Commission proposals concerning the financing of the CAP, own resources and the powers of the European Parliament (31 March 1965)

Caption: On 31 March 1965, the Commission of the European Economic Community (EEC) submits proposals to the Council of Ministers with regard to financing the common agricultural policy (CAP).

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Financing the common agricultural policy — independent revenue for the Community — wider powers for the European Parliament

(Proposals submitted by the Commission to the Council on 31 March 1965)

Explanatory memorandum

1. Council Regulation No. 25 makes the Community responsible for the financing of its common agricultural policy through the European Agricultural Guidance and Guarantee Fund, but it makes explicit provisions regarding the introduction of common financing only for the years 1962/63, 1963/64 and 1964/65. A decision must therefore be taken before the end of these first three years as to how the common agricultural policy will be financed during and after 1965/66. In its decision of 15 December 1964 the Council therefore invited the Commission to submit proposals on this subject before 1 April 1965.

2. Under Council Regulation No. 25, the methods by which the common agricultural policy is financed during and after 1965/66 must ensure progressive development towards the common market. Consequently, the Commission's proposals must deal with two main points:

(i) How will the common agricultural policy be financed after the single market stage is reached?

(ii) When will the system for the single market stage replace that of the transition period?

With regard both to the revenue of the Fund and to its expenditure, an answer to the first question was given, in broad outline, by Article 2 of Regulation No. 25. As to the date, the Council has already given some indication of its wishes in its decision of 15 December 1964 inviting the Commission to submit before 1 April 1965 proposals on the conditions for implementing Article 2 of Regulation No. 25 from the date when common prices for the various agricultural products come into force.

3. In view of the growing importance for agriculture of the European Agricultural Guidance and Guarantee Fund, the decisions concerning the financing of the common agricultural policy as part of the budget of the Community represent a decisive step forward towards the common market. The Commission has therefore linked the proposals concerning the financing of the common agricultural policy with the whole question of achieving a financial and institutional balance as the integration of the Community progresses.

4. The decisions on agricultural policy taken by the Council on 15 December 1964 mark the beginning of a new phase in the development of the Community. At present, however, they only ensure the attainment of the common market from 1 July 1967 in one sector: for cereals, pigmeat, eggs, poultry and products derived from cereals, the introduction of a common price level as soon as the levies in trade between the Member States disappear will mean in practice that the common market is achieved on that date. For this reason the Council decided at the same time that from that moment the expenditure of Member States eligible under the Fund for market support for cereals and refunds in respect of exports to non-member countries of cereals, pigmeat, eggs, poultry, etc. shall be borne entirely by the Community.

5. If, however, the common market in agriculture and common financial responsibility were to remain confined to the aforementioned products, the development of the free movement of goods and of common financing might benefit some of the Member States more than others. In addition, agricultural production might concentrate more on the products for which the common agricultural policy, with the safeguards that it offers for farmers, is fully implemented, i.e. broadly speaking on cereals, poultry and pigmeat.

6. In order to avoid such anomalies, similar decisions must be taken as soon as possible ensuring, from 1 July 1967, the application of common target and guide prices, the abolition of intra-Community levies and customs duties, and full Community financing for other important agricultural products. In particular there must be common target prices for milk and rice and common guide prices for cattle and calves, and intra-Community levies and customs duties on these products must be eliminated.

7. With regard to full Community financing, the spirit of solidarity among the Member States affirmed by the Council in its decision of 15 December 1964 requires at least that the financial responsibility of the Community for the fruit and vegetables sector and for durum wheat should be settled at the same time as the decision is taken on financing for milk products and beef and veal.

8. However, if the Community is to develop smoothly, the removal of obstacles to intra-Community trade cannot remain confined to the levies on agricultural produce. If there is to be a coherent economic policy, both the customs duties on agricultural produce and those imposed on industrial products will have to be abolished as from 1 July 1967. The Commission has therefore proposed that, with effect from that date, intra-Community customs duties should be abolished and the common customs tariff applied to all industrial and agricultural products. Quantitative restrictions on intra-Community trade would also be prohibited from that date.

9. If, however, from 1 July 1967 levies and customs duties on the chief agricultural products are no longer imposed in trade between the Member States, and if intra-Community customs duties on industrial products are also abolished, a problem with which all customs unions are confronted will arise for the Community; the place where levies and customs duties are collected will be less and less likely to be that at which the imported goods are consumed. These revenues can therefore hardly be placed to the credit of the Member State in which the point of collection is situated, especially as that state will already benefit from the development of services attendant on its role as a transit country. This applies equally to the years during which there will still be fiscal frontiers within the Community. In fact present experience already goes to show that the reduction of intra-Community customs duties — and *a fortiori* the total elimination of such duties — presents so many practical advantages for trade that imports gradually tend to shift to the ports that are most conveniently situated and best equipped.

10. In view of the degree of market integration that will be attained on 1 July 1967, it is important that the revenue from customs duties on imports from non-member countries should accrue to the Community in its own right from the same date. In fact on 1 July 1967:

(a) As regards customs duties, the conditions referred to in Article 201 of the Treaty will be fulfilled, and the common customs tariff will be applied;

(b) As regards levies on agricultural produce, the conditions laid down by Article 2(2) of Regulation No. 25 and by the decision taken by the Council on 15 December 1964 will also be fulfilled; single-price systems will have come into effect for the chief agricultural products (cereals, pigmeat, eggs, poultry, milk and milk products, beef and veal, rice, fruit and vegetables), and common prices will have entered into force for cereals, milk, and beef and veal.

11. It is, however, advisable that — in the spirit of the Treaty and having regard to the provisions of Council Regulation No. 25 — there should be a gradual transition from the system under which contributions are paid by the Member States to the Community budget to the stage when the Community will have independent revenues; it must first be agreed that the whole of the proceeds of levies should accrue to the Community. This gradual transference must extend to:

(a) All receipts from levies and customs duties;

(b) The relative burden on the various Member States.

Among the various possible methods of achieving such a gradual transference, there is one that seems preferable because of its simplicity:

The contribution that the individual Member States are to make to the Community budget for the 1967 financial year in accordance with the scales laid down in the Treaty and in the decisions of the Council (concerning the EAGGF) will be set beside the contribution that they would have made if during the same year all proceeds of levies and customs duties collected in the various Member States had accrued to the

Community.

During the first half of 1967, the scales laid down for Member States' financial contributions will still apply. During the second half-year the Member States will pay to the Community the agricultural levies and such part of the proceeds of customs duties as is required to cover the contributions that the individual Member States have to make by virtue of the Treaty and Council decisions concerning the EAGGF. During this period part of the customs duties will remain at the disposal of the Member States; this part will be a percentage, varying from one country to another, of the proceeds of the levies and customs duties collected within each Member State during the second half-year.

During the period 1968-71, the percentage of these revenues left in the hands of the Member States will be reduced each year by one-fifth, so that from 1972 all such revenue will accrue to the Community.

12. If in certain years the independent revenue of the Community is insufficient to cover its expenditure, the budget will be balanced by means of contributions from the Member States computed according to the scale fixed for 1967 under the Treaty and Council decisions.

If the Community's independent revenue exceeds its normal requirements, the Community institutions will decide, in accordance with established budget procedure, how the available funds should be allocated for special Community tasks or redistributed among the Member States.

In 1968, 1969 and 1970, according to present estimates of the Community's requirements and of the revenue that will accrue to the Community from customs duties and levies when the above system is adopted, it is unlikely that there will be any funds available for redistribution among the Member States or for special Community tasks over and above normal commitments.

13. The Commission considered whether the proposed regulation should include arrangements for financing the compensation granted to the farmers of Germany, Italy and Luxembourg in consequence of the establishment of a common cereals price level to take effect from 1 July 1967. As agreement was reached in the Council on this matter on 15 December 1964, the Commission thought it preferable to leave this question open at present. It will be dealt with in the detailed proposals that will be made to the Council to give effect to the resolution of 15 December 1964.

14. The creation of independent revenues for the Community poses various urgent problems, including that of control. The cost of market support, refunds on agricultural exports, and other measures decided upon by the Council as part of the common agricultural policy, will be borne entirely by the Community from 1 July 1967. The Commission will therefore submit proposals to the Council to confer upon the Community institutions powers of control over the bodies authorized to take such action in the Member States.

In addition, it will be necessary to amend the Financial Regulation governing the EAGGF so that expenditure arising from the common agricultural policy will be considered both by the Council and by the European Parliament and appropriations will have to be approved before any payments are made.

15. As to the financing of refunds on exports, it is necessary, since the establishment of the single market implies a uniform agricultural policy for the Community (Article 2 of Regulation No. 25), to ensure that not only the revenue but also the expenditure — at least for exports effected under international arrangements — are dealt with at Community level. The beginning of the single market stage is in fact the beginning of the final stage where commercial policy is concerned.

For this reason refunds can be granted for exports effected under international arrangements — which are, moreover, part of commercial policy — only if such arrangements are recognized by the Community to be of Community character. This condition does not apply to exports effected in the absence of international arrangements.

16. The integration process should culminate in customs union for the chief agricultural products and for

industrial products by 1 July 1967, and Community undertakings — in particular the common agricultural policy — will be financed by independent Community revenues obtained from levies and customs duties.

With regard to the contributions of the European Agricultural Guidance and Guarantee Fund to eligible expenditure incurred by the Member States for measures to regulate markets and refunds on exports, common financing should develop progressively towards the single market stage, the EAGGF contributing four-sixths of eligible expenditure for 1965/66 and five-sixths for 1966/67. This is in keeping with the progressive development towards the single market stage required under Council Regulation No. 25 (Article 5) and reaffirmed by the Council in its decisions of 15 December 1964 for cereals, pigmeat, eggs and poultry.

17. On 15 December 1964 the Council agreed that Italy’s contribution to the financing of the common agricultural policy in 1965/66 and 1966/67 should be limited to 18 % and 22 % respectively, and that Belgium’s contributions to the Fund should be fixed in such a manner that they would not be affected by the application of the above ceilings in respect of Italy. This was a political decision, and the figures given were arbitrary. It therefore seemed reasonable to the Commission to recommend an arbitrary solution also for the other Member States. On this basis, the simplest system appeared to be to maintain the rate paid by Belgium and Luxembourg in 1964/65, and to apportion the remaining amounts between Germany, France and the Netherlands according to the scales fixed for their contributions to the Community budget by Article 200 (1) of the Treaty. Such a solution seems justified particularly in view of the transitory nature of the provisions for the period before the final system enters into force.

18. Thus the Commission’s proposals on the financing of the common agricultural policy are closely linked with proposals in other fields that have already been submitted to the Council or will be submitted shortly.

The date by which the decision on these proposals will have to be taken will be determined by the need to ensure continuity in the financing of the common agricultural policy and by the need to be able to discuss all important agricultural products in the Kennedy round negotiations on the basis of the Community’s margin of support.

On the other hand, the Commission considers that the provisions regarding the financing of the common agricultural policy at the single market stage and those concerning independent resources for the Community will in any case have to enter into force simultaneously, that is, on 1 July 1967.

19. When the above provisions come into effect in 1967, the Community will be in a very different position from that which it has known since its inception, in which its resources are derived mainly from the Member States’ contributions.

This coming transformation makes it necessary to review the procedure for approval of the budget laid down in Article 203 and, in particular, to strengthen the budgetary powers of the European Parliament. This is essential in order to ensure adequate parliamentary control at the European Parliament level over large sums of money, the spending of which will no longer be subject to the control of the national parliaments.

As a necessary counterpart to its proposal, the Commission has availed itself of its powers under Article 236 to submit at the same time proposals for a revision of the Treaty, adapting it to the new situation by strengthening the Parliament’s budgetary powers. In addition to amendments to Article 203 (budget procedure), the Commission considers it advisable also to provide for an amendment to Article 201 to be operative in the future (and hence not applicable to the approval of the independent revenues referred to in the present proposals). It seems logical for wider powers of control over the budget to be accompanied by wider powers to determine the Community’s revenues.

20. On the latter point, the Commission’s proposal provides only a limited increase in the Parliament’s powers at the present stage. However, when the Parliament is elected by direct universal suffrage in accordance with Article 138(3), the power to create independent revenues for the Community, which at present rests with the Member States (Article 201(3)), would have to be completely transferred to the

Community.

21. With regard to Article 203, the Commission's proposal takes into account the ideas put forward by the Parliament itself on 12 May 1964 when adopting the report presented by M. Vals on behalf of the Budget and Administration Committee, and also the arrangements suggested by the Government of the Netherlands and other Governments during discussions in 1963/64. The Commission has sought to introduce an arrangement effecting a certain balance between the powers of the Parliament, the Council and the Commission. Thus amendments made by the Parliament to the draft budget prepared by the Council will be deemed to be approved unless the Council, within a stipulated time limit (20 days), modifies them by a large majority (five members). If, however, the Council and the Commission agree on changes to the Parliament's proposal, they can be adopted by a smaller majority (four members).

This new budget procedure, like that proposed in Article 201, would be a step towards full budgetary powers for the European Parliament, which it will exercise when elected by direct universal suffrage.

22. The amendments proposed by the Commission also include the abolition of the weighted voting system set out in Article 203(5) for decisions on budget proposals relating to the European Social Fund. The Commission felt that such weighting would no longer be justified when the system of independent resources for the Community is introduced, which will also cover the expenditure of the European Social Fund.

I. Proposal for a regulation on the financing of the common agricultural policy

The Council of the European Economic Community,

Having regard to the Treaty establishing the European Economic Community and in particular Articles 43, 200(3) and 209 thereof;

Having regard to Regulation No. 25 on the financing of the common agricultural policy;

Having regard to the proposal of the Commission;

Having regard to the opinion of the European Parliament;

Whereas, by reason of the progress that has been made towards the common market and the common policy for agriculture, the necessary conditions exist for implementing from 1 July 1967 the principles laid down for the single market stage in Article 2 of Regulation No. 25 on the financing of the common agricultural policy, and therefore for discontinuing from the same date the system of financing laid down for the transition period in Articles 3-8 of that regulation;

Whereas, under the transitional system, both the contribution of the European Agricultural Guidance and Guarantee Fund to eligible expenditures, and the revenues which maintain that Fund, have yet to be determined for the period from 1 July 1965 to the end of the transition period, in accordance with Article 5(1) and Article 7(2) of Regulation No. 25;

Whereas, with regard to expenditure, the Fund's contribution to eligible expenditures under the Guarantee Section should, for the years 1965/66 and 1966/67, be increased regularly from the three-sixths already fixed for the year 1964/65 to the full financing envisaged for the year 1967/68; and whereas, in accordance with the rule of one-third contained in Article 5(2) of Regulation No. 25, any increase in such expenditures must automatically lead to an increase in the expenditures eligible under the Guidance Section;

Whereas, if free movement for one or more products within the Community is attained before 1 July 1967, it must be possible, as an exception to the general rule, for expenditures of the Guarantee Section relating to these products to be financed in its entirety;

Whereas, with regard to revenues, the contributions of Member States for the years 1965/66 and 1966/67 should be computed according to scales that will limit the contributions of certain Member States as provided for in the Council's resolution of 15 December 1964 on the financing of the common agricultural policy;

Whereas, in accordance with the principle stated in Article 2(2) of Regulation No. 25, the introduction of the single market system from 1 July 1967 will involve full financing of expenditure for refunds on exports to non-member countries and for measures to regulate markets under the common organization of agricultural markets, since such expenditure is the financial consequence of agricultural policy decisions taken by the Community;

Whereas it is advisable to enable the Guarantee Section of the Fund to finance measures other than those provided for in Article 2 (2 a and b) of Regulation No. 25 should such measures be decided upon in connection with the common organization of markets;

Whereas, if they are to be properly regarded as entirely the responsibility of the Community, the measures to be financed will have to be based, at the single market stage, on precise and comprehensive Community rules, particularly as regards commercial policy;

Whereas, since refunds on exports to non-member countries, measures taken to regulate markets, and other measures, are to be financed in their entirety, effective means must be found of ensuring that such expenditure conforms to Community rules;

Whereas the Guidance Section of the Fund, in accordance with Article 2 (2 c) of Regulation No. 25, is to finance the operations mentioned in Article No. 11 of Regulation No. 17/64/CEE on the grant of aid from the European Agricultural Guidance and Guarantee Fund, and is to be able to finance other measures in order that the objectives set out in Article 39 (1 a and b) of the Treaty may be attained;

Whereas, according to the aforementioned resolution of 15 December 1964, these operations must have due regard to the unfavourable structural situation in Italy and to the need to improve agricultural structures in Luxembourg, which is the purpose of the Protocol concerning the Grand Duchy of Luxembourg;

Whereas, at the single market stage, the ratio between the expenditure of the Guarantee Section and the commitments of the Guidance Section of the Fund may be maintained by allocating to the latter an amount equal to one-third of that fixed for the former, subject to certain adjustments in order to ensure that Community programmes already in progress are not jeopardized by lack of funds;

Whereas, as a result of the establishment of a common level of cereal prices to take effect from 1 July 1967, the Fund will also have to finance, under a special section, compensation to the farmers of Germany, Italy and Luxembourg;

Whereas, in accordance with the principle stated in Article 2(1) of Regulation No. 25, the introduction of the single market system from 1 July 1967 will mean that the proceeds of the levies will be the property of the Community and be appropriated to Community expenditure, so that the budget resources of the Community will comprise such revenue together with all other revenues decided in accordance with the rules of the Treaty and the contributions of Member States as determined under Article 200 of the Treaty; and whereas to this end the procedure provided for in Article 201 of the Treaty must be brought into operation,

Has adopted the present Regulation:

Article 1

The financing of the common agricultural policy through the European Agricultural Guidance and Guarantee Fund, hereinafter referred to as the Fund, shall be derived, from 1 July 1965, into two stages:

(i) From 1 July 1965 to 30 June 1967, the transitional system provided for in Articles 3-8 of Regulation

No. 25 shall be maintained;

(ii) From 1 July 1967, the single market system provided for in Article 2 of Regulation No. 25 shall be applied.

I. Transitional system

Article 2

1. The contribution of the Guarantee Section of the Fund to expenditure eligible under Article 3(1 a, b and c) of Regulation No. 25 shall be:

four-sixths for 1965/66;
five-sixths for 1966/67.

2. Notwithstanding the provisions of paragraph 1 above, the Council, acting on a proposal of the Commission, unanimously during the second stage and by qualified majority thereafter, may decide that the expenditure relating to one or more products shall be financed in full from the date when free movement of these products within the Community is attained, if that date is prior to 1 July 1967.

Article 3

The expenditure of the Fund shall be met by financial contributions from the Member States calculated according to the following scales:

	1965/66	1966/67
Belgium	7.96	7.96
Germany	32.35	30.59
France	32.35	30.59
Italy	18	22
Luxembourg	0.22	0.22
Netherlands	9.12	8.64

Article 4

Each year the Commission, after consulting the Fund Committee in accordance with Article 27(1) of Regulation No. 17/64/CEE, shall submit to the Council and to the European Parliament a report on the management of the Fund during the year ended, dealing with the movements of its operational accounts, the nature of its expenditure, eligibility thereof, and the apportionment of its revenue.

II. Single market stage

Article 5

1. The Guarantee Section of the Fund shall finance the following operations effected in accordance with Community rules under the common organization of agricultural markets:

(a) Refunds on exports to non-member countries;

(b) Measures taken to regulate markets;

(c) Other measures decided upon by the Council, acting on a proposal of the Commission by qualified majority.

Refunds referred to in sub-paragraph (a) above in respect of exports effected under bilateral or multilateral arrangements shall be financed by the Fund only if the said arrangements are recognized by the Community to be of Community character.

2. Acting by qualified majority on a proposal of the Commission, the Council shall determine the operations to which paragraph 1 above shall apply, and shall lay down Community rules to govern such operations.

Article 6

1. The Guidance Section of the Fund shall finance the following operations effected in accordance with Community rules:

(a) The adaptation and improvement of the conditions of production in agriculture;

(b) The adaptation and guidance of agricultural production;

(c) The adaptation and improvement of the marketing of agricultural products;

(d) The development of outlets for agricultural products.

2. The commitments of the Guidance Section of the Fund shall correspond to one-third of the total expenditure of the Guarantee Section. Provided always that they shall at least be equal to the average of the commitments of the two previous years.

3. Should the provisions of paragraph 2 above impede the execution of the Community programmes referred to in Article 16 of Regulation No. 17/64/CEE, the Council, acting in accordance with Article 203 of the Treaty, shall increase the amount allocated to the commitments of the Guidance Section.

4. Before 1 January 1972, the Council, on the basis of a report by the Commission, shall reconsider the provisions of paragraphs 2 and 3 above.

5. In addition, the Council, acting according to the procedure laid down in Article 43 of the Treaty, may decide that operations other than those mentioned in paragraph 1 above shall be financed by the Guidance Section of the Fund in order that the objectives defined in Article 39(1 a and b) of the Treaty may be attained.

Article 7

1. When the single market system comes into force, Articles 2-6, 8 and 23 of Regulation No. 17/64/CEE shall no longer apply.

2. Before 1 October 1966, the Commission, after consulting the Fund Committee in accordance with Article 27(1) of Regulation No. 17/64/CEE, shall submit proposals to the Council concerning the measures to be taken in pursuance of Article 5 and any other measures necessary to supplement the provisions in force or adapt them to the requirements of the single market system, including measures to facilitate control of expenditure.

3. In addition, the Commission, after consulting the Fund Committee in accordance with Article 27(1) of Regulation No. 17/64/CEE, shall submit proposals to the Council before 1 October 1966 for amending the Financial Regulation relating to the European Guidance and Guarantee Fund (Regulation No. 64/127/CEE) so that the appropriations to be included in any budget may correspond to the expenditure to be incurred during the period to which the said budget applies.

Article 8

Each year before 1 October, the Commission, after consulting the Fund Committee in accordance with Article 27(1) of Regulation No. 17/64/CEE, shall submit to the Council and to the European Parliament a report on the management of the Fund during the year ended, dealing with the movements of its operational accounts, the nature of its expenditure and the conduct of Community financing transitions.

The present Regulation shall be binding in all its parts and directly applicable in each Member State.

II. Proposal for provisions to be adopted by the Council by virtue of Article 201 of the Treaty concerning the replacement of the financial contributions of Member States by independent Community revenues

The Council of the European Economic Community,

Having regard to the Treaty establishing the European Economic Community and in particular Article 201 thereof;

Having regard to the proposal of the Commission;

Having regard to the opinion of the European Parliament;

Whereas from 1 July 1967 there will be a uniform agricultural price system and common prices for the various agricultural products will be in effect; and whereas therefore the single market stage will have been reached in this sector;

Whereas from the same date the common customs tariff will be definitively established;

Whereas, as a result of the elimination of customs duties and agricultural levies in trade between Member States, the place where the import charges are imposed and that where the goods are consumed will be less and less likely to lie within the territory of the same State, so that it is no longer reasonable for the proceeds of customs duties and levies to go to the Member States that has collected them;

Whereas Article 2(1) of Regulation No. 25 on the financing of the common agricultural policy stipulates that, as soon as the single agricultural market comes into effect, the proceeds of agricultural levies shall accrue to the Community and shall be appropriated to Community expenditure;

Whereas Article 201 of the Treaty expressly provides for the possibility of allocating to the Community, as independent revenue, the proceeds of the common customs tariff when the latter has been finally introduced;

Whereas the procedure provided for in Article 201 of the Treaty should now be initiated, in order that the proceeds of the common customs duties and agricultural levies may accrue to the Community from 1 July 1967;

Whereas, since in the first few years receipts from the common customs tariff and agricultural levies will continue to reflect the structure of imports on the national markets, the budgets of the Member States will be affected in varying degrees by the transfer of these receipts to the Community; and whereas it is therefore advisable to provide for a transitional system gradually attaining the complete transfer of the receipts in question from the year 1972,

Has adopted the present provisions:

Article 1

From 1 July 1967, the proceeds, in trade with non-member countries, of:

(i) The levies and other charges introduced as part of the common agricultural policy, hereinafter referred to as “agricultural levies”, and

(ii) The common customs duties and the charges introduced by virtue of Article 235 of the Treaty on certain goods obtained by the processing of agricultural products, hereinafter referred to as “customs duties”.

Shall accrue, by the arrangements set out in Articles 2 and 3 below, to the Community as independent revenue.

Article 2

1. Without prejudice to other receipts, the budget of the Community for the year 1967 shall be financed in two equal parts:

(a) During the first half-year by financial contributions from the Member States;

(b) During the second half-year from the Community’s independent revenue.

2. For the second half of 1967, the Member States shall pay to the Community the agricultural levies and a part of the customs duties collected in their respective territories. The total amount of such payments shall be equal, for each Member State, to the amount of its financial contributions under paragraph 1(a) above.

Article 3

1. The Commission shall note in the case of each Member State the percentage of the receipts referred to in Article 1 that, during the second half-year of 1967, has remained in its hands after discharging its obligations under Article 2(2).

2. In each financial year from 1968 to 1971, the percentage of the receipts referred to in paragraph 1 remaining in the hands of each Member State shall be reduced each year by one-fifth.

3. From 1 January 1972, all the receipts referred to in Article 1 shall accrue to the Community.

Article 4

Without prejudice to other receipts, those arising from the implementation of Articles 1-3 shall form part of the budget of the Community and shall be used to finance without distinction any expenditure provided for therein.

Article 5

While respecting the requirement of Article 199 of the Treaty that the budget shall be balanced, the Commission shall include in the preliminary draft budget drawn up in pursuance of Article 203(2) of the Treaty all estimates of expenditure compatible with the aims of the Community, and shall provide, where appropriate, for payments to be made to the Member States.

If, when drawing up its preliminary draft budget, the Commission provides for payments to be made to the Member States, it shall take into account the economic and social situation in the different regions of the Community and the need to ensure that burdens are equitably shared within the Community.

Article 6

1. If the revenues of the Community other than the financial contributions of Member States are insufficient to balance the Community’s budget, the sums necessary to ensure such balance shall, until the end of the

1971 financial year, be paid by the Member States according to the scale of contributions implicit in Article 2(1, a).

2. Before the end of 1971, the Council shall determine, in accordance with Article 200(3) of the Treaty, the scale to be applied in calculating contributions from the 1972 financial year onwards.

Article 7

1. Acting on a proposal of the Commission by qualified majority and after consulting the European Parliament, the Council shall decide before 1 July 1967 on the arrangements for paying over to the Community the receipts referred to in Article 1 that have been collected by Member States.

2. By the same procedure, the Council may decide that flat-rate compensation shall be paid by the Community to the Member States for costs incurred by the relevant government departments in collecting Community dues.

Article 8

The Member States shall notify the Secretariat of the Council without delay of the completion of the procedures required under their municipal law for the adoption of the present provisions.

The present provisions shall come into force on the first day of the month following the deposit of the last of the acts of notification referred to in the preceding paragraph.

III. Draft treaty amending Articles 201 and 203 of the Treaty establishing the European Economic Community

Contracting parties ……………………

Preamble ………………………………

Article 1

Article 201 of the Treaty establishing the European Economic Community shall be replaced by the following provisions:

“*Article 201*

The Commission shall study the conditions under which the financial contributions of Member States provided for in Article 200 may be replaced by independent Community revenue.

For this purpose, the Commission shall submit proposals to the Council, which shall refer them to the Assembly.

The Council, acting by unanimous vote, shall adopt the necessary provisions. Nevertheless, it may decide such provisions by qualified majority if the Assembly has rendered an opinion supporting the Commission’s proposals by a two-thirds majority of the votes cast constituting an absolute majority of its members.

The provisions adopted by the Council must be approved by the Member States according to their respective constitutional rules, until such time as the members of the Assembly are elected in the manner provided for in Article 138(3) of the Treaty.”

Article 2

Article 203 of the Treaty establishing the European Economic Community shall be replaced by the following provisions, which shall apply to the preparation of the budget for the year 1968 and of succeeding budgets.

"*Article 203*

1. The financial year shall run from 1 January to 31 December inclusive.

2. Each of the institutions of the Community shall draw up provisional estimates of its expenses. The Commission shall combine these estimates in a preliminary draft budget. It shall attach its opinion, which may contain divergent estimates.

The preliminary draft budget shall be laid before the Council by the Commission not later than 15 September of the year preceding that to which it refers. The Commission shall at the same time transmit the preliminary draft budget to the Assembly.

The Council shall, whenever it intends to depart from the preliminary draft, consult the Commission and, where appropriate, the other institutions concerned.

3. The Council, acting by qualified majority, shall establish the draft budget and shall then transmit it to the Assembly.

The draft budget shall be laid before the Assembly not later than 15 October of the year preceding that to which it refers.

The Assembly shall have power to amend the draft budget by an absolute majority of its members, provided that the requirement of Article 199, second paragraph, of the Treaty is respected.

4. (a) If the budget has not been amended by the Assembly within one month from its receipt, it shall be deemed to be finally approved.

(b) If, within this period, the Assembly has amended the draft budget, the draft budget so amended shall be transmitted to the Council and to the Commission. The Commission shall then inform the Council, within 15 days, of its approval of the amendments made by the Assembly, or, if it does not approve these amendments, of the alterations that it proposes to make to these amendments.

Each of the Assembly's amendments shall be deemed to be finally approved unless, within a period of 20 days after receipt of the Commission's communication:

(i) The Council, by a majority of members, alters the Assembly's amendment in the manner proposed by the Commission;

(ii) The Council, by a majority of five of its members, adopts provisions differing both from the Assembly's amendment and from the Commission's proposal.

The budget shall be deemed to be finally adopted as soon as the amendments to it have been approved in accordance with the provisions of the preceding sub-paragraph."

Article 3

(Entry into force) ……………………

Article 4

(Final provisions) ……………………