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OPINION

of the Committee on Agriculture

on the Third Financial Report on the European  
Agricultural Guidance and Guarantee Fund, year 1973,  
presented by the Commission of the European Communities  
to the Council and the European Parliament

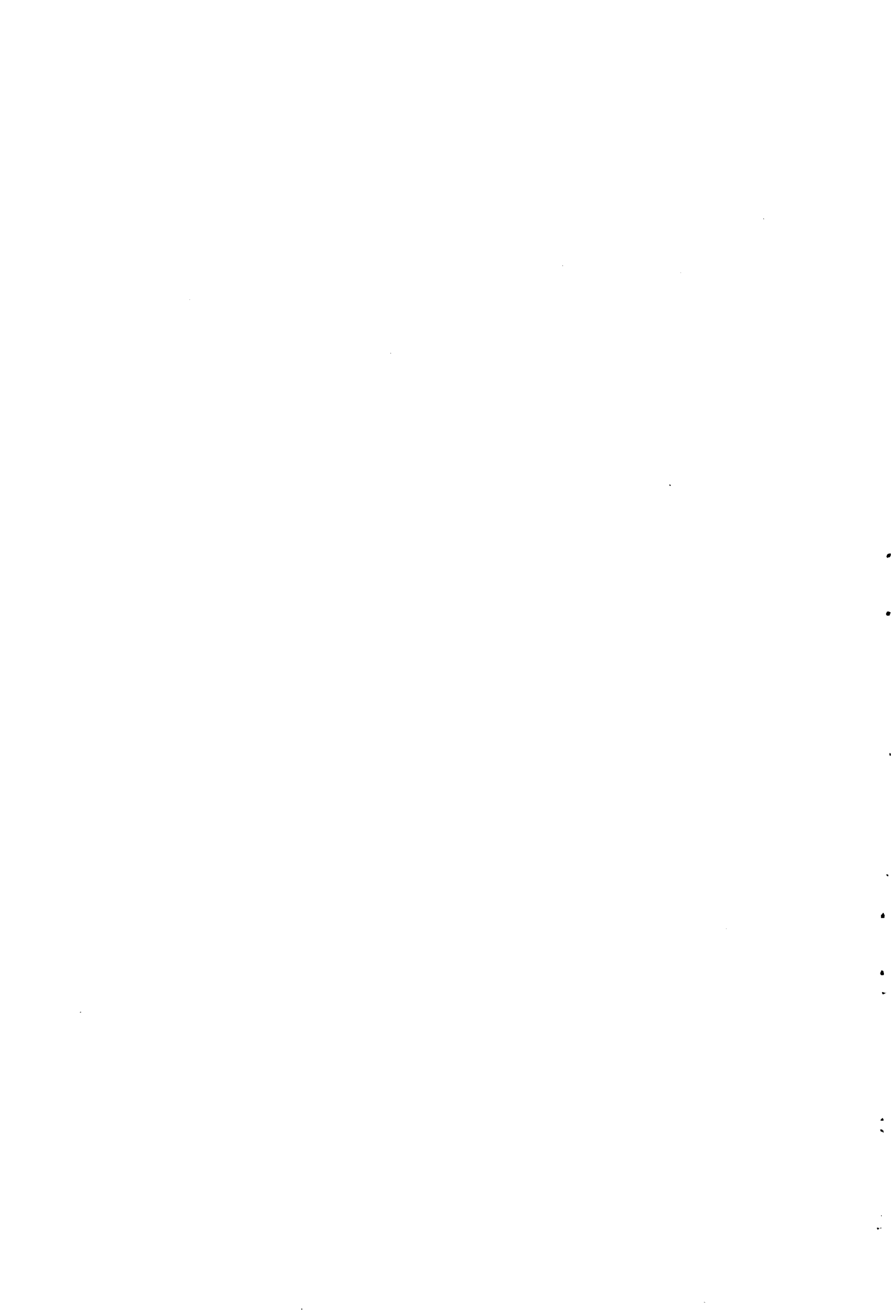
Draftsman: Mr A. LIOGIER

PE 40.845/fin./Ann.

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English Edition

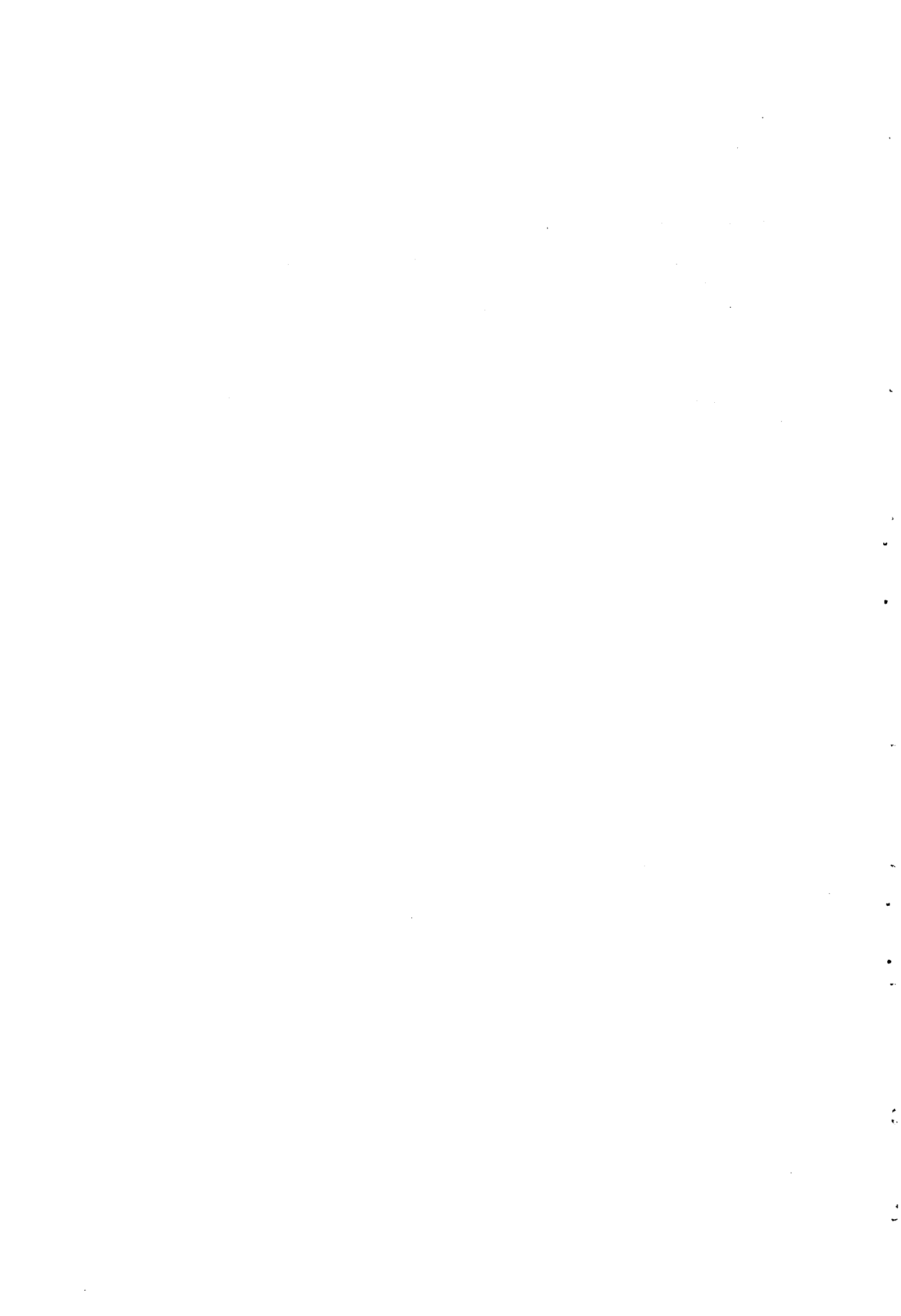
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On 6 February 1975 the Committee on Agriculture appointed Mr LIOGIER draftsman for the opinion.

It considered the draft opinion at its meetings of 3 and 4 June 1975 and 26 and 27 June 1975 and adopted it at the latter meeting by 11 votes with one abstention.

Present: Mr Houdet, chairman; Mr Vetrone, vice-chairman; Mr Laban, vice-chairman; Mr Liogier, draftsman; Mr Artzinger (deputizing for Mr Früh), Mr Boano, Mr Bourdellès, Mr Cifarelli, Mr Cipolla, Mr Hansen, Mr Martens, Mr Ney.



## I. PRELIMINARY REMARKS

1. The European Agricultural Guidance and Guarantee Fund has two main functions:

- it finances the expenditure arising from the implementation of the common organization of the agricultural markets, i.e. export refunds and intervention on the Community market;
- it subsidizes expenditure on the improvement of agricultural structures.

2. The EAGGF, from which expenditure under the Guarantee Section alone amounted to 3,659 million u.a. in 1973, represents over 80% of the total Community budget. It is therefore essential for a report to be drawn up each year on the management of the Fund and on trends in the amount and nature of the expenditure. This report can also indicate how the common agricultural policy is developing. Finally, the report should give an idea of the effectiveness of control over the use of these public funds.

3. The document under consideration is the Third Financial Report presented by the Commission to the Council and Parliament. It covers the year 1973, which was notable above all for the accession of three new Member States.

The task of the Committee on Agriculture is obviously not to make a detailed study of the technical financial aspects of the Fund's operations, but simply - as in its previous opinions<sup>1</sup> - to analyse the policy pursued during the period under review and to note the lessons to be drawn.

## II. GUARANTEE SECTION

4. The Guarantee Section finances expenditure arising from the common policy on markets and agricultural prices (refunds on exports to non-member countries and intervention to stabilize agricultural markets). Since the common markets and prices policy is the only wholly common policy involving almost total financial interdependence, the credits of the Guarantee Section represent about 75% of the budget.

The year 1973 was marked by three events:

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<sup>1</sup>Opinions drawn up by Mr Früh (PE 33.924) and Mr Cipolla, (annexed to Mr Pêtre's report, Doc. 297/74 of 14 October 1974).

5. - the accession of three new members: the application to these countries of the common markets and prices policy and also total Community financing took effect as from 1 February 1973. In order to make trade possible in spite of the disparities in price levels, the Act of Accession laid down a system of accession compensatory amounts to be granted or levied. For the first eleven months of application in 1973 of the common agricultural policy in the new Member States, expenditure amounted to 295.4 million u.a. in Denmark, 88.9 million u.a. in Ireland and 151.8 million u.a. in the United Kingdom, making an overall total of 536.1 million u.a. In addition, 264 million u.a. were committed by way of accession compensatory amounts for the purpose of regularizing trade with countries with price levels temporarily lower than those of the Community.

6. - monetary fluctuations led the Commission to increase the monetary compensatory amounts and to finance them from the Guarantee Section; these compensatory amounts between Member States alone totalled 140.3 million u.a.

Furthermore, although no new common market organizations were set up in 1973, several special measures were adopted, in particular one designed to increase butter consumption.

7. - The Council drew up a supplementary budget:

- Expenditure of the Guarantee Section is, by its nature, uncertain. Consequently, it differs, sometimes very considerably, from the initial budgetary estimates. In 1973 the differences were particularly marked for various reasons (accession, currency fluctuations, annual adjustments of agricultural prices). This situation led to the establishment by the Council on 21 September 1975 of a supplementary budget amounting to 864.3 million u.a.

8. The total expenditure of the Guarantee Section in 1973 was 3,659 million u.a., as against 2,446 million u.a. in 1972. This represents an increase of 50%<sup>1</sup>, 22% of which resulted from the extension of Community financing to the new Member States; intervention expenditure amounted to 72% of the total and refunds to 28%.

9. Expenditure of the Guarantee Section includes a budget item which requires special mention because of the amounts involved: this concerns refunds and intervention expenditure in the dairy products sector (and to a lesser extent in the cereals sector). In this sector intervention is continual and costly: it amounted to 1,458 million u.a., an increase

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<sup>1</sup>It should, however, be noted that the figures for 1972 and 1973 are not strictly comparable as the 1972 financial year extended over 13 months and the 1973 financial year over eleven months only.

of 848 million u.a. (or 139%) over 1972. Consequently, the proportion spent on other production sectors has been relatively small.

10. In this connection your committee wishes to repeat an observation it has already made on previous occasions. Since the income of so many producers of fruit and vegetables, meat, wine and so on is clearly unsatisfactory and in any case lower than that of milk and cereal producers, it is time to review on the basis of a comparative study, the present market organization sector by sector, in order to provide by various means adapted to each product Community aid guaranteeing a satisfactory income to all Community producers.

11. The monetary compensatory amounts are another budgetary item of the Guarantee Section calling for special comment. In 1973 the system of monetary compensatory amounts was generally extended because of the enlargement of the Community and the currency fluctuations. It should be noted that Parliament has on several occasions called for the abolition of these compensatory amounts which have reintroduced into the Community a system of export duties and premiums; these have led to distortions of competition and in some cases widened the gap between prices in the different Member States.

12. Finally, it should be pointed out that in its 'Stocktaking of the Common Agricultural Policy'<sup>1</sup> the Commission in addition to other suggestions, listed specific adjustments which are required to reduce the expenditure of the Guarantee Section (creation of a 'budgetary control panel' enabling a rapid assessment to be made of the budget repercussions of variations in exchange rates, world prices, harvests and foreign trade - automatic updating of the Guarantee Section budget estimates to take account of market trends, etc.,). It may be asked how effective these provisions would really be; they would after all depend not only on the goodwill of the Member States, but also on the consent of the Council, which, it seems, is reluctant to take action on these lines.

### III. THE FINANCIAL IMPLEMENTATION OF FOOD AID

13. This part concerns the financial implementation of food aid by way of gifts of products under the common market organization. The technical and

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<sup>1</sup>Doc. 529/74 of 10 March 1975, p.57

financial arrangements are made by the Member States' intervention bodies, generally with the help of advances from the Commission. The gifts generally consist of cereals, sugar and milk. Altogether, the appropriations available for 1973 amounted to 119 million u.a.

#### IV. GUIDANCE SECTION

14. The purpose of the Guidance Section is to help finance the common policy for the structural improvement of agriculture. It finances three kinds of measures:

- common measures,
- projects for the structural improvement of agriculture,
- a number of special measures mainly connected with the organization of the markets.

Common measures have first claim to the appropriations (325 million u.a each year). However, expenditure on common measures in 1973 being small (2.06 million u.a.), the financing of individual projects again constituted the main activity of the Guidance Section. For 1973 the number of projects financed increased to 637, representing grants of aid totalling 170 million u.a.

15. Another point calling for comment is that the Council continued in 1973 to set certain appropriations aside (Mansholt reserves) for common measures. An amount of 92.2 million u.a. was placed in reserve, bringing the total of appropriations in reserve to 538 million u.a.

Your committee has on various occasions expressed doubts about this system, whereby substantial funds are immobilized, declining in value over the years as money depreciates.

16. It also wishes to draw attention to its repeated criticisms of the length of time that elapses between the submission of individual projects and their consideration by the national and Community authorities. These delays are particularly damaging at a time when the continual rise in costs is such that, when they are finally approved, a great many projects are abandoned because the estimates of expenditure are no longer adequate as a result of monetary depreciation and the increased cost of living.

17. During the discussion of the opinion drawn up by Mr Cipolla on the Second Financial Report, some members of the Committee on Agriculture wondered whether, in order to improve the functioning of the Guidance Section, 'it might not be advisable to decentralize the examination



of projects at national and, where possible, regional level, leaving the Community authorities the task of issuing general directives and the right to make on-the-spot checks of the use and effectiveness of EAGGF funds'.

18. Finally, your committee deplores the fact that appropriations for the Guidance Section are so much smaller than those for the Guarantee Section. Up to now the Community resources earmarked for the common agricultural policy have been used largely to support markets. The proportion of expenditure on projects for structural improvement reflected in commitments for the Guidance Section rose between 1965 and 1974 to 10.4% of all EAGGF commitments.

The Commission in fact takes the same view. In its 'Stocktaking of the Common Agricultural Policy' it makes the following observations<sup>1</sup>:

'The Council's delays in adopting the Commission's proposals on structural policy have played a decisive role in the slow development of the Guidance Section. The implementation, at present in progress, of the 1972 socio-structural Directives and the implementation of the Directive on hill farming and farming in certain other less favoured areas, open up new vistas and indicate that the structural side of EAGGF will be subject to rapid development.'

#### V. VERIFICATIONS AND IRREGULARITIES

##### 19. - Verifications:

Your committee does not propose to consider the verification procedure in this document. It would simply recall that the verifications of expenditure are carried out both on supporting documents sent by the Member States to the Commission and on the spot, either with bodies keeping the accounts and having available detailed supporting documents, or with beneficiaries of Community subsidies.

With regard to the Guidance Section fifteen of the projects for structural improvement were checked on the spot in 1973. This represents 5% of the projects completed and twice as many as those verified in 1972.

20. Your committee regrets the lack of a really comprehensive system of regular control of credits granted by the Fund (partly due to the lack of qualified staff). This state of affairs may not only be detrimental to the taxpayers' interests but also eventually entail

<sup>1</sup>See Doc. 529/74, para. 68, end.

economic disadvantages for the beneficiaries of aid.

21. Irregularities:

On 7 February 1972 the Council adopted Regulation No. 283/72<sup>1</sup> concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the Common Agricultural Policy and the organization of an information system in this field. Efforts to implement this regulation continued during the 1973 financial year, especially in the area of the notifications to be made by Member States to the Commission and the initial processing of these notifications. The first enquiries provided for in Article 6 of the Regulation have been started (these are administrative enquiries in which Commission officials may take part), but so far their practical effects seem limited. Moreover the Commission admits that the information given by the Member States in their statements is often 'somewhat laconic', particularly as regards fraudulent practices.

In this connection, the Financial Report should in future indicate more explicitly the omissions of the individual Member States in the context of cooperation with the EAGGF.

22. In the Guarantee Section most of the irregularities noted concerned the cereals and milk products sectors. Out of a total of 87 cases of fraud, 41 concerned cereals and 27 dairy products. The financial volume of these frauds amounted to 11.7 million u.a. of which 9.2 million u.a. have been recovered.

23. In the Guidance Section the cases of fraud detected related almost exclusively to premiums for the non-marketing of milk and dairy products. For the years 1971, 1972 and 1973 seventy-seven cases are pending and the amount to be recovered from these is some 210,000 u.a.

24. In October 1973 the Commission gave particular attention to the irregularities existing within the Guarantee Section of the EAGGF and decided on the creation of a Special Committee of Inquiry made up of high officials of the Commission and of the Member States. This body, which had the task of analysing the known frauds, gave priority to the study of the dairy products and olive oil sectors. A report on its work was transmitted to the Parliament<sup>2</sup>.

<sup>1</sup>OJ No. L 36 of 10.2.1972

<sup>2</sup>Doc. SEC (74) 3981 final and COM(75) 37 final.

25. Your committee believes that cooperation between the services of the Member States and of the Commission must be strengthened if the fight against fraud is to be effective. Moreover, thought should be given as of now to the drafting of laws to penalize, at Community level, infringements of an economic nature and to setting up a Court of Auditors with powers of compulsion and authority to conduct inquiries.

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In conclusion, the Committee on Agriculture welcomes the opportunity provided by the annual Financial Report on the EAGGF to throw light on the financial management of the Community's principal fund and the trends in the Common Agricultural Policy resulting from the nature and volume of the public funds for the allocation of which that fund is responsible.

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