
EUROPEAN PARLIAMENT

Working Documents

1982-1983

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INTERIM REPORT

drawn up on behalf of the Committee on Budgetary Control

on the/discharge decision in respect of the 1980 financial year embodying a draft motion for a resolution in accordance with the provisions of Article 85 of the Financial Regulation informing the Commission of the reasons for the postponement of the grant of discharge in respect of the implementation of the budget for the 1980 financial year

Rapporteur: Mr Brian KEY

1.2.1

On 14 December 1981, the report of the Court of Auditors in respect of the 1980 financial year (OJ C344, 31.12.81) was transmitted to the Committee on Budgetary Control.

At its meeting on 3/4 December 1981 the Committee on Budgetary Control appointed Mr Brian Key rapporteur for the discharge to be granted in respect of the 1980 financial year.

The mandate of the rapporteur was confirmed by the Committee on Budgetary Control at its meeting on 28/29 January 1982.

At its meeting on 28/29 January 1982 the Committee on Budgetary Control authorised the preparation of working documents on specific sectors of the budget by :-

Mr Notenboom	Own resources
Mr Konrad Schön	Expenditure of institutions other than the Commission
Mr Filippi	EAGGF
Mr Gouthier	Regional Fund
Mr Marck	Social Fund
Mr Key	Energy and research
Mr Saby	Industrial policy
Mr Irmer	Cooperation and development and EDF
Mr Price	Staff, administration expenditure and buildings
Mr Kellett-Bowman	Satellite bodies
Mr Cousté	Borrowing and lending and EIB activities
Mr Gabert	ECSC

At its meeting on 17-19 March 1981, the Committee on Budgetary Control authorised the preparation of a working document by Mr Patterson on measures taken to counter smuggling.

The Committee on Budgetary Control considered the revenue and expenditure accounts of the EC, the report of the Court of Auditors and the working documents of its draftsmen at its meetings on 28/29 January 1982, 23/24 February 1982, 15/16/17 March 1982 and 1/2 April 1982.

At its meeting on 1/2 April 1982, the Committee on Budgetary Control adopted the draft interim report on the discharge decision in respect of the 1980 financial year embodying a draft motion for a resolution in accordance with the provisions of Article 85 of the Financial Regulation informing the Commission of the reasons for the postponement of the grant of discharge in respect of the implementation of the budget for the 1980 financial year with 13 votes in favour, four against and two abstentions.

Present at time of voting: Mr Aigner, chairman; Mr Cluskey, vice-chairman; Mrs Boserup, vice-chairman; Mr Price, vice-chairman; Mr Key, rapporteur; Mr Arndt (deputizing for Mr Lalumiere); Mr Battersby, Mr Früh, Mr Gabert, Mr Georgiadis (deputizing for Mr Saby); Mr Irmer, Mr Kellett-Bowman,

Mr Marck, Mr Mart, Mr Notenboom, Mr Patterson, Mr Konrad Schön,
Mrs Van Hemeldonck, Mr Wettig.

The opinions of the Committee on Social Affairs and Employment;
the Committee on Regional Policy and Regional Planning; the Committee
on the Environment, Public Health and Consumer Protection; the Committee
on Youth, Culture, Education, Information and Sport; and the Committee
on Development and Cooperation will be published separately.

Text not collated.

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A

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

MOTION FOR A RESOLUTION

in accordance with the provisions of Article 85 of the Financial Regulation⁽¹⁾ informing the Commission of the reasons for the postponement of the grant of discharge in respect of the implementation of the budget for the 1980 financial year.

The European Parliament,

- having regard to its decisions on the discharge procedure for the 1977, 1978 and 1979 financial years;
- having regard to the revenue and expenditure accounts and the statements of assets and liabilities of the EC in respect of the implementation of the 1980 budget (COM(81) 223 and COM(81) 649),
- having regard to the report of the Court of Auditors on the accounts for the 1980 financial year;⁽²⁾
- having regard to the report of the Committee on Budgetary Control and to the working documents annexed thereto as well as to the opinions of the Committee on Youth, Culture, Education, Information and Sport, the Committee on Social Affairs and Employment, the Committee on Development and Cooperation, the Committee on the Environment, Public Health and Consumer Protection, and the Regional Policy and Regional Planning Committee,
- having regard to the recommendation of the Council,
 - (a) anxious to safeguard the interests of the European taxpayer;
 - (b) stressing the need to avoid wasteful or unauthorised expenditure;
 - (c) wishing to secure the role of Parliament by ensuring that
 - (i) its budgetary priorities are respected by the Commission and
 - (ii) its calls for explanations are responded to promptly and fully by the Commission;
 - (d) concerned at the series of shortcomings and problems brought to light during the course of the examination of the accounts of the EC for the 1980 financial year;
 - (e) intending to give appropriate political authority to the discharge decision and to the remarks accompanying it;
 - (f) considering that the circumstances and requirements which should precede the grant of discharge are not fully present in the case of the 1980 financial year;

⁽¹⁾ OJ No. L 356, 31.12.77

⁽²⁾ OJ No. C 344, 31.12.81

Deferral of discharge decision

1. Finds that, for the reasons set out in the following paragraphs - which are not exhaustive - it is not possible to grant discharge, at the present point in time, in respect of the 1980 financial year;

Failure of the 1980 embargo

2. Notes that the Commission did not render the 1980 embargo on sales of agricultural products to the USSR and the state-trading countries of Eastern Europe effective, despite the clearly expressed political will of both Parliament and the Council;
3. Recalls paragraph 12 of its resolution of 8 March 1982⁽¹⁾ which stated that, in regard to the 1980 embargo, "the Commission not only gave incorrect information to Parliament but, contrary to its own statements, conducted a policy which differed from that which Parliament had been led to understand was being conducted";
4. Asks the Commission to provide documentary material (a) explaining the circumstances surrounding the breach of the embargo, (b) indicating under whose budgetary authority it acted in regard to the excessive sales in question, and (c) describing the internal procedures and the draft regulations that will enable it, in future, to ensure an adequate control over the export of agricultural products to state-trading countries;

Management of appropriations under the provisional twelfths arrangements

5. Insists on Parliament's full responsibility for the exercising of political control over the implementation of the EAGGF appropriations and stresses that these appropriations are subject to the same budgetary principles and rules under the Treaty as are other appropriations;
6. Considers that any exceptions to these general principles could only result from specific and limited amending provisions;
7. Agrees with the Court of Auditors that "the system of provisional twelfths was applied by the Commission in such a way as to free itself in part from the financial constraints that would normally result from the absence of a budget"⁽²⁾ and believes that the behaviour of the Commission in this matter was such that discharge cannot be given unless the Commission provides weighty legal and political explanations for its actions;

⁽¹⁾ PE 77.601, p. 31

⁽²⁾ OJ No. C 344, 31.12.18, p. 42, -6-
para. 4.0 (d)

8. Asks the Commission to submit draft regulations of a nature that would enable Parliament to exercise its budgetary control, and in particular to ensure the adequate operation of the decisions of the budgetary authority and the provisions of the financial regulation, so that EAGGF expenditure will cease to be excluded - as has been the practice for the Commission - from the application of sound budgetary management principles;

Calling on the Commission to furnish a full response to the comments accompanying the discharge decision in respect of the 1979 financial year

9. Recalls the importance of the comments accompanying the 1979 discharge decision¹, and points out that it will be in a position to pronounce on the 1980 discharge only when it has received the comprehensive written response of the Commission to these comments;
10. Therefore, asks the Commission to furnish a full written response to the comments in question;

Follow-up to the resolution on the budgetary control aspects of the Joint Research Centre establishment at Ispra

11. Recalls its resolution⁽²⁾ of 18 June 1981, on the budgetary control aspects of the Joint Research Centre establishment at Ispra, in which it dealt with problems relating to the inventory, disposal of movable property, transfers, management information, financing of the construction of an administrative building by way of unusual transactions, staff mobility, financial control, the size of the vehicle fleet, and other issues;
12. Asks the Commission to furnish a full written response to the points raised in the resolution in question;

(1) OJ No. L 224, 10.8.81

(2) OJ No. C 172, 13.7.81, p. 90

Expenditure incurred without prior budgetary authority on the construction of a fitness centre in the building of the Commission in Luxembourg

13. Condemns the Commission's failure to bring to the attention of the joint budgetary authority and the ACPC the inclusion of a Fitness Centre for its staff in Luxembourg after detailed proposals for the extension of the Jean Monnet building and its financial implications were considered by these bodies;
14. Finds this to be (a) a serious breach of normal budgetary and accounting standards and procedures, (b) a matter which involves the Commission's responsibility for dealing with Community funds and (c) an adverse reflection on the Commission's credibility and its internal control;
15. Requests the Commission to present to Parliament a report by its Financial Controller on the circumstances relating to this expenditure;
16. Calls upon the Commission to take further action to offset the operating expenditure of the Fitness Centre by charges and to prevent the possible use of the Centre by officials during working time for which they are being paid;
17. Criticises the Commission's initial decision to charge all the expenses of running the Centre to inappropriate budgetary lines, notes that staff welfare expenditure of a similar nature elsewhere in the budgets of the Commission and the other institutions is also charged to budgetary lines not specifically relating to staff welfare and requests the Commission to present to Parliament a full report on how expenditure on social facilities for staff is included in the budgets of all the institutions;

Non-implementation of appropriations made available by decision of the budgetary authority

18. Reiterates its concern at the Commission's failure to utilise fully appropriations made available in the budget of the EC for policies in socially and politically sensitive sectors, deplores the absence of real Community policies in the energy, technology and industrial sectors, and asks for a formal and unequivocal assurance that the Commission will, henceforth, implement the budget, as adopted, and within the terms of the conditions set out in the budgetary remarks;

Difficulties in the spheres of food aid and development aid

19. Notes that Community policy in regard to food aid and development aid is characterised, at present, by a major gap between the analyses of the situation on-the-spot in the third world and expressions of intentions, on the one hand, and the methods used, the means of assistance made available, and the significance attached to factors - such as trade policy and foreign policy - alien to these policies, on the other hand;

20. Asks the Commission to transmit proposals designed to ensure, for the entire development aid policy sector, a sharing of responsibility so that this policy may maintain its Community character, that is:
- the Council, acting by qualified majority on the basis of a proposal from the Commission and having consulted Parliament, **determines** the broad lines of multiannual policy;
 - the budgetary authority decides on the budgetary resources to be made available to finance this policy; and
 - the Commission carries out the policy and implements the budgetary appropriations without having its responsibility limited by a management committee;

Non-budgetisation of the EDF

21. Notes that the Commission, despite its declarations of principle, has not involved itself sufficiently clearly and fully in favour of the budgetisation of the EDF;
22. Asks the Commission;
- (a) to propose the amounts for inclusion in the 1983 budget; and
 - (b) to propose the necessary amendments to the general financial regulation; and
 - (c) to state that it considers the EDFs to be, unambiguously, Community funds for the financing of Community policies;

Borrowing and lending

23. Finds it deplorable that the Commission should abandon responsibility for certain financial activities to the European Investment Bank which is outside Parliament's control;
24. Notes the absence of adequate documentation that would enable Parliament to check whether the Commission ensures sound management of the borrowing and lending activities of the EC;
25. Asks the Commission to provide a full written response to the two preceding paragraphs;

Commission's faulty management of personnel and equipment

26. Wishes to secure improvements in Commission administration, particularly relating to staff and administration of remuneration and vehicles;
27. Asks the Commission to respond fully in writing to the issues raised in the working documents on personnel and administration expenditure attached to the present report and to the report on the 1979 discharge;

Accounting aspects

28. Is disconcerted by (a) the difference of opinion between the Commission and the Court of Auditors in the matter of EC accounts - which poses a problem in the context of the preparation of the discharge decision - (b) the findings in the recent study⁽¹⁾ of the Court of Auditors of the financial systems of the EC, and (c) the irregularity of certain receipts and expenditures;
29. Asks the Commission to describe in writing the steps it proposes to take so as to overcome these difficulties;

Own resources

30. Recalls that the present system and functioning of financial autonomy means that the Community's own resources are due as soon as the levies are established by the authorities of the Member States even if the latter are responsible for administrative aspects of implementing establishment and collection;
31. Calls upon the Commission, in view of the delay in implementing Council Regulations no. 2891/77 and no. 2892/77, to submit to Parliament the report provided for under Article 22 of Council Regulation no. 2891/77 together with amendments to the Regulation, by 1 June 1982.

Taking of decision on discharge at a later date

32. Calls on the Commission to submit the written replies, sought at paragraphs 4, 8, 10, 12, 15, 17, 20, 22, 25, 27 and 29 above, before 1 September 1982, so that the Committee on Budgetary Control may be able to put forward its final report on the discharge decision in respect of the implementation of the 1980 financial year - in which it will set out its comprehensive judgment on the management of EC funds in 1980 - before the end of the present calendar year;

⁽¹⁾ OJ No. C 342, 31.12.81

Discharge for the institutions other than the Commission

33. Will grant discharge to the institutions other than the Commission - in respect of which no fundamental problems have arisen - when the final report of the Committee on Budgetary Control becomes available later this year;

The Council recommendation on the discharge

34. Welcomes the more positive attitude of the Council to the preparation of its recommendation on the 1980 accounts of the EC but expresses the wish that, in future years, the Council's suggestions in the framework of the annual recommendation will be more far-reaching and comprehensive in nature;
35. Considers that it would be useful for the Council to examine annually its performance in the budget sphere, in the context of its discharge recommendation, with a view to identifying those budget lines which were not properly implemented because of (i) its failure to adopt certain measures and (ii) schemes held up by Council inaction;

Delays in clearance of accounts

36. Deplores the fact that the delays in the work of clearance of the EAGGF accounts have persisted and even increased,⁽¹⁾ and insists on the urgency of catching up on these arrears;

Forwarding of resolution

37. Instructs its President to forward this resolution and the Committee's report to the Commission, the Council, the Court of Auditors and the Governments of Member States.

⁽¹⁾ OJ No. C 344, 31.12.81, para. 4.31

B
Explanatory Statement

PART I - BACKGROUND TO THE DISCHARGE DECISION

Budgetary control, a central parliamentary function

1. Parliamentary authority in the Member States has evolved in the past through the development of control by the elected representatives of the people over the use made by the executive of moneys raised in taxes. Historically, this development proved to be a gradual process. At the EC level, the control function of our Parliament has developed far more rapidly than has been the case previously in any national democracy.

Parliament's powers strengthened by Treaty of 1975

2. This speedy development is largely attributable to the Treaty of 22 July 1975 - an important political text which was ratified by all Member States in mid-1977. Apart from Parliament's right to adopt the budget, this Treaty made three major significant changes¹:

- Parliament was empowered to reject the whole of the draft budget, for important reasons, and call for the submission of a revised draft;
- Parliament was accorded the exclusive right to give discharge in respect of the implementation of the budget, acting on a recommendation from the Council; and
- the Court of Auditors was set up with a consequential strengthening of the public accounting control of Community revenue and expenditure.

However, whilst these new powers and responsibilities have been welcomed, there is still a long way to go, of course, before the Parliament will be able to exercise its rightful role as the democratic law-making organ of the EC. In the meantime, there is a major responsibility on this institution to exercise its control duties to the full.

Budgetary control responsibilities within Parliament

3. Within the framework of the Parliament, the Committee on Budgetary Control is charged with the task of ensuring continuing supervision of the implementation of the EC budget. Its main responsibilities are :

¹ Although not primarily affecting the right of discharge, the Treaty also added to Parliament's responsibility by ensuring that Parliament's modifications to the budget could only be rejected by a qualified majority in Council.

- checking on the legality and regularity of expenditure of Community funds as well as on the timing and effectiveness of budgetary management;
- investigating allegations of fraud and irregularity affecting Community funds and proposing steps to eliminate such irregularities;
- securing close collaboration with the spending committees;
- developing techniques for examining the cost-effectiveness of expenditure;
- cooperating closely with the European Court of Auditors; and
- ensuring the effectiveness of public accounting techniques in the Community.

The Committee works on a continuing basis, but its major annual report is that which deals with the annual discharge decision.

What is the discharge decision?

4. Put simply, the grant of discharge means that the Commission has had its management of Community funds during the relevant financial year found by Parliament to be sound, regular and cost-effective after the latter has examined the accounts and deliberated on the report of the Court of Auditors and considered the recommendation of the Council. Obviously, it is first and foremost a political decision because it reflects a judgement on the manner in which the Commission has used - or failed to use - the resources made available to it for carrying out Community policies; of course, it is also a highly technical procedure which involves the scrutiny of complicated regulations and accounts. The importance of the decision is highlighted by the views expressed by Mr. Tugendhat on behalf of the Commission on 7 July 1977: "Refusal to grant discharge can be interpreted in only two ways: either discharge has been postponed - this is the situation envisaged by the Financial Regulation, which states that the discharging authority must inform the Commission of the reasons for postponement of its decision - or discharge is purely and simply refused. This raises the question of sanctions. Neither the Treaties nor the Financial Regulation provide for any legal sanction. Thus, logically it is a general sanction which the Treaties confer upon Parliament, that is, a political sanction which would be the normal consequence of a refusal to give discharge. Such refusal would hence be extremely serious; the Commission thus censured would, I think, have to be replaced."¹

¹ European Parliament Debates July 1977, page 255.

5. The seriousness with which Parliament regards this step is reflected in Rule 52(2) of its Rules of Procedure which states that "a motion for refusal to grant a discharge shall be approved only if it obtains the votes of the majority of the current Members of Parliament". More specific rules are being drafted for the discharge.

Preparation of the discharge decision

6. The Committee on Budgetary Control, when preparing the discharge decision, carefully examines the basic documents and hears individual members of the Court of Auditors and of the Commission. Senior officials of the Commission, and of other institutions, also attend regularly and respond to queries affecting those sectors of outlay with which they are particularly conversant. Representatives of the spending Committees of Parliament are invited to attend meetings of the Committee on Budgetary Control at which relevant sectors are discussed and the opinions of these Committees are taken into account fully. Furthermore, Council is represented at the meeting at which its recommendation is delivered.

Follow-up to the discharge

7. It would, of course, be erroneous to consider that the decision to grant discharge marks the end of the story. Article 85 of the financial regulation¹ provides for Parliament to adopt comments accompanying the discharge decision. Institutions are required to "take all appropriate steps to take action on the comments appearing in the decisions giving discharge." The financial controller of each institution is required to "take account of the comments made in the decisions giving discharge". Thus, the discharge has a binding and continuous effect - particularly on the Commission which is primarily concerned. In recent years, it has been the practice to call on the Commission to report back to Parliament on the steps taken to effect the desired reforms called for in the discharge decision. This response by the Commission forms the basis for a special debate in Parliament which, logically, should take place before the grant of discharge for the following year is considered.

¹ OJ L356, 31 December 1977

Brief review of progress

8. Now that the first directly-elected Parliament has reached the halfway stage in its mandate, it is appropriate to review briefly the achievements of the Committee on Budgetary Control - the setting up of which was, significantly, one of the first acts of the new Parliament in July 1979.

9. The Committee has caught up with the arrears of public auditing of Community funds; it has evolved an effective cooperation with the Court of Auditors which is vital to the smooth functioning of its work; it has met in public and has also dealt with very confidential matters; its activities have led to the recovery of funds, to better control over the use of appropriations, to a keener appreciation by spending officials of the need to avoid waste of taxpayers' money, and to improved budgetary management. The Committee has pressed also for closer liaison between EC borrowing and lending activities and general financial policy. Overall, the Committee has proved an effective safeguard for the interests of the EC consumer and taxpayer.

10. The agricultural sector is one in which the Committee has exercised considerable pressure¹ and it is satisfying to note that, in a recent Commission text², the savings resulting from a better management of the CAP were estimated to be of the order of 1,000 million EUA. This single item of information shows how positive the outcome of the Committee's work has been.

11. Work on other funds has also pushed ahead. In Mr. Wettig's report³ last autumn, the criteria applicable to the management of the Social Fund were examined, the need to ensure efficient use of resources was stressed and a wide range of recommendations was put forward.

12. On many other subjects - the ECSC, the safeguarding of Community revenue, the wine sector, the JRC establishments, EC decentralised bodies - pioneering political control work has been undertaken by the Committee, and notably by individual specialist rapporteurs, with positive results in regard to economy and efficiency.

¹ e.g. see text by Lord Bruce of Donington attached to Doc. 1-463/79 the Battersby report (Doc 1-79/80) and the Dankert resolution (OJ no. C172, 13.7.81 p.96)

² the Aigner report (Doc 1-846/81) COM (81) 608 final, paragraph 69

³ Doc. 1-547/81 and OJ No. C287/80, 9.11.81, p.80

Work to be done

13. Although a large measure of success has attended the efforts of the Committee to date, much remains to be done in the ever-changing world of the political control of the EC budget. This is not surprising because the activities covered include the ECSC, goods in transit, aid to third world countries, assistance to development projects and a vast and complicated agricultural sector. The problems are added to by the existence of deeply-rooted administrative practices in the ten Member States, language differences and various levels of controls which do not always merge together smoothly. One should not lose sight either of the fact that, even at the level of individual Member States, where control of public expenditure has been exercised for many decades in a single-language, unified administration system, there is need for constant vigilance and supervision. For instance, in the United Kingdom the Committee of Public Accounts, which was set up in 1861, has a constant volume of work to carry out - 121 years later! As following paragraphs of this text show - and as is evident from the accompanying comments - a continuing effort is required if the budget is to be implemented as Parliament wishes, if waste is to be eradicated and if the best value is to be ensured for Community funds.

14. The Committee on Budgetary Control, in carrying out its work, endeavours to avoid duplicating the efforts of other control instances, at the Member State audit body, national Parliament, Court of Auditors or Commission level: rather, it endeavours to exert political pressure for improvements and draws together the findings of the other levels of control. Contacts with members of national Parliaments are highly valued and form a part of the Committee's annual programme.
Court of Auditors

15. The rapporteur wishes to pay a special tribute to the excellent work done by the Court of Auditors since its inception. Its annual reports have been comprehensive in their coverage and the ad hoc reports on special topics have enabled Parliament to follow up speedily certain issues that otherwise might have dragged on unresolved. The ECA has lived up fully to the hopes expressed by Parliament.¹ The full-time ECA is able to deal in greater depth with problems than its part-time predecessor the Audit Board could; moreover, the provisions of the Treaty for a normal six year term of office enable Members to make a sustained and well-programmed contribution whilst at the same time keeping open the possibilities for introducing new members with fresh approaches and new accounting techniques.

¹ See Doc 143/76 - Report on the role and function of Parliamentary control of Community resources and expenditure; and
Doc 461/76 - para 51 of the explanatory statement.

16. In this context, Parliament is consulted by the Council, pursuant to Article 206(4) of the EEC Treaty, before the appointment of members of the ECA. On the most recent occasion that this consultation took place,¹ there was inadequate time for a full and meaningful exchange of views, although it is worthy of note that on this occasion all four candidates appeared before the Committee on Budgetary Control and answered questions put by members. It is to be hoped that, in future, the Council will see to it that consultation takes place well in advance and in circumstances that will permit Parliament to exercise its political responsibilities fully.

PART II - THE 1980 BUDGET : ADOPTION

17. In the preceding section, the rapporteur has outlined the political significance of Parliamentary control work and the extent of recent efforts in this domain; in the following section, the main issues affecting the 1980 discharge decision are discussed; in this section, the rapporteur describes briefly the background to the adoption of the 1980 budget.

Obstinacy of the Council

18. The attitude of the Council in relation to the 1980 budget can best be described as pertinacious cavilling. As a result of Council's blocking of Parliament's modest proposals for amendments and modifications, Parliament was obliged, on 13 December 1979, to reject outright the 1980 draft budget.² Ultimately, Council agreed grudgingly to a set of compromise proposals that justified the following comments by the Commission: "It would be right to underline that the 1980 budget ... was for a year in which, as a result of the prevailing political circumstances, the level of budget expenditure enabled the Community to carry on its business but did not contribute to any significant development of existing or new Community policies".³

19. Why was Parliament forced to reject the draft budget for 1980 and seek the presentation by the Commission of a revised draft? The answer to this question is to be found in the following pithy comments by Mr. Dankert⁴: "...the Budget Council cannot and will not accept the responsibility that is its as a Council and as part of the budgetary authority. ... Many of the difficulties that have arisen during the budgetary procedure stem from the fact that the Budget Council is in fact a second-rate Council, in other words more of a book-keeping machine than a policy making body. A Council of this kind can only work with a Parliament that contents itself with the part of the playground allotted to it and that waives the responsibility conferred on the budgetary authority by the Treaty. This Parliament cannot do that".

¹ See Docs. 1-430/81, 1-469/81 and OJ No. C260, 12.10.81, p.117

² OJ No. C4, 7.1.80, p.37

³ Preliminary Draft Budget 1981, Vol. 7A, page 13, 2nd paragraph

⁴ Debates of the EP Sitting of 11.12.79, p.69, 2nd column, 3rd paragraph

The evolution of the 1980 budget

20. The Committee on Budgets and Parliament on 7 November 1979 - followed Mr. Dankert's proposals for increases in expenditure for the Regional and Social Funds and for other areas where the Commission had demonstrated its full capacity to spend amounts voted. In view of the imminent exhaustion of own resources, Parliament endeavoured to contain agricultural spending. Among the modifications proposed was one which put forward the idea of a higher coresponsibility levy for milk products, revenue from which would be used to offset agricultural structural spending, leading to a relative reduction in agricultural outlay.

21. Parliament's modifications were rejected by Council. Furthermore, Council was only prepared to accept an increase of approximately 200 million EUA out of the total of some 800 million EUA sought for the Regional and Social Funds and for other essential Community activities. Moreover, Council was not - and still is not - prepared to commit itself on the budgetization of borrowing and lending activities of the European Development Fund. Against this background, Mr. Dankert's rejection resolution was approved by 288 votes in favour to 64 against with 1 abstention, on 13 December 1979.

22. For six calendar months, the Community operated on the provisional one-twelfth system of financing so as to maintain its operations. Meanwhile, the new budget draft put forward by the Commission was the subject of protracted negotiations between Parliament and Council. At the June 1980 part-session, a limited package of amendments was approved by Parliament: Council was less intransigent than it had been earlier and, on 9 July 1980, the President of Parliament was able to declare the budget definitively adopted (1).

23. Supplementary and amending budget (no. 1) of 1980, finally adopted on 20 November 1980, increased expenditure by 133mEUA. It entered an advance (chapter 58) for the supplementary measures to assist the United Kingdom and took account of the changes in repayments to Member States for the collection of own resources (chapter 40).

24. On 4 December 1980, the Commission submitted preliminary draft supplementary budget (no. 2) aimed at granting emergency aid, amounting to 40mEUA, to the victims of the Italian earthquake. Further, the Commission suggested adding 100mEUA to the Social Fund payment appropriations. On 12 December 1980, the Council sent on draft supplementary budget (no. 2) which cut back the appropriations requested by the Commission for the Social Fund from 100mEUA to 60mEUA.

25. On 18 December 1980, Parliament adopted a series of amendments which resulted in an increase of 326.4mEUA in the Social fund payments. This supplementary budget (no. 2 of 1980) was declared finally adopted by the President of Parliament on 23 December 1980.

PART III - GLOBAL MANAGEMENT OF THE 1980 BUDGET

Use made of the 1980 payments appropriations

26. The delay in the adoption of the general budget for 1980, together with the lateness of the n° 2 supplementary budget, had an impact on the implementation of the budget. In the following table, the rapporteur sets out the principal headings for payments appropriations (all figures have been rounded).

Utilization of appropriations	A. Appropriations for payment of the 1980 budget million EUAs					B. Appropriations for payment carried over from 1979 million EUAs					C. Total of payments made in 1980
	1980 budget (after supplementary and amending budgets)	Final appropriations 1980 (after adjustments by transfers and supplementary receipts)	Payments made in 1980	Total of carryovers to 1981	Cancellations	Automatic and non-automatic carryovers from 1979 (after transfers)	Payments made in 1980	Carryovers to 1981 (Arts 6 (4) and 108 (3)(a)(b) of the FR)	Cancellations		
Sector											
1. Administration (all institutions)	931.6	898.5	772.1	67.2	59.1	54.9	48.4	-	6.6	820.5	
2. EAGGF-Guarantee	11 507.5	11 505.2	11 306.2	8.7	190.3	-	-	-	-	11 306.2	
3. EAGGF-Guidance	308.7	320.0	284.1	35.9	-	648.4	317.3	305.2	25.9	601.5	
4. Social Fund	700.7	700.7	502.0	198.7	-	233.2	233.2	-	-	735.5	
5. Regional Fund	403.0	403.0	387.7	15.3	-	339.0	339.0	-	-	726.0	
6. Research investment energy	353.6	365.7	188.0	177.1	0.6	111.3	102.2	7.5	1.5	290.5	
7. Cooperation with develop. countries	620.4	666.8	295.8	366.8	4.2	288.1	213.0	-	75.1	508.5	
8. Other sectors	132.7	132.1	35.5	95.5	1.0	65.1	42.3	16.6	6.2	77.5	
9. Repayments to Member States	1 167.6	1 241.4	1 095.4	143.0	3.0	127.0	127.0	-	0.0	1 222.0	
TOTAL	16 182.5	16 233.3	14 866.7	1 108.4	258.3	1 867.1	1 422.4	329.4	115.3	16 289.5	

27. The main features of this table are:

- the substantial sums carried over from 1979 (1.867.1 million EUA) equivalent to 11% of the payments appropriations voted for 1980;
- the high level of carryovers from 1980 to 1981 in the EAGGF Guidance Sector, the Social Fund, the research, investment and energy sector, and cooperation with developing countries;
- the way in which the EAGGF payments appropriations were used up to the hilt, with a mere 1.65% being cancelled;
- the cancellation of 75.1 million EUA of funds that should have been paid in the framework of cooperation with developing countries.

Overall evolution of the budget in recent years

28. Parliament has repeatedly called for a better equilibrium within the budget as between agricultural and non-agricultural outlay. As the following table reveals, 1980 showed an improvement in this particular ratio. It also showed a reduction in the share of total outlay represented by administrative expenditure and an increase in the combined outlay on social, regional and the research, investment and energy sectors. It is noteworthy that, in 1980, reimbursements to Member States (at 2.6% of the budget) exceeded the amount devoted to energy, investment and research (at 1.8% of the budget) or to food aid (at 1.9% of the budget). The research,

Year	Administration	EAGGF Guarantee	EAGGF Guidance	Social Fund	Regional Fund	Research investment, energy	Cooperation with developing countries
	%	%	%	%	%	%	%
1973	8.0	79.3	3.1	1.2		1.8	2.6
1974	7.5	72.6	2.8	5.3		1.7	3.7
1975	5.8	75.2	2.9	2.1	1.4	1.8	5.1
1976	5.8	73.6	3.0	3.5	3.8	1.6	1.9
1977	5.7	70.9	3.4	3.6	4.3	1.6	2.5
1978	5.7	77.5	2.7	2.4	2.1	1.6	2.2
1979	5.4	72.6	2.8	4.1	3.6	1.8	2.8
1980	5.0	69.4	3.7	4.5	4.5	1.8	3.1

investment and energy sector - which should have been one of the more dynamic sectors - was static over the eight years 1973 to 1980.

Source: OJ no. C344, 31.12.81, p.192

Carryovers

29. In his report on the 1978 discharge, Mr. Battersby drew attention to the problems raised by a high level of carryovers. Parliament adopted the following paragraph in the comments accompanying the discharge decision: "Considers that the levels of carryovers from one financial year to another drastically distort the accounts, take from transparency and clarity, and frustrate the intentions of Parliament as reflected in the annual budget, as adopted".¹

30. The following table shows that there has been a steady improvement in the past few years in so far as the level of carryovers is concerned, but the situation will need to be kept under continuous review.

Carryovers from the previous financial year					
Year	Carryovers (after transfers)	Payments	Carryovers to the following financial year	Cancellations ⁽²⁾	
	1	2	3	4 = 1-2-3	
1973	1 330.1	470.7	577.9	281.6	mua
1974	1 980.3	1 076.0	635.3	269.0	mua
1975	2 322.9	1 406.6	885.6	30.7	mua
1976	2 123.8	1 030.4	800.7	292.7	mua
1977	2 787.4	1 477.6	894.4	415.3	mua
1978	2 007.0	1 239.2	601.2	166.6	MEUA
1979	2 098.9 ⁽³⁾	1 441.8	457.9	199.2	MEUA
1980	1 867.1 ⁽⁴⁾	1 422.4	329.4	115.3	MEUA

Source : OJ no. C344, 31.12.81, p.190)

A special factor in 1980 was, of course, the late adoption of the no. 2 supplementary budget, which made a certain level of carryovers unavoidable; therefore, the underlying improvement was greater than that which is apparent in the table.

(1) OJ no. L180, 14.7.80, p.21

(2) Including since 1978 the adjustment of the balance of commitments following variations in EUA rates regarding EAGGF Guidance section appropriations from before 1977 and 1976 appropriations for the Friuli region.

(3) After a 'transfer' of 30.0 MEUA to the 1979 appropriations 'Cooperation with developing countries'.

(4) After a 'transfer' of 38.8 MEUA to the 1980 appropriations 'Cooperation with developing countries'.

PART IV - OBSERVATIONS ON THE SECTORS

31. The rapporteur now turns to a detailed consideration of certain points raised in the ECA report, matters brought up by the rapporteurs for the various sectors and issues to which attention has been drawn by members of the Committee on Budgetary Control either in working documents or orally at Committee meetings.

32. As the agricultural sector accounts for seven-tenths of EC expenditure, certain aspects warrant careful analysis.

MCAs

33. An aspect of the CAP to which attention needs to be drawn is the operation of monetary compensatory amounts. These were introduced at the end of the 1960s, to offset the effect of fluctuations in the exchange rates on the price of agricultural products. When a currency appreciated, which normally would make exports dearer and imports cheaper, monetary compensatory subsidies were granted on exports and monetary compensatory levies charged on imports to offset the extent of currency appreciation. On the other hand, when a currency depreciated, its exports would normally have become cheaper and its imports dearer and so levies were charged on exports and subsidies granted on imports. The subsidies are supplied from, and the levies payable to, Community coffers.

34. MCAs have retarded the process of integrating price levels, they have added considerably to the complexity of the CAP and have opened up possibilities for frauds and irregularities. A number of possible solutions were set out in Mr. Shaw's report on the 1978 budget.¹ Their removal would represent a better overall situation and would improve budgetary transparency.

35. In a budgetary control report, our concern is with efficiency and effectiveness in the use of taxpayers' funds. It is appropriate, however, at this point, to recall the justification for the common agricultural policy, its positive aspects and the weak points of this major EC policy.

36. The objectives are sound and valid; briefly, they are as follows: assuring the availability of food supplies, stabilisation of markets, improving price stability for consumers, ensuring a fair standard of living for those working on the land, and increasing agricultural productivity by promoting technical progress, by rationalising agricultural production and by optimising the factors of production.

¹

Doc. 341/77, Annex 1

37. There have been very positive achievements. Price stability has improved; Community food supplies are more secure; imports of certain food products have been reduced and the balance of payments situation of the Community has benefited accordingly; the upward trend of expenditure by the individual Member States in relation to agriculture has moderated; new areas of agricultural production have been developed; exports of certain food products are of advantage to the balance of trade; and there has been an improvement in the incomes of those engaged in agriculture.

38. The following are some of the failings of the CAP that are frequently brought to notice:

- subsidisation has generated persistent surpluses of certain commodities that make for a waste of funds;
- the complexity of, and the failure to consolidate, Community regulations in this domain give scope for fraud and irregularities;
- harmonization of agriculture-related expenditure by the EC and by Member States is incomplete;
- the volume of EC expenditure on agriculture has distorted the budget;
- the image of the EC has been adversely affected by the media attention that the budgetary imbalance generates;
- not enough is done to improve the overall structure of agriculture because the greater part of available funds are used up on the Guarantee side; and
- the distribution of scarce resources to already prosperous agricultural regions.

Main problems in the agricultural sector

39. Although it may seem that, in endeavouring to set right the various shortcomings identified, an unduly hostile attitude has been adopted, the rapporteur would point out that the main thrust of political control work must be directed toward correcting errors, ensuring that they are not repeated and improving the management of funds. In the following paragraphs, the rapporteur discusses certain of the principal aspects of EC agricultural expenditure issues and related matters that come within the ambit of the discharge decision. The fact that these paragraphs reveal deep-seated problems does not mean that the rapporteur is hostile to a prudent and appropriate policy in the agricultural sector: rather, he believes that, unless grounds for criticism and evidence of waste are eliminated, this policy will continue to be contested and endangered.

The rapporteur wishes to draw the attention of members also to the excellent report prepared by Mr. Wettig on the financing of the EAGGF Guarantee sector in 1980 (PE 76.549).

(a) Frauds and irregularities

40. One of the main problems facing the management of EC funds is the adverse effect on the media generated by the rumours - frequently exaggerated - of frauds in the EAGGF. The following quotation puts the situation succinctly:

'4.36 Public opinion finds it difficult to accept the existence of frauds and irregularities in the management of the EAGGF Guarantee Section. The announcement by the press at regular intervals of spectacular frauds adds to the doubts expressed as to the sound financial management of the Common Agricultural Policy, and naturally in such circumstances it is generally expected of the Court of Auditors that it will examine carefully the manner in which the Member States and the Commission fulfil their respective obligations under Regulation No. 283/72'.¹

41. In the 1980 financial year, 246 cases of irregularity were notified². These cases are analysed in the two documents cited. They give justifiable grounds for concern. Nevertheless, it should be borne in mind that recovery procedures are progressing and the appropriate lessons are being drawn. It should not be forgotten that the task of detection and recovery is one which falls largely within the sphere of responsibility of the Member States - although, of course, it is for the Community institutions to endeavour to block possibilities for such frauds by closing legislative loopholes and by ensuring closer cooperation between administrations.³

42. The public can rightly feel concerned because of (i) the slow pace of recovery of EC funds involved in frauds and irregularities (see following table), (ii) the uneven balance as between the Member States in the matter of the number of cases detected in each country, (iii) an evident tardiness in bilateral or multilateral approaches to the problem, and (iv) the cumbersome nature of EC legislation in the EAGGF Guarantee sphere which leaves open the possibilities for error and fraud which adversely influence the EC budget.

¹ OJ no. C344, 31.12.81, paragraph 4.36

² OJ no. C344, 31.12.81, table 4.12 and paragraph 7.8.2 of COM (81) 506 final

³ Attention is drawn to para 4.38 of the ECA report on the implementation of Council directive 77/435/EEC on the scrutiny of commercial documents.

Number of cases of irregularity reported
in the EAGGF Guarantee section 1

	Belgium	Germany	Denmark	France	Ireland	Italy	Luxembourg	Netherlands	U.K.	TOTAL
1971	-	4	-	-	-	-	-	4	-	8
1972	-	15	-	5	-	-	-	-	-	20
1973	6	31	1	7	1	3	-	1	1	51
1974	-	63	7	5	1	6	-	6	-	88
1975	1	69	26	7	2	14	-	7	4	130
1976	3	86	1	4	9	2	-	2	118	225
1977	4	49	13	8	5	5	-	9	55	148
1978	-	47	11	9	1	-	-	3	37	108
1979	1	36	11	12	1	2	-	6	23	112
1980	4	93	11	37	1	21	-	25	54	246
Total	19	493	81	114	21	53	-	63	292	1136

43. It is apparent that 785 (or 69%) of these reported cases occurred in the United Kingdom and Germany countries which account for about 32.4% of final EC agricultural production. On the other hand, France and Italy, which produce 48.9% of final agricultural production, reported only 167 (or 14%) cases of irregularity.

Recovery of payments in cases of irregularity
in the EAGGF Guarantee sections 1

(1) Year	(2) Amount involved	(3) Amount recovered	(4) (3) as % of (2)
1971	11,937,132	11,807,040	98.9
1972	2,328,179	1,051,016	45.1
1973	1,307,548	657,815	50.3
1974	4,358,498	969,216	22.2
1975	2,898,190	1,371,228	47.3
1976	5,655,961	2,445,950	43.2
1977	9,137,847	2,255,751	24.7
1978	2,874,136	1,127,277	39.2
1979	2,092,893	1,324,335	63.3
1980	21,482,254	1,611,488	7.5
Total	64,072,638	24,621,116	38.4

44. It is evident from this table that rather less than 40% of the sum involved in reported irregularities during the 1970s has been recovered. For 1974 and 1977, the percentages are particularly low. There are, of course, particular difficulties in effecting recovery in specific cases: however, a greater effort is obviously necessary than has been made in the past.

¹ Source : Com(81)506 final, annex 17

45. Delay in prosecuting frauds may lead to 'statute of limitations' problems in other Member States: here, the COMO case is an eloquent example. However, the rapporteur would like to place on record his appreciation of the efforts made by the Commission to inform responsible officials in Member States of relevant aspects - last year's seminar in Brussels is a case in point.¹

The Eurocrimes Treaty

46. Not nearly enough has been done by the Council and by the Member States to safeguard EC funds or to ensure speedy recovery in cases where fraud has taken place. The rapporteur, therefore, welcomes the information to the effect that progress has been made in the Council in the matter of preparing a draft instrument known colloquially as the 'Community Crimes Treaty'. The President-in-office of the Council² has indicated that this Treaty - which will amend the main EC Treaties - will deal with frauds of any nature that lead to a loss to the Community budget.

47. It is regrettable that this draft instrument should have taken so long to complete. Preparation commenced in 1971 and it was considered by Parliament in 1978. Since then, it has been lying in the care of a working group of Council officials entitled 'the Ad Hoc Working Group on the Court of Justice and protection under the Criminal Law'. Unfortunately, it appears that this working group did not begin to give detailed attention to the instrument until early in 1981. Under the British Presidency, the draft convention on crimes against the financial instruments of the Community was pushed ahead. The rapporteur hopes that, over the coming months, this vital piece of Community legislation will be completed and implemented because it constitutes an essential element in the battle against fraud and irregularities, which has been referred to at paragraphs 40 to 44. Mr Gabert's report on frauds that operate to the detriment of EC funds is in preparation and will shed light on ways of overcoming such frauds.

¹ The rapporteur would also like to pay a well-deserved tribute to the good work done by Mr. Ben Patterson MEP in the Committee on Budgetary Control which led to worthwhile reforms being brought into effect on the Anglo-Irish border with a substantial cut-back in the scope for irregularities. The work in question is described in his working paper which is annexed to this report.

² Lord MacKay of Clashfern.

(b) Closure of accounts

48. The long delays in the closure of accounts is a matter to which attention has been drawn by the Committee on Budgetary Control on many occasions. At paragraph 4.31 of the report on 1980, the ECA states 'Delays in the work of clearance have persisted and even increased'. This has an effect on the overall management of the appropriations for the agricultural sector. However, as the ECA will devote a special report to this issue, the rapporteur will leave fuller comment over until a later occasion. Discharge continues to be given while large amounts of expenditure are still provisional.

(c) State aids

49. Member States devote vast sums to the agricultural sector. The fact that the Commission states that 'most of the national measures notified to the Commission have been compatible with the Community rules'¹ is disturbing. The rapporteur agrees fully with the statement of the Commission that 'the Commission cannot, of course, perform the tasks assigned to it by the Treaty of Rome in the field of competition unless it can rely on the cooperation of all the Member States, with due observance of both the Community rules and the principles of the common agricultural policy.'¹ Action in this sphere should have a high priority.

(d) Sales of agricultural products to state-trading countries

50. The rapporteur has no objection to sales of food products to state-trading countries, provided orderly market conditions apply, the Commission exercises a responsible supervisory role and provided sharp operators do not make undue speculative gains at the expense of the European taxpayer. As Mr. Aigner's report² shows, the Commission's management of the sales to the USSR in 1980 showed up lamentably the inability of that institution to fulfil its promises to Parliament. In view of the detailed explanatory statement prepared by Mr. Aigner and also in view of the full debate in plenary on the subject on 19 February 1982 and again on 8 March 1982, further comment at this stage would be superfluous.

¹ Commission report on 'The Agricultural Situation in the Community' 1981 report, paragraph 361

² Doc. 1-846/81

(e) Other matters

- export refund expenditure

51.. The ECA urges that there should be greater clarity and fuller information available to the Commission when examining export refund expenditure so that a more thorough analysis may be possible (para 4.6)¹. It is understood from the Commission that an improved system of information processing is being evolved.

- procedure for making advances

52. The procedure for the operation of the system of advances is defined in Commission Regulation (EEC) no. 380/78. ¹ Because of the shortcomings identified by the ECA at paragraph 4.7, the rapporteur urges the Commission to effect the amendments to this Regulation that are identified by the ECA.

- cash position accounts

53. The rapporteur agrees with the point made by the ECA that, as already indicated by the discharge authority, the Commission should adhere to a single method of presenting the monthly and annual accounts of the cash position (para 4.13)¹.

- management of intervention stocks

54. Losses in the management of intervention stocks amounted to 718 million EUA; this included the outlay on a number of special measures to dispose of products on the internal market. The presentation of expenditure does not show the cost of each different measure for disposal of the stored products. Whilst it is appreciated that there are technical difficulties involved, the necessary alterations should be made so that the information which is vital may be readily obtained (para 4.32)¹.

- transfer of stocks

55. As is admitted by the Commission, there are accounting problems related to the transfer of stocks between Member States at nil price. A solution would have been to frame the transfer arrangements in such a way that the intervention agency receiving the stocks enters the value of the products during the month when they are received (Commission reply to para 4.34)¹. A proposal to this effect was not accepted by the Council. Your rapporteur asks that the Council reconsider the matter.

¹ OJ no. C344, 31.12.81

- minor irregularities

56. The draftsman urges the Commission to amend its rules so that a distinction may be made between cases of manifest fraud or irregularity and cases where the recipients of premiums are unable to meet their undertakings.

EAGGF Guidance sector

57. Thanks to the substantial working document¹ prepared by Mr. Filippi on the Guidance sector of the EAGGF, the rapporteur can be brief on this point. Any cancellation of appropriations in this sector is regrettable, because of the impact on public opinion which wishes to see a reform of this sector tied in with other regional and social policy instruments. He appreciates the way in which the Commission has taken on board the recommendation at paragraph 5.6². He welcomes the fact that the Commission is keeping a close watch on the issue raised at paragraph 5.20².

Where does the EAGGF money go?

58. The view is widely held that the EAGGF money goes toward propping up non-viable and small farmers. In fact the situation is different. A relatively small share of the funds paid out of the Community budget finds its way to small and less efficient farmers. Too much goes to middlemen and large farmers. Indeed, the EAGGF has subsidised certain large producers (e.g. milk) whilst the Guidance sector has failed to help the small farmers.

We need, therefore, a review of both EAGGF Guarantee and Guidance in the light of the declared principles of the CAP.

Recapitulation

59. In the preceding paragraphs on agriculture, it is apparent that there is a good deal of weak management in the entire sector. MCAs complicate the situation and open the doors for frauds and irregularities. Accounts are closed far too late. Money involved in irregularities is ~~recovered~~ too slowly. There is not nearly enough cooperation between Member States in stamping out frauds. State aids to agriculture may, in part at least, run counter to the EC budgetary effort. Sales of agricultural products to state-trading countries have been marred by undue speculative gains by sharp operators. The effort on the Guidance side has proved to be disappointing. There appears to be need for an overall re-think of this sector by all parties concerned.

¹ Annex VI

² OJ C344, 31.12.81

Energy, research, technology and industry

60. . The budget is the main policy instrument available to the EC for coping with the overall problems facing the citizens of Europe.' As such, it is inadequate because of the small sums that the Council is prepared to endorse. As Lord Bruce of Donington pointed out in his document on the 1977 discharge, "even had the budget been fully implemented, its size would have prevented it from having little more than a marginal effect on the European economy"¹. Nevertheless, Parliament must endeavour to ensure that the relatively modest amounts available ~~are~~ used - and used to maximum effectiveness.

61. A brief glance at the background highlights the magnitude of the problems confronting the Community in this sector. The rapporteur draws attention to the excellent statement of the EC Commission on the automobile industry². Close on 2 million persons are employed in the European motor industry. EC exports of passenger cars to non-member countries fell from 2,458,000 units in 1970 to 1,899,000 units in 1980. The European motor industry's position is such that its trading surplus in cars can pay approximately 20% of the EC oil import bill. This statistic is interesting for two reasons : firstly, the great industrial effort in this sector results in a positive base balance that covers no more than one fifth of the EC bill for one element of its energy requirements; secondly, this positive feature can only be safeguarded if the sector remains competitive. As the supplement in question points out at paragraph 17:

"... firms' technological capability will no longer be simply one aspect of their competitiveness but a very condition of their survival".

62. The removal of barriers to intra-Community trade which causes so much dislocation to workers and employers, will have been in vain if there is not a continued investment in technology. Of course, the vast bulk of this outlay will be undertaken by private enterprise, but the EC must fulfil its overall role as the provider of a dynamic of innovation and technical change. Otherwise, the future of Europe - already bleak in prospect - will be bleaker still. The rapporteur is particularly concerned (a) because of the failure of the Council to adopt a far more positive attitude towards the position of Parliament in regard to new initiatives and (b) because of the problems discovered in EC research establishments³.

¹ Doc. 1-463/79, page 99, paragraph 222

² Supplement 2/81 to the Bulletin of the European Communities

³ See Doc. 1-59/81

63. Budgetary control work is directed towards ensuring value for money, the avoidance of wastage of funds and the securing of economy and efficiency in the general sphere of the encouragement of research and innovation. In view of the preceding paragraph, this sector of Community activity needs to be prosecuted vigorously. The need for effective policies is underlined further, on social grounds, by the alarming table reproduced below¹:

Unemployment in the EC

	1973	1979	Jan. 1982(a)	1985e	(millions of unemployed people)
Germany	0.27	0.88	1.95	1.78	
France	0.39	1.35	2.03	2.92	
Italy	1.00	1.65	2.19	2.88	
Netherlands	0.11	0.21	0.49	0.64	
Belgium	0.11	0.35	0.53	0.62	
United Kingdom	0.62	1.39	3.07	4.09	
Ireland	0.07	0.09	0.15	0.18	
Denmark	0.02	0.14	0.28	0.32	
EEC	2.60	6.06	10.70	13.44	
(per cent of labour force)					
Germany	1	3	7.5	7	
France	2	6	9.0	12	
Italy	5	7	9.9	12	
Netherlands	2	4	9.4	12	
Belgium	3	8	13.1	14	
United Kingdom	2	5	11.8	16	
Ireland	6	8	12.0	15	
Denmark	1	5	10.7	12	
EEC	2	5	9.5	12	

e estimate (a) actual Eurostat figures

Source: The European Community's Problems and Prospects, University of Cambridge Department of Applied Economics (Dec. 1981, Vol. 7, no. 2) and Eurostat.

64. In an annex to this report², the rapporteur considers a number of further issues in this sphere. At this point, he would like to express his appreciation of the excellent work done by Mr. Saby in his annex to this report where he highlights the disappointing performance of the Commission in regard to implementing the will of Parliament in relation to amendments in the area of industry.

¹ This is the latest study available to the rapporteur. In a previous study by Economic Intelligence Unit Ltd. (May 1980) the following estimated percentages were given for 1985: France 11.2, West Germany 7.8, United Kingdom 9.4, Italy 8.3. These have clearly been overtaken by events.

² Annex III

The ERDF

65. Parliament is now in the process of considering the proposal for a new fund regulation; also, Commission's report on 1980 fund activities is under examination. Therefore, it is not necessary to go into great length on the various issues here.

66. A notable feature of the implementation of the ERDF in 1980 was the fact that almost all the commitment and payment appropriations were used. There is, however, a need to stagger the applications for grants, if the creation of bottlenecks is to be avoided.

67. The rapporteur notes with regret that Mr. Gouthier has been obliged to state, once again, that the progress made towards allowing Commission officials to carry out checks in the Member States is still inadequate.¹ He agrees that Member States should submit more applications so as to ensure that the Commission may be able to effect a more broadly based selection.

68. Also, the rapporteur finds sympathy with the comments made by the ECA at paragraph 7.12 of its report regarding documentation and records which should be adequate to enable it to draw up an account of the implementation of commitments analysed by the year to which they were charged. He agrees, too, with the views of the ECA in regard to the need to adopt criteria for the selection of projects from among those deemed eligible for assistance.

69. At paragraph 7.19, the ECA points to the material discrepancies between the Member States in the methods of calculating the number of jobs. This situation makes it difficult to gauge the effect of assistance in the sphere of structural underemployment and should be set right.

70. The rapporteur also agrees with the conclusions of the ECA in regard to evaluating the effectiveness of the aid. (Paragraph 7.27). Up until very recently, the only information that the Commission had of ECA work was that which it obtained from the annual report. It is good to note that informal meetings have been arranged so as to ensure that, henceforth, the Commission will be kept fully informed of developments. He welcomes the more comprehensive approach now being adopted to help particular areas by using all the EC policy instruments in a combined fashion.

¹ Subparagraph 4 of the conclusions to PE 75.936

Subsidies to decentralised bodies and to autonomous offices etc.

71. Apart from the main operations of the EC which relate to the institutions - Parliament, Council, Commission and Court of Justice - there are a number of decentralised bodies which carry out specialised tasks and which are granted a varying degree of autonomy. The total amount of budgetary funds involved in the operation of all the bodies concerned is as large as the sum devoted to the Regional Fund. Therefore, the Committee on Budgetary Control has exercised close control over their activities and has suggested a series of reforms that make for greater effectiveness and better management.¹

72. The Committee on Budgetary Control insists that the criteria of sound management and cost effectiveness should apply to the handling of the funds devoted to such bodies. In the case of other subsidies also, the Commission should follow-up the recommendations of the ECA and ensure that proper accounting principles are followed.

73. Following pressure by the Committee on Budgetary Control, the Board of Governors of the European Schools has introduced a number of reforms that appear to go some way towards satisfying the ECA wishes; however, further changes are desirable. The ECA has also made a number of comments concerning JET that would justify the preparation of a special study by the Committee. A follow-up report on the reforms at the JRC establishment at ISPRA is essential and it will also be necessary to examine closely in Committee the recent response by the Commission in regard to the data-processing capacity of the EC institutions.

The social sector

74. The rapporteur has considered Mr Marck's working document² and the opinion of the Committee on Social Affairs and Employment (annexed). There has been an improvement in the ESF rhythm of payments. The rate of utilisation of appropriations for pilot projects is disappointingly low - less than 50%, however. The increasing number of beneficiaries - especially young people - is a positive aspect. Because of the inadequate level of ESF appropriations (applications that are given priority exceed by far the available commitment appropriations) the ESF can hardly serve as an efficient instrument of employment policy. The view has been expressed that the amount of these funds should be doubled,

¹

See, in particular, Mr. Edward Kellett-Bowman's reports: Docs 1-726/79, 1-283/80, 1-59/81, 1-66/81, 1-345/81, 1-251/81 and 1-350/81. Also annex VIII to this report.

² Annex IV

at least. The ECA has stressed the importance of the pilot projects because of the multiplier effect which they generate and the rapporteur agrees that they should be given more prominence. The procedures for analysing and evaluating the activities of the ESF and its results should be developed further and should be reflected in the coming activities report.

Own resources

75. Mr Notenboom, in his working paper,⁽¹⁾ stresses the significance of the fact that, in 1980, the EC achieved full financial autonomy through own resources. These own resources belong directly to the EC: therefore, it is incorrect to show them in national accounts without making their true nature clear. He asks that the Commission should introduce the appropriate measures to ensure that this principle is respected. Some Member States have not recognised the legal existence of the No. 2 supplementary budget 1980: Mr Notenboom stresses that the obligation to pay interest on own resources furnished in arrears should be respected. He calls on the Commission to transmit its report under Article 22 of Regulation No. 2891/77, together with proposed amendments, by 1 June 1982. He also proposes that there should be an EP fact-finding mission on own resources - together with ECA and Commission representatives. There is need for more staff at Community and national level to ensure adequate control of own resources.

Transit arrangements

76. The Como case⁽²⁾ sprang from an abuse of transit facilities. Therefore, it is necessary that Member States and third countries cooperate more fully to ensure that Community revenue is not put in jeopardy by the easing of restrictions on the movement of goods. Mutual assistance between customs administrations is of major importance in this context. Accordingly, the extension of such cooperation to include Austria and Switzerland is to be welcomed: the new arrangements will enter into force in the case of Switzerland on 1 August 1982 and in the case of Austria on 1 January 1983 (OJ No. L 19, 27.1.82, pages 1 and 5).

Commission's administration and personnel sector

77. The Commission's handling of its personnel and administration funds has been examined by Mr Price and two aspects - the transport system and the 'fitness centre' - have been the subject of specific criticism. Expenditure in relation to the Commission's administration and personnel sector, equivalent to about 3½% of the budget, is of the same order of magnitude as outlay on EAGGF Guidance or cooperation with developing countries. Therefore, it needs to be scrutinised carefully.

⁽¹⁾ Annex I

⁽²⁾ For details see Mr Gabert's report - Doc. 1-695/80

78. The rapporteur is grateful to Mr Price for the work that he has done on this sector and which is set out in an annex to this report.⁽²⁾

Other institutions

79. Expenditure by the other institutions accounts for about 1.6% of the total budget. Although this is relatively small, it is essential, nevertheless, that the strictest standards of control and good management be applied by the institutions when using taxpayers' funds. Waste of public money by a Community institution is reprehensible. It can arise from bad staff management policy, from over-elaborate accommodation or transport outlay, from inadequate control over equipment and stationery, and from other bureaucratic shortcomings. External control is good but internal control should be fully effective. The management of the institutions should keep their operations under continuous review. In this context, Mr Konrad Schon's working document⁽¹⁾ makes a series of pertinent remarks - including a proposal for the ECA.

Commission transport service and drivers

80. The ECA report and Mr Price at paragraphs 8, 12 and 13 of his working paper go into the matter of the Commission's transport pool and drivers system. It appears to the rapporteur that there may be some over-capacity here and poor utilisation of resources. There is need for an early and comprehensive review of the transport equipment and drivers services of the institutions of the EC. This review should identify the real needs of the institutions, the purchasing policy, the control exercised over operations, the criteria for use of the in-house service or for recourse to the commercial sector, maintenance, and disposal of equipment. The aim should be to have a basic transport service with recourse to private operators to cope with peak loads. Any necessary reorganisation should be effected as soon as possible so as to ensure reductions in expenditure.

The 'fitness centre'

81. The construction of a 'fitness centre' in the Jean Monnet building at Luxembourg without proper budgetary approval is a cause for considerable concern. The third ring of the Jean Monnet building was completed by end 1980 and a swimming pool, a sauna, and a squash court together with the necessary technical installations and service rooms were incorporated in the structure in the place of what had apparently originally been intended as storage space. So far as the rapporteur can determine, the matter was not brought to the attention of the two arms of the budgetary authority in advance. There was no budgetary approval and yet the Community was committed to meeting substantial annual outlay which does not appear under the appropriate budget heading.

82. This is a serious breach of normal public accounting standards and procedures. The matter is one which involves the Commission's responsibility for dealing with Community funds and reflects adversely on its credibility. Without due authority, funds should not be committed. Indeed, Parliament's difficulty has frequently been how to get the Commission to spend money provided for desirable projects, without success. Here we have an instance of millions of Luxembourg francs being spent on a facility that was not authorised and was not even brought to Parliament's notice in advance.

Personnel resources

83. At paras. 10.28 to 10.31, the ECA deals with the output of typing pools. The rapporteur welcomes this section because it helps the Committee in its study of efficiency and effectiveness. The section illustrates the need (a) for a better managerial approach to the personnel sector of the EC institutions and (b) for the introduction of modern techniques and equipment. All the institutions are urged to use the resources available to them to the best advantage.

Development aid and food aid

84. The attention of colleagues is drawn to Mr. Irmer's annexed working document¹ and to his report² on problems in the implementation of Community food aid policy in the light of the ECA report.

85. Attention is also drawn to the sections in the 1980 ECA report which deal with the problems of helping third world associated and non-associated countries. It is scarcely necessary to go into the difficulties involved, once more.

The ECA has been relentless in its criticism of the shortcomings and poor utilisation that came to light. On occasions, funds and commodities have not been used to best advantage and the fault does not always lie with the recipient countries. An extra effort needs to be made within the Community to organise genuine Community food aid and development aid policies which will take account of the real situation obtaining in individual recipient countries.

It appears to the rapporteur that the Commission's section dealing with food aid is inadequately staffed and should be reinforced.

¹ Annex VII

² PE 76.018

PART V - MAJOR PROBLEMS

The provisional twelfths

86. As is indicated at paragraph 22 above, the 1980 budget was not adopted until July 1980. Article 204 of the Treaty and Article 8 of the financial regulation deal with the situation that arises when the budget has not yet been adopted. The situation is rather technical and the provisions of the Financial Regulation would appear to lack transparency.

87. Having deliberated on the accounts for 1980, however, the ECA reached the following carefully considered conclusions:

'... the Commission did not respect the limits laid down by Article 204 of the EEC Treaty for the situation where the budget has not yet been adopted. To comply with the terms of this article, the Commission should have conformed with the limits imposed by management by twelfths, which would have forced the expenditure of the Member States to remain within those limits, and, if necessary, it should also have submitted to the Council at the beginning of December a request for authorization of two or more additional twelfths!.

88. Furthermore, the ECA felt that '... it is the Commission's responsibility to find solutions that comply as closely as possible with the letter as well as the spirit of the Treaty, the intention of which was, in the absence of a budget, to limit the monthly expenditure incurred by the Community to one twelfth of the reference appropriations'.

89. Once again, the rapporteur is obliged to comment on the dual standard applied by the Commission in regard to the implementation of the budget. When they feel so inclined, they can quite readily justify operations that on a strict reading of the budgetary legislation would be irregular: on the other hand, when Parliament adopts amendments for critical social and industrial sectors, the Commission is never at a loss for excuses for not implementing them. The difference between the approach to (a) the instances cited by Mr. Saby¹ and (b) the provisional twelfths² and the fitness centre³ is remarkable. It is accepted that Article 8 of the Financial Regulation could be amended so as to add to its clarity. But this does not get away from the judgement delivered by the Court of Auditors and it appears that the system of provisional twelfths was applied by the Commission in such a way as to free itself in part from the financial constraints that would normally result from the absence of a budget until July 1980.⁴

1- In his working document - see annex II

2 OJ C344 paras. 4.14 - 4.19

3 OJ C344 paras. 11.7 - 11.13

4 OJ C344 para 4.0 (d)

Implementation of the budget

90. So much has been said and written about the implementation of the budget that it is difficult to say or write much that is original about the subject. The rapporteur, therefore, confines himself to three observations:

- Mr. Saby in his working document has summed up the problems succinctly. To put it at its mildest, the Commission could be far more dynamic and positive in its attitude to spending funds made available in the budget. To take the case of item 3750 cited by Mr. Saby:-
'The budgetary authority's decision to enter appropriations for the restructuring and conversion of crisis-hit industries was clear : these appropriations ought to have been used, irrespective of the existence of the Council regulation'.¹
The crisis was having a dire impact on the industries, the money to help - albeit in a modest way - was made available, and the Commission should have proceeded to carry out its duty to the Community.
- If doubt existed, a reading of the Treaty should have made the situation clearer. 'The Commission shall implement the budget, in accordance with the provisions of the regulations made pursuant to Article 209, on its own responsibility and within the limits of the appropriations'.² The Treaty says 'shall' and not 'may'. This aspect has been explained very clearly by Mr. Peter N. Price, vice-chairman of the Committee on Budgetary Control. The difficulty is that, when the Commission finds a line in the budget, it looks around for an enabling regulation before implementing it whereas Parliament believes that the budget should be implemented fully in its own right.
- In regard to general matters, the working group set up following paragraph 16 of the comments accompanying the 1979 discharge³ can be expected to clarify certain issues.

¹ PE 77.122, para 35.

² Article 205

³ OJ no. L224, 10.8.81

Accounting aspects

91. Parliament has always stressed the need for clarity and transparency in the presentation of the EC budget. Disappointment has frequently been expressed in regard to shortcomings. For instance, Lord Bruce of Donnington was obliged to write that the accounts were 'quite unsuitable as an instrument for the information of those not conversant in detail with the Community's financial affairs'.¹

92. Note was taken by Parliament of this protest and, in the comments accompanying the 1977 discharge decision, the following comment was made:

'6.1 Notes that the accounts and analyses of financial management submitted by the Commission are neither readily comprehensible nor presented in a straightforward manner, and takes the view that these are two basic requirements for control by Parliament'.²

93. In his report on the 1978 discharge, Mr. Battersby³ endorsed a strong criticism of the EC budget accounts made by the ECA at chapter 11 of its report on 1978. He expressed the wish that the accounts be improved so as to make the budget a more effective political and financial management instrument. Parliament followed Mr. Battersby's recommendation and the following was included in the comments accompanying the 1978 discharge decision:

'10. Notes that, on the basis of the report of the Court of Auditors, the general accounts are in an unsatisfactory state and asks the Commission to report to Parliament on proposals for across-the-board improvements in the transparency, management and presentation of the budget'.⁴

94. Chapter 2 of the ECA report on 1980 sets out a long series of criticisms of EC accounting. As these are set out at some length and are accompanied by the written replies of the Commission, it is not necessary to recite them again here. Suffice it to say that, if the accounting system is such that the ECA and the Commission - both experts in the field - can come into dispute over certain operations, the parliamentarian, or the taxpayer can honestly confess to being baffled by the complex murkiness of the system. It is comforting to learn that, so far as the ECA could establish, no misuse of funds resulted from the lack of transparency in the accounting procedures.

¹ Doc 1-462/79 annexed working document para 5

² OJ no. C331, 27.12.79 page 4

³ Doc 1-150/80, para 62

⁴ OJ no. C180, 14.7.80, page 21

95. The ECA has recently issued a study of the financial systems of the EC.¹ This text highlights the weaknesses in the system and states that

'the final accounts are hardly intelligible to users' (para 27(e)) Obviously, the situation is totally unacceptable and has been allowed to drag on for far too long.

96. The difference of views with the Commission on the exact figures for inclusion in the 1980 discharge decision is a matter which must be resolved before the discharge for the financial year can be granted.

It would appear that the following amounts ought not to be included in the 1980 discharge:

1980 Annual Report	
Paragraphs	
1.13 and 1.14	38 786 044.-
2.10	1 718 813.66
2.17c	889 430.19
2.23b	109 188.14
2.24	1 121 319.52
4.26	3 965 497.14
4.33	65 707 595.39
5.4	2 300 000.-
	<hr/>
	114 597 888.04 EUA

97. The rapporteur could see his way to reducing the above list somewhat further. However, he feels that the Commission would need to provide further explanatory material before the Committee can pronounce on the precise figures to be included in the discharge decision.

98. It is apparent from the foregoing that major revisions to the Financial Regulation and to the EC system of accounts are needed to ensure a transparent presentation. The system of accounts should be revised in the light of the ECA special report referred to at para. 95; the revision of the financial regulation should be completed rapidly. In particular, there is need for improved technical arrangements for treating the depreciation of stocks.

¹ OJ No. C342, 31.12.81

Some Council failures

99. At paragraph 18 above, the rapporteur has criticised the behaviour of the Council in relation to the adoption of the 1980 budget. At paragraph 19, he has recalled the stern comments of the rapporteur for that budget. Now, he is obliged to draw attention to some of the observations made by the ECA in relation to the Council's shortcomings in regard to the implementation of the 1980 budget.

100. At paragraph 4.5, the ECA points out a legal hiatus which arose because the validity of Council Regulation (EEC) 6/2/79 of 29 March 1979 was not extended in time.

101. At paragraph 8.17, the ECA points out that '... eight of the ten Commission proposals for the implementation of Community programmes, projects or regulations were not approved by the Council. Consequently there are no Community projects in industrial sectors such as aerospace, shipbuilding or ceramics'.

102. Problems arising from the transfer of stocks between Member States at nil price could be avoided, had the Council adopted a proposal put forward by the Commission - but it failed to do so (para 4.34).

103. In the sphere of food aid, management problems arise because the Council looks on this as a foreign policy instrument rather than a genuine vehicle for aid.

104. The Council failed to consult the Court of Auditors about the proposed regulations for modifying the balance of payments mechanism and for abolishing the ceiling on NCI borrowings - although the Commission had drawn attention to the desirability of such consultations. (Commission's reply to paras. 13.4 and 13.7)

105. The failure of the Council to consult Parliament in regard to the financial regulation applicable to the fifth EDF, is a further serious matter affecting budgetary procedures. This issue was the subject of the Irmer report (Doc. 1-349/81) and of a strongly-worded resolution.¹

106. This is not an exhaustive list; however, it gives sufficient grounds for concern over the careless attitude of the Council towards sound financial management and good relations with Parliament.

1

OJ no. C287, 9.11.81, page 78

The 1980 embargo failure

107. On 15 January 1980, the Foreign Affairs Council met and there ensued the decision that Community deliveries of agricultural products should not replace, directly or indirectly, US sales to the USSR.¹ On 15 February 1980, Parliament adopted a resolution demanding an immediate trade embargo on sales of subsidised surplus commodities to the USSR. On 21 November 1980 and on other occasions, the Commission assured Parliament that the normal level of sales of butter to the USSR amounted to 70,000 tonnes and that such a level would not be exceeded in 1980.

108. Parliament had, for many years, been concerned about the way in which the Commission managed the budget appropriations that assisted exports of surplus agricultural products to state-trading countries generally. Following the notorious case of the sale of 200,000 tonnes in 1973, Parliament drew up criteria and guidelines that the Commission should respect when dealing with such exports. The purpose of this political control was to ensure prudent management of Community funds, the securing of the best possible price for EC exports, and the avoidance of a further repeat of the earlier scandals that had an adverse effect on the good reputation of the EC among the general public.

109. Several resolutions² were put before Parliament which cast doubt on the observance of the embargo by the Commission. These resolutions were referred to the Committee on Budgetary Control whose report³ was considered in plenary session on 8 March 1982. The resolution, which was adopted by an overwhelming majority, indicated that the inadequate system of management had an adverse effect on the Community budget, on the credibility of the common agricultural policy, and on public opinion. Also, the resolution made a number of specific suggestions for the improving of management and called on the Commission (i) to provide a full report on the massive upsurge in the exports of foodstuffs to the USSR in 1980, (ii) to submit proposals for the management of exports and (iii) to indicate under whose budgetary authority it acted in regard to the excessive sales in question. As indicated at paragraph 50 above, the rapporteur has no objection to sales of agricultural products to state-trading countries, but he believes such sales should be prudently supervised. In any event, a written reaction from the Commission is expected by Parliament.

¹ Following the invasion of Afghanistan and the treatment of the Nobel Peace prize winner, Mr. Andrei Sakharov.

² Doc. 1-207/80, Doc. 1-246/80, Doc 1-609/80 and Doc 1-908/80

³ The Aigner report Doc 1-846/81

PART VI - SPECIFIC PROPOSALS IN THE CONTEXT
OF IMPROVED MANAGEMENT

Broader approach to budgetary control work

110. In the preceding paragraphs, the rapporteur kept closely to the findings of colleagues in their working documents, to the conclusions set out in earlier reports of the Committee, and to the views expressed in the annual report of the ECA or in its special reports. Hitherto, the Committee - and the ECA - kept close to the initial tasks confided to them, notably legality and regularity of expenditure. Now the time is ripe for going further into the issues of cost-effectiveness and the economic aspects of budgetary outlay.

More effective management

111. The checks carried out by Parliament and by the ECA show that a series of EAGGF measures are partly or totally ineffective. In some cases, EAGGF Guarantee assistance is of the order of 45%-60% of the cost of production.

Commodity	Cost in 1980 MEUA	Rate of 'assistance'
Oil seeds	369	47.0%
Olive oil	318	47.0%
Tobacco	309	60.0%

Source : Commission of the EC

112. This comes about in the context of the annual price fixing for agriculture when less account is taken of the interests of the EC than of transfers between Member States. This gives rise to criticism - not of the CAP - but of the way it is managed.

The Committee on Budgetary Control is convinced that Parliament should have available to it an ECA study which would indicate clearly

- (i) which are the measures that could be made more effective if a more rigorous system of management were applied;
- (ii) which measures are so pointless as to warrant being eliminated completely; and
- (iii) what are the mechanisms that cause loss for the EAGGF Guarantee sector.

113. The Commission's management in the CAP sector take little account of the market situation or of the need for prudent use of taxpayers' funds. The points made by the ECA on the 1979 accounts are still valid. The Aigner¹ report on exports to state-trading countries proved that the bad management continued into 1980. The lack of thoroughness in the management of those appropriations was highlighted by the fact that the estimates for 1981, which were based on the management methods of 1980 were too great by 1,700 million EUA. The Commission itself explained the situation as follows: Considerable economies were made in the milk sector during 1981 (a saving of about 1.3 billion ecus compared with 1980) as a result of the market management and, in particular, the success of the Community's effort to sustain world market prices, thus reducing the rates of export refunds while maintaining a very high volume of exports. Total savings in all sectors by comparison with the original budget for 1981 amounted to more than 1.7 billion ecus, the largest saving recorded since the creation of the EAGGF.

Cereals

114. In its text² on agriculture in the framework of the mandate of 30 May 1980, the Commission draws attention to the cereals sector which has a prominent place in EC agriculture. World cereals prices tend to fluctuate, of course, but have recently been 20% below EC prices. If cereals prices in the EC were brought down by 20%, several beneficial consequences would result. Food prices would be moderated because the cost of producing beef, milk, poultry, pork and eggs would be reduced. The competitive position of the EC would be strengthened. Relatively few small farmers would be affected because cereals tend to be a big farm crop. The budget would be saved outlay that could be as great as 4,500 million ECU. At one stroke, the EC image would be improved and substantial sums would be released for other projects. Mr. Wettig is working on an in-depth study of the cereals sector.

¹ Doc. no. 1-846/81

² Com(81)608 final

The revision of the Financial Regulation

115. The completion of the work on the revision of the Financial Regulation now assumes a new urgency. From the Control Committee viewpoint, it could be availed of to clear up the matter of the provisional twelfths arrangements which were found, in practical operation, to leave rather too much scope for interpretation to the Commission. Also, the system for the inter-institutional processing of special ECA reports could be included in the text. Clearing up these two issues would represent worthwhile control sector reforms. Moreover, the complexity of the budgetary presentation and accounts needs to be grappled with - especially in view of the report of the ECA referred to at paragraph 95 above.

Council auto-criticism

116. The fact that the Council fails to act speedily in relation to proposals put forward by the Commission or suggested by the Parliament is an obstacle to the development of Europe. The Committee on Budgetary Control considered that it would be extremely useful for the Council to examine annually its performance in the budgetary sphere with a view to identifying (i) those budget lines which were not fully implemented because of its failure to adopt certain measures, (ii) schemes held up by Council inaction and (iii) reforms designed to stop fraud and to improve the effectiveness of EC expenditure that were not put into effect. It seems eminently desirable that such a review should be associated with the Council's preparation of its recommendation on the discharge.

The Council recommendation on the 1980 discharge

117. The draft recommendation which the Council makes in accordance with the provisions of Article 85 of the Financial Regulation was put before the Committee on Budgetary Control on 16 March 1982. The Committee appreciated the frankness of the exposé, observed that the Council was unable to reach agreement on many important issues, and noted the absence of figures in the document. A fuller review of the results of the financial year should be attempted by the Council in future years - together with the kind of examination which is suggested in the preceding paragraph - so as to enable a more meaningful and comprehensive recommendation to be prepared. A more exhaustive set of suggestions in the Council's recommendation would be welcomed also.

PART VII - CONCLUSIONS

Political significance

118. As indicated in the opening paragraphs of this explanatory statement, the discharge decision is of major significance. It has three aspects: political, legal and accounting - but it is primarily political. At paragraph 4, the rapporteur states that the discharge decision 'is first and foremost a political decision because it reflects a judgement on the manner in which the Commission has used - or failed to use - the resources made available to it for carrying out Community policies ...'

Refusal of discharge

119. This step, as was recognised by Mr. Tugendhat, see paragraph 4 above, would have serious implications and would be tantamount to censure of the Commission. It is not a course which the rapporteur would recommend lightly. However, it is not a step from which he would flinch if the circumstances warranted it.

Postponement of the decision

120. Article 85 of the Financial Regulation (i) envisages the possibility of Parliament not being able to grant discharge by 30 April and (ii) states that 'the European Parliament or the Council shall inform the Commission of the reasons for the postponement'. The rapporteur believes that, for the reasons stated in the following paragraphs, discharge should be deferred in respect of the 1980 financial year: the alternative of putting forward a motion rejecting discharge is held open. The Commission will be granted a period of time during which it can react to the clearly expressed wishes of Parliament that it should (i) give further information on certain points (ii) provide explanations for certain lapses that Parliament regard as very serious, and (iii) act on specific paragraphs in resolutions - or on budgetary amendments - or justify its inaction.

List of crucial issues

121. In this paragraph, the rapporteur considers the main issues on which he bases his proposal that the decision on the grant of discharge be deferred:

- the first major issue for consideration in the context of the 1980 discharge is the failure to make the 1980 embargo on sales of agricultural products to state-trading countries effective.

The matter is described at paragraphs 107 to 109 above. The Committee welcomes the more positive attitude of the Commissioner for Agriculture in taking measures to improve the cost-effectiveness of EC CAP exports but more needs to be done to enable the Community to get the most favourable export prices. Moreover, the Commission's argument that the high level of sales to the USSR in 1980 was attributable to contracts in the pipeline shows that the existing mechanisms do not enable the Commission to control exports; also, it confirms the point made by Mr. Aigner at paragraph 21 of his explanatory memorandum¹ that some of the amounts in the excess over the embargo were financed out of the 1979 excess of 203.5 million EUA over authorised appropriations.

- the second issue is the manner in which the provisional twelfths rules were applied by the Commission in a manner that freed it, in part at least, from the financial constraints that are the normal result of the absence of a budget. The significance of this and the circumstances surrounding it are outlined at paragraphs 86 to 89 above. The Committee on Budgetary Control had referred to it on 23 May 1980, a motion for a resolution² by Messrs. Price, Kellett-Bowman and others. Also, the Committee on Budgets referred to the prejudicing of the budgetary authority's rights in this context. This is a political issue on which significantly the Council agreed - perhaps for obvious reasons - with the Commission and rejected the ECA view. Although the rather loose phraseology of the Financial Regulation opened a chink, the Commission breached the spirit of the existing provisions to the detriment of Parliament's scope for leverage in the difficult circumstances of early 1980.

- the third issue is the failure of the Commission to furnish a full response to the comments accompanying the Irmer discharge³ report on 1979 before the completion of the examination of the factors affecting the 1980 discharge. As pointed out at paragraph 7 above, this sequence is necessary to avoid an incoherent debate.

¹ Doc. 1-846/81

² Doc. 1-206/80

³ Doc. 1-136/80

- the fourth issue is the failure of the Commission to respond, within a reasonable span of time, to the grave series of instances of mismanagement at the JRC research establishment at ISPRA.

Mr. Kellett-Bowman's report¹ set out the problems; Parliament adopted a resolution² in regard to the matter. The absence of a full written reaction from the Commission nine months later is disturbing. Verbal statements and press reports of improvements - although reassuring - are inadequate in the circumstances of the problems involved which relate to the very basis of control over the use of taxpayers' funds.

- the fifth issue concerns the construction of the fitness centre in the Jean Monnet building of the Commission in 1980 without Parliament (or the Council) being made aware. A further serious breach of proper budgetary accountability is the payment of running costs and rent out of the incorrect budgetary lines.

- the sixth issue is the failure of the Commission to implement EP budgetary amendments and to utilise fully appropriations in sectors that are very sensitive both socially and politically. These problems are outlined in Mr. Saby's working document which is annexed to this report³. This shortcoming was severely criticised repeatedly in the past.

- the seventh issue is the series of difficulties in the sector of overseas aid which has been gone into extensively by Mr. Irmer in his earlier texts and in the annexed working document. there is a great need for reform, and the tardiness of the Commission (and of the Council) is most reprehensible.

- the eighth issue is the failure of the Commission (i) to put forward an amendment to the Financial Regulation applicable to the fifth European Development Fund and (ii) to invoke the non-applicability of this Regulation before the Court of Justice⁴.

- the ninth issue is the ambiguous attitude of the Commission in regard to the budgetisation of the EDFs.

¹ Doc. 1-59/81

² OJ no. C172, 13.7.81, p.90

³ Annex II

⁴ OJ no. C287, 9.11.81, p.77

- the tenth issue concerns (i) the lack of adequate documentation that would enable Parliament to verify that the Commission ensures sound management of the borrowing and lending activities of the EC and (ii) the abandonment by the Commission to the EIB of responsibility for certain financial activities.

- the eleventh issue is the bad management of personnel and equipment by the Commission evidenced by its inadequate control over machinery, vehicles, data-processing equipment and the matter of typing pools.

- the twelfth issue is the gap between the Commission and the Court of Auditors in the matter of the figures to be covered in the discharge decision, and accounting problems generally.

122. The nature of Parliament's budgetary control work brings to light the political significance of preparatory analysis done by the financial controllers and the Court of Auditors. The examination of the 1980 accounts of the EC reveals a whole series of delays in carrying out the wishes of Parliament, of incomplete implementation of policies, wastefulness, and interpreting in a biased and improper manner the Financial Regulation and the principles of budgetary management. Generally, the Commission seems to be incapable of discharging fully its responsibility for (i) the implementation of the budget and (ii) giving precedence to the Community interest over other considerations.

123. The rapporteur's suggestion that the taking of the decision on whether or not to grant discharge be deferred - until the Commission has responded fully in writing to a whole series of questions in relation to shortcomings - will, hopefully, enable the Commission to make a solemn declaration, embodying formal commitments, to set right an attitude that is extremely dangerous for the welfare and future of the Community.

