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COMMISSION OF THE EUROPEAN COMMUNITIES

to the

COUNCIL

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Article 14(4) of

REGULATION (EEC, EURATOM, ECSC) No 2/71 OF THE COUNCIL OF
2 JANUARY 1971 IMPLEMENTING THE DECISION OF 21 APRIL 1970
ON THE REPLACEMENT OF FINANCIAL CONTRIBUTIONS FROM MEMBER
STATES BY THE COMMUNITIES' OWN RESOURCES

COM (75) 479 final

EXPLANATORY NOTE

Under Article 14(4) of Council Regulation (EEC, Euratom, ECSC) No 2/71 of 2 January 1971,⁽¹⁾ the Commission should have reported to the Council on the operation of the own resources inspection arrangements before the end of 1973.

It was impossible to keep to this deadline as Council Regulation (EEC, Euratom, ECSC) No 165/74 determining the powers and obligations of officials appointed by the Commission pursuant to Article 14(5) of Regulation No 2/71 was not adopted by the Council until 24 January 1974.⁽²⁾ The Commission had sent the proposal for a regulation to the Council on 2 June 1972.

Consequently, until 31 December 1973 own resources inspections were carried out on the basis of prior agreements concluded for each visit with the Member State concerned, as there were no provisions for implementing Regulation No 2/71. True association with national inspections did not begin until the financial year 1974.

Consequently, the Commission could not submit a proper report to the Council on the operation of the system in its final form without also taking into account the inspections carried out in 1974 in accordance with the principles set out in Regulation No 2/71 and defined in greater detail in Regulation No 165/74.

(1) OJ No L 3, 5 January 1971

(2) OJ No L 20, 24 January 1974

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Pursuant to Article 201 of the Treaty establishing the EEC and Article 173 of the Treaty establishing the EAEC, and in order to balance their Budget, the Communities have been allocated own resources in accordance with the rules laid down in the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources¹.

1. The Communities do not collect the own resources themselves. They do so indirectly through the authorities and agencies in the Member States, the latter making the services of these authorities and agencies available to the Communities, so to speak. The arrangements for the collection of own resources for the Commission of the European Communities are laid down in Regulation (EEC, Euratom, ECSC) No 2/71² implementing the Decision of 21 April 1970, and they may be summarized as follows:

- The Communities' own resources are established in accordance with the national provisions laid down by law, regulation or administrative action (Article 1 of Regulation No 2/71); however, the Member States assume the risks of non-recovery and place the amounts established at the disposal of the Communities within the time-limit laid down in Article 6 of that Regulation.
- The Commission, for its part, receives appropriate guarantees that the procedures for the establishment entry in the accounts and making available of own resources by the national authorities or agencies are carried out properly: such guarantees consist mainly of information on the work of the national agencies concerned with the collection of own resources. This information is sent to the Commission regularly in the form of half-yearly and yearly reports (Article 5 and 13 of Regulation No 2/71), information on national legislation on this subject and information on the national authorities or agencies responsible for collecting the resources; otherwise, the Commission may obtain such information itself on the spot when its authorized officials are associated with national own resources inspections carried out by the Member States on their own initiative or at the request of the Commission (Article 14 of Regulation No 2/71).

Indeed, the Commission may be associated, at its request, with the inspections carried out by the Member States. Furthermore, the Member States may be asked, by means of a request from the Commission, stating the reasons therefor, to carry out additional inspections.

The Commission's right to be informed and to monitor own resources is thus a consequence of having made the national authorities responsible for collecting these resources.

¹OJ No L 94, 28 April 1970.

²OJ No L 3, 5 January 1971.

2. Pursuant to Article 14(4) of Regulation No 2/71, the Commission had to report to the Council on the operation of the inspection arrangements before the end of 1973.

However, as circumstances prevented the immediate adoption of the implementing provisions relating to the powers and obligations of the officials appointed by the Commission to carry out such inspections, it was not until the beginning of 1974, when Council Regulation (EEEC, Euratom, ECSC) No 165/74¹ of 21 January 1974 was published, that the Commission could be fully associated with the national inspections in accordance with the relevant provisions of Regulation No 2/71.

Commission staff had in fact been associated with such inspections before then on the basis of prior agreements concluded with the relevant Member State in connection with each visit.

Consequently, the Commission could not submit a proper report to the Council on the operation of the system in its final form without also taking into account the inspection visits made in 1974, the first year in which the Commission was fully associated with such visits in accordance with the principles set out in Regulation No 2/71 and defined in greater detail in Regulation No 165/74.

The Commission thinks that such a report should contain:

- I - an examination of national measures in the Member States on the subject of verifications and inquiries;
- II - an examination of the information submitted to the Commission in the yearly and half-yearly reports;
- III - an examination of the arrangements for the association of the departments of the Commission with the inspections carried out by the Member States;
- IV - a general assessment of cooperation between the Member States and the Commission concerning inspections, and proposals for improving the system in the light of experience gained.

¹ OJ No L 20, 24 January 1974.

I. NATIONAL MEASURES IN THE MEMBER STATES RELATING TO VERIFICATIONS AND INQUIRIES

The Member States carry out verifications and inquiries concerning the establishment and making available of own resources. Furthermore, pursuant to Article 4 of Regulation No 2/71, each Member State provides the Commission with the following information at the Commission's request:

- the designations of the departments or agencies in the Member States responsible for establishing own resources and, where appropriate, their statutes;
- the general provisions laid down by law, regulation or administrative action or relating to accounting procedure, concerning the establishment of own resources and their being made available to the Commission.

A. A distinction can be made between two main types of national inspection relating to own resources.

1. Internal or administrative inspection

The principle of internal or administrative inspection is virtually identical in all Member States. It consists of internal inspections carried out by administrative superiors or by a specialized inspection body.

These inspections - whether they are carried out simultaneously or subsequently - make it possible for decisions taken by subordinates to be revoked or changed. The officials appointed for this purpose carry out inspections either on the basis of documents or on the spot in unannounced visits during which they have extensive powers concerning notification and investigation. They draw up a report to be submitted to the local superior to whom they are answerable or to the central administrative body of the Ministry to which they report.

2. External inspection

Broadly speaking, external inspection is administered:

- by the courts in the Member States of the Community as originally constituted, under the aegis of the national Audit Offices, the roles and responsibilities of which vary from country to country;
- by Parliament in the three new Member States.

In the United Kingdom the Controller and Auditor General is appointed by the Crown and has a status similar to that of a High Court Judge.

In Ireland the Comptroller and Auditor General is a constitutional officer appointed by the President on the nomination of Parliament.

In both countries these officers have extensive powers to obtain all information or documents which they consider necessary for the performance of their duties. They present to Parliament a report which is considered by a Parliamentary Committee empowered to examine witnesses. This Committee makes recommendations and comments with regard to financial control, accounting procedure, wasteful expenditure etc., and its recommendations are generally put into practice.

In Denmark, Parliament appoints five inspectors and five deputies for a period of four financial years. These inspectors are answerable only to Parliament and are responsible for inspecting the annual accounts of the State. They may ask for all the information which they need for the performance of their duties and may require the presentation of supporting documents.

They base their research mainly on the reports received from the departments responsible for auditing the accounts, which are the highest administrative authority on the matter.

B. It must also be pointed out that, in essence, external inspection in the Member States is closer to that administered by the Audit Board of the European Communities pursuant to the special provisions contained in the Treaties establishing the EEC (Article 206) and the EAEC (Article 180) and set out later in Regulation No 2/71 (Article 14(3)) and in the Financial Regulation of 25 April 1973¹.

On the other hand, the Commission's supervisory role in this field - in connection with which it may ask to be associated with Member States' inspections - takes the form of inspections made by authorizing officers which resemble national internal inspections.

The Commission therefore obtains information on this second type of inspection from the Member States and it is with such inspections that the officials appointed by the Commission generally ask to be associated.

¹OJ No L 116, 1 May 1973.

II. INFORMATION CONTAINED IN THE REPORTS SENT TO THE COMMISSION BY THE MEMBER STATES

Provision is made in two articles of Council Regulation No 2/71 for reports to be presented to the Commission by the Member States.

Article 5 of Regulation No 2/71 provides that each Member State shall draw up yearly a summary statement of accounts together with a report on the establishment and monitoring of own resources and shall forward this to the Commission before 1 June of the year following the financial year concerned.

Article 13(3) of that Regulation provides for half-yearly reports relating to questions of principle and matters in dispute which have arisen.

These reports appear regularly for discussion on the agenda of the meetings of the Advisory Committee on Own Resources set up by Article 26 of Regulation No 2/71. At the third meeting of the Committee it was agreed that the report on the second half of the year would be combined with the annual report for which provision is made in Article 5.

The information obtained by the Commission is rather general but enables it to perceive any shortcomings in own resources legislation and, where appropriate, to make proposals with a view to improving it. In addition, the Commission bases itself on this information in order to check its forecasts and plan its inspections.

The Member States have agreed to draft these reports in accordance with an outline proposed by the Commission.

According to the text of Articles 5 and 13(3) of Regulation No 2/71, there are basically two types of information to be included in the reports:

- statistical data relating to the normal operation of the own resources collection system, together with comments;
- an examination of difficulties arising as a result of collection.

The outline for annual reports is in two parts therefore, one devoted to statistical information relating to the whole of the year under review and the other concerning difficulties that have arisen during the same period.

For 1974, only the amounts in own resources actually transferred were available, as the annual reports from Member States were not received in time.

1. General statistical information

In general, each Member State presents its data in accordance with the following outline:

Category of resources	Forecast		Outturn		%
	u.a.	national currency	u.a.	national currency	
Customs duties established					
Customs duties to be paid over					
Import levies					
Export levies					
Non-member country monetary compensatory amounts					
Accession compensatory amounts					
Sugar levies - storage					
Sugar levies - production exceeding basic quota					
Total own resources to be paid over					

With these data it is possible to make a comparison:

- in the annual report, between payments for the twelve months of the year and the final figures, taking into account supplementary and amending budgets;
- in the half-yearly report, between the amounts established and made available to the Commission in the first six months of the year and 50% of the forecasts made for the whole of the year in question.

Annex I to this report contains a table indicating the own resources paid over in the 1971-74 period.

Annexes II and III complement this table with two graphs illustrating, in general and by category of revenue, the percentage of the Budget which is covered by own resources.

For the 1971-73 period the main observations concerning the statistical tables supplied by the Member States can be summarized as follows:

- In the case of customs duties, the outturn equalled or exceeded the forecasts.

In Italy, outturn exceeded forecasts by as much as 13% in 1973. This difference is attributable to monetary factors and inflation which, mainly as a result of the much higher world prices for raw materials and foodstuffs, caused a large increase in the value of imports into the country.

- In the case of agricultural levies, however, a progressive reduction was observed. This was due mainly to a drop in imports of cereals and beef and veal from non-member countries as a result of higher agricultural prices on the world market.

It should be added that the trend in agricultural levies is linked to the level of agricultural production and European and world agricultural prices. It is impossible to predict these levels and prices with any degree of accuracy.

In 1973 the revaluation of the guilder accentuated this reduction in the Netherlands.

- In the case of levies on sugar, outturns were very close to forecasts, particularly in 1972. In certain countries there was even a considerable increase in revenue from production levies following an abundant harvest.

Although the outturn in 1973 exceeded forecasts there was still a reduction in resources compared with 1972 in most of the original Member States.

2. Difficulties encountered during collection

The information supplied by Member States under this heading is disparate and presented in tabular form.

Nevertheless it is still possible to attempt to summarize the information sent in since the financial year 1973, as follows.

Basically these difficulties result from:

- (a) problems which can be grouped together under the general heading of matters in dispute and which concern either disputes or irregularities;
- (b) questions of principle arising as a result of the collection of own resources.

(a) Matters in dispute

- The following amounts were involved:

- In Germany: The following sums were recovered through proceedings initiated in the course of enquiries:
DM 17 million by way of customs duties
DM 0.6 million by way of levies.
- In Belgium: Bfrs 67 988 062 by way of recovered duties.
- In Denmark: Dkr 6.2 million by way of duties and taxes were recovered following attempted illegal imports.

These amounts include both customs duties and excise duties, customs duties representing only 3-4% of the total.
- In France: 4690 cases of irregularity discovered - no indication of the amount involved¹.
- In Italy: Lit 270 million recovered in 1973.
- In Ireland: £6 401 recovered.
- In Luxembourg: Lfrs 231 641, representing 0.12% of receipts from customs duties, were recovered through reaching compromise agreements. No case of fraud in connection with levies was uncovered.
- In the Netherlands: The amount was not indicated, but about 1% of import declarations gave rise to disputes.
- In the United Kingdom: There being no national statistics on the sums recovered, it may be stated that fines imposed for smuggling offences amounted to about £350 000.

- The matters brought to the Commission's attention do not relate to the same sectors in each Member State:

- In Germany and the United Kingdom: articles subject to high duty (spirits, cigarettes, spare parts for computers, etc.).
- As regards France, it should be pointed out that:
 - the wine industry is particularly affected by illegal imports of wine or wine products from non-member countries which are declared to be in free circulation in order to qualify for Community preference;

¹No indication as to the sums recovered was given by the Member State concerned.

- cases of persistent fraud have been discovered concerning products from developing countries. Generalized preference treatment was requested illegally for these products.

- In Italy disputes concern mainly the regulated agricultural sectors.
- In the Netherlands, disputes concern mainly tariff classifications, the application of provisions concerning value for customs purposes and the establishment of levies.

(b) Questions of principle

Since 1971 a number of questions have been raised in the reports which the Member States submit to the Advisory Committee on Own Resources pursuant to Articles 5 and 13 of Regulation No 2/71.

These questions concern a number of fields and in some cases a tentative solution has been found.

The tariff classification of chemically pure lactose and glucose is a case in point.

On the subject of the entry in the accounts of monetary compensatory amounts charged on agricultural products exported to non-member countries, the requirement to deduct these amounts from the export refunds was rescinded by Council Regulation No 3259 of 19 December 1974 in certain cases for certain Member States. This has made it possible to resolve existing problems in these Member States.

Other matters are being examined, for example the rounding off of the conversion rate for the agricultural unit of account used for calculating agricultural levies and monetary compensatory amounts.

The question of how to interpret Article 4(3) of Council Regulation No 1463/73², fixing the method of calculating the correcting factor to be applied to monetary compensatory amounts, is also being examined.

The difficulties encountered in 1972 as regards the entry of revenue collected for the first time on skim milk for animal feedingstuffs,

¹OJ No L 349, 28 December 1974.

²OJ No L 146, 4 June 1973.

olive oil and starch products have shown that a list setting out the own resources is useful.

For information purposes the Commission has already supplied as complete a preliminary list as was possible, setting out the agricultural levies referred to in Article 2(a) of the Decision of 21 April 1970.

(c) Cases of force majeure

Member States may be exempted from making the established entitlements available to the Commission only if they are able to invoke force majeure.

The burden of proof as regards force majeure is incumbent on the Member State concerned.

So far no case of force majeure has been explicitly reported for the period covered by this report.

III. ASSOCIATION OF THE COMMISSION WITH NATIONAL INSPECTIONS

It is certain that the reports for which provision is made in Articles 5 and 13(3) of Regulation No 2/71 cannot enable the Commission to recognize all the difficulties connected with the operation of the system of own resources and to eliminate such difficulties.

Clearly, the Commission will continue to gain most of its information through being associated with national inspections, as is its right under Article 14 of the above Regulation, e.g.:

- the second indent of Article 14(2) provides that the Commission may be associated, at its request, with the inspections carried out by the Member States;
- the first indent of Article 14(2) provides, furthermore, that the Commission may ask the Member States, in a request stating the reasons therefor, to carry out additional inspections.

At the beginning of 1974 the Council, acting unanimously on a proposal from the Commission, laid down the conditions which officials appointed by the Commission must satisfy when they carry out the inspections provided for in Article 14, in particular with regard to professional secrecy and the procedures whereby they exercise their powers of investigation.

In the absence of such rules, the Advisory Committee on Own Resources agreed, in December 1971, that the own resources inspections provided for in Regulation No 2/71 would, by way of experiment, be organized on the basis of a gentlemen's agreement between the Member States and the Commission.

1. Association with the inspections up to the end of 1973 and implementation of a permanent procedure

While a draft regulation was being prepared on "authorized officials", determining the powers and obligations of officials appointed by the Commission to be associated with own resources inspections, visits were made for this purpose in 1971 and 1972 in the six countries of the Community as originally constituted.

During 1973 similar visits were organized in the new Member States. They enabled Commission officials to make contact with the national departments responsible for establishing and making available own resources and to familiarize themselves with the national inspection procedures. Following those visits, documents comparing the different inspection methods in the various Member States were presented to the Advisory Committee on Own Resources to enable an initial assessment to be made of the compatibility of national provisions in this field with the Community texts and to meet the requirements set out in Regulation No 2/71 as regards information.

As already indicated, what was involved here was not the association procedure in the strict sense of the term: the visits were more in keeping with the spirit of Article 5 of Regulation No 2/71, which provides that the Commission should be supplied with information on the national departments responsible for inspections.

The period between the publication of Regulation No 2/71 and the end of the financial year 1973 therefore saw the gradual introduction of the own resources inspection system provided for. The Member States and the Commission supplied each other with information, but the Commission representatives were not truly associated with the Member States' inspections.

However, the importance of this intermediate phase of prior contacts in the introduction of a completely new control mechanism should not be forgotten. It showed for example:

- the desire of the Member States to facilitate such inspection;
- their willingness to pass on relevant information formerly reserved for their national authorities and agencies.

The purpose and dates of the visits are shown in the following table:

Member State	Dates of visits	Purpose of visits ¹
1. BELGIUM	(1) 4 October 1971 (2) 17 January 1972 (3) 19-21 January 1972	Brussels: Information Customs duties - sugar levies -levies
2. DENMARK	15-16 May 1973	Copenhagen: Customs duties
3. GERMANY	(1) 30 November-1 December 1971 (2) 9-10 October 1972 (3) 12-14 December 1973 ²	Hamburg: Customs duties Giessen: Sugar levies Bonn: making available own resources Düsseldorf: customs duties and agricultural levies
4. FRANCE	7-9 June 1972	Marseilles-Paris: agricultural levies
5. IRELAND	1-4 October 1973	Dublin: information visit
6. ITALY	(1) 9-11 March 1973 (2) 18-19 October 1972	Naples: levies Naples: customs duties levies making available own resources
7. LUXEMBOURG	(1) 29 September 1971 (2) 20-21 March 1972	Luxembourg: information Luxembourg: customs duties, levies
8. NETHERLANDS	10 and 22 June 1972	Amsterdam: customs duties The Hague: levies and sugar levies
9. UNITED KINGDOM	25-28 September 1973	London: information visit

¹ Given as a guide; the purpose of the visits was mainly to obtain information or general procedure for establishing, entry in the accounts and making available own resources.

² In this case, a genuine inspection visit pursuant to Regulation No 165/74, which was in the process of being approved.

But the actual conditions of such association, as laid down in Regulation (EEC) No 165/74(1), which has since been published, were established during inspections carried out in 1974.

Associated inspections will henceforth relate to:

- the correct application of the procedures for establishing, entering in the accounts or making available own resources;
- the conformity of such procedures with the obligations provided for in this field in the Community texts.

2. Implementation of the inspection programme for 1974

(a) Quantitative assessment

Apart from preliminary visits made before the end of the first half of 1974 with a view to informing the Member States of the Commission's requirements as regards own resources inspections, the departments of the Commission had been associated, as of 31 December 1974, with 22 visits planned in this field in the annual programme.

The annual programme, which was adopted as a result of preliminary visits, is based on a system of random checks intended to make it possible in the course of the financial year to inspect, in each Member State, all the elements making up the own resources assigned to the Budget of the Communities, allowance being made for the fact that these inspections must gradually be applied to the whole of the customs territory of each country.

The general programme for the financial year 1974 was carried out fully in all the Member States, and each type of resource was the subject of at least one associated visit in each Member State.

In most cases the visits lasted five working days and two or three visits were made in each country.

It should also be pointed out that of the 22 visits made, 10 related to customs duties, eight to levies and four concerned both types of resources. Levies on sugar were inspected during visits concerning agricultural levies.

(1) O.J. No. L 20, 24th January 1974.

This information is set out in the following table:

COUNTRY	Dates of visits (all 1974)	Purpose of visits
1. BELGIUM	24-28 June 25-29 November 9-13 December	Levies - customs duties Customs duties Sugar levies
2. DENMARK	3-5 July 26-29 November	Customs duties Levies, including sugar levies
3. GERMANY	13-17 May 28-31 October	Customs duties - agricultural levies Customs duties
4. FRANCE	10-14 June 9-13 September 2-6 December	Agricultural levies Customs duties Customs duties
5. IRELAND	17-21 June 7-11 October	Customs duties Agricultural levies
6. ITALY	23-27 September 9-13 December	Agricultural levies Customs duties
7. LUXEMBOURG	2-3 May 2-6 December	Levies - customs duties Customs duties - agricultural levies
8. NETHERLANDS	22-26 April 8-12 July 4-8 November	Customs duties Agricultural levies Agricultural levies
9. UNITED KINGDOM	13-17 May 9-13 September 26-29 November	Customs duties Agricultural levies Customs duties

¹The centralizing and making available of own resources must be added for each Member State.

(B) Level of and arrangements for associated inspections

Thus far there have been no differences in the interpretation of Regulation No 165/74 from one national authority to another.

As a result:

- the Commission is associated with inspections carried out by the Member States concerning the establishment, entry in the accounts and making available of own resources;
- national inspection operations are adapted, where necessary, to the inspection requirements provided for in Community rules.

In this connection, it should be firmly stressed that the Commission staff taking part in associated inspections have received the fullest possible cooperation from the national departments responsible for carrying out the inspections.

However, because of differences in the degree of administrative centralization, association with national inspections takes a variety of forms, which can be categorized as follows:

(a) Association with internal inspections made by departments

Germany: For each own resources inspection, the Ministry of Finance issues a departmental order designating the departments responsible for carrying out the inspections with which Commission officials are associated. It also designates at least one official in the central departments to organize, conduct and coordinate these inspections.

In general, these inspections consist of an examination of supporting documents:

- either with officials in the Federal preliminary audit office (Vorprüfungstelle Bund), attached to each regional tax office,

which is then designated as the department responsible. Although these audit offices are attached to the regional tax offices they are operationally answerable to the Federal Audit Office;

- or in customs offices designated by the Ministry of Finance; in this case the department responsible is the main customs office (Hauptzollamt) to which the office inspected reports.

In Belgium, Ireland, Italy, Luxembourg and the Netherlands it depends on the resources of the various ministries as to which regional departments are inspected, but no single department is responsible for associated inspection. Thus, collaboration in the Member States has been organized to reflect the needs of the central and regional departments concerned, so allowing the Commission representatives to take part in all the actual own resources inspections, even if these are the province of different authorities.

Thus, particularly in the case of the Netherlands, the departments inspected, the customs offices and the produktschaapen (producers' associations) are inspected by the national tax offices and the Ministry of Agriculture and Fisheries respectively.

(b) Association with inspections carried out at the central offices of the Ministries concerned

United Kingdom: the Exchequer Audit Department has, for practical reasons, delegated much of its actual powers of inspection to the Ministries concerned. Accordingly, Commission staff are associated with the internal inspection services of the Ministries concerned.

(c) Association with internal inspections made by central authorities

Denmark: The Directorate-General for Customs is responsible for supervising the operation of the departments and for auditing the customs authorities' accounts. One division in the Directorate-General is responsible for carrying out the inspections, including those relating to own resources, which are the responsibility of special auditors who make on-the-spot visits (travelling auditors).

A group is set up for each associated inspection visit, acting under an inspector from the Directorate-General; this group contains fewer national officials than is usual for groups of this kind. The officials appointed by the Commission are associated with this group.

France: The Ministry of Finance contains a specialized inspection body directly responsible to the Minister (the Inspection Générale des Finances), which can inspect the work of the public accounting officers at any time during the process of implementing the budget. The Inspection Générale des Finances is in a position to inspect all the departments concerned with own resources. A special group, reporting to an "Inspecteur Général" is set up for each of the associated inspections. These groups make unannounced visits to customs offices and other departments responsible for establishing and making available own resources.

The Commission staff involved have been fully associated with the work of the groups.

(C) Composition of the inspection teams

The following officials have taken part in inspection visits with national officials:

- officials from the Commission's Directorates-General;
- Audit Board officials.

- (a) Officials from the Commission's Directorates-General are called upon to take part in associated inspections as part of the internal coordination arrangements organized by the Commission.
- (b) Under Article 87 of the Financial Regulation of 25 April 1973, the Audit Board may, at its request, be present during inspections carried out by the Commission, in order to obtain any information which it requires in order to carry out its task under the Treaties.

Accordingly, it took part in inspections carried out in 1974 in Belgium and Italy in the capacity of observer.

(D) Main purpose of the inspections

As regards the establishment of own resources, the inspections concerned the application of national and Community rules likely to influence the way in which own resources are determined, and as regards entering these resources in the accounts and making them available, they concerned the way in which the total amount of own resources is established at local and national level.

(a) Establishment

The various inspection teams carried out a complete examination of the application of the rules concerning establishment, with particular emphasis on:

- as regards customs duties:

- . in Belgium: the application of preferential arrangements, the management of quotas, the origin and circulation of goods;
- . in Germany: the applicability of circulation certificates and tariff classifications;
- . in France: "associated country" origin;
- . in Italy: origin, generalized preferences, association agreements;
- . in the Netherlands and Luxembourg: inward processing arrangements;
- . in the United Kingdom and Denmark: value.

- as regards levies:

- . in all Member States: monetary and accession compensatory amounts;
- . in Germany, France and the Netherlands: export levies on cereals;

- . in Denmark: export levies on cereals and milk products;
- . in the United Kingdom and Ireland: export levies;
- . in Italy: export levies on cereals, milk products, beef and veal, wine, macaroni, spaghetti and similar products;
- . in Belgium and Luxembourg: specific cases selected at random.

- as regards sugar levies:

- . bookkeeping checks on production levies (basic quotas and maximum quotas);
- . checks on levies in respect of storage costs (monthly returns by producers).

(b) Entering own resources into the accounts and making them available

The inspection teams carried out an examination of the conformity of arrangements for centralizing own resources established with the Community provisions on the matter, and inspected in particular:

- . in Belgium: the way in which monthly recovery statement No 58A is drawn up for the Antwerp Customs Office, and the way in which monthly summary statement No 61A is drawn up for the whole of the Antwerp Customs Directorate;
- . in Denmark: the way in which the monthly return is drawn up in a customs office, and the accounts kept in the Central Collecting Office (TCO); a comparison between the monthly returns sent to the Commission (Art. 6(2) of Regulation No 2/71) and the accounts kept by the Ministry of Finance (Art. 6(1)) and a comparison between the monthly returns and the account at the Danish National Bank (Art. 7(1));
- . in Germany: the way in which the composition of own resources established is checked at the Ministry of Finance;
- . in France: the way in which recovery statement No 943 is drawn up from the collection statements where accounts are kept by means of electric accounting machines;
- . in Italy: the way in which monthly recovery statement No A66 is drawn up and the procedure for centralizing revenue by means of electric accounting machines;

- . in Luxembourg: the way in which monthly statements are drawn up and the centralization procedure in the customs directorate;
- . in the Netherlands: the accuracy, as far as the offices inspected are concerned, of monthly returns concerning customs duties established and customs duties actually received (accounting return No 94);
- . in the United Kingdom and Ireland: a comparison was made between monthly returns sent to the Commission (Art. 6(2) of Regulation No 2/71) and the account held at the Treasury (Art. 6(1)) and a subsequent spot check on this account including the supporting documents in the departments concerned.

The Commission staff found that arrangements varied from one State to another as regards the way in which the net total amount of own resources to be paid over to the Communities is established after deduction of any new established entitlements. The latter may be deducted:

- at an intermediary stage in the centralization process, before the monthly returns are established;
- on a centralized basis, by amending the centralized gross amount.

IV. ASSESSMENT OF THE OPERATION OF THE INSPECTION ARRANGEMENTS

It may be concluded in general that the system of own resources inspections, provided for implicitly in the Decision of 21 April 1970 and explicitly in Regulations Nos 2/71 and 165/74, was set up between 1971 and 1973 and reached its final operating form during the 1974 financial year.

The Member States fulfilled their obligations arising from these texts by informing the Commission and associating its authorized officials with national own resources inspections.

These general observations should, however, be qualified by two sets of remarks:

- relating to the improvement of existing inspection procedures, since full use was not made of the provisions already in force;
- concerning proposals to amend existing provisions in the matter.

1. Preliminary results of associated inspections carried out in 1974

The aim of this report is to evaluate, after a full year of operations, the establishment of a system of inspections in which the Commission is associated, and an examination of the actual results of inspections may therefore seem both of secondary importance and limited in value.

However, the first and not unimportant result of these operations was the establishment of a satisfactory system for collaborating with the national administrations.

Also, in connection with the financial year 1974, the study of twenty-two reports written by the Commission's departments, augmented by comments from the Member States, brought to light a number of difficulties in connection with recording, entering in the accounts and making available of own resources, e.g.:

- some customs offices did not retain commercial invoices, which meant that it was not possible to ascertain whether the declarations for customs purposes and the declared headings for goods were correct;
- in some Member States there was no breakdown available of the lump-sum taxes applicable to "small consignments" in the form of occasional imports addressed to individuals and to goods carried in the baggage of travellers; such taxes are made up of customs duties and national taxes;
- at local level some own resources were incorrectly booked;
- some monetary compensatory amounts connected with transactions completed after the Community regulation on these amounts came into force were entered in the accounts under own resources.

These problems have already been resolved by means of appropriate regulations or through joint meetings between the Commission's departments and those of the Member State concerned.

A more detailed analysis of inspection results in a future report covering a longer period could prove useful.

2. Information supplied to the Commission by the Member States, in particular under Articles 4, 5 and 13 of Regulation No 2/71

Cooperation as regards information supplied by the Member States concerning the operation of the own resources system has been satisfactory over the four years in which the Decision of 21 April 1970 has been in operation and the Budget has come to be financed from the Community's own resources.

The half-yearly and yearly reports on this system were forwarded each year, but not always by the dates laid down in Regulation No 2/71. The Commission for its part did not rigidly apply the provisions of Article 4 on information concerning the designations of the departments or agencies responsible for establishing own resources, and concerning the general provisions laid down by law, regulation or administrative action or relating to accounting procedure as regards the establishment of own resources and their being made available. Nevertheless, during the contacts prior to the organization of inspection visits and also when these inspections were being carried out, the Member States provided these items of information whenever this was requested.

The above remarks do not, however, preclude certain reservations concerning this collaboration, since the half-yearly and annual reports forwarded by the Member States were often too sketchy, the information provided being vague and the statistical data often difficult to interpret outside the national context in which they were drawn up.

Furthermore, the Commission was not always informed of amendments to national regulations which had a bearing on the own resources system. It would be desirable in future for the information which the Commission may request on the departments or agencies responsible for establishing own resources to be given in a more systematic fashion, so that the Commission can make fuller use of the right accorded to it under Article 4 of Regulation No 2/71.

3. Association with national inspection measures: Article 14 of Regulation No 2/71

The Commission has already expressed in this report its satisfaction with the way in which its association with national inspection measures was carried out.

Indeed it was possible not only to obtain the full collaboration of the national authorities during each visit, but also to organize the inspections within a financial year, by setting out in a general programme the points or problems of most interest to the Commission, thus increasing the effectiveness of these associated inspections. This collaboration should be even further strengthened so that the inspections can be organized in such a way as to ensure maximum harmonization of the programmes.

The solution adopted in several Member States of entrusting the coordination of associated inspections to a single department seems to have given the best results.

The role of the Advisory Committee on Own Resources

The Advisory Committee has met regularly since 1971 at almost quarterly intervals, thus allowing the Member States' delegations and the Commission to express their point of view on the various questions raised by the implementation of the own resources system and associated inspections.

Nevertheless, its role as an advisory body has perhaps not been fully exploited.

Its activities have been directed particularly towards exchanges of information on the various aspects of the monitoring of estimates of budget implementation with regard to revenue. It will be possible in future for it to strengthen its role of coordinating inspections, by studying reports on inspection visits carried out together with the national authorities and by considering what action might be taken in connection with the comments contained in those reports.

From the practical point of view alone, these reports (20 to 25 a year) would supply ample matter for consideration and would yield a great deal of information.

In addition, as far as budgetary and multiannual forecasts are concerned, the setting up of an economic and statistical sub-committee should enable the Advisory Committee to take effective action regarding both forecasts and the monitoring of own resources in macro-economic terms; the latter will assume major importance once revenue from VAT forms part of the own resources.

5. Proposed inspection visits for 1975

The following table containing the programme of inspection visits planned for 1975 and adopted with the agreement of the Member States is appended for information.

MEMBER STATE	Date	Subject of inspection
1. BELGIUM	(1) 8-10 April (2) 14-18 April (3) 26-29 May 5- 6 May	Levies Customs duties Levies on sugar - Making available
2. DENMARK	(1) 7-11 April (2) 25-29 August (3) 3- 4 November 5- 7 November	Customs duties Customs duties Levies on sugar Agricultural levies
3. GERMANY	(1) 14-18 April (2) 2- 6 June (3) 20-24 October	Customs duties - Levies Customs duties - Levies Customs duties
4. FRANCE	(1) 10-14 March (2) 26-30 May (3) 17-21 November	Customs duties Customs duties Levies - entry in the accounts and making available
5. IRELAND	(1) 18-21 March (2) 22-26 September	Customs duties Export levies and customs duties
6. ITALY	(1) 15-18 April (2) 7-11 July (3) 6-10 October	Levies on sugar - establishment and making available of own resources Levies Customs duties Establishment and entry in the accounts
7. LUXEMBOURG	(1) 5- 7 May (2) 1- 5 December	Customs duties and levies Entry in the accounts and making available of own resources
8. NETHERLANDS	(1) 24-28 February (2) 2- 6 June (3) 27-31 October	Customs duties Making available of own resources Levies - Sugar
9. UNITED KINGDOM	(1) 27-31 January (2) 27-30 May (3) 10-14 November	Customs duties Entry in the accounts and making available of own resources - export levies Customs duties

6. Proposals to amend existing provisions

If such proposals are needed they should stem from an analysis carried out by the Commission, though the possibility of an initiative by the Member States in the Advisory Committee on Own Resources should not be ruled out. However, what we have learned so far on the subject of inspections over a short period does not allow us to make a final assessment of the existing system or to propose any amendments. Should the need arise the Commission will make such proposals.

Nevertheless, a number of observations can be made at this juncture as food for thought on possible proposals to amend existing provisions.

Firstly, it is difficult for the Commission departments to apply Article 4 of Regulation No 2/71, which authorizes the Commission to request information on rules concerning own resources and any additional documents that might be necessary. It is not always possible to be abreast of all the new texts and rules adopted by the Member States concerning own resources without the prior collaboration of national authorities.

Consequently, it would be preferable for Member States to send such documents to the Commission on their own initiative, and for the Commission to reserve the right to ask for additional information. The text of the Regulation would have to be revised to take this into account.

Secondly, trends in customs procedure will make it increasingly necessary for audits to be carried out on the premises of the persons liable to pay duty. It is therefore important that the implementation of the provisions of Article 3(c) of Regulation No 165/74 should be interpreted in a sufficiently broad fashion to allow effective association with national inspections. Subsequently, if necessary, the text should be amended in accordance with the requirements revealed by experience in this area.

Lastly, it is clear that the inspection arrangements in force at present will have to be supplemented by new provisions when new own resources deriving from VAT are assigned to the Communities. Although those provisions will have to take into account the features of these new own resources, they must also comply with criteria already adopted for the inspection of existing own resources.

OWN RESOURCES PAID OVER, 1971-74

CATEGORY OF OWN RESOURCES	Belgium	Germany	France	Italy	Luxembourg	Netherlands	Denmark	Ireland	United Kingdom	Community
1971										
Customs duties (100%)	170 720 556,02	733 972 724,54	353 549 153,96	320 575 250,-	1 110 321,52	253 256 747,32	-	-	-	1 875 429 429,95
Customs duties paid over	42 750 793,93	177 017 533,70	129 454 574,93	47 677 130,23	1 592 101,52	65 414 679,32	-	-	-	352 377 244,45
Agricultural levies	67 571 933,25	154 245 003,25	51 329 401,75	232 754 048,-	126 558,73	117 944 592,64	-	-	-	604 459 577,70
Sugar levies	5 257 819,70	27 432 040,38	63 270 142,35	2 742 621,44	-	4 375 394,64	-	-	-	109 375 318,51
TOTAL	125 940 122,04	455 394 521,64	254 204 420,-	272 155 149,72	2 128 440,30	187 742 067,50	-	-	-	1 256 695 141,53
1972										
Customs duties (100%)	170 159 972,72	723 955 765,35	441 727 854,21	351 753 335,65	1 375 067,-	250 306 569,19	-	-	-	2 011 410 704,13
Customs duties paid over	47 159 635,74	410 900 354,50	220 704 937,42	125 541 303,14	2 701 554,42	109 267 709,32	-	-	-	957 316 047,50
Agricultural levies	34 727 625,14	153 227 105,22	59 502 931,04	235 595 828,72	28 473,32	223 781 197,04	-	-	-	617 223 143,48
Sugar levies	14 456 620,78	57 022 348,70	55 253 322,45	12 276 211,24	-	10 074 552,24	-	-	-	121 674 374,37
TOTAL	155 353 861,56	621 760 524,22	365 471 534,22	375 335 326,40	2 790 337,74	255 654 765,36	-	-	-	1 736 674 450,60
1973										
Customs duties (100%)	253 427 357,03	844 424 141,94	511 622 355,49	356 145 227,25	3 247 245,50	254 359 378,03	109 511 322,21	325 552 644,09	8 124 023 324,32	10 405 243 354,94
Customs duties paid over	146 835 344,23	650 450 275,12	341 691 793,52	241 637 118,14	2 537 510,04	190 243 507,29	25 462 832,05	10 750 200,04	379 333 262,30	1 956 233 070,49
Agricultural levies	22 178 270,76	104 277 216,03	45 315 933,44	130 475 355,12	111 645,76	21 510 957,18	1 171 457,14	1 385 335,41	26 120 607,32	441 349 953,27
Sugar levies	6 520 311,42	24 540 107,20	47 250 012,04	11 411 544,20	-	8 273 147,72	1 687 474,26	470 005,28	2 027 567,72	63 241 487,27
TOTAL	178 721 260,45	721 215 597,45	448 625 901,01	403 524 327,13	2 569 216,70	236 607 612,25	35 631 769,45	12 706 534,23	402 506 516,63	2 496 237 311,43
1974										
Customs duties (100%)	229 095 133,14	841 765 254,93	575 190 703,09	503 142 377,30	5 025 350,54	311 206 649,71	101 773 717,17	362 302 653,96	8 633 524 077,53	11 437 429 948,12
Customs duties paid over	207 715 190,50	740 715 119,72	453 255 359,29	435 614 653,20	4 325 602,14	268 469 136,17	49 478 738,29	13 425 241,25	304 632 792,-	2 737 506 033,61
Agricultural levies	10 351 100,44	73 134 440,14	47 219 523,63	53 229 400,13	62 816,96	22 464 371,74	1 390 456,-	2 943 227,13	30 365 320,49	235 047 174,54
Sugar levies	1 777 211,13	10 801 211,02	21 517 521,04	12 402 315,01	-	4 407 156,17	1 739 614,17	957 141,68	3 481 621,18	77 620 160,17
TOTAL	243 345 901,22	826 348 424,53	362 646 214,12	327 975 513,04	4 457 239,12	297 660 734,78	52 461 799,64	17 323 640,21	342 840 241,79	3 667 643 454,42

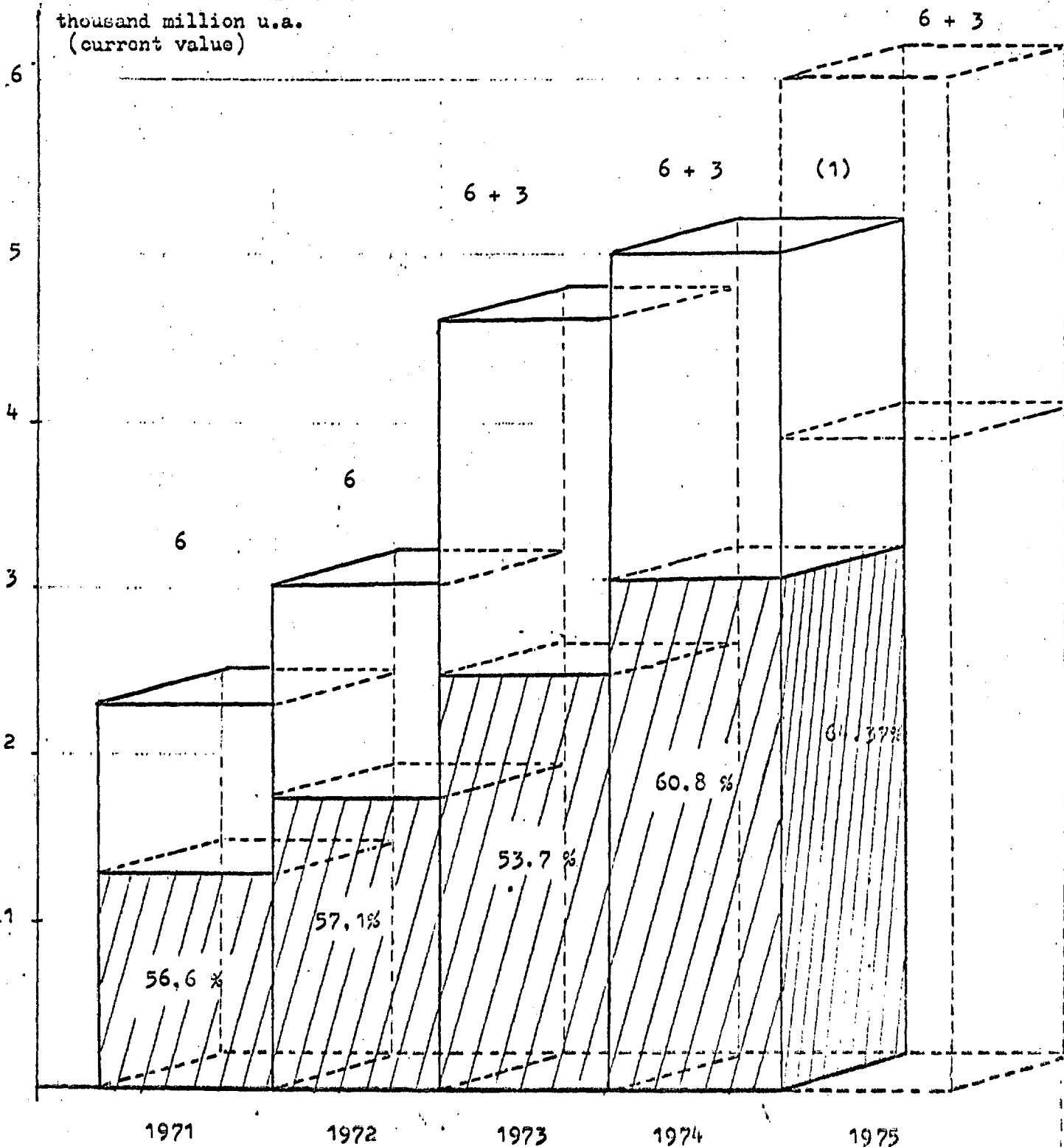
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ANNEX I

Figure 1

FINANCING THE BUDGET OF THE EUROPEAN COMMUNITIES
THROUGH OWN RESOURCES, 1971-75

thousand million u.a.
(current value)



Own resources.

(1) Payments in accordance with GNP scale.

NB: The figures used are taken from the Communities' revenue and expenditure accounts, with the exception of the 1975 figure which is taken from the Budget.

Figure 1 compares the volume of the Budget with that of own resources. Current values were used to draw up the graph.

	<u>Budget</u> (million u.a.)	<u>Own resources</u> (million u.a.)
1971	2 289.5	1 296.0
1972	3 074.4	1 756.8
1973	4 641.0	2 496.5
1974	5 038.2	3 067.8
1975*	6 061.857	3 902.0

Own resources have been paid over in accordance with the Decision of 21 April 1970, i.e., total revenue from agricultural levies and part of the revenue from customs duties, rising progressively each year to reach 100% in 1975.

From 1973 payments have been made by the three new Member States in accordance with Articles 129 and 130 of the Accession Treaty.

* 1975 Budget.

FINANCING THE BUDGET OF THE EUROPEAN COMMUNITIES
BY CATEGORY OF REVENUE, 1971-74

thousand million u.a.
(current value)

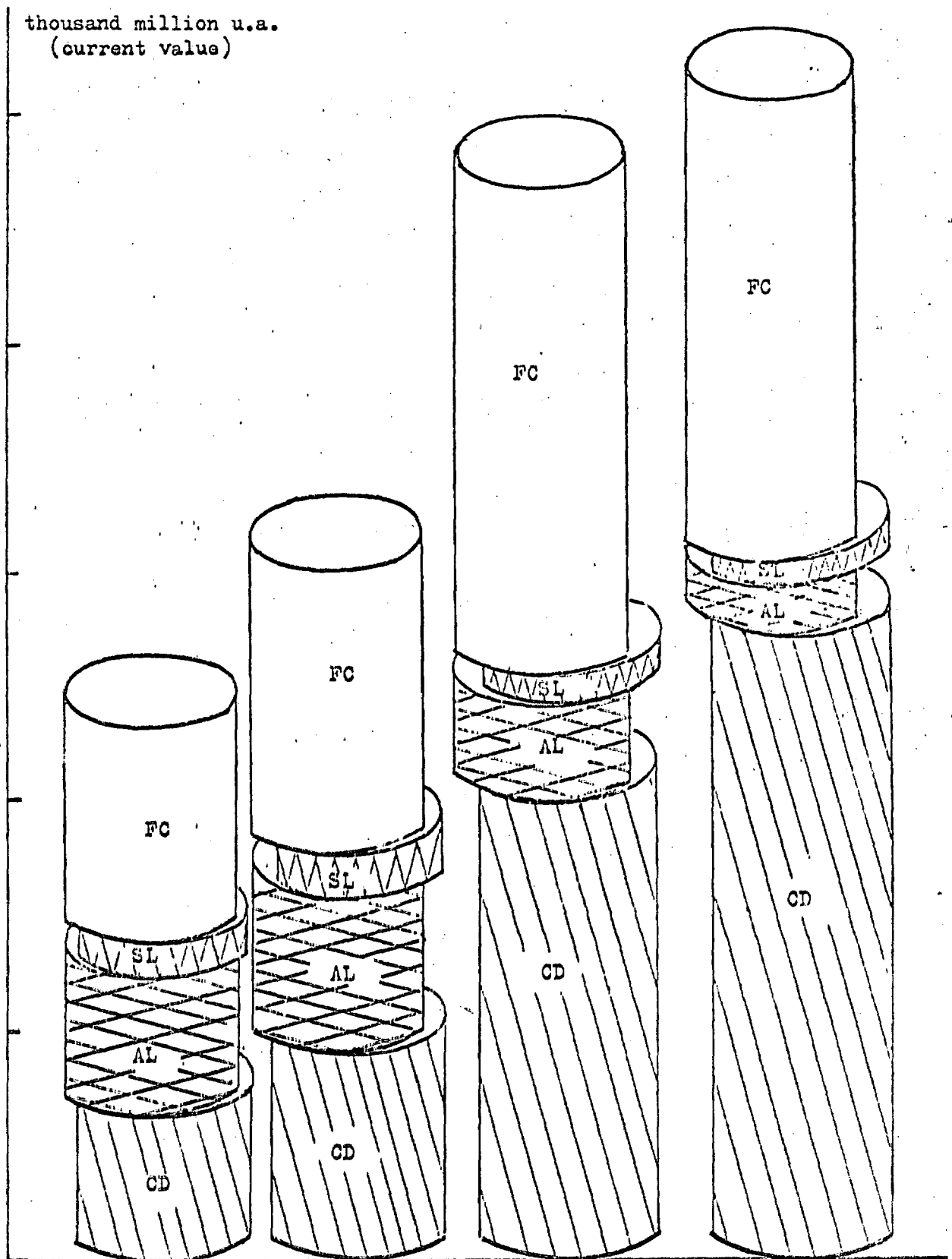
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1971

1972

1973

1974

Financial contributions and other revenue (FC)

Sugar levies (SL)

Agricultural levies (AL)

Customs duties (CD)