COUNCIL DECISION
of 24 June 1988
concerning budgetary discipline
(88/377/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Articles 43, 126, 127, 130d, 130i, 203, 209 and 235 thereof,

Having regard to the proposal from the Commission (1),

Having regard to the opinion of the European Parliament (2),

Having regard to the opinion of the Court of Auditors (3),

Whereas at its meetings in Brussels in 1987 and 1988 the European Council agreed to submit the use of the Community's own resources to effective and legally binding discipline parallel to the efforts being made by the Member States in connection with their own budgets; whereas that discipline must be strengthened in the light of experience on the basis of the arrangements adopted by the European Council at Fontainebleau;

Whereas, in addition, an agreement, hereinafter referred to as the 'Interinstitutional Agreement', was reached between the European Parliament, the Council and the Commission with the aim of attaining the objectives of the Single European Act, of putting in concrete form the conclusions reached by the European Council at the said meetings on budgetary discipline and of improving the operation of the annual budgetary procedure and whereas it will take effect on 1 July 1988;

Whereas budgetary discipline must be applied to all the Community's expenditure and whereas it must cover both payment and commitment appropriations;

Whereas on 11, 12 and 13 February 1988 the European Council agreed upon the principles of a guideline for the control of agricultural expenditure (hereinafter referred to as the 'agricultural guideline');

Whereas the rate of progression of the European Agricultural Guidance and Guarantee Fund Guarantee expenditure must not exceed 74% of the rate of increase in Community gross national product, this rate corresponding to that of 80% if maximum EAGGF financing of set-aside were to be taken into consideration;

Whereas the European Council has also agreed to mechanisms for the systematic depreciation of existing and future agricultural stocks so that the stock situation can be normalized by 1992;

Whereas the stabilization mechanisms provided for in the provisions governing the common organization of markets should play a part in ensuring compliance with the agricultural guideline;

Whereas the European Council has also agreed that the level of EAGGF Guarantee expenditure may be influenced by movements in the dollar/ECU market rate and whereas, to cover development caused by significant and unforeseen movements in the dollar/ECU market rate compared to the rate used in the budget, a monetary reserve of 1 000 million ECU shall be entered each year in the budget in the form of provisional appropriations;

Whereas it is necessary that compulsory expenditure other than EAGGF Guarantee expenditure be subject to budgetary rigour and planning,

HAS ADOPTED THIS DECISION:

EAGGF Guarantee expenditure

Article 1

The rate of increase in EAGGF Guarantee expenditure — as defined in Article 3 — between 1988 and a given year must not exceed 74% of the rate of increase in Community gross national product during the same period.

The maximum progression for EAGGF Guarantee expenditure (the agricultural guideline), which would correspond to 80% if maximum EAGGF financing of set-aside were taken into consideration, must be respected each year.

Article 2

The 1988 base of expenditure form which the agricultural guideline for each subsequent year is to be calculated shall be 27 500 million ECU, to be adjusted according to Article 3.

The statistical base with regard to GNP statistics shall correspond to that used in Council Decision 88/376/EEC, Euratom of 24 June 1988 on the system of the Communities' own resources (1). All calculations which will be made by the Commission at the time of submitting its annual price-fixing proposal, subject to a possible final review at the time of submitting the preliminary draft budget for the following year, shall be established in 1988 prices and converted into current prices by use of the GNP deflator estimated by the Commission for the year in question.

Article 3

The expenditure to which Article 1 applies shall be the expenditure chargeable to Section III, part B, Titles 1 and 2 (EAGGF Guarantee) of the budget, including expenditure relating to set-aside within a maximum annual amount which may not exceed 150 million ECU (1988 prices) up to 1992, less amounts corresponding to the disposal of ACP sugar food aid refunds, sugar and isoglucose levy payments by producers and any other revenue raised from the agricultural sector in the future.

Article 4

The agricultural guideline shall include costs relating to depreciation of newly created agricultural stocks. Each year the Council shall enter in its draft budget the appropriations necessary for financing all costs relating to depreciation of new stocks. The appropriations shall be used for the systematic depreciation of the new stocks, which shall start when these are formed, in accordance with the provisions which will be inserted in Council Regulation (EEC) No 1883/78 of 2 August 1978 laying down general rules for the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee Section (2), as last amended by Regulation (EEC) No 2050/88 (3).

The cost of depreciating existing surplus agricultural stocks shall be met outside the agricultural guideline. The following amounts shall be included in Title 8 of the budget for the period 1988 to 1992 (1988 prices):

- 1988 1 200 million ECU,
- 1989 to 1992 1 400 million ECU.

These amounts may not be used for any other purposes.

The procedures for the financial compensation granted to Spain and Portugal in respect of their contribution to the financing of these stocks shall be dealt with by Regulation (EEC) No 2051/88 (4). These two Member States shall be treated as if the depreciation of stocks had been entirely financed by the Community in 1987.

Article 5

The Commission's price proposals shall be consistent with the limits laid down by the agricultural guideline.

If the Commission considers that the outcome of the Council's discussions on these price proposals is likely to exceed the costs put forward in its original proposal, the final decision shall be referred to a special meeting of the Council.

The agricultural guideline must be respected each year.

Article 6

To ensure that the agricultural guideline is respected, the Commission shall establish an 'early warning system' covering the development of expenditure of the individual EAGGF Guarantee expenditure chapters. Before the beginning of each budget year the Commission shall define expenditure profiles for each EAGGF Guarantee budget chapter based on the monthly expenditure over the three preceding years. The Commission shall submit monthly reports thereafter to the European Parliament and the Council on the development of actual expenditure against profiles. Where the rate of development of expenditure is exceeding the forecast profile, or risks doing so, the Commission shall use the management powers at its disposal, including those which it has under the stabilizing measures, to remedy the situation. If these measures are insufficient, the Commission shall examine the functioning of the agricultural stabilizers in the relevant sector and, if necessary, shall present proposals to the Council calculated to strengthen their action. The Council shall act within a period of two months in order to remedy the situation.

Article 7

Payment of the monthly EAGGF Guarantee advances by the Commission shall be effected on the basis of the information supplied by the Member States in regard to agricultural expenditure for each common market organization.

Article 8

Where no appropriations are available, the Commission shall propose transfers to the budget authority.

Article 9

The dollar/ECU rate used to draw up the annual budget estimates of EAGGF Guarantee expenditure for any given

---

(1) See page 24 of this Official Journal.
(3) See page 6 of this Official Journal.
(4) See page 8 of this Official Journal.
year shall be the average market rate over the first three months of the preceding year. However, the rate used in the budget for 1988 shall be 1 dollar = 0.85 ECU.

Article 10

1 000 million ECU shall be included annually in a reserve of the general budget of the European Communities, as a provision for covering developments caused by significant and unforeseen movements in the dollar/ECU market rate compared to the dollar/ECU rate used in the budget. These appropriations shall not be included in the agricultural guideline.

Article 11

Each October, the Commission shall report to the budget authority on the impact on EAGGF Guarantee expenditure of movements in the average dollar/ECU market rate for the period 1 August of the preceding year to 31 July of the current year compared to the rate used in the budget, as defined in Article 9.

Article 12

Savings or additional costs resulting from movements in the rate shall be treated in a symmetrical fashion. Where the dollar strengthens against the ECU compared to the rate used in the budget, savings in the Guarantee Section of up to 1 000 million ECU shall be transferred to the monetary reserve. Where additional budgetary costs are engendered by a fall in the dollar against the ECU compared with the budget rate, the monetary reserve shall be called up and transfers shall be made from the monetary reserve to the EAGGF Guarantee Section lines affected by the fall in the dollar. The necessary own resources shall be called up, in accordance with Decision 88/376/EEC, Euratom and the provisions adopted pursuant thereto, to finance the corresponding expenditure.

Any savings made in the EAGGF Guarantee Section which have been transferred to the monetary reserve in accordance with the first subparagraph and which remain in the monetary reserve shall be cancelled and thus contribute to a budgetary surplus which shall be counted as a revenue item in succeeding budgets. This shall be done by means of a letter of amendment during the budgetary procedure concerning the budget for the coming year.

Article 13

There shall be a franchise of 400 million ECU. Savings or additional costs below this amount will not necessitate transfers to or from the monetary reserve. Savings or additional costs above this amount shall be paid into, or met from, the monetary reserve.

Other Compulsory expenditure

Article 14

Each year, at the start of the budget procedure, the Council shall adopt a reference framework, taking account of the financial estimates of the Interinstitutional Agreement, for compulsory expenditure other than EAGGF Guarantee expenditure. The reference framework shall include the maximum amounts for both commitment and payment appropriations which the Council considers necessary with due regard for the Community's legal obligations.

Non-compulsory expenditure

Article 15

The budgetary discipline applicable to non-compulsory expenditure shall be ensured on the basis of the arrangements contained in the Interinstitutional Agreement.

Other provisions

Article 16

The financial implementation of any Council Decision exceeding the budget appropriations available in the general budget or the appropriations provided for in the financial estimates may not take place until the budget and, where appropriate, the financial estimates have been suitably amended according to the procedure laid down for each of these cases.

Article 17

This Decision shall remain in force for the duration of Decision 88/376/EEC, Euratom.

Article 18

This Decision is addressed to the Member States.

Done at Luxembourg, 24 June 1988.

For the Council
The President
M. BANGEMANN
STATEMENT

When adopting the Decision on budgetary discipline, the Council decided to have the statement made by the European Council at its meeting on 11 and 12 February 1988 published in the *Official Journal of the European Communities*, after the Decision; this statement reads as follows:

'The European Council recalls the conclusions adopted by the OECD and the Venice Summit on the need for a better adjustment of supply to demand through measures to enable the market to play a greater role.

It considers that the arrangements in force since 1984, and those it is adopting to control production and agricultural expenditure, meet these commitments and will achieve their full effect only if other world producers apply equivalent discipline.

It confirms in this respect the negotiating brief adopted by the Community under the Uruguay Round.

If this discipline were not shared, or if a third country failed to meet its international commitments and this caused serious repercussions on world markets, this situation would be regarded by the Council, on a proposal from the Commission, as justifying recourse to the provisions of the Treaty and in particular Articles 43, 113 and 203.'