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OPINION
of the Committee on Agriculture

on the Tenth Financial Report of the European
Agricultural Guidance and Guarantee Fund -
1980 - Guarantee Section - and the financial
management of food aid

Draftsman: Mr Mark CLINTON

On 20 October 1981 the Committee on Agriculture appointed Mr Clinton draftsman of the opinion.

The committee considered the draft opinion at its meeting of 1 April 1982 and adopted it by 13 votes with 2 abstentions.

The following took part in the vote: Mr Früh (acting chairman and vice-chairman), Mr Colleselli (vice-chairman), Mr Clinton (draftsman of the opinion), Mr Dalsass, Mr Gatto, Mr Jürgens (deputizing for Mrs Martin), Mrs Herklotz, Mr Kaloyannis, Mr Maher, Mr Marck, Mr Newton-Dunn (deputizing for Mr Curry), Mr Papapietro, Mr Provan, Mr Stella (deputizing for Mr Ligios) and Mr Wettig

1. EAGGF expenditure has risen substantially in recent years owing in particular to Guarantee Section market support measures. The annual rate of increase from 1975 to 1979 was almost 23%. However, the rate of increase in 1980 over 1979 was only 11%. EAGGF expenditure accounted for 72.9% of the total budget, a reduction compared with 1977 (77.3%), 1978 (74.1%) and 1979 (75.5%).
2. In late 1979, the Commission submitted to the Council proposals for the improvement of the common agricultural policy with a view to improving the balance of the markets (the problem of structural surpluses) and streamlining expenditure¹. It has emphasized, however, that its proposals do not represent an attack on the common agricultural policy, which is a cornerstone in the construction of the Community, but are designed to safeguard it in the future since it ensures security of food supplies to some 270 million consumers and protects the incomes of 8 million farmers.

3. Guarantee Section

3.1 What is striking here is the fall in the rate of increase in expenditure from 20 % in 1979 to 8.4 % in 1980. Of the 11,507.5m ECU in appropriations, only 11,315.2m ECU was used, resulting in a saving of 192.3m ECU.

Although the EAGGF accounted for 72.9% of the total budget in 1980, EAGGF Guarantee Section expenditure, with account taken of agricultural revenue, amounted to only 0.47% (1979: 0.48%) of the Community's gross domestic product. Expenditure is thus tending to fall slightly.

3.2 The trend in expenditure on the most important products, compared with appropriations in each case, can be summarized as follows :

¹ OJ No. C 60 of 10.3.1980 and Bulletin EC 11-1979, points 1.2.1 - 1.2.10

<u>Reduced expenditure</u>	<u>Increased expenditure</u>
Milk/milk products - 177.6 m ECU	Cereals + 52.9 m ECU
Fats - 99.7 m ECU	Beef and veal +185.3 m ECU
Sugar - 121.3 m ECU	Pigmeat + 15.6 m ECU
Wine - 50.5 m ECU	Fruit & vegetables+ 28.3 m ECU
Products not included	Tobacco + 27.3 m ECU
in Annex II - 53.7 m ECU	Other sectors
	or products + 22.5 m ECU

3.3 Although the saving in absolute terms is greatest in the milk sector (-177.6 m ECU = 3.6% of appropriations) and although this sector's share of Guarantee Section costs is tending to fall, expenditure in this sector still amounts, as milk production rises (1980: + 2%), to 4,752m ECU, equivalent to 42% of total Guarantee Section expenditure and 31% of the European Community's own revenue. This ratio shows that the incentives to encourage farmers to change to the production of non-surplus products must be improved. In view of the Community's high level of self-sufficiency in the most important agricultural products, this will not be easy, but the attempt must be made.

Exports to reduce intervention stocks and costs absorbed 48.2 % of Guarantee Section export refunds. Nevertheless, skimmed milk powder stocks rose from 215.000 tonnes on 31 December 1979 to 231.000 tonnes on 31 December 1980. However, despite a decline in Community consumption, increased exports halved butter stocks from 293.000 tonnes to 147,000 tonnes in the same period. This trend is particularly important in view of the fact, in addition to 96.000 tonnes of cheese, 103.000 tonnes of butter was imported into the Community in 1980 (principally from New Zealand).

- 3.4 Savings of 121.3m ECU, compared with appropriations, were also achieved in the case of sugar. This was due to a 2.4 % decrease in production compared with the previous year and to the increase in world market prices, making export refund costs lower than estimated. Total costs amounted to 575.2m ECU compared with 939.8m ECU in 1979.
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- 3.5 The savings in the fats sector are primarily attributable to the cost of production aids and consumption aids to olive oil remaining below the appropriations, principally because quantities eligible for aid were lower than expected. Total costs were 81.3m ECU higher than the previous year (606m ECU).
- 3.6 Refund and intervention costs in the case of wine were 55.5m ECU below the appropriation of 350m ECU. As a result of the good harvest in 1979, production in 1980 reached a record level of 178m hl (excluding Greece) compared with 139m hl the previous year, resulting in high storage and distillation costs. Costs totalled 299.5m ECU compared with 61.9m ECU the previous year.
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- 3.7. At 221.3m ECU (1979: 252.1m ECU), expenditure on refunds for processed products (products not included in Annex II) was 53.7m ECU lower than estimated. This reduction was due to a decrease in 1980 in the refund rates for various basic products incorporated in the processed products, resulting in an automatic reduction in the refund rates for the processed products.
- 3.8. Total costs in the cereal sector in 1980 amounted to 1,669.3m ECU (1979: 1,563.7m ECU), the appropriation of 1,616.4m ECU thus being exceeded by 52.9m ECU. The indirect influence of the import of cereal substitutes on the EAGGF budget is not mentioned in the Commission Report.

3.9 The increase in expenditure in the beef and veal sector (+ 185.3m ECU, with expenditure totalling 1,363.3m ECU) was due to increased production (+ 3.4%) while consumption stagnated. To avoid excessive intervention, exports (to the Mediterranean area, the Eastern Bloc and the Middle East) were stepped up, the cost of refunds thus being higher than estimated (1979: 270m ECU, expenditure in 1980: 715.5m ECU, appropriation: 460 m ECU). Despite the increase in exports, stocks rose from 330,000 tonnes in 1979 to 410,000 tonnes in 1980.

The average producer price fell to 82.7% of the guide price. It can be said that, as a result of the market support measures then introduced by the Commission (premiums for suckler cows, calves for slaughter and adult animals, aids to private storage), producer prices are again approaching the guide price and it has been possible to avoid an undesirable change to milk production.

3.10 The increase in expenditure is otherwise due,

- (a) in the case of pigmeat (+15.6m ECU, at total costs of 115.6m ECU), principally to aids to private storage and the higher export refunds attributable to increased production,
- (b) in the case of fruit and vegetables (+ 28.3m ECU, at total costs of 687.3m ECU), principally to the premiums granted for processed products (484.1m ECU),
- (c) in the case of tobacco (+ 27.3m ECU, at total costs of 309.3m ECU), to the high level of intervention (304.8m ECU) owing to the weak demand for some types,
- (d) in the case of other sectors and products (+ 22.5m ECU, at total expenditure of 298.5m ECU), to the more limited decrease in expenditure than originally assumed because of the positive monetary trend.

4. Guidance Section

- 4.1 The Guidance Section is involved in the financing of the common structural policy and is a suitable means of exercising direct influence on agricultural production conditions. However, the appropriations allocated to the Guidance Section - in 1980 appropriations committed amounted to only 5.2% of appropriations utilized in the Guarantee Section - prevent it from performing this task satisfactorily.
- 4.2 Appropriations committed in 1980 totalled 590m ECU, consisting of 180m ECU for socio-structural measures, 270m ECU for improvements in production structures and 140m ECU for improvements in marketing and processing. Appropriations for the improvement of production structures were far higher than in 1979 and far exceeded the appropriations for the other two sectors. In all, 93% (1979: 70%) of the appropriations included in the budget were utilized.
- 4.3 It must be stressed that measures in favour of specific disadvantaged regions accounted for 35% of total appropriations in 1980 (against 12% in 1978 and 21% in 1979). From this it can be inferred that the Commission's efforts to take greater account of the regions were successful. This tendency appears to have persisted in subsequent years.
- 4.4 Although the payment of aids was on the whole speeded up it is noticeable that delays in payment occurred in Italy and Ireland in 1980, principally because of long start-up periods of the measures to be assisted and the belated completion and submission by the national administrations of applications for payment. In the interests of the farmers concerned and in order to reduce the time between the commitment and utilization of appropriations, improvements in the procedure are essential.

5. Food aid

5.1 The agricultural products required for food aid are obtained both on the Community market (including the intervention agencies) and on the world market. The Guarantee Section of the EAGGF bears the cost of the export refunds.

In 1980 programmes involving some 150,000 tonnes of skimmed milk powder, 45,000 tonnes of butter oil, 720,500 tonnes of cereals and 7,200 tonnes of sugar were adopted.

The following quantities of goods in aid were actually supplied to recipient countries in 1980 (including supplies under earlier programmes) :

Cereals	:	657,650 tonnes
Butter oil	:	44,400 tonnes
Skimmed milk powder	:	144,000 tonnes
Sugar	:	6,068 tonnes

A total of 526.9m ECU was available for food aid in 1980 (including appropriations not committed in 1979 and carried forward).

5.2 Originally food aid was closely associated with the problems caused by the production of agricultural surpluses in the Community. Although it still contributes to the reduction of surpluses, it has become an important factor in aid measures benefiting the Third World in terms of both the amount and type of aid provided. The principal advantage of food aid is that the foodstuffs supplied actually form part of the normal diet of the recipient countries. The importance of food aid is not fully appreciated by the public. In view of the strong emotions aroused by the perennial destruction of food and vegetables in intervention, the Commission and Member States should take it upon themselves to ensure that the media describe the nature and extent of food aid correctly as an aid measure which is attuned to the various needs of starving people and is therefore effective.

6. Irregularities

- 6.1 In the Guarantee Section the Member States reported 246 cases of irregularity involving a total of 21,5m ECU in 1980 (1979: 116 cases involving a total of 2.1m ECU). The majority of these cases (116) concerned the milk and milk products sector. In the Guidance Section 13 cases involving a total of 97,000 ECU were reported in 1980.
- 6.2 The sharp increase in irregularities gives cause for concern. On the one hand, it has a considerable effect on the standing of the Community's agricultural market and, on the other, in only very few cases is it possible to recover the amount wrongly granted. The Committee on Agriculture therefore welcomes the Commission's efforts to coordinate and improve the initial and further training of the Member States' EAGGF monitoring officials.

7. Conclusions

The Committee on Agriculture requests the European Parliament to bear the following in mind:

- 7.1 It must be emphasized that the rate of increase in EAGGF expenditure in 1980 was only 11% (1979: 23%).

EAGGF expenditure also accounted for a smaller proportion of the total budget - 72.9% - than in previous years (1979: 75.5%), leaving more budget resources for other policies.

It should be stressed that 192.3m ECU of total appropriation was saved.

- 7.2 The Commission's and Council's efforts to reduce the rate of growth in agricultural spending - principally by cutting back on market support measures - must not affect the basic principles of the common agricultural policy as it is developed further. The supply of high-quality products to the consumer at reasonable prices should be ensured.
- 7.3 The Commission must seek ways of encouraging the producers of products in which a high level of self-sufficiency has been achieved to turn to other products of which surpluses are unlikely in the long term. This must not, however, be allowed to affect farm incomes.
- If such measures are to be implemented, however, the import of surplus products (eg. milk products) must be reviewed.
- 7.4 It should be pointed out that there was a sharp increase in aids to the improvement of production structures compared with 1979 and that measures restricted to specific regions also accounted for a larger share (35% compared with 21% in 1979) of total Guidance Section expenditure. The Commission's efforts to pursue an aid policy aimed more at the regions which this increase reveals must be continued so that resources go principally to the areas in greatest need.
- 7.5 The Governments of Italy and Ireland must be encouraged not to delay in continuing the measures assisted with Guidance Section resources and to submit applications for payment promptly so that the holdings concerned receive aid in good time. The Committee on Agriculture welcomes the improvements made in 1980.
- 7.6 The Commission and the governments of the Member States must place greater emphasis in the public media on the importance and extent of Community food aid (1980: 526.9m ECU) so that the general public becomes aware of such aid.

7.7 Action must be taken to combat the sharp rise in the number of irregularities in the Guidance Section.

The Committee on Agriculture therefore welcomes the greater efforts being made by the Commission and the Member States to provide for the initial and further training of the Member States' EAGGF monitoring officials.