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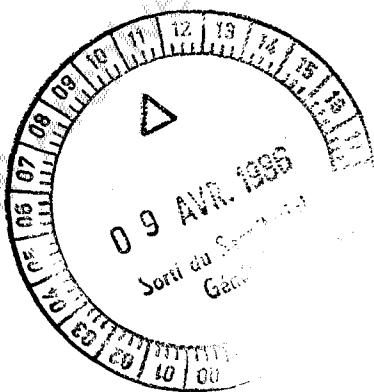
COMMISSION OF THE EUROPEAN COMMUNITIES

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FINANCIAL PERSPECTIVE 1987-1990

(Commission communication to the council and the European Parliament)



COM(86) 201 finam

FINANCIAL PERSPECTIVE 1987-90

(Communication from the Commission to the Budgetary Authority)

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Historical Archives of the European Commission

GENERAL INTRODUCTION

The four-year budget programme which is presented here is intended to help develop the structure of the Community budget in a way which assists the achievement of the most important Community objectives.

Such a programme is more than ever necessary, because, in the medium term, the Community budget can only be expected to increase by relatively moderate amounts from year to year. If substantial progress towards Community goals is to be achieved, these changes must be concentrated in priority areas so that, by their accumulation, significant development can take place over a period. The four-year programme is a necessary instrument to help in this process.

As has been stated elsewhere, the Commission believes that the full realisation of the Communities' objectives will only be possible if adequate resources are made available.

In presenting this four-year budget programme, the Commission is endorsing neither the existing limit on own resources, nor the artificial restraints which are being imposed on the development of worthwhile Community expenditure, constraints which are not in the long run consistent with the achievement of all the goals to which the Community is committed.

Rather, taking account of the likely availability of revenue in the coming period, the Commission is seeking to allocate priorities among desirable policies in a way that enables it to achieve at least certain key targets. This, of necessity, implies the reduction of resources allocated to some policies, if not their postponement - a situation which in other circumstances would be considered undesirable.

Part 1 - The Budgetary Background

Unhealthy budgetary developments in certain key policy areas in past years are now imposing serious constraints on Community policy development. Unless a major cleaning up operation takes place, these will make it very difficult to implement fundamental improvements in Community policies

In the Common Agricultural Policy important changes in regulations were decided in 1984 on the basis of proposals for savings measures introduced by the Commission in 1983. However, this was not sufficient to contain the pressure inherent in the existing policy, even though the underlying costs were to a large extent translated into growth of agricultural stocks or hidden by the fact that world market prices were artificially inflated by an exceptionally high dollar rate vis-a-vis the ECU. The need to manage agricultural stocks in the face of more realistic world market prices has now revealed the full cost of the existing agricultural policy.

In the Community's Structural Funds there has been an unprecedented build up of unliquidated commitments in the recent years. This is partly the result of a conscious decision to increase the role of activity of the funds, but it has been greatly reinforced by the slower than expected implementation of the projects contracted, and by the lack of payment appropriations granted by the Budgetary Authority.

Irrespective of the reason, the outstanding contractual commitments must be honoured through a rather steep increase in payment appropriations over the coming years.

In parallel with the above mentioned increase in outstanding payment claims which will be presented in the future, the total expenditure in the Community exceeded the 1.0% VAT ceiling in 1984 and has gradually increased since then. This is partly due to realised EAGGF expenditure and partly due to the compensation mechanisms for the correction of budgetary imbalances. Taking into account the finance provided through intergovernmental agreements in 1984 and 1985 this implies an equivalent VAT rate of well over 1.0% in both these years.

Taken together these developments mean that explicitly or implicitly the additional own resources given to the Community by the increase in the VAT ceiling to 1.4% were already substantially exhausted by the time they entered into force.

Part 2 - The Financial Perspective 1987-90

The period from 1987 to 1990 will be characterised, on the resource side by an underlying rate of increase of around 6 pct. On the expenditure side it will see the gradually increasing participation of Spain and Portugal in Community policies, and the re-shaping of the budget in an attempt to ensure that priority political commitments at least are achieved. This, of necessity, will involve the postponement of actions arising from some past engagements.

Barring exceptional circumstances the Commission is committed to containing the growth in expenditure on the Common Agricultural Policy below the increase in own resources. In the case of expenditure arising from the progressive integration of Spain and Portugal into the Policy, this expenditure will be incorporated on the basis of concrete forecasts for the first years.

As the problem of surplus stocks presents a serious encumbrance on the financial future of the common agricultural policy, the Commission will implement a programme for running down stocks. The necessary finance for this will have to be found within the guideline.

As regards the development of policies, a major effort is made in respect of research which is one of the main determinants of the competitiveness, employment and standard of living in Europe.

EAGGF Guidance Section expenditure will increase to take up the aggregate amount of 6.350 MECU agreed by the Council for 1985-89. The problem of containing the cost of the past for the ERDF and the Social Fund implies that apart from the enlargement effect in the Social Fund only a modest increase in commitments in real terms is provided for in 1987 and 1988. Taken together, the real increase in the three Structural Funds is sufficient to cover the requirement of 2.500 MECU for contributions over seven years to the Integrated Mediterranean Programmes. The direct contributions to the IMPs are also provided for in full.

Development cooperation and certain other expenditure items will increase at a rate which maintains the same level of expenditure at constant prices.

A specific provision is made to enable the development of new policies. When adopted, these will be budgetized and included in the revised multiannual budget perspectives. This would, for example, apply to any new policy actions arising out of the Single Act, which the Commission proposed subsequent to its ratification. A case in point is the policy for implementing the objective of cohesion. The budgetary consequences of this policy is likely to be shared between a re-allocation of the appropriations within the Structural Funds and new appropriations which are included in the provision for new policies.

All the figures take account of the financial impact of enlargement. The Act of Accession provide for a refund to Spain and Portugal over six years of a declining percentage of the VAT or financial contributions. Between 1986 and 1990 this percentage will fall in stages from 87 pct to 25 pct. This means that by 1990 the integration of the new Member States on the expenditure side will be well advanced and that the automatic refunds (compulsory expenditure) will have given way to policy expenditure, either compulsory (in particular the common agricultural policy) or non-compulsory.

The increase in policy expenditure in Spain and Portugal leads to a significant rate of increase in non-compulsory expenditure. Further, non-compulsory expenditure such as that on research and other new policies is the most dynamic element in the budget. It is therefore not surprising that the rate of increase in non-compulsory expenditure is in general much higher than the maximum rate.

The 1986 figures take account of a 1986 supplementary and amending budget of approximately 2.500 MECU. The breakdown by sector (EAGGF Guarantee Section : 1.000 MECU, Structural Funds : 750 MECU, refunds to Member States: 750 MECU) represent a working assumption and it is without prejudice to the subsequent decisions of the Commission in adopting a preliminary draft supplementary and amending budget. The aggregate amount as well as the breakdown is dictated by the available resources up to the 1.4% VAT ceiling. This does not fully reflect the actual needs of the Community for 1986, as evidenced by the Commission's Report on the situation in the Structural Funds, and the evolution in the \$/ECU exchange rate.

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PART 1 - THE BUDGETARY BACKGROUND

A. The Development in Budget Volume 1983-86

At the European Council held in Fontainebleau in June 1984 the Heads of State and Government concluded that an increase in the ceiling on VAT rates should take effect from January 1, 1986. This conclusion was duly implemented by the ratification by all Member States of the New Decision on own resources just before the end of 1985.

The increase in the Community's own resources was intended to cover the budgetary costs of a significant and qualitative development of the Community's policies. As it turned out, the failure of Community Institutions to react to the foreseeable consequences of the inherent trends in existing policies, especially the Common Agricultural Policy and the Structural Funds, meant that the room for manoeuvre under the new VAT ceiling was more or less exhausted even before it entered into force.

This premature depletion of the later increase in own resources was made explicit through the use of intergovernmental agreements to provide additional finance for agriculture. It was also implicit in the significant, but hardly recognized, building up of outstanding commitments relating to the Structural Funds and of agricultural stocks which represent a financial obligation for the Community.

A more technical, but nonetheless acutely real, fact relating to the increase in own resources is the use of abatement of VAT revenue as a compensation measure to alleviate budgetary imbalances. It is evident that budgetary compensation to certain Member States made on the expenditure side of the budget limits the Community's ability to pursue and develop policies common to all Member States. The same is true, however, for the present system of making compensation on the revenue side of the budget, since the ceiling on VAT rates relate to the highest individual rate and not to the average rate.

Further, the compensation mechanism incorporated in the New Decision on own resources has a direct link to the structure of budget expenditure. Thus the two salient features of budget policy in recent years, namely increased agricultural expenditure and held-back payments for structural measures and for liquidation of stocks, have the mechanical effect of increasing the compensation to the UK. This puts further pressure on the actual availability of own resources under the 1.4% VAT ceiling.

Table 1

Simulation of VAT rates and budgetary compensations 1983-1986.

	1983	1984	1985	1986	1986(1)
VAT rates :					
highest	1,00	1,14	1,23	1,26	1,40
uniform	0,88	1,05	1,13	1,15	1,26
lowest	0,52	0,80	0,83	0,73	0,70
Compensations (UK) MECU	1.670	1.200	1.510	1.980	2.590

(1) Including Supplementary and Rectifying Budget 1986

Note : The table simulates compensation for correction of budgetary imbalances by abatement of VAT and the effect of intergovernmental agreements translated into VAT rates throughout the period. In 1983 and 1984 compensation was made on the expenditure side to UK and Germany. The 1985 and the 1986 VAT abatement to the UK has been translated into the equivalent expenditure to the UK and Germany.

Table 1 above shows in a summary way the budgetary situation that the present Commission inherited. Far from being able to plan the development of Community policies with its first budget proposal under the new ceiling for own resources, the increase was largely tied-up already when the Commission entered office. Thus, additional resources will be required if there is to be further development of the Community. While preparing for this, decisions must be made in at least two policy areas.

On the one hand, it must be realized that the vast majority of agricultural spending is based on market regulations that legally oblige the Community to pay whatever the claims may be. Budgetary envelopes do not in themselves change expenditure in this sector even if they provide a warning signal to the decision taking instances. If the level is to be decreased the set of regulations governing agricultural expenditure must be changed. Further, in the agricultural sector, stocks must be liquidated - physically at least and preferably also financially - if budgetary freedom of choice is to be created for the future.

On the other hand, the growth of the volume of commitments outstanding under the Structural Funds must be stabilized over the medium term through an increase in the payment appropriations for this purpose. Budgetary envelopes for payment appropriations do not make any more sense in this area than in agricultural policy. The payment claims are present in the form of bills to be paid and they must be paid if the Community is to honour its legal obligations.

The trends which have led to this situation are analysed in more depth below. But before turning to this analysis, it is worth mentioning that although the enlargement of the Community was realised in the first year of the present Commission the great political significance of this decision

does not translate into a budgetary constraint. The volume of the 1986 budget exceeded the 1985 budget by far, but so did the resources available. For the coming years the progressive integration of the two new Member States into Community policies will be largely balanced by the reduction of reimbursements on revenue received. The popular belief that the enlargement of the Community is a major element of depletion of own resources in the first years is therefore unfounded.

B. Trends in EAGGF Guarantee Expenditure 1983-86

As pointed out above the set of regulations making up the Common Agricultural Policy are also the legal instruments determining budgetary expenditure for this policy.

The regulations and the decisions flowing from them are traditionally determined principally by the objectives set out in the Treaty, notably that of maintaining an acceptable income level in the farming Community.

In turn, the budgetary consequences of this policy are heavily influenced by the differences between the Community price level and world market prices, and by productivity growth and the ensuing volume of agricultural stocks.

The CAP is currently faced with two major problems that severely constrain the budgetary room for manoeuvre. The first is that productivity gains combined with a less rapid growth in internal consumption and limited possibilities for export of agricultural produce have resulted in a major increase in the level of stocks in both volume and book value. An alternative to this increase in the value of stocks - given the level of production - would have been an increase in expenditure in the years concerned - either in the form of export restitutions or in the form of financial depreciation of the stocks. In the event, this expenditure was postponed, but that does not make the expenditure need disappear. On the contrary, the expenditure needed has greatly increased due to the failure to maintain physical stocks at reasonable levels because costs of storage increase with the level of stocks and because the market value of stocks fall steeply with storage time - especially for dairy products and beef.

Table 2

Value of agricultural stocks in the end of the years 1982-1985

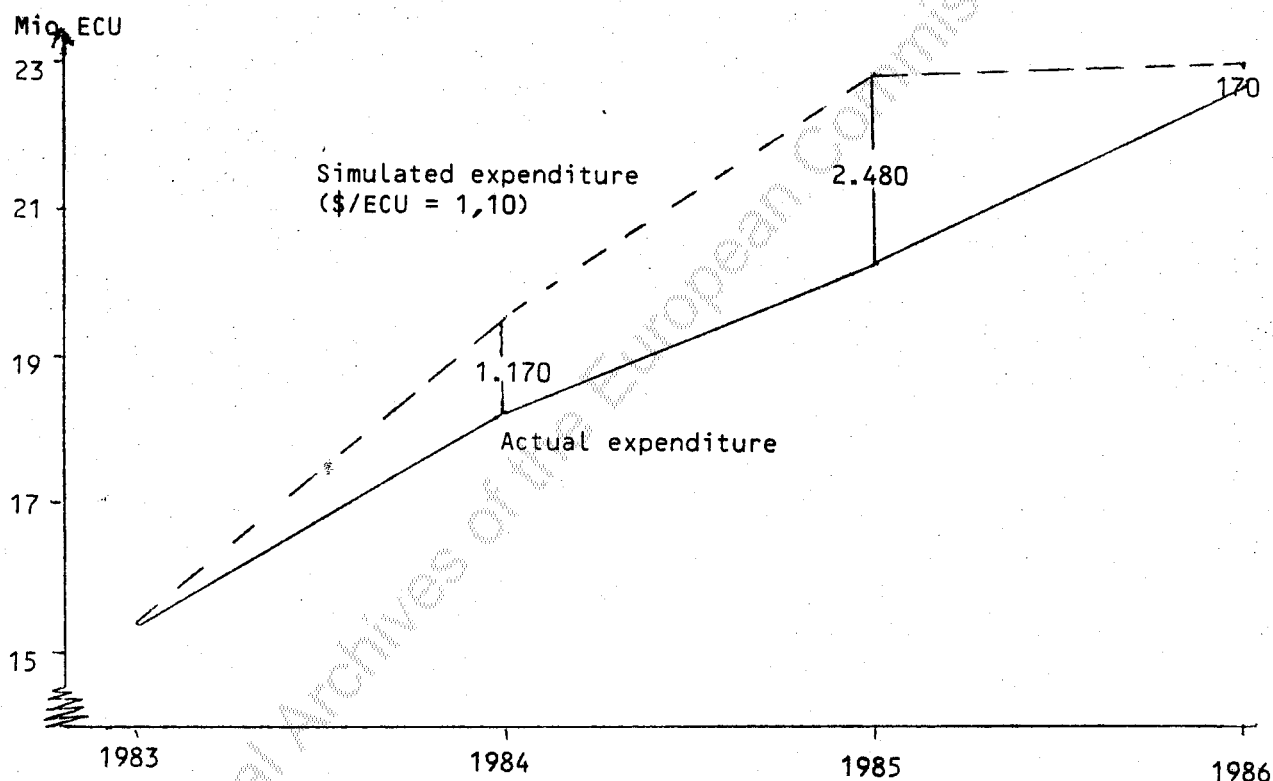
	MECU			
	1982	1983	1984	1985
Book value	4.000	7.000	8.800	10.500
Market value*	2.200	3.600	4.300	4.850
Loss on book value	45%	49%	51%	54%

* Estimate.

The second constraint on future budget expenditure inherent in the present set of regulations is the fact that the high and ultimately unsustainable dollar-ECU rate in recent years has artificially depressed the expenditure linked to the difference between the Community and world market prices. As appears from the graph below the expenditure on price support would have been significantly higher in the years 1984-86 if the dollar rate had stayed on the 1983 average level. With a dollar-ECU rate, which is likely to be even lower in 1986 than in 1983 it is not surprising that the agricultural expenditure in 1986 - and possibly in future years as well - will increase above expected levels given the present set of regulations.

Graph 1

Simulated expenditure with a stable dollar-rate 1983-86

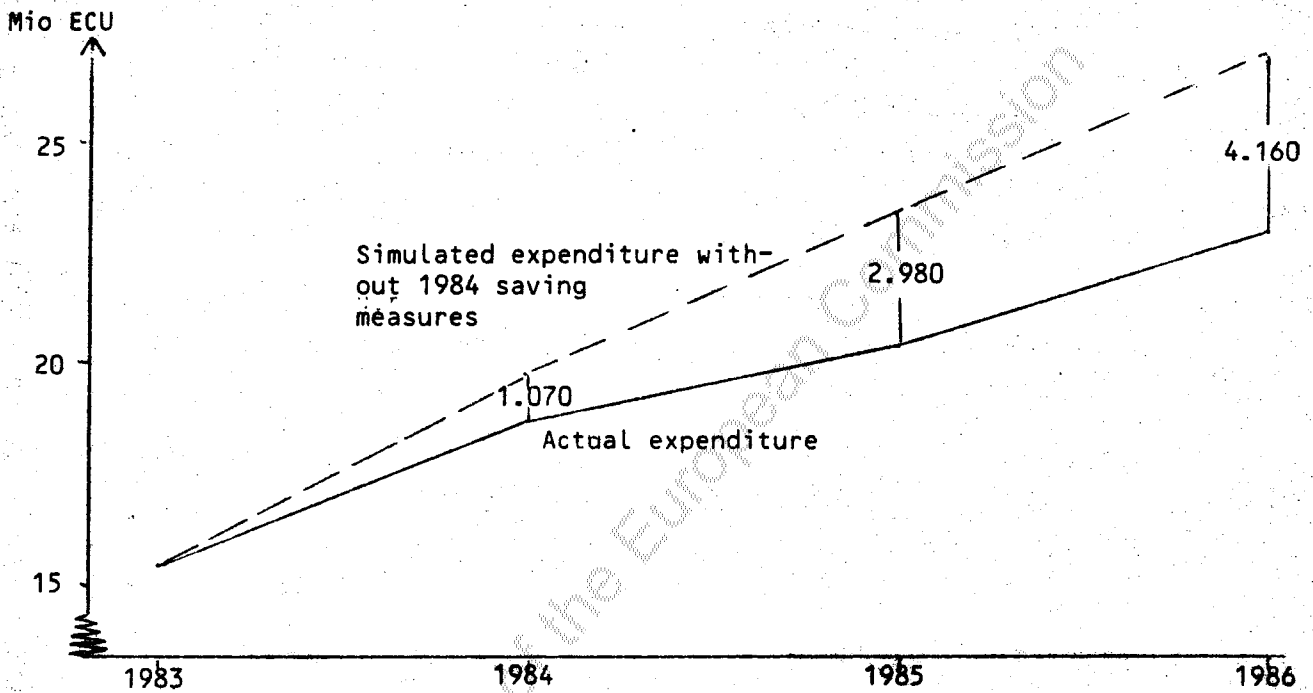


The responsibility for changing the present set of regulations in the agricultural sector does not belong to the Budgetary Authority, but to the Council acting on the proposal of the Commission and taking account of the opinion of the Parliament. In the context of the budget it is, however, important to point out that any decision on a change in regulations taken by the relevant Community instances is likely to produce a budgetary effect only with a certain time delay which may run into many months.

The graph below shows the importance of the decisions, albeit partial, taken by the Council in 1984 on the proposals contained in COM(83) 500. It also shows clearly the delay in this effect. Actual expenditure is compared with a simulated situation containing no change in policy.

Graph 2

The budgetary effects of saving measures introduced in 1984



C. The Emerging Problems in the Structural Funds 1980-1986

One of the most serious problems facing the present Commission when it entered office was the consequence of the mismatch between commitment and payment appropriations which has emerged since 1980 for the Structural Funds.

The normal burden of the past, which arises from the normal delay between taking commitments and meeting the payments which arise from them is constantly present, but need not pose serious budgetary problems. In research policy, for example, the normal burden of the past has not so far created problems, because the commitments entered into have been matched by payments at the appropriate time and in the necessary volume.

For the three large Structural Funds in the Community (Regional Fund, Social Fund and EAGGF Guidance) the building up of unliquidated commitments has been very rapid, mainly due to two factors. In the early 1980s the implementation of projects contracted under the Fund regulations was slow, thus leading to limited demands for payments for a given volume of commitments. In the later years, significant improvements in implementation were made, not the least due to a change in the regulations producing more efficiency. This increased the payment requirements from new commitments at a time when payment claims were also being presented in respect of the older projects. The payment appropriations granted by the Budgetary Authority were insufficient to meet this need.

In table 3 below the actual development in the unliquidated commitments and the actual payment appropriations granted are compared with a simulation showing what would have happened if the more efficient payment schedules now operated had been applied throughout the period. These are the schedules which apply in 1986. The simulation shows the importance of efficient payment schedules and project implementation in avoiding an excessive burden of the past.

Table 3

Actual and simulated payment situation in the three Structural Funds 1980-1985

	1980	1981	1982	1983	1984	1985
1. Outstand. commitments	3.500	4.400	5.700	7.300	8.300	9.100
2. Actual payment appropriations.	2.179	2.399	2.779	3.321	4.061	4.623
3. Efficient payments*	2.284	2.866	3.539	4.417	4.819	5.879
4. Difference	- 105	- 467	- 760	-1.096	- 758	-1.256

* Simulated payments on outstanding commitments if payments had been made according to the payments' schedule for 1986. In this case the burden of the past would have been 4.700 MECU in the end of 1985 instead of 9.100 MECU.

The budgetary implication of this situation for the present and the coming years is firstly that payment appropriations must increase rather sharply in order for the Community to regain control over the development of the burden of the past. Secondly, that the Commission as well as the Member States must take the appropriate administrative measures to ensure that implementation of the projects contracted is made according to schedule if budgetary "surprises" should be avoided in the future.

D. Summary

The budgetary background for the establishment of the multiannual financial perspective has been described above as an explicit and implicit depletion of own resources above the 1.0 pct. level years before the decision on the increase to 1.4 pct. VAT for the Member States paying the highest rate entered into force.

In the table below it is demonstrated that in terms of simulated VAT rates for the years 1983-1985, the correction of budgetary imbalances, a yearly depreciation of the increase in agricultural stocks, and efficient payment on outstanding structural commitments would have implied a considerably higher VAT ceiling than 1.0 pct as from 1983, i.e. four years before the 1.4 pct. ceiling entered into effect. The 1.4 pct was actually reached in 1985 if the true costs of the present policy had been fully accounted for.

Summary table. Highest VAT rate under sound financial management

Highest VAT rates %

	1983	1984	1985
Budget	1,00	1,14	1,23
Depreciation of agricultural stocks	0,13	0,08	0,08
Efficient payments for the Structural Funds	0,09	0,06	0,09
Total highest VAT rate*	1,22	1,28	1,40

* Simulated VAT rates if agricultural stocks were fully depreciated and if efficient payments on commitments for Structural funds were made in the year 1983-1985.

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A. GENERAL ECONOMIC FRAMEWORK AND MAXIMUM RATE OF INCREASE FOR NON-COMPULSORY EXPENDITURE

Table 4 shows the expected trend in GDP, prices and the maximum rate for the period 1987-1990 based on the latest revised forecast of growth and inflation produced by the Commission March of this year. It is important to recognize that these forecasts are more unstable than usual due to the unpredictability of the dollar rate and of oil prices.

The GDP forecast affects the estimates of own resources. A 1% divergence in GDP growth could in 1987 lead to a difference of some 250 to 350 million ECU in the amount of resources available within the 1.4% VAT limit.

Apart from the indirect effect on own resources through a change in the GDP forecast the dollar rate plays a significant role in the determination of revenue from customs duties. A 10 pct variation in the dollar thus may produce a change of 400 Mio ECU in revenue from custom duties. The immediate fall in the revenue is likely to be offset by increased imports, but only with a time-lag.

Table 4: General economic framework and maximum rate of increase for non-comulsory expenditure (EUR-12) 1987-1990. Rate of increase in %

	1986	1987	1988	1989	1990
<u>A. GDP</u>					
Volume	2.7	2.6	2.7	2.7	2.7
Prices	5.0	3.4	3.3	3.2	3.2
Value	7.8	6.1	6.0	5.9	5.9
<u>B. MAXIMUM RATE</u> (rounded)		7.7	(7.5)	(5.8)	(5.8)

B. RESOURCES FOR 1987-1990 WITHIN 1.4 % VAT LIMIT (see Table 5)

1. The revenue forecasts reflect :

- the foreseeable growth in the various categories of revenue ;
- the proportion of revenue taken up for the correction of budgetary imbalances.

The forecasts for 1987 are provisional figures based on revised estimates of economic parameters.

Definitive figures will be drawn up at the next meeting of the Advisory Committee on Own Resources on 17 and 18 April taking into account the revised economic data for 1987.

2. Total resources available within the 1.4 % VAT limit before correction of budgetary imbalances

Total resources available within the 1.4 % VAT limit are expected to increase from about 39 830 million ECU in 1987 to 47 080 million ECU in 1990, an average annual increase of 5.7 %. As average GDP growth is 5.9 % per year, the share of own resources in GDP will drop. As mentioned below, the net resources available to the Community increase by only 5.4 %. Were the Community to stay below the 1.4 % VAT level this would imply a significant reduction in the Community budget's share in Community GDP over the period 1987-1990.

. Net resources available after correction of budgetary imbalances

In 1987 about 2 400 million ECU, i.e. 6 % of resources, will have to be set aside for the correction of budgetary imbalances. The correction formula and the 1.4 % VAT threshold are linked : the Conclusions of the Fontainebleau European Council (26 June 1984) stipulate that budgetary discipline, the Community's financial requirements and budgetary corrections must be reexamined before the 1.4 % VAT limit is reached. The same Conclusions state that expenditure policy is ultimately the means of resolving the question of budgetary imbalances.

In the meantime, the cost of correcting budgetary imbalances is estimated for 1988-1990 in accordance with the Fontainebleau formula.

The expenditure equivalent to the corrections show what overall appropriations would have to be entered in the budget to resolve the problem by means of expenditure for the United Kingdom and for Germany. The gross amount accounts for about 7 % of resources.

After correction of budgetary imbalances net resources available will increase from 37 430 million ECU in 1987 to about 43 900 million ECU in 1990, an average annual rate of increase of 5.4.

Table 5

Resources available within the 1.4 pct VAT ceiling and correction of budgetary imbalances.

MECU

	1987	1988	1989	1990
1. Resources within 1.4 pct of VAT	39 829	42 040	44 410	47 080
2. Correction of imbalances :				
a) Net amount	1 700	1 815	2 050	2 250
b) Expenditure equivalent	2 400	2 580	2 920	3 200
3. Net resources	37 429	39 460	41 490	43 880
4. Growth rate	6.3	5.4	5.1	5.8
5. Growth of GDP in value	6.1	6.0	5.9	5.9

C. EXPENDITURE, VAT RATES AND MARGIN REMAINING

I. Total expenditure

The forecasts of requirements by sector - for existing policies and new ones - produce the following overall picture :

Total appropriations for payments required should increase in 1987 by about 4.6% (without a supplementary and amending budget in 1986 the rate would be 11%). In 1988-90, the average rate of increase should be about 7.3%, or 4.0% in real terms.

The increase in appropriations for commitments should be 5.0% in 1987 (without a supplementary and amending budget in 1986 it would be 8.7%). The average rates of increase for 1988-90 should be about 7.2%.

Table 6 : Annual rates of increase in appropriations for payments and non-compulsory expenditure (%)

	1987	1988	1989	1990
Total expenditure (EUR-12)	4.6	9.0	8.2	4.8
Expenditure (excluding enlargement)	1.9	8.7	8.3	5.0
Non-compulsory expenditure (EUR-12)	9.6	18.6	16.3	6.6

II. VAT rate and margin remaining

The estimated increase in expenditure would bring the highest VAT rate to 1.369% in 1987. This would leave a margin of about 590 million ECU for contingencies. The development in the dollar/ECU rate recently is prone to deplete this margin.

From 1988, resources available within the 1.4% VAT limit will no longer be sufficient. Also because it is necessary to leave a margin of 0.1-0.2% of VAT to allow for factors of uncertainty in forecasts, notably with regard to EAGGF Guarantee expenditure, the effects of enlargement and the forecasts of resources and the correction of budgetary imbalances.

The Heads of State and Government at Fontainebleau recognised that "the maximum rate may be increased to 1.6% on 1 January 1988 ...". The figures given indicate that this judgement was right : an increase to the 1.6% will be needed as from 1 January 1988.

Table 7

Net resources, expenditure and VAT rates

	1987	1988	1989	1990
Net resources, MECU	37 429	39 460	41 490	43 880
Expenditure, MECU	36 843	40 163	43 459	45 522
Remaining margin, MECU	586	- 703	- 1 969	- 1 642
Uniform VAT rate %	1,243	1,307	1,356	1,332
Highest VAT rate %	1,369	1,435	1,492	1,472

III. EXPENDITURE BY SECTOR

The main features of expenditure between 1987 and 1990 will be as follows :

- a substantial increase in appropriations allocated to research;
- a reduction in the automatic repayments to Spain and Portugal, in accordance with the schedule set out in the Act of Accession. The decreasing refund of part of VAT (or the financial contribution) will be replaced by expenditure under the various operational policies, notably payments from the EAGGF-Guarantee Section, and by non-compulsory expenditure;
- structural expenditure showing a cautious increase in terms of commitments subject to the gradual stabilization of the burden of the past in payments.

A provision is entered to cover new policies and actions. This provision is absolutely essential for the development of the Community because none of the existing policies have any room for manoeuvre beyond objectives already stated by Community Institutions. Any new and desired initiative must therefore be contained in this provision. For 1987, the provision has already been subscribed to in fairly clear terms.

1. EAGGF-Guarantee Section

The period 1987-1990 should see the gradual realization of the Commission's plans for the future of agriculture in the Community, provided the proposals made are adopted by the Council in 1986. The figures for the EAGGF-Guarantee Section correspond to the principle for establishing the EAGGF guideline as stated in the Commission's communication on the key figures for budget discipline.

Because of the structural imbalance between supply and demand in a large number of sectors of agricultural production, intervention stocks far exceed acceptable limits.

In order to help achieve a healthy market situation in various sectors and prevent stocks of certain products from building up any further, the Commission intends to put into action a programme for the disposal of intervention stocks.

The programme will be spread over 1986, 1987 and 1988 and will aim progressively to reduce stocks to a reasonable level. The cost to the budget will be considerable and to find the funds, savings will have to be made in order to overcome budgetary problems in 1986 and 1987.

In its proposals on prices and related measures for 1986/87, the Commission set out the conditions in which a preliminary draft budget for 1987 could be prepared to enable the policy of agricultural market reform to be pursued within the constraints of budgetary discipline. These conditions depend almost entirely on the Council's decisions on the proposals made.

The further decline in the value of the dollar since the Commission presented its price proposal and related measures in February 1986 implies a further increase in EAGGF expenditure. For 1986 an amount of 1000 Mio ECU has been set aside under the hypothesis used for the supplementary budget for this year.

Even if the Commission's price proposal was adopted in its integrity, this amount is not likely to be sufficient and also for 1987 a further amount will be needed with unchanged regulations.

The Commission is of the opinion that this burden cannot be put on farmers in the present circumstances. A less ambitious de-stocking program is not a solution either, because the increase in storage costs and the depreciation in market value due to storage by far exceeds the immediate financial benefits of less de-stocking. The only solution is a greater burden sharing between the Community and Member States - be it through a postponement of advances, a greater national share of storage costs or some other means.

Table 8: Expenditure 1987-1990 - Appropriations for payments (million ECU)

	1986	1987	1988	1989	1990
1. EAGGF-Guarantee	22 012	23 061	24 481	25 850	27 436
2. Structural policies	6 201	6 593	7 625	8 694	8 941
3. Research ¹⁾	437,6	592	997	1 610	1 996
4. Development cooperation ¹⁾	1 110,5	1 167	1 214	1 252	1 300
5. Other policies	367,7	435	472	492	521
6. New policies	5	80	400	600	800
7. Repayments to Member States	3 307	2 956	2 879	2 757	2 207
8. Administrative expenditure	1 776,4	1 959	2 095	2 204	2 321
9. TOTAL	35 217,2	36 843	40 163	43 459	45 522
% increase		4.6	9.0	8.2	4.8

1) Staff and current administrative expenditure is included in item 8.

2. Structural policies

The outlook for this sector, in terms of appropriations for commitments, is as follows:

- a) a significant increase in EAGGF-Guidance expenditure. On 12 December 1985 the Council raised the indicative amount for 1985-89 to 6 350 million ECU;
- b) a modest increase in expenditure for the Regional Fund for 1987 (4.5%) increasing to 5% in 1988 and 6% in the following years. While the major increase due to enlargement was made in 1986 for the Regional Fund the enlargement effect is significant for the Social Fund in 1987 and 1988 where commitments increase by 9% and 6%, then tapering off to 5% increase.

c) the implementation of the integrated Mediterranean programmes.
Firstly, an annual sum of 270 million ECU is envisaged between 1987 and 1990 under Chapter 55, as part of the total appropriation of 1 600 Million ECU over seven years.

Secondly, 2 500 million ECU is to be allocated to the IMPs over seven years by the structural funds, according to the criteria for each fund.

According to the conclusions of the European Council at Fontainebleau, "the financial resources allocated to aid from the Funds, having regard to the IMPs, will be significantly increased in real terms within the limits of financing possibilities."

Further, according to Regulation 2088/85, Art. 11: "Increases in real terms accruing to the Funds during the period concerned shall help to finance the IMPs, but without adversely affecting transfers from the Funds to other less prosperous and priority regions".

The Commission will take these conclusions and decisions into account in the preparation of its proposals on the reinforcement of the cohesion to conformity with the mandate of the Single Act.

(d) a certain increase in expenditure on transport infrastructures with a Community interest.

The increase in appropriations for payments is the result of the cost of the past and also of the payments against new commitments. It should be emphasized that the schedules themselves are subject to change. With regard to the forecasts for 1987, for instance, an underestimation in the 1986 supplementary budget would automatically mean an increase in payment requirements in 1987.

3. Research

This is regarded as a priority area, in view of the importance of research for the competitiveness of the European economy, and hence for employment. For 1987-90 an increase in the share of research in the budget to 6% in 1989-90 is envisaged.

4. Development cooperation

The outlay on development cooperation will be maintained in real terms. Some 50% of the appropriations will continue to be devoted to food aid. Major developments are scheduled in the Mediterranean protocols: the entry into force of the third financial protocols with the Southern and Eastern Mediterranean countries, the necessary speed-up in the implementation of the third financial protocol with Turkey (payments on commitments already entered into).

It should be noted that the third enlargement has created no obligations in the field of development cooperation.

5. Other policies

Fisheries and the sea

Expenditure in this sector will increase substantially as a result of enlargement. The accession of Spain and Portugal means a doubling of the number of fishermen and an increase of 75% in fishing capacity.

With regard to other policies (information and cultural activities, environment and consumer protection, energy, innovation, industry and the internal market), very little increase in real terms is generally envisaged. New developments in these important areas of expenditure will be financed by the general provision for new policies.

Table 9 Expenditure 1987-90 - Appropriations for commitments
million ECU

	1985	1986	1987	1988	1989	1990
1. EAGGF Guarantee		22012.00	23061.00	24481.00	25850.00	27436.00
2. Structural policies		7051.80	7482.00	8285.00	9129.00	9591.00
3. Research ¹⁾		473.30	804.00	1749.00	2394.00	2534.00
4. Development cooperation ¹⁾		1203.20	1257.00	1294.00	1342.00	1390.00
5. Other policies		544.50	549.00	514.00	530.00	604.00
6. New policies * (and reserve)		5.00	120.00	600.00	800.00	1000.00
7. Repayments to Member States		3307.10	2956.00	2879.00	2757.00	2207.00
8. Administrative expenditure		1776.40	1959.00	2095.00	2204.00	2321.00
9. TOTAL		36373.30	38188.00	41897.00	45006.00	47083.00
% increase			5.0	9.7	7.4	4.6

¹⁾ Staff and current administrative expenditure is included in item 8.
New policies

A relatively modest provision of 120 million ECU in appropriations for commitments gradually rising to 1000 Mio ECU is earmarked for launching or boosting new activities not included in the estimates by sector, such as (1987)

- new structural measures in Fisheries
- additional support for integrated operations
- cooperation between universities.

In relative terms this provision constitutes only 0.3% in 1987 and 2.1% in 1990 of total expenditure.

7. Repayments to Member states

(Flat-rate refund of 10% of customs duties and agricultural revenue, repayments to Spain and Portugal, and repayment - in annual instalments of 250 million ECU - of the advance granted by the Member States in 1984).

Under Article 187 and Article 374 of the Act of Accession, Spain and Portugal will be entitled to a refund, between 1986 and 1991, of a declining proportion of their VAT payments/financial contribution (87% in 1986, 70% in 1987, 55% in 1988, 40% in 1989, 25% in 1990 and 5% in 1991). This means that the total refunds to the Member States will drop by about 33% between 1986 and 1990. As stated earlier, an important part of this fall in compulsory expenditure corresponds to the integration of the two member States in non-compulsory expenditure policy.

Total repayments represent between about 8% (1987) and 5% (1990) of revenue. With the addition of the gross equivalent of the correction of budgetary imbalances made on the resources side, it is found that some 15 to 13% of resources are refunded to Member States in one form or another.

8. Administrative expenditure (all institutions)

It is assumed that full cover is provided in the budget for the authorized establishment plan. Allowance is made for enlargement and a series of other factors, such as rights under the Staff Regulations, salary adjustments and new posts.

From 1989 onwards the rate of increase is between the general rise in prices and the maximum rate, and no indication is given of new costs for buildings and no assessment made for expenditure on pensions for all the institutions together.

IV. COST OF THE PAST

The table shows that, as regards differentiated payment appropriations, the financial impact of the cost of the past - i.e. new appropriations for payments needed to cover commitments from earlier years - will increase in 1987 (IMPs, research, Social Fund) and will then level out. This development will be analyzed in further depth in the report on the situation in the Structural Funds.

This means that the proportion of funds available for payments against new commitments will stabilize from 1987 onwards - provided that the supplementary budget for 1986 is adopted; otherwise the burden of the past will remain a problem beyond the time-horizon adopted here.

Table 10 Cost of the past - Overall impact New appropriations for payments needed to cover commitments from earlier financial years (million ECU)					
	1986	1987	1988	1989	1990
1. Cost of the past (rounded)	4 070	4 700	5 350	6 250	6 500
2. Payment approps (differentiated)	7 700	8 500	10 300	12 200	13 100
3. Total approps for payments (rounded)	35 200	36 800	40 200	43 500	45 500
4. Relative burden					
(a) 1 : 2 (%)	52.9	55.3	51.9	51.2	49.6
(b) 1 : 3 (%)	11.6	12.8	13.3	14.4	14.3

V. NON-COMPULSORY EXPENDITURE AND BUDGETARY DISCIPLINE

The table below provides an initial provisional estimate of the growth in non-compulsory expenditure during the reference period. This development shows that non-compulsory expenditure for payments as well as commitments increase at fairly high rates, especially for 1988, where a steep increase in the payments of the burden of the past combine with necessary increases in payments as well as commitments for research and new policies. At the higher level of non-compulsory expenditure as from 1988 the rates of increase begin to decline - progressively approaching the maximum rate of increase.

Table 11: Annual rates of increase in non-compulsory expenditure (%)						
	1985	1986	1987	1988	1989	1990
1. Appropriations for payments			+ 9.6	+ 18.6	+ 16.3	+ 6.6
2. Appropriations for commitments			+ 10,2	+ 19.5	+ 11.6	+ 6.4
3. Maximum rate			7.7	(7.5)	(5,8)	(5,8)

When establishing its reference framework for 1986, the Council used the guideline calculated by the Commission for the EAGGF Guarantee Section and applied the maximum rate under Article 203 EEC to non-compulsory expenditure. Compulsory expenditure, other than that under the EAGGF Guarantee Section, was to be determined during the budgetary procedure.

It is not without interest to compare the theoretical results of a similar procedure for 1987-90 and the figures in the 1987-90 perspective.

If it is assumed that the Council will adopt the Commission's forecasts for the EAGGF Guarantee Section and if other compulsory expenditure is excluded, the comparison is restricted to the growth in non-compulsory expenditure. The Council would be applying the maximum rate for the following year to the base for 1986, 1987 and so on. The result - and the difference in relation to the figures in the perspective - is demonstrated in table 12. The appropriations for non-compulsory expenditure available with strict application of the maximum rate would be distinctly inadequate in 1987-89.

Table 12 : Payment appropriations lacking compared to the Financial Perspective if the maximum rate is applied				
	Mio ECU			
	1987	1988	1989	1990
With supplementary budget 1986	- 166	- 1227	- 2474	- 2720
Without supplementary budget 1986	- 1585 *)	- 2017	- 3310	- 3605

*) It is supposed that amounts not obtained by supplementary budget 1986 will have to be added to expenditure in 1987.