REPORT

drawn up on behalf of the Committee on Budgetary Control

on the decision granting a discharge for the implementation
of the budget of the European Communities for the
financial year 1984

Rapporteur: Mrs C. SCRIVENER
On 19 June 1985, pursuant to Article 78d of the ECSC Treaty, Article 205a of the EEC Treaty and Article 179a of the EAEC Treaty, the Commission of the European Communities forwarded to the European Parliament the revenue and expenditure accounts, the balance sheet for the financial year 1984 and the analysis of the financial management (COM(85) 185 to 189 final).

The President of Parliament referred these documents to the Committee on Budgetary Control.

At its meeting of 15 May 1985, the committee appointed Mrs SCRIVENER rapporteur.


At its meetings of 18 December 1985, 22 January 1986, 4 February 1986, 25 February 1986, and 18/19 March 1986 the Committee on Budgetary Control considered the revenue and expenditure accounts, the balance sheet for the financial year 1984, the analysis of the financial management, the report of the Court of Auditors, the following documents: Doc. B 2-895/85: motion for a resolution tabled by Mr Fich and others on the Commission's decision to grant aid to Turkey from the Third Financial Protocol in the 1984 budgetary year, COM(85) 213: Commission report on borrowing and lending activities in 1984, COM(85) 447: 14th financial report on the EAGGF - Guarantee Section, COM(85) 492: 14th financial report on the EAGGF - Guidance Section, COM(85) 508: 13th report on the activities of the ESF, COM(85) 626: JRC execution report 1984, COM(85) 348: Annual report on the NGOs 1984, COM(85) 516: 10th report on the ERDF, the working documents drawn up by its rapporteurs on the various sectors of Community activity and the opinions of its specialist committees.

At its meeting of 18/19 March 1986 the committee adopted the proposal for a decision and the motion for a resolution appearing in Part I by 13 votes to 4 with 3 abstentions.

The following took part in the vote: Mr AIGNER, chairman; Mrs BOSERUP and Mr MARTIN, vice-chairmen, Mrs SCRIVENER, rapporteur; Mr BARDONG, Mr CHIOMBANDO (deputizing for Mrs Lentz-Cornette), Mr COLOM NAVAL, Mr CORNELISSEN, Mrs FUILLET, Mr GIUMARRA, Mrs HOFF, Mr PITT, Mr PRICE, Mr RYAN, Mr SARIDAKIS (deputizing for Mr Marck), Mr SCHÖN, Mr SCHREIBER Sir James SCOTT-HOPKINS (deputizing for Mr Escuder Croft), Mr SIMMONDS, Mr TOMLINSON (deputizing for Mr Sapena Granell) and Mr WETTIG.

The opinions of the Political Affairs Committee, the Committee on Energy, Research and Technology, the Committee on Social Affairs and Employment, the Committee on Regional Policy and Regional Planning, the Committee on Development and Cooperation are attached to this report. The working documents will be published in a separate annex.

The report was tabled on 21 March 1986.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.
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The Committee on Budgetary Control hereby submits to the European Parliament the following draft decision:

PROPOSAL FOR A DECISION

on the discharge to be granted to the Commission in respect of the implementation of Sections I (Parliament), II (Council), III (Commission), IV (Court of Justice) and V (Court of Auditors) of the budget of the European Communities for the financial year 1984

The European Parliament,

- having regard to the Treaty establishing the European Coal and Steel Community, and in particular Article 78(g) thereof,

- having regard to the Treaty establishing the European Economic Community and in particular Article 206(b) thereof,

- having regard to the Treaty establishing the European Atomic Energy Community and in particular Article 180(b) thereof,

- having regard to the budget and the supplementary and amending budget for the financial year 1984,

- having regard to the revenue and expenditure account and balance sheet for the financial year 1984,

- having regard to the report of the Court of Auditors concerning the financial year 1984 and the replies of the Institutions,

- having regard to the recommendation from the Council concerning the discharge to the given to the Commission (Doc. C 2-2/86),

- having regard to the resolution tabled by Mr. Fich and others on the Commission's decision to grant aid to Turkey from the Third Financial Protocol in the 1984 budgetary year,

- having regard to the report of the Committee on Budgetary Control, the opinions of the Political Affairs Committee; the Committee on Energy, Research and Technology; the Committee on Social Affairs and Employment; the Committee on Regional Policy and Regional Planning and the Committee on Development and Cooperation and the accompanying working documents relating to the various sectors of Community policy (Doc. A 2-15/86 and Doc. A 2-15/86/Ann.),

- whereas the budgetary authority authorized the following amounts for the financial year 1984 (budget and supplementary and amending budget 1/84):

<table>
<thead>
<tr>
<th>ECU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>Appropriations for commit</td>
</tr>
<tr>
<td>Appropriations for payment</td>
</tr>
</tbody>
</table>

1 COM(85) 185 to 189

1. Grants a discharge to the Commission in respect of the implementation of the budget for 1984 on the basis of the following figures:

(a) Revenue and expenditure for the financial year 1984

ECU

1. Resources

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue for the financial year 1984</td>
<td>26 052 434 892</td>
</tr>
<tr>
<td>Lapsed carry-overs from 1983</td>
<td>287 394 594</td>
</tr>
<tr>
<td>Exchange differences</td>
<td>25 016 688</td>
</tr>
<tr>
<td>Appropriations from carry-overs from 1983</td>
<td>17 741 893</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>26 382 588 067</strong></td>
</tr>
</tbody>
</table>

2. Expenditure

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments for the year</td>
<td>26 119 177 060</td>
</tr>
<tr>
<td>Appropriations carried forward to 1985</td>
<td>1 090 095 454</td>
</tr>
<tr>
<td>Earmarked revenue to be repaid</td>
<td>652 970</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>27 209 925 484</strong></td>
</tr>
</tbody>
</table>

3. Balance (1 - 2) (DEFICIT)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance (1 - 2) (DEFICIT)</strong></td>
<td><strong>- 827 337 417</strong></td>
</tr>
</tbody>
</table>

(b) Balance sheet at 31 December 1984

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>11 612 581 117</td>
</tr>
<tr>
<td>Inventories</td>
<td>99 055 332</td>
</tr>
<tr>
<td>Current assets</td>
<td>2 002 866 692</td>
</tr>
<tr>
<td>Cash accounts</td>
<td>1 376 738 335</td>
</tr>
<tr>
<td>Pre-paid expenses</td>
<td>221 348 765</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>15 312 590 241</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Fixed capital</td>
<td>12 043 778 676</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>2 995 530 417</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>273 281 148</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>15 312 590 241</strong></td>
</tr>
</tbody>
</table>

2. Records its comments in the resolution which forms an integral part of this decision;

3. Instructs its President to forward this decision and the resolution embodying its comments to the Commission, the Council, the Court of Justice, the Court of Auditors and the European Investment Bank, and to arrange for them to be published in the Official Journal (L series).
MOTION FOR A RESOLUTION

embodied the comments which form an integral part of the decision granting a discharge in respect of the implementation of the budget of the European Communities for the financial year 1984

The European Parliament,

- having regard to Article 85 of the Financial Regulation of 21 December 1977, which enjoins each of the Institutions of the Community to take all appropriate steps to act on the comments appearing in the discharge decisions,

- whereas under that same article the Institutions are also required, at the request of the European Parliament, to report on the measures taken in the light of Parliament's comments and, in particular, on the instructions given to those of their departments which are responsible for the implementation of the budget,

- having regard to its motion for a resolution of 13 September 1985 on the Commission's decision to grant aid to Turkey under the Third Financial Protocol in the 1984 financial year (Doc. B2-895/85),

- having regard to the report of the Committee on Budgetary Control and the other documents mentioned in the discharge decision (Doc. A 2-15/86),

I. General comments on budgetary policy

1. Points out that the financial year 1984 was a crucial one in that it saw the exhaustion of own resources;

2. Notes that, because the 1% VAT ceiling had been reached, the Community was obliged, in adopting supplementary budget no. 1/84, to acknowledge the existence of a deficit, which it planned to cover by using up the balance for the financial year (266 million ECU) and by resorting to repayable advances from the Member States (1 003 million ECU);

3. Notes that out of the proposed amount of repayable advances only 595 million ECU was made over by the Member States in the course of the financial year, and that the deficit for the year finally stood at 827 million ECU; stresses the danger which such solutions represent for the financial independence of the Community;

4. Points out that the size of the deficit is attributable both to the depletion of resources and to the lack of accuracy in the forecasting of revenue (overestimated) and expenditure (underestimated);

5. Takes the view that the implementation of the 1984 budget does not adequately meet the objectives laid down; points out that responsibility for this situation is shared by the Commission (errors of management, cumbersome administrative procedures, inaccurate forecasts) and under-budgeting of expenditure, the Council (interference in management, failure to adopt legislation and financing), the national administrations (unsuitable procedures) and the budgetary authority (entry of appropriations in the budget without any real prospect of implementation);
6. Points out the Commission's specific responsibilities as regards non-transparent management of the structural funds; warns the Commission against the risks of such practices and calls on it to rectify the situation which has arisen as soon as possible;

7. Considers that any Community decision which will result in new expenditure should be accompanied by measures making specific provision for that expenditure to be covered;

8. Points out that the value of any Community policy lies in its ability to improve efficiency and bring savings by comparison with the same policy pursued at national level;

9. Proposes the creation of a think-tank which, acting on the basis of information supplied by the Commission on budgetary management and budgetary estimates, would seek solutions to the problems of budgetary imbalance;

10. Disapproves of the Community's practice - which is at variance with the Treaties - of compensating for an 'unacceptable situation' by means of refunds on revenue; takes the view that this practice, which does not take economic advantages into account, represents a major source of disintegration in the Community;

11. Points out that the accumulated total of unpaid commitments entered into for this and previous financial years is reaching alarming proportions and calls on the Council to tackle the problem of the inadequate provision of payment appropriations;

12. Considers it essential for a balanced relationship to be established between amounts of commitment appropriations and payment appropriations;

13. Asks the Commission to make a systematic appraisal, in the course of the budgetary procedure, of the real potential for implementing appropriations which the budgetary authority intends to enter in the budget;

14. Calls on the Commission to make more extensive use of its scope for implementing appropriations solely on the basis of budget entries, especially in the case of studies, pilot projects and preparatory measures where implementation is impeded by failure to act on the part of the Council;

15. Calls on the Commission to inform Parliament, and in particular its Committee on Budgetary Control, systematically and immediately of any difficulties in the implementation of appropriations entered by way of amendment;

16. Notes the failure of the procedure introduced by the Joint Declaration of 30 June 1982 with a view to avoiding situations in which appropriations are not implemented as a result of lack of action on the part of the Council; calls on the Commission to look into the various ways of solving this problem and submit practical proposals;
17. Notes that the implementation of the structural funds has not achieved the desired objective, that the principle of additionality has rarely been applied and that the money available has not always been well spent;

18. Proposes that structural policy objectives on the one hand and Community objectives on the other should be better defined and that each type of objective should be consolidated:

(a) by significantly reorganizing the management of the funds with a view to avoiding the current problems of delays and ineffectiveness and ensuring that commitments entered into are honoured;

(b) by carrying through genuine transnational Community measures involving at least two Member States;

19. Instructs the Commission to make regular assessments of all Community measures and to report to Parliament and the Council on the matter;

20. Calls on the Commission to submit periodically to the budgetary authority information on transfers of appropriations within chapters;

21. Draws to the attention of the Council that even though it participates in the discharge procedure as an institution delivering an opinion, it must adopt an overall view on the financing of the Communities and a detailed view on the comments of the Court of Auditors (in particular the reluctance of the Member States to investigate frauds and irregularities and notify them to the Commission);

22. Points out that this attitude on the part of the Council is due to the over-frequent use of the unanimous vote, which in this case greatly reduces the effectiveness of the decisions;

II. COMMENTS ON THE MANAGEMENT OF SPECIFIC SECTORS

Own resources

23. Draws attention to the support it gave in its motion for a resolution of 15 November 1985 to the Commission's preference for the returns method with regard to the calculation of resources;

24. Calls on the Commission to press ahead with the work carried out by its statistical office, which compares estimates of the VAT base calculated from national accounts with the VAT base declared by the Member States in their annual returns - without calling into question the nature of such revenue as own resources;

EAGGF Guarantee Section

25. Supports the Commission's efforts to speed up the procedures for clearing the accounts in line with its comments accompanying the decision granting a discharge for 1983; calls on the Commission to ensure that the delays are not eliminated at the expense of effective controls; calls on the Commission to propose a system for the payment of EAGGF Guarantee Section expenditure which obliges the national authorities responsible for payments to declare frauds and irregularities;
26. Takes the view that the existence of large stocks of various agricultural products highlights the deficiencies of the common agricultural policy; considers it essential that a programme for releasing the main products from storage should be submitted within the next six months;

27. Notes that public storage in the beef and veal sector is reaching alarming proportions, a phenomenon aggravated by the imbalances in the geographical distribution of intervention stocks;

28. Requests the Commission and the Member States to cut back as much as possible on the withdrawal of fruit from the market by encouraging sales to processing industries;

29. Considers that the Commission did not react quickly enough to the accumulation of large stocks of butter, thereby being placed in a position where it had to dispose of these stocks at any price; calls upon it to introduce a strategy for marketing and donating such stocks;

30. Asks the Commission to apply the Community rules on dairy quotas;

EAGGF - Guidance Section

31. Requests the Commission to define clearly the aims of its measures under the EAGGF Guidance Section; calls on it to avoid measures involving contradictory effects within the EAGGF Guidance Section or between EAGGF guidance operations and EAGGF guarantee operations;

Regional Fund

32. Deplores the fact that the Member States have not submitted specific Community projects and regrets that it proved impossible in 1984 to commit the 10 million ECU allocated to the non-quota section and entered by Parliament in the budget;

Social field

33. Regrets the fact that in 1984 it proved impossible to make full use of the appropriations allocated by Parliament to that part of the budget covering the social sector, with the result that cancellations occurred despite the reforms made to the Social Fund;

Management of research and development programmes

34. Calls on the Commission to streamline its administrative procedures for the recruitment of officials and the payment of contract staff;

Commission staff, administrative expenditure and premises

35. Calls on the Commission to ensure that major contracts are awarded solely after invitation to tender save in rare cases of exceptional urgency;

Development aid

36. Draws attention to the continuing very low rate of utilization of appropriations for cooperation with Asian and Latin American developing countries (Chapter 93) and with the ACP countries under the special programme to combat hunger in the world (Article 958);
37. Notes the Commission's inability to achieve a satisfactory rate of utilization of payment appropriations intended for development aid schemes carried out by NGOs; takes note of the Commission's explanations for this phenomenon (cuts necessitated by the inadequacy of resources, level of appropriations beyond the absorption capacity of the Commission's departments);

38. Calls on the budgetary authority to take this situation into account;

39. Calls on the Commission to improve the efficiency of its departments, and to speed up the procedures for processing project files and paying beneficiaries, particularly where modest sums are involved;

40. Takes the view that the decision-making procedures for food aid and the EDF are not consistent with standard budgetary practice; calls attention to Parliament's proposals for putting an end to this situation;

41. Notes an improvement in the implementation of food aid, but regrets the fact that, given the cumbersome nature of the procedures involved and in particular the need for multiple consultations of the national administrations, it is virtually impossible to reduce implementation times;

42. Supports the Commission's efforts to integrate food aid into food self-sufficiency policies which take account of local conditions; feels obliged to point out that these efforts have so far only been applied in a limited number of countries;

43. Asks the Commission to take an early and unequivocal decision on the Community's assuming responsibility for the transport of aid;

44. Invites the Commission to make further improvements in the supervision of 'counterpart funds' deriving from the sale of food aid products;

45. Welcomes the stepping-up of checks on the quality of aid; will look into the problems posed by such checks and in particular by the use of private firms to carry them out;

The case of Turkey

46. Disapproves of the Commission's decision to make payments under the Third Financial Protocol with Turkey going beyond the level of appropriations entered by the budgetary authority for this purpose; points out that the Council's ambiguous attitude and its failure to take a political decision only served to aggravate the Commission's problem; stresses that the Commission's difficulties in this matter were due to inaccurate forecasting;

The Community's borrowing and lending activities

47. Calls once again on the Commission to ensure that the European Investment Bank's commission for NCI, EURATOM and development aid operations does not exceed its administrative costs.
Fraud and irregularities

48. Calls on the Council to adopt as soon as possible the proposals for regulations strengthening the power to investigate irregularities and institute proceedings, particularly in the revenue sector;

49. Calls on the Commission to coordinate the various checks carried out by its departments on the basis of existing regulations and to extend such checks and investigations in the Member States in cooperation with the national administrations.
INTRODUCTION

PART I

GENERAL COMMENTS

The financial year 1984 marked a turning point in the budget crisis which had beset the Community since 1982. To be complete, the discharge procedure for 1984 must include a general appraisal of the budgetary situation in the Community. It would be desirable at the outset to indicate where the political responsibility for this situation lies.

A. THE RESPONSIBILITIES OF THE VARIOUS INSTITUTIONS

There is a strong temptation to place the entire burden of responsibility on the Commission. In a traditional parliamentary system the responsibilities of the executive are clear. At first sight, Article 205 of the Treaty of Rome also places the responsibility for the implementation of the budget fairly and squarely on the Commission. In fact, however, the situation is more complex and the powers and responsibilities of the various institutions often overlap.

1. The responsibilities of the Commission

It is for Parliament, acting on a recommendation from the Council, to grant or refuse a discharge to the Commission. On the other hand, the Commission is required to implement the budget on its own responsibility. However, the degree of responsibility varies depending on the problems involved - inadequate rate of utilization, failure to achieve a political objective, inadequacy of resources, failure to contain agricultural expenditure, or the accumulation of commitments which have not yet been met.

(a) There are a number of reasons which could account for the failure to implement appropriations in accordance with the objectives set by the budgetary authority.

- The Commission might have compromised or delayed the implementation of a measure as a result of mismanagement. Cumbersome administrative procedures might have impeded the implementation of a programme or the recruitment of staff. In such cases, the Commission must bear the entire responsibility. In this connection, for example, the Court of Auditors takes the view that in the case of the milk marketing boards (point 4.37(d)), the time taken for the Commission to react helped to prolong a situation which ran counter to the spirit of the rules involved. Similarly, the implementation of a number of research and development programmes was delayed as a result of the slow recruitment procedures for officials and contract staff.

- On the other hand, responsibility should at least be shared if the delays in the implementation of appropriations are attributable to the Council's failure to take Legislative action or to administrative holdups in the Member States. In such cases, we are at the very most entitled to expect the Commission to adopt a firm attitude and to use the legal avenues open to it under the treaties.
(b) Excessive discrepancies between estimated and actual requirements may be attributable to unrealistic forecasting; the authorities concerned may, for instance, have overestimated the Community's political ability to implement a given measure, or the Commission may have failed to assess certain factors correctly, as is often the case with EAGGF expenditure arising from measures involving factors such as the size of harvests, which in turn depend on the weather, price trends on the world market, the value of the dollar etc. It is true that a great deal of uncertainty attends data of this kind, but it is also true that the Commission does not have the best forecasting and management instruments. For example, more reliable information on harvest prospects and hence on world market trends is available more quickly in the United States than it is here. Moreover, the Commission is required to manage the agricultural markets through the intermediary of national bodies over which it does not always have adequate control.

(c) The evaluation of policies

The Commission makes a systematic assessment of the results of financing measures under certain sections of the budget. This applies, for example, to development aid, research and industrial policy. Reports are then prepared and forwarded to the budgetary authority or the discharge authority. These reports are, of course, extremely useful to the Commission, which can, if necessary, improve its management techniques and also to the Council and Parliament, which can make a better assessment of the impact of the policies they decide upon.

However, the assessments made of sectors of more financial significance, such as the agricultural policy or the structural funds, are in no way complete. A full assessment would admittedly be difficult in such cases as a result of the complexity and vagueness of the aims pursued. Indeed, it is doubtful whether the Commission has the necessary means to carry out full assessments, but it is nevertheless vital that they should be carried out.

2. The responsibilities of the Council

The Council is responsible for all the legislation specifying how and for what purpose the appropriations entered in the budget are to be used. It may thus be responsible for the incorrect utilization of appropriations if the legislation in question is defective and does not, for example, provide for adequate or effective control procedures or clearly specify the economic objectives to be achieved. In the light of the recommendations made by its financial controller, the Commission systematically examines from this point of view the proposals it prepares for the Council.

It may also happen that an appropriation is entered in the budget for 'any significant new Community measure' before the necessary legislation has been adopted. For cases of this type, the agreement of 30 June 1982 between Parliament, the Council and the Commission on various measures to improve the budgetary procedure states that 'the Council and the Parliament undertake to use their best endeavours to adopt the regulation concerned by the end of May at the latest. If by this time the regulation has not been adopted, the Commission shall present alternative proposals (transfers), for the use during the financial year of the appropriations in question.'
What steps can be taken to ensure that the utilization of appropriations duly entered in the budget is not prevented by the Council's inability to adopt a regulation? In theory, the solution would appear to be simple. All that is necessary is that the budgetary authority should enter only those appropriations which the Commission is sure can be used. In practice, of course, the situation is more complicated. The institutions have to agree on the list of measures which can be implemented without regulations. Then, where appropriations cannot be implemented without a regulation, an alternative solution must be found in case the legislation concerned cannot be adopted in time. This is something which should form part of the budgetary procedure and involve talks between the budgetary authority and the Commission.

3. The responsibilities of the budgetary authority

The Commission prepares its preliminary draft budget mainly on the basis of technical considerations, although policy options are of course defined in advance. The budgetary authority, on the other hand, often enters appropriations in the budget as a means towards political decisions. In the process it relegates the need to rationalize budget expenditure to second place. As a result, appropriations are sometimes entered when there is no real possibility that they will be utilized. This may give expression to a political aim but does not take account of the effects on the budgetary situation.

A similar attitude with regard to differentiated commitment appropriations created the problem of the 'cost of the past' - the accumulation of massive liabilities. In this case too, it would be a good idea for the budgetary authority, acting in accordance with a clear policy of budgetary stringency, to keep to a reasonable balance between the volume of commitment appropriations and the volume of payment appropriations. The figures for such a balance could easily be calculated by the Commission on the basis of the actual rate of utilization of appropriations in the past.

Similarly, the budgetary authority artificially inflated the volume of payment appropriations for the Social Fund, which gave rise to cancellations.

B. THE BUDGETARY SITUATION IN THE COMMUNITY

The Community decided to opt for financial independence in 1970 but it was more than ten years before the necessary machinery for own resources and in particular for revenue from VAT became operational.

Even then, the Community only really enjoyed three years of financial independence. In 1982 it was plunged into a serious budget crisis. It is against this background that we must assess the budgetary situation in the Community and its effects on the financial year 1984.

1. The depletion of own resources and the tendency to revert to national financing

The concept of the Community's own resources, which stems from the Council's decision of 21 April 1970, is closely connected with the notion of financial independence. There can be no such independence unless agreed policies can be financed exclusively from own resources decided upon at Community level.
It was not until 1980 that resources from VAT were entered in the revenue section of the Community's budget; even so the introduction of this new source of revenue does not guarantee effective financial independence for the Community. The facts of the situation cannot be properly appreciated unless it is realized that there is a weakness in the system of own resources, namely the machinery designed to ensure that a balance is maintained between budgetary revenue and expenditure.

On the one hand, the exhaustion of own resources placed the implementation of Community policies in jeopardy, but on the other, the Member States, reluctant to accept an excessive increase in Community expenditure - which was already rising rapidly - not only refused to agree to financial machinery in the form of new own resources to obviate the imbalance but embarked on a course designed to bring the Community's budgetary system gradually back into the national framework.

Clear evidence can be found for this tendency in the machinery for covering expenditure entered in recent years in supplementary budgets. The introduction of 'reimbursable advances' granted by the Member States, which became official with the entry of a new special line in the budget (Article 820 of the revenue section) runs counter to the specific provisions of Articles 5 and 199 of the EEC Treaty, which require the Member States to cover the Community's expenditure. The formula chosen (advances) may not refer to 'contributions' but that cannot hide the fact that if the situation were to persist subsidies of this kind would in time take on the guise of long-term loans which bear a strong resemblance to non-repayable contributions.

The immediate consequence of this is that the system of own resources, while strictly still in force, is gradually being robbed of all meaning and budgetary equilibrium is once again increasingly becoming a matter for the Member States. The Community's financial independence is now nothing more than a facade. This is not something that suddenly became apparent in 1984. It had been foreseen by Parliament at the beginning of the eighties and by 1982 it became impossible to ignore it.

Is it possible to stop this trend?

- Relations between the institutions in the preparation and implementation of the budget could be improved. However, it would first be necessary to generate a climate of mutual confidence to replace the atmosphere of mistrust which has poisoned relations between the institutions in recent years.

- Relations between the Community and the Member States: these should ensure a clearer breakdown of responsibilities based on more effective criteria and a precise definition of what constitutes a Community policy. Indeed, such a definition is essential to deciding which expenditure and responsibilities must be borne by the Community and which by the Member States.
The Commission, which is responsible for preparing the preliminary draft budget, and the Council, which has sole responsibility for compulsory expenditure, could try to submit more accurate estimates. The need for improvements in the forecasting of revenue and expenditure was stressed by the Court of Auditors, in particular in point 1.20 of its General Report, which points out that in 1984 revenue from agricultural levies was overestimated by about 700 million ECU. Moreover, in the financial year 1985 the impossibility of achieving a balance between expenditure, and own resources, which were too low, led to inadequate estimates of expenditure which obliged Parliament to reject the budget at the first stage of the budget procedure.

2. Relationship between revenue and expenditure

As a branch of the budgetary authority, the European Parliament also has specific powers. It enters commitment appropriations in the budget, but there must be a real possibility that these will be implemented. In order to ensure that this is the case the Commission should indicate in the course of the budgetary procedure whether such implementation is possible or not. Parliament should shoulder its responsibilities.

When the gap between commitment appropriations and payment appropriations is excessively wide, the commitment appropriations cease to represent a progressive element in the budget and become an insurmountable obstacle two or three years after they were entered. All commitment appropriations are destined to add to the cost of the past if there are no payment appropriations to cover them. By refusing to settle unavoidable commitments and approving commitment appropriations which did not have to be covered immediately by revenue the budgetary authority has created a backlog of commitments which have to be met. This situation is highly dangerous.

Action should be taken on the Court of Auditors' suggestion that expenditure and revenue trends should be kept in line as the financial year progresses. An inter-institutional unit with access to the Commission's data on budgetary management and budgetary estimates could propose short-term solutions when imbalances become apparent and devise a long-term strategy, wherever possible, for maintaining budgetary equilibrium.

This would require greater cooperation between the European Parliament and the national parliaments, which would in turn lend greater clarity to the Community's budgetary options and decisions.

The facts of the situation show that in the interests of a responsible financial policy it is essential that any new Community decision involving an outlay of expenditure should be backed up by measures specifically providing for such expenditure to be covered. This system should be applied at all times, and not least when the level of agricultural prices is fixed each year. Such an approach would be the best way of meeting the need to evaluate expenditure accurately. In terms of its own rules on budgetary discipline, the Council at present often takes a self-contradictory line inasmuch as it uses the budget to restrict the financial consequences of the legislative decisions which it takes in the course of the financial year without giving a thought to the revenue needed to cover the measures involved.
The approach mentioned above is the only way of achieving true budget discipline; if the necessary revenue has to be found for every expenditure decision, any assessment of Community expenditure is bound to be more accurate and more consistent.

3. The problem of the transfer of resources through the structural funds and the other instruments of the budget

(a) The structural funds

One of the main objectives underlying the creation of the European Economic Community is specified in the preamble to the Treaty, which refers to the strengthening of the unity of the economies of the Member States and the harmonious development of these economies. In practice, the Community has tried to give effect to this principle by arranging transfers of financial resources from the richest regions or Member States to the poorest regions or Member States. These transfers have in the main been carried out through the intermediary of the structural funds (Social Fund, Regional Fund, EAGGF Guidance Section), which are designed to finance Community policies. Over the years many of these Community policies have been robbed of their substance and refashioned on the basis of the policies of each of the Member States.

In principle the role of the Community's structural funds is not to provide budgetary financing in the traditional sense within the framework of a short-term economic policy but to create economic structures conducive to development. The structural objectives of these funds may be summed up as follows:

- the main aim of the European Social Fund is to finance aid for professional training; the 'less-favoured economic region' criterion is maintained, making the Fund an instrument of regional integration.

- The EAGGF Guidance Section is devoted to measures to improve agricultural structures in the production and marketing sector; it also applies 'the less-favoured region' criterion.

- The European Regional Development Fund is the specific instrument of the policy for economic convergence.

The three Funds are managed by the Commission, which coordinates their activities, concentrating on measures to consolidate integration. However, we must ask ourselves whether these Community policies have been effective. In fact, in the report it drew up at the request of the Stuttgart Summit, the Court of Auditors expressed doubts on the matter and pointed out that the funds would not fulfil their proper purpose if Community financing replaced national financing instead of supplementing it.

As the Court of Auditors observed1, recipient Member States do not provide the information necessary to ensure that Community aid is additional in nature and is not simply used as a substitute for national funding. In point of fact, they are not required to supply information on trends in national financing. However, the accounts submitted by the Commission show that the rate of utilization of payment appropriations for Community measures in support of national economic policies (Regional Fund, Chapter 50 and general measures under the Social Fund, Chapter 60) is very close to 100%. On the other hand, the figure is lower than 50% for specific Community measures in

1Stuttgart report
the regional (Chapter 50) and social (Chapter 61) sectors, which call for more direct coordination and assessment. This clearly suggests that the funds serve much more to provide back-up financing for national policies.

In the light of these shortcomings it might perhaps be justifiable to make improvements by:

- financing genuine Community measures which would bring several Member States together in the pursuit of transnational objectives;

- and giving effect to the principle of solidarity between favoured and less-favoured regions through Community payments which would take account of economic and social factors. By comparison with the present system, this arrangement would have the merit of being simple while at the same time permitting management savings.

(b) The 'net contributor' concept

This issue first arose during the negotiations on the United Kingdom's accession to the European Community. Evolving through the notion of an 'unacceptable situation' for one Member State, the concept of net contributor to the Community budget became the yardstick for identifying an 'unacceptable situation' which had to be eliminated by financial measures.

A financial instrument in favour of countries which were net contributors operated, under certain conditions, between 1976 and 1982, but the European Council held on 25/26 June 1984 in Fontainebleau affirmed that any Member State whose budgetary burden was excessive could obtain a reduction in its share of VAT.

The ill effects of this issue on the development of the Community's financial life are obvious. The notion that each Member State should automatically be able to offset what it puts into the Community budget with what it takes out inevitably means that the economic advantages of European integration are not taken into account. Such advantages cannot be measured on the basis of the financial contributions of the Member States. Account must also be taken of the multiplying effect of the revenue from international trade and of all the positive effects of specialized production, etc.

The imposition of the principle of 'net contributor', as formulated in recent years is a major source of crisis and disintegration in the Community and will inevitably lead to changes in the Community's system of financing which might be considered dangerous.

4. The cost of the past

...the past' represents the sum total of commitments which were entered into in the current financial year and in previous financial years and which must be honoured in future financial years. It is a problem which had already become serious enough to warrant criticism in the resolution accompanying the discharge decision for 1983 and which is now becoming more and more alarming. At the closure of the financial year 1983 the total figure for unpaid commitments stood at 8 900 million ECU; the amount not covered by carryovers of payment appropriations ran to 7 800 million ECU. The 1984 accounts reveal an overall commitment burden of 10 346 million ECU (+16%); the amount not covered by corresponding payment appropriations totals 9 600 million ECU (+23%).
This phenomenon is due to the inadequate provision of payment appropriations; indeed, underbudgeting was exceptional in 1984, when the final level of payment appropriations for the guidance sector, the regional sector, the social sector and the cooperation sector showed an overall reduction of 12%.

The fact that the problem affects specific sectors makes it even more alarming. 80% of the commitments in respect of which payment was deferred to future years and which were not covered by carryovers of payment appropriations relate to three budget lines concerning the Regional Fund (Article 500), the Social Fund (Chapters 60/61) and cooperation with the non-associated developing countries (Article 930). Commitments entered against these lines and still to be paid showed a 25% increase over the 1983 figures.

Two comments are called for:

- the 'cost of the past' is a problem which relates mainly to policies involving non-compulsory expenditure, which are of paramount concern to Parliament;
- in 1984 the problem of unpaid commitments for these policies assumed unacceptable proportions; a solution must be found.

The remedy lies with the two branches of the budgetary authority: Parliament must accurately monitor the feasibility of implementing commitment appropriations to be entered against lines involving non-compulsory expenditure on the basis of an analysis of the costs and additionality of aid from the structural funds as requested by the Court of Auditors on several occasions (Stuttgart report and annual report for 1984). However, the main responsibility lies with the Council, which must come to terms with the problem of underbudgeting. The Council acknowledged the need to do this during the 1986 budgetary procedure but stressed that the issue was a complex one which had to be resolved in cooperation with the other branch of the budgetary authority.

PART II

PARTICULAR COMMENTS ON THE FINANCIAL YEAR 1984

A. GENERAL DATA

1. Implementation of appropriations

The European Parliament has frequently emphasized the need to implement appropriations as fully as possible and to resolve the serious problem of resources left unused because estimates did not match expenditure. It may be recalled that the resolution attached to the decision on the discharge for the financial year 1983 makes reference to the rate of implementation considered to be essential. A budget line is considered to be under-used below a threshold of 90%, for payment and commitment appropriations.

We shall merely consider the operating appropriations of the general budget (Section III - Commission - Part B):

- the non-differentiated appropriations for the year show a satisfactory level of implementation (98% for payments and virtually 100% for commitment appropriations).
the differentiated appropriations for the year show a rate of implementation below the limit considered acceptable (commitment appropriations 87.8%, payment appropriations 84.1%). The inadequate rate of implementation of the differentiated appropriations for the year is especially worrying as they relate essentially to non-compulsory expenditure which Parliament wants to use as a driving force in the integration process.

A more detailed examination shows that the main difficulties occur in the following areas:

- fisheries policy (Title 4: commitment appropriations 54.3% - payment appropriations 42.8%)
- operations in the field of research and industrial policy etc. (Title 7: commitment appropriations 68.8% - payment appropriations 66%)
- and in the cooperation sector (Title 9: commitment appropriations 76.5% - payment appropriations 56.4%)

An analysis of the causes of these delays in the implementation of appropriations may be made to determine to what extent they disclose either difficulties in programme management or result from over-estimated entries of appropriations.

The principal causes of the delays can be summarized as follows:

- delays in the adoption of a legal basis (Lines 4110, 4111, 4112, 416, 6610, 6611, 6612, 7302, 7306, 7320, 7331, 7503, 7771);
- delay in or lack of a programme decision by the Council (Line 781);
- delay in or lack of an opinion by the advisory committee (Lines 7020-7022; 7031-7035; 7521);
- delay in or lack of an outline programme or application for reimbursement from a Member State (ex: Chapter 61);
- slowness of certain procedures within the Commission during the start-up phase of a new programme (Lines 388, 7335).

With the exception of the latter case of delays attributable to difficulties in the start-up of new policies, it can be said that the main reason for delays stems from factors outside the control of the management: slowness of the Council in drawing up a legal basis or approving operational programmes, difficulties encountered within the various bodies involved throughout the decision-making procedure (advisory committees, national governments).

Another factor which may affect the initial implementation of the budget lies in the transfers of appropriations from one chapter to another, apart from the transfers from Chapter 100 which do not represent a change from the initial estimate. The volume of such transfers has virtually doubled compared with the financial year 1983 and amounted to 6% of the budget (the figures for commitment appropriations are 1 738 m ECU and for payment appropriations 1 691 m ECU).
This phenomenon assumes even greater proportions if one looks at the volume of transfers within chapters that the Commission can carry out without authorization from Parliament or the Council on the basis of Article 21(3) of the Financial Regulation. Such transfers, on which the Commission is not required to supply details, can however be quantified on the basis of information contained in the management accounts. They amount to some 1 500 m ECU and represent about 5% of the implemented budget. The overall effect on the budget of these two kinds of transfer exceeds 10% and reveals a considerable imbalance between the estimates and the actual amounts used. The Commission, which is responsible for drawing up estimates and implementing the budget, must pay more attention to this problem, in order to provide the budgetary authority with more complete and systematic information. In particular, the Commission could provide the budgetary authority with periodic information on the transfers within chapters.

As regards the implementation of payment appropriations carried over from the financial year 1983, the management account shows that 22% of differentiated appropriations and 6% of non-differentiated appropriations were cancelled. Such cancellations amount to 281 m ECU, comprised of 35 m for non-differentiated appropriations and 246 m for differentiated appropriations. They relate mainly to Title 3 - EAGGF - Guidance Section, Title 5 - Regional Fund, Title 6 - Social Fund, Title 7 - Research, etc. and Title 9 - Cooperation and development.

The reasons for such cancellations vary, viz.

- accumulated delays in the implementation of the budget line concerned,
- the need to make savings during the implementation of the budget.

A characteristic example in this respect is the cancellation of some 30 m ECU on two budget lines (24.5 m under Article 930 and 6 m under Article 941) thus blocking the use of the appropriations to make savings.

2. Use of appropriations entered in the budget following amendments by the European Parliament

In the general comments it has already been pointed out how the implementation of the budget involves particular responsibilities for the Commission (primary responsibility under the terms of Article 205 of the EEC Treaty) and the Council, which has to provide the budget lines with the necessary legislative backing.

These responsibilities assume additional importance when the appropriations are entered in the budget following amendments by the European Parliament: in this case the budgetary procedure ceases to be a simple matter of recording the financial consequences of extrinsic legislative acts and becomes part of the formulation of new Community policies.

The actual implementation of the political will expressed by the European Parliament in its budget amendments, however, requires the cooperation of the other institutions which exercise budgetary powers: in this way the role of the Council and the Commission is defined in the implementation of the legal basis of the new budget lines (or the adoption of action programmes) and the use of appropriations respectively.
The exercise of this role was unfortunately curbed during the financial year 1984, when many factors helped to hinder the implementation of Parliament's amendments, thus depriving the budget of part of its political content.

For example: of the appropriations entered in the budget following an amendment, only 19.7% of the commitment appropriations (differentiated) were used, while 39% of the (differentiated) payment appropriations and non-differentiated appropriations were used (see working document PE 100.261).

The reasons for this low level of implementation of the amendments are varied:

- delays due to the lack of a legal basis, for example, lines 388, 646, 6610, 6611, 6612, 7027, 7302, 7306, 7320, 7331 and 781, for which the Council did not adopt the basic regulation (or decision) until the second half of the financial year or even during the course of the following financial year; in such cases, in view of the inertia on the part of the Council, which provided no legal basis for these budget lines, the Commission would have to react by implementing directly the lines relating to pilot project studies or preparatory actions (such as, action to protect forests against fires and acid rain and the action to combat poverty);

- delays in the conclusion (or lack of) preliminary agreements with the Member States or with public or private organizations of the Member States or third countries. Such delays are often caused by lack of cooperation by the national organizations (example: Article 510: specific Community action), but may confirm the suspicion that the entry of appropriations by the budgetary authority does not meet the specific needs of those for whom the proposed action is intended; in such cases it is the responsibility of the budgetary authority, and in particular Parliament, which is the originator of additional appropriations, to make a considered assessment of the prospects for the use of such appropriations.

- transfers carried out on budget lines amended by Parliament. 16.5% of the payment appropriations (differentiated) and the non-differentiated appropriations introduced by way of amendment have formed the subject of transfers and have been diverted from the aim originally envisaged by Parliament. In many cases the transfer has been made within one and the same chapter and, consequently, without requiring the intervention of the budgetary authority; in such cases the Commission should undertake to inform Parliament in due course of all the facts needed to enable the use of parliamentary appropriations existing after the transfer operation to be monitored.

The situation described above in fact presents a serious problem: that of avoiding a reduction in the political role devolving on Parliament in the budgetary procedure by increasing its decision-making power in accordance with the Treaties of 1970 and 1975.

Given that this reduction is not being brought about by formal means but by a subtle and unobtrusive approach involving the procedures for the implementation of the Community budget, only the exercise of parliamentary control over the implementation of the budget can really safeguard Parliament's powers in this respect and indirectly the political value of the budget itself.
B. PARTICULAR PROBLEMS

1. The ESPRIT programme

The utilization of appropriations for the ESPRIT programme has attracted the attention of control authorities, particularly as in the eyes of the Committee on Budgetary Control it represents a model case. It belongs to a sector for which Parliament has called for a dynamic Community policy; what is more, the principles of cooperation between the enterprises, the universities and the research institutes, as well as the management procedures, are novel and appear promising.

The programme, which is managed by a Task Force assisted by experts and consultative bodies, has the following features:

- it is a comprehensive whole of research and coordination activity;
- the activities, carried out on the basis of contracts, require the participation of at least two associated but independent enterprises which may not be located in the same Member State;
- 50% of the financing of these activities is provided by the Community.

An investigation was carried out into the reasons for the various delays. It showed that the low rate of utilization of appropriations (for Item 7355 - Information technologies: 64.9% utilization of commitment appropriations and 4% of payment appropriations; for Item 7730 - Preparatory measures: 100% utilization of commitment appropriations and 7% of payment appropriations) was caused by circumstances which do not reflect on the principles and methods of management:

- the decision to start the programme was taken rather late by the Council (on 28 February 1984 - OJ L 67 of 9.3.1984);
- initiation of the procedures was hampered by difficulties in recruiting officials and contract staff;
- the large number of proposals slowed down the assessment and selection;
- negotiations for the conclusion of contracts proved difficult because the prospective partners needed to adapt their strategies and their structures, even their cost accounting, to a new form of cooperation which was still being worked out;
- the Task Force managed to bring about the association of heretofore independent enterprises into groups (averaging five partners each); this meant, however, that there were difficulties and delays in connection with the signing and circulation of documents;

Other delays arose because of the procedures for the payment of Community contributions, but the contracting partners did not in all cases submit their accounts on time.

Nevertheless, the teething troubles have been to a large extent overcome. The rate of implementation for 1985 is up: about 83% for commitment appropriations and 70% for payment appropriations at the end of the financial year. In the first months of 1986 utilization of appropriations will reach even higher levels.
The Court of Auditors has carried out an investigation of the programme's internal control systems and made the following observations:

- criteria for commitment of appropriations do not seem to have been applied consistently. In some cases it was found that budgetary commitments were made before the contracts had been signed;

- expenditure on staff having been fixed at 4.5% of the programme's total endowment, the Court of Auditors considers that methods of controlling the level of this expenditure are insufficiently precise, and indeed that the terms of the decision setting up the programme are imprecise;

- some assessment procedures on research proposals and contract approval could, according to the Court of Auditors, be improved.

The Commission has given an assurance that it will take account of the Court of Auditors' recommendations.

The Commission has also had an assessment of the first stage of the implementation of the programme carried out by a group of independent experts. The results of this inquiry1, based on the replies received from 131 organizations and 238 questionnaires returned by the participants, show that ESPRIT is approaching its objectives and that it is making more rapid progress than expected: European-level cooperation between enterprises, universities and research institutions is now a fact, and it is a success.

The Commission has accepted the conclusions of the experts' report and has, notably, agreed for the future to:

- consolidate and readjust the programme in certain areas to take account of recent developments in information technologies;

- set up strictly specified demonstration projects in the light of the practical results obtained in the implementation of the programme;

- ensure continuity of research.

It would be useful in future to streamline the procedures of staff recruitment (officials and contract staff) and those for the payment of contributions to the enterprises.

2. THE CASE OF TURKEY

The Third Financial Protocol with Turkey of 12 May 1977 provides for the granting of 220 m ECU in loans on special conditions to be financed from the Community budget. These amounts were fully committed during the financial years 1978-1981. In subsequent years the EIB, which acts on behalf of the Community, was responsible for effecting payments. The payment appropriations for 1984 were laid down by the budgetary authority as 5 m ECU (Item 9630: 'Third Financial Protocol with Turkey').

1 The mid-term review of ESPRIT. Report submitted to the Commission of the European Communities by the ESPRIT Review Board, 15 October 1985
Draft amendments aiming to block these appropriations did not pass in Parliament.

At the beginning of the 1984 financial year the EIB, after consulting the Turkish Government, submitted to the Commission an estimate of expenditure for 1984 of the order of 60 m ECU.

The Commission then included in the Supplementary and Amending Budget No. 1/1984 a request for a further 46 m ECU of appropriations. The request was, however, turned down by the Council and was not supported by Parliament.

Following the rejection of the first request, the Commission made a new request to increase the budget line concerned by means of transfer proposal 32/84 which provided for the transfer of 32 m ECU from Title 8 to Item 9630. Once again the response of the budgetary authority was negative.

As regards the Council, whose competence in this case was decisive, the expenditure being of a compulsory nature, the Commission suggests that its refusal was motivated by 'technical considerations'.

As for Parliament, its attitude expressed a refusal to authorize new financing as well as its determination not to block settlement of commitments already entered into.

The Commission found itself in a situation where it was facing expenditure exceeding the estimates, while the Community's creditors could go before the courts to demand payment of their claims. The Commission, availing itself of the technique of transfers between articles within the same chapter, was able to act without authorization and get together 17 570 m ECU which it put into Item 9630.

It could be said that the Commission has disregarded the decisions of the budgetary authority. It should, however, be noted that the budgetary authority had not taken a decision to block all payments already committed. The Commission was in a difficult position. As for the Council, it had failed to rule on the substance of the case.

It can only be said that in this matter responsibility is very much divided. The reproach that can be made against the Commission is above all that it failed to prepare accurate estimates.

3. Development aid

Community development aid policy enjoys wide support both in Europe and in international public opinion. It expresses the solidarity of the Community with the developing countries and the figures show that such solidarity is not merely a matter of lip service: in 1984, 1 853 m ECU were paid by the Community as development aid, while payments under the budget as a whole amounted to 27 523 m ECU. This puts development aid policy in third place among Community policies after agricultural policy and social policy, but ahead of regional policy and energy and research policy. The year 1984 in this sector was characterized by definite progress in the operation of procedures and the implementation of appropriations. The Court of Auditors had no fundamental criticisms to make.

1 Including non-budgetized EDF
Of course major problems still exist: the management procedures for food aid do not allow of proper planning, the budgetization of the EDF has not always been achieved and the difficulties encountered on the spot very often hinder effective action. The institutional implications of these problems do not make their resolution any easier.

Parliament is following closely the implementation of this policy and is grateful to the Court of Auditors for its constructive criticisms which enabled the Commission to improve its management.

4. Agricultural expenditure

Alongside the exhaustion of own resources, the development of agricultural expenditure helped to bring about the current budgetary crisis. Taking the objective of the common agricultural policy as established, some of this expenditure is irreducible, in particular where it is a question of assuring farmers a reasonable income. Political obstacles, which have hitherto been insurmountable, have also prevented the hoped-for alignment of Community prices and world prices, thus maintaining a high level of refunds. Other agricultural expenditure, however, is more directly dependent on management: expenditure on storage.

The financial year 1984 recorded a deterioration in the problem of public stocks and, more generally, Community stocks. The following figures clearly illustrate the problem:

<table>
<thead>
<tr>
<th></th>
<th>1983</th>
<th>1984</th>
<th>(+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public storage expenditure</td>
<td>2 007</td>
<td>2 710</td>
<td>35%</td>
</tr>
<tr>
<td>Value of products in public storage¹</td>
<td>7 035</td>
<td>8 751</td>
<td>24%</td>
</tr>
</tbody>
</table>

The increase in these two principal financial items relating to public storage (expenditure on storage and value of stocks) was thus considerable in 1984, but this phenomenon has been constantly present throughout the last three or four financial years.

As the sums absorbed by storage policy are in themselves considerable (expenditure on storage in 1984 was almost equivalent to the total payments under the Social and Regional Funds) and exhibit a constant rising trend, one wonders whether corrective measures cannot be introduced in the management of future financial years.

Expenditure on storage falls into the category of expenditure which is considered 'inevitable' because it is designed to re-establish market balance (with the refund expenditure). The inevitable nature of such expenditure, however, relates to the stage of buying-in for storage at the time when intervention is required to cope with the surpluses produced; it does not however, relate either to the market management measures which affect the formation of surpluses (principally to the prices fixed by the Council), or to the resultant stock management, the duration and conditions of storage for which involve the greatest expenditure.

¹ As at 31 November of the financial year: this is second category expenditure resulting from intervention operations during the period from December to November (Regulation No. 3184/83)

WG(VS1)/3408E - 27 - PE 103.713/fin
The aspect of the question which mainly entails action by the Commission and its responsibility is the management of stocks and the associated expenditure.

The management expenditure can be subdivided into expenditure connected with the technical and financial costs of storage and, secondly, expenditure involved in the disposal of stocks; the former relates to the technical aspects of storage and the locking-up of capital; the latter serves to finance the losses resulting from the difference between the purchase price on storage and the resale price. In both cases it can be said that the Commission must make an effort to improve its management in order to reduce the financial burden on the Community. Better turnover of stocks can:

- reduce the quantity and the value of the products in storage;
- reduce the ageing of the goods while avoiding the risk of losses at the time of resale.

The Commission quite obviously runs the risk of encountering considerable difficulties in its efforts to speed up the turnover of stocks; it does not, however, lack the means (export refunds, special measures for disposal on the internal market, commercial agreements, etc.) and these would enable it to achieve considerable positive results.

For example, as the Commission acknowledges¹, the increase in the value of stocks and in the expenditure in 1984 were largely caused by the difficulties in disposing of butter surpluses (increasing from 685 000 to 978 000 tonnes) and by the losses suffered in the selling price of this product respectively; disposal also therefore involved considerable losses because of the ageing of the stocks (about half was on the point of reaching the two-year age limit beyond which the product loses the characteristics which make it suitable for consumption). A better turnover of stocks achieved by using the means indicated above would make it possible to reduce stocks and improve the quality, while reducing both the cost of locked-up capital and the costs connected with disposal.

Finally the Commission is also called on to make an effort to improve its management from the point of view of accountancy; it has not so far used the possibility provided for in Article 8 of the Regulation to depreciate the accounting value of the stocks by an amount equal to half the difference between the purchase price and the selling value.

The failure to apply this depreciation criterion to latent losses does not seem to be in accordance with the principle of sound financial management, inasmuch as it involves:

¹ See XIVth financial report on the EAGGF - Guarantee Section (COM(85) 492 final, p. 23)
- the creation of substantial latent charges which may materialize at any time (the Court of Auditors, which condemned this phenomenon, estimates such charges prudently at 2,500 m ECU);

- an increase in expenditure on interest paid to national organizations responsible for storage in compensation for the capital they have had to lock up; as such interest is based on an over-estimated book value, it follows that the burden to be borne by the Community is greatly increased.

It should also be pointed out that the Commission has taken account of the criticisms made in this connection by introducing two types of corrective measure:

- publication of a note on the intervention stocks and the associated latent charges in addition to the management account; the Court of Auditors reserves the right in this connection to evaluate the assessment criteria used;

- the introduction in the preliminary draft budget for 1986 of two budget lines (2920 and 2921) specially intended to cover the latent charges associated with the depreciation of butter and beef and veal; unfortunately the Commission was not backed up in this positive move to improve book-keeping: the Council deleted these two lines.

From this point of view and from that of all the others mentioned, the Commission is invited to seek all possible means of improving stock management so that this type of expenditure comes completely, within the control of the Community in the medium-term. It would be useful for it to submit a programme for running down stocks within an appropriate period of six months.

5. Combating fraud

The importance of combating fraud within the strategy for control of Community finance has been emphasized many times by Parliament during the discharge procedure; in its resolution of 18 May 1983 Parliament pointed to the need for the Commission and the Court to concentrate their efforts in regard to fraud, and in its resolution of 16 April 1985 it pointed out the need to intensify inquiries relating to a particular source of fraudulent activity: the criminal world of the Mafia.

The legislative body has itself also noted the need to strengthen the systems for combating irregularities and frauds and has provided the Commission with a structured system of legal instruments in the sector which is most exposed to fraudulent practices; that of the agricultural guarantee section. In this area, even though the most important responsibilities as regards control devolve on the Member States (Article 8 of Regulation 729/70, Directive 77/435 on the systematic control of commercial documents and Articles 3, 4 and 5 of Regulation 283/72 on the notification of irregularities discovered), the Commission does not lack means to take action; it can in fact:

- undertake special inquiries, notably on-the-spot enquiries, with the formal obligation on the Member States to cooperate with it (Article 9 of Regulation 729/70 and Article 6 of Regulation 283/72);

- exchange information with the administrations of the Member States and apply a system of mutual assistance in the customs sector (Article 4, Regulation 283/72 and Regulation 1468/81);

- take measures to recover sums improperly paid (Regulation 283/72).
This system is supplemented by specific control measures carried out by the Commission's Directorate-General of Financial Control.

This generously equipped system of control instruments should make it possible to achieve good results in combating irregularities and frauds and, in fact, the figures for the last three years would seem to indicate a positive trend in this connection:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of irregularities</th>
<th>Amount (in ECU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>218</td>
<td>34 208 218</td>
</tr>
<tr>
<td>1983</td>
<td>176</td>
<td>11 137 059</td>
</tr>
<tr>
<td>1984</td>
<td>126</td>
<td>5 844 032</td>
</tr>
</tbody>
</table>

There is thus an appreciable and constant reduction both in the number and in the value of the cases notified. These trends do not however appear to pacify the Commission and quite rightly: apart from the observations by the Court of Auditors\(^1\) which found that up to 1984 the cases of undue payments which had been recovered were not recorded in the statistics given since they were considered as irregularities without any financial implications, there are two factors which make the Commission cautious in its approach:\(^2\):

- not all cases of irregularities discovered in the Member States are perhaps notified to the Commission;
- the number of cases notified by the Member States depends not only on the level of fraudulent activity on their territory but also on the effectiveness of the control measures applied at national level.

It therefore seems obvious that the instruments placed at the disposal of the Commission are not in themselves sufficient to guarantee the effectiveness of the fight against fraud, if their operation is not effectively integrated with that of the national authorities. The Court of Auditors expresses grave reservations about the willingness of the Member States to accept enhanced forms of cooperation by pointing out\(^3\) how action at national level is distinguished by lack of collaboration in various areas (superficial inquiries, inadequate application of Directive 77/435, failure to notify attempted frauds).

\(^1\)Annual Report on the financial year 1984, p. 4.23

\(^2\)See XIVth Financial Report on the Guarantee Section of EAGGF, para. 7.5

\(^3\)See Annual Report, para. 4.28
The figures for recoveries reflect what could be a characteristic aspect of this inadequate interaction between the two national and Community levels: we need only look at the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of irregularities</th>
<th>Number of recoveries</th>
<th>% Sums involved in irregularities</th>
<th>Sums recovered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>126</td>
<td>34</td>
<td>27%</td>
<td>5 844 032</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>619 998</td>
</tr>
<tr>
<td>Total from 1971</td>
<td>1 680</td>
<td>998</td>
<td>59%</td>
<td>131 985 922</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>36 831 651</td>
</tr>
</tbody>
</table>

The figures given above show the difficulties involved in recovering undue sums paid: less than 30% of the sums incorrectly paid have so far been recovered and this finding can only confirm the suspicion that the relationship established between the national authorities (administrative and legal) and the Community bodies is inadequate.

The Commission does however have means of reacting to this state of affairs at three levels:

- by using more stringently the existing legal instruments, which oblige the Member States to keep their own internal efficiency under review by imposing specific responsibilities on them; the Commission could for example make more frequent use of the procedures provided for in Articles 9 (Regulation 729) and 6 (Regulation 283/72) which impose formal obligations on the Member States, and reduce the use of the 'pre-six' examination procedure which relies on the good will of the Member States; it could also take part more often in national legal proceedings as a third party, when the Member States do not pursue cases of fraud with the necessary severity; in general the national internal procedures should form the subject of closer surveillance in order to improve their efficiency; a recent proposal for amendment of Regulation (EEC) No. 1468/81 is designed to increase cooperation with the national authorities in the investigation of frauds in connection with products from third countries and incorrectly declared as being "released for free circulation";

- by promoting the amendment of Community regulations on the basis of experience acquired in the area of fraud. The Commission has already taken steps in this direction and is amending the terms of the regulations so as to provide a better formulation of economic objectives;

- by coordinating existing supervisory measures. By entering special budget lines for the creation of a task force in the 1986 financial year, the European Parliament hoped to encourage the Commission to greater coordination of the various monitoring procedures by its departments in cooperation also with the national services.
CONCLUSIONS

Parliament's decision on the discharge is above all political in character. After taking note of the results of the audit operations, it represents an assessment of the way in which the budget has been implemented by comparison with the guidelines and objectives laid down by the budgetary authorities.

The guidelines laid down for 1984 and retained for subsequent years related essentially to:

- combating unemployment, both by investment in production structures and by training measures;
- support for key technologies;
- strengthening development aid policy.

The last two objectives have to a large extent been achieved. Despite certain shortcomings and administrative complexities, the Community's development aid now represents an appreciable and effective contribution to the effort to demonstrate solidarity with the developing countries. The policy to establish a European industry involving new technologies is also a reality, notably with the ESPRIT programme.

On the other hand, the policy of solidarity between the regions and with respect to our most disadvantaged co-citizens, i.e. the unemployed, has neither the instruments nor the financial means necessary for there to be a perceptible impact by a Community policy as distinct from national efforts.

However, on the whole, Parliament's assessment of the management in the financial year 1984 is favourable, having regard to the difficulties of the Community's budget crisis. Discharge is therefore granted to the Commission.
**SECTION III - COMMISSION**

**Utilization of Budget Appropriations**

*In the Financial Year 1984 (By Title)*

(in m ECU)

<table>
<thead>
<tr>
<th>Budget Line</th>
<th>Nature of expenditure</th>
<th>Final Appropriations*</th>
<th>Utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Commitments (%)</td>
<td>Payments (%)</td>
<td></td>
</tr>
<tr>
<td><strong>Part A</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Title 1</td>
<td>Expenditure relating to persons working with the institution</td>
<td>545.5</td>
<td>538.8</td>
</tr>
<tr>
<td>Title 2</td>
<td>Buildings, equipment and miscellaneous operating expenditure</td>
<td>274.5</td>
<td>272.4</td>
</tr>
<tr>
<td>Title 10</td>
<td>Other expenditure</td>
<td>0.1</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Part B</strong></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Titles 1, 2</td>
<td>European Agricultural Guidance and Guarantee Fund - Guidance Section</td>
<td>18 354</td>
<td>18 330.8</td>
</tr>
<tr>
<td></td>
<td>Nondifferentiated appropriations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Title 3</td>
<td>European Agricultural Guidance and Guarantee Fund - Guidance Section, and specific agricultural measures: Differentiated appropriations:commitment</td>
<td>908</td>
<td>819.3</td>
</tr>
<tr>
<td></td>
<td>payment</td>
<td>615.1</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Non-differentiated appropriations</td>
<td>51.8</td>
<td>51.2</td>
</tr>
<tr>
<td>Title 4</td>
<td>Common policy on fisheries and the sea: Differentiated appropriations:commitment</td>
<td>121.9</td>
<td>66.2</td>
</tr>
<tr>
<td></td>
<td>payment</td>
<td>55.2</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Non-differentiated appropriations</td>
<td>32.2</td>
<td>29.9</td>
</tr>
</tbody>
</table>

*The commitment appropriations include those existing at the end of the financial year 1983 or made available by decommitments and adjustments to commitments carried over.*
<table>
<thead>
<tr>
<th>Budget Line</th>
<th>Nature of expenditure</th>
<th>Final Appropriations</th>
<th>Utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Commitments %</td>
<td>Payments %</td>
</tr>
<tr>
<td>Title 5</td>
<td>Appropriations for operations in the regional development sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Differentiated appropriations: commitment</td>
<td>2 500.8</td>
<td>2 429.5</td>
<td>97.1%</td>
</tr>
<tr>
<td>payment</td>
<td>1 450.2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Non-differentiated appropriations</td>
<td>12.7</td>
<td>11.5</td>
<td>90.5%</td>
</tr>
<tr>
<td>Title 6</td>
<td>Appropriations for operations in the social sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Differentiated appropriations: commitment</td>
<td>2 039.3</td>
<td>1 859.5</td>
<td>91.2%</td>
</tr>
<tr>
<td>payment</td>
<td>1 219.1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Non-differentiated appropriations</td>
<td>419</td>
<td>416.2</td>
<td>99.3%</td>
</tr>
<tr>
<td>Title 7</td>
<td>Appropriations for operations in the energy, industry and technology, research, nuclear safeguards and information market and innovation sectors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Differentiated appropriations: commitment</td>
<td>1 129.9</td>
<td>777.4</td>
<td>68.8%</td>
</tr>
<tr>
<td>payment</td>
<td>667.4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Non-differentiated appropriations</td>
<td>1 028.9</td>
<td>1 028.3</td>
<td>99.9%</td>
</tr>
<tr>
<td>Title 8</td>
<td>Repayments and aid to Member States, loan guarantees and miscellaneous</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-differentiated appropriations</td>
<td>1 083.2</td>
<td>1082.5</td>
<td>99.9%</td>
</tr>
<tr>
<td>Title 9</td>
<td>Cooperation with the developing countries and non-member countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Differentiated appropriations: commitment</td>
<td>624.9</td>
<td>477.9</td>
<td>76.5%</td>
</tr>
<tr>
<td>payment</td>
<td>310.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Non-differentiated appropriations</td>
<td>721.7</td>
<td>721.1</td>
<td>99.9%</td>
</tr>
<tr>
<td>Budget Line</td>
<td>Nature of expenditure</td>
<td>Final Appropriations</td>
<td>Utilization</td>
</tr>
<tr>
<td>-------------</td>
<td>----------------------</td>
<td>----------------------</td>
<td>-------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Commitments</td>
<td>%</td>
</tr>
<tr>
<td>Title 10 Other expenditure</td>
<td>Differentiated appropriations:commitment</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>payment</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Non-differentiated appropriations</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Part 'B'</td>
<td>Differentiated appropriations:commitment</td>
<td>7 324.9</td>
<td>6 429.8</td>
</tr>
<tr>
<td></td>
<td>payment</td>
<td>4 317.5</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Non-differentiated appropriations</td>
<td>21 707.5</td>
<td>21 671.5</td>
</tr>
<tr>
<td>Grand TOTAL</td>
<td>Differentiated appropriations:commitment</td>
<td>7 324.9</td>
<td>6 429.8</td>
</tr>
<tr>
<td></td>
<td>payment</td>
<td>4 317.5</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Non-differentiated appropriations</td>
<td>22 527.5</td>
<td>22 482.7</td>
</tr>
</tbody>
</table>
ANNEX

MOTION FOR A RESOLUTION (DOCUMENT B 2-895/85)

tabled by Mr FICH, Mr ARNDT, Mrs GREDAL, Mr CHRISTIANSEN and Mr GLINNE

on behalf of the Socialist Group

pursuant to Rule 47 of the Rules of Procedure

on the Commission's decision to grant aid to Turkey from the Third Financial Protocol in the 1984 budgetary year

The European Parliament,

- having regard to the Third Financial Protocol between the European Community and Turkey signed on 12 May 1977,
- having regard to Parliament's repeated condemnation of human rights violations in Turkey,
- having regard to the fact that both Parliament and the Council rejected the proposal to increase funds for the Third Financial Protocol as envisaged by the Commission in preliminary draft supplementary budget No. 1/84,
- having regard to the fact that both Parliament and the Council rejected the Commission's request to transfer funds from Chapter 7 to Chapter 9 in favour of the Third Financial Protocol,
- having regard to the Commission's decision to transfer funds within Chapter 96 in favour of the Third Financial Protocol and thus enable 29 million ECU to be paid in 1984, although only 5 million ECU was provided by the budgetary authority (Council and Parliament) in the 1984 budget,

1. Condemns the internal transfer of funds by the Commission, which it regards as a deliberate flouting of the budgetary authority's decision regarding aid to Turkey and as contravening the spirit of the budgetary procedure;

2. Regrets the fact that, by this conduct, the Commission has undermined the efforts to restore respect for human rights in Turkey;

3. Calls on the Court of Auditors to consider within the framework of its annual report for 1984 whether this internal transfer of funds constitutes a violation of the principles of the budgetary procedure;

4. Intends, during the discharge procedure for 1984, to examine the political responsibility of the Commission and of the Commissioners concerned for this decision on aid to Turkey;

5. Asks the Commission to ensure that such practices do not recur in future.
At its meeting of 19 November 1985, the Political Affairs Committee appointed Mr SABY draftsman of an opinion.

At its meeting of 22 January 1986, the committee considered the draft opinion and adopted its conclusions by 22 votes to 5 with 5 abstentions.

The following took part in the vote: Mr FORMIGONI, chairman; Mr HÄNSCH, first vice-chairman; Mr SABY, draftsman; Mr ALMEIDA MENDES, Mr BALFE (deputizing for Mr AMADEI), Mr BERNARD-REYMOND, Mr BLUMENFELD, Mr CAAMANO BERNAL, Mr DANKERT (deputizing for Mrs CHARZAT), Mr EPHREMINIDIS, Mr FILINIS (deputizing for Mr CERVETTI), Mr B. FRIEDRICH, Mr HABSBURG, Mr KOLOKOTRONIS (deputizing for Mr GLINNE), Mrs Lenz, Mr LOMAS, Mr MALLET (deputizing for Mr ANTONIOZZI), Mr MEDEIROS FERREIRA, Mr MEDINA ORTEGA, Mr NEWENS, Mr PENDERS, Mr PERREIRA (deputizing for Mr BETTIZA), Mrs PIERMONT; Mr PIRKL (deputizing for Mr CALVO SOTELO), Mr PLANAS PUCHADES, Mr POETTERING, Mr PRAG, Mr SEAL (deputizing for Mr SEEFFEKO), Mr SELVA (deputizing for Mr ERCINI), Mr SUTRA DE GERMA (deputizing for Mr JOSPIN), Mr TZOUNIS (deputizing for Mr CROUX), Mr WALTER and Mr WEDEKIND (deputizing for Mr KLEPSCH).
The Political Affairs Committee has considered the issue raised by the author of the motion for a resolution in question. It appears that, despite the budgetary authority's refusal to increase appropriations under the financial protocol with Turkey and its decision to enter only 5 million ECU in the 1984 budget, the Commission transferred resources within Chapter 96 to allow payment of 29 million ECU in 1984.

The motion for a resolution argues that the Commission has:

- defied the budgetary authority's decision on aid to Turkey, and

- compromised the success of the efforts being made to restore respect for human rights in Turkey.

In examining this issue from the political viewpoint, this committee recalled the content of the report by Mr BALFE on the human rights situation in Turkey (Doc. A 2-117/85), which was adopted by Parliament on 23 October 1985 and which confirmed that a resumption of normal relations between the Community and Turkey within the framework of the association agreement, including the provision of financial aid, depended on full respect for democratic liberties within Turkey.

The Political Affairs Committee found that the budgetary authority had indeed refused to grant new appropriations in excess of the 5 million ECU entered in the 1984 budget, but noted that no specific reference had been made to the commitments already entered into by the Community. In addition, Parliament's political resolve to honour former commitments (pre-dating 31 October 1981) was confirmed by the rejection of amendments aimed at preventing the allocation of resources to the relevant budget item. It was the Council itself which invited the Commission to make a transfer, in accordance with the Financial Regulation, within Chapter 96. It should be borne in mind, moreover, that, as specified by Mr Delors in his answer to a related question at the sitting of 13 November 1985, Community contributions are not received by the Turkish Government, but are paid to European undertakings for projects embarked upon in accordance with financing contracts concluded before 31 October 1981.

In his answer to the same question, the President of the Council, Mr Poos, pointed out that the Council, while rejecting an increase, had made it clear
in its explanatory memorandum that the appropriation against the item in question could be increased via the transfer procedure in duly substantiated circumstances.

The Political Affairs Committee realizes that, by restricting itself to payments in respect of commitments entered into before the end of October 1981, the Commission did comply with the Community policy of not entering into fresh commitments with Turkey.

Nevertheless, the Political Affairs Committee notes that the equivocal attitude maintained by the Commission was politically prejudicial to Parliament's decisions on the matter.

In consequence, the Political Affairs Committee would point out that the charges made against the Commission in the motion for a resolution under consideration cannot relate to commitments entered into before 31 October 1981.
OPINION

(Rule 101 of the Rules of Procedure)

of the Committee on Energy, Research and Technology

Draftsman: Mr ADAM

On 22 January 1986 the Committee on Energy, Research and Technology appointed Mr ADAM draftsman of the opinion for the Committee on Budgetary Control on the discharge for the financial year 1984.

The Committee considered the draft opinion at its meetings of 22 January 1986 and 24 February 1986. It adopted the draft opinion on 24 February 1986 unanimously.

The following took part in the vote:- Mr PONIATOWSKI, Chairman; Mr SALZER, Vice-Chairman; Mr SELIGMAN, Vice-Chairman; Mr ADAM, rapporteur; Mr BONACCINI (deputizing for Mr IPPOLITO), Mr CROUX (deputizing for Mr CIANCAGLINI), Mr ESTGEN, Mr GARCIA AMIGO (deputizing for Mr TURNER), Mr KOLOKOTRONIS, Mr LINKOHR, Mr MALLET, Mr RIGO (deputizing for Mrs LIZIN), Mr SANZ FERNANDEZ, Mr SPATH, Mr TRIDENTE, Sir Peter VANNECK (deputizing for Mr TOKSVIG), Mrs VIEHOFF and Mr WEST.
I. INTRODUCTION

1. The Committee on Energy is competent for the following chapters of the budget: Chapters 70, 71, 72, 73 and 75 and, in Chapter 77, articles 770-773 inclusive.

2. The present opinion relates to the comments set out in Chapter 9 of the report of the Court of Auditors (ECA) for 1984, and the Commission's replies thereto and to the utilisation of appropriations in the relevant budgetary chapters, especially the appropriations amended by the European Parliament in the course of the budgetary procedure for the financial year 1984.

3. Attention is drawn to the Amending and Supplementary Budget number 1 of the European Communities for the financial year 1984. Attention is drawn to the tables and chart annexed to the present opinion.

II. BUDGETARY OBJECTIVES

4. The permanent overall objectives should be:

(a) budgetary transparency; and

(b) a clear logic running through both the organisation of the Community's actions in this sector and their budgetary presentation.

5. In the interests of operational efficiency and democratic scrutiny we should be moving towards a situation in which Community actions in energy, research and technology run in the following cycle: studies - programmes - evaluation.

6. For various reasons, the rate of utilisation of appropriations is not always a very good criterion for evaluating a programme of Community action. If, however, there is to be a shift away from this criterion towards a finer qualitative assessment, the onus is on the Commission to provide Parliament with a greater amount of qualitative data. In particular, it should try to ensure that progress reports are delivered to Parliament before proposals for the renewal of programmes and before requests for substantial increases in budget funding.

7. In future a better balance must be struck between two types of evaluation: financial and qualitative.

8. Attention is drawn to the resolution of 10 October 1985 by which the European Parliament decided to establish an office for scientific and technological option assessment. Such an office could contribute to the qualitative assessment of Community action, in line with paragraph 4 of the above-mentioned resolution which referred to "the particular needs of the standing committees (of the European Parliament) and political groups in technological and political decision-making, which can be made only by an autonomous technological assessment office."

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1 OJ C326, 16 December 1985, pp 76-79
2 ibid, pp 194-195
3 See the table on utilisation rates annexed to this opinion (Annex 1)
4 OJ L329, 17 December 1984
6 words in parentheses added
9. In its discharge opinion for 1983 this Committee asked the Commission to improve the clarity of the presentation of its financial out-turn. For 1984 the Commission (DG XII) provided a detailed working paper on the execution of the research budget for which it is warmly thanked. It is to be hoped that this can become an annual practice on the part of all the Commission Directorate-Generals concerned.

III. ENERGY

(i) Demonstration projects

10. A generally good rate of utilisation of commitment appropriations is to be noted, and although the rate for payments was noticeably less good, each of the lines in question registered an improvement in rate of utilisation as compared with 1983.

11. In 1983, there had been the problem of a late Council decision, which explained the measure of utilisation. At the end of 1984, 28.8 MECU in payment appropriations lapsed because they had not been used either in 1983 or 1984. It is not clear why this money could not be used in 1984, when the Commission received over 800 proposals under the demonstration projects programmes.

(ii) Investments in the rational use of energy

12. The Commission's proposal for this programme (Article 705) had never been adopted by the Council in spite of having received a favourable opinion from the European Parliament. In 1984, no less than 20 MECU were available in the budget to be committed. Because of the lack of legal base, none of the money was spent in the manner intended by the budgetary authority. In the end, a transfer was made so that the money could be used for famine relief to the Sahel region of Africa. This in itself was no bad use for the money, but the overall sequence of events were a travesty of the correct use of the Community budget.

13. The ECA has recommended that "present systems of internal and external technical evaluation be expanded to provide a clearer assessment of the likelihood of commercial exploitation for each objective within a completed project" as the basis for "an improved follow-up of projects".

14. The Commission has replied that it is examining how to introduce a system of periodic requests to all contractors for information. This Committee is aware of the Commission's manpower difficulties, which impede the exhaustive monitoring of the large number of projects. Nevertheless, it hopes that it will be able to bring in the new follow-up system soon.

(iii) Nuclear safeguards

15. Chapter 71 relates to nuclear safeguards, including the work of the nuclear inspectorate. The nuclear inspectorate faces a chronic manpower problem, as is shown by the statistics relating to the size of the inspectorate and the number of inspections carried out in 1984 and 1985, which are set out below. Recently, Parliament was able somewhat to alleviate the problem, by creating an additional 28 posts in the 1986 budget.
Inspections 1984 man/days 6051
  carried out 1985 6215

Inspections : 1984 1787
  number 1985 1876

Inspectors end 1984 130
  end 1985 122
  1986 126 (+28)

Estimated theoretical number of man/days
which ought to have been reached 12000

16. Turning to Item 712 (samples and analyses), it is surprising that no less
than 250,000 ECU out of the 960,000 entered in the budget were available for
transfer to development and disaster aid, not counting another 50,000
transferred to two other lines in Chapter 71.

IV. RESEARCH AND TECHNOLOGY

(i) Preparatory studies (chapter 72)

17. In its opinion on the 1983 discharge, this Committee approved the
Commission's stated intention of entering appropriations for preparatory
studies for research which had hitherto been non-differentiated appropriations
in chapter 72, in chapter 73 in future, as differentiated appropriations.
This change has not yet been implemented, and a statement by the Commission on
its plans for this chapter would be welcome.

(ii) Research (chapter 73)

18. The year 1984 was the first covered by the EC Framework Programme for
scientific and technical research.

19. The Commission faced a major problem of delay over the approval by the
Council of eight important programmes. In the end, the Council only decided
on the programmes on 12 March 1985. The budgetary authority had made
provisions in the 1984 budget (and the supplementary budget) for the start of
these programmes, but clearly it was not possible to spend the appropriations
in 1984.

20. In its replies to the ECA report, the Commission has said that, but for
this problem the utilisation rate for indirect action research programmes
would have been 88% for commitments and 89% for payments.

21. A table supplied by the Commission is annexed to this opinion showing the
history of the eight proposals.

22. Also annexed is a pie-chart prepared by the Commission showing the
distribution of resources under chapter 73. The four major categories are
ESPRIT, JRC, fusion (including JET) and indirect action (i.e. shared-cost and
concerted-action projects).

7 PE 94.924/fin
8 Annex II
9 Annex III
23. The table in annex II showing the fate of the 8 proposals adopted in March 1985 shows the difficulties which arise when the Council enters "amounts considered necessary" which do not reflect - indeed, which distort - the intentions enshrined in the framework programme strategy.

24. JET - The JET finances for 1984 were the subject of a special report by the ECA, which approved the financial statements. However, the Court had certain observations on changes in accounting methods, management of appropriations, internal control and loss of bank interest.

25. In particular, the ECA noted that at the end of 1984, appropriations for payments amounting to 15.7 MECU had to be cancelled at JET, although this situation was foreseeable. Further, the ECA repeated a recommendation that JET should carry out on-the-spot checking of the original supporting documentation in respect of invoices received from the United Kingdom Atomic Energy Authority (UKAEA) for goods and services.

26. Contract delays - When appropriations are underused, the reason is sometimes a delayed Council decision, but there is sometimes another kind of delay - one caused by the Commission's internal procedures. The programme for stimulation of scientific and technical potential (item 7351) is a case in point. In 1984, this programme was already underway and entering its second phase. The call for proposals was made on 4 February; but the decisions on the granting of support were not taken until 18 July, and the completion of contracts dragged on until the end of the year. This procedure was unacceptably slow, especially bearing in mind that in 1983, after a late Council decision, the whole procedure for the first phase had been completed between 8 July and 28 December.

27. The general administrative problems arising in the Commission are of two types:

(a) Firstly, scrutiny within the Commission can lead to lengthy negotiations and revision of proposals and adjustment of the parties involved. While technically this procedure may be justified, it is not clear that there are real benefits ultimately to the research programme. An acceptance or rejection of proposals as presented would be quicker and the Commission is invited to justify the administrative procedures used. It must be added that these procedures cause difficulties for small- and medium-sized businesses;

(b) Secondly, the time taken between acceptance of a proposal and the completion of the contract must be reduced. The average time is almost twelve months whereas in a normal industrial situation 3 or 4 months would be the norm. This problem is well attested in Commission documents. The Commission should be pressed to bring forward urgent proposals to reduce this unacceptable time lag.

(iii) Technology (Item 7335, ch. 75, and articles 770-773)

28. ESPRIT - This was the first year of operation and a decision to go forward was not made until 28 February 1984 (Item 7335). High commitments and low payments were always foreseen in the early days, with payments being about 25% of commitment and this pattern changing later in the programme. There were 441 applications but only 20% were accepted, indicating the amount of office work that was necessary. Negotiation takes place with applicants, often involving reorientation of proposals. Until recently, there was a delay in signing contracts caused by the fact that the contract had to be sent round all the partners in a project successively (five being the average number of
partners) so that all could sign. The Commission says this delay has now been reduced by the introduction of a parallel signing procedure in which each partner gets a copy to sign, and the Director-General of the Task Force finally signs all the copies and gives an attestation on each that all other partners have signed. The Commission pays its share of the cost within an average period of approximately nine months.

29. As far as other Task Force operations are concerned, the level of expenditure in 1984 was satisfactory.

V. CONCLUSIONS

1. Stresses the need for both parts of the budgetary authority to take into account the priorities established in the Community's framework programme for scientific and technical research when deciding on the level of appropriations in the budget, and for all parties concerned to ensure that these priorities are reflected in the annual execution of the research budget; this is emphasised in the light of experience in 1984, the first year of the framework programme, and with a view to the forthcoming proposal for a new framework programme.

2. In general, the Committee is satisfied with the rate of utilisation of appropriations for energy, research and technology in 1984, subject to the detailed considerations set out in this opinion.

3. As regards ESPRIT, the Committee accepts the reasons given by the Commission for the low rate of use of payment appropriations, but points out that this could have been better forecasted by the Commission at the outset, and emphasises the importance which it attaches to making the fullest use of the admittedly limited resources which have been made available for this very important Community activity.

4. With regard to the execution of shared-cost research programmes (indirect action), the Committee recognises the distinction between some of the older Community programmes and certain new ones which have a strategic role under the framework programme; accordingly, it proposes to place the execution of the 7 programmes adopted by the Council on 12 March 1985 under especially close scrutiny in the coming years and invites the Committee on Budgetary Control to cooperate with it in this.

5. Draws attention to the evidence provided by experience with the energy demonstration projects programme, nuclear inspection activities and certain research activities to the effect that efficient execution of the budget in particular is largely a function of the availability of trained staff in appropriate numbers.

6. Requests the Commission to take note of the various points mentioned in the present opinion and, in particular, of the desirability of providing Parliament with a detailed report on budget execution by each relevant Commission department.

7. Reaffirms its insistence on qualitative evaluation as an integral element in the assessment of budget execution and requests further assistance from the Commission in this.
### Table 9.1 — Research, energy, etc.: Appropriations available in 1984 and their utilization

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Energy:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Energy policy (70 excluding 707)</td>
<td>216.9</td>
<td>204.8</td>
<td>94.4</td>
<td>206.0</td>
<td>133.7</td>
<td>64.9</td>
</tr>
<tr>
<td>— Specific Community measures (707)</td>
<td>456.0</td>
<td>456.0</td>
<td>100.0</td>
<td>457.8</td>
<td>412.0</td>
<td>90.0</td>
</tr>
<tr>
<td>Research and investment:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Direct action research</td>
<td>219.3</td>
<td>189.3</td>
<td>63.3</td>
<td>220.0</td>
<td>189.9 (1)</td>
<td>86.3</td>
</tr>
<tr>
<td>— Indirect action research (1)</td>
<td>386.6</td>
<td>268.9</td>
<td>69.5</td>
<td>307.9</td>
<td>249.3 (1)</td>
<td>80.1</td>
</tr>
<tr>
<td>— Information technology (Esprit)</td>
<td>207.0</td>
<td>134.4</td>
<td>64.9</td>
<td>45.0</td>
<td>1.8 (1)</td>
<td>4.0</td>
</tr>
<tr>
<td>Industry and the internal market:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Industrial policy</td>
<td>29.0</td>
<td>26.8</td>
<td>92.4</td>
<td>36.4</td>
<td>17.7</td>
<td>48.6</td>
</tr>
<tr>
<td>— Information and telecommunications technologies other than Esprit</td>
<td>45.7</td>
<td>17.6</td>
<td>38.5</td>
<td>50.8</td>
<td>26.3</td>
<td>51.8</td>
</tr>
<tr>
<td>Transport:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Transport policy (78 excluding 783)</td>
<td>96.7</td>
<td>16.7</td>
<td>17.3</td>
<td>45.4</td>
<td>6.8</td>
<td>15.0</td>
</tr>
<tr>
<td>— Special projects (on transport infrastructure) (783)</td>
<td>471.0</td>
<td>471.0</td>
<td>100.0</td>
<td>471.0</td>
<td>423.9</td>
<td>90.0</td>
</tr>
<tr>
<td>Other activities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>— Nuclear safeguards (71)</td>
<td>3.0</td>
<td>3.0</td>
<td>100.0</td>
<td>4.2</td>
<td>2.5</td>
<td>59.5</td>
</tr>
<tr>
<td>— Information market and innovation</td>
<td>23.9</td>
<td>13.6</td>
<td>56.9</td>
<td>20.1</td>
<td>8.9</td>
<td>44.3</td>
</tr>
<tr>
<td>— Miscellaneous (72)</td>
<td>3.7</td>
<td>3.6</td>
<td>97.3</td>
<td>6.0</td>
<td>2.9</td>
<td>48.3</td>
</tr>
<tr>
<td>Total</td>
<td>2 158.8</td>
<td>1 805.7</td>
<td>83.6</td>
<td>1 870.6</td>
<td>1 475.7</td>
<td>78.9</td>
</tr>
</tbody>
</table>

Note: Comparable figures for JET (1)

| Appropriations in the 1984 budget, plus appropriations remaining at the end of 1983, after transfers. |
| Including contribution to JET (89 Mio ECU). |
| Based on JET's budget (i.e. including Commission contribution). |
| Of which 106.2 Mio ECU are shown as research personnel expenditure. |
| Of which 18.9 Mio ECU are shown as research personnel expenditure. |
| Of which 0.9 Mio ECU are shown as research personnel expenditure. |

**SOURCE:** ECA report on the 1984 financial year

*OJ C326, 16 December 1985, p.77*
SUBJECT: EIGHT PROGRAMMES APPROVED BY THE COUNCIL ON 12 MARCH 1985

<table>
<thead>
<tr>
<th>PROGRAMME</th>
<th>COMMISSION PROPOSAL</th>
<th>EUROPEAN PARLIAMENT</th>
<th>COUNCIL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(million ECU)</td>
<td></td>
<td><strong>ACN 2 years</strong></td>
</tr>
<tr>
<td>1. FUSION</td>
<td>790/5 years</td>
<td>790/5 years</td>
<td>342/40/2 years</td>
</tr>
<tr>
<td>2. RADIATION PROTECTION</td>
<td>94/5 years</td>
<td>94/5 years</td>
<td>35/35/40/2 years</td>
</tr>
<tr>
<td>3. RADIOACTIVE WASTE</td>
<td>92/5 years</td>
<td>92/5 years</td>
<td>35/35/40/2 years</td>
</tr>
<tr>
<td>4. BIOTECHNOLOGY</td>
<td>88.5/5 years</td>
<td>88.5/5 years</td>
<td>35/35/40/2 years</td>
</tr>
<tr>
<td>5. STIMULATION</td>
<td>40/2 years</td>
<td>40/2 years</td>
<td>35/35/40/2 years</td>
</tr>
<tr>
<td>6. BRITE</td>
<td>170/4 years</td>
<td>170/4 years</td>
<td>65/65/40/2 years</td>
</tr>
<tr>
<td>7. NON-NUCLEAR ENERGIES</td>
<td>379+35/4.5 years</td>
<td>379+35/4.5 years</td>
<td>95/95/40/2 years</td>
</tr>
<tr>
<td>8. REACTOR SAFETY</td>
<td>81.3/4 years</td>
<td>81.3/4 years</td>
<td><em><strong>/</strong></em></td>
</tr>
</tbody>
</table>

* The main effect of the reduction is to extend the technological programme over a longer period than initially planned.
** The Council notes that for biotechnology it refers only to the scientific and technical content set out in document 10882/84 RECH 113 ATO 106 COR 2.
*** The programme is taken over by the JRC.
**** Amounts considered necessary which the Commission stated it intended to commit in 1985 and 1986.
***** Amounts considered necessary appearing in the programme decision.

SOURCE: THE COMMISSION
MAJOR BUDGET CATEGORIES - COMMITMENT APPROPRIATIONS

1984 BUDGET

(million ECU)

Shared-cost and concerted-action projects: 23 %

ESPRIT: 28 %

FUSION/JET: 23 %

JRC: 26 %

SOURCE: THE COMMISSION

- 48 -
OPINION
(Rule 101 of the Rules of Procedure)
of the Committee on Social Affairs and Employment
Draftsman: Mrs Raymonde DURY

On 18 December 1985, the Committee on Social Affairs and Employment appointed Mrs DURY draftsman of the opinion.

The Committee considered the draft opinion at its meeting of 24 February 1986. It adopted the opinion unanimously at its meeting of 25 February 1986.

The following took part in the vote: Mr WELSH, Chairman; Mrs DURY, draftsman; Mr ALVAREZ DE PAZ; Mrs d'ANCONA; Mr BACHY; Mr BARROS MOURA (deputizing for Mr ALAVANOS); Mr CABRERA BAZAN; Mrs CASSANMAGNAGO-CERRETTI; Mr CONDESSO (deputizing for Mr PININFARINA); Mr CRESPO; Mr FITZGERALD; Mr HERRERO MEREDIZ; Mr LACERDA DE QUEIROZ; Mrs LARIVE-GROENENDAAL; Mrs MARINARO (deputizing for Mrs HOFFMANN); Mr MEGAHY; Mr PAPAKYRIAZIS; Mr PORDEA (deputizing for Mr LE CHEVALLIER); Mr RAGGIO; Mr SAKELLARIOU (deputizing for Mr PETERS); Mr SUAREZ GONZALEZ; Mr TUCKMAN.
INTRODUCTORY REMARK

1. 1984 saw the first year of operation of the European Social Fund under the new rules adopted following a far-reaching reform of the Fund to which the European Parliament had rightly attached the greatest importance and in which it had tried to play an active and indeed decisive part. Its objective at every stage in the process was to ensure that the Fund, as "the most important instrument of employment policy established by the Treaties", should, in a period of continuing and, indeed, worsening unemployment, "respond more satisfactorily to the needs of the situation".

2. It should be noted that many of the views set out below were voiced during the hearing on the administration of the European Social Fund organised by the Committee on Social Affairs and Employment on 31 January 1986; this applies especially to the lack of clarity of the guidelines, the slowness in processing applications and, perhaps above all, the delays both in paying out advances and in settling final payment claims.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

3. The Committee on Social Affairs and Employment:

a) Regrets that, in the light of the information set out in the Commission's and the Court of Auditors' reports on the Social Fund for the year under review, the Fund's performance in 1984 fell far short of Parliament's legitimate expectations for a number of reasons, including the failure on the part of the Commission, despite Parliament's repeated insistence, to consult it on the guidelines for the operation of the Fund over the period 1984 - 1986;

b) Notes that the Commission's report in itself also leaves much to be desired and that in particular it fails to throw clearly into relief from the very start the crucial fact that this is the first year of operation under a new set of rules, let alone to recapitulate, albeit briefly, the essential content and direction of these rules; this is to some extent, but not altogether, a matter of presentation;

c) While welcoming the details given by the Commission concerning both its interpretation of the different priorities set out in the guidelines and concrete examples of the types of project carried out in each case, deplores the fact that virtually no attempt has been made to comment, albeit tentatively, on the performance of the Fund so far under its new rules, indicating on the one hand where improvements appear to have been made and, on the other hand, where they are perhaps still called for;

d) Endorses fully the Court of Auditors' conclusion that "the guidelines drawn up in consultation with the Member States are too general in that they do not make it possible to define the priorities precisely"², and notes that this corroborates Parliament's own view that "the current guidelines, which cover a wide range of different operations ... are defined in very general terms and all have the same degree of priority, and that this runs counter to the need for selectivity and prevents the Community objectives established by the reform of the Fund from being achieved"³;

e) Agrees, furthermore, that this lack of clarity of definition inevitably gives rise to confusion, on the part of all parties concerned, in the appraisal and, ultimately, the selection of projects as a result of different and sometimes conflicting interpretations of basic concepts and criteria (notably in respect of new technologies);

² OJ C 326, 16.12.85, pp. 73 and 74 (paras. 8.17 and 8.30)

f) Stresses that this highly unsatisfactory state of affairs is compounded by the uncertainty resulting from the slowness in the decision-making procedure and, in particular, in the payment of advances and settlement of final payment claims, and is particularly concerned by the grave practical problems arising in this connection for small project operators which are usually voluntary organisations virtually totally dependent on external funding;

g) Draws attention, furthermore, to the particular problem faced by operators whose projects (and notably training courses) do not coincide with the calendar year, i.e. the period covered by the Community's budgetary exercise; notes, in this connection, that under the present rules, in the case of a project covering, for instance, the period from September to July, two successive, and separate, applications have to be made to the ESF, the first for the period from September to December and the second for the period from January to July without, moreover, any prior guarantee that the necessary assistance will be forthcoming to complete the project;

h) Notes, as regards payment appropriations, that the rate of utilisation has improved in comparison with previous years and that this can no doubt be ascribed, at least in part, to the acceleration in the rate of payment of advances as a consequence of the new operating rules obtaining in this connection; considers, however, that to place this apparent improvement in its proper perspective, the rate of 94.38% for 1984 should be compared not only with the corresponding rate for 1983 (a disastrous 66.66%), but also with that for 1982 (83.17%);

i) Regrets, furthermore, that an amount of 86 mECU in payment appropriations had to be cancelled at the end of the financial year under review;

j) Finds, on the other hand, the poor rate of utilisation of commitment appropriations in 1984 (91.59%, as against 96.33% in 1983 and 95.78% in 1982) extremely disappointing and deplores in particular the Commission's
failure to commit any of the 36 mECU added, on second reading, to the ESF budget for 1984, following Parliament's decision to use part of its severely limited margin of manoeuvre to this end;

k) Notes that, in the light of the information available at the time of drawing up this opinion, the position as regards payments honouring the 1,850 mECU in commitments entered into in 1984 is now as follows: 900 mECU have been paid out in advances, over half of the final payment claims for a total amount of 590 mECU (duly submitted within the 31.10.85 deadline) have already been processed, and it is estimated that a further 25 mECU will be required to settle final payment claims in respect of specific measures (which are subject to a different timetable);

l) Understands, furthermore, that the discrepancy between the total amount paid out in advances and the total amount requested in final payments may largely result from over-estimation of the duration of projects and/or of the number of people involved in them;

m) Takes note, however, in this connection of the Commission's remark that the new rules laid down to prevent a repetition of such cancellations should begin to take effect in 1985;

n) Regrets that, despite far-reaching changes in the provisions regarding the financing of projects - in particular, the settlement of final payment requests - and in view of the increasingly worrying problem of the "weight of the past", the Commission does not deal adequately with the inevitable consequences of the commitments entered into in 1984;

o) Is at a loss to understand why there was a take-up of only 50%, in terms of both commitment and payment appropriations, in respect of Article 61 ("specific measures"), particularly as this line specifically provides a "golden" opportunity for implementing innovatory, pilot and/or demonstration projects with a potential for subsequent Community-wide application;
p) Notes, finally, with some concern, the Commission's statement that applications for young people in respect of vocational training operations leading directly to jobs in small or medium-sized enterprises to promote applied research in the development of new products, services or production processes in various sectors, and notably in the new technologies, fell short of expectations, and calls on it to comment on this disappointing state of affairs.

**Recommendations**

4. In view of the foregoing, the Committee on Social Affairs and Employment:

a) Insists that, when it comes to draw up its report on the activities of the European Social Fund during the financial year 1985, the Commission include a separate chapter giving a clear overall assessment of the performance of the Fund since the entry into force of the new Rules, both indicating where progress has been made and, in the case of shortcomings, submitting specific suggestions for improvement, including, if appropriate, proposed amendments to the Fund's rules and guidelines; it would be helpful, moreover, if this indispensable evaluation were linked to the pluriannual forecast of Social Fund expenditure which was most regrettably not included in the Commission's report for 1984;

b) Insists, furthermore, that the Commission complete and publish as a matter of the utmost urgency, both in the interests of all potential applicants for assistance from the Social Fund and for general publicity purposes, the long-awaited guide to the Fund and to the interpretation of the rules and guidelines governing its operation; and urges that this publication be clear, comprehensive and illustrated with practical examples;

c) Urges the Commission, as part of the indispensable effort to increase the transparency of the role, operation and management of the Fund, to relaunch the promising information campaign initiated in 1984 on "operations of special interest" submitted under Article 3(2) relating to specific measures of an innovatory character within the framework of Community objectives;
Calls on the Commission in its attempts to rationalise and speed up the processing of applications, the payment of advances and the settlement of final payment claims, to take special account of the specific problems faced by small project operators - which are frequently voluntary organisations largely or wholly dependent on external funding - and above all to fully recognise the fact that, because of shortcomings in the existing arrangements, such operators, while awaiting the Commission's decision on their applications and/or final payment claims, all too often have to take out loans (usually at high rates of interest) or even abandon their projects altogether;

e) Asks the Commission to look into the particular problem arising in the case of projects - usually training projects - whose duration does not coincide with the Community's budgetary exercise (i.e. the calendar year), and to come forward with suggestions for remedying this situation, including, if appropriate, specific proposals for amending the Financial Regulation;

f) Notes that, in the face of the massive and ever-increasing inflow of applications, the Commission finds itself less and less well equipped to meet the strict, albeit totally justified, demands made upon it both by the Court of Auditors and by the European Parliament, in terms of the examination of proposals and the control, examination and evaluation of the projects approved; suggests, therefore, that the Commission clearly formulate, and justify, its needs in terms of extra resources and, notably, staff, if it is to effect the far-reaching improvements called for in this connection and submit proposals to the Budgetary Authority accordingly;

g) Requests the Committee on Budgetary Control to take due account of the above conclusions and recommendations in its motion for a resolution on the discharge for the financial year 1984.
5 February 1986

Dear Mr Aigner,

At its meeting of 23/24 January 1986, the Committee on Regional Policy and Regional Planning examined Chapter 7, Regional Aid Expenditure, of the Court of Auditors' report concerning the financial year 1984 (OJ C 326 of 16.12.85). The committee requests the Committee on Budgetary Control to take account of the following comments in drawing up the motion for a resolution on the 1984 discharge.

The committee noted that the observations of the Court on the management of the funds allocated to the European Regional Development Fund in 1984 complement and reaffirm the criticisms it has made in previous years:

(i) under-use of the appropriations entered in the budget for the non-quota section of the ERDF;

(ii) delays in closing files on old decisions where projects have not been completed within a reasonable time-scale;

(iii) concern regarding the additionality of Community expenditure;

(iv) criticisms of specific investments arising from on-the-spot inspections which have revealed inadequate planning before the decision to invest and poor monitoring of the results of the investment;

(v) discrepancies between estimates of jobs to be created by an investment and the number of jobs which are in fact created;

(vi) failure to take sufficient account of the requirement to ensure the economic viability of enterprises which are granted aid.

The committee noted that, while problems associated with the non-quota section (point (i)) and the termination of old projects (point (ii)) remained to be resolved, there was evidence of improvement.
The committee fully endorses the comments of the Court on additionality, a matter which it regards as fundamental to increasing the effectiveness of the ERDF, while recognising that the Commission is faced by theoretical and practical difficulties in determining whether funds are used 'additionally'.

The committee appreciates the way in which the Court's general criticisms are supported by specific examples relating to decisions adopted in years prior to 1984 and based on audits carried out in Italy, France and Germany. With regard to the particular cases described in the report, the committee considers that they make clear that the Commission must undertake an exhaustive, critical examination of the justification of the investment given by the investor and Member State concerned, as the considerations underlying the decision to invest may not be strictly economic but may have a political dimension.

The Court's observations underline the importance of the shift from the financing of individual projects to the co-financing of programmes which has occurred following the adoption of the new ERDF Regulation. The examples given also reaffirm the urgent need to increase the staff assigned to the management of aid in the regional sector and to make the greatest possible use of computerization.

The committee believes, however, that the new ERDF Regulation cannot alone resolve the difficulties to which the Court has drawn attention; it agrees with the view expressed by the Court that the Commission should 'take all the necessary steps at the level of management and bring all its influence to bear on the Member States' to resolve these persistent problems. The committee would stress that the mis-allocation of ERDF funds reduces the effectiveness of the ERDF, as the funds committed to uncompleted or unproductive projects are thereby denied to more useful and profitable investments.

The following took part in the vote: Mr DE PASQUALE, chairman; Mr PEREIRA, first vice-chairman; Mr NEWMAN, second vice-chairman; Mr ARBELOA MURU, Mr BEAZLEY, Mrs BOOT, Mr BRITO APOLONIA, Mr CABEZON (deputizing for Mr MATTINA), Mr GANGROI ITLLAGUNO, Mr GIUMARRA, Mr HUTTON, Mrs LEMASS, Mr LLORENS BARGES, Mr O'DONNELL, Mr OLIVIA GARCIA, Mr PAZ (deputizing for Mr AVGERINOS), Mr POETSCHKI, Mr SAKELLARIOU and Mr STEVENSON (deputizing for Mr HUME).
OPINION

(Rule 101 of the Rules of Procedure)

of the Committee on Development and Cooperation

Draftsman: Mr A. MICHELINI

On 20 November 1985, the Committee on Development and Cooperation appointed Mr MICHELINI draftsman of the opinion.

The Committee considered the draft opinion at its meetings of 26 February 1986 and 28 February 1986. It adopted the draft opinion unanimously on 28 February 1986.

The following took part in the vote: Mrs FOCKE, Chairman; Mrs CASSAN MAGNAGO CERRETTI, acting draftsman; Mr COHEN; Mr CONDESSO; Mrs DALY; Mrs DE BALKER-VAN OCKEN; Mr DURAN CORSANEGO; Mr ESTRELLA PEDROLA; Mr FERNANDES; Mr GALLAND; Mr C. JACKSON; Mr McGOWAN; Mr MUNTINGH (deputising for Mr SABY); Mr RUBERT DE VENTOS; Mrs SCHMIT; Mrs SIMONS, Mr SIMPSON; Mr WAWRZIK.
Opinion of the Committee on Development and Cooperation

The Committee on Development and Cooperation,

A. having regard to the annual report of the Court of Auditors concerning the financial year 1984 accompanied by the replies of the institutions (1),

B. having regard to its previous opinions on the granting of discharge, and in particular its opinion on the granting of discharge in respect of the 1982 Budget (2),

a) Title 9 of the Budget

1. Notes with satisfaction the marked improvement in the rate of utilisation of both commitment appropriations (89%) and payment appropriations (78%) during the 1984 financial year;

2. Notes that the quantities of food aid mobilised in 1984 increased considerably, thereby making good much of the backlog resulting from delays in the 1983 programmes;

3. Deplores the unnecessarily long delay between the initiation of procedures for mobilising food aid and its arrival in the port of unloading which, in 1984, amounted on average to 14 weeks for cereals, 19 weeks for butteroil and 23 weeks for milk powder, these figures showing no improvement over 1983; believes that this situation can best be remedied by simplifying the complex procedures for the mobilisation of food aid and by replacing the basic food aid regulation (regulation No. 3331/82), which has never had the approval of the European Parliament, with a new regulation providing for more acceptable and efficient decision-making procedures;

4. Stresses, furthermore, the importance of food aid deliveries being properly programmed;

5. Stresses the importance of ensuring the quality of products delivered as food aid, and calls for full use to be made of the appropriations for quality control entered against item 9271 of the budget;

6. Regrets that, despite previous appeals by the Committee on Development and Cooperation, the Court of Auditors has again noted deficiencies in the packaging of food aid products;

7. Insists on the Commission monitoring the use made of counterpart funds from the proceeds of the sale of food aid, and ensuring that these are utilised as agreed;

(1) OJ No. L 326 of 16.12.85
(2) Doc. A2-10/85/C, p. 57, draftsman Mr Vergeer
8. Considers unacceptable the low rate of utilisation of appropriations under Article 930 during 1984, while congratulating the Commission on the great improvement in this respect during 1985;

9. Questions the advisability of minority participation in co-financed projects in which the Community, contributing only a small proportion of funds, has little influence on the management;

10. Notes the important role played by consultants in preparing and implementing projects under budget chapter 93 and the EDF; consequently calls on the Commission to exercise great care in the choice of consultants and, subsequently, in monitoring their work;

11. Stresses the importance of having more Commission representatives in Latin American and Asian developing countries, particularly as certain regional organizations mandated to manage Community projects have merited severe criticism by the Court of Auditors;

12. Condemns the failure to make payments under item 958 - special programme to combat hunger in the world, during 1984 because of technical difficulties;

13. Regrets once more the poor rate of utilisation of many appropriations under Chapter 96 - protocols with the Mediterranean countries;

b) European Development Fund

14. Repeats its dissatisfaction at the fact that the EDF is not budgetised;

15. Calls on the Member States and the Commission to ensure that quarterly contributions to the EDF are paid on time by all Member States;

16. Emphasises the need for more on-going and ex-post evaluation of projects so that the lessons learned may be used when assessing projects for assistance under the 6th EDF; in this regard emphasises the important role of delegations in ACP countries in the regular monitoring of projects;

17. Expresses concern that the EDF funds administered by the European Investment Bank are not subject to control by the Court of Auditors in the same way as EDF funds administered by the Commission;

18. Expresses its growing concern about delays which still occur in making payments to contractors under the EDF; asks the Commission to make available to the Parliament statistics which indicate the annual proportion of delayed payment, the causes of delays and the measures being taken to remedy the situation;

19. Endorses the Court of Auditors' observations regarding the importance of preliminary studies, the role of technical assistance and the maintenance of completed projects;
20. With regard to Stabex,

- stresses the need for accurate statistics in the beneficiary countries,
  and in this respect notes that the programme financed by Article 948 of
  the budget could go some way towards improving the quality of statistical
  information in developing countries;

- draws attention to the fact that in some of the cases examined by the
  Court of Auditors, shortfalls in export earnings were made good by Stabex
  by amounts which, when added to the export earnings of the year in question,
  provided the recipient state with total earnings in excess of those for
  the reference period;

(c) General

21. Repeats its calls for an immediate and thorough investigation to be made of the
staffing needs of DG VIII and of the staff required to implement the programme
of aid to Latin America and Asian developing countries, the results of this
investigation should be reflected in the table of effectives contained in the
1987 budget; recalls its demands made in previous discharge reports for
improved evaluation procedures;

22. Reaffirms the considerable importance which the Parliament has attached to the
full implementation of the 1986 budget amendments which provided for 20
additional staff for DG VIII and DG I for development cooperation, and 7
additional staff for a new evaluation unit in DG VIII, and demands an early
report on progress with the implementation of new evaluation procedures;

23. Requests the Committee on Budgetary Control to take account of the above
observations in its report on the granting of discharge in respect of the
implementation of the 1984 budget;

24. Believes that, subject to the above remarks, discharge should be granted in
respect of the implementation of Title 9 of the budget of the European
Communities and of the EDF for the 1984 financial year.