

European Communities

EUROPEAN PARLIAMENT

432.11

Working Documents

1976 - 1977

13 September 1976

DOCUMENT 293/76

Report

drawn up on behalf of the Committee on Budgets

on/draft supplementary and amending budget No. 2 of the European
Communities for the financial year 1976 (Doc. 261/76)

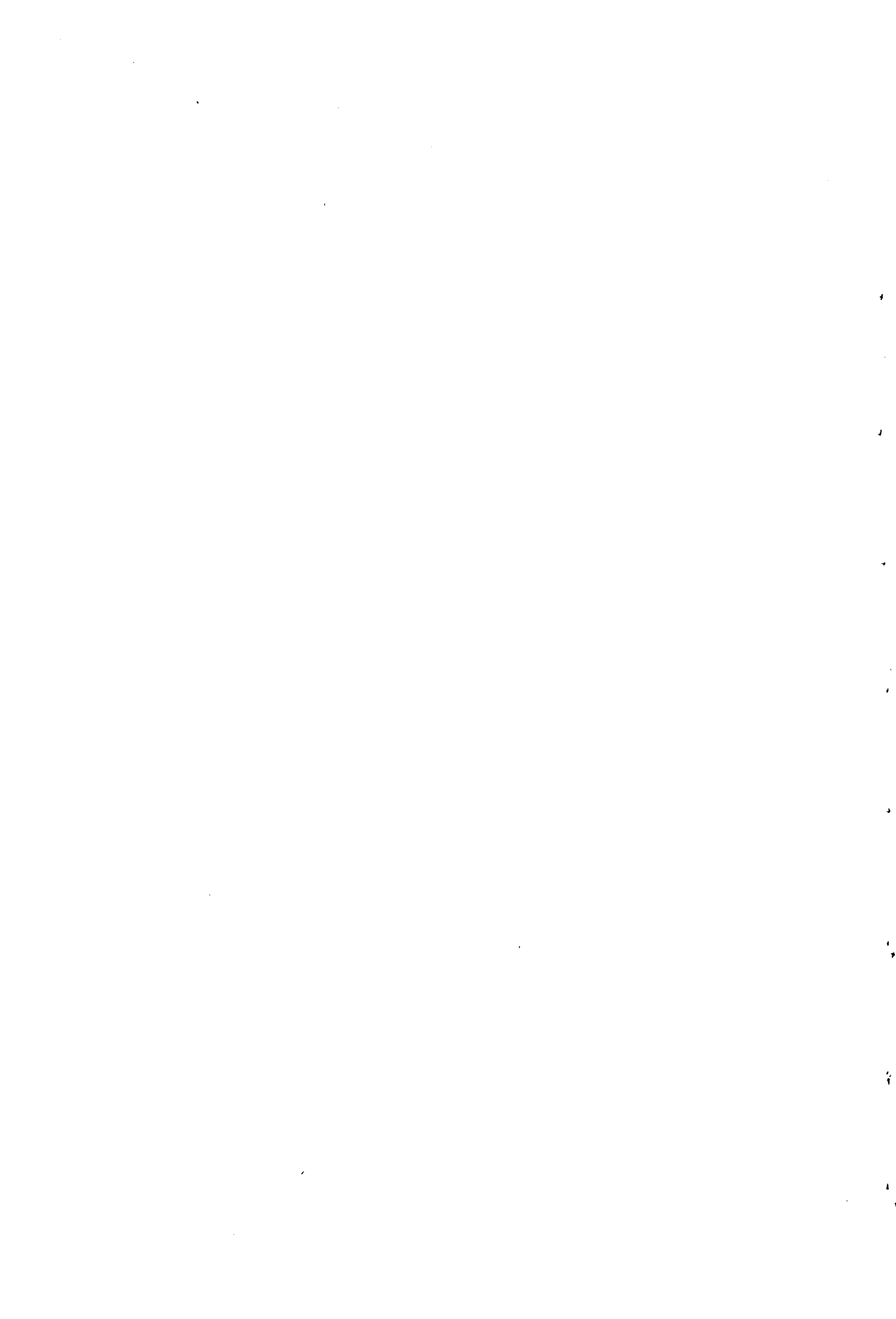
Rapporteur: Mr M. COINTAT

PE 45.603/fin

1.2.1

English Edition

EP 76-77, 293



The Commission of the European Communities forwarded the preliminary draft of the second supplementary and amending budget for the financial year 1976 to Parliament on 14 July 1976.

Draft supplementary and amending budget No. 2 was established by the Council on 22 July and forwarded to Parliament on 9 August 1976.

On 13 August 1976 this draft budget was referred to the Committee on Budgets as the committee responsible.

The Committee on Agriculture delivered an opinion on 2 September 1976.

At its meeting of 10 September the Committee on Budgets considered the draft report by Mr Cointat, rapporteur on the 1976 annual budget, and adopted the motion for a resolution unanimously, with one abstention.

Present: Mr Lange, chairman; Mr Maigaard, vice-chairman; Mr Cointat, rapporteur; Mr Artzinger, Mr Bangemann, Lord Bruce of Donington, Mr Clerfayt, Mr Dalyell, Mr de Koning (deputizing for Mr Brugger), Miss Flesch, Mr Fletcher, Mr Haase, Mr Lautenschlager, Mr Mursch, Mr Notenboom, Mr Radoux, Mr Shaw and Mr Suck.

The opinion of the Committee on Agriculture is attached.

C O N T E N T S

	<u>Page</u>
A. MOTION FOR A RESOLUTION	5
B. EXPLANATORY STATEMENT	6
Opinion of the Committee on Agriculture	22

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 draft supplementary and amending budget No. 2 of the European Communities for the financial year 1976

The European Parliament,

- having regard to the preliminary draft supplementary budget;
 - having regard to the draft supplementary budget (Doc. 261/76);
 - having regard to the report of the Committee on Budgets and the opinion of the Committee on Agriculture (Doc. 293/76);
1. Notes that the additional appropriations requested are intended mainly for financing green currency and agricultural expenditure;
 2. Calls on the Commission to submit, before 1 January 1977, proposals designed to create the necessary conditions for cutting back drastically and permanently the inflation in green currency expenditure;
 3. Declares its resolve to strengthen its control over Community agricultural legislation in order to make up for the inadequacy of budgetary authorization in this area;
 4. Notes the new estimates of own resources, which should make it possible to finance additional expenditure, reduce Member States' financial contributions and show surplus revenue in the 1976 budget;
 5. Approves draft supplementary and amending budget N° 2 for the financial year 1976; considers that as a result this budget shall be deemed to be finally adopted and therefore instructs its president to implement Article 203 (7) of the EEC Treaty regarding the adoption of the budget.

B

EXPLANATORY STATEMENT

On 22 July 1976 the Council drew up draft supplementary budget No. 2 for the financial year 1976. On 9 August the President-in-Office of the Council forwarded the draft to Parliament, which, under Article 203 of the EEC Treaty, should consider it within 45 days, in other words during the September part-session. The Commission also expressed the wish that the budget authority would consider the draft budget urgently to ensure the continuity of payments from the EAGGF Guarantee Section.

- o -

This explanatory statement is divided into the following four parts:

- presentation of the draft budget,
- comparison between the preliminary draft and draft budgets,
- critical analysis of the draft budget,
- conclusions.

o
o o

I. PRESENTATION OF THE DRAFT BUDGET

1. In draft supplementary budget No. 2/1976, the Council proposes an overall increase in appropriations of 833 m u.a., which is equivalent to 11% of the original budget.

This increase is required mainly to cover the rise in the estimated expenditure in the agricultural sector; it should also make it possible to expand the food aid programme in the form of skimmed milk powder and aid to Portugal in the form of interest subsidies. Finally, the Council draft proposes an alteration - with no financial implication - as regards research personnel.

2. The total financial impact of the draft budget is as follows:

- Agricultural and green currency expenditure	665
EAGGF Guarantee Section	185
Compensatory amounts	480
- Food aid	93
- Aid to Portugal	<u>2.1</u>
TOTAL	760.1
+ 10% reimbursement to Member States	<u>72.6</u>
	<u>832.7 m u.a.</u>

3. These additional appropriations of 833 m u.a. must, in accordance with the principle of budgetary balance, be offset by a corresponding increase in revenue. These additional resources are normally mobilized by increasing Member States' financial contributions, the only variable in the Community's own resources.

4. The most recent estimates of other own resources, however, reveal a probable increase of some 926 m u.a. (or 12%) over the original budget estimates. This increase can be broken down as follows:

- Customs duties	+ 552.2
- Agricultural levies	+ 174
- Gain on differences in exchange rates	<u>+ 200</u>
	<u>+ 926.2</u>

5. The Council proposes to formalize these new estimates by amending the original budget accordingly: the additional appropriation of 833 m u.a. required will therefore be more than covered by the extra resources thus taken into account. This operation makes it possible not to increase Member States' financial contributions but on the contrary to reduce them, since the additional resources exceed the additional appropriations: 926.2 - 832.7 = 93.5 m u.a. In fact, Member States' financial contributions will be reduced by 54.4 m u.a. and not 93.5 m u.a.¹.

(1) Agricultural and green currency expenditure

6. Supplementary budget No. 2/1976 is essentially an agricultural budget since 665 m u.a. (or 87.5%) of the 760 m u.a. of additional appropriations requested are earmarked for the EAGGF Guarantee Section.

7. A distinction must obviously be made, however, between agricultural expenditure and green currency expenditure.

(a) Agricultural expenditure proper

8. Agricultural expenditure proper represents only 185 m u.a. or 24.3% of the total. This figure is in fact the result of additional expenditure counter-balanced by new savings:

- main additional expenditure:

- cereal refunds	+ 39 m u.a.
- aid for skimmed milk	+ 52 m u.a.
- milk product refunds	+ 132 m u.a.
- sugar refunds	+ 60 m u.a.
- premium for the birth of calves	+ 40 m u.a.
- fruit and vegetable withdrawals	+ 45 m u.a.

- main savings:

- absence of premiums and payments for cereals	- 62 m u.a.
- compulsory incorporation of milk powder	- 195 m u.a.
- limitation of wine distillation	- 45 m u.a.

¹The effect of the 'dynamic brakes' prevents any greater reduction of Member States' financial contributions. The remainder of the possible surplus, 39.1 m u.a., will have to be carried forward to the next financial year.

9. Additional expenditure and savings in each of the markets involved can be summarized as follows:

cereals	- 23 m u.a.
rice	+ 6 m u.a.
milk and milk products	- 11 m u.a.
oilseeds	+ 30 m u.a.
sugar	+ 88 m u.a.
beef and veal	+ 71 m u.a.
poultrymeat	- 4 m u.a.
fruit and vegetables	+ 45 m u.a.
wine	- 45 m u.a.
tobacco	+ 5 m u.a.
fishing	+ 2 m u.a.
hops	+ 8 m u.a.
dehydrated fodder	- 2 m u.a.
processed agricultural products	<u>+ 15 m u.a.</u>
Total:	<u>+185 m u.a.</u>

10. The following facts emerge from these lists:

- the additional expenditure is caused mainly by an increase in refunds, in other words by an increasing gap between world prices and Community prices;
- the savings are due mainly to the compulsory incorporation of milk powder in animal feedingstuffs and the absence of certain aids in the cereals sector because of the increase in cereal prices.

(b) Green currency expenditure

11. Green currency expenditure, amounting to 480 m u.a., forms the bulk (63.1%) of the 760 m u.a. of additional expenditure shown in the draft supplementary budget.

12. It is the result of the violent fluctuations in Community parities that have occurred since the original 1976 budget was adopted and that are expected to continue for the rest of the financial year and, more specifically, the sudden and considerable depreciation of British and Italian currencies. A distinction has, however, to be made between monetary compensatory amounts and accession compensatory amounts:

- monetary compensatory amounts have increased by 350 m u.a., from 260 m u.a. (original budget) to 610 m u.a. (supplementary budget), an increase of almost 135%.

- accession compensatory amounts have increased by 130 m u.a., from 262 to 392 m u.a., an increase of almost 50%.

(2) Food aid

13. The Council has requested an appropriation of 93 m u.a. to finance an additional 95,000 tonnes¹ of skimmed milk powder as food aid: the increase is from 125.7 m u.a.² to 215.74 m u.a., or 75.8%.

14. The additional appropriation of 93 m u.a. can be broken down as follows:

- (Item 6201) refunds (for the export of the powder)	+ 52.37 m u.a.
- (Item 9211) purchase and transport of the powder	+ 40.63 m u.a.

(3) Aid to Portugal

15. The aid to Portugal entered in the budget amounts to 30 m u.a. spread over the financial years 1976 and 1977, to be used for subsidizing interest rates on loans (amounting to 150 m u.a.) granted to Portugal by the EIB. An appropriation of 12 m u.a. was entered in the original 1976 budget but total loans granted by the Bank during the financial year 1976 have been higher than estimated, and appropriations earmarked for interest subsidies have to be increased by 2.1 m u.a.

(4) Research and investment activities

16. According to the Council, its adoption of a resolution on the technological problems of nuclear safety calls for an increase in the strength of the secretariats assigned to these new tasks. As the staff (a total of 8 officials) already exists on the establishment plan ('staff awaiting assignment'), the operation consists of a simple budgetary transfer without financial implication.

¹In its decision of 2/3 March 1976, the Council increased its programme for 1976 from 55,000 tonnes to 200,000 tonnes. Of this 145,000 tonne increase, 95,000 tonnes will be financed from the 1966 budget and 50,000 tonnes from the 1977 budget.

²Appropriation shown in the 1976 budget.

II. COMPARISON BETWEEN THE PRELIMINARY DRAFT AND DRAFT BUDGETS

17. Comparison is complicated by the fact that the Council has not taken the trouble to state in the draft budget how it has modified the Commission's preliminary draft. Even more important, it does not give the 'reasons for departing....from the preliminary draft budget' as it is required to do under Article 13 of the Financial Regulation¹.

18. The following differences emerge, however, from a detailed comparison of the two documents:

- in revenue: the Commission regards the 200 m u.a. of exchange rate gains referred to above as reductions in expenditure and makes a corresponding negative entry under Item 2321 (loss on differences in exchange rates).

The Council on the other hand treats this 200 m u.a. as extra revenue which it enters under Article 951 (gain on differences in exchange rates) in the revenue section of the draft budget.

- in expenditure: there are only four differences between the preliminary draft and the draft budgets:

Article/Item	PDB	DB	Difference
6200 Milk refunds	+ 153 m u.a.	+ 132 m u.a.	- 21 m u.a.
6500 Beef and veal refunds	-	+ 10 m u.a.	+ 10 m u.a.
6511 Public storage of beef and veal	-	+ 21 m u.a.	+ 21 m u.a.
750 Accession compensatory amounts	+ 140 m u.a.	+ 130 m u.a.	- 10 m u.a.

Taken together, these differences cancel each other out.

¹ Article 13 of the Financial Regulation lays down that:
'It (the draft budget) shall be forwarded to the European Parliament and placed before it not later than 5 October. The Council shall attach to that draft budget an explanatory memorandum defining in particular:
- the relationship between the principal objectives of the Community and the requests for appropriations;
- the changes in appropriations compared with the preceding financial year;
- the Council's reasons for departing, where necessary, from the preliminary draft budget' OJ L 116, 1 May 1973

The Committee on Budgets reproached the Council for the same thing in its report on the draft budget for 1976: 'This does not apply to the explanatory statement of the draft budget which, because of its brevity and lack of precision, does not seem to meet the requirements laid down in Article 13 of the Financial Regulation. This has in fact always been a shortcoming but it has now become unacceptable inasmuch as budgetary powers are at present shared between the Council and Parliament and the latter must be fully informed of the reasons for budgetary decisions taken by the Council. It is particularly unacceptable in view of the fact that, at the meeting of 22 September, the leader of the parliamentary delegation asked the Council to prepare an explanatory statement representing a true answer to the Commission's position as put forward in the preliminary draft on the one hand, and to the comments made by the parliamentary delegation at the meeting of 22 September on the other. From this point of view the brevity of the draft budget is a real obstacle to the development of the dialogue between Parliament and the Council which must be the main element in the procedure for adopting the budget' (Doc. 361/75, page 24).

19. The 200 m u.a. of exchange rate gains explains the difference between the totals in the preliminary draft and draft budgets:

Variation from the original budget	Revenue		Expenditure	
	PDB	DB	PDB	DB
Increase in m u.a.	+ 671.8	+ 871.8	+ 632.7	+ 832.7
Percentage increase	+ 8.8%	+ 11.4%	+ 8.28%	+ 10.9%

20. It is interesting to note that in both cases the 1976 budget as revised by this supplementary budget shows a surplus of revenue over expenditure of 39 m u.a.

20.a. It seems in fact that the five modifications referred to in point 18 would have been made by the Commission itself at the request of the Budget Committee. The Commission would therefore have altered its preliminary draft without informing Parliament which - as far as the Budget is concerned - constitutes a completely unacceptable precedent which would have to be explained.

III. CRITICAL ANALYSIS OF THE DRAFT BUDGET

21. The draft budget raises several problems - some of them basic, others more specific - which will be examined one by one.

(1) Balance between additional expenditure and revenue

22. In the letter accompanying the preliminary draft, the Commissioner responsible writes that the proposed supplementary budget does not involve the Member States in any actual additional expenditure; in fact, contributions calculated from the ad hoc scale based on the GNP show a decrease of about 100 m u.a. The tables in the preliminary draft and the draft show a decrease in financial contributions of 54.4 m u.a. only, whereas the budget as a whole shows a revenue surplus of 39.1 m u.a. The sum of these two figures (93.5 m u.a.) corresponds closely to the surplus of savings over additional expenditure arising from the supplementary budget (see point 5 above).

23. It is difficult not to be sceptical about the Commission's new revenue estimates: the very large increases in customs duties (+ 550 m u.a. = + 15.5%) and in exchange rate gains (+ 200 m u.a.) seem highly arbitrary. It is therefore somewhat surprising that the Commission and the Council were so convinced of the reliability of the new estimates that they decided to modify the estimated revenue in the original budget correspondingly.

24. This modification has the effect - at first sight at least - of absorbing the 833 m u.a. of additional expenditure which seems much more probable. It is nevertheless true that this 833 m u.a. represents a real additional burden on the Community budget, in the absence of which any supplementary revenue would have made it possible to achieve a much larger budget surplus than that now forecast.

25. The reconciliation between the additional revenue from increased customs duties and the additional expenditure arising from the poor functioning of the green currency mechanisms is not very satisfactory and could even mask the seriousness of the problems that cause increased expenditure. In the words of the Commissioner responsible for agriculture, 'if expenditure rises by for example 350 m u.a., we shall have to introduce supplementary budgets. It does not help us to say then that we have received more money, for example the same amount or half of it, from higher levies. Unfortunately, this has no effect on the matter and influences only the key contributions from the Member States'¹. These remarks were made in connection with the fixing of agricultural prices for the 76/77 marketing year and are therefore directly related to the draft supplementary budget under consideration.

26. As regards the classification of the 200 m u.a. of exchange rate gains as negative expenditure or revenue, it seems that - as the nomenclature now stands - budgetary clarity calls for these gains to be treated as 'gain on differences in exchange rates' rather than 'financing costs'; they should therefore be entered as revenue, as has been done by the Council, even though this solution prevents total expenditure for the financial year 1977 being reduced by 200 m u.a.

(2) Agricultural and green currency expenditure

27. Point 2 above shows the total of this additional expenditure and how it is broken down:

- EAGGF Guarantee Section	+ 185 m u.a.
- Compensatory amounts	
. monetary	+ 350 m u.a.
. accession	+ <u>130 m u.a.</u>
	+ 665 m u.a.
	=====

(a) Agricultural expenditure proper

28. It is very difficult to say whether the 185 m u.a. of additional expenditure is due entirely to developments on the agricultural market as the Commission claims, or whether it is at least partially attributable to the latest price rise.

¹Debates of the EP of 10.2.1976 (OJ No. 199, page 70).

29. It is also to be hoped that the very high savings expected from the compulsory incorporation of milk powder (- 195 m u.a.) do not turn out to be too optimistic.

30. The expenditure savings balance for each of the markets (see point 8) reveals sharp increases in appropriations in the sugar sector (+ 88 m u.a. or a 52% increase over the original budget) and the fruit and vegetables sector (+ 45 m u.a. or a 40% increase); a sharp decrease is expected in the wine sector (- 45 m u.a. or a 23% decrease). While it is up to the Committee on Agriculture to comment on these figures, the Committee on Budgets is struck by the size of the variations. If we compare the estimates of expenditure made by the Commission at four successive stages for the financial year 1976, we obtain the following figures:

COMMISSION ESTIMATES OF TOTAL VARIATIONS IN AGRICULTURAL
AND GREEN CURRENCY EXPENDITURE

Chapters	No.	1 - at 15.9.1975 - Preliminary draft general budget 1976 (rectifying letter of 15.9. 1975)	2 - at 10.12.1975 - Proposal on the fixing of prices and certain ac- companying measures	3 After transfers made within the 1976 budget	4 - at 14.7.1976 - Preliminary draft supplementary budget No. 2/1976	5 Percentage variation 4/1
Cereals	60	714.8	742.8		691.8	- 3.2
Rice	61	24	24		30	+ 25
Milk	62	1,941.1	1,881.1	1,888.7	1,951.07	+ 5.1
Oils and fats	63	411.3	461.3		441.3	+ 7.2
Sugar	64	170.4	190.4	182.4	270.4	+ 58.6
Beef and veal	65	679.4	550.4		719.4	+ 5.8
Pigmeat	66	69	73	50	50	- 27.5
Eggs and poultrymeat	67	24	31		20	- 16.6
Fruit and vegetables	68	112.8	124.8	127.8	172.8	+ 53.1
Wine	69	196.1	186.1		151.1	- 22.9
Tobacco	70	203.3	207.3		208.3	+ 2.4
Other sectors	71a to 73	66.4	102.4	68.4	76.4	+ 15.06
TOTAL 1		4,612.6	4,581.6	4,870.2	4,782.57	+ 3.68
Accession compensatory amounts	75	262	274		402	+ 53.4
Monetary compenstory amounts	76	260.7	234.7		610.7	+134.2
TOTAL 2		5,134.7	5,090.3	5,092.9	5,795.27	+ 12.86

31. It is probable that actual expenditure will still be very different from the latest estimates given in the supplementary budget under consideration. One is led to the conclusion that in practice the budget estimates for the EAGGF Guarantee Section are merely for guidance and that the Commission is forced to 'adjust its sights' because of the extensive use of transfers and carrying over of appropriations. In these circumstances, the budgetary procedure becomes practically meaningless as regards expenditure, and the control of the budgetary authority is largely fictitious.

(b) Green currency expenditure

32. It is the sudden increase in expenditure under this heading that has made this supplementary budget necessary.

33. On pages 23 and 25 of its general introduction the Commission denounces the excess of monetary compensatory amounts:

'The Commission notes that allowing excessive sums of MCA to become an institution:

- weighs down the Community budget disproportionately;
- seriously hinders the work of the Guarantee Section insofar as the MCA hinge on trends in the exchange rate;
- maintains artificial distortions in trade and domestic expenditure (beyond the period needed for re-alignment) between trends in prices of products subject to MCAs and prices for other products;
- constitutes an obstacle to the optimum allocation of the factors of production since it makes regional specialization in agriculture difficult.'

34. It concludes that there is a need for compulsory running down of the total sum of MCAs over a period of time. One is therefore tempted to ask the Commission what it proposes to do. The gravity of the problem of monetary compensatory amounts which form an increasing part of EAGGF Guarantee expenditure (10.4% of the 1976 revised budget) has been recognized for several years and the time has come for the Commission to fulfil its duty by proposing the necessary remedies.

35. The expected increase in accession compensatory amounts (+ 130 m u.a.) should be seen in the light of their temporary nature; they will disappear by 1 January 1978, when Community agricultural prices are applied in full in the new Member States.

36. Altogether, the draft supplementary budget provides for a surplus of expenditure in the agricultural sector of 664 m u.a. This figure should be compared with the Commission's December 1975 estimates of the probable impact of the 'fixing of prices and accompanying measures':

	Expected impact of the fixing of prices (in m u.a.)	Draft supplementary budget No. 2/76 (in m u.a.)
Agricultural expenditure	- 56	+ 185
Monetary compensatory amounts	- 26	+ 350
Accession compensatory amounts	+ 12	+ 130
TOTAL	- 70	+ 665

37. It seems therefore that the Committee on Budgets was justified in being sceptical about the financial estimates made by the Commission for the fixing of prices when it stated that '(the overall financial effect of the Commission's proposals) has little significance both because it is based on unreliable forecasts and because it is calculated on the basis of numerous varied measures whose chances of adoption by the Council vary greatly'.¹

(c) Modifications in the original 1976 budget

38. When one reads the supplementary budget one realizes that the modifications proposed most often do not refer to the initial budget appropriations adopted by Parliament but to the appropriations modified by Commission transfers (see table on page 15). Parliament however, was not informed of these transfers; it only brought them to light by making a detailed comparison between the original budget and the supplementary budget.

39. The extent of these transfers can be appreciated from the statements made by the Committee on Agriculture in its opinion; it is difficult to estimate their import when one notes the resulting erratic movement of appropriations and the remaining differences between the original budget thus modified and the new requirements revealed in the draft supplementary budget.

¹Opinion of the Committee on Budgets on the price proposals
Rapporteur: Mr Cointat - Doc. 522/75/Annex, page 6

3. Food aid

40. The proposals for 93 m u.a. of additional expenditure to finance increased supplies of milk powder call for three separate comments:

(a) Obvious inconsistency of the trend of appropriations

41. The appropriations for food aid in the form of milk powder are divided between two items, Item 6201 for export refunds and Item 9211 for food aid proper. The following table shows the trend of appropriations since the time of the preliminary draft of the original 1976 budget:

	Item 6201 Refunds	Item 9211 Food aid	Total	Percentage of refund expenditure
Original preliminary draft budget for 1976	89.39	53.56	142.95	62.5%
Original draft budget for 1976	89.39	36.35	125.74	71.1%
(Modifications pro- posed by the EP)	-	(+ 50)		
Original budget for 1976	89.39	36.35	125.74	71.1%
After transfers	64.40	36.35	100.75	63.9%
Draft supplementary budget for 1976	116.77	76.98	193.75	60.2%

42. This table reveals an obviously very confused estimate of appropriations that is not entirely explained by fluctuations in refund amounts due to the trend in world prices.

(b) Amount of refund expenditure

43. The percentage of food aid appropriations represented by refund expenditure varies considerably (the variation between the highest and lowest percentages in the above table is 11 points); on average it is of the order of 60.4%, which means that, for every 10 m u.a. of milk powder supplied, the Community has to pay 6.4 m u.a. in refunds to the storage agencies, in other words the Member States.

(c) Justification for the additional appropriations

44. As the above table shows, the Commission and Parliament had proposed higher appropriations than those earmarked by the Council for the 1976 food aid programme; they in fact wanted to anticipate the inevitable extension of aid and to allocate appropriations for an enlarged programme. The Council refused to do so, which made it necessary to increase appropriations by means

of the present supplementary budget after the decision to extend the programme was eventually taken in March 1976. When the programme was extended the Committee on Budgets made the following observation:

'The Committee on Budgets supports this programme. It cannot agree, however, on the need for a supplementary budget to cover the financing of the programme. The committee wishes to point out that the requests by the States concerned, which this communication has now decided are to be met, were already known during the drawing up of the annual budget of the Communities for 1976, and that, in the light of this situation, the European Parliament rightly proposed a modification (an increase of 50 million u.a. - see Proposed Modification No. 10 of 1976) of the appropriations for this purpose in order to avert the need for supplementary budgets.

It is evident that the Committee on Budgets will take account of the Council's mistakes when the time comes for it to assess the budgetary implications of these proposals, which will be submitted in the form of a supplementary budget to the General Budget of the Communities for 1976¹.

45. It therefore takes a highly critical view of the present request for an additional appropriation of 93 m u.a. It is worth noting that if we add the appropriation proposed in the preliminary draft of the original 1976 budget (142.95 m u.a.) to the 50 m u.a. voted by Parliament, we get almost exactly the appropriation (193.75 m u.a.) now deemed necessary by the Council.

4. Aid to Portugal

46. It is desirable that the emergency aid granted to Portugal be provided as quickly as possible so that all appropriations are used up by the end of 1977, immediately prior to the entry into force of the financial protocol now being drawn up.

47. It should, however, be noted that the additional appropriation of 2.1 m u.a. requested could have been transferred and that it was not necessary to make use of a supplementary budget.

48. It should also be noted that Parliament still does not know the legal basis for this aid. The decision to grant emergency aid to Portugal - taken rather hastily last October by the Council because of the circumstances - justified an amendment to the draft budget for 1976 which Parliament fully endorsed. It is extraordinary that the Council decision was not subsequently forwarded to Parliament so that it could have a detailed explanation of how the 30 m u.a. of appropriations had been arrived at; the Commission's preliminary draft supplementary budget mentions a 'summary of decisions' of the Council

¹Letter embodying the opinion of the Committee on Budgets from Mr Lange to the chairman of the Committee on Development and Cooperation.

which Parliament has not received. It is unacceptable that texts on which requests for appropriations are based are not forwarded to one of the budgetary authorities.

o
o o

CONCLUSIONS

49. The Committee on Budgets intends to maintain the attitude it adopted when voting on the original 1976 budget, in other words not to change the EAGGF Guarantee Section appropriations shown in the draft supplementary budget.

Nor does it intend to change the proposed additional appropriations for food aid and aid to Portugal.

50. It notes once again that budgetary authorization of agricultural expenditure is of little significance and therefore recommends that democratic control be reinforced at legislative level, in other words when the basic regulations are drawn up and adopted and when prices are fixed.

51. It urges the Commission to meet its responsibilities by proposing measures for cutting back drastically and permanently the inflation in green currency expenditure. The Committee on Budgets feels that the Commission should submit to the Council a communication and/or a proposal for a decision on the subject before the end of 1976.

52. Apart from cases where Parliament has to be consulted under the Financial Regulation, it should be kept informed of all transfer operations carried out by the Commission so that it can follow the implementation of the budget and, more particularly, assess the justification for the requests for additional appropriations.

53. So that Parliament can discharge its budgetary responsibilities satisfactorily, the committee feels that, prior to the adoption of supplementary budget No 2/1976, it should have at its disposal:

- the list of transfers of appropriations made so far in the original 1976 budget appropriations,
- the text(s) explaining and justifying the allocation of 30 m u.a. for loan subsidies to Portugal,
- the corrections that the Commission is said to have made to the preliminary draft supplementary budget.

54. Subject to consideration of the above documents, the Committee on Budgets recommends that supplementary budget No. 2/1976 as proposed by the Council be adopted.

OPINION OF THE COMMITTEE ON AGRICULTURE

Draftsman: Mr N. KOFOED

The Committee on Agriculture appointed Mr KOFOED draftsman.

It considered the draft opinion at its meeting of 2 and 3 September 1976 and adopted it unanimously.

Present: Mr Houdet, chairman; Mr Laban and Mr Liogier, vice-chairmen; Mr Baas, Mr Bourdellès, Mr Cifarelli, Mr Della Briotta, Mr Delmotte (deputizing for Mr Hughes), Mrs Dunwoody, Mr Frehsee, Mr Gibbons, Mr Girardin (deputizing for Mr Boano), Mr Haase, Mr Hansen, Mr Kofoed, Mr de Koning, Mr Ligios, Mr Martens, Mr Ney, Mr Suck.

Introduction

1. The European Parliament is called upon to give its opinion on a supplementary and amending budget for 1976 for additional appropriations of 717.37 m u.a.
2. The need for such a supplementary budget is mainly due to the effects of monetary instability on agriculture : 140 million and 350 million are required for accession compensatory amounts and monetary compensatory amounts respectively.
3. A further 227.37 m u.a. are required for a market organisation and food aid programme, due to :
 - decreases in world prices of cereals, sugar and milk (requiring an increase in levels of restitution);
 - and the drought which had led to extraordinary expenditure.
4. The European Parliament is requested to consider the supplementary budget with the minimum of delay, as the final appropriations for 1976 are essential for considering the 1977 budget. Failure to adopt the supplementary budget would result in payments being delayed and the 1977 budget artificially inflated.

Accession compensatory amounts

5. As in previous years, development of trade to the UK from the Community, particularly in cereals and milk products, requires a heavy expenditure on accession compensatory amounts.

In the first five months of 1976 expenditure reached 187 m u.a. Another 140 m u.a. are requested in view of payments for the first five months, even while taking into account the one-third reduction for the 1976/77 marketing year and the decrease in exports of butter to the UK from other Member States.

Monetary compensatory amounts

6. On 15 March 1976, new representative rates resulted in the re-introduction of monetary compensatory amounts between Ireland and the UK. At the same time the French franc left the "snake", and the market rate for the Italian lire has fallen since the introduction of a new representative rate on 3 May 1976.
7. On the other hand, the decision of 17 May 1976, that the export country should pay the monetary compensatory amounts on the importation of goods into Italy and the UK, has resulted in a reduction in costs for the budget due to the operation of the double rate of exchange.

8. Therefore, taking into account the development of the monetary situation, systems of payment, the development of trade between the UK and other Member States and payments made in the first five months of 1976, it is proposed that an additional 350 m u.a. be entered in the budget.

Additional payments for Common Market organisations

9. The decrease of world prices for a number of agricultural products relative to Community prices has resulted in additional costs to the Community budget, particularly for export refunds.

10. Cereals

A saving of 23 m u.a. on appropriations for cereals is proposed in view of the fact that the increases in refunds for cereals, limited by the drought to 30 m u.a., and in production refunds (+ 9 m u.a.), have been more than offset by : the absence of denaturing (a saving of 26 m u.a.); savings due to the new system of granting aid for durum wheat by area rather than volume (- 12 m u.a.); and by the fact that carry over payments have been rendered unnecessary by market prices and the increase in prices decided for the following year (- 24 m u.a.).

11. Rice

An additional 6 m u.a. is required for export refunds for rice, due to the fall in the world price from 250 u.a. per tonne in 1975 to 200 u.a. at present.

12. Milk products

Initially 1,941.1 m u.a. were entered in the 1976 budget for milk products.

This sum was reduced to 1,888.7 m u.a. by the necessity to transfer back 42.4 m u.a. which had been 'borrowed' from food aid to the Guarantee Section in the third supplementary budget for 1975.

Taking into account increases in refunds on the one hand, and savings made in the skimmed milk sector, on the other, the Commission requests an additional 41,370,000 u.a., as follows :

13. (a) refunds

An additional 132,000,000 u.a. are required for refunds due to an increase in prices for the 1976/77 marketing year and decrease in world prices, particularly for butter and other milk products.

The expansion of food aid programmes has led to additional costs of 52,370,000 u.a.

42.4 m u.a. are to be returned to food aid.

On the other hand, following the change in refunds, 21 m u.a. will be transferred from the food aid to the Guarantee Section.

An additional 205,370,000 u.a. are requested for refunds in the milk products sector.

14. (b) public stocking and measures to reduce stocks

For skimmed milk powder the decisions taken for the obligatory incorporation of skimmed milk powder in feedstuffs has led to savings of 385 m.u.a. :

- in the budget for 1976 a figure of 338 m u.a. had been entered for the sale of 450,000 tonnes of skimmed milk powder for pigs and poultry; in view of Regulation No 563/76 this is no longer required;
- a further saving of 47 m u.a. has been made following the termination of Regulation No 155/75 and sales of skimmed milk powder (at 25% of the intervention price) were made for 10,000 tonnes, instead of the originally foreseen 80,000 tonnes.

On the other hand Regulation No 3354/75 for the sale of 35,000 tonnes of skimmed milk powder from public stocks for pigs and poultry was adopted after the budget and therefore required additional expenditure of 27 m u.a.. The compulsory incorporation in the feedstuffs of 40,000 tonnes following Regulation No 563/76 required additional expenditure of 163 m u.a.

As a result a saving of 195 m.u.a. was made on public stocking and measures to reduce stocks.

15. (c) other intervention measures for milk products require an additional 52 m u.a. :

- 14 m u.a. for skimmed milk powder incorporated in feedstuffs, following an increase in the intervention price so as to maintain consumption at existing levels;
- subsidies for liquid skimmed milk for feeding cattle were increased in order to slow down a fall in consumption, resulting in additional expenditure of 14 m u.a.;
- and to encourage the use of skimmed milk powder for the manufacture of caseine, the subsidy was increased resulting in an extra 24 m u.a.

16. Therefore, taking into account :

- the increase in expenditure of 236,370,000 u.a.:
 - refunds of 184,370,000 u.a.;
 - increase in aids for skimmed milk powder of 52 m.u.a.;
 - and the reduction of 195 m u.a.:
 - for public stocking and special measures to reduce stocks;
- an overall additional 41,370,000 u.a. is required for the milk products sector.

17. Oilseeds

An additional 30 m u.a. is required since the 1975 colza harvest was placed on the market with a certain delay so that a large percentage of payments were made in 1976.

18. Sugar

An additional 88 m u.a. is required to cover :

- 60 m u.a. for refunds which have increased due to higher levels of exports than foreseen and a fall in world prices relative to those in the Community;
- 12 m u.a. due to the fall in consumption in 1975 and to an increase from 1 July 1976 of the level of expenses;
- 2 m u.a. to cover expenses for the refining subsidy for sugar imported from the French Overseas Territories;
- and 14 m u.a. for payments for exports made under the IMEX system in Regulation No. 3062/74 for the subsidised imports.

19. Beef

An additional 71 m u.a. has been required to take into account the levels of world prices and the drought : a further 10 m u.a. for refunds, and 21 m u.a. for public storage, together with an additional 40 m u.a. to be entered under the premiums for the re-establishment of herds.

20. Eggs and poultry

In view of the rhythm of payments appropriations for export refunds for poultry can be reduced by 4 m u.a.

21. Fruit and vegetables

An additional 45 m u.a. is required partly due to the serious situation facing the tomato sector which had led the Council to increase refunds and introduce monetary compensatory amounts : similarly the subsidy for pineapples has been increased. In addition, the intervention payments for apples, tomatoes and mandarins have sharply increased in 1976.

22. Wine

A saving of 45 m u.a. can be made on the distillation of wine for which only one operation has been made so far.

Expenditure for any further operations will be made in 1977.

23. Fishing

The very serious difficulties facing this sector have led to an increase in the withdrawal of products from the market requiring an extra 2 m u.a.

24. Other sectors

An additional 26 m u.a. is required for other sectors as follows :

- 5 m u.a. to cover a harvest larger than foreseen;
- 8 m u.a. for an acceleration during 1976 for payments of aid for hops on the 1974 and 1975 harvests;
- 2 m u.a. to cover an increase on the subsidy for dried fodder for the 1976/77 marketing year;
- and an additional 15 m u.a. due to the increase in levels of refunds of the basic products, particularly cereals and milk products in processed products exported from the Community.

Observations

25. The second supplementary and amending budget for 1976 is mainly monetary in nature, 350 m u.a. being entered for monetary compensatory amounts, as against 175 for market organisations.

26. The heavy charge of monetary compensatory amounts, together with certain disturbances in trade, which result from a system established initially on a temporary basis, have been deplored on numerous occasions by the Committee on Agriculture.

This cost can be illustrated by the fact that 1% of the additional compensatory amounts in agricultural trade with a country like Italy is equivalent to 25 m u.a. per year. The total amount entered for 1976, including the draft supplementary budget, comes to 610,700,000 u.a.

At the same time, this Committee has recognised that compensatory amounts cannot be abolished overnight; their elimination depends upon common monetary and economic policies, which themselves require an effective regional policy.

However, it should be possible, by a series of pragmatic improvements and simplifications, to reduce the heavy burden of the system on the Community budget.

One can welcome the fact that such savings have been made by making monetary compensatory amounts on imports to Italy and the United Kingdom payable by the exporting country.

The Committee on Agriculture calls upon the Commission to come forward with further improvements to limit the cost of monetary compensatory amounts to the Community budget. A number of possibilities could be considered, as for example : increasing the margin up to which monetary compensatory amounts are not applied; a general reduction in the amounts of each monetary compensatory amount applied, either by a fixed number of points or a pre-established percentage.

The Commission should come forward with a communication on the possible mechanisms to reduce the cost of monetary compensatory amounts and the savings that would result.

There should be, in addition, a reduction in the number of products benefiting from monetary compensatory amounts : all too often monetary compensatory amounts are used as an instrument to give relief to a specialised market facing a temporary market imbalance. The list continues to grow. The reverse should be the case.

27. The proposed increase in expenditure for market organisations is limited, a mere 3.81%. This is not considerable when one considers the degree of sensitivity of agricultural expenditure to fluctuations in production and world prices : a 10% drop in world cereal prices has the effect of increasing expenditure by 110-130 m.u.a.; a 1 % difference in milk production affects expenditure by approximately 100 m u.a.

On the other hand, one can take issue with the Commission's statement that increases resulting from the price proposals for 1976/77 were accommodated without the necessity for supplementary appropriations. Are not increases in refunds and intervention payments requested here partly the result of price increases agreed upon on 6 March 1976? Moreover, the Commission admits that certain of the connected measures offsetting price increases are temporary in nature, so that expenditure for 1977 will be increased by a certain amount.

28. There is a further point which is alarming in its implications for the budgetary control of the European Parliament - transfers. It can be accepted that limited recourse to transfers introduces a degree of flexibility required by the difficulty of estimating expenditure in the agricultural sector. The use of such an instrument, however, must be limited. The following table shows the appropriations entered in the 1976 budget formally adopted in December 1975 and the figures which are now shown uncorrected by the effects of the second supplementary budget :

	Adopted budget		2nd suppl. ¹ budget
<u>CHAPTER 62, MILK & MILK PRODUCTS</u>	<u>1,941,100,000</u>	<u>1,888,700,000</u>	<u>1,930,070,000</u>
6200 Refunds	520,710,000	478,310,000	610,310,000
6201 Refunds food gifts 1976 programme	89,390,000	64,390,000	116,760,000
6202 Refunds food gifts previous programme	token entry	25,000,000	
6213 Private storage, skimmed milk	token entry	1,000,000	
6214 Public storage and special sales, skimmed milk	469,600,000	468,600,000	276,600,000
6220 Private storage, butter and cream	40,000,000	30,000,000	
<u>CHAPTER 63, OILS & FATS</u>			
6310 Production aid, olive oil	337,800,000	304,800,000	
6311 Storage, olive oil	500,000	10,500,000	
6319 Other intervention, olive oil	500,000	5,000,000	
632 Refunds on oilseeds	3,500,000	7,000,000	
6330 Production aid, oilseeds	66,500,000	81,500,000	111,500,000
<u>CHAPTER 64, SUGAR</u>	<u>170,400,000</u>	<u>182,400,000</u>	<u>270,400,000</u>
6411 Refunds chemical industry	token entry	490,000	
6415 Sugar import subsidy	token entry	11,500,000	25,500,000
6419 Other intervention	token entry	10,000	
<u>CHAPTER 65, BEEF & VEAL</u>			
6511 Public storage	331,000,000	280,500,000	301,500,000
6520 Aid for social purposes	token entry	50,000	
6521 Premium for orderly market- ing and slaughtering of beef cattle	88,800,000	108,800,000	
6522 Premium for re-stocking	58,400,000	88,400,000	128,400,000
6529 Sundry	token entry	450,000	
<u>CHAPTER 66, PIGMEAT</u>	<u>69,000,000</u>	<u>50,000,000</u>	
660 Refunds	66,000,000	42,000,000	
661 Intervention	3,000,000	8,000,000	
<u>CHAPTER 68, FRUIT & VEGETABLES</u>	<u>112,800,000</u>	<u>127,800,000</u>	<u>172,800,000</u>
6810 Withdrawal compensation and buying-in	45,000,000	60,000,000	96,000,000
<u>CHAPTER 69, WINE</u>			
690 Refunds	1,000,000	4,000,000	
6912 Distillation of wine	134,200,000	131,200,000	86,200,000
<u>CHAPTER 70, TOBACCO</u>			
700 Refunds	1,000,000	6,000,000	
7010 Premiums	194,300,000	189,300,000	194,300,000
<u>CHAPTER 71, FISHERY PRODUCTS</u>	<u>4,000,000</u>	<u>6,000,000</u>	
710 Refunds	1,000,000	3,000,000	5,000,000
 <u>TITLES 6 & 7 - TOTAL</u>	 <u>5,160,300,000</u>	 <u>5,117,900,000</u>	

¹ Modifications proposed in the supplementary budget entered only for the items for which transfers have been made.

29. The transfers have been considerable and are not confined to items but include movements between articles and even chapters.

30. More extraordinary, the present supplementary budget seeks to increase appropriations for items which have previously been reduced by transfers. The Commission and Council appear to be engaged in some form of short-term borrowing system, in which the aim of the supplementary budget is, in part, to 'repay' transfers made previously.

The European Parliament has at no time been informed of these transfers. Nor has it been consulted on transfers between chapters as is its right according to the financial regulations¹. The procedure adopted is totally inadmissible in terms of maintaining the Budget as an instrument of policy and safeguarding the budgetary powers of the Parliament.

31. It appears, from comparing the preliminary draft and the draft texts, that the Council, in establishing the draft supplementary budget, has made a number of modifications to the preliminary draft :

Milk and milk products, refunds	- 21,000,000
Beef and veal, refunds	+ 10,000,000
Beef and veal, private storage	+ 21,000,000
Accession compensatory amounts	- 10,000,000

It has become apparent that this is not the case : these modifications have been made by the Commission to the preliminary draft as a subsequent correction, without informing the Parliament of the fact. The Parliament has been put in the curious position of being left in the dark as to the appropriations entered in the preliminary draft supplementary budget, and as to the body responsible for appropriations entered in the draft supplementary budget.

32. Finally, it should be noted that for the first time in a supplementary budget revenue exceeds expenditure :

<u>Revenue</u>		<u>Expenditure</u>	
Customs duties	+ 552.2	EAGGF	717.37
Agricultural levies	+ 174	Food aid	40.63
Sugar levies	-	Interest rebates	2.105
Miscellaneous revenue	+ 200	to Portugal	
Contributions	- 54.4	10% reimbursement	72.6
	<hr/>	Member States	<hr/>
	+ 871.8		+ 832.705

It can be seen that this increase in revenue is due mainly to income from :

- (a) duties and levies;
- (b) accounting gains from the double rates of exchange which usually result in a negative balance.

¹ Articles 21 and 113, O.J. No L 116, 1.5.1973. There is no mention in Article 113 regulating transfers in the EAGGF of a derogation from the basic Article 21 in regard to consultation of Parliament.

Conclusions

33. The second supplementary and amending budget is principally monetary : an additional 350 m u.a. are required for monetary compensatory amounts, bringing appropriations for 1976 to 610,700,000.

While recognising that the final elimination of monetary compensatory amounts depends upon the re-establishment of monetary stability and common economic and monetary policies, the Committee on Agriculture believes that the Commission should continue to introduce a series of independent but coherent improvements, which will result in a reduction of the cost of the monetary compensatory amounts to the Community budget, and calls upon the Commission to draw up a communication outlining the possible measures that could be taken.

34. The increases in appropriations entered for market organisations are limited, a mere 3.81%.

One can observe, however, in comparing the proposed supplementary budget with the adopted budget for 1976, that a considerable number of transfers have intervened, on which the Parliament has not been informed, nor consulted.

35. This situation, while alarming for those concerned with budgetary control, is not unusual : it occurs each year, occasionally on a larger scale. The market regulations in force lead to expenditure which is difficult to estimate and for which the Commission is obliged to ensure that sufficient appropriations are available.

On the other hand, it is inadmissible that the European Parliament is not informed or consulted on these transfers which should be grouped together to form a rectifying budget.

36. The second conclusion which can be drawn is that it is difficult to use the budget of the EAGGF, Guarantee Section, as an instrument of budgetary control since all forecasts are hazardous.

Simple attempts to set fixed limits on expenditure would be doomed to failure if chaos were to be avoided.

37. On the other hand, the Committee on Agriculture can, as it has, assess the overall balance of expenditure, and request that the Commission come forward with proposals to reinforce market mechanisms in certain sectors and drop particular instruments in others.

38. Thus, the Committee on Agriculture can note with satisfaction : that certain savings have been made on monetary compensatory amounts by modifications which benefit from the play of double rates of exchange; that denaturing premiums are being terminated; and that, as appears more clearly in the 1977

draft budget, that savings have been made in the wine and durum wheat sectors following changes in market organisations, and that improvements in the milk sector, going in the direction of the Commission's proposals, are required. On the other hand, support given to the fisheries sector, as has been proved in 1976, is insufficient, and the Commission should come forward with proposals to introduce greater equilibrium in this hard-pressed sector.

39. It is on these lines, of introducing reasoned and practical improvements to market regulations, that attempts to bring greater balance in the EAGGF budget should be pursued, and that the budget should be used as an instrument of policy.

40. It is necessary to repeat these self-evident conclusions, if we are to avoid the self-defeating trap of calls for arbitrary limits on the agricultural budget, which would completely disrupt the one functioning Community policy.