

# European Communities

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# Working Documents

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REPORT

drawn up on behalf of the Committee on Budgetary  
Control

on the ~~the~~ Tenth Financial Report on the European  
Agricultural Guidance and Guarantee Fund -  
year 1980 - Guarantee Section - and food aid  
financing

Rapporteur: Mr WETTIG

PE 76.549



By letter of 21 December 1981, the Bureau of the European Parliament authorized the Committee on Budgetary Control to draw up a report on the Tenth Financial Report on the European Agricultural Guidance and Guarantee Fund - year 1980 - Guarantee Section and food aid financing.

On 22/23 September 1981 the Committee on Budgetary Control appointed Mr WETTIG rapporteur and confirmed Mr WETTIG's appointment at its meeting of 28/29 January 1982.

It considered the draft report at its meetings of 28/29 January 1982 and 23/24 February 1982 and at the latter meeting adopted the motion for a resolution unanimously with 2 abstentions.

The following took part in the vote: Mr Aigner, chairman; Mr Wettig, rapporteur; Mrs Bosrup, vice-chairman; Mr Price, vice-chairman; Mr Georgiadis, (deputizing for Mr Gabert), Mr Gontikas, Mr Irmer, Mr Kellett-Bowman, Mr Key, Mr Mart, Mr Brøndlund Nielsen (deputizing for Mr Jürgens), Mr Notenboom, Mr Patterson, Mr Saby and Mr Konrad Schön.

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The Committee on Budgetary Control hereby submits to the European Parliament the following motion for a resolution together with explanatory statement.

MOTION FOR A RESOLUTION

on the Tenth Financial Report on the EAGGF - year 1980 - Guarantee Section and food aid financing

The European Parliament,

- having regard to the reduction in agricultural expenditure in 1980 as compared with the preceding year, although such expenditure still accounts for 69.2% of the general budget;
  - having regard to the need to prevent structural surpluses and rationalize markets, especially in the milk, cereals and beef and veal sectors;
  - concerned at the increase in frauds in 1980 and the resultant cost to the taxpayer at a time of economic crisis;
  - having regard to the fact that, while the CAP is a cornerstone of European integration, it must not be allowed to hamper the development of the other Community policies;
  - having regard to the report of the Committee on Budgetary Control (Doc. 1-31/82),
1. Notes that once again the financial report on the European Agricultural Guidance and Guarantee Fund (Guarantee Section) was submitted to Parliament extremely late;
  2. Welcomes the fact that expenditure under the Guarantee Section of the EAGGF increased less in 1980 than in the preceding year;
  3. Stresses that Parliament intends to continue the economical financial management introduced at the time of the 1980 budget by exploiting fully its powers in relation to the budget and budgetary control;
  4. Stresses, however, that the lower rate of increase in expenditure was due mainly to favourable trends in world market prices and a stable monetary situation in 1980 and the Commission's financial management, and still awaits the implementation of the other savings announced by the Commission;
  5. Takes the view that efforts must continue to be made to bring expenditure in the Guarantee Section of the EAGGF under control by reducing structural surpluses and by more effective financial management and trade policy;

6. Notes that in certain sectors, such as beef and veal and dairy products, refunds were higher in 1980 than in the previous year although the guide prices set were not achieved;
7. Calls on the Commission to report more clearly and in greater detail on expenditure in the fruit and vegetable sector as regards the various ways in which such produce was withdrawn from the market in the period under review;
8. Requests the Commission to give a comprehensive account of financial management in the fruit and vegetable sector and to indicate in particular whether the withdrawal of produce from the market entailed practices which are at variance with Community regulations, what difficulties exist in distributing and processing the produce withdrawn from the market and how the distribution system can be improved, what proposals it has submitted to date to tackle structural problems and with what success, and the cost-effectiveness of distillation to produce alcohol;
9. Calls on the Commission to keep transfers of appropriations during a given financial year to a minimum in order to safeguard the principles of transparency and effectiveness of budgetary control;
10. Expresses its concern at the substantial increase in irregularities in 1980 and insists that a study of the causes thereof should immediately be undertaken in order to put a stop to this trend;
11. Calls on the Commission to draft legislation in the agricultural sector in clearer and more intelligible language and to draw the attention of the Member States' agencies to the need to use every available and appropriate measure to detect abuses in the most endangered sectors, such as non-marketing and conversion operations in the milk sector;
12. Criticizes market support for veal, which received support totalling 10 to 12 million ECU during the consumer boycott of veal believed to contain oestrogen. Only a false interpretation of the Council regulation made this measure possible;
13. Regrets that as regards the clearance of accounts for previous financial years progress was only recently achieved with the clearance of accounts for 1974 and 1975;
14. Again draws attention to the fact that work on the final clearance of accounts must be speeded up and calls on the Member States to continue its efforts jointly with the Commission to make good the delays and to respect the deadlines for the submission of supporting documents and declarations in respect of subsequent years;

15. Expresses its satisfaction at the report of the Court of Auditors on the EAGGF, Guarantee Section, which provides a good survey of the bookkeeping situation, but would appreciate it if in future the Court of Auditors would also assess the soundness of the financial management of the main market organizations;
16. Takes the view that the facilities available to the Commission clearly still do not enable it to provide reliable and rapid information on demand and price movements on the world market in respect of the Community's main surplus products and to ensure appropriate reactions thereto and recommends, for the sake of sound financial management and in view of the extreme importance of such information for the level of prefixing and the timing of granting export licences, that the necessary measures should be taken immediately;
17. Emphasizes the need to facilitate the processing and marketing of produce in order that sales on external markets may also be improved, thus easing the pressure on the budget; the conclusion of long-term contracts could prove beneficial in this respect;
18. Calls on the Council to consider carefully all the measures proposed by the Commission which would improve the efficiency of budgetary management in the EAGGF sector and would help to ease the pressure on the budget, and to take the necessary decisions;
19. Instructs the President to forward this resolution and the report of the committee to the Court of Auditors, the Council, the Commission and the Governments of the Member States.

EXPLANATORY STATEMENTEAGGF, Guarantee Section1. Introduction

The EAGGF, Guarantee Section, still represents the largest area of expenditure for the Community budget, totalling 69.2% of overall expenditure. In the financial year 1980, however, there was a reversal of the trend in recent years towards steep increases (8.4%, which was lower than the average rate of inflation in the EEC), although this was due mainly to the favourable world market situation and the fact that currencies were relatively stable. There is nevertheless still a danger that agricultural expenditure will soon exhaust the Community's own resources and act to the detriment of structural expenditure which is considered a priority.

General development of expenditure under the EAGGF, Guarantee Section

Year	Total expenditure Guarantee Section m ECU	Annual increase %
1975	4,522.5	
1976	5,587.1	23.5
1977	6,830.4	22.3
1978	8,672.7	27.0
1979	10,440.7	20.4
1980	11,315.2	8.4

Source: Tenth Financial Report of the Commission, p.16

The Committee on Budgetary Control is required to assess the Commission's financial management of the EAGGF, Guarantee Section, to indicate the crucial points and opportunities for improvements which would ensure a more economic utilization of the appropriations. Since the subject is a vast one, the report will concentrate on certain fields only.

2. Expenditure

	ECU
Appropriations entered in the budget	11 507.5 m
Appropriations available following transfer of 2.3 m to Item 8312 (Guidance Section)	- 2.3 m
	<hr/> 11 505.2 m
Advances to Member States	11 460.3 m
Direct Commission expenditure	12.7 m
	<hr/> 11 473.0 m
Less cash surplus in the Member States	- 158.1 m
	<hr/> 11 314.9 m



The difference between the appropriations available and total commitments amounts to 190.3 m ECU.

A total of 11,306.2 m ECU was implemented in payments, including 203.5 m for 1979.

### 3. Revenue

#### Revenue under the common agricultural policy

m ECU

Types of revenue	1975	1976	1977	1978	1979	1980
Import levies	534.0	1,040.1	1,816.9	1,872.7	1,678.6	1,535.4
Sugar production levies	86.0	133.2	320.8	410.6	464.9	466.9
<b>Total</b>	<b>620.0</b>	<b>1,173.3</b>	<b>2,137.7</b>	<b>2,283.3</b>	<b>2,143.5</b>	<b>2,002.3</b>

Source: Tenth Financial Report of the Commission, p.16

The fall of around 12% as compared with 1978 reflects the increase in world market prices, which reduced refunds but also decreased the volume of import levies.

In connection with the levies the Court of Auditors again draws attention to speculative trade which deprived the Community of substantial sums, since the system of MCAs is not applicable to the rice sector. The difference between the green rates and the normal exchange rates (market rates) enables importers to make considerable savings. Since the MCAs are to be progressively abolished, another way should be found to prevent this situation. The Commission should report on the outcome of its negotiations with the national authorities aimed at finding a solution to this problem (see Commission reply to the Court of Auditors' comments 3.18 - 3.22).

### 4. Currency factors

The central rates of the currencies belonging to the EMS did not change in 1980. However, sterling rose to such an extent that positive monetary compensatory amounts had to be introduced at the end of March 1980.

With effect from 12 May the Council decided to devalue the representative rates for the French franc and the Italian lira by 1.336% and 3.523% respectively. The MCAs applicable in Italy could therefore be abolished as from 12 May 1980. However, because of the weakness of the lira they were introduced on 23 June. On 1 June 1980 new representative rates were fixed for the DM, the Bfr and Lfr and the Hfl which reduced the gap between these currencies.

## 5. New legal provisions

The following new legal provisions were adopted for application to the financial year 1980:

- With effect from 1 June 1980 the coresponsibility levy was increased from 0.5% to 2% of the target price for milk (1.5% for the first 60.000 kg of milk in less-favoured regions). In addition investment aid was cut.
- On 20 October 1980 the regulation on the common organization of the market in sheepmeat entered into force.
- On 15 July 1980 measures to improve the rules on aid to consumption in the olive oil sector were introduced with a view to giving producer organizations more responsibility for verifying the administration of the regulation on production aid.
- On 31 May 1980 the regulation on fresh fruit and vegetables was amended to enable products withdrawn from the market for charitable purposes to be distributed free of charge. In addition, courgettes and aubergines were included within the scope of Regulation (EEC) No. 1035/72.
- On 9 July 1980 the amendment to the basic regulation on tobacco entered into force. It was designed to increase the efficiency of market control methods by making undertakings individually responsible for the initial processing and refinement of tobacco. This is intended to reduce recourse to intervention.

## 6. Political factors

In accordance with the Council decisions of 15 January 1980 neither direct nor indirect supplies from the United States to the Soviet Union were to be replaced by Community supplies. The measures taken by the Commission in this field concerned in particular cereals, milk products and beef and veal.

## 7. New farm prices and related measures

The price increases decided by the Council on 30 May 1980 ranged between 5.5% and 7.5%, except for milk, beef and sugar, which are in surplus. Here the increases were kept down to 4%, giving an average increase of 4.8%. Following the currency measures referred to under point 4 above, the price increase expressed in green currency amounted to an average of 5.7% in 1980. The resulting additional expenditure totalled approximately 120 m ECU and savings based on the related measures taken by the Council in the currency sector amounted to around 124 m ECU.

8. Market organizations involving the greatest expenditure from the EEC budget in 1980

	<u>Appropriations</u>	<u>Expenditure</u>
Milk and milk products	4,929.6	4,752.0
Cereals	1,616.4	1,669.3
Beef and veal	1,178.0	1,363.3
Oils and fats	787.0	687.3
Sugar	696.5	575.2
Fruit and vegetables	659.0	687.3
Wine	350.0	299.5
Tobacco	282.0	309.3
Other	1,009.0	972.0
	11,507.5	11,315.2

The biggest increases in expenditure as compared with the previous year concerned beef and veal (+ 615 m ECU), since production rose while consumption remained static, fruit and vegetables (+ 244 m ECU) due to the higher processing quotas, wine (+ 238 m ECU) due to the bigger harvest in 1979, and milk (+ 231 m), cereals (+ 104 m) and oils and fats (+ 81 m). Following price increases on the world market expenditure on sugar fell by 365 m ECU. As a result of the stable currency situation expenditure on monetary compensatory amounts also fell from 702.4 m ECU in 1979 to 298.5 m ECU.

	Share of agricultural expenditure 1978 (%)	Share of agricultural expenditure 1979 (%)	Share of agricultural expenditure 1980 (%)
Cereals	12.8	15	14.7
Milk	46.4	43.4	42
Oils and fats	3.8	5.8	6.1
Sugar	10.1	9.0	5.1
Beef and veal	7.4	7.2	12.1
Fruit and vegetables	1.2	4.2	6.1
Monetary compensatory amounts	10.2	6.8	2.6
Other	8.1	8.6	11.3
	100.0	100.0	100.0

Source: Analysis of financial management (COM(81) 222)

9. Classification of expenditure

(a) Agricultural expenditure

Expenditure on purely agricultural measures, that is, export refunds and intervention, totalled 6,800 m in 1978, 9,700 m in 1979 and 11,016,700,000 ECU in 1980, representing increases of 42.6% and 13.6% respectively.

(b) Other expenditure

The difference between agricultural expenditure and total expenditure - 2,104 m, 458.8 m and 298.5 m ECU respectively - is accounted for by monetary compensatory amounts, accession compensatory amounts and the consequence of the two-tier system of exchange rates. One positive factor is that since 1979 the two latter types of expenditure have disappeared and that MCAs have been reduced from their 1977 peak of 989.3 m to 298.5 m in 1980.

(c) Breakdown of agricultural expenditure

	1978	1979	1980
Refunds	45.5	48.6	49
Price compensatory aids	27	31.6	31
Storage	19	17	14.7
Withdrawal from the market	7.5	1.2	2.7
Other (e.g. guidance premium)	1.0	1.6	2.4
	100 %	100 %	100 %

The table shows that, although storage costs are falling, in expenditure terms they are still much too high. This is also illustrated by the summary of quantities in storage in December 1980 shown on page 70 of the Commission's Tenth Financial Report. In that month goods to a value of 2,583,400,000 ECU were in public storage. The figure for the previous year was 2,143 m ECU which, while constituting a reserve, nevertheless involved committing a substantial volume of appropriations from the Community budget. In particular, there was an increase of 163% in respect of common wheat (from 1.9 m t to 4.9 m t), while stocks of barley increased more than tenfold (from 74,000 t to 1,081,885 t). In the case of rye and durum wheat the situation remained more or less as in the previous year, while stocks of skimmed-milk powder showed a very slight increase. The butter mountain was fortunately halved from 293,000 t to 147,000 t. Stocks of beef and veal increased by 25,000 t, that is, by around 10%. The total of 314,000 t in storage is uneconomically high, since, given that consumption is stagnating, it involves the commitment of excessive funds.

In respect of storage, which involved costs amounting to 1,617 m ECU attention should be drawn in particular to the fact that technical and financial costs accounted for only 235.2 m ECU. By far the largest share of the cost of public storage - 1,133,000 m ECU - was taken up by losses resulting from the difference between buying-in and selling prices which totalled 717.6 m ECU, including 327 m ECU for beef and veal alone. Only the sum of 296 m ECU for milk products includes expenditure on special measures for charitable and other purposes. To achieve greater budgetary transparency, the various marketing measures related to storage should be broken down to indicate expenditure on each individual measure.

10. Financial management in general

In 1980, under pressure from Parliament, the Commission stepped up its efforts to increase exports with a view to relieving the burden on the budget and reducing stocks to a reasonable level. In this connection the validity of export licences for milk powder was reduced to improve the monitoring of exports and a five-day period of reflection was introduced in respect of advance fixing for exports of butter and milk powder.

In relation to total agricultural expenditure the cost of refunds remained high (49% as compared with 48.6% in the previous year). In 1980 there were already signs of certain significant reductions in refunds (as a result of the favourable world market price situation): wheat - 15%, barley - 50%, flour - 20%, malt - 75%, butter - 33%.

The major share of intervention costs - price compensatory aids, which help to support the domestic market - fell from 34% in 1979 to 31%. This is connected with the low level of expenditure on monetary compensatory amounts in respect of intra-Community trade. In 1980 these price compensatory aids, which are intended as additional income for producers or as marketing guarantees for their products, involved expenditure of 1,881 m ECU in the form of direct income aid and 1,567 m ECU in the form of processing aid.

As already mentioned, there was a further reduction in MCAs which in 1980 accounted for only 2.6% of total expenditure as compared with 10.2% in 1978.

11. Administration of appropriations

(a) General

The rate of utilization of the appropriations available amounted to 98.6%, with an average of 90.2% (64% in 1977 and 77% in each of the subsequent years). However, this 'improvement' can be attributed to the system of provisional twelfths, which was applied until the middle of the year and resulted in reduced transfers to the Member States.

(b) System of provisional twelfths

The system of provisional twelfths, which had to be applied until July 1980 due to the delay in adopting the budget for that year, led to certain difficulties in financial administration. These were caused both by the fact that there had been no previous experience of the system (Article 8 of the Financial Regulation) and by the fact that expenditure for the financial year 1980 was significantly higher than that for the previous year.

However, the Commission interpreted the provisions of the Financial Regulation incorrectly, in that it considered the advances not as payments but as 'provisional commitments'. Its claim that Article 96 of the Financial Regulation describes the advances as commitments cannot be accepted, since Article 96 refers only to commitments corresponding to the advances to be made and does not equate the two terms. As a result of this misinterpretation the provisions of Article 8, third subparagraph, of the Financial Regulation and Article 204 of the EEC Treaty were incorrectly applied and the ceiling on the appropriations to be approved was constantly exceeded (when the budget was adopted the ceiling had been exceeded by 975.8 m ECU).

Details

(aa) Transfers of appropriations

The Commission executed transfers of appropriations between chapters to a total of 371 m ECU. The largest sums concerned the following sectors: beef and veal + 193 m, cereals + 67 m, fruit and vegetables + 29 m, sugar - 120 m, oils and fats - 99 m, and wine - 50 m ECU. There were further transfers of appropriations totalling around 765 m ECU. Although these transactions comply with the Financial Regulation, they nevertheless considerably undermine the transparency of the budget.

(bb) Deferral of expenditure to the subsequent financial year

The fact that the reduction in refunds for butter and skimmed-milk powder, introduced at the urgent exhortation of this committee was accompanied by the announcement that they would be higher the following year, led dealers to delay deliveries in this sector until the subsequent year, thereby keeping expenditure for 1980 artificially low.

- (cc) The Commission should require all Member States to submit a written request for appropriations, backed up by actual figures, within the deadline laid down in Regulation 380/78 in order as far as possible to eliminate any obscure aspects and possible abuses. In addition, Articles 33 and 43 of the Financial Regulation concerning commitments and approval should in future be more strictly observed. In 1980 there were several occasions on which the approval for payment orders bore an earlier date than that relating to the commitments.

In its annual report the Court of Auditors draws attention to discrepancies resulting from the fact that certain Member States use different data from the Commission to calculate their cash position. A uniform method should be adopted by all concerned for the monthly and annual accounts to ensure that the appropriations are utilized during the period to which they relate and to prevent overspending of appropriations. This problem is exacerbated when the discrepancies (in some cases amounts running to seven figures) are carried over into the end of year accounts.

(dd) Assessment of quantities in storage

Since the measures contained in the regulations adopted by the Commission in December 1980 concerning Community aid to Poland were not actually implemented within the financial year 1980, the depreciation amounting to 65.7 m ECU inherent in the selling price to Poland could not be charged to the 1980 budget.

12. Comments on the principal sectors

(a) Milk sector

Although in 1980 this sector still accounted for 42% of total EAGGF, Guarantee Section, expenditure, it was 178 m ECU lower than the appropriations entered in the budget (4,930 m ECU). The sharp rise in expenditure (1977: 2,924 m ECU; 1978: 4,015 m ECU; 1979: 4,528 m ECU) was curbed (increase of 5.1% as opposed to 12.6% in 1979). This is explained by the increase in consumption on the internal market and higher demand on the world market, and, although export refunds were higher than expected (2,746 m as compared with 2,400 m, including 45% for butter), they involved the Community budget in less expenditure than storage had done in the past. Reference should be made in this connection to the comments on financial management in the milk powder sector contained in the statement by Mr LELONG of the European Court of Auditors (PE 70.142). In his view, the reduction of stocks, which was reflected in export refunds, was achieved only at vast and unnecessarily high expense, since the Commission, in arranging this precipitate disposal of stocks, misinterpreted market trends. Intervention stocks were sold too early with the result that the volume of export refunds was far higher than it would have been if the Commission had waited a little longer, the upward price trend on the world market being already discernible at that time. In this connection the Court of Auditors casts doubt on the quality of the market information supplied to the Commission and the ability of its staff to interpret this information and convert it into decisions.

The Commission assumes that the number of dairy cows has reached its highest level (in 1979 there was even a fall of 0.2%, that is 42,000 cows). During the period June 1977 to the end of August 1980, 1.3 m cows were taken out of milk production in the Community. On the other hand they were replaced by animals producing more milk, so that the substantial surplus is likely to continue. The situation will probably improve as a result of the constantly growing demand for fresh milk and cheese and of improved export prospects for whole-milk powder.



Revenue from the coresponsibility levy amounted to 223 m ECU in 1980. Since the marketing year 1980/81 only part of the yield (1980: 49.1%) is allocated to its original purpose, the financing of measures to promote the marketing of milk and milk products. The remainder is used to help finance the dairy sector as a whole.

(b) Cereals

The record harvest in 1980 and the resulting increase in exports led in 1980 to higher expenditure on refunds (75 m higher compared with the estimates of 1,099 m ECU), which were kept within limits only as a result of the favourable price trend on the world market. On the other hand, substantial buying-in was required at a cost of 202 m ECU, which produced intervention stocks of 6.686 m t at the end of 1980 (+ 150% as compared with the previous year). Expenditure on disposing of these quantities will mostly be incurred in 1981, unless the world market price increases still further.

With regard to rye, the Council decided that the intervention price should be brought gradually into line with the common intervention prices for other fodder cereals. The Council did not, however, approve the total abolition of production refunds proposed by the Commission and merely agreed to a slight reduction (16% of the refund rate).

(c) Beef and veal

Expenditure totalled 1,363 m ECU as compared with estimates of 1,178 m ECU (1979 expenditure: 748 m). In view of the difficult market situation (relatively low prices and substantial intervention stocks), special measures were introduced (premiums for maintaining suckler cows, suspension of buying-in, aids for private storage). In addition, the Commission pursued an active policy aimed at exporting beef and veal to third countries, which led to substantial expenditure on refunds (716 m as compared with 270 m in 1979).

Attention should be drawn in this connection to events at the end of 1980 when the public became aware that calves were being treated with oestrogen. Reports in the media that such substances, if used for human consumption, could damage health, led to what amounted to a boycott of veal by consumers.

As a result the Commission adopted on 6 November 1980 a regulation providing for the granting of private storage aid in respect of veal (Regulation N° 2880/80, OJ N° L 298). The cost of market

support measures amounted to between 10 and 12 m ECU for around 17,000 t of veal in storage. The legal basis for this regulation was Article 23 of Council Regulation N° 805/68 which, however, allows measures to be taken only in the event of restrictions on free circulation which may result from the application of measures to prevent the spread of livestock epidemics.

In answer to a request for information the Commission stated a little later that, while the legal basis provided in Article 23 was not directly applicable, the principle contained therein could be applied by analogy. As explained in detail by the Court of Auditors of the Federal Republic of Germany, the only admissible solution would have been to adopt a Council regulation pursuant to Article 22a of Regulation N° 805/68. It also pointed out that, since only 2.3% of the 780,000 t of veal slaughtered in 1980 was taken into storage on the basis of this regulation, there was no need whatever for this type of measure involving such high expenditure, because to achieve long-term price support much larger quantities should have been bought in. This is explained by the fact that the market recovered under its own impetus as early as January 1981. The Federal Court of Auditors concludes that relevant and effective consumer information would have been much more successful.

The Committee on Budgetary Control had urged that strict controls should be introduced in respect of buying-in by the intervention agencies to prevent the European taxpayer from having to bear the cost of fraudulent practices.

(d) Pigmeat

Production of pigmeat in 1980 also exceeded requirements and the Commission was obliged to introduce specific support measures following the fall in prices. To compensate for losses aids for private storage were introduced and granted until 3 October.

(e) Sheep and goatmeat

On 20 October 1980 a new common market organization was introduced (aids for storage, compensatory premiums for loss of income, possible public storage). This involved the 1980 budget in expenditure of 53.5 m ECU; appropriations totalling 201 m ECU were earmarked for 1981.

(f) Sugar

This sector likewise showed a substantial production surplus in 1980 following the large harvest (record yield of 12.3 m t). At 9.5 m t Community consumption remained virtually static as compared with the previous years. Estimates for the subsequent year

also show an increase in sugar production resulting partly from an extension of the area under cultivation. The Community's self-sufficiency in sugar is estimated at 130%. The situation can be alleviated only by a deficit, expected in the next few years, in world production as compared with world consumption, so that world market prices are likely to remain favourable. The 1980 budget paid out 289 m ECU in intervention measures and 286 m ECU in refunds. As a result of favourable price trends on the world market expenditure on refunds was kept to 108 m below the estimates and in some cases it was even possible to charge export levies. The Council adopted (not until the middle of 1981) the Commission proposal that producers should help to finance the marketing of sugar surplus to Community requirements, so that in future greater balance between budget expenditure and revenue can be expected in this sector.

(g) Fresh fruit and vegetables

Public criticism of financial management in this field has recently been particularly heated. A number of written questions on the matter have also been addressed to the Commission by members of the European Parliament.

The principal criticism made by public opinion is that substantial tax revenue (around 103 m ECU in the marketing year 1979/1980 as financial compensation for withdrawal measures and buying-in) was used to take fruit and vegetables into intervention which, because of their perishable nature, were then largely treated as goods withdrawn from the market and destroyed (this was the case for 85% of cauliflowers, 79% of tomatoes and 77% of mandarin oranges, the remainder being distributed free or used as animal fodder and in the manufacture of alcohol).

The quantities taken into intervention represent around 2.6% of total EEC production in the case of cauliflower, 3.4% in the case of tomatoes and 5.35% in the case of mandarin oranges. Intervention affected an average around 2% of total EEC production, which means that relatively small quantities are involved<sup>1</sup>. The amount spent on withdrawal measures in 1980 - 103 m ECU - is nevertheless sufficient reason not to underestimate the problem (see Annexes I and II).

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<sup>1</sup> 1 m t of a total of 43 m t

Utilization of quantities taken into intervention 1979/80

Product	free distribution	animal fodder	alcohol	spoilt, destroyed	% of total production
Cauliflower	1%	14%	-	85%	2.5
Tomatoes	3%	19%	-	79%	2.42
Peaches	8%	-	54%	38%	2.51
Pears	3%	40%	45%	12%	0.3
Apples	10%	53%	30%	7%	0.55
Mandarin oranges	15%	8%	-	77%	27.83
Oranges	37%	-	-	63%	0.10
Grapes	-	-	-	-	-
Lemons	-	-	-	-	-
	6%	35%	24%	35%	1.6

Source: Statistical working paper produced by the EC Commission Directorate-General for Agriculture, reference VI.E. 1/41/81

The trend in processing premiums in the fruit and vegetable sector is also alarming. Processing premiums rose from 282 m ECU in 1979 to 443 m ECU in 1980, mainly as a result of aids for the processing of tomatoes. The fact that according to the Commission 362 m ECU was paid out in 1980 as aids to processing, clearly demonstrates the economic absurdity of a market organization arrangement, particularly as these aids accounted for 95% of the value of the tomatoes (34% of the value of the end product)<sup>1</sup>.

In terms of cost, therefore, this sector is particularly difficult to control and regulate, since production quantities vary considerably from year to year. Moreover, there is a structural imbalance between supply and demand.

<sup>1</sup> Total volume: 1979 2.07 m t  
1980 1.97 m t  
1981 1.75 m t

EEC intervention measures for fresh fruit and vegetables charged to the EAGGF (ECU)

Marketing year	Tonnes	Cost (ECU)
1967/68	372,849	26,340,161
1968/69	379,095	24,334,186
1969/70	423,640	25,773,023
1970/71	894,183	41,184,518
1971/72	752,600	39,800,850
1972/73	107,958	6,285,183
1973/74	750,288	45,730,288
1974/75	568,626	44,822,539
1975/76	1,297,509	86,634,218
1976/77	1,306,089	139,981,515
1977/78	207,476	21,481,588
1978/79	701,812	66,893,385
1979/80	1,032,942	102,658,975
<b>Total</b>	<b>8,795,067</b>	<b>728,487,090</b>

Source: Statistical working paper produced by the EC Commission, Directorate-General for Agriculture, reference VI.E. 1/41/81

The Council subsequently since adopted an increase in the basic price proposed by the Commission which is lower for apples than for other fruit in order to prevent producers from stepping up their output. Other measures included encouragement for the creation of producer associations with a view inter alia to improving the implementation and monitoring of Community rules, the introduction of the possibility of withdrawing apples from the market at the beginning of the marketing year as a preventive measure, and an increase in the minimum size for apples. The grubbing-up scheme proposed twice in previous years was unfortunately still not adopted.

Withdrawal prices stood at around 60% of the normal price for fruit and around 40% of the price for vegetables, so that sales to the intervention agencies limited the losses incurred by producers but in no way compensated for lost profit. On the other hand,

they are not sufficiently low to encourage cuts in production. Moreover, in many countries, such as the Federal Republic of Germany, producer prices in 1980 were 20% below 1979 prices and 60% below 1978 prices. Since there was no substantial fall in market prices, the discrepancy must have been absorbed by the trade. In view of the high cost, in absolute terms, of withdrawal measures, quality standards should be raised and, in particular, adequate appropriations should be earmarked in order strictly to verify (possibly by calling in responsible people from the producer associations) whether the goods withdrawn from the market comply with the rules. In view of the justified criticism currently being aired about the spoiling of produce withdrawn from the market, the Commission should draw up proposals for an efficient system of distribution. Moreover, a statement of economic efficiency in relation to the expenditure on energy and other costs involved in the processing of fruit to alcohol should be drawn up. The Committee on Budgetary Control expects a report from the Commission on these matters.

(h) Wine

Following the exceptional harvest in 1979, storage and distillation measures had to be employed on a large scale to support the market, resulting in expenditure of almost 300 m ECU. This represented a considerable increase over 1979 (62 m ECU).

(i) Cereal-based spirituous beverages

On the basis of the retroactive regulation adopted by the Council on 28 April 1981 (Regulation N° 1188/81) cereals that are processed to form spirituous beverages and then exported will be eligible for export refunds. The aim of the regulation is to encourage the utilization of Community cereals for the production of spirituous beverages, particularly whisky. The annual costs, not including those incurred before the adoption of the regulation (retroactive !), are estimated at an average of 30 m ECU.

(j) Oils and fats

As a result of the higher output in this sector expenditure on production aids exceeded the estimates by 53 m ECU.

C) Conclusions

The fact that substantial overspending of the budget in 1980 in the individual sectors was not necessary is due almost exclusively to the development of a favourable world market price trend for foodstuffs. In general there has still been no substantial easing of pressure on the budget from expenditure on surplus products. Structural measures to control and reduce surpluses are therefore an indispensable complement to efficient market management if expenditure in the Guarantee Section of the EAGGF is to be reduced.

### 13. Trade with the state-trading countries

As regards the special nature of agricultural exports to the state-trading countries, in 1980, despite the Council decision that, due to the embargo, exports suspended by the United States should not be replaced, there was a substantial increase in exports of most products to the USSR (information provided by the Commission in answer to Written Question N° 1273/80).

In addition, attention is again drawn to the agreement whereby the Commission undertakes to provide the budgetary authority with prior information.

In view of the special nature of these exports, Parliament has repeatedly stressed the need to adopt a special policy in respect of the granting of export licences and the fixing of refunds, in order to minimize the cost to the community budget.

The special nature of these exports lies on the one hand in the political system of the importing countries and in the fact that they have a constant structural deficit, although actual demand is controlled by the state. On the other hand, the tender procedure is not always conducted under conditions which favour the Community budget, since some operators have access to special information.

For further details reference should be made to the report of the Committee on Budgetary Control (PE.74.508) and the motion for a resolution on exports of agricultural products to the USSR and the state-trading countries. For further justification for the introduction of a separate policy, see also the communication from the Court of Auditors to the members of the Committee on Budgetary Control (PE 70.142).

### 14. Clearance of accounts

In this sector the Commission has to make up delays of around four to five years, which have unfortunately increased in recent years. The audit for the financial years 1976 and 1977, were not finalized until the end of 1978, which meant that the procedure for settling questions arising out of the accounts could not begin until 1981. The relevant decisions should be taken in the first half of 1982, since experience has shown that the so-called dialogue procedure takes more time.

The problem is a serious one, since in the case of unresolved matters the Member States may persist in infringing the rules and the financial consequences will accumulate until the accounts are closed. Since the Member

States could also help to shorten the procedure by submitting without delay the documents requested by the Commission, an appeal must be made to their willingness to improve cooperation with a view to achieving the final clarification and closure of the accounts as soon as possible.

#### 15. Scrutiny of commercial documents

It is regrettable that some Member States have still not acknowledged the value of this type of audit which enables fraudulent practices to be discovered by means of checks on the accounts and correspondence. Although two years have passed since the entry into force (1 July 1979) of the relevant Directive 77/435, three of the Member States have still not adopted suitable provisions. A reasoned opinion was addressed to them in April 1981.

The Court of Auditors also points out in this connection that the Commission has failed to apply this new system of control with the necessary vigour. Yet experience has shown that this is essential if the system is to succeed. Unless the Commission shows the Member States that it takes seriously the implementation of a new measure, positive results are unlikely to be achieved.

#### 16. Frauds and irregularities

##### (a) cases notified by the Member States

It should first be pointed out that the willingness to notify frauds varies considerably from one country to another. There has, however, been some improvement. It is striking that the number of cases notified in 1980 shows an increase of more than 100% over the annual average for the period 1973 to 1979 (246 compared with 120). The total sum involved (21.5 m ECU) is likewise much higher than the average (around 4 m ECU); a dozen cases alone count for 15 m ECU which was wrongly allocated from the EAGGF.

The Commission attributes fifty-nine of the cases to the administrative difficulties and uncertainties connected with the introduction of the non-marketing subsidy. In most cases the sums have been recovered.

The Commission hopes that, as a result of the recently developed method of analysis, there should be no recurrence of forty-one cases of fraud involving compound feedingstuffs (mostly with substantial financial implications).

There were nineteen cases involving olive oil with minimal financial impact. In this case the irregularity lay in the notification of the quantities supplied for intervention.



Eleven cases involved apples withdrawn from the market for animal feed and sold to processing factories.

It is to be regretted that only 7.5% of the total claims connected with the cases notified in 1980 have so far been recovered.

(b) On-the-spot checks

The Commission carried out fourteen on-the-spot checks, mainly in the milk sector. In eight cases the results were not yet available and in three cases irregularities were discovered.

(c) Urgent need to curb irregularities

In general, the Commission must do everything possible to reduce the number of cases of fraud, involving higher and higher amounts, so as to show expert defrauders that the Community is capable of taking rapid and precipitate action to combat such practices. Failing this, other people will be encouraged to practice frauds and the number of cases will snowball. It would also be interesting to know the estimated amount involved in undetected cases.

The exchange of information organized by the Commission between experts from the national authorities in order to deal more effectively with irregularities, is fully approved.

(d) Involvement of the Court of Auditors

On the grounds that the Court of Auditors is responsible only for retrospective audits, that is, after the completion of the process of management, the Commission has only allowed the Court to participate fully in the investigation of irregularities once an irregularity has been established or the sum involved recovered.

This hampers the Court of Auditors in the performance of its duties, which under Article 206 of the EEC Treaty, particularly paragraph 3 thereof, are not subject to any limitations as regards time or procedure.

Moreover, public opinion expects each Community institution to make full use of the possibilities open to it to clear up irregularities. The Commission's attitude would also lead to a restriction of parliamentary control, since the Court of Auditors assists Parliament in exercising control over the implementation of the budget (Article 206a(4) of the EEC Treaty) and Parliament must be constantly accountable to public opinion and be able, through its Committee on Budgetary Control, to exercise permanent control and supervision.

It is therefore unacceptable that, by claiming sole responsibility, the Commission should exclude the Court of Auditors from active participation in the verification of cases still pending.

17. Food aid

(a) Total appropriations available for 1980 and their utilization

- appropriations carried over from 1979	137.1 m ECU
- appropriations entered in the 1980 budget	395.3 m ECU
Total appropriations available	532.4 m ECU

Commitments 389.84 m

Payments

Utilization of carry-overs from 1979	142.05 m ECU
Utilization of 1980 appropriations	
(aa) Payments	181.7 m ECU
(bb) Carry-overs to 1981	213.5 m ECU

The appropriations for the financial year 1980 were thus nearly all committed. However, the utilization rate for payments under Title 9 was only 44% (181.7 out of a total of 395.3 m), although 213.5 m of commitments were the subject of automatic carry-overs to 1981. Appropriations from the previous financial year (1979) were fully utilized with the exception of the minimal sum of 50,000 ECU, which lapsed.

(b) 1980 food aid programme

The food aid programmes adopted at the end of May 1980 made available to recipient countries and organizations a total of 150,000 tonnes of skimmed-milk powder, 45,000 t of butteroil, 720,500 t of cereals and 7,200 t of sugar.

In addition, around 2,500 t of pigmeat, 6,100 t of red kidney beans and 2,835 t of colza oil was made available to relieve specific emergencies.

At the end of the year, however, there were still 300,000 t of cereals, 127,000 t of skimmed-milk powder, 44,000 t of butteroil and 7,200 of sugar remaining from the 1980 and earlier programmes.

(c) Consequences for the Community budget

In respect of food aid amounts equal to the export refunds are charged to the EAGGF, Guarantee Section, the equivalent of the aid in world prices being charged either to Chapter 92 or to the national budgets (in the case of national aid).

On the basis of the Council Decision of May 1980 direct payments of around 22.3 m ECU were made from Chapter 92 for emergency aid measures to help Kampuchea and Zimbabwe. The initial allocation of Chapter 92 was made up in September by a transfer of appropriations from Chapter 95. This procedure contravenes the provisions of the Financial Regulation, since the emergency measures did not involve food aid.

The monthly advance system is used where appropriations are to be made available to the Member States under Chapter 92.

Breakdown and utilization of monthly advances in 1980

Member State	Advances (ECU)	Expenditure to 31.12.80 (ECU)	Utilization rate (%)
Belgium	44,207,094.41	45,813,273.30	104
Denmark	- 5,057,827.57	- 5,274,361.91	104
Germany	126,333,826.80	93,976,570.36	74
France	78,544,559.81	78,928,853.84	101
Ireland	5,378,664.36	3,321,112.57	62
Italy	29,433,659.59	28,362,266.05	96
Luxembourg	5,924,609.71	5,037,716.75	85
Netherlands	10,607,002.56	12,672,100.21	120
United Kingdom	25,451,044.98	13,830,303.06	54
EEC TOTAL	320,822,634.65	276,667,834.23	86

Source: Tenth Financial report of the Commission, p. 46

The utilization rate varies widely from one Member State to another. Whereas the supplies made by some countries actually exceeded the advances, others fell short of the advances by 46% and 38%, leaving 44.2 m ECU unused at 31 December 1980. The balances remaining for each country are considered as advances for the subsequent financial year to meet expenditure incurred in that year.

The principal shortcomings in the administration of food aid consist in insufficiently accurate budget estimates, delays in implementation (one of the reasons for which being delays by the Council in adopting the programme) and the failure by the recipient countries to fulfil their obligations

(e.g report on the utilization of aid), as well as the frequently unsatisfactory quality of the products supplied.

In many cases, food aid is rendered less effective as a result of inadequate coordination and supervision of its distribution, the misappropriation of goods in the course of distribution and their complete disappearance.

For details reference should be made to the thorough special report of the Court of Auditors on food aid of 30 October 1980 and to the report by Mr IRMER (PE 76.018) on the problems of implementing Community food aid. They deal with the fundamental transport, distribution and quality problems which seriously undermine the effectiveness of food aid. In addition, there is detailed discussion of the cumbersome procedures, the inadequate on-the-spot checks, the lack of coordination as regards distribution, and the misappropriation and disappearance of goods.

Here too there have been considerable delays in the clearance of accounts. The most recent clearance of the Member States' expenditure related to the financial year 1974. The most up-to-date verification of the accounts kept in this field by the intervention agencies of the principal countries relate to 1975.

The Commission plans to make up the delays 'over the next few years'.

It must be made quite clear that delays of this kind will prevent effective control of the food aid sector for many years to come.

18. Critical appraisal

(a) Defects and dangers of the present system and grounds for reorientation

(aa) as regards the budget in general

Certain developments in the EAGGF, Guarantee Section, which accounts for around 90% of agricultural expenditure, are, when seen as a general trend, extremely alarming. The problems are to be found in the principal market organizations, such as milk, beef and veal, fruit and vegetables, cereals and wine. Production in these sectors is increasing significantly without, at present, there being any opportunity to market them at reasonable prices and at a reasonable cost to the EEC budget. The Commission itself admits that as the rules now stand rises in expenditure 'can no longer be kept under control' (COM(80) 800 final p. 6). In the case of certain products export refunds or subsidies have had to be paid, sometimes equivalent to 80% of their value. In many cases, such as that of processed fruit and vegetables, the aids exceed the price received by the producer.

It has been found that any guarantee arrangements applicable to unlimited quantities lead to increases in production unless prices can be used to correct the imbalance between supply and demand on the market.

This trend is also linked to the fact that the decline in agricultural prices in recent years, at an annual rate, in real terms, of 4%, inevitably led producers to step up their production in order where possible to compensate for loss of income through higher output.

To conclude, the continued implementation of the existing policy involves the Community budget in unjustifiable expenditure which will in the long run exceed the limit of its own resources.

(bb) General economic factors

In addition to these purely budgetary considerations, the following points should also be made. For exclusively economic reasons, for reasons connected with energy-saving measures and with the fundamental importance of maintaining as far as possible the volume of investments and their economic value, and for reasons relating to the scarcity of raw materials, the economically-minded taxpayer can no longer be expected to bear the cost of the abuses of the CAP. These abuses consist in the fact that year after year thousands of millions are spent on measures which not only involve the temporary commitment of unproductive capital but also, because of the decline in value of products taken into intervention, such as beef and veal, milk and olive oil, lead to the squandering of tax revenue.

(cc) Undesirable side effects

The present system favours large cost-effective farms to the detriment of small and medium-sized farms because the intervention price and aid system is geared to farms with poor incomes. Large farms thus secure a differential return.

(dd) Aspects of regional development

The present system also favours the prosperous regions as opposed to the poorer areas of the Community. It has indeed been shown that agricultural expenditure is concentrated principally on the prosperous regions of the Community (in some cases in the ratio 1:3), since the CAP is biased in favour of areas which produce more and grow certain crops. This leads to a further shift in the imbalance to the detriment of the poorest regions, a situation which other Community structural policies, such as the Regional Fund, are designed precisely to prevent.

(b) Proposed improvements

It emerges from the above that not only are there shortcomings in the operation of the EAGGF, Guarantee Section, but that the system has some inherent defects.

It is not possible to rely solely on the present trend - which may well continue in the short term - of rising world market prices, which offer the prospect of sales on foreign markets on more favourable terms, since world market prices concern surplus products and affect only exports. They are sometimes of an extremely speculative nature.

The system of guaranteed prices and the related measures (intervention, aids, subsidies, compensatory amounts, premiums, etc.) were introduced to increase both production (economic component) and incomes (social component). In most agricultural sectors the first objective has been achieved if not exceeded. The resulting undesirable side effects must, in view of the forthcoming enlargement of the Community, be substantially curbed if not totally eliminated.

As pointed out by the Commission in its report on the mandate of 30 May, agricultural incomes should no longer be taken as the sole point of reference or guideline for the fixing of guaranteed prices, particularly since in many cases only a fraction of the market price finds its way into the producer's pocket. In the interests of consumers and taxpayers, the fixing of prices must take greater account than hitherto of the market situation, which means that in the case of products in structural surplus producers can no longer be offered guaranteed prices for unlimited quantities. Production must be determined principally by requirements on the domestic and external markets so as to establish a balance between supply and demand. It should not be forgotten that Article 39 of the EEC Treaty also aims to stabilize markets.

In the light of past experience this aim can be achieved only by involving producers to a greater extent in market risks which have hitherto been underwritten principally, and with well-known results, by the Community coffers.

To achieve economically and financially acceptable results a series of measures and instruments have been proposed, whose gradual but consistent application could solve the problem of surpluses.

Intervention in the 1979/80 marketing year (in kg)

Product	Belgium	F.R.Germany	France	Ireland	Italy	Netherlands	UK	Community <sup>1</sup>	% of total harvest
Cauliflower	29,564	2,329,741	33,168,589	8,400	4,935,790	-	259,915	40,731,999	2,94
Tomatoes	522,272	64,086	2,657,869	123,268	167,857,044	25,874,996	643	197,100,178	3,06
Peaches	-	-	3,650,628	-	107,438,912	-	-	111,089,540	6,61
Pears	3,933,508	254,780	7,150,816	-	25,119,614	14,242,693	3,428,800	54,130,211	2,57
Apples	- 70,897,215	- 96,145,696	27,039,768 74,732,429	- 1,215,919	5,777,851 147,030,796	- 117,687,109	- 8,411,390	32,817,619 516,120,554	) ) 7,89
Table grapes	-	-	-	-	-	-	-	-	-
Mandarin oranges	-	-	-	-	78,215,259	-	-	78,215,259	36,14
Oranges	-	-	101,381	-	2,635,823	-	-	2,737,204	0,16
Lemons	-	-	-	-	-	-	-	-	-
Total	75,382,559	98,794,303	148,501,480	1,347,587	539,011,089	157,804,798	12,100,748	1032,942,564	4.52

<sup>1</sup> Excluding Denmark and Luxembourg

EAGGF expenditure on financial compensation in 1979/80  
(in ECU)

Product	Belgium	F.R. Germany	France	Ireland	Italy	Netherlands	UK	Community total <sup>2</sup>
Cauliflower	1,929.99	162,993.12	2,009,731.-	456.91	311,977.-	-	19,645.51	2,506,733.53
Tomatoes	33,646.85	5,655.92	181,871.47	7,560.44	11,359,544.42	1,857,132.75	. . .	13,445,411.85
Peaches	-	-	651,028.33	-	18,895,800.20	-	-	19,546,828.53
Pears	369,404.38	19,845.93	636,216.94	-	2,159,969.63	1,118,209.06	265,663.-	4,569,308.94
Apples	- 6,146,371.19	- 8,718,972.27	1,933,115.- 6,620,058.-	- 94,581.10	405,265.- 13,197,150.-	- 9,798,132.32	- 591,693.-	2,338,830.- 45,166,957.88
Table grapes	-	-	-	-	-	-	-	-
Mandarin oranges	-	-	-	-	14,632,803.29	-	-	14,632,803.29
Oranges	-	-	15,843.75	-	436,707.50	-	-	452,551.25
Lemons	-	-	-	-	-	-	-	-
Total	6,551,352.41	8,907,467.24	12,047,864.49	102,598.45	61,399,217.04	12,773,474.13	877,001.51	102,658,975.27

<sup>2</sup> Excluding Denmark and Luxembourg