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REPORT

on the proposal for a Council regulation on the financing of the common agricultural policy
(COM(2004)0489 – C6-0166/2004 – 2004/0164(CNS))

Committee on Agriculture and Rural Development

Rapporteur: Agnes Schierhuber

Symbols for procedures

- * Consultation procedure
majority of the votes cast
- **I Cooperation procedure (first reading)
majority of the votes cast
- **II Cooperation procedure (second reading)
*majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend
the common position*
- *** Assent procedure
*majority of Parliament's component Members except in cases
covered by Articles 105, 107, 161 and 300 of the EC Treaty and
Article 7 of the EU Treaty*
- ***I Codecision procedure (first reading)
majority of the votes cast
- ***II Codecision procedure (second reading)
*majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend
the common position*
- ***III Codecision procedure (third reading)
majority of the votes cast, to approve the joint text

(The type of procedure depends on the legal basis proposed by the Commission)

Amendments to a legislative text

In amendments by Parliament, amended text is highlighted in ***bold italics***. Highlighting in *normal italics* is an indication for the relevant departments showing parts of the legislative text for which a correction is proposed, to assist preparation of the final text (for instance, obvious errors or omissions in a given language version). These suggested corrections are subject to the agreement of the departments concerned.

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DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION

on the proposal for a Council regulation on the financing of the common agricultural policy

(COM(2004)0489 – C6-0166/2004 – 2004/0164(CNS))

(Consultation procedure)

The European Parliament,

- having regard to the Commission proposal to the Council (COM(2004)0489)¹,
 - having regard to the third subparagraph of Article 37(2) of the EC Treaty, pursuant to which the Council consulted Parliament (C6-0166/2004),
 - having regard to Rule 51 of its Rules of Procedure,
 - having regard to the report of the Committee on Agriculture and Rural Development and the opinion of the Committee on Budgetary Control (A6-0127/2005),
1. Approves the Commission proposal as amended;
 2. Calls on the Commission to alter its proposal accordingly, pursuant to Article 250(2) of the EC Treaty;
 3. Calls on the Council to notify Parliament if it intends to depart from the text approved by Parliament;
 4. Asks the Council to consult Parliament again if it intends to amend the Commission proposal substantially;
 5. Instructs its President to forward its position to the Council and Commission.

Text proposed by the Commission

Amendments by Parliament

Amendment 1 Article 5, point (a)

(a) measures required for the analysis, management, monitoring, information exchange and implementation of the common agricultural policy, as well as measures relating to the implementation of control systems and technical and administrative assistance;

(a) measures required for the analysis, management, monitoring, information exchange and implementation of the common agricultural policy, as well as measures relating to the implementation of control systems and technical and administrative assistance, *with the*

¹ OJ C ... / Not yet published in OJ.

exception of expenditure that, pursuant to Article 13, is not to be borne by the EAGF;

Justification

Extending technical assistance will reduce the amount of Community money available for fulfilling the actual purpose of the Funds, namely to promote agriculture and rural development. This is inconsistent with the provisions laid down in Article 13 stating that administrative costs incurred by the Member States are not to be borne by the EAGF. Financing should therefore only be provided in so far as Article 13, which lays down that expenditure relating to administrative and personnel costs incurred by Member States and beneficiaries of aid from the EAGF shall not be borne by the Fund, except where provided for under the procedure referred to in Article 41(2), is complied with.

Amendment 2
Article 16, paragraph 2

However, direct payments shall under no circumstances be made after 15 October of the budget year concerned. Deleted

Justification

A certain amount of scope must be allowed for exceptional cases, which could arise in particular as a result of the switch to the new farm payments system.

Amendment by Katerina Batzeli

Amendment 3
Article 31, paragraph 4, point (a)

(a) expenditure as indicated in Article 3(1) that is incurred more than ***thirty-six*** months before the Commission notifies the Member State in writing of its inspection findings;

(a) expenditure as indicated in Article 3(1) that is incurred more than ***twenty-four*** months before the Commission notifies the Member State in writing of its inspection findings;

Justification

Regulation (EC) 1258/1999 which is in force today provides for 24 months, which should be retained. Extending this period would lead to increased bureaucracy. However, some time pressure should be exerted in controlling the legality of expenditure, as occurs under the existing arrangements.

Amendment by Katerina Batzeli

Amendment 4
Article 31, paragraph 4, point (b)

(b) expenditure on multiannual measures falling within the scope of Article 3(1) where the final obligation on the recipient occurs more than **thirty-six** months before the Commission notifies the Member State in writing of its inspection findings;

(b) expenditure on multiannual measures falling within the scope of Article 3(1) where the final obligation on the recipient occurs more than **twenty-four** months before the Commission notifies the Member State in writing of its inspection findings;

Justification

Regulation (EC) 1258/1999 which is in force today provides for 24 months, which should be retained. Extending this period would lead to increased bureaucracy. However, some time pressure should be exerted in controlling the legality of expenditure, as occurs under the existing arrangements.

Amendment by Katerina Batzeli

Amendment 5
Article 31, paragraph 4, point (c)

(c) expenditure on programmes, as indicated in Article 4, payment of the balance of which is made more than **thirty-six** months before the Commission notifies the Member State in writing of its inspection findings.

(c) expenditure on programmes, as indicated in Article 4, payment of the balance of which is made more than **twenty-four** months before the Commission notifies the Member State in writing of its inspection findings.

Justification

Regulation (EC) 1258/1999 which is in force today provides for 24 months, which should be retained. Extending this period would lead to increased bureaucracy. However, some time pressure should be exerted in controlling the legality of expenditure, as occurs under the existing arrangements.

Amendment by Katerina Batzeli

Amendment 6
Article 32, paragraph 5

5. If recovery has not taken place within four years of the primary administrative *or judicial* finding, or within six *years where recovery action is taken in the national courts*, 50% of the financial consequences of non-recovery shall be borne by the Member State concerned and 50% by the Community budget, after application of the deduction provided for in paragraph 2.

5. If recovery has not taken place within four years of the primary administrative finding, or within six *months after the issue of the final judicial decision*, 50% of the financial consequences of non-recovery shall be borne by the Member State concerned and 50% by the Community budget, after application of the deduction provided for in paragraph 2.

Justification

In complicated cases the appeals procedure may easily overshoot six (6) years. Under these circumstances, the Commission is not therefore entitled automatically to retain 50% of the costs to be recovered in so far as the Member State has taken all the measures for the proper management of Community funds.

Amendment 7
Article 43

By 1 September of each year following the budget year, the Commission shall *draw up* a financial report on the administration of the EAGF and the EAFRD during the previous financial year.

By 1 September of each year following the budget year, the Commission shall *submit to the European Parliament and to the Council* a financial report on the administration of the EAGF and the EAFRD during the previous financial year

Justification

As Regulation No 1258/1999 on the financing of the common agricultural policy expressly foresees that the financial report be submitted to Parliament and Council, the Commission proposal would represent a step backwards.

EXPLANATORY STATEMENT

The common agricultural policy (CAP) has hitherto been financed by the European Agricultural Guidance and Guarantee Fund (EAGGF), which is divided into Guarantee and Guidance Sections:

- The Guarantee Section finances (compulsory) expenditure on the agricultural market common organisations (i.e. direct payments, export refunds, intervention), certain expenditure in the veterinary and plant protection area and information and assessment measures relating to the common agricultural policy.
- This Section also finances rural measures in areas outside Objective 1 regions. In the current financial perspective this expenditure is covered by heading Ib.
- The Guidance Section finances other rural development expenditure (not financed by the EAGF Guarantee Section), namely measures in Objective 1 regions and the Leader+ initiative. In the financial perspective this expenditure comes under heading Ib or heading II.

The Commission proposal

The objective of the Commission proposal is to clearly simplify the structure of the current legal bases for financing, in particular in the light of rural development policy in the period 2007-2013. It also contains rules on budgetary discipline and takes account of the 2003 reform of the CAP. The Commission is proposing to establish a single legal framework for financing the common agricultural policy and, to that end, to set up two Funds:

- a European Agricultural Guarantee Fund (EAGF), and
- a European Agricultural Fund for Rural Development (EAFRD).

The proposal should be seen in conjunction with the proposal for a regulation on support for rural development (COM(2004)490). In future all rural development measures are to be financed under the new EAFRD. The aim is to simplify the financing of the second pillar. Along with amounts resulting from modulation, by virtue of payment reductions pursuant to Regulation (EC) 1782/2003, this will mean that a sum of EUR 88 753 000 000 (at 2004 prices) will be available for the period 2007-2013 for the EU-27.

In contrast, the EAGF will in future only finance 'conventional' agricultural policy measures, including intervention measures, export refunds, direct payments, information and promotion measures, and no longer rural development.

In addition, the Commission is proposing to introduce a stricter monitoring, evaluation and reporting system, in order to ensure that agreed ceilings are complied with.

The new Funds will be similar in terms of their structure to the EAGF, namely involving:

- Management of the Funds by a committee made up of representatives of the Member

States and the Commission (Article 41, Committee on the funds)

- Use of the clearance of accounts procedure for all measures financed by the new Funds (hitherto this has only applied to measures under the Guarantee Section, whilst measures financed by the Guidance Section have been scrutinised within the framework of multiannual support programmes).

On the other hand, the two Funds will also maintain some specific features:

- The EAGF has non-differentiated appropriations, while the EAFRD has differentiated appropriations, regarding which the N+2 rule followed by automatic decommitment is maintained.
- The pattern of payment is also different for the two Funds (monthly and quarterly respectively), as is the treatment of amounts recovered following irregularities. Under the EAFRD, these amounts may in fact be reused by the Member States in the context of the same rural development programme.

Comments

General

Aside from the basic decision on restructuring agricultural expenditure, the Commission proposal is rather of a 'technical administrative' than a 'political' nature. The main political objective is the very welcome one of simplifying the hitherto complex financing structure and thereby making funding more efficient and transparent. This is to go hand-in-hand with effective controls to ensure that the resources are used for the intended purpose.

It remains to be seen whether financial management will in fact be simplified in future. Paying agencies will have to operate two financial management systems simultaneously because of differences in the mode of payment and commitment of funds. The Member States will also have to provide additional documentation, which means higher administrative costs.

Specific aspects:

Article 5: Extending the financing of technical assistance

The financing of technical assistance will be able to be extended to the analysis, management, monitoring and implementation of the common agricultural policy, as well as the implementation of control systems and technical and administrative assistance. This is to be carried out on a centralised basis. The partial financing by the Community of administrative measures by the Member States in connection with implementing agricultural policy is an extremely questionable approach, which is also being viewed very critically by the Economic and Social Committee. Extending technical assistance will reduce the amount of Community money available for fulfilling the actual purpose of the Funds, namely to promote agriculture and rural development. This is inconsistent with the provisions laid down in Article 13 stating that administrative costs incurred by the Member States are not to be borne by the EAGF.

Article 8:

The certification procedure is to be extended to monitoring systems. Hitherto the certification body has verified that the annual accounts submitted to the Commission are complete, accurate and true. The certification body is now to be responsible for 'certification of the management, monitoring and control systems set up by the accredited paying agencies, as well as of those agencies' annual accounts'.

Article 16(2):

This provides that direct payments may under no circumstances be made after 15 October of the budget year concerned. This rule entails considerable problems in implementing direct payments. It is too rigid and should be reviewed.

Article 31:

The Commission may refuse financing where Community rules have been infringed. This does not apply to expenditure incurred more than 36 months (formerly 24 months) before the Commission notifies the Member State in writing of its inspection findings. This extension of the relevant period is excessive. The rule currently in force should be maintained.

Articles 32 and 33:

Articles 32 and 33 of the proposal for a regulation lay down provisions specific to the EAGF in connection with recovering sums in the event of irregularities or negligence. The Commission lays down deadlines of four and six years respectively for recovering payments. These periods are too short.

21.4.2005

OPINION OF THE COMMITTEE ON BUDGETARY CONTROL

for the Committee on Agriculture and Rural Development

on the proposal for a Council regulation on the financing of the common agricultural policy (COM(2004)0489 – C6-0166/2004 – 2004/0164(CNS))

Draftsman: Jan Mulder

SHORT JUSTIFICATION

On 2 February 2005 the draftsman submitted his draft opinion for the Temporary Committee on Policy Challenges and Budgetary means 2007-2013 (FINP) to CONT. There he outlined horizontal items of concern for budgetary control, which apply for the Financial Perspectives 2007-2013 as a whole.

The draft opinion at issue is concerning the concrete *legislative* Commission proposal on the financing of the common agricultural policy for the period 2007-2013.

The proposal's overall aim is to simplify the financial instruments in agriculture. In addition, it seeks to strengthen control structures at Member State level. Finally, modifications to the recovery mechanism are addressed.

Main features of the suggested amendments

The draftsman supports the idea of an annual disclosure statement by Member States' highest level political and managing authorities. This instrument for strengthening Member States' responsibility for EU funds was introduced in CONT's agenda via the 2003 draft Commission discharge report. It is being further developed through CONT's draft opinion for FINP. The draftsman holds the view that this concept will only take effect when transposed into the concrete legislative proposals for the period 2007-2013. He welcomes first signs from the Commission in this direction.

The proposal contains the introduction of a declaration of assurance signed by the head of the paying agencies. In addition, the draftsman suggests to further improve the Commission's monitoring of the paying agencies: The example of the Commission's monitoring of paying agencies in the "new" Member States should also be applied in the "old" Member States. As regards the new recovery mechanism, the draftsman considers the proposal to be a step forward for two reasons. The proposal introduces a general rule of equal burden-sharing in case of non-recovery: 50 % for the EC budget and 50 % for the budget of the Member State concerned. The proposal also tightens the deadlines for recovery by Member States (4 years or 6 years in case of court action respectively). However, the proposal still enables Member

States to profit from delaying recovery for the following reasons: It foresees that, if recovery is successful *after* the 4/6 years' deadlines have expired, the Member State can keep 50% of the amounts recovered. If the Member State concerned can prove the absence of irregularity by a definitive administrative or court decision it may even keep 100% of the amounts recovered successfully, but late.

AMENDMENTS

The Committee on Budgetary Control calls on the Committee on Agriculture and Rural Development, as the Committee responsible, to incorporate the following amendments in its report.

Text proposed by the Commission

Amendments by Parliament

Amendment 1

Article 6, paragraph 4 a (new)

4a. Where an accredited paying agency does not meet or no longer meets one or more of the conditions laid down in paragraph 1, the Commission may withdraw accreditation unless the Member State concerned complies with its obligation as set out in paragraph 4.

Amendment 2

Article 9, paragraph 1, subparagraph 1 a (new)

Without prejudice to the abovementioned obligations, each Member State shall issue, prior to receiving Community funding in year N and on an annual basis, an ex ante disclosure statement declaring that the financial control structures required by Community law are in place and functioning. The disclosure statement shall be signed by the Member State's highest level political and managing authority (finance minister).

Amendment 3

Article 32, paragraph 5, subparagraph 3

The distribution of the financial burden of non-recovery in line with the first subparagraph shall be without prejudice to the requirement that the Member State concerned must pursue recovery procedures in compliance with Article 9(1) of this Regulation. **50% of the** amounts recovered in this way shall be credited to the EAGF.

The distribution of the financial burden of non-recovery in line with the first subparagraph shall be without prejudice to the requirement that the Member State concerned must pursue recovery procedures in compliance with Article 9(1) of this Regulation. **The** amounts recovered in this way shall be credited to the EAGF.

Amendment 4
Article 43

By 1 September of each year following the budget year, the Commission shall **draw up** a financial report on the administration of the EAGF and the EAFRD during the previous financial year.

By 1 September of each year following the budget year, the Commission shall **submit to the European Parliament and to the Council** a financial report on the administration of the EAGF and the EAFRD during the previous financial year

Justification

As regulation No 1258/1999 on the financing of the Common Agricultural Policy expressly foresees that the financial report be submitted to Parliament and Council, the Commission proposal would represent a step backwards.

PROCEDURE

Title	Proposal for a Council regulation on the financing of the common agricultural policy
References	COM(2004)0489 - C6-0166/2004 - 2004/0164(CNS)
Committee responsible	AGRI
Committee asked for its opinion Date announced in plenary	CONT 16.11.2004
Enhanced cooperation	No
Draftsman Date appointed	Jan Mulder 22.9.2004
Discussed in committee	16.3.2005
Date amendments adopted	19.4.2005
Result of final vote	for: 19 against: 2 abstentions: 0
Members present for the final vote	Inés Ayala Sender, Herbert Bösch, Mogens N.J. Camre, Paulo Casaca, Petr Duchoň, Szabolcs Fazakas, Christofer Fjellner, Ingeborg Gräßle, Ona Juknevičienė, Nils Lundgren, Hans-Peter Martin, Edith Mastenbroek, Véronique Mathieu, Jan Mulder, István Pálfi, Margarita Starkevičiūtė, Kyösti Tapio Virrankoski, Terence Wynn
Substitutes present for the final vote	Jens-Peter Bonde, Daniel Caspary, Ashley Mote

PROCEDURE

Title	Proposal for a Council regulation on the financing of the common agricultural policy			
References	(COM(2004)0489 – C6-0166/2004 – 2004/0164(CNS))			
Legal basis	Article 37(2) EC			
Basis in Rules of Procedure	Article 51			
Date of consulting Parliament	29.10.2004			
Committee responsible Date announced in plenary	AGRI 16.11.2004			
Committees asked for opinions Date announced in plenary	REGI 16.11.2004	CONT 16.11.2004	BUDG 16.11.2004	
Not delivering opinions Date of decision	REGI 14.3.2005	BUDG 31.1.2005		
Enhanced cooperation Date announced in plenary	-			
Rapporteur Date appointed	Agnes Schierhuber 2.9.2004			
Previous rapporteur(s)	-			
Simplified procedure Date of decision	-			
Legal basis disputed Date of JURI opinion	- / -			
Financial endowment amended Date of BUDG opinion	/			
European Economic and Social Committee consulted Date of decision in plenary	-			
Committee of the Regions consulted Date of decision in plenary	-			
Discussed in committee	22.11.2004	15.3.2005	18.4.2005	26.4.2005
Date adopted	26.4.2005			
Result of final vote	for:		35	
	against:		0	
	abstentions:		2	
Members present for the final vote	Filip Adwent, Peter Baco, Katerina Batzeli, Thijs Berman, Niels Busk, Luis Manuel Capoulas Santos, Albert Deß, Joseph Daul, Gintaras Didžiokas, Duarte Freitas, Jean-Claude Fruteau, Ioannis Gklavakis, Lutz Goepel, Bogdan Golik, Friedrich-Wilhelm Graefe zu Baringdorf, María Esther Herranz García, Albert Jan Maat, Mairead McGuinness, Neil Parish, María Isabel Salinas García, Agnes Schierhuber, Willem Schuth, Czesław Adam Siekierski, Csaba Sándor Tabajdi, Witold Tomczak, Kyösti Tapio Virrankoski, Janusz Wojciechowski			
Substitutes present for the final vote	Milan Horáček, Wiesław Stefan Kuc, Véronique Mathieu, Hans-Peter Mayer, James Nicholson, Bogdan Pęk, Markus Pieper, Zdzisław Zbigniew Podkański,			
Substitutes under Rule 178(2) present	Luis Yañez-Barnuevo García, Antonio Masip Hidalgo			

for the final vote	
Date tabled – A6	2.5.2005 A6-0127/2005
Comments	-