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FUTURE FINANCING ARRANGEMENTS FOR THE EUROPEAN COMMUNITY

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FUTURE FINANCING ARRANGEMENTS FOR THE EUROPEAN COMMUNITY

A. Financing the common agricultural policy

I. The background

1. The basic text laying down financing arrangements for the European Economic Community's common agricultural policy is Council Regulation No. 25 dated 4 April 1962.[1] This covers financing up to the end of the Community's transitional period, which began on 1 January 1958 and ended on 31 December 1969. There was provision for this transitional period being extended for a maximum of three years, such a step requiring a decision of the Council acting by unanimous vote on a proposal from the Commission.

2. As far as agriculture is concerned the Community's transitional period was divided into two stages. During the first of these - 1 July 1962 to 30 June 1965 - the Community assumed responsibility for one sixth, then for two sixths and finally for three sixths of eligible expenditure under national market and price policies. Agreement on arrangements for subsequent years was reached on 11 May 1966. It has been understood, however, since 1 July 1967 that once the Community's transitional period expired, in other words from 1 January 1970, all expenditure incurred under the Community's market and price policy would have to be financed by the Community.

3. At present the Community's budget is financed by direct contributions from the Member States, these contributions being a charge on the six national budgets. The financing regulation of 1962, however, embodies the principle that "since at the single market stage price systems will be standardized and agricultural policy will be on a Community basis, the resulting financial implications will fall on the Community". It also states that "revenue from levies charged on imports from non-member countries shall be the property of the Community and shall be appropriated to Community expenditure; the budget resources of the Community shall comprise such revenue together with all other revenues decided in accordance with the rules of the Treaty as well as contributions of Member States in accordance with Article 200 of the Treaty".

This is what has come to be known as own resources for the EEC, representing a first step towards a federal budget of sorts for the Community.

4. Structural improvements in agriculture can be partially financed from the European Agricultural Guidance and Guarantee Fund to supplement national financing. Expenditure here corresponds "so far as possible" to one third of

[1] Official gazette No. 30, 20 April 1962.

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the amount spent under the heading of market support and price policy. To cover the possibility of a sharp increase in expenditure under this heading, the Council has ruled that this third cannot exceed 285 million units of account (or dollars).

5. The claim to own resources arising from Regulation No. 25, together with its corollaries - wider powers for the European Parliament and increased responsibility for the Community generally - gave rise to a really serious crisis in 1965/66.

The initial regulation made provision for transitional financing arrangements, applicable up to 1 July 1965 only. Before this deadline was reached, the Commission submitted proposals to the European Parliament and the Council to the effect that the Community should assume responsibility for farm financing from 1 July 1965. A large proportion of the necessary funds was to come from the EEC's own resources - in other words, from farm levies paid directly into the EEC's common fund and from the CCT duties on imports.

6. If levies and import duties were to be pooled to give the Community an independent income, the powers of the European Parliament would have to be widened to give that body the beginnings of real budgetary control. The Commission did in fact draft proposals which constituted a first step towards strengthening the Parliament's powers, but the Parliament itself felt that the proposals did not go far enough.

7. The Council, on the other hand, declared that the proposals conflicted with the letter of the EEC Treaty and that the agricultural policy could not be financed in the way proposed by the Commission after 1 July 1965.

The crisis to which the farm financing issue contributed led indirectly to the "Luxembourg compromise" reached by the Council at the end of January 1966. Under this compromise agreement the Commission's powers were reduced and the Treaty provisions on qualified majority voting within the Council were set aside by what amounted in effect to a unanimity rule. Each of the Six is partly responsible for this turn of events.

8. After this political setback to the Community, which brought something of a permanent crisis in its wake, it did prove possible to find a compromise solution to the problem of financing the common agricultural policy. The EAGGF continued to be a sort of clearing house, balancing accounts. It was arranged that contributions to the Farm Fund should be in two parts, as follows:

"The first part of the contributions by Member States shall be equal to 90% of the levies on imports from non-member countries collected by the Member States during the accounting period in question.

"The second (remaining) part of the expenditure shall be covered by contributions from the Member States according to a fixed scale of apportionment."

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With these provisions direct transfers of levies to the Farm Fund can be avoided. Instead of surrendering their levy receipts direct to the Fund, the Member States "pay" a contribution which represents 90% of the levies collected.

Thus, a definitive solution to the agricultural financing problem, a crucial one for European integration, was postponed until 1969. Before the end of 1969, however, the Council had to reach a decision on financing arrangements for the final stage.

B. Definitive farm financing arrangements

II. The Commission's proposals and the ideas behind them

The Commission submitted its new proposals to the Council on 17 July 1969. Taken as a whole, the proposals - for both revenue and expenditure - may be regarded as a decisive step towards a pre-federal Community structure. There are three separate proposals, which deal with far more than the mere question of farm financing. They comprise:

(a) A report incorporating Commission proposals on the question of transforming the simple financial contributions hitherto made by the Member States into own resources for the Community;

(b) Two proposed regulations, with explanatory memoranda, on expenditure by the Farm Fund.

These last two regulations are designed to replace Regulation No. 25 and the regulations adopted pursuant to it. This would clear the way for action to adapt agricultural expenditure to the agricultural policy that will be pursued in the years ahead.

All expenditure on export refunds in connection with the Community's market and price policy together with any losses arising in connection with government buying and selling of farm products is chargeable to the EAGGF, which is part of the Community's budget.

Farm financing, like the Community's administrative budget, the European Social Fund, the research and investment budget, is only one of many items of expenditure to be met from the joint budget. The Commission has confined its proposals to the expenditure side; revenue is dealt with in a separate regulation. This is the first big difference between the new proposals and existing regulations, which cover both revenue and expenditure.

The Commission's financing proposals are in two parts:

(a) The financial regulation itself, which deals with the single market stage, and

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(b) The "additional provisions" which are to provide a bridge between the transitional period and the single market stage.

The proposed regulation on financing the agricultural policy comprises three titles:

1. The Guarantee Section,
2. The Guidance Section,
3. General provisions.

The transitional period provided by the Treaty of Rome expired on 31 December 1969. At first glance it might be thought that, because of this, the new agricultural financing arrangements should have come into force on 1 January 1970. However, closer inspection shows that this is not so since expenditure on the common agricultural policy results from decisions already taken by the Council, and is in fact a consequence of the common market organizations.

Some extra time will be needed before the new farm financing arrangements come into force, but this has not affected the expiry of the transitional period proper. The Commission's proposal estimates that this extra time might end on 1 January 1971.

On 22 December 1969, several months of discussion culminated in the Council reaching agreement on the own resources issue. It also reached agreement on the farm expenditure issue along the lines contained in the Commission's proposals. The various texts were approved by the Council on 6 March 1970.

III. The Council's decisions

1. Guarantee Section

The most striking feature of the new role assigned to the Guarantee Section of the Farm Fund is that it is to move away from the present clearing system between creditor and debtor States to assume direct financial responsibility on a Community basis along classic budgetary lines.

In future the Community's budgetary resources are to be discussed each autumn. This will be possible because the Fund's accounting period, now running from 1 July to 30 June, is to be altered to coincide with the calendar year. This will allow the Council, and perhaps the European Parliament too, to debate individual items in the budget during the autumn and to decide on measures to be taken in the context of the various market organizations to vary and redeploy financial resources in the light of farm policy.

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Once the credits have been approved, the Commission will make advance payments to the disbursing services or agencies in the Member States. These will have to produce evidence to support their claims for funds and submit detailed expenditure accounts in due course.

Since these agencies will be acting on the Community's behalf, it is only natural that the Community should have made arrangements to keep a close watch on them. The Member States will have to report to the Commission in detail on the operations of these agencies and expenditure by them.

As regards expenditure covered by this Section, the Council's decisions contain nothing new as regards refunds, which are already financed in full. Intervention arrangements have been changed, however. In the first place, the definition of intervention has been made somewhat wider than it was during the transitional period under Regulation No. 25. Secondly, the financing arrangements themselves have been changed. As things now stand, intervention expenditure is reimbursed if it is regarded as "eligible", and the requirements for eligibility are slightly restrictive in practice. For instance, only storage costs and net losses resulting from the difference between the prices at which produce handled by the intervention agencies is bought and sold can be financed, and even then on a flat-rate basis only. If the Community is to assume full-scale responsibility, support buying must be financed too. But an answer to all these problems means that intervention methods must be harmonized and suitable solutions found. It has therefore been agreed that, as a temporary measure, support buying under the procedures laid down in Articles 5 and 6 of Regulation No. 17/64/CEE will remain in force until 1 July 1972.

2. <u>Guidance Section</u>

(a) Article 6(1) of the Regulation on the financing of the common agricultural policy provides for financing of joint programmes from the Guidance Section. These programmes will be approved by the Council in accordance with the procedure laid down in Article 43(2), third paragraph, of the Treaty to achieve the objectives defined in Article 39(1 a) of the Treaty, including structural alterations required for the satisfactory functioning of the common market.

This broader definition of the Guidance Section's role should enable it to act on a wider front than in the transitional period. It was made necessary by the advanced state of integration reached by Community agriculture. The market organizations would be able to make a greater contribution towards improving farm incomes and raising living standards for the agricultural community if diversified and co-ordinated

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structural programmes were to lead to an optimum combination of the factors of production. This would make it possible to reconcile the market equilibrium which is desirable with the increased agricultural productivity which is necessary.

(b) It will therefore be for the Guidance Section to implement a number of joint programmes, for which guidelines were laid down in the Memorandum on the Reform of Agriculture in the European Economic Community.

For each joint programme the Council will have to:

(i) define the objective to be attained and the nature of the work to be done;

(ii) decide on the proportion of the cost to be borne by the Fund, though this does not rule out the possibility that some programmes may be fully financed by the Fund;

(iii) estimate the cost and the time needed for implementation;

(iv) determine the economic and financial conditions under which the programme is to be carried out;

(v) adopt the necessary procedural provisions.

(c) The basic guidelines of policy to improve the structure of agriculture must therefore be thought out and co-ordinated at Community level. Article 6(3) emphasizes this. It stipulates that joint programmes to be financed by the Guidance Section will be selected in the light of the Council's Decision of 4 December 1962 on the co-ordination of policies on the structure of agriculture.[1]

Considerable authority must be delegated to the Member States at the implementation stage. In this way joint programmes can be adapted to national legislation and special account can be taken of the widely varying local conditions which exist in the Community.

(d) Since the joint programmes will be implemented through the statutory and administrative rules and regulations adopted by the Member States, it will have to be a rather gradual process. For this reason it has been decided that the provisions of Part II of Regulation No. 17/64/CEE - with the exception of Articles 14(1 a) and 16 - will remain in force until such time as the annual total of eligible expenditure on joint programmes approved by the Council comes to 285 million u.a. Until this stage is

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[1] Official gazette No. 136, 17 December 1962.

reached, residual credits corresponding to the difference between 285 million u.a. and eligible expenditure on joint programmes will continue to be used to finance schemes approved under the provisions of Regulation No. 17/64/CEE. In any event, the cost of operations already approved will be met even if total eligible expenditure on joint programmes does go above the 285 million u.a. mark.

From 1972, if need be, this annual total can be increased by the Council acting in accordance with the procedure laid down in Article 43 of the Treaty provided eligible expenditure on joint programmes exceeds this total.

3. General provisions

A number of concrete measures to ensure effective control have been incorporated in this part of the regulation. The single market regulations are extremely complex and involve hundreds of thousands of payments each year. There have also been cases of fraudulent payments, and a determined effort must be made to stop these.

The Council has decided that the Member States must keep the Commission regularly informed of steps taken to implement the common agricultural policy and action taken on irregularities. This should make it possible to keep an eye on how Community enactments are enforced and reduce expenditure by the Farm Fund.

It has also been agreed that any definitive losses resulting from irregularities will be a charge on the Community unless it can be shown that these losses are due to negligence on the part of the national administrations.

Provision has also been made for on-the-spot checks. Inspectors authorized by the Commission will be entitled to examine all documents dealing with Fund expenditure if prior notice is given to the Member State concerned. These inspectors will check:

(i) that administrative practices are in line with Community rules;

(ii) that the necessary supporting documents are available and that they tally with operations financed by the Fund;

(iii) the way in which operations financed by the Fund are implemented and arrangements for checking on their implementation.

The regulation allows civil servants from neighbouring Member States to take part in these inspections, and the national authorities can be asked to carry out inspections on the Commission's behalf.

There is also provision, as might be expected, for the Commission submitting an annual financial report to the Council and the European Parliament giving full details of all the Fund's operations.

Finally, the Fund Committee will retain overall responsibility for control and approval.

IV. Additional provisions on financing the common agricultural policy

The purpose of the regulation on additional provisions on the financing of the common agricultural policy is a twofold one:

1. To act as a bridge between the old system and the definitive financing arrangements which are scheduled to come into force on 1 January 1971. Special arrangements will be needed for 1970, which falls between the two systems.

2. To solve a number of outstanding problems for the period ending on 31 December 1969.

The Council decided to extend the present system of advance payments and refunds to cover 1970. Arrangements for Member States' contributions have been modified, however, to facilitate the changeover from the old system valid until the end of 1969 to the new one which will apply from the beginning of 1971. The following scale of contributions was approved with this end in view:

Belgium	8.25
Germany	31.70
France	28
Italy	21.50
Luxembourg	0.20
Netherlands	10.35

Since the Fund's accounting period has been running from 1 July to 30 June, a special accounting period had to be introduced for expenditure in the last six months of 1969.

The long delays which have been occurring have given rise to a number of problems. The main reason for these delays is that the Guarantee Section is understaffed, and none of the accounts subsequent to 1965/66 have been finally closed. Two steps have now been taken to deal with this situation. In the first place, provision has been made for a further, exceptional advance payment for 1967/68 and 1968/69, bringing them to 90%. Secondly, provision has been made for phased payments by countries with a debit balance for the accounting periods covered by the old system until 1973. The combined effect of the new financing arrangements and these administrative delays would have been to place an intolerable burden on the budgets of the countries concerned (Belgium, Germany, Italy and Luxembourg).