

European Communities

EUROPEAN PARLIAMENT

*L.K. 10/10/76
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Working Documents

1976 - 1977

7 March 1977

DOCUMENT 577/76

Report

drawn up on behalf of the Committee on Budgets

on the report of the Audit Board of the European Communities (Doc. 179/76) on the flat-rate aid granted to Italy from the EAGGF Guidance Section with a view to improving production and marketing structures in the unmanufactured tobacco, olives, olive oil and fruit and vegetable sectors

Rapporteur: Mr F. HANSEN

/

PE 46.837/fin.

By letter of 8 June 1976, the Audit Board of the European Communities forwarded to the European Parliament its report on the flat-rate aid granted to Italy from the EAGGF, Guidance Section, with a view to improving production and marketing structures in the unmanufactured tobacco, olives, olive oil and fruit and vegetable sectors.

On 18 June 1976, the President of the European Parliament referred this report to the Committee on Budgets as the committee responsible and to the Committee on Agriculture for its opinion.

On 22 September 1976, the Committee on Budgets appointed Mr F. Hansen rapporteur.

It considered the draft report at its meeting of 15/16 February 1977 and unanimously adopted the motion for a resolution.

Present: Mr Lange, chairman; Mr Aigner, first vice-chairman; Mr Durand, second vice-chairman; Mr F. Hansen, rapporteur; Lord Bruce of Donington, Mr Clerfayt, Mr Früh, Mr Meintz (deputizing for Miss Flesch), Mr Schreiber, Mr Schyns, Mr Shaw, Mr Würtz and Mr Yeats.

The opinion of the Committee on Agriculture is attached.

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

MOTION FOR A RESOLUTION

on the report of the Audit Board of the European Communities on the flat-rate aid granted to Italy from the EAGGF, Guidance Section, with a view to improving production and marketing structures in the unmanufactured tobacco, olives, olive oil and fruit and vegetable sectors

The European Parliament

- having regard to its resolutions of 14 October 1974¹,
 - having regard to the report of the Audit Board (Doc. 179/76),
 - having regard to the report of the Committee on Budgets and the opinion of the Committee on Agriculture (Doc. 577/76),
1. Calls upon the Commission to submit in future more precise basic regulations on financial aid, which should include the following minimum conditions for granting aid:
 - (a) an exact description of the projects, sectors etc. eligible for aid
 - (b) no investment incentive without prior analysis of needs
 - (c) application of the following principle: where financial aid is given as a lump sum, with the Member State acting as intermediary, payment may not be made until the use of the funds has been justified
 - (d) submission of comprehensive documentary evidence
 - (e) prohibiting circumstances or obligation to reimburse funds which have been improperly used
 - (f) provisions for control at the level of the ultimate beneficiary in cases where a Member State has acted as intermediary in forwarding Community funds;
 2. Stresses the importance of economic scrutiny which should strengthen to an increased extent the legal scrutiny by the control bodies of the European Community; prior and retrospective cost-benefit studies should make it easier to assess the financial effectiveness of the measures;
 3. Calls upon the Council
 - (a) to avoid henceforth giving lump-sum financial aid to the Member States on the basis of general political considerations and without an appropriate budget policy framework; because of its blanket character, such aid in practice escapes the requirement for authorization by the budgetary authority and may lead to the abuses described in the report of the Audit Board.
 - (b) to apply the principle of additionality in all areas of financial aid so that Community political action does not degenerate into mere horizontal financial adjustment;

¹ OJ No. C 140, 13.11.1974, p. 11

4. Instructs its President to forward this resolution and the report of its committee to the Commission and the Council of the European Communities.

EXPLANATORY STATEMENT

I. Introduction

1. At the invitation of the Chairman of the Control Sub-Committee of the Committee on Budgets, the rapporteur first submitted a working document on this topic to the Sub-Committee. In the light of the results of the Sub-Committee's deliberations of 6 December 1976, the rapporteur is now submitting this draft report to the Committee on Budgets.
2. The rapporteur has also taken account of the opinion of the Committee on Agriculture (PE 45.933/final). He was, however, unable to agree with the attempt made in that opinion to put forward mitigating arguments to justify the cases criticised by the Audit Board.

II. The subject of the report of the Audit Board

3. On the basis of its Resolution of 14 October 1974 on the Second Financial Report on the EAGGF, the European Parliament instructed the Audit Board to draw up a detailed analysis of the financial management of the flat-rate aid granted from the EAGGF Guidance Section, with a view to improving production and marketing structures in the unmanufactured tobacco, olives, olive oil and fruit and vegetables sectors.
4. This instruction was issued on the basis of Article 90, paragraph 3, of the Financial Regulation, which reads:

'The European Parliament and also the Council may request the Audit Board to forward, in addition to the annual report, reports or analyses in respect of specific problems relating to accounts of financial years which have been closed.'

This paragraph means that the special reports and analyses by the Audit Board may also contain an assessment of the soundness of financial management or the use to which the aid is put, as envisaged in Article 90, paragraph 2, for the annual reports.

5. It is thus clear that the Financial Regulation allows scrutiny of expenditure from the point of view not only of legality but also of conformity with purpose, in other words of economic efficiency. The principle of economic efficiency is derived from business criteria and consists in achieving the greatest possible benefit with the least possible expenditure.
6. 147.3 m u.a. were originally earmarked for the above agricultural sectors in Italy. The Audit Board's report points out that at the last count, appropriations amounting to 132.3 m u.a. had been provided. The Audit Board's scrutiny of the utilization of funds covered the period up to 31 December 1975 and its report was submitted to the European Parliament on 8 June 1976.

III. Nature and limitations of an investigation of economic efficiency

7. It is important first to establish the method and scope of an investigation of this kind. In nearly all the Member States, it is the responsibility of the Audit Offices, but has unfortunately so far played a subordinate role in the Community.
8. The scope of the investigation is not merely restricted to the financial management of the Community's administrative organs and institutions; it also applies to the whole range of economic intervention, and this is of particular importance in the Community. This includes, first and foremost, payments from the various Community 'Funds', but also all types of aid, subsidies, grants, sureties and other guarantees.
9. The nature of the investigation has not yet been adequately defined at Community level. The legal framework offered by the Financial Regulation is incomplete in that it restricts the investigation of economic efficiency to financial years already ended.
10. In the long-term, it is unlikely that cost-benefit studies will be applied to the activities of the European Communities. This is due, first to the Community's complicated intervention procedures and secondly to the fact that some aspects of the systems of cost-benefit analyses have not yet been fully developed.

11. The exercise of control is particularly important in the present case, since Community funds were put through the Italian budget, hence the need for control on two levels. A scrutiny must be made of the use of the funds both by the intermediary, in this case Italy, and the ultimate beneficiaries, in other words, the actual purpose for which the aid was intended.
12. Checks must be made in the recipient country to ascertain that Community aid granted for a specific purpose is properly accounted for and used for its intended purpose.
13. In addition the ultimate beneficiaries must allow the Community to treat them as though they had received the funds directly from the Community. This must also apply when the Community funds are not specifically identified as such. These are matters of principle since Community funds often pass through the Commission.
14. What is said in the Audit Board's report suggests that in future the transfer of Community funds should be subject to a more stringent legal arrangement.

The following options should be available:

- freedom of action as far as the intermediary is concerned;
- open or concealed trust administration.

This requires a minimum of legal definition.

15. Furthermore, general rules, perhaps in the form of implementing provisions, should be drawn up and incorporated in the Financial Regulation, governing the question of the necessary supporting evidence relating to the use of the funds. If this is impossible, the actual regulations relating to agriculture must be made more stringent on this point which is vital for control purposes. But any form of wording that allows proof of utilization of the funds to be submitted retrospectively, as in the present case, must be avoided.

IV. The findings of the Audit Board on the flat-rate aid granted to Italy

16. The 132.3 m u.a. from the Guidance Section was provided subject to only one binding condition of implementation, which was that the funds were granted for structural improvement measures, that is:

- the adaptation and improvement of conditions of production in agriculture;
- the adaptation and guidance of agricultural production;
- the adaptation and improvement of the marketing of agricultural products;
- the development of outlets for agricultural products.

17. It is surprising that such vague fund allocation criteria were allowed. Skeleton conditions of this kind naturally tend to push the political content of Community activity further into the background, reducing matters to a purely horizontal financial balancing operation between the budgets of the Member States.

18. As regards the provision of 132.3 m u.a., the Audit Board's report shows that the Italian Treasury did not record a large proportion of the funds in the budget until eight months after the date of payment by the Commission. This represents a loss of interest of around 4 to 5 m u.a. There is no explanation as to who received this interest.

As a general principle it should be ensured that no payments are made prematurely. Payment orders must therefore be arranged so that the money is available on the due date but not before the Member State concerned is ready to accept it.

19. Once the money had been entered in the Italian budget, the Italian budgetary resources were only increased by 102.5 m u.a., while 45 m u.a. were absorbed into existing appropriations. As regards this last sum the principle of additionality, as applied by the Regional Fund, was not observed. This most clearly compromises the purpose of Community action, since 45 m u.a. apparently went as a straightforward subsidy into the Italian budget.

20. The Audit Board's financial data as at 31 December 1975 reveal to what extent the transactions in the three fields of action (olives, tobacco and fruit and vegetables) have actually been completed. Taking the total flat-rate aid as a starting point, the conclusion is that a bare 25% of the transactions had been completed five years after the date of payment by the Commission. The situation in detail is as follows:

Legal basis	Purpose	Appropriations transferred (u.a.)	Transactions completed (u.a.)	in %
Art.4, R.130/66	Olives etc.	45 m	11.45 m	25.5
Art.12, R.130/66	Tobacco	15 m	8 m	53.9
R.159/66	Fruit and vegetables	approx. 87 m	17.33 m	19.8

21. Unfortunately it must be stated that some of the completed transactions were also used to promote projects, which did not fall within the scope laid down in the regulations.

- instead of promoting production and marketing structures for olives and tobacco, a sugar refinery was enlarged (project No 14, 196,576 u.a.);
- instead of promoting production and marketing structures for fruit and vegetables, a centre for potatoes and cereals was constructed (project No 10, 55,573 u.a.).

These are only examples.

22. It therefore follows that the percentage of completed transactions which relate to projects eligible for aid, is considerably lower.

Purpose	Completed transactions which were ' <u>eligible for aid</u> '
Olives etc.	23.55%
Tobacco	53.9%
Fruit and vegetables	16.2%

23. Even the commitments do not equal the appropriations actually transferred by the Commission :

Purpose	<u>Commitments</u> independently of the admissibility of the projects
Olives etc.	78.8%
Tobacco	99.3%
Fruit and vegetables	78.7%

24. The payments actually made from the regional budgets or from the national budget of the Italian Republic give a different picture again:

Purpose	<u>Payments made</u>
Olives etc.	53.3%
Tobacco	70%
Fruit and vegetables	29.8%

25. The Audit Board criticized the soundness of the financial management, in the narrower sense of the term, under the following points:

- Some of the projects showed an investment capacity out of proportion to actual needs;
- In some cases no improvement in production - the aim of the measures - could be expected nor was it achieved;
- Based on jealousy of their regional neighbours, local prestige projects were encouraged, regardless of their economic viability;
- No attempt was made to achieve a regional spread of products where this would have been possible and desirable.

26. The rapporteur refrains from further enumeration, since he does not intend to draw up 'a report on a report' and to repeat findings which have already been made.

27. To summarize, the following conclusions may be drawn from the Audit Board's report:

- In future, the regulation must set out clearer allocation criteria, particularly for flat-rate aids.

Justification of the utilization of the funds should not be submitted retrospectively;

- When transferring Community funds (e.g. from the Member States or from a regional authority) to undertakings selected for aid, they, as the ultimate beneficiary, must be made subject to control as well as the intermediary. This also applies to cases in which Community aid is not designated as such (concealed trust);
- Both for internal and external control purposes, full supporting evidence must always be submitted, together with the project reports;
- The Commission's payment orders must be arranged in such a way that the money is available on the due date but not prematurely.

The Commission must ensure that the beneficiary country is ready to use the funds immediately and not, as has happened, to hold them for eight months on the pretext of exchange problems, before entering them in the budget;

- In relations between the Community and a Member State, the principle of additionality must be enforced in all sectors.

The Community's political actions should not take the place of national financing;

- Deadlines should be laid down for the completion of the transfer of appropriations, after which the Member State must return to the Community those funds which could not be used for the aims laid down as part of the Community's requirements. If this is not practicable, the funds should only be made available to the intermediary in instalments, depending on how quickly they can be transferred to the ultimate beneficiary;
- The regulations must include prohibiting circumstances, so that
 - the purchase and sale of projects, i.e. a simple change of ownership, cannot be put down as a structural improvement measure;
 - a prior analysis of requirements is made to prevent the creation of surplus capacity.

28. Independently of what has already been said, the Commission should be asked to state the progress or outcome of the procedure which it introduced in connection with the present aid, pursuant to Article 169 of the EEC Treaty.

OPINION OF THE COMMITTEE ON AGRICULTURE

Draftsman : Mr G. LIGIOS

At its meeting of 15/16 July 1976 the Committee on Agriculture appointed Mr Giosuè LIGIOS draftsman of the opinion.

At its meeting of 21/22 October 1976 the committee considered the draft opinion and adopted it unanimously with one abstention.

Present: Mr Houdet, chairman; Mr Ligios, draftsman of the opinion; Mrs Dunwoody, Mr Früh, Mr Haase, Mr Kofoed, Mr De Koning, Mr Martens, Mr Pucci, Lord St. Oswald, Mr Scott-Hopkins, Mr Suck and Lord Walston.

1. Two regulations from the year 1966 (Nos. 130/66 and 159/66) granted flat-rate aid to Italy from the EAGGF, Guidance Section, with a view to improving production and marketing structures in the following sectors:

- tobacco: 15 m u.a.
- olives, olive oil
and fruit and
vegetables: 45 m u.a.
- fruit and vegetables: 87,299,539 u.a.
- TOTAL 147,299,539 u.a., equal to approx. 92 thousand million
lira.

Italy received these funds over the period 1968 to 1972. Proof of utilization of these funds had to be submitted retrospectively on the basis of supporting documents.

Since the regulations made no specific mention as to how the money was to be utilized, it was necessary to make reference to the general provisions contained in Article 11(1) of Regulation 17/64 concerning the conditions governing EAGGF aid, which laid down the structural improvement actions to be taken (adaptation and improvement of conditions of production, of marketing and sales of agricultural products, improvement and guidance of production, etc.). Italy has used these funds mainly to strengthen the structures of cooperatives involved in processing and marketing agricultural products, under the two agricultural laws governing the first and second 'green plans' which provided the legal basis for the granting of the Community funds.

2. In the resolution tabled by Mr Pètre (Doc. 297/74) on behalf of the Committee on Budgets, on the second financial report of the EAGGF for the financial year 1972, Parliament called on the Audit Board in point 7 'to draw up, on the basis of Article 90 of the Financial Regulation of 25 April 1973, a detailed analysis of the soundness of the financial management of the flat-rate aid granted with a view to improving production and marketing structures in the following sectors: unmanufactured tobacco, olives, olive oil and fruit and vegetables'¹.

¹ OJ C 140 of 13.11.1974, p. 11

To comply with this request, the Audit Board considered the documentation sent by Italy to the Commission, and studied the supporting documents, the records in the hands of the responsible national authorities and visited Rome and other Italian regions. These investigations, which were concluded last March, have resulted in the submission of the report now before Parliament.

3. Your committee does not intend to go into the financial and technical problems raised in the Audit Board's report, which has been examined in depth by the Committee on Budgets as the committee responsible. He will limit himself to those aspects of specific interest to agriculture, particularly as regards the effectiveness of the actions taken to improve Italian agricultural structures.

4. There have been undeniable delays in utilizing the funds: by the end of 1975 monies spent on projects which had been completed or were still in progress (see Annexes II, III and IV of the Audit Board's report) amounted to 78.8% of the 45 m u.a. intended for the olives, olive oil and fruit and vegetables sectors; to 70.5% of the 15 m u.a. intended for the tobacco sector and to about 30% of the 87.3 m u.a. for the fruit and vegetables sector. The latter amount, however, was transferred to Italy in several instalments, the last in 1972.

It should be recalled, however, that even Luxembourg, which was granted 7.5 m u.a. in flat-rate aid from the EAGGF, Guidance Section, for projects designed to complete the integration of its agriculture into the common agricultural policy, failed to meet the deadline of 1 January 1973 laid down and was therefore asked by the Commission to submit up-to-date progress reports to the Commission as soon as possible on the precise state of progress of the schemes and the expected completion dates.¹

5. The Audit Board does not go into the causes of the delay, as regards Italy, merely pointing out that the main reason would appear to be the time needed to take the initial decision on allocating the aid.

Without wishing to get too deep into a discussion which might well take us too far, attention should be drawn to a number of highly important facts which can explain the excessive time lapse between drawing up the project and the final approval of the completed work, a lapse which, to an outside observer might sometimes appear unjustified.

¹ See the second financial report on the EAGGF, 8.3.1974, SEC(74) 786 final, p. 49

6. In the first place, it should be pointed out that actions financed through Community funds are generally carried out in depressed and underdeveloped agricultural regions, without adequate infrastructures, where public authorities are lacking and the tactical possibilities limited. It is often a case of working in a still peasant society, or one with a still very basic level of agriculture, and it is therefore necessary to begin by changing traditional patterns of action and thought. What is easy in other areas because of the existence of an adequate infrastructure and the proximity of production centres becomes extremely difficult in these areas, because of the need, among other things, to import from abroad or at any rate from a long way off all the necessary equipment. The implementation of the schemes thus meets with serious difficulties which derive from the very nature of the areas in which they are to be put into practice.

7. In the second place, new regional arrangements entered into force in Italy in 1968 with the setting up of regions with ordinary status alongside the 5 existing special-status autonomous regions (Valle d'Aosta, Trentino-Alto Adige, Friuli-Venezia Giulia, Sicily, Sardinia). The setting up of these new authorities and the consequent devolution of powers and responsibilities from the central administration to the regional bodies resulted in a period of uncertainty and confusion on both the legal and practical levels. The transfer of staff and responsibilities to the outlying authorities was not easy, and this inevitably resulted in delays in the approval and financing of EAGGF projects, which were thus left stranded during the transitional period.

Evidence of this can be found in the fact that in the five autonomous regions referred to, which were given the necessary powers, some time ago, the implementation of the 'green plans' and the EAGGF projects has made far more rapid progress and has not run into the difficulties encountered in the other areas.

8. Moreover, the investigation, enforcement and control procedures involved in the implementation of the projects provided for in the two laws governing the 'green plans' were marked by a degree of complexity and unwieldiness which contributed further to slowing down progress. For example, once the financing decree for a project has been issued, it has to be approved by the central control authority, i.e. the Court of Auditors. Furthermore, before any partial financing of an essential part of the project, a 'collaudo' (acceptance report) is required on the state of the work, after which partial payment can be made, 10% being withheld until final payment. The latter is subject to a final acceptance report and to a further authorization by the Court of Auditors.

9. What is more, the lack of coordination with the Commission, and the fact that the Community failed to provide precise information as to the purpose of the aids, the means for implementing the schemes and the technical procedure for the utilization, administration and control of the Community funds, all added to the uncertainties and thus helped to cause delays and to provoke subsequent criticism on the part of the Audit Board, among others, on the absence or inadequacies of the justifications for the payments made.

10. Finally, a further cause of delay can be attributed to the inflation which took place during the not inconsiderable time that elapsed between the moment of the project's inception and its subsequent financing and implementation. Nor should it be forgotten that, in Italy, the initiator of a project has three years in which to put it into effect starting from the date on which he receives the authorization from the public authority providing the finance.

As a result of the galloping inflation of recent years all cost estimates - in some cases drawn up many years previously - have lost their validity; the inevitable consequence has been either the abandonment of the project, because the promoter has been unable to find the 50% of the cost - which has since risen drastically - that he is required to bear, or the long-term postponement of its implementation pending the availability of new public or private finance for the amount exceeding the original estimate.

Considerations such as these have in fact recently led the Sardinian authorities to enact a regional law under which appropriations earmarked for the agricultural sector are automatically increased by a certain percentage - 5 or 10% - according to when the project concerned was submitted.

Moreover, the Commission has recently submitted a proposal to the Council increasing the amounts, to be financed by the Guidance Section of the EAGGF, laid down in the directive on the reform of agricultural structures and hill farming.

11. The delay in carrying out the projects, if not completely justifiable, can thus at least be explained. In any case, these delays - as the Audit Board admits - have not stood in the way of the objective of encouraging the setting up of agricultural cooperatives where none existed, nor of strengthening and modernizing them where they did. The Board quite rightly points out that only an overall appraisal of the 'green plans' - under which the projects fell - would permit a proper evaluation of the effectiveness and scope of the various schemes which have been carried out.

It is not for your draftsman to express an opinion here on these 'plans', especially since no final verdict has yet been reached in Italy. They have, however, despite their inadequacies and omissions, succeeded in temporarily keeping a large number of people on the land pending the creation of the necessary industry to absorb their labour. The fact that much of the money from the two 'plans' often disappeared into countless minor schemes - rebuilding a dry stone wall here, or some little farmhouse there - in no way alters this basic judgment.

12. Positive results have been achieved in the sectors for which Community funds were made available. In the case of tobacco there has been a good degree of success in converting companies specializing in the production and marketing of oriental varieties - which have proved difficult to sell - to new and more easily marketable types. As for olive oil, many first and second grade cooperatives have been set up, and the same applies to fruit and vegetables.

13. Some of the Audit Board's criticisms also deserve to be reconsidered and toned down. Purchases, for example, are not eligible for EAGGF subsidies; what is often involved, however, is the purchase of companies - such as privately-owned oil mills - whose owners have gone out of business. It would have been absurd in such cases to have built a new oil mill alongside ~~the~~ old, and it was therefore more logical to purchase and reactivate the latter.

Be that as it may, such criticisms cannot prejudice the Committee on Agriculture's generally positive view of the EAGGF flat-rate aid to Italy scheme as a whole. It will not be possible, however, to give a final opinion until all the actions at present in progress have been completed and the entire appropriations granted used up.

14. Nevertheless, it will be absolutely essential in future for Commission and national authorities to collaborate far more closely both as regards financial management and technical implementation. This will do much to avoid the difficulties highlighted by the Audit Board and will at the same time lead to better results as regards the effectiveness and scope of the actions.

