Opinion of the European Economic and Social Committee on the Proposal for a Council Regulation on the financing of the Common Agricultural Policy


(2005/C 221/09)

On 29 October 2004, the Council decided to consult the European Economic and Social Committee, under Article 37(2) of the Treaty establishing the European Community, on the abovementioned proposal.

The Section for Agriculture, Rural Development and the Environment, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 13 January 2005. The rapporteur was Mr Kienle.

At its 414th plenary session of 9 and 10 February 2005 (meeting of 9 February 2005), the European Economic and Social Committee adopted the following opinion by 133 votes with 6 abstentions:

1. Introduction

1 January 2005 saw the launch of the far-reaching agricultural reform. At the heart of this reform is the decoupling of production subsidies and a stronger emphasis on rural development. The financial basis of the Common Agricultural Policy is the October 2002 decision by heads of state or government laying down a ceiling for agricultural expenditure under the first pillar, which is to be capped at actual 2006 levels for the EU-25 expenditure until 2013. This decision on agriculture is an accepted part of the EU's financial perspective for 2007-2013 which covers overall EU funding. Thus, expenditure on the Common Agricultural Policy including rural development (for the EU-27) is set to run at EUR 57.18 billion in 2007, and will increase by 1.1% by 2013 (at 2004 prices).

However, contrary to what the title might suggest, the Commission proposal under review is not so much concerned with the sources and use of funding for the Common Agricultural Policy as with the budgetary implementation of support for agriculture and rural development.

2. Gist of the Commission document

The proposal under review is intended by the European Commission to serve as a budgetary basis for the Common Agricultural Policy, including the EU's rural development policy, in the period 2007-2013, and to regulate its financing through a single legal act. It should be seen in conjunction with the proposal for a Regulation on support for rural development. The Commission's aim is to simplify and secure greater efficiency. To this end, it proposes a tighter monitoring, assessment and reporting system.

The Guarantee Section is used to finance the common organisation of agricultural markets (direct payments, export refunds, intervention buying-in), certain types of expenditure in the veterinary and phytosanitary sectors, and measures to evaluate and provide information on the Common Agricultural Policy. The Guarantee Section also comprehensively finances certain measures for rural development (agro-environmental measures, compensatory allowances for less-favoured areas, afforestation, early retirement) and investments in regions that do not have Objective 1 status.

The Guidance Section finances other investment expenditure on rural development not covered by the Guarantee Section of the EAGF, i.e. measures in regions with Objective 1 status and the Leader+ initiative.

2.1 Basic features of the future Common Agricultural Policy funds

The structure of the new funds is to be on the same lines as the EAGF. They are to be administered by a committee comprising representatives of the Member States and the Commission (Article 41, Committee on the funds). All measures financed by the new funds are to become subject to an accounts clearance procedure, whereas at present this requirement only applies to measures financed by the Guarantee Section. At present, measures financed by the Guidance Section are monitored through the multi-annual support programmes (as per Regulation EC 1260/1999 on the Structural Funds).

2.1.3 The new European Agricultural Guarantee Fund (EAGF)

The EAGF resembles the existing Guarantee Section of the Common Agricultural Fund (EAGGF) and is intended to continue financing, inter alia, intervention measures, export refunds, direct payments, information activities, and promotion of agricultural products, as at present. Support measures for rural development will no longer be financed by the EAGF; instead, they would be covered by the EAFRD.
2.1.4 The new European Agricultural Fund for Rural Development (EAFRD)

The new EAFRD is to be used for all future financing of rural development measures, in order to simplify financing of the second pillar. The EAFRD is to combine funds from the EAGGF Guidance Section and funds for rural development from the EAGGF Guarantee Section. Including modulation resources from the first pillar arising from reductions under Article 10 of Regulation (EC) 1782/2003, the 2013 budget for rural development will, as the European Commission sees it, amount to a total of EUR 14.2 billion (for the EU 27, at 2004 prices).

2.2 Payment and checking procedures

2.2.1 Paying agencies

According to the Commission's proposal, these procedures are to be dealt with by the paying agencies set up by Member States, as at present. Paying agencies are approved departments or bodies of the Member States with responsibility for checking the eligibility of requests, recording payments made, and preparing the requisite documentation for the Commission.

2.2.2 Payments to Member States and commitment of funds

EAGF payments are to be made monthly, EAFRD payments quarterly. Under the draft regulation, EAFRD funds will be committed separately for each programme over a period of several years, split into annual instalments. After this period, funds will be automatically decommitted, under the N+2 rule, which states that the funds allocated to a programme must be spent by the end of the second year after allocation, where N is the year of allocation.

2.2.3 Communication with the Commission

Member States are to submit declarations of expenditure to the Commission and annual accounts at the end of the budget year, together with a document certifying that the accounts submitted are complete, accurate and true. An additional requirement envisaged under the proposal is for a statement of assurance from the person in charge of the paying agency. For EAFRD expenditure, the Commission proposes that the paying agency should also submit separate annual accounts for each programme, split into annual instalments.

2.2.4 Clearance of accounts, conformity clearance and the financial report

The draft regulation envisages that the Commission will close the accounts of the paying agencies prior to 30 April. The clearance decision will cover the completeness, accuracy and veracity of the accounts submitted. In line with current procedures, the Commission is to assess whether any expenditure should be excluded from Community financing (conformity clearance). One change is that the period for making a financial correction has been extended from 24 months to 36 months. Also, the Commission's financial report on administration of the funds is to be submitted to the European Parliament and the Council by 1 September (instead of 1 July as at present).

3. General comments

3.1 The public must be able to accept and readily understand support

The EESC is aware that funding for the Common Agricultural Policy accounts for a significant share of the EU's total budget, albeit that share is, in relative terms, diminishing over time. The EESC feels that it is all the more essential that therefore the public should be able to readily understand and accept support for agriculture and rural development. In the view of the EESC, two conditions must be met for this to happen:

- payments must reach final beneficiaries with as few deductions as possible; and
- abuse should be prevented through effective monitoring.

3.2 Innovative approaches for simpler operations

The EESC acknowledges that the draft regulation contains a range of genuinely innovative approaches for better and simpler budgetary operations. The EESC believes that creating two funds with a clear division of tasks is the right way of achieving this objective. The regulation is a significant step forward in terms of simplification. Financing of the Common Agricultural Policy is regulated on a single legal basis, and the two monitoring systems currently operating are replaced by a single system. The various financial management systems for rural development measures are unified, but a second system remains for EAGF measures. The draft regulation on support for rural development replaces the five programming systems with a single system and reduces the number of programmes. The EESC endorses these simplifications, which will particularly benefit the Brussels administration.

3.3 Simplification must have a perceptible impact on beneficiaries

However, the EESC is of the view that simplification must have a perceptible impact at all levels, benefiting the EU, Member States and final beneficiaries. The EESC considers that it is particularly important for simplification of bureaucratic procedures to have an impact at the end of the administrative chain, for farmers. At present European farmers have to deal with a considerable amount of red tape, which is frequently accompanied by late payment of subsidies. SAPARD — the Special Accession Programme for Agriculture and Rural Development — was an extreme example of this, in a case that was also recently criticised by the European Court of Justice. However, there is only a very small risk of not being able to recover payments which have been mistakenly made to farmers. The EESC therefore feels that urgent steps should be taken to ensure that support for final beneficiaries is prompt and as straightforward as possible.
3.4 Red tape can be cut

Although the goal of simplification is being adequately achieved from the Commission’s perspective, the same cannot be said for Member States. Some parts of the regulation even run counter to the objective of simplification, and increase the administrative burden. The EESC laments the fact that, because of differing procedures for payment and committing funds, paying agencies still have to run two separate financial management systems. In order to keep the effort involved to a minimum, it is essential that these two systems be as streamlined as possible. In view of this, further changes are needed, not least to the regulation on support for rural development. The requirement for extra documentation is an additional administrative burden for Member States.

3.5 More demands on Member States

In view of the longer period for charging expenditure, tighter deadlines and provisions for the recovery of funds by the Commission, the Commission’s proposal would mean more shared financial responsibility for Member States. In principle, the EESC welcomes the fact that the rules on the recovery of funds, do not place liability for disbursed support on the EU alone, but also on the Member States. For funds to be used more efficiently and transparently, there must be scope for recovering funds which have been mistakenly paid out, even after a relatively long period. In view of objections by many Member States to greater shared responsibility, the EESC will be observing very closely whether these Member States lose interest in the programmes, at the expense of potential final beneficiaries. The tighter expiry deadline for payments is also intended to encourage more discipline on the part of Member States. While the EESC agrees that there should be limits to payments, it feels that the deadlines stipulated are excessively tight, and asks the Commission to reconsider them.

3.6 Indirect support should remain the exception

The EESC is concerned that increased technical support will divert resources from the actual purpose of the funds, which is to support agriculture and rural development. This kind of indirect support, i.e. support of institutions and structures which are responsible for providing actual support, should be kept within tight limits, and should only be permitted when strictly necessary. In this context, the EESC is particularly critical of Community support for administrative and monitoring capacity building in Member States, which is undeniably the responsibility of Member States themselves. The EESC suggests that this extension of technical support should only be offered in a few exceptional cases and for a limited period. The EESC feels that a report should be issued by the Commission in these cases, to ensure strict monitoring of such support.

4. Specific comments

4.1 German names for the European Agricultural Fund for Rural Development (EAFRD)

In the German-language version of the regulation on support for rural development, the new European Agricultural Fund for Rural Development (EAFRD) — in German Europäischer Fonds für Landwirtschaft und Landentwicklung (ELER) — is referred to as the Europäischer Landwirtschaftsfonds für die Entwicklung des ländlichen Raums (ELER). The EESC asks that the regulation texts should avoid any discrepancy and use the same name for the same fund.

4.2 Administrative burden

4.2.1 Extension of the certification procedure (Article 7)

An increased administrative burden would arise from the extension of the certification procedure to monitoring systems (Article 7). Currently, certification bodies examine the completeness, accuracy and veracity of the annual accounts submitted to the Commission, but under the proposed regulation they would have responsibility for ‘certification of the management, monitoring and control systems’. The EESC would like an explanation of why such certification is necessary. The aim should be for certification bodies to concentrate uniformly on certifying payments made by paying agencies.

4.2.2 Annual accounts (Article 8)

Annual accounts will have to be drawn up for payments from the new EAFRD but the system of financing (commitment of funds, prefinancing payments, intermediate payments, payments of balance) will be based on the total duration of the programme. The EESC is concerned that paying agencies will have to report expenditure both in annual accounts and in financial statements for programmes as a whole, which would result in increased effort. The annual accounts must be accepted in each case.

In addition, paying agencies will have to submit separate annual accounts for expenditure under individual EAFRD programmes. Certification bodies, which until now have submitted reports with annual accounts, will in turn have to prepare separate annual reports for these separate accounts. The EESC regrets that the Commission has not achieved more simplification, but feels that the effort involved is acceptable.

4.2.3 Additional documentation (Article 8)

In addition to the annual accounts, a statement of assurance will have to be submitted by the person in charge of the paying agency. The EESC does not feel that this is necessary. The arrangements for paying agencies and certification bodies already provide for monitoring procedures. In the view of the EESC it would also suffice for the person in charge of the paying agency to confirm the veracity of information.
4.3 Financing

4.3.1 Additional financing of technical assistance (Article 5)

Financing of technical assistance is to be extended to analysis, management, monitoring and implementation of the Common Agricultural Policy, as well as to measures for the development of control systems and technical and administrative assistance. The proposal also introduces financing of executive agencies set up in accordance with Council Regulation (EC) No. 58/2003 and financing of measures promoting cooperation and exchanging experience at Community level, undertaken in the context of rural development, including networking of the parties concerned. This expenditure is to be administered in a centralised manner. The EESC is extremely critical of proposals for Community support of the administrative functions of Member States.

However, it is appropriate that the Commission should be responsible for the promotion of networking.

4.3.2 Recovery of payments (Articles 32, 33, 35)

In the case of non-recovery, the proposal envisages that a greater share of the financial consequences should be borne by Member States. The Commission would be able to charge the sums to be recovered to the Member State, if the Member State had not initiated all the appropriate administrative or judicial procedures for recovery purposes (for the EAGF: within one year of the primary administrative or judicial finding). At present, this is not possible. If recovery has not taken place within four years, or within six years where recovery action has been taken in the national courts, 50% of the financial consequences of non-recovery would be borne by the Member State concerned. At present, all of the financial consequences are borne by the Community budget. The EESC broadly welcomes the fact that responsibility for payments will not be borne by the Commission alone but will be shared with Member States. This could induce Member States to exercise greater care in devising their support and monitoring structures. A greater share in financial responsibility must not be allowed to put Member States off participation in programmes. Given that procedures can last for over four or six years, the EESC proposes reconsidering timeframes and percentage rates for Member State involvement.


4.3.3 Limiting prefinancing payments to 7% (Article 25)

Article 25 sets the prefinancing amount, paid by the Commission after adoption of a rural development programme to the paying agency designated by the Member State, at 7% of the EAFRD contribution. In the view of the EESC, this is an acceptable limit, as similar restrictions already apply, and as it would not have any adverse consequences for the liquidity of paying agencies.

4.4 Expiry of payments (Article 16)

Article 16 sets 15 October of the relevant budget year as a cut-off date for late payments by Member States. However, sometimes back payments have to be made (e.g. court judgements). In particular, administrative authorities will need more time to adjust to the new system of (decoupled) production subsidies. The EESC therefore feels that 15 October is not an appropriate cut-off date.

4.5 Period for refusing financing (Article 31)

Article 31 (conformity clearance) allows the Commission to refuse financing under certain circumstances (infringement of Community rules, failure to reach agreement with the relevant Member State). This does not apply to expenditure incurred more than thirty six months before the Commission notified the Member State in writing of its inspection findings. At present, the limitation period is 24 months. This change further helps the Commission to avoid payments that do not conform to Community law. However, the EESC feels that a certain degree of time pressure for checking such conformity — as exists under the current rules — is useful. In addition, prompt intervention by the EU serves a preventive purpose and maintains discipline among Member States.

4.6 Reduction of payments by the Commission (Article 17)

Article 17 gives the Commission the option of reducing or suspending monthly payments. In addition to recovering or refusing payments in the context of clearing accounts, the Commission would also have the option of cutting payments at short notice in the event of clearly improper use of Community funds. The EESC is in favour of laying down a legal basis for such an approach, which is already current practice.

The President

of the European Economic and Social Committee

Anne-Marie SIGMUND