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INFORMATION MEMO

Financing of the common agricultural policy: the Agricultural Fund

The regulation on the financing of the common agricultural policy was adopted early in 1962. It provides for the establishment of a European Agricultural Guidance and Guarantee Fund (FEOGA) and sets out general rules concerning its receipts and expenditure, for both the transition period and the definitive single market stage.

During the second agricultural "marathon" in December 1963 the Council of Ministers adopted two supplementary regulations on this matter. One of these sets out the conditions for the grant of aid from the Fund and the other is the financial regulation governing the Fund. A third regulation is concerned with implementation of the cereals regulation and lays down rules for financing action in that sector.

These regulations provide the Community with a third executive body through which it can directly and indirectly influence activities in the economic and social fields. The Commission ensures that the Agricultural Fund's activities are in harmony with those of the other two bodies, the European Investment Bank and the European Social Fund. The Agricultural Fund is the third fund, coming after the Social Fund and the European Fund for Overseas Development (FEDOM), administered by the European Economic Community.

The Agricultural Fund has two sections: the Guarantee Section operates as an equalization fund for products coming under the levy system, while the Guidance Section grants capital subsidies to farming in general or for individual products. About 3/4 of the Fund will be used for "non-member country" refunds and action on the internal market, and 1/4 to finance structural changes.

Guarantee Section

The Guarantee Section is concerned with expenditure in respect of export refunds in trade with non-member countries and of interventions on the home market. For 1962/1963 the contribution of the Fund for such refunds and intervention has been fixed at one-sixth, for 1963/1964 at one-third, and for 1964/1965 at one-half (3/6).

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These contributions will then increase regularly until at the single-market stage the Community will be bearing 100% of the expenditure. With the exception of the percentage Community contribution from 1 July 1965 to 31 December 1969, the rules for partial or total repayment for refunds are laid down in detail. Some general rules have been fixed for the repayment of expenditure on intervention. The conditions and details of eligibility for aid will be specified in regulations on individual sectors.

The "non-member country" refunds are calculated on the basis of net exports and of the refund rate of the Member State with the lowest average refund. The net quantities are calculated by the so-called basic products method, derived products being expressed as basic product equivalents. This is normally done by applying the conversion factors laid down under the common organization of markets.

Each Member State must compute once a year the average refund for each basic product. This is done by dividing the total amount of the refunds by the gross quantities exported to non-member countries. Adjustments are made to the average refunds when these are influenced by certain special measures taken under the common organization of markets. The amounts "additional" to the refunds must be included because they are also financed by the Community. Average refunds which concern quantities of less than 5% of the total exported by the Community are considered as non-representative and therefore ignored in arriving at the lowest rate.

The "third-country" refunds for the cereals, pigmeat, eggs and poultry sectors will be repaid from 30 July 1962. For rice, dairy products and beef and veal the effective date will be 1 July 1964.

Two types of intervention on the internal market are eligible under the Fund: (a) measures to withdraw from the markets quantities of products which it cannot absorb on condition that action is taken to find an alternative outlet for these on the home market; (b) other interventions under Community rules when it is a question of compulsory action or of measures taken to avoid such action.

For the cereals sector these eligible interventions have been defined as follows:

(i) The denaturing bonuses granted by the Member States in respect of wheat other than durum and of barley and the losses resulting from the sale of these two cereals at a price below the target prices provided they have been made unfit for human consumption. In fact the aim and function of these denaturing operations are the same as those of refunds.

(ii) Expenditure borne or losses incurred in the transition from one marketing year to the next on stocks of home-grown cereals which have been purchased by government agencies.

For the dairy produce and rice sectors, the eligible interventions have still to be defined for the period beginning in July this year. For the pigmeat sector the Council must decide before April 1966 on the advisability of Community intervention measures, and for the beef sector before March 1967. The common organization of the market in fats as laid down by Council decision and similar agreements for the market in sugar proposed by the Commission also provide for Community intervention.

Guidance Section

The Guidance Section is concerned with expenditure financed by the Fund in respect of common action to increase the productivity of agriculture by promoting technical progress, rational development of output and optimum use of the factors of production, in particular manpower. It includes structural changes made necessary by the development of the Common Market or essential to its proper functioning. Intervention by the Fund must not disturb the conditions of competition to an extent incompatible with the principles of the Treaty.

This section takes within its purview action:

1. To adapt and improve production conditions in agriculture and adapt and guide agricultural output;

2. To adapt and improve marketing and develop outlets for agricultural products subject to a common organization of markets.

The first type of action means the effective marshalling of the factors of production in agriculture for their optimum employment in the setting of the general economy and the adjustment of the volume of production to outlets. This may include the conversion of certain types of production, including reafforestation, and the improvement of the quality of products.

The second type of action means Community measures to increase the consumption of certain products and improve distribution channels and, finally, to provide better knowledge of data concerning price formation.

Aid from the Fund consists of capital subsidies paid as a lump sum or in instalments. The subsidies may not exceed 25% for any given project and the recipient must himself put up at least 30%. The Member State on whose territory the project is carried out must share in the financing (this condition may be waived during the first two years if it is incompatible with the laws in force in that State).

The Council did not agree to other forms of aid proposed by the Commission, in particular interest rate subsidies. However, before 30 June 1967, the Commission is to submit a report to the Council on the lessons drawn from experience, and it can then propose diversification of the forms of aid.

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Public, semi-public or private projects may be helped by the Fund if their purpose is to improve agricultural structures.

They must then conform to all the following general criteria:

(i) Be part of a Community programme;

(ii) Offer adequate assurances as to their lasting economic effects;

(iii) Aim at an adaptation or guidance of agriculture necessitated by the implementation of the common agricultural policy or designed to meet its requirements.

The first type of project must also:

(a) Aim at making or keeping farms economically viable and enhancing their competitive capacity;

(b) Attach sufficient importance to advisory services and occupational training;

(c) Contribute to improving the social and economic situation of workers in agriculture.

Each project must have been approved by the Member State in whose territory it is to be carried out.

Priority is given to projects which fit into the general development plan for a region. But if the necessary finance exceeds the Fund's liquid resources the projects will be selected in such a way that aid from the Fund will be equally and harmoniously distributed throughout the Community territory.

The Community programmes are drawn up by the Council on proposals from the Commission. They must take into account the co-ordination of agricultural structure policy and state, among other things, the areas in which the main effort is to be concentrated, the total expenditure and the duration of the work involved. The programme will be published in the official gazette. For two years at most the Fund may grant aid even if there is no programme.

Aid from the Fund is accorded to natural or legal persons or associations of such persons bearing the ultimate financial responsibility for the projects. This aid is granted through the body or bodies designated by the Member State concerned.

Applications for aid must be submitted to the Commission through the Member States concerned before 1 October each year. The Commission must make a decision on the substance within 15 months. For 1964, however, applications may be submitted only up to 1 July.

Resources

The Fund forms part of the Community's budget and the appropriations are approved by the Council with the annual estimates. The percentage contributions of the Member States vary from year to year. Receipts during the first three years are made up of financial contributions from these States. One part of these contributions is computed according to the budget scale shown in Article 200(1) and the second proportionally to the value of each Member State's net imports from non-member countries. The value of these imports is computed for each common organization of markets.

The two components of Member States' contributions make up the total income of the Fund in the following proportions:

	1962/1963 %	1963/1964 %	1964/1965 %
According to the scale in Article 200(1)	100	90	80
Proportionally to net imports	-	10	20

The Council has also fixed a ceiling for the contribution from each Member State during the first three years. This is 10.5% for B.L.E.U., 31% for the Federal Republic, 28% for Italy and France and 13% for the Netherlands. The Federal Republic and the Netherlands will therefore have to pay more than would be required by the general budget scale in Article 200(1), because they have relatively the highest net imports from non-member countries.

Before the end of the third year the Council will draw up rules for the gradual advance towards the single-market system. In this phase the proceeds of levies on imports from non-member countries accrue to the Community and are used to meet Community expenditure in such a way that the Community's budget resources shall consist of (a) this income from levies, (b) all other income decided on under the rules of the EEC Treaty and (c) budget contributions from the States as laid down in Article 200. In order that the Community may obtain these "independent resources", it will be necessary at the appropriate time to apply the special procedure provided for in Article 201 of the Treaty.

A special financial regulation governs budget matters and the annual repayment to Member States of expenditure under the Guarantee Section. The accounting period runs from 1 July to 30 June. Appropriations under the "Guidance Section" are automatically carried forward during the first 5 years if they are still due after the financial year in respect of which the commitment was made. The Council has also adopted a resolution inviting the Commission to present detailed estimates of total Community expenditure in respect of the common agricultural policy at the same time as it introduces

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its annual proposals for fixing the prices of cereals, milk and, possibly, other farm products (for instance, sugar and olive oil once these come under a common organization of markets). The Council will discuss these proposals as a whole and as far as possible fix these prices simultaneously.

Moreover the Council decided in 1962 to examine each year the consequences of Community financing of refunds on the pattern of production and the development of markets. Before the end of the third year the Council will make a general review.

The machinery

In general the Commission administers the budget within the limits of the allocations made by the Council. This therefore also applies to the financial management of the Agricultural Fund. The Fund will not require a large staff since, as with the common agricultural policy in general, most of the executive action is left to authorities in the member countries: the Commission mainly co-ordinates and supervises. Thus, applications for aid from the Guidance Section of the Fund can be submitted only through the Member State concerned. The authority or the body designated by that State transmits to the Commission all relevant material to substantiate that the necessary conditions for each project are fulfilled. If need be the Commission can check on the spot. The Member States are also required to send the Commission information each quarter on the growth of exports and imports, "non-member country" refunds, and interventions.

Certain major decisions are reserved for the Council of Ministers. These include details and conditions for eligibility of expenditure in respect of intervention, the percentage contribution of the Fund to eligible expenditure, the amount of the Fund's resources and Community programmes to improve agricultural structures.

The Commission will be assisted by various Committees of representatives of the Member States under the chairmanship of a Commission representative having no voting rights. The function of the Committees is advisory. In several specific cases the Commission must refer to them a draft of the proposed measures for comment. The Committee decides by qualified majority (procedure under Article 148(2) of the Treaty).

Finally the Commission decides on measures which are immediately applicable. If these conflict with the opinion rendered by the Committee the Commission may postpone their application for a maximum of one month. The Council may then take a different decision by qualified majority within the same time-limit.

The Committees in question are:

(a) The Committee of the Fund, recently set up to deal with the financial aspects and particularly the Guarantee Section (determination of the lowest average refund or calculation of the net quantities exported).

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(b) The Management Committee for technical questions relating to the operation of the common organizations of markets (conversion factor for derived products).

(c) The Standing Committee on agricultural structure to deal with matters affecting the Guidance Section (decisions concerning aid from the Guidance Section and suspension or withdrawal of such aid if the required conditions are not complied with).

Because of the large sums needed to finance the common agricultural policy and the Commission's specific responsibility in this matter, the question of democratic control has been raised. Under the Treaty of Rome the European Parliament has no power to decide on the budget. The Council of Ministers has stressed the importance it attaches to strengthening the Parliament's budgetary powers. It will deal with this question when it studies the Permanent Representatives' report on the merger of the Executives and the general broadening of the Parliament's functions.
