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Report

drawn up on behalf of the Committee on Budgets

on the ~~Second~~ Financial Report on the European Agricultural Guidance and
Guarantee Fund – financial year 1972 – presented by the Commission of the
European Communities to the Council and the European Parliament
(Doc. 109/74)

Rapporteur: Mr René PETRE

PE 37.887/fin.

By letter of 4 June 1974 the President of the Commission of the European Communities forwarded to the European Parliament the second financial report on the European Agricultural Guidance and Guarantee Fund - financial year 1972.

The President of the European Parliament referred this report to the Committee on Budgets as the committee responsible and the Committee on Agriculture for its opinion.

The Committee on Budgets appointed Mr Pêtre rapporteur on 29 April 1974.

It considered this report at its meetings of 1 and 7 October 1974.

At its meeting of 7 October 1974 the Committee on Budgets adopted the motion for a resolution by 7 votes.

Present: Mr Spénale, chairman, Mr Aigner, vice-chairman, Mr Pêtre, rapporteur, Mr Artzinger, Mr Gerlach, Mr Hansen, Lord Lothian, Mr Radoux, Mr Scholten (deputizing for Mr Notenboom), Mr Vernaschi and Mr Cipolla, draftsman of the opinion of the Committee on Agriculture.

The opinion of the Committee on Agriculture is attached.

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A

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

MOTION FOR A RESOLUTION

on the second financial report on the European Agricultural Guidance and Guarantee Fund - financial year 1972 - presented by the Commission of the European Communities to the Council and the European Parliament.

The European Parliament,

- having regard to the second financial report of the Commission of the European Communities to the Council and the European Parliament (Doc. 109/74),
- having regard to the report from the Committee on Budgets and the opinion of the Committee on Agriculture (Doc. 297/74),
- 1. Welcomes the annual presentation of a financial report on the European Agricultural Guidance and Guarantee Fund, which gives it the opportunity to consider in more detail the Community's financial problems; and expects the Commission to ensure that in future the document will be submitted at the proper time;
- 2. Invites the Commission to present before presenting its third financial report its views on:
 - the desirability of and the means for financing all expenditure charged to the guarantee section of the EAGGF (second category interventions),
 - the need to maintain or amend the provisions on monetary compensatory amounts and on the results of this policy,
 - the multiple possibilities of taxes of all kinds which are, or can be, collected on the basis of agricultural regulations in force;
- 3. Recommends the Commission not to include in its proposals for regulations or decisions provisions fixing an annual amount of expenditure, since this can only be done within the framework of the budgetary procedure;
- 4. Takes the view that the fixed amount of 325m u.a. allocated by regulation to the guidance section of the EAGGF may not be considered binding on the budgetary authorities, which must take account not only of the obligatory nature of certain expenditure charged to this section, but also of the commitment already made to exceed this amount and use the reserves accumulated between 1969 and 1973;

5. Taking the view that the practice of financing individual projects has given tangible results and that it is desirable to find a formula for ensuring that this practice continues, invites the Commission to look for means of speeding up decisions on such projects;
6. Recommends the Commission of the Communities to avoid any future proposal for granting flat-rate aid because of difficulties experienced hitherto in obtaining the evidence which the beneficiary Member States had promised to produce of the proper use of appropriations received;
7. Invites the Audit Board to draw up, on the basis of Article 90 of the Financial Regulation of 25 April 1973, a detailed analysis of the soundness of the financial management of the flat-rate aid granted with a view to improving production and marketing structures in the following sectors: unmanufactured tobacco, olives, olive oil, and fruits and vegetables;
8. Encourages the Commission to continue to cooperate with the legal institutions and customs authorities of the Member States in order to obtain better results in the prosecution and suppression of irregularities and frauds against the EAGGF;
9. Emphasizes the responsibility which the Council would have to bear if it did not support the Commission's efforts to set up legal and administrative mechanisms to prevent irregularities and frauds;
10. Invites the Commission to draw up proposals in the near future for replacing Articles 31 and 37 of the Financial Regulation of 25 April 1973 by provisions relating to the coverage of the cash needs of the Community within the framework of budgetary expenditure, taking account of the total replacement of contributions from the Member States by the Community's own resources;
11. Instructs its President to forward this resolution and the report of its Committee to the Council and Commission of the European Communities and to the Audit Board.

EXPLANATORY STATEMENT

1. Regulation No. 729/70 on the financing of the Common Agricultural Policy lays down that, by 1 July each year, the Commission shall submit a report on the financial management of the EAGGF. Pursuant to Regulation No. 283/72, this report must also contain a chapter on frauds and irregularities. A later regulation further stipulates that this report must contain an assessment of the financial management of food aid.
2. The Financial Regulation of 25 April 1973 stipulates that the Audit Board's report must be forwarded to Parliament on 31 October of the year following the financial year under review. It is useful to compare the report drawn up by the Commission of the Communities on the financial management of the EAGGF with the Audit Board's report. As a result the document to be drawn up by the Committee on Budgets on the second financial report can make certain assessments which may be useful in respect of the discharge to be given on the Community's accounts, at least as regards the Common Agricultural Policy.
3. The first financial report on the EAGGF was forwarded by the Commission of the Communities on 4 June 1973. It was discussed in plenary sitting on 17 January 1974, when Oral Question No. 176/73 with debate was considered. The second financial report was forwarded to Parliament on 4 June 1974, and the Committee on Budgets, to which this document was referred, decided to revert to the more usual consideration procedure and to draft a report for debate in plenary sitting.
4. For the consideration of the second financial report, the Committee on Budgets submitted to the Commission of the European Communities a questionnaire which the latter answered at a meeting of the Committee on Budgets on 1 and 2 July 1974. The present document reiterates all the questions and answers dealt with at this meeting.

Second category interventions

5. In July 1972, the Commission of the European Communities submitted a proposal for a general regulation on the financing of interventions by the guarantee section of the EAGGF. On the basis of this proposal, the Council adopted regulation No. 2824/72 of 28 December 1972. Parliament delivered its opinion on this proposal on 19 January 1973, on the basis of a report by Mr Beylot.

By this regulation, the Council established a list of interventions, a sum per unit being determined for a given intervention measure. It postponed to 1 January 1974 the establishment of definitive rules for financing intervention measures for which a sum per unit had not been fixed. Such interventions constitute second category expenditure. They include interventions characterized by complex purchasing, storage, and possibly processing and disposal operations. For these operations the EAGGF does not intervene with the total amount, because the intervention bodies can recover a large part of the interventions at the marketing stage. The EAGGF at present confines itself to supporting the net losses of the intervention body and storage costs, the latter on a flat-rate basis.

6. By Regulation No. 330/74, adopted by the Council on 4 February 1974, it was decided to defer, by one year, the above date of 1 January 1974. The Commission gave reasons why it had not been possible to establish definitive rules for second category interventions:

'Definitive rules imply transition to the complete financing of real costs, which raises a number of problems, such as the definition of real costs, the approximation of costs between the Member States, supplementary audit work and still higher expenditure... Since the delegations of the Member States could not agree, the present system has been extended and the Commission has promised to draw up a new proposal in the near future.'

7. For the financial year 1972, second category interventions amounted to 190 m u.a., including 150m for milk and dairy products. The total expenditure for the guarantee section amounted to 2,446 m u.a. Integral financing would have considerably increased expenditure.

8. In the resolution adopted by Parliament on 19 January 1973, following the report presented by Mr Beylot, the Commission was asked to report, before 31 December 1974, to the Council and Parliament on the application of the proposal for a regulation providing for the total financing of second category expenditure. Admittedly, this proposal lapsed when the Council postponed integral financing to a later date. It is, nevertheless, still desirable to ask the Commission to include in its next financial report on the EAGGF a paragraph on the problems raised by total financing and the solutions it intends to propose.

Compensatory amounts

9. There are two types of compensatory amount: those granted and paid on the basis of the Act of Accession and those aimed at compensating, at the Community's internal and external frontiers, for temporary increases in the margins of fluctuation of the currencies of certain Member States.

Monetary compensatory amounts have been financed by the Community since 1 July 1972 in respect of relations with third countries and since 1 January 1973 in respect of relations between the Member States.

The second financial report on the financial year 1972 deals very briefly with the system of monetary compensatory amounts, which has become an essential element in trade in agricultural products and without which it would be impossible to fix common prices. The Commission announced that, in its third financial report, it would devote a special chapter to the operation of monetary compensatory amounts and to the problems they raised.

10. The Commission of the European Communities takes the view that the collection of compensatory amounts between the Member States forms an integral part of the machinery for regularizing the agricultural markets, in the same way as the granting of subsidies. However, it cannot be denied that the compensatory amounts which are 'collected' are a form of taxation. Unlike the compensatory amounts which were instituted by the Act of Accession and which may be collected in trade between the old and new Member States, monetary compensatory amounts are not considered as own resources. To be classed as own resources, they would have to have been instituted on the basis of Article 201 of the EEC Treaty, whereas Articles 28, 43, and 235 of the EEC Treaty provide the legal basis for such compensatory amounts.

11. In this connection, the Committee on Budgets drew attention to other regulations or Commission proposals for regulations aimed at establishing various taxes within the framework of the Common Agricultural Policy. It made particular reference to Regulation No. 419/74, of 18 February 1974, authorizing the principle of a tax which would be collected on stocks of dairy products and which would, if necessary, be decided on by the Council in accordance with the voting procedure laid down by Article 43 of the EEC Treaty, i.e. without consulting Parliament on the amount of this tax and the way in which it would be collected. According to the Commission of the European Communities the purpose of this regulation is to avoid disturbances on the milk market which could arise as a result of changes in price from one milk year to the next, the measures being

aimed at regularizing the milk market, i.e. they are temporary intervention measures within the meaning of Articles 3 and 1 of Regulation 729/70. They differ from the storage contribution in the sugar sector, inasmuch as this is a 'permanent' compensation for the storage costs in this sector.

12. The Committee on Budgets recognizes the validity of the Commission's argument, but it believes that no taxes should be instituted within the framework of common policies without democratic control over the establishment and collection of these taxes, since none of the parliaments of the Member States exercises any control over these fiscal provisions, which are traditionally the responsibility of the legislature. The Committee on Budgets therefore hopes that the Commission of the European Communities will draw up a list of taxes of all kinds which have been instituted or which might be instituted on the basis of texts at present in force, and that it will indicate what amounts have already been collected and who they will benefit. This list could be attached to the third financial report on the EAGGF.

The rate of utilization of Community funds for the guarantee section

13. The Committee on Budgets welcomes the considerable improvement in the rate of utilization of Community funds placed at the disposal of Member States. This rate has risen from 85.9% in 1971, to 95.7% in 1972. It notes, in particular, that this improvement has been due to the diligence of the Italian authorities, the rate of utilization in Italy having risen from 45.5% in 1971 to 89.7% in 1972.

As regards the question of the management of Community funds in Italy, the Commission of the European Communities announced that a solution was found to this problem in 1973. This took the form of breaking down into commitments and payments the expenditure of the AIMA, the body responsible for payments in Italy. In this country, payments for interventions are made on a decentralized basis by local services. The money is put at their disposal by the central body (AIMA). This authority used to declare as payments not sums actually paid but funds placed at the disposal of the local services. The Commission of the European Communities has announced that, at its invitation, the Italian Government adopted, in August 1973, a decree remedying this situation.

The closing of accounts for the periods 1967/68 to 1970

14. Oral Question No. 176/73 invited the Commission of the Communities to consider closing the accounts for the financial years 1967/68 to 1970 by negotiating an overall arrangement based on a flat-rate formula involving a deduction from advances covering up to 90% of expenditure.

The aim of this suggestion was to reduce the workload on the services of the EAGGF and to release staff with a view to speeding up consideration of the financial problems for the definitive period. In his answer, Mr LARDINOIS, member of the Commission of the Communities, rejected this proposal; in his opinion, the national services were not ready to accept it, inasmuch as it might imply, for one or other Member State, a slight increase in the sums to be paid. The Commissioner therefore proposed to adhere to the procedure already initiated.

15. The Committee on Budgets noted that, as at 1 July 1974, little progress had been made in settling the accounts for the transitional period. Answering another question, the Commission of the Communities announced that it had taken various measures with a view to making good the delays in the closure of accounts. These measures were as follows:

- (a) replacing the single guarantee division by two divisions, one of which would be responsible for local checks based on records;
- (b) recognition of the need to increase the staff complement of the guarantee section, which is manifested in Preliminary Draft Supplement Budget No. 1,
- (c) proposed appeal to experts in the Member States to close the oldest accounts,
- (d) simplification of declarations made by Member States in respect of the periods 1967/68 to 1970,
- (e) grouping of several periods for local checks based on records,
- (f) the setting of priorities and drafting of programmes for local checks.

The Commission also announced that the Member States were preparing final declarations for periods prior to 1971. Local checks based on records being carried out in the second three months of 1974 and the first three months of 1975. It hoped that progress would be made in this field in 1974 and 1975.

The Guidance Section of the EAGGF

16. The methods of financing by the guidance section of the EAGGF have rarely been discussed in depth despite the very important questions which continue to arise.

Essentially, two provisions govern the operation of this section:

- the annual amount for the guidance section is fixed at 325 m u.a.;
- under Article 6 of Regulation No. 729/70 on the financing of the Common Agricultural Policy, priority must be given to the use of appropriations for the guidance section for joint activities and any balance should go to individual projects.

17. The first question raised by the Committee on Budgets in respect of the guidance section related to the allocation of the appropriations for this section. From 1969 until 1973 the Council adopted a regulation every year in which it decided on the allocation of appropriations. Oral Question No. 176/73 raised the problem as to whether this annual allocation of appropriations fell within the scope of the Council's legislative power or was the responsibility of the budgetary authority and asked what procedure could be used to arrive at this annual allocation of appropriations. In his answer in January 1974 Mr Lardinois, Member of the Commission of the Communities, declared that the budgetary procedure was itself a legislative procedure, that the 325 m u.a. at the disposal of the guidance section were the Council's affair and that their allocation fell within the scope of the legislative procedure in which Parliament participated fully.

18. The Committee on Budgets took the view that this answer was incomplete because the procedure laid down by Article 203 of the EEC Treaty was markedly different from the procedure by which regulations, decisions or directives were drafted. In fixing by regulation an annual amount of expenditure (325 m u.a.) and then allocating these appropriations to various items also by regulation the Council had turned the budgetary powers to its advantage. If such a procedure were extended to all budgetary items, then during the budgetary procedure Parliament would simply be ratifying Council decisions taken by way of regulation.

This confusion was understandable enough at the time when the Council had the same authority in respect of regulations and budgetary matters. It would appear, however, that changes will have to be made from 1975. It should be remembered that the Treaty of 22 April 1970 expressly stated that the institutions must exercise their powers while respecting the provisions of the Treaty and acts adopted pursuant thereto.

19. Questioned again on this subject, the Commission of the Communities replied that 'the annual allocation of appropriations for the guarantee section between the various items was normally made within the budgetary framework, as confirmed by the debate on the 1974 budget. It was simply because of the need to set up a reserve for financing the reform of agricultural structures that since 1969 appropriations had been allocated for this purpose, on a proposal from the Commission, by way of Council regulation, and after consulting the European Parliament'.

20. This answer prompts consideration of the second problem raised by the guidance section and analysis of the conditions in which the Mansholt reserves were set up.

These reserves, which have been accumulated since 1969, at present amount to more than 500 m.u.a. In January 1974 Mr Lardinois declared that the Commission would never have been able to agree on the structural policy as conceived at that time (1968) by Mr Mansholt - a policy which formed the subject of lively debate within the Council for many years - if a financial formula such as that found by the Commission with the Mansholt reserve had not been forthcoming. The commissioner also stated that he was convinced that this reserve would be exhausted in the next 4 years.

21. The Mansholt reserve could not be used unless the bar of 325 m.u.a. per year was lifted. Taking as the basis the declaration made by the commissioner, the annual expenditure of the guidance section in the next 4 years would be 450 m.u.a., i.e. 325 m.u.a. plus 125 m.u.a. ($\frac{1}{4}$ of 500 million). Put in this way Mr Lardinois' statement seems optimistic to say the least. Indeed, the Commission was asked to what extent the resolutions and declarations by the Council in respect of undertaking certain joint activities had so far given results. The Commission gave the following answer:

(a) Resolution of 24 March 1972 on common measures in respect of marketing and processing agricultural products: the Council has still not acted on the proposal for a regulation concerning groups of producers and their associations, since certain delegations wanted to consider this measure at the same time as the new proposals which the Commission is to submit on the marketing and processing of agricultural products and which should be forthcoming in 1974.

(b) Declaration of 5/6 December 1972 on non-industrial inshore and deep-sea fishing:

- as regards non-industrial inshore fishing the Commission intends to submit a proposal to the Council before the end of 1974;

- as regards deep-sea fishing, the Commission wants to wait for the guidelines resulting from the Caracas Conference on international

fishing problems before submitting proposals to the Council.

- (c) Resolution of 21 March 1972 on the use of the EAGGF for regional development measures: the Council has not yet given a decision on the Commission's proposal of June 1971.
- (d) Resolution of 15 May 1973 on aid to agriculture in certain less-favoured regions: in January 1974 the Council adopted a directive which will not take effect until the Council issues its list of less-favoured regions and fixes the rate of the Community's financial contribution.

The Commission has also announced the commitments and payments as at 1 May 1974 for common measures in connection with agricultural reform.

No commitment or payment has been made in respect of common agricultural reform measures based on Directives Nos. 159 to 161 (1972).

In fact, requests for refunds for these directives are to be submitted for the first time on 30 June 1974 and detailed rules for submitting these requests will be worked out shortly.

It should be pointed out, however, that the following commitments and payments have been made up to 1 May 1974 for two other common measures:

(a) Fruit tree survey - Directive 71/286/EEC

| | |
|---------------|--------------|
| - France | 196,000 u.a. |
| - Belgium | 15,000 u.a. |
| - Netherlands | 35,000 u.a. |

(commitments and payments)

(b) Reconversion in the cod-fishing sector

- Regulation No. 2722/72/EEC

France, 3 schemes 1,816,464 u.a. (commitment but no payment to date)

22. The use of the 'Mansholt' reserve still presents a problem in view of the fact that it was established at various times. In 1969 and 1970 the budget was financed exclusively by contributions from Member States; in 1971 and 1972 it was made up partly of own resources, but only six Member States contributed; in 1973 the new Member States joined the Community.

The question is whether the entry in the budgets for 1975 and subsequent years of part or all of the reserves will be divided between all the Member States or merely between the six original members, whether this will necessitate using a scale of contributions or whether the entries will be charged entirely to own resources, which will in principle finance the whole Community budget with effect from 1975.

23. The fourth question on the Guidance Section related to individual projects. When the oral question was submitted in January 1974, it was stressed that in 1971, in the absence of adequate resources - notably the establishment of reserves - one valid scheme out of every three had to be turned down. This situation had deteriorated still further in 1972 as the Guidance Section had been obliged to refuse one scheme out of two.

In Title II of the financial report under consideration the implementation of individual projects is discussed. The report stresses at length the economic benefit of these projects and points out that the allocation of funds decided on by the Council has made it impossible to implement all the valid projects put forward by the Member States.

In answer to a question on this matter, the Commission of the Communities gave the following information:

The financing of projects under Regulation No. 17/64/EEC is covered by the provisions of Article 6(4) of EEC Regulation No. 729/70: appropriations for the Guidance Section are allocated as a matter of priority to the financing of common measures and only the balance is used for the financing of projects.

However, the Commission is considering a system of financing individual projects for common measures which in view of their technical nature are suited to this type of financing, and in particular for the common measures envisaged for the marketing and processing of agricultural products.

24. To conclude the above remarks on the Guidance Section of the EAGGF, the Committee on Budgets wishes to stress three points:

- any decision laying down the amount of annual expenditure must be taken within the context of the budgetary procedure;
- the Guidance Section's limit of 325 m.u.a. must be raised if joint measures are to be treated as obligatory expenditure and if the reserves established to date are to be utilized;
- it seems desirable for the implementation of individual projects to be continued in some form or other.

Supporting evidence for aid fixed on a standard basis

25. On reading Item 4.3.4 in the financial report on the EAGGF, the Committee on Budgets is forced to conclude that the position is unsatisfactory: two Member States which have received aid under this financing system and have been granted considerable sums (155 million u.a.) between 1967 and 1971 have not submitted the supporting documents on the use of the funds paid to them

as formally requested. The Commission considered the documents they submitted totally inadequate and extensions of the time limit for forwarding supporting documents have been requested several times.

26. The Commission of the Communities, in answer to a question on this matter, gave a resumé of the situation at the beginning of summer 1974:

(a) The tobacco sector

On the basis of the documents forwarded by the Italian Government on 12 August 1973 and a visit by Commission officials to investigate the causes of the delay in submitting supporting documents and to find out the exact position in regard to this work, the Commission sent the Italian Government a letter on 22 March 1974 asking it to ensure observance of the deadline set (the beginning of 1975) for completion of the work and to submit a report to the Commission on the state of the work as at 30 June 1974.

(b) Fruit and vegetables sector, olives and olive oil sector

On 25 February 1974 and 31 March 1974 the Italian Government forwarded two reports, the first on the use of the 45 m.u.a. paid on the basis of Article 4 of Regulation No. 130/66, and the second on the four payments totalling 87.3 m.u.a. under Article 12(4) of Regulation 159.

The first report has been considered, and it is intended to carry out spot checks, in which the Audit Board is invited to participate. The second report is under consideration at the moment.

(c) Integration of Luxembourg agriculture into the agricultural Common Market

On 8 January 1974, the Luxembourg Government sent the Commission the information it had requested on the use of the 7.5 m.u.a. paid on a standard basis by the EAGGF and stated that it would submit a final report in the first half of 1974. This document has, in fact, just been submitted.

The Commission itself realizes that the position is far from satisfactory since it also intends to discuss these questions in greater detail in the third financial report for the 1973 financial year.

27. The Committee on Budgets considers that there are two conclusions to be drawn from the Commission's financial report in regard to this method of financing on a standard basis:

- it feels that it would be desirable in future to discontinue the practice of granting aid on a standard basis. The Commission representative himself admitted, at the meeting of the Committee on Budgets on 1 and 2 July 1974,

that the system of fixed payments was an unsatisfactory method;

- the Committee on Budgets will propose, in plenary sitting, that the Audit Board should be invited to carry out detailed spot checks, based on records, in the two Member States which have received aid on a standard basis, independently of its annual report. The Audit Board's mandate to report to Parliament on these specific questions would be based on Article 90 of the financial regulation of 25 April 1973. The Commission representative has also stated that a member of the Audit Board has already taken part in spot checks carried out by Commission officials, at least in the fruit and vegetable and olive oil sectors.

Verifications and irregularities

28. Title III of the financial report, which deals with verifications and irregularities, reveals considerable shortcomings in the Community's system of controlling expenditure.

It is true that the Commission has made numerous efforts to improve the situation. The note it has recently forwarded on the strengthening and improvement of budgetary control and procedures is further evidence of this (PE 37.478).

However, the Committee on Budgets is not satisfied with the present situation. The financial report and the discussions on the report in committee meetings still show a number of deficiencies.

The following points may be mentioned:

- the Commission states that it has been impossible to carry out regular spot checks because the staff available was too small to deal with all the problems involved. In 1972, and a large part of 1973, checks were more or less discontinued;
- the financial report notes the reluctance of Member States, notably Belgium and Italy, to furnish the necessary information and documents relating to irregularities. It seems curious, to say the least, that irregularities occurred in only three Member States, Germany, France and the Netherlands, in 1971 and 1972;
- it is regrettable that the Commission was forced to invoke Article 6 of Regulation No. 283/72 to persuade certain Member States to carry out an administrative enquiry, although even then they did not always act on the Commission's request;
- the Committee on Budgets asked to what extent cases of fraud against the EAGGF had been brought to light by articles in the press. The Commission answered that a number of undeclared cases had been brought to its notice

by the press. The Commission representative added that the failure to declare cases of fraud was attributable in particular to lack of co-ordination between authorities in the Member States and the absence of effective provision for collecting full particulars;

- it was revealed in the committee's debate that three proposals for directives or regulations, submitted by the Commission and approved by Parliament, had not yet been acted on by the Council. The Committee on Budgets mentions these proposals in the hope that the Council will give its decision without delay:

- 1) Directive on mutual assistance for the recovery of sums paid in error in connection with the common agricultural policy, and of agricultural levies and customs duties (Doc. 278/72 - COM(72)1578/Fin.)
- Report by Mr Durand (Doc. 337/72) -

Resolution of 16 March 1973 - OJ No. C 19, 12 April 1973.

- 2) Regulation on mutual assistance between competent authorities of the Member States and between the latter and the Commission for ensuring the correct application of Community customs and agricultural regulations (Doc. 65/73 (COM 73 538/Fin.) - Report by Mr Artzinger (Doc. 265/73) -

Resolution of 10 December 1973 - OJ No. C 2, 9 January 1974.

- 3) Regulation concerning interest on sums paid out of the EAGGF and by way of food aid which are recoverable (Doc. 332/72 (COM(73)206/Final)
- Report by Mr Durand - (Doc. 45/73) -

Resolution of 11 May 1973 - OJ No. C 37, 4 June 1973.

29. A number of written questions, recently published in the Official Journal of the European Communities, show that Regulation No. 283/72¹ has produced far from satisfactory results. In answer to a question by Mr Aigner (No. 53/74, OJ No. C 80, 9 July 1974) the Commission stated that in case of fraud it had not undertaken an investigation under Article 6 of Regulation No. 283/72 because it did not have enough information in the matter and the government concerned had made no reference to the case in its quarterly report. The Commission intended to reply in detail at a later date, but this additional information is still awaited.

Answering a written question by Mr Fellermaier (No. 39/74, OJ No. C 90, 29 July 1974), the Commission stated that it was unable to reply in full to the author of the question, that it would make enquiries of the Italian Government and that it was unable for the time being to say how widespread were the fraudulent practices mentioned in the written question.

The Commission says in its answer to the latter question that it expects satisfactory results from the special committee of enquiry, which has been set up to promote cooperation between the Commission and the authorities in Member States. The Committee on Budgets wonders if it might not be advisable to give this special committee the dual responsibility of considering the provisions of Regulation No. 283/72 and submitting proposals for improvements enabling the Community to deal more effectively with cases of fraud.

30. Finally the Committee on Budgets considered the development of fraudulent practices in the years 1971 - 1973 and their distribution among the Common Market organizations. Annexed to the present report are two tables provided by the Commission, showing the position as at 15 July 1974.

Food aid

31. The second financial report contains a purely descriptive section on the implementation of food aid financing. The Commission, which has in the meantime replied to the comments made by the Audit Board in its report on the 1972 financial year, is well aware of the numerous difficulties involved in the financing and implementation of food aid measures. Asked why no reference had been made to these problems

¹ Concerning measures to combat fraud

in the second financial report, the Commission replied that in its view consideration of the financial report on the EAGGF was not the ideal framework for a general discussion of financial questions connected with food aid. The Committee on Budgets noted the Commission's opinion and will certainly return to this subject when it is required to give its decision on the discharge for the financial year 1972.

Funds

32. The meeting of the Committee on Budgets on 1 and 2 July 1974 raised the question as to whether the liquid assets available to the Commission did not exceed the Guidance Section's actual requirements.

In its answer, the Commission mentioned that payments as at 31 December 1972 amounted to 370.8 m. u.a. and the amounts actually paid by the Member States totalled 475.2 m. u.a. It will be seen from these figures that the Commission's assets for the 'Guidance' section exceed payments by over 100 million u.a.

Discussion of this question provided an opportunity to raise the more general question of making reserves available to the Communities in the event of the rate of expenditure not regularly coinciding with the rate of revenue.

On this point, the financial regulation of 25 April 1973 contains, in Articles 31 to 37, certain provisions which take into account the fact that part of the budget is still contributed by Member States. The Commission draws on these contributions regularly, as necessary, so that up till now the Community has not experienced any serious problems with funds. Article 37 of this Regulation expressly provides that the provisions relating to funds shall be amended at such time as the Community budget is financed completely by own resources.

The Committee on Budgets felt that the Commission should be asked to submit proposals to it on this matter as soon as possible, as provided in the above-mentioned Article 37.

Position as at 15 July 1974

Breakdown by sector of cases of fraud recorded
in Member States in respect of the Guarantee Section
1971 - 1972 - 1973

| Sector | | 1971 | | 1972 | | 1973 ^x | | Total | |
|-----------------------------------|------|--------------|-----------------|--------------|-----------------|-------------------|-----------------|--------------|-----------------|
| | | no. of cases | amount in u. a. | no. of cases | amount in u. a. | no. of cases | amount in u. a. | no. of cases | amount in u. a. |
| Cereals | Ref. | | - | - | - | 1 | 259,264 | 1 | 259,264 |
| | Int. | | - | 10 | 17,149 | 30 | 95,614 | 40 | 112,763 |
| | Tot. | | - | 10 | 17,149 | 31 | 354,878 | 41 | 372,027 |
| Dairy Products | Ref. | 4 | 8,216,671 | 1 | 701,400 | 1 | 9,400 | 6 | 8,927,471 |
| | Int. | - | - | 4 | 6,230 | 19 ^{xx} | 521,908 | 23 | 528,138 |
| | Tot. | 4 | 8,216,671 | 5 | 707,630 | 20 | 531,308 | 29 | 9,455,609 |
| Pigmeat | Ref. | 2 | 14,111 | | - | 1 | 13,742 | 3 | 27,853 |
| Eggs | Ref. | 1 | 1,953 | | - | | - | 1 | 1,953 |
| Poultry | Ref. | 1 | 1,702 | | - | 1 | 2,744 | 2 | 4,446 |
| Beef & veal | Ref. | | - | 4 | 1,349,541 | 1 | 8,400 | 5 | 1,357,941 |
| Sugar | Ref. | | - | | - | 3 ^{xx} | 252,062 | 3 | 252,062 |
| Fats & oils | I | | - | | - | 1 | 1,383 | 1 | 1,383 |
| Fruit & vegetables | Ref. | | - | 1 | 2,538 | | - | 1 | 2,538 |
| Products not included in Annex II | Ref. | 1 | 270,937 | 1 | 1,407 | 3 | 26,448 | 5 | 298,792 |
| Total | Ref. | 9 | 8,505,374 | 7 | 2,054,886 | 11 | 572,060 | 27 | 11,132,320 |
| | Int. | - | - | 14 | 23,379 | 50 | 618,905 | 64 | 642,284 |
| General total Recovered | | 9 | 8,505,374 | 21 | 2,078,265 | 61 | 1,190,965 | 91 | 11,774,604 |
| | | 5 | 8,009,459 | 13 | 662,990 | 19 | 538,138 | 37 | 9,210,587 |
| In process of recovery | | 4 | 495,915 | 8 | 1,415,275 | 42 | 652,827 | 54 | 2,564,017 |

^x figures for the 4th quarter of 1973 have not yet been received from two of the Member States

^{xx} the amounts for 7 cases (five interventions for dairy products and two refunds for sugar) have not yet been determined

ANNEX II

Position as at 15 July 1974

Declaration of cases of irregularity discovered by Member States in respect of the Guidance Section.

With the exception of one case (premiums for grubbing up fruit trees, involving a sum of 2,504 u.a.), all the other cases declared relate to premiums for the non-marketing of milk and dairy products (R(EEC) No. 1975/69).

It should be pointed out that the amounts shown in the table below represent the premiums paid by the Member States. The EAGGF's intervention in this field is limited to 50%.

Amounts in u.a.

| | 1971 | 1972 | 1973 | Total |
|---|--------|---------|---------|-----------------|
| Number of cases listed | 26 | 60 | 64 | 150 |
| Total amount | 77,875 | 161,925 | 171,712 | 411,512 |
| Number of cases settled after further investigation | | | 1 | 1 |
| Amount concerned | | | 1,950 | 1,950 |
| Number of cases settled | 21 | 40 | 17 | 78 |
| Amount recovered | 65,640 | 99,404 | 35,723 | 200,767 |
| Cases pending | 6 | 22 | 49 | 77 ¹ |
| Amount to be recovered | 12,235 | 62,521 | 134,639 | 208,795 |

¹ Six cases have been partially settled

OPINION

of the Committee on Agriculture

Draftsman : Mr N. Cipolla

On 18 April 1974 the Committee on Agriculture appointed Mr N. Cipolla draftsman.

It considered the draft opinion at its meeting of 3 and 4 October 1974 and adopted it unanimously.

Present : Mr Houdet, chairman; Mr Vetrone and Mr Laban, vice-chairmen; Mr Cipolla, draftsman of the opinion; Mr Baas, Mr Berthoin (deputizing for Mr Bourdelles), Mr Cifarelli, Mr Früh, Mr Hansen, Mr Lemoine, Mr Ligios and Mrs Orth.

Without prejudice to the points raised in the opinion drafted by Mr Früh on the report for 1971¹, the following observations, which also take into account subsequent experience in the succeeding years, can be made on the basis of an examination of the second financial report on the European Agricultural Guidance and Guarantee Fund - financial year 1972 - presented by the Commission of the European Communities to the Council and the European Parliament.

1. The first comment concerns the progressive increase in the expenditure of the Guarantee Section as compared with the Guidance Section.

This discrepancy is aggravated by the fact that under Regulation No.1534/69 considerable sums were earmarked in the Guidance Section for structural reform with the certain consequence of their reduction in value by devaluation and the risk that they might be used for other purposes.

2. Note should also be taken of the different rate of utilization as between Guarantee Section funds - the only delays concern olive oil and durum wheat - and Guidance Section funds, because of the familiar difficulties mentioned in the Früh opinion and elsewhere.

3. It should also be noted that, whereas Guidance Section expenditure is to a large extent borne by the Member States and individual beneficiaries, Guarantee Section expenditure is borne entirely by the EAGGF. One cannot but wonder, therefore, whether the lack of responsibility displayed by Member States and the parties concerned does not encourage too flexible control criteria and thus contribute to increasing the expenditure of the Guarantee Fund.

It will be remembered that this problem was raised for some products in the Memorandum on the adjustment of the common agricultural policy; in the view of the draftsman, it should be given serious consideration.

4. As mentioned in Mr Früh's opinion, budget figures show that most of the EAGGF Guarantee Section appropriations were used to implement regulations on dairy products and cereals, while only a small part was earmarked for other products, especially where a surplus of dairy products was accompanied by a shortage of cereals with consequent periodic or permanent imbalances.

Since it is generally accepted that the income of millions of Community producers of fruit and vegetables, wine, meat and so on is quite unsatisfactory and in any case is lower than that of milk and cereal producers, the question arises whether the time has not come to review, on the basis of a

¹See PE 33.924/fin.

comparative study, the present market organization sector by sector in order to provide with various instruments adapted to each product, Community aid guaranteeing a fair income to all Community producers.

5. A comparison of the contributions paid and the funds received by each Member State shows that some countries have a positive and others a negative balance. This might not be of great significance were it not for the fact that it has become a fixed pattern over the years and if the structure of the Community's budget had been diversified with ample appropriations for regional, social and other policies.

6. Of particular importance in the budget is expenditure for compensatory amounts which have acquired even greater weight in recent years with the enlargement of the Community and the deterioration of the monetary situation. This arrangement has reintroduced into the Community what is virtually a system of export duties and premiums which has led to distortions in competition - as the Commission has pointed out a number of times - and has in some cases widened the difference in the level of prices among the Member States from that prevailing in 1972.

The oft-expressed wish of the European Parliament for the abolition of this system through the establishment of new monetary parities has not been fulfilled, nor is it possible to foresee this happening in the near future. One wonders, however, whether the time has not come to plan for ending this system by making it possible for the Member States, also with the financial participation of the EAGGF, to compensate in one way or another farmers who have been put at a disadvantage by revaluations of their own currencies and devaluations of others.

7. As Mr Früh said in his opinion with regard to the functioning of the Guidance Section, emphasis must again be laid on the time that elapses between the submission by those concerned of projects to the authorities of individual Member States and the moment a project is considered by the national authorities and subsequently by the Community authorities.

This delay, serious enough in the past, has become particularly damaging at a time when the continual rise in cost has reached the point where many projects, even if they are approved, are abandoned because the estimated expenditure has risen in the meantime.

A case in point is the plan to restructure citrus fruits established by the regulation of 1969 and approved only in 1974 but not yet implemented, with the risk that the plan's underlying principles may not conform to the changing production and marketing situation.

Determined efforts to speed up bureaucratic procedures have not produced substantial results.

A section of opinion in the Committee wonders therefore, in regard to the Guidance Section, whether it might not be advisable to decentralize the examination of projects at national and, where possible, regional level, leaving the Community authorities the task of issuing general directives and the right to carry out on-the-spot checks on the use and effectiveness of EAGGF funds. Other members, mindful of the European Parliament's repeated urging for increase in EAGGF staff believe that a solution could be found in that direction.

8. Bearing in mind that approval was given to the three directives on structural reform (on the basis of the Memorandum of 1968) - whereas the directives on producers' organizations are still awaited - and that, as a result, Denmark has the right not to apply the directive on the cessation of agricultural activity, it is stressed that one of the causes of the delay in implementing the three directives at national level is that certain prerequisites (reduction of the active rural population and of the area under cultivation) do not correspond with the actual situation in many Community countries. When, moreover, account is taken of the fact that a certain rigidity in the directives makes it difficult to apply them in various regional situations, it seems desirable to advise the Community authorities to display the utmost flexibility when considering the various national requirements, either through modifications of a general nature or through specific departures as in the case of Denmark.

9. Finally, the observations outlined above underline the urgent need for future expenditure relating to an overhauled agricultural policy to be integrated in the Community budget through funds for regional, social and environmental measures, likely to ensure a harmonious development and to reduce tensions which have centred on the common agricultural policy, because it has to date been the Community's main expenditure policy.

10. The Committee on Agriculture hopes also that in future the financial report will show greater detail, particularly as regards the financing by the Guarantee and Guidance Section of EAGGF of individual products and Member States as well as the auditing procedures. The Committee on Agriculture trusts also that the financial report will be submitted in good time so that it can become a useful instrument of policy-making.