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Report

drawn up on behalf of the Committee on Budgetary Control

**on the/ninth financial report on the European Agricultural Guidance and
Guarantee Fund, 1979 – Guarantee Section**

Rapporteur: Mr P. DANKERT

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On 10 March 1981 the Bureau of the European Parliament authorized the Committee on Budgetary Control to draw up a report on the ninth financial report on the European Guidance and Guarantee Fund, 1979 - Guarantee Section.

At its meeting of 29 and 30 September 1980 the committee appointed Mr Dankert rapporteur, confirming this appointment at its meeting of 22 and 23 April 1981.

It considered the draft report at its meetings of 23 and 24 February, 17, 18 and 19 March and 22 and 23 April 1981, adopting the motion for a resolution unanimously at the last meeting.

Present: Mr Aigner, chairman; Mr Dankert, vice-chairman and rapporteur; Mr Prie, vice-chairman; Mr Balfe (deputizing for Mrs Fuillet), Mr Colla, Mr Gabert, Mr Irmer, Mr Mart, Mr Notenboom and Mr Wettig.

The opinion of the Committee on Agriculture is attached.

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

MOTION FOR A RESOLUTION

on the Ninth Financial Report on the European Agriculture Guidance and Guarantee Fund - 1979 - Guarantee Section

The European Parliament

- having regard to the Ninth Financial Report of the Commission of the EC on the EAGGF (COM(80) 685 final),
 - having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Agriculture (Doc. 1-174/81),
- (a) appreciating the usefulness of the annual financial reports, whose value for the control of management of the EAGGF is enhanced by the analyses of the Court of Auditors,
 - (b) mindful of the need to improve management of the EAGGF, expenditure on which takes up about 75% of the EEC budget,
 - (c) concerned at certain persistent shortcomings noted in the management of EAGGF monies,
 - (d) taking the view that endeavours to curb fraud and irregularities must be better coordinated,
1. Regrets that inaccurate forecasts of agricultural spending should, once again, have necessitated recourse to a supplementary budget, amounting to 802 m EUA, given that the need to exceed appropriations was foreseeable;
 2. Deplores the misuse of the procedure for allocating advances, which resulted in the illegal supplementary outlay of 203 m EUA in the dairy products sector charged to the 1980 budget;
 3. Warns the Commission against the repetition of violation of the principle of budgetary annuality in this way;
 4. Points to the need to revise without delay the procedure for allocating advances so as to prevent the fluctuations that occurred in the 1979 budget;

5. Recommends, to this end, abolishing the option to choose between several procedures, so as to enable the bodies responsible for control to intervene effectively;
6. Takes the view that (i) the pace of recovery of sums involved in reported cases of irregularities is far too slow, (ii) the Commission's counter-measures in proven cases of fraud are not sufficiently vigorous, and (iii) coordination between the Community and national control bodies is inadequate;
7. Urges, once again, the various Community and national bodies concerned with agricultural guarantee policy to strengthen their collaboration in order to make better use of the available appropriations and to combat proven cases of irregularity;
8. Urges that greater efforts be made by the Commission to expedite the clearance of accounts and considers that the long delays experienced in the past are totally unacceptable;
9. Instructs its President to forward this resolution, and the report of its committee, to the Council and Commission.

EXPLANATORY STATEMENTIntroduction

1. The ninth financial report on the EAGGF, Guarantee Section, measures up to the high quality of information content provided by previous reports of the Commission in relation to this section.

The rapporteur does not propose to reproduce in this explanatory statement all the details which are available in the Commission's text: rather, he proposes to concentrate attention on certain features of particular interest from the budgetary control viewpoint.

2. The chapter in the Court of Auditors' annual report for 1979¹ concerning the EAGGF Guarantee Section is more critical of the Commission than ever before. This attitude seems justified. The budgetary management for 1979 and certain aspects of the intervention measures in the milk sector in that year give grounds for serious misgivings. There are complaints of the Commission's undermining certain of the budgetary authority's major rights and of a serious wastage of Community funds.

3. The Committee on Budgetary Control has therefore decided to concentrate its work on the two reports in a single document which is intended both as an explanatory statement to the present report and as a working document for the resolution on the 1979 discharge.

CHAPTER ISummary of relevant financial data and of the remarks made by the Court of Auditors

4. Expenditure on Community financing of markets in 1979 totalled 10,441 million EUA representing an increase of 20 per cent over the outlay of the preceding year. Though steep, this rise was somewhat below the average for recent years, as the following table² shows:

¹ OJ C 342, 31.12.1980

² Source: COM(80) 658 fin., para. 4 of summary

TABLE I

ANNUAL RATE OF INCREASE OF EAGGF
GUARANTEE SECTION EXPENDITURE (%)

	mEUA	
1975	4,522.5	
1976	5,587.1	23.5
1977	6,830.4	22.3
1978	8,672.7	27.0
1979	10,440.7	<u>20.4</u>
Average		23.0%

Financing this outlay involved having recourse in 1979 to a supplementary budget of 802 million EUA: also, 203 million EUA in respect of milk products was covered out of the 1980 budget.

The above figures show that the longer-term growth of expenditure in relation to the EAGGF is very considerable. The Commission's introduction to the 1979 financial report recognizes this and states its belief that 'efforts to curb the growth in this expenditure must be continued, both by amendments to the regulation on agriculture by the Council, and by the use of its own powers of management'.

5. The Court of Auditors' criticism of the budgetary management centres on:
- (a) the fact that in 1979 expenditure exceeded appropriations by 203.5 million EUA; and
 - (b) the fact that the system of advances, which is central to agricultural financing, failed to function satisfactorily; because of the incompatibility of regulations with the Treaty or the Financial Regulation, the Commission has tended to use the system in such a way that responsible budgetary management is sacrificed to the interests of the Member States and to its own convenience.

As regards the policy in the milk sector, attention is drawn to the high additional costs - the Court of Auditors cautiously puts the figure at 185 million EUA over a two-year period but others put it at as much as 300 million EUA over the same period - which arose from delays in the adjustment of the measures for the disposal of skimmed milk powder on the internal markets and for the export of this product.

6. In addition, many of the other areas investigated are the subject of much criticism, but it should be pointed out that in assessing the sectoral policy the Court of Auditors confined itself essentially to branches of the milk sector. An investigation of other sectors would probably in certain cases have given rise to equally serious criticism.

7. The remarks made by the Court of Auditors at the end of the section dealing with policy in the skimmed milk powder sector should not therefore necessarily be taken to apply to this sector alone - although in some cases the Council is just as much to blame for shortcomings as the Commission. These remarks are as follows:

'The Court is struck by the complacency shown by the departments of the Commission at the mention of the present mechanisms and the ways in which they operate. It wonders whether a constant willingness on their part to question existing systems and procedures would not be a more appropriate attitude.'

It could well be that the complacency shown by the departments of the Commission - the Commission's replies to the Court of Auditors' remarks in themselves frequently betray an attitude of this kind - makes it easier for the Commission to comply with the wishes of the Council or the Member States, to the detriment of the budgetary authority.

8. Steps must therefore be taken, both in the resolution on the 9th financial report on the EAGGF Guarantee Section and in the framework of the discharge procedure, to convince the Commission of the need to revise both the Financial Regulation and a number of other regulations in such a way as to ensure that the violations of Articles 203 and 205 of the Treaty cannot recur. In addition, the Court of Auditors' comment concerning the wasting of 185 million EUA in the skimmed milk powder sector, a comment which was not refuted by the Commission, emphasizes the need for an investigation into the management of the other markets and the functioning of the market management instruments (intervention, storage, refunds and advance fixing of refunds). The implementation of the 1980 budget has shown that considerable savings are possible in this field and that such savings do not fundamentally affect the functioning of the Common Agricultural Policy. It is apparent from a document recently attributed by 'La lettre européenne' to the Directorate-General for Budgets that further savings are also possible. On the subject of export refunds, this document states that 'investigations should be made into the effect of advance fixing' and that 'the level of refunds should be adjusted more regularly'; savings amounting to 800 million EUA are considered possible for the EAGGF Guarantee Section as a whole.

CHAPTER II: Transparent budgeting and democratic control

'However, emphasis should be placed first and foremost on the Community's determination to turn its budgets into transparent and rigorous instruments permitting the easy exercise of thorough democratic control.'

Daniel Strasser, les Finances de l'Europe, 2nd edition, 1980, p. 39

Derogations from the rules

9. Application of Article 101 of the Financial Regulation, which stipulates that:

'Appropriations made available in one chapter of expenditure may not be allocated to another chapter of expenditure.'

The management of detailed appropriations is based on the statements submitted each month by the Member States. However, it is not until two months after the statements are submitted that this expenditure (converted into EUA) is committed by chapter, article and item and charged as a payment.

Moreover, transfers (which under Article 101 may be made from one article to another without the intervention of the budgetary authority and from one chapter to another with the approval of the Council) may take effect up to 31 March, i.e. the time at which the accounts must be closed. Thus, the principle of specificity has been interpreted 'very liberally' because it is not applied until expenditure already made is recorded in the budget.

10. The principle of annuality has been frankly flouted because detailed management and overall management should balance on the basis of expenditure effected as at 31 December.

Exploiting loopholes in the regulations relating to the procedure for granting advances

11. The contradictory nature of the regulations permits a regrettable excess of flexibility in the management of the system of advances which, because it is central to the financing of the Guarantee Section, should be absolutely unimpeachable.

12. The procedure for granting advances must be improved with a view to avoiding the imprecisions of the 1979 budget:

- late adjustment of budgetary appropriations
- confusion of advances chargeable to two successive financial years; and
- carry-over of a deficit of 203.5 m EUA to 1980.

For the sake of greater stringency, steps should be taken to ensure that it is no longer possible to choose between several different procedures on the basis of one or other of the following regulations:

- Council Regulation (EEC) No. 729/70, which lays down the procedure for granting advances in accordance with the principle of annuality (Article 5),
- Commission Regulation (EEC) No. 380/78, an implementing regulation which provides that the Member States may transmit to the Commission by 20 February at the latest adjustments concerning the operations of the year just ended (Article 6(2), second subparagraph).

Since the Member States had opted for the latter procedure, the Commission took the line that the 203.5m EUA deficit could not be charged to the 1979 financial year and had to be charged to the 1980 financial year instead.

The Commission seeks to justify this line of argument by citing the third paragraph of Article 5 of the Financial Regulation. In fact, however, this clause takes quite the opposite line, requiring the Commission to charge the expenditure in question to the 1979 financial year. Moreover, Article 98 of the Financial Regulation is quite explicit on this point, stipulating that:

'expenditure shall be taken into account for a financial year on the basis of payments made up to 31 December by the authorities and bodies referred to in Article 4 of Regulation (EEC) No. 729/70, provided that their commitment and authorization have reached the accounting officer not later than 31 March of the following year'

In the case in point, the payments were made in 1979 and their commitment and authorization reached the Commission at the beginning of March 1980.

13. The Commission, like the Member States, seems to take the easy way out as regards the use of advances.

- (a) The Member States have adopted an attitude of excessive flexibility in the submission of their applications, to which they will not commit themselves formally by presenting statements, as required, of their cash positions and estimates of their future expenditure.

The relationship of trust and the desire or need to relax the procedures involved lead to the submission of frequently inflated requests on the basis of which amounts which are often excessive are granted with a mechanical regularity that in many cases amounts to abuse . It is apparent from the table on the rate of utilization of advances that there are two types of irregularity:

- The average rate of utilization in most of the Member States varies from 62.5% to 92%. This means that these Member States enjoy a permanent cash benefit (only two spent more than the advances granted).
(We note, however, with satisfaction that the average rate of utilization, which amounted to 77% in 1978, was 83.2% in 1979.)

- What is surprising, and at the same time unprecedented, is that by 31 December all the rates had miraculously risen to more than 100, as a result not of an excess of zeal on the part of the Member States but of an excess of generosity on the part of the Commission or rather a shared excess of flexibility which induced the Member States to use in 1979 appropriations intended to cover expenditure in 1980.

- (b) The relaxation of the procedure for the management of advances automatically results in less rigorous instruments of control.

Article 96 of the Financial Regulation stipulates that 'the approval of the Financial Controller shall have the sole purpose of establishing that these commitments correspond to the amount of the advances decided by the Commission after consultation with the EAGGF Committee, and that they are within the limits of the total amount of appropriations entered in the Guarantee Section of the European Agricultural Guidance and Guarantee Fund'.

This would doubtless be adequate provided that Article 3 of Regulation EEC No. 380/78 were complied with:

'1. Not later than the 20th day of each month the Member States shall submit to the Commission, in triplicate, an application concerning the financial requirements of disbursing authorities and agencies.

2. An application within the meaning of paragraph 1 shall be accompanied by supporting statements for each disbursing authority and agency drawn up in accordance with the Annexes to this Regulation and comprising:

- (a) a statement of the cash position at the end of the preceding month (Annex I);
 - (b) a statement of expenditure, broken down according to the items of the budget of the European Communities and according to types of expenditure (Annex II), showing:
 - The expenditure in the month preceding that in which the application within the meaning of paragraph 1 is made,
 - the expenditure estimate for the current month and for the two following months.
3. Member States with more than one paying department or agency shall also enclose with the application referred to in paragraph 1:
- (a) a summary of the cash position at the end of the preceding month, together with a statement of the funds available in the account opened pursuant to Article 1 (Annex IV);
 - (b) a summary of the information transmitted in accordance with Annex II (Annex V).'

This implies:

- that the Member States should commit themselves formally to their applications; and
- that the Commission should be in a position to verify and, where necessary, discuss the justification for their applications.

14. However, the situation at present is such that the procedure is applied more and more hastily and applications are finally made, in extremis, to the EAGGF Committee and are granted almost automatically; it would therefore be desirable for true controls to be carried out, either by the Financial Controller, or by a body that specializes in this type of investigation.

15. One of the most characteristic forms of abuse in the financial year was the use of advances chargeable to the next financial year in order to cover expenditure for the current financial year. This was made possible by the application of Regulation No. 380/78, by which the Commission amended Regulation No. 2697/70 with a view to setting up a mechanism designed to ensure an effective cash supply for at least one month without distinguishing between advances chargeable to one or the other financial year.

16. These regulations can all too easily lead to procedural changes that are contrary to strict budgetary control and must be tightened up as soon as possible.

17. The Court of Auditors' annual report devotes considerable attention to the policy pursued by the Commission in the matter of advances in 1979. In view of the Commission's replies to the Court of Auditors' comments this approach is entirely justified. Three points should be singled out:

- the fact that the supplementary budget was submitted at a very late stage despite the trends in advances up to and including August 1979;
- the fact that expenditure exceeded appropriations for 1979 by 203.5 million EUA as a result of the policy pursued in the matter of advances;
- the allocation of an advance for January 1980 intended, inter alia, to provide the Member States with unvoted appropriations for 1979.

(a) The late submission of Supplementary Budget No. 3

18. The average monthly sum available for advances from the 1979 budget and the appropriations carried over to 1979 (the latter figure was very small because almost all of the appropriations available at the end of 1978 were used up in order to reduce the value of the reserves and thus artificially and deliberately depress the costs of the Guarantee Section in 1979) stood at 9632.5/12, i.e. 802.7 m EUA. No single figure for advances granted in the period from January to September inclusive was lower than that amount; the same applies to the payments notified two months after the advances had been granted for the period from March to August inclusive.

19. Nevertheless, the Commission did not submit a preliminary draft supplementary budget until 16 October. The moot point now is whether, in view of the known financial position of the EAGGF Guarantee Section in the months approaching summer and in view of the provisions of the Financial Regulation concerning the time limit and the procedure for the submission of a supplementary budget, the Commission should not have presented a preliminary draft before the summer or, at the latest, by the beginning of September.

20. Advances up to and including those made in August (paid in July) amounted to an average of 923.2 m EUA instead of the average 802.7 m EUA available from the 1979 budget. Because account is taken of the cash position of the Member States when advances are granted, payments roughly kept pace with advances.

21. Indeed, the payments themselves - broken down by budgetary item starting with the account for March - make the situation quite clear. The monthly average for payments over the period from January to June inclusive amounted to 910.2 m EUA.

22. This means that, independently of the Council's price decisions on 22 June - which were just something extra to be borne in mind - the Commission should before the summer have considered the following questions: whether a supplementary budget should be submitted directly or immediately after the summer, and/or whether the policy controlled by the Commission itself should be adjusted (refunds, etc.) and/or whether the advances should be reduced because 'the Member States' requests should not be met in full when there is a danger that total appropriations may be insufficient'.¹

23. In fact, none of these three matters was tackled. The Commission simply announced that the Council decisions of 22 June would call for a supplementary budget.

24. It was not until September that the Commission began to give more detailed consideration to a supplementary budget, and this budget was not submitted until 16 October. Economies or reductions in advances then no longer represented a solution, among other things because of the advance fixing of refunds in the milk sector and because only 244 m ECU was available for advances in November and December.

25. In its replies to the Court of Auditors' comments, the Commission's only excuse was that it did not become apparent that the shortfall in the milk sector could not be offset by an advance from the surplus funds in the cereals sector. However, the Commission had for some time been in a position to know that there was also a substantial shortfall in the beef and veal sector and that a boom in the cereals sector as a result of higher world market prices would in general also lead to a slump of comparable magnitude in budget revenue as a result of the decline in levy income. Moreover, although it is true that at the beginning of July it was not possible to predict whether export levels for dairy products would remain high, such a prediction could easily have been made in the summer of 1979: the reduction in refunds on 3 August, following a similar reduction on 17 June, and the fact that advance fixing arrangements for skimmed milk powder had already been adopted in respect of 500,000 tonnes in the summer were proof enough.

26. The conclusion is obvious; although in July it was not fully possible to say what supplementary appropriations the Commission required for the EAGGF Guarantee Section, at the end of August the situation was clear and the Commission could have submitted a preliminary draft supplementary budget on about 1 September pursuant to Article 1(5) of the Financial Regulation. In

¹ Commission's replies in the Court of Auditors' 1979 Annual Report, p. 259

the context of a normal budgetary procedure, however, the submission of such a budget in September would have had to have been preceded by a reduction in the advances from September onwards and on 3 August the milk refunds would have had to have been reduced more substantially than in fact they were. Without such measures, the preliminary draft would have had to have been submitted in July, because if it had been submitted in September the advance for November, to be made in the first half of October, could only have been partially covered; the trend in advances up to and including August made that abundantly clear.

27. Not only was no preliminary draft submitted, the state of affairs as regards advances was also concealed from Parliament. It was not until December that Commissioner Tugendhat told Parliament that: 'On the matter of appropriations being exceeded, I would like to repeat that the Commission adheres to the undertaking given in 1975 by Mr Cheysson, my predecessor as Budget Commissioner, that when there is a risk of this happening the Commission would consult Parliament through its appropriate committees before taking any decision likely to have political repercussions or financial consequences exceeding the normal budgetary framework'.

28. It would be as well to urge the Commission to adopt the same approach when such problems are likely to occur as a result of failure to take decisions.

29. Moreover, the Council, of course, knew full well what was happening. The Dutch Minister for Agriculture told the Second Chamber in August that, in the light of trends in EAGGF expenditure between January and August, the appropriations entered in the budget would in his opinion be exceeded by 800 million EUA¹.

This figure differed by only two million EUA from the amount entered in supplementary budget No. 3, which was not submitted until 16 October.

(b) Panic in October

30. On 17 October it was ascertained that only 242.4 million EUA was available for the advances required in November, which amounted to 654.15 million EUA. On 16 October the Commission had submitted Supplementary Budget No. 3. On 12 October export refunds for milk products were reduced to a point where exporters no longer took recourse to them (the same applied, of course, to refunds established on the basis of advance fixing - the question of whether, and if so, how such refunds were (pre)-financed after 17 October at national level requires further investigation). Finally, the heavily subsidized sale of skimmed milk powder for pig and poultry feed was suspended by the Commission regulation of 19 October (this could, therefore, have been done earlier). If

¹ Second Chamber, 1979, OCV of 27 August, EEC and Euratom, p. 1356

the reduction in refunds and the suspension of the subsidy for the use of skimmed milk powder in poultry and pig feed had been carried through at an earlier date the problem that occurred in October with regard to the payment of advances for November could in some ways have been alleviated. However, at this stage it was too late.

31. The number of decisions adopted in the week 12-19 October points to panic in the Commission. The Court of Auditors is to be supported in its view that this panic could have been avoided if a more far-sighted policy had been adopted.

(c) Excess spending

32. In its replies to the Court of Auditors' comments (4.14 to 4.18) the Commission blames the budgetary authority for the fact that the supplementary

budget did not contain enough appropriations and the Member States for the fact that they effected more payments than they should have done on the basis of the commitment appropriations (advances). As regards the first point: the Commission asked for 100 million EUA more in its preliminary draft than the Council approved. The shortfall at the end of 1979, after adoption of the supplementary budget, amounted to 203.5 million. The difference between a shortfall of 103.5 million and a shortfall of 203.5 million is one of degree rather than one of principle.

33. As regards the Member States, Commissioner Tugendhat himself said in a statement that he made during the European Parliament's December 1979 part-session that: 'The late adoption of the third supplementary budget on 13 December (he did not mention the late submission of the preliminary draft) in combination with the normal granting of advances in December 1979 from the 1980 budget perhaps created in the disbursing agencies in the Member States a measure of uncertainty as regards how much money they really had in the form of appropriations that were actually available on the basis of the 1979 budget'. This statement by the Commissioner does not hold water. On 10 December, when the Member States received the advance for January 1980 Supplementary Budget No. 3 for 1979 had not been approved and there was no longer any mention of appropriations available to the Member States 'under the 1979 budget' in view of the meagre sum available for the November advance. Moreover, on 10 December the Commission had granted a January advance amounting to the very magnificent sum of 2,126.3 m EUA, i.e. two to two and a half times as much as the usual figure for January. It would, therefore, be interesting to know what advance the Member States had requested for January 1980.

34. The 2,126.3 million EUA was now made over and described as 'intended to cover the expenditure of the disbursing agencies and authorities up to the end of January'. No mention was made of the money still required or still available for November and December 1979. It is therefore only natural that the Member States should have used the advance for January 1980 to help settle their accounts for 1979 in the light of the formula adopted by the Commission for the January advance, in the light of the amount granted, in the light of the flexibility usually shown by the Commission as regards advances and perhaps even in the light of the Commission Regulation which, as far as the policy on advances is concerned, violates the annuality of the budget.

35. Since the Commission had the appropriations from Supplementary Budget No. 3 available to it on 13 December, it could still have rectified the situation. As the Court of Auditors rightly points out, the Commission instructed its own departments to take the relevant action but omitted to notify the Member States that the '1980 advance' had been divided into 1979 appropriations and 1980 appropriations. The blame for the fact that the Member States in 1979 spend 203.5 million more than was possible on the basis of the 1979 budget is to be laid not at their door but at the Commission's. It is not permissible to charge the expenditure as the Commission did, to 1980; it was effected in 1979 (see penultimate and last column of Table 2 on page 54 of the Annual Report).

- The conclusion must therefore be:

- (a) The Commission exceeded the appropriations available in the budget by 203.5 million EUA and, by granting the Member States such a large advance for January 1980, itself left the Member States with no other alternative than to conclude that this advance included the outstanding advances for November and December 1979.
- (b) The responsibility lies with the Commission not only because of the size of the advance for January 1980 and the information given to the Member States in this connection but also because amended Regulation No. 2697/70 had been replaced by Regulation 380/78, a Commission regulation, which introduced a system designed to supply the Member States continuously with cash facilities of at least one month on the basis of estimates of expenditure covering three months running without making any provision for distinguishing in good time between the advances chargeable to one financial year and another.

- (c) The Committee on Budgetary Control therefore shares the Court of Auditors' view on 'the need to revise the legislative provisions governing the management of the advances, which constitutes the central system of financing of the Guarantee Section'.
- (d) Any such review should ensure that expenditure on the basis of budgetary law is limited to the appropriations available, thereby guaranteeing compliance with Articles 203 and 205 of the Treaty.

CHAPTER IV

An example of inadequate management: the skimmed milk powder sector

36. Management control in the dairy sector, or to be more precise in the skimmed milk powder sector, which is a particularly problematical area³ of the EAGGF Guarantee Section, gives food for thought as regards the means available to the Commission for carrying through the common agricultural policy in the world market and the way in which it uses these means.

37. The financial year 1979 was characterized by a substantial increase in the Community's share of world trade in milk products:

Volume of exports:		(in 1000 t)		
		1977	1978	1979
Butter (+ butteroil)	World	633	589	812
	EEC	270	277	499
	%	42.7	47.7	61.5
Milk powder	World	1,055	974	1,040
	EEC	421	419	636
	%	39.9	43.9	61.2

This resolutely export-based policy forms part of a series of measures which were intended to bring about a considerable reduction in public stocks and in fact resulted in a spectacular drop in the volume of such stocks, from:

720,858 t on 1 January
to 214,058 t on 31 December

38. In addition to the sales on the world market, encouraged by refunds set at advantageous levels for exporters, a number of intervention measures also made a fairly successful contribution to the disposal of stocks, although the costs of these measures varied considerably and were not always equally justified.

39. Whereas the costs of export refunds amounted to 60% of the value of the products, consumption subsidies on the internal market varied in cost from 50 to 80% of the value, depending on whether the products concerned were intended for the feeding of calves or for use in compound feedingstuffs for pig and poultry rearing.

40. The Court confined itself to calling into question the manner in which the various measures were staggered over the year and the desirability or otherwise of the use to which they were put in the context of the internal market or the world market. The impression gained is that the stock reduction policy, the urgent need for which cannot be disputed, was in fact carried through successfully, but at a cost which could perhaps have been lower.

41. The fact that from the beginning of 1979 advance fixing arrangements had been adopted in respect of more than 500,000 tons of skimmed milk powder, when the annual volume of exports was usually less than 400,000 tons, should have alerted the Commission and induced it to act as swiftly in reducing the level of refunds as the traders had acted in applying themselves to the task of securing advance fixing advantages in anticipation of an upturn in world prices.

42. It is extremely regrettable that, despite the signs of economic change, the Commission waited several months before adopting measures in line with world market trends. Indeed, although it was fully justifiable to introduce a stock disposal policy at the beginning of the year when production was still tending to move upwards as it had in 1977 and 1978, it would undeniably have been advisable for the CAP executive to overhaul its policy later in the year when the March-April forecasts confirmed a downward trend, especially since this new situation on the world market seemed likely to last, being based on the fact that milk production was now being geared to the manufacture of products with high added value rather than the convenient but cumbersome system of processing into milk powder.

43. The convergence towards this type of production in countries such as New Zealand and France clearly did not play a crucial role in the thinking of the Commission which, despite everything, chose to pursue its stock reduction policy

44. It is difficult to see what caused this stubbornness and insensibility to signs of change which made the Commission persist in an attitude irreconcilable with good management. Was it because the Commission, as one of its officials rightly said, is neither 'a commercial nor an industrial undertaking?'. But then it does nevertheless have similar responsibilities and, since it manages common funds, it should undoubtedly share with other managers the desire to handle carefully the funds of the Community 'undertaking'.

45. This was not the case in the financial year 1979:

- Because it waited until October before it called a halt to aid for skimmed milk powder for pig and poultry feed, the most costly measure encouraging consumption; and
 - because it persisted with advance fixing in respect of large quantities of milk at a price kept at an arbitrarily low level despite the confirmation of an upward trend on the world market,
- the Commission can justifiably be accused of wastage both as regards the funds entrusted to it and as regards the powers vested in it.

46. The Commission is also open to criticism for its indifference to the side effects of its bureaucratic management, which resulted in an abnormal increase in the price of milk on the internal market in the autumn months when the economic trend was in the opposite direction. This had the regrettable effect of increasing still further the incomes of milk producers and penalizing calf producers who were using milk powder, who cost the EAGGF less than any other sector ... and who furthermore were working in a branch of agriculture to which dairy farmers were being encouraged to convert!

47. The Court of Auditors draws a harsh conclusion, putting the cost of the Commission's accumulated errors in the management of the skimmed milk powder sector at 185 m EUA.

48. But how can the agricultural policy be pursued at a lower cost? It is to this end that we must direct our efforts in the Community institutions by taking measures to ensure effective cooperation and constructive thought instead of persisting in misguided attitudes.

49. The arguments advanced by the Commission to justify its policy of reducing stocks at all costs were as follows:

- Participation in the world market in keeping with the Community's importance as the producer. However, this unfortunately does not explain the situations which arose in 1979, as it emerges from a table showing the major patterns in world trade in milk products and the respective share of the main producers.

- The need for the Community to export in order to restore equilibrium to the Member States' balances of payments is not a very convincing argument either because there would have been other years, apart from 1979, in which such measures would have been urgently needed on this basis.

50. On the other hand, the remarks of the Commission and the Court clearly show that there were other more serious reasons for a change in policy connected with short-term economic factors and factors affecting the structural components of the world market.

- The increase in the demand for butter in the USSR, the Eastern bloc countries and the Middle East, combined with

- the lower level of availability in the other exporting countries, where stocks were declining well before they did so in the Community

undoubtedly gave the Commission grounds for changing its policy, but it should have adopted a more prudent approach.

51. The Court of Auditors points out that the conditions of competition do not work to the EEC's advantages since the other exporting countries benefit from the effectiveness and flexibility of management by a single central board which can adjust to market requirements more easily than the ponderous machine which implements the commercial policy of the Nine.

52. Moreover, the Commission may be handicapped in its management operations by the multiplicity of its sources of information inasmuch as a momentary defect anywhere along the line can slow down the whole machine.

53. Hence, it can readily be appreciated that the need to adopt general measures at Community level stands in the way of the flexibility necessary for sound management and deprives the Commission of the advantages of appropriate ad hoc measures. However, it would seem essential, with a view to carrying through the improvements in management which have become vital now that the Community's resources are being exhausted, to take steps to revise certain provisions, the adjustment of which would prevent wastages.

54. Thus, to quote the Court of Auditors:

- 'The question therefore arises whether the performance guarantee is adequate; whether, by way of exception, the validity of the advance fixing certificates could not have been shortened during the period May to October 1979 to take account of a probable rise in world prices; and whether quotas could not have been reserved for producers and exporters who normally operate on the market so as to reduce the chances of speculators obtaining certificates for resale to those traders at the right moment.'

CHAPTER V : Fraud and irregularities

55. Parliament has frequently¹ expressed its concern about the dangers of fraud and irregularity being committed because of the complex and opaque nature of the regulations governing the common agricultural policy, the enormous mass of transactions involved and the seemingly inadequate Community apparatus for carrying out verification and control work.

56. The following table shows the number of cases of fraud reported in recent years:

TABLE V²

	Number of EAGGF irregularities reported				% of total for the 4 years	% of final agricultural production
	1976	1977	1978	1979		
United Kingdom	118	56	40	25	39.5	11.2
Germany	86	49	48	36	36.2	23.4
France	4	8	9	32	8.8	26.1
Denmark	1	14	11	11	6.1	4.9
The Netherlands	2	9	3	6	3.3	8.6
Ireland	10	5	1	2	3.0	2.3
Italy	2	5	1	3	1.8	19.2
Belgium	3	4	0	1	1.3	4.2
Luxembourg	0	0	0	0	0	0.1
	226	150	113	116	100	100

57. Over 75% of all the irregularities discovered during these 4 years are attributable to 2 Member States (United Kingdom and Germany) which account for about 34.5% of final agricultural production in the Community, whereas 2 other Member States (France and Italy), which account for over 45% of final agricultural production, reported only about 10.5% of the irregularities.

58. This uneven reporting of irregularities could have more to do with the audit and control systems operating in the various Member States than with the real level of breaches of Community regulations in the countries concerned. Therefore, a greater standardization of control checks is urgently needed.

59. The amounts of the sums involved in the irregularities reported is surprisingly small, when regard is had to the value of the total commodities in question, the resourcefulness of entrepreneurs and the wide scope for fraud that the CAP presents. For the nine years, 1971 to 1979, the total involved in the irregularities reported was rather less than

¹ E.g. Doc. 1-463/79, para. 63; Doc. 1-79/80, Part IV and Doc. 1-150/80, paras. 22-24

² Source: Annex 15 to COM(80) 685 final
Basic statistics of the Community 1979: Table 41 - Agricultural Accounts

4.1m EUA for all Member States combined. Of this relatively modest total, slightly over half has been recovered. However, if the exceptional statistics for 1971 are excluded, the average for the eight other years works out at slightly more than one-third recovery.

Following are the details:-

TABLE VI

Year	(a) Amount involved in cases reported (EUA)	(b) Amount of (a) recovered (EUA)	(c) as % of (a)
1971	11,876,512	11,747,072	98.9
1972	2,314,319	1,045,751	45.2
1973	1,306,811	654,091	50.0
1974	4,360,653	976,809	22.4
1975	3,037,315	1,283,629	42.3
1976	5,331,253	2,277,229	42.7
1977	8,321,583	2,041,688	24.5
1978	2,172,886	988,454	45.5
1979	2,093,970	1,210,055	57.8
TOTAL	40,815,302	22,224,778	54.5
excluding 1971	28,938,790	10,477,706	36.2

Source: COM(80)685 final Annex 15

60. It is evident that the picture insofar as the recovery of funds concerned in cases of reported irregularities is a gloomy one. Even when due allowance is made for court proceedings, the delays are far too great. Detection of irregularities should serve as a deterrent. The deterrent value is diminished if six or eight years can elapse before those found guilty of irregularities are obliged to make restitution.

61. The Commission, in the report under consideration, states, rather demurely, that "The national recovery procedures seem to last rather a long time. If they appear to be taking too long, the Commission sends regular reminders to the Member States."¹ On the other hand, the ECA at paras. 4.56 to 4.62 of the report on 1979 has been very critical

¹ COM(80) 685 final, para. 7.3

of the information available to the Commission which it considers to be not of sufficient quality. The ECA also criticises the fact that the Commission does not examine the follow-up procedures of Member States in a systematic way. There is a "lack of knowledge", or, in summary, the ECA considers that the Commission's application of the Regulation¹ "does not enable the extent of the irregularities or the effectiveness of the Regulation in detecting and suppressing them to be assessed."

Despite the wide range of ingenious possibilities that was identified by the Special Mission of Inquiry into the wine sector² and which was the subject of a debate in plenary last December on the basis of a Control Committee report,³ the rapporteur was surprised not to find any cases concerning wine irregularities mentioned in the financial report.

CHAPTER VI : Clearance of accounts

62. Delay in the clearance of accounts gave rise to considerable concern for the European Parliament in the past. The Commission was called on to expedite the work on the closure of accounts, in last year's report⁴ on the EAGGF. At Chapter 8 of its report on 1979, the Commission describes the overall situation in regard to the audit and clearance of accounts.

63. The accounts for the financial year 1973 were cleared by the Commission on 12 October 1979⁵; however, three Member States - Germany, Italy and Belgium - appealed to the Court of Justice in regard to certain aspects. For the following years, the Commission has decided to group the clearances in the hope of expediting them. The Commission has indicated the main shortcomings and weaknesses detected: these are in the presentation of data, the transmission of reports, the monitoring and recording of expenditure in the accounts, the rules of the paying agencies, and the availability of original supporting documents. Clearly, these problems plus the long delays make a major review of the procedures essential.

1 Regulation (EEC) No. 283/72

2 Doc XX/6/78

3 Doc 1-166/80

4 Doc 1-79/80, page 7, para. 15

5 OJ No 278, 7.11.1979, pages 9 to 25

CHAPTER VII : Conclusions

64. To sum up, it has to be stressed that much remains to be done to facilitate the task of carrying out suitably thorough controls and to encourage stricter management.

It is essential:

a. that the executive and consultative institutions should make an effective contribution to the review of the Financial Regulation, by clearly identifying the problems that have led or are likely to lead to a selective use of procedures.

With proper collaboration between the two arms of the budgetary authority and the various commissions and committees which cooperate in implementing the budget, it ought to be possible to establish a general rule which could prevent the executive authorities from juggling with the regulations.

b. that the utmost attention be paid to the remarks of the Court of Auditors concerning the Commission's extremely liberal use of funds. The argument that advances meet the needs of a sector in which the vagaries of production combined with the diversity of the executive bodies involved and the complexity of the regulations deprive the Commission of any real influence is no excuse for greater laxity in the management of advances than in the management of other systems of financing.

c. to correct the accounts and reconcile them with the real situation in respect of advances paid out in December 1979. Given the observations of the Court of Auditors which are fully endorsed by the Committee on Budgetary Control, there can be no question of leaving these amounts on the debit side of the 1980 budget.

d. Nevertheless, it is essential that in future the Commission should pay full attention to the views of national institutions which, because they have more direct access to information than the Commission, are better able to forecast trends in agricultural production and to adapt the financial instrument accordingly. Furthermore, the data which the Commission receives about the advances and the allocation of appropriations should be regularly and rapidly conveyed to the relevant parliamentary bodies, so that there is a constant flow of information between the various organs concerned with the budget.

We would reiterate the opinion expressed by Parliament and recorded in the minutes of the negotiations on Article 96 of the 1977 Financial Regulation: if the measures planned resulted in the appropriations in a chapter being exceeded, the Commission should be in a position to consult Parliament before the final decision was taken.

- e. Finally, if we digress somewhat from the question of the discharge and consider the need for thrift in the use of EAGGF resources - which is of paramount importance if the Community's resources as a whole are to be properly controlled - it is apparent that urgent consideration should be given to ways and means of increasing the financial effectiveness of commercial operations.

The financial difficulties of the 1980 financial year precipitated the adoption of a number of measures designed to improve the Community's position in international trade relations. Now that that difficult year is over, fresh efforts should be made in each successive financial year to adapt CAP management procedures in such a way as to compensate for the lack of flexibility and financial efficiency inherent in the cumbersome machinery of the Community.

- f. The surprisingly low number of proven cases of fraud and their irregular distribution between production areas in the Community, the slowness in recovering funds and the lack of any systematic procedures for that purpose, are such that a separate mention in the resolution on the 9th EAGGF Guarantee Report seems appropriate.
- g. Long delays in the approval of accounts are no longer tolerable.

OPINION OF THE COMMITTEE ON AGRICULTURE

Draftsman: Mr M. CLINTON

On 12 January 1981 the Committee on Agriculture appointed Mr Clinton rapporteur.

The committee considered the draft opinion at its meeting of 22 and 23 April 1981, adopting it by 20 votes with 2 abstentions.

Present: Sir Henry Plumb, chairman; Mr Fröh, vice-chairman, Mr Clinton, draftsman; Mr Abens (deputizing for Mr Sutra), Mr Barbagli (deputizing for Mr Colleselli), Miss Barbarella, Mr Battersby, Mr Caillavet, Mrs Castle, Mr Dalsass, Mr Davern, Mr Delatte, Mr Diana, Mr Fotilas, Mrs Herklotz, Mr Hord, Mr Kappos (deputizing for Mr Maffre-Baugé), Mr Newton Dunn (deputizing for Mr Provan), Mr d'Ormesson, Miss Quin, Mr Tolman and Mr Visas (deputizing for Mr Papaefstratiou).

1. The Ninth Financial Report on the EAGGF gives the European Parliament the opportunity to express its views on the implementation of the common agricultural policy during 1979.

The year in question was a turning point in that the Community Institutions realized the need to take a serious look at agricultural expenditure with a view to affecting savings without, if possible, reducing the incomes from family-sized farms.

- Thus, at the European Council in Paris (12-13 March 1979), the Heads of State or Government of the European Community held a thoroughgoing exchange of views on the common agricultural policy in the light of a communication from the Commission¹ and concluded that it was necessary to correct the imbalances which had appeared in certain markets, while confirming their belief in the basic objectives of the policy.
- On 29 November 1979 the Commission forwarded a communication to the Council² concerning changes in the common agricultural policy to help balance the markets and streamline expenditure,

2. When one looks at the EAGGF - Guarantee Section, expenditure on which amounted to 10,440.7 m EUA (up to 20% on 1978), one finds that the milk sector accounted for 25% of the Community's own resources. This indicates the need for special measures to attract farmers to other lines of production not in surplus in the Community and also the need to improve marketing and better control over imports.

3. When one looks at the expenditure sector by sector, one finds wide variations between the actual expenditure and the original appropriations:

Cereals	-	310.5 m EUA	Milk and milk products	+	809.9 m EUA
Sugar	-	64.8 m EUA	Oils and fats	+	83.1 m EUA
Wine	-	57.5 m EUA	Beef and veal	+	259.9 m EUA
Tobacco	-	36.5 m EUA	Fruit and vegetables	+	116.4 m EUA
MCAs	-	100.8 m EUA	Products not listed in Annex II	+	76.0 m EUA

4. The reductions (savings) are due to higher prices on the world market (cereals, sugar), smaller harvests than expected (wine), a weaker demand than expected (tobacco) and, lastly, a political decision backed up by favourable trends in the money market (reduction of MCAs).

¹ Communication on the future development of the CAP Bulletin of the EC No 11/78, p. 131

² Doc. 1-610/79 - COM(79) 710 final

5. Additional expenditure, on the other hand, is due to higher production, increased imports and the difficulty of finding outlets (milk and milk products, beef and veal) and to the introduction of new aid mechanisms (olive oil, castor and soya seeds, fruit and vegetables and products not listed in Annex II).

6. This situation made necessary a supplementary budget of 802 m EUA. It is noteworthy that, despite special measures to dispose of dairy products, particularly on the internal market, butter stocks increased from 285,000 tons to 293,000 tons: they rose between 1 January and 31 December 1979. On the other hand, there was a considerable reduction in stocks of skimmed milk powder as, over the same period, they fell from 722,000 to 215,000 tons.

7. As regards the appropriations for the EAGGF - Guidance Section, the Committee on Agriculture notes that these represent less than 10% of those for the Guarantee Section. This percentage should be increased if we want to achieve a true Community agricultural policy.

8. In 1979 the Community committed 141.1 m EUA to finance socio-structural measures, 171.5 m EUA to improve production structures, 136.7 m EUA to improve marketing and processing structures and 12.1 m EUA to repair damage caused by natural disasters (earthquakes, hurricanes).

9. One of the main problems is that aid was not sufficiently concentrated on the neediest regions of the Community, despite the coordination of the Community financial instruments carried out by the 'Task Force'.

In general, it is easier for organized farmers to obtain aid from the EAGGF.

10. The regional approach to the improvement of agricultural structures is only hinted at in the 1979 budget (forestry measures for the Mediterranean areas, redevelopment of wine-making areas in the Languedoc-Roussillon and Charentes regions, drainage operations in the west of Ireland); we shall have to wait for the 1981 budget before the Community finally commits itself to a more regionalist approach to the common agricultural policy. It is by means of ad hoc schemes, at regional level, that the gap between rich and less rich regions of the Community will be reduced. Horizontal measures, though useful, generally benefit the better organized farmers who are more capable of submitting applications for assistance from the EAGGF.

11. The Committee on Agriculture regrets that the Commission did not, in its report, raise the matter of monitoring national aids which, if they are not fitted into the overall design, will run counter to the aims of the common agricultural policy, prove costly for the Community, which is responsible for management of the markets, and create distortions of competition between the farmers of the Member States. As it is the richest states which can grant the highest aid, the result is a growing gap between the rich and poor regions of the Community. Consequently, positive action must be taken on national aids.

12. On the other hand, the Committee on Agriculture welcomes the measures taken by the Commission either to inform the interested parties more quickly of its decisions on application for financial aid, or to speed up payments. However, it is a continuing matter for regret that in the case of two Member States, Italy and Ireland, payment of aid is always late. These Member States should therefore be invited to review their administrative procedures so that beneficiaries do not have to wait for years to receive assistance from the EAGGF.

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13. The Committee on Agriculture stresses that fraudulent claims on the EAGGF are negligible. They should however be combated inasmuch as they detract from the Community's public image. The Committee on Agriculture therefore supports the Commission in its attempts to combat fraud, in particular by making the national administrations realize the need to combat fraudulent claims on Community funds.

Conclusions

14. The Committee on Agriculture requests the Committee on Budgetary Control to take account in its resolution of the following points:

- (a) - It should be noted that expenditure under the Guarantee Section of the EAGGF, although representing a high proportion of the Community budget, amounts, when account is taken of the revenue brought in by the common agricultural policy, to only 0.48% of the Community's GDP.
- (b) - The Commission should pursue its efforts to ensure that worthwhile results are achieved from Community expenditure on agriculture both for the producer and the consumer while at the same time retaining the fundamental principles of the common agricultural policy.

- (c) - The Commission should concentrate the Community's structural aid on the most underprivileged regions and farmers. It should therefore strengthen the regional approach to the policy of agricultural structures and coordinate measures with those taken under the Social and Regional Funds. It should also see to it that Community aid does not lead to still further increases in productions which are in surplus.
- (d) - The Committee on Agriculture stresses the need for strict control of national aids which may run counter to the aims of the common agricultural policy, create distortions of competition between farmers of the Member States and increase regional disparities within the Community.
- (e) - The Committee on Agriculture invites Italy and Ireland to speed up their payment procedures so that their farmers are not hit by administrative delays, on top of the natural disadvantage from which they already suffer.
- (f) - The Committee on Agriculture supports the Commission's efforts to combat fraud and invites the Member States to give it all necessary assistance in that connection.