

European Communities

Financial report

1989

FOREWORD

In many respects, 1989 marked a turning-point in the Community's finances, since it was the first year in which the financial reform measures adopted by the Brussels European Council of February 1988 were fully applied.

The Interinstitutional Agreement concluded in June 1988 between Parliament, the Council and the Commission transformed these decisions into a financial plan extending up to the end of 1992. The main features are containment of the increase in agricultural expenditure, a doubling in real terms of expenditure on structural policy and the setting of ceilings for individual categories of expenditure. The Interinstitutional Agreement is also intended to help ensure a trouble-free budgetary procedure.

As a result of this new framework, the President of Parliament was able to declare the 1989 budget adopted before the financial year began, the first time this has happened since 1984.

On the revenue side, 1989 saw the introduction of a fourth resource to balance the Community budget: with this new resource, based on Member States' GNP, the Community is now guaranteed the funds it needs to assume the responsibilities conferred on it by the Treaties and will no longer have to resort to exceptional financing, as was often the case in the past.

In 1989, for the first time ever, expenditure on agricultural guarantees was considerably lower than in the previous year. In accordance with the objectives laid down by the Single European Act, the increased funds available were allocated to structural measures, to strengthen the economic and social cohesion of the Community, and to

research, with a view to boosting competitiveness in the technological sector.

The principle of budget annuality was applied more strictly in 1989, this having been one of the objects of the amendment of the Financial Regulation in June 1988. Evidence of this is to be found in the fact that the volume of unused 1988 appropriations carried over to 1989 was severely curtailed.

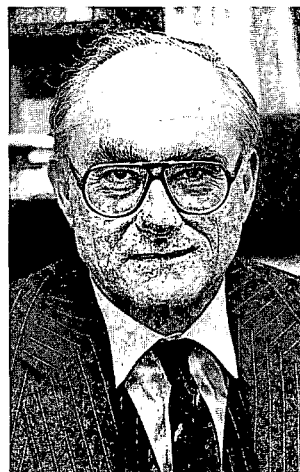
The 1989 budget contained a total of ECU 44 870 million. The final outturn showed a surplus of ECU 5 080 million, although this figure includes ECU 1 642 million in 1988 receipts collected in 1989.

The report contains a wealth of information which sheds light on the financial results for 1989.

It will be seen that the 1988 reform has placed the Community's finances on sound footing, opening the way to the 1992 single market and the next steps towards integration.

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FINANCIAL FRAMEWORK

The Community policies provided for by the 1957 Rome Treaties (European Economic Community and European Atomic Energy Community) and the administrative expenditure of the Community institutions are financed by the general budget of the European Communities. Community operations provided for by the 1951 Treaty of Paris (European Coal and Steel Community) are financed by a specific budget (totalling ECU 404 million in 1989).

A first point to make is that the general budget of the Communities (totalling ECU 44 870 million in 1989) represents no more than 3% of the aggregate of the various national budgets or around 1% of Community GNP. Although its relative share of Community expenditure has fallen in recent years, agriculture still accounts for most of the budget; the remainder therefore has to be concentrated on key areas of Community policy.

Financial perspective 1988-92

In June 1988 an agreement was reached between the institutions involved in drawing up the general budget of the Communities — Parliament, the Council and the Commission. This Interinstitutional Agreement meets the objectives laid down at the Brussels European Council of February 1988 — tighter budgetary discipline for the Community's finances to ensure an orderly increase in budget spending and a better balance between the various categories of expenditure.

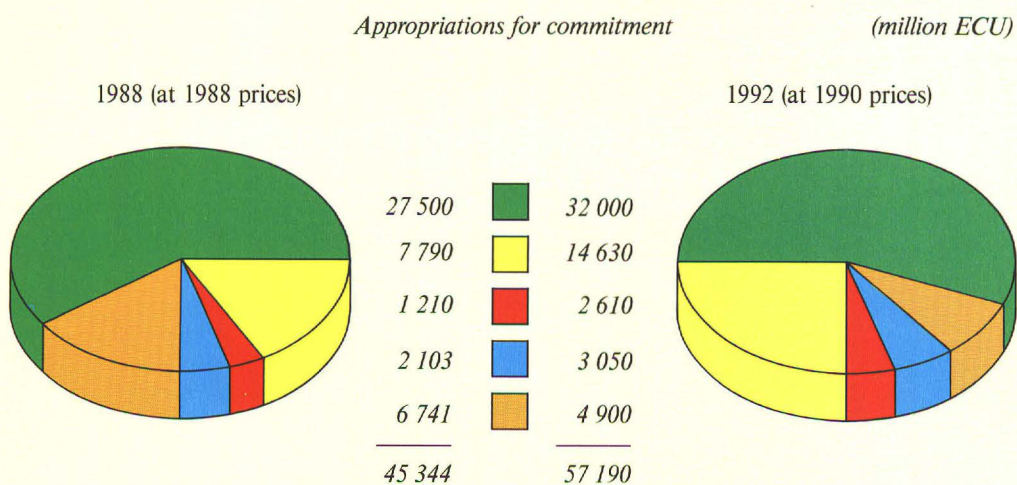
To satisfy these objectives and thus ensure financial cover for the policies provided for in the Single European Act, the Agreement contains a financial perspective for the period 1988-92 which lays down annual ceilings for the main categories of expenditure under the general budget. The institutions have agreed to keep expenditure beneath these ceilings.

The Commission updates the financial perspective every year before the budgetary procedure begins, in order to adjust the figures in line with movements in GNP and prices. If all

three institutions agree, the perspective may also be adjusted to take account of the conditions of implementation, as it was in 1989, on the basis of the schedules of commitment appropriations and payment appropriations. Finally, the financial perspective may be revised by common agreement between the three institutions. A procedure to revise the financial perspective was initiated in early 1990, designed mainly to cover the Community measures planned for Eastern Europe.

The June 1988 Interinstitutional Agreement also lays down new pragmatic rules for cooperation between the three institutions in order to improve the procedure which leads to the adoption of the budget.

FIGURE 1: FINANCIAL PERSPECTIVE 1988-92



For comparison

	<i>appropriations 1989</i>	<i>committed 1989</i>
■ <i>EAGGF Guarantee</i>	25 751	24 409
■ <i>Structural operations</i> <i>(EAGGF Guidance, ERDF, ESF, etc.)</i>	9 408	9 406
■ <i>Policies with multiannual allocations</i> <i>(IMPs, research)</i>	1 725	1 570
■ <i>Other policies</i> <i>(Education and vocational training, fisheries and the sea, energy and industry, cooperation, etc.)</i>	2 599	2 581
■ <i>Miscellaneous</i> <i>(Repayments, monetary reserve, administration)</i>	6 974	5 050
	<hr/>	<hr/>
	46 457	43 016

The budget

The Community budget is subject to the principle of annuality, which requires that budgetary operations relate to a specific financial year so that it is easier to control the activities of the Community executive.

Each expenditure operation involves the commitment of appropriations followed by actual payment. In the case of multiannual operations, the time lag between the two stages may be considerable. In practical terms, the budget therefore sets two limits to guarantee compliance with the principle of annuality: the amount of appropriations for commitment, which is the limit to the new financial commitments which may be entered into in the course of the financial year, and the amount of appropriations for payment (identical with the amount of revenue forecast for the financial year), which is the limit to the payments entered into during the year against existing commitments.

The Community has to reconcile application of the principle of annuality with the need to administer the multiannual operations which have assumed ever-increasing importance in the budget. Its response to this twin demand takes the form of 'differentiated appropriations' which consist of commitment appropriations and payment appropriations; the commitment appropriations cover, for the year in question, the total cost of the legal obligations entered into in respect of operations which may extend over more than one year; the payment appropriations cover expenditure deriving from commitments entered during the year in question and, where applicable, previous years up to the limit of the amount entered in the budget.

For the administrative expenditure of all the institutions, EAGGF Guarantee Section expenditure and certain other annual operations, the budget contains 'non-differentiated appropriations' which are the limit for both the commitments and payments which may be made in the financial year. At the end of the year the appropriations corresponding to

commitments entered into during the year but not yet paid are automatically carried over to the following year to allow the payments to be made.

By way of exception to the principle of annuality, in addition to the automatic carryover of non-differentiated appropriations, non-differentiated appropriations, commitment appropriations and payment appropriations not used at the end of a financial year may, in certain cases, be carried over to the next year.

Table 1 shows the utilization, in both commitments and payments, of appropriations available in 1989 (appropriations entered in the 1989 budget and appropriations carried over from 1988). It also shows the amount of commitments outstanding at the end of 1989. Table 7 breaks down this amount for operations with differentiated appropriations.

Table 1 shows the year's outturn (as defined and presented in the second part of the report) as the difference between the year's revenue of ECU 45 900 million and the 1989 appropriations for payment used during the year (ECU 40 411 million) plus the ECU 439 million in appropriations for payment carried over to 1990.

The year's revenue includes the balance of ECU 1 140 million at the end of 1988; the revenue actually collected thus totals ECU 44 760 million and, when compared with the ECU 41 131 million in appropriations for payment used in 1989, explains the difference in the cash situation set out in Figure 7.

TABLE 1

Implementation of the budget in 1989

(million ECU)

Revenue

Forecasts of revenue in the 1989 budget	44 870.3
Revenue in 1989	45 899.8

Expenditure













	Differentiated appropriations (multiannual operations)		Non-differentiated appropriations (administrative expenditure and annual operations)		Total	
	Commitments	Payments	Commitments	Payments	Commitments	Payments
Available appropriations						
Budget 1989	13 074.7	11 487.8	33 382.5	33 382.5	46 457.2	44 870.3
Automatic carryovers from 1988				381.5		381.5
Other carryovers from 1988	425.2	53.4	386.1	386.1	811.3	439.5
Total available	13 499.9	11 541.2	33 768.6	34 150.1	47 268.5	45 691.3
of which:						
appropriations used in 1989	13 231.5	10 698.3	30 493.4	30 432.7	43 724.9	41 131.0
• 1989 budget appropriations	12 905.0	10 680.3	30 111.3	29 730.9	43 016.3	40 411.2
• appropriations carried over from 1988	326.5	18.0	382.1	701.8	708.6	719.8
cancelled appropriations	176.1	785.1	3 271.4	3 333.2	3 447.5	4 118.3
automatic carryovers to 1990				380.4		380.4
other carryovers to 1990	92.3	57.8	3.8	3.8	96.1	61.6
% used	98%	93%	90%	89%	93%	90%
Commitments outstanding at 1.1.1989	14 975.5		381.5		15 357.0	
of which:						
cancelled	(929.5)		(61.8)		(991.3)	
• corresponding appropriations made available again in 1990	(228.6)					
• other	(700.9)					
paid	(5 028.2)		(319.7)		(5 347.9)	
Outstanding at 31.12.1989	9 017.8		—		9 017.8	
Commitments made in 1989	13 231.5		30 493.4		43 724.9	
Payments against commitments	(5 670.1)		(30 113.0)		(35 783.1)	
Outstanding at 31.12.1989	7 561.4		380.4		7 941.8	
Total commitments outstanding at 31.12.1989	16 579.2		380.4		16 959.6	

The ecu

The Communities' currency unit is the ecu, a 'basket' of the 12 Community currencies, the composition of which is periodically adjusted (see Figure 2). The peseta and escudo were incorporated in the basket in September 1989 when the composition of the ecu was revised for the second time. This operation did not affect the value of the ecu, which is now quoted on the exchanges of each of the Member States.

Some major sections of the budget, such as research and energy policy, have been implemented in ecus for some time now. In 1989 the Council adopted the principle that expenditure under the structural Funds should be implemented in ecus and the Commission is now taking the necessary steps. Calls for tenders for the provision of services to the Community institutions are usually issued in ecus.

FIGURE 2:
THE COMPOSITION OF THE ECU

<i>FR of Germany</i> <i>DM 0.6242</i> 30.1%	
<i>France</i> <i>FF 1.332</i> 19.0%	
<i>United Kingdom</i> <i>UKL 0.08784</i> 13.0%	
<i>Italy</i> <i>LIT 151.8</i> 10.15%	
<i>The Netherlands</i> <i>HFL 0.2198</i> 9.4%	
<i>Belgium</i> <i>BFR 3.301</i> 7.6%	
<i>Spain</i> <i>PTA 6.885</i> 5.3%	
<i>Denmark</i> <i>DKR 0.1976</i> 2.45%	
<i>Ireland</i> <i>IRE 0.008552</i> 1.1%	
<i>Greece</i> <i>DR 1.440</i> 0.8%	
<i>Portugal</i> <i>ESC 1.393</i> 0.8%	
<i>Luxembourg</i> <i>LFR 0.130</i> 0.3%	

THE INSTITUTIONS

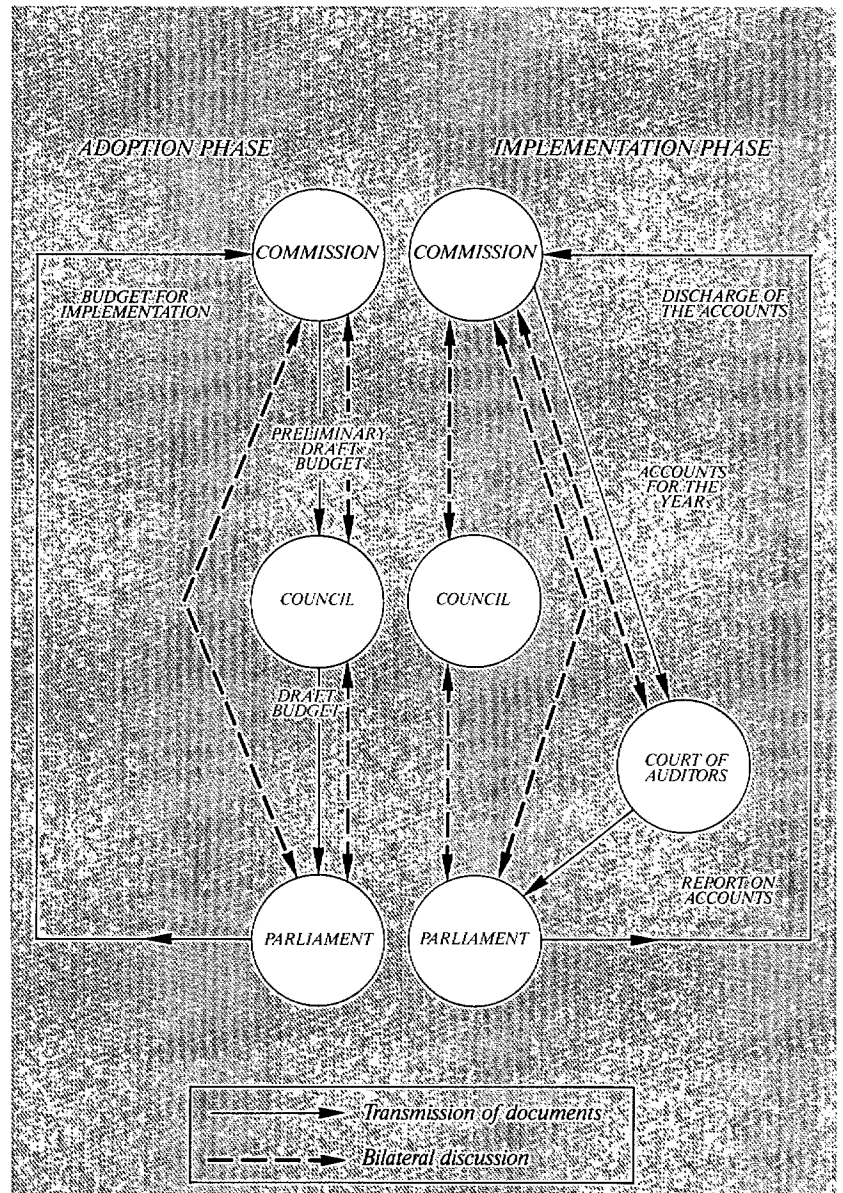
Parliament, the Council, the Commission, the Court of Justice and the Court of Auditors are all involved, in varying degrees, in the adoption, execution and control of the general budget of the Communities.

The Commission starts the budgetary procedure by drawing up a preliminary draft budget. Acting by a qualified majority the Council can endorse or amend the preliminary draft before passing it to Parliament as a draft budget. Parliament can propose modifications to compulsory expenditure and make amendments to non-compulsory expenditure.¹ On second reading, the Council must secure a qualified majority to accept the modifications proposed by Parliament which increase expenditure and reject the other modifications or amendments. Parliament can restore these amendments, within certain limits, on second reading. Unless Parliament rejects the budget, its President then declares it finally adopted.

Responsibility for the implementation of the budget rests with the Commission which, however, allows the other institutions the powers they need to implement the sections of the budget concerning their administrative expenditure.

Control of the implementation of the budget is in two parts: the internal control conducted by each institution for each item of expenditure and the external control by Parliament and the Court of Auditors.

FIGURE 3: THE BUDGETARY PROCEDURE



¹ Compulsory expenditure is that which derives directly from the provisions of the Treaty or from secondary legislation; non-compulsory expenditure covers most expenditure other than that on agriculture and repayments to the Member States.

Parliament

Members of Parliament are directly elected every five years by the people of each Member State. The last elections were in June 1989.

The Members sit in political groups and in 18 parliamentary committees, of which the Committee on Budgets and the Committee on Budgetary Control are the ones most directly concerned with financial questions.

Together with the Council and the Commission, Parliament was a party to the June 1988 Interinstitutional Agreement which contained the financial perspective 1988-92 forming the reference framework for budgets over this period.

Parliament plays a major role in the budgetary procedure. The draft budget established by the Council is first discussed by Parliament's Committee on Budgets which, after consulting the other committees, proposes modifications to compulsory expenditure and amendments to non-compulsory expenditure. These are then debated in the House when the budget is given its first reading.

The second reading within the Committee on Budgets and in the House is mainly concerned with non-compulsory expenditure since the Council will already have had the final say on compulsory expenditure at its second reading. When the budgetary procedure is completed, the President of Parliament declares the budget finally adopted.

Parliament also closely monitors the implementation of the budget by means of a permanent control on the basis of the Commission's monthly and quarterly reports and through the discharge procedure, at the end of which Parliament gives, defers or withholds the discharge to the Commission on the basis of the annual report from the Court of Auditors and a recommendation from the Council. Parliament's control activities are exercised by its Committee on Budgetary Control and are debated in the House.

The Financial Regulation and other legislation governing the preparation and implementation of the budget are also adopted or amended in consultation with Parliament, as is the implementing legislation for each of the main spending programmes.

The Council

The Council consists of representatives of the Member States.

The Foreign Ministers of the Member States sit in the General Affairs Council. The Councils may consist of other ministers when they deal with more specific subjects. Each Member State in turn carries out the role of president for six months. In 1989 it was the turn of Spain and then France.

The Council's activities during the budgetary procedure begin when the Permanent Representatives Committee examines the preliminary draft budget prepared by the Commission. The Budget Council eventually establishes, by a qualified majority, the draft budget which is then sent to Parliament. At its second reading, the Budget Council takes a decision on the proposals for modification and on the amendments made by Parliament. The final amount of compulsory expenditure is determined on the basis of the outcome of the Council's discussions during the second reading unless Parliament rejects the entire budget on second reading.

The Council is also involved in the discharge procedure. After the Permanent Representatives Committee has examined the Court of Auditors' report accompanied by the replies by the institutions, the Economic and Financial Affairs Council adopts, by a qualified majority, a recommendation to Parliament to grant the Commission a discharge in respect of implementation of the budget.

Other specialized Councils play a role in the Community's finances, in particular those responsible for adopting multiannual programmes financed by the Community budget.

Since 1975 Heads of State or Government and representatives of the Council and the Commission have met two or three times a year as the European Council and have often discussed budgetary questions in recent years. It was the European Council, in meetings at Copenhagen and Brussels, that took the decision in principle to create a new financial resource based on the gross national product of the Member States. This fourth resource, designed to put a stop to the recurrent budgetary crisis of recent years, appears for the first time in the accounts for 1989.

Commission

The Commission consists of 17 Members appointed by the Governments of the Member States for a four-year term. It is the executive organ of the Communities and initiates Community policies by presenting proposals to Parliament and the Council. On the budget front, for instance, the budgetary procedure begins when the Commission produces its preliminary draft budget. After the final budget is adopted by the two arms of the budgetary authority (Parliament and the Council), the Commission is responsible for implementation.

Since 1989 the preliminary draft budget has been drawn up within the limits set by the financial perspective. It is based on the forecasts of expenditure on operations supplied by the Commission departments, forecasts of administrative expenditure made by each of the institutions and estimates of revenue.

There are two limits on the powers which the Treaties confer on the Commission to implement the budget. First, the Commission allows Parliament, the Council, the Court of Justice and the Court of Auditors to handle their own expenditure. Secondly, in connection with the expenditure on operations covered by the general budget, the Commission's autonomy is limited by the existence of committees of national experts appointed by the Member States whose role is to advise or, in

some cases, move to direct operations (management and regulatory committees).

The budgetary implementation procedure is based on a series of provisions contained in the Financial Regulation (revised in March 1990) and in the implementing rules. The principle underlying the procedure is the separation of the roles of authorizing officer (the administrator of appropriations, who alone is responsible for the commitment of expenditure, establishment of entitlements and the issue of payments and recovery orders) and accounting officer (who actually makes payments and recovers amounts due). Within each institution, there is also a financial controller who must grant prior approval for any expenditure or revenue operation.

Court of Justice

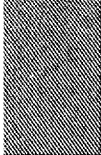
The Court of Justice has 13 judges and 6 Advocates-General, each appointed for a six-year term.

Since September 1989 the Court of Justice has been assisted by a Court of First Instance consisting of 12 members. This new court has jurisdiction in certain categories of cases brought by natural or legal persons, subject to appeal to the Court of Justice on points of law only.

Under the powers conferred upon it by the Treaties, the Court of Justice may be asked to judge disputes relating to or affecting the budget and the finances of the Community. At the end of 1987, for instance, Parliament and then the Commission brought an action against the Council for failure to establish the 1988 draft budget within the prescribed time-limit.

Court of Auditors

The Court of Auditors consists of 12 Members appointed for six-year term by the Council after consulting Parliament.



The Court of Auditors examines 'the accounts of all revenue and expenditure of the Community', irrespective of whether or not it is entered in the budget. In practice, this means that the Court of Auditors is responsible for auditing the general budget, the ECSC's borrowing and lending activities, operations by the European Development Fund financed by contributions from the Member States outside the scope of the budget and any body set up by the Communities except where the body's constitutive instrument rules out this audit.

The findings of the Court's audits are contained in annual reports on the implementation of the budget of the institutions or the bodies they have set up or in special reports on the management of a specific sector of Community activity.

The most important of these reports is the annual report on the accounts of the European Communities which is published in the Official Journal together with the replies by the institutions.

Parliament and the Council examine the Court's reports during the annual discharge procedure or as part of their responsibility for monitoring implementation of the budget. The Commission, as the institution responsible for implementing the budget, must take account of the comments of the Court and the discharge authority.

The Court of Auditors also has a consultative role. It takes part in the Communities' legislative process in the financial and budgetary sector: when new financial rules are proposed, it has to deliver an opinion which is published in the Official Journal. It may also be consulted on any other rules which have an appreciable effect on the finances of the European Communities.

REVENUE

The Community budget was financed from a number of sources in 1989, in the proportions shown in Figure 4:

(i) the traditional own resources established by the Member States:

(a) customs duties,

(b) agricultural and sugar levies;

the Member States keep 10% of the traditional own resources to cover collection costs;

(ii) own resources accruing from VAT;

(iii) a percentage of Member States' GNP;

(iv) the surplus of revenue over expenditure from the previous financial year;

(v) miscellaneous revenue, including tax and other deductions from staff remuneration, bank interest, contributions to research programmes, repayments of unused Community aid and other adjustments.

Traditional own resources

The Communities receive customs duties in respect of trade with non-member countries, based on the Common Customs Tariff. These rates are subject to regular reductions as a result of negotiation rounds under the General Agreement on Tariffs and Trade (GATT).

FIGURE 4: REVENUE OF THE COMMUNITIES IN 1989

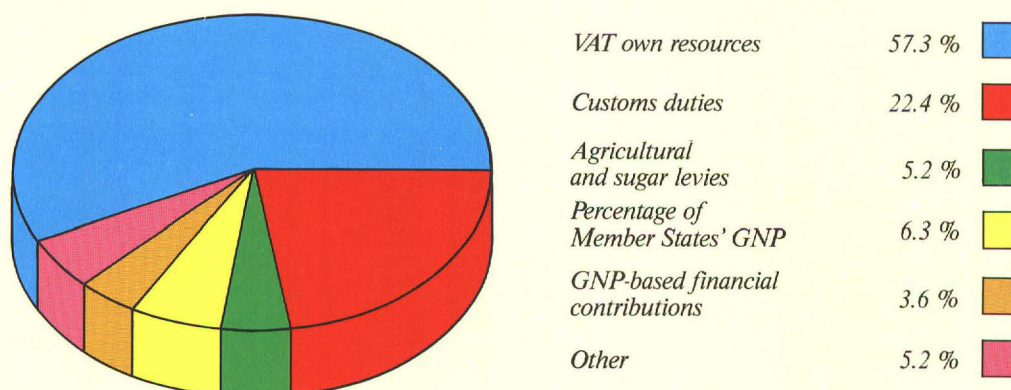
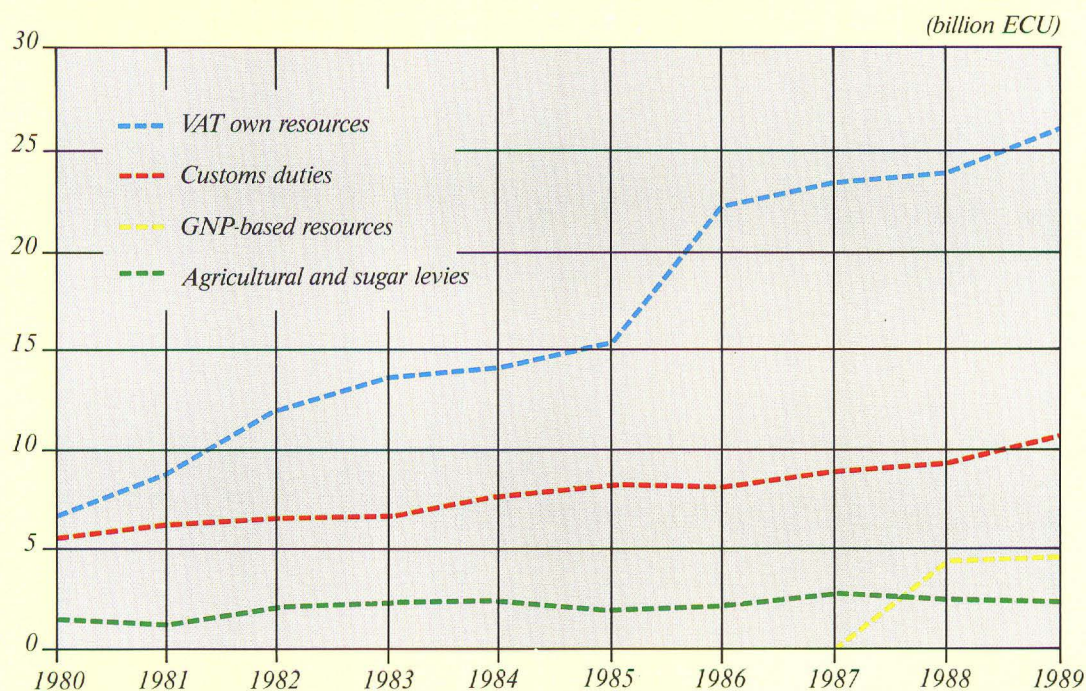


FIGURE 5: GROWTH IN OWN RESOURCES, 1980-89



In 1989, there was a continuation of the favourable circumstances observed in 1988. An 11% increase was recorded as a result of vigorous economic activity in the Community and movements in prices and exchange rates, in particular the dollar rate.

Agricultural levies are charged when a Member State imports agricultural products from a non-member country. Their purpose is to offset differences between world prices and the Community price. As the Member States have become increasingly self-sufficient in agricultural products, the proportion of Community revenue accounted for by agricultural levies has declined.

The yield in 1989 was lower than in 1988 as a result of agreements with non-member countries on products such as maize and sorghum, movements in world cereal prices, including the effect of the rise in the value of the dollar, and specific conditions on individual

markets, in particular for durum wheat, rice and maize.

Sugar and isoglucose producers pay levies on production to cover market support arrangements and to finance a system of equalization of sugar storage costs introduced to ensure that the marketing of sugar occurs regularly throughout the year. These levies do not increase the Community's net resources, since they are offset by expenditure of virtually the same amount.

VAT own resources

The VAT paid into the budget by the Member States is determined by applying a uniform rate to their uniform VAT bases. However, the base used must not exceed 55% of a Member State's GNP. In 1989 this capping of the VAT base applied in four Member States — Ireland, Luxembourg, Portugal and the United Kingdom. The uniform rate is determined by

applying 1.4% to the VAT base and incorporating the correction made to compensate the United Kingdom for the imbalance in its net contributions to the budget. The payments of the other Member States are increased by their share in financing this compensation. Payments for a given year depend on the estimates for that year and the negative or positive adjustments for previous years established from the final statements of the bases. Since economic activity in the Community in 1988 was livelier than expected, the Member States made positive corrections in 1989.

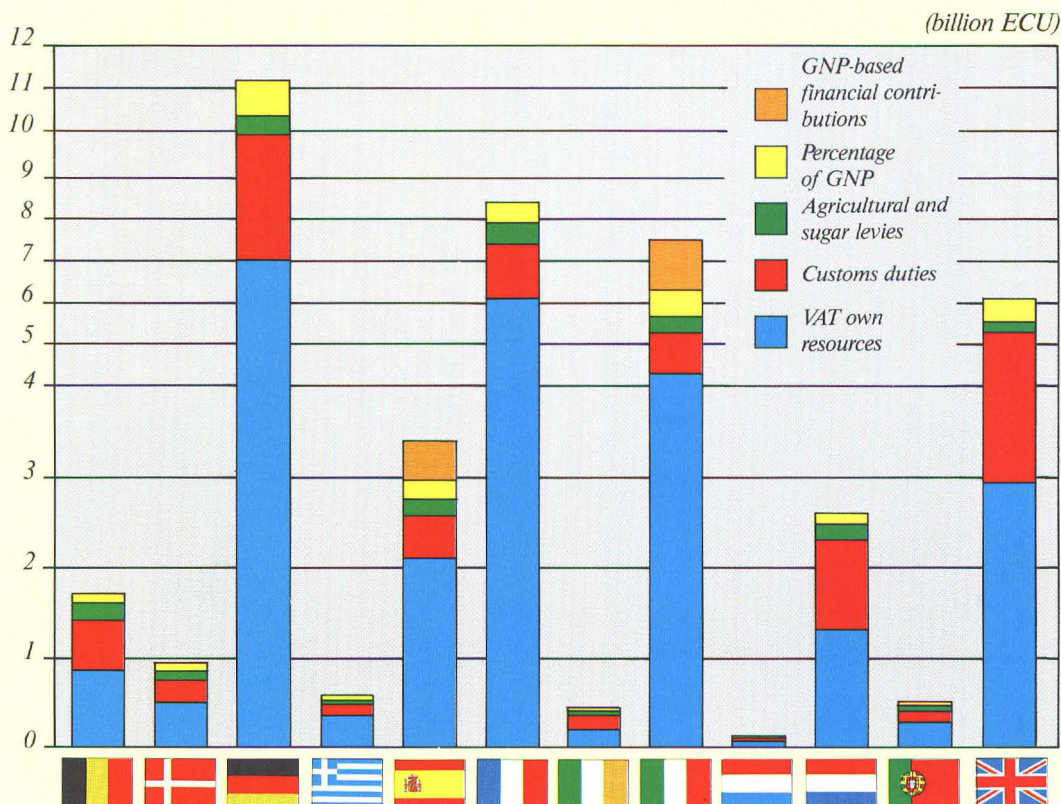
Portugal introduced the harmonized VAT system in 1989 and so was able to pay VAT own resources for the first time; previously, it had paid a financial contribution.

GNP-based own resources

The part of the budget not covered by other revenue is financed by a share of each Member State's GNP. In 1989 this percentage was 0.0675%. This new Community resource took effect for the first time in 1989.

Pending ratification of the decision on this fourth resource, the Community asked the Member States for a financial contribution — similarly based on GNP — to balance the 1988 budget. Two Member States paid this contribution in January 1989.

FIGURE 6: OWN RESOURCES BY MEMBER STATE IN 1989



TREASURY REPORT

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, most of the expenditure on the structural Funds and reimbursements to Member States.

Each month the revenue paid is equivalent to one twelfth of the amounts provided in the budget for VAT and GNP-based resources and on the amount actually established each month for customs duties and agricultural levies (Figure 8).

Normal commercial bank accounts are used for administrative expenditure and direct payments to recipients other than national authorities represented some 18% of the annual budget.

In contrast to 1988, the monthly cash situation was positive throughout 1989 (see Figures 7 and 8), mainly as a result of savings made in EAGGF Guarantee Section expenditure.

FIGURE 7: MONTHLY CASH MOVEMENTS IN 1989

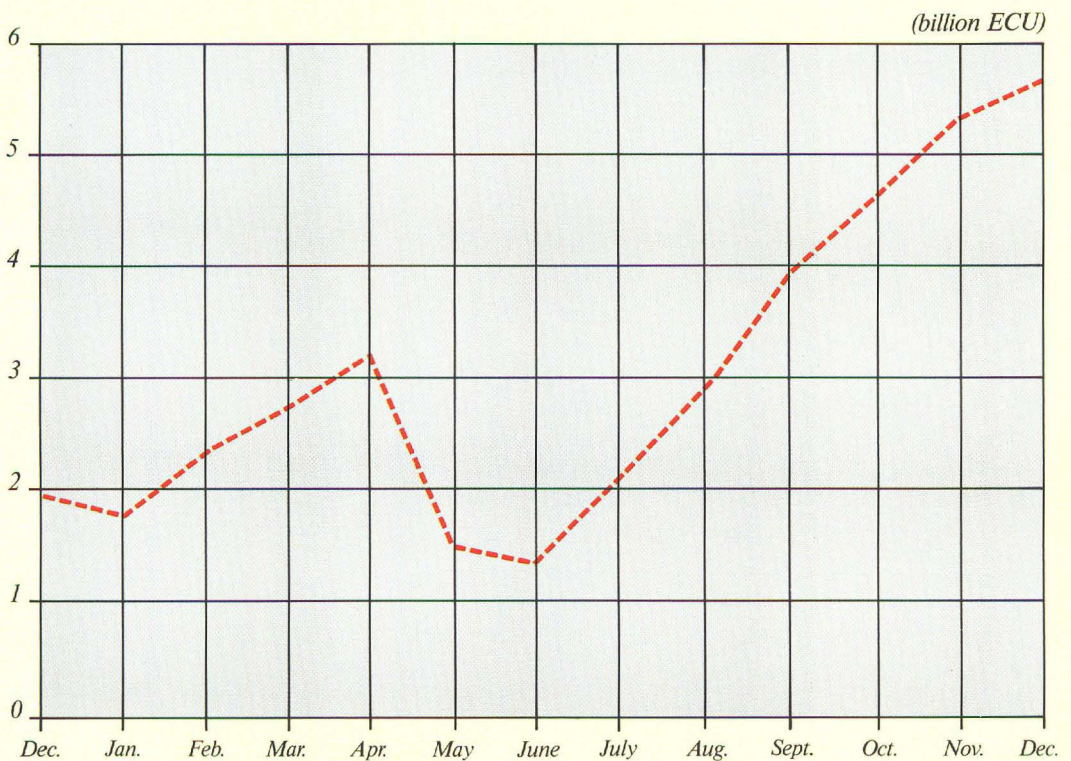
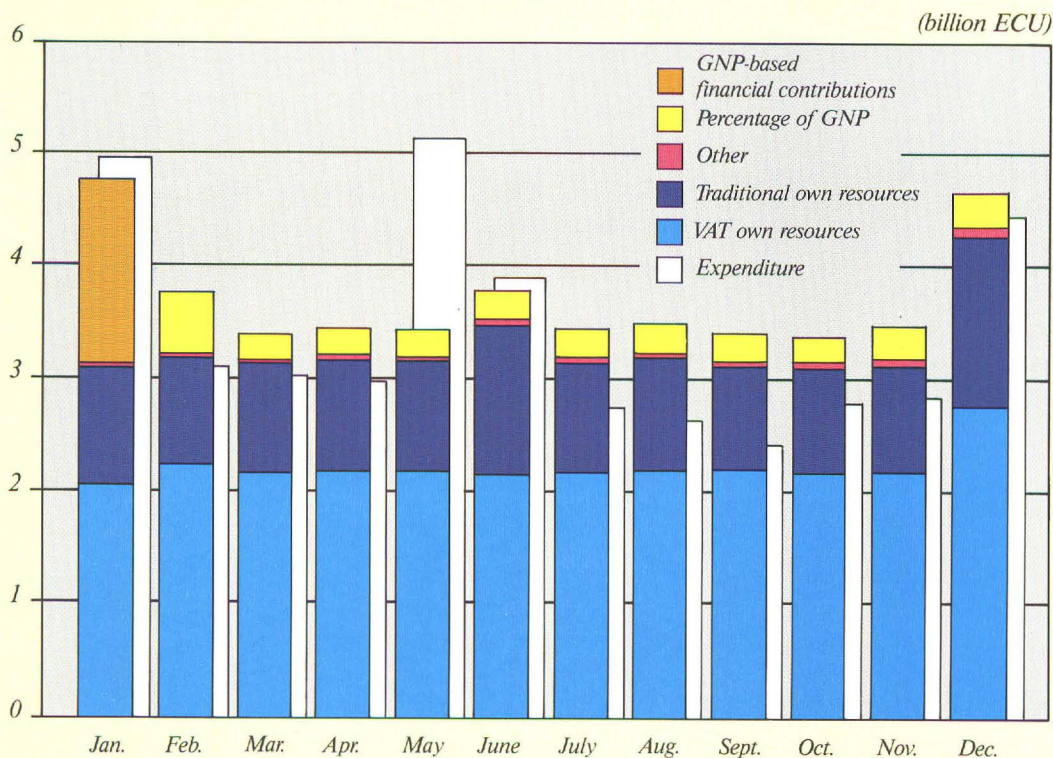


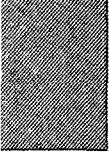
FIGURE 8: MONTHLY REVENUE AND EXPENDITURE IN 1989



Various situations may arise in the annual implementation of budget revenue and expenditure; the difference in relation to the initial estimate determines whether the balance for the year is positive or negative. A surplus can result from under-utilization of appropriations (this was the case with the EAGGF Guarantee Section in 1989) or from a revenue outturn higher than the forecast in the budget or from a combination of these two factors. Since spending may not exceed the limit set by the appropriations entered in the budget, a deficit can be caused only by the revenue outturn being lower than the forecast in the budget.

The cash situation in the course of the financial year depends on the monthly outturn of revenue and expenditure, which do not necessarily balance. Even if the balance for the year shows a surplus, expenditure might have outstripped revenue during the part of the year, causing cash-flow difficulties.

For these reasons, the rules in force allow the Commission to overdraw on its accounts with the national treasuries.



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 contribution to the budget as a whole. These movements, and the purchase of ecus to cover an ever-increasing proportion of the Commission's payments, demand frequent exchange transactions.

A rolling forecast of cash-flow is used to monitor and coordinate these currency transactions. Cash-flow management is strictly regulated: no borrowing is allowed to cover possible deficits, no loans may be made from positive balances and no interest is receivable or payable on balances with Member States.

In addition to the revenue collected throughout 1989 in the form of traditional own resources, VAT resources, GNP-based resources and miscellaneous revenue, ECU 1 642 million was received in January as the balance of the contribution provided for by the 1988 Intergovernmental Agreement to balance the 1988 budget (see Figure 8).

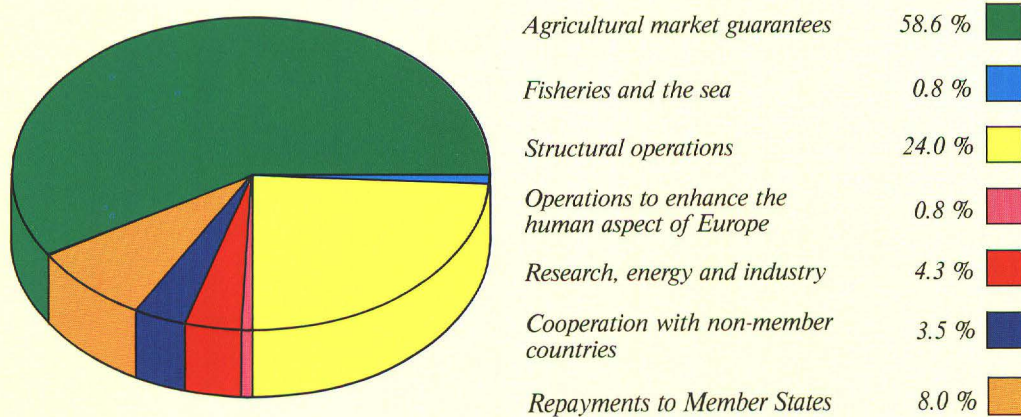
EXPENDITURE

The expenditure provided for in the general budget of the Communities covers the administrative costs of the various institutions and the operations under the various Community policies.

The administrative expenditure of the institutions in 1989 totalled ECU 2 092 million, i.e. around 5% of the general budget. This consists of expenditure on staff and administration and is broken down by institution in Table 9.

Commitments entered into for expenditure on operations totalled ECU 41 636 million in 1989. Comparison with the corresponding expenditure in 1988 reveals a number of contrasting situations: while the expenditure incurred for agricultural market guarantees dropped substantially from one year to the next for the first time ever, the amounts allocated to the structural Funds increased appreciably in 1988. The respective share of each type of expenditure on operations is set out in Figure 9.

FIGURE 9: OPERATIONAL EXPENDITURE BY SECTOR IN 1989



AGRICULTURAL MARKET GUARANTEES

The Brussels European Council of February 1988 laid down the principles for tighter budgetary discipline to ensure a better balance between the various categories of expenditure in the general budget and an orderly increase in these categories of expenditure. For this purpose, various measures have been adopted in connection with agricultural expenditure:

- (i) the establishment of a guideline to ensure that EAGGF Guarantee expenditure does not exceed 74% of the annual growth rate for Community GNP;
- (ii) a strengthening and expansion of the stabilization mechanisms and measures to limit production directly by providing incentives for the temporary abandonment of arable land, possibly accompanied by direct income support;
- (iii) the systematic depreciation of old and new agricultural stocks in order to restore stocks to a normal situation by 1992.

In accordance with these principles, the 1989 budget contained ECU 26 841 million for guarantee expenditure (including ECU 1 878 million for the depreciation of new stocks and ECU 100 million for set-aside and income aid). Because appropriations were under-utilized, transfers were made to other budget headings, bringing the final budget for 1989 to ECU 25 751 million, broken down as follows:

	<i>million ECU</i>
EAGGF Guarantee (including ECU 1 125 million for the depreciation of new stocks)	25 651
Set-aside and income aid	100

The final budget also contained ECU 1 449 million for repayments to Member States in connection with the depreciation of old stocks.

Implementation of the budget for agricultural guarantee expenditure

At ECU 24 403 million, the EAGGF Guarantee Section appropriations finally used were ECU 2 338 million lower than the appropriations entered in the initial budget.

This is explained by a number of factors:

- (i) the dollar / ecu rate of 0.90 was higher than the 0.81 assumed in the budget, leading to savings of around ECU 1 219 million on refunds and production aids;
- (ii) the clearance of earlier years' accounts led to some ECU 203 million being recovered from the Member States and booked to 1989;
- (iii) developments on the agricultural market and in the parameters affecting them.

Apart from the favourable effect of the movement of the dollar against the ecu, the fluctuations in the parameters affecting agricultural markets (world prices, production, consumption, etc.) also had an impact on the budget, sometimes positive and sometimes negative.

Some chapters, mainly tobacco, milk products, pigmeat and eggs and poultrymeat, had insufficient appropriations.

The additional requirements in the tobacco sector were caused by:

- (i) the unexpectedly high level of production in 1988;
- (ii) the increase in the quantities placed in intervention;
- (iii) the clearing of the backlog in the payment of balances of premiums for earlier marketing years.

In the case of milk products, the volume of exports, in particular of butter, cheese and skimmed-milk powder, combined with a level of milk production exceeding the quotas, led to higher expenditure than estimated in the budget.

The shortfall of appropriations in the pigmeat and egg and poultrymeat sectors was due to the large volume of exports for which refunds were paid.

To offset these shortfalls, transfers of ECU 537 million were made between chapters within the EAGGF Guarantee Section. This figure represents about 2% of the appropriations available for agricultural guarantee expenditure and is far lower than in previous years.

On the other hand, there was substantial under-utilization of appropriations in chapters such as cereals and rice, sugar, oils and fats, fruit and vegetables, products of the wine-growing sector, beef/veal, goods obtained by processing agricultural products, monetary compensatory amounts and other expenditure.

In the case of cereals, the under-utilization of appropriations was mainly due to the level of exports, which reduced quantities placed in intervention and thus also cut the cost of public storage and depreciation on buying-in.

The budgetary situation in the sugar sector was influenced by the relative firmness of world prices during the year.

Appropriations remained unused in the oils and fats sector because payments of production aid for olive oil were slow. The lower level of requirements in the fruit and vegetables sector was because of the relatively low level of withdrawals of citrus fruits. Another factor, less important, was that the quantities receiving production aid for processed products were lower than forecast.

The under-utilization of appropriations in the wine sector was mainly due to the fact that production in 1988 was far lower than assumed in the budget. In addition, expenditure on compulsory distillation for the 1988/89 marketing year and the depreciation of the alcohol produced could not be paid from the 1989 budget.

The reasons for the surplus in the beef/veal sector were as follows:

- (i) expenditure on depreciation was lower than budgeted because the quantities bought into intervention were lower than expected;
- (ii) the financial effects of the reform of the market organization were slower than expected in working through.

The appropriations available for processed agricultural products were not used in full because of the high level of world prices for the basic agricultural products.

Expenditure on monetary compensatory amounts was less than estimated because of the dismantling of monetary compensatory amounts at the beginning of the 1989/90 marketing year and the movements in currency values during the year.

The appropriations for 'other expenditure' which were not used were mainly for the payment of refunds on certain quantities of food aid which were no longer due as a result of an increase in world prices.

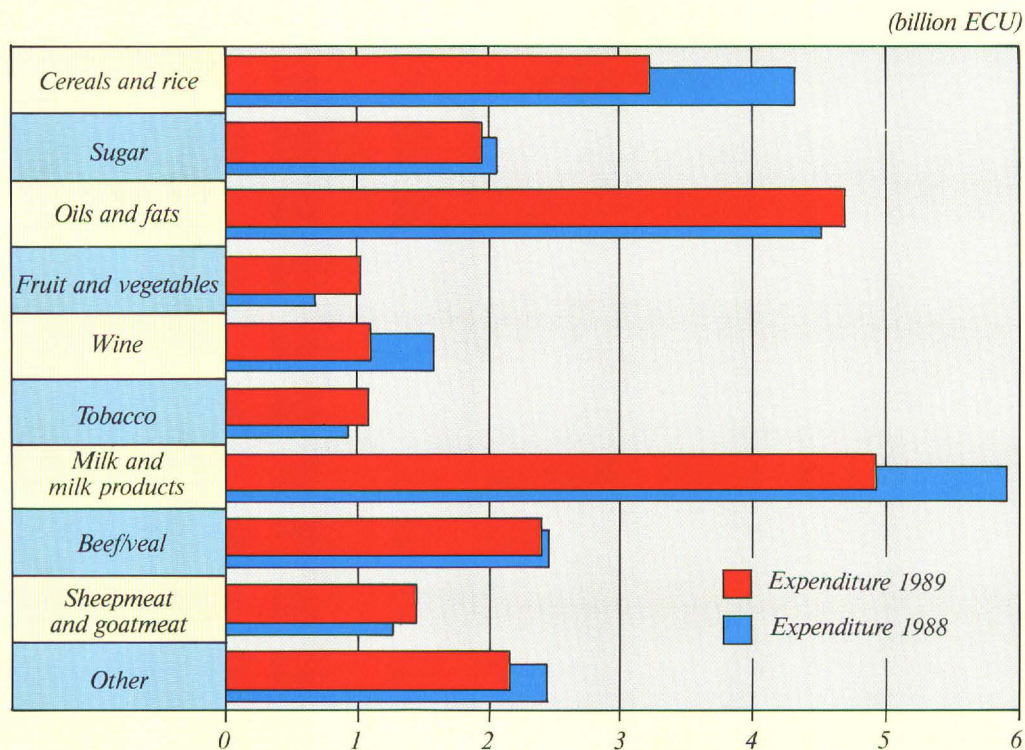
Systematic depreciation of stocks

The policy of systematically depreciating new stocks started at the beginning of 1989. It exposes the budget to the full force of changes in production, but has the advantage of stopping potential liabilities from building up for future years.

The total of ECU 1 878 million allocated to this new policy in the initial budget for 1989 was reduced to ECU 1 125 million by transfers. Finally only ECU 1 024 million was used for the reasons set out above. However, a further ECU 151 million was used to pay advances on the cost of disposing of 'mixed' alcohol, for which the Community covers only losses on sales. Combined with the deprecia-

tion of old stocks at the start of the year and the reduction in the volume of stocks, this policy reduced potential liabilities at 31 December 1989 to virtually nil. The value of stocks was reduced to the estimated resale value by the depreciation exercise at the start of the 1990 agricultural year (16 October 1989), i.e. two years ahead of schedule.

FIGURE 10: EXPENDITURE BY SECTOR IN 1989



Set-aside of farmland and income aids

The reason why the rate of utilization of the appropriations entered in the 1989 budget for

the set-aside of arable land and for income aids was very low was that the national authorities failed to take the necessary measures to apply the regulations.

FISHERIES AND THE SEA

The common policy on fisheries and the sea covers the following main areas:

- (i) access, conservation and management of resources;
- (ii) common organization of markets;
- (iii) a structural operation providing for multi-annual guideline programmes to improve the productivity of fisheries;
- (iv) the conclusion of fishing agreements with non-member countries.

The appropriations for commitment for this policy have risen appreciably in recent years and totalled ECU 348 million in 1989.

Of this total, ECU 341 million was actually used. The cost of operations remained relatively low, with the exception of expenditure on fisheries agreements with developing countries. Because of the overcapacity of the fishing fleet and the low level of aid requested for the temporary or definitive withdrawal of fishing vessels, expenditure on the modernization of structures slowed down a little. The creation of a European fisheries guidance and guarantee fund independent of the EAGGF will highlight Community activities in this sector, in particular as regards the marketing and processing of fishery products, for which a new regulation has been adopted.

STRUCTURAL OPERATIONS

The European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) are the three main instruments for Community operations to promote the harmonious development of the Community as a whole by reducing differences between the various regions and the backwardness of the less-favoured regions.

The Single European Act has provided for close cooperation between the three Funds in order to rationalize their tasks and boost their effectiveness. As well as deciding to double the appropriations allocated to these Funds between 1987 and 1993, the Brussels European Council in February 1988 also set five general objectives for the Funds to pursue:

- (i) promoting the development and structural adjustment of the regions whose development is lagging behind (Objective 1);
- (ii) converting the regions seriously affected by industrial decline (Objective 2);
- (iii) combating long-term unemployment (Objective 3);
- (iv) facilitating the occupational integration of young people (Objective 4);
- (v) speeding up the adjustment of agricultural structures and promoting the development of rural areas (Objective 5).

The new legal framework for implementing the appropriations allocated to the structural Funds is a regulation adopted by the Council in 1988. This regulation and its implementing regulations entered into force on 1 January 1989.

The following commitment appropriations were available in 1989:

	<i>million ECU</i>
ERDF	4 710
ESF	3 520
EAGGF Guidance Section	1 465

In addition to the appropriations allocated to these three Funds, the 1989 budget contained ECU 539 million for other programmes under the Communities' structural policy, in particular the specific industrial development programme for Portugal (Pedip), the integrated Mediterranean programmes (IMPs) and transport policy.

Activity of the three structural Funds

Following the adoption of the new rules governing the activities of the Community's three structural Funds (ERDF, ESF and EAGGF Guidance Section) in 1988, the Community support frameworks for Objectives 1, 2, 3 and 4 were drawn up and approved in late 1989.

These frameworks were drawn up under the partnership arrangements between the Community, the Member States and the regional and local authorities on the basis of multiannual plans of three to five years (depending on the objective) submitted to the Commission.

All the commitment appropriations provided for ERDF operations in 1989 were used.

All the commitment appropriations for the European Social Fund were used. Some ECU 1 640 million went towards promoting the development and structural adjustment of the regions whose development is lagging behind and some ECU 1 010 million towards operations to facilitate the occupational integration of young people.

Virtually all the appropriations allocated to the EAGGF Guidance Section in the 1989 budget were used.

Other structural operations

The specific industrial development programme for Portugal (Pedip) adopted in 1988 has been given an allocation of ECU 500 million for the five-year period 1988-92. The

ECU 104 million entered in the 1989 budget was committed in full.

However, although the second stage of some of the integrated Mediterranean programmes has now started, use of the appropriations for the IMPs was seriously delayed because of the difficulties encountered in implementing some of them.

At the end of 1988 the Council adopted a specific regulation on the financing of transport infrastructure projects of Community interest in 1988 and 1989, thus enabling all the appropriations entered in the 1989 budget to be committed. The Communities' financial support reflects the concern to satisfy the transport requirements of the single market by providing the necessary links between national networks and is evidence of the special attention given to outlying areas to ensure economic and social cohesion.

OPERATIONS TO ENHANCE THE HUMAN ASPECT OF EUROPE

In addition to the operations financed by the European Social Fund as part of its structural measures, the Community pursues a number of other policies in the social sector (in the broad sense of the term) designed as flanking measures for the completion of the single market in 1992. Community measures to protect the environment fall into this category.

The appropriations for commitment available in 1989 amounted to ECU 311 million, broken down as follows:

	<i>million ECU</i>
Education, vocational training and youth policy	120
Employment, social protection and public health	76
Protection of the environment and consumer protection	44
Information, communication and culture	38
Aid to disaster victims in the Community	33

All these appropriations were committed.

In the education and youth policy sector, several ongoing programmes (Erasmus,¹ Comett,² YES,³ exchanges of young workers, etc.) were considerably expanded in 1989, confirming the success of previous years. This is particularly true with Erasmus, under which the appropriations allocated to student mobility more than tripled in relation to 1988, and with the Youth exchange scheme (YES) adopted by the Council in June 1988.

As regards living and working conditions, several measures were continued under the 1989 budget to improve health and safety at work, integrate less-favoured groups, fight poverty and improve public health (campaigns against cancer, AIDS, alcohol and drug abuse).

The Community measures to protect the environment continued: the commitments entered in 1989 related to long-term operations (in particular to help protect endangered areas or species and promote the development of clean technologies) or shorter-term operations (e.g. the establishment of a coherent set of operations to protect the environment in

the Mediterranean region). Other operations related to consumer protection and information in particular child safety.

In 1989, operations in the information, communication and culture sector benefited from the impetus provided by European Cinema and Television Year in 1988 to continue to ensure that the Community is present in the cultural life of Europe and in the development of new audiovisual technologies and to promote awareness of European ideas in everyday life.

Aid to disaster victims in the Community is granted in the form of direct grants and subsidized loans and is charged to the budgets of successive financial years. The loans still outstanding relate to the earthquakes in Italy in 1980 and Greece in 1981 and in 1986.

¹ Erasmus: European Community action scheme for the mobility of university students.

² Comett: Community programme in education and training for technology.

³ YES: Youth exchange scheme.

RESEARCH, ENERGY AND INDUSTRY

As stated in the Single Act, the Community's aim is to strengthen the scientific and technological basis of European industry and to encourage it to become more competitive at international level. For this purpose, there will have to be a considerable increase in budget funds between now and 1992 for Community policies based largely on measures which will produce economies of scale. These Community operations are grouped in multiannual framework programmes for research and investment.

The Community is also conducting a number of operations in the energy policy and industrial policy sectors as part of the establishment of the single market.

The appropriations for commitment available for these sectors of Community activity in 1989 amounted to ECU 1 801 million, allocated as follows:

	<i>million ECU</i>
Research and technological development	1 482
Other policies	319

Research and technological development

A new framework programme for 1990-94 was produced in 1989 and received the Council's political endorsement in December. Based on the Single Act and drawn up under a procedure involving detailed examination and analysis of European requirements, this framework programme is made up of six areas of operation under three subject headings. The total amount judged necessary is broken down as follows:

	<i>million ECU</i>
Diffusion technologies	
● Information and communication technologies	2 221
● Industrial and materials technologies	888
Management of natural resources	
● Environment	518
● Life sciences and technologies	741
● Energy	814
Management of intellectual resources	
● Human capital and mobility	518
	5 700

Implementation of the 1987-91 framework programme continued as the 1990-94 framework programme was being drawn up. During 1989 the Council adopted 18 specific programmes.¹ Decisions still have to be taken on several other programmes² and revisions to programmes proposed or to be proposed by the Commission, even after adoption of the third framework programme; specific provisions exist for this purpose.

The reform of the Joint Research Centre (JRC), approved by the Council in 1988, took place in 1989. The JRC has been reorganized into nine institutes divided between Ispra (Italy), Geel (Belgium), Karlsruhe (Federal Republic of Germany) and Petten (Netherlands). In accordance with the guidelines adopted by the Council, the JRC has stepped up its efforts to increase its activities for other Commission departments and to conclude contracts with outside bodies in the public and private sectors. The JRC is also taking part in a number of projects covered by Eureka and is considering new operations in this sector. However,

the JRC's main task in 1989 was to carry out specific programmes, including preparatory research.

European scientific and technical cooperation (COST³) continued; in June the Council adopted a resolution reaffirming the importance of COST as an instrument to promote European cooperation. Scientific cooperation with the countries of Latin America, Asia and the Mediterranean continued to expand in two main directions in 1989: the financing of research scholarships for top scientists and the financing of joint research projects. Cooperation with the industrialized countries increased and expanded, largely as a result of continuing cooperation with the United States and Canada. The Commission also took part in preliminary work on the Japanese Human frontier science programme. Cooperation between the Community and Eureka continued to be strengthened, leading to synergy in a number of programmes launched under the Eureka programme, in particular the Jessi project.⁴

Other policies

In 1989 the Commission proposed the Thermie programme (1990-94)⁵ to promote energy technologies. This programme is also an important step towards increasing security of supply, maintaining the competitive position of European industry as the internal market is completed and boosting environmental protection.

Community action to develop the market in information services continued under the Impact programme.⁶ The dissemination and use of the results of research and technological development under Community and national programmes were encouraged through the adoption of the Value and Sprint programmes;⁷ the Sprint programme is more particularly concerned with promoting innovation and overcoming the obstacles to dissemination.

The policies coming under the industry and internal market sectors mainly cover measures connected with the completion of the large internal market, such as business stimulation measures which are intended to a very large extent for small and medium-sized firms. In the telecommunications sector, Community policy gave priority to deregulation of markets, the type-approval of terminals and the development of standardization on the basis of the activities of the European standardization bodies; the establishment of the European Telecommunications Standards Institute has given fresh impetus to these activities with a view to achieving the objectives which the Community has set itself for 1993.

-
- ¹ Bridge: Biotechnology research for innovation, development and growth in Europe.
Brite/Euram: Basic research in industrial technologies in Europe/European research on advanced materials.
Doses: Development of expert systems for statistics.
Eclair: European collaborative linkage of agriculture and industry through research.
Eurotra: European translation.
Flair: Food linked agro-industrial research.
Joule: Joint opportunities for unconventional or long-term energy supply.
MAST: Marine science and technology.
Monitor: Strategic analyses, forecasting and evaluation in matters of research and technology.
SPES: Stimulation plan for economic science.
STEP and Epoch: Science and technology for environmental protection/European programme on climatology and natural hazards.
Teleman: Remote handling in nuclear hazardous and disordered environments.
Value: Valorization and utilization for Europe.
Decommissioning of nuclear installations (Fission).
Management and storage of radioactive waste (Fission).
Large scientific installations.
Raw materials and recycling.
Radiation protection.
- ² Agricultural research programme; transport (Euret); amended proposal for a programme on human genome analysis; revision of the SPES programme.
- ³ COST (European cooperation in the field of scientific and technical research).
- ⁴ Jessi (Joint European submicron silicon initiative).
- ⁵ Thermie (European technologies for energy management).
- ⁶ Impact (Information market policy actions).
- ⁷ Sprint (Strategic programme for the transnational promotion of innovation and technology transfer).

As regards statistics, the Council adopted a resolution in June 1989 concerning the introduction of a priority action plan for 1989-92. This statistical programme represents a logical overall framework to meet the Communi-

ty's needs for statistical information by harmonizing methods and providing a common set of concepts, definitions and standards while taking account of the specific features of each statistical system.

COOPERATION WITH NON-MEMBER COUNTRIES

The Community's policy of cooperation with non-member countries is financed from two sources: the general budget of the Communities (containing appropriations for commitment of ECU 1 460 million for this sector in 1989) and the European Development Fund, the instrument of cooperation between the Community and the African, Caribbean and Pacific States.

Operations entered in the general budget

Within the budget, food aid remains the largest single form of aid in the field of cooperation. At 31 December 1989 allocations had been made from the 1989 programme in favour of 78 countries. The main geographical areas involved were Asia (primarily Bangladesh), the Mediterranean (primarily Egypt) and the Horn of Africa (primarily Ethiopia). Twenty-eight countries received direct Community grants of aid. The remaining countries received aid via intermediary international or non-governmental organizations. Food aid may be granted for a variety of purposes, varying from help in emergency to the longer-

term aims of raising standards of nutrition, improving food security and, partly through linked development projects, contributing to the balanced economic and social development of the recipient countries. The mechanisms adopted may accordingly vary between free distribution to those in need and normal sale of foodstuffs on the local market, the resulting counterpart funds being used to finance rural development or other relevant projects in the benefiting country. In some cases, in a 'triangular operation' products are bought in one developing country in order to be supplied as food aid in another.

Other policy objectives financed from the budget in the field of cooperation with non-member countries include cooperation with developing countries in Latin America and Asia (ECU 368 million) and with Mediterranean countries (ECU 200 million); specific aid measures including support for initiatives taken by non-governmental organizations (ECU 96 million); emergency and exceptional actions including disaster aid and positive measures regarding South Africa (ECU 89 million); and miscellaneous measures including trade promotion flowing from coopera-

tion agreements with various countries (ECU 22 million).

The major Community effort in favour of developing countries in Latin America and Asia takes the form of the well-established programme of support for projects situated particularly in the least-prosperous countries and focused on rural development and the improvement of food production. Other measures include trade promotion and joint ventures in the investment sector. Since 1976 more than ECU 2 400 million has been committed for these countries.

The aid granted to Mediterranean countries results, in large measure, from a series of financial protocols annexed to agreements with the various recipient countries. The financial protocols provide a mixture of outright grants of aid for the various development projects and loan finance provided by the European Investment Bank and supported in most cases by interest-rate subsidies charged to the budget.

Community aid is also granted through non-governmental organizations. Development

projects benefiting from this aid are spread worldwide and are mostly small-scale, localized schemes, in such fields as rural development, training and health. The aid granted in 1989 was channelled through 209 different organizations in all 12 Member States and went to 98 countries. The main beneficiaries were Brazil, Ethiopia, India and Nicaragua.

Emergency and exceptional aid includes, first of all, the contingency fund used to finance emergency grants made in order to demonstrate Community solidarity in support of victims of natural disasters affecting non-associated countries. There is a similar provision within the European Development Fund for the 68 co-signatories of the Lomé Convention.

Another important grant of exceptional aid went to support the education programme organized by the United Nations Relief and Works Agency for Palestinian refugees for the children of over two million refugees situated in Jordan, Syria, Lebanon, the West Bank and Gaza.

Operations financed by the EDF

At Lomé on 15 December 1989 the Community and 68 African, Caribbean and Pacific States signed the fourth ACP/EEC Convention covering the 10-year period from March 1990 to February 2000. Associated with the Convention are the development aid programmes financed from successive European Development Funds. This expenditure is not included in the budget, but to form a complete picture of Community activity in this area it is worth noting that development aid commitments from this source amounted in 1989 to ECU 1 570 million.

FUTURE EXPENDITURE AND REVENUE

It is a feature of the accounting system of the Communities that certain sums due but unpaid at 31 December and certain revenue receivable should be charged to the revenue and expenditure account for that year and entered in the balance sheet.

The main items of future expenditure and revenue entered in the accounts at the end of 1989 were:

- (i) payments authorized in December 1989 and made between 1 and 15 January 1990;
- (ii) payments to be authorized in 1990 against appropriations for payment not used at end-1989 and carried over to 1990;
- (iii) interest and other sums due in connection with borrowing and lending operations for the New Community Instrument and the European Atomic Energy Community; this future expenditure is almost entirely offset by interest and other sums receivable in connection with the same borrowing and lending operations.

However, other potential liabilities and resources are not entered in the accounts but are recorded separately:

- (i) certain sums falling due in future years to clear commitments existing at the end of 1989, to meet outstanding financial obligations or to honour protocols concluded with third parties;
- (ii) contractual commitments made as part of NCI and Euratom borrowing and lending operations;
- (iii) various potential liabilities and resources;
- (iv) contingent liabilities.

These future liabilities and resources are listed in this section of the report to provide information in addition to the consolidated accounts of the Communities.

Sums falling due in future financial years

As stated in the section concerning the financial framework, some time elapses between the commitment and payment of expenditure: commitment and payment might not take place in the same financial year. This is frequently the case with multiannual operations (which are allocated differentiated appropriations), for which the budget usually contains different amounts of commitment appropriations and payment appropriations.

At the end of the year there are therefore outstanding commitments for which payments will have to be made in future financial years.

For operations allocated non-differentiated appropriations, the rules allow appropriations needed for payment against commitments to be carried over automatically to the following financial year only; as stated above, the carry-overs to 1990 are included with the liabilities for 1989.

At the end of 1989 the commitments outstanding for operations allocated differentiated appropriations amounted to ECU 16 579 million. Of this, ECU 58 million is covered by payment appropriations carried over to 1990; the corresponding liability is also included in the accounts for 1989. The balance of ECU 16 521 million will have to be covered by payment appropriations in the budgets for 1990 and subsequent financial years. The commitments from differentiated appropriations outstanding at 31 December 1989 are analysed and broken down by probable year of payment in Table 7.

The Communities also have a number of known financial obligations which, in the normal course of events, will have to be met in 1990 or during subsequent financial years. These obligations, set out in Table 2, consist of debts owing to Member States in connection with the exceptional disposal of butter stocks in 1987 and 1988: to cover the losses arising from the sale of these stocks, the Member States had provided advance finance of

ECU 3 178 million to be repaid in instalments of 25% at the beginning of each year between 1989 and 1992; the Community thus made the first refund of ECU 793 million to the Member States in 1989, reducing its liability to ECU 2 385 million at the end of 1989.

Finally, the Communities have entered into other obligations towards non-member countries which have not yet given rise to the commitment of appropriations: for cooperation with developing and non-member countries, they signed protocols with the Mediterranean countries for the period 1990-92 and undertook to pay a certain amount of which ECU 358 million still had to be committed at the end of 1989.

(million ECU)

	Due by NCI/EUR	Due to NCI/EUR	Net 1989	Net 1988
Loans signed but not paid	—	—	—	411.9
Borrowings raised but not received	—	23.4	(23.4)	(81.9)
Bank deposits to cover coupons and bonds	72.4	—	72.4	67.6
Deferred purchase of bonds	5.7	—	5.7	—
Total	78.1	23.4	54.7	397.6

Contractual commitments

NCI and Euratom have considerable borrowing and lending operations. At 31 December 1989 a number of borrowing and lending transactions were in the course of completion. These transactions will represent expenditure or revenue in future financial years.

Potential liabilities and resources

The Communities have potential liabilities and resources. Some of them may never be realized or can only be roughly estimated at 31 December 1989.

The potential liabilities in Table 3 include the cost of disposing of agricultural stocks. At the end of 1989 this liability was estimated at ECU 51 million, far less than at the end of 1988; the new estimate results from comparison between the foreseeable sales value of products in store at 31 December 1989 and their book value, taking into account the depreciation applied in accordance with the decision adopted by the 1988 Brussels European Council.

For the stocks existing at 31 December 1986 it had been agreed that the provisions for foreseeable losses would be charged to the revenue and expenditure account as repayments to the Member States at the beginning of each financial year for the agricultural sector (from 16 October to the following 15 October). The amounts needed had been estimated at ECU 6 800 million (at 1988 prices) for the five-year period 1988-92, as follows:

1988: ECU 1 200 million;
1989-92: ECU 1 400 million a year.

The first payments of ECU 1 240 million were charged to the 1988 financial year. The payments charged to 1989 totalled ECU 1 443 million — ECU 793 million as the first payment for the butter stocks covered by the exceptional disposal operation in 1987 and ECU 650 million for the depreciation of existing stocks at the start of the financial year. The payments to be charged to 1990 amount to ECU 1 361 million — ECU 797 million as the second payment for the disposal of butter stocks and ECU 564 million for the depreciation of existing stocks. The book value of the stocks held by the Member States (Table 4) already takes account of this depreciation of ECU 564 million at the start of the new financial year for agriculture, i.e. before 31 December.

Every annual budget contains a provision for losses on stocks newly bought in. These stocks are depreciated from the date on which they enter the stores. The cost of depreciation is financed by Titles B 1 and B 2 of the general budget; in 1989 it totalled ECU 1 176 million.

The Communities also have potential revenue (Table 3). For instance, on discovering a fraud or irregularity relating to sums paid under the European Agricultural Guidance and Guarantee Fund, a Member State notifies the Commission and takes steps to recover the sums paid on its behalf. The sums likely to be recovered can only be estimated at present on the basis of amounts notified. Similarly, the date of their receipt cannot be estimated with any certainty.

Contingent liabilities

The Communities have identified a number of contingent liabilities, only some of which can be quantified.

Pension costs: The Communities undertake to pay pensions to former employees on the basis of years of service. However, although contributions are made by employees, no separate fund is maintained from which the eventual liabilities will be met. There is, therefore, a liability for pension costs, which cannot be determined without an actuarial valuation.

Guarantees given: The Commission guarantees loans to non-member countries granted by the European Investment Bank from its own funds. Not all loans are guaranteed at 100%, the average being 75% of the capital value of loans guaranteed. Interest may also be guaranteed but is not quantified below.

(million ECU)

	1989	1988
75% guarantee	1 923.8	2 319.8
100% guarantee	141.5	141.5
Total	2 065.3	2 461.3

TABLE 2

The Communities' financial obligations at 31 December 1989

(million ECU)

	1989	1988
European Agricultural Guidance and Guarantee Fund (EAGGF):		
Exceptional operation to dispose of butter stocks (Regulation (EEC) No 801/87):		
debts realized in 1987	742.1	1 534.8
debts realized in 1988	1 643.0	1 643.0
Total	2 385.1	3 177.8

TABLE 3

Potential liabilities and receipts of the Communities at 31 December 1989

(million ECU)

	1989	1988
<i>Potential liabilities</i>		
European Agricultural Guidance and Guarantee Fund (EAGGF):		
Difference between the guarantee price and selling price of agricultural stocks at 31 December 1989 (excluding butter stocks subject to the exceptional disposal operation and alcohol stocks on which only disposal costs will arise) (Table 4)	50.7	1 310.9
Judgments awaited from the Court of Justice on sums claimed by Member States relating to clearance of accounts (Table 5)	175.2	142.5
Potential liabilities resulting from a provisional refusal of finance	13.8	14.0
	239.7	1 467.4
<i>Potential receipts</i>		
Potential receipts arising from frauds and irregularities notified at 31 December 1989 (Table 6)	(507.5)	(318.7)
Potential claims resulting from the clearance of EAGGF accounts	(46.0)	—
	(553.5)	(318.7)
Total	(313.8)	1 148.7

TABLE 4

Volume, book value, foreseeable sales value and potential liabilities of stocks at 31 December 1989

Product	Quantity (tonnes)	Book value (ECU)	Foreseeable sales value (ECU)	Unit loss on sales (ECU/t)	Potential liabilities (ECU)
Common wheat	2 264 053	167 259 639	159 615 702	3	7 643 937
Common wheat, not breadmaking	229 723	12 500 150	13 117 159	0	0
Barley	2 989 927	175 441 136	170 724 805	2	4 716 331
Rye	1 239 072	77 313 343	70 750 983	5	6 562 360
Durum wheat	1 017 376	88 355 249	93 293 353	0	0
Maize	865 964	40 017 822	49 446 545	0	0
Sorghum	2 680	152 034	153 028	0	0
Cereals — Total	8 608 795	561 039 373	557 101 575		18 922 628
Olive oil	130 841	164 751 751	165 919 659	0	0
Colza	131	24 294	23 040	10	1 254
Sunflower	7 924	1 589 952	1 512 635	10	77 317
Leaf tobacco	218	20 857	21 060	0	0
Manufactured tobacco	10 142	2 902 537	2 852 805	5	49 732
Baled tobacco	67 363	20 382 698	18 949 307	21	1 433 391
Alcohol ¹	3 568 065	33 306 564	28 187 715	1	5 118 849
Butter	21 851	22 741 528	24 411 407	0	0
Skimmed-milk powder	4 811	4 689 104	4 497 089	40	192 015
Bone-in beef	107 162	110 647 793	98 942 510	109	11 705 283
Boned (boneless) beef	48 988	102 870 884	89 633 031	270	13 237 853
Total public storage		1 024 967 335	992 051 833		50 738 322
Mixed alcohol ¹	7 507 374	64 557 375	59 308 252	1	5 249 123
Grand total		1 089 524 710	1 051 360 085		55 987 445

¹ The quantity unit for alcohol is 100 litres.

NB: The existing potential liabilities (ECU 56.0 million), which were reduced to zero after depreciation of existing stocks at the beginning of the 1990 financial year (16 October 1989), are due to the amounts bought in between 1 October 1989 and 31 December 1989 and the two-stage mechanism for the depreciation of stocks when they are bought in (Article 8 of Regulation No 1883/78). They will disappear with the end-of-year depreciation for which appropriations have already been entered in the 1990 budget.

TABLE 5

Claims submitted to the Court of Justice at 31 December 1989

Member State	Claims on the Commission (national currencies)	1989 (million ECU)	1988 (million ECU)
Awaiting judgment of the Court:			
Belgium	6.1	0.1	—
Denmark	—	—	1.0
FR of Germany	104.5	51.6	3.5
Greece	11 815.3	62.8	66.7
Italy	90 121.9	59.4	55.0
The Netherlands	2.9	1.3	16.3
Total		175.2	142.5

TABLE 6

Potential receipts arising from frauds and irregularities notified at 31 December 1989

(million ECU)

Member State	Measures financed 100% by the EAGGF Guarantee Section	Measures financed partially ¹	Total	1988
Belgium	15.8	—	15.8	14.6
Denmark	94.6	2.1	96.7	2.3
FR of Germany	10.8	0.4	11.2	81.8
Greece	0.1	—	0.1	—
Spain	0.3	—	0.3	—
France	9.5	0.2	9.7	7.2
Ireland	4.2	0.2	4.4	6.0
Italy	345.5	—	345.5	192.6
Luxembourg	—	—	—	—
The Netherlands	14.0	0.3	14.3	3.2
Portugal	—	—	—	—
United Kingdom	9.1	0.4	9.5	11.0
Total	503.9	3.6	507.5	318.7

¹ Joint financing by EAGGF Guarantee and EAGGF Guidance of premiums for the non-marketing of milk products and the conversion of dairy herds.

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

TABLE 7

Commitments from differentiated appropriations still to be settled at 31 December 1989

(million ECU)

Sector	Year in which the commitments were entered into												Totals	Foreseeable schedule of payment				
	before 1979	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989		1990	1991	1992	1993	after 1993
Fisheries and the sea				0.2	0.1	0.3	8.3	8.6	37.5	75.5	85.7	146.5	362.7	150.0	60.0	47.3	47.0	58.4
Structural operations	11.8	24.6	73.9	115.4	233.4	230.2	473.4	538.7	893.8	1 334.8	2 327.3	5 363.8	11 621.1	4 201.7	2 287.3	1 455.7	1 229.4	2 447.0
of which: ERDF	(10.8)	(21.7)	(63.1)	(89.8)	(205.2)	(192.6)	(405.5)	(400.6)	(642.8)	(951.7)	(1 552.1)	(2 993.2)	(7 529.1)	(1 973.1)	(1 361.1)	(1 000.0)	(1 000.0)	(2 194.9)
ESF							(0.1)	(4.0)	(35.5)	(141.4)	(321.9)	(1 758.8)	(2 261.7)	(1 687.0)	(427.0)	(147.7)		
EAGGF Guidance	(1.0)	(2.9)	(10.8)	(25.6)	(28.2)	(35.2)	(62.5)	(96.6)	(168.1)	(192.1)	(250.3)	(393.4)	(1 266.7)	(305.0)	(304.0)	(263.0)	(189.0)	(205.7)
other						(2.4)	(5.3)	(37.5)	(47.4)	(49.6)	(203.0)	(218.4)	(563.6)	(236.6)	(195.2)	(45.0)	(40.4)	(46.4)
Human aspect of Europe				0.1	0.2	0.3	3.2	10.9	16.0	10.9	28.9	47.6	118.1	43.7	23.3	30.1	21.0	
Research, energy and industry		0.1	5.6	0.7	4.3	9.6	23.5	58.8	121.6	268.3	562.0	1 028.4	2 082.9	909.7	517.2	370.4	181.5	104.1
Cooperation with non-member countries	4.6	5.9	22.9	35.3	28.1	59.5	106.3	128.0	184.7	367.0	477.0	975.1	2 394.4	736.1	499.3	314.3	245.6	599.1
Total	16.4	30.6	102.4	151.7	266.1	299.9	614.7	745.0	1 253.6	2 056.5	3 480.9	7 561.4	16 579.2	6 041.2	3 387.1	2 217.8	1 724.5	3 208.6

THE CONSOLIDATED ACCOUNTS OF THE COMMUNITIES

ACCOUNTING POLICIES

1. The accounts are prepared in accordance with the requirements of the Financial Regulation of 21 December 1977, as supplemented by implementing regulations issued by the Commission. There has been a general revision of the Financial Regulation, with the amended version entering into force on 19 March 1990. The new provisions do not apply to the 1989 accounts.

2. The ecu

2.1. The accounts are stated in ecus.

2.2. Advances paid in respect of the Guarantee Section of the European Agricultural Guidance and Guarantee Fund are converted at the exchange rates applying on the 20th of the second month preceding that to which they relate.

Some operations relating to staff are converted at special rates.

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

2.3. The ecu conversion rate for 31 December 1989 has been used to prepare the balance sheet except as follows:

- (i) tangible assets, which are calculated at the accounting rate applying when they were purchased;
- (ii) appropriations carried over, some of which are to cover commitments in national currencies converted into ecus at the monthly accounting rates for December.

2.4. The rates applying on 31 December 1989 for converting national currencies into ecus were as follows:

ECU 1 =	BFR	42.5920	HFL	2.28602
	DKR	7.88161	IRL	0.769128
	DM	2.02412	LFM	42.592
	DR	188.287	LIT	1.517.55
	ESC	179.03	PTA	131.059
	FF	6.92042	UKL	0.742783

3. Consolidation

3.1. The consolidated accounts show the accounting situation resulting from the operations carried out by the Communities under the general budget. They therefore do not include expenditure under the ECSC operating budget and under the European Development Funds.

They consolidate the accounts of the following European institutions: the Parliament, the Council, the Economic and Social Committee, the Commission (including the Publications Office and the Joint Research Centre), the Court of Justice and the Court of Auditors.

3.2. The assets and liabilities resulting from NCI and Euratom borrowing and lending operations are included in the appropriate items of the Communities' balance sheet.

3.3. Balances between the institutions are netted off on consolidation wherever possible. Any residual sums are included in current assets and creditors.

3.4. All figures are in millions of ecus, unless otherwise stated.

4. Revenue

4.1. Own resources and financial contributions are entered in the accounts on the basis of the amounts credited in the course of the year to the accounts opened in the name of the Commission by the governments of the Member States. The difference between the budget entries for VAT own resources and financial contributions and the amount actually due is calculated by 1 July of the following year and entered in an amending budget.

4.2. Other revenue is entered in the accounts on the basis of the amounts actually collected in the course of the year.

5. Expenditure

5.1. Expenditure for the year, as included in the revenue and expenditure account, represents payments against the year's appropriations for payment plus any appropriations for payment for the year which are unused and are carried over.

5.2. The payments against the year's appropriations for payment are those for which authorization reaches the Financial Controller not later than 31 December and which are effected by the Accounting Officer not later than 15 January of the following year.

5.3. The payments taken into consideration for the Guarantee Section of the European Agricultural Guidance and Guarantee Fund are those effected by the Member States between 16 October and 15 October provided that the Accounting Officer is notified of the commitment and authorization not later than 31 January of the following year. (By way of exception, the agricultural guarantee payments entered in the accounts for 1988 were those effected by the Member States between 1 November 1987 and 15 October 1988 since expenditure in the second half of October 1987 was still charged to 1987 under the old rules.)

5.4. Appropriations for payment may be carried over to the following financial year:

- (i) non-differentiated appropriations: the carryover is generally automatic when it is to cover commitments outstanding; in other cases the prior authorization of the budgetary authority is required;
- (ii) 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 in connection with commitment appropriations which have themselves been carried over.

6. Payments on account and accelerated payments

6.1. Payments on account for operational purposes, other than those paid in connection with the common agricultural policy, are included with the expenditure for the financial year and do not appear as assets in the balance sheet.

7. Tangible assets

7.1. The movable property of all the institutions (equipment and furniture) is valued at purchase price in national currency converted into ecus at the accounting rate in force at the time of purchase.

7.2. Buildings in Brussels, those of the external offices and delegations and those at the Geel, Karlsruhe and Petten establishments of the Joint Research Centre are included in the balance sheet at their purchase prices. The buildings at the Ispra establishment site are valued in accordance with the valuation conducted in 1982, increased in 1984 by 14% for buildings and by 20% for other infrastructure.

Since then, the valuation has been increased every year by the amount of investment which took place that year.

7.3. No depreciation is provided as the full purchase cost of tangible assets is charged to the revenue and expenditure account in the year of acquisition. The full value remains in the balance sheet until items are withdrawn from service, and is balanced by an exactly equivalent figure which forms part of own capital.

8. Stocks

8.1. Stocks represent the consumable stores held by all the institutions, including certain nuclear materials held by the research centres. All items are valued for balance sheet purposes at purchase price, with the exception of nuclear material and heavy water which are valued at commercial valuation, net of reprocessing costs.

CONSOLIDATED REVENUE AND EXPENDITURE ACCOUNT
for the year ending 31 December 1989

	Notes	1989 (million ECU)	1988 (million ECU)
<i>Revenue</i>			
Own resources	1	41 881.3	35 842.6
Financial contributions	2	1 641.8	4 657.2
Adjustments to previous years' revenue	3	1 967.8	883.6
Other revenue	4	408.9	460.0
		<hr/>	<hr/>
<i>Total revenue</i>		45 899.8	41 843.4
<i>Expenditure</i>			
<i>Operational expenditure</i>			
Agricultural market guarantees	5	24 409.1	26 400.3
Fisheries and the sea	6	279.2	257.7
Structural operations	7	8 239.1	6 682.9
Operations to enhance the human aspect of Europe	8	289.1	225.6
Research, energy and industry	9	1 490.2	1 110.2
Cooperation with non-member countries	10	1 090.6	783.0
		<hr/>	<hr/>
		35 797.3	35 459.7
<i>Administrative expenditure</i>			
Staff	11	1 449.6	1 340.1
Administration	11	642.1	591.5
		<hr/>	<hr/>
		2 091.7	1 931.6
<i>Repayments to Member States</i>			
	12	2 961.1	3 729.6
		<hr/>	<hr/>
<i>Total expenditure</i>	13	40 850.1	41 120.9
		<hr/>	<hr/>
<i>Surplus of revenue over expenditure for the year: outturn for the year</i>		5 049.7	722.5
Exchange differences for the year	14	(67.8)	36.1
Appropriations carried over from previous year which lapse	14	98.2	381.5
		<hr/>	<hr/>
<i>Balance for the year</i>	14	5 080.1	1 140.1
		<hr/>	<hr/>

CONSOLIDATED BALANCE SHEET
as at 31 December 1989

	Notes	1989 (million ECU)	1988 (million ECU)
<i>Fixed assets</i>			
Tangible assets	15	705.9	577.4
Loans	16	8 828.9	9 438.0
		<hr/>	<hr/>
		9 534.8	10 015.4
<i>Long-term debtors</i>	17	19.4	38.2
<i>Current assets</i>			
Stocks	18	90.6	67.8
Amounts owed by Member States	19	35.1	1 678.0
Amounts owed by Community bodies	20	4.4	12.2
Debtors	21	635.1	743.4
Cash at bank and in hand	22	7 853.0	5 135.0
		<hr/>	<hr/>
		8 618.2	7 636.4
Less: Creditors due within one year	23	(2 698.1)	(5 555.0)
		<hr/>	<hr/>
<i>Net current assets</i>		5 920.1	2 081.4
		<hr/>	<hr/>
<i>Total assets less current liabilities</i>		15 474.3	12 135.0
<i>Creditors due after more than one year</i>	24	(9 142.2)	(10 136.7)
<i>Provisions for liabilities and charges</i>	25	(37.8)	(32.3)
		<hr/>	<hr/>
		6 294.3	1 966.0
		<hr/>	<hr/>
<i>Fixed capital</i>			
Own capital	26	1 214.2	1 053.6
Balance brought forward	27	—	(227.7)
Balance for the year	27	5 080.1	1 140.1
		<hr/>	<hr/>
		6 294.3	1 966.0
		<hr/>	<hr/>

NOTES TO THE CONSOLIDATED REVENUE AND EXPENDITURE ACCOUNT

1. Own resources	Budget reference	1989 (million ECU)	1988 (million ECU)
Agricultural levies		1 282.7	1 504.6
Sugar and isoglucose levies		1 381.6	1 390.7
Customs duties		11 458.8	10 344.7
VAT resources		26 293.4	23 927.6
Percentage of GNP of the Member States		2 877.1	—
Own resources collection costs		(1 412.3)	(1 325.0)
	1	41 881.3	35 842.6

From 1988 the own resources collection costs are being deducted at source by the Member States and therefore appear as a reduction of resources in the Community budget, whereas previously they were repaid to the Member States and thus appeared as expenditure from the Community budget (see Note 12): the collection costs for 1987 totalled ECU 1 202.7 million, of which ECU 760.0 million was charged to 1987 and ECU 442.7 million to 1988.

2. Financial contributions

Portugal's GNP-based financial contribution		—	211.4
Member States' financial contributions to balance the general budget		1 641.8	4 445.8
	2	1 641.8	4 657.2

Following the introduction of the harmonized VAT system, Portugal started paying VAT own resources in 1989.

Pending ratification of the decision on the GNP-based own resource, the Member States paid a GNP-based financial contribution in 1988 (in two cases in 1989).

3. Adjustments to previous years' revenue

Surplus available from the previous year		1 161.6	500.0
Balance of VAT own resources and adjustments to financial contributions for previous year		609.1	398.4
Balance of GNP-based own resources from the previous year		171.6	—
Corrections to the balance of own resources and adjustments to financial contributions for 1979 to 1987		25.5	(14.8)
	3	1 967.8	883.6

ECU 500.0 million of the 1987 balance of ECU 521.5 million was entered in the accounts for 1988; the remaining ECU 21.5 million was added to the 1988 balance of ECU 1 140.1 million for entry in 1989.

4. Other revenue

	Budget reference	1989 (million ECU)	1988 (million ECU)
Miscellaneous Community taxes, levies and dues	4	226.3	259.9
Revenue accruing from the administrative operation of the institutions	5	70.0	43.4
Contributions to Community programmes; repayments of expenditure and revenue from services rendered	6	92.9	136.0
Interest on late payments and fines	7	14.8	14.9
Borrowing and lending operations	8	1.6	3.1
Miscellaneous	9	3.3	2.7
		<hr/>	<hr/>
		408.9	460.0

5. Agricultural market guarantees

Expenditure by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF)	1 B and 2 B	24 403.1	26 400.3
Set-aside and income aid	39 B	6.0	—
		<hr/>	<hr/>
		24 409.1	26 400.3

6. Fisheries and the sea

Organization of the market	40 B	24.0	46.9
Improvement of fishery structures	46 B	24.3	35.0
Expenditure in connection with international fisheries agreements	42 B	161.5	139.5
Other	4 B	69.4	36.3
		<hr/>	<hr/>
		279.2	257.7

7. Structural operations

European Regional Development Fund	50 B	3 920.0	2 979.8
European Social Fund	60 B	2 676.1	2 298.6
European Agricultural Guidance and Guarantee Fund — Guidance Section	30 B	1 349.0	1 140.9
Other structural policy operations: Integrated Mediterranean programmes	550 B to 552 B	80.4	86.0
Specific programme for the development of Portuguese industry (Pedip)	553 B	80.0	45.0
Other regional measures	54 B and 554 B	33.9	9.5
Transport	58 B	31.2	65.6
Expenditure in the agricultural sector	38 B	68.5	57.5
		<hr/>	<hr/>
		8 239.1	6 682.9

8. Operations to enhance the human aspect of Europe

	Budget reference	1989 (million ECU)	1988 (million ECU)
Education, vocational training and youth policy	63 B	119.8	70.9
Employment, social protection and public health	64 B	67.1	56.3
Protection of the environment and consumer protection	66 B	33.0	24.6
Information, communication and culture	67 B	36.0	40.6
Aid to disaster victims in the Community	69 B	33.2	33.2
		<hr/>	<hr/>
		289.1	225.6

9. Research, energy and industry

Research and investment	73 B	1 230.4	876.4
Energy policy	70 B	115.2	131.2
Nuclear safeguards	71 B	7.9	3.9
Information market and innovation	75 B	26.2	20.7
Statistical information policy connected with the completion of the internal market	76 B	11.7	14.5
Industry and the internal market	77 B	95.7	62.0
Participation by the European Community in scientific and technological projects	78 B	0.1	0.1
Financial engineering	79 B	3.0	1.4
		<hr/>	<hr/>
		1 490.2	1 110.2

Research and investment also includes related administrative expenditure incurred in the research centres of Ispra, Karlsruhe, Petten and Geel.

10. Cooperation with non-member countries

Food aid	92 B	618.3	339.6
Other cooperation activities with developing and non-member countries	93 B to 99 B	472.3	443.4
		<hr/>	<hr/>
		1 090.6	783.0

A further ECU 132.6 million (1988: ECU 242.7 million) of export refunds made in connection with food aid are included in EAGGF Guarantee Section expenditure.

In addition to the above amounts consolidated:

- (i) the European Development Fund made payments of ECU 1 297.0 million (1988: 1 196.3 million) to developing countries;
- (ii) the European Investment Bank (EIB) grants loans to developing countries from its own funds, guaranteed by the Commission.

11. Administrative expenditure

	Budget reference	1989 (million ECU)	1988 (million ECU)
<i>Staff</i>			
Parliament	1	268.2	250.4
Council	1	110.5	101.0
Economic and Social Committee	3	25.8	24.0
Commission	1 A	959.3	886.7
Publications Office	3 A	17.3	15.6
Court of Justice	1	44.7	39.3
Court of Auditors	1	23.8	23.1
		<hr/>	<hr/>
		1 449.6	1 340.1
		<hr/>	<hr/>
<i>Administration</i>		642.1	591.5
		<hr/>	<hr/>

The administrative expenditure at the various research establishments is included in 'Research, energy and industry' (Note 9).

12. Repayments to Member States

Flat-rate repayment of costs incurred in collecting own resources	80 B	—	442.7
Repayments to the Member States in respect of the depreciation of agricultural stocks	81 B	1 442.9	1 240.0
Refunds and financial compensation	86 B	1 267.4	1 545.2
Reimbursement of advances granted in 1984	87 B	250.8	501.7
		<hr/>	<hr/>
		2 961.1	3 729.6
		<hr/>	<hr/>

In supplementary and amending budget No 1/87 the budgetary authority decided that for 1987 the Member States would receive no further repayments from August onwards for the costs incurred in collecting own resources; the collection costs for the final months of 1987 (ECU 442.7 million) were repaid in 1988.

From 1988 these costs are no longer being repaid to the Member States but are being deducted by the Member States from their payments (Note 1).

In 1984 the Member States granted repayable advances to avoid a budget deficit. In 1987 the budgetary authority decided in supplementary and amending budget No 1 to defer repayment of the 1987 instalment to 1988; the ECU 501.7 million thus corresponds to the 1987 and 1988 instalments.

13. Total expenditure

Operational expenditure

	Payments for the year (million ECU)	Carried over (million ECU)	Expenditure	
			1989 (million ECU)	1988 (million ECU)
Agricultural market guarantees	24 460.3	(51.2)	24 409.1	26 400.3
Fisheries and the sea	241.7	37.5	279.2	257.7
Structural operations	8 201.8	37.3	8 239.1	6 682.9
Operations to enhance the human aspect of Europe	219.0	70.1	289.1	225.6
Research, energy and industry	1 467.5	22.7	1 490.2	1 110.2
Cooperation with non-member countries	1 009.1	81.5	1 090.6	783.0
	<u>35 599.4</u>	<u>197.9</u>	<u>35 797.3</u>	<u>35 459.7</u>

Administrative expenditure

Staff	1 415.8	33.8	1 449.6	1 340.1
Administration	509.6	132.5	642.1	591.5
	<u>1 925.4</u>	<u>166.3</u>	<u>2 091.7</u>	<u>1 931.6</u>

Repayments to Member States

	<u>2 886.4</u>	<u>74.7</u>	<u>2 961.1</u>	<u>3 729.6</u>
	<u>40 411.2</u>	<u>438.9</u>	<u>40 850.1</u>	<u>41 120.9</u>

	Payments for the year (million ECU)	Carried over (million ECU)	Expenditure	
			1989 (million ECU)	1988 (million ECU)
Breakdown of expenditure by institution				
Commission:				
non-differentiated appropriations	29 090.0	324.1	29 414.1	32 031.5
differentiated appropriations	10 680.3	54.7	10 735.0	8 426.6
	<hr/>	<hr/>	<hr/>	<hr/>
	39 770.3	378.8	40 149.1	40 458.1
Parliament	347.0	35.1	382.1	384.2
Council	216.8	16.5	233.3	202.9
Court of Justice	50.9	7.0	57.9	48.9
Court of Auditors	26.2	1.5	27.7	26.8
	<hr/>	<hr/>	<hr/>	<hr/>
	40 411.2	438.9	40 850.1	41 120.9
	<hr/>	<hr/>	<hr/>	<hr/>

Reconciliation with the budget

	Expenditure	
	1989 (million ECU)	1988 (million ECU)
Payment appropriations approved for the year	44 870.3	43 844.9
Less: Appropriations not used and which lapse	(4 020.2)	(2 724.0)
	<hr/>	<hr/>
Expenditure for the year	40 850.1	41 120.9
	<hr/>	<hr/>

A more detailed analysis of payment appropriations and their use appears in Table 9.

14. Balance for the year

In accordance with the Financial Regulation, the amount resulting from the lapsing of the appropriations for payment carried over from the previous financial year but not used and the balance of exchange gains and losses recorded during the year are taken into account when determining the balance for the year.

NOTES TO THE CONSOLIDATED BALANCE SHEET

15. Tangible assets

	Buildings		Furniture and equipment		Total	
	1989 (million ECU)	1988 (million ECU)	1989 (million ECU)	1988 (million ECU)	1989 (million ECU)	1988 (million ECU)
Parliament	1.5	1.5	45.2	37.3	46.7	38.8
Council			15.2	13.2	15.2	13.2
Economic and Social Committee			3.3	3.2	3.3	3.2
Commission	303.6	243.2	330.4	273.2	634.0	516.4
Court of Justice			4.2	3.7	4.2	3.7
Court of Auditors			2.5	2.1	2.5	2.1
Total	305.1	244.7	400.8	332.7	705.9	577.4

16. Loans

Loans granted from the budget

Loans in connection with cooperation with non-member countries

Loans on special terms

Risk capital operations

Loans and advances to promote investment joint ventures

Loans in favour of migrant workers

Building loans to Community officials

410.2

401.5

5.7

5.8

0.8

—

0.6

0.7

0.4

0.4

417.7

408.4

Loans granted from borrowed funds

Community loans for balance-of-payments support

Euratom loans

Loans to promote investment in the Communities (NIC)

2 075.3

2 108.7

1 937.3

2 145.3

4 398.6

4 775.6

8 411.2

9 029.6

Total

8 828.9

9 438.0

Detailed tables showing all loans granted appear in the accounts of Euratom and NCI borrowing and lending operations, which are contained in Volume II (Section III) of the Communities' published accounts.

17. Long-term debtors

	1989 (million ECU)	1988 (million ECU)
Deposits, guarantees and working balances paid to third parties	5.5	5.5
Recoverable costs	13.9	32.7
	<u>19.4</u>	<u>38.2</u>

Recoverable costs arise on NCI and Euratom borrowing and lending operations as a result of the difference between the interest rates charged on loans granted and the lower interest rates paid on loans raised. They are recovered gradually over the lifetime of the borrowings.

18. Stocks

Parliament	1.2	1.2
Council	1.3	0.7
Economic and Social Committee	0.1	0.1
Commission ¹	87.6	65.4
Court of Justice	0.3	0.3
Court of Auditors	0.1	0.1
	<u>90.6</u>	<u>67.8</u>

¹ Includes nuclear materials held at research centres.

19. Amounts owed by Member States

Own resources to be recovered	29.3	1 672.6
Taxes paid and to be recovered	5.7	5.2
Interest on late payments	0.1	0.2
	<u>35.1</u>	<u>1 678.0</u>

The own resources to be recovered at 31 December 1988 included ECU 1 638.0 million entered in the 1988 budget as revenue to balance the general budget and received in early 1989.

20. Amounts owed by Community bodies

	1989 (million ECU)	1988 (million ECU)
Due to Parliament	0.6	0.2
Due to the Commission	3.8	12.0
	<hr/>	<hr/>
	4.4	12.2
	<hr/>	<hr/>

Community bodies include those Communities not consolidated, for example the European Coal and Steel Community (ECSC), and other connected bodies, for example the Medical Insurance Scheme.

21. Debtors

Debtors comprise sundry debtors relating to the institutions and balances relating to the borrowing and lending operations of NCI and Euratom.

Sundry debtors

Due from staff of the institutions	5.3	8.2
Due from third parties, including bank interest receivable	17.0	14.1
Advances to be settled	2.5	2.1
Receivable orders to be recovered	377.2	286.5
Prepayments ¹	13.0	19.4
Other	5.9	11.3
	<hr/>	<hr/>
	420.9	341.6
	<hr/>	<hr/>

NCI and Euratom

Accrued interest	117.6	269.4
Other	96.6	132.4
	<hr/>	<hr/>
	214.2	401.8
	<hr/>	<hr/>
	635.1	743.4
	<hr/>	<hr/>

¹ Prepayments comprise sums paid during 1989 to be charged to the budget of the following year.

22. Cash at bank and in hand

In addition to the current and deposit accounts which the institutions have with banks in Community and non-Community countries to carry out their financial operations, the Commission also has accounts with each Member State. The amount of established own resources is credited by each Member State to an account opened for this purpose in the Commission's name with its Treasury or with the body it has appointed for the purpose. The Commission may draw on the sums credited to these accounts to the extent necessary to cover its cash requirements arising out of budget execution.

The institutions may establish imprest accounts to cover payment of certain types of expenditure, and particularly to permit the operation of information offices and delegations in non-member countries and to international organizations. The amounts advanced are to cover cash needs for a short period. The funds are reconstituted on presentation of expenditure vouchers.

The total of bank balances and cash is made up as follows:

	1989 (million ECU)	1988 (million ECU)
Securities (held by NCI)	2.9	2.9
Fixed-term deposit accounts	66.1	529.3
Accounts with Treasuries of Member States	5 903.1	3 073.4
Accounts with Central Banks	458.9	288.2
Current accounts	1 389.5	1 212.1
Imprest accounts	31.2	27.9
Documentary credits	1.0	1.0
Cash in hand	0.3	0.2
	7 853.0	5 135.0

The Commission holds accounts with Treasuries and Central Banks. Its deposit and current accounts include ECU 705.8 million (1988: ECU 740.5 million) available from NCI and Euratom borrowing and lending operations. The breakdown of the amounts in the institutions' current accounts is as follows:

Parliament	3.6	2.7
Council	1.7	5.0
Economic and Social Committee	2.3	3.7
Commission ¹	1 380.9	1 199.5
Court of Justice	0.6	1.1
Court of Auditors	0.4	0.1
	1 389.5	1 212.1

¹Includes ECU 651.3 million (1988: ECU 571.1 million) for NCI and Euratom borrowing and lending operations.

23. Creditors due within one year

	1989 (million ECU)	1988 (million ECU)
Payable to Member States ¹	58.1	251.7
Amounts owed to Community bodies ²	46.6	4.6
Appropriations to be carried over ³	442.0	821.0
Sundry creditors ⁴	28.0	29.6
Revenue to be entered ⁵	194.1	120.7
Revenue to be collected ⁶	410.0	1 962.4
Accruals ⁷	1 349.1	1 544.5
Accrued interest (NCI and Euratom)	161.9	387.2
Bank balances ⁸	8.3	433.3
	2 698.1	5 555.0
 ¹ <i>Payable to Member States.</i>		
The end-1988 amount included the final instalment of repayments in respect of the advances granted by the Member States in 1984. The final repayment was made in 1989 (Note 12).		
 ² <i>Amounts owed to Community bodies</i>		
Due by the Commission	46.6	4.6
 ³ <i>Appropriations to be carried over</i>		
Non-differentiated appropriations		
Automatic carryovers	380.4	381.4
Non-automatic carryovers	3.8	386.2
Differentiated appropriations		
Current year's appropriations carried over	54.7	51.4
Appropriations carried over again	3.1	2.0
	442.0	821.0
 ⁴ <i>Sundry creditors</i>		
Revenue to be transferred to other bodies	16.7	21.3
NCI and Euratom current liabilities on borrowing and lending operations	0.1	0.1
Other	11.2	8.2
	28.0	29.6

	1989 (million ECU)	1988 (million ECU)
<i>⁵ Revenue to be entered</i>		
Revenue available for use	172.5	89.3
Miscellaneous revenue to be identified and booked to an item of account	21.6	31.4
	194.1	120.7

⁶ Revenue to be collected

This is an entry to balance those debtor balances which relate to revenue to be entered in the accounts of 1990.

⁷ Accruals

Payments made between 1 and 15 January 1990 authorized before 31 December 1989 are recorded as expenditure of 1989 and appear in the balance sheet as accruals.

⁸ Bank balances

Fixed-term deposit accounts (NIC)	—	1.4
Accounts with Treasuries of Member States	—	429.5
Current accounts (NCI)	5.9	—
Documentary credits	2.4	2.4
	8.3	433.3

24. Creditors: due after more than one year

Loans raised

Community loans raised for balance-of-payments support	2 075.3	2 458.7
Euratom loans raised	1 944.8	2 164.0
Loans raised to promote investment in the Communities (NCI) ¹	5 122.1	5 514.0
	9 142.2	10 136.7

¹ The NCI loans include ECU 20.9 million as a redemption premium.

25. Provisions for liabilities and charges

	1989 (million ECU)	1988 (million ECU)
NCI	22.9	20.0
Euratom	14.9	12.3
	<hr/>	<hr/>
	37.8	32.3
	<hr/>	<hr/>

These balances represent surpluses to be allocated by the Commission, and retained to cover costs not yet incurred or to be set against the assets item 'Recoverable costs' recorded in 'Long-term debtors' (Note 17).

The detailed accounts of NCI and Euratom borrowing and lending operations are set out in Volume II (Section III) of the published accounts of the Communities.

26. Own capital

This is the contra-item to various assets which are recorded in the balance sheet after first being charged to budgetary expenditure. Like the corresponding assets, this item varies from one year to the next. The assets are tangible assets, loans granted from the budget and inventories.

27. Balance brought forward and balance for the year

Balance brought forward ¹	—	(227.7)
Balance for the year	5 080.1	1 140.1
	<hr/>	<hr/>

¹ The end-1988 amount corresponded to the last outstanding instalment of repayments in respect of the advances granted by the Member States in 1984 (ECU 249.2 million), less the part of the 1987 balance (ECU 521.5 million) not taken into account in 1988 (ECU 21.5 million).

**CONSOLIDATED REVENUE AND EXPENDITURE ACCOUNT:
FIVE-YEAR SUMMARY**

TABLE 8

(million ECU)

	1985	1986	1987	1988	1989
Revenue					
Own resources	25 708.1	32 615.0	35 497.9	35 842.6	41 881.3
Financial contributions	260.9	210.1	210.6	4 657.2	1 641.8
Adjustments to previous year's revenue	111.8	431.1	(359.3)	883.6	1 967.8
Other	2 004.3	411.0	434.1	460.0	408.9
	28 085.1	33 667.2	35 783.3	41 843.4	45 899.8
Expenditure					
Agricultural market guarantees	19 728.1	22 119.4	22 950.3	26 400.3	24 409.1
Fisheries and the sea	94.2	150.4	163.7	257.7	279.2
Structural operations	3 836.0	5 882.4	6 045.4	6 682.9	8 239.1
of which: ERDF	(1 610.0)	(2 373.0)	(2 562.3)	(2 979.8)	(3 920.0)
ESF	(1 410.0)	(2 533.0)	(2 542.2)	(2 298.6)	(2 676.1)
EAGGF Guidance	(692.5)	(750.3)	(790.3)	(1 140.9)	(1 349.0)
other	(123.5)	(226.1)	(150.6)	(263.6)	(294.0)
Human aspect of Europe	237.3	163.0	196.7	225.6	289.1
Research, energy and industry	698.1	772.0	984.3	1 110.2	1 490.2
Cooperation with non-member countries	1 091.7	1 160.2	1 061.9	783.0	1 090.6
	25 685.4	30 247.4	31 402.3	35 459.7	35 797.3
<i>Operational expenditure</i>					
Repayments to Member States	1 244.0	3 095.4	2 380.9	3 729.6	2 961.1
<i>Administrative expenditure</i>					
Staff	907.9	1 049.6	1 174.7	1 340.1	1 449.6
Administration	385.3	470.8	511.3	591.5	642.1
	28 222.6	34 863.2	35 469.2	41 120.9	40 850.1
<i>Outturn for the year (deficit)</i>	(137.5)	(1 196.0)	314.1	722.5	5 049.7
Appropriations carried over from previous year which lapse	127.3	355.6	189.5	381.5	98.2
Exchange differences for the year (and transfer of appropriations carried over in 1985)	(13.7)	20.5	17.9	36.1	(67.8)
	(23.9)	(819.9)	521.5	1 140.1	5 080.1
<i>Balance for the year (deficit)</i>					

APPROPRIATIONS FOR 1989

TABLE 9

This table shows the appropriations for commitment available in 1989 and the appropriations for payment in 1989. It does not include the appropriations for payment carried over from 1988 which are contained in Table 1 (ECU 821.0 million).

(million ECU)

Sector	Commitments					Payments			
	Final appropriations	Commitments entered into	Appropriations		Reconstituted appropriations	Final appropriations	Payments made	Appropriations	
			Available for carryover	Lapsing				Available for carryover	Lapsing
Staff									
Commission	999.2	976.6		22.6		999.2	954.1	22.5	22.6
Parliament	281.0	268.2		12.8		281.0	259.5	8.7	12.8
Council	141.7	136.3		5.4		141.7	135.2	1.1	5.4
Court of Justice	46.4	44.7		1.7		46.4	43.7	1.0	1.7
Court of Auditors	26.5	23.8		2.7		26.5	23.3	0.5	2.7
Administration									
Commission	417.2	412.0	2.1	3.1		417.2	330.4	83.7	3.1
Parliament	128.6	113.0	1.0	14.6		124.5	87.5	26.4	10.6
Council	98.8	97.0		1.8		98.8	81.6	15.4	1.8
Court of Justice	13.3	13.2		0.1		13.3	7.2	6.0	0.1
Court of Auditors	4.1	3.9		0.2		4.1	2.9	1.0	0.2
Agricultural market guarantees	25 751.2	24 409.1		1 342.1		25 751.2	24 460.3	(51.2)	1 342.1
Fisheries and the sea	348.3	341.4	0.4	6.5		379.2	241.7	37.5	100.0
Structural operations	10 236.7	10 000.8	74.2	161.7	163.3	8 693.5	8 201.8	37.3	454.4
Human aspect of Europe	311.3	309.8	0.5	1.0		310.8	219.0	70.1	21.7
Research, energy and industry	1 801.1	1 778.2	13.9	9.0	12.6	1 523.3	1 467.5	22.7	33.1
Cooperation with non-member countries	1 459.8	1 453.8	4.0	2.0	52.7	1 239.5	1 009.1	81.5	148.9
Repayments to Member States	3 349.2	3 343.1		6.1		2 967.2	2 886.4	74.7	6.1
Provisional appropriations and reserve	1 854.1			1 854.1		1 852.9			1 852.9
Total	47 268.5	43 724.9	96.1	3 447.5	228.6	44 870.3	40 411.2	438.9	4 020.2
Commission, of which:									
non-differentiated appropriations	46 528.1	43 024.8	95.1	3 408.2	228.6	44 134.0	39 770.3	378.8	3 984.9
differentiated appropriations	33 028.2	29 793.3	2.8	3 232.1		32 646.2	29 090.0	324.1	3 232.1
Parliament	13 499.9	13 231.5	92.3	176.1	228.6	11 487.8	10 680.3	54.7	752.8
Council	409.6	381.2	1.0	27.4		405.5	347.0	35.1	23.4
Court of Justice	240.5	233.3		7.2		240.5	216.8	16.5	7.2
Court of Auditors	59.7	57.9		1.8		59.7	50.9	7.0	1.8
	30.6	27.7		2.9		30.6	26.2	1.5	2.9
Total	47 268.5	43 724.9	96.1	3 447.5	228.6	44 870.3	40 411.2	438.9	4 020.2