COMMISSION OF THE EUROPEAN COMMUNITIES

COM(77) 723 final
Brussels, 23 December 1977

Proposal for a
COUNCIL REGULATION
laying down general rules for the financing of certain
intervention by the EAGGF Guarantee Section

(submitted to the Council by the Commission)

COM(77) 723 final

EXPLANATORY MEMORANDUM

I. Background

1. The definitive system for financing the common policy on agricultural markets and prices which came into force on 1 January 1971 confirmed the rule concerning the financing in its entirety of expenditure arising from refunds and intervention laid down in Articles 2 and 3 of Council Regulation (EEC) No 729/70 on the financing of the common agricultural policy (1). However, since some intervention was financed at a standard rate, Regulation No 729/70 provided for the extension of the transitional measures in 1971 and the laying down of general rules on financing by the Council (Article 3(2) and (3) of Regulation No 729/70).

2. In August 1972, after one year's extension, the Commission presented a proposal for general rules, but the Council could not agree on it. On a proposal from the Commission, however, it adopted Regulation No 2824/72 (2) which constitutes a first step towards general rules by:

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(1) OJ No L 94, 28.4.1970, p. 13

(2) OJ No L 298, 30.12.1972, p. 5

- laying down a list of all intervention measures;
- confirming that the intervention measures in respect of which a uniform rate was fixed are financed entirely (first category interventions);
- maintaining provisionally the regulations on the financing by sector of intervention consisting of buying in, storage and disposal operations, called second category intervention.

3. On proposals from the Commission, these provisions have been extended by the Council on several occasions. The Commission has preferred to acquire experience in the matter and meanwhile adjust existing regulations and improve their application.

Having extended existing provisions for five years, however, the Commission should respect its undertaking to present a proposal before 1 August 1977, in such a way that a new move may be made in the development of the rules governing the financing of intervention purchasing, storage and disposal.

With regard to the existing provisions contained in the financing regulations by sector the main problems to be dealt with are:

1) financing of the cost of the goods;
2) financing of material storage operations;
3) taking into account, at the moment of entry into intervention, subsequent depreciation in quality of the warehouse;
4) evaluation of stocks on 31 December;
5) prospects.

II. Financing the cost of the goods

4. Under the present system Member States obtain the necessary funds for buying in goods. A recent survey sets these tied-up funds at 2 400 million u.a.

For the following reasons Community financing of these funds does not appear opportune for the present:

- expenditure is provisional since part of it is totally or partially recovered on selling the product, thereby necessitating the introduction of special provisions such as loans;
- at present a particularly large amount of these funds is tied up because of surpluses in the milk and milk products sector.

5. The Community, however, finances interest on tied-up capital at a standard rate. The Commission fixed the current rate of 8% after obtaining the opinion of the EAGGF Committee. But the cost of tied-up capital varies greatly among the Member States. A more flexible approach should therefore be envisaged, making it possible to finance a higher interest rate when the Member State shows that it has no other options. This adjustment, however, should remain within certain limits and a fraction of the additional rate should be borne by the Member State as an incentive to keep costs down.

III. Financing of material storage operations carried out by intervention agencies

6. The present system involves standard amounts for the entire Community, decided on by the Commission after obtaining the opinion of the EAGGF Committee and after examination by the management committee concerned.

The methods for laying down the standard amounts have been improved in recent years through:

- a better knowledge of the various cost components;
- systematic weighting of the costs in relation to the quantities involved;
- decisions taken for all sectors, making comparisons possible.

Despite some cost alignment and attempts to harmonize material storage operations, however, the situation still varies considerably from one country to another owing to the different development of the various economies and administrative and commercial practices. Under these circumstances, the standard amounts for the intervention bodies concerned, are far below or sometimes higher than real costs, resulting in gains or losses which depend on financing at national level.

7. While allowing the system of standard amounts to continue, with its advantages as regards supervision of expenditure and encouragement to keep down costs, it is necessary to avoid that the intervention agencies make noticeable gains. For this reason it is proposed, while retaining the incentive of the intervention agencies to conduct material purchasing, storage and disposal operations at minimum expense, to reduce Community financing in this case. For example, if real costs were 35% below the standard amount Community financing would be limited to 90% of that amount. The Commission will also continue its efforts to harmonize as much as possible the material storage operations carried out by intervention agencies.

IV. Taking into account at the moment of entry into intervention, subsequent depreciation in quality of the warehouse

8. Certain products, notably beef and butter, suffer a loss of quality as a result of storage. In the case of beef this depreciation is of the order of 10% to 25% and for butter 6%. According to present regulations, this depreciation does not appear financially until the product is disposed of, or during stock-taking at the end of the year.

This system has two disadvantages, namely:

- the amount of funds that the intervention agencies must raise against the value of the products contains the amount covering the depreciation in quality and the EAGGF finances the interest charges on this amount;
- on stocks at the end of the year, this decpreciation of quality does not appear until 31 December, making control during a budgetary exercise more difficult.

However, in the case where the financial effect of the depreciation in quality is taken into account at the moment when the products are purchased into intervention, and, consequently, under the system of advances, these disadvantages may be remedied, with resulting budgetary economies through the reduction in interest charges on blocked national funds. For this reason, it is proposed to amend the regulations in that way.

V. Stock evaluation on 31 December

9. In accordance with existing rules, products stored in intervention on 31 December are in general, evaluated at the intervention price valid on the following day. Allowance is made for possible depreciation of the quality resulting from preservation. The necessity to use prices effective on the 1 January following for this evaluation contains certain disadvantages. In effect, products are often purchased at a time when the intervention prices are very low (for some products the monthly increases raises the intervention price and the product may be bought during the previous marketing campaign). In this case a gain accountable on stock at the end of the year is shown during the establishment of the accounts on 31 December. This gain is not always apparent in the global products' account, given that in general it may be compensated for by net losses on interventions and financing costs. The intervention agencies, who must obtain the necessary funds for the purchase of merchandise and the value of stocks carried forward to the following year, are obliged, at the start of this to increase these funds to the equivalent of the gain on the stocks carried forward. In the course of the following year, the EAGGF finances interest charges on the funds so increased.

10. This system is logical where the prices at disposal are the same as the intervention prices. It may be stated that especially for products of which there are large surpluses, the purchase price, without taking into account, if required, the aid necessary for facilitating disposal, is below the intervention price on 1st January following. Under such conditions, there is reason to evalue the stocks to be carried forward not using the intervention price on 1st January following, but to propose that this evaluation be made at the average purchase price determined for a given period.

11. For certain products, of which there are large surpluses, the evaluation of stocks to be carried forward may be made at a level below the average purchase price. Taking into account the uncertainties that burden the establishment of sales forecasts, it is advantageous to foresee, for these products, the facility for the Commission, offer the opinion of the EAGGF Committee, to evaluate the stocks to be carried forward at a price level which may be established up to an average to be determined between purchase price and disposal price, fixed during the same period.

12. The evaluation on 31 December thus proposed:

- reduces the potential debt of the EEC budget;
- economizes on budgetary expenditure by reducing interest costs;
- facilitates the management of intervention agencies by reducing the utilization of national funds.

V. Prospects

13. In recent years, on proposals from the Commission, the Council has adopted various technical provisions harmonizing the financing regulations by sector or adding certain details which have proved necessary in the light of experience acquired. It will continue its work along these lines, in particular after adopting this proposal, with a view to adjusting the financial regulations by sector so as to achieve the greatest possible degree of harmonization between the various intervention measures and to consolidate the rules.

Proposal for a Council Regulation laying down general rules for the financing of certain intervention by the EAGGF Guarantee Section

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Regulation (EEC) No 729/70 of 21 April 1970 on the financing of the common agricultural policy [1], as last amended by Regulation (EEC) No 2788/72 [2], and in particular Article 3(2) thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

Whereas in accordance with Article 3(2) of Regulation (EEC) No 729/70 the general rules relating to the financing of intervention by the EAGGF Guarantee Section should be supplemented; whereas pursuant to those provisions Council Regulations (EEC) No 2824/72 of 28 December 1972 laying down general rules for the financing of interventions by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund [3], as last amended by Regulation (EEC) No 2917/76 [4], adopted general rules on intervention in respect of which a sum per unit was determined under the organization of the market; whereas Article 2(2) of the same Regulation provides that the Council is to adopt the general rules applicable from 1 January 1978 to intervention measures in respect of which a sum per unit is not determined under the organization of the market;

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[1] OJ No L 94, 28.4.1970, p. 13

[2] OJ No L 295, 30.12.1972, p. 1

[3] OJ No L 298, 31.12.1975, P; 5

[4] OJ No L 333, 2.12.1976, p. 1

Whereas in the case of the case of the latter intervention measures a set of basic rules should be laid down, in particular with regard to the method for determining the amounts to be financed, the financing of expenditure resulting from the immobilization of the funds necessary for buying in goods, the valuation of stocks to be carried forward from one financial year to the next and the financing of expenditure resulting from storage operations and, where appropriate, processing operations.

Whereas the various items of expenditure and revenue to be used for each sector on the basis of these rules should be the subject of more detailed rules; whereas, meanwhile, the financing regulations for each individual sector should be maintained in force;

Whereas it should be possible to supplement the general rules by implementing rules,

HAS ADOPTED THIS REGULATION:

Article 1

Where a sum per unit has not been determined in respect of an intervention measure under the common organization of the market, such measure shall be financed by the EAGGF Guarantee Section in accordance with the following provisions.

Article 2

1. Where an intervention measure involves the buying in and storage of the goods, the amount financed shall be determined on the basis of annual accounts drawn up by the paying departments or agencies, debiting and crediting respectively the various items of expenditure and revenue.

2. The financing of other intervention measures as referred to in Article 1 shall be equal to the expenditure, less any revenue, in respect of intervention.

3. The Council, acting by a qualified majority on a proposal from the Commission, shall determine in respect of the intervention referred to in paragraph 1 the items of expenditure and revenue to be entered in the annual accounts and, where necessary, in respect of the intervention referred to in paragraph 2, the items to be taken into account for purposes of financing, where these have not been fixed under the organisation of the market.

Until these items are determined and subject as otherwise provided in this Regulation, Regulations (EEC) Nos 786/69 [1], 787/69 [2], 788/69 [3], 2334/69 [4], 2305/70 [5], 2306/70 [6], 1697/71 [7], 272/72 [8] and 273/72 [9] relating to the financing of intervention expenditure in the various sectors shall remain in force.

Article 3

1. The intervention agencies and, where necessary, the Member States shall obtain the funds required for buying in goods. With regard to these funds, the amount of the interest charges to be financed by the EAGGF Guarantee Section shall be calculated using a method and an interest rate which are uniform throughout the Community, to be determined in accordance with the procedure laid down in Article 13 of Regulation (EEC) No 729/70. The interest rate thus fixed must be representative of the interest rates actually borne.

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[1] OJ No L 105, 2.5.1969, p. 1

[2] OJ No L 105, 2.5.1969, p. 4

[3] OJ No L 105, 2.5.1969, p. 7

[4] OJ No L 298, 27.11.1969, p. 1

[5] OJ No L 249, 17.11.1970, p. 1

[6] OJ No L 249, 17.11.1970, p. 4

[7] OJ No L 175, 4.8.1971, p. 1

[8] OJ No L 35, 9.2.1972, p. 1

[9] OJ No L 35, 9.2.1972, p. 3

2. If, when the interest rate is being fixed in accordance with the preceding paragraph, a Member State records in respect of all intervention an interest reate higher by at least 10% than that so determined, additional financing may be decided on in accordance with the procedure laid down in Article 13 of Regulation (EEC) No 729/70 by increasing the standard rate fixed under paragraph 1 in respect of the Member State concerned.

This additional financing may be decided on only:

- at the request of the Member State concerned;
- on condition that that Member State provides proof that the interest rate recorded has been higher than that adopted under paragraph 1 for a period to be determined according to the procedure under Article 13 of Regulation (EEC) No. 729/70.
- if the situation as regards the interest rate for that Member State is not likely to change in the near future, and
- if it is not possible for that Member State to obtain funds more cheaply.

3. The increase referred to in the preceding paragraph shall be equal to half the difference between:

- the interest rate recorded by the Member State, subject to a ceiling equal to the standard interest rate fixed under paragraph 1 multiplied by 1.5 and
- the standard interest rate as fixed under paragraph 1 multiplied

Article 4

1. The operations in respect of storage and, where appropriate, the processing of intervention products shall be financed by the EAGGF Guarantee Section by means of standard amounts which are uniform throughout the Community and fixed in accordance with the procedure laid down in Article 13 of Regulation (EEC) No 729/70, where necessary after examination of the matter by the Management Committee concerned.

2. However, if when the standard amounts are fixed it appears that the real costs to be borned by an intervention agency in respect of a given intervention operation are 15% or more below the standard amounts to be applied, it may be

decided, in accordance with the procedure laid down in Article 13 of Regulation (EEC) No 729/70 and under the conditions set out in the following paragraph, to reduce the standard amounts involved with respect to the intervention agency in question.

3. The reduction referred to in paragraph 2 shall apply only if it is established that:
   - real costs were lower for a period of one year at least;
   - the trend of costs does not suggest a change in this situation in the near future.

   This reduction shall be equal to half the difference between:
   - real expenditure and
   - the standard amount or amounts to be fixed under paragraph 1 multiplied by 0.85.

   If, however, real expenditure is less than the standard amounts to be fixed under paragraph 1 multiplied by 0,65 they shall be increased to that level for the purposes of the calculation referred to in the preceding sub-paragraph.

Article 5

have necessarily suffered a depreciation in quality, the financial effect thereof shall be recorded and taken into account at the time of entry into intervention. To that end, the coefficients of quality depreciation and the prices to which they apply shall be determined in accordance with the procedure laid down in Article 2 of Council Regulation (EEC) No 2727/75 of 29 October 1975 on the common organisation of the market in cereals [1], as last amended by Regulation (EEC) No 1151/77 [2], or; as the case may be, in the corresponding article of the other regulations on the common organisation of agricultural parkets.

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[1] OJ No L 281, 1.11.1975, p. 1

[2] OJ No L 136, 2.6.1977, p. 1

In the annual accounts referred to in Article 2(1) the quantities of products in storage to be carried forward to the following financial year . shall generally be valued at their purchase price. To this end, on the basis of the purchase prices paid by the intervention agencies during a given period and taking into account the depreciation in quality under Article 5, the prices to be applied for quantities to be carried forward to the following financial year are to be determined in accordance with the procedure laid down in Article 13 of Regulation (EEC) No 729/70.

However, if, for a given product, the price forecasts on intervention disposal are noticeably below the value of stocks to be carried forward, as determined in accordance with the preceding paragraph, it may be decided in accordance with the same procedure to replace the purchase prices paid by the intervention agencies by another price. This price may not be below the average of the purchase price and the price obtained on disposal of intervention stocks during the same period.

Article 7

Where necessary, detailed implementing rules shall be adopted in accordance with the procedure laid down in Article 13 of Regulation (EEC) No 729/70.

Article 8

Articles 2(2) and 3 of Regulation (EEC) No 2824/72 are hereby repealed.

Article 9

This Regulation shall apply to expenditure incurred on or after 1 January 1978.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at

For the Council

The President

FINANCIAL STATEMENT

DATE : 1.12.77

1. BUDGET LINES CONCERNED : Chapters 6 and 7

2. ACTION : Proposal for a Council Regulation laying down general rules for the financing of certain intervention by the EAGGF Guarantee Section.

3. LEGAL BASIS : Regulation (EEC) No 729/70, Art. 3, para 2.

4. OBJECTIVES : To define the principal rules governing intervention financing. the purchase, storage and sale of agricultural products by intervention agencies.

5. FINANCIAL CONSEQUENCE	FOR THE MARKETING YEAR	CURRENT FINANCIAL YEAR (78)	FOLLOWING FINANCIAL YEAR (79)
5.0 EXPENDITURE –CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTIONS) –CHARGED TO NATIONAL ADMINISTR. –CHARGED TO OTHER NATIONAL GROUPS 5.1 RECEIPTS –OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES) –NATIONAL		0	– 2 MUA

	YEAR 1980	YEAR 1981	YEAR 1982
5.0.1 PLURIANNUAL PATTERN OF EXPENDITURE	– 2 Mua	2 Mua	– 2 Mua
~~5.1.1 PLURIANNUAL PATTERN OF RECEIPTS~~			

5.2 METHOD OF CALCULATION (For breakdown see below)

Art. 3, paras 2 and 3	+ 4 to 5 M.u.a.	(from 1978)
Art. 4	– 1 to 2 M.u.a.	(" ")
Art. 5	– 3 M.u.a.	(" ")
Total effect 1978	0	
Art. 6, para 1	– 2 M.u.a.	(from 1979)
Art. 6, para 2	token entry	(" ")

6.0 FINANCING POSSIBLE WITH CREDITS INSCRIBED IN RELEVANT CHAPTER OF CURRENT BUDGET ? YES/~~NO~~

~~6.1 FINANCING POSSIBLE BY TRANSFER BETWEEN CHAPTERS OF CURRENT BUDGET~~ ~~YES~~/NO

~~6.2 NECESSITY FOR A SUPPLEMENTARY BUDGET~~ ~~YES/NO~~

6.3 CREDITS TO BE WRITTEN INTO FUTURE BUDGETS ? YES/~~NO~~

COMMENTS :

It should be noted that the application of the provisions of Article 6 (evaluation of stocks at the level of purchase price instead of intervention price on 31 December) leads to the more rapid takeover by the Community of expenses which are at the moment, provisionally, taken over by the Member States by putting up funds.

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5.2 Method of calculation

a) Art. 3 Paras 2 and 3. Supplementary financing of interest charges.
440 Mua at an average 1% supplementary interest charge + 4 to 5 Mua

b) Art. 4, para 2. Reduction of standard amounts where the real costs are noticeably lower than these.
This reduction may notably be applied in the milk products sector and would carry a reduction in expenditure of 1 to 2 Mua.

c) Art 5. Reduction of interest charges following the takeover, on entry into intervention, of the depreciation in quality

- Beef and veal:	Value at purchase 250 000 T at 1 800 ua	=	270 Mua
	Technical depreciation 17%	=	46 Mua
	8% interest charges over 6 months	=	1.8 Mua
- Butter:	Value at purchase 250 000 T at 2 300 ua	=	575 Mua
	Technical depreciation 6%	=	35 Mua
	8% interest charges over 6 months	=	1.4 Mua

Total reduction in interest charges 1.8 + 1.4 = 3.2 Mua,
approximately 3 Mua

d) Art 6, para 1. Reduction of interest charges taking into account the purchase price for stocktaking on 31 December

Value of stocks brought forward	2 400 Mua
Purchase price level 2% below intervention price level on 31 December	48 Mua
8% interest charges over 6 months	2 Mua

e) Art 6, para 2. Reduction in interest charges following supplementary depreciation on 31 December value. The influence depends on the actual application.

Example: For skimmed milk powder, supplementary depreciation of 200 ua/T, based on a carried-over stock of 1 m T, carries a reduction in value of 200 Mua.

8% interest charges over 6 months: 8 Mua