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Report

drawn up on behalf of the Committee on Budgets

on the ~~fourth~~ financial report on the European Agricultural Guidance and Guarantee Fund, year 1974, submitted by the Commission of the European Communities to the Council and the European Parliament

Rapporteur: Mr I. FRÜH

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PE 44.309/fin.

By letter of 10 September 1975 the Commission of the European Communities forwarded to the European Parliament the fourth financial report on the European Agricultural Guidance and Guarantee Fund, year 1974.

On 17 December 1975 the Committee on Budgets requested authorization to draw up a report on this document.

Authorization was given by the European Parliament on 12 January 1976, and the Committee on Agriculture was asked for its opinion.

On 6 October 1975 the Committee on Budgets appointed Mr Fröh rapporteur.

It considered the report at its meeting of 18 March and 14 April 1976 and unanimously adopted the motion for a resolution at the latter meeting.

Present: Mr Lange, chairman; Mr Durand, vice-chairman; Mr Fröh, rapporteur; Mr Artzinger, Lord Bessborough, Lord Bruce, Mr Clerfaÿt, Mr Dalyell, Mr Gerlach, Mr Hansen, Mr Pêtre and Mr Shaw.

The opinion of the Committee on Agriculture is attached.

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

MOTION FOR A RESOLUTION

on the fourth financial report on the European Agricultural Guidance and Guarantee Fund, year 1974, submitted by the Commission of the European Communities to the Council and the European Parliament

The European Parliament,

- having regard to the fourth financial report submitted by the Commission of the European Communities to the Council and to Parliament (COM (75) 396),
 - having regard to the report of the Committee on Budgets and the opinion of the Committee on Agriculture (Doc. 70/76),
 - considering that the results set out in the financial report should be assessed in the light of a comparison of the expenditure involved in the common agricultural policy with the gross domestic product of the Communities (0.4%), or with the size of national budgets (2%),
 - considering that the purpose of this financial report is to provide the budgetary authority with an overall view of the financial and budgetary situation of the Fund without anticipating the control of the definitive results of its management,
1. Finds that the fourth financial report, forwarded for the first time within the prescribed time limit, serves this purpose admirably, thanks to the abundance and quality of the information provided;
 2. Deplores the fact that because of the underdevelopment of other Community policies the share of EAGGF expenditure in the general budget of the Communities once more exceeded 73% in 1974;

Guarantee section

3. Believes that expenditure under the Guarantee Section cannot and must not be reduced until the measures to be financed in the social field are taken over by a structural policy, not only in agriculture, but also in social and regional affairs;

4. Notes that the increase in intervention expenditure in the Guarantee Section, particularly in the beef and veal sector, is a result of the impact of the economic situation on world markets and the effects of measures taken by the Council to meet this situation;
5. Considers that the budgetary management of the Guarantee Section should have other objectives than simply adapting existing machinery to changes in the economic situation, and calls upon the Council, in allocating appropriations, to adopt a policy designed to reduce the gaps between producers' incomes in different regions and for different products, and to adjust these incomes to those of other social and professional categories;
6. Deplores the fact that budget estimates do not match actual expenditure, especially as regards the budgetary implications of the agricultural price review;
7. Repeats its proposal for the incorporation of a provisional appropriation in the annual budget, to be definitively allocated during the year by an amending budget;

Food aid

8. Recalls that it would like to see a food aid policy developed independently of the common agricultural policy and therefore questions the wisdom of maintaining links between these two policies;

Guidance Section

9. Regrets once more the small scale of spending under the Guidance Section compared with the Guarantee Section, but notes that the main reason for this imbalance is that the Community bears virtually all the expenditure on markets, whereas the financing of structural policy is essentially on a national basis;
10. Calls for a more active Community structural policy and hopes that more detailed information on this will be given in the next report;
11. Denounces the practice of deciding on the allocation of EAGGF appropriations by regulation and proposes that the financial regulation be modified to permit this allocation to be made with the effective participation of Parliament through a procedure of transfers;

Problems of Community financing

12. Notes that the Member States and the Council bear a heavy responsibility for the regrettable underuse of appropriations allocated to the Guidance Section;
13. Recommends that Community financing be arranged in such a way that it does not impair the principle of the Commission's responsibility for implementing the budget;
14. Notes that the number of unsatisfied applications for aid for individual projects demonstrates that this system of financing, although in theory due to be abolished, is undoubtedly highly popular with beneficiaries;
15. Calls upon the Commission once more to improve the operation of this system, and in particular to ensure that beneficiaries of aid for individual projects do not have to bear the cost of bridging loans until the aid due to them is paid;

Verifications and irregularities

16. Stresses the importance it attaches to the rigorous management of public finances in the Community and hence to effective verification of EAGGF expenditure and to anti-fraud measures;
17. Invites the Commission in particular to make closer checks and improve its readjustment procedures in the Guarantee Section, and to speed up checks on individual projects in the Guidance Section;
18. Welcomes the emerging cooperation between the Commission and national authorities in strengthening the effectiveness of the campaign against frauds;

Final comments

19. Points out that the bulk of EAGGF spending is made by many different national administrations; requests stronger Community action in the departments responsible for payment and controls;
20. Calls upon the Commission to take this strengthening action - which could be extended to other funds - by reconsidering the methods of Community financing, and by increasing the EAGGF staff, so that its departments are in a better position to manage more than 70% of Community expenditure;

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

EXPLANATORY STATEMENTIntroduction

1. The financial report on the management of the EAGGF, which the Commission submits annually, gives Parliament an overall view of the financial situation of the Fund during the previous financial year, without anticipating the final performance check made with a view to the decision granting a discharge.

2. The fourth financial report serves its purpose all the better for having been forwarded within the time-limits laid down by Regulation No. 729/70. As called for in Article 10 of that Regulation, the report contains a precise analysis of the problems of the management of the fund, and provides the budgetary authority with a wealth of valuable information on the state of the fund's resources, the nature of its expenditure and the conditions for achieving Community financing. The kind of information provided, moreover, is not confined to the budgetary aspects of the financial report; in its opinion, the Committee on Agriculture was thus able to discern the trends in the common agricultural policy.

I. Problems related to the state of resources and the nature of expenditure

3. As the Committee on Agriculture noted in its opinion, the state of resources and the nature of expenditure show the grand direction in which the common agricultural policy is moving.

A constant feature of EAGGF financing is the disproportionate amount of spending on the Guarantee Section compared with the Guidance Section.

In this respect it is important to recall that agriculture is the only fully integrated sector and that the volume of expenditure under the guarantee section of the EAGGF is relative: it cannot be compared to expenditure in other sectors where integration is only beginning. A more appropriate comparison would be with the costs of the agricultural policies of non-Member countries.

It is also widely recognized that the policy of guaranteed incomes for farmers has had to be applied to problems which should have been solved through the Community's social and regional policy. Finally, although in 1974 expenditure on the Guarantee Section reached 3,107 m u.a. as against 128.4 m u.a. for the Guidance Section, part of the reason is that structural policy is, in large measure, carried out by Member States who are still somewhat reluctant to entrust responsibility for this policy to the Community.

A. Guarantee Section

4. The financial report shows an overall reduction in expenditure under the Guarantee Section (3,107 m u.a. in 1974 as against 3,614 m u.a. in 1973, a reduction of 15%) with a commensurate under-use of the appropriations entered in the budget.

In practice, this meant that large sums remained unspent, either being carried forward (331.5 m u.a.) or cancelled (4.6 m u.a.), that transfers were made from the guarantee section (69.5 m u.a.) and that there was a sizeable increase in the balances available to Member States at the end of the financial year (137.3 m u.a. at 31.12.1974 as against 3.6 m u.a. at 31.12.1973).

5. This reduction in expenditure is the result of short-term economic factors, but the Commission also blames shortcomings in the system of financing leading to sometimes long delays between action and payment, depending on the kind of measures and national administrative practices involved.

a) Nature of expenditure - new Council decisions

6. 1974 saw the setting up of new market organisations in the dehydrated fodder and soya sectors. These measures taken partly under the pressure of events - this is particularly true for soya - will only be effective in the long term.

7. A much more marked effect on the nature of expenditure was caused by the measures taken by the Council solely to deal with short-term variations in the sugar (EX-IM arrangements), beef and veal (various premiums), pigmeat and wine sectors.

The Council's policy for the Guarantee Section is therefore essentially determined by the desire to provide short-term remedies to economic fluctuations. It would do well to concern itself likewise with levelling-up producers' incomes and reducing the persistent disparities between regions and products.

b) Expenditure and use of appropriations

8. The Commission considers that the most striking point in the growth of expenditure is 'the uncertain nature of the estimates made when the budget is prepared' and notes that 'the actual performance of the market differs appreciably from the assumptions on which the budget was based, which were nevertheless realistic at the time' (point 1.3.3 of the report).

This discrepancy between appropriations and actual expenditure is demonstrated by the large transfers between chapters, jeopardizing the principle of budgetary transparency, so important to Parliament (table 6 of the report).

9. At the close of the financial year, moreover, the Commission had to request the carry-forward of 331.5 m u.a. to the 1975 financial year, because of delays in payment in certain Member States. However, although the Council had authorized a carry-forward on specific grounds, these appropriations were in large part transferred to other chapters under supplementary and amending budget No. 3 of the 1975 financial year¹. The reasons given for these transfers - unforeseeable changes in expenditure - clearly refute those advanced in support of the carry-forward.

10. In its report the Commission analyses the factors which led to the largest discrepancies between actual expenditure and appropriations entered. They were essentially economic and monetary factors: in the cereal, sugar, beef and veal and oilseed sectors, they resulted from disturbances on the world market; expenditure incurred through monetary compensatory amounts is closely linked with currency fluctuations.

¹ Preliminary draft supplementary and amending budget No. 4/75, COM(75) 476, p.5

11. The decisive influence of these uncontrollable factors produces a highly unsatisfactory situation from the point of view of the budget. Budget appropriations are based on uncertain estimates which are in no way binding. Management of the appropriations in the Guarantee Section is thus largely beyond Parliament's control and the principle of earmarking appropriations for a specific purpose loses all meaning in this context.

12. The measures proposed by the Commission¹ to improve the accuracy of budget estimates and reduce the gap between appropriations entered and actual expenditure do not cover the 1974 financial year. It should be pointed out, however, that they are an improvement over the present budget system but do not solve the fundamental problem of integrating in an annual budget expenditure which, by its very nature, is difficult to estimate in the short term. Parliament has, on several occasions, advocated a special provisional appropriation, to be included in the annual budget, and linked with a correcting budget during the year.

13. The size of expenditure within the various chapters of the guarantee section is determined by the automatic application of certain machinery to data which the Commission can neither control nor even estimate with any accuracy.

It is therefore essential that this machinery should reflect a clear political concept, the principles of which are laid down in Article 39 of the Treaty of Rome.

Management of the Guarantee Section should transcend everyday considerations and be more than just 'playing by ear'. The measures taken by the Council, instead of dealing with specifics, should reduce the Community's financial burden through a dynamic, more productive and better organized farming system, adjust farm wages to those paid elsewhere and narrow the disparities in income between products and between regions.

B. Food aid for products under a common market organisation

14. This section of the financial report does not give an overall view of appropriations and expenditure on food aid, in spite of the Commission's efforts to unify the administrative and budgetary management of these appropriations. This is essential if food aid policy is to be truly coordinated with development aid policy.

¹ In the 'Stocktaking of the common agricultural policy' (Doc. 529/74, 10 March 1975, p. 57) 'budgetary control panel' 'updating of estimates at the end of the budgetary procedure'.

15. The Commission's budgetary management in this field demonstrates that in spite of Parliament's express wishes (resolution on the third financial report - Point 7), the close budgetary links between food aid and the guarantee section persist and have indeed been consolidated¹:

- although 405.7 m u.a., i.e. 11.5% of appropriations, in the Guarantee Section were unused, and the allocation for this section was in surplus, a sum of 65 m u.a. was transferred to food aid;
- however, the allocation for food aid was itself in surplus. The automatic carry-forwards, which concern sums paid to, but not committed by Member States, amounted to 60.9 m u.a. in 1974 as against 8.1 m u.a. in 1973. Non-automatic carry forwards, which concern available appropriations which have not been released to Member States, increased from 0 u.a. in 1973 to 37.1 m u.a. in 1974;
- the system of double-charging of food aid expenditure means that food aid and guarantee section appropriations are used up in parallel. This has become general practice;
- the Commission has proposed for refunds an amendment to the Financial Regulation to facilitate transfers between food aid and the Guarantee Section². It should be pointed out that the Committee on Budgets and the European Parliament approved this proposal only on condition that the problem be reconsidered as part of the review of the Financial Regulation long promised by the Commission.

16. To prevent food aid being reduced to an instrument for regulating the guarantee section and at the same time an outlet for agricultural surpluses, it should be separated on both the administrative and budgetary level, from the EAGGF.

C. Guidance Section

a) Overall appropriations

17. Expenditure on the Guidance Section is less subject to short-term economic swings than either the guarantee section or even food aid. However, although the budgetary allocation is fixed each year at an overall figure of 325 m u.a., the amount of appropriations available varies. In 1974 the annual allocation was increased to a total of 501.1 m u.a. following a carry-forward of 176.1 m u.a. from the 1973 financial year.

¹ That this situation persists in 1975 is shown, amongst other things by the transfer of 60 m u.a. from chapter 92 to the Guarantee Section in supplementary and amending budget No. 3 of 1975. A transfer in the opposite direction was made in 1974.

² Doc. 329/75

18. Of the total available appropriations, 293.8 m u.a. were committed during the financial year. Payments charged against initial appropriations totalled 47.9 m u.a. whereas payments against appropriations carried forward totalled 110.4 m u.a.

19. Unused appropriations are paid each year into the Mansholt reserve fund to finance common measures which have not yet been decided. These appropriations, which are mentioned only in the notes to Article 880 of the Budget, were increased by 11.45 m u.a. Furthermore, 150 m u.a. was taken from the unused or reserved appropriations of the Guidance Section and allocated to the European Regional Development Fund. By the end of the financial year the reserve totalled 525.9 m u.a.

20. The chances are that the funds locked up in this reserve will only be partly used for Community agriculture: funds set aside and allocated to the Regional Fund will not be used for specifically agricultural expenditure; and the value of the reserve is falling as time goes on because of monetary depreciation. The necessary measures to put this money to work must therefore be taken urgently.

b) Breakdown of expenditure

21. Use of the Mansholt reserve depends on the breakdown of these appropriations between individual projects, special measures and common measures, or, more accurately, on the amount of expenditure on common measures. Until this expenditure reaches the threshold of 325 m u.a. the appropriate rules cannot be applied and the reserve funds remain frozen.

In 1974, as in previous years, expenditure remained well below this limit.

22. Common measures, financed for the most part through the system of refunds to Member States, can only be carried out if Member States submit applications. Although time limits for applications have been extended, applications are still awaited and the amount of expenditure for 1974 is negligible.

The introduction of these common measures also depends on the entry into force of the implementing regulations in the Member States and here, too, substantial delays have been noted.

Finally, new common measures are decided by regulations of the Council, which is therefore responsible for extending these measures.

23. Another system of financing, similar to that used for individual projects, has been used for common action in the cod fishing sector. The expenditure in this sector is by far the largest.

24. The three-year estimates contained in the preliminary draft budget for 1976 forecast that the 325 million u.a. limit will be passed and the Mansholt reserve used in the 1977 financial year. These estimates assume an increase in the rate of applications submitted by Member States and the implementation of new common measures. The decisive role of Member States and the Council in this increase makes the estimates uncertain .

25. The financing of individual projects is still the main activity of the Guidance Section.

Regulation EEC No. 1219/75 of 5 May 1975¹ increased the initial allocation (170 million u.a.) by 65 million u.a. through a transfer of appropriations, mostly from the chapters relating to common measures and special measures.

This practice is questionable from a budgetary point of view. It permits the exercise of budgetary power by a body other than the budgetary authority.

26. A carry-forward of 170 million u.a. from the 1973 financial year increased the final allocation to 405 million u.a. Almost all the appropriations carried forward were committed.

Moreover, for the first time since 1969, the Commission was able to grant aid financed from appropriations for that financial year. An amount of 95.8 million u.a., 41% of the allocation, was committed under the 1974 financial year. The system of financing used thus permitted a relatively satisfactory rate of use of appropriations.

27. However, the rate of payments remains slow. Only 35.1% of all appropriations committed since the inception of the EAGGF had been paid by 31 December 1974, giving an approximate rate of 12% a year.

¹ OJ No. L 121, 14.5.1975

These delays in payments are to the detriment of applicants, who often have to take out bridging loans. The rate was speeded up for projects in 1973: payments in 1974 totalled 17.9% of commitments. The Commission is encouraged to continue its efforts in this direction.

28. Each year applications for aid are far in excess of the number of projects financed. Many projects are refused because they do not meet the objectives or requirements of Regulation No. 17/64, but many more are rejected because of a lack of sufficient funds (Item 5.1.1 of the financial report).

Without questioning the priority granted to common measures by Regulation 729/70, the limited amounts of appropriations available for these measures is regrettable in view of the apparent need.

c) Special measures

29. These various measures differ from individual projects in their method of financing which is either on the basis of reimbursements to Member States, or through aid on a lump-sum basis. Aid on this basis was paid to Member States during preceding financial years and is not included in the 1974 budget.

30. The initial appropriation of 41 m u.a. entered in Chapter 89 in 1974 was reduced through transfer to 20 million u.a., representing a rate of use of less than 49%. This rate is in direct ratio to the number of requests submitted by Member States.

31. Payments were carried out at a satisfactory rate and carry-forwards were generally for small amounts with one exception: almost all payments relating to aid to groups of producers of fruit and vegetables were made from appropriations carried forward from the preceding financial year and most of the appropriations for this financial year (1.5 m u.a.) had to be carried forward.

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32. The aim of the structural policy should be to allocate appropriations under the Guidance Section in such a way as to encourage a productive and dynamic farming system, which is the only way to ensure both a reasonable income for farmers and fair prices for consumers. This policy is only possible if the necessary appropriations are granted and used to solve, on the social level and the regional level, the problem of unprofitable farms.

33. Expenditure under the Guidance Section is designed to improve production and marketing structures. Requirements in this field are enormous and should be treated as a matter of priority, for the improvement of structures is the only lasting and reasonable way of reducing the considerable cost of market support and guaranteeing farmers' incomes. But the appropriations allocated to this section must be managed more efficiently (improvement in the rate and speed of use of appropriations - more and speedier checks); only when this is done will it be desirable or possible to increase their size.

34. It is deplorable that Community action on structures remains inadequate while appropriations granted by the budgetary authority are under-used.

The responsibility for the poor use of appropriations in the Guidance Section cannot be borne solely by the Commission. It is true that the Commission has responsibility for implementing the budget. But some of the financing systems used allow Member States and the Council to brake and restrict the use of available appropriations. The Member States, which screen and select applications for aid, and the Council, through lack of political will, bear a heavy responsibility for the underdevelopment of the Community policy on agricultural structures. Member States and the Council should therefore be reminded of their duties in this field. If this is not enough, financing systems must be chosen which will prevent the protection of national interests from impairing Community policy.

II. The problems of Community finance

35. The systems of financing used by the EAGGF are not properly matched to the type of measures undertaken. ~~The~~ Guarantee Section and Food Aid are financed by a common system, the system of advances to Member States. In the case of the Guidance Section, the financing system is not chosen on the basis of the type of measure involved.

36. The choice of the system of financing has a decisive influence on budgetary administration, as regards both implementation and checks. It determines the rate of use of appropriations, the amount of carry-forwards or cancellations of necessary appropriations, and the form, type and effectiveness of controls and checks.

37. All these systems of financing have one thing in common - close cooperation between the Commission and the responsible national bodies. The main problem here is to ascertain how far the Commission is responsible for implementing this part of the budget, since the national departments generally play a major role in this implementation.

A. Systems of financing

(a) Financing by advances to Member States

38. This system is used to finance measures under the Guarantee Section and Food Aid.

First of all, at Community level, there is an overall allocation of appropriations in the form of monthly or special advances. The payment of these advances to Member States is subject to overall provisional commitments. Payments are made in Member States by the authorized bodies. On the basis of documentary evidence submitted to it, the Commission charges them against detailed commitments and payments, which can be reviewed when the accounts are audited.

39. For the period covered by the report, the percentage use of advances by Member States was 95.8% for the Guarantee Section and 87% for food aid. This system of financing is therefore very efficient and allows a close matching of funds to actual requirements.

40. The rare - and temporary - exceptions to the smooth running of this system arise out of unforeseeable circumstances, such as a postal strike in France, or difficulties experienced by national departments in interpreting or applying Community legislation.

These difficulties of interpretation or application should be smoothed out by the Commission as far as its powers allow.

As regards the expenditure declared by the AIMA and the Intendenza di Finanza in Italy, the procedure used by the Commission to impose a uniform interpretation of Community legislation is open to criticism. From February to November 1974 the Commission suspended payment of expenditure declared by Italy although some of this expenditure had been incurred quite properly.

41. The weakness of this system lies in the procedure for auditing the accounts and postfacto control. The regulations in force provide for the submission by Member States of the necessary supporting documents and lay down time limits for their submission.

Although these limits are regularly extended by six months, they are rarely observed. In 1974 they were met by only five Member States and delays in other Member States varied between 3 and 6 months.

42. Following checks made on the basis of these documents, readjustments are made if and when necessary.

Since the procedure to be followed in such cases has not been specified, it is clear that objections from Member States add to the delays which occur before the accounts are finally closed.

43. If this system of financing is to work on a sounder basis from the budgetary point of view, the rules in force must be more strictly applied, and others added if necessary, in order to reduce the causes of delays in forwarding documents and in adjustment procedures.

(b) The system of financing by reimbursing the Member States

44. This is the system used for most of the common measures and special measures in the guidance section. The EAGGF reimburses Member States part of the expenditure they have incurred. Decisions to grant aid are taken by the Commission on the basis of applications submitted. The Member States' share in the financing is designed to guarantee effective control on their part.

45. With this system payments are made rapidly and any carry-forwards required are generally for small amounts. The figure for the 1974 financial year was 10% in the sector of special measures financed by this system.

46. The drawback of this system is that it depends directly on the initiative of Member States and the appropriations entered are only used if the latter submit applications. The Commission's financial report shows that applications are few and submitted very late.

47. This system makes it difficult for the Commission to fulfil its responsibilities for the use of Community funds. It is particularly necessary that it should do so, since in the case of common measures, the chronic underuse of appropriations means that considerable sums are frozen in the Mansholt reserve.

If these shortcomings persist, the use of this system of financing should be restricted.

(c) The system of financing of individual projects

48. This system applies not only to individual projects proper, but also to certain common measures, such as conversion measures in the cod fishing sector (Regulation EEC No. 2722/72).

It consists in the granting of a subsidy to improve structures. This subsidy is granted by the Commission on the basis of an application for an individual project, submitted and approved by the Member State concerned.

The Commission's agreement entails the commitment of the corresponding appropriations. The Commission pays these sums through authorized national bodies on presentation of invoices and accounts.

49. There is a long time-lag between commitments and payments, because the most extensive checks are made at the applications-for-payment stage. Checks must be thorough, but should not lead to undue delays detrimental to the beneficiaries. If the Commission feels that it is impossible to speed up the screening of applications any further, it could perhaps introduce a system of advances to applicants, so that they are not obliged to contract costly and unnecessary bridging loans.

50. This time-lag entails major changes and cancellations in the decisions to grant aid since many projects have to be abandoned or changed, as estimates of expenditure have in the meantime been overtaken by currency depreciation and the rise in the cost of living. For example in 1974 :

- in the case of 176 projects which had been receiving finance for more than five years and 19 projects for which an unsubstantiated application for a carry-forward of appropriations beyond the five year period had been submitted, a procedure for the cancellation of aid was begun: for 7 other projects, the Commission decided to cancel the aid granted for the same reason;
- 16 beneficiaries did not take up the aid granted which was therefore cancelled;
- finally, 7.5m u.a. were unused as a result of over-estimation of actual expenditure and failure to comply with the terms of project implementation.

51. The Commission chooses projects on legal, economic, technical and financial criteria; of 1,502 projects submitted during the financial year, 216 were inadmissible, but 658 had to be rejected for lack of funds.

In these circumstances, there is a great risk that applicants will view the Commission's selection procedure as somewhat arbitrary.

52. This system of financing, which in theory is due to disappear pursuant to Regulation No. 729/70, nevertheless remains by far the most widely used in the Guidance Section, because of delays in implementing common measures, but also because its scope has been extended to include certain common measures.

The number of applications submitted also shows how extensive requirements are in this field. It also has the advantage of bringing the Community's action home to beneficiaries and public opinion.

It is therefore urgent to improve the way the system works and especially to cut down on delays in payments, and on the number of commitments cancelled.

(d) The system of financing by aid fixed on a lump-sum basis for certain special measures

53. This system of financing, introduced through Regulations 130/66 and 159/66, is a compromise between the system of advances to Member States and the system for individual projects.

EAGGF aid is granted on the basis of a programme for improving production and marketing structures in the sectors specified in the Regulation. Funds are then made available to the Member State which supervises their allocation at governmental, regional and local levels. Funds are granted for specific projects, and paid to the beneficiary. The use of funds put at the disposal of the Member State is controlled on the basis of reports furnished by the Member State and on-the-spot checks carried out by the Commission.

54. With this system of financing planned programmes can be carried out in line with the specified objectives but work is invariably behind the schedule laid down for completion.

55. The different systems of Community financing are based on budgetary centralization at Community level, coupled with decentralized payments by more than 40 authorized national bodies. The cooperation this entails involves Member States closely in Community policy and avoids the dangers of over-centralization.

The choice of the system of financing determines what form cooperation between Community and national services will take. This has important implications when it comes to the drawing up, execution and control, of budgetary authorizations.

The system chosen must make Community policy as effective as possible, it must freely allow the Commission to exercise its responsibilities and it must bring home to the beneficiaries and public opinion the aims and scope of Community action.

B. Auditing and irregularities

56. Articles 8 and 9 of Regulation No. 729/70 introduced a quite clear distinction between auditing and irregularities, which affects in an important way the division of responsibilities between the Commission and the Member States.

Although in both cases the Commission remains responsible for the implementation of Community rules, the Member States play a somewhat passive role as regards checks but are given wide scope for initiative where irregularities are concerned.

(a) Auditing

57. Verification of expenditure is carried out by the Commission both on supporting documents forwarded by the Member States and on the spot, either with the bodies which keep the accounts or with the recipients.

The Commission's financial report deals basically with the details of these controls. It adds up the number of days work and explains the methods used, which in general consist of random investigations.

58. However, the reports say little about the efficiency of these methods, particularly as regards the Guarantee Section and food aid. Although this is not the place for Parliament to meddle with internal control procedures, it would be well if it were able to decide whether closer checks should be made in certain fields.

59. The methods used for these checks depend on the sector in which they are carried out and the system of financing used. As regards verifications carried out as part of the auditing of the accounts of the Guarantee Section and food aid, problems may arise when adjusting the accounts as a result of these verifications. Member States sometimes contest these adjustments and the complexity of the rules as well as the lack of any information on the procedure to be followed for the re-adjustment suggest that difficulties and delays will occur before the accounts are finally closed.

Moreover, the effectiveness of these verifications is questionable in the case of 'second category' expenditure. EAGGF refunds to intervention agencies are made on a lump-sum basis and have little relationship with the real costs declared by Member States.

The system of financing through advances requires particularly close checks, because of the scale of the expenditure involved and also because controls are only carried out after the event.

60. As regards special measures financed by aid on a lump-sum basis, there seem to be gaps in the reports of on-the-spot checks drawn up by the Commission. Additional checks had to be carried out by the Audit board to complete documentary evidence and to make a more thorough analysis at Parliament's request of the financial management of these measures.

61. For other special measures, checks have shown that the controls carried out by national bodies are improvised particularly as regards the slaughtering of cows and the grubbing up of fruit trees.

62. In the case of individual projects, the main check is made before the payment of aid. However, final payment is sometimes made before the information necessary for satisfactory controls has been provided by national authorities.

The risk that EAGGF aid may be diverted from its initial objective or sunk in an unprofitable investment cannot be overlooked.

(b) Irregularities

63. It is the responsibility of Member States to watch out for irregularities and to bring legal proceedings. However, the Commission still has responsibility in this matter as it has the power to step up and direct investigations: it centralizes information on frauds discovered, coordinates Member States' action on legislation and regulations and can ask them to open enquiries. Finally, it bears, in theory, the financial cost of irregularities.

64. As regards regulations, the Commission points to the difficulties it encounters in getting Member States to apply Community legislation in a uniform manner. In particular, the concepts of irregularity and negligence, mentioned in Article 8 of Regulation No. 729/70, need to be more clearly defined. Similarly, Regulation 283/72, providing for consultation between Member States and the Commission in cases where, in application, Community regulations show loopholes, is not applied in a satisfactory manner.

The Commission attempts to overcome these difficulties through concerted action on a bilateral basis.

65. The Commission is not yet able fully to exploit the information provided by the Member States on the legislative and administrative provisions and on the list of bodies involved in this field.

It does not always receive in time, or in its entirety, the information which Member States are required to provide on irregularities which have been discovered. To cope with this situation, it plans to have recourse, if necessary, to Article 169 of the EEC Treaty.

It has attempted, with clear success, to obtain from Member States information concerning the risk of fraud, that is to say new kinds of fraud, the methods used and the products concerned.

66. As regards proceedings, the Commission has had to restrict its activities somewhat, since the work of the Special Committee of Inquiry has absorbed some of its staff.

The decision to bring proceedings is an important one. It should only be taken on the basis of a reasonable suspicion. For example, articles in the press cannot in themselves warrant proceedings.

With this in mind, the Commission has established a 'pre-6' procedure, a stage prior to the initiation of proceedings.

67. The financial report shows that the Commission has the means of effectively combating frauds. The reports of the Special Committee of Inquiry, for example, have enabled it to adapt its regulations to the various forms of fraud, to introduce sharper controls in sectors where it is most frequent - the cereal and milk product sectors - and to study the methods in most common use, especially the falsification of documents indicating the quantity and quality of products.

The effectiveness of controls and proceedings therefore now depends on making more use of existing machinery.

68. Finally attention should be drawn, without complacency, to the relatively small scale of frauds which, in 1974 for the Guarantee Section, totalled 3.8 m u.a. for an amount of 3,066 m u.a. of commitment appropriations, and 0.14% of the 2,633 m u.a. payment appropriations.

CONCLUSION

69. In conclusion, your rapporteur notes that the main budgetary problems of the EAGGF, such as the compatibility of the management of the fund with budgetary principles or the cooperation between the Commission and national administration, go beyond the scope of the budgetary administration of the common agricultural policy. These are problems common to all Community financing activities and economic intervention and thus common to all Community funds (except the EDF).

The solution to these problems therefore lies in an adaptation of budgetary and financial machinery to the type of expenditure, which for the most part consists of intervention. For this reason your rapporteur specially welcomes the fact that these problems were also discussed in the working party set up by the Committee on Budgets and hope that these comments will be borne in mind when the Financial Regulation is recast, which is a more pressing matter than ever.

OPINION OF THE COMMITTEE ON AGRICULTURE

Draftsman: Mr A. Liogier

At its meeting of 2 and 3 October 1975 the Committee on Agriculture appointed Mr Liogier draftsman.

It considered the fourth financial report at its meeting of 19 and 20 November. At its meeting of 8 and 9 December 1975 it considered and adopted the draft opinion unanimously.

Present: Mr Houdet, chairman; Mr Liogier, draftsman; Mr Brégégère, Mr Bourdellès, Mr Della Briotta, Mr Frehsee, Mr Früh, Mr Hughes, Mr Kofoed, Mr Ligios, Mr McDonald, Mr Martens and Lord Walston.

1. Regulation No.729/70 on the financing of the common agricultural policy provides that before 1 July of each year the Commission will submit to the Council and to the Assembly a financial report on the administration of the Fund.

It is in this context that Parliament is called on to pronounce on the Fourth Financial Report for the year 1974. The report is set out in four separate titles.

I. The Guarantee section

2. The Guarantee section finances expenditure resulting from the common policy on markets and on agricultural prices (in particular refunds and interventions to stabilize markets); since the common policy on markets and agricultural prices is in fact the only full Community policy in which financial solidarity is almost total, appropriations from the Guarantee Section represent approximately 3/4 of the total budgetary appropriations.

3. The year 1974 was marked essentially by the following events:

(a) Extension of the common organization of the markets to dehydrated fodder; this new market organization provides for the granting of aid when fodder is dehydrated. This aid totals 10 m u.a.

(b) The introduction of special measures for soya beans to encourage the development of the production of soya beans in the Community. This measure had no financial effect, since no aid was granted in 1974.

(c) The introduction of a system of import subsidies on sugar; following the simultaneous appearance of a shortage of sugar on the world market and a fall in production in the EEC, Community supplies were threatened. To combat this, import subsidies on sugar were introduced. The cost of these subsidies is fully borne by the EAGGF. For 1974 the expenditure under this head amounted to 18 m u.a.

(d) The most important of these measures, however, were in the beef and veal sector following the appearance of a surplus. The increase in expenditure was particularly marked in this sector.

Whereas in 1973 this sector accounted for only 0.45% of expenditure, in 1974 it exceeded 10%. The measures taken (premiums, publicity campaigns, sales at reduced prices to certain categories of consumer) led to additional expenditure of approximately 320,000,000 u.a. against 16,000,000 u.a. in the preceding year.

(e) On the other hand, economies were realised in cereals (553,000,000 u.a.) and milk products (232,000,000 u.a.).

4. Expenditure in the guarantee section for 1974 totalled 3,107,000,000 u.a., a reduction of 15% in comparison with 1973, when expenditure reached 3,614,000,000 u.a. However, the Commission rightly points out that a part of this reduction in expenditure is more apparent than real: since it results from delays in certain Member States in the payments for certain support measures, in particular for wheat and olive oil.

II. Financing of Community food aid for products under the common market organization

5. This part deals with gifts of food made in the form of agricultural products under the common market organization. Technical and financial arrangements for this aid are the responsibility of the Member States' intervention bodies, generally with the help of advances from the Commission.

Expenditure increased in comparison to 1973 because of intensified Community action for aid programmes in cereals and in milk products from public stores. This gave a total of 204,400,000 u.a. in 1974 allocated for food aid, an increase of 71% over 1973.

III. The Guidance Section

6. The Guidance Section is involved in financing common policies for the improvement of farm structures. Three types of measures are concerned:
 - the financing of common measures
 - grants of aid to projects improving structures
 - financing of special measures concerning primarily market organizations.

7. The Committee on Agriculture does not intend to dwell here on machinery which has been discussed frequently in the past. It merely points out that the available appropriations, namely 325,000,000 u.a., are primarily destined for the financing of common measures. Regarding the various common measures decided by the Council, expenditure in 1974 was higher than in 1973 (6,000,000 u.a. instead of 2,000,000 u.a.). Transfers to reserves for common measures continued in 1974 because the Council set aside 11.5 m u.a. The total transferred to reserve for common actions between 1969 and 1974 amounted therefore to 526,000,000 u.a. In addition, 150,000,000 u.a. has been taken from the Guidance Section for transfer to the European Regional Development Fund.
8. Your committee wishes to return to the problem of individual projects, which has already been discussed in the Committee on Agriculture and it would like to hear the view of the Commission representative on this. There have been repeated criticisms of the long delay between the lodging of applications for individual projects and their consideration by national or Community authorities.

These delays are particularly damaging at a period when the cost of living is rising. Would it not be advisable, when making interventions under the guidance section, to provide for decentralized consideration of projects, at national level and as far as possible at regional level, the task of the Community bodies being to draw up directives of a general nature and to make on the spot checks on the use of EAGGF funds?

IV. Auditing and irregularities

1. Auditing

9. The Committee on Agriculture recalls the fact that expenditure is verified both on supporting documents forwarded by the Member States to the Commission, and on the spot, either with the bodies which keep the accounts and possess detailed supporting documents, or with the recipient of Community subsidies.
10. For the Guarantee Section, the efforts of the Commission's departments have been directed principally to auditing the financial years 1971 and 1972. They have consisted in documentary verification and on-the-spot verification in the context of the closure of the accounts. This auditing has increased in comparison with the previous year.

11. For the Guidance Section, in 1974, 24 individual projects were audited on the spot, representing about 6.5% of projects completed in the year. (The preceding year, 5% of projects were checked).

As with the projects of the 1973 financial report, the Committee on Agriculture deplores the absence of real overall control of appropriations granted by the Fund, due in part to the lack of qualified staff. It should be borne in mind that this state of affairs is likely not only to damage the interest of tax payers but also to risk economic disadvantages for beneficiaries of aid.

12. On 7 February 1972, the Council adopted Regulation No. 283/72 on irregularities and the recovery of sums improperly paid out in connection with the financing of the common agricultural policy and the organization of an information system in this field.

1973 and 1974 saw the expansion by the Commission of its efforts to combat more effectively irregularities committed to the detriment of the EAGGF; with this aim it set up 'a Special Committee of Inquiry' with the task of examining the possibilities of fraud and irregularities in the management of Community funds.

13. Moreover, on 22 October 1975, the Council transmitted to the European Parliament a report by the Commission drawn up pursuant to the above-mentioned Regulation on the question of irregularities.

The irregularities discovered by Member States are theoretically notified quarterly to the Commission, which acts as an information centre contributing to the prevention and abolition of irregularities. The implementation of this information system, after some initial difficulties, now seems to be functioning satisfactorily, with some reservations.

The provisions of this Regulation, however, call for the establishment of a two-way flow of information both between Member States and the Commission and within Member States. Therefore, it is bound to take some time for such cooperation to become effective, both at the Community and at national level.

Moreover, the Commission proposes to submit a new report on the application of Regulation No. 283/72 before the end of 1976, together, if necessary, with proposals for solutions to any problems still outstanding.

14. Your committee feels that the Commission should then propose improvements to the speed, accuracy, and detail of information provided by national departments. Irregularities discovered should be immediately notified to the Commission, particularly those which reveal the existence of a new fraudulent practice which is likely to spread.

It feels that notification should not be limited, as at present, only to irregularities which lead to financial loss for the EAGGF. Effective prevention will be strengthened and increased if all irregularities, including unsuccessful frauds are revealed.

15. What then were the cases of irregularities in 1974, first of all in the Guarantee Section? As in the previous year the cereals and milk products sectors were the most affected by fraud. Out of a total of 96 cases reported, 68 relate to the cereals sector, 11 to the milk products sector, 5 to pigmeat, 3 to poultry, etc.

The majority of fraudulent practices were found in the field of export refunds and intervention measures on the internal market. The finance involved for irregularities in 1974 was 3.8 m u.a. of which 12% has at present been recovered. The best method for tracking down irregularities still remains the auditing of the accounting records of the enterprises. The majority of frauds consist of false accounts or false supporting documents.

16. For the Guidance Section irregularities established were, as in 1973, almost exclusively related to payments of grants for the non marketing of milk and milk products.

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17. In conclusion, your Committee warmly welcomes the annual submission of a financial report on the EAGGF, shedding light on the financial management of the largest Community fund and on common agricultural policies which are determined by the nature and size of the public funds allocated.