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REPORT

drawn up on behalf of the Committee on Budgetary Control

on the application of Council Directive 75/268/EEC on
mountain and hill farming and farming in certain
less-favoured areas

Rapporteur: Mr K. WETTIG

PE 82.523/fin.

On 31 December 1980, the Court of Auditors of the European Communities published a special report on the application of Council Directive 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas (OJ No. C 358, 31.12.1980). An initial discussion of this report took place in the Committee on Budgetary Control on 1/2 October 1981.

At its meeting of 9 March 1982, the Bureau of the European Parliament authorized the Committee on Budgetary Control to draw up a report on the application of Council Directive 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas.

At its meeting of 24/25 May 1983, the Committee on Budgetary Control confirmed the appointment of Mr WETTIG as rapporteur.

The committee considered the draft report at its meetings of 24/25 May and 13/14 June 1983 and adopted the motion for a resolution unanimously.

The following were present for the vote: Mr AIGNER, chairman; Mr TREACY, first vice-chairman; Mr WETTIG, rapporteur; Mr BATTERSBY, Mr GONTIKAS, Mr GOUTHIER, Mrs VAN HEMELDONCK, Mr LALUMIERE, Mr MARCK, Mr RYAN, Mr SABY and Mr TOLMAN (deputizing for Mr NOTENBOOM).

The opinion of the Committee on Agriculture is attached.

The report was tabled on 16 June 1983.

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A

The Committee on Budgetary Control hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the application of Council Directive 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas

The European Parliament,

- having regard to the report of the Committee on Budgetary Control on the application of Council Directive 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas and the opinion of the Committee on Agriculture (Doc. 1-444/83),
- having regard to the special report of the Court of Auditors on the application of Council Directive 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas,
- A. whereas the Committee on Budgetary Control should not limit its task to examining the technical regularity of financing operations, but should fulfil its responsibilities towards the 260 million citizens of the EC by also examining the viability of the individual measures and programmes considered,
- B. whereas the directives on agricultural structures are due to expire at the end of 1983 and whereas decisions will then need to be taken on the Community's future policy on agricultural structures,
- C. having regard to the extremely limited resources of the EAGGF, Guidance Section, and hence the need for the most effective use possible to be made of available funds, particularly in view of the prospective enlargement of the Community to include countries with very weak agricultural structures,

- D. whereas policy on agricultural structures must be more closely geared in future to regional policy in general (see BARBAGLI report Doc. 1-61/83 and others).
1. Points out that, pursuant to the third paragraph of Article 189 of the EEC Treaty, the directive, the chosen instrument of agricultural structures policy in less-favoured regions, is binding upon each Member State to which it is addressed in respect of the result to be achieved, but the choice of form and methods is left to the discretion of the national authorities;
 2. Notes that, despite the introduction of specific measures, the objectives of Council Directive 75/268/EEC are so loosely worded that they are interpreted differently both by the various Community institutions and by the individual Member States;
 3. Draws attention, therefore, to the differences which may arise between the agricultural, demographical or ecological objectives and the actual effects of the directive and calls therefore for a careful examination of this problem;
 4. Agrees with the Court of Auditors' finding that there are considerable variations from one Member State to another with regard to the interpretation of the directive and the monitoring of aid granted under it; the accuracy of certain data, such as the exact area of land farmed, cannot always be guaranteed, and in other cases the basis for assessing eligibility is only very approximately correct, or the method of calculating entitlement is so inaccurate that the number of potential beneficiaries was considerably increased but notes with satisfaction that there has been a considerable improvement in the intervening years;
 5. Recommends that, when the directives on agricultural structures come up for revision at the end of 1983, Directive 75/268/EEC be amended to enable more specific - and hence more effective - use to be made of the extremely limited resources available for agricultural structures policy; consideration should also be given at that juncture to the advisability of continuing to attempt to attain all the various objectives of Directive 75/268/EEC by means of a single directive;

6. Emphasizes that, when the forthcoming revision takes place, this directive also should be much more fully integrated into regional policy strategies designed to promote self-sustaining regional development;
7. Points out that it has not proved possible up to now to apply Directive 75/268/EEC fully in all Member States; in countries with the most severe agricultural structure problems, particularly, administrative or technical problems and shortages of state funds have prevented the rapid implementation of the measures;
8. Recognizes that the large number of beneficiaries under Directive 75/268/EEC makes a watertight monitoring system more difficult to achieve, but does not consider that it is sufficient to hold on-the-spot checks at intervals of five years, as this does not allow errors to be corrected quickly enough;
9. Stresses that the Commission's unlimited power to carry out checks in the Member States also applies to national measures taken to implement a directive, and moreover believes that the Commission has a duty to carry out checks in such cases;
10. Takes up, in this connection, the question raised by the Presidents of the national parliaments on the extent to which the exchange of information or cooperation between national parliaments and the European Parliament could be to their mutual advantage;
11. Calls on the Member States to monitor more closely the implementing measures for which they are responsible and to comply with their obligation to report any irregularities immediately to the appropriate departments of the Commission, so that the latter might take steps to ensure that funds are applied correctly;
12. Instructs its President to forward this resolution to the Court of Auditors, the Council, the Commission and the governments of the Member States.

B. EXPLANATORY STATEMENT

I. Introduction

1. The directives adopted in 1972 to improve the agricultural structures of the EC (72/159/EEC, 72/160/EEC and 72/161/EEC) are of only limited applicability in regions with particularly unfavourable natural conditions for agricultural production, since a large proportion of the farms situated in such regions do not meet the criteria for eligibility for aid laid down by these directives. On 28 April 1975, the Council therefore adopted Directive 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas¹ in order to enable the common policy on agricultural structures to be extended to such regions, and to go some way at least towards compensating for the natural handicaps imposed on agriculture in these areas. In so doing, the Council drew on the guidelines already laid down in 1973 on the instructions of the Commission on 'mountain and hill farming in the Alpine regions of the European Communities'², and also took account of the United Kingdom's wish to be able to retain, after its accession to the EC, provisions to allow direct income transfers to be made in respect of less-favoured areas.

At the end of 1980, the Court of Auditors of the EC submitted a special report on the application of Council Directive 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas³. It is now the task of the Committee on Budgetary Control to take a position on the Court of Auditors' report and to examine whether the Commission has drawn the necessary conclusions from the problems and shortcomings it reveals.

II. Contents of the Directive

Delineation of areas qualifying for aid

2. Before Council Directive 75/268/EEC was passed, there was considerable disagreement as to whether uniform criteria for the granting of less-favoured status ought to be laid down for the Community as a whole, or whether each Member State should define its own less-favoured areas by comparison with the national average; the Council ultimately decided in favour of the latter solution.

¹ OJ L 128, 19.5.1975

² EC Commission, Internal Reports on Agriculture, vol.100, Feb. 1973

³ OJ C 358, 31.12.1980

Council Directive 75/268/EEC, and the Member States' implementing measures, distinguish between three different categories of less-favoured areas:

1. Mountain areas,
2. Less-favoured agricultural areas,
3. Small areas affected by specific handicaps.

A list of directives (Nos. 75/269/EEC to 75/276/EEC) sets out the criteria used in the various Member States and names all the areas with less-favoured status. The criteria applied by the Member States to delineate the three categories of less-favoured areas are set out in detail in an annex¹.

Types of aids and criteria for eligibility

3. Farms qualifying for aid under Council Directive 75/268/EEC may benefit from four types of measures:
 1. compensatory allowance
 2. aids for the completion of development plans (corresponding to Directive 72/159/EEC, Art.14 (2)(b))
 3. aids to joint investment schemes
 4. national aids.

Compensatory allowance

4. To qualify for compensatory allowances, farmers in less-favoured areas must have at least three (or, in a few exceptional areas, two) hectares of utilized agricultural land and must undertake to pursue a farming activity for at least five years. A farmer may be released from this undertaking in certain circumstances (e.g. in cases of 'force majeure', if his property is purchased in the public interest, or if he ceases farming in the circumstances provided for in Directive 72/160/EEC). As a rule, payment of compensatory allowances is conditional on the raising of cattle, sheep or goats. The amount of allowance payable depends on the number of livestock units (LSU), which is calculated in accordance with the following table:

- bulls, cows and other cattle of 2 years and over	1 . . LSU
- dairy cows (in mountain areas)	1 . . LSU
- dairy cows (in less-favoured agricultural areas and small regions; no more than 10 dairy cows may be taken into account)	0.8 LSU
- cattle from 6 months to 2 years old	0.6 LSU
- ewes and nanny goats	0.15 LSU

The allowance may not be paid in respect of more than one LSU per hectare of forage area. If there is more than 1 LSU per hectare, the compensatory

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The annexes may be consulted at the secretariat of the Committee on Budgetary Control

allowance is calculated solely according to the area of land farmed. The allowance may not exceed 97 ECU per LSU or hectare. The Community assumes 25% of expenditure in respect of compensatory allowances, except in the less-favoured areas of the Italian Mezzogiorno (including the islands), Western Ireland and Greece, where 50% of expenditure is assumed by the Community. See annex for further details on compensatory allowance arrangements.

Development plans

5. Directive 75/268/EEC extended the scope of the aids provided for by Council Directive 72/159/EEC on the modernization of farms by making the conditions for granting aid more flexible and by extending the aid to new types of investment. The aids allocated are mainly those laid down by Directive 72/159/EEC (priority to making available the released land, guarantees for the loans contracted and interest on them, granting of a premium in the case of conversion to the production of beef and veal or sheepmeat, interest rate subsidy or the payment of the equivalent of this aid in the form of a capital grant or deferred repayments) but at more favourable rates.

Farmers wishing to apply for development aid of this kind must undertake to submit a development plan and properly kept accounts showing that the farm is being run in accordance with that plan. It is a condition of aid under Directive 72/159/EEC that, when the development plan has been put into practice, the farm must generate an income at least equal to the comparable income received for each man-work unit for non-agricultural work in the area. Directive 75/268/EEC allows the compensatory allowance to be included when calculating the income from the farm, as well as income from non-agricultural work up to a maximum of 50% of the farmer's total income. Moreover, the income attained need equal only 70% of the 'comparable earned income' for non-agricultural work.

In addition, Directive 75/268/EEC allows investment aid to be granted in respect of tourism and craft activities on farms; the total amount of such investments may not, however, exceed 13,786 ECU (which will probably be increased to 14,221 ECU for 1983).

Aids for joint investment schemes

6. Aids may also be granted to joint investments for fodder production and to improvement and equipment schemes for pasture and hill grazing land which is farmed jointly. The Community's contribution to such expenditure may not exceed 24,179 ECU per joint investment nor 121 ECU per hectare of pasture or hill grazing land improved or provided with equipment. In the relevant areas of the Mezzogiorno and Greece, the maximum limits for the Community's contribution to such schemes are 48,358 ECU and 242 ECU respectively.

National aids

7. The Member States may grant investment aid to farms which cannot generate a sufficiently high level of income to qualify for aid towards a development plan. National aids may not be granted on more favourable terms than Community aid, however. Such measures must also be designed to help achieve the modernization of farms in accordance with the objectives laid down by Directive 72/159/EEC.

III. Financial expenditure and allocation of Community resources

8. The EAGGF, Guidance Section, finances the measures provided for in Directive 75/268/EEC. From 1975 to 1980 this accounted for roughly 35% (about 302 m ECU) of total expenditure under the Guidance Section.

Directive 75/268/EEC expenditure under Article 320 of the budget in the period 1979-1981 (in m ECU)¹

	Initial appropriations	Changes (transfers and amending budgets)	Final appropriations	Appropriations carried over	Payments made	Appropriations unused
<u>(a) Payment appropriations</u>						
1979	78.6	./.. 9.6	69	54.9	27.6	41
1980	15	16.5	31.5	62	26.5	5.0
1981	95	10.4	105.4	5	101.7	3.8
=====						
	Initial appropriations	Changes (transfers and amending budgets)	Appropriations carried over	Final appropriations	Commitments	Appropriations unused
<u>(b) Commitment appropriations</u>						
1979	99.5	./.. 12	26.7	114.2	82.5	31.7
1980	37.8	21.8	31.7	91.2	88.7	2.6
1981	95	12.9	2.6	110.5	106.7	3.8

General survey of the number of aid recipients and the application of the directive

9. 388,000 farmers received a compensatory allowance in 1979, compared to 423,000 in 1980 and almost 490,000 in 1981. The number of recipients rose to about 600,000 in the course of 1982. The numbers of recipients rose mainly in France and Italy, while remaining roughly constant in the other Member States. It is to be expected that the number of recipients will stabilize at around this level in future.

¹ Only appropriations under Titles II and IV of the Directive are entered here; appropriations under Title III (development plans) are entered under Article 310

Some 409 m ECU were paid out under Directive 75/268/EEC up to the end of 1981. The largest proportion went to the United Kingdom (35.6%), followed by France (26.8%), the Federal Republic of Germany (14.3%) and Ireland (16.1%). Italy was very slow to implement the directive (in 1978), and so far Italy has only received 4.0% of this form of Community aid.

A comparison over three years shows that in Italy, where development assistance plays a particularly important role, the application of the measures increased considerably; Italy's share of such aid was only 1.1% in 1979. Even today the directive is not applied in all regions of Italy. There are two main reasons for this state of affairs: firstly, this Member State's administrative structures are more than usually complex (with specific requests and decisions having to be made at regional level in some cases), and, secondly, Italy's state funds are far too limited to provide all the assistance desirable in view of the geographical disadvantages and structural handicaps from which its agriculture suffers. Some regions supplement the funds provided by the central government from their own resources to ensure that the aid provided reaches the level laid down for the compensatory allowance and thus attracts the payment of the EC's contribution in full.

The following table shows the Community funds paid to the Member States up to 31 December 1979, broken down into the various types of aid¹:

(in 1000 EUA)

Member State	Title II Compensatory allowance	Title III Development plans	Title IV Joint investment	Total	%
Belgium	5,376	114	179	5,669	2.5
Germany	33,746	7,106	282	41,134	18.1
France	53,524	1,927	183	55,634	24.4
Ireland	30,553	1,635	280	32,468	14.3
Italy	2,016	-	321	2,337	1.0
Luxembourg	517	-	-	517	0.2
United Kingdom	35,755	4,204	21	89,980	39.5
Total	211,487	14,986	1,266	227,739	100.0

Source: Special Report of the Court of Auditors, p. 7

For details of the extent and development of the various types of aid in the Member States, see annex.

¹ Denmark has not defined any less-favoured areas and so does not participate in these arrangements; in the Netherlands the decision on aid for less-favoured areas was not adopted until 19 December 1978, and the compensatory allowances has only been payable since April 1979.

IV. Objectives of the directive

10. Article 1 of Directive 75/268/EEC lays down the following objectives:

'In order to ensure the continuation of farming, thereby maintaining a minimum population level or conserving the countryside in certain less-favoured areas (...), Member States are authorized to introduce the special system of aids provided for in Article 4 to encourage farming and to raise farm incomes in these areas.'

The objectives laid down by this article, against which the success of the directive should be measured in the final analysis, are not, however, uniformly interpreted. The Commission has explained that the aim of the directive is to pay a subsidy towards the higher production costs incurred in certain specified areas judged on the basis of objective criteria to be particularly severely affected by unfavourable production conditions in order to compensate for their natural handicaps¹. The conservation of the countryside and the maintenance of a minimum population level are presented as secondary motives. Whatever that might mean, this definition of the aim of the directive implies that it would be superfluous to consider or assess its effects, since it cannot be disputed that the compensatory allowance subsidizes higher production costs.

11. The rapporteur cannot accept this definition. He interprets the extract from Article 1 quoted above to mean that encouragement should be given to the continuation of farming by improving farmers' incomes in less-favoured areas. Both the maintenance of a minimum population level and the conservation of the countryside should thereby be ensured. It follows that we should examine whether the measures specified in the directive have enabled the following objectives to be attained:

- the improvement of farmers' incomes in less-favoured areas,
- the maintenance of a certain population level, and
- the conservation of the countryside.

The rapporteur is not alone in interpreting the objectives of the directive thus. To quote the opinion of the Economic and Social Committee on the proposal for Directive 75/268/EEC²:

'One of the basic aims of the Directive is to maintain a viable rural Community by improving income from agriculture and thus safeguard the natural environment.'

¹ Reply from the Directorate-General for Agriculture, Directorate F, Division 1, to a list of questions addressed to the Commission by the rapporteur.

² OJ C 100, 22.11.1973, p. 22

A study drawn up at the Commission's request by the Institute for Structural Research of the Federal Agricultural Research Institute of the Federal Republic of Germany on the effects of the compensatory allowance¹ mentions the following three objectives: raising incomes, promoting employment and encouraging farming. The rapporteur therefore considers that it is the task of the Committee on Budgetary Control to examine whether the funds disbursed under Directive 75/268/EEC were used correctly, and thus contributed to the attainment of the abovementioned objectives. A further reason for considering this question is the fact that the Court of Auditors also examined the 'results of the aid', in part 2 of its special report.

V. Efficacy of the measures as a means of achieving the objectives of the directive
Compensatory allowance

12. As mentioned above, the compensatory allowance accounts for the lion's share of the funds disbursed under Directive 75/268/EEC, and is also the only one of these measures which has so far been assessed in depth. From the success of this measure we can gauge the extent to which the directive has been able to attain its objectives up to now.

The objective of raising incomes

13. The objective of raising farmers' incomes is evidently interpreted differently in the various Member States. Langendorf, Peters et al. found that in France the compensatory allowance was paid mostly in regions with a very high proportion (75% or more) of low-income farms. From 1975 to 1979, the amount of compensatory allowance granted per recipient averaged 646 ECU per annum. There was considerable delay in introducing this measure in Italy. The proportion of low-income farms was well over 90% in 18 of the 20 Italian regions studied, and in excess of 85% in the remaining two. Yet compensatory allowances were paid in only 8 regions, and averaged 234 ECU per year. The situation was totally different in the United Kingdom; here the proportion of low-income farms was well below 50%, varying from 3 to 42%, in all the regions studied except two, where the proportion of such farms was 54% and 79% respectively. The average compensatory allowance paid in the UK was 1,968 ECU.

¹ Langendorf, Peters et al., Vergleichende Untersuchung der Wirkungen der Ausgleichszulage gem. Richtlinie 75/268/EWG, Titel II, in ausgewählten benachteiligten Gebieten der Europäischen Gemeinschaft; Braunschweig, July 1982

The main thrust of French policy on agricultural structures is obviously to provide aid to support low-income farms, while the British tend to favour higher-income farms. It is obvious that it is possible for radically opposed policies on agricultural structures to be pursued within the framework of the same Community directive. It is obvious that these inconsistencies in the application of Directive 75/268/EEC run counter to the long-term objective of the common policy on agricultural structures, which is the reduction of disparities between the size and structure of farms in the various Member States.

14. In 1980, the Association for Research into Agricultural Policy and Rural Sociology in Bonn carried out a study of the effects of the compensatory allowance on the incomes of individual farmers¹. The results of a representative survey of just 3000 farmers in less-favoured and other areas of the Federal Republic of Germany cannot, of course, be regarded as representative of the Community as a whole; nevertheless, this study may provide important insights into the efficacy of such measures.
15. The survey found that 58% of farmers in mountain and 'Kerngebiete' (central) areas, and 53% of farmers in less-favoured agricultural areas, only engaged in farming as an additional or part-time occupation (see annex). Farmers of this kind in the assisted areas can almost fully compensate for their low incomes from farming by their incomes from non-farming activities, as can be seen from a comparative survey of incomes by household (see annex). There are considerable differences between the incomes of full-time farmers in assisted and non-assisted areas, however (see annex). The compensatory allowance accounts for 8.8% of the income of farmers with no other occupation, 10.6% of the income from farming of farmers whose non-agricultural earnings are less than their income from agricultural activities, and 14.3% of the income from farming of farmers whose main income derives from non-agricultural activities. The average net income of full-time farmers in assisted areas is DM 13,187 less than the income from comparable farms in non-assisted areas. The compensatory allowance makes up about 24% of this deficit. For farmers whose main source of income is non-agricultural, the compensatory allowance makes up 60% of the shortfall. The author of the survey concludes that it cannot be said that the compensatory allowance fully compensates for the various natural handicaps encountered in mountain and 'central' areas, and the greater the proportion of income derived from farming, the less

¹ H. Krüll, Betriebsstruktur und Einkommen in den landwirtschaftlichen Fördergebieten der Bundesrepublik Deutschland 1980, Bonn 1981

the compensatory effect of the allowance. Moreover, it is precisely those full-time farmers whose net incomes are lowest who receive the least compensatory allowance, not only in absolute terms, but also as a proportion of their net income. The author concludes that it is doubtful, to say the least, whether the compensatory allowance contributes to ensuring the continuation of farming in mountain and 'central' less-favoured areas.¹

The demographic objective

16. Article 1 of Directive 75/268/EEC states that aids to raise farm incomes should ensure the continuation of farming and thereby maintain a minimum population level. This statement of objectives poses three immediate problems which might cause difficulties when the directive is implemented:

- (a) this definition tacitly implies that a farmer's income is the deciding factor in considering whether or not to continue farming. In fact any such decision is influenced by a number of additional factors which may, in some circumstances, be of equal or greater weight than the income to be derived from farming. Such factors include the prospects of finding non-agricultural employment, the level of income to be derived from non-agricultural work, the possibility of a change of occupation incurring the additional expense involved in travelling long distances or even moving house, and the farmer's age. Since all these factors come into play, one should not place too much faith in the effects of simply raising farmer's incomes.
- (b) The directive does not stipulate what is meant by 'a minimum population level', and no scientific explanation of this concept has been forthcoming up to now. There are consequently considerable variations between Member States' criteria for delineating less-favoured agricultural areas on the basis of population density. In Ireland, for example, less-favoured agricultural areas are not supposed to have more than 24 inhabitants per square km, whereas the upper limit in the Federal Republic of Germany is 100 inhabitants per square km. Belgium, although more densely populated than Germany, regards 77 inhabitants per square km as the maximum population density for less-favoured areas. It would be exceptionally difficult, in view of this diversity, to establish the extent to which the compensatory allowance contributes to maintaining a 'minimum population level'.

¹ H. Krüll, op.cit., p. 12

(c) The main purpose of the common policy on agricultural structures is to attain the objective laid down for the common agricultural policy in Article 39 of the Treaty establishing the EEC: 'to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labour.' This means that, in those many areas of the Community which still have unfavourable - i.e. unproductive - agricultural structures, structural change must be forced through, which in turn means that a number of farms must be abandoned. Up to now, the need to follow the middle course between ensuring the continuation of farming on the one hand and encouraging farmers to leave the land to enable agricultural structures to be improved on the other has not been sufficiently clearly stated at Community level, and the Member States continue to differ widely in their approach. Against the background of these problems, we should at least make some attempt to study the demographic implications of the compensatory allowance from the following two points of view:

(a) the compensatory allowance and migratory trends,

(b) the compensatory allowance and the age of the recipients.

The Commission replied, when questioned on this subject¹, that no data were available, as no inquiries of this kind had been conducted between 1976 and 1982.

17. Langendorf, Peters et al. studied the relationship between migratory movements and the payment of compensatory allowance, and drew the following findings from the 66 regions they considered:

- aid was concentrated on regions where outward migration exceeded inward migration and there were less than 70 inhabitants per square km (which accounted for 45% of the farms aided, and over 40% of the aid disbursed),
- however, a third of the farms assisted and a quarter of the aid disbursed went to regions with a net inward migration surplus and a population density of at least 140 inhabitants per square km.

18. Since this study did not take into account all the other factors influencing migration, the only conclusion which can be drawn from these findings with regard to the demographic objectives of Directive 75/268/EEC is that 40% of the aid disbursed went to poor regions.

¹ Commission's reply to the rapporteur's list of questions, see above.

We can be more definite on the subject of the age of recipients of the allowance. The Court of Auditors pointed out in its special report that: 'Payment of the compensatory allowance to relatively old beneficiaries is not likely to affect their decision to leave or stay on the farm, nor that of their families (...). It is regrettable that even partial figures are not available on this subject.'¹ Langendorf, Peters et al. have now produced these figures for all but the French assisted areas. They conclude from their experience that if a farmer decides to take up non-agricultural employment, he generally does so before the age of 45. It emerges from their investigations that roughly half of the farmers in the less-favoured areas are over 45 years old. From the point of view of the demographic objectives of the directive, therefore, it appears that for some 50% of the beneficiaries the compensatory allowance cannot be expected to have any bearing on their decision to go or stay.

19. It is to be feared that the compensatory allowance has a different and undesirable effect in mountain areas. Since dairy cows in such areas are counted as whole livestock units for the purpose of calculating the compensatory allowance, the allowance encourages farmers to maintain or even increase the number of their dairy cows. Since farmers in mountain areas are also released from the obligation to pay the milk co-responsibility levy, this form of aid runs counter to the Community's efforts to reduce milk surpluses.

Conservation of the countryside

20. The objective of conserving the countryside is so imprecisely worded that it, also, gives rise to different interpretations. The Commission explicitly stresses that the original French text of the directive refers to 'entretien' and not 'conservation'². The Commission considers that there is no call for measures to conserve the countryside', since agriculture and the continuation of farming already contribute to the conservation of the countryside, and hence to the preservation of rural culture³. The Commission's attitude skirts the real issues, however, ignoring the fact that ecologists have been pointing for many years to the destruction of animal and plant life involved in modern agricultural methods and the pollution of groundwater and the soil by fertilizers and pesticides.

¹ op.cit., p. 16

² Commission reply to rapporteur's questions, see above

³ op.cit., p. 8

The Economic and Social Committee, the European Parliament and the Court of Auditors interpret this objective less restrictively. In its opinion on the proposal for Directive 75/268/EEC (quoted above), the Economic and Social Committee refers to the objective of maintaining and safeguarding the natural environment¹. The European Parliament, in its resolution on the proposal for a directive², called for 'immediate action' to ensure the 'conservation of the countryside'. The Court of Auditors, in its special report³, mentioned 'protection against erosion' and the 'satisfaction of leisure needs'.

21. The compensatory allowance is also open to different interpretations in this connection. In the Commission's view it is simply a subsidy for farmers in regions with specific natural handicaps. But, if other definitions are accepted, certain other needs and requirements ought at least to be considered before the allowance is granted.

One aim of the directive, which fits in with its other objectives and is partly due to the historical circumstances which gave rise to it, is to pay farmers subsidies to continue farming land which might otherwise be abandoned. In present circumstances, however, some thought at least should be given to the possibilities of afforestation or allowing previously cultivated land to return to nature.

22. Since using land for agricultural purposes results in every case in a reduction of the number of species on that land, and since an increasing number of animal and plant species are threatened with extinction in Europe, ecologists have been calling for years for at least 3 - 5 % of cultivated land to be set aside for the creation of nature reserves. In the interests of nature conservation, therefore, it might be desirable for farming to cease on some of the previously cultivated land in less-favoured areas.

In certain areas, however, it is not feasible to allow an uncontrolled return to nature. In order to continue to provide coastal protection, dykes and the land around them need to be covered with the thick, closely cropped turf which is the best form of protection against erosion. Decisions on how to ensure that grazing is organized have to be made on a case by case basis.

¹ OJ C 100, 20.11.1973, p. 22

² OJ C 37, 4.6.1973, p. 56

³ op.cit., p. 3

23. In mountain areas, long grass growing on land which has ceased to be cultivated can act as a slipway for snowdrifts and increase the danger of avalanches. But farming, too, can result in damage to turf and increase the risk of erosion. Woods are the ideal protection against avalanches and erosion, and hence afforestation could be the best option in such areas.

Yet the possibility of planting trees on low-yield agricultural land, particularly in mountain areas, is often rejected because of the importance of tourism in such regions. We are told that, of course, some of the poorest remaining agricultural land in Alpine areas could and should be afforested, but that tree-planting must nevertheless be kept within bounds in order to preserve the traditional aspect of the mountain landscape and ensure that the Alps, the great European pleasure-ground, retain their popularity for relaxation and sport¹.

24. The study on hill and mountain farming in the Alpine regions of the EC on which Directive 75/268/EEC was partly based constantly justifies its call for action to stop land returning to wilderness and for only limited afforestation by referring to the needs of tourism. Quite apart from the fact that nowadays one would no longer necessarily give tourism priority over ecological considerations, wilderness areas have their advantages for many forms of leisure activity (such as walking or the study of plant and animal life).

The general reluctance to allow land to return to wilderness, which lies at the root of the directive, must be reconsidered and modified in the interests of environmental protection. It is only by considering the peculiar characteristics of the various regions that one can decide what function each less-favoured area ought to fulfil, and what type of cultivation or non-cultivation is most suited to that purpose. Giving priority to farming as a matter of course, which is the underlying principle of the directive, must not continue to be the accepted practice in areas with ecological problems.

25. There are, moreover, grounds to doubt that the compensatory allowance, in its existing form, prevents farmers from ceasing to cultivate marginally productive land. It has already been observed that the compensatory allowance can only have a very limited bearing on a farmer's decision whether or not to abandon farming. Langendorf, Peters et al. investigated whether there

¹Hill and mountain farming in the Alpine regions of the EC, p. 60

was a discernable concentration of aid in those regions in which there was already a higher than average proportion of land which had ceased to be cultivated when the directive was introduced in 1975. They found, however, that compensatory allowances were paid primarily in regions with the lowest proportion of uncultivated land. This group of regions accounted for 61.8% of all land with less-favoured status in the Member States (excluding France and the Netherlands). 85% of the aid disbursed went to regions with less than 0.5 ha of land which was no longer cultivated to every 100 ha of cultivated land. For the average Member State, at least, there is no evidence of the compensatory allowance being concentrated in regions with a large proportion of land which is no longer cultivated.

26. Another effect of the compensatory allowance could, however, lead to difficulties in the medium term in areas with ecological problems. The amount of the compensatory allowance depends on the number of livestock maintained, up to a maximum of 1 LSU per hectare. Langendorf, Peters et al. found that the number of livestock maintained in 1979 reached or exceeded 1 LSU per hectare in only 7 of the 39 regions (from all Community countries) which they studied. Since the compensatory allowance rises if the number of livestock is increased, farmers may have been encouraged thereby to produce livestock more intensively in some areas, depending on cost/price ratios. This may have resulted in additional pollution of the soil and groundwater by the use of more fertilizers and pesticides, and an increased danger of erosion because of damage to grassland. These assumptions challenge the view that Directive 75/268/EEC encourages non-intensive farming. More consideration should be given to the possible stimulus being given to more intensive farming, in order to avoid any ill-effects which might otherwise arise in the long term from the application of the directive.

Other measures taken under Directive 75/268/EEC

27. Since the other measures provided for in Directive 75/268/EEC have been applied to a much more limited extent up to now, very little information is available regarding their contribution to achieving the objectives laid down by that directive. We shall therefore confine ourselves here to a few comments on the Court of Auditors' report.

Aid for development plans

28. The Court of Auditors clearly indicates, in the special report, its opinion that problems of various kinds arise both from the implementation of the provisions for development aid for individual farms and from the provisions themselves. In the first place it is difficult to monitor the system, and

secondly there is considerable scope for (and evidence of) bending the rules, even at the stage where eligibility is being assessed, e.g. with regard to comparable income. The Commission does not discuss these problems in its opinion on the report, and also observes, in its reply to the list of questions drawn up by the rapporteur, that such questions really refer to Directive 72/159/EEC.

A study drawn up by Directorate A of Directorate-General VI of the Commission on the 'Development of the Common Policy on agricultural structures'¹ concluded, however, that aid disbursed in connection with further aid to individual farms was obviously not always put to the best possible use, and stated that an analysis of development plans implemented up to that time revealed that, in too many cases, the development projects embarked on had not been suited to existing farm structures. Due to the lack of available land or the unjustifiably high prices asked for agricultural land, investments were being made in expensive farm buildings in order to increase the productivity of the farm by means of more intensive livestock production. This had resulted in increased surpluses of various products. This, in turn, had led to limits being imposed on the granting of investment aids in the milk and pig sectors. Nevertheless, the department's prevailing impression was that development aid to farms under Directive 72/159/EEC had, in some cases, led a number of farms to become over-specialized, with the result that such farms had become extremely vulnerable to any decline in market prices. The authors of the study argued that, in view of the farmers' high level of indebtedness, this vulnerability to market movements had to be prevented at all costs in order to achieve lasting gains for agricultural development².

This problem gives rise to the question whether the Committee on Budgetary Control ought to examine the application of Directive 72/159/EEC.

National aids and aids for joint investments

29. The Court of Auditors found no fundamental problems in connection with the application of Directive 75/268/EEC with regard to aids for joint investments or national aids.

¹Doc. VI/3830/82 - D

²op.cit., p.10

Conclusions

30. In its report on 'The Regions of Europe'¹, the Commission stated that in the period from 1968/69 to 1976/77 there had been a distinct deterioration in regional levels of income from agriculture in the Community. As the report on the common policy on agricultural structures found, this policy has not produced the desired results in subsequent years either². The report does, admittedly, describe Directive 75/268/EEC as the most successful common measure, but its success is judged only in terms of the lack of problems involved in its application and the amount of funds disbursed. Nevertheless, the report finds that the results achieved in this area do not entirely meet the main objective of the directive³. The results described in the previous chapter lead to the conclusion that, while farmers' incomes in less-favoured areas are admittedly being increased, mainly as a result of the compensatory allowance, it has not however proved possible to bring about the specific improvements aimed for by the common policy on agricultural structures. In view of the shortage of funds available for structural policy, one wonders whether this kind of general aid, which is not geared to meeting specific objectives, is the best possible solution.

When the directives on agricultural structures are revised, as they are due to be at the end of 1983, thought should be given to amending Directive 75/268/EEC so that account may be taken of the income of the farmers in question on the one hand, and the practical objectives of the common structural policy in less-favoured areas on the other. Consideration should also be given to whether it is reasonable to attempt to attain all the objectives listed in Directive 75/268/EEC by means of a single directive.

As a first priority, however, the principles of agricultural structures policy must be much more closely geared than before to regional aid policy. The objectives established in the report on 'The Regions of Europe' should be taken as a guide: 'The Commission takes the view that howsoever policy measures may attempt to solve regional problems by social income transfers from stronger to weaker regions, such policies can have no more than a temporary effect on the income-generating capacity of the weaker regions of the Community. These regions must also - aided as appropriate by national and Community policy measures - achieve in the foreseeable future levels of economic development at which they will be capable of producing

¹ COM(80) 816 final

² Doc. VI/3830/82 - D, p.5

³ op.cit., p.9

goods and services which can be sold in a situation of ever-increasing competition. This criterion is a necessary precondition for assuring self-sustained regional development.¹

VI. Monitoring the implementation of the directive

Checks carried out by the Commission

31. Every year, Commission staff check several hundred individual cases in each Member State; these cases are selected for checking according to a system designed to produce an accurate and statistically representative cross-section of all cases. This method might, for example, involve checking all the individual applications for aid (and decisions to grant aid) in a single village.

In the last four years, the Commission staff responsible for administrative arrangements in connection with Directive 75/268/EEC have carried out twelve on-the-spot checks, covering all the Member States. The financial control department (Directorate-General XX) were also involved in these checks. In future the Court of Auditors will be regularly informed of any checks planned, and will be able to take part in them if wishes. On-the-spot checks are notified to the governments of the Member States in writing. The legal basis for such checks is provided by Regulation 729/70. The Commission envisages one on-the-spot check every three years, except in special circumstances. These are accompanied by talks with government officials and officials of regional and local authorities. Talks are also held with the farmers themselves, in the course of which the Commission inspectors mainly inquire about the operation of the application procedure, the payment of aid, and the economic significance of the allowance. Discrepancies in relation to the previous year (failure to renew an aid application, for example) are taken as an indication of the possible need for more thorough checks.

Scope of the checks carried out by the Commission

32. The main point of on-the-spot checks is to ascertain whether the national monitoring system (including the instructions given to local authorities) and the controls built into the directive enable the latter to be implemented correctly and smoothly. The Commission's primary concern is not, therefore, to ascertain from these systematic checks whether individual applicants are eligible to receive the amount of aid requested: this is monitored

¹ COM(80) 816 final, p.3

by examining individual cases. The Commission takes the view that, given the large number of applicants, the expense involved in any more thorough checking would be out of all proportion to the savings which might be made. The Commission prefers to rely on the statements made by the local and regional authorities, and therefore generally only passes strictures on faults in the national monitoring systems.

In the Federal Republic of Germany, for example, it is normal practice for the Prime Minister of a Land to order random on-the-spot checks. Every Member State has its own system of controls (the national equivalent of the Courts of Auditors!) on which the procedures for requesting aid are based and which, as a general rule, ensure that the directive is implemented correctly. The Commission also points out that the Member States have to provide 100% of the funds for this aid in the first instance, with the result that all the relevant national checking procedures are applied, for this reason if for no other, and that even in the last instance the share of the aid met from national funds is 75%, with the result that the Member States have an interest in ensuring that the measure is implemented properly at this stage too. The Commission stresses that these detailed provisions are national measures for the implementation of the directive, which had to be issued because the directive only provided the general political framework for this kind of aid.

Results of the checks carried out by the Commission

33. The checks carried out by the Commission have resulted in proceedings being brought in 10% of the cases examined so far. These mainly concerned double payments in respect of jointly farmed grazing land, for example, or excessive numbers of livestock in relation to the available grazing land. In some cases, also, it emerged that the information supplied about the area of land farmed was incorrect. In addition the Commission complained of various faults in national monitoring systems, and suggested ways of improving procedures and strengthening such systems.

In the period 1979-1981, thirteen irregularities were uncovered in one Member State, involving a financial loss of around 28,000 EUA, over 22,000 EUA of which has already been recovered.

34. The Commission considers that the main reason why irregularities have come to light in only one Member State is that the country in question does not set any upper limit on the amount of compensatory allowance which may be granted, with the result that the irregularities noted are more likely to involve sums of 1000 EUA or more. It is only when sums of 1000 EUA or more are involved that a report is required to be submitted under Art.11 of Council Regulation 283/72 of 7 February 1972. When the sum involved is below this minimum, the Member State is not required to submit reports except at the specific request of the Commission¹. Nevertheless, requests for the return of funds by the EC are usually set off against the next batch of funds to be allocated by the Commission.

The first request for funds submitted by Greece since its accession has been examined by the Commission and did not reveal any irregularities. About 150,000 cases are being dealt with in Greece at present; the EC's contribution amounts to 14.2 m ECU.

Limits to the Commission's powers of inspection

35. The fact that the Commission relies to a great extent on the effectiveness of national monitoring systems and only conducts on-the-spot checks in Member States once every five years could be taken as a sign that it takes too narrow a view of its own obligation to monitor the implementation of this measure. One reason for this might be that the measure in question took the form of a directive (Directive 75/268/EEC). A directive is binding on Member States only with regard to its objectives, not with regard to the form and methods of implementing the policy it lays down. The choice of a directive in this case was both an acknowledgement of Member States' sovereignty and a recognition of the fact that, in view of the diversity of the legal provisions and actual circumstances in the various Member States, an instrument of this kind was the most likely to enable

¹ Regulation No. 283/72 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the common agricultural policy and the organization of an information system in this field

Member States to adapt smoothly and efficiently to Community goals. Under Article 5 of the Treaty establishing the EEC, the Member States are responsible for implementing the directive.

36. One could, therefore, take the view that since the Commission finances the implementation of a common policy rather than individual measures, it is not obliged to conduct on-the-spot investigations into the kind of facts relevant to the granting of aid in individual cases; it could also be argued that, because the choice of a directive as policy instrument is a tacit acceptance of national sovereignty, the Commission does not have the right to monitor the application of national implementing provisions.

Problems are less likely to arise in connection with monitoring the drafting of national implementing measures, since the Commission checks that they conform to the Community directive before they are passed by the national bodies. The adoption of the text naturally obliges the national authorities to satisfy the Commission that its administrative procedures are correctly applied.

37. As far as the monitoring of the implementation of these measures by national bodies is concerned, it appears that in practice systematic checking is sensible and suitable in view of the heavy work-load involved. We must, however, stress the principle that the Commission has the right and duty to examine even individual administrative acts taken to implement national provisions based on a Community directive.

This follows from Article 155 of the Treaty establishing the EEC, according to which the Commission should ensure that the measures taken pursuant to that treaty - which include Directive 75/268/EEC - are applied. The Commission is further empowered (by Article 213 of the Treaty establishing the EEC) to collect any information and carry out any checks required. Since the Council has not so far laid down any 'limits and (...) conditions', and since the relevant texts do not contain particular restrictions, the Commission has a basic, unrestricted right to collect information and carry out checks to ensure that Community law is being properly applied by

the corresponding national legislative and administrative measures. The Member States, meanwhile, are obliged by Article 5, first paragraph, of the Treaty establishing the EEC to 'take all appropriate measures (...) to ensure fulfilment of the obligations arising out of this Treaty or resulting from action taken by the institutions of the Community.' The next sentence of this article calls upon the Member States to facilitate the achievement of the Community's tasks.

38. It follows that the Commission does not only have a basic right, but also a duty, to monitor every aspect of the application of the directive in the Member States, and also to conduct on-the-spot checks if necessary. Limits to this responsibility are set, in practice, by such restraints as the availability of staff.

This comprehensive duty of the Commission's to monitor the implementation of the directive should be fulfilled by conducting more thorough and expeditious checks. The accuracy of individual aid applications cannot be certified by means of systematic checks based on the information given to the Commission by the Member States. It is therefore possible for aid payments to be made year after year on the basis of false information without the Commission being able to establish whether there is entitlement to this aid from the information at its disposal.

Summary of problems involved in monitoring the measures

- It has not been possible up to now to apply Directive 75/268/EEC fully in all Member States. This is partly due to the availability of national funds and to national administrative structures.
- The Court of Auditors found considerable differences between the Member States in interpreting the directive and monitoring its implementation; in some cases the accuracy of certain information, such as the exact area

of land farmed, could not be guaranteed, and in other cases the basis for assessing eligibility was only very approximately correct, or the method of calculating entitlement was so inaccurate that the number of potential beneficiaries was significantly increased.

- The large number of beneficiaries under the measures makes it more difficult to achieve a watertight monitoring system. On-the-spot checks at three-year intervals do not, however, appear to be adequate, as these do not allow errors to be rectified in time.
- It should be pointed out that the Commission's unrestricted right to carry out checks in the Member States also applies to national measures introduced to implement a directive.
- The Member States are called upon to introduce more stringent controls with regard to the implementing measures for which they are responsible and to comply with their obligation to report any irregularities immediately to the appropriate Commission departments, so that the Commission might take steps to ensure that funds are used properly.

39. Summary of the findings of the Court of Auditors contained in its special report of 31 December 1980

The Court of Auditors' investigations covered administrative measures taken in 1978, and centred on the following three Community measures:

- (a) compensatory allowance,
- (b) aid for development plans,
- (c) aid for joint investments.

The directive was applied in all the Member States except Denmark, which did not declare any less-favoured areas. Luxembourg declared 90% of its territory to be a less-favoured area.

Compensatory allowance, Art. 5 ff (LSU)

(a) Livestock units

40. As stated by the Court of Auditors in its report, there are considerable variations from one country to another in the thoroughness with which this measure is monitored. It emerged, for example, that aid was being paid in respect of 'ghost cows', or replacement animals which did not qualify for aid. It must be conceded to the Commission, however, that it is only practicable to conduct random checks. The considerable variations in the number of livestock maintained (caused, e.g., by autumn slaughtering in Ireland) complicate the task of establishing the exact number of livestock on a farm.

(b) Forage areas

41. The Court of Auditors found that there were considerable variations in the method of ascertaining the size of the areas farmed, particularly with regard to rented land, where in general only oral agreements existed. The verification of information is also hindered by the fact that in many regions it is customary for pastures to be farmed jointly, which can lead to more than one farmer receiving aid in respect of the same land.
- In two Member States the size of the area farmed and the length of the lease could not be proved in 82 cases, although admittedly the national authorities had not carried out any checks either.

(c) Status of farmer

42. Difficulties arose mainly in the French overseas departments, where in some cases farmers are not the same from one year to the next in the same village.

(d) Undertaking to pursue a farming activity for 5 years

43. This gave rise to difficulties of interpretation in some Member States, since in several cases it was taken to mean that the undertaking had to be renewed every year for the following five years. Problems also arose where farmers

had abandoned certain activities (e.g. stock-farming) or heirs took over the commitment to continue farming. The directive does not spell out the legal consequences of changes in a farmer's status or failure to comply with the undertaking to continue farming for five years. It is not sufficient, in checking whether farmers have ceased farming, merely to investigate those cases in which no new request is submitted for aid the following year, as this enables errors to go undetected for years.

(e) Receipt of a retirement pension (Art. 15 of the directive)

44. The provisions of Article 15 were infringed in one Member State. The Commission became aware of the cases in question in the course of a visit of inspection; they appear to have arisen from problems of interpreting the term 'retirement pension'.

2. Development plans (Art. 8 ff)

(a) Calculation of man-work units

45. Difficulties are involved in monitoring this kind of aid because of the standard figures used to calculate the average number of hours worked on a farm. This method of assessing eligibility runs the risk of excluding from receiving aid those farmers who cannot attain the comparable income by working the standard number of hours, but who are prepared to work longer hours. Differences in the methods of calculating comparable income have given rise to considerable disparities between the various Member States.

(b) Calculation of earned income

46. The Court of Auditors found several considerable discrepancies and errors here, mostly due to the fact that the majority of farmers concerned did not keep accounts. To calculate eligibility, income from milk sales, the number of livestock and the area farmed were therefore taken into account. It was discovered in the case of one Member State, however, that the method of calculating entitlement was so inaccurate that, if the criteria had been properly applied, there would have been a substantial reduction in the number of those entitled to aid. Farmers also sometimes chose years with unusually bad harvests as the basis for calculating their eligibility for aid.

(c) Financing of the development plan

47. Proof was not available in all cases as to the facts of the situation. In one Member State, for example, it was sufficient to state that one had received a loan from a member of the family to receive an interest subsidy.

(d) Projected rise in incomes

48. The Court of Auditors found that, since these projections assumed constant figures for both expenditure and revenue, they were based on unrealistic data.

(e) Implementation of development plans

49. Some Member States have not yet issued any detailed instructions for the follow-up of accounts, although this is an important basis for monitoring the efficacy of these measures. In some cases the responsible authorities did not keep any record of their transactions with aid recipients either. Moreover, the instructions given to the relevant authorities made no provision for on-the-spot checks on the implementation of the development plans. Of the 40 files examined in one Member State, only one included a formal inspection report.

3. Joint investment schemes (Art.11)

50. The directive gives the Member States considerable discretion to implement these provisions, since Article 11 states the objective of such measures, but does not lay down any legislative framework for them. In one Member State the Court of Auditors found that, although a measure passed to implement the provisions of the directive did not provide for any aid within the meaning of Article 11, aids paid under other provisions not covered by the measure which the Commission had approved were being submitted to the latter for reimbursement.

Opinion

(Rule 101 of the Rules of Procedure)

of the Committee on Agriculture

Draftsman: Mr A. COLLESELLI

On 18/19 January 1983, the Committee on Agriculture appointed Mr COLLESELLI draftsman of the opinion.

The Committee considered the draft opinion at its meeting of 19/20 April 1983 and adopted the conclusions by 20 votes to 3 with 1 abstention.

The following took part in the vote: Mr CURRY, chairman; Mr FRUH, vice-chairman; Mr COLLESELLI, vice-chairman and draftsman; Mr DELATTE, vice-chairman; Mr ADAMOU, Mr BARBAGLI (deputizing for Mr LIGIOS), Mrs BARBARELLA (deputizing for Mr PAPAPIETRO), Mr BATTERSBY, Mr CLINTON, Mr COTTRELL (deputizing for Mr PROVAN), Mr DALSAASS, Mr DIANA, Mr EYRAUD, Mrs HERKLOTZ, Mr HORD, Mr JURGENS, Mr KALOYANNIS, Mr MAHER, Mr MARCK, Mr M. MARTIN (deputizing for Mr PRANCHERE), Mr SUTRA, Mr VGENOPOULOS, Mr VITALE and Mr WOLTJER.

1. The special report prepared by the Court of Auditors gives a clear and detailed analysis of the application of Directive 75/268. However, since it dates back to the end of 1980, the data and the evaluations it contains refer to 1979 and preceding years only. The Court itself acknowledges the provisional and partial nature of the observations made, since an appraisal of the effects of the Directive was hampered by a number of factors, notably the shortness of the period of application considered. Although the Directive entered into force in April 1975, its implementation has been subject to delays.

The Directive is now approaching expiry date (end of 1983) and the Committee on Agriculture has already initiated the procedure for reassessing its results, over a much longer period of application, with a view to submitting in good time to the Commission such modifications and improvements as it considers to be appropriate.

This opinion, for the Committee on Budgetary Control, can therefore be confined to a brief appraisal of the principal criticisms made in the Court's report with a view to assessing whether or not they are justified.

2. One of the Court's main criticisms is that, in the application of the Directive, the accent was placed primarily on the granting of compensatory allowances, whereas operations of a more truly structural nature (measures to assist farms in a position to develop) were neglected. Moreover, the Court questions the compatibility of the compensatory allowance with the objectives pursued and maintains that 'it needs to be seen in its context as a socio-structural measure'. This seems to imply that the objectives of the Directive are mainly structural, although its main objective is surely to supplement the income of agricultural producers who are situated in areas characterized by permanent natural disadvantages and therefore faced with higher production costs.

The aim of maintaining agricultural activity in such areas, not least with a view to preserving the ecological balance, irrespective of the economic results obtained, is far more important than the objective of making farms as competitive as those situated in lowland areas - an objective which, in any case, would be virtually impossible to achieve.

3. A mistaken belief in the possibility of 'optimum efficiency' has led the Court of Auditors (and the rapporteur of the committee responsible) to make judgments that make no allowance for the social and environmental conditions of the areas to which the Directive applies.

For example, the Court claims in its conclusions that an effort should be made to concentrate the grant of subsidies on medium-sized farms which, by reason of the size of their forage area, are alone able to provide satisfactory guarantees. It also talks of increased selectivity in respect of the recipients and maintains that there would be no advantage in reducing the minimum usable agricultural area (SAU) on which the aid is based from three to two hectares.

Yet Council Directive 80/666 provides for just such a reduction in favour of the southern region of Italy and the French overseas territories.

4. The Court several times asserts that the national systems of control are not always adequate.

The Commission rightly points out in its comments on the report that it is impossible to carry out systematic checks on several hundred thousand recipients. Here too the Court should have seen that the right approach is to seek to ensure that as many farmers as possible receive the compensatory allowance and that, while accurate sample checks must be carried out, they should make allowance for the difficult conditions under which the farms have to operate.

To state, as the Court does (see para 2.1.1.), that aid should have been withheld in one case (in the United Kingdom) because the sheep had not grazed on eligible land and in another case because a cow had not been replaced within two months, suggests, in view of the gravity of the social problems involved, that the line taken by the Court is excessively strict.

5. A further factor to be borne in mind is the type of production characteristic of the regions to which the Directive applies. There is clearly a heavy concentration on cattle breeding, usually for milk production, and sheep farming.

Farms operating at the altitudes and on the slopes defined by the Directive have few alternatives to this type of production.

To express the fear, as the Court does, that this could increase the Community's surpluses, particularly of milk and milk products, does not seem logical. If we are to adopt, at Community level, measures to curtail the build-up of surpluses, they obviously cannot be applied to regions which simply cannot switch to other forms of production and have no other sources of income.

6. It is also clear that substantial differences exist between the regions to which the Directive applies. For instance, hill farmers in Scotland can allot only two or three sheep to each hectare of grazing land and employ only one person for each 20 hectares. Regions further to the south may have more inhabitants, but agriculture is often unable to provide them with a decent livelihood. The reasons for this are manifold: climate, nature of the soil, transport difficulties, marketing structures, historical traditions, and so on. Some regions are very well organized administratively, e.g. the province of Bolzano, which the Court of Auditors cites by way of example (see para 3.1.2, page 17), whereas others experience difficulty in implementing the Directive. Hence, it is not possible to apply rigid criteria to regions when their circumstances are so varied. This is one of the reasons why a directive was preferred to a regulation. Without the flexibility afforded by a directive, the relevant provisions could not be applied, or could be applied only in the least needy regions. The criticisms expressed by the Court in this connection therefore seem excessive.
7. Finally, we should comment on the links between the Directive in question and ecological problems. In the answer to Written Question No. 819/82¹, the Commission rightly points out that 'Directive 75/268/EEC may not be used to encourage conservation per se but it is to be used for the encouragement of farming which in turn will have a positive effect on the conservation of the countryside'.

If agricultural activity is maintained and mountain areas thus saved from becoming wastelands, the ecological balance can be preserved and the soil erosion, fires, flooding, etc. to which areas abandoned by man are subject prevented. This is an essential point, but one that would not seem to be endorsed by the committee responsible, which maintains that in some regions

¹OJ No. C 287 of 4.11.1982, page 17

farming may result in the destruction, rather than the protection, of the natural environment (see paragraph 5 of the resolution). This may be true of a small number of Community areas, but it is certainly not true of the majority of them, and the matter therefore needs to be put in proper perspective.

CONCLUSIONS

The Committee on Agriculture invites the Committee on Budgetary Control, as the committee responsible, to incorporate the following points into its motion for a resolution.

The Committee on Agriculture:

1. Stresses that the principal objective of Directive 75/268 is to supplement the income of agricultural producers situated in areas characterized by permanent natural disadvantages, with a view to maintaining in those areas a certain level of agricultural activity and a certain population level, not least for ecological reasons concerning environmental balance;
2. Points out, therefore, that the very difficult objective of improving agricultural structures with a view to making the farms concerned as competitive as those in more favoured areas can only be a secondary objective of the Directive;
3. Reaffirms that every assessment of the results of the Directive must make allowances for the social and environmental conditions of the areas to which it is applied and, in particular, for the marked differences in those conditions in the various Community countries;
4. Considers, therefore, that the Directive must continue to be applied in a flexible rather than a rigid manner, so that proper account can be taken of the wide variety of existing situations;
5. Considers the overall results of the Directive to have been constructive, notwithstanding the difficulties encountered at the beginning;
6. Points out that farms situated in the areas covered by the Directive often have no real alternative to livestock farming for meat and milk production and that this fact should be taken into account whenever Community measures are adopted to deal with the surplus sectors.

