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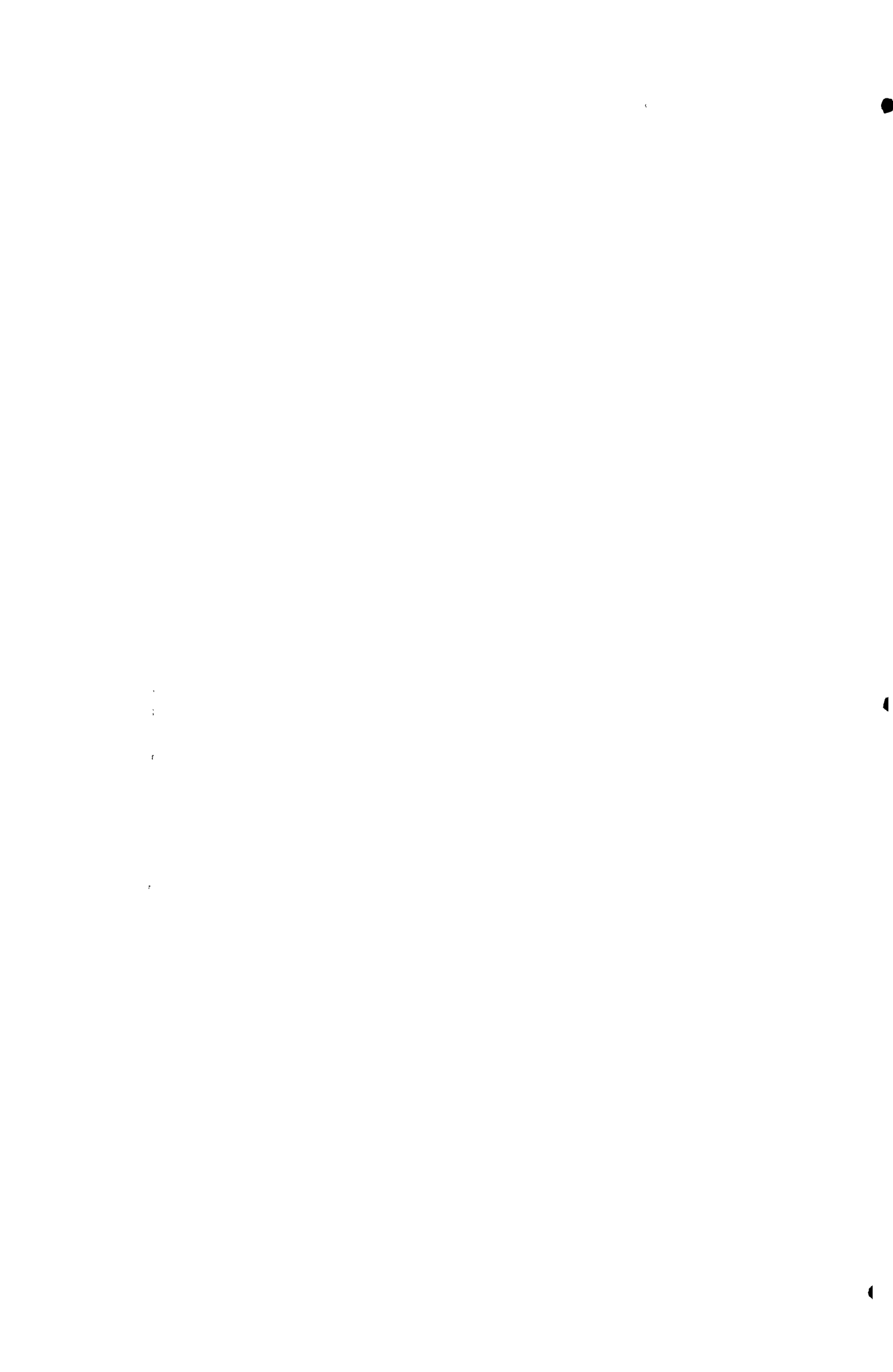
drawn up on behalf of the Committee on Budgetary Control
on the decision granting a discharge in respect of the
implementation of the budget of the European Communities
for the 1983 financial year

Rapporteur : Mr Peter N. PRICE

- PART D -

Working documents

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COMMITTEE ON BUDGETARY CONTROL

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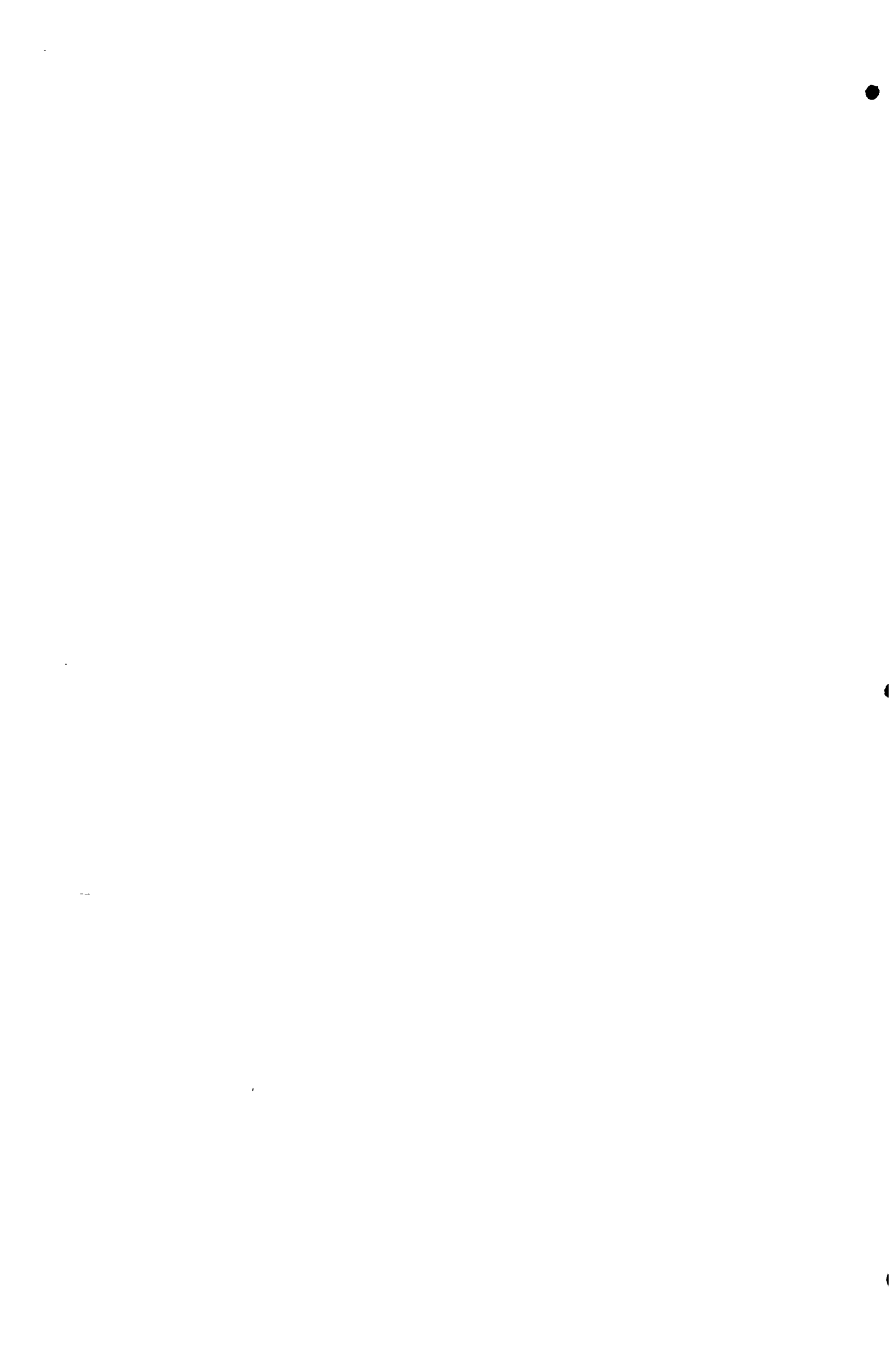


COMMITTEE ON BUDGETARY CONTROL

DISCHARGE 1983

Working document on
Own Resources

Draftsman : Mr. Richie RYAN



Discharge 1983

Working document on Own Resources

Total of own resources

1. The following table sets out, for ease of reference, the total amounts of own resources paid by the Member States to finance the 1983 budget.

	Total in ECUs	% paid by Member States of total
Belgium	1 215 915 686	5.29
Denmark	479 861 708	2.09
Germany	6 472 098 301	28.12
Greece	377 727 791	1.64
France	4 506 464 269	19.58
Ireland	269 613 962	1.17
Italy	2 998 643 081	13.03
Luxembourg	43 883 947	0.19
Netherlands	1 564 946 474	6.80
United Kingdom	5 084 406 684	22.09
TOTAL	23 013 561 903	100.0

Common Customs Duties

2. Of the total amount paid in by Member States, customs duties accounted for about 30%. The following table sets out the amount of these duties per Member State and the percentage per Member State of the total of these receipts. In the case of six Member States, the amount paid in customs duties was relatively high whereas in the case of two Member States it would seem that the share of customs duties collected was rather lower than might have been expected on the basis of certain assumptions.

	CCT duties	% paid by Member States of CCT duties
Belgium	423 760 989	6.06
Denmark	159 824 777	2.29
Germany	2 019 795 393	28.90
Greece	107 345 950	1.54
France	1 051 827 532	15.05
Ireland	100 392 171	1.44
Italy	657 130 385	9.40
Luxembourg	4 545 541	0.06
Netherlands	633 196 304	9.06
United Kingdom	1 830 827 818	26.20
TOTAL	6 988 646 860	100.0

Trend of Customs revenue over recent years

3. The following table¹ shows the amount received in customs duties during the years 1979-1983 together with the percentage figure for the year-to-year increase in yield.

Trend of customs duties					
	1979	1980	1981	1982	1983
EEC (in MECUs)	5 189	5 906	6 392	6 815	6 989
% change from previous year	+18.2	+13.8	+ 8.2	+ 6.6	+ 2.5

4. A steady weakening in buoyancy is clearly evident from this table. The trend is explained by the Commission in Volume I of COM(84)219 as being a reflection of the slowdown in world trade and of the practical stagnation in 1983. Factors contributing to this were the growing financial difficulties in OPEC countries and in developing countries generally as well as the slow growth in import prices in the wake of the fall in raw materials costs.

5. In 1983, the price of world exports, other than oil, rose by about 4%, as a result of an improvement in the price of the principal raw materials - copper, nickel, tin, aluminium and rubber, in particular; this contrasted with the fall of 10.6% experienced in 1982. One would have expected that this turnaround would have made far greater buoyancy than 2.5% in 1983 but, according to the Commission, the rundown of stocks together with high interest rates had the effect of discouraging anticipatory buying. A further interesting fact pointed out by the Commission is that, whereas intra-Community trade fared well in 1983, Community imports of goods and services rose by only 1.2% in 1982/1983 as compared with 7.1% and 11.8% in 1981/1982 and 1980/1981 respectively.

6. Whilst a case can be made to explain the weakening trend in the rate of growth of customs duties, the draftsman considers that there is a need for a comprehensive analysis of the trade flow patterns and of declared values of goods at various ports, and an examination of the longer-term movements of imports as between the different points of entry to the EC. There is a danger that the reduction in the number of customs officials, the lack of motivation to collect the revenue which no longer accrues to the Member States themselves, and the fact that the officials in question now have intensified responsibilities in relation to other public order controls, place the CCT revenue at greater risk. This is an aspect which merits close examination by the Court of Auditors.

¹ Source : COM(84)219, table 4

VAT_and_basic_statistics

7. In the preceding paragraph, the draftsman has suggested that there are grounds for considering that a further analysis ought to be made of the statistics which underlie the yield of the CCT. Further, he would venture to suggest that the statistics underlying VAT should also be scrutinised by the Court of Auditors, perhaps in the context of a special report with a view to establishing how sound the basis is on which this element of EC own resources is calculated. In this framework an article on page 3 of the New York Herald Tribune on 3 January 1985 quoted some figures which gave rise to doubt about the reliability of statistics concerning incomes, sales of goods and services and consumption generally. The article indicated that between 1970 and 1980, individual income rose by 27.7%, taking inflation into account, in a major region of one Member State. Over the same period, consumption increased by 46.6% in the same region. An element in the explanation for the gap is tax evasion and fraudulent operations which falsify regional and national statistics. This being the case, the VAT basis is also affected. Perhaps, the Court of Auditors could be asked to cover this aspect of own resources also in a possible special report.

8. At paragraph 3.5 of its annual report on 1983¹, the Court of Auditors draws attention once again to the length of time which it takes to finalise the accounts for each year's VAT own resources. In 1983, adjustments were made to the figures for VAT own resources for the years 1979-1982. It is undesirable that imprecisions in regard to the exact amount of this element of own resources should drag on for several years before being settled.

Revenue_due

9. The system for recording and recovering revenue due was criticised by the Commission's Financial Controller and by the Court of Auditors. The weaknesses noted included failure to issue recovery orders; lack of identification of due date or amount; reliance on manual records for outstanding items; delays in recovery; differences of opinion between authorising officer, legal service, and DG XIX on establishment of debt.

10. It is encouraging to note that the Court of Auditors states in its most recent report that some progress has been made and that a special department within DG XIX was set up in mid-1983 to pursue recovery of revenue.

11. By the end of 1983, the Commission had programmed a new computerised system of accounting for revenue, had redesigned the recovery order form and had formulated detailed amendments to the Commission's internal operating instructions (paragraph 3.8(c) of the ECA annual report). It is noted that the Commission indicates in its replies to the Court of Auditors that the new revenue accounting system still requires the preparation and introduction of new computer programmes and procedures which are expected to become operational at the beginning of this year.

The draftsman considers that the Commission might usefully inform the Committee on Budgetary Control at a future meeting of the success it has experienced with this new computer operation. It could be recalled that one of the reasons for refusal of discharge¹ was the general weakness within the Commission in regard to assessing, monitoring and managing data generally. The new computer programmes are a welcome step in the right direction.

Frauds and irregularities

12. Weaknesses in the procedures for identifying frauds and irregularities by the Commission and the need for tightening up on these have given rise to concern in the Committee on Budgetary Control in the past. There is a danger that Community funds lost through fraud would not be recovered because of weaknesses and loopholes in the existing arrangements. The Commission has stated that, in October 1983, it sent the Council a new proposal for an amendment to Regulation 2891/77 which is designed to improve the situation. The Council delay in following-up this particular proposal is regrettable.

Certain instances of delays in establishing own resources

13. At paragraph 3.12 of the 1983 report, the Court of Auditors illustrates certain instances of the material consequences of delays in establishing own resources. The ECA considers that the rules governing the steps to be taken where evasion of own resources is expected should be reinforced. The draftsman concurs fully and tends to the view that the Committee on Budgetary Control should prepare a special report on the subject of frauds and irregularities affecting own resources.

14. In its report under Article 24 of the Financial Regulation, the Commission's Financial Controller noted, on 15 May 1983, that it was becoming increasingly difficult to recover own resources and that there were many cases of own resources that were due since 1979. The Commission has started formal infringement procedures in respect of certain of these cases, but the Court of Auditors is not satisfied that sufficiently effective action is being taken. At paragraphs 3.21-3.23, the Court of Auditors deals with various aspects of valuation of goods for customs purposes. The draftsman considers that these preoccupations relate to an extent to the general statistical issues broached by him earlier in the present working document. As regards the delay in legal proceedings, the Commission points out that it is necessary to pay scrupulous attention to the formal aspects of judicial proceedings which explain certain of the delays referred to by the ECA.

At this point in the history of the EC, a short stocktaking of own resources would appear to be appropriate.

Stocktaking of the own resources system

15. After the CAP was established, the Community decided in 1970 to accord itself a comprehensive budgetary system; this system was based on the principle of financial autonomy and included, on the one hand, a decision-making procedure which ensured that the Community institutions would have sovereignty in the budgetary policy sphere and, on the other hand, a budgetary control procedure which would enable the Community instruments to control and verify the sound use of own resources. The own resources system then developed was intended to finance the CAP as well as the development of other Community policies.

16. It should be pointed out that, although the system was decided on in 1970, it was finally set in place only in 1979 and by 1983, the year for which discharge is now being considered, the threat of the exhaustion of own resources became very real. The principal reason for this development was that the growth that had been envisaged for own resources and for expenditure in 1970 did not proceed in parallel as had been anticipated. It is not really the fault of those who prepared the decision of 1970; rather, it is the result of an error on the part of those institutions responsible for applying that decision because the 1970 instrument envisaged the creation of certain further taxes. Also, it would be difficult to criticise the draftsmen of 1970 for not having anticipated the rapid growth of agricultural expenditure since that date and the failure to adjust revenue sources.

17. In any event, after relatively few years of operation, it became apparent in 1983 that the own resources system was inadequate. The weaknesses in the system were reflected in a lack of development of other policies and of the seemingly large share of the budget that CAP outlay constitutes because other EC policies are stunted.

18. On occasions, the present own resources system is accused of being inequitable because it entails an unfair distribution of burdens between the different Member States. This is, in fact, largely a polemical argument. Actually, Parliament rejected the draft budget for 1985 mainly for the reason that it did not accept that the financial autonomy of the Community could be destroyed by authorising Member States to pay own resources for only part of the financial year. The conclusion that one could draw from that decision to reject the budget is that the Community must secure a new system of own resources which would definitively ensure its financial autonomy. This implies an improved equilibrium between the different categories of receipts and the different categories of expenditure. This also implies an improved sharing of responsibilities for the decisions on receipts and on expenditure.

Conclusions

19. The draftsman appreciates the efforts made by the relevant sector of the commission's services to present a full statement on own resources in the revenue and expenditure account.
20. In view of the importance of the subject, the rapporteur is invited to consider including the following paragraphs in the comments accompanying the discharge decision for the 1983 financial year:
- A. Notes the explanations offered for the lack of buoyancy in CCT revenue over recent years but considers, nevertheless, that it is desirable that an in-depth analysis of the basic statistics and trends of trade be undertaken so as to confirm that there is no loss of revenue due to faulty procedures, an insufficient customs establishment or variations in methods of valuation as between Member States and between collecting points in Member States; invites the Court of Auditors to undertake the analysis, preferably in the context of a special report;
 - B. Notes that there are weaknesses in national statistics pertaining to income and consumption which have been commented on recently in the media, observes that this situation could undermine the reliability of the value-added tax base and invites the ECA to consider this aspect also in the context of the study referred to in the preceding paragraph;
 - C. Considers that the improvements made by the Commission in regard to the computerisation of revenue data should help to give greater security to EC revenue and asks the Commission to keep the Committee on Budgetary Control informed of progress in this domain;
 - D. Finds it regrettable that the Council did not react quickly in response to the Commission proposal of October 1983 for an amendment to Regulation 2891/77 designed to remove weaknesses and loopholes in the arrangements for coping with frauds and irregularities and calls on the Council to deal, in future, with such proposals with due speed;
 - E. Is disturbed by the cases cited by the ECA at paragraph 3.12 of its report on the 1983 financial year regarding the material consequences of delays in establishing own resources and will consider a future report on the subject of frauds, irregularities and allied problems affecting EC own resources.

COMMITTEE ON BUDGETARY CONTROL

1983 DISCHARGE

Working document

on the expenditure of
Parliament, the Council,
the Court of Justice and the Court of Auditors
in 1983

Rapporteur: Mr K. WETTIG

28 March 1985

OLI II/XIV

The Commission receives a discharge for the implementation of the Community budget as a whole, including the administrative expenditure of the other institutions. Article 18(2) of the Financial Regulation specifies that the requisite powers for the implementation of the budget sections concerning these institutions shall be conferred upon them by the Commission. This aspect of the discharge is therefore more or less a formality and simply reflects the legal view that, despite the budgetary independence of the institutions, the Commission prepares and implements the budget as a whole. The observations in this working document are therefore addressed to the institutions concerned via the Commission. Furthermore, these observations will of a general nature except in the case of certain specific matters which must be covered by the discharge procedure applicable to Parliament's budget.

I. STATISTICS AND ACCOUNTS

In 1983, the administrative expenditure of the Community amounted to 1,110 m ECU and accounted for 4.6% of the Community budget. The low level of such expenditure is primarily attributable to the highly decentralized structure of the Community's administration. The increased outlay of the institutions other than the Commission is due to the expansion of certain administrations: establishment of the Court of Auditors, direct election of Parliament.

(m ECU)	1978	1979	1980	1981	1982	1983	1983/78
Parliament	84.1	109.0	135.4	168.0	173.3	214.8	+ 155.4%
Council	64.9	71.0	77.7	83.9	89.1	94.3	+ 45.3%
Economic and Social Committee	14.1	15.5	16.8	20.0	20.6	22.4	+ 58.8%
Court of Justice	14.7	16.3	19.3	23.1	25.4	27.2	+ 83.7%
Court of Auditors	7.0	9.2	10.8	12.5	13.6	15.4	+ 120.0%

(Source: Report of the Court of Auditors - Table 16)

As far as financial management is concerned, significant differences have also been found in the rate of utilization of appropriations.

Appropriations for the 1983 financial year

(m ECU)	Approps.	Payments	Carry-overs	Cancellations
Parliament	228.0	182.3 (79.9%)	29.6	16.1
Council	106.8	87.7 (82.1%)	11.9	7.2
Economic and				
Social Committee	23.7	21.7 (91.5%)	0.5	1.5
Court of Justice	29.1	25.8 (88.6%)	1.7	1.6
Court of Auditors	17.2	14.8 (86.0%)	0.5	1.9

In the case of Parliament, an amount of 27.6 m ECU, corresponding to the transfers effected in the course of the year, must be added to the amounts recorded for carry-overs and cancellations (29.6 m ECU and 16.1 m ECU respectively). In other words, 73.3 m ECU, i.e. 32.1%, or almost a third of the 228 m ECU originally voted by the budgetary authority, remained unused.

As for the balance sheets of the different institutions, attention must be drawn to a specific problem concerning the European Parliament: 'expenditure to be charged' includes sums which have nothing in common with the sums similarly classified by the other institutions. The sums in question, amounting to 11,986,841 ECU, represent expenditure which, because of delays, could not yet be charged to the budget: either advances awaiting settlement or else imprest account balances also awaiting settlement. The Court of Auditors has several times called attention to these delays but, notwithstanding Parliament's reassurances (see point 2.8 of the annual report), we are bound to point out that the situation is somewhat disturbing:

Expenditure to be charged (Parliament)

1981 balance sheet	2,493,419
1982 balance sheet	7,014,741
1983 balance sheet	11,986,841

The Court of Auditors recommends the Commission to see to it that uniform accounting principles and methods are applied by all institutions (point 2.38 of the report). In consultation with the other institutions, but taking due account of their respective responsibilities, the Commission must ensure uniformity in the application of the Financial Regulation and consistency in the presentation of revenue and expenditure accounts and balance sheets.

II. ORGANIZATION OF CONTROLS

The methods employed by the various institutions in applying the principles laid down by the Financial Regulation for controlling the budget's implementation are in some respects strikingly different. For instance, the principle that the functions of authorizing officers and accounting officers should be clearly separate is occasionally flouted, particularly in the management of imprest accounts.

However, the main difference between the institutions concerns the role of the financial controller, and doubts persist as to the real nature of his functions. His grade varies from A 1 to A 5 and his team may comprise a hundred or so officials or just one.

Ever since it was set up, the Committee on Budgetary Control has looked upon the financial controller as a key figure in the budget implementation procedure, since his task is to verify beforehand that commitments and authorizations are both lawful and proper and conform to the principles of sound management. The Committee on Budgetary Control considers that conditions should be such as to allow the financial controller complete independence in the performance of his duties. For this to be possible, guarantees would have to exist vis-à-vis the higher authorities and the financial controller would have to be given a sufficiently senior post to avoid his being placed at a functional disadvantage.

In its report for 1983, the Court of Auditors draws attention to a number of irregularities which suggest that the financial controllers of certain institutions are unable to perform their tasks under the best possible conditions. The irregularities cited are as follows:

- Point 2.11 (Council): amounts receivable were entered in the accounts in 1983, but were not actually received until 1984 (Article (23)(2) - (2)(e) of the Financial Regulation: the financial controller must verify that revenue is booked to the correct budget item);
- Point 2.12 (Economic and Social Committee): payment orders for cash advances made to the ESC were made without the prior approval of the financial controller;
- Point 2.26(a) (Economic and Social Committee): bank interest credited with a 31 December 1983 value date was recorded as revenue for the 1984 financial year (Article 23(2) - (2)(e) of the Financial Regulation);
- Point 2.26(b) (Economic and Social Committee): expenditure was charged to the wrong year since the corresponding payment orders were received late by the financial controller;
- Point 11.30 (Court of Justice).

The Committee on Budgetary Control invited the financial controllers of the different institutions to its meeting of 20/21 November 1984. It found that the financial controllers of Parliament and the Court of Justice were experiencing certain difficulties. Steps were taken to remedy the situation. The Committee on Budgetary Control will be monitoring carefully the measures to be adopted on the basis of its recommendations.

III. EXPENDITURE ON STAFF

As the Court of Auditors indicates in point 11.5 of its report, there has been a distinct improvement in recent years in the ratio between posts authorized and posts filled in the various institutions:

	1981			1982			1983		
	Posts authorized	Staff	%	Posts authorized	Staff	%	Posts authorized	Staff	%
Parliament	2,927	2,409	82.3	2,931	2,698	92.0	2,941	2,790	94.8
Council	1,700	1,570	92.3	1,755	1,640	93.4	1,798	1,702	94.6
Court of Justice	452	390	86.2	474	424	89.4	478	441	92.2
Court of Auditors	284	232	81.6	294	240	81.6	303	275	90.7
Economic and Social Committee	374	361	96.5	378	377	99.9	391	391	100.0

Although there may be disagreement over the importance that should be attached to these figures, there can be no doubt that the budgetary restrictions of recent years have played a decisive part in increasing the number of posts filled.

As far as the utilization of appropriations by Parliament is concerned, the Court of Auditors points out that the rate of utilization was relatively low (86.8%) and that procedural difficulties were experienced by the Institution because of its failure to respect the principle of annuality in connection with certain items in Chapter 10.

Other audits carried out by the Court of Auditors for its 1983 report disclose shortcomings in:

- the management of appropriations for freelance interpreters at Parliament;
- the system of remuneration and recruitment procedures at the Court of Justice;
- the management of work sent out for typing at the Court of Auditors.

The annual report of the Court of Auditors is not suited to an exhaustive appraisal of the problems of staff management: recruitment, organization of competitions, mobility, career development, retirement, etc. The efficiency of the institutions' administrative machinery in these areas could usefully be studied by the Committee on Budgetary Control.

The observations of the Court of Auditors are mainly concerned with specific breaches of the regulations - particularly the Staff Regulations of Officials - which currently apply to recruitment, promotions or the granting of various allowances. It is in areas such as these that the role of the financial controller is especially important, since they are areas in which, by virtue of his independence, he should be able to prevent malpractices.

IV. OPERATIONAL EXPENDITURE

The Court of Auditors has considered a variety of problems involving the institutions' operational expenditure in a number of special reports:

- Acquisition of and control over office supplies and equipment;
- Publishing, printing and reproduction practices of the institutions;
- Buildings policy of the institutions;
- Expatriation and foreign residence allowances;
- Members' Pay Office of the European Parliament;
- Interparliamentary conferences;
- Restaurants, canteens, cafeterias and staff shops.

These reports have helped the institutions to pinpoint the weaknesses of their management and to adopt the necessary corrective measures. They have thus made a constructive contribution to the management of administrative expenditure.

V. CONCLUSION

In accordance with Article 85 of the Financial Regulation, the following observations could be annexed to the discharge decision for the 1983 financial year.

The European Parliament,

- (a) Instructs the Commission to introduce a procedure (e.g., meeting of heads of administration), involving all the institutions and taking due account of their respective responsibilities, with a view to ensuring a harmonized and uniform application of the rules of Financial Regulation, particularly as regards the preparation of accounting plans (introduction of an analytic accounting system, computerization), accounting practices and methods of drawing up balance sheets, and principles of control (a clear separation between the functions of authorizing officers and accounting officers, role of the financial controller);
- (b) Recommends that the institutions create the conditions needed to ensure that their financial controller is able to work independently and efficiently, notably by guaranteeing his independence vis-à-vis the higher authorities and by giving him a sufficiently senior position in the administration;
- (c) Calls attention to the value of the reports of the Court of Auditors on specific administrative problems encountered by the institutions, and considers that these reports have made a constructive contribution to the management of administrative expenditure;
- (d) Considers that its Committee on Budgetary Control should examine staff management problems (recruitment, mobility, career development), so that it can evaluate the efficiency of the Community administrations.

COMMITTEE ON BUDGETARY CONTROL

DISCHARGE PROCEDURE FOR 1983

WORKING DOCUMENT

on

the EAGGF, Guarantee Section, Milk and Milk Products Sector

Draftsman: Mr P. MARCK

28 March 1985

DISCHARGE FOR 1983

- Milk and Milk Products Sector -

1. Milk and milk products are still the most expensive individual sector in the EAGGF Guarantee Section, and indeed in the Community's budget as a whole. In recent years Parliament has kept a very watchful eye on this sector, as the figure of nearly 200 questions it has addressed to the Commission since January 1982 demonstrates.
2. If we ignore the offsetting in the accounts of revenue from the co-responsibility levy against expenditure, the total figure is 4,923 m ECU, 31% of agricultural spending in 1983. Remarkably, the appropriations were topped up by nearly 600 m in supplementary and amending budget No. 2/83, and were then reduced by 294 m ECU by transfers to other chapters, which makes it difficult to understand why expenditure of 85 m was held over until 1984.
3. On 17.4.1984 the Commission estimated spending in the 1984 financial year at 6,783 m ECU (co-responsibility levy (725 m) and super levy (247 m) not taken into account).
4. Trends in costs in recent financial years

<u>Year</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
	4 171	4 622	4 975	3 822	3 865	4 923
% of EAGGF						
Guarantee	48	44.3	44	34.8	31.2	31.1
Section						

Thus, despite a steep rise in absolute terms, there was little relative change. However, in subsequent years, expenditure has soared.

5. Breakdown by type of spending

- Export refunds	1,327 m ECU
- Storage	1,030 m ECU
- Price compensatory measures	2,474 m ECU
- Guidance premiums	92 m ECU
	<hr/>
	4,923 m ECU
	<hr/>

6. Refunds were 194 m ECU less than in 1982, reflecting the fall in exports, especially as the refund rates had themselves had been pushed up by the drop in world prices. It should also be borne in mind that some of this expenditure was held over until 1984 (85 m ECU).

7. However, intervention expenditure at 3,069 m ECU far exceeded the estimate (2,048 m ECU). A large proportion was accounted for by aid for consumption of skimmed milk (1,631 m ECU, 832 m of which for feed for calves).

8. Public storage of skimmed milk cost 634 m ECU (estimate: 169 m), while storage of cream and butter cost 411 m (estimate: 313 m). Marketing costs in respect of public storage (648 m ECU, estimate: 139 m) went to finance the marketing of skimmed-milk powder for feedingstuffs for pigs and poultry.

In the 1983 the marketing of butterfat surpluses cost 496 m ECU.

9. To recapitulate: management of the skimmed milk sector cost 2,416 m ECU and that of butter 1,406 m ECU (export refunds about 500 m ECU, storage 411 m ECU, and special measures 496 m ECU).

10. Economic situation

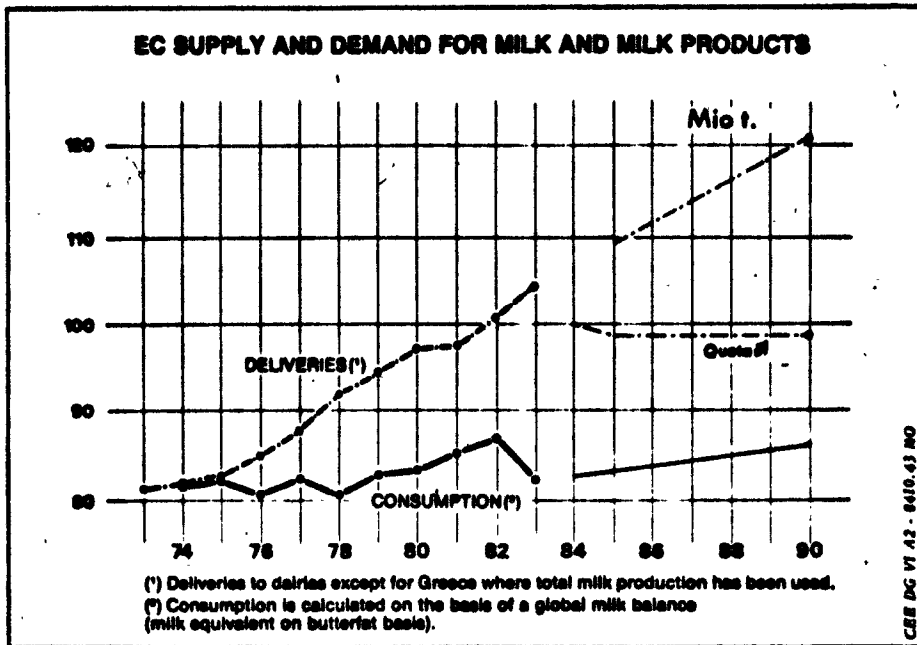
The sector is characterized by an excess of supply. For almost all products the Community is more than 100% self-sufficient.

11. Production and consumption

- The dairy herd increased by 402,000 head (1.6%) over the previous year.
- Productivity increased by 2.4% (comparison over a period of years: 3,700 litres per cow in 1978; 4,300 in 1983. In Denmark an average of 5,483 litres was achieved in 1983). Over a number of years the increase is about 2.5% a year, which means that production is steadily rising, as the number of dairy cattle has hardly altered in recent years. Another reason is the fact that on average only 70% of dairy cattle feed is produced on the farms. The steep rise in soya bean and soya residue imports, which doubled to 9.4 m tonnes between 1975 and 1980, illustrates this trend. Analysis shows a direct link between the increasing use of substitute feedingstuffs and the increase in milk production.
- Production and deliveries of cows' milk rose over the same period by about 4% to 112 and 103.7 million tonnes respectively. The consumption of fresh milk products rose by barely 1%, while production increased by 2.5%.
- Butter production rose by almost 10% in comparison with 1982 to 2,263,000 tonnes. The Commission estimates that consumption fell by about 8% to 1.5 m tonnes.

12. The market

- The table below shows the present sales situation and projections for the future. The decline in exports activity is a further source of difficulty.



Source: The agricultural situation in the Community, 1984 report, p.52

- Of total production of 2.3 m tonnes of butter, 1.3 was sold at market prices (267,000 tonnes of which with aid, in the United Kingdom, Denmark, Ireland and Luxembourg). 251,000 tonnes were sold at reduced prices (182,000 tonnes of which to the food industry) and 358,000 tonnes were sold with export refunds (including food aid). In 1983 stocks built up by 547,000 tonnes to 686,000 tonnes (as at 30.11.1983).
- Skimmed-milk powder production far exceeded demand at market prices, and only 220,000 tonnes of the 2.4 m tonnes produced were sold at such prices in 1983. Subsidized consumption (for feeding calves) accounted for 1.3 m tonnes, while other special schemes disposed sales of 479,000 tonnes. On the world market no more than 119,000 tonnes were sold at world market prices and 73,000 tonnes supplied to third countries as food aid. At the end of 1983 stocks amounted to 983,000 tonnes.

13. Trade with third countries

- The European Community is the largest milk producer in the world (103.8 m tonnes in 1983; USA, 60 m tonnes; USSR, about 98 m tonnes) and therefore has a major international role.
- The Community's share of international trade in selected milk products is shown below:

BUTTER	1979:	61.4%
	1983:	49.7%
SKIMMED-MILK POWDER	1979:	60.2%
	1983:	21.3%
WHOLE-MILK POWDER	1979:	69.7%
	1983:	65.7%

Economic disposal of these products will require these market shares to be maintained and if possible increased. This is also the major financial risk to the disposal of existing stocks.

- Community exports of butter and butteroil fell in 1983 by 10.6% from the previous year to 715,000 tonnes (of which butter: 219,000 tonnes as against 346,000 tonnes in 1982).

Cheese showed a slight increase of 2.5%.

After peaking at 600,000 tonnes in 1979, skimmed-milk exports fell to a low of 200,000 tonnes in 1983.

- Fresh milk imports fell by 1,000 tonnes as against 1982, while exports rose by 24% to 163,000 tonnes.
- In total only 10 m tonnes milk equivalent were exported in 1983 as against 16 m tonnes in 1980.

14. Stocks in public storage year by year (31.12.)

	1979		1980		1981		1982		1983(30.11)	
1 000 t	Qty.	ECU	Qty.	ECU	Qty.	ECU	Qty.	ECU	Qty.	ECU
Skimmed-milk powder	215	231	231	254	298	351	605	854	957	1,458
Butter	293	723	147	332	14	31	139	467	686	2,475

Milk products account for by far the largest proportion of intervention stocks.

To these stocks in public storage must be added 196,000 t of butter in private storage for which aid has been paid from the Community budget.

Butter stocks rose from an initial 714,000 to 853,000 tonnes in December 1983. One year later the figure was well over 1 million tonnes.

Skimmed-milk powder stocks rose by 207,000 tonnes to 983,000 tonnes in December 1983, corresponding to half a year's consumption throughout the Community.

15. Breakdown of public storage costs

(m ECU)

	Techn. costs	Financial costs	Other costs	Total
1982	26	56	156	238
1983	95	200	648	943

16. Sales of intervention stocks

(a) On the internal market

In 1982 and 1983 the following quantities of butter were sold in the Community under special reduced price schemes (1,000 t):

<u>Type of measure</u>	<u>1982</u>	<u>1983</u>	Cost	Effectiveness
Pastry products	106	135	325 m ECU	80%
Ice cream	38	47	74 m ECU	65%
Social services	29	31	60 m ECU	95%
Armed forces	7	8	15 m ECU	95%
Clarified butter	3	4	8 m ECU	
Christmas butter	120	-	-	
Direct consumption	262	267	135 m ECU	
Social security	1	5	4 m ECU	

17. Only in Ireland is butter being sold at subsidized prices to persons receiving social security. The scheme for selling clarified butter at reduced prices so far applies to the Federal Republic of Germany alone, but there are plans to extend to it other Member States. As we know, despite the vigorous intervention of the European Parliament, the Commission did not carry out a Christmas butter scheme at the end of 1983.

Other measures to subsidize sales of milk products

18. In 1983 the European Parliament (CURRY report - Doc. 1-225/83) advocated the inclusion of other products such as yoghurt, cottage cheese with or without fruit content etc. The Commission has subsequently set regulations to this effect in train. It should however be pointed out that the school milk programme has in the past been subject to fraudulent practices.

Measures to market the powdered milk surpluses have been referred to in the section above on sales. The Commission reintroduced the regulations granting subsidies for the use of skimmed-milk powder to feed animals other than calves.

(b) Exports to non-Community countries

19. The Commission explains the fivefold increase in the value of butter stocks by the increase in milk production and a substantial fall in exports (3.3 of the annual report). In fact the Commission's own estimate (see report on the agricultural situation 1984) showed that butter exports at world prices in 1983 fell only from 346,000 t to 219,000 t. Food aid supplies fell from 54,000 to 21,000 t; a reduction from 400,000 to 355,000 t in total.
20. The Commission does state (see its answer to Written Question No. 2178/72 of 10.2.1983) that it is carefully following market trends and keeping in touch with the most important importing countries in order to preserve the Community's share of the market. In fact however the Community's share fell in 1983 and inevitably the impression is that the Commission did not pursue its task of selling surpluses on the world market vigorously enough.
21. This trend means increased intervention in respect of butter (m ECU):

1981	1982	1983
426 (11%)	611 (15.8%)	907 (18.4%) (*)

There has therefore been a corresponding decline in export refunds which, along with the build-up of stocks, are evidence of lost market shares.

1981	1982	1983
1,886 (49.4%)	1,521 (39.4%)	1,327 (27.0%)

22. As the Community's share of world trade is evidence of its dependence on exports, this trend is most worrying as, while the internal market is not brought back into balance, the export market is the only economic outlet, albeit at a cost. The problem is complicated by the fact that when commodities are purchased by intervention, the time they will be kept in storage cannot be accurately assessed. However, since 1981 any impartial observer seeing the consistent annual rise in deliveries and the fall in EEC exports in this sector over the same period would have realized that stocks would rise at an alarming rate. Parliament has expressed its concern on the matter on numerous occasions.

(*) Percentage of total expenditure in the milk sector

23. The Commission however took the view that it was better to store the products for years rather than disposing of them admittedly at a certain loss. In doing so it allowed itself to be influenced by the shortsighted calculation that long-term storage would cost less than an active marketing policy immediately the goods had gone into storage. However, one million tonnes of butter are worth 3,180 m ECU, costing about 260 m ECU a year to service at 8%, leaving aside the cost of storage! The urge to keep the budget within bounds may also have played a role here. However, this view cannot be endorsed, as efficient financial management must allow for overall cost over a period of years rather than regarding the budget for the given financial year as the sole consideration.
24. At all events it is clear that, although there was no shortage of potential buyers (in May 1984 the world market price being \$400 above the lowest GATT price), the Commission deliberately chose the short-term saving, thus incurring higher expenditure in the long-term in view of the fixed technical and commercial overheads to which must be added the export refunds which would be paid whether the products had been stored for a long or a short time. Moreover, commodities lose value the longer they are kept in storage. It is also arguable that the existence of high stocks automatically depresses the world market price, thus making sales to cut losses increasingly unlikely with the passage of time.
25. All this demonstrates the wrong-headedness of the Commission's policy and fully bears out the constant warnings the Committee on Budgetary Control has delivered in recent years, while the Commission was wasting time with 'draft strategies' and for that the success of future measures to stem surplus production; sales fell and fell, while overheads soared. We can make an estimate of the financial implications by taking the cost to the Community budget of exporting 220,000 tonnes of butter to the Soviet Union in late 1984. Two-thirds of the value of the butter had to be made up by subsidy just to find a buyer. The transaction cost about 450 m ECU.
26. It should be recalled that, at a meeting of the Committee on Budgetary Control in early 1981, authoritative sources in the Commission portrayed the clearance of intervention stocks, which was then being conducted as a matter of urgency, as a substantial achievement; this makes the Commission's change of policy all the more inexplicable when, from early 1982 the situation called for even more vigorous prosecution of this course of action.

27. The disadvantages of the Community's position in relation to other surplus producers have to be admitted, in that it is much less flexible, with transactions being concluded by private traders, and other supplying countries systematically undercutting Community prices. A radical change in the whole system might therefore be contemplated, giving the Commission the major, if not exclusive role in the marketing of stocks.

Valuation of stocks

28. The Commission brushes aside the problem of valuing stocks, stating baldly 'As in 1982, the rule in the second paragraph of Article 8 of Regulation (EEC) No. 1883/78, allowing of depreciation of quantities held in intervention at the end of the year, was not activated'¹, although Parliament has repeatedly urged a realistic valuation.
29. The Court of Auditors dealt with this problem in detail in its annual report for 1983, and severely criticized the inadequate information provided in the accounts. While Community intervention stocks might not be the property of the Community, the latter bears the full financial risk of marketing them. Considerable losses were incurred in the 1983 financial year, amounting to 84% of the purchase value of skimmed milk powder and 30% in respect of butter. Such burdens on the budget cannot be ignored any longer. Parliament as part of the budgetary authority has a right to be fully informed on the costs involved in selling intervention stocks. The Commission is therefore called upon henceforth to propose an amendment to the rules, requiring the expected resale price to be taken into account annually, on a regular and compulsory basis according to uniform and verifiable criteria, and for this to be shown in the valuation of stocks, broken down by commodity. In its annual report for 1983 the Court of Auditors states that, if financial depreciation had been allowed for, about 1,400 million ECU should have been written off in 1983 (paragraph 4.64).

¹ Para. 4(2)b of the 13th Financial Report

Co-responsibility levy

30. Revenue from the co-responsibility levy since 1977 and allocation of proceeds is shown in the table below

(in m ECU)								
	1977	1978	1979	1980	1981	1982	1983	Total
Revenue	24,1	156,1	94,2	222,9	478,5	537,3	527,4	2.040,5
Total expenditure	7,5	53,4	110,3	109,4	117,1	197,7	335,1	930,4
a) School milk	-	10,3	30,-	45,7	41,4	49,1	59,8	236,3
b) butter for the manufacture of ice-cream	7,5	28,5	23,8	24,-	24,4	22,6	30,9	161,7
c) concentrated butter for dir. consumption	-	4,5	3,6	5,1	7,3	5,7	5,4	31,6
d) promotion,))))))))
	)	10,1))))))
	)	)	37,4	26,6	35,2	25,6	60,-)
e) market research	)	)	)	)	)	)	)	) 244,3
f) improvement of the quality of milk	)	)	15,5	8,-	8,8	6,5	10,6)
g) disposal for pig and poultry feed	)	)	)	)	)	88,2	168,4	256,6
EXPENDITURE/REVENUE (%)	31,1%	34,2%	117,1%	49,1%	24,5%	36,8%	63,5%	45,6%

Co-responsibility levy

31. Once again the objections to entry in the accounts as negative expenditure are sustained. This is closely linked to the view that earmarking this revenue for specific types of expenditure encroaches on the role of the budgetary authority.

32. The above table shows that less than half the revenue was used for special measures to increase sales and to open up additional markets within and outside the EEC and to improve the product, although the basic Regulation 1079/77 of 17 May 1977 provides that revenue shall be used solely to finance such measures. However, the funds were used for storage and to finance export refunds, that is to say for general marketing measures. The Commission's view (see COM(82) 66/final, p. 6) cannot be endorsed, as the wording of the regulation is clear and unambiguous. However, in addition to its consistently being incorrectly entered in the budget and in the accounts, the co-responsibility levy is also objectionable on the grounds that the aims of the basic regulation have never been met in the seven years it has been in force; it was introduced to restore balance between supply and demand, but in the final analysis has only served as extra revenue to reduce expenditure in this sector and thus conceal the actual increase in spending in the milk and milk products sector. That is why the table at the beginning of this working document shows expenditure in this area not offset by this revenue.

33. In its opinion on the EYRAUD report Doc. 1-776/82 (Annex XV) the Committee on Budgets also expressed serious technical reservations and basically called for its retention only in the absence of any genuine instrument to restore market balance. This opinion recommends that parliamentary control over the use of revenue be improved by grouping the funds in a general reserve from which transfers to specific lines in the budget may be made as needed.

Altogether, for the sake of budgetary clarity and the effectiveness of checks on spending, the levy cannot be allowed to continue in its present form.

Allocation of revenue from the co-responsibility levy to special measures

34. In six years almost 200 m ECU have been spent on sales promotion, advertising and market research in and outside the Community under the special measures to open up new markets and improve quality. The Commission is requested to give exact details of the spending on market research outside the Community and in future, on the grounds of clarity, to refrain from offsetting one amount from another as they have done in Annex 9 of the annual Financial Report. The Commission should justify the issuing of market studies, showing their financial aim, the use made of them and above all the success achieved with their aid.
35. COM(82) 66/final (Programme for the utilization of co-responsibility levy funds for the 1982/83 milk year) claims that some successes have already been achieved. Can they be quantified? In this connection the Commission proposed to allocate a further 30 m ECU. It does however seem open to question whether papers hundreds of pages long on the improvement of various types of Auvergne cheese, the market for milk and milk products in Senegal, Indonesia, Kenya or the Arab Republic of Yemen are necessary in order to improve sales prospects (see OJ No. C 171, 11.7.1981). In general however it is doubtful whether the special programmes have encouraged sales. The co-responsibility levy is fundamentally a redistribution of funds obtained from the producers in favour of middlemen.

Fraud and irregularities

Special investigations

36. In 1983 the Commission asked the authorities in the Member States to carry out six special investigations in the milk products sector. As the 13th Financial Report on the EAGGF Guarantee Section does not contain their results in full, the Commission should announce the progress made in the investigations and what recoveries have been made.

Voluntary notification

37. In 1983 irregularities totalling about 1,611 m ECU under Regulations 1078/77, 1041/78 and 1391/78 (non-marketing of milk and conversion of dairy herds) were reported, of which 334,114 ECU had been recovered as at September 1984. By far the most notifications were made by the Federal Republic of Germany. The Commission's comments on the implications of these figures (EAGGF report, para. 8(5)c) are to be welcomed. A total of 70 cases in the milk sector involving almost 6 m ECU were notified. 90% of the cases related to intervention.
38. In this connection the Commission deserves support in its efforts, in their infancy in the year being reported on (see working document on the 1982 discharge), to make the Member States bear the losses where they are at fault in incorrectly applying the rules on the organization of the market. Article 8 of Regulation 729/70 of 21.4.1970 is unambiguous; it states that the Member States themselves must satisfy themselves that the Community rules are properly executed and take the measures necessary for their enforcement. The losses, if the fault of administrative authorities of the Member States, shall be borne by the Member State concerned.
39. The Commission is therefore enjoined, especially where monies cannot be recovered from the operator who received them, carefully to examine the responsibility of the Member States in individual cases and draw the necessary conclusions.

Such action by the Commission would certainly encourage an increase in vigilance, including preventive measures, by the Member States. The committee demands that the milk non-marketing premium, which is obviously particularly prone to payment in error (para. 8(5)b, EAGGF Report) be subjected to detailed investigation, especially in the closure of accounts.

40. The Commission is asked to state the action it has taken in response to the Court of Auditors' report (OJ C 278, 17.10.1983) on the implementation of Regulations 1078/77 and 1941/78 on the non-marketing of milk and milk products and the conversion of dairy herds. The Court of Auditors found irregularities in the marking of animals and statements regarding agricultural areas, as well as a lack of on-the-spot checks.
41. The Court of Auditors questioned the whole effectiveness of the regulations, as their impact on milk production has been small (see also the working document by Mr KEY in preparation for the 1982 discharge, in which the procedures and efficiency of these measures are analysed in detail, with obvious scepticism as to their cost-effectiveness.

As the reduced price school milk scheme seems to have been the subject of more than isolated irregularities - and the subsidy for cheese seems far too high (1 kilo of cheese receiving as much subsidy as 10 kilos of milk) - the Court of Auditors should investigate the entire programme, with particular reference to cheese, to ascertain whether it is being correctly applied.

Expenditure in respect of the activities of the Milk Marketing Boards

42. In early 1984 the Committee on Budgetary Control in considering the circumstances leading to the refusal of approval by the Commission's financial controller, learnt that the Commission had overruled a general refusal of approval during the procedures closing the accounts for the 1978 and 1979 budgetary years, in fact on 1 February 1984. The refusal of approval related to expenditure by the United Kingdom of £438,066,542.09. The Financial Controller's grounds were that the Milk Marketing Boards' actions in marketing milk and milk products did not comply with Regulations (EEC) 804/68, 1422/78 and 1565/79. The crux of the matter was their pricing policy, which produced distortions of competition and denied shares of the market to other Member States' marketing organizations. The situation persisted throughout the 1983 financial year.
43. The Commission overruled the refusal of approval on the grounds that to the extent that its attitude might have justified the Member State in its actions in breach of the Treaty, such actions could not provide the

basis for a refusal to have the expenditure borne by the EAGGF Guarantee Section. It was only after prolonged hesitation that the Commission decided to bring the matter before the Court of Justice on 25 January 1984 (a second action concerning the impact of the Milk Marketing Boards' actions on exports is at the stage of a 'reasoned opinion'). In Spring 1984 the United Kingdom authorities stated that the practices of the Milk Marketing Boards which did not comply with Community rules would be discontinued and not resumed.

44. Two comments can be made on the Commission's behaviour; it hesitated for a very long time although the financial implications (e.g. for the intervention centres: substantially higher deliveries) were well-known, and thus condoned the considerable distortions of competition and financial losses of other Community market operators, laying itself open to accusations of serious negligence. Secondly, its grounds for disregarding the refusal of approval by its Financial Controller sound like a perversion of its role as guardian of the Treaties; the admission of its powerlessness to take legal action, as it itself feels guilty of error, is quite inconceivable from an institution with a sense of responsibility.
45. As the financial implications of the activities of the British Milk Marketing Boards do affect the 1983 financial year, but the question of the expenditure to be borne by the EAGGF Guarantee Section will not be finally settled until the procedure for closing the accounts for the 1983 financial year, definitive consideration of this matter should be postponed until a subsequent discharge procedure, when the outcome of the court case and the procedure for closing the accounts is known.
46. When the Committee on Budgetary Control was debating this matter, the Commission refused to hand over the legal opinions on the basis of which the Financial Controller acted on the one hand and on the other the Commission disregarded his refusal of approval. As these documents are vital if Parliament is to exercise its right of control, as they contain assessments of the grounds for the decisions taken, the Commission is hereby required to hand these documents over to Parliament, as failure to do would be to hinder it in the exercise of its task of control.

Transfer of stocks

47. The Court of Auditors mentions the doubtful utility of transferring intervention stocks - in this case 10,000 tonnes of skimmed-milk powder from the Federal Republic of Germany to Italy. As costs were incurred in this action (carriage charged to the Community budget), the question must be raised whether the transfer could not have been left to the trade, which can allow for the cost of transport in its price.

CONCLUSIONS

48. It is recommended that the general rapporteur on the discharge for the 1983 financial year should include the following points in the comments accompanying the discharge decision:
- Severely criticizes the Commission's passive attitude towards the disposal of the exceedingly high intervention stocks, for which it must bear the full political responsibility;
 - Demands that henceforth the Commission shall consistently and regularly each year adjust the value of intervention stocks in the Community's accounts using uniform and verifiable criteria, so that the balance sheet gives a true picture, broken down by commodity, of the depreciation that has occurred, and thus enable the budgetary authority to programme the budget accordingly and to exercise its influence on the Commission's management of the market in good time;
 - Calls for an immediate review of the programmes financed by revenue from the co-responsibility levy, with a view to achieving the most efficient use of the funds levied from milk producers;
 - Encourages the Commission in its efforts to persuade the Member States to bear the financial consequences to the Community budget of irregularities or fraud where their own administrative authorities are at fault;

- Condemns the Commission's dilatoriness in the matter of the Milk Marketing Boards and calls on it to apply Community law in full; asks the Commission to release all the documents needed for a decision; will be able to reach a final conclusion once the Court of Justice has handed down a ruling;

- Insists that the regulations governing the collection of the coresponsibility levy be complied with; in particular, it is not permissible for state agencies to pay the levy instead of milk producers, as has happened in certain Member States, as this prevents the levy from curbing production and leads to distortion of competition.



COMMITTEE ON BUDGETARY CONTROL

1983 DISCHARGE

Working Document

on the EAGGF Guarantee Section
Cereals sector

Rapporteur: Mr J. MOUCHEL

28 March 1985



Introduction

1. The period covered by this working document was characterized by very limited budgetary resources so that, despite a supplementary budget, expenditure had to be carried forward to the next financial year, particularly in the cereals sector.
2. The decisions on the guarantee thresholds for the 1983/84 marketing year apply to cereals as well as to milk and colza.
3. Budgetary control in this sector cannot and should not be directed at anything but effective economic management of the market with a view to upholding its principles and aid mechanisms.

Market situation

4. Community cereals production (excluding rice) again reached a record level in the 1982/83 marketing year with a harvest of 130.5 million tonnes (7.1% more than the previous year). This was largely because of an increase in the crop on land that had already been sown since the total area under cultivation was slightly smaller than in the previous year (27.7 million ha compared with 28.3).
5. In the short term, the structural problem of cereals surpluses may be further exacerbated because of the increased transformation of pasture land into arable land, following the regulation on milk quotas. In order to avoid structural surpluses developing, industrial outlets must be found for cereals and the production of crops where there is a shortfall, such as maize and protein crops, must also be increased.
6. It was recently possible to slow down the growth in imports of manioc, bran and molassed feedingstuff, which jeopardized the use of cereals for fodder (cf. imports of substitutes increased by the cereal equivalent of 16.2 million tonnes in 1982. Manioc imports increased from 2.3 million tonnes in 1974 to 8.1 million tonnes in 1982). Imports of corn gluten feed (mostly

from the USA) continue to increase and to threaten the Community fodder market, especially as increasingly less Community-produced cereals are being used as cattle feed. This is rather disgraceful and is quite at variance with the principles of the common agricultural policy.

7. As for demand during the 1983/84 marketing year, several factors combined to prevent too sharp an increase in cereals stocks despite the large wheat harvest in 1983. This situation is also explained by the low production of maize and soya in the USA, the dollar rate and the poor oats harvest and low fodder prices in the Community. It was therefore possible to export 10 million tonnes of cereals. The Commission should explain why it did not authorize export refunds in the autumn of 1984 when it was possible to export at minimum refund rates. This would have made it possible to reduce stocks and thus financial costs and avoid having to pay higher refunds later. In the marketing year, 1984/85, when there was a record wheat harvest because of optimal growing conditions, the problem of surpluses reappeared. In February 1985, the Community had 11 million tonnes of common wheat (including 6 million tonnes for bread), 2 million tonnes of barley and 1 million tonnes of durum wheat in intervention.

The Commission must look for an alternative to imports of manioc for animal feedingstuffs in the Community by increasing protein crops (colza, sunflowers, field beans, lucerne) of which too little is produced in the Community.

In general terms the Commission should take the measure needed with all due speed to achieve greater coherence in the common organization of the market in cereals.

Self-sufficiency

8. The Community is 100% self-sufficient in almost all the major cereal sectors (1982/83 marketing year):

- durum wheat	106.8%
- common wheat	136.8%
- barley	120.6%
- oats	100.2%

It was 115.5% self sufficient in cereals (excluding rice) during the 1982/83 marketing year. For rye however there is a slight deficit (about 5%) and the Community imports some 20% of the maize it consumes.

Budget expenditure in the cereals sector

9. Expenditure in this sector totalled 2,534,000,000 ECU in 1983 compared with the budget estimate of 2,255,000,000 ECU. More than half the expenditure in the cereals sector (1,525 million) goes to refunds which exceed earnings because of the amount of Community exports. The fall in barley and durum wheat prices on the world market also affected the level of expenditure.

10. Public storage costs were higher than estimated because the 1982 harvest led to the creation of stocks that were not disposed of before the next harvest. Costs amounted to 477 million ECU. The Commission should explain why the high American dollar rate has not helped Community exports, thus increasing the financial costs of storage.

11. Compensatory aid amounted to 440 million ECU (130 million for production refunds and 219 million for aid for durum wheat).

Because the system of advance payments was suspended at the end of the year, 58 million ECU were carried forward to 1984.

12.

TREND IN EXPENDITURE 1982-1983

(m ECU)

	1982	1983
Refunds	1,033	
- common wheat		809
- barley, malt		406
- other cereals		294
- food aid	24	16
	<u>1,057</u>	<u>1,525</u>
End of year payments	73	89
Technical costs related to public storage	135	212
Financial costs related to public storage	90	140
Other public storage costs	155	125
	<u>453</u>	<u>566</u>
Production aid for durum wheat	166	219
Production refunds for potato starch	39	30
Other production refunds	96	100
Other measures	5	2
	<u>306</u>	<u>351</u>
	<u>1,816</u>	<u>2,442</u>

13. QUANTITY AND VALUE OF PRODUCTS IN PUBLIC STORAGE (1978 - 1983)

PRODUCT	1978		1979		1980		1981		1982		1983	
	Quantity (1000 t)	Value (m EUA)	Quantity (1000 t)	Value (m EUA)	Quantity (1000 t)	Value (m ECU)	Quantity (1000 t)	Value (m ECU)	Quantity (1000 t)	Value (m ECU)	Quantity (1000 t)	Value (m ECU)
Common wheat	1 051	184	1 878	328	4 930	830	2 966	516	6 864	1 274	6 806	1 279
Barley	182	30	74	12	1 082	181	848	130	1 681	305	1 673	328
Rye	601	111	582	105	517	95	343	65	299	58	311	62
Durum wheat	151	29	143	28	158	30	309	99	801	199	737	187
	72,3		88,9		212,8		341,7		453,4		565,6	

14. Breakdown of storage costs

End of year refunds	89 million
Technical costs	12 million
Financial costs	140 million
Other costs	<u>124 million</u>
	365 million

15. In paragraph 4.34 of its annual report, the Court of Auditors rightly criticizes the fact that diverse storage costs are entered in the accounts in a contracted form in the interests of budgetary transparency, thereby concealing any purely book profits and the real volume of transactions.

General remarks on the management of the market

16. The Commission should explain the action it took on the document on the 1982 discharge and the steps taken to ensure better management of Community funds and to facilitate speedy exports of cereals stocks.

17. It is to the Commission's credit that it is taking increasing account of quality criteria (fodder value) in its price proposals so that poor qualities are not unfairly given preference to better qualities and production for intervention stocks is not encouraged. Steps should be taken to ensure that quality standards are applied uniformly throughout the Community and can be controlled.

18. Durum wheat

Problems cropped up again for durum wheat in 1983. At 1 August 1983, Italy had 385,000 tonnes in intervention and Greece 93,000 tonnes. The European Community encourages the growing of this crop by means of subsidies even though there has been a fall in consumption. This problem is however caused less by imbalance on the market than by transport to consumption centres¹. The situation should be taken into consideration before prolonged

¹ The 1984/85 harvest could however increase the potential crop in areas already under cultivation.

storage leads to high costs. Following the request made by the Committee on Budgetary Control in its working document on the EAGGF Guarantee Section (1982 discharge), the Commission should explain how it resolved consideration of the specific problems of monitoring the storage and transport of durum wheat which are to a large extent responsible for the current market situation.

19. Production subsidies

The Committee on Budgetary Control has frequently called for revision of the rules in force in this sector (see working document on 1982 discharge) which the Special Committee of Inquiry decided were difficult if not impossible to implement (COM(79) 686 final, page 58 et seq.). Expenditure in 1983 amounted to some 130 m ECU.

Transfers from one intervention centre to another

20. This is an issue which also cropped up in the milk sector during the 1983 marketing year. It should be discussed in a general context.

21. At all events, 550,000 tonnes of common wheat suitable for making bread were exported from France to Italy and from the FRG to the United Kingdom and Ireland. The Court of Auditors points out in its annual report that the reasons given (guaranteeing fodder supplies during the marketing year) do not justify these transfers, which cost the Community budget 15 m ECU in 1983 (total expenditure: 17 m ECU), since, of the 450,000 tonnes of common wheat exported to Italy at the end of the year, 410,000 tonnes have still not been sold. As the Council is responsible for this measure, it is to it that this remark is addressed. If, despite everything, stocks have to be transferred between intervention centres, an effort should be made to ensure that the resulting costs are borne by the businessmen involved.

Irregularities

22. The Commission has initiated two special enquiries in the cereals sector and is asked to announce its findings to date. Thirty-six cases of irregularities covering a total of 352,000 ECU were reported in regulation declarations, all of which were in the FRG.

23. The Court of Auditors' criticisms of the Commission for its negligence in monitoring the control systems in the Member States and in particular the overall management of the EAGGF Guarantee Section (see paragraph 4.39 of the Court of Auditors' annual report) must be borne in mind. Following the decision taken by the Committee on Budgetary Control to intensify its activities in this area and in particular systematically to investigate cases of irregularities and fraud, this subject should be considered in another framework. It should however be pointed out again that unless there is an increase in the number of Commission staff, as Parliament has repeatedly called for, there will be no marked improvement in the situation.

24. It is suggested that the general rapporteur for the 1983 discharge take the following points into account in his resolution:

- urges the Commission, in collaboration with the responsible authorities of the Member States, systematically to investigate irregularities and fraud and to do all in its power to recruit the staff needed to accomplish this task;
- calls on the Commission to give a written answer to the questions contained in the working document on the EAGGF Guarantee Section drawn up in preparation for the 1982 discharge and to provide information on the steps taken as a result;
- is of the opinion that there can be no economic management of Community cereals production unless protective measures are taken vis-à-vis imports of substitutes;
- proposes to study a system for encouraging exports of cereals products in order to prevent the creation of large stocks even if additional expenditure proves necessary now since it could be offset by savings in the long term and would thus constitute an investment;

COMMITTEE ON BUDGETARY CONTROL

DISCHARGE 1983

Working Document

on meat, sugar, tobacco and
monetary compensatory amounts

Draftsman: Mrs C. BARBARELLA

28 March 1985



The sectors covered by this working document are very disparate and need to be dealt with separately. Their importance in the Community budget is considerable:

	Initial appropriations	Expenditure	
	1983	Amount	%
Meat	1,825	2,310	14.5%
Sugar	1,536	1,316	8.3%
Tobacco	668	671	4.2%
MCAs	241	488	3.1%
EAGGF-Guarantee	14,087	15,919	1100.0%

I. MEAT

A. Beef and veal

The initial appropriations for this sector (1,283 million ECU) were increased by a supplementary budget (+ 191.3 million ECU) and by transfers (+ 267.3 million ECU), with the result that final expenditure (1,736.5 million ECU) exceeded the initial estimates by 35.9% (+ 453.5 million ECU).

The detailed breakdown of this overrun is as follows:

Item	Measure	Initial			
		Appropriations	Expenditure	Difference	%
210	Refunds	753	828	+ 75.0	++ 9.9
211	Storage	289	632	+ 343.0	++ 118.6
2120	Premiums for suckler cows	96	91	- 5.0	-- 5.2
2121	Calf premium	135	103	- 32.0	-- 23.7
2122	Premiums for slaughter in UK	10	82	+ 72.0	++ 720.0
21	Total	1,283	1,736	+ 453.5	++ 35.3

Source : Revenue and expenditure account

The main reason for the overrun was expenditure on storage. The Commission points out that the increase in storage expenditure was due to increased use of intervention: public stocks of beef and veal increased from 217,000 tonnes at the end of 1982 to 430,000 tonnes at the end of 1983. This development was due to a drop in the consumption of beef and veal together with a worsening of the economic situation in the Community.

The expenditure under Item 2113 'Other public storage costs' appears to have been mainly responsible for this overrun (estimate: 199 million ECU; expenditure: 468.6 million ECU). This expenditure resulted mainly from the fall in value of products during storage, in other words the difference between the purchase value and the selling value.

The Court of Auditors points out (paragraph 4.30 of the annual report) that the lack of harmonization of classification procedures led to an unequal distribution of intervention stocks within the territory of the Community, with the result that, in value terms, 40% of the stocks of beef and veal carcasses were to be found in Italy at the end of 1983. In order to eliminate this kind of distortion, the Commission has proposed fixing common selling prices with the aid of a Community grading scale for carcasses of adult bovine animals, and on 7 December 1983 set up an inspection committee to carry out on-the-spot-checks on the application of this scale.

The Court of Auditors also points out (paragraph 4.35) that considerable losses were recorded on sales of public stocks of beef and veal carcasses (12% of the purchase value, which must be added to an initial technical depreciation of 20%). The Court requests that potential losses resulting from the need to clear these stocks should appear on the balance sheet, for example in the form of an attached note.

The financial cost of storage (Item 2112) also represent a substantial item of expenditure (estimate: 13 million ECU; expenditure: 55.8 million ECU). This concerns the reimbursement of storage costs to the Member States, since purchases are financed in advance out of national funds.

Expenditure on refunds is the most expensive item in the beef and veal sector (estimate: 753 million ECU; expenditure: 828 million ECU). The reason for the overrun is that the volume of exports was greater than in the previous year (575,000 tonnes as opposed to 482,000 tonnes).

Expenditure on guidance premiums (calving premiums: 103 million ECU) and on price compensatory measures (premium for suckler cows : 91 million ECU) has frequently been criticized by the Court of Auditors of the European Communities, but also by the national courts of auditors (for example, in one of its annual reports the Court of Auditors of the Federal Republic of Germany exposed a large-scale fraud concerning cattle slaughter premiums).

The Court of Auditors points out that a feature of these measures is that 'they have hardly any effect on the balance of the markets but nevertheless entail not inconsiderable expenditure'¹. It goes on to say that: 'their profusion seems to stem more from a concern for a redistribution by category or geographically, than from any attempt to organize the market rationally'.

The Commission points out that the reason why this aid to the beef and veal sector was extended in 1983 was that the situation of farmers in the regions of the Community concerned by these measures had not improved significantly during the previous marketing year. There could not be a clearer illustration of the social character of these measures.

There is no doubt that measures of this kind provoke criticism of the common agricultural policy. The disparity between their stated economic aim and their real social destination also makes it difficult both to apply and to control them. In other words the ending of this ambiguous situation could only be beneficial.

¹ Stuttgart report, paragraphs 2.3.14 and 2.3.16 (OJ No C 287/83)

B. Pigmeat, sheepmeat, goatmeat, poultrymeat and eggs

Expenditure in the pigmeat sector (145 million ECU) remained well below the initial appropriations (180 million ECU) because of difficult production conditions. The fall in prices and the increase in the price of compound feedingstuffs led to a reduction in export opportunities and thus a drop in expenditure on refunds.

Expenditure in the sheepmeat and pigmeat sector (306 million ECU) exceeded the initial appropriations (237 million ECU). The aid is calculated on the basis of the difference between the reference price and the market price, and this difference was higher than expected. The overrun would have been still greater if the new premium had been fixed during the financial year. Payments of around 105 million ECU were therefore carried over to the financial year 1984.

The rate of utilization of the appropriations earmarked for the eggs and poultrymeat sector (125 million ECU) was 98.5%. The Commission attributes the relatively satisfactory situation in this sector to a very prudent production policy. The expenditure related only to export refunds.

II. SUGAR

The rate of utilization of the initial appropriations for the financial year (1,536 million ECU) was 85.6% (payments: 1,316 million ECU). The Commission attributes the inaccuracy of the initial estimates to the considerable fluctuations on the world market and the variations in stocks in the Community.

The breakdown of this expenditure is as follows:

(a) export refunds

Because of the drop in prices on the world market and the satisfactory level of Community production, the Community decided to limit exports and increase storage. As a result, the rate of utilization of the appropriations earmarked for refunds (1,048 million ECU) was only 72.3% (758 million ECU).

(b) Storage expenditure

For the same reasons, storage expenditure (505.5 million ECU) far exceeded the estimates (466 million ECU).

Since the 1981/82 marketing year, expenditure in this sector, which mainly concerns the disposal of production in excess of consumption requirements, has had to be met fully by producers. The sums paid by producers to the Community budget consist of production levies and compensatory levies for storage costs. In 1983, these levies produced revenue of 948 million ECU for the Community budget. The difference between revenue and expenditure, 368 million ECU, is accounted for by the expenditure arising from the need to export sugar from the ACP States at preferential tariffs. Finally, it should be added that, like most other sectors, the sugar sector produces revenue from levies.

It has therefore been possible to organize the sugar sector in such a way as to give producers genuine co-responsibility, which has produced a balance between revenue and expenditure. The production and marketing structures of the sector have helped this process considerably.

Nevertheless, overproduction of sugar in the Community and the existence of structural surpluses, even if they do not represent a financial burden to the Community budget, help to strengthen the ascendancy of Community producers on the world market to the detriment mainly of the developing countries. The tariff preferences granted by the Community to the ACP states by no means offset the effects of this ascendancy. The co-responsibility system can therefore be seen to be a mechanism for imposing a cartel on the world market.

III. TOBACCO

Expenditure in this sector is growing rapidly:

1979:	225	million	ECU
1980:	309	"	"
1981:	361	"	"
1982:	622	"	"
1983:	671	"	"

This growth is partly attributable to the accession of Greece.

The expenditure is used almost entirely to finance intervention measures:

in 1983	price compensatory aid:	614.8	million	ECU
	storage	: 28.6	"	"
	refunds	: 27.9	"	"
	Total	: 671.0	"	"

The increase in expenditure has corresponded to an increase in the surface area farmed:

1981: 171,561 ha

1982: 176,692 ha

1983: 183,218 ha

In 1983 expenditure in this sector accounted for 4.23% of total EAGGF expenditure. It also represented 60% of the production value, and, for growers, represented a subsidy twice as high as the value of the product calculated on the basis of world prices.

The Commission has taken measures to reduce the price guarantee for quantities of tobacco which are not marketed and to discourage the use of intervention.

It is clear that the premiums paid encourage production which can only be marketed if it is subsidized to a large extent. However, it is also clear that these premiums play an essential role with regard to producers' incomes and maintaining employment.

If the present system is maintained, it would seem that, given its poor cost-effectiveness, at least in the case of certain varieties, tobacco production is doomed in the long term. Furthermore, it is difficult for the Community to stand idly by in the face of a continual and rapid increase in expenditure in this sector. It is doubtful whether this problem can be solved merely by tinkering with the present system.

IV. COMPENSATORY AMOUNTS

The unfavourable effects of this measure are well-known and there is no need to return to them, particularly as the Community has finally decided to abolish this device. For the record, it should be pointed out that

expenditure for 1983 (488 million ECU) exceeded the estimates (241 million ECU) by 200%. Finally, it is to be regretted that one Member State has attempted to prolong the imbalances caused by the perverse operation of this mechanism.

CONCLUSION

On the basis of this working document the following remarks could be included in the decision on the discharge for 1983:

The European Parliament,

- welcomes the fact that the Commission has introduced structures and machinery designed to end the distortion in the geographical distribution of intervention stocks, notably by the application of a Community scale for carcasses of bovine animals;
- harbours serious reservations, in the light of the remarks of the Court of Auditors, as to the effectiveness of the different types of price compensatory aid, particularly in the beef and veal sector; notes that their economic aim is to say the least ambiguous, and that this makes it difficult to apply and control them as well as encouraging fraud;
- considers that the system for financing the organization of the market in sugar is well balanced in budgetary terms, but that surplus production in the Community has a negative influence on the world market and works to the detriment of producers in the developing countries and that the tariff preferences granted to the latter do not fundamentally alter the situation;
- considers that the present system for financing the tobacco sector is characterized by a confusion between economic and social aims and is effectively responsible for an ever-increasing burden of expenditure in the sector and for the poor cost-effectiveness of the production of certain varieties.

COMMITTEE ON BUDGETARY CONTROL

Working Document

on

the implementation of the general budget of the European Communities
for the 1983 financial year

EAGGF Guarantee Section
Fruit and Vegetables Sector

Draftsman: Mr Heinz SCHREIBER

28 March 1985

INTRODUCTION

1. On 10 June 1983 Parliament adopted the report by Mr GABERT on the utilization of appropriations in the fruit and vegetable sector of the EAGGF guarantee section (Doc. 1-271/83). This report and the working document by Mr WETTIG on the EAGGF guarantee section in the context of the preparations for the decision granting a discharge in respect of the 1982 financial year (Doc. 1-111/84/Ann.) contain a detailed account of the major problems in this sector, most of which still remain.

The sector in question is relatively small but nevertheless accounts for approx. 7% of total spending under the EAGGF guarantee section and will gain increasing importance with the accession of Spain and Portugal.

2. Trend of expenditure over the last six years in millions ECU:

	1978	1979	1980	1981	1982	1983	1984 (figures shown in budget)
Total ¹	101	443	687	641	914	1,196	1,025
including intervention in respect of							
- fresh products	49	123	156	180	305	398	291
- processed products	4	285	490	418	550	740	668
Percentage of EAGGF spending	1.2	4.2	6.1	5.8	7.4	7.6	6.3

¹The difference is accounted for by refunds of between 35 and 60 million ECU.

Source: Thirteenth financial report on the EAGGF guarantee section for 1983 (COM(84) 485 fin.)

It was necessary to increase the appropriation of 932 million ECU originally set aside for this sector by 153 million ECU under supplementary budget No. 2/83 and 111 million ECU in the form of a transfer of appropriations.

The increase by relation to 1982 (in absolute terms) also reflects the effects of Greek enlargement as well as the clearance of delayed payments.

3. The sharp increase in relation to the preceding year is due to the almost identical rise by approx. one third in spending on market withdrawals and price equalization aids. The crucial factor here was the large harvest of apples, peaches and apricots. In 1983 market withdrawals cost 304 million ECU as opposed to 192 million ECU in the previous year, this being partly due to the free distribution of products (peaches and apples) processed into juice at Community expense.

For example, approx. 60 million litres of peach juice were produced and distributed free of charge from fruit withdrawn from the market at Community expense. This measure has in the meantime been abolished owing to the extremely high and uneconomic costs involved. It is also worth pointing out that almost 500 million ECU were spent on production aids for processed tomato products, to be precise, 469,225,000 ECU in the 1983 financial year. The following comment is made in paragraph 9 of the explanatory statement of Mr GABERT's report (Doc. 271/83): 'Because the premium represents such a high percentage of both the value of the goods (up to 95%) and the value of the end product (approx. 34%), this measure can hardly be considered to make economic sense given the large amounts of expenditure involved,'. It should also be borne in mind that Spanish production is equivalent to about 40% of Community production.

The exceptional crop in 1983 amounted to 9.4 million tonnes of tomatoes (the average crop from 1979 to 1983 was 8.3 million tonnes). Of the 1983 crop, 5,562,000 tonnes of fresh tomatoes were processed, of which 3,487,000 tonnes were converted into tomato paste (the ratio of fresh tomatoes to tomato paste is about 6:1), 1,588,000 tonnes were peeled and canned, and the rest was processed into tomato juice and deep-frozen and other tomato products.

The market can now be organized more efficiently owing to the introduction of Regulation 988/1984 of 31 March 1984, because aid is no longer calculated on the basis of the difference between third country prices and Community production costs, but according to sales possibilities and the market price. In conjunction with the guarantee threshold for tomato products, which has been operating for some years, this is making it possible to restrict Community expenditure. Aid was substantially reduced very recently in the light of increased prices. Overall, however, the balance between aid and the market price is wrong, because about 46% of the market price goes in aid. Moreover, the 1985 crop will be very large, which will affect prices, sales prospects and consequently the amount of aid to be paid by the Community.

5. It should be pointed out here that the amount of approx. 265 million ECU spent in 1983 on market withdrawals represents approx. 2% of total EAGGF spending. Moreover, the average percentage of withdrawals during the 1981/82 marketing year by comparison with the quantities harvested was 3.27%, half that for the 1982/83 marketing year.

Another important factor in appraising the situation is the fact that withdrawals of approx. 1.15 million tonnes of apples in the 1982/83 marketing year were matched by a figure of only 0.054 million tonnes for the preceding marketing year. A point to be welcomed, as is clear from the following table, is the sharp drop, in relative terms, in the 1982/83 marketing year in the quantity unfit for consumption¹. The more than two-fold increase in the quantity of lemons withdrawn from the market by comparison with the preceding year is all the more scandalous in that the Community is still dependent on imports in this area and processing into juice is entirely feasible in the light of existing capacity.

6. Disposal of apples withdrawn from the Community market in 1982/83 by comparison with previous years:

	1978/79	1979/80	1980/81	1981/82	1982/83
Total quality withdrawn in tonnes	391 623	551 013	519 993	53 733	1 025 237
Form of disposal (in %) :					
- Distribution free of charge	3.21	3.69	3.42	4.34	2.43
- Animal feed	56.82	53.21	41.75	9.04	32.80
- Free distribution after processing	0.40	5.99	0.10	-	0.00
- Distillation	32.60	20.95	32.71	36.23	44.43
- Unfit for further use	6.93	7.16	22.02	50.39	18.44
Total	100	100	100	100	100

Source: Written Question No. 2118/83 of 24.2.1984, OJ No. C 164/16

Problems relating to dried grapes and figs

7. The situation in this area is an example of mistaken and unnecessarily expensive intervention in the market.

¹ Attention should however be drawn to the much greater use of distillation, the economic viability of which has by no means been demonstrated.

To date, the 1981 harvest has not been sold in its entirety despite the Council decision of 14 June 1983 to use the remaining stocks as animal feed. Approx. 20,000 tonnes of the 1982 harvest are still unsold. Here as well the Council decided to dispose of remaining stocks in the form of animal feed. A comparison of the purchase price (approx. 133 ECU per 100 kg.) and selling price as animal feed (50 ECU per 100 kg) gives an idea of the cost of this measure, the success of which has so far, moreover, as it transpired, been dubious¹.

8. The causes of the marketing difficulties that have occurred in this sector have already been broached in Mr WETTIG's working document. They are partly due to the excessive rise in minimum prices (by 150% since 1978/79) coupled with a decline in the world market price. There was also a clear deterioration in quality - with minimal price differences between the various gradings - so providing two reasons why Community produce was not competitive with that of third countries and remained in intervention stocks, thus resulting in further loss of quality. Producers were even encouraged to go along with this by Community legislation enabling them to sell their entire harvest to intervention agencies. Furthermore, it is also apparent here that, owing to the very low common customs tariff of 3.6% and the prevailing international market situation, it was hardly possible to control the internal market since, in the absence of effective external protection, there was nothing to prevent imports from disrupting the structure of the internal market. Moreover, the Commission itself admits as much in its document COM(83) 92 final of 21.3.1983, where it also points both to the need to improve quality and to the inadequacy of quality control.
9. By virtue of the changes adopted by the Council at the end of March 1984 (introduction of guarantee thresholds, fixing of a minimum import price and limiting buying-in by intervention agencies to the last two months of the marketing year) the foundations have in the meantime been laid for improving the situation. In addition, the quality standards for dried grapes have been tightened up by Regulation No. 2347 of 31.7.1984 so that in future the competitiveness of Community products in this field should improve.

¹ In 1983, spending totalled 109 million ECU and in 1984 253 million ECU in the 'dried grapes' and 'figs' sectors, the latter accounting for a small proportion of the overall figure.

Continuing problems in the citrus fruit sector

10. It is common knowledge that the structural rationalization measures in this sector for which the legislative preparations were made approximately fifteen years ago and which were subsequently implemented very late and in a hesitant fashion did not produce the desired result despite the large sum of 250 million ECU set aside for this purpose because the marketing situation for citrus fruit has in no way improved as is clear from the increasing rate of intervention.

(in tonnes)

Marketing Year	Intervention			Total Citrus Fruit
	Lemons	Mandarins	Oranges	
1981/82	70,000	82,000	73,000	225,000
1982/83	160,700	14,600	126,000	301,300
1983/84	450,577	183,759	686,530	1,320,866

Source: Written Question No. 651/84 of 27.8.84, OJ No. C 314, 26.11.84, p.1p. 18

11. Regrettably, the need for a stronger marketing effort than in the past was recognized too late so that not only has valuable time been lost but the economic justification of the sums spent so far must be regarded as dubious. Not until 1982 did the Council promulgate the long overdue regulation providing for improved marketing (Regulation No. 1204/82 of 20 May 1982), which envisages total spending of 710 million ECU. The Commission expects to see a substantial decline in intervention payments subject to the measures in question being implemented according to plan. Parliament should monitor these expectations continually and ask for a report in the medium term. This should also be seen against the background of the fact that, at the end of 1984, on the basis of information received from one Member State, which is a main producer of fruit and vegetables, the withdrawals for citrus fruits were corrected upwards by nearly 100% (for this Member State alone, the final withdrawals for oranges were 209,000 tonnes above the estimate of 252,000 tonnes and for lemons 182,000 tonnes above the estimate of 229,000 tonnes), entailing extra expenditure of 90 million ECU. This notification of an additional financial requirement and any subsequent payments will have to be carefully scrutinized, as the figures relating to the total lemon harvest, intra-Community trade and withdrawal notifications are not in themselves conclusive.

Quality control

12. As large quantities of fruit and vegetables offered for sale by producers on central markets had not been subject to Community quality standards in the absence of special national standards, the Commission submitted in November 1983 a proposal for a regulation (adopted by the Council in May 1984) (No. 1332/84 of 7.5.1984, OJ No. L 130, 16.5.1984) extending the principle of Community quality standards to produce offered for sale in these conditions.

In this connection, the Court of Justice handed down an interesting judgment on 15 November 1983 (OJ No. C 346, 22.12.1983, p. 4) which found against a Member State because it had not carried out the prescribed inspections.

Irregularities

13. According to the thirteenth financial report on the EAGGF guarantee section, for the Federal Republic of Germany alone irregularities were notified in the fruit and vegetable sector, and more particularly in two cases, totalling more than 13,336 ECU. This provides all the more reason for scepticism since two specific investigations carried out by the Commission in 1983 in a Member State revealed fraudulent practices to the tune of 592,000 ECU. This shows again that, to uncover irregularities, the Commission urgently needs more staff that it can despatch to carry out on-the-spot investigations. Parliament should definitely approve staff increases in this area as the staffing costs will in all probability be covered many times over by the recovery of overpayments. Furthermore, an increase in the number of inspection staff can be expected to have a substantial deterrent effect.
14. Finally, it is proposed that the following point be incorporated in the resolution containing the remarks accompanying the decisions granting a discharge in respect of the 1983 financial year pursuant to Article 85 of the Financial Regulation:

- urges the implementation of Community quality requirements for fresh fruit and vegetables at all points of public sale and the generalized introduction of Community quality requirements for processed fruit and vegetables for the purposes of ensuring fair application of the provisions governing Community aid and calls for appropriate quality control;
- in view of the high cost of distillation, calls for a serious appraisal of the economics of producing alcohol in this manner which is based on data provided by all Community Member States using this process and presents the various factors influencing the result in such a way as to pinpoint clearly the relevant limits within which this form of processing is still economically meaningful, particularly as the threshold for economic viability calculated by the Commission in document COM(84) 34 final is very tight;
- strongly urges more rapid implementation of structural measures relating to apple, pear and peach trees and also the citrus fruit sector, as this would open up the prospect that market distortions could be avoided and budgetary expenditure (with particular reference to the citrus fruit sector) held in check;
- welcomes the fact that the changes made in 1984 to Regulation No. 516/77 have meant that greater account is taken of the market situation in the sector covering processed fruit and vegetable products, thus opening up the possibility of more rational administration of this sector of the EAGGF guarantee section; the growing doubts in recent years about the accuracy of the figures reported for harvests and withdrawals suggest, however, that more stringent sanctions should be applied in case of abuse in line with the recent decisions by the Council in the olive oil sector;
- supports the Commission's proposals for increasing its on-the-spot inspection staff in order that the Community can be provided with the urgently needed means for mounting a successful campaign against irregularities and fraud; this is in itself likely to exert a deterrent effect.

Disposal of market withdrawals of fruit and vegetables
Percentage of total withdrawals

Products	Free distribution				Processed into alcohol				Animal feed				Spoilt, destroyed			
	1979/80	1980/81	1981/82	1982/83	1979/80	1980/81	1981/82	1982/83	1979/80	1980/81	1981/82	1982/83	1979/80	1980/81	1981/82	1982/83
Apples	9.7 ¹	3.5	4.3	4.0 ¹	29.9	32.7	36.2	47.9	53.2	41.8	9.0	30.5	7.2	22.0	50.4	17.7
Pears	3.4 ¹	3.3	7.8 ¹	5.9	44.6	64.7	39.4	45.7	39.9	24.6	27.0	35.6	12.2	7.4	25.8	12.8
Peaches	7.6	14.3	3.7 ¹	10.8 ¹	54.5	52.9	17.3	47.8	0.2	1.7	0.5	0.7	37.8	31.1	78.6	40.6
Oranges	37.3	11.3	9.0	1.9 ¹	-	-	-	-	-	71.7	67.0	0.8	62.8	17.4	4.0	97.3
Mandarins, etc.	14.9	8.5	15.0	6.3 ¹	-	-	-	-	7.7	2.1	9.6	10.5	77.4	89.4	75.4	83.2
Lemons	-	0.6	4.2	1.8	-	-	-	-	-	-	46.2	22.9	-	99.4	49.6	75.3
Grapes	-	100.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Apricots	-	-	-	38.8	-	-	-	-	-	-	-	-	-	-	-	-
Cauliflower	0.7	1.3	1.9	1.5	-	-	-	-	13.9	45.0	43.4	49.0	85.4	57.7	54.7	49.4
Tomatoes	2.5	3.3	5.1	6.3	-	-	-	-	18.9	10.8	19.2	60.6	78.6	65.9	75.7	33.0
Aubergines	-	-	-	89.6	-	-	-	-	-	-	-	-	-	-	-	10.4

¹ Partially processed into juice

ANNEX VII

COMMITTEE ON BUDGETARY CONTROL

DISCHARGE

Working document on expenditure in relation to olive oil and oil seeds, etc.

Draftsman: Mrs Bodil BOSERUP

28 March 1985

DISCHARGE 1983

Working document on expenditure in relation to olive oil and oil seeds etc.

1. The following table shows the very rapid rise in expenditure in relation to this sector of the budget over recent years.

YEAR	AMOUNT	% OF TOTAL BUDGET
1979	MEUA 668.2	4.6
1980	MEUA 747.8	4.6
1981	MECU 1090.7	6.1
1982	MECU 1295.0	6.3
1983	MECU 1764.7	7.2

Source : ECA report, C348, 31.12.1984, page 166

2. Clearly, this sector of expenditure has been the fastest-growing of the whole budget. The amounts spent on fat and protein plants in 1983 was about double the amount spent on the Social Fund and was about 150% of the amount spent on the Regional Fund.

3. The growth of expenditure over recent years is impressive. This expenditure comes under two main headings: outlay on olive oil which in 1983 totalled 675.333 MECU; the main constituent of this total was production aid for olive oil: 393.837 MECU and consumption aid for olive oil: 221.640 MECU. Of the total of 1,087.878 MECU spent on the balance, 945.553 MECU was spent on oil seeds and 142.325 MECU on protein plants.

4. The area devoted to the production of colza and rape seed, sunflower seed and cotton seed is considerable, as the following table shows:-

PRODUCT	1981	1982	1983
	(area in thousand hectares)		
Colza and rape seed	880.8	1004.6	1103.7
Sunflower seed	213.6	347.3	493.7
Cotton seed	127.6	136.9	168.0
TOTAL	1222.0	1488.8	1765.4

Source : The Agricultural situation in the Community, 1984 report, p.342

5. These are staggering trends when one has regard to the relatively short span of time involved. The area devoted to these products rose by 44.5% in the space of two years.

6. The fact that the Court of Auditors has devoted so little space in its report to this fundamental area of expenditure is surprising. However, this appears to be a result of the way in which the work of the Court of Auditors is organised internally with staff being divided up between members who are assigned certain blocks of work, there being apparently little mobility between sectors to take account of the need to examine large amounts of expenditure in sections showing remarkable rates of growth.

Number of farms in the Community

7. As the other working documents do not appear to have dealt with the impact of the CAP on the number of farms within the Community, a brief comment in the present paper is appropriate. The annexed table shows the number of farms in the Community in the years 1975, 1980 and 1983. (Figures for three Member States are not, however, available for 1983). The pattern is one of a strong downward trend in all Member States, except Italy. Between 1975 and 1980, the number of holdings in the Community of ten fell by 230,000, about 4%, or an average of 46,000 farms each year. Between the years 1980 and 1983, for the seven countries for which we have statistics, the number of farms fell by 162,342 or by about 6.5%.

8. The effect of this diminution in the number of farms has far-reaching social, cultural and economic repercussions which should be considered when one judges the effects - if not the efficiency and effectiveness - of expenditure under the CAP. Structural improvement and the modernisation of farms are factors but socio-cultural factors are also involved.

Conclusions

A. The very steep rise in EC expenditure on fats and oilseeds needs to be looked at very closely and the draftsman will prepare a report on the olive oil sector when the special ECA report becomes available. There is need to keep a close watch on the balance of the sector which is showing great buoyancy of expenditure.

B. The strong downward trend in the number of farms throughout the Community - at a time of rising unemployment - should be considered in the context of an examination of the overall impact of the CAP.

CHANGE IN THE NUMBER OF FARMS
(+ or -)

FARM SIZE IN UTILISED AGRICULTURAL AREA (UAA)

MEMBER STATE	1-19	20-49	over 50	TOTAL (NET CHANGE)
GERMANY	-167.085	-3.070	+8.563	-161.592
FRANCE	-138.000	-24.000	+14.000	-148.000
NETHERLANDS	-22.487	+1.167	+1.033	-20.287
BELGIUM	-20.600	+297	+761	-19.542
LUXEMBOURG	-1.020	-788	+389	-1.419
UNITED KINGDOM	-18.407	-7.863	-1.809	-28.079
DENMARK	-30.805	-4.518	+2.965	-32.358
SUB TOTAL FOR 7	-398.404	-38.775	25.902	-411.277
ITALY	+41.816 ¹	+4.839 ¹	+717 ¹	+47.372 ¹
IRELAND	-5.700 ¹	-2.900 ¹	+1.000 ¹	-7.600 ¹
GREECE	-27.800 ¹	+1.270 ¹	+240 ¹	-26.290 ¹
SUB TOTAL FOR 3	8.316	3.209	1.957	13.482
TOTAL TO 1980 FOR 10	-236.000	-13.000	+19.000	-230.000

Source : EUROSTAT, harmonised national data

NUMBER OF FARMS IN THE COMMUNITY

Country	1975	Year 1980	1983
Germany	904,732	797,378	743,813
France	1,209,000	1,135,000 ¹	1,061,000
Italy	2,144,600	2,191,972 ¹	-
Netherlands	143,801	128,960	123,514
Belgium	105,557	91,181	86,015
Luxembourg	5,596	4,697	4,177
United Kingdom	271,543	249,242	244,464
Ireland	227,900	223,300	-
Denmark	129,833	116,342	97,475
EUR 9	5,142,000*	4,938,000*	-
Greece	758,000 ²	731,710 ¹	-
EUR 10	5,900,000*	5,670,000*	-

Source : Commiss
EC - "The Agricu
Situation in the
Community" - 198
page 292

¹ 1977 instead of 1980 (not yet available) * - figures rounded

² Interpolation between surveys of 1977 and 1977/1978

COMMITTEE ON BUDGETARY CONTROL

DISCHARGE FOR 1983

Working document

on the

EAGGF Guidance Section during the 1983 financial year

Rapporteur: Mr V. GIUMMARRA

28 March 1985

INTRODUCTION

1. The remarks made in the Court of Auditors' report on the management of policy and finance in the EAGGF Guidance Section raise questions concerning both the methods used and the quality of the work. In the context of the analysis which it is drawing up in preparation for the granting of the discharge to the Commission for the financial year 1983, the Committee on Budgetary Control wishes to stress that, in addition to the necessary and desirable dialogue between the Commission and the Court, there should be closer coordination between the text of the Court's report and the replies given by the Commission to the remarks made in the report.

2. The following specific points can be quoted in support of the above remarks.

Financing of projects to improve the conditions under which agricultural products are processed and marketed (paragraphs 5.13 to 5.32) (Regulation No. 355/77).

3. After noting that compliance with the principle of including the projects financed within specific programmes has only been achieved gradually, the Court of Auditors regrets in particular:

- 'absence of adequate guarantees as to the profitability of the projects subsidized';
- 'lack of consistency in the data provided by the beneficiaries and no "ex-post" appraisal of the application of the common measures';
- 'shortage of information on financing arrangements';
- inadequacy of 'interaction of structural aid and objectives of market policies';
- 'inclusion of several investments which are economically and technically independent under one project';

- 'delay in the submission of requests for payment for work completed and overstepping of initial costs'.

As a general comment on these remarks (which are set out in detail in the abovementioned paragraphs of the Court of Auditors report) the Court of Auditors calls for 'stricter management of the aid, including its follow-up'.

4. In reply to these points, the Commission points out that, under Regulation No. 355/77, it has financed 3,000 projects involving a total investment of 4,300 m ECU without any major problems, 'despite the difficult economic situation'. In this connection, the Commission points out that: 'since so many projects are involved, it is almost inevitable that one or another of them will not prove successful financially, particularly as aid cannot be limited to ventures which are in such a sound financial position as to have no need of aid'.

The Commission puts into perspective the specific arguments advanced by the Court and also points out that it is difficult to assess inconsistencies which may arise between the financing of projects under the abovementioned regulation and a market policy aimed at controlling surpluses.

5. The Committee on Budgetary Control should therefore seek to determine, through discussions with the Commission and the Court of Auditors, the real significance of the facts and thus of the remarks which are the object both of the Court's reservations and the Commission's replies.

Financing of projects aiming to speed up improvement
of agricultural infrastructure in certain less-favoured
areas of the Federal Republic of Germany

(paragraphs 5.33 to 5.40)

6. In paragraph 5.40 the Court of Auditors points out that: 'Several national documents state, however, that the protection work against floods in the Member State is no longer directed towards agricultural objectives. It has thus proved that the importance of the project to regulate the water of the River Itz by far outweighs its agricultural aspect. Such a situation does not seem to comply fully with the objective of the Regulation'.)

The Commission's explanation of this point is as follows: 'The Commission cannot agree with the Court of Auditors' conclusions in relation to the flood control measures on the River Itz. The measures have clear agricultural benefits and so are in complete conformity with the objectives of the regulation. The fact that they incidentally have a wider beneficial impact in no way reduces their validity as agricultural measures'.

Before reaching any conclusions, the committee should await further clarification allowing a better appraisal of the remarks and replies submitted.

Measures for the acceleration and guidance of
collective irrigation works
(paragraphs 5.41 to 5.54)

7. In this connection, it is difficult to understand the exact significance of the general remark by the Court of Auditors in paragraph 5.64 that, 'Community measures, despite their regional nature, often prove to be inadequately suited to local conditions from both the socio-economic and the administrative viewpoints. These specific problems should be given more consideration at the time of the consultations between the Member States concerned and the Commission prior to the approval of the programmes. This is particularly necessary in the case of the 'reimbursement' measures where any subsequent Commission intervention as often as not takes the form of a mere examination of requests for payment'.

In reply, however, the Commission points out that: 'Many of the Court of Auditors' remarks stem in fact from an insufficient uptake of the measures, as compared with the original aims. Whilst this is a matter of concern to the Commission, it constitutes neither financial mismanagement nor poor cost effectiveness, since the cost is in most cases directly proportional to the extent of application and hence to the effectiveness of the measure'.

Application of Regulation No. 17/64

Settlement of commitments relating to individual projects

8. The Court stresses the delay in the settlement of commitments under these operations and notes inter alia that an excessive number of settlements were made more than five years after the granting of aid.

The Court's remarks seem pertinent, although the Commission does not give them full weight and includes the value of the delayed settlements in the overall volume of financing of recipient projects.

The Commission also points out that the delays are due also to the need to ensure, that when appropriations are re-used, the Community aid goes to the same region for which the appropriations were released.

CONCLUSIONS

9. The Committee on Budgetary Control should reserve its conclusions on the management of policy in the Guidance Section and its efficiency until it has fully debated the Court's remarks and the replies made by the Commission.



ANNEX IX

COMMITTEE ON BUDGETARY CONTROL

DISCHARGE 1983

Working document on the
European Regional Development Fund

Draftsman: Mr David MARTIN

28 March 1985



Discharge 1983

Working document on the European Regional Development Fund

Introduction

1. The European Regional Development Fund (ERDF) was set up in 1975 as the EC's principal instrument for structural purposes. It is not, of course, the only vehicle for channelling funds to the less-favoured regions: there are also the European Social Fund, the ECSC budget, the EAGGF Guidance section and the efforts made through the European Investment Bank.

2. The fact is, however, that despite this plethora of instruments, regional disparities, far from narrowing, have actually widened. Indigenous structural factors are largely to blame but the EC funding activities should have outweighed these to a greater extent. The economic recession has also discouraged firms from moving activities towards the weaker regions and there is a failure to develop an adequate infrastructure and to provide the kind of comprehensive training of the available work force in the areas of declining industrial activity that would help to cope with the problems of innovation and the application of new technologies.

3. Because the ERDF can best be considered within the context of fund activities over a period of years, the draftsman draws attention to the following table:

ERDF ALLOCATIONS 1975-1983¹

Year	Amount (Mio ECU)	Annual % increase	Share in Community budget
1975	257.6	-	4.8
1976	394.3	53.1	5.6
1977	378.5	-4.0	4.9
1978	581.0	53.5	4.6
1979	945.0	62.7	6.1
1980	1165.0	23.3	6.7
1981	1540.0	32.2	7.3
1982	1759.0	14.3	7.6
1983	2010.0	14.2	8.7

This shows the steady and laudable increase in EC resources devoted to the ERDF - a trend which has the welcome effect of bringing about, albeit slowly, a better balance within the EC budget.

4. Whilst the ERDF endeavours to continue with its efforts to help the less-developed regions, it is increasingly concerned with those regions where the virtual collapse of the so-called sunset industries has led to massive unemployment among the workforce in large urbanised areas. Above all, the ERDF should aim to conserve or promote jobs.

5. The Commission is well aware of this responsibility and has published the following interesting figures:

¹ Source : Ninth report from the Commission on the ERDF (COM(84)522 final, page 2)

Forecasts of jobs created or maintained from 1975 to 1983
by ERDF support measures²

Member State	1975-1983		
	created	preserved	total
B	6 140	100	6 240
DK	4 660	140	4 800
D	69 200	12 120	81 320
GR	5 490	70	5 560
F	158 360	15 600	173 960
IRL	58 220	450	58 670
I	73 310	1 620	74 930
L	-	-	-
NL	820	690	1 510
UK	109 790	52 590	162 380
EUR 10	485 990	83 380	569 370

The Commission does not, of course, contend that these results came about through the ERDF alone: it makes it clear that the efforts of the national authorities contributed. Nearly 100,000 of the jobs assisted were in the motor vehicle industry sector and 62,000 were in the craft industry and services sector. However, it is not at all clear that these positive results were (or will be) fully secured.

6. Because the Committee on Budgetary Control is concerned with forming an opinion on the effectiveness of the use of EC funds, the draftsman proposes, in the following six paragraphs, to examine certain aspects of the jobs calculations.

7. As the Court of Auditors (ECA) pointed out in its special report on job creation or maintenance in the granting of aid to regional investments,³

"Aid from the Fund is granted to investments which create or maintain jobs, but the current provisions do not define 'creation' or 'maintenance' of jobs and examination of the administrative practices of the Member States reveals various difficulties, which may be distinguished according to whether the creation, extension or reorganisation of the undertaking is concerned." (paragraph 3.2.1)

"There are also fundamental differences between the Member States with regard to the authority which certifies the creation or maintenance of jobs." (paragraph 3.3.1)

In the conclusions to the special report, the ECA pointed out that:

"Moreover, in a number of cases, the desire to create or maintain jobs must give way before the necessities of preserving the undertaking, since technological and economic developments may in fact mean that, to establish or regain its competitive position, a firm or a sector of activity will have to shed jobs."

² Source COM(84)522 final, page 8

³ OJ no. C345, 31.12.1982

8. In its answer to this report, the Commission indicated that it fully appreciates that "forecasting the number of jobs maintained or created is a hazardous exercise because of the many uncertainties involved".

9. The draftsman believes that the jobs aspect of the ERDF activities is of major budgetary control and political significance. There is a great need to stress to the authorities responsible that jobs claims should be put forward honestly; otherwise, budgetary clarity is undermined and any attempt to measure results is doomed in advance.

10. In this context, the draftsman expresses his disappointment at the record of the outcome of promises made by firms on job creation. For instance, in Scotland, the ECA found that only one of twenty-two firms fulfilled the planned objectives regarding jobs. "Some of the projects financed were, moreover, carried out by firms which, in global terms, were making sizeable reductions in their workforce..". One firm got three ERDF grants in 1975, 1979 and 1982 and its staff fell over the period from 5 200 to 3 800 and further cutbacks were being contemplated.

11. There was an even worse case in the Saarland in Germany where a firm got grants in 1975, 1978 and 1981 for a total of over 8.5 million Deutschmarks in respect of investments that were supposed to create 720 new jobs. Over the period, however, the number working for the firm actually decreased by 44.⁵ In replying to the points made by the ECA that are cited in this paragraph and in the preceding paragraph, the Commission states that it will regularise the situation if the conditions laid down in the ERDF Regulation have not been fulfilled. The draftsman asks that the Committee on Budgetary Control be informed speedily of the outcome of the Commission's further investigations.

12. These cases indicate that the Commission's capacity for monitoring is - as one might expect - limited. There is a considerable responsibility on Member States to check claims and applications carefully and to verify that funds are not paid out on the basis of untenable promises. This responsibility should be brought to their attention, through the Council.

ECA follow-up to the Stuttgart summit

13. Comment on another special ECA report flows automatically from the views expressed in the preceding paragraph. The Declaration adopted by the European Council in Stuttgart on 18 June 1983 said that the ECA would be asked to submit a report on the sound financial management of Community activities. On 25 July 1983, the Council formally invited the ECA to comply with this request. The relevant report was adopted by the ECA on 6 October 1983 and published in the Official Journal on 24 October 1983.⁶

14. This special ECA report made criticisms of the management of the ERDF which are relevant to the work of the Committee on Budgetary Control. It found that the vagueness of programmes emanating from Member States makes them of little use in assessing and selecting the projects; criteria have not been established for selecting the projects to be adopted from those considered as eligible; the Member States' tendency to submit only sufficient applications for assistance from the Fund to exceed slightly their share of the financing has the result of greatly reducing the scope of project-selection at Community level; Member States do not provide the information necessary to ensure that the Community aid is really additional in nature.⁷ The ECA also pointed out

⁴ ECA report on 1983 financial year, paragraph 7.41

⁵ ECA report on 1983, paragraph 7.42

⁶ OJ no. C287, 24 October 1983

⁷ OJ no. C287, paragraphs 3.3.2 and 3.3.3

that coordination of the various ECA funds is a problem at three levels: objectives, regulations and management.

15. Because of the far-reaching nature of this special ECA report, the Committee on Budgetary Control asked that the Council be invited to attend a future meeting to discuss the action taken to set right the problems identified by the ECA. The Council's answer of 26 November 1984 was unhelpful in tone. In view of the major significance of the special report in question, in view of the problems identified by the ECA in its report on 1983, and in view of the need for comprehensive action at the national level to ensure that the Commission can carry out its responsibilities in regard to managing these Funds in a sound and efficient manner, the Council is invited to follow-up the special report without further delay and to discuss the major issues with Parliament.

Implementation of EP amendments in the ERDF sector

16. The rate of implementation of the payments appropriations made available by Parliament out of its margin for manoeuvre in relation to line 510 of the 1983 draft budget in the ERDF sector was disappointing.

Commitments outstanding

17. The ECA draws attention to the fact that, at the end of 1983, 3 718 MECU of aid still had to be paid. However, it is noted that there was an improvement as compared with the preceding year - outstanding commitments represented 42.6% of total commitments as against 44.5% a year earlier. The Commission makes the further point that because one and a half billion ECUs were committed at the end of December 1983, the true percentage was of the order of 26%. Indeed, given the fact that 42% of all ERDF allocations were made available in 1982 and 1983 combined, the "overhang" is not unreasonable, given the nature and purpose of the commitments appropriations system. However, a means should be sought for showing clearly in the annual budget the size of potential bills arising from commitments entered into in previous years.

18. The draftsman calls on the Commission, however, to make a special effort to clear up the files on old projects such as those referred to by the ECA at paragraph 7.12 of its 1983 report.

Effectiveness

19. A major preoccupation of Parliament is the need to ensure that due account is taken of the effectiveness criterion. Is the outlay contributing to the overall development of the region's infrastructure? Is there a quantifiable impact on the creation - or at least the safeguarding of existing - jobs? Unfortunately, as is indicated at paragraphs 13-15 above, there is no clear evidence that such an effectiveness audit is possible and the Council and the Member States have apparently failed to put the Commission in a position to gauge results adequately.

Supplementary measures in favour of the UK

20. At paragraphs 7.43 to 7.55, the ECA comments on certain aspects of the implementation of the supplementary measures in favour of the United Kingdom. These and allied matters will be considered by a special delegation of the European Parliament to visit the United Kingdom. This being the case, the subject could best be left over for consideration after the delegation has effected its visit.

The Telecom Affair

21. The draftsman is very concerned about the report that a large part of the UK grants from the ERDF in 1982/1984 went to British Telecom - an enterprise which was subsequently privatised amid great controversy. These funds had no impact on the creation of jobs; indeed, in some quarters, they were resented because they were seen as an incentive for private investors who purchases shares in British Telecom. The draftsman contends that the Commission should not have authorised actions which could be construed as having party political implications in one Member State.

Conclusions

22. The general rapporteur is invited to include the following paragraphs in the comments accompanying the discharge decision in respect of 1983.

- A. Notes with approval that an increasing share of the EC budget is being devoted to the regional policy sector, a trend which improves the balance within the budget and enables the Community to attempt to tackle the problems of regional structural underdevelopment and the combatting of specific industrial decline; calls on the Council and the Member States to follow the ECA suggestions so that the Commission may have available to it adequate information to monitor the impact of ERDF measures;
- B. Deplores the fact that the Council has failed to give an adequate follow-up to the ECA special report in response to the conclusions of the European Council of 18 June 1983⁸ and calls on it to take the necessary steps (i) to ensure adequate coordination of the EC structural funds, (ii) to enable a more systematic appraisal of policies to be carried out, and (iii) to make it possible for the Commission to manage the EC budget in a sound and efficient manner which would permit it to make a continuing assessment of EC financial activities;
- C. Stresses the importance of the jobs maintenance and jobs creation aspects of the ERDF; is deeply disturbed by the ECA findings of new jobs forecasts put forward in support of certain applications that were less than honest; believes that this discovery reveals considerable weakness in the national processing of applications and in the Commission's capacity for uncovering errors, inaccuracies or fraudulent claims; calls on the Commission (a) to report further to the Committee on Budgetary Control in the matter with specific reference to the cases cited in paragraphs 7.41 and 7.42 of the ECA report on 1983 and (b) to seek recovery of funds where necessary;
- D. Asks the Commission to report on the closure of old files, especially those referred to by the ECA at paragraph 7.12 of its report on 1983;
- E. Considers that the Commission should ensure that money is not diverted from job creation and job maintenance purposes to the subsidisation of public companies about to be privatised to the advantage of investors and calls on the Commission to give an unequivocal assurance that, in future, it will not allow funds to be spent on projects that are not wholly in keeping with the spirit of the ERDF.

8 OJ no. C287, 24.10.1983



ANNEX X

COMMITTEE ON BUDGETARY CONTROL

DISCHARGE 1983

Working document on the
Social Policy Sector

Draftsman : Mr. Terry PITT

Discharge 1983

Working Document on the Social Policy Sector

Introduction

1. The Social Fund has, quite rightly, been described as one of the basic Community instruments intended to promote a closer convergence between Member States' economies and, at the same time, to contribute directly to reducing unemployment. It is also the Community's main social policy instrument.
2. Before dealing with the details of implementation of the 1983 social sector of the budget, the draftsman proposes to put the situation in perspective by drawing on some of the particulars set out in the Commission's report on the activities of the European Social Fund in 1983.¹
3. The employment situation worsened once again in 1983: the employment level fell by one million and the unemployment rate increased from 10.4% in December 1982 to 11.1% in December 1983. Young people represented more than half of the total and the increase in unemployment was slightly more marked for women than for men.
4. The Social Fund budget represented 6.39% of the general EC budget in 1983, as compared with 5.82% in 1982.
5. The following table reveals the continued worsening in the unemployment rates in the Member States:

UNEMPLOYMENT RATES IN THE MEMBER STATES

(as percentage of civilian working population)

	1981	1982	1983
Belgium	11.6	13.2	14.4
Denmark	8.2	8.8	9.7
Germany	4.7	6.9	8.4
France	7.8	8.8	8.9
Ireland	10.2	12.3	15.2
Italy	8.8	10.5	11.9
Luxembourg	1.0	1.3	1.5
Netherlands	7.2	12.0	14.3
United Kingdom	9.3	10.7	11.7
Greece	1.2	1.4	1.7
Community (EUR 10)	7.6	9.2	10.3

(Source: COM(84)396, page 93)

6. The above table shows clearly that in spite of Social Fund resources the unemployment situation in the Community is not improving. Perhaps this is not so surprising because less than 6.5% of the EC budget is devoted to this purpose.

¹ COM(84)396 final

7. The following paragraphs examine the use made of the Social Fund appropriations available in 1983 and other relevant issues raised in the report of the Court of Auditors.

Total amount of payments appropriations involved

8. The following table sets out the total amounts available for payments out of the EC budget in respect of the social sector in each of the financial years 1979-1983 in million ECU.

	(1)	(2)	(3)	(4)	(5)	(6)
Year	Payment appropriations	Payments made	Carryovers to following	Cancellations	(2) as % of (1)	(3) as % of (1)
1979	560.7	313.0	245.3	2.4	55.8	43.7
1980	775.5	522.2	252.8	0.5	67.3	32.6
1981	732.7	580.9	148.5	3.3	79.3	20.3
1982	1130.7	910.0	220.0	0.7	80.5	19.4
1983	1430.7	801.0	617.7	12.0	56.0	43.2

9. Two very positive aspects of this table are to be noted: (i) the strong upward trend in the amount of payment appropriations made available in the budgets over the five years and (ii) the low level of cancellations.

Sizeable carryovers

10. It is noteworthy that the amount of payments appropriations that was not paid out at the end of the financial year but was carried over was consistently substantial and ranged between one-fifth and two-fifths of the final appropriations for the social policy sector. Moreover, the amount carried over from 1983 to 1984 for this sector, at 617.7 million ECU, was almost the same as the total carryover for the three preceding years combined.

11. The draftsman is aware that time-consuming procedures and cumbersome provisions in the rules have the effect of slowing down the making of payments in the social sector and that special circumstances arose in 1983. It is also apparent that very little of the payments appropriations provided for are lost through cancellation. Furthermore, under the new Social Fund arrangements, the more streamlined procedures should enable payments to be made more speedily. As the following table shows, payments carryovers in this sector mainly have been paid out in the subsequent year.

Utilisation of carryovers in the Social Sector (MECU)

Year	Carryovers from the previous year	Payments	Carryovers to the following year	Cancellations
1979	336.8	312.0	22.5	2.3
1980	267.8	249.6	16.6	1.6
1981	269.4	255.8	10.9	2.7
1982	159.4	150.6	6,7	2.1
1983	226.8	219.9	-	6.9

12. Whilst appreciating the background to the level of carryovers, the draftsman would point out certain negative aspects. First of all, a comparison could be made with the EAGGF Guarantee sector which provided a total amount of payments appropriations which was ten times greater than for the social sector; EAGGF-Guarantee sector carryovers from 1983 to 1984 totalled 0.1 MECU. Of course, an entirely different procedure is followed in the case of agriculture; however, given the will and a sense of urgency, Social Fund payment arrangements could have been streamlined earlier. It could be that, within EC institutions, there is a reluctance to alter existing regulations; such reluctance is unwarranted and inappropriate when it gives rise to the unfavourable comparison to which the draftsman has drawn attention.

13. Given the serious social situation, public opinion does not appreciate the niceties of procedure that lie behind delays in making payments. Unless these can be improved there will be a growing demand to adopt a reimbursement system such as is used in agriculture.

14. Furthermore, the carryover of more than 600 million ECUs from 1983 to 1984 could be taken to indicate that the 1983 budget provisions were in excess of the level needed to meet total payments for the year. This would diminish budgetary transparency and clarity by adding to the estimated charge on taxpayers for 1983 amounts in respect of payments that were to be made a year later.

Parliament's social sector amendments

15. During the procedure leading up to the adoption of the 1983 budget, Parliament put forward several amendments of a social policy nature. These were for amounts of varying size; they were politically significant; they came out of Parliament's margin for manoeuvre; and they related to urgent issues. Following are some particulars of certain amendments affecting payments appropriations:

Budget line	Amount of EP amendment (ECUs)	% implementation
6010 ESF - Aid to the textile sector	96,300,000	0
6011 ESF - Aid to promote employment of young people	96,300,000	0
6012 ² ESF - Special Job Creation Programme	1,000,000	8.9
605 ESF - Women	2,000,000	68.2
646 Poverty programme	500,000	25.9
6401 Cooperation employment	250,000	0
6440 Equality-Men and Women	300,000	0
6441 Integration handicapped	600,000	18.8
631 Young people	855,000	0
6330 Specific training	30,000	0
6331) Training new technology	226,000	44.1
634) Continuing training	100,000	0

16. This is not the first occasion on which the failure of the Commission to implement Parliament's amendments to the budget has come to notice, of course. It was, for instance, one of the reasons which led to the refusal of the discharge to the Commission in respect of the implementation of the budget for the 1982 financial year. It was also a cause for criticism of the Commission in previous years. When consideration is given to the justification which underlay the amendments listed at paragraph 14 above, the Commission's failure - in the light of the grave and deteriorating social situation - to implement them calls for a reprimand. It is not good enough to say that there were procedural problems or that it was necessary to amend or draft regulations: given the clearly-expressed political will to have certain tasks carried out, and given the major social problems, an enthusiastic and dynamic response by the Commission could not but ensure implementation.

Overruling of the Financial Controller's refusal to grant approval

17. The 1983 budget as adopted by Parliament carried in Chapter 60 (Measures for Young People) an amount of commitment appropriations for 1983 that was 203.49 million ECU more than it should have been if there was a strict and rigorous interpretation of Article 9(2) of Decision 71/66/EEC as amended by Decision 77/801/EEC which stipulates that the appropriations for improving employment in 'priority' regions shall not in any year be less than 50% of the total appropriations available. The Commission overruled the Financial Controller and, in effect, gave precedence to the budget over other documents. By doing this, the draftsman considers that the Commission showed that there are ways in which the absence of certain texts may be circumvented and use may be made of sums inscribed in the budget. This pattern should be followed more often in regard to the implementation of amendments: however, the need for speedier presentation of proposals for amendments to inadequate regulations is also indicated. In the case of the follow-up to budget amendments, action should be initiated promptly by the Commission.

² Subject of special comment at pages 22/23 of COM(84)396 final

Accumulation of operations at the close of the financial year

18. The Court of Auditors noted that there was a considerable accumulation of ESF operations towards the end of the financial year and feared that this could have a detrimental effect on efficient management and control.³ The draftsman agrees that this concern is well-founded but observes that the situation may change for the better under the new Fund rules.

Examination of applications

19. The Court of Auditors considered that the questionnaires relating to applications that had been approved contained information that was inadequate, that eligibility is not sufficiently verified, and that efficiency and effectiveness are not examined in a convincing manner.⁴ The Commission replied in writing, in some detail, to these points. The draftsman believes that a comprehensive procedural manual for the staff concerned, and for applicants, would be useful as a working instrument and as a means of ensuring that applications are processed in a standard, adequate and efficient manner.

Inadequate appraisal of final requests

20. Because there are very few on-the-spot visits, the Commission's appraisal of requests for payments of outstanding amounts is made mainly by examining files.⁵ The Court of Auditors considers that the Commission's check on admissibility is loose, there is a lack of relevant details on the files, the examination of eligibility is somewhat sketchy, statistics are inadequate. The Court of Auditors found that it was unable, in view of these weaknesses, "to check whether the Commission really does assess the projects in terms of effectiveness or efficiency." (paragraph 8.24)

21. The draftsman considers this to be a very serious state of affairs because:

- (i) it is of the utmost importance that the impact of the use made of taxpayers' money should be monitored so that sound management may be confirmed, so that the effectiveness of policies may be gauged and so that the control authorities may be assured that proper regard is had to efficiency; and
- (ii) it echoes the criticism made in the decision to refuse discharge for the implementation of the EC budget for the 1982 financial year on the grounds of:
"inadequacies of the Commission's management, monitoring, appraisal, assessment and financial information systems, which undermine the Commission's capacity to ensure the implementation of policies and which diminish its ability to secure effectiveness in the use of Community funds."⁶

22. The draftsman is glad to note that the Commission has promised to take the necessary steps to improve matters. Adequate modern data-processing techniques would appear to be essential in dealing with this kind of work. Once again, a carefully-prepared manual would be most useful to the staff concerned.

³ Paragraphs 8.12 and 8.13 of the Annual report on 1983.

⁴ Paragraphs 8.14-8.17 of the Annual report on 1983.

⁵ Paragraphs 8.18-8.25 of the Court of Auditors' Annual report on 1983.

⁶ Doc. 2-888/84, paragraph 2(f).

Problems regarding recoveries

23. 131 recoveries were made during 1983 in cases where the payments of advances were too high in comparison with the total claims approved.⁷ There were also 13 cases where decommitments for reuse were no longer possible because the Commission was informed of unused sums at too late a date by the Member States.⁸ Obviously, there is a need for better general monitoring and for closer attention to detail by the administrations in the Member States.

Miscellaneous activities in the Social Sector

24. Under this heading, the ECA made a number of suggestions which the Commission has undertaken to follow up: e.g. in future, contractors will be required to present a detailed statement (paragraph 8.37); proper contracts now replace "succinct letters of requisition" (paragraph 8.38); the Commission has also promised to "get in touch with the European Cultural Foundation in order to clarify "an aspect of the ownership of EURYDICE property" (paragraphs 8.43 and 8.44); the draftsman would wish to see this matter pursued with alacrity. As regards contracts between the Commission and a profit-making company in the context of Article 631 (paragraphs 8.45-8.49), the Commission has promised to take appropriate steps to clarify the situation and, if need be, to recover any sums paid in excess. The draftsman would appreciate a brief supplementary report from the Commission to the Committee on Budgetary Control in relation to this matter before April 1985.

Utilisation of reports

25. At paragraph 8.55, the ECA indicated that it "found no sign of the Commission having made use of" reports on the utilisation of aid to disaster victims. This would seem to be part of a much wider flaw in management and in information flows within the Commission to which it is hoped the new college will direct its attention.

Effectiveness of expenditure in the social sector

26. The aim of EC activity in the social sector should be to endeavour to secure better employment opportunities for those who are unemployed and for the less-advantaged; it should not lead to a better-educated unemployed who are not trained for new jobs. The draftsman notes that table XVIII of COM(84)396 final gives the estimates of 1,819,720 and 1,822,391 for the number of beneficiaries of EC social intervention in 1982 and 1983 respectively. These seemingly precise totals are flawed somewhat by the fact that they include the round figure of 600,000 for the "regions" sector for both years.

27. The draftsman welcomes the information contained at Chapter VII of the Commission's report assessing the effectiveness of Fund aid. It is a beginning but, as is evident from the overall situation, it is inadequate. This is not a criticism of the small number of Commission staff dealing with this sector; rather it is a reiteration of the need for the Commission to improve its overall monitoring, appraisal and assessment systems. It is also an aspect to which the Court of Auditors, in carrying out its responsibilities regarding the sound management of the use of EC funds, could devote increased attention.

⁷ Paragraph 8.26 of Court of Auditors' Annual report on 1983

⁸ Paragraph 8.30 of the Court of Auditors' Annual report on 1983

⁹ COM(84)396 final, page 81 et seq.

Conclusions

28. The rapporteur for the 1983 discharge is invited to include the following paragraphs in the comments accompanying the discharge decision:

- A. Considers that the high level of carryovers from year to year reflects weaknesses in the procedures that should have been corrected by earlier amendments to the regulations, notes that the situation should improve considerably under the the new Fund provisions, and asks the Commission to undertake that, in future, it should put forward speedily proposals for amendments to rules which distort budgetary decisions;
- B. Deplores the Commission's failure in 1983 to use fully the monies made available by Parliament in the social sector of the budget, especially in view of the worsening employment situation and insists that, henceforth, the Commission shall keep Parliament informed, on a regular basis during the financial year, of difficulties in implementing budget amendments;
- C. Observes the undesirable tendency for applications to be submitted rather tardily and asks that the services of Member States be strongly encouraged to transmit applications earlier; believes that the large number of recoveries of excessive advances in 1983 indicated a lack of care on the part of the national bureaucracies and urges them to pay closer attention to detail when processing applications and asks the Commission to report back on any reforms at the national level;
- D. Asks the Commission to introduce an official manual to enable its staff and applicants to process applications and relevant associated documents in a streamlined, coherent and standardised manner;
- E. Feels that there is need for a far more thorough monitoring of effectiveness and efficiency in the social sector if the budgetary authority is to be assured that the criteria of sound management and value for money are respected in this domain; considers that this also involves the responsibility of the Court of Auditors and urges it and the Commission to carry out a comprehensive appraisal.

COMMITTEE ON BUDGETARY CONTROL

Working document
on the
discharge procedure in respect of Chapters 70, 71, 72, 73
and 78 of the budget

(Discharge in respect of the 1983 financial year)

Rapporteur: Mr P. CORNELISSEN

28 March 1985

The aim of this note is to offer certain comments which might serve as a starting point for the report on the discharge in respect of the 1983 financial year.

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The Commission can monitor management of the budget in three different areas:

- the implementation of decisions taken by the budgetary authority,
- sound management,
- the effectiveness of expenditure.

A. Implementation of decisions taken by the budgetary authority

This is primarily a matter of determining to what extent the decisions taken by the budgetary authority have been implemented. Since budgetary management in these areas is based on fairly lengthy procedures which often involve third parties, the rate of utilization of commitment appropriations is indicative of the Commission's political determination, whereas the rate at which payments are made is a measure of the dynamic approach to the projects.

By comparison with the situation in 1982, significant progress was made in this area in 1983, particularly as regards commitments, although the utilization rate of payment appropriations is still inadequate. In the case of energy policy, the rate of utilization of commitment appropriations rose from 61.4% to 98.1%. If we discount Article 707 (compensation for the UK and the FRG), which is a special case and accounts for 82% of the appropriations entered in this chapter, the rate of utilization for commitments under the remaining budget headings is still 89%. The rate of utilization of payment appropriations is much lower, amounting to no more than 24.3% (excluding Article 707).

The rate of utilization of commitment appropriations in Chapter 71 was 100% and that of payment appropriations 63.4% whilst the corresponding rates for Chapter 72 were 87.9% for commitments and 42.4% for payments.

In the case of research appropriations, the rate of utilization for commitments was 91% in 1983 as against 87% in 1982. The rate of utilization of payment appropriations remained stable at 87%. As regards the appropriations allocated for direct action (Joint Research Centre), the utilization rates were 94% for commitments and 83% for payments.

Whilst these results taken as a whole indicate that genuine progress has been made since 1982, there are a number of items for which the rate of utilization is inadequate or, at least, could have been improved. There are a number of reasons for the failure to implement certain budget lines:

(a) Lack of a legal basis:

The Commission has pointed out in this connection that the lack of a legal basis has prevented the implementation of three series of projects: energy demonstration projects, promotion of energy investments (Article 705) and financial support for transport infrastructure projects (Article 781).

As regards demonstration projects, the basic regulation was adopted by the Council on 11 July 1983, but only in respect of the 1983 financial year. The Council has not yet reached a decision on the promotion of energy investments.

In the case of support for transport infrastructure projects, it was possible to commit appropriations allocated to three specific projects and carried over from the 1982 to the 1983 financial year on the basis of a regulation which was valid only for the 1982 financial year. However, the appropriations entered in the 1983 budget were not utilized owing to the Council's failure to reach a decision on the Commission's proposals for a multiannual programme on transport infrastructures.

(b) Cumbersome procedures

This is often the basic reason for the delays which occur, particularly in the case of payment appropriations. The Commission must pursue its efforts to increase the efficiency of its procedures so that decisions taken by the budgetary authority may be implemented as quickly as possible. More specifically in the case of energy

demonstration projects, the delay in utilizing appropriations was caused by a corresponding delay in adopting the basic regulations and by the cumbersome decision-making procedure in regard to the projects to be financed: consultation of the management committee, deadline of 20 days during which the Member States may refer the matter to the Council and, if the matter is referred to the Council, a further deadline of 40 days for the Council to take a decision. If the adoption of the basic regulation is delayed, as it was in 1983, a large proportion of the payment appropriations have to be carried over to the following financial year. It should also be pointed out that the major role played by the management committee effectively deprives the Commission of much of its decision-making powers.

(c) There is a third factor which may explain the inadequate rate of utilization of appropriations. In some cases, the decision taken by the budgetary authority exceeds the amount which can reasonably be utilized. Overestimation of requirements often results from the information set out in the Commission's preliminary draft budget. However, we must ensure that a more detailed analysis is carried out of requirements eligible for financing, particularly at a time when we have to apply the strictest possible criteria for the allocation of available resources.

B. Sound management

In its annual report, the Court of Auditors draws attention to a number of flaws in the procedures for utilizing budget appropriations. The Commission's replies do not present grounds for suspecting any major irregularities but point to the fact that certain procedures are imperfect. The Commission must ensure that these procedures are followed, particularly as regards the awarding of research contracts.

C. Effectiveness of expenditure

Monitoring of the Commission's management of the budget has traditionally been restricted to its quantitative aspects. This approach clearly offers only a superficial view of the basic issues,

and we must take a more detailed look at the effectiveness of the appropriations earmarked for energy and research. For this purpose, we have at our disposal a study carried out at the Court of Auditors' request by Mr Jean-Francois DELPECH, Director of Research at France's National Scientific Research Centre (CNRS), which offers an assessment of the scientific research activities in the JRC establishments.

Mr DELPECH stresses the low productivity level of the research carried out at the JRC in terms of the number of papers published in leading scientific journals (an average of one article per research scientist every 16 years) and of the number of patents registered (0.019 patents per research scientist per year). However, he states that there has been a significant improvement in some sectors, both in terms of the organization of research and the calibre of the staff, which should ultimately lead to a definite improvement in performance.

Furthermore, on 25 February 1985 the Commission forwarded to Parliament two assessment reports on demonstration programmes and the Committee on Budgetary Control will be considering these in detail.

CHAPTER 73 - RESEARCH AND INVESTMENT

Utilization of appropriations

TITLE 7 CHAPTER 73	1983 APPROPRIATIONS (million ECU)				% utilization			
					Commitments		Payments	
	Approps		Approps					
	Appropriations for commitments	Appropriations for payments	1982	1983	1982	1983		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Direct action (JRC)	167,29	216,53	169,11	215,26	89	94	78	83
Indirect action	173,46	223,94	157,52	176,80	81	85	88	85
Participation in JET	95,00	95,01	95,00	95,01	100	100	100	100
Total	435,75	535,48	421,63	487,07	87	91	86	87
Item 7330*	1,50	5,37	5,16	9,34	57	3	42	19
7369*	10,00	13,00	10,00	10,54	84	39	78	63
7374*	5,00	5,00	1,50	1,50	-	38	-	8
7382*	p.m.	4,00	p.m.	2,00	-	92	-	1
<p>(1) and (3) Initial appropriations, including supplementary and amending budgets.</p> <p>(2) Including transfers, appropriations remaining and appropriations released and available for re-use (basis of calculation for column 6).</p> <p>(4) Including transfers and all carryovers (basis of calculation for column 8).</p> <p>* Budget heading with a particularly low utilization rate.</p>								

Source: Revenue and expenditure account and balance sheet relating to operations under the 1983 budget (COM(84)219) - page 150

CHAPTER 78 - TRANSPORT

Utilization of appropriations

TITLE 7 CHAPTER 78	1983 APPROPRIATIONS (million ECU)				% utilization			
					Commitments		Payments	
	Appropriations		Appropriations					
	Appropriations for commitments	Appropriations for payments	1982	1983	1982	1983		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Total	16,45	26,45	14,45	15,54	13,00	42,28	49,40	23,93
Article/Item*								
780	0,85	0,75	0,85	1,33	99,70	77,95	53,50	48,85
781	15,00	25,00	13,00	13,00	-	39,60	-	18,00
785	0,60	0,70	0,60	1,21	100,00	100,00	43,70	60,20

- (1) (3) Initial appropriations, including supplementary and amending budgets.
 (2) Including transfers, appropriations remaining and appropriations released and available for re-use (basis of calculation for column 6).
 (4) Including transfers and all carryovers (basis of calculation for column 8).
 * Budget heading with a particularly low utilization rate.

Source: Revenue and expenditure account and balance sheet relating to operations under the 1983 budget (COM(84)219) - page 162

Utilization of appropriations

TITLE 7 CHAPTER 70	1983 APPROPRIATIONS (million ECU)				% utilization			
					Commitments		Payments	
	Appropriations for commitments		Appropriations for payments		Appropriations		Appropriations	
	(1)	(2)	(3)	(4)	1982	1983	1982	1983
Total	895,08	951,86	882,90	913,14	61,40	98,10	55,80	90,70
Article/ Item(*)								
700	24,00	37,62	17,86	19,77	61,40	84,60	88,80	90,10
701	0,40	0,45	1,46	3,00	-	92,90	53,00	58,00
702	28,00	43,90	41,50	46,40	-	88,30	-	9,80
703	24,00	36,84	18,00	22,38	57,60	96,20	54,00	20,30
704	26,00	37,82	12,00	25,43	61,60	98,90	34,60	46,80
705	5,00	5,00	5,00	5,00	-	-	-	-
706	2,60	4,52	2,00	4,51	99,80	98,70	49,50	75,80
709	0,50	1,12	0,50	2,07	94,80	99,70	45,20	55,80
<p>(1) and (3) Initial appropriations, including supplementary and amending budgets.</p> <p>(2) Including transfers, appropriations remaining and appropriations released and available for reuse (basis of calculation for column 6).</p> <p>(4) Including transfers and all carryovers (basis of calculation for column 8).</p> <p>(*) Headings with a particularly low rate of utilization.</p>								

Source: Revenue and expenditure account and balance sheet relating to operations under the 1983 budget (COM (84) 219) - page 145

COMMITTEE ON BUDGETARY CONTROL

1983 DISCHARGE

Working Document

on industrial policy, technology,
information and innovation
(Chapters 75 and 77)

Draftsman: Mrs SCRIVENER

28 March 1985

OLI II/XIV

WG(2)1761E

AIMS OF AN INDUSTRIAL POLICY

1. The need for a Community policy for industry and the information market has long been obvious. The development of this sector of the budget was recommended by Mr Thorn, the former President, as one of the ways of restructuring the Community budget and adjusting its focus. Introducing a policy of this kind paved the way for new Community measures and was one aspect of this adjustment.
2. As early as 1981 the Community drew up a plan for implementing an industrial strategy. In 1983 the Stuttgart European Council endorsed the implementation of this policy. The focus was on two main areas: standardization and encouraging greater cooperation between businesses.
3. The action taken and funded under the budget in 1983 may be broken down under the following four heads:
 - A. Cooperation between businesses in the following sectors:
 - the information market and the telematics industry
 - data processing
 - micro-electronics technologies
 - information technology - ESPRIT
 - B. Measures relating to the equipment and operation of the Community institutions¹:
 - Eurotra
 - computer hardware and software
 - interinstitutional information systems (INSIS)
 - C. Market management measures and the installation of infrastructure facilities:
 - Euronet-Diane (a scientific and technical information and documentation network)
 - monitoring steel production quotas and prices

¹ An own-initiative report on these measures is currently being prepared by the Committee on Budgetary Control

D. Studies and information campaigns in the following areas:

- innovation and the practical application of research
- studies relating to coal and steel
- textiles
- machine tools

BUDGET FUNDING

In 1983 this idea was still far from being fully accepted and initially, although there was a considerable increase compared with previous years, only token appropriations were allocated.

	CA (m ECU)	PA (m ECU)
Chap. 75	12.51	11.36
Chap. 77	39.40	45.15

(Source: 16th General Report)

4. These appropriations have increased relatively slowly even though Parliament has given priority to this sector and used part of its margin for manoeuvre each year to increase the appropriations in these chapters. This occurred in 1982 and again in 1984. In 1983 the results of Parliament's efforts were relatively modest.

(m ECU)

Commitment appropriations	Preliminary draft budget	Council 1st reading	Parliament 1st reading	Council 1st reading	Parliament 2nd reading
Chap. 75	17.7	11.1	15.2 (+ 4.0)	11.1	12.5 (+ 1.3)
Chap. 77	48.5	25.4	52.7 (+27.3)	38.1	39.4 (+ 1.2)

(Source: 16th General Report)

5. However, in the course of the year, the appropriations in Chapter 77 were significantly increased by means of transfers (by 17.6 m in CA), particularly under the following items:

		(m ECU)
7718	: information technologies	= + 2.3
775	: monitoring steel industry measures	= + 7.6
7702	: development of data processing	= + 4.0
7730	: preparatory measures for ESPRIT	= + 3.8

PRACTICAL PROBLEMS

6. Major problems occur in this sector with the disbursement of appropriations, often because the basic regulations are adopted late. This produces an uneven, usually highly unsatisfactory spending rate.

(000 ECU)

	initial appropriations	final appropriations	Use	
			commitments	payment
Chap. 75				
- non-differentiated appropriations	3 060	3 060	2 919	95,4 %
- carry-over		1 266		1 236
- commitment appropriations	9 450	15 951	9 557	59,9 %
- payment appropriations	8 300	7 400		2 904
- carry-over		4 448		2 074

Chap. 77				
- non-differentiated appropriations	13 900	24 706	22 903	92,7 %
- carry-over		5 310		4 802
- commitment appropriations	15 450	67 597	61 982	91,6 %
- payment appropriations	23 700	26 850		15 547
- carry-over		19 948		10 664

7. In certain cases the decision-making procedures are also a major source of delay. This has been highlighted by the Court of Auditors², and it is a widespread problem in most areas of Community financing. To avoid obstructions at the legislative stage, i.e. in the Council, where the unanimity rule has in practice come to apply, machinery for consulting national civil services has been introduced for the implementation of these measures. This consultation can have positive effects in that it ensures that financing is coordinated and information exchanged. But it can also have highly damaging³ effects on budget management. The Court of Auditors quotes the example of the third three-year plan for the information market, in the case of which consultation took on average nine months. Not until it had consulted 38 of its scientific and technical committees, working parties and groups of experts could the Commission begin negotiations with contractors.

8. In other instances, appropriations entered in the budget or increased by Parliament, sometimes at the request of the Commission, have frequently remained completely unused because the Council has been unable to adopt a legal basis for expenditure. Two such cases occurred in 1983 in connection with Chapters 75 and 77: the appropriations under headings 7521, 'promotion of a supporting infrastructure for innovation and technology transfers' (CA = 1,250,000 - CA = 1,000,000) and 7702, 'Community operations for the development of data processing (CA = 4,000,000 - PA = 5,500,000).

9. This is not a new problem and it has been of concern to Parliament for some time. Parliament has proposed various ways of trying to overcome these hold-ups in the Council, which effectively deprive Parliament's budgetary decisions of their substance. When it was considering the discharge for the 1979⁴ financial year it suggested to the Commission that, by joint agreement, a list be drawn up of the budget headings whose appropriations the Commission would undertake to implement solely on the strength of their having been entered in the budget.

² Points 9.34 and 9.35 of the annual report (OJ No. C 348 of 31.12.1984)

³ See Boserup report on committees (Docs. 1-446/83 and 1-40/84)

⁴ Irmer report - resolution of 18 June 1981

10. Shortly afterwards⁵ a 'Joint declaration by the European Parliament, the Council and the Commission' was agreed on; this was intended, amongst other things, to solve this problem by expressly acknowledging the Council's right to hold up the implementation of appropriations entered in the budget 'for significant new Community action', and by setting up a procedure for using appropriations frozen in this way.

11. This procedure has existed for three years, but it has never worked properly. On the contrary, when Parliament expresses surprise at the fact that appropriations it has entered in the budget have not been implemented, the Commission takes refuge behind the text of this 'Joint declaration'.

12. One particularly disgraceful example concerns the appropriations in item 7570, 'the Community contribution to the financing of innovation for the purpose of assisting small and medium-sized enterprises'; even though it relates to the 1984 budget it deserves to be mentioned. Parliament had included support for innovation in SMUs in its budget priorities and decided to enter an appropriation of 12 m ECU for it in the budget. The Commission therefore proposed a basic regulation for the measure, and this received the support of Parliament. Because of opposition from a single Member State⁶, the Council was unable to adopt this regulation and the appropriation remained unused.

CONCLUSION

13. Community action in this sector is of major importance for the future of the European economy. It will not produce significant effects unless the procedure used is altered so that it does not obstruct the decision-making process. The arrangements adopted for the ESPRIT programme, with 50% involvement by the businesses concerned and coordination between the Commission, the Member States, industry and the universities, may be said to be exemplary in this respect.

14. The procedure for implementing appropriations in the event of the Council failing to act should be reviewed. The rapporteur is invited to draw up proposals to this effect.

⁵30 June 1982

⁶which, according to press reports, considered that a Community measure would be in competition with action it was taking at national level

COMMITTEE ON BUDGETARY CONTROL

DISCHARGE FOR 1983

Working document

on food aid
(Chapter 92)

Rapporteur: Mr L. FELLERMAIER

28 March 1985

OLI II/XIV



INTRODUCTION

Food aid originated in the USA after the Second World War in a deliberate attempt to find new markets for domestic agricultural produce.¹ In the Community, food aid came into being at the end of the 60s.

After it was found that the food situation in developing countries had steadily deteriorated since 1970 resulting in increasingly frequent famine, there was a change of outlook and approach to food aid.

In the European Communities, the approach changed at two levels:

- quantitatively: the amount of food aid, particularly cereals, remained stagnant between 1976 and 1980 at 720,000 tonnes; since 1980-81², it has increased to more than 1 million tonnes³.
- qualitatively: the institutions became aware that merely supplying food is only a short term solution to the problem of famine. When the problems become structural and when domestic production can no longer meet the needs of the population in the long term, traditional food aid is an adequate response and may even exacerbate the situation in the developing countries by disrupting local production and distribution structures. Parliament and the Commission therefore redefined the objectives and terms of the Community's food aid policy. As regards financial management, procedural problems and financial rationalization, Parliament's new approach is based on the special report of the Court of Auditors on Community food aid and set out in the IRMER report⁵.

The less than gratifying outcome of the implementation of food aid in 1983 should be judged in the light of this situation.

¹Federal Law 480

²The Ferrero report on combating hunger in the world was adopted on 18 September 1980

³The amount for 1983 is considerably less than this

⁴1981: 83.2% 1982. 87.9% 1983: 63.2%

⁵Doc. 1-98/82

I. FINANCIAL MANAGEMENT

The figures produced by the Court of Auditors have caused a great deal of concern:

- a steady decline in payment

1981: 601.6 m ECU; 1982: 540.2 m ECU; 1983: 388.5 m ECU.

- the sharp drop in the rate of utilization of resources in 1983

1981: 83.2%; 1982: 87.9%; 1983: 63.2%

- the increasing quantities not delivered:

	1981	1982	1983
Cereals	182,232 t	339,185 t	622,921 t
Milk powder	39,821 t	65,673 t	104,463 t
Butteroil	17,057 t	25,092 t	35,718 t

The Court of Auditors also objects to the transfers of appropriations within Chapter 92 from the programmes for the financial year in question to the programmes for previous years. It regards these transfers as evidence of an incorrect assessment of requirements (point 10.14).

For years Parliament has been asking the Commission to make improvements on three aspects of the implementation of food aid and its financial management:

- (a) The problem of the unacceptable level of non-utilized payment appropriations should be resolved by introducing differentiated appropriations.
- (b) The Commission should refrain from manipulating appropriations by means of transfers within Chapter 92, a practice which has more in common with the circumvention of the provisions of the Financial Regulation on carryovers of appropriations from one year to another than with an incorrect assessment of requirements.

(c) The Commission should ensure prompt implementation of the programmes and faster utilization of appropriations.

In recent months, the Commission has complied with Parliament's first two demands. The preliminary draft budget for 1985 introduced differentiated appropriations for food aid and the budget lines for previous years' programmes were deleted.

As regards the third demand - prompt implementation of the programmes - the data available shows that the appropriations were fully committed and paid by the middle of the 1984 financial year.

The reasons for this welcome news have still to be investigated, though two factors undoubtedly played an important role: the Council decision on the annual programme was taken earlier;⁷ 1984 saw an unprecedented famine and the pressure exerted by the overwhelming need and a highly sensitized public opinion obviated the difficulties of taking a decision and implementing the programme.

II. PROVISION, TRANSPORT AND DELIVERY OF FOOD AID

For years the Court of Auditors has regularly making the point that food aid consignments are all too often in poor condition, and may even be completely ruined by the time they reach their destinations; deficiencies are to be found at all the stages in the supply chain (collection in the Community, transport, storage and distribution in the recipient countries).

It is difficult to assess how widespread this phenomenon is. What is certain, however, is that deficiencies of this nature, even if they are exceptions, are severely damaging to the credibility of Community aid and everything must be done to avoid them. In the past Parliament has called on the Commission to tighten up its supervision, particularly by the delegations on the spot and to exercise greater control over the arrangements for delivery and transportation (selection of firms, conditions of delivery etc.).

⁶Table on implementation of the 1984 budget, 22.1.1985 by D.G. XIX at the Commission (PE 95.488)

⁷May 1984 as compared with July 1983

For instance, it has rejected the procedure which transfers responsibility for transport to the recipient countries. As part of the discharge procedure for 1983, the Commission should be asked to report on the measures it has taken in this respect. In particular, it should consider whether the Community should take over responsibility for transport.

III. DECISION-MAKING PROCESS AND PROCEDURE

Framework Regulation No. 3331/82 on the implementation of food aid policy was applied for the first time in respect of the 1983 financial year. The Commission takes the view that the disastrous results for 1983 cannot be attributed to this regulation, claiming that the real reason lies in the Council's late adoption of the annual programme. This can only be partially true, however. In 1984, the Council took its decision barely three months earlier and by 30 June 1984 the quantities supplied equalled the total for the whole of 1983.

The difficulties that arose during the 1983 financial year could also be attributable to the fact that Regulation No. 3331/82 was adopted after the Council had unilaterally abandoned the conciliation procedure, with the result that a number of demands made by Parliament were not taken into account.

- The total quantities per year are laid down not in the framework of the budgetary procedure but by a Council implementing regulation. Consequently, implementation cannot begin on 1 January⁸ and the procedure for the adoption of a regulation usually lasts several months.
- Implementation of the aid is the responsibility of the Commission, which is unable to act because management committees are still involved. Parliament rejects such a procedure on principle as it does not guarantee the precedence of Community interests and prolongs the procedure even more.

⁸Parliament provided for a special procedure in the event of the budget being rejected (Galland report - Doc. 2-1338/84)

- Regulation No. 3331/82 will remain an obstacle to a genuine and effective Community food aid policy. Such a policy calls for the implementation of a multi-annual programme of aid and integration of this aid into the recipient countries' development programmes.
- Regulation No. 3331/82 gives priority to short term ad hoc measures and must therefore be amended accordingly.

IV. CLOSURE OF ACCOUNTS

The Court of Auditors criticizes the fact that it is several years before the accounts for food aid under the EAGGF are closed. This problem can only be resolved in the framework of a reform of the EAGGF. The Commission is asked to introduce such a reform of the procedure for the closure of accounts.

CONCLUSION

Parliament wants an effective food aid policy. The object of this policy should be to develop food production in the recipient countries and to cover their short term needs, particularly in the event of disaster. Such a policy can only be implemented through a well planned multi-annual programme, which necessitates amending the framework regulation.

Improving the mechanisms governing implementation and supervision of the aid is a further precondition of the policy's effectiveness. The weaknesses of these mechanisms are well known. The Commission, the Court of Auditors and Parliament have identified and analysed them at the various stages of implementation (collection, transportation, distribution). The Commission is responsible for implementation and should report regularly to Parliament on the measures it has taken to remedy these weaknesses.

Finally, it is Parliament's wish that the public and the countries of the Third World should regard Community food aid as a positive contribution to improving living conditions in the developing countries. This is dependent not only on the effectiveness of the aid but also on the kind of reporting it receives.

The following remarks could be incorporated in the resolution on the discharge:

- stresses the need for careful multiannual programming of the Community food aid policy, which necessitates an urgent reform of Regulation No. 3331/82;
- points out that Regulation No. 3331/82 was adopted after the Council had unilaterally abandoned the conciliation procedure; stresses that, as a result, the following demands made by Parliament were not taken into account:
 - . the total quantities per year laid down not in the framework of the budgetary procedure but by a Council implementing regulation,
 - . implementation of the aid is the responsibility of the Commission which cannot act alone because management committees are still involved;
- calls on the Commission to carry out a study of the transport arrangements for food aid, with the aim of clarifying the situation with regard to freight rates and at the same time to examine whether the problem would be tackled more cost-effectively and efficiently if the Commission itself were to take over responsibility for transport arrangements; instructs its Committee on Budgetary Control to report to it on the basis of this study;
- calls on the Commission to take steps to drastically reduce the unusually long time taken to close the accounts for food aid; adjustments must be made in the EAGGF, Guarantee Section, to this end.

COMMITTEE ON BUDGETARY CONTROL

1983 DISCHARGE

Working document

on the development aid section of the budget
(with the exception of Chapter 92: food aid)

Rapporteur: Mrs Y. FUILLET

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I. GENERAL CONSIDERATIONS

Development aid is one area in which the Community's influence would seem to be essential. With development aid activities under Community management, there is scope for improved coordination of national measures and, hence, economies of scale. Furthermore, the Community is less likely than the Member States to fall under the suspicion of using development aid as a means of furthering foreign policy interests, which is precisely why there is a national reluctance to surrender even more control to the Community.

1. Annual volume

	Payments (m ECU)	
	in 1982	in 1983
Food aid	540.20	388.50
na LDCs	55.30	136.10
NGOs	20.10	21.30
Specific measures	0.80	1.40
Measures to combat hunger in the world	-	0.07
Exceptional measures	36.00	66.10
Cooperation with Mediterranean countries	86.70	143.30
Operating expenditure	42.20	49.00
Cooperation with non-Member countries	0.60	0.90
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E D F	647.20	718.80
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	1,429.00	1,526.00

Development aid accounted for 6.2% of Community expenditure in 1983. The small increase on the previous year's outlay is primarily attributable to a significant decline in payments in the food aid sector, which will be considered in another document.

Setting aside the EAGGF Guarantee Section, the development aid policy's share of the budget compares favourably with that of the other Community policies: although lagging behind the regional policy (9.9%), it is ahead of the research and energy policies (5.4%), the social policy (4.2%) and the agricultural structures policy (3.1%).

2. Difficulties in implementing the budget

The entire development aid sector has always suffered from delays in the utilization of appropriations. These delays are to a large extent due to the tension which exists between the political determination of the budgetary authority, particularly Parliament, to expand development aid activities at a time when the developing countries are confronted with enormous problems and it is increasingly evident that Europe should come to their assistance, and the inadequacy of the technical and manpower resources available to the Commission for the task in hand.

If we discount the food aid sector, it may be said that these difficulties were on the whole less severe in 1983 since payments rose by 27.7% (from 893 m ECU to 1,141 m ECU).

However, this improvement is relative because in certain sectors there was a further decline in the rate of utilization of appropriations in 1983:

	1982 (m ECU)			1983 (m ECU)		
	payment approps. available	payments	rate of utilization	payment approps. available	payments	rate of utilization
Chap. 93 na LDCs	191.8	74.6	38.9%	239.8	138.1	57.6%
Chap. 94 NGOs and specific measures	30.3	19.8	65.3%	42.7	22.7	53.2%
Chap. 95 Exceptional measures	76.9	36.1	46.9%	147.9	66.6	45.0%
Chap. 96 Cooperation with Mediterranean countries	255.4	72.5	29.5%	232.2	143.3	61.7%

3. Support from Parliament

Parliament has consistently sought an expansion of the development aid sector and its initiatives have often been decisive not only in securing an increase in the resources earmarked for the sector, but also for the launching of certain projects (aid to non-associated developing countries) and the improvement of management techniques (evaluation of the results of aid granted, budget presentation).

II. AID TO NON-ASSOCIATED DEVELOPING COUNTRIES

In its annual report for 1983¹, the Commission points out that cooperation with non-associated LDCs began in 1976 thanks to the entry by Parliament of an appropriation in the budget out of its margin for manoeuvre. Until 1981, the only legal basis for the allocation of resources had been their inclusion in the budget. In the same year, the Council adopted a regulation establishing that aid would be provided on a permanent basis and laying down general rules for its utilization. One such rule is that the appropriations entered by the budgetary authority must be utilized on the basis of guidelines adopted at the beginning of the financial year by the Council on a proposal from the Commission and after consulting Parliament. Furthermore, the financing decisions must be taken by the Commission after consulting a committee consisting of representatives of the Member States.

The Court of Auditors and the Commission have both noted a progressive normalization of the rate of utilization of commitment and payment appropriations.

However, this improvement must not be allowed to conceal the fact that serious delays have occurred in the past, partly as a result of the Council's dilatoriness in taking the necessary decisions. (In 1982, a special measure to assist Central America was not adopted until October. Similarly, in 1983, the decision to include China among the beneficiaries was deferred until November.) Inadequate administrative facilities have certainly been a contributory factor. But, as the Commission points out, the poor rate of

¹COM(84) 525 final

utilization is essentially a structural problem, arising both from the decision-making procedure, which requires the agreement of the national representatives within the Council or that of the financing committee, as well as negotiations with the co-financiers and the recipients, and from the very nature of the projects, whose implementation often extends over several years.

The Commission and the Court of Auditors disagree in their interpretation of the term 'available appropriations'. Whereas the Court of Auditors sees this as the actual amount entered in the budget, the Commission's calculations are based on the amount decided by the Council within the framework of the annual programme. This difference in approach may well be understandable, but it nevertheless demonstrates the disparity between the budgetary decision and the legislative decision. The Commission's table (page 18 of COM(84) 525) shows, moreover, that the Commission considers that the budget allocation is not the amount entered by the budgetary authority (235 m ECU), but the amount adjusted (i.e. reduced by 20 m ECU) to the requirements generated by the programme decided on by the Council (212.2 m ECU).

This calls into question the usefulness of the additional 35 m ECU voted by Parliament out of its margin for manoeuvre, as this amount was reduced by 20 m ECU in order to take account of the programme decision.

III. SPECIAL PROGRAMME TO COMBAT HUNGER IN THE WORLD

On the basis of a report by Mr FERRERO², Parliament decided to enter an appropriation of 50 m ECU in the 1983 budget to finance a special programme to combat hunger in the world³. Because of the procedure followed for the utilization of this appropriation (adoption by the Council of a framework regulation (1993/83), and financing decisions taken by the Commission after consulting a committee composed of national representatives), 46.9 m ECU in commitment appropriations could not be committed until 31 December 1983 and only 70,585 ECU could be paid out.

²Doc. 1-341/80 of September 1980

³In the 1982 budget, Parliament entered an appropriation for this purpose as food aid.

The Commission has submitted a report⁴ to the Council and Parliament on the execution of this programme, which shows that the aid is being apportioned in a balanced way among the beneficiaries and types of project specified by the regulations and in accordance with the criteria laid down. Although the final report (requested for 31 December 1984) is not yet available, and although it is not known whether difficulties have arisen in the implementation of the programme, it is clear that the Community has a duty to continue with the relevant projects in the future. The Third Convention of Lomé provides for such projects to be implemented to assist the ACP States. But it is recommended that they should also be continued for the benefit of the non-associated developing countries.

THE EUROPEAN DEVELOPMENT FUNDS

A. BUDGETIZATION OF THE EDFs

Since 1970, the year in which a genuine Community budget was introduced, the budget arrangements for the EDFs have been out of step with several rules which are in principle applicable to all the Community's budgetary activities. The most important of these rules are:

- Article 199 of the EEC Treaty: 'All items of revenue and expenditure of the Community ... shall be included in estimates to be drawn up for each financial year and shall be shown in the budget'; and
- Article 4(1) of the Decision of 21 April 1970: 'From 1 January 1975 the budget of the Communities shall, irrespective of other revenue, be financed entirely from the Communities' own resources'.

There are several drawbacks in the exceptional arrangements applicable to the EDFs. The appropriate and responsible Community authority has no control whatever over the relevant budgetary decisions, the payment of resources is entirely at the discretion of the Member States, and budgetary control is rendered more difficult by the failure to comply with the budgetary principles of annuality, unity and specificity.

⁴COM(84) 660 final

Steps have been taken to remedy these shortcomings. Thus, documents containing the EDF budget estimates for the coming year are submitted to the budgetary authority at the same time as the preliminary draft budget, and the EDF is subject in principle to budgetary controls similar to those applied to the general budget. But problems remain. The accounts are not presented in the prescribed form and within the prescribed time limits, which narrows the scope of the discharge decision. The Member States are extremely dilatory in making over their contributions, which creates cash-flow problems. It is not possible to find a budgetary solution to problems arising unexpectedly during the implementation of an agreement (e.g., the problem created by increasing the resources of STABEX). Most serious of all, however, is the unbecoming habit of the Member States, during the negotiation of agreements, of haggling over their respective contributions to the financing of the EDFs.

Leaving aside this desire of the Member States to be allowed to negotiate the amount of their contributions, no serious argument has been put forward to justify the Council's opposition to the budgetization of the EDFs. Your rapporteur therefore proposes that a Parliament strategy should be prepared to compel budgetization.

B. DISCHARGE FOR THE FINANCIAL YEAR 1983

Because of the non-budgetization of the EDFs, the discharge granted by Parliament would be limited in scope since it exercises no control over the entry of EDF appropriations. It is nevertheless unthinkable that it should pay less careful attention to the EDF component of the discharge than to the discharge as a whole. With regard to the accounting aspects of EDF management, the Commission is therefore asked to take account of the Court of Auditors' recommendations and, in particular:

- that the revenue and expenditure accounts and financial statements should be submitted within the prescribed time limits;
- that projects under the 2nd EDF should be closed;

- that no new financing decisions should be taken under the 3rd EDF and that funds not yet allocated should be transferred to the 5th EDF; that completed projects under the 3rd EDF should be closed;
- that an advance of 4.5 m ECU granted under the 3rd EDF should be repaid.

C. MANAGEMENT OF PROJECTS

1. General information

In 1983, payments from the EDFs amounted to 710.3 m ECU. To this must be added the payments made by the EIB out of its own resources (101.5 m ECU). These payments break down as follows:

3rd EDF	13.5
4th EDF	280.0
5th EDF	416.8
EIB	<u>101.5</u>
Total	811.8

and represent an increase of 12.7% over the previous year.

In the case of commitments, the situation is different. Under the 5th EDF, commitments in 1983 amounted to 892.4 m ECU as compared with 1,095.3 m ECU in the previous year (-18.5%). This fall is attributable to a reduction in subsidies (-121.4 m ECU) and in the volume of transfers effected under STABEX (-39.6 m ECU) and SYSMIN (-95 m ECU), for which no financing decision was taken in 1983. There was thus a 'rebalancing' of financing operations in favour of the 'loans' component and at the expense of the 'transfers and subsidies' component.

These financing operations break down as follows:

I. <u>Aid administered by the Commission</u>	<u>744.9</u>
* Programmable subsidies	<u>471.5</u>
* Special loans	157.7
* Emergency aid	12.7
* Stabex	103.2
* SYSMIN	-
II. <u>Aid administered by the EIB</u>	<u>147.5</u>
* Loans from own resources	<u>90.0</u>
* Interest subsidies	13.4
* Risk capital	44.1
III. <u>Total</u>	<u>892.4</u>

2. Sectors in receipt of aid

Aid granted under the 5th EDF in 1983 may be broken down as follows:

	<u>Commission</u>	<u>EIB</u>	<u>Total</u>
I. <u>Development of production</u>	<u>272.6</u>	<u>107.1</u>	<u>383.7</u>
A. Industrial	112.2	107.1	219.3
B. Tourist	11.6		11.6
C. Rural	152.8		152.8
II. <u>Infrastructures</u>			
<u>Transport</u>	<u>224.1</u>	<u>27.0</u>	<u>251.1</u>
<u>Communications</u>			
III. <u>Social Development</u>	<u>127.0</u>		<u>127.0</u>
A. Education			
Training	77.3		77.3
B. Health	17.0		17.0
C. Water supply projects	32.7		32.7
Urban development			
IV. <u>Trade promotion</u>	<u>7.1</u>		<u>7.1</u>
V. <u>Emergency aid</u>	<u>12.7</u>		<u>12.7</u>
VI. <u>STABEX</u>	<u>103.2</u>		<u>103.2</u>
VII. <u>Miscellaneous</u>	<u>7.6</u>		<u>7.6</u>

Total	<u>758.3</u>	<u>134.1</u>	<u>892.4</u>

It should be noted that:

- EIB aid was concentrated on the development of industrial production and, to a lesser extent, on the development of telecommunications infrastructures;
- Commission aid in the industrial production and energy sectors was 33% down on the previous year, although the resources allocated to projects in which energy figured predominantly (80.1 m ECU in 1983) were more than double the 1982 allocation;
- commitments in the rural development sector (152.8 m ECU) were 57% down on the previous year. The Commission considers, however, that this decline was due to cyclical factors and does not affect the objective of devoting more than a quarter of the resources of the 5th EDF to the development of food production;
- the transport sector (roads, bridges, railways, ports) received more Commission aid than any other sector. The allocation (224 m ECU) was more than double that of the previous year. This increase also involved cyclical factors, being partly due to the rise in building and repair costs;
- the development of human potential, i.e. social development and training, is a growth area. This may be regarded as a positive trend inasmuch as the aid granted helps to establish the conditions needed for on-going development.

3. The criticisms of the Court of Auditors

The Court of Auditors sees itself as making a constructive contribution to the management of financial and technical cooperation with the ACP States. Its criticisms are not always perceived as such by the Commission, which at times is quick to reject them and does not always act on the Court's recommendations.

This attitude prompted the Court of Auditors to re-examine a number of projects which it had audited some years earlier. It was particularly concerned to scrutinize 'any measures which had been taken to improve the future prospects of these projects or to help carry through their implementation'.

The largely negative results of this re-examination compels us to consider how more weight might be given to the Court's recommendations and how to prevent mistakes from occurring time and again in spite of the Court's repeated warnings. It is essential that these errors - and the remedies - should be systematically itemized in some kind of publication, which should then be distributed to all the parties involved in the preparation and implementation of a project.

In the course of its re-examination of certain projects, the Court of Auditors raises a fundamental question: should the projects be profitable? Should not the principle of financial efficiency be subordinated in certain circumstances to humanitarian considerations? The examples cited (irrigation in Mauritania, para. 15.22, the Sgou rice project, paras. 15.23 to 15.26, dams, paras. 15.28 to 15.30, the Mopti water-supply project, para. 15.33) demonstrate that the principle cannot be excluded, since humanitarian objectives cannot really be achieved unless the projects are managed in an efficient and profitable way. However, local difficulties are often an enormous obstacle to profitability, and the Commission must come to grips with the difficult problem of its relations with local authorities and operators.

In this context, the role of the Commission's resident delegations is of fundamental importance. It would seem that the situation differs markedly from one delegation to another, both in terms of efficiency in the supervision and evaluation of projects and in terms of administrative costs⁵. Matters could perhaps be improved if delegation staff were periodically seconded to the Commission's central departments.

⁵See the figure given by the Court of Auditors for the delegation in Algeria (para. 10.29).

An important, but sometimes neglected, task of the delegations is to check the origin of the supplies financed by the EDF for implementation of the projects. It is deplorable that some of the supplies furnished by the Community should have originated in third countries.

The Court's audits of projects examined for the first time confirm both the extent of the problems posed by non-profitability (cotton in the CAR, para. 15.61, slaughterhouse in Bangui, para. 15.62) and that errors of design or planning are repeated over and over again (cattle tick dips in Goubali, para. 15.45, the Ecole nationale supérieure in Bangui, para. 15.46).

D. STABEX

STABEX guarantees the revenues of exporting States in the event of losses, which are assessed in relation to average losses in previous years. The operation of STABEX in 1983 relates to the application of the mechanism in 1982.

As the Court of Auditors⁶ and the Commission⁷ point out, 1982 was marked by a return to normal management, since it was possible for eligible applications to be met from available resources.

The Commission's report provides interesting data on the utilization and economic impact of transfers (paras. 44 to 47), which demonstrate the need for the system to be extended.

STABEX makes good revenue losses whatever the cause. The Commission is asked to indicate the relative importance of the various causes of loss of revenue resulting in STABEX transfers over the last few years: monetary instability, worsening exchange rates, poor harvests, natural disasters.

⁶ Para. 15.71

⁷ Report on the operation of STABEX in 1983 - COM(84) 622 final, para. 25

Conclusion

In its management of the EDFs, the Commission carries out an extremely delicate and difficult task both competently and efficiently, bearing in mind the problems posed by local conditions and the meagreness of the resources at its disposal.

Nevertheless, successive reports from the Court of Auditors have shown that the Commission does not attach sufficient importance to the principles of effectiveness, profitability and financial autonomy or to the need to monitor and maintain the projects undertaken. They have also shown that the Commission sometimes allows itself to be swayed by political considerations, notwithstanding the recommendations repeatedly made by the budgetary control authorities.

On the other hand, the Court of Auditors should be more sharply aware of its own responsibilities and of the potential impact of its observations on the general public, which may be led by them to form a broadly negative opinion of Community aid operations. With a view to enhancing the objectivity of its reports, the Court of Auditors is asked to indicate in an introductory section of the scope and extent of its audits: number of projects in which irregularities have been noted, number of projects audited, number of projects dealt with by the Commission.

Parliament plays an active part in determining the shape of development aid policy. It hopes that its views will be heeded by the Commission and that the Court of Auditors will help to ensure that they are heeded. The relations between these two institutions cannot be allowed to undermine the policy advocated by Parliament.

COMMITTEE ON BUDGETARY CONTROL

Discharge 1983

Working document on staff, operational expenditure
and premises of the Commission

Draftsman : Mr. Peter N. PRICE

28 March 1985

Working document on staff, operational expenditure and premises
of the Commission for the 1983 financial year

Introduction

1. A discharge report concentrates on matters where there is scope for improvement. So it exposes the worst and hardly ever dwells on the best. The opening section of this document seeks to redress the balance.
2. The Commission employed 9,357 administrative staff at the end of 1983, plus 254 staff at the Office for Official Publications and 2,642 scientific workers. This team is responsible for running the Commission's 20 Directorates General and all its specialist services. Their geographical area is most of Western Europe and they work in seven languages.
3. The Member States, acting as the Council in the annual budgetary procedure, have not granted the Commission a single extra post for years - except those required by the accession of new Member States. By contrast to their parsimony to the Community, many of these same Governments employ more than the Commission's entire staff to run just a single ministry! It is only the use of the European Parliament's limited margin for manoeuvre that has given the Commission the minimum staff necessary to discharge its expanding duties.

In praise of dedication

4. The dedication of many of our European civil servants is little-known to the general public. It is time to give a few examples.
5. In 1983, each weekend more than 10% of the Commission's 2,414 A-grade officials came to work on Saturday or Sunday. None of them are entitled to overtime or days off in lieu. Some came in every weekend. Others came as and when the need arose. They gave their time freely because of their commitment to their work.
6. In DG VIII, which is responsible for development aid, many officials give both their free time and part of their salary to help those in need in the Third World. Some of them have been joined by officials from other parts of the Commission in setting-up an Oxfam shop. Others contribute regularly out of their salaries to specific development projects run by aid charities. Again, the commitment of these officials to their work is transparent.

Not always reciprocated

7. It is sad that the Commission have not always understood or supported the most highly motivated of their staff. Since August 1984, most Commission buildings have been closed throughout the weekend. This saves the expense of a huissier or security guard, each of whom cost about 3,500 BF for an 8-hour day at Saturday overtime rates and rather more on Sundays. There is no saving on heating since this was already switched off where the system allowed. Officials used to work in overcoats in some buildings during the winter!

8. The Berlaymont and five smaller buildings remain accessible at weekends. But nine other buildings each employing between 170 and 1,252 staff are closed. It is still theoretically possible for a single official to gain entry. In exchange for his service card, he should be able to obtain a key at the Berlaymont. However, once the key has been issued, subsequent requests have to be refused.

9. It seems likely that the Commission policy on closure of buildings was decided without checking the usage statistics, perhaps in the knowledge that these would be incomplete. The figures were provided by the Commission at the request of your draftsman. There were gaps in the records for certain buildings and in the one case where the draftsman made a separate check on the security book, it was found that the figures provided were less than the book revealed. However, there are sufficient statistics to prove the 10% plus figure quoted in this paper.

10. If a calculation was made of the value of staff time given free to the Commission, it would certainly exceed the cost of the security staff. Each A-grade official's time is worth more than that of a security guard. If the Commission restricted the opening to buildings where at least 10 A-grade officials normally used the facility on the day concerned, it would probably gain at least 10 times the value. More important, it would not de-motivate the most highly committed of its staff.

11. The draftsman hopes that the Commission will take speedy action to re-open more buildings at weekends. This would be the practice of real rather than false economy. Such action should be taken on the basis of consultation with staff in each building concerned to optimise the use of the facility. The Commission should also investigate the feasibility of granting days off in lieu to huissiers working on Saturdays by changing work rosters. It may be possible to avoid some of the extra cost by this means.

Staff mobility

12. The Commission's tasks change from year to year. This is largely because the Community is growing and developing. However, the pace of changing needs is not fully reflected in the mobility of staff.

13. Three tables are attached as an annex to this working document. Table I shows the mobility of A-grade personnel. In 1983 5.1% moved to a different post within the same Directorate-General and 4.5% moved to other DGs. So the overall mobility of A-grades was far less than 10%. However, many of the changes within a DG were simply promotion to fill a vacancy in the same section. Furthermore, the overall rate of mobility for all grades was only 6% in 1983.

14. Tables II and III show which DGs have gained and which have lost overall numbers. It is surprising to find that, of the 20 full Directorates-General, only two lost staff in 1983 - two from DG II and one from DG XIII.

15. In current economic conditions, productivity gains are being expected and achieved annually in administrative work. Information technology is a major help. For example, in 1983, the Commission had 76% more word-processors than in 1982. Given this productivity increase and that certain Commission DGs had very little change in their workload in 1983, greater reductions might have been expected - counterbalanced by transferring staff to areas of greater need.

16. In their annual report, the Court of Auditors point to certain factors which may have hampered mobility. These are: (a) lack of adequate information about the duties and workload of each post; (b) the need for a more complete method of assessing workloads and more operational criteria for determining the posts required; and (c) the lack of a means of constant assessment of the extent or effects of staff mobility.

17. The Commission Programme for 1985 recognises that "there is a need for immediate action to improve both management and training". The Programme includes a number of internal measures:

- to improve the system for forecasting staff requirements;
- to increase flexibility in the use of staff resources and to encourage mobility;
- to increase individual responsibility and to improve the channels of communication in the interests of greater job satisfaction.

The European Parliament has approved the Programme as a whole. The section on staff management is particularly welcome. If implemented fully, it will lay the foundations for better use of staff resources in the future.

18. When the Commission considers the detailed implementation of the Programme, it is important that they should redress the imbalance in staff management between those responsible for overall coordination, on the one hand, and the individual DGs and services, on the other. The former have too little authority and the latter too much. As a result, the promotion prospects of able officials appear to be damaged by movement between DGs and there is a widely-held belief that DGs generally release only their weakest members. Thus, merely transferring numbers of officials to priority areas will not necessarily have the desired effect, unless it is the coordinating service which can determine those to be moved and unless they can do so on the basis of full information about the officials concerned.

The budgetary procedure

19. Each year the Council responds to the Commission's requests for additional staff with a bland statement that new needs should be met by redeployment of existing staff. Even though the European Parliament attempts to make a more detailed assessment of the Commission's needs, it, too, faces the difficulty of deciding what scope there is for such redeployment without prejudicing sound administration.

20. As the Court of Auditors points out in paragraph 11.15 of their Annual Report¹, "it would be desirable, both for the Commission and for the budgetary authority, to have a more complete method for assessing workloads and more operational criteria for determining the posts required". At present there are no such methods or criteria used by either arm of the budgetary authority. Whilst devising them will be an extremely difficult task, substantial progress must be made in this direction because the question of overall numbers is central to staff management.

21. The most pressing problem seems to exist in DG VIII. In recent months the Community's response to the famine in Africa has met with criticism, much of it undeserved. It is clear that the number of officials in this DG is far less than any national government or other international organisation would

¹ OJ no. C348, 31.12.1984

have to administer an aid programme of this size. Their needs have not been met largely because of the absence of methods of assessing workloads and criteria for determining the posts required.

Expert help required

22. The joint needs of the Commission and the budgetary authority, together with the central role of staff management in attaining the Commission's objectives, make it essential to obtain the greatest possible expertise. Measurement is much more difficult when applied to the environment of public service rather than commercial organisations. The Commission should search high and low in Europe and America to find the right people to help them.

23. The initial brief for such external consultants should be prepared in the terms quoted from paragraph 11.15 of the Court of Auditors' report. In addition, the consultants should be asked to apply those methods and criteria to DG VIII. Such work will involve comparisons between workloads in DG VIII and other aid administrations. It will also involve an assessment of the scope for dealing with any shortage by internal redeployment. Thus, the methods and criteria recommended can be put to the test by applying them to an urgent problem.

24. Before the report of such external consultants becomes available, the Commission will need to take decisions on the implementation of their Programme for 1985. It is recommended that they should proceed immediately since the changes involved go in the right direction. It is to be hoped that, by adding external help to the Commission's own staff management team, further progress can be made later.

Detailed problems of staff administration

25. Paragraphs 11.17 to 11.25 of the ECA report² draw attention to a number of weaknesses in administration. The main ones are:

- (a) the requirements of the Staff Regulations relating to files opened before January 1981 are still not observed and the situation has not improved since previous criticisms by the ECA and by Parliament;
- (b) there is slackness in the work of keeping personal files, leading to delays of several months in filing documents, inadequate supporting documentation relating to financial entitlements and breaches of confidentiality;
- (c) the system for monitoring absences from work owing to sickness is only partly computerised, involves different departments and is generally inadequate; and
- (d) monitoring of leave is carried out by yet another department and again there are weaknesses, the most important being the lack of a link between records of leave and records of absence.

26. The importance of rectifying these problems is that they have effects on staff management right down the line. Whereas there are many highly motivated officials in the Commission, who give far more than their salary's worth of work, there are others whose slackness should be known. For example, the average period of absence on account of sickness amounts to 12 days per year, per official. This seems an exceptionally high figure. It seems to point

² OJ C348, 31.12.1984

towards weaknesses in detailed administration having an impact on staff motivation. The cost of 10 MECU in sickness pay may be only the tip of the iceberg.

Studies and pilot projects

27. 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.

28. 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 projects, namely to gather information and experience at Community level and then disseminate it to the Member States.

29. In 1983, the Commission undertook 1,182 studies at a cost of 30 MECU. However, only 179 of them were published. Does this mean that the other 1,003 were of little interest to anyone outside the Commission? If so, are the right criteria being applied when selection is made of study subjects? Or does it mean that the Commission simply sits on a mountain of useful information which ought to be more widely known?

30. The answers to these questions must be ascertained. However, it is clear that more use should be made of studies to bring the Community dimension into the formulation of policy at Member State level. To this end, the Commission should conduct a radical reappraisal of its policy, with the help of its Advisory Committee on Studies. The Commission's Directorate-General for Information (DG X) should be asked to make recommendations about how the results of studies could be much more widely disseminated. Consideration should be given to making this DG responsible for such work on a coordinated basis. The Commission should also devise improved methods of making study results more available to decision-makers in their own and the other Community institutions.

31. All the same criticisms apply to pilot project programmes, but with even greater force. The whole purpose of pilot projects lies in the dissemination of the results. None of them should be regarded as purely internal. Yet, in 1983, only 4 were published in book form (average print run 450 copies). 16 others have had microfilm copies made (25 copies) and are thus available to those who have the clairvoyance to know of their existence.

32. There are certain Commission publications which do make such information about studies and pilot projects available. "Social Europe" publishes the most important results in its field and 7,000 copies of this admirable thrice-yearly periodical are distributed in the Member States. "European University News" with a circulation of 6,000 gives information on the results of certain studies in a more abbreviated form. However, they are but oases in a desert.

Statistical Office studies and surveys

33. It is clear from the Court of Auditors' comments in paragraphs 12.13 to 12.18 regarding SOEC studies and surveys that two types of changes are required. The first is to bring up-to-date the coordinated directives for the management of study appropriations published by the Budgets DG in 1978. The second is to improve the administration relating to these contracts in the SOEC.

34. The present rules in the coordinated directives fail to distinguish between contracts where payment is for a finished product of a specifically defined character, on the one hand, and the employment of particular skills for a certain period of time, on the other. It is irrelevant to define the man-hours involved when this has no bearing on the payment of an all-in amount. As has happened in the case of certain SOEC contracts, attempts to do so merely result in discrepancies.

35. The award of study contracts by the SOEC could be improved in two main ways. The pool from which suitable experts are selected should be enlarged in all the Member States. In addition, properly organised invitations to tender should be issued whenever possible.

36. The administration of such contracts at the SOEC might be improved. Certainly the name of the expert, whether an individual or a corporate body, should be stated in every financial statement. There is a conflict of evidence between the ECA and the Commission as to whether the rules on implementation programmes and final assessments are being applied. The draftsman simply urges the Commission to attach importance to assessment of the work of all experts to whom they award contracts.

Heating costs

37. The ECA gives evidence of waste in relation to the heating of the Berlaymont building in Brussels and the Jean Monnet building in Luxembourg because the heating systems cannot be adjusted in a way that would ensure conservation of energy, especially over weekends. The Commission replies that work on the Berlaymont building started last year. The draftsman would like to have confirmation that this work has been completed and that a saving in heating costs has been achieved. As regards the Jean Monnet building in Luxembourg, the answer of the Commission that "it is planning to install an automated control and management system in order to make savings on air conditioning and make the operation of the system more flexible" is welcomed. However, it is surprising that this will take two or three years to complete.

38. While mechanical or electronic changes can play a big part in reducing energy costs, the human factor is the other essential element. The Commission has not issued any recent directives on energy saving to its staff. It should do so forthwith.

Information visits

39. The Court of Auditors criticised the lack of a policy with regard to visits to the Commission headquarters in Brussels. It also alleged an absence of precise criteria for reimbursement of visitors' expenses. The cost of these visits is almost 1 MECU per annum, so the criticisms are of importance.

40. The Commission say in reply that the entire policy for visits is being reappraised. This should lead to internal rules comprising a coherent set of standards for all the departments involved. The Committee on Budgetary Control would like to receive the results of this work when it is completed.

Information technology

41. A decade ago, computers were housed centrally and data-processing was carried on by a few specialists. Now, information technology, in the form of computers, word-processors and telematics, is part of every administrative department.

42. In the Commission, from 1979 to 1983 the number of computer terminals grew from about 200 to about 700. In 1983 the overall productivity of the data-processing services rose by 32% while the appropriations grew by only 4%. Thus, the real benefits are beginning to accrue.

43. The ECA points out the need for all equipment to be subject to a complete analysis of results, to ascertain whether, and to what extent, the forecast savings and other improvements have been achieved and whether the actual cost remained within the limits which were originally established. Particular attention should be paid to any conversion costs. The Commission has pointed out in reply that an internal audit section has been set up within the Informatics Directorate. This section should now be asked in future to conduct such an analysis in respect of each type of equipment purchased. As the ECA points out, the obligation to carry out the analysis would have a positive effect on any future purchasing decisions.

Conclusions

44. The draftsman suggests that the following conclusions be included in full in the comments forming part of the discharge decision:

- (a) Calls upon the Commission:
 - (i) to employ expert consultants, with relevant experience of public service as well as private sector environments, to assist them in the complex task of formulating both methods of assessing workloads and also operational criteria for determining the posts required; and
 - (ii) recommends the Commission to proceed in the meantime with policies to create greater flexibility and meet priority needs by internal redeployment;
- (b) Recommends to the Commission that it should conduct an urgent assessment of the staff levels in its Directorate-General for Development by reference to staff levels in other aid administrations and other Commission departments and then take appropriate action;
- (c) Decides to examine in a separate report the budgetary control aspects of staff management policy;
- (d) Recommends to the Commission that it should conduct a radical re-appraisal of its policy on studies and pilot projects, so that the results can be more widely known and have greater influence on the formulation of policy at Member State level, and calls upon them to present a full report to Parliament within 12 months;

45. The draftsman further suggests that the following conclusions be incorporated in the comments forming part of the discharge decision, in accordance with previous procedure, by a reference to this paragraph:

The European Parliament -

- (a) Welcomes the Commission's proposals for "sound management by an efficient European civil service" set out in its Programme for 1985 and hopes that they will be implemented speedily;
- (b) Recommends to the Commission that it should facilitate access to its buildings on Saturdays and Sundays for A- and B-grade officials who wish to work, since they are not entitled to overtime and, therefore, likely to be performing urgent tasks, as well as displaying great commitment to their duties;
- (c) Calls upon the Commission to ensure that all personal files comply with the provisions of Article 26 of the Staff Regulations and that they contain the correct up-to-date information necessary for efficient staff management;
- (d) Calls upon the Commission to improve the safeguards which protect the confidentiality of personal files, in particular by ensuring that all applications to consult files show adequate reasons and the name and grade of the final recipient of the information;
- (e) Recommends to the Commission that it should computerise all records relating to leave and other absences from work and ensure that proper monitoring and coordination of administration takes place;
- (f) Recommends to the Commission that it should seek to obtain figures showing the average rates of absence on account of sickness from the civil service of each Member State and also from several large commercial enterprises and then draw conclusions from a comparison between its own and these external figures;
- (g) Recommends to the Commission that it should revise and bring up-to-date the coordinated directives for the management of study appropriations;
- (h) Proposes to the Commission that the pool of suitable experts from which the Statistical Office makes its selection should be enlarged in all the Member States;
- (i) Proposes to the Commission that it should continue² its efforts to achieve savings in energy usage and recommends to it that a directive on energy savings be issued to all staff;
- (j) Calls upon the Commission to report to the Committee on Budgetary Control on the results of its reappraisal of visits policy and on improvements made in the financial rules relating to them;
- (k) Recommends that all types of computer and other information technology equipment purchased should be subject to periodic analysis, to ascertain (i) whether, and to what extent, the forecast savings and other improvements have been achieved, (ii) whether the actual cost remained within the limits which were originally established, and (iii) comparative data as a guide for future purchases.

TABLE I

MOBILITY OF A-GRADE PERSONNEL IN 1983 ¹⁾

DG/Unit	Mobility within a DG	Internal mobility from other DG's	External recruitment
I ²⁾	7	6	3
II	11	3	13
III	14	14	14
IV	6	4	11
V	2	5	7
VI	6	5	20
VII	2	3	4
VIII	4	19	7
IX	8	8	10
X ²⁾	2	4	1
Spokesman's Group	-	1	-
XI	1	2	4
XII	-	-	2
XIII	3	-	3
XIV	-	6	4
XV	3	3	1
XVI	1	3	3
XVII	16	2	8
XVIII	2	2	2
XIX	3	-	5
XX	3	4	2
Secr. general	4	10	1
Legal service	13	2	4
Customs union service	9	-	8
Statistical office	3	1	6
Joint interpreting and conference service	-	-	-
Security office	-	1	-
Euratom supply agency	-	1	-
Office for official publications	-	-	1
Total	123	109	144
	5.1%	4.5%	5.9%
(1) Without J.R.C. and indirect actions.			
(2) Without rotation of the external offices: DG I 15 A-posts DG X 9 A-posts.			

Total A-grade personnel = 2,414 on 31.12.1983

TABLE II

VARIATION IN THE SHARE PER DG/UNIT OF PERMANENT STAFF
IN 1983 (without J.R.C. and indirect actions)

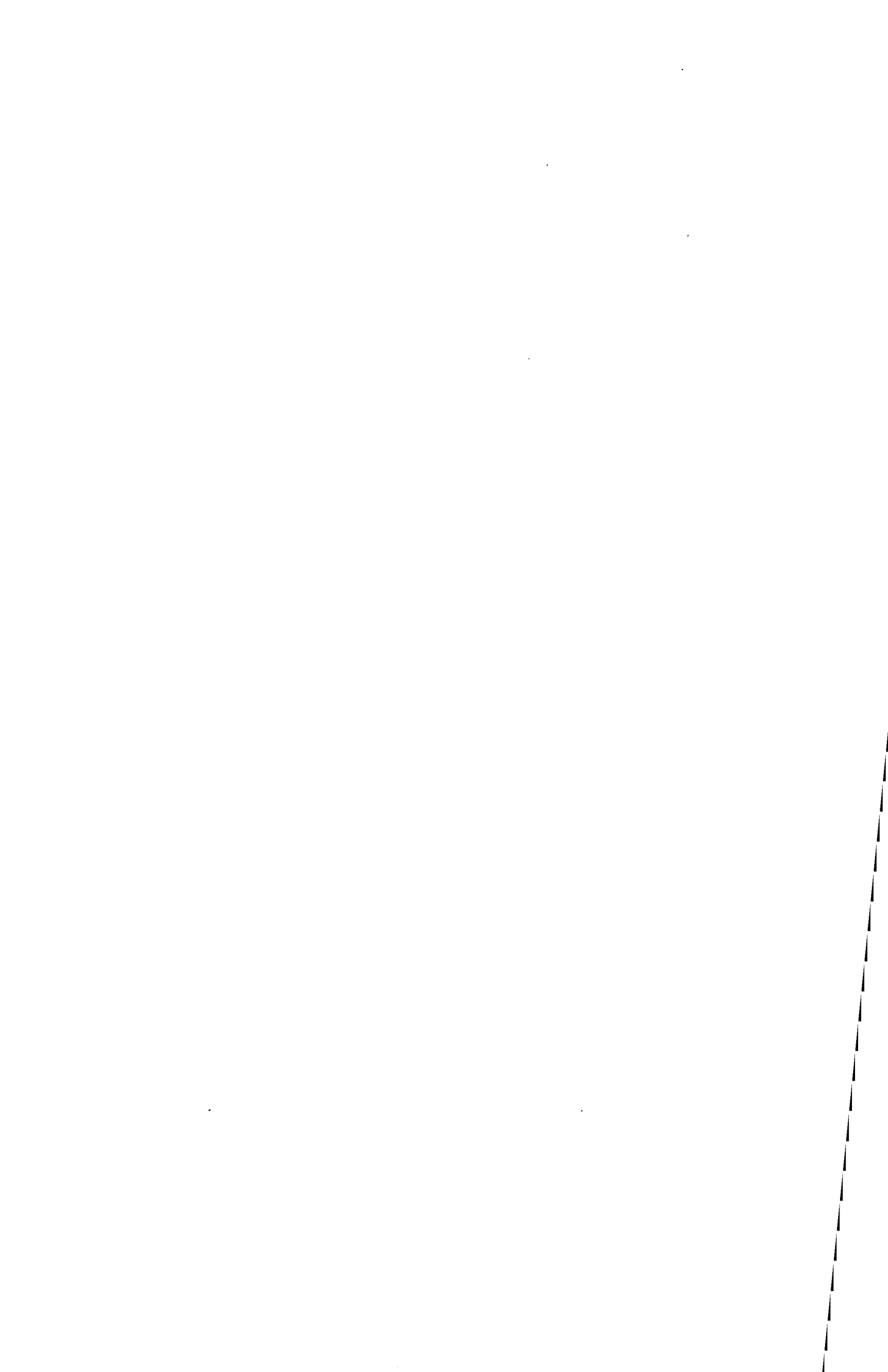
DG/Unit	A/1	A/2	A/3	A/5-4	A/7-6	Total
Secr. general	=	- 1	- 1	+ 3	=	+ 1
Legal service	=	=	- 1	- 1	+ 1	- 1
Statistical office	=	=	=	+ 1	=	+ 1
Joint interpreting and conference service		=			=	=
I	=	+ 1	+ 1	+ 3	=	+ 5
II	=	=	=	- 2	=	- 2
III	=	=	=	+ 5	+ 4	+ 9
IV	=	+ 1	=	- 2	+ 2	+ 1
V	=	=	=	- 4	+ 7	+ 3
VI	=	=	- 1	+ 8	- 5	+ 2
VII	=	=	=	- 1	+ 1	=
VIII	=	+ 1	+ 1	+ 4	+ 9	+ 15
IX	=	=	+ 1	+ 7	+ 2	+ 10
X/Spokesman's group	=	=	- 1	+ 2	- 4	- 3
XI	=	=	=	+ 2	+ 2	+ 4
XII	+ 1	+ 1	+ 3	+ 5	+ 4	+ 14
XIII	=	=	=	- 1	=	- 1
XIV	=	+ 1	+ 1	+ 9	+ 5	+ 16
XV	=	=	=	- 2	+ 3	+ 1
XVI	=	=	- 1	+ 1	+ 4	+ 4
XVII	=	=	=	- 7	+ 8	+ 1
XVIII	=	=	=	=	+ 2	+ 2
XIX	=	+ 1	=	- 1	+ 6	+ 6
XX	=	+ 1	=	+ 1	=	+ 2
Euratom supply agency			=	=	=	=
Security office		=		=		=
Customs union service		=	+ 1	=	+ 1	+ 2
Sub-total	+ 1	+ 6	+ 3	+ 30	+ 52	+ 92
Office for official publications		=	=	- 1	=	- 1
European Association for cooperation *)			1	6	7	14
Total	+ 1	+ 6	+ 4 ^{*)}	+ 35 ^{*)}	+ 59 ^{*)}	+ 105 ^{*)}

*) Including the integration of the EAC in 1983.

TABLE III

VARIATION IN THE SHARE OF THE J.R.C.
AND INDIRECT ACTIONS IN 1983

	A/1	A/2	A/3	A/4	A/5	A/6	A/7	A/8	Total
J.C.									
1)	- 1	+ 1	- 2	+ 11	=	+ 6	+ 7	-	+ 22
2)	-	=	- 1	- 1	- 2	=	=	-	- 4
Indirect actions									
1)	-	=	=	+ 2	=	+ 1	+ 1	-	+ 4
2)	-	-	- 1	-	-	-	-	-	- 1
Total	- 1	+ 1	- 4	+ 12	- 2	+ 7	+ 8	-	+ 21
Scientific and technical staff. Administrative staff.									



COMMITTEE ON BUDGETARY CONTROL

DISCHARGE 1983

Working document on
Decentralized agencies, autonomous organs
and satellite bodies of the EC

Draftsman: Mr Konrad Schon

5 March 1985

Introduction

1. Over the past five years, the Committee on Budgetary Control has given careful consideration to the financial aspects of the activities of the so-called EC satellites. For colleagues who wish to see the results of this work, the references to the Committee's documents and to the subsequent resolutions of Parliament are set out at the foot of this page¹.
2. As a result of this sustained scrutiny which was carried out by Mr Edward Kellett-Bowman, very useful experience regarding the utilisation of appropriations was gained, the budgetary management of these satellites was improved, and lessons were learned by the Commission for the management of other (and larger) blocks of EC funds.
3. In view of the tightening-up that has been effected, the Committee may now devote less effort to this sector and apply the lessons that have been learned to other areas. For the information of new members, the rapporteur proposes to act out the criteria which the Committee used to identify a 'satellite' and the good management rules that it wished to see applied.

What is an EC 'Satellite'?

4. These are a number of bodies financed out of Community funds which are either wholly paid through the budget, as is the case, for instance, with the Official Publications Office, or partly financed from the budget, as is the case with JET which gets 80% of its appropriations from the budget. Some of these bodies enjoy only limited operational autonomy; this is the case, for instance, with the Data-Processing activities and the Statistics Office both of which operate within the sphere of the Commission but can be looked on as carrying out such highly specialized and cohesive tasks as to warrant being treated as special services that could best be controlled and supervised if their activities and appropriations were clearly demarcated so as to facilitate political supervision and audit.
5. A further category contains decentralized bodies such as the European Centre for the Development of Vocational Training (CEDEFOP), which is located in Berlin and the European Foundation for the Improvement of Working and Living Conditions (EFILWC), which is located in Dublin. Both of these were set up as a result of political initiatives at the highest level within the Community and were intended to show clearly that, as well as being an economic community, the EC has a social aspect as well.

Public accounting criteria applied by Parliament

6. In considering the accounts of these satellites and decentralized bodies, the Committee on Budgetary Control applies the following public accounting criteria:-

¹ 1-726/79, L 180, 4.7.80, p. 13
1-59/81, C 172, 13.7.81, p. 90
1-345/81, C 234, 14.9.81, p. 107
1-350/81, L 342, 28.11.81, p. 1
1-33/82, L 144, 24.5.82, p. 4
1-666/82, C 334, 20.12.82, p. 32
1-96/83, L 119, 6.5.83, p. 24
1-1335/84, L 173, 30.6.84, p. 4

1-344/80, C 265, 13.10.80, p. 91
1-66/81, C 172, 13.7.81, p. 92
1-251/81, L 342, 28.11.81, p. 4
1-32/82, L 144, 24.5.82, p. 1
1-425/82, C 292, 8.11.82, p. 94
1-70/83, L 119, 6.5.83, p. 26
1-1334/83, C 77, 19.3.84, p. 108
1-1336/84, L 173, 30.6.84, p. 1

- verifying that expenditure has been incurred as was intended by the budgetary authority when the budget was being adopted;
- checking up on extravagance, waste or inefficiency in the use of Community funds;
- identifying faulty procedures or breaches of good accounting methods, and suggesting ways in which they could be corrected; and
- endeavouring to ensure that sound management is applied generally to the handling of the resources made available to these satellites².

There follow comments on certain satellites for 1983.

CEDEFOP and EFILWC

7. Thanks to the intensive work of the previous rapporteur, in conjunction with the ECA, on these two satellites, loose ends in their accounting systems were set right over recent years. They are the subject of a separate discharge report³.

Euratom Supply Agency

8. In the case of this satellite, it is gratifying to read in the ECA report that the Court of Auditors is pleased to note that its earlier recommendations on accounting presentation have been incorporated in the 1983 Accounts of the Agency⁴.

Data-processing service

9. The data-processing service of the Commission is not a satellite in the strict sense of the term but it deals with an identifiable block of expenditure and with management instruments that are of major significance to the efficient functioning of the Commission. It was examined in the past by the Committee on Budgetary Control⁵. The time appears to be ripe now for a further effectiveness study.

Joint Research Centre

10. The JRC is vitally important for the future of European research. In the 1983 budget, over 150 m ECU were allocated to the JRC. This sum should be reflected in results from which European industry can profit. If the JRC produces no results there are other ways of achieving success. Just as the Court of Auditors checks that JRC resources have been spent in the proper legal manner it could also study the effectiveness and efficiency of the use made of these considerable annual resources. Europe spends more on research than either the USA or Japan but is always lagging behind in terms of results. Why?

² Doc. 1-100/82/Ann.VIII, paragraph 1

³ PE 95.455

⁴ Paragraph 13.5 of the ECA annual report on 1983

⁵ Docs. 1-283/80 and 1-66/81

11. In view of this and of other considerations, the Committee on Budgetary Control deemed that a special ECA report was necessary on the subject of budgetary management in relation to research activities with particular reference to the Joint Research Centre. This request was made to the ECA - and repeated - by the President of Parliament but, so far, a special report has not been drafted. Certain improvements were made recently in JRC administration. Their effect should be evaluated in the near future.

JET Joint Undertaking

12. JET is the largest single project of the coordinated nuclear fusion research programme of the European Atomic Energy Community aimed at proving the feasibility of thremo-nuclear fusion as a new - and indeed almost inexhaustible - energy source⁷. It is worth recalling that this project unites the efforts of about one thousand engineers and scientists working in twelve countries in a major scientific experiment and that the torus (the basic machine) was completed in the five years envisaged with an excess of only eight per cent on the constant prices estimate.

13. The ECA is of the opinion that the financial statements of the JET Joint Undertaking for 1983 present fairly its financial position at 31 December 1983 and its income and expenditure for the year ended on that date, in accordance with the JET Financial Regulations, subject to two specific points. The rapporteur has read the written response of the Project to these comments and considers that, in all the circumstances, there is no obstacle to the grant of discharge to the JET. However, he would reiterate the Committee's call that certain technical differences of opinion should be settled to the satisfaction of the ECA.

European Schools

14. Two-thirds of the budgetary appropriations for the European Schools come from the EC budget. 1982 is the most recent year for which the Court of Auditors' report is available on this satellite. In 1983, the total of EC budget appropriations for the European Schools was 38 m ECU.

15. In past years, the ECA noted the absence of an effective internal control system in the case of the European Schools which led to excessive expenditure. The situation was of such a serious nature that Parliament, when adopting the discharge for the EC budget in respect of the 1978 financial year, included the following paragraph in the comments accompanying its decision "Expresses a formal reserve in respect of the discharge for the European Schools and will consider the issues further in the light of a report from the Committee on Budgetary Control."⁸ Later, on 18 December 1980, when considering amendments to the 1981 draft budget, Parliament confirmed the addition of the following remarks against chapter 100 (Article 289) "10 MEUA of the subsidy of the European Schools will be transferred to the line after adoption of the report to be presented by the Committee on Budgetary Control on the management of the appropriations under this article."⁹

16. On 10 July 1981, the European Parliament adopted a resolution¹⁰ from the Committee on Budgetary Control relating to the European Schools. This resolution recalled the shortcomings of an accounting nature that had been

⁷ PE 89.164/fin/Ann XI

⁸ OJ L180, 14.7.1980, page 21, paragraph 59

⁹ PE 70.482, page 19, Annex II of the Minutes of Proceedings

¹⁰ OJ C234, 14.9.1981, page 107

noted by the Court of Auditors in relation to the European Schools and observed that the Board of Governors of the European Schools had not yet put into effect the measures necessary to remove the criticisms raised by the Court of Auditors. However, taking account of assurances given by the Board of Governors of the European Schools to set right the shortcomings before the end of 1981, the unblocking of the 10 MEUA was recommended. This was done subject to the recommendation that the over-elaborate salary system of the European Schools would be simplified, that amounts paid out improperly, over-payments and sums paid in error would be recovered fully and that the Board of Governors of the European Schools would set up, without further delay, a reliable and effective internal control system as suggested by the Court of Auditors. Last year, because the internal auditor had been appointed by the European Schools, the Committee on Budgetary Control expected that the problems noted earlier were being ironed out.

ECA report on Euro-Schools for 1982

17. The report of the ECA on the European Schools for the 1982 financial year (the latest of which is available) caused disappointment for the draftsman because of the long series of problems and faults which the ECA identified. Before referring to these in a summary format, the draftsman would express his surprise at the fact that the draft budget of the European Schools for the 1984 financial year when approved by the Board of Governors in May 1983 was not transmitted to Parliament and the Council¹² as is required under Article 7 of the Protocol on the setting-up of the European Schools. This is a regrettable lack of attention to procedure in regard to a significant amount of Community expenditure.

18. Following is a list of the problems identified by the ECA in its examination of the 1982 European Schools accounts:-

- the new rules introduced to try to achieve greater uniformity in calculating the salary levels for secondary school teachers gave rise to new inconsistencies; at paragraph 3.11, the ECA gives the instance of the case of a teacher appointed on 1 August (4 days before his 27th birthday) instead of at the end of the summer school holiday (on 1 September) which resulted in additional costs to the European Schools of over 100,000 FB a year for a number of years;

- because of a breakdown in communication between two departments in a Member State, the Luxembourg school was bearing the cost of increases in salary for certain teachers, in some cases for ten or more years. (This has now been set right, but the ECA fears that a similar situation could occur in relation to other Member States);

- at paragraph 3.16, the ECA points out that the Schools are, in fact, paying twice for health insurance; further, by reimbursing teachers' national pension contributions, the School relieves them of the obligation of paying for the benefits which they will ultimately enjoy;

- inequities in severance grants (paragraph 3.17);

- there are no provisions for imposing Community tax on the salaries of European School teachers (paragraph 3.18);

¹¹ PE 89.164/fin/Ann XI, paragraph 19(5)

¹² C188, 16.7.1984, page 3

- because of "topping up" arrangements, about one-third of the teachers employed at the Schools are paying no tax on a substantial element of their European salaries. The ECA estimates that the imposition of a negative "differential allowance" would bring the teacher's taxation arrangements more into line with those of Community officials and would yield about 45 million FB a year;
- at paragraph 3.24, the ECA suggests that it is extremely probable that the Schools are compensating teachers for tax due on income unconnected with teaching, i.e. such elements as tax on other incomes, interest, property rents, etc;
- the system of salaries is so complex that it produces a continual succession of amendments to the monthly sums paid as salaries and few teachers can be confident that the right result has been achieved (paragraph 3.27);
- the ECA concludes that the system itself is proving more expensive for the Community to operate than is necessary (paragraph 3.29);
- the ECA recommends that the salary system should be investigated with a view to its replacement by one which is not open to the same anomalies (paragraph 3.30);
- the ECA describes the weaknesses of the salaries' system in the following terms:
inadequate control, inequities between staff, increased burden on the Community's and Schools' budgets caused by excessive expenditure and lack of income from Community income tax (Paragraph 3.32);
- as regards the use of a computer, the ECA is not satisfied that there is a clear definition of control responsibilities, or that it is possible to observe that there have been any financial savings as a result of the expenditure of 1.63 million FB for the use of the computer (paragraphs 4.1 and 4.2);
- the use of "hors budget" accounts gives rise to concern also; there are no fewer than 11 bank accounts of this nature in the case of one school. (paragraph 5.2);
- it is also found that commitments are entered into and payments effected even though the appropriations on the lines concerned are insufficient to support them; transfers are made only after the excess has been incurred. It is surprising to note that a problem of this nature arose in the office of the Board of Governors itself where appropriations were exceeded by as much as 985,000 FB before post facto transfers were applied (paragraph 6.2);
- poor estimation is highlighted by the ECA at paragraph 6.4 and it suggests that the Commission should examine closely requests for subventions for the Schools before accepting them;
- many other problems were identified in relation to a lack of consistency in accounts for the Schools; failure to carry out checks on petty cash; non-recovery of VAT from the Italian and German authorities; doubt about the adequacy of insurance cover; and weaknesses in personnel files:

19. In all the circumstances, the draftsman concludes that once again, the Committee on Budgetary Control must suggest that a reservation be entered into the discharge decision with regard to the accounts of the European Schools. Further, it would appear that as the hopes expressed by the Committee in the past have not been realised, a further report on the Schools is called for.

Management, Advisory and Consultative Committees

20. The draftsman recalls the work done by Mrs. Boserup on her reports on management, advisory and consultative committees.¹³ In the present working document he does not dwell on these - although he is fully aware that they run to many hundreds - because he expects that the Commission will inform the Committee within the next couple of months of the up-to-date situation.

Conclusions

21. The draftsman suggests to the rapporteur that he should consider including the following paragraphs in the comments accompanying the 1983 discharge decision:-

A. notes the importance of the data-processing services of the Commission which is a management instrument of major significance to the efficient functioning of that institution and will consider the service further in the context of a special report;

B. notes that the JRC with over 2,200 employees is the largest institution dealt with in this working document. With over 150 m ECU per annum it receives far more funds from the taxpayer than other semi-autonomous bodies. When considering the accounts of the JRC the Court of Auditors should pay particular attention to the effective and efficient use of taxpayers' money and evaluate the effects of recent changes in the JRC administration.

C. finds that the ECA report on the European Schools for the 1982 financial year reveals a number of disturbing factors which, by their nature, oblige the Committee on Budgetary Control to suggest that a reservation be entered in the discharge decision with regard to the accounts of the Schools.

¹³ Docs. 1-446/83 and 140/84

Appropriations for decentralised agencies, autonomous organisations and satellite bodies in the 1983 budget

<u>Budget Line</u>	<u>Heading</u>	<u>Appropriations in 1983 budget</u> <u>ECU</u>
A21	Data Processing	42,520,000
A254	European Youth Forum	500,000
A280	Euratom subsidy for the operation of the Supply Agency	1,170,200
A281	Subsidy for the operation of the Community Business Cooperation Centre	126,000
A287	Office for Official Publications	17,776,300
A288	European University Institute, Florence	1,100,000
A289	European Schools	38,019,500
B632	CEDEFOP- European Centre for the Development of Vocational Training	4,200,000
B641	EFILWC- European Foundation for the Improvement of Living and Working Conditions	3,900,000
B6420	ETUI- European Trade Union Institute	875,000
B6450	Administrative Commission on Social Security for Migrant Workers	850,000
B676	European Foundation	200,000
B730 to B733	Total for Joint Research Centre	Commitments 157,288,000 Payments 156,812,000
B7342	Participation in the JET Joint Undertaking	95,005,000
B980	EEC subsidy for the operation of the European Associations for Cooperation (EAC)	2,690,900
B981	Commission delegations in the Southern Mediterranean countries	3,500,000
B982	Commission delegations in the ACP countries and OCT	41,500,000

COMMITTEE ON BUDGETARY CONTROL

WORKING DOCUMENT

on

the procedure for granting discharge in respect of
borrowing and lending operations for 1983

Draftsman: Mr Dimitriadis

28 March 1985

PROCEDURE FOR GRANTING DISCHARGE IN RESPECT OF BORROWING AND LENDING
OPERATIONS IN FINANCIAL YEAR 1983

INTRODUCTION

1. Borrowing and lending activities involve the use of the financial instruments available to the Community for the promotion of its common policies.

The first point to make when considering borrowing and lending operations in the context of the procedure for granting discharge in respect of the implementation of the budget is that by far the bulk of the loans (NCI, EURATOM and balance of payments loans to the Member States) and the borrowings to raise the necessary funds for these loans are transacted outside the general budget of the Community; however, Section III - Commission - contains corresponding token entries which refer to the existence of contingent liabilities in the form of guarantees or borrowings contracted by the Community on its own account.

2. For this reason alone Parliament, as one arm of the budgetary authority, has the responsibility for monitoring the loans granted by the Community and its organs or institutions through the lending mechanisms mentioned above. This supervisory function consists basically of ensuring that operations carried out on the Communities behalf are transacted in a regular and proper manner. Checks are normally carried out on the basis of information specific to each type of financing.

The importance of this area for the economic development of the Community (apart from the financial significance of borrowing and lending activities) is illustrated in the following tables.

3. Thanks to the considerable advances made in recent years in inter-institutional cooperation in this field, particularly with regard to the amount and quality of information provided, Parliament's right of access to the relevant information, particularly where it must be in a position to determine whether the granting of the loan is consistent with the priority objectives of the Community, and its right to a say in the

framing of these objectives, have been recognized. Further improvements in the flow of information are likely in the near future at the instigation of the Court of Auditors of the European Communities.

BORROWING ACTIVITIES

4. In 1983 borrowings by the institutions of the Community for structural investment totalled 6,244 m ECU, an increase of 27% compared to 1982. The EIB alone borrowed 3,619.4 m ECU in 1983. In addition, 4,247.3 m ECU was borrowed to provide support for balance of payments, 4,000 million of this amount going in the form of a loan to France.

All current borrowings by Community financial instruments, i.e. ECSC, EURATOM, EEC (balance of payments loans) and NCI totalled 36,847,000 m ECU, 20,749,000 m ECU of which was accounted for by the EIB alone.

Current borrowings broken down by borrowing instrument (in 1000 m ECU):

<u>YEAR</u>	<u>E C S C</u>	<u>E I B</u>	<u>EURATOM</u>	<u>E E C</u>	<u>N C I</u>	<u>TOTAL</u>
1982	6,178	16,570	1,272	591	1,747	26,358
1983	6,539	20,749	1,680	4,610	3,269	36,847

Source: COM(84) 413 final, Table 3

LENDING ACTIVITY

5. Loan authorizations totalled 6,612 m ECU in 1983, a 27% increase on the previous year.

Loans granted in 1983, by instrument (in m ECU):

<u>N C I</u>	<u>EURATOM</u>	<u>E I B</u>	<u>E C S C</u>	<u>TOTAL</u>
1,211.8	366.4	4,255.7	778.1	6,612
% 18.4	5.5 64.4	11.7	100	

Source: COM(84) 413 final, Table 4

NEW COMMUNITY INSTRUMENT FOR BORROWING AND LENDING (NCI)

6. On 19 April 1983 the Council gave authorization in principle to the Commission to borrow 3,000 m ECU under the NCI. By the end of 1983 a first tranche of 1,500 m ECU had been approved. 456 m ECU of that amount had been used by 31 December 1983, 53.2% going to projects in Italy. Loans paid out in 1983, including loans from NCI I and II amounted to 1,211.8 m ECU; 489.1 m ECU of that amount went to the productive sector, 443.7 m ECU to infrastructure and 279 m ECU to energy products.

NCI LOANS (I-III) 1979 - 1983 (in m ECU)

<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>Total</u>
277	197.6	539.8	791.1	1211.8	3,017.3

Source: COM(84) 413 final, Table 6

LOANS BY THE EUROPEAN INVESTMENT BANK (EIB)

7. In 1983 the EIB made available 4,683 m ECU, of which 427.2 m ECU was for projects in non Community countries, from its own resources (which include borrowings by the EIB on its own account). It thus accounted for 64.4% of all loans by lending instruments. The breakdown of the funding is as follows: 1,076.2 m ECU in the productive sector, 1,777 m ECU for infrastructure and 1,402 m ECU specifically for energy projects. Italy alone accounted for 1,945.7 m ECU of this total, while France received 708 m ECU, United Kingdom 591.3 m ECU and Greece 364.3 m ECU.

8. In addition to financing projects from own resources, the EIB plays an important role in administering and handling Community borrowing and lending operations, which it carries out on the Community's account, that is to say the Community is a third party which bears the risk of the transaction. Questions connected with the administration of Community development aid appropriations by the EIB and referred to in the special report by the Court of Auditors will be dealt with in a subsequent separate report by your rapporteur.
9. Loans are paid out after applications have been duly considered under normal banking procedure and on provision of first-class securities. A provision, equivalent to the amount of the loans paid out by the EIB on the Community's account, is entered in the general budget of the Communities purely for accounting purposes to represent the potential risk, which varies according to the particular project being financed.

EURATOM

10. Following the Council's decision in 1982 to raise the ceiling for borrowings to finance investments in nuclear power stations to 2,000 m ECU, a further 336.4 m ECU was spent in 1983 on various energy projects, of which 198.6 m ECU went to French firms and 89 m ECU to Italian firms. The remainder was accounted for by Belgian or British companies.

A total of 1,662 m ECU was paid out during the period from the beginning of EURATOM's lending activity up to the end of December 1983. The loans are administered by the EIB in its capacity as agent for EURATOM.

ECSC LOANS

11. 778.1 m ECU was paid out in 1983 in the form of ECSC loans (compared to 47.6 m ECU during the previous year). Funding was concentrated on the coal and steel industry and thermal power stations and conversions pursuant to Article 56 of the ECSC treaty. The bulk of the funding went to France (277.8 m ECU) and the United Kingdom (270.5 m ECU). According to the Commission (COM(84) 413 final) the slight increase over the previous year reflects the strict application of the selection criteria (restructuring policy).

Since a separate report is drawn up on the discharge in respect of ECSC activities, the figures are included merely to complete the overall picture.

LOANS AT SUBSIDIZED RATES AND EMS INTEREST-RATE SUBSIDIES

12. In 1983, under the EMS subsidized interest rate system, subsidies of 139.2 m ECU on loans of 772.9 m ECU were paid to Italy and subsidies of 60.8 m ECU on loans of 290 m ECU to Ireland. Between 1979 and 1983 1,000 m ECU was approved from budgetary funds in the form of interest-rate subsidies on loans of over 5,000 m ECU (66.7% to Italy, the remainder to Ireland). The NCI accounted for roughly 16% of the total and the EIB 84%.

Breaking down the interest-rate subsidies by sector, two-fifths went to infrastructure in the energy sector and three-fifths to infrastructure in other sectors.

13. These interest-rate subsidies for NCI and EIB loans and ECSC interest rate subsidies for its loans, as well as subsidies related to the special aid for the regions in Italy and Greece hit by earthquakes from the general budget of the European Communities are either discounted and paid as a lump sum or paid annually.

In 1983 a further 269.2 m ECU was loaned to Italy at reduced interest rates under the heading of aid for reconstruction of earthquake-damaged areas, bringing its total of such aid to 792 m ECU by the end of 1983; Greece received 80 m ECU.

GEOGRAPHICAL BREAKDOWN OF LENDING

14. The following table shows the geographical breakdown of lending to the individual Member States of the Community, by country and by financial instrument.

(in m ECU)

Country	B	DK	D	GR	F	IRL	I	L	NL	UK	TOTAL
1982											
Amount	151.3	307.1	205.5	469.8	789.8	408.6	2133.4	5.5	44.1	759.7	5346.6
%	2.9	5.8	3.9	8.9	15.0	7.7	40.0	-	0.8	14.4	100
1983											
Amount	36.4	365.1	301.6	450.0	1370.6	308.4	2732.2	0.03	39.5	1008.2	6612.0
%	0.5	5.6	4.6	6.8	20.7	4.6	41.3	-	0.6	15.3	100
from:											
ECSC	3.9	0.01	149.4	0.4	277.8	4.4	32.2	0.03	39.4	270.5	778.1
EIB		259.7	152.2	364.3	707.9	234.6	1945.7			591.3	4255.7
EURATOM	32.5				198.6		89.0			46.3	366.4
NCI		105.4		86.3	186.2	69.4	665.4			100.1	1211.8

¹Including 71.8 m ECU for one ECSC loan outside the Community

Source: COM(84) 413 final, Table on page 46

Over 60% of the lending went to regions that were lagging behind economically or experiencing high unemployment or conversion problems.

IMPACT ON EMPLOYMENT

15. The Commission estimates that investment financed by EIB and NCI loans resulted directly in the creation of some 33,500 jobs in 1983. The Commission also states that the companies receiving industrial modernization loans employ a total of approximately 195,000 people. According to the Commission, investment financed by the ECSC in 1983 could, with the aid of the conversion loans granted, create around 10,000 jobs. These statistics should be constantly checked and updated by the Commission.

BREAKDOWN OF FINANCING BY SECTOR

16. The following table shows the breakdown of lending operations by sector in the Community since 1974:

(in m ECU)¹

Year	Productive Sector	Infra-Structure	Energy	Total
1974	604.0	143.4	480.2	1,227.6
1975	758.7	469.9	488.8	1,722.4
1976	1,163.5	429.9	556.4	2,149.8
1977	938.8	607.7	693.2	2,239.7
1978	745.4	1,000.0	1,089.1	2,834.5
1979	756.4	1,055.8	1,574.3	3,386.5
1980	1,277.9	1,204.7	1,680.2	4,162.8
1981	788.0	1,390.2	1,928.5	4,106.5
1982	1,726.7	1,817.4	1,802.5	5,346.6
1983	1,940.4	2,240.8	2,431.0	6,612.0

Source: COM(84) 413 final, Table 5

17. Although lending to the productive sector in 1983 was 17% up on the previous year, its share fell from 32% to 29%. Lending to small and medium-sized undertakings (SMUs) rose by more than 39% (the less favoured regions accounted for more than 50%).

In the infrastructure sector, the share of Community financing remained constant at 34%. Basic infrastructure accounted for more than 50% of the loans in this sector, the remainder being divided between measures for environmental protection and transport.

18. As regards financing in the energy sector, it is reckoned that the projects financed in 1983 will permit import substitution of 22 m tonnes of mineral oil annually once they are fully operational. The aim of the projects financed since 1977 is to reduce imports by some 100 m tonnes annually (equivalent to roughly 20% of the Community's annual oil imports). 700 m ECU was loaned to the energy transport sector alone (European gas grid) in 1983.

LOANS TO SMALL AND MEDIUM-SIZED UNDERTAKINGS

19. 1983 was the Year of Small and Medium-Sized Undertakings, which, because of their flexibility, are in a position to make a swift and effective contribution to the creation of jobs and to speed the process of technical innovation. In response to Parliament's call for more intensive support for SMUs, 1983 saw the granting of 1,264 m ECU to the SMUs under the NCI, ECSC and EIB, lending mechanisms compared to 907.3 m ECU in 1982 (a 40% increase). The NCI provided the lion's share.

OBSERVATIONS

20. In its annual report for 1983 the Court of Auditors has drawn attention to a number of serious, and in some cases systematic, weaknesses in the accounting procedures, which cannot simply be glossed over, especially since this is the fourth time that the Court of Auditors has criticized such shortcomings in an annual report and since the Commission had undertaken in its replies to the observations in the Court of Auditors annual report for 1982 to make the necessary improvements.
21. The errors are due above all to the fact that there has been no regular and systematic coordination of accounts between the competent departments of the Commission and the EIB. In future the Commission should request more of the data which is available to the EIB as the body responsible for disbursing the loans. There is also the fact that even within the Commission, different figures are being used for the same transactions. The Commission should explain what corrections it has made following the Financial Control Division's report of September 1983.
22. Secondly, according to the Court of Auditors' findings, numerous entries were made against the wrong accounts, making it difficult to use the accounts for a proper risk evaluation, particularly as regards the spread of national risks.
23. One point referred to in the observations by the Court of Auditors is the breaching of the loan ceiling. As a result the Commission's financial controller refused to approve the proposal for a commitment in respect of

the interest-rate subsidy to be paid from the budget. The Commission faced the dilemma of either allowing budgetary appropriations to remain unutilized or to exceed the ceiling fixed by the Council for the loans granted to Italy and Ireland. In the last analysis the problem is a purely one of form, since the breach of the ceiling did not result in any undue strain on the budget. However, Parliament is not satisfied with the answer given by the Commission to points 14.16 et seq., that the 'fluctuations' in financial operations left the ratio of 1:5 between interest subsidies and loans open to question, since the interest rebate in question was discounted and charged as a lump sum and therefore could be calculated accurately when the loan contract was concluded.

24. The reason for the deficit of 5.8 m ECU in the expenditure and revenue account of the NCI, referred to in points 14.18 et seq. of the Court of Auditors report, was that it had been decided to maintain liquidity in order to administer the loans more efficiently; given the prevailing rates of interest this inevitably led to corresponding losses. The rates of interest fixed for the loan make allowance for the costs of maintaining liquidity (the difference between raising capital long term and investing it short term until the loan was paid out); consequently the initial accounting deficit is discounted over the duration of the loan.

Since it is not the aim of the NCI mechanism to be profit-making, no further objections need be raised about this temporary error, which is the direct result of the flexibility introduced in the interest of the recipients, especially since interim measures have been agreed with the EIB to reduce liquidity.

25. The same holds true in consequence of the lack of correspondence in the maturities of the Bank's borrowing and lending operations referred to by the Court of Auditors in paragraph 14.23(c). Because of the above, there is a risk concerning the Bank's ability to contract new loans in due time to cover sums lent which have not yet been repaid by its borrowers, as also concerning its ability to secure the same conditions as those initially available on the financial market. At all events, the loan conditions should be laid down in such a way that all recipients of NCI loans ultimately bear the costs incurred in this manner.

CONCLUSION

26 It is recommended that the general rapporteur on the discharge in respect of the 1983 financial year should incorporate the following points in his comments on the decision granting discharge:

- Calls on the Community institutions involved to ensure that more comprehensive information is provided on borrowing and lending operations, so as to permit the evaluation in the framework of parliamentary supervision, of the financial risk and the economic implications and to ensure that Community priorities are observed;
- Demands that the Commission systematically remove the sources of error in its accounting procedure so that uniform and reliable statistics are available for the accurate assessment of the financial and economic implications of the operations;
- Welcomes the priority accorded in the granting of loans under the NCI mechanism to small and medium-sized undertakings in the productive sector and trusts that this funding activity for which there is a vigorous demand, will continue.

