THE EUROPEAN COUNCIL

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Documents in the dossier include:

Brussels European Council
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Press Conference
Jacques Delors, President of the European Commission
23 June 1987

The Single Act: A New Frontier for Europe
Commission communication
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1. Brussels European Council

1.1.1. The European Council, attended by the Community's 12 Heads of State or Government, opened in Brussels at 3 p.m. on 29 June, and its proceedings were given over entirely to consideration of the Commission's communication 'The Single Act: A new frontier for Europe'. [1]

As the Commission President, Mr Jacques Delors, declared at his press conference before the meeting: 'How are the 12 of us to live together in the medium and long term and how is our Community to make progress? This is an issue on which a decision must be taken, and that decision must come from the European Council. What do we really expect of a European Council? Not that it should do duty for the specialized Councils, but that it should appraise the Community's general economic, political, social and financial situation and lay down the broad guidelines for its development ...'.

In the letter that the Council President customarily addresses to the other Heads of State or Government, Mr Wilfried Martens declared: 'The meeting of the European Council to which I am pleased to invite you on 29 and 30 June will be taking place on the very eve of the entry into force of the Single European Act, which provides the framework within which our Community must develop if it is to meet the challenges of the end of this century. One of its implications, to my mind, is that it will force us, for the years ahead, to strike a balance in the development of Community activity. It is essential that this balance be maintained if we are to succeed in removing all obstacles to the internal market as we have undertaken to do by 1992. Our next obligation resulting from this commitment is that of placing our joint plan of action in a medium-term perspective. That is the message from the Commission in its communication before us today ...'.

That was the agenda for this European Council. It had been prepared by the Finance Ministers and the Foreign Ministers, who had been meeting regularly since February [2] right up to the eve of the European Council, having held a 'conclave' on the afternoon of 27 and the morning of 28 June.

Before the start of the European Council, Lord Plumb, President of the European Parliament, personally made a statement before the Heads of State or Governement in which he welcomed the important precedent constituted by his presence at the opening of the European Council. He was convinced that this marked the beginning of a new and creative age of institutional cooperation.

Lord Plumb summarized Parliament's message as follows: to begin with, the internal market objective is 'crucial to our future economic development as the motor of economic growth'; then all policies must be directed towards 'creating and spreading prosperity to all regions of the Community'; as regards agriculture, 'surplus production must be eliminated, and we must try to relate supply to demand' while protecting the position of the small farmers; finally, for the future, the Community 'will need to finance its existing commitments and the new obligations which it has taken on within the Single European Act'. Lord Plumb stressed that Parliament 'strongly supports the Commission's general approach as a means of providing a global and durable solution to the problems facing the Community budget'.

The European Council's initial discussions on the Monday afternoon were devoted to the internal market and economic and social cohesion. Following the informal evening talks at Val Duchesse, the proceedings resumed on the Tuesday morning. While the discussions were going on between the Heads of State or Government, the Presidency and the Commission coordinated the discussions on the immediate agricultural problems. The debates between the Heads

1 Supplement 1/87 — Bull. EC; Bull. EC 2-1987, point 1.1.1 *et seq.*

2 Bull. EC 2-1987, point 2.4.6; Bull. EC 4-1987, point 2.4.9; Bull EC 5-1987, points 2.4.5 and 2.4.6.

of State or Government were based on a preliminary draft of 'conclusions' prepared by the Presidency in the light of the informal talks at Val Duchesse.

The European Council meeting ended at 10 p.m. on the Tuesday, on the basis of the Presidency's conclusions, with:

(i) agreement on the part of 11 Member States (the United Kingdom refusing its endorsement) on the medium-term issues, namely general guidelines for acting on the Commission's communication, to be firmed up at the Copenhagen European Council at the end of the year;

(ii) unanimous agreement on the short-term issues: the agricultural problems (shelving of the plan for a tax on oils and fats and compromise on MCAs on the basis of a Franco-German agreement), thereby enabling the Ministers for Agriculture to adopt the new prices and related measures at a Council meeting that very same night (→ points 1.3.1 and 1.3.2); supplementary budget No 1/87 (the guidelines to be given substance by the Budget Ministers); present research projects to continue during the current year, pending adoption of the new research programme (1987-91).

These guidelines are accompanied by a work programme and procedure. The Council, acting on proposals from the Commission, is to prepare various measures: the binding legal provisions to establish budgetary discipline both for agricultural expenditure and for non-compulsory expenditure; a decision on the reform of the structural Funds including the financial objective for the allocations to the Funds in 1992; the level of the new ceiling on own resources for 1992; detailed guidelines on the new system of own resources and on the correction of budgetary imbalances.

Conclusions of the European Council

1.1.2. The Presidency noted that 11 delegations were able to agree to the conclusions set out in Annex I regarding the guidelines and the work programme on the Commission communication entitled 'Making a success of the Single Act'.

1.1.3. The European Council adopted the conclusions set out in Annex II on:

(i) the system of monetary compensatory amounts,

(ii) the 1987 budget,

(iii) research.

Annex I

Making a success of the Single Act

1.1.4. At the opening of its meeting the European Council received the President of the European Parliament, Lord Plumb, who presented the conclusions reached by the Parliament on the future development of the Community.

The European Council then examined the various aspects of the Commission communication entitled 'Making a success of the Single Act'.

The European Council is aware that the recent enlargement, the 1992 deadline for the achievement of the single market, the undertaking to strengthen cohesion and develop common policies and the signing of the Single Act open up new prospects for the Community. To make allowance for those changes and in order to address this new stage in the Community's development under the best conditions, the European Council feels that a number of concrete guidelines must now be set and a procedure laid down enabling the various decisions required for their attainment to be adopted swiftly.

Common economic area

1. One of the Community's essential tasks is the establishment of a common economic area comprising the attainment of the single market and economic and social cohesion.

The foundation for this area will be the attainment of an internal market in which goods, persons, services and capital circulate freely. Convergence of the economic and monetary policies of the Member States and in particular the strengthening of the EMS are essential features in this respect.

The creation of the economic area will also require accompanying policies to be developed in order that greater Community cohesion may be achieved on the basis of the provisions of the Single Act.

The creation of the common economic area will bring benefits to all the Member States since it will generate stronger economic growth and create more jobs.

The European Council underlines the importance of the work which has been carried out since the submission of the Commission's White Paper on the internal market in June 1985. In order to ensure that the 1992 deadline is met, the European Council requests the relevant Councils to take full advantage of the improvement in the decision-making process now produced by virtue of the Single Act. It requests the institutions concerned to take the necessary decision with regard, in particular, to the opening of public contracts, the approximation of standards, the completion of the liberalization of capital movements, insurance matters and the mutual recognition of diplomas and to make swift progress with regard to the company law adjustments required for the creation of a European company.

The European Council would like these decisions to be taken with all possible speed and in any event before the end of 1988 so that the attainment of this objective is regarded as irreversible.

The European Council also emphasizes the importance of a common effort in the area of new technologies: in this connection the European Council invites the Council to approve as a matter of urgency the new framework programme for scientific research and development in accordance with the Presidency's compromise.

The structural Funds in connection with cohesion

2. In confirming the importance of the general objective of strengthening Community cohesion, the European Council is convinced that reform of the structural Funds must play a considerable part in achieving this objective. It endorses the Commission's approach to ensuring that these instruments are more effective as regards the rationalization of their objectives, the concentration of their action according to Community criteria giving due weight to the backwardness of certain regions or to regions in industrial decline and recourse to the programme method. There would also be a need to provide for a variation of intervention rates in accordance with objective criteria, in particular the degree of prosperity of the recipient State. The European Council requests the Council to examine these questions on the basis of the comprehensive proposal to be submitted by the Commission in accordance with Article 130D of the Single Act.

As regards funding, the European Council recalls the undertaking given in 1984 in favour of significant progression in real terms in the appropriations allocated to the structural Funds. The Commission considers that, in order to meet the specific requirements connected with the recent enlargment and to contribute to achieving the objectives of the Single Act, the appropriations allocated to the Funds must be doubled, in real terms, by 1992. Acting on a Commission proposal in the context of the Community's new financial system, the European Council intends to fix a financial objective for appropriations to the Funds, to be reached in 1992, and will adopt the multiannual reference framework accordingly, in order to strike a balance between achieving the internal market and strengthening cohesion.

The implementation of all the above measures will make it possible to give a real economic impact to Fund intervention.

Budgetary discipline and new resources

3. Like the Commission, the European Council considers it essential that a lasting response be sought to the question of the Community's financial equilibrium, on the one hand by providing it with appropriate resources and on the other hand by subjecting the use of these resources to effective and binding budgetary discipline.

Budgetary discipline

4. Parallel to the effort being made by the Member States in connection with their own budgets, the Community must submit the use of its resources to effective and binding discipline. The European Council considers that the arrangements decided upon at Fontainebleau must be strengthened in the light of experience. Budgetary discipline must be applied to all the Community's expenditure, both to payment appropriations and to commitment appropriations. It must be binding on all the institutions which will be associated with its implementation.

5. As regards non-compulsory expenditure, these rules involve, in particular, compliance with the provisions relating to the maximum rate. The achievement of the Community's financial objective for 1992 as regards the structural Funds will

be ensured in each budget year by applying Article 203(9) of the Treaty.

6. As regards the agricultural sector, the European Council confirms that EAGGF guarantee expenditure must not progress at a rate exceeding that of the own resources base.

The European Council notes that the Council has already adopted various production-stabilization arrangements within the market organizations.

The European Council requests the Council, acting on a Commission proposal, to adopt the additional regulations which will enable the Commission, in the context of the management of the market, to keep the level of expenditure within the budget framework.

The starting base of the agricultural norm must be redefined to take account of the current situation. The effect of exceptional circumstances will have to be better defined and in particular the monetary factor will have to be neutralized in both directions.

7. Generally speaking, the European Council emphasizes that the new budgetary discipline must be implemented in such a way that it does not conflict with the effort made by the Community to achieve a better balance as between the various categories of expenditure.

8. For expenditure as a whole, budget management rules must be strengthened, in particular through a reform of the Financial Regulation.

New resources

9. The European Council considers that the Community must have stable and guaranteed resources enabling it to cope with the consequences of decisions connected with the implementation of its main policies.

The European Council asks the Council, within the programme of work set out below, to adopt the level of the new ceiling of own resources based on a percentage of Community GNP.

The financing system should, as proposed by the Commission, take greater account of the proportionality of contributions in accordance with the relative prosperity of Member States.

The Council will also study the Commission's proposal fixing until 1992 the annual subceilings for own resources in order to consolidate the budgetary discipline rules.

Correction of budgetary imbalances

10. The European Council notes that a decision on the question of the correction will be taken at the same time as the decisions on future funding.

Agriculture

11. The European Council recalls the conclusions adopted by the OECD and the Venice Summit and notes that the direction taken in the proceedings of the Agriculture Council on the basis of the Commission proposals is in keeping with the commitments entered into in those forums. The European Council confirms the need for better adjustment of supply to demand through measures enabling the market to play a greater role. This approach could be supplemented by other measures such as, for example, encouragement of the set-aside of land or more extensive farming.

In view of the repercussions of these measures on incomes, the reforms could be accompanied, in accordance with the Commission proposals, by the grant of direct, selective income support which should be subsidiary in relation to prices policy, have no impact on the level of production and fall within a Community framework.

Implementation of an approach of this kind by the Community and by all the other main agricultural producers could only have beneficial effects in the long term, provided they are balanced, progressive and concerted.

The European Council considers that the completion of the modernization of the common agricultural policy must take into account its fundamental principles, the legitimate interests of farmers, and the Community's external interests, while avoiding any risk of movement towards renationalization.

Once the decisions on the 1987/88 prices have been adopted, the Commission and the Council will have to draw up an inventory of the various adjustments made to the common agricultural policy and, on that basis, the Council will adopt the requisite supplementary measures, including measures to ensure that the budgetary discipline is fully observed.

Work programme and procedure

1.1.5. The European Council requests the Council, on the basis of the Commission communication entitled 'Making a success of the Single Act', and in the light of the guidelines defined above, to:

(i) prepare, on a proposal from the Commission, the binding legal provisions referred to in paragraphs 4 to 8 above to establish budgetary discipline for both agricultural and non-compulsory expenditure. These provisions will include the supplementary measures for inclusion in the common agricultural policy judged necessary in the light of the inventory referred to in paragraph 11;

(ii) prepare a decision on the comprehensive Commission proposal for reform of the structural Funds including the financial objective for appropriations to the Funds to be reached in 1992 (see paragraph 2 above);

(iii) prepare, on a proposal from the Commission, in conjunction with the above decisions, the level of the new ceilings on own resources for 1992;

(iv) prepare, on a proposal from the Commission, detailed guidelines on the new system of own resources, following the indications in paragraph 9 above, and on the correction of budgetary imbalances.

All the decisions to be taken on the four points above form an indivisible whole.

The European Council will adopt its final position on all these matters at its meeting in Copenhagen in December 1987.

With regard to the new own resources, the legal decision to be submitted for ratification by the national parliaments will have to be definitively adopted by the Council (in accordance with guidelines confirmed by the European Council) before the end of the first quarter of 1988, so that it can be finally approved (after ratification by the national parliaments) before the end of 1988 with retroactive effect as from 1 January 1988.

Pending ratification, appropriate measures will be taken by the budgetary authority to cover the requirements of the 1988 budget in order to ensure the normal functioning of the Community.

Annex II

System of monetary compensatory amounts

1.1.6. The arrangements on monetary compensatory amounts agreed by the European Council are set out below.

(1) Existing positive MCAs

(a) Immediate reduction by:

(i) 1 switch-over point;

(ii) 0.5 neutral margin point.

(b) Reduction by 1 point at the beginning of the 1988/89 marketing year by a reduction in prices in DM compensated for by a German national aid equivalent to 2 VAT points to cease to apply at the end of 1988, but without such aid being linked to production.

(c) Elimination of the balance at the beginning of the 1989/90 marketing year (this balance should be minimal and only apply to a few products).

(2) Future MCA system

Retention of the switch-over system:

(a) As regards 'artificial' MCAs:

(i) 25% elimination through reduction in ECU prices, at the beginning of the following marketing year, with the possibility of a compensatory national social aid not linked to production.

(ii) Elimination of 50% of the balance at the beginning of the second marketing year following realignment, with the 1979 gentlemen's agreement being maintained.

(iii) Elimination of the remainder at the beginning of the third marketing year following realignment, with the 1979 gentlemen's agreement being maintained.

(b) As regards 'natural' MCAs:

(i) Maximum 30% elimination at the time of realignment.

(ii) Programme for dismantling the balance in two equal stages at the beginning of the two marketing years following realignment.

The system will be re-examined before 1 July 1988 in the light of a joint report by the Ministers for Finance and for Agriculture.

1987 budget

1.1.7. The Commission submitted a preliminary draft supplementary and amending budget to adapt the budget as adopted.

The Budget Council is requested to prepare a draft budget urgently on this basis.

This budget will be funded by using all available own resources up to the 1.4% VAT limit and by reductions in expenditure by means of measures which do not call into question the implementation of Community policies and safeguard the non-compulsory expenditure currently entered in the budget.

In addition, the EAGGF guarantee appropriation in 1987 will be honoured by means of an adjustment in the system of advance payments on the basis of a Commission proposal. The details of this adjustment will be laid down before the end of the year. It will be re-examined in connection with the whole body of decisions to be taken with regard to the future financing of the Community.

Research

1.1.8. The European Council requests the Community institutions to ensure that the scientific research and development appropriations in the budget for the 1987 financial year can be used for current programmes pending the definitive adoption of the multiannual framework programme provided for in the Single Act.

Statements and comments

1.1.9. At the press conference after the European Council, Mr Wilfried Martens, who had chaired the meeting, welcomed the results obtained on the immediate issues and stressed that the 'work programme' accompanying the European Council's medium-term guidelines constituted an undertaking to implement those guidelines, in order to reach substantive decisions at the Copenhagen meeting.

Thanking the Belgian Presidency for its effective work and its close collaboration with the Commission throughout the first half of 1987, Mr Jacques Delors said: 'An undertaking has been given and the European Council cannot put off its decisions any more. The Commission was well aware that the package it had presented in mid-February could be adopted all at once. But the European Council discussed it in detail and now the momentum cannot stop. If, as agreed, the decisions are taken at Copenhagen, the decision-making process will in the end have been relatively fast compared with the Community's usual experience.'

Chancellor Helmut Kohl said he was pleased with this European Council. He was very happy that the Franco-German agreement on agriculture had helped to produce a result that took account of the problems of German farmers. Mr François Mitterrand, who was accompanied by his Prime Minister, Mr Chirac, considered that the Heads of Government had secured a sound agreement. The British Prime Minister, Mrs Margaret Thatcher, declared that the assurances given concerning the imposition of real budgetary discipline were unconvincing. Once again she emphasized the need to reduce agricultural spending, saying that she was not prepared to subscribe to constantly swollen levels of expenditure, with the Community standing on the brink of bankruptcy. On the question of new own resources, she said she had refused to be inveigled into accepting decisions that should not be taken until Copenhagen.

Lord Plumb, President of the European Parliament, said in a statement issued during the night of 30 June that he was very disappointed by the outcome: the European Council had once again failed to take the necessary decisions to settle the main problems confronting the Community. The Chairman of Parliament's Socialist Group, Mr Arndt, also took a dim view of the results of the European Council, believing that they did nothing to overcome the Community crisis. The Chairman of the EPP Group, Mr Klepsch, found some cheer, especially in the agricultural agreement, which was a source of hope that France and Germany could together give new impetus to Europe in other spheres.

1.1.10. Addressing Parliament on 7 July during the debate on the European Council, Mr Wilfried Martens said that 'the biggest, and at the same time the most daunting, task to fall to the Presidency in our six-month term has been the negotiations on the Commission's proposals to give effect to the Single Act'.

'These proposals—the "Delors package" —form a balanced whole within a medium-term approach. But to have the smallest chance of succeeding we had to stick at all costs to that comprehensive approach and the medium-term view. This was the overriding and constant concern of the Belgian Presidency throughout the preparatory work leading up to the European Council...

But at the same time we were having to grapple with another challenge. The Presidency knew that the Community was beset by two immediate problems: the Agriculture Ministers had not yet managed to agree on the farm prices and related measures for the year, and the Budget Ministers had not found a solution for the 1987 supplementary budget. So we had to hit upon a way of working that would allow the European Council to make it easier to find solutions to those two problems without forfeiting the time we needed to consider the medium-term issues in depth.

I think I can safely say that this dual task was accomplished...'

Mr Delors identified a number of positive factors: the European Council had resisted the temptation to confine itself only to the short term; instead, as the Commission had hoped, discussion had concentrated on medium-term issues; the European Council had taken the Commission's proposals as a basis for discussion and had considered them in their entirety; there had been no clash between the Community's richer and poorer countries; instead, each country's concerns had been given a sympathetic hearing, and this had led to a reaffirmation of the importance of economic and social cohesion; a solution on own resources would be adopted by the end of March 1988 and applied from 1 January 1988; the agri-monetary solution might not be a 'monument to rationality' but it would only apply until 1 July 1988, when the problem would be reconsidered in the light of developments on the EMS; lastly, a precise work programme had been agreed, leading to final decisions in Copenhagen. In line with this programme the Commission would be laying three proposals on the Council's table before the end of July: the framework Regulation on the structural Funds; the arrangements for budgetary discipline; the formula for the structure and volume of own resources.

PRESS CONFERENCE OF MR DELORS BEFORE THE EUROPEAN COUNCIL OF 29 AND 30 JUNE 1987

(23 June 1987)

By way of preface to the European Council I will just make six comments:

1. The Commission proposals dated 15 February - which have been wrongly called the "Delors package" whilst it is in fact the Commission package - were drawn up after I had made a trip round the capitals of Europe at the request of the European Council. This trip round the capitals did come in for criticism from certain quarters because they thought this would undermine the Commission's right of initiative, but I don't agree with them. I listened to what the Heads of State and Government had to say. I passed what they said on to my colleagues and we took that all into account. Hence what we tabled was a compromise, but a dynamic one.

This medium-term outlook is absolutely vital and is based on a simple idea which was the hub of the statement I made to the December 1986 European Council in London, at the request of the British Prime Minister. It can be summed up in one sentence: "In the absence of a medium-term vision, in the absence of a discussion about what we want the Community to become, I have to tell you that the Community budget has been in practice, out of balance since 1983, according to the normal tenets of budget rigour." I also told Heads of State and Government that, from now on, the Commission refused to go for the various devices which were used in the past, not because it is morally superior to individual governments, but because these devices have put off the absolutely vital discussion which is required to determine what we wish to do with the Community together.

I must say that, after our proposal was tabled, no-one has actually challenged its basic trust and basic content. They would recognize it as a consistent, coherent proposal. But it is not a purely financial blueprint. It is a comprehensive project for the Community as a whole for the next few years within the framework of the Single Act. That is why I went out of my way to draft myself the first part of this proposal and I shall remind you of the five basic conditions for making a success of the Single Act: a common economic area, a greater economic growth, a better functioning of the institutions, a strengthened budget discipline and a common and firm external policy.

As I see it, resources to be made available should work for this overall scheme of things, and not the other way round.

2. The question that has arisen since the Single Act was tabled is very simple - in fact it was around even before the Twelve agreed to reform the Treaty of Rome - and it reads as follows: "How can we ensure the living together among Twelve and the further progress of the Community of Twelve in the medium and long term?" It is an issue we can't duck and it really does lend itself to discussion in the European Council.

5. Europe is on the verge of a crisis. But it is not the first time and there are two differences between this crisis and previous ones.

Firstly, the crisis has not in any way been brought about by something entirely new which one or another Member State is disagreeing with. No. The Commission's proposal is all and nothing but the Single Act. Of course you could have a different view of how to enact the Single Act but the view would have to be coherent and would have to be part of an overall dynamic approach to the problems. No other body has made such a global proposal.

Secondly, even if a crisis happens, contrary to what we had after the Dublin Summit in 1979 we would not get into stagnation since the driving force of the internal market will continue to push forward the European momentum. What has been achieved in this field during the last months shows that there is an unstoppable movement.

6. The last comment which I will voice in the appropriately grave and serious way reads as follows: Europe should show its colours, it is in everyone's interest. The European Council is meeting in very specific circumstances. What I mean by that is that Europe is faced with ever greater economic challenges. Europe used to be at the centre of world economic life, the centre of cultural creativity for centuries. This same Europe is faced with the geo-political and economic challenges taking place throughout the world and it has to carry out technological changes under difficult circumstances. Otherwise in the fifteen or twenty years to come, we won't be able to exist to defend ourselves and to remain prosperous.

Secondly, the European Council has to affirm Europe at a time when the world economy is in a precarious state of under-employment and I can't see who, apart from Europe, could take the initiative to get out of this dangerous situation. It is dangerous because its equilibrium is precarious, and under-employment could degenerate in a Malthusian trend, triggering political crises and social tensions. Finally, the European Council is meeting at a time of significant evolution in East West relationships, which requires of Europe that in all possible scenarios and all possible situations it should be able to guarantee its own independence and security. But the question of security should not be an excuse for a headlong rush forward, leaving the economic union of Europe as it is, failing to develop it and then looking for something else, something different. No, everyone in favour of some kind of European defence knows it can only exist on the basis of a strong monetary and economic integration.

1. The Single Act: A new frontier for Europe Commission communication

1.1.1. The signing and forthcoming entry into force of the Single European Act and the accession to the Community of Spain and Portugal (following that of Greece in 1981) have brought with them fundamental changes in the structure of the Community and the obligations of the Member States. The Single European Act improves significantly the institutional system and sets new objectives for the Community, notably the completion of the internal market by 1992 and the strengthening of economic and social cohesion. The realization of these two objectives will also respond to the hopes and needs of the countries which have just joined and which rightly expect that their involvement in the Community should underpin their development and help raise their living standards through a combination of their own efforts and support from their partners.

In order to succeed in its new responsibilities, the Community must first complete the reforms it has started, especially since 1984, with the aim of adapting its old policies to the new conditions: the reform of the common agricultural policy to take account of new production and trade conditions, the reform of the structural Funds to make of them instruments of economic development, and the reform of the financing rules to ensure a budgetary discipline as rigorous as that which the Member States impose upon themselves.

Once these reforms have been implemented, the Community will have to have the resources needed to be in a position to achieve the objectives of the Single Act.

By amending the Treaty of Rome in this way, the Member States have set a new frontier for European integration. They have made a qualitative leap forward which must be turned to good account to equip our economies so that they can meet the challenges from abroad and return to more vigorous economic growth, which will create more jobs.

For this reason, the Commission feels that it should set out the conditions that must be met if this great venture is to succeed. This is the thinking behind the proposals[1] Mr Delors laid before Parliament on 18 February in conjunction with the Commission's programme for 1987. These proposals, which were also sent to the Council on 2 March, have a medium-term context, looking towards 1992 as the date by which the large market, without internal frontiers, will be complete.

Reforms needed

1.1.2. These include the further reform of the common agricultural policy, the structural Funds and the Community budget.

Further reform of the CAP

1.1.3. Over the last few decades there has been much technical progress which has led to a sometimes spectacular increase in agricultural productivity, not only in the Community and the other industrialized countries but also in some developing countries. This has led to a growing divergence between production and consumption trends for agricultural products.

This long-term tendency is currently leading to the build-up of agricultural surpluses and fiercer competition on world markets, and sometimes to major commercial conflicts. This means continuous pressure on agricultural prices, both inside and outside the Community, and an appreciable increase in agricultural expenditure.

At the same time, owing also to the various enlargements of the Community, the diver-

[1] COM(87) 100 final. The communication has been published in Supplement 1/87 — Bull. EC, which also contains the texts of Mr Delors'speech introducing the 1987 programme in Parliament on 18 February and of the programme itself.

sity of Community agriculture has increased, as between both different types of farming and different groups of farmers.

However, the great diversity of farming situations should not make us forget what they have in common: more than elsewhere, European agriculture is characterized by a great preponderance of family farms, often quite small in size. This 'European farm model' cannot be abandoned. Agriculture covers some two-thirds of the Community's land area and, given Europe's high population density and the sometimes worrying degradation of the environment, farming must now have an active role to play in environmental protection and nature conservation.

Reform of the CAP — objectives

Controlling production

1.1.4. This should take the form of a restrictive pricing policy, less permanent and more selective intervention, quotas and guarantee thresholds to be fixed at levels which will bite, a greater degree of producer co-responsibility, and, externally, concerted action for greater discipline in production and trade.

Reducing stocks and financing the transition

1.1.5. The aim is to run down existing stocks of livestock products (butter, skimmed-milk powder, beef) to reasonable levels by 1989. The cost of this operation will be around 5 000 million ECU, including 3 200 million for butter alone.

One way of covering this expenditure would be to find a method of financing the transition by separating the physical storage and the reimbursement of Member States (removal from storage in 1987 and 1988, reimbursement from 1989).

Preserving a European agricultural model where most farms are family farms

1.1.6. The socio-structural policy aims to guarantee a fair standard of living for the poorest farmers; form a framework for measures at national level, so that they will not conflict with Community policy; by varying the contribution to the Community budget, in accordance with each country's level of economic development, ensure more balanced possibilities for action between Member States; ensure greater transparency as regards the close connection between market support and income support. This is an objective which must be held to firmly, as its purpose is to reinforce measures for income support, which is necessary in order to allow for the consequences of the adjustments to the common agricultural policy, especially those resulting from the greater degree of rigour necessary in the management of prices and markets.

This is why the guidance function of the EAGGF must be brought into greater balance with the guarantee function, both politically and fiscally. In this way the CAP's crucial role in ensuring greater cohesion within the Community can be guaranteed.

A Community framework for national aids is necessary for optimum convergence between policies designed at national level and the Community's socio-structural policy.

International cooperation

1.1.7. Only through concerted action with our partners can the Community hope to deal with the problem of erratic prices on world markets, aggravated by monetary factors which lie quite outside agriculture and therefore cannot be handled by agricultural policy measures alone.

It must, however, also resist the lure of protectionism. The rate of growth of the Community economy is largely dependent on trends on world markets. Any approach ignoring this fact will be of little benefit, even from the point of view of the farming sector alone. There would inevitably be a reaction which would be harmful to our agriculture, whose future depends not only on European policy decisions but also on developments in the world at large.

Reform of the structural Funds

The objectives of structural intervention

1.1.8. The Community's structural policies will in future pursue a limited number of simple, clear objectives, stemming from the Single Act and reflecting the needs felt by the people of Europe. They illustrate the Community's political determination to reinforce its economic and social cohesion.

These objectives are:
(i) achieving growth and adaptation in structurally backward regional economies, so that they can be fully integrated into the Community;
(ii) converting declining, sometimes devastated, industrial regions, by helping them to develop new activities;
(iii) combating long-term unemployment, which is now affecting all age groups of Europe's working population;
(iv) helping to integrate young people into employment;
(v) speeding up the adjustment of agricultural production structures and encouraging rural development in line with the European social model, with a view to the reform of the common agricultural policy.

Geographical concentration of effort

1.1.9. To maximize the impact of structural intervention, the Commission is proposing a significant effort to concentrate the overall budget appropriations for the structural Funds on schemes helping the less-favoured regions to catch up:

(i) all of Portugal, Ireland and Greece;

(ii) certain regions of Spain and the South of Italy;

(iii) Northern Ireland;

(iv) the French overseas departments.

The ERDF resources earmarked for these regions may reach 80% of the total.

This geographical concentration would cover about 20% of the population of the Community.

Means suited to the ends

1.1.10. The Commission is proposing to establish four operational principles:

(i) the doubling, in real terms, of the structural Funds by 1992 in appropriations for commitment; their share of the budget would thus be brought to about 25%, against the present 16%;

(ii) wider and more judicious use of loan and finance facilities;

(iii) implementation of multiannual budgetary planning, within the constraints of 'budgetary discipline';

(iv) more rigorous management of the budget.

From projects to programmes

1.1.11. The main vehicles of structural Fund intervention will be the programmes. These will gradually replace the small projects which entail dispersion of Fund resources and seriously inhibit their efficiency. They will be worked out through close collaboration with the national and regional authorities, and there will be contracts between the Community, the Member States and the regions. Based on preparation, follow-up, and joint assessment of the schemes, the programmes will thus build up a genuine partnership.

With this in mind, eligibility for assistance under the structural instruments should take two distinct forms, based on geographical criteria in the case of the first two objectives (structurally backward areas and declining industrial regions) and horizontal criteria open to all Member States in the case of the other three objectives (long-term unemployment, young people, agricultural production structures).

A detailed description of procedures for the reform of the three structural Funds will be given in a comprehensive proposal after the Single Act has entered into force. This proposal will recommend the necessary transitions between the present situation and the organization aimed at by the reform by 1992 — for example, the participation of the Funds in the implementation of the integrated Mediterranean programmes.

Reform of the Community budget

1.1.12. The Community's own resources currently break down into about one-third 'traditional' own resources (customs duties and agricultural levies) and two-thirds the VAT call-in, on which there is at present a ceiling of a 1.4% rate of VAT for each Member State.

These arrangements were decided upon at the Fontainebleau European Council in 1984, and their limits have now been reached. Expenditure for 1987 cannot be financed in full within these limits, and at some stage the Commission will have to take the steps needed to bring expenditure down to match the resources available.

This situation is hardly surprising: only by resorting to various makeshifts, such as the storage of agricultural produce, the carry-over of appropriations and the time lag between commitment and payment appropriations, has it been possible to contain the budget artificially within the ceiling. Since 1983 there has been a deficit in the Community budget, disguised by bad accounting practice.

The Commission takes the view that neither in the short nor in the medium term is this situation tenable and that the Community must have a system of own resources which is adequate, stable and guaranteed, giving it a long enough period of 'budgetary security' to allow it to plan its own development, especially while the internal market is being completed.

The Commission's proposal, then, is that the Community be assured of adequate, stable and guaranteed own resources at least until 1992 to restore a realistic budget and put an end to unacceptable practices.

Sufficient and stable resources until 1992

1.1.13. The Commission's objectives are to ensure a period of 'budgetary stability', to organize a greater stability of receipts and to introduce more flexibility in the combination of resources.

The Commission is proposing an overall ceiling on all resources. Within this ceiling it would have new resources to supplement traditional own resources. And financing by VAT would be adjusted and supplemented by a fourth resource.

An overall ceiling

1.1.14. Reflecting a tendency in the Member States, the Commission is proposing a resources ceiling in the form of a 'maximum rate of the compulsory Community levy' determined by reference to the Community's GNP. The ceiling will be set at 1.4% of Community GNP and should suffice at least until 1992.

New resources

1.1.15. The resources available within 1.4% of Community GNP break down as follows:

(a) customs duties;

(b) agricultural levies, with the following changes for these two resources:

(i) the 10% reimbursement to the Member States to cover collection costs to be discontinued;

(ii) customs duties on ECSC products to be allocated to the Community.

New categories of revenue which replace the harmonized VAT levy

1.1.15a. (a) a 1% levy on the basis actually attracting VAT, that is to say on the

VAT actually collected by the Member States and paid direct to the Community;

(b) a revenue deriving from an additional base linked to the difference between the GNP and the actual VAT base for each Member State;

(c) a fifth resource could possibly be brought in to complete the system.

A fairer pattern of contributions from the Member States

1.1.16. The Commission still refuses on principle to generalize a system based on the calculation of net bugetary positions. To do so would be inconsistent with the notion of Community own resources. The financial advantages (or disadvantages) which may accrue to a Member State because of its membership of the Community cannot in any circumstances reflect, much less measure, its interest in belonging to the Community. The European Council referred specifically to expenditure policy as a means of finding a longer-term solution to the question of budgetary imbalances.

It is proposed to replace the Fontainebleau mechanism by a 'green key' correction based on the gap between the United Kingdom share in Community GNP and its share in agricultural guarantee expenditure. The correction will cover 50% of this gap. The Community's four least prosperous countries (Portugal, Greece, Ireland and Spain) will not be required to contribute to the financing of this correction, The other countries will contribute according to a key related to their relative prosperity.

To take account of the special situation of the Federal Republic of Germany, its contribution to the financing of the correction in favour of the United Kingdom will be 25% of its normal share.

Strengthened budgetary discipline

The facts

1.1.17. Efforts to achieve budgetary discipline, as agreed by the Brussels and Fontainebleau European Councils, have not yet produced satisfactory results. There are a number of reasons for this, mostly reflecting difficulties inherent in the present institutional system.

A system of budgetary discipline with no clear rules, binding on all the institutions, brings with it the seeds of a lasting institutional conflict and is therefore very limited in its effectiveness.

A contractual basis

1.1.18. The Commission is therefore proposing the introduction of rules on budgetary discipline which will help to promote consensus between the two arms of the budgetary authority. They will apply both to commitment and to payment appropriations. On the basis of its multiannual estimates for 1987-92, it will propose that the decision on own resources should specify (as a percentage of GNP and in absolute values) the maximum amount of own resources likely to be called in each year up to a ceiling of 1.4% of the Community GNP until 1992. This provision, which will have to be approved by the 12 national parliaments in accordance with Article 201 of the EEC Treaty, will be the cornerstone of budgetary discipline. It will thus have force of law.

Within this framework, the Commission is proposing the conclusion of an interinstitutional agreement between Parliament, the Council and the Commission, whereby the three institutions would enter into certain formal undertakings to ensure the smooth implementation of the budget procedure under Article 203 of the Treaty.

The principles

1.1.19. The formal undertakings by Parliament, the Council and the Commission are:

(a) compliance with the ceiling for both commitment and payment appropriations: 1.4% of GNP and annual fixing of intermediate ceilings;

(b) control of agricultural expenditure:

(i) continued reform of the CAP in order to control agricultural production, which is a prerequisite for the efficient control of agricultural expenditure;

(ii) limitation of the increase in EAGGF guarantee expenditure to the rate of increase of the own resources base, i.e. GNP; the regulations intended to ensure the lasting control of production will be supplemented by budgetary stabilizers in addition to those already in existence or contained in Commission proposals for 1987/88 (oil seeds, olive oil); these stabilizers will have to be binding, even automatic, so that there can be no budget overrun;

(iii) rigorous application of existing restrictive mechanisms (quotas, co-responsibility, limitation on subsidies).

(iv) need for more rapid decisions by the Council and possibly increased Commission powers in managing the markets;

(v) 'multiannual perspective' to be submitted annually to Parliament and the Council;

(vi) budgetary discipline and the ceiling on the own resources to apply to commitment and payment appropriations;

(c) no overrun of the maximum rate of increase as laid down in Article 203 (8) of the EEC Treaty except for expenditure connected with the implementation of policies in the Single European Act;

(d) multiannual budget forecasts to constitute an important tool which will assist the maintenance of budgetary discipline.

New rules for budget management

1.1.20. The introduction and observance of strict budgetary discipline by the three institutions calls for changes both in the practices and in the rules governing the preparation and execution of the budget. These changes are an essential part of the need for budgetary discipline and should encourage its observance. The eventual aim is to gain better control of expenditure and improve its effectiveness.

Means

1.1.21. Avoidance of over-budgetization of budget headings. The Commission is planning a dual approach to this question. First, as far as practice is concerned, it undertakes to ensure that its requests for appropriations correspond as closely as possible to the actual scope for execution and the take-up capacity of potential beneficiaries. Second, a multiannual approach to the planning of expenditure will allow for a better response to any expression of political will to strengthen certain measures.

Strict compliance with the principle of annuality. The Commission wants to place greater emphasis on the principle of annuality of the budget and the transparency of available appropriations by means of the following measures:

(i) the automatic arrangement whereby commitment appropriations remain in existence and payment appropriations are carried over is to be discontinued; this would require changes to the Financial Regulation and specific regulations, notably those covering the structural Funds; as a result, any appropriations which are not used or reallocated would lapse;

(ii) the budgetary authority is to be informed at the start of the year how the Commission intends to use appropriations which have not lapsed.

Improving the monitoring of budget operations. Inadequate monitoring of the operations or programmes for which commitments have been made leads to major departures from planned schedules, and this goes a long way towards explaining why the appropriations entered in the budget are so unreliable a guide and utilization rates inadequate. The Commission therefore plans to report to the budgetary authority on the execution of the schedules announced at the time of the adoption of the budget and the verification and, where appropriate, cancellation of 'dormant commitments', i.e. commitments with no real counterpart in terms of projects or programmes to be financed.

Systematic examination of the effectiveness of Community intervention in terms of objectives.

Respect for annual ceilings of own resources. The multiannual forecasts will become a tool for budgetary management by providing for a steady and gradual progression of expenditure avoiding excessively rapid encroachment on available new resources. They will act as a rolling plan enabling a line of action to be maintained in the medium term.

These new management procedures will obviously require substantial reform of the financial legislation.