European Communities — Joint Information Service

Newsletter on the Common Agricultural Policy

Weekly

No. 6 December 1963

The quest for the best solution

The European Agricultural Guidance and Guarantee Fund and connected problems

With its impending decisions on the extension of the common agricultural policy, the EEC Council of Ministers is having to deal more and more with the problem of the future form of the common agricultural market. The purely technical business of adopting new regulations - on dairy products, rice or beef - is becoming increasingly bound up with the financing of the common agricultural policy. This also applies to the regulations already in force. It was laid down that from the first year of operation of the cereal regulation - 1962/63 - some of the intervention measures, and of the refunds on exports of cereals, pigs, eggs and poultry outside the Community, should be financed jointly. The Community is therefore already in default, since the Council has not yet adopted the two regulations proposed by the Commission to implement these financial arrangements:

(a) the regulation on the granting of aid by the European Agricultural Guidance and Guarantee Fund, and

(b) the financial regulation relating to the European Agricultural Guidance and Guarantee Fund.

The question of finance is so closely linked with the regulations covering the specific products that it is hardly conceivable that Council decisions could be taken without settlement of the financial side.

The Fund is based on Regulation No. 25 on the financing of the common agricultural policy, which was adopted at the close of the Council's marathon agricultural session on 14 January 1962. The draft regulation on the granting of aid by the EAGGF therefore follows the provisions of Regulation No. 25.

.../...

Published by the Division for Agricultural Information in collaboration with the Directorate General for Agriculture of the EEC Commission — 12, Avenue de Broqueville, Brussels 15

It comprises two separate sections: the Guarantee Section and the Guidance Section. The procedure laid down in the Guarantee Section for refunding certain costs and charges incurred in the Member States, through implementation of the common agricultural policy, in respect of the farm products subject to that policy, is largely based on the provisions already made in the Community budget for another fund - the European Social Fund. On the other hand, the measures provided for in the Guidance Section relate principally to long-term plans for structural improvement. They are intended eventually to give the common agricultural market the desired structural orientation. Hence the two names: "Guarantee" for the financing of measures to implement the agricultural regulations in force, and "Guidance" for forward-looking measures to improve farm structures in the Community. In many cases the structural changes necessary to build up the common agricultural market will take several years. The budget is normally drawn up for one year only. So provisions are needed to make long-term action feasible without prejudice to the principle of annual budgeting.

The financial regulation mentioned above contains all the financial and budgetary provisions needed for operation of the Fund, i.e. it lays down when the Member States must pay their contributions towards the joint measures, how Member States' accounts are to be operated, and how the financial provisions for the operation of the Fund are settled within the Community budget.

But let us return to the Fund itself. Like any other fund it is dependent on revenue that is to be expended in covering whatever charges arise. To take revenue first: the Member States will be obliged to make contributions to ensure the operation of the Fund. These will increase in step with the realization of the common market. Three separate periods can be distinguished:

(1) an initial period from 30 July 1962 to 1 July 1965;

(2) from 1 July 1965 to the end of the transitional period (1970);

(3) the final stage of the common market, after 1970.

The question of contributions for the first three years has already been settled in the regulations. The Fund will derive its revenue from contributions by the Member States, calculated in part according to the scale laid down in Article 200(1) of the EEC Treaty (Belgium 7.9%, France 28%, Germany 28%, Italy 28%, Luxembourg 0.2% and the Netherlands 7.9%) and in part in proportion to the net imports of each Member State from outside the Community.

.../...

The total revenue of the Fund will be made up from the two components in the following ratios:

	1962/63	1963/64	1964/65
According to the scale in the Treaty	100	90	80
In proportion to net imports	-	10	20

Before the end of the third year the Council, in the light of the results of the general review of the Fund's operations, will draw up rules governing the revenue of the Fund from 1 July 1965 till the end of the transitional period, in order to guarantee continuing progress towards a common market.

The object of the Council's current negotiations is therefore to find means of rapidly implementing these provisions while adhering to a strict interpretation of them, so that all the measures of farm policy which have been tackled can be smoothly settled and financed. For the period beginning 1 July 1965 the Council will in any case have to take a further decision on the way in which the Fund is to obtain its revenue. From 1 July 1965 until the end of the transitional period revenue is to increase gradually so that, in the final stage of realization of the common market, revenue from levies on imports from non-member countries will accrue to the Community and be utilized for Community expenditure. This is a basic decision that the Council must take in pursuance of Regulation No. 25.

In spite of this, there seems to be little chance of the current negotiations resulting in complete agreement on contributions and financing during the final stage, in view of the remaining differences of opinion and consequent conflicts among the Member States. The Commission is prepared to make a distinction between the transitional period and later stages for the purposes of the Council decisions, since it believes that a separate arrangement for the early years may provide a point of departure for a definitive decision regarding the Fund.

At any rate, the Commission's proposal on the immediate alignment of cereal prices in the Community for 1964/65 will give the Council an opportunity to discuss the final shape of the Fund, since there is a causal connection between the cereal-price system and Community financing. The Commission has proposed to the Council that all refunds should be financed jointly if a common cereal price is established in 1964/65. To this extent the transitional period would be considerably reduced, and the common agricultural market would come into operation earlier.

However, should the common cereal price not be fixed in the coming marketing year, the decision to be taken by 1 July 1965 for the period up to 1970 will provide an opportunity of reaching a generally satisfactory solution to the problem of the Fund.

.../...

For the initial period - and here we are concerned with the impending Council decision - the Council would have to act particularly to allay German fears that the contributions of a single Member State might exceed the agreed maximum of 31% of total contributions. If the Germans can be reassured, there is really no doubt that all the regulations regarding the Fund will be adopted by the Council. At any rate the Council, in the current negotiations, must establish a final date for adoption of all the measures to enable the Fund, together with the relevant revenue and expenditure, to take effect retroactively from 30 July 1962. Broadly speaking, these measures include all the financial provisions required up to the final stage, with the exception of the individual Council decisions for specific periods referred to above.

The items to be financed from the Fund are:

a) Expenditure on intervention on the Community market;

b) Expenditure on refunds in respect of exports to non-member countries;

c) Expenditure on structural improvements coming under the Guidance Section.

The market organizations for cereals, pigmeat, poultry and eggs came into operation on 30 July 1962. Refunds on exports from the Community to non-member countries can be financed in respect of all these products. Although the system applies to all products, a special difficulty arises in the case of cereals. The basis for refund is the cereal in its pure state; so, in the case of processed products containing cereals, computation will be based on the basic cereal content, and refunds will be paid only on this amount. There is general agreement that, if possible, two different conversion factors should not be applied for calculating the basic quantity of cereals. Conversion factors are already contained in the regulations implementing the cereal market organization. Only in exceptional cases where the existing factors prove to be too high can there be any question of introducing further conversion factors. Refunds from Community resources are only to be granted on the basis of the lowest average refund valid in the Community for the individual basic products concerned. Consequently, the Council has to make a ruling to the effect that the average refunds will not be taken into account when they are influenced by a price in a Member State that does not comply with the lower limit applicable for the Community, or when they are granted in respect of insignificant quantities of exports.

A fixed percentage will have to be chosen for the insignificant exports that are not to be taken into account in comparing the average refunds granted by the Member States.

.../...

In the case of the regulations now in force, intervention on domestic markets by stocking and denaturing has taken place only as regards cereals. This situation may well be changed in the course of the current debate in the Council. Market intervention is also provided for in the future market organizations for dairy products and beef and veal. It would be advisable to determine in the Council the financial effects of these new regulations directly together with the interventions on the cereal market. The idea of having a general clause for all intervention measures has been discussed. The Council has asked the Commission to supply a stricter interpretation of what market intervention should be financed, in the form of a special solution, for cereals.

As a whole, the proportion of such measures to be included under joint financing during the coming years will rise from one sixth of total expenditure in the first year of operation of the market organizations (1962/63 in the case of cereals), to one third in the second year, one half in the third year, until by 1970 all such expenditure will be financed jointly from the Fund. From 1 July 1965 till the end of the transitional period the contributions of the Fund are to be increased regularly in such a way that at the end of the period all chargeable expenditure will be financed by the Fund. However, as has already been pointed out, the Commission believes that, if its proposal for immediate introduction of a common cereal price is accepted, full joint financing should take effect earlier - in fact immediately on establishment of the common cereal price, since such would automatically lead to a full common agricultural market for all products. An amendment to this effect has been submitted to the Council.

A number of problems concerning the joint financing of structural measures under the Guidance Section are still to be solved. The Council has restricted expenditure under this Section to one third of the funds needed for other measures. The following items will be chargeable to the Fund:

(a) adaptation and orientation of agricultural production,

(b) adaptation and improvement of the conditions of production in agriculture,

(c) adaptation and improvement of the marketing of agricultural produce,

(d) development of outlets for agricultural produce.

Expenditure on items (a) and (b) may be charged to the Guidance Section for all agricultural products, as defined in the EEC Treaty, whereas only those products for which the market has been organized can receive financial support in respect of items (c) and (d).

.../...

The following questions are being discussed in the Council:

Where structural measures are concerned, should there be restrictive conditions governing the measures themselves or the products involved?

Are the Community programmes envisaged also to apply to "classical" measures to improve agricultural structure? The present attitude in the Council is that they should. The consequences of this will have to be made more explicit by the Council in the Community programmes.

Another problem is the maximum percentage to which the Fund should participate in proposed projects. The Commission has suggested 50%. Should the Fund contribute only in the form of capital grants or also by offering low rates of interest? The Council would prefer participation to be in the form of capital grants only. The size of the contribution to be made by the beneficiaries themselves to measures of structural improvement must also be settled.

Institutional questions are bound to play a major role in the Council discussions. These relate mainly to the division of administrative powers over the Fund between the Council and the Commission. Discussion in the Council has centred on giving the Committee of the Fund itself, the Management Committees for the various farm products already operating, and the Standing Committee on Structure, in collaboration with the Council and the Commission, the task of exercising supervision of one form or another over the Fund.

More and more attention is being devoted to the demand that there should be adequate parliamentary control over the Fund. This is understandable, since large sums will flow into and out of the EAGGF, and national parliaments are to have no direct say in the matter. Consequently, there is considerable and growing interest in giving the European Parliament a measure of control, though this would entail serious political and legal problems. The European Parliament, the Economic and Social Committee, the Committee of Agricultural Organizations in the EEC, and the Foreign Relations Committee of the Second Chamber of the Dutch Parliament have all advocated that the European Parliament should have budgetary control over the EAGGF.

Community decisions and regulations

Developments in the Commission

The Commission has drawn up the regulations needed to extend the levy system and sluice-gate prices relating to imports of pigmeat and poultry from Member States and from non-member countries between 1 January 1964 and 31 March 1964. Corresponding arrangements for refunds have also been worked out.

Operation of the common organization of the market in cereals

Council Regulation No. 115/63, which amends Regulation No. 55 concerning products processed from cereals so that levies on exports can be fixed on a lump-sum basis and refunds must thus be made on a new basis, will have a series of effects on the provisions of Regulations Nos. 89, 92, 97 and 131. The Commission has worked out the necessary amendments.