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REPORT

drawn up on behalf of the Committee on Budgetary Control

on the decision granting a discharge in respect of the implementation of the budget of the European Communities for the 1983 financial year

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\- PART B -

Explanatory Statement

PE 95.678/B/fin.

EXPLANATORY STATEMENT

"No taxation without representation" is the phrase which gave rise to democracy in the United States of America. This report seeks to assert democratic control over the finances of a steadily uniting Europe. The EEC Treaty gave the European Parliament a supervisory role. In the Treaty of 1975, it was given sole final power for the grant of discharge to the Commission in respect of the expenditure for each financial year. Both the power inherent in its supervisory role and, specifically, Article 85 of the Financial Regulation, give the Parliament the power to add comments to its discharge decision, which are binding on the other institutions.

This year marks another milestone in the use of these powers. For the first time, Parliament is invited to adopt specific terminology. This will make clear to each of the other institutions precisely what they are required to do. Thus, there will be less scope for misunderstanding. When the Parliament receives reports from the other institutions about the implementation of the measures required in the discharge resolution, it will expect to find full implementation.

Another new departure in the exercise of these powers is the requirement that the Council of Ministers should submit a report to Parliament on its implementation of the resolution. This reflects the fact that Parliament has unique powers in respect to the discharge, since its comments are binding on the Council as well as the Commission. As the resolution shows, many of the Community's problems in vital areas, such as industrial innovation or food aid, stem from the Council rather than the Commission.

Refusal of discharge for the 1982 financial year

This year's discharge debate takes place against the background of a refusal of discharge for the previous financial year. That refusal marked Parliament's disapproval over certain aspects of the Commission's management of the budget. Since the refusal of discharge precludes the exercise of the power to add comments laid down in the Financial Regulation, this year's discharge resolution seeks to address these issues. Set against that background, it is particularly important that the defects identified are now remedied.

Six reasons were given for the refusal of discharge and a seventh issue was raised in a separate paragraph. Two of the reasons relate to the past, leaving five issues to be addressed now:

(i) the Commission's failure to implement Parliament's amendments to the budget satisfactorily;

(ii) the formation of excessively large agricultural stocks;

(iii) failures in food aid policy;

(iv) inadequacies of the Commission's management, monitoring, appraisal, assessment and financial information systems, undermining the implementation of policies; and

(v) the Commission's refusal to make documents available to Parliament.

All of these issues are dealt with in the comments forming part of this year's discharge decision. In particular, the resolution examines closely the mechanisms by which the budget is implemented and the instruments available both to the Commission and to the budgetary authority. In that way, it not only seeks to remedy past failures but to lay foundations for better management in the future.

The main themes of this report

The purpose of the report is to identify problems and to put forward solutions. So the approach is constructive rather than merely critical.

The European Parliament adopts its policy on individual subjects by resolutions from the appropriate committees. This report concentrates on the financial mechanisms by which those policies are operated. It also assesses whether the European taxpayer is getting value for money.

At attempt has been made to analyse and understand the causes of some long-outstanding problems. That analysis has led to a series of innovative proposals to improve the ways in which policy is implemented through the budget.

These are some of the main ideas:

- to distinguish clearly the economic, social and environmental objectives of agricultural policy in future Commission proposals,

- to change the accounting system for intervention stocks, so as to achieve disposal at the most favourable time and reduce storage charges,

- to expand the role of the Regional Policy Directorate-General to ensure systematic appraisal of the regional impact of all proposals before they are adopted,

- to produce an official manual for the Social Fund, so as to improve the quality of applications and their assessment by the Commission,

- to stress the importance of Community research and technological co-operation and to speed up decision-taking in this vital sector,

- to expand Community food aid, with the same resources, by a more realistic internal pricing policy,

- to devise methods of assessing staff workloads and create more flexibility in Commission administration,

- to make use of Community studies and pilot projects to influence policy at Member State level, and

- to give small and medium-sized enterprises, particularly in the tourist industry, a better chance of getting Community loans.

Ways of improving the control of expenditure are also proposed, such as the following:

- expanding the three-year financial forecast into a more meaningful document,

- improving the utilisation of the budget through new mechanisms of monitoring and control,

- preparing the annual budget on the basis of more up-to-date information,

- examining the varying degrees of stringency in the assessment and collection of Community revenue by the Member States, so as to achieve a fairer system,

- introducing a new system to end the five-year delays in clearing agricultural accounts, which represent more than half the budget,

- strengthening the control of agricultural spending, particularly by enforcement of the annuality principle,

- ensuring that the annual balance sheet is improved, so as to give a clearer picture of future liabilities,

- establishing clearer priorities in the annual report of the Court of Auditors.

The role of the Council has been highlighted by:

- criticising its legislative delays, which prevent the implementation of important Community policies, and calling for the Council to re-examine its procedures in certain of these fields,

- calling upon it to adopt legislation, put before it as long ago as 1979, to provide for the regular, systematic and obligatory transmission to the Commission of information on frauds and irregularities concerning own resources,

- warning the Council that if it continues its breaches of the 1982 Joint Declaration relating to food aid and to research and technology, the Parliament will take action, and

- requesting a report from the Council on implementation of Parliament's discharge comments.

The Decision

The Decision is split into two parts. The first, entitled "the Decision", grants the discharge and fixes the figures. The second, "the Resolution", sets out the comments of the discharge authority.

This year, the main figures from the balance sheet have been incorporated into the Decision for the first time. This reflects the importance which Parliament attaches to the balance sheet. The financial position of the Community must be examined on the basis of the transactions conducted during the year and also the picture at the end of the year. One without the other gives an incomplete picture, which is liable to be misleading.

Hitherto, Parliament has never changed the figures included by the Commission in the revenue and expenditure account. However, the Court of Auditors has frequently drawn attention to changes which they considered ought to be made. Some of these changes are merely of an accounting nature. Others raise questions of irregular expenditure, which would necessitate the creation of new procedures of subsequent authorization or recovery.

It was perceived, at the time when the resolution closing the accounts for 1982 was passed, that these problems required a great deal of detailed thought. It would not be satisfactory to remove figures from one year's accounts without establishing a clear procedure as to how and when they would be re-entered in the accounts of a subsequent year. This resolution states clearly the Parliament's intention to consider the issues involved in order to improve the discharge procedure for future years.

Documents

In most cases, it is possible for Parliament, acting as discharge authority, to take its decisions on the basis of the information provided by the Commission or the Court of Auditors. It also takes into account the Council's recommendations, although they are usually rather weak in their content. There are occasions, however, when it is necessary for Parliament to look at the source documents.

At the end of 1976, Mr. Heinrich AIGNER, then Chairman of the Control Sub-committee, tabled a motion of censure on the Commission as a result of their failure to make available documents relating to the so-called Malt scandal. The motion was withdrawn after the Commission expressed their willingness to make certain relevant documents available in that case and to adopt a more open attitude in future, where Parliament needed documents for the purpose of its budgetary control work. However, it was also understood that Parliament would take steps to change its own rules, so that there would be more assurance that confidentiality could be preserved. Work started on the preparation of such a rule change but it was not completed before the elections of 1979.

The directly elected Parliament included the new rule 8, during its major overhaul of its rules in 1980. This rule provides for a code of conduct to be adopted by implementing measures. The first of these measures was subsequently adopted, relating to the disclosure of financial interests, and now forms part of Parliament's rules. The time is ripe to add a further implementing measure dealing with the question of confidentiality.

It is essential that the European Parliament should have the power, where necessary, to call for the documents upon which a decision having financial implications was based. The power of discharge which requires an investigation, would be incomplete without the possibility of examining the very documents which were before the person who took the decision under investigation. That power must now be asserted in unambiguous terms.

This leaves the problem of preserving confidentiality. Pending a rule change, the resolution offers the possibility that the Commission may withhold documents on the ground of confidentiality in truly exceptional cases by a Member of the Commission appearing in person to explain the reasons at a meeting of the Committee on Budgetary Control.

Balance sheet

Notes to the balance sheet have been added in the resolution, drawing attention to future liabilities. Such items should be shown by the Commission as a note to future balance sheets.

The deferment of agricultural guarantee expenditure of 825 MECU from December 1983 to January 1984 clearly gave rise to a liability at the end of the year.

Outstanding commitments, of which over 7,800 MECU were not covered by payment appropriations carried over, form another heading which is clear, although the years when payment will fall due should be shown in future.

The obligations relating to the mobilisation of food aid arise because the aid has already been included in an approved programme and is simply awaiting delivery. The amount of this obligation has been estimated by the Court of

Auditors in its annual report as 500 MECU.

Finally, there is the contingent liability relating to agricultural stocks. At the end of 1983 the value of intervention stocks was shown as 7,036 MECU. The Court of Auditors estimated, on the basis of past experience, that such stocks would give rise to costs of storage and losses on sale of 2,800 MECU.

The instruments of management and control

This report devotes considerable attention to the theme of how to improve the instruments by which the Commission manages the implementation of the budget. If the Commission is to manage efficiently and if the budgetary and discharge authorities are to be able to carry out their functions, then they must each have the tools to do the job.

The starting point is forward planning. The present three-year financial forecasts fulfil the minimum requirements of their title. Parliament called for a more meaningful document as long ago as 1977. The problem of raising the VAT ceiling might have been reduced by better and earlier information.

The second stage is monitoring expenditure during the year in question. Quarterly reports are presented by the Commission. They contain some nuggets for those resourceful enough to mine them. However, they lack a forecast of how the figures will look at the end of the year. This is needed because certain types of payments tend to be made early in the year, whereas other types tend to occur much later. The procedure now proposed would call upon the Commission to submit a written report on utilisation by 30 September of each year highlighting problems.

Action can be taken once the forecasts are available. The Commission is called upon to submit any necessary applications for transfer and the Council is called upon to explain any failure on their part which is holding up the implementation of the budget. The receipt of this report from the Council will provide the last opportunity for transfers to avoid the loss of appropriations which might otherwise fail to be used to strengthen the Community in important areas.

Reports submitted after the end of a year can sometimes influence the events concerned. The Commission is being required to include tables in volume 1 of the revenue and expenditure account and balance sheet, showing the utilisation of appropriations added by the European Parliament by amendments. They will be similar to the utilisation tables annexed to this explanatory statement. All too often the additional sums, to which Parliament attaches great importance, remain unspent in the year for which they were provided. The need to make such calculations soon after the closing of the year will be an incentive to the Commission to make sure that Parliament's wishes have been respected.

Monitoring is also a source of information for the following year's budgetary decisions. These are concentrated in the months of November and December but are largely based on a preliminary draft budget prepared before the current year's figures have developed in any meaningful way. The procedure proposed in this report would provide, by the end of September, a picture of the current year's spending. The Commission should then advise both arms of the budgetary authority where there is a risk that they may provide either too little in payments to meet the Community's commitments or excessive appropriations which cannot be used if the Commission exercises proper financial management. Thereafter Council and Parliament can blame no one but themselves if they are unrealistic in their expectations.

Most of the problems which have been identified and which this report seeks to remedy could apply either to overspending or to under-utilisation. However, with the single exception of agricultural appropriations, the problems lie in the direction of under-utilisation. This means that the Community's progress is held back but the Member States are required to hand over the funds as if utilisation was taking place. Thus, at the end of 1983, 1,714 MECU were carried over to the following year, after the cancellation of a further 562 MECU.

Part of this problem lies in the inflexibility of non-dissociated appropriations. Payments often take place several months after a contract is made and the appropriation committed. The Financial Regulation permits the respective payments to be carried over to the following year. It is pointless to call up such resources when it is known that they will not be used in the first year. Greater use of dissociated credits would substantially reduce the problem.

Revenue

The collection of the Community's revenue is left in the hands of the authorities in the Member States. There is evidence that some of them are failing to meet their obligations and that all, collectively as the Council of Ministers, are preventing proper supervision by the Commission.

Table 1 shows the breakdown by Member State of VAT payments and compares these figures with other data. Column II of the table shows calculations made by the Community's Statistical Office showing their estimate of the VAT share which might be expected from each Member State based on the relevant national statistics. They have built up a notional VAT base on published statistics of consumption in the sectors liable to VAT. Naturally precise figures are not available to make all the adjustments necessary, to allow for detailed VAT derogation and other such complications, so the figures are approximate.

TABLE 1 : BREAKDOWN BY MEMBER STATE OF VAT PAYMENTS (I) AND VARIOUS AGGREGATES FROM THE NATIONAL ACCOUNTS (II, III AND IV).

	I VAT Payments %	II Estimate from national accounts %	III GDP (PPP) %	IV Total Final consumption (PPP) %
B	3.5	3.4	3.9	4.0
DK	2.0	2.1	2.1	2.2
D	28.5	26.9	25.6	24.0
GR	1.6	:	2.0	2.2
F	23.3	22.5	22.2	22.5
IRL	0.9	0.8	0.8	0.8
I	13.1	16.5	18.4	18.9
L	0.3	:	0.2	0.1
NL	5.3	5.2	5.4	5.2
UK	21.5	20.1	19.4	20.0
EUR	100	100	100	100

Note: 1982 was selected as the last year for which the data required for calculation II are available. In that year Greece paid a GNP based financial contribution.

Sources and definition
I. Revised definitive base at 30th June 1984 (XIX/162/84) converted at average 1982 exchange rate.
II. Ad hoc calculations by the SOEC based on national accounts.
III & IV. National accounts ESA - Aggregates 1960-82 (Eurostat). Conversions of gross domestic product and total final consumption at purchasing power parities calculated by the SOEC.

In order to have a further basis of comparison, columns III and IV give the figures published by each Member State of its production (GDP) and consumption, both at purchasing power parities. These are crude measures of wealth, which one would expect to see reflected in the respective levels of VAT payments.

Table 2 shows the estimated figures of column II in table 1 as a percentage of the actual VAT payments received from the Member States in recent years.

TABLE 2: ESTIMATED VAT BASE BY COMPARISON WITH THE VAT BASE NOTIFIED BY THE MEMBER STATES

	1980	1981	1982
Belgium	113.3	109.6	110.9
Denmark	115.4	118.6	120.7
Germany	106.6	105.8	103.9
France	112.3	113.2	110.9
Ireland	109.7	101.3	96.3
Italy	133.6	140.5	145.4
Netherlands	110.0	110.1	113.7
United Kingdom	114.3	125.7	107.6

Note: This calculation was made by the Statistical Office of the European Communities, based on the figures published by the member states for total final consumption (adjusted to remove non taxable items), intermediate consumption and fixed capital formation.

What is striking about these tables is that certain Member States pay a significantly higher proportion of the Community's VAT revenue than one would expect from any of the statistical measures, whereas other Member States pay far less.

The answer to the discrepancy is to be found in the so-called "black economy". In some Member States the Government is more efficient in tax assessment and collection than in others. However, since the Community's VAT system is based on what the Member States actually collect, their efficiency or lack of it distorts the result. It seems grossly unfair that those least efficient should benefit from lower payments to the Community, whereas their more efficient neighbours shoulder the burden for them.

The VAT aspect of the Community's own resources system is based on a myth. Consider what taxation means and compare Community VAT. The first essential is that the taxpayer should know the amount which he is paying. Manifestly, taxpayers are totally unaware of what they pay to the Community. It is not separately identified at the point of sale. Secondly, the rate of tax must be fixed, so as to determine the amount to be levied from the taxpayer. However, the very small amount payable to the Community has no impact on the rates of VAT and the Community has no power to decide the rates applied by Member States.

The truth is that we replaced one system of national contributions with another. Instead of an arbitrary percentage, we have national contributions based on the amount of VAT collected in the respective Member States. It is paid by national treasuries and not by taxpayers. Its only merit, as compared with the former system, is that it is providing a system of automatic adjustment to take account of the relevant changes of wealth between one Member State and another.

It is time to consider how the fundamental defects of our VAT system might be remedied. It is not enough to call upon the Commission to improve their supervision. The Member States will not let them interfere and the Council has failed to act on proposals placed before it in 1979, 1982 and 1983. As a result, there is not even provision for the regular, systematic and obligatory transmission to the Commission of information on frauds and irregularities concerning own resources. If the Commission had wider powers in this area it would help, but it would not deal with the fundamental problem. It is that the system is based on rates of collection and that there is a gross - and perhaps growing - disparity between the effectiveness of collection in different Member States. The Commission needs to address this central problem if the own resources system is to be improved.

Table 3 shows the proportion of customs duties paid to the Community budget by each Member State and compares this with their proportion of total imports from outside the Community. The discrepancies between the two columns of figures bear a striking resemblance to those in tables 1 and 2. Those Member States who paid a higher proportion of the Community's revenue from VAT than their respective levels of wealth also seem to pay a higher proportion of the customs duties than their share of total imports. This gives rise to an implication that there is substantial undercollection of the Community's customs duties in the same Member States as appear to undercollect VAT. This theory needs investigation since, if it is correct, it accentuates even further the unfairness of the burdens placed upon some Member States as compared with others.

TABLE 3 : BREAKDOWN BY MEMBER STATE OF CUSTOMS DUTIES PAID TO THE COMMUNITY BUDGET (I) AND IMPORTS FROM OUTSIDE THE COMMUNITY (II)

	1983	%
	(I) CUSTOMS DUTIES	(II) IMPORTS FROM OUTSIDE THE COMMUNITY
Belgium/Luxembourg	6.2	6.8
Denmark	2.3	2.9
Germany	28.9	25.9
Greece	1.5	1.7
France	15.0	16.8
Ireland	1.4	0.9
Italy	9.4	15.7
Luxembourg	0.1	:
Netherlands	9.1	9.8
United Kingdom	26.2	19.7
EUR 10	100	100

Note: Luxembourg is shown separately in column I but together with Belgium in column II.

Sources and Definition

I. Customs duties under the Common Customs Tariff paid to the Community budget in 1983. Revenue and Expenditure Account and Balance Sheet 1983 (Volume I).

II. Extra-EEC Trade; Imports - Monthly external trade bulletin - Special number 1958-83 (Eurostat).

The figures for imports from outside the Community are not adjusted in table 3 to reflect the balance between goods subject to customs duties and those which are not. Such an investigation should be undertaken. The Court of Auditors is being requested to prepare a special report on this subject and to investigate the possible loss of revenue due to faulty procedures, inefficient customs services or variations in methods of valuation either between Member States or between collecting points in the same Member State.

As a footnote to this discussion, it should be noted that the comparisons made in tables 1, 2 and 3 are with data collected by the Member States themselves. Just as there appear to be differences in their capacity to collect VAT and customs revenue, there may be similar differences in the efficiency of collecting data. If the data under-records levels of wealth or quantities of imports, then the discrepancies between the Member States may be far higher even than those which may be implied from the tables. In other words, the unfairness which has been disclosed may be only the tip of an iceberg.

Common Agricultural Policy

The central problem of the Common Agricultural Policy is that it lacks coherence as a Community policy. Individual Member States have made use of the practice of unanimity in the Council to insist upon various national advantages. They have usually gained them at the expense of conceding similar national demands by other Member States. After years of such conduct, the result is that the Common Agricultural Policy resembles a Christmas tree. Upon each of its branches there are presents for different Member States.

Meanwhile, there have been different trends in supply and consumption of the products covered by the Common Agricultural Policy. It is only recently that these radical changes have begun to have an impact on the way in which the policy is implemented. It is hardly surprising, in these circumstances, that there are widespread criticisms, in all Member States, that the CAP is not effective as a Community policy, serving the interests of farmers, consumers or taxpayers.

It is not the function of a report from the Budgetary Control Committee to make a complete re-appraisal of the agricultural policy. However, in assessing the Community's expenditure during 1983, it is essential to look at the largest single component within it.

It seems doubtful whether any of those immediately involved in the management of the CAP will make proposals capable of restoring coherence. One possibility might be to appoint "three wise men" of stature and independence. Their task would be to conduct an urgent re-examination of the Common Agricultural Policy and recommend how it might regain coherence and meet the present day needs of the Community. Those appointed would need to be capable of putting the Community's interests first, rather than those of a particular kind of producer or of a single Member State. They would need to work quickly. If they could produce a fresh and coherent approach, their report could be of enormous value as a signpost for the future.

In the meantime, however, the Commission has established working groups to examine policy in each agricultural sector. The Parliament expects their reports to be available quickly. It will then examine the recommendations made.

The Common Agricultural Policy has economic and social objectives. They tend to be confused. For example, prices are often set at levels needed to sustain small producers in marginal areas. Doing this, the policy fulfils a social objective by ensuring the continued viability of areas which might otherwise suffer from depopulation. However, the bulk of the money thus provided actually goes to the more prosperous areas, where there is little economic justification for it. If the economic and social objectives of agricultural policy were distinguished, it would be possible to meet each of these needs more effectively and probably at less cost to the Community budget. In this report, the Commission is asked to distinguish clearly and explicitly between such objectives in future proposals and other documents.

Discussion is current about how agricultural spending might be confined within set limits. Most of it ignores some of the reasons why the budget is ineffective as an instrument of control over agricultural spending. For instance, when the 1983 budget proved insufficient, expenditure of some 825 MECU was simply deferred until January 1984. This was a breach of the principle of annuality. Such a principle may seem to be one for the budgetary philosophers.

However, its real meaning is that spending has to remain within a set limit. Pushing it forward into the following year is a way of evading the discipline of the budget. Bringing some of the following year's expenditure into account in the previous year, when the budget ceiling has not been reached, has a similar effect. It creates scope for greater spending in the following year. So the principle of annuality is actually central to the control of any kind of expenditure.

A notorious way in which agricultural expenditure can be adjusted is by the levels at which export refund payments are set. If they are high in relation to world market prices, then large quantities are sold from intervention stocks. If, on the other hand, the level is set too low, then few such sales take place. If expenditure is close to the budgetary ceiling, the easiest way out of the situation may be to delay sales. However, this is really another breach of annuality, because the sales should be made when it is in the best interest of the Community to do so. Furthermore delay causes extra costs.

It is essential that the Commission recognises its obligation to dispose of intervention stocks at the most favourable time and thus minimise cost to the budget. If agricultural expenditure is running beyond the limits set, they must explain the whole situation to Parliament and Council, when seeking approval for measures to limit spending, or to the same two arms of the budgetary authority, when seeking approval for transfers or a supplementary budget.

Another major way in which the annuality principle is breached is by the lack of consistent principles to deal with the loss in value of intervention stocks. Much of this loss of value is immediate, at the time when the produce is taken into an intervention store. It should be fully reflected in that year's agricultural budget. The most important aspect is that there should be consistency, as otherwise a breach of annuality is inevitable.

The agricultural policy is implemented by regulations. Thus it depends for its effectiveness upon the common application of Community law. Sadly, Member States and their various organisations responsible for administering agricultural measures often fail to comply.

The Commission cleared the EAGGF accounts for the years 1976-1977 during the 1983 financial year. In that clearance they did not take FORMA, the French agency responsible for collection of the milk co-responsibility levy, to task for their failure to collect the levy from producers during 1977. The purpose of the levy was to deter production of a product already in structural surplus. The failure to collect it from producers meant that this effect did not apply to the French dairy industry and the cost was borne by the Community budget.

There are many other instances where different Member States have committed flagrant breaches of Community law. If they suffer no penalty, then others are encouraged to follow suit. It is essential that the Commission fulfils its responsibility as guardian of the Treaties to ensure that Community law is upheld and that appropriate action, both financial and legal, is taken against those Member States who fail to comply.

EAGGF clearance problems

Although agricultural policy is determined mainly at Community level, its actual operation is in the hands of national officials. It is they who are responsible for market withdrawals, intervention stocks and the many thousands of day to day transactions. They operate on the basis of advances paid monthly by the Commission, who have to rely upon the claims made by Member States in making such payments. It is only when the accounts are subsequently cleared by the Commission that final figures become available.

The relevant regulation requires the Member States to submit their final accounts to the Commission by 31st March, i.e. within 3 months.The Commission is then required to complete the work of clearance by 31st December of the same year, i.e. within 12 months. If this timetable were applied in practice, it would mean that adjustments carried out at the time of clearance would be made in the following year's accounts. Since the figures concerned represent well over half the entire Community budget, it is essential that this timetable is achieved.

The history of recent years is a sad one. In the financial year 1983, the accounts for two years were cleared. They were for 1976 and 1977. Although the accounts for 1978 and 1979 were cleared in 1984, those for the period 1980-1983 are now overdue for clearance. These delays have been endemic for the last 15 years and more. Table 4 shows the dates of clearance decisions from 1967 onwards and compares them with the due dates.

TABLE 4 : DELAYS IN CLEARANCE OF EAGGF GUARANTEE SECTION ACCOUNTS

YEAR	CLEARANCE DUE BY	CLEARANCE DECISION MADE ON
1967/68		10.78[1]
1968/68		10.78[1]
Second half of 1969		10.78[1]
1970		10.78[1]
1971	31.12.72	2.12.75 (amended 28.7.78 and 30.10.79)
1972	31.12.73	2.12.75 (amended 28.7.78 and 30.10.79)
1973	31.12.74	12.10.79
1974	31.12.75	16.11.81
1975	31.12.76	16.11.81 (amended 7.11.83)
1976	31.12.77	14.1.83
1977	31.12.78	14.1.83
1978	31.12.79	8.2.84
1979	31.12.80	8.2.84

Radical solutions must be found in order to bring the position up to date. Parliament cannot continue to grant annual discharges when the majority of the expenditure is not cleared until years afterwards. This year's discharge decision lays down a procedure which will enable the Commission to carry out more of the work simultaneously with the operations of the year in question. Pressure must then be applied on the Member States, few of whom ever submit accounts on time, to do so in future. A system of incentives and penalties must be used for this purpose. Then the Commission must carry out their remaining work for the clearance decision to be prepared and taken on time.

When clearance decisions are not taken until years afterwards, mistakes have a cumulative effect. If an error of principle has occured, by the time that the accounts are cleared, it may have caused very big losses.

1 Following ad hoc financial regulation adopted by Council on 6.6.1978 because of very long delays in closing these accounts.

Then it becomes particularly difficult for the Commission to reclaim the expenditure from the Member States concerned. Often the Commission resorts to reserving certain questions when deciding on clearance. This merely makes the decision still more difficult and its financial effects even greater. So, not only must the decision be taken within the stipulated period, but it must also be without reservation.

This matter is of such fundamental importance to discharge and to the proper management of the majority of Community funds that reports will be required from the Commission. If it fails to clear the accounts without reservations by the due date, then it must report to the European Parliament explaining the circumstances causing the delay, the measures taken to end it and the further time which the Commission estimates as necessary to complete the clearance without reservation. In order to monitor the situation thereafter, reports must be made to Parliament each month until clearance without reservation has taken place. Not only will such a reporting system bring pressure to bear on the Commission but it will highlight the failures of Member States. The Commission will be expected to name any Member State whose failure to supply information has caused the delay.

Common fisheries policy

The Court of Auditors brought to light that, during the financial years 1981-1983, Netherlands was paid refunds on quantities of frozen mackerel which very greatly exceeded the catch limits allocated to it. In 1981, the quantity was exceeded by about 450%, in 1982 by about 290% and in 1983 by about 260%. Since none of the accounts for these years have yet been cleared, the financial consequences have not been determined. In future, the Commission should not pay advances to Member States in respect of market intervention or refunds for quantities in excess of the total allowable catch of that species of fish for that Member State.

Regional policy

The European Parliament has played a major part in promoting the European Regional Development Fund and, through the use of its budgetary powers, in expanding the Fund's resources. However, even after the latest revision of Fund Regulation, the Member States have not slackened their grip on the money.

Although there is a gradual move towards the assertion of Community objectives and criteria in the allocation of the Fund, Member States still restrict their submission of projects almost exclusively to those where they can obtain partial reimbursement of their own public expenditure. The aim of the Fund to redistribute resources to Europe's poorer regions is thus prejudiced.

In 1983 the Regional Fund represented 5.2% of the total Community budget. By comparison, the EAGGF guarantee expenditure was 64.9%. The sheer size of the latter and the fact that it is additional to national spending has a far greater regional impact than the much smaller ERDF resources. Studies show that the agricultural money tends to go to the more prosperous regions and therefore the overall effect of the Community budget is to redistribute perversely from the less to the more prosperous regions.

The Commission is now called upon to appraise systematically the likely regional impact of legislative or other proposals before it adopts them and thereafter to monitor adequately the regional impact of the Community budget as a whole. While a flow of information will not, by itself, change the situation, it will provide a better basis for future policy making. It will also highlight the need to match words about convergence of the economies of the Member States by action.

<u>Social fund</u>

Most of the comments relating to the Regional Fund apply equally to the Social Fund. Together with associated measures in the social sector, it accounted for 4.2% of Community expenditure during 1983. There was a little more scope for organisations to receive money which did not simply replace public expenditure in the Member States concerned. However, such projects represented only a few chinks of light around an otherwise closed door. The Member States maintained a fairly tight grip on most of the money.

A major problem arose in 1983 because the budget split the appropriations for the different elements of the Social Fund in a way which was contrary to the regulations then in force. The Commission made enquiries as to whether the Council might agree to a special regulation to accord with the budget but found that it would be blocked by certain Member States. So eventually they simply overruled their financial controller, who was obliged to point out the irregularity, and paid according to the budget. As a result of the

Commission's delay in making up its mind upon the course of action to adopt, utilisation of the Fund during 1983 was prejudiced.

There are continuing problems associated with utilisation of funds in this sector. The Member States tend to hold applications until close to the deadline and thus delay the work of appraising them. Furthermore, the procedure in the Commission might be improved if the processing of applications was carried out in a more standardised manner. In order to improve the content of future applications and to deal with these problems, the Commission are recommended to produce an official manual for the Social Fund.

Investing in the future of Europe

The Albert-Ball report, commissioned by the European Parliament, highlighted the way in which the Community is slipping behind the United States and Japan in the technological competition which will determine our economic future. If we are to avoid further decline, let alone catch up with our competitors, it is essential that we pool our resources as a community. This is true of the massive financial resources needed to sustain large-scale research. It is also true of the human resources - the men and women of ideas.

The ESPRIT-programme, in the information technology field, which brings together universities and commercial enterprises across Europe in collaboration, leads the way. Other similar programmes for telecommunications and biotechnology are following. These industries will be as fundamental to the economy of the next century as coal and steel were during the last two centuries.

The sharp rises in the price of oil in the mid and late 1970's underlined the importance of energy. The Community's own Joint Research Centre is carrying out important work in this field. The Community is also 80% responsible for the JET (Joint European Torus) project, which should bring us cheaper and safer energy from nuclear fusion, instead of fission, by about 2010. A project such as this would be beyond the resources of any single Member State to sustain over such a long period. It is only through Community action that Europe can match its competitors.

The problems in this field lie almost entirely with the decision-taking procedure. The Member States insist upon full participation in the technical, budgetary and political aspects through advisory committees, groups of experts and working groups within the Council. Delays are inevitable. Information supplied at the outset becomes overtaken by events and the difficulties are compounded. Then Member States require unanimous decisions, and one or other of them blocks progress until a compromise is agreed, even if the other nine are clear about the Community interests.

If the Community is to serve the purpose of enabling Europe to win the technological race, its decision-taking procedures must be streamlined. The Commission can play its part by improving its functional accounting system, so that decisions as to whether to proceed by direct, indirect, or concerted action can be taken on the basis of comparable financial, as well as scientific, information. However, the main responsibility lies with the Council, or rather with the Member States. Recognition of the common goals must lead to recognition of how to attain them. Some sacrifice of independent decision-taking is inherent in sharing costs and sharing benefits. Accordingly, the Council is called upon to review and streamline its decision-making procedures relating to research and technological co-operation.

Prominence is given to the role of small and medium-sized enterprises. They are the sector of the European economy which is creating most of the new jobs. The Commission is called upon to monitor more closely the effects of all Community measures on these enterprises and apply the techniques of cost-benefit analysis for this purpose. Thus, for example, measures which regulate business affairs should not impose burdens which outweigh the benefits.

Food Aid

Food aid was one of the major issues in the refusal of discharge for 1982. During recent months, almost every Community citizen has witnessed the tragedy of famine in Africa. Now is the time to identify the causes of weakness in the Community's capacity to provide aid where and when it is needed.

The first problem identified is that the food aid budget is used to purchase EAGGF intervention stocks at artificially high prices. This limits the amount of food aid which can be distributed. For months, people have been contrasting Europe's food mountains with the smaller, although substantial, quantities being delivered to the hungry in Africa. It has been explained that the stocks are in the ownership of the Member States and that there is insufficient money in the Community budget to buy more of them. Not enough attention has been given to the equally relevant question of the price set for such purchases.

The Commission is called upon to analyse the real value of intervention stocks, bearing in mind the fall of world prices which would occur if larger quantities were released onto world markets, the cost of storage and the size of the stocks. There are two possible ways by which the prices might then be fixed. The first is to use the analysis in order to set realistic marginal costs for the intervention stocks. The second is even more radical. It is to enable the Directorate General responsible for food aid to make its purchases wherever they can be bought most cheaply. Thus, the needs of the recipient countries could be met in the most effective way, and the price charged to the food aid budget would be a realistic market value.

The analysis and the subsequent decision-taking procedure will take time. Meanwhile, millions more die of hunger. The Commission has much more flexibility when dealing with emergency food aid than with the regular annual programme. It should consider taking steps, as an urgent interim measure, to make EAGGF stocks available for use as emergency food aid at reduced values. The Community must demonstrate its capacity to cut through red tape and deliver its aid whenever and wherever it is needed.

It is essential that food aid forms part of a wider policy to encourage agricultural production in countries which suffer from food shortage. Community surpluses should not be used in ways which undercut local markets and thus deprive Third World farmers of the incentive to produce. Similarly, they should not be dumped on the world market in ways which depress the prices of major cash crops exported by developing countries. The Community must be a responsible trading partner. Otherwise it will simply impoverish these countries with its agricultural policies and face a bigger task with its food aid policy.

The Council adopted the present framework regulation for food aid (3331/82) in December 1982, after unilaterally abandoning the conciliation procedure. The regulation has led to the Council overriding budgetary decisions on food aid by more restrictive quantitative limits. This is a fundamental breach of the Joint Declaration of 30th June 1982. Regulation 3331/82 also attenuates the decision making procedure in such a way as to delay implementation of the annual food aid programme. Thus it is unsound in principle and in practice. The Commission are recommended to propose a new framework regulation.

The next problem is that there are only 8 officials whose duties are exclusively concerned with food aid. About an equal number include aspects of food aid as part of their duties. No other international organisation would attempt to implement a programme of this size with such a small staff. The problem is exacerbated by a division of responsibilities between the Development Directorate-General, which is responsible for where and when the food aid is despatched, and the Agricultural Directorate-General, which is responsible for determining the sources of supply and dealing with the mobilisation aspects. It is essential that the Commission remedies this lack of staff and also it is proposed that the Development Directorate-General should assume more of the responsibilities.

Whilst all these changes would improve the speed and efficiency of Community food aid, there would still be an important delay in using the budgetary appropriations. This is because harvest takes place as late as November in some of the recipient countries.

It is only after the harvest that decisions about the need for food aid can be taken. At present the allocation is made out of the current year's programme, even though it cannot be delivered until the following year. The Commission is called upon to provide a food aid timetable. It would show for each recipient country the months of the annual harvest, the month when the Commission is normally able to assess the need of food aid and the months when delivery is most appropriate. The commission is asked to draw the necessary budgetary and programming conclusions, so that food aid is delivered in the year for which the budgetary appropriations were granted.

Transport of food aid is arranged by the Member State which is supplying the food from its intervention stock. Transport costs are not shown separately and there are many complaints about reliability and speed of delivery. The Commission is called upon to take action to ensure that transport costs are shown separately and it is recommended to analyse the costs and benefits of undertaking more of the transport management itself.

A further complaint about the intervention agencies of the Member States is that certain shipments of food, sent as Community food aid, have been found to be unfit or of poor quality. In 1983 the Commission used only 0.1 MECU of the 1.5 MECU available in the budget for quality control. In future it should make a major effort to ensure systematic quality control.

Co-operation with developing countries

The main arm of the Community development policy is the European Development Fund, negotiated in the context of the Lomé agreement. A separate discharge is granted in respect of the EDF and so comment in this paper is reserved for those subjects which are part of the Community budget.

Some of the world's poorest countries are in Asia. It is important that Community aid reaches them. However, of the 25 non-associated countries in which the Community finances projects, the Commission is represented in only four, three of them in Asia. It is a major handicap in the identification, appraisal and follow-up of projects that the Commission relies on various consultants. The Court of Auditors showed that this system has often given poor value for money, with the quality of the work being inconsistent. The Commission should consider whether permanent representation would be more appropriate in several of these countries. It should also review its present arrangements regarding the employment of consultants and ensure stricter supervision.

The rate of take-up of the aid provided under the protocol with the Maghreb countries is amazingly low. The Court of Auditors in its annual report, identifies a number of the causes. The Commission should investigate the situation and remedy these problems. The Community has important and traditional relations with the Maghreb countries, which will come under strain through the accession of Spain and Portugal, who are trade competitors. Everything possible should be done to smooth our relations at this difficult time.

The Commission is called upon to make available to the Court of Auditors its files relating to about 130 trade promotion projects. In its annual report the Court of Auditors observes that it was not given access to these files. The Commission was strangely silent in its replies to the Court's observations. A similar reluctance to comment was noted by the Rapporteur in other sectors. It must be assumed that in each such case the Commission accepts the Court's criticism in full. However, in this case, further action is required. The files must be made available during the 1984 audit.

Commission Staff and Administration

The Commission is the executive arm of the Community. The commitment of many Commission officials to their work is often greatly underestimated. The working document on staff, operating expenditure and premises of the Commission prepared by the Rapporteur, gives illustrations of this commitment.

The central problem for the budgetary authority is to decide how many staff to allow to the Commission. The Council has a standard annual response. Except where new staff are made essential by the accession of new Member States, the Council simply refuses all requests for new posts and tells the Commission to meet its needs by redeployment. The Parliament attempts a rational analysis but eventually has to take arbitrary decisions because there are no means of measuring workloads. Within the Commission, there are signs that rigidity is more common than flexibility. This is also directly attributable to the lack of any adequate method of assessing workloads and the consequent lack of operational criteria for determining the posts required.

In a commercial environment, it is usually possible to find quantitative criteria. It is far more difficult to do so in the public service. However, the need for an objective method is clear and there are those in Europe and America who have sought to meet it. The Commission should search for the best possible consultants to help them in the task of formulating methods of assessment and operational criteria.

While new methods are being evolved, there are immediate problems. The Commission's Programme for 1985 sets out moves in the right direction. It should be implemented without delay. The lack of staff dealing with food aid has been mentioned earlier. There is, however, a more general question about staff levels in the whole of the Directorate-General for Development. The Commission is recommended to conduct an urgent assessment of the staff levels in this DG by reference to staff levels in other aid administrations and other Commission departments. If, as seems likely, there is an overall need of staff in this DG, it should be met. It is one of the few ares of Commission administration where the Community has the opportunity to conduct the day to day execution of policy. In most other areas, it is left to agencies in the Member States. For that reason, it is particularly significant that the Commission should not prejudice its operations by staff shortages in this important area.

In many fields, Community action is in its infancy. There is no money in the budget for substantial activity. In some of these fields there are, however, pilot programmes. The purpose of these is to enable a few innovatory schemes to be started and the experience gained to be shared among the Member States. Similarly, there are various provisions in the budget for studies. Some studies are intended to provide expert advice to the Commission in carrying out its work. Others are undertaken for exactly the same purpose as the pilot programmes, namely to gather information and experience at Community level and then disseminate it to the Member States.

As the working document illustrates, far too few of the results of either pilot programmes or studies are published. More use should be made of them to bring the Community dimension into the formulation of policy at Member State level. The Commission is called upon to conduct a radical reappraisal of its policies both on studies and on pilot projects, so that the results can be more widely known and have greater influence.

An aspect of Commission administration which recurs in all the sectors of the budget relates to contracts. Too few contracts are placed by competitive tendering. Perhaps even more important, the Commission should introduce systematic evaluation of the performance of contractors. If contracts are to be handled in the most effective way, one of the Commission's services should be responsible for co-ordinating practice and for disseminating the lessons of experience.

Institutions other than the Commission

Although the Commission has more administrative staff than all the other Community institutions put together, the budgets of the other institutions are substantial. The Court of Auditors has a particularly important role in this sector, because any organisation tends to be slack in its internal use of resources if it is not subjected to either commercial pressures or external criticism. The work of the Court has made a constructive contribution to the management of administrative expenditure.

This year, the position of the financial controller in each of the institutions is highlighted. It is important that each institution creates the conditions needed to ensure that the financial controller is able to work independently and efficiently. His independence vis à vis the other services of the institution needs to be guaranteed.

Several of the comments relating to the Commission's administration apply also to the other institutions. Their attention is being drawn to the comments made in the resolution which may also affect them and their response is being invited.

European schools

The Court of Auditors makes a separate annual report on the European Schools. The latest is for the 1982 financial year. It raises a number of important questions regarding the employment of teachers at these schools, which require more investigation. The Budgetary Control Committee will make a further report on the control of the subsidy to the European Schools.

Borrowing and lending

The European Investment Bank is not a Community institution, in the strict sense. It is controlled by a Board of Governors and its operations with the money which it raises directly and without the intervention of the Community is totally outside Parliamentary control. The Parliament is, of course, interested to receive a regular flow of information and meetings take place at least once a year between the President of the European Investment Bank and the Committee on Budgetary Control.

Some of the European Investment Bank's activities, however, are in execution of a mandate from the Commission. These relate particularly to the New Community Instrument and to loans granted under the European Development Fund. In respect of these matters, the Commission and the Bank are asked to ensure that more comprehensive information is provided, so as to permit evaluation, in the framework of Parliamentary supervision, of the financial risk and economic implications. An important aspect is to ensure that Community priorities are observed.

Attention is drawn to the importance of small and medium-sized undertakings in connection with the New Community Instrument. There is a vigorous demand for the money made available through this scheme. Just as these enterprises are particularly successful in creating new jobs, the service sector creates approximately ten times as many jobs as new investment in manufacturing. It is recommended that the future lending policy of the New Community Instrument for small and medium-sized enterprises should extend to tourism, which creates even more jobs that the service sector as a whole.

The Court of Auditors

The work of discharge depends, to a very large extent, on the thoroughness of the investigation conducted by the Court of Auditors and the clarity with which they express their conclusions. This year two suggestions are made which would help to improve the presentation.

The first is to split the present volume of the Official Journal, which contains the Court of Auditors' report and the replies of the institutions, into two parts. Too many people look at the Court's criticisms without reading the replies of the institutions. There is wide agreement that the present format is not convenient because the replies may not be noticed and it involves turning pages frequently. The former presentation of a reply immediately following the criticism to which it related had much to recommend it. However, it broke the continuity of the Court's observations and meant none of the document could be printed until the Court had made its final amendments. Another suggested option is to use facing pages or columns. This would waste space where the two were of unequal length and have the same disadvantage of delaying printing.

Hence the solution proposed is to publish in two parts. Each would need to be clearly marked on the front cover with a reference to the other part. The fact that there is another volume of the same report would bring the existence of the replies more clearly to the reader's attention. It would facilitate the comparison of observation and reply because they can be open alongside each other. This solution also has the advantage that the replies of the institutions can be printed while the Court makes its final amendments in response to them. The discharge timetable is a tight one and the gain of a few extra days would be useful.

The second proposal is to achieve a clearer sense of priorities in the annual report. It is proposed that the Court should provide three lists in chapter one. The first would list those of the Court's suggestions which would result in a potential saving of 50 MECU or more. The second would list suggestions of equivalent importance but where the potential savings are unquantifiable. The third would list what the Court considered to be its five principal findings for the year under review.

The Court of Auditors is also invited to consider other ways in which greater differentiation could be shown between matters of greater or lesser value and importance. Sometimes matters involving small sums and no great issues of principle occupy almost as much space as those involving huge sums or important principles. Such relatively minor matters should be relegated to an exchange of correspondence between the Court and the institution involved.

Working documents

While the explanatory statement is the responsibility of the General Rapporteur for discharge, a vast amount of work is performed by sub-rapporteurs, who prepare working documents on specific sectors. An understanding of the Motion for Resolution would be incomplete without reference to these working documents. Furthermore, the Committee on Budgetary Control has drawn upon the expertise of eight of the Parliament's specialist committees, who have delivered opinions. Much of the work of these Committees is also reflected in the Motion for Resolution.

Implementation

The background of a refusal of discharge in 1982 makes it all the more important to ensure that the comments forming part of the discharge decision are fully implemented. For that reason, both the Commission and the Council are being asked to report in writing on the measures taken. The first stage would be an interim report before 30th September, 1985 and the second a report annexed to the revenue and expenditure account for the 1985 financial year. The Court of Auditors is requested to report on the measures taken in the light of this resolution in their next annual report. An appraisal will be conducted on the basis of these reports and Parliament will be invited to comment by resolutions at the interim and final stages.