

The President *Prime Minister*

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SG (81) D/ 8372

You will want to be aware that the
Commissioner report on restructuring is now in. 24 June 1981
I have not attached it since it is rather bulky.
A summary & briefing is being prepared

My dear Prime Minister,

Ant. 24/6

The paper I enclose is the report being sent to the European Council today in line with the mandate given the Commission on 30 May 1980. This mandate called for a review of the operation and funding of Community policies. The agricultural policy, and more specifically the United Kingdom's contribution to the Community budget, was singled out for special mention.

The Commission has come up with a number of reforms which, in its view, should help to deal with the problems it was asked to consider. As you will see, the reforms are far-reaching. This is inevitable. Reforms cannot be effective and lasting unless they get to the root of our present difficulties, which the mandate itself recognized as being structural. Our recommendations relate to the structures which can be changed using instruments provided by the Treaty. An intrinsic feature of the Community is that it is capable of changing from within.

In the course of our review we were brought face to face, again and again, with the Community's fundamental equilibria, which are based on the principle of solidarity and combine to attain the general objectives enshrined in the Treaty of Rome, namely, to provide the men and women of Europe with better living and working conditions against a background of economic and social progress. We kept these objectives constantly before us. We also considered the danger of

the same situation arising elsewhere in the Community, affecting an increasing proportion of our working population, and the younger generation in particular, if we fail to take a broader, more idealistic view of our common task.

We need to consider not only the Community's immediate problems but also the problems beginning to take shape within our frontiers and in the world around us. We cannot bring matters under permanent control unless we allow for the changes transforming our society and the vast movements reshaping our planet. We know from experience that no limits can be set to interdependence: it is this law of human dynamics that carries the Community forward. But there comes a time when attitudes must be changed and adapted to the new dimension.

We must mobilize all the forces of the Community to take a stand against the dangers that are mounting every day, dangers that are already threatening the fabric of solidarity. The reforms we are proposing will be carried through in the years when we should be preparing European society for the 21st century. Clearly, we cannot hope to forecast all the problems we will have to tackle. But the Community was, after all, created to manage the change its founders saw coming and initiate the change they felt desirable.

Indeed, each time the Community has acted in unison it has proved capable of facing up to unprecedented situations which none of our countries could have coped with singlehanded. We can take up one of the challenges that Europe will have to face before the end of the century here and now. I am thinking, of course, of the challenge presented by the visible explosion in the world's population and the relative decline in ours. Nothing will ever be the same again in a world where a disturbed demographic balance, a new industrial revolution, the restructuring of traditional industries and the geographical imbalance between rich and poor regions in terms of raw materials, will act as sources of tension. We must do something to transform this phenomenon from a threat of confrontation into a shared opportunity for our children and the children of the world.

I know that you are fully aware of these issues. Indeed I only mention them because Europe's stake in all this is the main justification for the existence and the efforts of the Commission of which I am President. This is why I feel bound to suggest that the Community needs a special procedure, geared to the scale and the urgency of the problems facing us, to implement the arrangements and mechanisms discussed in the Commission's report. I am convinced that our recommendations call for a specific approach. Cohesion is vital if the measures proposed are to be introduced and applied in a balanced fashion. And I doubt if cohesion would survive the complexity of normal procedures, involving time-consuming consultations and discussions within one or more specialist Councils whose agendas are already full.

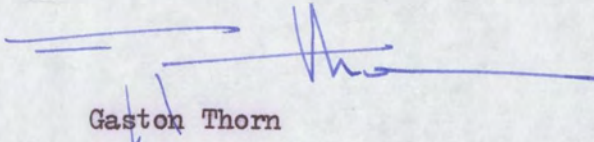
A better solution, to my mind, would be for the European Council to refer the report now in your hands through the General Affairs Council to a select group of trusted individuals chaired by a member of the Council. The group would report back by, say, the end of 1981. Because its findings emanated from a single high-level team, in which the Commission played the role assigned to it by the Treaty, they could be examined in detail at an extraordinary extended meeting of the General Affairs Council with an eye to the first European Council in 1982. Your Council could then draw the necessary conclusions as quickly as possible.

In any event, the Commission will be making appropriate proposals in the course of 1981 to adjust the United Kingdom's contribution to the Community's budget in 1982.

My purpose in suggesting this procedure- which is not unlike that followed to launch a number of important stages in the development of the Community - is to give new impetus to the common policies which give concrete expression to the solidarity between our countries and are the guarantee of their independence. If we advance resolutely in this direction - and the decision to advance is ours - we will have gone a long way towards regaining control of the destiny we took in hand 25 years ago when we set up the Community. The

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good work has continued day by day in the interval with the instruments we were given then. The instruments are still there. All we need to do is harness them to new options which will enable our ten countries to converge their efforts to develop their shared heritage.



Gaston Thorn

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COM(81) 300/3

22 June 1981

COMMISSION REPORT ON THE MANDATE

OF 30 MAY 1980

COM(81) 300/3

1. At the end of the war the lessons of history led the countries of Europe to choose interdependence as the basis for reconstruction. Thus the construction of Europe has come about in a way which means that a shared inheritance already exists.

Today the Community's institutions owe it to the people of Europe, and to history, to defend and develop this inheritance. The Commission has been given responsibility for directing this development: it has a constant duty to preserve what has been achieved and act in such a way that the people of Europe come to regard the Community as the surest way of shaping and influencing the future.

It is in this spirit that the Commission submits its replies to the Council on the mandate it was given on 30 May 1980 (1).

2. In a period of world crisis this organized Europe must use its strength to loosen the external constraints that bind it. Its size

(1) For 1982, the Community is pledged to resolve the problem by means of structural changes (Commission mandate, to be fulfilled by the end of June 1981: the examination will concern the development of Community policies, without calling into question the common financial responsibility for these policies which are financed from the Community's own resources, or the basic principles of the common agricultural policy. Taking account of the situations and interests of all Member States, this examination will aim to prevent the recurrence of unacceptable situations for any of them). If this is not achieved, the Commission will make proposals along the lines of the 1980 to 1981 solution and the Council will act accordingly.

places it in a better position to get to grips with the problems affecting it, whether these be energy, international competition, inflation and employment. The degree of integration which has been achieved but which has yet to be exploited to the full, has increased the means available for confronting these problems.

3. Aside from the use which can be made of such Community measures, the scale of the present problems calls for a joint strategy based on a strengthened internal solidarity and the adoption of a more vigorous stand towards the outside world. If this were generally accepted, if the strategy were made sufficiently broad and credible, this potential force could be harnessed to generating internal change, guaranteeing the success of the third enlargement and giving renewed confidence and hope to a young generation concerned about the future.

The Community, soon to be enlarged to twelve, can set an example to the world by adopting a constructive approach to the problems facing mankind. This is a formidable task, but the challenge of having to extend this approach beyond our own frontiers and of fulfilling the expectations of those who refuse to give in to fear and egotism is an exciting one.

4. If they are to tackle this ambitious task, the institutions must resolve without hesitation to fulfil the political alliance entered into by each Member State when it signed the original Treaties or the Treaties of Accession.

In this way the Community will finally take its rightful place in the world

and become a catalyst for peace and development as it already is for its Member States.

5. The Commission is of the firm view that a return to the institutional balance provided for in the Treaties would help to re-establish the unity of purpose which prevailed when the Community was created. Without a process of decision-making based on a better balance between the contributions made by all the institutions, the Community will never regain its dynamism or live up to the expectations of the people of Europe.

Finally, the Commission considers that there can be no development of Community activities as long as the Community budget remains artificially limited by the current ceiling on its resources. It will take the necessary steps to overcome this constraint.

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6. The construction of the Community, founded on solidarity and economic integration, and with the constant improvement of living and working conditions as its declared goal, has developed on a twofold basis:

- . a single internal market governed by jointly-devised competition rules which guarantee the free movement of goods and allow Community industry to reap the benefits of an extensive market;
- . a common agricultural policy which allows the free movement of agricultural products, thus raising the standard of living of Europe's agricultural community - traditionally the less favoured section of the population - and guaranteeing our food supplies.

These two achievements need to be completed by a monetary system, which is essential for balanced economic development and progress towards the free movement of people, services and capital. The common commercial policy and the Community's development policy should enable the Community to fulfil its appropriate role in the world. Additional policies should be established to cope with specific situations which market rules alone cannot regulate satisfactorily.

7. It has to be said that up to now action has not been taken at the same rate in all areas. This is doubtless one of the factors underlying the crisis currently facing the Community and the consequent lack of confidence.

Furthermore, the changes in the world economy over the last ten years and the upheavals that have occurred in international relations have shown that existing policies will have to be developed or revised.

8. At present, the budget reflects the imbalance between Community policies, but the Commission considers that the budgetary aspect alone gives only a partial idea of the nature of the Community: in particular, it affords no picture as to those policies which do not affect the budget, such as competition policy, or which have hitherto affected it too little to signify, such as industrial and energy policy. The Community policies moreover have economic implications far transcending the budget aspect. Indeed, while the budget increasingly reflects the scope of Community activity, it does not permit an assessment of policies which have no budgetary dimension. Nor does it allow for the impetus that Community policies can give to economic development in general.

This is why the Commission has chosen not to confine itself to a purely budgetary view in implementing its mandate.

9. An effort must be made in all areas to make up for lost time. This is the only way of ensuring that unacceptable situations do not recur and ensuring that consideration is given to the interests of all present or future Member States.

It is unrealistic to talk in terms of large-scale industrial restructuring or more balanced agricultural development if no progress is made towards economic and monetary union, or to talk in terms of full freedom of movement for workers in the absence of an employment policy capable of affording a coherent Community-level answer to the unemployment problem. The increasingly important role which the Community should be playing in the world will be illusory if it is seen to be at the expense of the weakest regions and sectors of activity.

The Commission believes that if an overall Community strategy were to be evolved, based on a general approach and guiding principles to which all could subscribe without hesitation, then the greater discipline and solidarity that this would entail would open up new prospects for stable, and therefore lasting growth and fuller employment.

10. The Commission accordingly proposes that as regards monetary and economic questions the Community should build on a foundation of genuine - and much tighter - internal coordination between the Member States, coupled with a clearly-defined common stance towards the outside world, so as to enhance the effects of national policies, consolidate the zone of monetary stability which it is endeavouring to construct, and take responsibility for defending European interests vis-à-vis our trading partners.

Expansion of the European Monetary System could be a powerful force in making such a policy succeed, once all the Member States were participating in it and the commitment to place the ECU at the centre of the system had been realized. The needs of the Community's economy and the state of the international monetary system are such that decisive and rapid progress must be made towards a fully institutionalized European Monetary System.

11. Equal priority attaches to systematic exploitation of the opportunities provided by the European market. If we are to develop a modern and dynamic industrial sector in Europe, it is essential that we have a single integrated market as this allows firms to benefit from outlets on a continental scale and to invest with the same degree of security as their American or Japanese competitors. Community firms must fully exploit the stock of confidence which flows from a genuine internal market defined in both economic and legal terms.

The customs union was one of the Community's first real achievements. If it is to be completed, the variety of remaining barriers which are still preventing the completion of the single market must as a priority be eliminated. The Commission will take the specific initiatives in this respect. It is quite legitimate for public authorities - and Community authorities whenever their powers permit - to maintain their contribution to the creation of a better economic environment to promoting and to raising productivity.

12. Nevertheless, the opportunities provided by a genuine internal market are no longer sufficient in themselves to enable the Community to complete the process of economic change, given the crippling uncertainties which beset it. A new dynamism is required, which can transform actions and attitudes and thus help to overcome the upheavals provoked by the energy crisis, as well as to catch up on the growing delays in the research field and to get industrial innovation off the ground at last.

The failure to pursue a number of quite reasonable objectives -- such as substituting Community cooperation for fragmented and isolated national policies, choosing the path of initiative rather than accepting the existing situation, combining financial resources rather than dispersing them, reaping the benefits in external relations of positions agreed in advance -- has prevented the Community from benefiting from its size. A new strategy must be proposed for facing up to the challenges of the eighties.

13. Energy production, particularly the new forms of energy and the industries involved in developing them, offers considerable potential in terms of growth and hence growth and employment. Furthermore, by helping to ease pressures on the balance of payments, a successful energy policy will create the conditions for an economic upturn.

The Commission intends to propose that precise targets be set, firstly to achieve essential savings and secondly to expand the means of energy production, build the necessary infrastructure, diversify sources of supply and encourage the use of new forms of energy. It will help to finance

these activities by coordinating national resources and making greater use of Community instruments. Small and medium size enterprises will be closely involved.

Community solidarity should also be expressed through joint machinery for responding to supply crises and through a coherent policy on prices. The Commission will be making proposals on these matters.

On this basis the Community, acting in its own best interests, will be able to develop cooperation with the other industrialized nations, launch a constructive debate with the oil producers and help find a solution to the problems of the developing countries both through the transfer of technology and by assisting them to develop their own energy resources.

14. It is not possible to devise a new model for society, to secure the Community's political and economic autonomy or to guarantee competitiveness without a complete mastery of the most sophisticated technologies. Accumulated delays, rising costs and the fact that the necessary effort is too great for any Member State to make individually are all compromising the Community's ability to compete in science and technology. The

need for a proper response is all the more urgent: the Community dimension makes it possible to provide this response efficiently and at minimum cost.

Apart from identifying delays and coordinating new action, the Commission will support priority research programmes in energy, the agri-food industry, environmental protection, nuclear safety and biotechnology. These Community programmes will promote the formation of the multi-disciplinary European research teams without which the quality and integration of research, crucial to success, cannot be attained.

15. The development of these new technologies - particularly regarding data transmission systems - and of the industries launching them, is revolutionizing the whole outlook. New goods and services, in great and growing demand, are coming on to the market. Production conditions are changing, affecting the basic factors of international competition. This process is of particular importance to small and medium sized enterprises, whose environment is in a state of flux with which not all of them are financially and technically equipped to cope.

Here the Community is falling behind the other major industrial powers. It can catch up if, realizing that this pattern of development, with all it entails in terms of new forms of industrial and social relationships, is both inevitable and desirable, it then draws the right conclusions and rapidly embarks on a suitably dynamic programme.

By adding to the efforts made by European firms and the Member States, the Community can make an original and probably unique contribution to the development of new techniques and industries. To this end it must not only devise and implement the coherent R & D programme referred to above but also deal with wholly new problems of information and training. Moreover it must set common standards and exploit all the possibilities offered by public procurement in the Member States so as to tap the full potential of this vast market.

16. Finally an active competition policy, particularly as applied to state aids, is also essential.

This policy must ensure that competition between Member States is not distorted. It must offer Community industry a positive incentive to adapt and at the same time serve as a source of coordination and economic convergence. For this purpose, regions' needs must be better defined and the rules of competition must be applied more coherently to national aids to enterprises; the application of these rules as part of the process of industrial adjustment will assist the drive to modernize the production apparatus.

The powers assigned to the Commission by the Treaties give it only partial control over some other policy areas which affect the competitiveness of industry. The Community will have to make a fresh attempt at identifying those areas and taking action, particularly with regard to transport subsidies, differentiated energy prices and certain tax measures.

17. Yet it is hard to see how the Community can hope to advance in a balanced, decisive fashion on these various points unless it puts its budgetary affairs in order.

The Commission's reflections, and its resulting proposals, concern essentially the common agricultural policy, regional policy and social policy, given the proportion of the budget which they represent. The Commission objective has been to see that within a limited budgetary framework, Community financial solidarity should be both more effective and more equally distributed.

The Commission has also taken into account the fact that the Community dimension will be further enhanced as the result of the accession of two new Member States whose economic and social situation will tend to aggravate a number of existing problems.

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18. The major effort concerns the common agricultural policy.

Taken as a whole, the result of twenty years of the application of the C.A.P. is positive.

The objectives set by the Treaty of Rome - be it security of food supplies, satisfaction of consumers' requirements, increased productivity or higher farm incomes - have been achieved.

Set against the objectives and the results achieved, the total cost of the common agricultural policy, which corresponds to 0.5% of the Community's GDP, is not excessive. Renationalization would cost Member States more. Every country needs an agricultural policy and it is worth remembering that the policies pursued by the Community's main competitors are just as costly.

19. The Commission considers - indeed this was emphasized in the terms of the mandate - that the three interrelated principles on which the common agricultural policy is based - market unity, Community preference and financial solidarity - remain essential. It is neither possible nor desirable to jettison the mechanisms of the common agricultural policy but on the other hand adjustments are both possible and necessary.

Technological progress and the play of the market organizations mean that the Community is now more than self-sufficient for most major products. The imperatives of sound market management, combined with budgetary constraints, therefore call for improved control of the unwelcome effects of the operation of market organizations.

20. The Commission has accordingly come to the following conclusions:

- farm income considerations, important though they may be, cannot be the sole point of reference for fixing guaranteed prices;
- it is neither economically sensible nor financially possible to give producers a full guarantee for products in structural surplus;

-- given the Community's degree of self-sufficiency for most agricultural products and bearing consumers' interests in mind, prices must reflect market realities more than they have in the past.

21. Having considered all the alternatives, the Commission recommends that future decisions in respect of the common agricultural policy should be based on the guidelines set out below, which should be combined to achieve the objectives set by the Treaty at as low a cost as possible:

- a price policy based on a narrowing of the gap between Community prices and prices applied by its main competitors in the interests of competitiveness and a hierarchy of prices designed to improve the balance of production;
- an active export policy which would honour the Community's international commitments;
- modulation of guarantees in line with Community production targets;
- an active structures policy tailored to the needs of individual agricultural regions;
- the possibility of income support subsidies to certain producers in specific circumstances;
- improved quality control at Community level and tighter financial control by the Community in the management of EAGGF expenditure;
- stricter discipline in relation to national aids to avoid undermining Community policies.

22. The policy of common prices remains a central instrument of a common agricultural policy. But this policy presupposes the smooth operation of the European Monetary System and a significant alignment of inflation rates. National and Community policies promoting this alignment must serve to ensure that price decisions do not have to allow for widely differing national situations.

Price policy must reflect trends on the world market more than it has in the past. The Commission is well aware that world prices can develop erratically. This is why the practical implementation of such a price policy will vary from product to product. The Community's objective should be the gradual alignment of guaranteed prices on prices ruling on a better organized world market. This would make it possible to take advantage of increases in productivity and avoid unjustified situation returns.

To this end the Community should pursue a rigorous policy with regard to prices within its frontiers and adopt a more active export policy designed to stabilize world prices by means of cooperation agreements with other major exporters. These could be supplemented by long-term export contracts.

A trade strategy of this kind would encourage the emergence of a strong, well-organized agri-food industry. At the same time it would not damage the interests of developing countries.

The Commission should also monitor imports that might cause market imbalances and see to it that its commercial and agricultural policies are mutually consistent.

23. Producers must be made more aware of market realities than they have been in the past. To this end production targets in terms of volume must be set for every sector at Community level. Once these are reached producers would be required to contribute or the intervention guarantee could be reduced.

These targets would, of necessity, integrate projected market trends and the degree of self-sufficiency desired. They would also allow for imports flowing from the Community's international commitments and its concern to take its place as a structural supplier on a world market which is persistently in deficit for a number of essential commodities.

24. Production targets and intervention arrangements would vary from product to product.

For sugar, an effective system is already in operation. For cereals, where the Community's most efficient farms can compete at world level, payment of a lower intervention price for tonnages above a production target, corresponding roughly to domestic consumption, would give a boost to the most competitive farms and cut the cost of intervention.

For milk products, the Commission considers that the objective of controlling production can only be achieved if the principle of co-responsibility is extended. If this is not done, other measures will be inevitable.

25. The Commission considers that these changes should be accompanied by a rigorous quality control policy.

Moreover the Commission should be given its own powers of control in managing the agricultural funds for which it is responsible.

26. The Commission's guidelines on prices and production cannot be applied in a vacuum, ignoring the income problems of certain producers. This is why it is proposing the introduction, in certain specific cases, of direct income subsidies which, given the cost, would be confined to small producers. A decision on the grant of such subsidies would be taken by the Community in line with Community criteria. On this basis a Community contribution to their financing could be envisaged.

27. The problems of producers in regions with a natural handicap must be seen in a different context. The Community has already taken action on those of the mountain and peripheral areas.

But the problems of the Mediterranean area merit special consideration given the importance of agriculture in its economy. The market and structural components of the common agricultural policy should help to improve the situation. But they cannot take the place of other policies or deal alone with a series of questions which reflect a particular economic context.

28. Any solution to current difficulties in Mediterranean agriculture must be based on changes in depth in the attitudes of producers and in production structures. While recognising that results will take time, the Commission intends to propose that there should be a number of medium-term Community programmes covering an integrated policy for incomes, markets, production and structures.

29. In making its contribution to a solution of the difficulties facing agriculture the Community must keep two principles in mind: equivalence and equity. Equivalence means that, in line with the basic principles of the Treaties, the common agricultural policy must apply without discrimination to Mediterranean products. Equity means that change cannot be allowed to lead to a drop in living standards for those involved.

30. The Community programmes for the Mediterranean to be prepared by the Commission will involve both the Community's financial and agricultural instruments. They will be devised in close collaboration with the Member States concerned so as to incorporate the objectives of national and regional plans. They will be presented to the Council and Parliament before the end of 1982.

31. These guidelines for reform of the common agricultural policy leave the principles on which it is based intact. They introduce the adjustments which must be made to market management if perverse effects of gains in productivity for consumers and the Community's budget are to be avoided. If the guidelines are agreed, their application will mean that agricultural spending in the years ahead will grow less rapidly than the Community's own resources, making it possible to release additional resources to reinforce Community solidarity in other sectors.

32. The regional and social policies are an expression of this solidarity, which takes on a new urgency in the present economic and social climate.

All the instruments available to these policies have expanded rapidly in recent years: in 1981 the budget is providing some 3 000 million ECU for regional and social activities. This amount, severely limited in comparison with national budgets, leaves little room for flexibility in attaining the objectives of the Funds. Admittedly, to this should be added around 4 000 million ECU by way of Community borrowing and lending operations.

33. That these instruments have proved their worth is shown by their rate of expansion and the heavy demand within the Community for the facilities which they provide. But there is considerable room for improvement in their efficiency. This need can be met by concentrating efforts on the areas of gravest difficulty, by combining the targets and interventions of the various Community instruments, and finally by coordinating them with national measures to ensure that Community aids are additional to national ones.

34. The regulations and procedures governing the Regional and Social Funds provide for their revision by the end of 1981 and in 1982 respectively. The Commission sets out here a framework for these revisions which will be elaborated in detail at the appropriate time. It also presents some guidelines for the future of the borrowing and lending mechanisms.

35. The reduction of regional imbalances remains a priority Community objective. Responsibility in this field lying largely with national and local authorities, the Community has to base its actions on a wide range of instruments not exclusively of a financial nature. The coordination of national regional policies and regional aid systems with the intervention of the Community's Regional Fund are particularly important, as is the significance attached to regional impact in the definition of other Community policies.

36. As far as the Regional Fund itself is concerned, the Commission believes that major changes should be made to enhance the effectiveness of its interventions and increase its impact. There is a strong case for greater concentration of the Fund's budgetary resources, which are and are likely to remain inadequate to cope with the development problems that will increasingly face the Community as it continues to enlarge.

The section of the Regional Fund at present divided into national quotas should be adjusted to focus even more on regions suffering severely from structural underdevelopment¹.

The proportion of the Fund's resources allocated to the section which is not divided into national quotas (the non-quota section) should be substantially expanded. Intervention will be directed more selectively to the regions of the Community currently suffering most from serious problems of industrial decline or from the effects of certain Community policies.

¹Including Greenland and the French overseas departments.

Changes in the working and operating criteria of the Fund should include replacing support for isolated projects by a new system of co-financing with Member States of regional infrastructure programmes and regional investment aid schemes, which would incorporate the individual, Community-aided projects.

37. Community solidarity must also be expressed in the social sphere, in line with economic and social policy objectives. Priority should henceforth be given to job creation; the traditional role of the Social Fund, which is to increase the geographical and occupational mobility of workers, will be of greater importance in the future.

The Community will need to make a special effort in regions where traditional industries are concentrated, with the aim of developing a more imaginative approach to the labour market. Moreover the Social Fund must be given the necessary resources to ensure that the Community's workforce can adapt adequately and in good time to the jobs which will be created by exploiting new areas of growth and local economic potential.

The Social Fund will therefore have to promote integrated training and employment programmes, specifically adapted to local and regional economic conditions. With this in view, the current administratively complex range of interventions should be reviewed. New emphasis should be given to job creation, including aids to essential support services in the field of information, guidance and technical assistance and in preparing young people for working life. In addition, the use of integrated programmes would enable a much closer relationship to be established with other Community Funds and with national sources of assistance.

If it is to act as an effective driving force, the Social Fund must be allocated sufficient resources to produce a real increase in employment measures, and particularly in the volume of training. To ensure that the Fund's operations can be concentrated on essentials and its efforts coordinated, it should be freed from the constraints which have hitherto limited its effectiveness. With this in mind, the Commission intends to present proposals for injecting greater flexibility into the Fund's formal operating procedures.

38. In the Commission's view appropriations for the two Funds will have to grow faster than the general budget as a whole if they are to attain their objectives.

Here, as elsewhere, the Commission excludes the presentation of illusory budgetary balances via the introduction of artificial Community policies.

39. While the Community can continue to increase the volume of its borrowing and lending instruments, the Commission considers that they must be used to greater effect. In particular it recommends:

- an increased emphasis on small firms and the use of interest subsidies in certain priority regions for major programmes not linked to productive investment projects;
- the combined use of borrowing and lending instruments and the structural funds, notably the Regional Fund, which is already in a position to finance some of the interest subsidies mentioned above.

40. The options and guidelines which the Commission has proposed are inevitably dependent on the Community's financial resources. The most effective use of available funds must be seen as a permanent priority. The Commission cannot accept that an artificial ceiling be put on own resources, and will propose that they be increased when this becomes necessary to achieve agreed objectives.

41. The Commission has studied the likely consequences of its recommendations for the development of the Community budget. It is clear that their implementation could not have a significant impact for some time to come. The Commission has therefore proceeded to examine the budgetary position.

Scrutiny of the structure of expenditure¹, divided into six main categories, namely:

- administrative expenditure;
- reimbursements;
- support expenditure on certain common projects (industry, energy, research, etc.);
- structural expenditure (ERDF, ESF, EAGGF Guidance Section, etc.);
- aid to non-member countries;
- EAGGF Guarantee Section,

shows that utilization of appropriations in the first five categories presents no particular problem for any Member State.

By contrast, an analysis of the destination of appropriations from the EAGGF Guarantee Section, which forms the bulk of the budget, shows that under present circumstances, the United Kingdom obtains a much smaller financial benefit from the CAP than the other Member States on account of the special features of its agriculture. Community solidarity demands that a remedy be found to this inequitable situation.

¹As identified in the reference paper presented by the Commission in 1979 (COM(79)462 of 12 September 1979).

42. The size of the imbalance to be corrected could, in the Commission's view, be assessed by comparing the United Kingdom's share of the Community's gross national product with the proportion it obtains of EAGGF Guarantee Section expenditure. On the basis of this data the amount of compensation could then be established following simple rules, using a reference period extending over several years, and with a view to a fairly high level of compensation.

43. As this compensation would be provided by the Community itself, it should be financed from the budget on the basis of the own resources system.

44. However, should this be rendered impracticable either by a delay in taking the decisions needed to create new own resources (exceeding the 1% limit on VAT) or by the current trend in budget expenditure, the Commission would envisage that consideration be given to a subsidiary measure by which the Member States which benefit more from the CAP than their British partner would demonstrate their solidarity. In practice, the compensation could be financed by Member States other than the United Kingdom via abatements on their receipts from the Community, based on the payments they receive under the EAGGF Guarantee Section. In establishing the abatement percentages, account should be taken of the proposals put forward by the Commission in this report, to the effect that Community policies must put emphasis on solidarity between the more prosperous Member States and the less prosperous (particularly Ireland, Greece and Italy).

45. The Commission considers that the new measure should apply for a limited period, but long enough for the effects of the new guidelines it proposes to be felt. The position would be reviewed before the compensation system expires, notably when a decision is taken on creating the additional own resources needed to implement common policies.

The Commission could also propose amendments to the system if this was justified by the development of the common agricultural policy or other policies, or if practical difficulties emerged.

46. The funds made available to the United Kingdom should be used to finance activities in that country which accord with Community policies and are designed to increase convergence of the economies.

47. With regard to the existing financial mechanism¹ based on the Council Regulation of May 1976, as adapted by the 1980 Regulation, the Commission will make a report by the end of this year, in order that this mechanism continues in being if it is needed.

48. The guidelines which the Commission has just set out in response to the mandate given to it on 30 May 1980 form a coherent package of measures which both correspond to the framework which was given and can be applied in a relatively short space of time. The impetus given by the adoption of these priority measures will be a key element in relaunching the whole development of the Community.

49. By its very nature, this report cannot hope to cover the complete spectrum of Community activity. Many areas have scarcely been touched upon, such as the Community's external relations, and in particular what the Community is doing, and would like to do more, in the field of development aid.

¹Financial mechanism set up by the Council Regulation of 17 May 1976, adapted by the Regulation of 27 October 1980.

Because of its history, its geography, through its power and its economic needs, the Community faces the world, where the role it plays and the responsibilities it bears are highly regarded as a source of hope and confidence, especially in the developing countries. A fulfilment of the political alliance entered into by each Member State will not only strengthen the Community's internal solidarity but also endow the Community with the means to play more effectively the role its partners expect of it. By strengthening its position on the international economic stage, the Community will be able to make a contribution to solving world problems.

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50. A political decision is needed if the Community is to be relaunched. This means working together to find solutions which correspond to the general interest. The Treaties have provided a method and procedures for advancing in this way. The Commission has started the process by outlining the way forward. It is now for the other institutions to commit themselves.