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Committee on Budgetary Control

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WORKING DOCUMENT

on European Court of Auditors' Special Report No 8/2014 (2013 Discharge)
"Has the Commission effectively managed the integration of coupled support
into the Single Payment Scheme?"

Committee on Budgetary Control

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United in diversity

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Introduction

The decoupling of direct support for farmers from production and the introduction of the Single Payment Scheme (SPS) were essential elements in the process of reforming the Common Agricultural Policy (CAP) in 2003. The main objective of the SPS was to shift policy orientation from market support to decoupled income support to farmers, thus enhancing farmers' market orientation and avoiding market distortion. In the 2013 budget, payments for the SPS accounted for 70 % of EAGF expenditure and 54 % of the entire EU budget for agriculture and rural development.

In 2008 the Commission and the Council undertook a review of the CAP, known as the 'health check'. For the coupled support which was still excluded from the SPS or where Member States had decided to leave it fully or partially coupled to production, the Council followed the Commission's proposal to further decouple it by the year 2012.

With their integration into the SPS between 2010 and 2012, coupled payments mostly ceased to exist. Member States could therefore distribute among farmers, in the form of payment entitlements, an additional amount of EUR 4, 2 billion that had formerly been available for the coupled support.

The Court carried out a compliance audit on the calculation of payment entitlements in the years 2010 to 2012. The audit was conducted at the Commission and in Greece, Spain, France, Italy and the Netherlands. These Member States account for 92 % of the amounts integrated into the SPS between 2010 and 2012.

European Court of Auditors' (ECA) conclusions

The ECA was of the opinion that the Commission did not adequately supervise the calculation of payment entitlements. More specifically, the Commission did not duly adopt detailed implementing provisions in order to clarify the framework set by the Council. The Commission therefore could not ensure that the criteria established by the Member States were always consistent with EU principles, notably those of equal treatment of farmers and proportionality. The Commission also did not assess whether the criteria adopted by Member States potentially affected market conditions. Furthermore, Member State criteria did not always follow the principle of sound financial management and side effects were not treated consistently. As a consequence, the integration of coupled support into the SPS was implemented in an inconsistent manner and farmers in some sectors realised windfall benefits.

The Commission underlined that under shared management Member States shoulder part of the responsibility for the implementation of the policy. Furthermore, the Commission argued, the regulation provided a certain level of discretion to Member States. The Commission also pointed out that windfall profits in individual cases were not necessarily in breach of the general principles of EU law. Weaknesses in the implementation of the EU regulations would be followed-up under the clearance of accounts procedure.

ECA recommendations

1. In order to ensure the consistent implementation of CAP measures in a common market for the future new direct payment schemes, the Commission should establish at the appropriate level clear guidelines and require Member States to demonstrate that

the criteria adopted are objective and non-discriminatory, thereby avoiding market or competition distortion.

2. The Commission's procedures should ensure the effective supervision of compliance with applicable ceilings. Conformity clearance inspections should take a more comprehensive approach which pays attention to the specific risks associated with an entitlements-based support scheme and the procedures for following up cases of non-conformity should be accelerated.
3. The Commission should ensure compliance of national legislation with the conditions and principles in EU legislation and that Member States correct payment entitlements whose values have not been calculated in accordance with the applicable rules, notably in the case of systematic errors. Payment entitlements that have been unduly allocated and undue SPS payments arising from such entitlements should be recovered.
4. The Commission should ensure that paying agencies adopt clear procedures to include effective checks on the reliability of the data underlying the calculations and on the accuracy of payment entitlements.

The Commission accepted all recommendations.

Recommendations by the rapporteur for possible inclusion in the 2013 Commission discharge report

The European Parliament,

- Endorses the recommendations of the Court and welcomes the Commission's constructive position;
- Regrets that some Member States, according to the Court (point 62) did not always follow the principle of sound financial management when they defined the criteria for the calculation of payment entitlements;
- Notes that this has led farmers in certain sectors realising windfall benefits, which in themselves did not infringe existing rules:
 - in Spain, under the national rules, payment entitlements had a higher value than what farmers had received in coupled support in the past;.
 - in Italy farmers received payment entitlements corresponding to their historical level of support, even though they had in the meantime significantly reduced the areas which they farmed;
 - contrary to EU legislation, the French authorities had not reduced the value of all payment entitlements in order to finance the specific support for farmers (Article 68 of Regulation (EC) No 73/2009); consequently, the value of all payment entitlements in France was overstated by 4,61 % which corresponds to EUR 357,3 million; EUR 74 million of this amount concerned the support integrated into the SPS in 2010; the Commission states that corrective measures are included in the action plan for France;

- Calls therefore on the Commission to adequately supervise the calculation of payment entitlements of farmers by Member States, including the respect of the ceilings available for allocating such entitlements
- Takes note with concern that even where the Commission had identified errors, payment entitlements have not been corrected because administrative procedures are too slow;
- Calls on the Commission to improve timely supervision and pay more attention to risks linked with entitlements;
- Notes that as of 2015 the SPS will be replaced by a "Basic Payment Scheme" (BPS);
- Is of the opinion that the new system should aim at reducing the administrative burden for farmers;
- Is convinced that the Commission controls and audits should essentially be risk-based;
- Insists that the new system must avoid unjustified discrepancies in payment entitlement calculations in the different Member States and also unequal treatment of farmers, irrespective of any level of discretion the regulation may offer; asks the Commission to reassure the Parliament and the Committee on Budgetary Control that the appropriate measures to achieve this objective are in place;
- Is worried that incorrect payment entitlements could lead to incorrect payments even beyond 2014, as Member States may choose to pay up to 2021 a part of future aid on the basis of the current level of SPS support; although such payments can be corrected and recovered, they should be avoided in the first place;
- Reminds the Commission that Article 317 of the TFEU stipulates that: " The Commission shall implement the budget in cooperation with the Member States[...], on its own responsibility and within the limits of the appropriations, having regard to the principles of sound financial management."; expects therefore the Commission to provide sufficient guidance to Member States in order for them to implement the BPS in accordance with the principles of sound financial management, and to put in place the appropriate monitoring structures with the view to assuming overall responsibility for the budget implementation.