

EUROPEAN PARLIAMENT

Working Documents

1978 - 1979

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3 July 1978

DOCUMENT 202/78

446.64

Report

drawn up on behalf of the Committee on Budgets

on the ~~Sixth~~ Financial Report of the EAGGF for the year 1976

Rapporteur: Mr I. FRÜH

1.2.1



By letter of 30 November 1977 the Commission of the European Communities forwarded to the European Parliament the Sixth Financial Report of the EAGGF for the year 1976.

On 3 February 1978 the Committee on Budgets requested authorization to draw up a report on this document. The European Parliament gave authorization on 15 February 1978; the Committee on Agriculture was asked for its opinion.

On 23 January 1978 the Committee on Budgets appointed Mr FRUH rapporteur.

It considered the draft report at its meetings of 2 February, 18 May and 20 June 1978 and at the last meeting unanimously adopted the motion for a resolution.

Present: Mr LANGE, chairman; Mr AIGNER, vice-chairman; Mr FRUH, rapporteur; Lord BESSBOROUGH, Mrs DAHLERUP, Mr RIPAMONTI, Mr SHAW, Mr SPINELLI and Mr YEATS.

The opinion of the Committee on Agriculture is attached.

C O N T E N T S

	<u>Page</u>
A. MOTION FOR A RESOLUTION .....	5
B. EXPLANATORY STATEMENT .....	8
<u>Annex:</u> Second category intervention expenditure in 1976 .....	19
Opinion of the Committee on Agriculture .....	20

A

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 Sixth Financial Report of the European Agricultural Guidance and Guarantee Fund for the year 1976

The European Parliament,

- having regard to the Sixth Financial Report submitted by the Commission of the European Communities to the Council and the Parliament (COM(77) 591 final),
  - having regard to the report of the Committee on Budgets and the opinion of the Committee on Agriculture (Doc. 202/78),
- (a) noting that expenditure on the EAGGF accounts for some 75% of the budget; that this imbalance in the budget is, however, due to the lack of other financially effective policies and that the expenditure resulting from the lack of a coordinated monetary policy is a drain on the agricultural budget,
- (b) considering that the political assessment of the Community's financial activity in this area calls for a global view of the effect of these funds on agriculture and the overall economy of the Community,
- (c) recalling the special importance it attaches to retrospective control of expenditure,
1. Approves the objectives of the common agricultural policy as set out in Article 39 of the EEC Treaty;
  2. Considers that a number of financial mechanisms are in need of reform so that they may be adapted more closely to the general objectives;
  3. Notes that the report examines EAGGF expenditure sector by sector, that it is technical in nature and contains very little political analysis;
  4. Notes further that other major reports<sup>1</sup> on aspects of the EAGGF examine budgetary management aspects, and takes the view that their joint consideration would enable a more comprehensive assessment to be made of the management of Community resources in connection with the common agricultural policy;

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<sup>1</sup> Report on the agricultural situation in the Community;  
Report on the effect of monetary measures in the agricultural sector;  
Report on the effects of the different premiums;  
Report of the Control Subcommittee on the discharge, etc.

5. Notes that currency fluctuations within the Community are seriously hampering the implementation of the common agricultural policy and have made it necessary to apply monetary compensatory amounts; takes the view, however, that the gradual abolition of the monetary compensatory amounts should be assisted by the implementation of a consistent economic and monetary policy;
6. Takes the view that one of the conditions for solving these problems would be the gradual, general extension of the EUA to the agricultural section of the budget;
7. Feels that the Member States' administrations and the management committees prevent the Commission from exercising in full its specific responsibilities for the implementation of the budget;
8. Considers that appropriate measures in the areas of market policy, structural policy and in the social and economic sectors must be taken to put an end to costly and persistent surpluses of certain agricultural products if the common agricultural policy is not to be jeopardized;
9. Points out that the appropriations for the EAGGF, Guidance Section, **must** be increased, particularly since the appropriations actually entered were exceeded in 1978 and will again be exceeded in 1979;
10. Notes with concern that sales of goods from stocks have resulted in a loss of about 500 m u.a.; takes the view that these losses should be shown separately in the budget<sup>1</sup>;
11. Instructs its Control Subcommittee to devote special attention to the problem of the use of appropriations to cover various intervention costs;
12. Recalls that it has frequently advocated more rapid closure of the accounts for past financial years and urges the Commission to expedite the steps necessary to improve the situation so as to permit responsible checks on accounting operations;
13. Stresses once again the advantages from the point of view of budgetary transparency of entering expenditure on refunds for food aid separately under Title 9 (in a chapter on 'Food Aid Expenditure');

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<sup>1</sup> Figures for 1976 are given in an annex to this report

14. Welcomes the Commission's efforts, in cooperation with the national administrations, to strengthen control measures; considers, however, that summaries and tables of cases of irregularities can be misleading if they do not provide details of all the Member States;
15. Will deliver its opinion on questions relating to fraud and irregularities in a report of its Control Subcommittee on the discharge for the 1976 financial year and on the basis of ad hoc reports on specific problems;
16. 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. At the outset of this explanatory statement, three questions would appear to require to be looked at briefly. These are: whether the Committee on Budgets should confine itself solely to the issues raised in the Commission's report,<sup>1</sup> whether the procedure followed in the preparation of these reports is sufficiently comprehensive, taking account of the preponderant share of the budget<sup>2</sup> spent on the EAGGF and, thirdly, whether the Committee should not try to pull together the different reports<sup>3</sup> on agriculture which it considers during the course of each year.

2. It has been said that Community expenditure in relation to the EAGGF is virtually uncontrollable; because the various regulations provide open-ended assistance, the bills have got to be met as they come in. If this is the case, should the Committee on Budgets examine these issues in the context of the present report or should budgetary management governing these spheres of the EAGGF, the efficiency of the CAP system and the overall policy approach be best examined in the context of the annual discharge.

Last year's discharge report

3. In last year's report on the 1975 discharge<sup>4</sup> 20 comments were made on the EAGGF and a working paper running to some twenty pages was prepared by the Control Sub-Committee on the EAGGF. Therefore, it would appear that this year, once again, a detailed examination of the control aspects of Community expenditure in relation to agriculture might best be examined in the framework of the annual discharge; nevertheless, in this text, a preliminary survey is made of the useful analysis of irregularities reported to the Commission.

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<sup>1</sup> COM(77) 591 final

<sup>2</sup> About three-quarters of the Community budget.

<sup>3</sup> The financial report, the annual report on the agricultural situation, the relevant part of the Court of Auditors' report, the reports on the application of the Council directives on agricultural reforms and other ad hoc reports.

<sup>4</sup> Doc. 165/77



#### Other general comments

4. The report of the Commission on the EAGGF is broken down by sector and type of expenditure. While this gives a fairly clear picture of the financial administration of the different agricultural markets, it does not help to give a clear policy presentation of activities in 1976. It would appear that the division between guarantee and guidance expenditure is, perhaps, rather too clearly drawn and that not enough attention is paid to the important questions of structures and prices.

5. A further comment that requires to be made is that the overall effectiveness of measures in the agricultural sphere is not examined in the annual report. Neither, for that matter, is the effect of monetary compensatory amounts on the stability of markets gone into<sup>1</sup>. In future years, one would hope to find the report exploring the impact of the co-responsibility levy on production.

6. A rather fuller analysis of the markets might well be conducted when this report is being prepared so as to give an overall view of the situation in agriculture.<sup>2</sup> For instance, in relation to 1976 it would be interesting to know what was the impact of the drought on production and therefore on EAGGF expenditure.

#### Consideration of the sixth financial report

##### Guarantee section

7. Up to 31 December 1976, the amount of expenditure charged against the 1976 financial year by the guarantee section came to 5,570 million u.a. While the Committee on Budgets does not endorse the view that expenditure and revenue should be broken down as a matter of general policy by Member States, it is, nevertheless, interesting to see the pattern in relation to agriculture. The following table shows an interesting breakdown:

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<sup>1</sup> Such a study has, in fact, been carried out by the Commission, COM (78) 20 final.

<sup>2</sup> This would make it easier for the budgetary authority to appreciate the implications of the provisions estimated in the annual budget.

Member State	1976 m u.a.	1976 %	Percentage of total agricultural production
Belgium	337.2	6.05	4.2
Denmark	432.4	7.76	4.7
Germany	880.0	15.80	22.9
France	1,408.8	25.29	26.8
Ireland	225.1	4.04	1.9
Italy	1,053.4	18.91	19.2
Luxembourg	8.1	0.15	0.1
Netherlands	756.8	13.59	8.3
U.K.	468.2	8.41	11.8
Totals	5,570.0	100.-	

#### Appropriations carried forward

8. Automatic carry-overs from 1976 to 1977 amounted to 585,377,906 u.a. while non-automatic carry forwards amounted to 92,355,265 u.a. This represents a total of roughly double that of carry forwards from 1975 to 1976 which totalled 332,852,747 u.a.

9. EAGGF guarantee appropriations unused and therefore lapsed in 1976 amounted to just under 117 million; this was ~~some~~ 2% of total appropriations for this section which would not appear to be excessive.

#### Breakdown of expenditure in relation to guarantee for 1976

10. The following table shows the main constituent elements of guarantee expenditure in relation to the EAGGF for 1976:

Commodities	Amounts m u.a.	Percentage
Cereals	609.9	10.9
Rice	26.9	0.5
Milk products	2,051.5	36.8
Oils and fats	308.7	5.5
Sugar	226.5	4.1
Beef and veal	643.2	11.5
Pigmeat	27.9	0.5
Eggs and poultrymeat	13.1	0.2
Fruit and vegetables	244.4	4.4
Wine	172.9	3.1
Tobacco	229.9	4.1
Fisheries	10.5	0.2
Miscellaneous	72.7	1.3
Other	67.4	1.2
Accession compensatory amounts	359.9	6.5
Monetary compensatory amounts	504.7	9.0
Totals	5,570.0	100.0

11. While the guarantee expenditure spreads over some 16 main heads, some three-fifths arises in the three following areas, milk products, beef and veal and cereals as the following table shows:

(Figures shown as percentage of total expenditure)

Year	Milk products	Beef & veal	Cereals
1971	37.2	1.2	31.2
1972	25.0	negligible	40.9
1973	39.9	"	26.0
1974	39.4	10.5	12.9
1975	24.4	20.8	13.2
1976	36.8	11.5	10.9

Closing of accounts for years preceding 1971

12. The definitive closure of accounts for financial years prior to January 1971 is a matter which warrants attention at the Community level as early as possible. In this context, Mr SHAW's report <sup>1</sup> on a proposal from the Commission has been before the Committee on Budgets for some two months. In principle, the Committee on Budgets favours the ad hoc global closing of these old accounts by way of a special regulation. However, decision on that draft report is delayed pending receipt of the opinion which the Court of Auditors is asked to supply in accordance with Article 209 of the EEC Treaty, as amended by the Treaty of 22 July 1975.

13. Once these pre-1971 accounts have been finally closed, the Commission should make every endeavour to bring up to date the closure of accounts for more recent financial years. The objective should be to bring the date of closure of these accounts as close as may be to the end of the respective financial years. In this way, it would be possible to keep a closer check on budgetary orthodoxy, to check for irregularities and to ensure that financial management has been generally sound.

Guidance expenditure

14. The following table sets out particulars of the amounts granted in aid by the guidance section of the fund for 1975:

Member State 1	Amount of aid granted (u.a.) 2	Amount of total investment (u.a.) 3	2 as % of 3
Germany	45,273,095	190,986,272	23.7
Belgium	11,525,508	68,054,825	16.9
Denmark	8,964,284	41,346,972	21.7
France	38,846,065	191,669,624	20.3
Ireland	10,886,037	54,144,702	20.1
Italy	59,122,422	262,731,000	22.5
Luxembourg	15,070	60,280	25.0
Netherlands	12,806,120	91,172,360	14.4
U.K.	25,161,397	131,461,154	19.1
Totals	212,599,998	1,031,629,549	20.6

15. As is apparent from the above table, the amount made available by the guidance section for 1975 was just under 213 million u.a. This sum is roughly 3.6% of the sum spent on guarantee outlay. Clearly, as pointed out by the Committee on Budgets on several occasions, a much greater effort on the guidance side is needed.

## Agricultural Reform

16. The Committee on Budgets was perturbed to read in the second report on the application of the Council directives on agricultural reform<sup>1</sup> that, so far, not nearly enough progress has been made in regard to measures designed to improve the structure of agriculture. It is noted, for instance, that the Council has, as yet, taken no decision in regard to four proposals<sup>2</sup>. Furthermore, data in regard to the socio-structural directives<sup>3</sup> is still outstanding for some Member States. The Commission indicated that this is due to the fact that the political and administrative authorities had been very slow in implementing the necessary national provisions. This difficulty is particularly notable in the case of Italy where grave structural problems exist. The Commission's report further points out that, as regards Directive No. 72/160/EEC, an analysis of 1975 figures shows that only 12% of the area released following the granting of the retirement annuity or the lump-sum payment<sup>4</sup> has been used for the purposes specified in the directive. The Committee on Budgets noted with concern that the Commission should find it necessary to say that almost no Member State tries to influence the use made of land released by farmers reaching retirement age. Furthermore, the compensatory allowances provided for in Directive 75/268/EEC are fixed at very different levels which cannot always be justified by real variations in the severity of natural handicaps.

17. The perturbing issues raised in the report referred to have a bearing on the sums made available for both guarantee and guidance purposes; they cause considerable concern to the Committee on Budgets because they indicate that the inadequate directives already adopted are not being implemented in an effective and efficient manner. It would appear that this is an issue to which the Control Sub-Committee should devote early attention.

## Major movements out of agriculture

18. Quite often, when the EAGGF is being discussed, critics overlook the fact that, since 1960, very major changes have taken place within agriculture. For a start, the number of persons engaged in agriculture has fallen sharply; the number of small holdings has diminished and there has been a strengthening of the agricultural structure because of the trend towards medium and large-size holdings. Much is being said about the need to reinforce the socio-economic alternative so as to encourage the cessation of farming on smaller and less economic holdings. But the effort of rationalizing already taking place should not be under-estimated. In particular, in the present economic

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<sup>1</sup> Com(77) 650 final

<sup>2</sup> Com(76) 213, Com(74) 180, Com(74) 2067 and Com(77) 228

<sup>3</sup> Directives Nos. 72/159/EEC, 72/160/EEC, 72/161/EEC and 75/268/EEC.

<sup>4</sup> Provided for some 37,500 farmers

climate, with the very high level of unemployment throughout the Community - and with the corresponding lack of openings for those anxious to move off the land - together with the need to preserve rural amenities, it may be necessary to re-think certain criteria, notably that relating to the attainment of comparable incomes. A too-rigid policy in regard to mobility out of agriculture cannot be endorsed because of social, demographic, regional, and, indeed, because of economic considerations.

EAGGF guarantee expenditure as % of EEC GDP

19. Commentators on agricultural expenditure financed from the Community budget, no doubt impressed by the large share of the budget which EAGGF outlay represents, tend to exaggerate the extent to which Community food production is assisted. The following table may help to set the situation in perspective:

Year	EAGGF-Guarantee payments as % of EEC GDP
1973	0.40
1974	0.30
1975	0.40
1976	0.38

Source: Annex G.VI of the sixth financial report on the EAGGF

20. In return for this outlay, the Community enjoys a greater security of food supplies, improved price stability for consumers, a reduction in certain food imports with resulting saving to the balance of payments, an improvement in the incomes of those working in agriculture, the elimination<sup>1</sup> of competition as between Member States in relation to agriculture and a moderation in the trend of overall outlay by Member States in relation to agriculture.

21. Furthermore, this outlay is a result of Community obligations in relation to carrying out Treaty provisions in the sphere of agriculture.<sup>2</sup>

<sup>1</sup>That is, a genuine Community-wide agricultural market is coming into being and distortions due to State protectionism have largely disappeared.

<sup>2</sup>These aspects were explored in the report of the Committee on Budgets on the 1978 budget, Doc. 341/77, rapporteur Mr M. SHAW.

## Irregularities

### Summary of cases of irregularities noted between 1971 and 1976

22. A useful and interesting passage of the Commission's report is devoted to an examination of cases of irregularities in the EAGGF sector notified to the Commission in accordance with Regulation (EEC) No. 283/72. The report takes up cases notified, of course, and not all cases can possibly be covered. The following tables show the areas of irregularities involved. It will be noted that there is a strong upward movement which indicates not necessarily a rise in irregularities but at least an improvement in their detection.

Sectors	Number of Cases					
	1971	1972	1973	1974	1975	1976
Cereals	-	9	26	63	67	76
Beef & Veal	-	4	-	2	7	8
Pigmeat	2	-	1	4	12	2
Milk Products	4	5	18	11	7	11
Wine	-	-	-	-	1	10
Sugar	-	-	2	2	1	-
Fats & Oil	-	-	1	2	16	-
Eggs and Poultry	2	-	1	3	5	-
Dehydrated fodder	-	-	-	-	2	-
Fruit and Vegetables	-	1	-	-	-	-
Others	-	1	2	2	1	2
<b>Total:</b>	<b>8</b>	<b>20</b>	<b>51</b>	<b>89</b>	<b>119</b>	<b>109</b>
Total of which recovered at 31.12.76	6	14	27	53	70	89

As well, in 1974, 1975 and 1976 cases involving monetary compensatory amounts and accession compensatory amounts, totalling 4, 26 and 157 respectively, were notified.

Sums involved<sup>1</sup>

(Amount in u.a.)

	1971	1972	1973	1974	1975	1976
Total	8,234,436	2,077,562	1,399,829	4,022,766	2,547,582	5,560,829
of which recovered at 31.12.76	8,009,459	662,991	571,738	518,973	622,332	1,664,465

23. The Committee on Budgets thought it more appropriate to leave over the detailed examination of these irregularities until such time as it had received, from the Control Sub-Committee, the COINTAT report on the report of the Audit Board for the 1976 financial year which, no doubt, will examine these issue in considerable detail.

24. The part of the Sixth Financial report dealing with Community food aid is particularly informative and spells out, in some detail, the implementation of the supply agreements, financing procedures and the making of advances. The following table sets out the overall position for 1976:

Total appropriations available in 1976

	Cereals, milk products and sugar conventions
	u.a.
1975 budget carry-over	64,827,597.54
Initial budget for 1976*	205,600,000.00
Second supplementary budget	40,630,000.00
Transfers from the Guarantee Section	42,400,000.00
TOTAL	353,457,597.54

\*With the exception of 1 million u.a. from - 9240

Direct payments to recipients

25. The Commission made direct payments to certain recipient countries or agencies by way of financial contributions for the forwarding and distribution of food products supplied as gifts. The following is a breakdown of these amounts:

Beneficiary countries	Amounts in u.a.
Upper Volta	40,884
Mali	639,441
Mauritania	1,347,800
W. F. P.	2,159,703
U.N.R.W.A.	18,642
TOTAL:	4,206,470

<sup>1</sup>For the years 1974, 1975 and 1976, Monetary compensatory amounts and Accession compensatory amounts included.



### Transfers

26. During the course of 1976, transfers from the Guarantee section to the Food Aid section amounted to 42.4 million units of account. On the other hand, unused appropriations in the food aid sector totalling more than 49 million units of account were cancelled. These transactions would appear to be unusual in that they led to the loss to the EAGGF of appropriations that, in the event, were not required in the food aid sector. Financial accounting considerations apart, it is regrettable that 49 million units of account (or 14% of total available appropriations) were cancelled at a time when hundreds of millions of human beings are starving.

### The agri-monetary system

27. Appropriations for the guidance sector of agriculture amounted to 5,160.3 million units of account; payments amounted to 5,570 million units of account or an excess of 409.7 million units of account. The largest single element contributing to this increase was the difference arising in respect of the compensatory amounts. The following table gives the breakdown:

	Appropriations 1976 m.u.a.	Payments 1976 m.u.a.	Difference m.u.a.
Accession compensatory amounts	262.0	359.9	+ 97.9
Monetary compensatory amounts	260.7	504.8	+ 244.1
Total:	522.7	864.7	+ 342.0

28. The Commission explains that these differences were attributable to an increase in intra-Community trade, increases in the rates as compared with those assumed in the budget and the price changes decided in March 1976.

29. The operation of monetary compensatory amounts and their impact on the budget and on agriculture is the subject of a separate Commission document<sup>1</sup>. Three main observations may be made at this stage:

- the M.C.A. system erodes the resources of the EAGGF Guarantee Section and accounted for 14% of it in 1977;
- the use of green rates differing from the market rates has broken the unity of the common agricultural market; and
- the Committee on Budgets has recognised, on several occasions, that monetary compensatory amounts are not a permanent feature of the Community budget and their phasing out is an essential budgetary policy objective<sup>2</sup>.

<sup>1</sup>COM(78) 20 final

<sup>2</sup>Doc. 341/77, page 11, paragraph 55.

30. The Committee on Budgets considers that this complicated aspect could most usefully be commented on in the context of the report on the 1976 discharge when the Control Sub-Committee will have had an opportunity to consider the Commission's exhaustive report in the matter.

#### Other aspects

31. In the report on the 1975 discharge, it was pointed out that EAGGF outlay accounted for some 75 per cent of the budget of the Communities but this outlay was equal to no more than 37 per cent of total expenditure within the Nine in relation to agriculture. The implications of this could be quite serious: unless the policies of the Member States fit in closely with Community objectives, some wastage of Community funds could ensue. It would be well if the Commission were to advert to this general aspect in future EAGGF financial reports.

#### Certain obstacles to free trade in agriculture

32. A further aspect of the common agricultural policy that merits a mention is the existence of certain obstacles to free movement which legislation in the veterinary field, the sphere of animal protection, the feeding stuffs sector and the plant health sector constitutes. During the course of 1977, the Council adopted a number of instruments on the harmonisation of technical legislation relating to the quality of agricultural production, however. Since the existence of barriers to the free movement of agricultural products could have implications of a budgetary nature, it is desirable that the Control Sub-Committee should look at this aspect closely.

Second category intervention expenditure in 1976

1. It should be noted that second category intervention expenditure is expenditure on the purchase, storage and disposal of products taken into intervention. Under Regulation (EEC) No. 786/69 on the financing of intervention expenditure on the internal market in the fats sector and corresponding regulations for the other sectors concerned (cereals, rice, sugar, beef and veal, dairy products and unmanufactured tobacco), expenditure resulting from these interventions - referred to as second category expenditure - is determined on the basis of annual accounts drawn up by the intervention bodies. The various losses under this account can be grouped under the following headings:

- (a) technical costs
- (b) financing costs
- (c) losses on sales.

2. On the basis of the statements of the intervention bodies and allowing for the limited time available as well as the technical difficulties in analysing net losses, a statistical breakdown of the declared expenditure amounts has been drawn up for:

- technical costs of material operations involved in taking into and out of storage depots, stocking and, possibly, packaging or processing which are financed as flat rate amounts;
- financing at a uniform rate of interest (8%), the cost of tying-up the funds necessary for the purchase of agricultural products;
- sales losses corresponding to the difference between the purchase price at the time of taking into storage (intervention price) and the revenue when the stored products are sold.

3. The calculations show that the total cost to the Community in 1976 of second category intervention expenditure (918.2 m u.a.) breaks down as follows:

- technical costs: 19% = 174.5 m u.a.
- financing costs: 23% = 211.2 m u.a.
- loss on sales: 58% = 532.5 m u.a.

O P I N I O N

of the Committee on Agriculture

Draftsman: Mr F. ALBERTINI

On 17 January 1978 the Committee on Agriculture appointed Mr ALBERTINI draftsman.

It considered the draft opinion at its meeting of 27/28 April 1978 and adopted it with 16 votes in favour and 1 abstention.

Present: Mr Kofoed, chairman; Mr Liogier, Mr Hughes and Mr Ligios, vice-chairmen; Mr Albertini, draftsman; Mr Andersen, Mr Brugger, Mr Dewulf, Mrs Dunwoody, Mr Früh, Mr Hoffmann, Mr Hunault, Mr Klinker, Mr Lemp, Mr Pisoni, Mr Tolman and Mr Vitale.

1. The European Agricultural Guidance and Guarantee Fund (EAGGF) has two main functions within the financial structure of the European Community:

- to finance expenditure resulting from the common organization of the markets in agricultural products, i.e. essentially export refunds and intervention on the Community market ('guarantee' section);
- to finance expenditure for the improvement of agricultural structures ('guidance' section).

Since the common agricultural markets and prices policy is the only policy to have been placed entirely on a Community basis and since there is almost total financial solidarity between the Member States in this field, EAGGF expenditure logically accounts for a large part of the Community budget. Thus in 1976 expenditure under the 'Guarantee' section reached 5,570 million u.a. (MUA), representing, together with that of the 'Guidance' section, almost three-quarters of total Community expenditure in the Commission's budget.

2. Because of the scale of the resources involved, the Commission must draw up an annual report on the administration of the Fund; this report is extremely useful since it provides an overall picture of the state of the common agricultural policy in a given year and hence precise information about the effectiveness of the control over public funds.

It is not the task of the Committee on Agriculture to make a detailed study of the financial and technical aspects of the report; that falls to the Committee on Budgets as the committee responsible. The Committee on Agriculture will therefore merely highlight certain aspects of the agricultural policy in 1976 to illustrate some of its salient features and draw useful conclusions from them in an effort to correct the more conspicuous irregularities.

a) Expenditure of a monetary nature

3. This expenditure increased considerably in 1976 in regard both to the expenditure for 1975 and to the appropriations initially planned.

Figures for the compensatory amounts are set out below:

<u>Compensatory amounts:</u>	expenditure 75	appropriations 76	expenditure 76
accession	21.3	262.0	359.9 MUA
monetary	378.1	260.7	504.8 MUA
	<hr/> 399.4	522.7	864.7 MUA

Therefore in comparison with the previous year monetary compensatory amounts (mca) increased by 31.7%; compared with the initial appropriations, the increase was as high as 93.6%. This increase is due to the depreciation of the lire and £ sterling which was not followed by a corresponding devaluation of the respective green currencies. Furthermore the Commission's efforts to obtain an automatic reduction of the mca's were unsuccessful.

4. To this expenditure must be added that resulting from the application of the dual exchange rates, since for the EAGGF the 'representative rates' (green currencies) are used, while the normal units of account are used in the budget. In the 1976 budget this expenditure was not entered separately but was allocated to the various items of Titles 6 and 7 (Guidance and Guarantee sections). According to the Commission's report expenditure on dual exchange rates in 1976 amounted to 400 MUA, while according to the summary of expenditure for 1976 as shown in the budget for 1978<sup>1</sup> this expenditure amounted to 340 MUA. It should be pointed out, incidentally, while leaving the Committee on Budgets to draw the necessary conclusions, that there is disparity between the figures for expenditure (possibly rounded off) given in the report under consideration here and those given in the summary contained in the 1978 budget. However, even if we take the lower figure and exclude the compensatory amounts on 'accession' as being of a temporary nature to make up differences in common prices existing between new and original Member States, we find that monetary expenditure for the year in question was 835 MUA, or 15% of the 'Guarantee' expenditure and as much as 21.6% if the 360 MUA of mca's on 'accession' are taken into consideration.

<sup>1</sup> See OJ No. L 36, 6.2.1978, p.344

5. Thus monetary expenditure, seen either as a percentage or in absolute figures, was one of the most important headings in the Community agricultural budget for 1976. The situation has worsened with subsequent budgets as appropriations for 1977 reached 1823.5 MUA (monetary and accession compensatory amounts and dual exchange rates), and 1734.6 m EUA for 1978, the year in which the compensatory amounts on accession were reduced to only 30 m EUA; the cost of the transitional period.

6. Clearly a situation of this kind cannot be remedied by including monetary expenditure under the appropriate budget headings so that it is no longer part of EAGGF expenditure, even if psychologically this decision makes the share of agriculture seem less important within the budget as a whole. The financial weight of monetary expenditure can only be reduced by decisive intervention and political courage. The proposals already put forward by the Commission for a progressive abolition of mca's over 7 years could form a valid basis for discussion, even if the difficulties which they encounter in different Member States reveal that the political will for progress along this road is still wanting. Devaluation of the green currencies should be pursued much more vigorously by some Member States for whom monetary adjustments in the Community budget have reached absurd levels. In this way the impact of these mca's on the Community budget could be reduced even if, as our committee has pointed out on several occasions, this expenditure is not directly attributable to the common agricultural policy as such but to the fact that integration in the agricultural sector has not been accompanied by parallel integration in the economic and monetary sector so that the only common policy in existence is subject to all the fluctuations of monetary instability.

b) Milk and milk products sector

7. Here too expenditure for 1976, equal to 2051.5 MUA according to the report under review (while in the summary accompanying the 1978 budget the figure quoted is 2,114,705,256 u.a., in other words over 63 MUA more) was considerably higher than the appropriations initially planned or the expenditure for the previous year. In comparison with initial appropriations 110.4 MUA more was spent, equal to an increase of 5.7%, and compared with the previous year over 950 MUA more, in other words 83% more. This increased expenditure is a result of an increase in stocks and of the efforts made to absorb them, in particular the regulation on the mandatory compounding of skimmed milk powder with animal feeds. Moreover, the lower price of these products on the world market compared to Community prices, especially for skimmed milk powder, meant an increase in the amount of export refunds. Finally, a 30% depreciation in the value of stocks of skimmed milk powder has resulted in additional expenditure of 156 MUA in the Community budget.

8. The persistence of these same problems in the milk and milk products sector in subsequent years is reflected in the continual increase of Community appropriations for this sector, from 2,484.9 MUA in 1977 to 2,895.8 m EUA in 1978. This expenditure is accounting for an increasingly large share of the budget for the EAGGF, Guarantee section. If we exclude monetary expenditure and only consider expenditure in the Guarantee section on intervention for various agricultural products, we find that in 1976 the amount involved for milk and milk products is 43.5%, in 1977 (appropriations) 47% and in 1978 (appropriations only) 41.6%, while these products account for only a limited percentage (18.9%) of the value of the final agricultural production of the nine Member States.

9. The Commission has recently proposed the suspension of intervention during the winter months for skimmed milk powder, in an effort to limit the surplus and thereby reduce the cost to the EAGGF. These are only limited measures whose scope is psychological rather than effective. However they are a step in the right direction because something must clearly be done to avoid surpluses, especially of skimmed milk powder which is difficult to dispose of on the world market. At present stocks are still around the million tonne mark which puts a serious strain on the EAGGF.

c) 'Guidance' section

10. Until last year the guidance section, whose budget cannot exceed 325 MUA per year, financed two main types of intervention:

- individual projects for improving the production and marketing structures of farms;
- joint actions decided by the Council of Ministers, in particular those implemented within the framework of the three Directives of 1972 on agricultural reform and the directive of 1975 on mountain and hill-farming and farming in less-favoured areas.

11. As regards the first point, while in 1975 the Guidance section had financed 692 projects with an overall expenditure of 212.6 MUA, in 1976 it financed 808 projects with an expenditure of 264.2 MUA. In 1975, 27.8% of the contributions went to Italy, followed by Germany (21.3%), France (18.3%) and the United Kingdom (11.8%). In 1976 Italy still headed the list with 32.6%, followed by Germany (18.5%), France (16.5%) and the United Kingdom (10%). It should also be noted that a substantial part of the intervention went to the milk and milk products sector with 59 projects in 1975 (about 20 MUA) and 54 in 1976 (16 MUA).



12. With regard to joint actions, in the framework of implementation of the structural directives the outlook is much less rosy, in that in 1976 the Commission was able to take only 29 decisions concerning an overall amount of 47.1 MUA. This amount was allocated as follows (in MUA): United Kingdom: 18.3; Germany: 12.1; France: 11.3; Ireland: 3.6; Netherlands: 1.0; Denmark: 0.7; Belgium 0.1.

13. What conclusions can be drawn from the above figures about the effectiveness and usefulness of the Guidance section measured against the very real need - especially in some Member States - for structural reform? This subject would warrant a more detailed study but the following conclusions can be drawn from the data given above:

- a) the discrepancy between the appropriations for the Guidance section (325 MUA) and those for the Guarantee section (over 5,500 MUA); this gap has widened in successive years with the increase of expenditure in the Guarantee section;
  - b) the percentage of grants allocated to the less-favoured regions is out of proportion to the needs: it is true that as regards individual projects Italy has benefitted from a large percentage of the appropriations, but the actual percentage of projects implemented would need to be examined; Italy is followed immediately in the list by countries whose structural situation is far better; as regards the few joint actions implemented (structural directives), the figures speak even more clearly for themselves;
  - c) it seems illogical for the Community to have financed in 1975 and 1976 many projects in the milk and milk products sector, resulting in the creation of further surpluses;
  - d) the delay in implementing the structural directives of 1972, which in 1976 were granted only very limited financial aid by the Community.
- d) Verifications and irregularities

14. Judging by the Commission's report, the irregularities in the operation of the two sections of the EAGGF were not such as to merit strong criticism. One might have expected a far greater number of irregularities and frauds, given the complexity of the regulations especially with regard to the mechanism of the monetary compensatory amounts and the constant adjustments made to the regulations. In fact there were only 258 cases involving an overall amount of 5.6 MUA, in other words less than one per thousand in relation to the total expenditure of the EAGGF. Furthermore, part of this amount has already been recovered and more is being recovered.

## Conclusions

### The Committee on Agriculture

1. Notes that in 1976 the expenditure of the EAGGF reflected once again the current situation regarding the common agricultural policy, and an even greater imbalance between the different sectors of expenditure;
2. Stresses in particular that monetary expenditure (monetary compensatory amounts and dual exchange rates) was considerably higher than either the initial appropriations or the expenditure for 1975 and, while covered by the Treaty constituted a serious strain on the Community budget; it considers therefore that this expenditure should be reduced with the progressive abolition of monetary compensatory amounts;
3. Finds that expenditure in the dairy sector was also considerably higher than in the previous year and than the appropriations initially planned for 1976, and feels that measures should be taken at Community level to reduce this expenditure, at least that resulting from existing surpluses;
4. Emphasizes the limited effectiveness of the Guidance section, on account of the insufficient funds at its disposal and of the small number of projects implemented, and asks that everything be done to reinforce action in this sector;
5. Shares the Commission's satisfaction at the increased effectiveness and good results of the instruments at its disposal for controlling and combating irregularities and fraud.