

COMMISSION OF THE EUROPEAN COMMUNITIES

SEC(91) 411 final

Brussels, 13 March 1991

INTERIM COMMISSION REPORT

on action taken in response to the
observations made in the resolution accompanying
the decision granting a discharge in respect of
the 1988 budget

(presented to Parliament by the Commission
in accordance with Article 89 of
the Financial Regulation of 21 December 1977,
as amended on 13 March 1990)

Contents

	<u>Pages</u>
I. <u>Comments on the implementation of the budget, follow-up and control of actions financed</u>	1
Problems in the implementation of the budget	
Problems of monitoring and control	5
II. <u>Comments of the management of individual sectors</u>	6
Own resources	
EAGGF Guarantee Section: problems across the board	9
EAGGF Guarantee Section: problems in specific sectors	13
Structural policy: Structural funds, borrowing and lending operations, transport policy and sexual equality	21
Research, energy, environment	26
Information policy	32
Development aid and food aid	34
Administrative expenditure	38
Flow of information to the discharge authority	40
European Schools and European University Institute	41

I. COMMENTS ON THE IMPLEMENTATION OF THE BUDGET,
FOLLOW-UP AND CONTROL OF ACTIONS FINANCED

PROBLEMS IN THE IMPLEMENTATION OF THE BUDGET

(Parliament)

4. Calls on the Commission to ensure the transparency of decisions on the carry-over of appropriations and the restoration of commitment appropriations, by setting out the reasons for such decisions;

Reply

The Commission has applied the criteria contained in the Financial Regulation for carrying over appropriations or making appropriations available again. The carryover of payment appropriations and commitment appropriations and the making available again of cancelled commitments represent an exception to the principle of annuality.

The relevant Commission decisions (SEC(89) 255 and SEC(89) 209) set out the reasons for the decisions taken and thus provide transparency. In future, the Commission will endeavour to set out the reasons for its decisions even more clearly.

(Parliament)

5. Points out that too many budget headings, often amended by Parliament, have not been implemented satisfactorily and calls on the Commission to look into the reasons for this under-utilization in order to improve not only global implementation of the budget but also the implementation of individual headings.

Reply

The Commission is aware of Parliament's concern at the under-utilization of appropriations in some sectors. It would point out that maximum utilization of appropriations is not in itself a guarantee of sound financial management. It would also point out that, since the automatic carryover of differentiated appropriations was abolished in 1988, the appropriations lapsing at the end of the year correspond to the previous carryovers. The introduction of strict annuality in 1988 has not yet therefore increased the rate of payment in relation to the rate of commitment. As a result, the payment appropriations granted in the budget

for the past two years have exceeded the capacity for implementation by around 10%.

A detailed explanation of the reasons for the under-utilization of appropriations may be found on pages 66 to 85 of Volume I of the revenue and expenditure account and balance sheet for 1989.

The reasons for under-utilization being varied, the attempt to achieve better implementation of the budget must therefore be made at the level of the individual headings, with solutions adapted to each case. The Commission is pursuing this objective by, for example, seeking to improve the quality of the commitments entered into and by adopting stricter measures of control combined with moderated requests for payment appropriations which could lead to a better match between the amounts entered in the budget and the amounts spent.

(Parliament)

7. Deplores the fact that ECU 15 billion has been tied up as outstanding commitment appropriations, in many cases for very old projects, thereby denying funds to worthwhile projects; calls on the Commission;
 - (a) to strengthen and systematize its procedures for monitoring and closing files, particularly in the area of the Structural Funds, research and cooperation;
 - (b) to ensure the widespread application of Article 1 of the Financial Regulation as regards the duration of commitments entered into for multiannual projects, by keeping the possibilities of derogation to an absolute minimum.

Reply

A detailed analysis of "dormant" commitments may be found in Volume I of the revenue and expenditure account for 1989 (in particular on pages 74 to 77). In particular:

- Analysis of the ECU 16.6 billion in commitments outstanding at the end of 1989 reveals that 80% of current commitments are less than three years old. Less than 10% of current commitments are more than five years old and even these old commitments are always subject to periodical movements in the accounts.

- From 1989 onwards most operations under the structural Funds will be based on annual commitments, with the result that all commitments from the year n will be "awakened" in year n + 1.

A supervisory committee has been set up for operations granted aid.

Within the framework, the Commission will introduce an appropriate system for monitoring and closing the cases in question.

- In other sectors, where commitments have to cover a longer period, there will be more systematic monitoring as a result of:
 - re-examination of any commitment exceeding the initially planned time limit;
 - a regular purge to identify commitments which have remained inactive for a specific period.

These precautions will be accompanied by a more realistic system for the entry of payment appropriations in the budget.

(Parliament)

9. Regrets that the Commission has not proposed that the positive balance for the financial year should be used for the early repayment of debts incurred in connection with the disposal of butter stocks, by amending Council Regulation (EEC) No 801/87 (1) and revising the financial perspective and calls on the Commission in future to submit proposals before the end of the financial year earmarking the balance for the early repayment of any debts falling due.

Reply

As regards the balance for the financial year, Article 32 of the Financial Regulation now in force states:

the balance from each financial year shall be entered in the budget for the following financial year as revenue in the case of a surplus or expenditure in the case of a deficit.

The relevant estimates of such revenue or expenditure shall be entered in the budget during the budget procedure and, where appropriate, in a letter of amendment submitted pursuant to Article 14. They shall be drawn up in accordance with the principles set out in Article 15 of Regulation (EEC, Euratom) No 1552/89.

After the close of accounts for each financial year, any discrepancy with the estimates shall be entered in the budget for the following financial year through a supplementary or amending budget.

Article 27 of the Financial Regulation previously in force stated:

the balance from each financial year, calculated in accordance with Council Regulation (EEC, Euratom, ECSC) No 2891/77, shall be entered as revenue in the case of a surplus or expenditure in the case of a deficit in the budget of the subsequent financial year upon adoption of the amending budget referred to in Article 16(2) of the abovementioned Regulation.

PROBLEMS OF MONITORING AND CONTROL

(Parliament)

13. Proposes that if the principle of subsidiarity is to continue to be interpreted as subordination to national policies and authorities, it should be replaced by the concept of partnership which implies that the Commission has full responsibility for actions covered by decentralized management.

Reply

Subsidiarity and partnership, which are expressly introduced in framework Regulation No 2052/88, are not mutually exclusive, but represent two of the key and complementary features of this reform.

(Parliament)

14. Takes the view that the use of Community funds in third countries which do not have adequate administrative structures should be subject to concomitant checks by the Court of Auditors; takes the view that this requirement must be enshrined in the agreements concluded by the European Community and the third countries concerned; directs the Court of Auditors to report to it semiannually on implementation of aid to Eastern Europe.

Reply

A specific budget heading has been set up for economic aid to the countries of Central and Eastern Europe from 1990. Financial assistance from this heading is granted under a framework agreement concluded between the Commission and the Government of the recipient country. This framework agreement sets out the powers given to the Commission to monitor and supervise the use of the funds made available to the recipient country as part of economic aid for restructuring.

The Court of Auditors' powers of control are also set out in the framework agreements concluded with the recipient countries.

II. COMMENTS ON THE MANAGEMENT OF
INDIVIDUAL SECTORS

OWN RESOURCES

(Parliament)

17. Calls on the Commission to take into account the provisions of Annex VII of Parliament's Rules of Procedure and inform Parliament of any differences, problems and infringements that occur so that the Committee on Budgetary Control may draw the relevant conclusions.

Commission reply

The Commission submits to Parliament an annual report on the control of the application of Community law.

(Parliament)

19. Calls on the Commission correctly to assess the amount of own resources which must be made available, propose any corrections that may be necessary and justify such deviations from the normal method of calculation.

Commission reply

An estimate of the own resources to be made available to the Commission is included in the budget every year. In accordance with Article 16 of Council Regulation (EEC, Euratom) No 1552/89, before the end of October of each financial year the Commission makes an estimate of the own resources collected for the entire year.

The Commission informs the budget authority of the amount of resources collected and the reasons for any differences between them and the forecasts during the financial year by means of the reports provided for in Article 34 of the Financial Regulation and the analysis provided for in Article 80.

(Parliament)

20. Demands that the Commission shows outstanding debtors of own resources on the Community's balance sheet, indicating Member State (or States) involved.

Commission reply

The amounts in question are already given in volume V of the revenue and expenditure account, and are broken down by Member State in volume II. In

order to comply with Parliament's request, a breakdown by Member State will also be published in volume V from the 1990 financial year onwards.

(Parliament)

21. Stresses that the adoption of Regulation (EEC) No 1552/89 on the application of Decision 88/376/EEC, Euratom on the Community system of own resources will, for the first time, allow autonomous inspections to be conducted in the Member States and more detailed information to be forwarded to the Community on cases of fraud and irregularities and the measures taken by national authorities; urges the Commission, furthermore, to increase the overall effectiveness of controls and systematically to audit the financial results of inspections.

Commission reply

The Commission uses the powers of control granted to it by the new Regulation No 1552/89, in particular its right to make autonomous on-the-spot inspections, and the information on cases of fraud and irregularities sent to it by the Member States, in order to increase the effectiveness of its control activities concerning the own resources in question.

The Commission already audits the financial results of these inspections systematically.

(Parliament)

23. Calls on the Commission to include in its proposal for a European customs code provisions on the standardization of customs formalities, the simplification of procedures and measures required to combat irregularities and fraud.

Commission reply

In its proposal for a Community customs code¹, the Commission makes provision for:

- the standardization of provisions on customs formalities;
- the simplification of procedures;
- the adoption of measures required to combat irregularities and fraud.

(Parliament)

24. Calls on the Commission to ensure that the adoption of these new legal bases are accompanied by uniform and complete translation of Community law into national, legal and administrative provisions, an improvement in the quantity and quality of accounting and financial data forwarded by the Member States and the introduction of procedures capable of ensuring that the Communities' own resources are properly established, collected and taken into account and in this regard instructs the Commission to report to the Committee on Budgetary Control by 1 November 1990 on the legal steps taken to fulfil the demands of the European Parliament; calls on the Commission to pursue its efforts to establish a common and more transparent budgetary nomenclature and to ensure that the accountancy data concerning own resources which the Member States forward to the Commission is presented in a more detailed manner.

Commission reply

The Commission is aware of the need for the future Community customs code and the legislation for applying this code to be adopted in such a way as to allow this legislation to be applied uniformly throughout the Community, and for the own resources in question to be properly established, collected and taken into account by all Member States.

To this end it is continuing its work on adapting existing customs regulations against the background of 1992 and, in particular, the future application of the Community customs code.

1 COM(90)71 final, OJ No C 128, 23.5.1990, p. 1.

EAGGF. GUARANTEE SECTION: HORIZONTAL PROBLEMS

(Parliament)

27. Calls on the Commission, therefore, to take the following measures to tighten the control of agricultural spending:

(a) the monthly reports submitted under the early warning system should be supplemented by short- and medium-term forecasts of production and market trends so that action can be taken rapidly where there is any risk of forecasts being exceeded;

(b) the Commission is invited to submit proposals to strengthen its powers relating to agricultural stabilizers;

(c) the Commission must take action in response to any persistent deviation from the expenditure profile by chapter, as set out in Article 6 of Council Decision 88/377/EEC of 24 June 1988 on budgetary discipline; management confined to ensuring that the agricultural guideline is respected as a whole, thus enabling imbalances in certain sectors to be offset by savings in other areas, would be in breach of Article 39 of the Treaty, which cites stabilizing markets as one of the objectives of the CAP.

Commission reply

(a) In order to make information available rapidly, which the very name early warning system implies, the monthly report is drawn up and forwarded to the budget authority as quickly as possible, which means that the report has to be kept short. In spite of this constraint, the Commission has always endeavoured to include comments in the report which take account of the short and medium-term forecasts of production and sensitive market trends. These forecasts have been gradually developed by the Commission since the introduction of the warning system and have recently undergone major new improvements as indicated by the comments in the latest reports.

As and when necessary, i.e. in the event of the appropriations under a chapter being exceeded or where they risk being exceeded, a financial and economic analysis will be required in the report. This analysis, which

will include an assessment of the market situation, will indicate the management measures which the Commission has taken or proposes to take as far as it is competent to do so, and any proposals it has submitted or will submit to the Council.

(b) and (c) In reply to the concerns expressed by Parliament, Commission points out that budgetary discipline centres on management chapter by chapter and that it has based its proposals intended to curb the increase in agricultural expenditure on this policy. The strengthening of the automatic sectoral stabilizers in 1988 and the choice of the chapter as the unit of control in the warning system also show that budgetary discipline as a whole, and therefore adherence to the guideline, must be based on controlling expenditure for each of its parts. Nevertheless, this type of management based on monthly monitoring of individual chapter expenditure does not mean that transfers are prohibited. On the contrary, Article 8 of the Decision on budgetary discipline and the special provisions of Article 104 of the financial Regulation authorize their use. However, they must be proposed prior to any appropriation overrun, in order to maintain their character of authorization and not regularization. As for stabilizers, they have played a major role in reducing agricultural expenditure in recent years. Nevertheless, there is still a need to increase further the effectiveness of stabilizers in all sectors. Furthermore, they are being permanently reviewed by the Commission, more particularly in the context of their possible renewal, given that the majority of them will expire soon. At this stage the Commission has already drawn attention to the deficiencies of some stabilizer mechanisms in its monthly warning system reports, in particular in the tobacco sector.

(Parliament)

31. Calls on the Unit for the coordination of fraud prevention to continue the work it has undertaken in 1989 at four levels:

- (a) checks, by increasing the number of investigations carried out pursuant to Article 9 of Council Regulation (EEC) No 729/70;
- (b) standardization proposals; submission of a European customs code, review of the provisions for the control of export refunds, adoption of a regulation on checks on commercial documents of beneficiaries and debtors of the EAGGF Guarantee Section;
- (c) administrative rationalization: simplification of the system of different refunds and review of the proof of arrival of agricultural products at their final destination.
- (d) regulations: insists that the Commission draw up proposals for regulations which provide a deterrent to fraud in the form of administrative penalties and in any case insists that the Commission uses the powers at its disposal to deduct amounts due to the Community budget from allocations to be paid to Member States as penalties for abuse of the Community funds.

Commission reply

The Commission is continuing the course of action undertaken in 1989 to improve the situation as regards the fight against fraud. It should also be pointed out in this respect that a number of initiatives have been undertaken, some of which have been completed recently:

- (a) the organization of a larger number of investigations carried out pursuant to Article 9 of Regulation (EEC) No 729/70, in particular in sensitive sectors;
- (b) submission to the Council of a proposal for a European customs code accompanied by a draft definite timetable for the various stages of the procedure to allow the Council to adopt this proposal in December 1991¹;
adoption by the Council of two Regulations on the physical and documentary control of exports qualifying for export refunds²;

1 COM(90)71 final, SYN 253 of 28 February 1990.

2 Regulation (EEC) No 4045/89, 21.12.1989, OJ L 388, p. 18
Regulation (EEC) No 386/90, 12.2.1990, OJ L 42, p. 6.

- (c) amendment of the differentiated refund scheme in the beef and veal sector aimed at reducing significantly the number of headings in the refund nomenclature in this sector³;
amendment of the system of proof of arrival at the destination in third countries of agricultural products qualifying for a refund⁴

- (d) transmission of a draft proposal for a Council Regulation on checks and penalties applicable under the common agricultural and fisheries policies⁵ with a view to defining more closely the powers conferred upon the Commission as regards the checks and penalties necessary to ensure effective and uniform application of Community rules. This draft proposal also lays down certain standard checks and penalty measures in accordance with judgements handed down by the Court of Justice. Furthermore the Commission will continue to exercise the powers conferred upon it by the Council, in particular by proposing appropriate administrative penalties in the event of infringement of Community law.

3 Regulation (EEC) No 1468/89, 26.5.1989, OJ L 144, p. 49.
Regulation (EEC) No 3445/89, 20.11.1989, OJ L 336, p. 1.
Regulation (EEC) No 998/90, 20.4.1990, OJ L 101, p. 10.

4 Regulation (EEC) No 354/90, 9.2.1990, OJ L 38, p. 34.

5 COM(90) 126 final, OJ C 137, 6.6.1990.

EAGGF GUARANTEE SECTION: PROBLEMS IN SPECIFIC SECTORS

(Parliament)

33. Calls on the Commission to report to Parliament by 1 October 1990 on:

(a) the economic impact of co-responsibility levies in the cereals sector with regard to the objectives of stabilizing budgetary expenditure which they were intended to meet;

(b) the problems created for accounting and budgetary administration by the fact that these levies have the status of negative expenditure;

(c) trends in expenditure in the sector since the introduction of the levies, and in the economic parameters which are the cause of such expenditure (production, stocks, exports, etc.);

(d) the date of collection of co-responsibility levies in the various Member States.

Commission reply

The requested report was sent to the Chairman of the Committee on Budgetary Control on 16 October 1990.

(Parliament)

34. Approves the efforts made by the Commission and the national authorities to tighten controls, apply sanctions and to recover amounts wrongly paid out in connection with production aid for durum wheat, and calls on the Commission to adjust the level of production aid to the state of the market.

Commission reply

Since 1987 the Commission has pursued a policy of aligning the intervention price of durum wheat on that of common wheat by lowering the price of durum wheat. This reduction has been offset partially by increasing durum wheat aid in order to soften the impact on farmers' incomes. Attention is drawn to the fact that the Council is responsible for fixing the intervention price and the amount of aid.

(Parliament)

35. Intends to review the question of the financial neutrality of the sugar sector in the light of the communications from the Commission and the Court of Auditors.

Commission reply

The question of the financial neutrality of the sugar sector is currently being examined further by the Court of Auditors on the basis of detailed information provided by the Commission. The results will be communicated as soon as possible.

(Parliament)

36. Notes the alarming deterioration seen in recent months with respect to the artificial trade patterns affecting sugar exports which exploit different methods of customs control and fluctuations in exchange rates; notes that such diversions of trade both distort the conditions of competition and result in losses to the Community budget which the Court of Auditors estimates at ECU 10 million for the sugar sector; calls, therefore, on the Commission to take energetic action to end this phenomenon.

Commission reply

The increased use of Dutch ports as Community sugar exporters' preferred place of export is the result of a large number of factors, one of the most important of which being monetary effects, as already pointed out by the Court of Auditors in its special report on the agrimonetary system. However, the dismantling of the monetary gaps which the Council has adopted in the meantime a proposal from the Commission, will eliminate all the agrimonetary factors leading to the high sugar exports from Dutch ports from 1 July 1990.

(Parliament)

37. Is highly alarmed by the fact that sample checks carried out by the Commission concerning the quality of olive oil in intervention revealed that in 93% of the cases examined the quality found was lower than that which was declared and calls on the Commission to ensure that the quality control tests on olive oil taken into intervention are carried out on entry to the storage facilities.

Commission reply

Commission Regulation (EEC) No 3472/85 lays down explicitly that intervention agencies may not accept oils offered for intervention until the origin (proof of production, transport, etc) and the quality (analysis certificates) have been checked.

Investigations carried out by the Commission in Italy in 1986 and 1988 proved that, almost systematically, the oils were of a quality inferior to that declared and checked by the storage agencies.

Based on the results of the analyses, the Commission refused to finance part of the intervention costs (65.3%) for 1985 to 1987 and almost all the costs (99%) for the 1987/88 marketing year. A total of almost 60 000 tonnes of olive oil were involved.

As a result of these investigations and on a proposal from the Commission, from the 1989/90 marketing year onwards responsibility for supervising storage operation checks has been transferred to the olive oil control agencies, which should be able to ensure this is carried out properly (Council Regulation (EEC) No 200/90).

In any case the Commission will continue to follow this file closely in order to ensure the quality and origin of oils taken into intervention in the Member States involved.

(Parliament)

38. Asks the Commission to use subsidies and guaranteed prices to restore equilibrium to the tobacco market where there is overproduction of varieties for which there is no demand.

Commission reply

The Council has adopted a set of measures proposed by the Commission aimed at restoring equilibrium on the tobacco market, most of these as part of

the 1989 and 1990 price packages. These measures concern not only prices and premiums but also other instruments available to the Commission to guide tobacco production.

For example, from the 1989 harvest onwards, the intervention price of the three main varieties of which there is overproduction was reduced to 75% of the target price.

As a result of the decisions taken as part of the price packages and the very probable impact of the stabilizers, the prices and premiums for the Badischer Geudertheimer variety will be cut by 44% and 36% respectively for the 1990 harvest. The prices and premiums for the Mavra and Tsebelia varieties will be reduced by 28%.

In view of the production characteristics and conditions, producers can convert only gradually to varieties for which there is a demand on the market. More restrictive measures would have penalized producers unduly, their income already being among the lowest in the Community.

In addition, the introduction of the obligation to conclude a contract for European crops between the producer and the purchaser in order to qualify for the premium will also contribute to restoring equilibrium to tobacco production. This measure will strengthen the necessary cooperation between producers and purchasers in order to promote the alignment of production to those varieties which the market actually requires.

Finally, it should be pointed out that the Commission has commissioned an analysis of the tobacco sector from a group of independent experts. Their report should include recommendations which will form the basis of the reform proposals which the Commission will submit to the Council and Parliament in the near future.

(Parliament)

39. Calls on the Commission to submit proposals amending the common organization of the market in the fruit and vegetables sector to encourage organizations to make efforts to seek outlets for their production on national and international markets rather than relying on withdrawals from the market.

Commission reply

As part of the measures fixing the 1990/91 farm prices, the Council has adopted a number of measures aimed at improving and reinforcing the role of citrus fruit producers' organizations in view of operational deficiencies and the large volume of citrus fruit withdrawals which have been registered in certain regions of the Community. In addition, checks on all producers' organizations in this sector will be stepped up. In the same context, measures aimed at encouraging producers to restrict withdrawals and to promote the free distribution of products withdrawn have also been adopted.

Furthermore, for citrus fruit, measures have already been taken to promote the disposal of surpluses by processing.

What is more, these measures are complemented by the introduction of apple and citrus fruit promotion measures aimed at increasing the consumption and use of these products.

(Parliament)

40. Asks the Commission to review the price system for the distillation of wine to curb the growth in stocks.

Commission reply

In 1988 the Council adopted a number of important measures on the common organization of the market in wine, in particular:

- a very sharp reduction in the price of compulsory distillation, from 40% to 7.5% of the target price for the quantity of wine to be distilled exceeding 10% of normal use;
- the reinforcement of the voluntary abandonment scheme for areas under vines by increasing the premiums and exempting producers who grub up a major part of their vineyards from compulsory distillation.

The new scheme covers the period from 1988/89 to 1995/96.

These measures have been applied from the 1988/89 wine year onwards. The results obtained so far from the first wine year in which these measures have been applied indicate a considerable decrease in winegrowing potential.

As it already announced, the Commission has no longer needed to use the re-storage measure and has continued the gradual reduction in the volume of distillation, at a high price, called the "satisfactory-outcome guarantee".

Furthermore, as a result of the undertakings it gave as part of the fixing of the 1990/91 farm prices, the Commission is currently drawing up a report which will deal with enrichment and the distillation and planting arrangements.

(Parliament)

42. Calls on the Commission, once the Council has adopted the two proposals concerning the amounts granted on export of agricultural products in general and the adoption of new rules governing export refunds for beef and veal, to implement the new control measures in the beef and veal sector and to report to Parliament in due course on their effectiveness.

Commission reply

On 12 February 1990 the Council adopted Regulation (EEC) No 386/90 (OJ No L 42, 16.2.1990) on the monitoring carried out at the time of export of agricultural products receiving refunds or other amounts. On 17 July 1990 the Commission adopted Regulation (EEC) No 2030/90 laying down detailed rules for the application of this Council Regulation (OJ No L 186, 18.7.1990, p. 6).

It is planned to make a report on the state of application by 1 January 1992.

On 21 December 1989 the Council adopted Regulation (EEC) No 4045/89 (OJ No L 388, 30.12.1989) on scrutiny by Member States of transactions under the EAGGF Guarantee Section financing system. The first scrutiny period provided for in this Regulation begins on 1 July 1990. The preparatory work

has begun. On 29 June 1990 the Commission adopted Regulation (EEC) No 1863/90 (OJ No L 170, 3.7.1990) laying down detailed rules for application as regards Community part-financing of expenditure incurred by Member States under the new Council Regulation. Furthermore, it is also planned for the Commission to draw up a report on the application of this Regulation by the end of the 1991 marketing year.

These Regulations cover all the agricultural products involved.

(Parliament)

43. Calls on the Commission to take the necessary measures to tighten up controls on the ewe premium and to report to Parliament.

Commission reply

Regulation (EEC) No 3007/84 (detailed rules for the application of the ewe premium scheme) was amended by Regulations (EEC) No 3984/89 of 20 December 1989 (OJ No L 380, 29.12.1989) and No 1260/90 of 11 May 1990 (OJ No L 124, 15.5.1990). With regard to checks on the granting of the premium, the following measures in particular have been introduced:

Premium applications must be submitted to the authority designated by the Member State in the area to which the holding belongs. The location where the flock is kept during the 100-day keeping period must be indicated in applications, and any subsequent changes must be communicated.

Member States must send to the Commission by 31 July of each year particulars of the applications submitted at the beginning of the premium period using a special form.

No payments on account may be made until the 100-day keeping period, during which checks must be made, has expired. The minimum number of on-the-spot inspections during the 100-day keeping period has been fixed by the Commission at 10% of the number of applicants for each marketing year, special attention being paid to applications covering more than 500 animals.

Producers must inform the competent authority in writing of the loss of any animals attributable to the natural circumstances of the life of the flock or as a result of force majeure within a period of 10 days.

In the event of incorrect declarations being made on the number of animals, the penalty is proportional (limited to 10% of the difference between the number declared and the number actually counted). However, in the case of fraudulent declarations, the penalty is increased (loss of the premium for the current marketing year and the marketing year following).

STRUCTURAL POLICY: STRUCTURAL FUNDS, BORROWING
AND LENDING OPERATIONS, TRANSPORT POLICY AND SEXUAL EQUALITY

(Parliament)

45. Calls upon the Commission to make full use of the scope afforded by the new rules (laying down of strategic objectives; project selection, monitoring and checking on the basis of the partnership arrangements, Community support frameworks and operational programmes; collaboration with the Court of Auditors to lay down criteria for ex post assessments) in order to ensure that the Community's structural operations are a genuinely effective means of realizing objectives with regard to cohesion.

Commission reply

The Commission has certainly taken advantage of all the means offered by the new rules in its negotiations within the framework of the partnership on Community support frameworks (CSFs) and operational programmes.

The Commission has already made available its first report on results of the reform of the structural funds (COM(90)516 final of 22.10.1990).

In this respect collaboration with the Court of Auditors has been as usual.

It should be pointed out that the Court of Auditors has already carried out investigations at the Directorate-General concerned as regards implementation of the Reform in 1989.

(Parliament)

46. Suggests to the Commission that monitoring and checks carried out as part of the reform of the funds should be based on the following criteria:

(a) progress will have to be assessed with regard not only to implementation of a programme as a whole, but also to the regularity of all the operations financed under a given programme;

(b) the Commission should define more clearly the monitoring criteria to be applied by the committees provided for in Title VIII of the coordination regulation and should ensure that these committees are closely involved in monitoring Community support frameworks;

(c) the provisions of Article 1(3)(a) of the Financial Regulation (time-limit for the implementation of legal commitments for measures extending over more than one financial year) should be enforced to prevent funds from being tied up in the future;

(d) the Commission should take advantage of the scope provided by Article 23 of the coordination regulation to carry out on-the-spot checks without advance notice;

(e) particular attention should be paid to coordinating the various subsidies and coordinating the latter with lending instruments.

Commission reply

46(a) It should be recalled that one of the pillars of the reform is subsidiarity. The Commission negotiates programmes with the Member States in this spirit, and it is the Member States who bear the main responsibility for monitoring operations and projects financed under these programmes.

(b) Work on defining the assessment and monitoring methods is continuing in the departments involved and the conclusions of this work will be forwarded to Parliament when available. Of course, the entire procedure is taking place within the framework of the partnership and the Monitoring Committees referred to are responsible for assessment and monitoring. The rules on this are given in the common provisions of each CSF.

(c) The time-limit has been introduced systematically into decisions on the granting of financial aid for operational programmes. The Commission will ensure compliance with the new provisions in future.

(d) The Commission will not fail to carry out the on-the-spot checks without prior notice provided for in Article 23 of the coordination regulation if it deems it necessary to make use of this possibility.

(e) Coordination between the Funds, the EIB and the other instruments has already had an effect, in particular:

- at CSF level, the forward financing plans propose, in addition to part-financing by each Fund, indicative amounts for loan offers from the EIB and, where appropriate, from the ECSC; and

- in the integration of ECSC loans into the new approach laid down in framework Regulation No. 2052/88 (extension of the scope of ECSC loans - combination of ECSC loans and interest-rate subsidies for ERDF resources).

(Parliament)

49. Believes that the instances of cancellation of commitments entered into in 1988 under the Social Fund, involving a total of some ECU 500 million, underline the seriousness of the management problems affecting the Fund at both national and Community level, in particular where project selection and monitoring are concerned.

Commission reply

The new rules resulting from the reform of the structural Funds of 1988 provide the Commission with the legal instruments, previously lacking, which it needs to improve selection and monitoring of measures financed by the structural Funds and by the ESF in particular.

Improvements in the selection of measures to be financed and in monitoring should contribute towards finding the desired solution to the problem presented by the cancellation of commitments.

(Parliament)

50. Urges the Commission to reduce the period required to recover advances wrongly paid by the Social Fund and to charge interest when repayment is delayed, pursuant to Article 24 of Council Regulation (EEC) No 4253/88;

Commission reply

The Commission does its utmost to speed up recovery of sums unduly withheld by beneficiaries of advance payments made by the ESF. Recovery orders are now issued as soon as debts are established, even if these are partial recoveries of amounts which will not close the files concerned. As regards interest for delayed repayment, on 2 July 1990 the Commission adopted a regulation laying down detailed rules for the application of Article 24 of Regulation (EEC) No 4253/88. Pursuant to these detailed rules, the Commission can charge interest on amounts which are not repaid within the time-limit set.

(Parliament)

52. Deplores the failure of the overall programme for the psychiatric hospital on Leros and calls on the Commission:

- (a) to report within six months on progress in the implementation of Greece's general health reform programme;
- (b) to request the Greek authorities to reimburse all Community payments made in error for a project not carried out on Leros;
- (c) to make any further grants to the health reform programme conditional upon the setting-up of monitoring committees as provided for under Council Regulation (EEC) No 4130/88 and on the implementation of the revised psychiatric programme.

Commission reply

- (a) The requested report was sent to Parliament on 4 October 1990;
- (b) The Greek authorities have been asked to reimburse the advance payment made in error for the project in question;
- (c) No further new psychiatric projects under Regulation (EEC) No 815/84 will be approved until the Monitoring Committee responsible functions in accordance with Regulation (EEC) No 4130/88 and the Greek authorities have presented to the Commission a revised programme with appropriate measures to achieve the objectives of the psychiatric reform.

(Parliament)

58. Awaits the study which the Commission is to submit on the entering of loans and borrowings in the budget and the Commission's proposals.

Commission reply

As recorded in the Minutes of the Council meeting of 13 March 1990, the Commission has undertaken to study the possibility of improving the handling of lending and borrowing operations in Community budget documents. It will present the results of this study by the end of 1991 at the latest.

(Parliament)

59. Calls on the Commission to promote a Community transport policy underpinned by adequate budget appropriations and by the creation of a legal basis to finance major European transport routes and coordinating

transport policy with the regional and structural policy priorities of the Community.

Commission reply

On 20 November 1990 the Council adopted a triannual programme (1990-92), COM(89) 238, on the financing of higher-priority action with a view to the completion of an integrated transport market in 1992.¹

¹ Council Regulation (EEC) No 3359/90, OJ L 326, 24.11.1990

RESEARCH, ENERGY, ENVIRONMENT

(Parliament)

61. Notes that the greater degree of annuality of the budget did not adversely affect implementation of the research budget in terms of commitment appropriations; points out, however, that ECU 59 300 000 of the year's payment appropriations was cancelled and calls on the Commission to implement a more dynamic form of budgetary management to ensure that the greatest possible volume of available appropriations is used by the end of a financial year.

Reply

The Commission would point out that the utilization rate in the research sector in 1989 was more than 99% for commitment appropriations and more than 98% for payment appropriations. This is higher than in 1988. Since 1989 full and detailed information on the implementation of appropriations is contained in Volume I of the revenue and expenditure account (pages 65 to 77) (see also the replies to points 5 and 7).

(Parliament)

62. Believes that the long-standing difficulty in ensuring full outturn of the appropriations entered in Chapter 73 stems from the difficulty of reconciling the annuality of the budget with the multiannual nature of the research framework programme; calls therefore, on the Commission to obviate this problem by means of transfers of allocations within the financial perspective, as provided for in Article 11 of the Interinstitutional Agreement.

Reply

In the answer given to Parliament on the mid-term evaluation report on the second RTD framework programme 1987-91 (carried out at the Commission's request by a group of five independent experts), it was stated that a study would be commissioned from an outside body with a view to improving the administration of research.

Following a call for tenders, this study was entrusted to two specialist firms which are well known internationally, Andersen Consulting and Touche Ross.

The study has now been completed. Parliament will be informed of its findings.

(Parliament)

63. Calls on the Commission to take steps to reduce the growing weight of outstanding commitments, evidence of the failure to keep funded projects under proper review; calls in particular on the Commission to monitor all phases of implementation of a funded scientific programme, withholding funding from all projects which, once under way, prove unsatisfactory and adapting the conditions of funding of each project to take account of its scientific and operational development.

Reply

Research activities are multiannual and some projects take three to four years.

The term "cost of the past" is not appropriate in this case since the commitments are not dormant.

- Every year, on the basis of its experience, the Commission requests payment appropriations corresponding to the amount needed to clear outstanding commitments in the year in question.
- The Commission is able to monitor the progress of projects and end them if necessary as a result of the scientific control and technical audit included in its programmes.
- A specific procedure was introduced on 1 July 1989 whereby the situation as regards commitments is regularly reviewed in order to avoid any pointless build-up in the cost of the past.

At 31 December 1988 a total of 50% of outstanding commitments were 1988 commitments, i.e. commitments in respect of projects which had only just started, and 46% were commitments no more than three years old, which is quite a normal situation in the sector with multiannual projects (incidentally, R&D is included in heading 3 - Policies with multiannual allocations). Thus, 96% of the outstanding commitments mentioned in the report by the Court of Auditors are outstanding only in the accounting sense and not if the nature of the projects in question is considered.

- Genuinely, old outstanding commitments account for no more than 3.5% (a percentage which remains virtually constant).

This figure is lower than in any other sector apart from social policy and well below the average of 12%.

- However, since 1 July 1989 cases where there has been no movement for more than one year have been automatically reviewed.

(Parliament)

64. Believes that the volume of work carried out by the JRC for third parties will testify to the excellence of the Centre's activities but fears that it is highly unlikely that the goal of generating ECU 130 million in revenue in the period from 1988 to 1991 can be attained; calls on the Commission to provide the JRC with enough qualified staff to develop its marketing strategy.

Reply

As the 1989 annual report of the Joint Research Centre (SEC(90) 575 final) shows, despite the delay due to the Council's late adoption of decisions on the JRC programmes and a number of connected measures, in particular as regards the release of staff, the rate of orders for activities carried out for third parties increased substantially in 1989, as the JRC Board of Governors also notes in its observations attached to the annual report. However, these activities were not conducted at the same pace and a strenuous effort has been made to catch up. The JRC mid-term evaluation panel pointed to the high scientific standard and the cost-benefit relationship of the activities which had already been carried out for third parties.

(Parliament)

65. Will keep the restructuring of the Joint Research Centre, which began late in 1988, under close review and calls on the Commission to place the new institute-based management system on a footing of institute accountability, by means of continuous monitoring of management to identify discrepancies between forecasts and work carried out, on the basis of direct charging of costs to each institute; calls, to that end, on the JRC management to probe more deeply in its study of the organization of budgetary management, using computerization where appropriate.

Reply

The market philosophy adopted - and backed by the recommendations of the evaluation panel - is to devolve marketing activities as far as possible to the various institutes, with the JRC Contracts Division harmonizing the conditions laid down for activities on behalf of third parties and the Directorate-General of the JRC concentrating on "spearheading", i.e. identifying fresh potential.

The decentralization of the JRC by giving more work to the institutes continued in 1989. Some administrative and financial activities were transferred from the JRC Administration to the institutes. In 1989, budget appropriations were already being administered on the basis of the structure of the institutes and the 1990 budget was drawn up from the very start on the basis of the requirements of this structure. A contractor/customer relationship has gradually been built up between the institutes and the central departments, ensuring greater responsibility as regards costs. A consultancy firm has been commissioned to produce new system of management accounts which should make for more accurate checks on costs and a more discriminating evaluation of cost prices to be applied to activities for third parties.

(Parliament)

67. Believes that fraud or irregularities are possible in the research sector too, in particular as a result of artificial inflation of costs, and calls, therefore, on the Commission to draw up a typology of costs to enable the units negotiating a contract to determine the actual costs of the projects.

Reply

A number of controls exist at various stages in the procedure for selecting and carrying out projects in order to detect attempted fraud and irregularities. On the whole, the following controls may be mentioned:

A. Before the contract is signed:

1. assessment of proposals by the Commission's scientific departments, possibly assisted by outside experts or referees;
2. assessment of proposals by an advisory committee on management and coordination;
3. during negotiation of the contracts, checks on the financial information supplied by tenderers in the contract negotiation form. In dubious cases, additional information on the tenderers is requested from an outside firm;
4. in some cases, an on-the-spot control, normally by an auditor;
5. examination of the proposed contract by Financial Control.

Furthermore, most tenderers are subject to financial controls by one or more bodies independent of the Commission.

B. Controls after the contract is signed:

1. Examination of the statements of expenditure by:
 - (a) the official responsible for the administrative aspects of the contract;
 - (b) the official responsible for the scientific aspects;
 - (c) Financial Control.
2. On-the-spot controls carried out directly by the Commission or indirectly through auditors.

These controls have shown that attempts at fraud are rare.

All these assessments and controls are based on a method which varies according to type of contract, the partners (industry, universities, individuals) and the amount (simplified structure for low-value contracts). For shared-cost contracts with a number of industrial partners, the following breakdown is also made:

- direct costs, including:
 - salaries and remunerations
 - travel and subsistence
 - equipment
 - consumables
 - outside assistance (joint contracts, subcontracts, services)
 - computer
 - other direct costs;
- indirect costs
 - overheads on salaries
 - overheads on other direct costs
 - fixed charges;
- VAT

(Parliament)

68. Calls on the Commission to charge the management costs for environment budget headings to its operating budget.

Reply

This question was examined in detail during the 1991 budget procedure. On 22 May 1990 the Commission adopted a regulation on "mini-budgets" which guarantees better control and transparency in the budgetary management of these headings.

A Commission communication to the budgetary authority on the future of mini-budgets was sent to the Council and Parliament on 18 October 1990.

INFORMATION POLICY

(Parliament)

70. Calls on the Commission to draw up a single operational programme covering all the information, communications and cultural activities as part of a document listing all the relevant budget headings to be submitted to Parliament, which will make an assessment within the framework of the budgetary and discharge procedures.

Reply

In the framework of its internal arrangements to improve coordination between the information and communication activities of its various departments the Commission has established the annual Priority Information Programme (PIP). This is essentially an internal matter of the Commission's administration and procedures. The Member of the Commission responsible for information and communication has now adopted the practice of forwarding the Commission's internal document on the PIP to the Chairman of the Committee for Youth, Culture, Education, Media and Sport. It is in the framework of regular discussions in this Committee that progress of the Commission's information and communication work and the state of inter-departmental coordination is regularly examined. During the debate within that Committee, the budgetary allocations specifically proposed for information and communication work are examined in detail.

(Parliament)

72. Calls on the Commission to undertake a cost-benefit analysis for information programmes to which financial resources are committed and to include the findings in the preliminary draft budget and in its operational programme.

Reply

The evaluation of cost-effectiveness has been given serious technical attention by the Commission. As has been made clear to the Committee on Budgetary Control, there are serious doubts among professionals as to whether standard accounting techniques for cost-effectiveness assessment can be adequately applied to information and communication, areas where so

many variables are present which condition the results obtained. The departments concerned are presently compiling data on relevant illustrations of relative cost-effectiveness to ascertain whether on the basis of these observations a particular methodology suitable to the area of information and communication can be elaborated.

DEVELOPMENT AID AND FOOD AID

(Parliament)

73. Deplores the significant increase in outstanding commitments under Title 9 of the budget and calls on the Commission to adopt a more dynamic financial management, in particular by making systematic use of the procedure for automatic closure of dormant files used for projects under Chapter 93.

Reply

The automatic closure of dormant files now used for projects under Chapter 93 is to be extended to all operations under Title 9 of the budget. The various authorizing officers and the Commission's Financial Control have approved a standard letter to be sent to the recipient to confirm that the project is being closed.

This procedure will take place in two stages:

- first, the Commission will conduct an operation to close all dormant files in the course of 1990;
- then, in future, it will only be necessary to send the letter confirming closure when the final payment for each project is entered in the accounts.

This procedure will be applied to projects which have not been given a time limit for implementation under Article 1 of the Financial Regulation as amended in June 1988.

(Parliament)

74. Notes that the budgetary management of Chapter 93 for aid to Latin American and Asian developing countries has seen serious delays in the funding of projects and calls on the Commission to take the following action to remedy the situation:
- (a) redeployment of delegation staff (still inadequate) and central staff (often overlapping of work);
 - (b) changeover from committee procedures which result in major operational delays to a system of advisory committees;
 - (c) investigation of the possibility of reducing the excessive number of annual projects funded and drawing up multiannual programmes.

Reply

- Appreciable progress was already made in 1989 as regards the utilization of appropriations (100% for commitment appropriations and more than 90% for payment appropriations for financial and technical cooperation with Latin American and Asian developing countries).

- In this connection, the Commission is endeavouring to make general use of procedures for carrying out projects which guarantee dynamic implementation and use up the payment appropriations. In particular, technical support is provided at management level. Finally, it is proposed to open consolidated EEC bank accounts for the delegations to ensure a regular supply of funds for the projects.

(a) DG I recently reorganized its central departments by concentrating most of its staff in two new geographical directorates for Asia and Latin America to be responsible for all political and technical cooperation.

However, the number of staff in Brussels and in the delegations is still very inadequate.

(b) The time taken for the decision-making procedure when a committee is involved would not be very different if the current financing committee (provided for in Regulation No 442/81) were to be changed into an advisory committee.

However, in line with the conclusions in its paper on the ten-year strategy for cooperation with the developing countries of Latin America and Asia¹ and the comments to be made by Parliament and the Council, the Commission is examining how to revise the rules governing such cooperation.

(c) In view of the number of countries concerned, the number of financial and technical cooperation projects financed each year (about 25) is not really excessive. However, the Commission agrees that, in future, general programmes should be drawn up wherever possible and their impact on the overall policy of the recipient developing countries should be gauged more effectively.

1 COM(90) 176 of 11 June 1990, now being considered by the Council and Parliament.

(Parliament)

75. Calls on the Commission to pay greater attention to sound budgetary management of Article 936 (aid to refugees), by drawing up rules for the selection, management and monitoring of projects.

Reply

The Commission would point out that, although the procedure for administering this type of aid (which is in response to sometimes very urgent humanitarian needs and is very frequently granted in areas which are relatively unsafe) requires great flexibility, it has drawn up internal rules to provide the necessary discipline for selecting, administering and monitoring operations.

The Commission's activities on behalf of Asian refugees from Iraq and Kuwait are a good example of how Article 936 is properly applied.

(Parliament)

76. Calls on the Commission to submit within six months of the date of the discharge decision, an analysis of the impact of the new mobilization scheme for food aid.

Reply

A report on the implementation of aid in 1987 and 1988 which includes an analysis of the new system for mobilizing food aid is now being finalized and will be presented to the Council and Parliament.

(Parliament)

78. Deplores the fact that the management and utilization problems which have arisen with the counterpart funds have not yet been solved and that proceeds from sales, often less than the actual value of the aid, are sometimes used to finance public sector deficits; consequently calls on the Commission to tighten up the clauses in the agreements concerning deadlines to ensure that the commercial value of the aid is charged to specific accounts.

Reply

The Commission has introduced greater discipline in the management and utilization of the counterpart funds. These funds must be placed in a special interest-bearing bank account (when this is compatible with the religious ethics of the country) within three to six months of the product being delivered. They are calculated on the basis of the commercial value of the product on the world market at the time of delivery. The counterpart funds, including interest, must be identified in the bank account. Disbursement is subject to the Commission's advance agreement and must take place as soon as possible.

ADMINISTRATIVE EXPENDITURE

(Parliament)

82. Considers it vital to carry out a study of the degree of independence enjoyed by the financial controllers of the institutions in exercising their duties and calls on the Court of Auditors, for this purpose, to provide Parliament with an analytical table of all the decisions to overrule a refusal to approve expenditure in each institution for the period 1984 to 1988 inclusive; requests that such a table should henceforward be sent to Parliament each year, for the previous financial year, before the beginning of the discharge procedure; insists that, for any case where the visa of the financial Controller of any institution is refused, and where the President of that institution overrules the refusal, all supporting documents, including the reasons for refusal, provided by the Financial Controller, be submitted to its Committee on Budgetary Control.

Reply

Under Article 39 of the Financial Regulation the Court of Auditors is sent all documents relating to the institution's decision to overrule its financial controller's refusal. These documents set out the reasons for refusal with reference to the rules applicable. The Commission leaves it to the Court of Auditors to take action on these data.

(Parliament)

83. Asks the Commission to report at the earliest opportunity on the forthcoming reform of the Joint Sickness Insurance Scheme; also asks that negotiations be opened with medical associations in Brussels, Luxembourg and Ispra on rules relating to fees.

Reply

The changes designed to bring the finances of the Joint Sickness Insurance Scheme into balance in accordance with the budgetary provisions contained in the rules in force are set out in opinion 3/89 by the Management Committee for Sickness Insurance. This opinion has been approved by the Working Party on the Staff Regulations and the Court of Justice confirmed general agreement on a change to the rules on 5 December 1990.

In May 1990 the Joint Sickness Insurance Scheme's Working Party on Agreements began discussions with the appropriate medical associations to try and obtain agreements on the services for which officials are charged. However, despite the efforts undertaken even at national level to keep the existing agreements, there were technical and other obstacles; a large proportion of doctors and dentist wished to safeguard the right to charge unregulated "free fees" for their services.

FLOW OF INFORMATION TO THE DISCHARGE AUTHORITY

(Parliament)

88. Calls on the Commission to include in Volume I of its revenue and expenditure account (financial analysis) a detailed analysis of the state of implementation of appropriations and the reasons for underutilization.

Reply

Parliament's request was followed up in Volume I of the revenue and expenditure account and financial balance sheet for 1989, in particular on pages 66 to 85.
(see also replies to points 5 and 7)...

EUROPEAN SCHOOLS AND EUROPEAN UNIVERSITY INSTITUTE

(Parliament)

91. Calls on the Commission and the Board of Governors to intervene urgently with the Italian authorities so as to arrive at a solution designed to make available without further delay the funds needed for repair and maintenance of buildings at the European School in Varese.

Reply

On 19 December 1989 in the Senate and on 12 June 1990 in the Chamber of Deputies the Government of the Italian Republic adopted a law amending the agreement between Italy and the European School in Varese. An appropriation of LIT 1 500 million will be made available to the School for the repair of its buildings.