italy	1 437 058	4 528 675	17 666 557	3 639 719	489 331	27 761 340
Netherlands		0			15 826	15 826
Austria					0	0
Portugal	187 745	1 887 253	8 913 670	8 837 533	6 326 821	26 153 021
Finland				0	68 360	68 360
Sweden			0	313 651	57 968	371 619
United Kingdom	0	917 728	6 158 131	6 663 159	11 561 126	25 300 144
Grand Total	3 760 581	11 226 221	50 585 155	33 478 992	34 062 912	133 113 861

The value of new stocks is written down from the date on which they are formed. The 1999 budget contains ECU 529 million for the depreciation of these stocks (subsection B1), broken down as follows:

	<i>(million ECU)</i>
Cereals	246.0
Rice	44.0
Olive oil	15.0
Alcohol	120.0
Skimmed-milk powder	62.0
Butter	1.0
Beef and veal	41.0
Total	529.0

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