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Rural development 2000-06: two financial management systems

All rural development measures are financed jointly by the European Commission and the Member States. Community funding comes from either the Guarantee or the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF)[1]. It is managed by two distinct financial systems, which are outlined below. The two systems, which are run along broadly decentralised lines, ensure that resources are used efficiently and in keeping with Community rules, and that they comply with the financial framework.

The EAGGF Guarantee Section finances not only sectoral aid (common market organisations), but also all rural development measures in non-Objective 1 regions. In regions covered by Objective 1 of the Structural Funds, it supports only CAP accompanying measures (agri-environment measures, early retirement, less-favoured areas and afforestation of farmland), while all other rural development measures are assisted by the EAGGF Guidance Section, which is one of the Structural Funds. The Guidance Section also assists the Community LEADER+ Initiative throughout the Union.

1. EAGGF GUARANTEE SECTION

Following the Berlin Summit held on 25 March 1999, the EAGGF Guarantee Section was allocated the additional resources required to cover rural development measures (see box). However, a ceiling has now been imposed on the amount available not only for the entire period 2000-06 (€30.37 billion), but also for each individual year (€4.3 billion). On 8 September 1999, the Commission adopted the average allocations for each country and year[2]. CAP accompanying measures from the preceding programming period which have still not been completed are funded by rural development appropriations and form part of the allocations granted to each Member State: since the financing required for these measures is decreasing, while that required for the new measures looks set to rise, optimum use may be made of the appropriations available.

According to the specific management rules governing the EAGGF Guarantee Section, appropriations lapse if they have not been used by the end of the financial year (from 16 October of year n until 15 October of year n+1). They may, however, be carried over to the following financial year in exceptional circumstances where expenditure could not be implemented for reasons not attributable to the authorising officer and where the amounts allocated for the following financial year are insufficient to cover requirements[3]. Steps are being taken towards allowing certain appropriations for 2000 to be carried over to 2001, mainly on account of the need to meet the expenditure generated by recent natural disasters. The transfer of appropriations between sectoral aid and rural development support is also not authorised.

As in the past, all EAGGF Guarantee Section appropriations are non-differentiated, that is to say that they are committed and paid in a single operation. Payments to the final beneficiaries of measures managed by the EAGGF Guarantee Section are made by the accredited national paying agencies. Every month, on the strength of the payments made to beneficiaries, these agencies draw up a statement of expenditure, which each Member State forwards to the Commission. On this basis, at the beginning of the second subsequent month, the Commission refunds Member States the amounts already paid out; these funds are shared among the paying agencies. For the

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year 2000, expenditure already incurred before programmes are approved may be taken into consideration, provided that it has been incurred after the rural development plans were presented to the Commission and after 1 January 2000 at the very earliest, and that it relates to measures which are included in these programmes and have been approved[4]. Finally, expenditure is subjected to the CAP clearance of accounts procedure[5], which checks the accounting aspects and ensures that it complies with Community rules.

12.5% advance on the annual average

In order to facilitate the start-up of rural development programmes, the paying agencies will be advanced an amount of working capital not exceeding 12.5% of the annual average Community aid scheduled for each programme[6]. This one-off advance may be paid in the month following that in which a programme is approved and may not be recovered by the Commission until the end of the programming period.

Modulation

Additional rural development measures, falling outside the scope of the allocations granted to each Member State, may be financed by means of any savings realised by adapting the direct support paid to farmers[7]. However, such additional amounts must be used during the three-year period following the financial year in which the savings are made. If they are still unused at the end of this period, they will be recovered and used to cover sectoral expenditure.

Budgetary balance

In order to guarantee that optimum use is made of appropriations in the course of a financial year, specific sound management rules have been introduced for rural development expenditure. On 30 September of each year Member States must forward to the Commission a statement of the expenditure incurred during the current financial year, as well as their annual forecasts for the remainder of the period 2000-06, revised on the basis of this expenditure. These forecasts have assumed greater importance on account of the annual ceilings laid down in the budget. In order to encourage Member States to draw up realistic, balanced forecasts, a system of penalties has been introduced[6]: where the expenditure actually incurred in any given financial year falls more than 25% short of the forecasts drawn up on 30 September of the previous financial year, the expenditure which may be recognised for the following year will be reduced by a third of the difference between the expenditure actually incurred and the authorised 25% threshold. If, for example, a shortfall of 34% is recorded, the difference will be 9% and a 3% reduction will be applied. Where expenditure exceeds the forecasts, the overruns will be refunded only if other Member States have incurred expenditure below the level of their forecasts.

2. EAGGF GUIDANCE SECTION

The Berlin agreement provides for a total budget of € 195 billion at 1999 prices for the Structural Funds, 69.7% of which is destined for Objective 1 regions. The annual allocation by country was adopted by the Commission on 1 July 1999[8]. A breakdown of the assistance to be granted by the different Structural Funds, including the EAGGF Guidance Section, will be made on the basis of the financial plans contained in the programmes to be adopted.

The Structural Funds[9] are based on a system of differentiated appropriations (annual commitments followed by payments). The first annual commitment is made when the programme is adopted, while subsequent commitments are made as a general rule by 30 April of each year. After an initial payment on account (see below), Commission payments, which are made within two months of the application being received, take the form of a refund of expenditure actually disbursed and certified by the Member States. A Member State may make payments up to the end of the second year following that in which each appropriation has been committed, thereby preventing resources being under-used during the programme start-up phase. The remainder of the aid is paid at the time of winding up the programme, once all the requisite documents have been received and approved by the Commission.

Payment on account equivalent to 7% of total assistance

When the first commitment is made, the Commission makes a payment on account (which may be subdivided over two budget years) equivalent to 7% of the contribution from the Structural Funds to the assistance in question for the entire period 2000-06. The payment on account is repaid to the Commission if a declaration of expenditure is not received within 18 months. If any interest is earned on the payment on account, it is allocated to the form of assistance concerned.

Eligibility of expenditure

Expenditure may not be considered eligible if it has actually been paid by the final beneficiary before the date on which the application for assistance is submitted to the Commission. During a transitional period, if an application is submitted by 30 April 2000, the eligibility period will run from 1 January 2000. Where the choice of eligible expenditure is concerned, the relevant national rules apply except where the Commission has laid down common rules.

Financial control and budgetary discipline

The provisions on financial control clearly establish that the national authorities are responsible in the first instance for control and financial corrections and, at the same time, reinforce the means available to the Commission for correcting irregularities. Where irregularities are detected by a Member State, financial corrections are applied to the beneficiaries and the Community funds released in this way may be re-used for the assistance concerned. At least once a year, the Commission will examine, together with the managing authority designated for each programme, the results of the checks carried out in respect of the previous year and, on this basis, will send the Member State recommendations on how to correct any inconsistencies in the implementation of the programme or any shortcomings in the management systems. If the Member State fails to make the necessary corrections, the Commission may decide to reduce the payment on account and/or cancel all or part of the contribution of the Funds to the assistance concerned.

The rules on the management of the Structural Funds for the period 2000-06 are also aimed at tightening up budgetary discipline. To this end, the financing plans for programmes and the commitments made each year must respect the annual schedule of repayments adopted in Berlin, and Member States must submit forecasts of their applications for payment every year. In addition, any part of a commitment for which the Commission has not received an acceptable payment application by the end of the second year following the year of the commitment will automatically be decommitted by the Commission and may not be re-used for that measure.

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(1) EAGGF basic Regulation: Regulation (EC) No 1257/1999 of 17 May 1999.

(2) Commission Decision 1999/659/EC (see Newsletter No 15).

(3) Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities, Article 7(1).

(4) Transitional Regulation on the EAGGF Guarantee Section: Regulation (EC) No 2603/1999 (see Newsletter No 17).

(5) http://europa.eu.int/comm/dg06/fin/clearance/index_en.htm

(6) Regulation implementing the EAGGF Guarantee Section : Regulation (EC) 1750/1999 (see Newsletter No 13).

(7) Common rules for direct support schemes: Regulation (EC) No 1259/1999.

(8) Commission Decisions C(99)1769 (for Objective 1), C(99)1772 (for Objective 2) and C(99)1774 (for Objective 3).

(9) General Regulation on the Structural Funds: Regulation (EC) No 1260/1999 of 21 June 1999. For other information on the EAGGF: DG AGRI website (page 4). Information on the Structural Funds: DG REGIO, http://inforegio.cec.eu.int.

In brief

Agricultural trade: launch of the multilateral negotiations

As provided for in the Marrakech Agreement on Agriculture, the World Trade Organisation gave a kick-start on 23 March 2000 in Geneva to new multilateral negotiations on agricultural trade. As the world's second-largest exporter of farm products, the European Union wishes to participate in, and derive benefit from, the liberalisation of trade. It also wishes to strike the right balance between progressive reductions in support and protection and "non-trade concerns" (see Newsletter Nos 16 and 18). The European model of agriculture, which encompasses these issues, offers farming a perspective that is more oriented towards the future, responding as it does to civil society's concerns about protection of the environment, health, social standards and cultural diversity. The European Union indicated that it was entirely ready to enter into these farming negotiations. It also firmly believes that a comprehensive trade round must be launched as soon as possible.

Information campaign on the labelling of beef and veal

On 10 March, the Commission decided to finance in all Member States, with the exception of the United Kingdom, programmes for publicity measures aimed at informing European consumers about the guarantees offered by the Community system for the labelling of beef and veal. The programmes, which were selected by the Member States following an open call for tenders, are being entirely funded by the Commission at an overall cost of approximately € 6.8 million. They will be carried out in the course of this year. The information strategy, which varies from one country to another, has two main targets: to explain the Community labelling system and to provide information about the comprehensive, independent monitoring system which applies throughout the production and marketing process. Measures include advertising in the media and at points-of-sale, and public relations activities. The labelling system for beef and veal, which was established in April 1997 (Council Regulation (EC) 820/97), is aimed at making the production and marketing conditions for beef and veal products more transparent and, in particular, at enhancing the traceability of such products so that consumer confidence may be restored.

Agricultural income in 1999

The latest estimates by Eurostat point to a 3% drop in average agricultural income per working unit in the European Union in 1999, instead of 4% as previously indicated in the preliminary forecasts (see Newsletter No 19).

Community logo for organic farming

The logo published opposite has been adopted by the European Commission for the purpose of identifying organic farm products of both plant and livestock origin[1]. It will make organic products more noticeable to consumers and constitute a valuable marketing tool for producers.

While all food products are covered by safety and quality guarantees, organic farming must fulfill additional production and processing criteria[2]. Special importance is attached to protection of the environment and, in the case of livestock farming, to animal welfare[3]. Organic farming does not use synthetic fertilisers or pesticides, growth-promoting antibiotics or hormones or genetic engineering.

The logo provides a guarantee that the consumer is purchasing an organic farming product. Checks will be carried out by an appointed public authority or by an inspection body recognised in each Member State to ensure that standards are being met. They will span the entire production process from the farming to the labelling stage, including every aspect of processing and packaging.

Use of the logo is optional. It may be reproduced either in colour or in black and white. The graphic design is similar to that of the Community logos already adopted[4] for "protected designations of origin", "protected geographical indications" and "traditional specialities guaranteed" (see Newsletter No 4). It must contain the indication "organic farming" or the equivalent term in another official Community language. It may be used in combination with other national or private logos used to identify organic products.

(1) Regulation (EC) No 331/2000.

(2) Regulation (EEC) No 2092/91 on organic production methods.

(3) Regulation (EC) No 1804/1999 amending the latter to include animal products.

(4) Regulations (EEC) No 2081/92 and (EEC) No 2082/92.

Farm prices package 2000/2001

The farm prices package for 2000/2001, which was adopted by the Commission on 23 February, largely amounts to a roll-over of existing arrangements. Most of the decisions were in fact taken in the context of Agenda 2000 or the reforms of the common market organisations; only a few sectors (cereals, rice, sugar, silkworms, sheepmeat and pigmeat) are covered by the annual fixing of prices or amounts.

As provided for in Agenda 2000, the intervention price for cereals will be reduced in two stages of 7.5% each. The Commission is accordingly proposing that the monthly increments (which are linked to stocks) be reduced from € 1.00 to € 0.93 per tonne per month for the 2000/2001 marketing year and then to ¤0.85 per tonne per month as from the 2001/2002 marketing year. It is also proposing that the intervention period for cereals in Sweden (currently 1 December to 30 June) be aligned on that applied in the other northern Member States (1 November to 31 May), with a view to streamlining arrangements and eliminating the risk of cereals from other Member States being diverted to Sweden for intervention purposes.

Where the other sectors mentioned above are concerned, the Commission proposes maintaining prices and amounts at their present level.

In establishing institutional prices in the future, the Commission intends to pursue the multiannual approach set out in Agenda 2000 and the previous reforms in order to provide farmers with a more stable framework within which to plan their production. The only exception is sugar, the current production quotas for which expire at the end of the 2000/2001 marketing year, which justifies fixing prices for this marketing year alone.

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