

European Communities

EUROPEAN PARLIAMENT

Working Documents

1977 - 1978

5 July 1977

DOCUMENT 202/77/ANNEX

OPINION

of the Committee on Agriculture

on draft amending and supplementary budget
No. 1 of the European Communities for the
financial year 1977 (Doc. 192/77)

Draftsman : Mr N.A. KOFOED

PE 49.420/fin/Ann.

OPINION

of the Committee on Agriculture

Draftsman : Mr N. A. KOFOED

On 21 June 1977 the Committee on Agriculture appointed Mr Kofoed draftsman.

It considered the draft opinion at its meetings of 21/22 June 1977 and 4 July 1977 and adopted it with 13 votes for and 3 against.

The following were present: Mr Laban, vice-chairman and acting chairman; Mr Kofoed, draftsman; Mr Brégégère, Mr Corrie, Mrs Dunwoody, Mr Durand, Mr Früh, Mr O. Hansen, Mr Hoffman, Mr Hughes, Mr Klinker, Mr De Koning, Mr Lemp, Mr Mitchell, Mr Pisoni and Lord St. Oswald (deputizing for Mr Scott-Hopkins).

I. INTRODUCTION

1. The first draft supplementary and amending budget calls for an increase in appropriations for 1977 of 714.4 m.u.a., a figure equivalent to 11% of the appropriations originally authorised for 1977.
2. In drawing up this additional request, the Commission and the Council have had to take into account four factors :
 - changes in original forecasts as to developments in market trends;
 - continuing fluctuations in exchange rates and the ensuing adjustment to monetary compensatory amounts;
 - the price proposals decided upon for the 1977/78 marketing year;
 - and a number of related measures which were adopted at the time of the price decisions.
3. The great bulk of the additional appropriations are required by the monetary situation and the special measures adopted by the Council at the time of the price decisions, particularly those intended to maintain butter consumption in the United Kingdom.
4. The price decisions have led to a very small additional requirement, much lower than in previous years.

Similarly, only a very small amount is required by corrections to forecasts in market trends; it is true, however, that the final figure required masks compensatory changes, and reductions in requirements for the beef sector are offset by increases in other sectors, in particular milk.

5. The additional requirement can be broken down as follows :

1. Monetary situation	399 m.u.a.
2. Related measures	228.6 m.u.a.
3. Agricultural situation	44.9 m.u.a.
4. New prices	41.9 m.u.a.

Total appropriations for Titles 6 and 7 will increase therefore from 6,418.5 m.u.a. to 7,132.8 m.u.a. Appropriations for Chapters 60 to 76, Market organisations, will be increased from 5,053.4 m.u.a. to 5,428.1 m.u.a., as compared to 5,227.07 m.u.a. entered for 1976.

However, if one excludes expenditure due to monetary instability, and takes into account additional contributions from agricultural levies in the region of 120 m.u.a., estimated net expenditure will be lower in 1977 (4,175.5 m.u.a.) than in 1976 (4,313,529,000 u.a.).

6. Attention should also be drawn to the fact that additional appropriations have been entered for additional staff for a new Directorate General in the Commission - Fisheries. This item is of the utmost importance in view of the necessity to draw up new policies, internally and externally, for the fisheries sector, following the creation of a 200 mile Community fishing zone.

Preliminary draft and the amending letter

7. In examining the first draft supplementary budget, the Committee should consider two documents :

- (a) the Commission's preliminary draft;
- (b) the Commission's letter of amendment to its preliminary draft.

A comparison of these two documents shows clearly the different reasons for the figure of 714.4 m.u.a. requested beyond appropriations entered for 1977.

8. The preliminary draft took into account (m.u.a.) :

revision in forecasts :	+ 44.9	
prices proposed by the Commission :	- 21	
related measures proposed by the Commission :	+ 104	
deferment of the date for co-responsibility :	+ 173	
	<hr/>	
	+ 381	
changes in exchange rates, mca's :	+ 403	
double exchange rate :	- 28	
transfer from Chapter 100 :	- 194	
	<hr/>	+ 482.2
		<hr/>

The amending letter takes into account :

the Council's price decisions :	+ 51	
the Council's decisions on related measures :	+ 99.2	
change in co-responsibility system :	+ 23.3	
Council's decisions on mca's	- 15	
double exchange rates	+ 99	
	<hr/>	+ 253.0
transfer from Chapter 100 :	- 25.8	
	<hr/>	+ 232.2
		<hr/>
<u>Final total</u>		+ 714.4

9. This breakdown clearly illustrates the comments made in the introduction, that the greater part of the supplementary budget is required by factors outside the Commission's control, and in particular : exchange rate instability; the Council's decision to defer the date of entry into force and the amount of the co-responsibility tax needed to finance the special measures to deal with the milk market situation; the Council's decision to increase butter subsidies in the United Kingdom and for special measures as an alternative to the fat content levy; and the Council's price decisions. The Commission's price proposals and revised agricultural forecasts would have required a mere additional 30.9 m.u.a.

10. There is, however, one slight reservation to be made here. 2,000 m.u.a. were entered under Chapter 62, Milk and Milk Products, under the assumption that the Council would adopt the Commission's action programme (with measures to limit the amount of milk delivered to dairies, encouragement of the conversion of dairy herds to beef production, and a production levy to finance schemes to reduce surpluses). The figures entered in the 1977 budget, therefore, did not correspond to estimated expenditure by item. In calculating required additional expenditure for the preliminary supplementary budget, following the Council's failure to take a decision, the Commission has distributed appropriations entered under Chapter 100 according to need under items in Chapter 62, whether that item be export refunds or public storage.

11. There are three sets of figures, therefore, to be borne in mind : those entered in the budget; the 'invisible' set of figures in the Commission's dossiers by which the 221 m.u.a. entered under Chapter 100 has been distributed by item within Chapter 62; and the increases upon that latter set of figures by item employed by the Commission to attribute in its explanatory statement additional appropriations contained in the supplementary budget according to type of expenditure, whether to prices, revised forecasts, etc. The secret of this process cannot possibly be discovered by examining the supplementary budget or by reading the explanatory statement provided, and one has the impression of an elaborate cosmetic operation. This does little to improve the budgetary procedure and cannot be accepted as a precedent.

The European Parliament can agree with the principle that provisional appropriations be entered under Chapter 100 rather than be the subject of a supplementary budget, but more precise information on likely allocation should be given when known.

12. On the other hand, one can applaud the Commission's attempt, in drawing up the 1977 budget, to force the issue on the Action Programme in the milk sector by entering known expenditure under Chapter 100, so leaving to the Council the choice of reaching a decision on that programme or, by its inaction, making the transfer necessary. The Council's responsibility for this additional expenditure has been clearly demonstrated : the Action Programme has only partly come into being and the concept of co-responsibility has been limited.

13. Following the changes to the co-responsibility levy decided upon by the Council, the levy has become of little more than symbolic value for 1977 :

Budget estimate	221.5 m.u.a.
evaluation from 1 April 1977	231.6 m.u.a.
evaluation from 16 September 1977	58.6 m.u.a.
from 16 September 1977 at 1.5%	35.3 m.u.a.

14. The reasons which led the Council to adopt a figure of 1.5% rather than 2.5% for the co-responsibility levy, were related to the particular price proposal for 1977/78, i.e. low level of price increase proposed, together with the aim of seeking to reduce monetary compensatory amounts for countries with appreciated currencies which, in this case, led to a price reduction of 1.8% in Germany. The decisions on the level of co-responsibility for 1977/78 do not prejudice, however, decisions for following years.

II. CHANGES IN APPROPRIATIONS BY SECTOR

Cereals

15. The increase in the prices in the cereals sector has led to an overall additional requirement of 4.3 m.u.a., made up of an increase of 12 m.u.a. for export refunds and a reduction of 7.7 m.u.a. for storage, reflecting the increased value of the stocks held.

Rice

16. There has been a decrease of 8 m.u.a. for rice, as a result of lower production and, therefore, lower export refunds.

Milk sector

17. The amended supplementary budget has entered an additional 484.9 m.u.a. for the milk sector.

18. In the first preliminary draft supplementary budget, an additional 316.4 m.u.a. was required, of which :

- (a) 73.8 m.u.a. resulted from revision in market forecasts, mainly due to increased export refunds for skimmed milk and for butter and cream, in view of improved export prospects, and after taking into account a saving of 82 m.u.a. following writing down of the value of milk powder stocks in 1976;
- (b) 96.4 m.u.a. was for related measures :
 - aid for liquid skimmed milk for use as animal feed : 75.8 m.u.a.
 - milk to school children : 16.8 m.u.a.
 - grants for the conversion and non-marketing of milk : 13.9 m.u.a. (new item)
 - the Commission reduced the total of 106.5 m.u.a. for related measures by taking into account a figure of -10.1 for producers' co-responsibility;
- (c) 173 m.u.a.¹ for the deferment of the date of the co-responsibility levy (this is to be covered by a transfer from Chapter 100);
- (d) and a reduction of 26.8 m.u.a. following from the Commission's price proposals, due mainly to the revaluation of stocks and a reduction in aid to private storage (a saving of 39 m.u.a.) and the limited repercussion of price increases which enter into force only on 16 September (increase of 13 m.u.a.).

¹ Revenue from the levy is estimated at 56.6 m.u.a. instead of 231.6 m.u.a. on the basis of the entry into force on 1 April 1977

19. Following the Council's decisions of March 1977, further additional appropriations of 158.5 m.u.a. have been entered, by the letter of amendment, under Chapter 62, as follows :

- (a) 51 m.u.a. for price decisions, 46 m.u.a. for the bringing forward of the price increase to 1 May 1977, and 5 m.u.a. for the additional 0.5% price increase;
- (b) 94.2 m.u.a. for related measures :
 - 52 m.u.a. for the special measures alternative to the fat content levy;
 - 45 m.u.a. for the revised United Kingdom butter subsidies;
 - 7 m.u.a. for the increased contribution of the Guarantee Section of the EAGGF to the non-marketing of milk and the conversion premiums (60% instead of 40%);
- (c) 23.3 m.u.a. following the reduction of the co-responsibility levy from 2.5% to 1.5% (this is to be covered by an increase of 23.3 m.u.a. in the transfer from Chapter 100 to Chapter 62);
- (d) in addition, it should be pointed out that the one month extension of the marketing year will lead to a 10 m.u.a. reduction in expenditure due to a slower rate in increase of consumption of liquid skimmed milk by pigs.

Oils and fats

20. The extra increase for colza, rape and sunflower seeds has led to an increase of 4.1 m.u.a. The effect of the olive oil increase will not be felt until 1977.

Sugar

21. An increase of 94 m.u.a. is required for the sugar sector, which is made up of 91 m.u.a. for export refunds, taking into account the stocks available for export, and a 3 m.u.a. increase, taking into account price decisions.

Beef and veal

22. A decrease in appropriations required, of 113.6 m.u.a., is due mainly to the new systems of stocks and to stock revaluation. This figure has taken into account an increase of 5.1 m.u.a. for export refunds and 11.2 m.u.a. for the calving premium. The Council's price decisions, extension of the variable premium for slaughtering to the 1977/78 marketing year, gave rise to increased appropriation requirements of 5 m.u.a., in addition to the figure of -118.3 entered in the Commission's unamended preliminary draft.

Pigmeat

23. An increase of 10 m.u.a. has been mainly due to the increase in export refunds, offset by a lower figure for intervention storage.

Other sectors

24. In the other sectors, an additional 12 m.u.a. has been required for refunds, withdrawal operations in the fruit and vegetable sector, and a reduction of 15 m.u.a. for distillation operations in the wine sector, a drop of 3.4 m.u.a. in tobacco following the lower harvest in Italy and Belgium, and a reduction of 4 m.u.a. for seeds in the harvest.

Monetary compensatory amounts

25. In the Supplementary Budget, appropriations for monetary compensatory amounts have been increased from 582 m.u.a. to 970 m.u.a. The rapid acceleration in expenditure, from 140 m.u.a. in 1973, 611 m.u.a. for 1976 and 970 m.u.a. for 1977, illustrates clearly the almost uncontrolled increase in expenditure on monetary compensatory amounts.

26. The Commission originally entered this lower figure of 582 m.u.a. on the assumption that representative rates would be modified to correspond more closely with market rates and that the monetary situation would remain similar to that existing in September 1976.

27. The Commission, as in the milk sector, appears to have entered into an exercise of seeking to demonstrate the Council's responsibility for increased expenditure in the agricultural sector. In this, the Commission have succeeded. By its failure to reach a decision on the Commission's proposal¹ for a permanent and automatic adjustment of monetary compensatory amounts, the Council has rejected, in fact, the only solution to the problem of maintaining expenditure on monetary compensatory amounts within reasonable bounds. The Commission has been requested by the Council to come forward with revised proposals by October 1977, but the proposals envisaged at present represent an acceptance of present levels of monetary compensatory amounts and budgetary expenditure.

28. The Committee on Agriculture can recognise the political motivations of the Commission in entering an artificially low figure of 582 m.u.a. under Chapter 78 of the initial budget, but believes, at the same time, that in terms of budgetary procedure, the Commission should have entered a sum in the region of 400 m.u.a. under Chapter 100 to cover expenditure that was foreseen when the budget was originally drawn up and which could only have been avoided by a startling degree of unanimity within the Council

¹ O.J. No C 274, 19.11.1976, p. 3.

29. It should also be noted that the Council's decisions have increased sharply the dual rate cost (Chapter 79) from 378 m.u.a. to 459.5 m.u.a.¹, as follows :

monetary compensatory amounts	26 m.u.a.	
market organisations	61 m.u.a.	
		- 33 m.u.a. due to changes in exchange rates
		- 28 m.u.a. due to special measures of which 21 m.u.a. are for the UK butter subsidy

III. CREATION OF A NEW DIRECTORATE GENERAL FOR FISHERIES

30. The extension of the Community fishing zone to 200 miles has faced the Community with responsibilities in totally new areas, and in particular the management of that zone, including conservation measures, and regulating access granted to Third Countries. The Community, at this moment, is negotiating a series of agreements with a wide range of countries.

The regulation of these complex questions cannot be carried out with the present staffing of the Commission. So far, fisheries questions have been the responsibility of two Directorates, Agriculture and External Relations, with the Commission relying, on certain questions, upon national experts working on a temporary basis.

31. The Commission, consequently, considers that a new Directorate General for Fisheries should be established, composed as follows :

Directorate A : internal and external resources
A - 1 : management and conservation of resources establishment of total potential catch by species and catch quotas
A - 2 : external resources, negotiations with Third Countries
Directorate B : market and structural policy

The Commission proposes that a total of 30 A - posts be assigned to the new Directorate General, 19 of which would represent transfers from DG IV, Agriculture.

32. The Committee on Agriculture has already drawn attention² to the need for sufficient staffing within the Commission, so as to ensure an effective

¹ Including transfer of 2.5 m.u.a. from Chapter 100, due to the lower milk financial contribution

² See report drawn up by Mr Hughes, Doc. 150/77

implementation of the internal and external fisheries policies. This Committee, therefore, welcomes the Commission's proposal.

IV. BUDGETARY PROCEDURE AND PRESENTATION

Procedure

33. The Committee on Agriculture¹, and the European Parliament², have insisted in the past that the Budget should include all foreseeable expenditure, including that from known future decisions of the Council occurring in the following year. Such decisions include the annual fixing of agricultural prices. The Commission entered, under Chapter 100 in the preliminary draft budget for 1977, 200 m.u.a. to cover additional expenditure arising from the price proposals. This was deleted by the Council. The Committee on Agriculture considers this reduction in the utility of the Budget to be unacceptable.

34. It can be considered at the same time that the Commission is at fault in this respect in wishing to demonstrate clearly the Council's responsibility for increased agricultural expenditure, by omitting known expenditure from the relevant chapters, while awaiting Council decisions to make the appropriate reduction in expenditure. This procedure has clear political advantages but equally clear budgetary drawbacks, since the required Council decisions were highly unlikely.

35. Thus rectifying and/or supplementary budgets become inevitable :

- (a) the Commission entered 221 m.u.a. under Chapter 100 to cover expenditure in the case that the Council did not reach decisions to improve the equilibrium of the milk sector. This procedure could be accepted if greater information had been provided as to the proposed allocation of those sums within Chapter 62.
- (b) 582 m.u.a. were entered under Chapter 78, even though estimated expenditure approached 1,000 m.u.a., on the basis that the Council ought to have taken decisions on the basis of Commission proposals not formulated at the time of the drawing up of the budget. In the event, the necessary Council decisions were not forthcoming, as was to be expected. A sum to cover this eventuality should have been entered under Chapter 100.

¹ See, for example, opinion by Mr Gibbons on draft 1977 budget, Doc. 363/76, Annex I, p. 13.

² See report by Mr Cointat, Doc. 119/77, pp. 36 - 39.

Presentation

36. The Committee on Agriculture would like to remind the Council of its insistence upon an improvement in presentation of the budget and in particular that expenditure resulting from monetary instability should be separated clearly from expenditure on common market organisations. There remains considerable progress to be made in this respect, and in particular purely accounting costs caused by double rates of exchange should be entered under Chapter 48 rather than under Chapter 79.

V. CONCLUSIONS

37. The additional appropriations requested for the agricultural sector have led to a number of criticisms of the Common Agricultural Policy, which can, and should, be rebutted.

38. The first criticism is that the expenditure in the agricultural sector is out of control and should be restricted to pre-established limits. It is clear, however, that the bulk of the appropriations requested in this supplementary budget have little to do with the basic mechanisms of the Common Agricultural Policy itself, but are required to take into account largely political decisions, and in particular the refusal of certain Member States to envisage comprehensive measures for dealing with the high level of monetary compensatory amounts, as well as for certain short term measures taken to maintain existing levels of butter consumption in the United Kingdom. Consequently, the additional appropriations requested for the market organisations of the Common Agricultural Policy (revised forecasts, price proposals, and the Commission's proposed related measures) represent an extremely low figure, 83.2 m.u.a. out of a total of 714.4 m.u.a.

39. This factor illustrates a second point that must be made : criticisms of alleged Commission failings in the forecasting of market trends are unfounded. The difficulties of forecasting in the agricultural sector are considerable and unavoidable, since questions of climate, size of harvest, trends in consumption, internal prices and external prices, all have to be taken into account. The Commission, in fact, seems to have achieved a high degree of accuracy in its forecasts.

40. It must be kept clearly in mind that the budget adopted for 1977 represented an austerity budget based on the spirit of retrenchment engendered by the economic climate. Appropriations entered for market organisations were decreased from 5,227,070,000 u.a. in 1976 to 5,053,400,000 u.a. for 1977. This latter figure has now been increased to 5,528,100,000 u.a. If, however, one takes into account increased revenue from agricultural levies in the region of 120 m.u.a., estimated net expenditure on market organisations of

the Guarantee Section of the EAGGF will decrease from 4,313,529,000 u.a. in 1976 to 4,175,500,000 u.a. in 1977.

Taking into account inflation rates in the region of 10%, the supplementary budget does little to alter the fact that in real terms net expenditure on agriculture in the Community is to decrease sharply.

41. Furthermore, the annual nature of the budget masks the fact that expenditure entered under the supplementary budget for special measures in the milk sector aimed at reducing the Community's cattle herd should lead to a degree of stabilisation of expenditure in future years.

42. This is yet one more indication that efforts to maintain expenditure in the agricultural sector at reasonable levels should concentrate on seeking solutions to specific problems in surplus sectors through improvements to market organisation, but, above all, through a greater emphasis on the Guidance Section. Efforts to restrict the agricultural budget within reasonable limits will be most effectively achieved through measures for market reform rather than through attempts to limit the price increases decided upon annually by the Council of Ministers. The changes adopted in the market organisation of the wine sector are clear evidence of this fact : the credits entered for 1977 were 124 m.u.a., as against 151.1 m.u.a. for 1976; and the supplementary budget proposes a further reduction of 15 m.u.a.

43. It is essential, therefore, that the present ceiling of 325 m.u.a. for the Guidance Section be removed, and that the credits set aside under the Mansholt Fund be employed.

44. The very sharp increase in monetary compensatory amounts from 582 m.u.a. to 970 m.u.a. demonstrates once more the necessity for measures to simplify present arrangements to minimise the effects of monetary instability in the agricultural sector.

45. The Committee on Agriculture would like to insist once more on the necessity for improvements in the presentation of the budget, and in particular :

- on the separation of expenditure arising from measures to minimise the effects of monetary instability and from the application of double exchange rates from agricultural expenditure proper;
- and the setting aside of appropriations under Chapter 100 to cover expenditure arising from the annual fixing of prices.

46. Finally, the Committee on Agriculture welcomes the setting aside of appropriations for the establishment of a Directorate General for Fisheries, an essential step towards the efficient regulation of the new and complex questions arising from the creation of a Community 200 mile fishing zone, and in particular effective measures for fish conservation.

