Newsletter on the Common Agricultural Policy

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FUTURE FINANCING ARRANGEMENTS FOR THE EUROPEAN COMMUNITY

Commission proposals for a real Community budget

A. Financing the EEC's common agricultural policy

I. The background

1. Arrangements for financing the European Economic Community's common agricultural policy are largely contained in 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 terminates on 31 December 1969. This transitional period can be 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 on the expiry of the Community's transitional period, 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 third countries shall be the property of the Community and shall be appropriated to

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[1] Official gazette of the European Communities No. 30, 20 April 1962, p. 991.

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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 is known as independent income or "own resources" for the EEC, representing a first step towards a sort of federal budget for the Community.

4. Structural improvements in agriculture can be in part financed from the European Agricultural Guidance and Guarantee Fund to supplement national financing. Expenditure here corresponds "so far as possible" to one-third of 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 made this one-third subject to a ceiling of 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 - caused a really serious crisis in 1965/66.

Under the relevant Regulation, the transitional financing arrangements were applicable only up to 1 July 1965. Before this deadline was reached, the Commission submitted proposals to the European Parliament and the Council of Ministers to the effect that the Community should assume responsibility for financing the agricultural policy 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 used to give the EEC independent resources, 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 proposal did not go far enough.

7. The Council of Ministers on the other hand declared that the proposals were not based on 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.

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The crisis that began over agricultural financing amongst other things led indirectly to the "Luxembourg compromise" reached by the Council at the end of January 1966. Under this agreement the Commission's powers were reduced and the Treaty provisions on qualified majority voting within the Council were replaced by the de facto unanimity rule. All six members of the EEC must bear part of the responsibility for this turn of events.

8. After this political set-back to the Community, which brought a sort of permanent crisis in its wake, it did prove possible to find a compromise solution to the problem of financing the common agricultural policy. The European Agricultural Guidance and Guarantee Fund, or EAGGF, continued to be a sort of clearing house, balancing accounts. To get around the difficulty of Member States having to pay their receipts from levies directly into a common fund, it was arranged that contributions to the EAGGF 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."

These provisions make it possible to avoid direct transfers of levies to the Farm Fund. Instead of surrending their levy receipts directly 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 this year, then, the Council must reach a decision on financing arrangements for the final stage.

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B. The Commission's new proposals

II. The Concept and content of agricultural financing

The Commission submitted its new proposals to the Council on 17 July 1969. Taken as a whole, the proposals - for own resources and for 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 financing the agricultural policy. 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 of the Community;

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

If approved by the Council, these last two regulations would replace Regulation No. 25 - the present basic regulation on financing the common agricultural policy - and the regulations pursuant to Regulation No. 25. This would clear the way for action to adapt agricultural expenditure to the agricultural policy that will be pursued in the years ahead.

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 agricultural products, is all chargeable to the EAGGF, which is part of the Community's budget.

The item "Financing of Agricultural Policy", 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 for the financing of the common agricultural policy to the expenditure side; income is dealt with separately in a special regulation.[2] Here, for a start, is one big difference between these new proposals and existing

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[2] The income proposals will be discussed in a later issue of the "Newsletter on the Common Agricultural Policy".

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regulations which cover both revenue and expenditure.

The Commission's proposals for financing the agricultural policy are in two parts:

(a) The financial regulation itself which deals with the final stage and

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

The proposed regulation on financing the agricultural policy - referred to at (a) above - comprises three titles:

1. The Guarantee Section

2. The Guidance Section

3. General provisions.

The transitional period provided by the Treaty of Rome will expire on 31 December 1969. At first glance it might be thought that, because of this, the new agricultural financing arrangements must 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 financing arrangements for agriculture come into force, but the expiry of the transitional period laid down in the Treaty will not be affected. In its proposal the Commission expects that this additional time could expire on 1 January 1971.

It would however be highly significant if the political decisions reframing agricultural financing arrangements could be taken before the end of 1969, since this matter could be regarded as one of the basic activities of the Treaty.

The requirements with regard to the expiry of the EEC's transitional period, the entry into force of all the rules laid down and the completion of all measures required for the establishment of the common market are set out in Article 8 of the Treaty.

1. The Guarantee Section

The most striking feature of the new role assigned to the Guarantee Section of the EAGGF is that it is to move away from the present clearing system between creditor and debtor States and 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, a change that will be possible because the Fund's accounting period, which now runs 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 and to decide on measures, to be taken in the common organizations of the various agricultural markets, to vary and redeploy financial resources in the light of the policy for agriculture.

In this way the Community's responsibility, financial and otherwise, will be increased; the present system whereby the Member States incur expenditure which is later refunded will be replaced by full direct financing from the Community's own budget.

The Commission's proposals make scarcely any change in the measures to be financed by the Guarantee Section. Given the present situation with regard to agricultural surpluses, however, it is to be expected that there will be a shift of expenditure towards intervention measures. The Commission's proposal states explicitly that Articles 5 and 6 of Regulation No. 17/64/EEC[3] will continue to apply for the time being.

In Article 2 of its new draft regulation, the Commission proposes that detailed arrangements for financing export refunds be decided on by the Council acting by qualified majority.

The direct financing of these measures are by the Community, with the Community immediately responsible instead of being responsible at

[3] Official gazette No. 34, 17 February 1964, p. 580.

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one remove through the Member States, means that financing conditions must be thoroughly harmonized. Expenditure under the Fund must be brought into lines in the six countries. There can no longer be any question, for example, of storage costs for the same quantity of butter under guarantee arrangements for milk producers being 50 % higher in one Member State than in another - as they still are today.

Articles 4 and 5 of the Commission's proposal deal with the bodies which will be called upon by the Member States to make payments on behalf of the Community and with the reports to be made by these bodies on the responsibility of the different Member States. If the new arrangements are to work smoothly, the existing bodies will have to be overhauled.

There has been no change in the competence of the Fund Committee, which will continue to be a general supervising and authorizing body.

2. The Guidance Section

On the expiry of the transitional period, the ceiling of $ 285 million placed by the Council on the resources of the Guidance Section will cease to apply.

In its proposal the Commission has again been at pains to point out to the Council that the Guidance Section's sphere of activity has widened now that agriculture has reached its present advanced stage of integration.

The logical way of dealing with this development is to widen the provisions of Article 11 of Regulation No. 17/64/EEC which lists the structural measures to be jointly financed.

With a view to achieving the objectives set out in Article 39(1) of the Treaty the following come within the ambit of the Guidance Section:

(i) Adaptation and steering of production structures;

(ii) Retirement of farmers from agricultural activity and utilization of the land made available by such retirements to further the aims of the common agricultural policy;

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(iii) Adaptation and steering of production;

(iv) Adaptation and improvement of the marketing of agricultural products, range of uses to which they are put, and improvement of the available outlets.

Action of this kind can take one of the following forms:

(i) Structural measures in the Member States, to be implemented by the Community or by the Member States in accordance with Community rules;

(ii) Measures to be implemented within the Community by private individuals, institutions or associations in accordance with Community criteria;

(iii) Special measures to be taken in the interests of the Community.

For the time being, Articles 12 to 22 of Regulation No. 17/64 EEC will continue to apply to the financing of schemes to improve the structure of agriculture in the Member States.

3. General provisions

The general provisions include very concrete proposals from the Commission as to how effective control should be exercised. There is no denying that a number of difficulties and cases of fraud have arisen in the Member States in connection with measures to implement the common market organizations.

Now is the time to plug the administrative loop-holes. Arrangements must be made for an automatic two-way exchange of information and monies improperly acquired must be recovered.

Article 8(3) contains an important provision, under which the Community will normally bear definitive losses other than those which can be attributed to negligence on the part of the authorities in the individual States.

The Commission has proposed that the present situation be improved by means of a Council regulation. This deals in particular with arrangements for auditing and inspection. Accounts are to be checked on the spot in the Member States, a principle already implicit in Article 29 of Regulation No. 17/64/EEC.

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The introduction of a more flexible and direct method of examining any cases which arise is proposed. The Commission is thinking in terms of officials from the Member States conducting enquiries in the other Member States. Auditors appointed by the Commission must, on giving prior notice, be allowed access to all documents dealing with expenditure from the Fund.

This will enable them to

(a) Confirm that administrative practice has been in line with Community provisions;

(b) Ensure that necessary vouchers etc., are available and in line with the projects financed from the Fund;

(c) Check the conditions under which the projects financed from the Fund have been implemented and verified.

A further proposal is that the Commission should submit a financial report to the Council and the European Parliament each year giving details of all the Fund's operations. The main purpose of these provisions, like those dealing with the powers of the Fund Committee, is to give existing practice a legal form.

The Commission's aim, in this proposed regulation, is progress towards a genuinely Community procedure.

III. The "Additional Provisions"

The Commission's proposal for a regulation embodying additional provisions on financing the agricultural policy has two aims:

1. It will provide a bridge between present financial arrangements and the final ones which according to the Commission's proposals are due to come into force on 1 January 1971. Transitional arrangements must be made for 1970.

2. It will solve a number of problems which will arise in connection with 1969, largely because the Fund's accounting period has so far run from 1 July to 30 June. The changeover to the calendar year means that the second half of 1969 is left hanging in the air as far as procedures are concerned.

It was therefore a good idea to try and find an overall solution for all of 1969/70, particularly since a backlog of work in connection with previous accounting periods has to be cleared. The main reason for the backlog is the severe shortage of staff in the Directorate at the Commission responsible for the accounts of the Fund. The backlog affects the accounts for 1966/67, 1967/68 and 1968/69. The present Commission proposal therefore makes provision for the possibility of clearing arrangements to deal with existing difficulties.

In contrast to the proposal for new agricultural financing arrangements, the "additional provisions" regulation can come into force immediately since all it involves, basically, is the extension of existing arrangements.

The Commission points out in its explanatory memorandum that the backlog in connection with the grant of assistance from the Fund is not as bad as in connection with payments on account to the Member States. In an attempt to make up for some of the delay with regard to assistance from the Fund, the Commission proposes that with effect from 1 July 1967 advances in respect of eligible expenditure be increased from 75 to 85% and that a "catch-up" clause be included for expenditure not taken into account in connection with the advances.

The second half of 1969 is to be added to the accounting period ending on 31 December 1970, thus making this an 18-month instead of a 12-month period. This would simplify administration by reducing the amount of accounting work and facilitate the transition to 1 January 1971. From 1 January 1971, then, the Fund's accounting period will, for the first time, coincide with the calendar year.

A regulation of this kind would also avoid the repetition of extending regulations, a procedure which has given rise to anxiety, in the European Parliament in particular. Since the long interval between the time the Member States incur expenditure and the time they are refunded under the present system of half-yearly payments on account is to be reduced as far as expenditure from the Guarantee Section of the Fund is concerned, this system is to be retained and reinforced by use of higher scale of payments.

It has not proved possible to observe the time-table for decisions on assistance from the Fund during the 1966/67, 1967/68 and 1968/69 accounting periods a new time-table will therefore have to be established.