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Working Documents

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DOCUMENT 9/77/ANNEX

OPINION

of the Committee on Budgets

on the proposal from the Commission of the European Communities to the
Council (Doc. 576/76) on the fixing of prices for certain agricultural products and
on certain related measures

Rapporteur: Lord BRUCE of DONINGTON

PE 47.781/fin./Ann.

On 15 February 1977 the Committee on Budgets appointed Lord Bruce of DONINGTON draftsman.

It considered the draft opinion at its meetings of 9 March 1977 and 16 March 1977 and adopted it on 16 March 1977.

During the latter meeting the proposals for:

- (a) approving the proposal of the Commission concerning a rise of 3% for agricultural prices,
- (b) rejecting those increases in prices for those sectors where surpluses exist until such a time as those surpluses have been absorbed,
- (c) demanding the progressive abolition of monetary compensatory amounts when the conditions for their abolition have been created, and, therefore, the separation of those proposals from the rest of the Commission's proposals,

were adopted by the Committee on Budgets by

- eight votes for, four against and three abstentions as regards points (a) and (b)
- eleven votes for, two against and two abstentions as regards point (c).

The draftsman has been instructed to adapt his draft as a consequence of these decisions and to give account also of the views of the minority.

He has been instructed, in the spirit of paragraph 4 of Article 44 of the Rules, to present in plenary, in the form of the amendments to the resolution of the Committee on Agriculture, draft amendments where it has not been possible for that Committee to take into account the position of the Committee on Budgets.

Present: Mr LANGE, Chairman, Lord Bruce of DONINGTON, draftsman for the opinion, Mr FRÜH, Mr KOFOED, Mr MAIGAARD, Mr MARTENS, Mr MITCHELL (substituting for Mr HAMILTON), Mr NOTENBOOM, Mr RADOUX, Mr SCHREIBER, Mr SHAW, Mr SPINELLI, Mr YEATS, Mr ZAGARI (substituting for Mr ALBERTINI).

PART I GENERAL OBSERVATIONS

The Commission in presenting its proposal has gone far beyond its customary production of proposed adjustments to agricultural prices conventionally described as the "annual price review". Although the title "Price proposals and related measures" states as before, with "related measures" indicating some structural changes within the agricultural sector, this year there have been incorporated suggestions relating to proposed alterations in monetary compensatory amounts.

In this connection it is bound to be noted that the Commission, supported by the Committee on Budgets, insisted in the course of the presentation of and discussion upon the 1977 Budget, that the whole question of MCA's be completely divorced from the financial consequences of the Common Agricultural Policy. Indeed, during 1976 it produced completely separate proposals for significant amendments to the regulations governing monetary compensatory amounts which, so far, have not been approved by Council. It is for consideration therefore, despite the Commission's declaration that the most recent proposals represent a comprehensive package, whether it is appropriate for Parliament to be confronted with proposals covering vital matters of policy which have hitherto on the Commission's own initiative, been dealt with separately within their own defined context

PART II PRESENTATION OF THE FINANCIAL IMPLICATIONS OF THE COMMISSION'S PROPOSAL

1. In the Opinion of the Committee on Budgets on the Commission's proposals for agricultural prices for the 1976/7 marketing year, Mr COINTAT made various remarks about the inadequate nature of the financial information accompanying the proposal.⁽¹⁾ He reinforced these remarks in the Plenary sitting of February 1976.⁽²⁾ The major points of criticism were that out of the three volumes presented by the Commission, only four pages dealt with the financial implications. Secondly, there was no indication of the revenue effects, only details for expenditure being provided. Thirdly, only the implications for the 1976 financial year were shown, possible effects over the next three-year period being ignored.

2. The Commission is to be congratulated on the fact that in presenting the 1977 agricultural prices proposals, a major effort has been made to meet Parliament's criticisms. This effort can be resumed as follows :

- (a) a separate volume has been provided⁽³⁾ on the financial implications of the proposals. This volume goes into far greater detail than in previous years.
- (b) The Commission demonstrates the effects on own resources of these proposals (Part D, pages 13-14)
- (c) The Commission makes an attempt to indicate costs for a full budgetary year as well as for the 1977 Budget.
However, this does not correspond completely to the wish of the Committee on Budgets to produce a schedule showing the multiannual effects of the proposal.

3. In general the Committee could welcome a greater emphasis on the budgetary impact of the proposals. This emphasis was underlined by the fact that Mr TUGENDHAT, Commissioner for the Budget, appeared before the Finance Council at the same time as Mr GUNDELACH, Commissioner for Agriculture, appeared before the Agricultural Council, both presenting

(1) Doc. 522/75/ann

(2) OJ No. 199, Debates 9-13 February 1976

(3) Doc. COM (77) 50 final

simultaneously a package for the proposals but with Mr TUGENDHAT emphasising their financial impact.⁽¹⁾ This may lead to a greater coordination between the two Councils concerned, which could only be of benefit to the Community.

PART III THE ROLE OF PARLIAMENT

4. It is a matter of growing concern that Parliament's budgetary powers can be undermined by its lack of legislative powers. The single most important decision having financial implications, that concerning the fixing of agricultural prices, involves Parliamentary participation but on a very unequal basis. The package which Parliament is being asked to approve amounts to double the total amount of increase available to Parliament in non-compulsory expenditure for 1977 (and some four times greater than the actual increase voted by Parliament).

5. And yet on the actual decision itself Parliament has a purely consultative voice on this matter. Clearly a concertation meeting could be provoked were Parliament to diverge from Council's viewpoint over a matter of substance, but ultimately this weapon is purely of a delaying nature if Council is determined to go against Parliament's wishes. On the other hand the Budgetary Act, in this case a supplementary budget, involves effective Parliamentary participation because it is Parliament which finally adopts the Budget. However, if the Community has already reached a decision on the proposals for price increases, it becomes almost impossible for Parliament to exercise its full budgetary rights because the basic decisions have already been taken.

Last year the decision on agricultural prices took place within the first three months and it was not until the autumn that the supplementary budget covering the price changes was adopted. This vast time lag can only serve to weaken Parliament's role in the most important single financial decision of the year.

(1) Mr TUGENDHAT'S speech to Council is annexed to this document

6. This year some progress is made inasmuch as the Commission has undertaken to produce its preliminary draft supplementary budget in March, and almost certainly before Council decides on the agricultural prices proposals. This greater synchronisation is to be welcomed inasmuch as the Budgetary Act, in which Parliament plays a major role, is more closely linked with the legislative one where Parliament's role is weaker. However, by introducing a supplementary budget in March, the Commission is in danger of falling between two stools. On the one hand it has not arrived at a parallel procedure which could maximise Parliament's role by having examination of the supplementary budget proceeding alongside examination of the legislative proposals. On the other hand the preliminary draft supplementary budget itself may well have to be altered by means of a letter of amendment once Council's decision on the prices has been made known, unless Council accepts the Commission's proposals in their entirety.

7. Your draftsman proposes that in future the Commission be invited to bring forward its agricultural prices package simultaneously with the preliminary Draft Budget.

PART IV MAIN FEATURES OF THE COMMISSION'S PROPOSAL

8. The main purpose of the Commission's proposals is as follows :

- (i) to increase agricultural prices by an amount consistent with agricultural costs increases ;
- (ii) to reduce on a pragmatic basis the expenditure on monetary compensatory amounts ;
- (iii) to tackle the burgeoning problem of surpluses' in the dairy sector.

9. As regards price increases the Commission proposes a mean increase of around 3%. This can be resumed as follows, and with the following periods of application :

| Products | % change in prices (1) | Period of application |
|--------------|------------------------|-------------------------|
| Common wheat | + 3 | 1.8.1977 - 31.7.1978 |
| Durum wheat | + 3 | 1.8.1977 - 31.7.1978 |
| Barley | + 4.7 | 1.8.1977 - 31.7.1978 |
| Maize | + 4.7 | 1.8.1977 - 31.7.1978 |
| Sugar | + 3 | 1.7.1977 - 30.6.1978 |
| Milk | (0 | 1.4.1977 - 15.9.1977 |
| | (+ 3 | 16.9.1977 - 31.3.1978 |
| Beef | + 3 | 1.4.1977 - 2.4.1978 |
| Pigmeat | + 4 | 1.11.1977 - 31.10.1978 |
| Olive oil | + 1 | 1.11.1977 - 31.10.1978 |
| Tobacco | + 1.5 | 1.1.1977 - 31.12.1977 |
| Wine | + 3 | 16.12.1977 - 15.12.1978 |

(1) Target price except for sugar (minimum price for beetroot), beef (guide price), pigmeat (basic price), tobacco (norm price) and wine (guide price).

10. The main features of this proposed increase is that for the milk sector prices are to be frozen from the period April 1 to September 15, 1977 thereafter a 3% increase is to be sanctioned for the following six months. The Commission argues that the existence of the massive surplus in this sector militates against price increases. It could therefore be asked whether it was wise to agree to any increase even in the second half of the marketing year. The Committee on Budgets cannot accept the need for the 3% increase from September 15. A minority of members believed, however, that increases were necessary in order to guarantee adequate income for farmers.

11. The increase proposed is the subject of a lively debate between the Commission and the farmers' representatives grouped together with the COPA. On the basis of the "Improved objective method"⁽¹⁾ the Commission arrives at a "justified" increase of 2.74% whilst the farmers' organisation arrives at a figure of 7.4%. The explanation for this difference is to be found,

(1) Doc. SEC(75) 3393 final

according to Mr GUNDELACH, in a difference as regards the reference period on which the calculations are based. It is not immediately clear as to why that difference should be so great and further explanations from the Commission could be sought on this point. The actual effect on the retail price index is, according to the Commission, not greater than 0.3% although of course it is at this stage impossible to calculate the effect on consumer prices.

12. As regards monetary compensatory amounts the Commission stands by its proposals of the autumn of 1976⁽¹⁾ for a gradual reduction.

To this end it is proposed to proceed to a partial devaluation of "green" currencies.

The following reductions are proposed :

| | |
|----------------|-------------|
| Germany | 2.75 points |
| Benelux | 0.4 points |
| Ireland | 3 points |
| France | 3 points |
| Italy | 3 points |
| United Kingdom | 8 points |

The consequential changes in the representative rates are as follows :

| | |
|---------------------------------------------------|-------------|
| Deutsch Mark | + 3.05% |
| Belgian franc) Luxembourg franc) Florin) | + 0.41% |
| French franc | - 2.58% |
| Italian Lira | - 2.53% |
| Irish £ | - 2.71% |
| U.K. £ | - 5.94% (2) |

13. It will be recalled that Parliament's position on the question of the monetary compensatory amounts has been to express concern at the growth of these amounts as a percentage of the Community budget. In particular in its previous reports⁽³⁾ the Committee called variously for the progressive abolition of monetary compensatory amounts when the conditions for their abolition permit (paragraph 2, Motion for a Resolution on Draft Supplementary Budget number 2 for 1976, Document 293/76). It is the view of the Committee on Budgets that positive action must be taken towards economic convergence so that a time limit could be fixed for the existence of agri-monetary expenditure.

(1) Doc. COM (76) 600 final

(2) For the milk sector a different level of devaluation is proposed for the 'green' £ from April to September 1977, corresponding with the price freeze period

(3) Doc. 522/75 annex, opinion drawn up by Mr Cointat
Doc. 293/76 report by Mr Cointat on supplementary budget number 2 for 1976

14. As regards surpluses in the dairy sector, the Commission has been sounding with vigour an alarm that Parliament has raised consistently. To the press and to the Committee on Agriculture, Mr GUNDELACH has indicated the scale of the problem. At the present time a surplus of 1 million tonnes exists in skimmed milk powder and 250,000 tonnes of butter. Unless speedy action is taken these surpluses will have risen, according to his estimates, to 2 million tonnes of skimmed milk powder and 600,000 tonnes of butter by the end of the financial year. As he pointed out, this situation is highly dangerous for the credibility of the Common Agricultural Policy and results in vast Community expenditure (nearly 40% of all EAGGF spending). It is for this reason that the Commission has not proposed an increase in milk prices before September 15. However, and despite a writing off operation which took place in 1976, the Commission maintains that the dispersal of the surplus would cost some 500 m.u.a. whereas storage costs between 70 mua and 100 mua per annum.

15. On this two points should be raised.

(a) A breakdown in justification of the stocking expenditure should be provided with the nature of the beneficiaries clarified for once and for all ;⁽¹⁾

(b) a breakdown for the estimates of the cost of dispensing with the surplus should also be provided.

16. On this point the Commission has been firm that the dispatch of surplus to the Third World is an unsatisfactory means of proceeding since the Third World no longer wishes greater and greater amounts of skimmed milk powder. So the Commission has been led to propose a series of structural measures designed to eliminate the surplus.

In so doing it should be clear that in tackling the surplus in the milk production sector, the Commission has made a major policy decision. It prefers to impose a levy on producers as a possible discouragement to future production rather than subsidise consumer prices directly which could be an immediate means of tackling inflation whilst reducing the surpluses. That being so, the Commission stands by the proposals for a coresponsibility levy. This proposal has been examined by the European Parliament favourably.⁽²⁾

(1) Your draftsman has been engaged in a sustained attempt to obtain clarification on this point from Mr Gundelach's predecessor, so far without success.

(2) Doc. 414/76, Report by Mr de KONING

17. It will be recalled that the levy set at 2.5% of the indicative price would be raised from the middle of September on all milk products except those coming from the hill regions. Secondly, the Commission is maintaining its proposal for taxing certain oils and fats (vegetable and fish oils). It is also maintaining its proposal for subsidising school milk. In December it sought to facilitate the sale of liquid skimmed milk for pigs. Finally, the Commission proposes extending the butter consumption subsidy for the United Kingdom.

However, if the analysis is that more and more milk is being produced simply to trigger the intervention mechanism to the benefit of farmers whose living standards are well beyond the minimum acceptable, it is doubtful whether this package of proposals is sufficient to overcome what is in effect a gigantic abuse perpetrated on the consumers and the tax payers.

18. That being the case, a complete reexamination of the system would seem necessary and such marginal measures as the coresponsibility levy would be deemed to be unsatisfactory. However, the Commission is undoubtedly aware of the political problems in gaining acceptance for its measures. For that reason its proposals may be judged pragmatically justifiable. In any case the Commission says that the "structural" side of the proposals should be dissociated from the price ones if there is a hold up in Council and the Commission has not contemplated, at least publicly, the significance of Council rejection of these proposals. Whatever may be judged politically feasible, the European Parliament should accept its own responsibility and denounce a situation which is in its view, little short of scandalous.

19. The laudable aim of the Commission as regards these proposals has been to limit price increases as far as possible so that the anti-inflation policies of the Member States are not jeopardised. The success of the Commission in this has been partial as the differential effects on prices resumed as follows, shows.

| | |
|----------------|-----------|
| Germany | 0.3% |
| Luxembourg | 2.1% |
| Holland | 2.4% |
| Belgium | 2.7% |
| Italy | 5.9% |
| France | 6.1% |
| Ireland | 10.7% |
| United Kingdom | 15.5% (1) |

(1) These are unofficial figures which the Commission is not prepared publicly to accept ; they are the only existing figures available

20. The reason for the size of the increase for the United Kingdom is because of the devaluation of the "green" pound proposed. The Commission would seek to minimise the consequences on the U.K. economy by an increase in the butter subsidy. There is also the residual effect of the Accession Treaty which accounts for a small part of the increase.

21. Your rapporteur must draw the attention of the Committee on Budgets to two vitally important departures from declared Community policy which will result from the proposals put forward as a "package".

(a) In the course of his speech to Parliament in January, the President of the Commission declared the intention of the Commission to play its part in reducing economic disparities between the regions of the Community. These points were alluded to by the then President-in-Office at the same Session. The current proposals produce a situation set out in paragraph 19 of the report in which the countries with low rates of inflation will benefit from a negligible price increase, whilst those with high rates of inflation will suffer a further inflationary acceleration from the much higher prices increases which would result from the adoption of the proposals.

(b) The whole system of MCA's was devised prior to the accession of the three new Member States to ensure that despite monetary instability food exporting countries would continue to compete on equal terms with agricultural producers within net food importing countries. The present MCA proposals represent a departure from this principle

Moreover, the Commission have in no way demonstrated that the proposed MCA adjustments will result in a diminution of expenditure under Titles 6 and 7 taken in conjunction with the revenue expected under Title 10, which is not included in the total set out at Annex 3 of the financial implications (Doc. COM(77) 150 final of 11 February 1977).

PART V BUDGETARY IMPACT OF THE COMMISSION'S PROPOSALS

22. Your draftsman has already paid tribute to the new Commission's efforts to improve the quality of the financial information attached to the price proposals for 1977/8. The following table provided by the Commission resumes the major changes for the 1977 Budget and will be the substance of the supplementary budget which the Commission will introduce in March.

Estimated requirements for appropriations in 1977

(EAGGF - Guarantee Section)

| Sector | 1977 Appropriations | Probable changes in expenditure in 1977 | | | |
|---------------------------------|------------------------|-----------------------------------------|----------------------------|---------------------|----------------|
| | | due to the economic situation | due to the proposals on | | Total |
| | | | Prices | Related measures | |
| Cereals and rice | 788.- | - 8.- | + 3.8 | - | - 4.2 |
| Milk | 2000.- ¹ | + 73.8 | - 26.8 | + 96.4 | + 143.4 |
| Sugar | 320.- | + 91.- | + 3.- | pm | + 94.- |
| Beef and veal | 609.- | -117.4 | - 7.1 | - | - 124.5 |
| Other agric. sectors | 1336.4 | - 0.4 | + 5.5 | + 8.- | + 13.1 |
| Total agric. sectors | 5053.4 | + 39.- | - 21.6 | +104.4 | + 121.8 |
| | | | | | |
| Agri-monetary expenditure | 1114.- | +339.- | + 7.- | - 52.- | + 354.- |
| | | | | | |
| GRAND TOTAL | 6167.4 | +438.- | - 14.6 | + 52.4 | + 475.8 |

¹ 221.5 mua are entered under Chapter 100

23. The Commission clearly distinguishes between the repercussions on the 1977 Budget and the effect in a full year of the Commission proposal. The difference is a result of the lack of synchronisation between the budgetary year and the marketing year. The significance is shown in the following table :

| Sector | Effect in a full year of the Commission proposal ¹ | | |
|-------------------------------|---------------------------------------------------------------|------------------|--------|
| | prices | Related measures | TOTAL |
| Cereals and rice | + 42.5 | - 7.8 | + 34.7 |
| Milk and milk products | + 96.5 | + 210.4 | +306.9 |
| Oils and fats | + 42.7 | - | + 42.7 |
| Sugar | + 28.4 | -91.4 | - 62.6 |
| Beef and veal | + 11.5 | - | + 11.5 |
| Tobacco | + 5.8 | - | + 5.8 |
| Other sectors | + 8 | + 16 | + 24 |
| Monetary compensatory amounts | + 25 | -220 | -195 |
| TOTAL | +260.4 | - 92.4 | +168 |

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¹ Without the effect of the double rate

24. The major differences reside in the fact that the Commission has had to revise upwards the monetary compensatory amounts for 1977 because of the changes in the world monetary situation as at the beginning of February, but as a result of the measures for devaluing the 'green' currencies it is hoped that in the full-year period it will be possible to reduce expenditure. Conversely the overall price effects for 1977 will be relatively small (indeed, leading to a reduction of expenditure in certain sectors, e.g. milk, beef and veal). However, in a full year the price and related measures would result in an increase in expenditure of around 235 mua..

25. As regards revenue, the Commission expects an increase in agricultural levies of 50 mua for the 12-month period and 20 mua for the 1977 financial year. This however does not take into account the general buoyancy in levies as a result of increase import requirements and falling world prices ; so overall increase in levies might be as high as 100 mua. As regards sugar production levies, it is estimated that an increase of 65 mua over the two financial years would manifest itself, with 15 mua chargeable to the 1977 Budget. When discussing the effects on own resources, the Commission is extremely tentative and it will only be at the moment of the presentation of the supplementary budget that these figures will acquire a more concrete basis.

26. Furthermore, the Commission qualifies its estimates for 1977 by saying that the "monetary and agricultural situation will be followed with close attention. If necessary a letter of amendment will be presented to the Budgetary Authority at a later date".⁽¹⁾

In any case by introducing the supplementary budget in March the Commission will run the risk of having to introduce a letter of amendment to take account of the different position adopted by Council on the agricultural prices package.

27. This leads your draftsman to the first major point concerning the budgetary impact of the proposals. It is not acceptable for the Budgetary Authority to be asked to re-examine agricultural estimates on so many occasions during the financial year. Either the European Parliament should be asked to examine a supplementary budget with a reasonably definitive statement of expenditure or the Commission should use the period up to the adoption of the general budget for a revision of its figures. It is unreasonable to expect that the European Parliament should have to examine the original estimates in the preliminary draft, revised estimates in the draft general budget, letters of amendment during the budgetary procedure, preliminary draft supplementary budgets, draft supplementary budgets, letters of amendment to the draft general budget and even then have no guarantee that the final figures arrived at are definitive.

It is becoming an urgent priority to clarify the budgetary procedures as regards agricultural expenditure if the principles of annuality and budgetary transparency are to be maintained.

⁽¹⁾ Doc. COM (77) 150 final, page 15

In various previous budgetary periods it would have been possible to avoid the supplementary budget procedure by the institution of an agricultural reserve which, under the control of the Budgetary Authority, could have been released during the course of the financial year as needs were proven. In particular, it would have been possible to attach riders to this reserve such as to increase scrutiny of expenditure. The Commission proposal of placing 200 m.u.a. in Chapter 100, which was supported by the European Parliament, would have been the first step in the right direction. Another approach would be to freeze appropriations from one financial year to another whilst at the same time placing a larger reserve in Chapter 100 and freezing it for release by joint decision of the Budgetary Authority. Reflection on this point should be continued so that in the examination of the 1978 Draft Budget, appropriate amendments can be tabled.

28. The second major point concerning the budgetary impact of the proposals goes right to the root of the assessments which appear to have been made in their formulation, i.e. that a reduction in MCA expenditure will involve the Community in no additional expenditure under other chapters within Titles 6 & 7. This is quite unsupported by any evidence.

29. On the contrary, since the existence of MCA's, wherever and to which country they are actually paid, has the effect of a subsidy to consumers, they encourage the assimilation of surpluses. If MCA's are abolished or, as in the present instance, reduced, the Budget has to bear the cost of maintaining or dispensing with the resulting increased surpluses under Articles 601, 621, 622, 623, 630, 633, 641, 651, 652, 681, 691, 701 and 711, the savings in MCA's on Chapters 78 and 79 would thus be counter-balanced by intervention expenditure under the Articles concerned.

30. Thirdly, your draftsman would like to put down a marker for that supplementary budget. The information that the Budgetary Authority would require before it could approve such a budget would have to be set down in far greater detail than is the case for even the improved financial statement accompanying the present proposals. In particular, the supplementary budget will have to contain full details of all the transfers between chapters and between articles as well as providing information regarding the general increases in expenditure. It will be recalled that in 1976 the agricultural supplementary budget contained transfers between items totalling some 500 mua. This figure is itself an indication of the unreliability of agricultural estimates and another example of the undermining of the principle of the annuality of the Budget.

31. Fourthly, the Budgetary Authority must be taken into the Commission's confidence to a greater extent than in the past. In particular the Commission must divulge the working assumptions on which it has made its calculations for the monetary compensatory amounts for the rest of the financial year. If the Commission has presented a purely static analysis, based on the current situation in the monetary markets, then it would clearly be unwise to express any reliance on these estimates. One would expect that independent hypotheses have been developed to arrive at the precise figure put forward and these should be communicated to the Committee on Budgets.

32. Fifthly, and equally, the information on the price effects needs to be extended. In particular it would be useful if the Commission used the model that it employs for monetary compensatory amounts by showing the effects of a 1% movement in either direction up or down. This would enable the Committees on Agriculture and Budgets to make proposals for price changes on the basis of an exact calculation of the budgetary consequences.

33. The guiding attitude for the Commission should be the automatic transmission of working documents to the relevant committees of Parliament so that in particular as regards the most important budgetary proposal of the year, Parliament's responsible bodies would be in a position to form realistic assessments. It is now the custom for the Commission to provide the general rapporteur for the Budget with such working documents at the time of the presentation of the preliminary draft budget, so there is no reason why this practice could not be extended.

34. There remains the overriding concern about the level of agricultural expenditure and the proportion of the General Budget that agriculture consumes. This supplementary budget takes agricultural expenditure from a total of 6.1 billion u.a. to nearly 6.6. The percentage of agricultural spending is therefore nearly 80% of the general total of the Budget. The situation of fundamental disequilibrium is deteriorating rather than improving. It will be said that this results from disorder in the monetary markets, not from agriculture itself, but nonetheless this represents expenditure which arises from the agricultural policy. The supplementary budget itself totals almost as much as Community spending under the Regional Fund for 1977, considerably more than Social Fund payments for the year, more than double expenditure on research and energy, and greater than food aid to developing countries. The consequences in terms of the public image of the Community are therefore extremely serious.

35. The resolution of the preponderance of expenditure on agriculture is not, in the view of the draftsman, to be found in measures simply aimed at phasing out monetary compensatory amounts. The long-term and indeed only solution resides in a new emphasis on Community policies on economic and social solidarity which would require a re-ordering of the Community's priorities and would provide the basis for monetary stability which alone can guarantee the success of the Common Agricultural Policy. This would seem to be a priority worthy of the new Commission.

36. In the absence of such an initiative, the Budgetary Authority has to limit itself to the task of increasing financial control on agricultural estimates. This can only be done by full disclosure of information and by detailed examination of that information.

PART VI CONCLUSIONS

37. The Committee on Budgets would suggest that in its conclusions the Committee on Budgets should emphasise that the Commission in putting forward proposals incorporating some structural changes has not seized the opportunity for a radical review of the entire intervention system which has proved so costly to the Community and which has been highlighted by the recent disposal of surplus butter to the USSR.

38. The Committee on Budgets requests that in future the improvement in documentation achieved in 1977 be maintained. The Commission should be asked to provide further information on price increase options, on the effect on own resources, on the working assumptions as regards the calculations of monetary compensatory amounts and on the multiannual effects.

39. As regards the procedure to be followed for the approval of agricultural expenditure, conditions should be laid down stipulating the deadline for a letter of amendment during the annual budgetary procedure (for example, not later than September 1). Whenever a supplementary budget proves necessary, the budget should accompany the proposal of agricultural prices so that they be considered together. As a means of reducing the likelihood of a supplementary budget, the idea of the creation of a budgetary reserve from which funds could be transferred under the control of the Budgetary Authority, should be retained.

The Committee on Budgets should at the moment of the examination of the Budget make proposals that any increase in appropriations proposed beyond the current financial year should be included under Title 10 to be released by Parliament and Council during the course of the subsequent financial year.

40. In view of the importance from a budgetary point of view of the proposals, the concertation procedure should be an automatic feature of the annual review of farm prices. Immediately after Parliamentary examination of the Commission's proposals, a delegation, led by the President of Parliament and consisting of members of the Committee on Agriculture and the Committee on Budgets, should make known to the Council Parliament's preoccupations and should seek to encourage Council in a dialogue which might lead to an improvement of budgetary transparency in the agricultural sector.

41. The Committee on Budgets approved, by eight votes to four with three abstentions, the proposal of the Commission for a 3% increase in agricultural prices. However, it rejected, at the same time, any increases for those sectors where surpluses exist until such a time as those surpluses have been absorbed.

42. The Committee on Budgets reiterated its view, by eleven votes, with two votes against and two abstentions, that the monetary compensatory amounts should be abolished as soon as the economic conditions which would permit this were created. Consequently, it sought the dissociation of these proposals from the rest of the package.

43. The draftsman has been instructed to adapt his draft as a consequence of these discussions and to give account also of the views of the minority.

He has been instructed, in the spirit of paragraph 4 of Article 44 of the Rules, to present in plenary, in the form of the amendments to the resolution of the Committee on Agriculture, draft amendments where it has not been possible for that Committee to take into account the position of the Committee on Budgets.

ANNEX I

STATEMENT BY MR TUGENDHAT TO FINANCE MINISTERS

MONDAY, 14 FEBRUARY

The Commission has asked that I should come here this afternoon so that I can explain some of the thinking that lies behind the proposals for agricultural prices for the coming year, which we adopted last Friday.

In the past you and your Budget colleagues have often expressed a strong desire for the establishment of more far reaching budgetary control over the Community's decision making procedures. The new Commission is determined to develop further its budgetary controls, and has made a start with the agricultural prices package which is one of the major budgetary decisions of the year.

We therefore felt that it would be appropriate for me as the Commissioner responsible for the Budget to make this presentation to you at the same time as my colleague, Mr Gundelach, is presenting the proposals to your Agriculture colleagues. This is the first time such a procedure has ever been followed.

As you know our proposals involve an average increase in farm prices of about 3 per cent. In some sectors the increase is greater, but in others, where there are structural imbalances, lower increases are proposed. There are also a small number of related proposals, mainly concerning MCA's and milk.

The proposals for a Milk Action programme, which is already before the Council, are designed to curb the massive increase in stocks that would otherwise take place in this sector. Certain modifications and improvements are now proposed by the Commission in the light of the discussions which have taken place.

My colleagues and I know that the farming industry regards this as a harsh package. Even so it will, of course, lead to price increases for the

...../

consumer.

We decided that this year our principal task must be to keep those increases to a minimum.

We are deeply conscious of the importance of maintaining a strong farming industry, and we are dedicated to upholding the Common Agricultural Policy. But in view of the economic problems at present facing the Community, especially inflation, we felt it right to ask the farmers to make a major contribution to the battle against rising prices.

Those of us responsible for formulating policy, and those groups in society who will benefit from that contribution must now ensure that it will not be in vain.

But economic and budgetary pressures point in the same direction. In present economic circumstances, public expenditure as a whole, and the Community budget in particular, have to be adapted to economic realities. The present package is coherent from a budget point of view.

The annual review of agricultural prices is from the budgetary point of view one of the major decisions which the Community takes each year. Agricultural expenditure is nearly 70% of the budget. Most of this spending is open-ended and affected by factors which are totally outside the control of the Commission and the Council (e.g. the state of world markets and monetary developments). Nevertheless, the framework within which this spending occurs is determined by the annual prices decision. This is much the most important point at which to exert budgetary and economic control of agricultural expenditure. It is no use complaining that the CAP is too expensive unless we show now our determination to do what we can to control that expenditure.

I turn now to the paper itself. I do not intend to enter into the details of it, which are self-explanatory, but I would like briefly to outline the main policy points with budgetary consequences.

Firstly, I would like to stress that it is not common organisation of agricultural markets as such that are inherently expensive, as some imagine. Where there is a proper balance between supply and demand, costs are

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relatively low. The large costs arise when there are surpluses. It is only when we have to export large quantities onto a lower-priced world market or take into stock surpluses which can subsequently be sold at only a fraction of their buying-in price that the costs of market organisations begin to escalate. Thus it is that the milk sector, which accounts for under 20% of the value of agricultural production in the Community, represents more than 40% of total agricultural expenditure (excluding agri-monetary expenditure) from the Community budget, that is to say that more than a quarter of the whole Budget is spent on milk. It also follows from these considerations that price increases for products such as milk are vastly more expensive than for products with a proper market balance. This is a crucial point to be borne in mind in the prices debate.

The second point to bear in mind is that the true financial incidence of the prices decision must not be assessed purely in terms of the cost for the 1977 budget. This is in fact very low (at under 40 million u.a.) The full year effect has to cover the impact for all the marketing years, which start at very different dates and will give rise to an extra cost of about 250 million u.a. But even then, there is still something missing, namely the built-in cost of existing and future surpluses, the bill which is waiting like a sword of Damocles to be paid to reduce these stocks whenever we can dispose of them. It is cheap to build up surplus stocks, the only costs are storage and interest, and these are in part offset by the increase in book value which occurs every time the intervention price increases. The full cost is only felt when the stocks are run down and have to be sold by various means at a fraction of their notional book value. Take the example of milk powder alone. We have about a million tonnes in stock. If we keep them in stock it costs us a little under 100 million u.a. a year minus whatever increase there is in book value (e.g. $100 - 30 \text{ million} = 70 \text{ million}$ in the case of a 3% price rise). To reduce these already existing stocks to the level of 3 months consumption, however, would cost no less than 500 million u.a. at today's prices. Much of this is not yet a cost for today, since alas it is unrealistic to think of reducing stocks on this scale. But it is a warning of the extra hidden cost of prices decisions which allow further stocks to accumulate. It is in this light that the Commission is proposing only a modest increase in milk and not before 16 September. Furthermore even this modest increase is only proposed in the overall context of the Milk Action Programme, without which any price increase for milk would have serious medium term repercussions.

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The third point is the need to take further action on MCA's. These have been the means of maintaining a common market in a period of monetary disturbance. But they allow economic distortion, both in the form of extensive subsidies which cost the budget a great deal, and in the form of concealed protection at the frontier which do not affect the budget directly but which have a major economic impact. The Commission is determined that this situation should be corrected, although clearly a long term solution is needed. Meanwhile it has proposed balanced adjustments in MCAs as an essential step in this direction. On this aspect also budgetary and economic factors must be carefully borne in mind in reaching decisions on the prices package.

In conclusion, may I stress that the Commission has made a special effort to present the budgetary aspects of its prices package this year. In doing so, it has responded to criticisms from the Council in the past. We very much hope that the Council in its deliberations on the prices package will take advantage of the Commission's efforts and for its part also ensure that this year the budgetary and economic aspects of this major decision are as fully weighed as the agricultural.

Statements by Mr Roy Jenkins, President of the Commission (February part-session, Tuesday 8 February) and the late Mr Anthony Crosland, then President-in-Office at the Council (January part-session, Wednesday 12 January) referred to in paragraph 21 of the main body of the draft opinion.

Mr Roy Jenkins:

"We face here three formidable, and interlocking obstacles to advance. The first is the stubborn persistence of high unemployment. Second are the high, though varying rates of inflation throughout the Community. The third is the widening gap between the economic performances and real standards of living of our Member States."

"The work of analysis and coordination is only a beginning. It must be supported by the selective intervention of the Community in the European economy as a whole."

"Further initiatives are, therefore, needed as well. In the first place, the Commission undertakes to devise a general policy to concentrate its present and future financial resources on the central problem of economic divergence."

"All enlightened modern States - certainly all the Member States of the Community - redistribute income from their richer regions to their poorer ones; none accepts the argument that because regional imbalances are hard to overcome, no attempt should be made to do so. What the Member States do within their national frontiers, we should seek to do in the Community as a whole."

Mr Anthony Crosland:

"Member States reacted differently to these untoward events. As a result, economic performances grew more, not less, divergent; and the imbalance is the more serious because it is between the four largest and most important economies in the Community."

"The essential basis for economic integration is therefore wholly lacking."

"But we must look even further ahead and start to devise new policies that will help us, once we have left recession behind, to counteract the uneven growth in the economies of Member States. We should explore ways in which the Community could help further to promote investment in those countries and regions where economic performance is below average. We should explore, as Finance Ministers are already doing, what contribution the Community can make to greater exchange rate stability."

