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COMMISSION OF THE EUROPEAN COMMUNITIES

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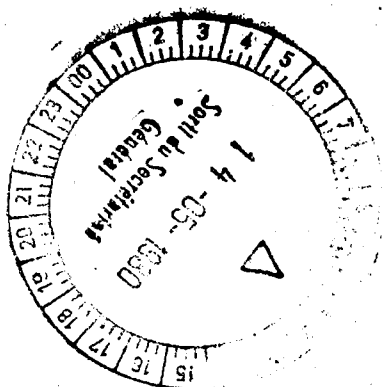
Brussels, 8 may 1980

THE SITUATION OF THE EAGGF GUARANTEE SECTION

IN THE CONTINUED ABSENCE OF A BUDGET

(Communication from the Commission to the Council and to the European Parliament)

Measures proposed under the provisional twelfths system



COM(80) 241 final

INTRODUCTION

The Community, faced with the need to apply the provisional twelfths financial system in the absence of a budget for 1980, is encountering particular difficulties in financing the EAGGF Guarantee Section.

Without any modification of the regulations, expenditure on the EAGGF Guarantee Section will, unless the economic situation changes for the better, inevitably increase from one year to the next for purely objective reasons such as the effect throughout the year of the price decisions taken during the previous year and the increase in production of certain commodities.

As a result, it is normal for the trend of expenditure in the Member States to indicate that the funds available under the provisional twelfths system no longer suffice for all requirements to be covered.

The current rules governing the operation of the agricultural markets also lay down a rate of expenditure resulting from the Community's obligations to third parties. This rate of expenditure cannot be adjusted to the level required for the application of the provisional twelfths system as the rules offer only limited scope for containing expenditure which principally takes place on demand.

Although the Commission was able to finance the EAGGF Guarantee Section for the first five months of the year, it now has to propose to the Budgetary Authority the measures which are needed to ensure continuity of management by means of alignment to the financial requirements which are likely to arise between now and the end of August. The Commission requests that the rules devised for this eventuality be put into effect, i.e. the authorization of additional twelfths and, as a last resort, transfers.

At the same time, the Commission must draw the attention of the Budgetary Authority to the fact that, while the only way of ensuring continued finance is to grant additional twelfths, the date on which it will no longer be possible to finance the agricultural markets is that much nearer; it will probably fall around September or October.

The Commission would therefore like to stress that it is the responsibility of the Budgetary Authority to take the measures necessary for adopting the 1980 Budget before the financing of the EAGGF Guarantee Section is completely halted.

A. The budgetary function of the provisional twelfths

In submitting this proposal to the Budgetary Authority, the Commission first considers it necessary to recall the budgetary function of the provisional twelfths system.

As designed, and as defined in the basis texts governing it, this system is a safeguard measure to ensure that activities are maintained until the Budget is adopted. In the case of the EAGGF Guarantee Section, the maintenance of activities amounts to covering the expenditure arising automatically from existing legislation.

The main function of the provisional twelfths is to serve as a temporary allocation pending adoption of the Budget; they should be used to limit expenditure for an entire financial year.

The Commission must therefore propose to the Budgetary Authority any measure required for avoiding, as far as possible, a halt to the financing of the agricultural markets and thus for ensuring that the Community meets its obligations towards third parties.

B. The implementation of the Budget in the EAGGF Guarantee Section

The Budget is implemented in this sector at two different rates:

- The monthly advances of funds by the Commission allowing the departments of the Member States to pay CAP beneficiaries;
- The entry of this expenditure in the Community Budget through the detailed charging of payments which automatically involves a certain delay.

(a) Advances

The second paragraph of Article 96 of the Financial Regulation applicable to the General Budget of the European Communities states that the advances decided upon by the Commission constitute "provisional global commitments". The provisions relating to the "commitments" referred to in the second paragraph of Article 8 of that Regulation should therefore be applied for implementing the provisional twelfths system.

The Commission thus has 3/12 in January and then 1/12 a month from February.

The advance is paid in its entirety in the month preceding its utilization by the paying agencies of the Member States, in accordance with Council Regulation No 729/70 and Commission Regulation No 380/78, in order to ensure flexibility in adapting it at national administrative level.

Because of these provisions, in particular the provision making three twelfths available in January, the Commission has been able to cope with the financial requirements expressed by the Member States for the first five months of the year (see Table 2).

Despite the economy measures - which the Commission has made every effort in its power to apply in the management of the agricultural markets - the Member States are conducting their expenditure at an average monthly rate equivalent to that of the advances granted, i.e. 1 000 m EUA. Now that it has only 1/12 a month at its disposal (836 m EUA; see Table 1), the Commission can no longer meet its obligations.

(b) Payments

Technically, the items of expenditure conducted by the Member States do not become payments from the Community Budget until they are recognized as such by the Commission, i.e. with a delay of three months because of the time needed by the Member States to send the supporting documents and the time it takes the Commission to process them (Article 3 of Regulation No 380/78 and Article 97 of the Financial Regulation).

As a result, even if the third paragraph of Article 8 of the Financial Regulation restricts payments to 1/12 a month, there will be an accumulation of at least three twelfths when they are charged in detail to the Budget.

This state of affairs means that the only problem to date arising from expenditure in the Member States is in respect of wine (Table 4) - this arises from the charging of payments in May.

C. The measures planned by the Commission in connection with the management of the markets and the monitoring of finance

(a) Possibilities and limitations in the containment of expenditure

In general, the Commission will continue, with the means at its disposal, its efforts to limit the rate of growth in the expenditure of the EAGGF Guarantee Section which, for the first five months of 1980, is 14% higher than the same period in 1979. But the Commission cannot control all the factors which influence agricultural expenditure.

Much of the expenditure is automatic under Council Regulations (e.g. the level of aids and intervention spending) or certain Commission Regulations where its powers of discretion are very limited as a result of the precise criteria contained in the Council Regulations. In addition, the amendment of other Regulations does not have an effect on the accounts of the EAGGF Guarantee Section for several months, the actual period varying according to the Member State.

The Commission is able to take action as regards certain market-support mechanisms and has not failed to use to the maximum its opportunities for making savings, especially in the milk sector. But these activities - which the Commission intends to continue - have economic limits (depending, for instance, on the level of world prices for exports), legal limits (the management committees have to deliver their Opinions on the draft measures and, if negative, the Council has to be consulted) and financial limits. Too large a reduction in the rates of refund would thus paralyse exports and in turn increase expenditure on stocks which would have to be marketed at a later date, e.g. during the next budgetary year, probably at a higher cost, seeing the unfavourable trends on the world market. Agricultural management based exclusively on immediate considerations may therefore lead to adverse financial effects in the longer term.

(b) Monitoring the rate and level of expenditure

Taking account of the now known or probable trend in agricultural expenditure in the first few months of the year and in order to contain budgetary management as much as possible under the provisional twelfths system, the Commission is also planning in May to step up the measures to inform the Member States on the risk of expenditure outstripping available funds and thus to associate them more actively in obeying the budgetary system in force.

D. The measures proposed to the Budgetary Authority

To date, the provisions of the Financial Regulation in respect of the system of twelfths have made it possible to meet the financing of requirements. The same provisions offer specific ways of overcoming the impending shortage of funds.

(a) Request for extra twelfths

When, because of administrative necessities, the automatic allocation of twelfths (3/12th in January + 1/12th in February, etc) is no longer adequate, the fourth paragraph of Article 8 of the Financial Regulation provides that at the request of the Commission the Council may, after consulting Parliament, authorize the simultaneous expenditure of two or more provisional twelfths.

As Table 3 shows, the Commission is proposing that a supplementary sum of 936.6 m EUA be authorized to cover estimated requirements up to the end of August. This increase in allocation will make it possible to cope with:

- (i) the requirements of overall financing (advances),
- (ii) the requirements of the detailed and definitive booking to a budget heading for each Chapter of the EAGGF Guarantee Section (which will arise three months later, i.e. up to November).

The request for extra twelfths is a transaction on which the Budgetary Authority must act with all speed. Failing this authorization, the Commission would be obliged to reduce the granting of advances to the Member States and would no longer be in a position to meet the Community's obligations to non-Community countries.

The Commission therefore requests the Budgetary Authority to authorize the extra twelfths as set out in columns (h) and (i) of Table 3.

(b) Request for transfers

The Commission also proposes a second measure: transfers between Chapters under Titles 6 and 7 of the Budget (Article 101 of the Financial Regulation), the only formula, in the Commission's eyes, which would make it possible to deal with a situation where the twelve twelfths available for a specific Chapter are fully utilized.

Table 4 shows the budgetary pattern of payments. The Budgetary Authority is asked to consider at the same time a proposal for transfers to the Chapters covering wine, and fruit and vegetables, so as to cover the requirements in budget allocations up to and including August. Column (d) of Table 5 shows the proposals for transfers referred to above.

(c) Although Article 8 (request for extra twelfths) and Article 101 (proposals for transfer) of the Financial Regulation provide for different procedures for these two types of measures, the Commission suggests that the Budgetary Authority deal with them jointly because they complement each other.

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* * *

The Commission draws the attention of the Budgetary Authority to the precariousness of the situation and to the fact that the effectiveness of the measures proposed is bound to encounter limitations in the near future; it therefore underlines all the more firmly how essential it is for a budget for 1980 to be available in the very near future.

Table 1: Basis of calculation for the application of the system of twelfths to the EAGGF Guarantee Section

Chapter	Heading	m EUA			
		1979 ¹	1980 ²	12/ 12ths ³	1/12th of 3
60	Cereals	1565.6	1727.5	1565.6	130.5
61	Rice	42.7	47.3	42.7	3.6
62	Milk/Milk products	4491.0	4709.6	4491.0	374.3
63	Fats	606.3	672.0	606.3	50.5
64	Sugar	939.8	1116.6	939.8	78.3
65	Beef and veal	747.8	759.3	747.8	62.3
66	Pigmeat	104.3	77.1	77.1	6.4
67	Eggs/poultry	79.5	65.8	65.8	5.5
68	Fruit/Vegetables	441.5	524.4	441.5	36.8
69	Wine	61.3	203.3	61.3	5.1
70	Tobacco	225.5	280.0	225.5	18.8
73	Other sectors	120.2	126.0	120.2	10.0
74	Non-Annex II	252.2	270.0	252.2	21.0
75	ACA	1.1	0.1	0.1	0.01
78	MCA	708.3	377.6	377.6	31.5
88	Fisheries	17.0	22.0	17.0	1.4
		10404.1	10978.6	10031.5	836.0

¹Supplementary Budget No 3/79 including transfers.

²Draft 1980 Budget of 23 November 1979.

³Minimum of 1 and 2.

Table 2: Comparison of available funds and advances made
in the EACGF Guarantee Section at May 1980

m EUA			
Month	Amounts available under the system of twelfths ¹	Advances made for each month	Total advances made from 1 January to May
January	} 2 508.- 3/12	1 349,7	1 349,7
February		750,8	2 100,5
March	+ 1/12	942,1	3 042,6
April	+ 1/12	1 093,4	4 136,-
May	+ 1/12	879,9	5 015,9

¹The funds technically available to cover advances for each month are those accruing from the preceding month since advances must be paid on the 20th of each month for the following month.

Thus the amount available for May (5 016 m EUA) is that accruing at 1 April and does not hence include the twelfth for May.

TABLE 3: EXTRAPOLATION OF REQUIREMENTS UP TO 31 AUGUST 1980 AND ESTIMATED ADDITIONAL TWELFTHS

m EUA

SECTOR	REQUIREMENTS		AVAILABLE FUNDS		DIFFERENCE BETWEEN REQUIREMENTS AND AVAILABLE FUNDS		PROPOSED ADDITIONAL TWELFTHS			SITUATION REGARDING ADVANCES FOR AUGUST
	Requirements up to 31 May 1980 notified by the Member States	Estimated requirements up to 31.8.1980 ¹	Total of twelve twelfths	Available funds up to 31.8.1980 = 9 twelfths ¹	Diff. between the total of twelve twelfths and requirements at 31.8.1980	Diff. between available funds and requirements at 31.8.1980	One twelfth (reminder)	Number of twelfths	Amount	
	a	b	c	d	e = c - a	f = d - b	g.	h = f : g	i	j = d + i - b
Cereals	687.2	1 050	1 565.6	1 174.5	+ 515.6	+ 124.5	130.5	-	-	+ 124.5
Rice	20.1	40	42.7	32.4	+ 2.7	- 7.5	3.6	two twelfths	7.2	- 0.4
Milk	2 238.8	3 770	4 491.0	3 348.7	+ 721	- 401.3	374.3	one twelfth	374.3	- 27.0
Oils and fats	279.8	430	606.3	454.5	+ 176.3	+ 24.5	50.5	-	-	+ 24.5
Sugar	390.2	600	939.8	704.7	+ 339.8	+ 104.7	78.3	-	-	+ 104.7
Beef and veal	412.4	680	747.8	560.7	+ 67.8	- 119.3	62.3	two twelfths	124.6	+ 5.3
Pigmeat	50.4	85	77.1	57.6	- 7.9	- 27.4	6.4	five twelfths ²	32.0	+ 4.6
Eggs and poultry	38.4	65	65.8	49.5	+ 0.8	- 15.5	5.5	three twelfths ²	16.5	+ 1.0
Fruit and vegetables	490.3	620	441.5	331.2	- 178.5	- 288.8	36.8	five twelfths ²	184.0	- 104.8
Wine	96.8	250	61.3	45.9	- 188.7	- 204.1	5.1	five twelfths	25.5	- 173.6
Tobacco	168.6	230	225.5	169.2	- 4.5	- 60.8	18.8	four twelfths	75.2	+ 14.4
Other sectors *	49	80	120.2	90	+ 40.2	+ 10	10.0	-	-	+ 10.0
Products not in Annex II	96.9	170	252.2	189	+ 82.2	+ 19	21.0	-	-	+ 19.0
MCAs and ACAs	227.9	370	377.7	283.5	+ 7.7	- 86.5	31.5	three twelfths	94.5	+ 8.0
Fisheries	10.5	15	17.0	12.6	+ 2	- 2.4	1.4	two twelfths	2.8	+ 0.4
TOTAL	5 257.3	8 455	10 031.5	7 524.0	+1 576.5	- 931	-	-	936.8	+ 5.6

¹ Member States' requirements are met at Community level by advances paid up to the 20th of the preceding month. Thus, August's requirements will be met by the advance paid on 20 July.

² All the twelfths still available after 1 May must be authorized for these three sectors.

TABLE 4: SCHEDULE OF UTILIZATION OF PAYMENTS¹

m EUA

SECTOR	Expenditure for January and February		Member States' estimates			Extrapolation		
	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER
Cereals	98	251.8	396.9	542.1	687.2	808.2	929.1	1 050
Rice	4	9.2	12.8	16.5	20.1	26.7	33.3	40
Milk	831.2	980.8	1 400.1	1 819.4	2 238.8	2 749.2	3 259.6	3 770
Oils and fats	52.5	98.5	158.9	219.4	279.8	329.9	380	430
Sugar	72.1	142	224.7	307.5	390.2	460.1	530	600
Beef and veal	54.1	130.3	224.3	318.4	412.4	501.6	590.8	680
Pigmeat	10.5	19.7	29.9	40.2	50.4	<u>61.9</u> ²	73.4	<u>85</u> ³
Eggs and poultry	6.1	13.4	21.7	30.1	38.4	47.3	56.2	65
Fruit and vegetables	49.2	149.7	<u>263.3</u> ²	376.9	<u>490.3</u> ³	533.7	576.9	620
Wine	14.1	<u>26.3</u> ²	49.8	<u>73.3</u> ³	96.8	147.9	199	250
Tobacco	28.8	74.2	105.7	<u>137.1</u> ²	168.6	189.1	209.6 ³	<u>230</u>
Other sectors	12	21.1	30.4	39.7	49	50.3	69.6	80
Products not in Annex II	18.1	37.5	57.3	77.1	96.9	121.3	145.8	170
MCAs & AMAs	46.4	89.9	135.9	181.9	227.9	275.3 ²	328.7	370 ³
Fisheries	1.7	3.4	5.8	8.1	10.5	12 ²	13.5	15 ³
TOTAL	1 298.8	2 047.8	3 117.5	4 187.7	5 257.3	6 314.5	7 395.5	8 455

¹There is a time lag of approximately three months between expenditure by the paying agencies and the charging of payments. Thus April and May concern expenditure in January and February.

²The amounts underlined indicate that the available twelfths in payments will not cover budgetary allocations in the sectors and months in question. Additional twelfths are hence required in these cases.

³The amounts double-underlined indicate that the estimated payments to be used will exceed total available provisional twelfths for the sectors and months in question. It will hence be necessary to resort to the procedure of transfers between chapters.

TABLE 5: TRANSFERS PROPOSED TO COVER PAYMENTS USED UP TO 31 AUGUST 1980

m EUA

SECTOR	Estimated payments to be used up to 31 August 1980 (see table 4)	Amounts available to cover the payments used up to 31 August 1980 including additional twelfths ¹	Difference between estimated payments and available funds	Proposed transfers ²	Available funds after transfer
	a	b	c = b - a	d	e = b + d
Cereals	687.2	1 044	+ 356.8	- 54.3	989.7
Rice	20.1	36	+ 15.9		36
Milk	2 238.8	3 368.7	+1129.9		3 368.7
Oils and fats	279.8	404	+ 124.2		404
Sugar	390.2	626.4	+ 236.2	- 30	596.4
Beef and veal	412.4	623	+ 210.6		623
Pigmeat	50.4	77.1	+ 26.4		77.1
Eggs and poultry	38.4	60.5	+ 22.1		60.5
Fruit and vegetables	490.3	441.5	- 48.8	+ 48.8	490.3
Wine	96.8	61.3	- 35.6	+ 35.5	96.8
Tobacco	168.6	225.5	+ 57.0		225.5
Other sectors	49	80	+ 31		80
Products not in Annex II	96.9	168	+ 71.1		168
MCAs & ACAs	227.9	346.5	+ 118.6		346.5
Fisheries	10.5	14	+ 3.5		14
TOTAL	5 257.3	7 576.5	2319.2	0	7 576.5

¹The amounts available to cover payments used up to the end of August represent eight-twelfths of funds plus, as shown in column h of table 3, the additional twelfths required.

Only four twelfths can be added for pigmeat, fruit and vegetables and wine.

²The transfers proposed cover the requirements of the only two sectors whose payments will exceed the twelve twelfths in available funds: wine and fruit and vegetables. The additional 49 and 35.5 m EUA will be taken from the cereals and sugar sectors where available funds far exceed requirements.