

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 147 final

Brussels, 20th March 1980

CONVERGENCE AND BUDGETARY QUESTIONS

Communication from the Commission  
to the European Council  
(31st March - 1st April 1980)

COM(80) 147 final

## CONVERGENCE AND BUDGETARY QUESTIONS

### I. INTRODUCTION

1. The Commission has sent to the Council two communications in which it outlined what is considered to be the major elements necessary to deal with certain questions which have arisen over strengthening the Community contribution to the convergence of Member States' economic policies; and to resolve the problems that have arisen with regard to the United Kingdom over the Community budget (COM(79)680 and COM(80)50).
2. These problems arise in part over the financing and in part over expenditure from the Community budget. The proposals made by the Commission correspond to both of these aspects as well as to certain wider convergence matters of concern to less prosperous Member States of the Community.
3. The purpose of this communication is to bring together in a single document the proposals that the Commission has made, and thus to enable the European Council to give its views on the major questions which must now urgently be resolved if the cohesion of the Community is to be safeguarded. It will be for the Commission subsequently to submit the necessary draft legislation to the Council and the European Parliament for it to be adopted following the normal Community procedures. The Commission has also updated the figures for financing and expenditure from the budget given in the reference paper of 12 September 1979, and the results are annexed to this communication. (1)

### II. PRINCIPLES

4. The Commission consider it to be appropriate to reiterate the fundamental principles that must be respected in any attempt to resolve these convergence and budgetary questions. First, the decisions which the European Council is invited to take have to be seen in the context of the need for Member States themselves to contribute to greater integration within the Community. At the same it is necessary to achieve a better balance between the Community's policies overall in the interests of creating a dynamic Community capable of making a real contribution to the prosperity of its members. Second, any measures which are agreed should, while contributing to a reduction of the major structural problems of the economies of the Member States concerned, be consistent with the interests of the Community in general, and its economic and social policies in particular. Third, the institutional processes and procedures of the Community must be scrupulously observed. Fourth, any solution must be found within the Community budget and must respect the integrity of the Community's system of own resources; its objective must not be to put a Member State in a position of *juste retour* in respect of the Community budget.

---

(1) See also SEC(80)394 and SEC(80)428

### III. CONVERGENCE

5. The Commission has in its earlier communications pointed to the need for a better balance between Community policies. It has, for example, urged that the Council reach early agreement on certain proposals in the agricultural structural field. It has invited the European Council to endorse the principle that the rate of increase in expenditure on general investment and structural policies should be greater than the rate of increase in the size of the budget and has undertaken to draw the attention of the Institutions to the situation if this principle is not respected.

6. In the context of the present budgetary issue, the Commission has proposed that extra resources be devoted to the less prosperous Member States in order to ensure that solutions to the immediate problem do not undermine the policies which must be adopted for the longer term. The Commission considers that one effective and administratively simple method would be to make further use of the system of interest rebates set up in conjunction with the European Monetary System and at present applied to certain loans from the European Investment Bank and the New Community Instrument. The Commission has also said that it would be willing to consider a specific regulation to give additional resources for regional development to these countries and to improve the working of Community policies. Since the amount and scope of such extra resources is currently related to the resolution of the present budgetary problem, it would be premature to present more formal proposals at this stage.

### IV. FINANCIAL MECHANISM

7. The Financial Mechanism was introduced in 1976 by Council Regulation 1172 on a proposal of the Commission. Its objective was to ensure that the operation of the system of own resources should not, through the play of particular circumstances, place a disproportionate burden on Member States, such as to jeopardise progress towards the convergence of Member States' economies. The decision on the Financial Mechanism made provision for a review of its operation in 1981. The Commission has now proposed that the present examination should constitute the review provided for and that certain of the constraints on the operation of the mechanism should be removed.

8. The Commission proposes, therefore, that the balance of payments constraint referred to in Article 4 be removed. It further believes that the European Council could define the conditions under which the tranche system of repayment (Article 3) and the ceiling of 3% of the budget (Article 6) could be eliminated. Thus amended, the Financial Mechanism would in the Commission view, be able to play

the role intended for. In financial terms, and on the basis of its budget proposals for 1980, the Commission now estimates that the complete application of these proposals would result in a payment to the United Kingdom in respect of 1980, of 600 MEUA gross (495 MEUA net).

#### V. SUPPLEMENTARY COMMUNITY MEASURES

9. The European Council at Dublin requested the Commission to make proposals for developing supplementary Community measures within the United Kingdom. In its communication of 5 February the Commission stated both what the nature of such measures should be and what could constitute an appropriate legal basis. It may be helpful to add certain considerations on both these aspects.

10. The Commission has proposed that the legal basis of such measures should, as was the case with the introduction of the Financial Mechanism in 1975, be based on Article 235 of the Treaty. Certain legal considerations in this respect were outlined in the Commission's communication of 31 October 1979 (COM(79)620), and these remain appropriate in the present context. In particular, the use of Article 235 requires that the measures in question should contribute to the realisation of the objectives of the Community. Moreover the use of Article 235 as the basis of the necessary legislation ensures that the approval of the Council and the opinion of the European Parliament will be sought through the normal Community procedures.

11. The basic concept is of a special, temporary and ad hoc action in the shape of a number of expenditure programmes within regions of the United Kingdom, which would be part-financed by the Community. The programmes must be clearly defined and must respond not only to the aim of increasing United Kingdom participation in Community expenditure, consistently with the objectives of Community policies, but also to the general Community interest and to the need for convergence of its economies. From the work which the Commission has undertaken on possible programmes, it is already evident that whatever resources the European Council may decide to provide for this purpose could be fully used in accordance with the principles and criteria set out.

12. The regions within which special investment programmes could be developed should in the first instance be those at present covered by the Regional Development Programmes provided for in the regulation establishing the European Regional Development Fund. Nevertheless to meet particularly

serious cases, or where there is a special Community interest, financial participation by the Community would also be possible in certain programmes outside these areas. The regional framework comprises a response to the need at the level of the United Kingdom and the Community to reduce disparities between regions, and to contribute to the resolution of some of the major structural problems.

13. Within the regions thus identified, the Community could contribute to public expenditure on economic and social infrastructure on the basis of a coherent planning process between the Community and the Member State. The programmes submitted by the Member State would be of a pluriannual nature, and would provide the economic and financial information necessary to enable decisions to be taken on the most appropriate areas within them for Community financial participation. A consultative procedure would be developed under which the Council would be formally associated with the examination of each programme.

#### VI. DURATION

14. The proposals which the Commission has made include ideas for an adapted Financial Mechanism and for certain measures of a special and temporary nature to respond to the particular problems which now face the United Kingdom. In its communication of 21 November 1979 the Commission suggested that whatever measures were adopted should be limited in time (perhaps to three or four years) and in its communication of 5 February the Commission added that this period might coincide with the next period of operation of the Financial Mechanism. Legislation covering both actions should contain provision for a review well before their expiry. The aim of the review would be to examine the effectiveness of the actions taken in the framework of progress towards a better balance between Community policies and expenditure within the budget. It can be to the advantage of no one to see an early recurrence of present difficulties; and it will be for the European Council to see that decisions are taken and followed through which will lead to the better balance between policies which is required.

Table 1a: Estimates and results for 1979 for expenditure, receipts and balances broken down by Member State (MCAs paid by exporting Member States on behalf of importing Member State re-charged to importing Member States)

COUNTRY	Expenditure for Categories I-V		Financing (including Art. 131)		Balance (Expenditure-Financing)	
	Estimate	Result	Estimate	Result	Estimate	Result
	1	2	3	4	5	6
<b>A. In mEUA</b>						
B	1,209	1,335 <sup>1</sup>	871	940	+ 338	+ 395
DK	551	709	327	329	+ 224	+ 380
D	2,837	2,858	3,992	4,288	- 1,155	- 1,430
F	2,285	2,730	2,607	2,808	- 322	- 78
IRL	463	647	98	102	+ 365	+ 545
I	2,333	2,279	1,579	1,745	+ 754	+ 534
L	269	233 <sup>2</sup>	18	18	+ 251	+ 215
N	1,323	1,595	1,251	1,307	+ 72	+ 288
UK	1,764	1,597	2,291	2,446	- 527	- 849
<b>Total</b>	<b>13,034</b>	<b>13,983</b>	<b>13,034</b>	<b>13,983</b>	<b>0</b>	<b>0</b>
<b>B. As %</b>						
B	9.3	9.6	6.68	6.72	+ 2.6	+ 2.9
DK	4.2	5.1	2.51	2.35	+ 1.7	+ 2.8
D	21.8	20.4	30.63	30.67	- 8.8	- 10.3
F	17.5	19.5	20.00	20.08	- 2.5	- 0.6
IRL	3.6	4.6	0.75	0.73	+ 2.8	+ 3.9
I	17.9	16.3	12.11	12.48	+ 5.8	+ 3.8
L	2.0	1.7	0.14	0.13	+ 1.9	+ 1.6
N	10.2	11.4	9.60	9.35	+ 0.6	+ 2.0
UK	13.5	11.4	17.58	17.49	- 4.1	- 6.1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>0</b>	<b>0</b>

<sup>1</sup> including 459 m EUA for European Community administrative expenses

<sup>2</sup> including 202 m EUA for European Community administrative expenses

**Table 1b: Estimates and results for 1979 for expenditure, receipts and balances  
broken down by Member State  
(MCAs not re-charged)**

COUNTRY	Expenditure for Categories I-V		Financing (including Art. 131)		Balance (Expenditure-Financing)	
	Estimate	Result	Estimate	Result	Estimate	Result
	1	2	3	4	5	6
<b>A. In mEUA</b>						
B	1,239	1,368	871	940	+ 368	+ 428
DK	782	837	327	329	+ 455	+ 508
D	2,974	3,002	3,992	4,288	- 1,018	- 1,286
F	2,517	2,927	2,607	2,808	- 90	+ 119
IRL	676	764	98	102	+ 578	+ 662
I	2,060	1,943	1,579	1,745	+ 481	+ 198
L	269	233	18	18	+ 251	+ 215
N	1,480	1,713	1,251	1,307	+ 229	+ 406
UK	1,037	1,196	2,291	2,446	- 1,254	- 1,250
<b>Total</b>	<b>13,034</b>	<b>13,983</b>	<b>13,034</b>	<b>13,983</b>	<b>0</b>	<b>0</b>
<b>B. As %</b>						
B	9.5	9.8	6.68	6.72	+ 2.8	+ 3.1
DK	6.0	6.0	2.51	2.35	+ 3.5	+ 3.7
D	22.3	21.5	30.63	30.67	- 7.8	- 9.2
F	19.3	20.9	20.00	20.08	- 0.7	+ 0.8
IRL	5.1	5.4	0.75	0.73	+ 4.4	+ 4.7
I	16.3	13.9	12.11	12.48	+ 3.7	+ 1.4
L	2.1	1.7	0.14	0.13	+ 2.0	+ 1.6
N	11.4	12.2	9.60	9.35	+ 1.7	+ 2.8
UK	8.0	8.6	17.58	17.49	- 9.6	- 8.9
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>0</b>	<b>0</b>

<sup>1</sup> including 459 m EUA for European Community administrative expenses

<sup>2</sup> including 202 m EUA for European Community administrative expenses

Tableau 1a : Dépenses, recettes et soldes par Etat membre en 1980 -  
Prévisions initiales (1) et prévisions révisées

- MCM payés par Etats membres exportateurs (pour le compte de  
EM importateurs) réimputés aux Etats membres importateurs

	Dépense pour agrégats I à V		Financement		Solde (Dépense-Financement)	
	Prévision		Prévision		Prévision	
	initiale	révisée	initiale	révisée	initiale	révisée
	2	2	3	4	5	6
<u>A. En MUCE</u>						
B	1.460	1.320 <sup>(2)</sup>	922	851	+ 538	+ 469
DK	651	715	368	327	+ 283	+ 388
D	3.471	2.994	4.578	4.110	- 1107	- 1116
F	2.917	2.655	3.037	2.614	- 120	+ 41
IRL	573	626	137	124	+ 436	+ 502
I	2.621	2.395	1.750	1.641	+ 871	+ 754
L	312	303 <sup>(3)</sup>	20	16,5	+ 292	+ 267
N	1.629	1.555	1.270	1.197	+ 359	+ 358
UK	1.561	1.225	3.113	2.908	- 1552	- 1683
Total	15.195	13.788	15.195	13.788	0	0
<u>B. En %</u>						
B	9,6	9,6	6,07	6,17	+ 3,5	+ 3,4
DK	4,3	5,2	2,42	2,37	+ 1,9	+ 2,8
D	22,8	21,7	30,12	29,81	- 7,3	- 8,1
F	19,2	19,2	19,99	18,96	- 0,8	+ 0,3
IRL	3,8	4,5	0,90	0,90	+ 2,9	+ 3,6
I	17,3	17,4	11,52	11,90	+ 5,8	+ 5,5
L	2,0	2,2	0,13	0,12	+ 1,9	+ 2,1
N	10,7	11,3	8,36	8,68	+ 2,3	+ 2,6
UK	10,3	8,9	20,49	21,09	-10,2	-12,2
Total	100	100	100	100	0	0

(1) Prévisions du "Document de référence sur les questions budgétaires".  
Doc. COM(79) 462 final du 12.9.79.

(2) Dont 552 MUCE de dépenses de fonctionnement des CE

(3) Dont 281 MUCE de dépenses de fonctionnement des CE



Tableau 1b : Dépenses, recettes et soldes par Etat membre en 1980 - Prévisions initiales et prévisions révisées - MCM sans réimputations

PAYS	Dépense pour agrégats I à V		Financement		Solde (Dépense-financement)	
	Prévision		Prévision		Prévision	
	initiale	révisée	initiale	révisée	initiale	révisée
	1	2	3	4	5	6
<b>A. En MUCE</b>						
B	1.472	1.330 <sup>(2)</sup>	922	851	+ 550	+ 479
DK	738	755	368	327	+ 370	+ 428
D	3.530	3.037	4.578	4.110	- 1048	- 1073
F	3.018	2.714	3.037	2.614	- 19	+ 100
IRL	650	664	137	124	+ 513	+ 540
I	2.484	2.299	1.750	1.641	+ 734	+ 658
L	312	303 <sup>(3)</sup>	20	16,5	+ 292	+ 287
N	1.692	1.591	1.270	1.197	+ 422	+ 394
UK	1.299	1.095	3.113	2.908	- 1814	- 1813
<b>Total</b>	<b>15.195</b>	<b>13.788</b>	<b>15.195</b>	<b>13.788</b>	<b>0</b>	<b>0</b>
<b>B. En %</b>						
B	9,7	9,7	6,07	6,17	+ 3,6	+ 3,5
DK	4,9	5,5	2,42	2,37	+ 2,5	+ 3,2
D	23,2	22,0	30,12	29,81	- 6,9	- 7,8
F	19,9	19,7	19,99	18,96	- 0,1	+ 0,7
IRL	4,3	4,8	0,90	0,90	+ 3,4	+ 3,9
I	16,3	16,7	11,52	11,90	+ 4,8	+ 4,8
L	2,1	2,2	0,13	0,12	+ 2,0	+ 2,1
N	11,1	11,5	8,36	8,68	+ 2,7	+ 2,8
UK	8,5	7,9	20,49	21,09	- 12,0	- 13,2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>0</b>	<b>0</b>

(1) Prévisions du "Document de référence sur les questions budgétaires".  
Doc. COM(79) 462 final du 12.9.79.

(2) Dont 552 MUCE de dépenses de fonctionnement des Communautés européennes.

(3) Dont 281 " " " " " " " " " " " "