

EUROPEAN
COURT OF AUDITORS

Special Report No 10

2010

ISSN 1831-0834

SPECIFIC MEASURES FOR AGRICULTURE
IN FAVOUR OF THE OUTERMOST
REGIONS OF THE UNION AND THE
SMALLER AEGEAN ISLANDS



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Special Report No 10 // 2010

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(pursuant to Article 287(4), second subparagraph, TFEU)

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Special Report No 10 // 2010

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Cataloguing data can be found at the end of this publication
Luxembourg: Publications Office of the European Union, 2010

ISBN 978-92-9207-950-5
doi:10.2865/71032

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Printed in Luxembourg

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REPLY OF THE COMMISSION

GLOSSARY

CMO: common market organisation

DG Agri: Directorate-General for Agriculture and Rural Development

EAFRD: European Agricultural Fund for Rural Development

EAGF: European Agricultural Guarantee Fund

GIS: geographical information system

IACS: integrated administration and control system

MLAPs: measures to assist local agricultural products

POSEI: programme of options specific to the remote and insular nature of the outermost regions

POSEICAN: programme of options specific to the remote and insular nature of the Canary Islands

POSEIDOM: programme of options specific to the remote and insular nature of the French overseas departments

POSEIMA: programme of options specific to the remote and insular nature of Madeira and the Azores

SSAs: special supply arrangements

UAA: useful agricultural area

SUMMARY

I.

Between 1989 and 1993, the Council adopted specific measures for agriculture in the outermost regions of the European Union (the French overseas departments, the Canary Islands, the Azores and Madeira) and on the smaller Greek islands of the Aegean in order to deal with the particular situation facing these regions.

II.

The programmes for the outermost regions and the Aegean islands use two different instruments to meet the regions' specific needs. **Specific supply arrangements (SSAs)** are a system of compensation for the higher costs caused by the insularity and remoteness of the regions concerned. **Measures to assist local agricultural products (MLAPs)** are aimed at developing local agricultural production and the supply of agricultural products.

III.

In 2006, the specific measures were reformed. The Commission concluded that management of the system was too rigid, and thus limited the ability of EU action to provide a timely response to the needs of the outermost regions in a manner suited to their specific problems. As a result, the new approach has given priority to greater regional participation, decentralisation and flexible decision-making, on the basis of programmes presented by the Member States for approval by the Commission.

SUMMARY

IV.

Given the objectives of the reform, the Court's audit set out to answer the following questions:

- (a) Are the support programmes drawn up by the Member States and approved by the Commission designed in such a way as to provide an effective response to specific needs?
- (b) Have the measures designed by the Member States since the 2006 reform been implemented effectively?
- (c) Are the support programmes drawn up by the Member States and approved by the Commission monitored in an effective way?

V.

In general, the Court noted that the specific measures were effective and extremely important for agriculture in the regions concerned. However, the Court identified a number of weaknesses in the management of the arrangements which could still lead to improvements in the specific measures.

VI.

During the programming and approval phase of the programmes, over a period of only six months, the Commission gave priority to its role of monitoring the compliance and consistency of the programmes rather than assuming its task as a manager and thus actively contributing to the programmes' design so as to ensure they were effective. This finding also applies to the procedure for modifying the programmes for subsequent years.

VII.

As regards the programmes' implementation, the Court identified measures or actions which are likely to be at best partly effective as a result of their design. In addition, the existing control systems in the Member States concerned are not always suited to the diverse nature of the specific measures.

VIII.

The Commission does not monitor the effectiveness of the specific measures regularly enough; it mainly confines itself to evaluating the measures over a five-year period. The annual implementation reports provided by the Member States are not harmonised enough to constitute a management information system for the Commission.

INTRODUCTION

THE HISTORY OF THE SPECIFIC MEASURES

1. Article 349 of the Treaty on the Functioning of the European Union stipulates that ‘taking account of the structural social and economic situation of Guadeloupe, French Guiana, Martinique, Réunion, Saint-Barthélemy, Saint-Martin, the Azores, Madeira and the Canary Islands, which is compounded by their remoteness, insularity, small size, difficult topography and climate, economic dependence on a few products, the permanence and combination of which severely restrain their development, the Council, on a proposal from the Commission and after consulting the European Parliament, shall adopt specific measures aimed, in particular, at laying down the conditions of application of the Treaties to those regions, including common policies’.

2. On the basis of this provision, the Commission developed a strategy for the outermost regions¹, consisting of three objectives:
 - (a) reducing the accessibility deficit;
 - (b) increasing competitiveness;
 - (c) strengthening regional integration.

The main tools for achieving these objectives are the Structural Funds and both agricultural funds (the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD)), including a specific agricultural programme for the outermost regions known as the ‘Programme of options specific to the remote and insular nature of the outermost regions’ (POSEI).

¹ Commission communication COM(2008) 642 final.

3. In 1989, the Council adopted the 'Programme of options specific to the remote and insular nature of the French Overseas Departments' (POSEIDOM)². In June 1991, two similar programmes were adopted: POSEIMA (the Azores and Madeira)³ and POSEICAN (the Canary Islands)⁴.
4. Similar programmes were drawn up for Greece in 1993⁵. As the smaller Aegean islands are not recognised in the Treaty as outermost regions, this scheme is handled separately from POSEI in legal terms but comes under the same budget headings. The intervention logic retains the same structure for both the POSEI and the smaller Aegean island schemes and is managed by the same unit at the Commission. As a result, this report considers both schemes together and refers to them as 'the specific measures'.

² Council Decision 89/687/EEC of 22 December 1989, setting up a programme of options specific to the remote and insular nature of the French overseas departments (Poseidom) (OJ L 399, 30.12.1989, p. 39).

³ Council Decision 91/315/EEC of 26 June 1991, setting up a programme of options specific to the remote and insular nature of Madeira and the Azores (Poseima) (OJ L 171, 29.6.1991, p. 10).

⁴ Council Decision 91/314/EEC of 26 June 1991, setting up a programme of options specific to the remote and insular nature of the Canary Islands (Poseican) (OJ L 171, 29.6.1991, p. 5).

⁵ Council Regulation (EEC) No 2019/93 of 19 July 1993, introducing specific measures for the smaller Aegean islands concerning certain agricultural products (OJ L 184, 27.7.1993, p. 1).



THE REFORM OF THE SPECIFIC MEASURES

5. In 2006, the POSEI arrangements and the specific measures for the smaller Aegean islands were reformed⁶. The Commission concluded that management of the system was too rigid, and thus limited the capacity of EU action to provide a timely response to the needs of the outermost regions in a manner suited to their specific problems. The reform therefore involved a shift from micromanagement of the measures by the Commission towards greater regional participation, and to decentralisation and flexibility in decision-making, on the basis of programmes presented by Member States for approval by the Commission (see **Box 1** for the rationale and objectives of the reform).

⁶ Council Regulation (EC) No 247/2006 of 30 January 2006 laying down specific measures for agriculture in the outermost regions of the Union (OJ L 42, 14.2.2006, p. 1) and Council Regulation (EC) No 1405/2006 of 18 September 2006 laying down specific measures for agriculture in favour of the smaller Aegean islands and amending Regulation (EC) No 1782/2003 (OJ L 265, 26.9.2006, p. 1).

BOX 1

EXTRACT FROM THE EXPLANATORY MEMORANDUM TO THE PROPOSAL FOR THE COUNCIL REGULATION LAYING DOWN SPECIFIC MEASURES FOR AGRICULTURE IN THE OUTERMOST REGIONS OF THE EUROPEAN UNION

'On the other hand, the administration of these arrangements leaves something to be desired; the management of the two strands of the POSEI⁷ schemes, i.e. the specific supply arrangements and support for local lines of production in the outermost regions, has proved somewhat inflexible. Adapting the supply balances to take account of even small fluctuations in demand requires the Commission to adopt legislation.

The arrangements for supporting local lines of production are, moreover, fragmented into 56 (micro-) measures established by Council regulations. It is not possible to adjust these measures without an interinstitutional legislative procedure, which slows down Community action and hampers attempts to react as quickly as possible to specific situations in the outermost regions, even though often only modest sums are involved.

That is why it is proposed to change the philosophy behind the way assistance is provided for these regions: by encouraging participation in decision-making and speeding up the response to their specific needs.'

⁷ See paragraph 6.

THE NATURE AND OBJECTIVES OF THE SPECIFIC MEASURES

6. The programmes for the outermost regions and the Aegean islands use two different instruments to meet the regions' specific needs:
- (a) The specific supply arrangements (SSAs), which are a system of compensation for the higher costs arising from the insularity and remoteness of the regions concerned. This is achieved through exemption from customs duties for products imported from non-member countries, or by means of aid for the delivery of products of EU origin, with equivalent conditions for final users;
 - (b) The measures to assist local agricultural products (MLAPs), which aim to develop local agricultural production and the supply of agricultural products. MLAPs involve a multitude of products and measures related to production, marketing or processing. They use a wide range of instruments such as area aid, animal premiums, payments to producer organisations, tonnage aid, the financing of marketing studies, and so on. While all these measures contribute to the overall objective of increasing local agricultural production and making producers more competitive, it should be noted that the individual objectives of each measure as defined in the programmes may differ considerably. Examples of measures and actions from the various programmes are set out in **Box 2**.



BOX 2

EXAMPLES OF MEASURES AND ACTIONS FROM THE VARIOUS PROGRAMMES

The following measures and actions which were selected for the Court's audit provide an overview of the diverse nature of the programmes:

France (overseas departments)

- Aid for banana producers;
- Sugar cane-sugar-rum sector (with measures such as flat-rate aid for the French overseas departments' sugar industry to adjust to the common market organisation (CMO), and aid for transporting sugar cane);
- Structuring of the livestock sector (with measures such as aid for special processing in the beef sector or specific aid for managing the local market in the pork sector).

Spain (Canary Islands)

- Aid for the beef, sheep and goat meat sectors in the form of direct payments to producers;
- Aid for banana producers.

Portugal (Azores)

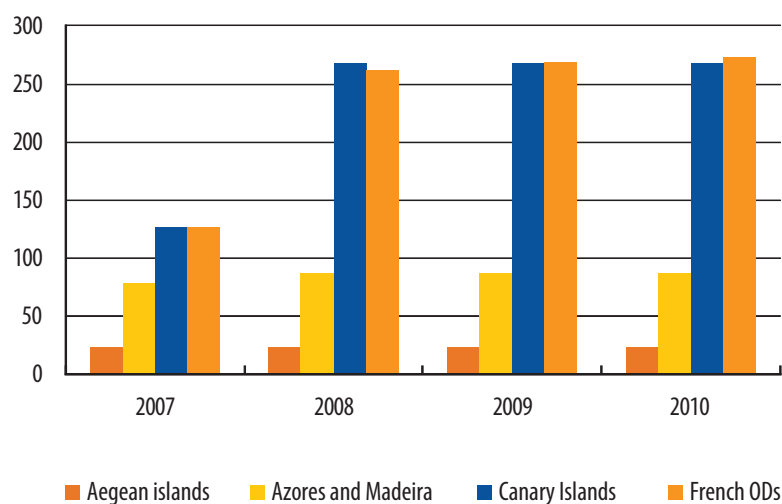
- Aid for animal production (with measures such as direct aid for beef production or aid for innovation and the quality of animal products);
- Aid for plant production (with measures such as aid for traditional crop production, or aid for the production of fruit and vegetables, cut flowers and ornamental plants).

Greece (island of Chios)

- Aid for olive groves;
- Aid for mastic production;
- Aid for honey production.

THE BUDGET FOR THE SPECIFIC MEASURES

7. The specific measures were allocated 332 million euro for the financial year 2007 and 618 million euro for the financial year 2008 (excluding allocations for measures in previous years), the years covered by the audit. The increase in the 2008 budget over previous years is due to the transfer of funds following the reform of the banana CMO as from 1 January 2007, corresponding to the financial year 2008. This reform occurred because of the new EU arrangements for banana imports and international trade negotiations. The intention was that the system should reflect the major principles of the reforms carried out in other agricultural sectors, while guaranteeing a decent standard of living for EU banana producers and taking account of the special features of the producing regions. The budget for the POSEI scheme was increased by 278,8 million euro to include all the EU aid for banana producers in the programmes as from 1 January 2007. Details of budgetary implementation are given in **Annex I**.
8. The budget for the specific measures is capped and the caps were set as follows (in million euro):



THE MANAGEMENT AND CONTROL SYSTEM FOR THE SPECIFIC MEASURES

9. Under the European Agricultural Guarantee Fund budget, the implementation of the specific measures is under shared management arrangements. With the move to greater regional participation, decentralisation and flexible decision-making as a result of the 2006 reforms, a bottom-up approach is applied to programming and implementation. This means that the needs of the outermost regions, and the measures to meet those needs, are identified at the level deemed most appropriate by the Member States. The Member States are responsible for developing, implementing and monitoring the programmes.
10. The Commission is responsible for making proposals for basic regulations and for drafting rules for implementing the various provisions of Council regulations. It approves the programmes submitted by the Member States and related amendments, and monitors implementation.
11. In order to identify the specific needs of the outermost regions, the Member States were required to produce an economic analysis and an evaluation of the previous measures, to set strategic and operational objectives and to design measures to meet those objectives. All these elements were to be included in the programmes, together with performance indicators⁸.
12. The programmes were submitted to the Commission for approval. The Commission evaluated the programmes' consistency with other EU policies and actions, and their compliance with EU law.

⁸ Article 12 of Council Regulation (EC) No 247/2006 of 30 January 2006.

- 13.** In their programmes, the Member States designated the authorities responsible for management and monitoring. Designated paying agencies are responsible for implementing the programmes and for dealing with supervision and monitoring tasks, either directly or by delegating all or part of them to other bodies.
- 14.** The legislative requirements concerning the management and control system for the specific measures are essentially based on the 'integrated administration and control system' (IACS) for EAGF direct payments. All aid applications are therefore subject to administrative checks and a 5 % sample is checked on the spot. For certain measures where aid is linked to deliveries of products with a view to their being processed or marketed, provision is made for other checks (e.g. weighing, transport and delivery). In the case of the SSAs, the Member States are required to check whether the economic advantage derived from the aid for customs-duty introduction or exemption has actually been passed on to final beneficiaries.
- 15.** No later than 31 December 2009, and every five years thereafter, the Commission must submit a general report to the European Parliament and the Council showing the impact of the action taken under the specific measures, together with any appropriate proposals. The presentation of this report was postponed, with adoption being scheduled for September 2010. When preparing the report, the Commission also took account of the evaluation of the specific measures which was required under the Directorate-General for Agriculture and Rural Development's evaluation programme for 2008⁹. The consultants submitted their report in November 2009.

⁹ 'Evaluation of the measures implemented to support the outermost regions (POSEI) and smaller Aegean islands as part of the common agricultural policy', Oréade-Brèche Consultancy, November 2009, Executive summary (see http://ec.europa.eu/agriculture/eval/reports/posei/index_fr.htm).

AUDIT SCOPE AND APPROACH

- 16.** The objective of the audit was to evaluate the effectiveness and certain aspects of economy of the specific measures after the 2006 reform. The emphasis was on the design of the measures and management procedures from the perspective of their effectiveness. As the reform took effect only a short time ago, only an evaluation of effectiveness trends was possible rather than a long-term evaluation.
- 17.** The questions raised in this report are the following:
- (a) Are the support programmes drawn up by the Member States and approved by the Commission designed in such a way as to provide an effective response to specific needs?
 - (b) Have the measures designed by the Member States since the 2006 reform been implemented effectively?
 - (c) Are the support programmes drawn up by the Member States and approved by the Commission monitored in an effective way?
- 18.** The audit covers the financial years closed since the specific measures were reformed (2007, 2008 and 2009).
- 19.** The audit was carried out in the four Member States concerned (Greece, Spain, France and Portugal). The regions audited on the spot were the island of Chios (Greece), the Canary Islands (Spain), Réunion (France) and the Azores (Portugal). For measures in other regions, the audit was confined to the central level administration of each Member State.

- 20.** The audit covered a selection of MLAPs, depending on their financial size and significance for agriculture in the regions concerned (see **Annex II**). MLAPs were given priority over SSAs for the following reasons:
- (a) MLAPs accounted for 67 % of total allocations for the specific measures in 2007 a figure that will rise to around 82 % in 2009.
 - (b) SSAs are designed to compensate directly for the drawbacks of remoteness and insularity. MLAPs must, on the other hand, be based on a thorough analysis of specific needs in order to be effective. In addition, their complexity, diverse nature and a lack of specific common control rules may increase the risks inherent in the measures.
 - (c) The Council has shown the importance of this type of measure vis-à-vis the SSAs by placing an 80 % cap on MLAPs.
 - (d) SSAs are subject to a specific control mechanism to ensure their effectiveness. The audit included a limited review of this mechanism.
- 21.** The audit covered the management and monitoring of programmes at the Commission and in the Member States concerned. The audit work included an analysis of the programming phase and of the way the programme management and monitoring systems were documented. The auditors carried out on-the-spot interviews with beneficiaries and representatives of producer associations in order to obtain information about their involvement in the programmes, their experiences and the results obtained. The audit criteria and procedures are explained in detail below for each audit question.

FINDINGS

22. The disadvantages suffered by the outermost regions and the smaller Aegean islands are permanent and cannot be overcome completely but can only be mitigated by the specific measures. This is illustrated by the size of the aid from the specific measures when considered as a proportion of the income of some agricultural producers in the outermost regions (see **Box 3**). The aim of this report is not therefore to question the value of the specific measures but to help improve the way they work.

BOX 3

AID FROM THE SPECIFIC MEASURES AS A PROPORTION OF THE INCOME OF CERTAIN AGRICULTURAL PRODUCERS IN THE OUTERMOST REGIONS

For an average sugar cane producer on Reunion, for example, POSEI aid in 2009 accounted for 38 % of turnover (*source*: 'Cahier technique de la canne n° 15', August 2008);

For a standard beef farm on Reunion, for example, POSEI aid in 2007 accounted for 25 % of turnover (*source*: 2007 implementation report on POSEI IV for the 'Structuring livestock farming' measure on Réunion);

For honey producers on the Greek island of Chios, for example, aid from the specific measures accounted for between 55 % and 70 % of beekeeping income in 2007 (*source*: Court of Auditors).



ARE THE SUPPORT PROGRAMMES DRAWN UP BY THE MEMBER STATES AND APPROVED BY THE COMMISSION DESIGNED IN SUCH A WAY THAT THEY EFFECTIVELY MEET SPECIFIC NEEDS?

- 23.** The audit criteria for answering this question were linked to the objectives of the 2006 reform, in particular 'encouraging participation in decision-making and speeding up the response to their specific needs'. This flexibility should be ensured by a programming procedure at the Member State level rather than direct management of the measures by the Commission. In order to identify the specific needs of the outermost regions, the Member States were required to produce an economic analysis and evaluation of previous measures, to set strategic and operational objectives, and to design measures to meet those objectives. All these elements were to be included in the programmes, together with performance indicators (see **Box 4**).
- 24.** As a result, the following criteria were used to answer this audit question:
- (a) the existence of methods to encourage participation;
 - (b) the existence of all the programming elements required by the regulations;
 - (c) consistency between the various elements, particularly between the analysis of agricultural production, the strategy proposed and the measures envisaged;
 - (d) flexibility enabling swift adaptation of the measures.

BOX 4

ARTICLE 12 OF COUNCIL REGULATION (EC) No 247/2006 OF 30 JANUARY 2006 LAYING DOWN SPECIFIC MEASURES FOR AGRICULTURE IN THE OUTERMOST REGIONS OF THE UNION

Contents of the EU support programmes

An EU support programme shall contain:

- (a) a quantified description of the current agricultural production situation taking into account the results of available evaluations, showing disparities, gaps and potential for development, the financial resources deployed and the main results of operations undertaken under Council Regulations (EC) No 1452/2001, (EC) No 1453/2001 and (EC) No 1454/2001;
- (b) a description of the strategy proposed, the priorities selected, its quantified objectives, and an appraisal showing the expected economic, environmental and social impact, including employment effects;
- (c) a description of the measures contemplated, and in particular aid schemes for implementing the programme, and, where appropriate, information on the needs for any studies, demonstration projects, training or technical assistance operations relating to the preparation, implementation or adaptation of the measures concerned;
- (d) a schedule for the implementation of the measures and a general indicative financing table showing the resources to be deployed;
- (e) proof of the compatibility and consistency between the various measures under the programmes and the criteria and quantitative indicators to be used for monitoring and evaluation;
- (f) the steps taken to ensure the programmes are implemented effectively and appropriately, including the arrangements for publicity, monitoring and evaluation, and a specified set of quantified indicators for use in programme evaluation and the arrangements for checks and penalties;
- (g) the designation of competent authorities and bodies responsible for implementing the programme and the designation at the appropriate levels of authorities or associated bodies and socioeconomic partners, and the results of consultations held.

- 25.** The Court examined the Member States' programming procedure and the phase of approval by the Commission. It analysed the process for identifying the needs of the outermost regions, how programme objectives were set, and the measures and actions developed within the programmes. The documents analysed in this context included evaluation reports and studies, and records of consultations between the various parties involved in the bottom-up approach (such as minutes and similar documents) and the documentation available at the Commission concerning the approval phase.

INCONSISTENT INITIAL PROGRAMMING

ENCOURAGING PARTICIPATION

- 26.** As regards methods to encourage participation, the Court's auditors noted that consultations took place in all the Member States with the local parties involved. In France, consultations about the specific measures took place in the overseas departments in 2005. Although these consultations were not documented in detail, for example in minutes of meetings with the participants on site, they produced four regional programmes which summarised the needs and related measures. These regional programmes were consolidated to produce a single national programme. Having already considered programming, the French authorities were then able to evaluate the situation properly and identify actual needs through consultations at regional level as required by the reform of the specific measures.

- 27.** In Greece, the Aegean islands' regional authorities were invited to make proposals for the programme by the Agriculture Ministry in April 2006. The time allowed for submitting these proposals was 15 days. The period between the notification date and the deadline for comments from the local authorities was too short to allow for a thorough analysis of needs and to choose the most effective measures to meet them. As a result, the responses sent by the regional authorities primarily contained information which did not meet the required standard. They had not, therefore, been carefully analysed and taken into consideration when the Agriculture Ministry drew up the programme. The Ministry of Agriculture does not dispose of adequate and reliable information at central level that would enable it to steer the policy toward the intended results and to maximise the impact for the islands most in need.
- 28.** Although consultations with the local parties took place in Spain and Portugal when the programmes were being prepared, they are not sufficiently documented to enable the Court's auditors to express an opinion on the value added by the exercise.

PROGRAMMING ELEMENTS

- 29.** As regards the presence of the programming elements required by the regulations, the auditors noted that all the programmes contained all the elements required at least as far as form was concerned. However, as regards essence, weaknesses were noted in the Spanish, Portuguese and Greek programmes in terms of the logic and consistency of the various components of the programming process.

- 30.** In Spain, the various pieces of information required by the legislation are formally present in the programme but are not consistent in terms of substance¹⁰. A genuine analysis of the situation based on an assessment of needs was lacking, and there was no strategy to ensure that the specific measures were complementary and consistent with other EU or national actions. The objectives of the programme are rather vague, being expressed more as general priorities than as precise and measurable objectives, and cannot therefore be regarded as operational objectives. As a result, the link between the general objectives and the measures actually developed is unclear.
- 31.** The new programme of specific measures for the Canary Islands is a direct continuation of the previous programme since the previous measures account for 89 % of the initial overall budget. This continuity could have been considered as consistent with the reforms if it were based on an impact analysis or an in-depth evaluation of the previous programme. However, in the Spanish programme, this continuity is largely due to the problems the participants have experienced in implementing the new programming approach sought by the reform within the timeframe stipulated by the regulations.
- 32.** In Portugal, programming for the Azores component of the general POSEI programme commenced in March 2005. Although the Portuguese authorities allowed sufficient time for carrying out the programming, here too the analytical element is inconsistent with the measures proposed. Notably, there is no indication that the conclusions of an evaluation of the POSEI programme in Portugal for 1992 to 1999 that was published in 2000 were taken into account. This evaluation recommended among others:
- (a) financing an economic study of the fruit and horticultural plants sector including not only processed but also fresh products. Such a study could be devised and carried out for the Azores separately from Madeira;

¹⁰ E.g. page 95 of the Spanish programme's revised version of 29 September 2006: 'Compatibility and consistency of the programme measures: Since the measures in this programme generally assume continuity with the measures implemented pursuant to Regulation (EC) No 1454/2001, it is clear that they comply with EU law and are consistent with other EU policies and with the corresponding measures adopted'.

- (b) reviewing aid for the livestock sector as a whole, whether via the SSAs or as production aid, so as to minimise the potentially negative impact of the traditional milk production model;
- (c) achieving greater balance between the levels of support granted to the various livestock and crop areas in order to ensure that crop production continues in the Azores;
- (d) carrying out an in-depth study of the sugar industry in the Azores in order to assess its viability by taking account of the maximum quantities of sugar being imported under the SSAs, the possibility of re-exporting refined sugar and/or the amount of processing aid;
- (e) possibly replacing some plant production aid with a single type of aid based on the number of hectares of arable land.

33. In spite of these specific proposals to adapt the programme to changing needs, priority was given to continuity. By way of example, the existing premiums for livestock production which account for 80 % of the total amount paid for the Azores programme in 2007 were continued on the same historical basis. As a result, the programme of specific measures for the Azores could have taken greater consideration of the risk of local farmers' excessive dependence on milk and meat production, even if this does reflect the islands' climate and geography. This dependence was also noted in a recent report on the proposal for a European Parliament and Council regulation amending Regulation (EC) No 247/2006 laying down specific measures for agriculture in the outermost regions of the Union¹¹.

34. In the Greek programme, the economic analysis of the agricultural needs of the Aegean islands is very superficial. There is no overall strategy and the programme does not specify the link between the various measures proposed and the general objectives, or the desired impact. This lack of strategic vision has produced measures whose very design means they are unlikely to be effective (see paragraph 44).

¹¹ Report on the proposal for a draft European Parliament and Council regulation amending Regulation (EC) No 247/2006 (COM(2009) 510 – C7 0255/2009 – 2009/0138(COD)), Committee on Agriculture and Rural Development, Doc A7-0054/2010 of 23 March 2010.

THE COMMISSION'S ROLE IN PROGRAMMING

35. The Commission sent guidelines to Spain, France and Portugal. The aim of these guidelines was to 'provide the Member States with information about how to present their programmes and about the content and level of precision they should seek to incorporate in them'¹². The Commission's guidelines also drew attention to 'the essential principle on which the POSEI reforms are based, i.e. the move from "micromanagement"¹³ by the Commission, with an accumulation of disparate measures, to a more consistent programming approach. The Member States will thus have greater freedom, but also more responsibility for identifying the needs of the outermost regions and for developing a strategy to meet those needs.' These useful guidelines were not sent to Greece, where the programming procedure was carried out between October and December 2006.

36. The Commission had four months in which to approve the programmes. During this period, regular contact took place between DG Agri and the authorities in the Member States concerned. The programmes developed and improved as a result of this contact. However, the amendments suggested by the Commission were confined to matters of compliance and consistency with EU law and policies. The Commission did not assess the programmes' effectiveness, i.e. whether the objectives set and the measures proposed were consistent with the analysis of the situation. Although it is important that the programmes should comply with legislation, the four-month period could have been put to better use if the Commission had also actively advised the Member States on programme effectiveness. It could, for example, have stipulated harmonised performance indicators at the start of the new programming phase, especially in terms of employment or value of agricultural production. Such indicators would have provided a basis for discussing the measures to be introduced and for envisaging recommendations for remedial action at the end of the first year, thus adding value without calling the Member States' responsibility for the programming process into question. However, the Commission did not dispose itself of the means necessary to go beyond a compliance review, especially given the internal resources it had allocated to the management of the specific measures.

¹² Letter D.1/MO/alf D(2006) 2393 to France dated 24 February 2006. The letters to Spain and Portugal were identical.

¹³ 'Micromanagement' in this context means management of each measure by means of Commission regulations.

THE FLEXIBILITY SOUGHT FROM PROGRAMME AMENDMENTS IS NOT YET IN EVIDENCE

37. One of the objectives of the 2006 reform was 'encouraging participation in decision-making and speeding up the response to their specific needs' (see **Box 1**). For this reason, a mechanism to update the programmes on an annual basis was introduced.

38. The first version of Article 49 of Commission Regulation (EC) No 793/2006 of 12 April 2006 laying down certain detailed rules for applying Regulation (EC) No 247/2006 stipulated that the Member States were to submit programme amendments to the Commission for approval once a year. However, this first version did not specify a deadline for submitting amendments, which caused problems when the amendments were implemented at the beginning of the following year. Commission Regulation (EC) No 1242/2007 amended Article 49 and set a deadline (30 September $n - 1$) for submitting changes concerning year n for approval. Commission Regulation (EC) No 408/2009 amended Article 49 once more and set 1 August $n - 1$ as the deadline for submitting amendments.

39. The amendments submitted by the Member States for 2008 were approved by the Commission between October 2007 and July 2008 depending on the date of submission because no deadline was specified in the regulations at the time. The procedure improved for 2009 because approval was backdated to 1 January 2009. However, approval was granted on several occasions between February and May 2009, thus creating uncertainty as regards aid applications submitted between the beginning of 2009 and the date of approval.

- 40.** In order to ensure that approval was not granted before the beginning of the year concerned, the Commission set 1 August $n - 1$ as the new deadline for submitting amendments. Although the new deadline allows the Commission more time to evaluate the proposed amendments and to prepare approval decisions, this entails a risk in terms of the effectiveness of the amendments proposed. The fact is that the Member States must also submit the annual implementation report for year n before 31 July $n + 1$. With the new deadline of 1 August, the Member States have to draft the amendments while they are preparing the annual implementation report. Although in order for the programme to be effective amendments should be proposed on the basis of an in-depth analysis of actual implementation, the 1 August deadline means that local participants have to propose changes as early as May each year. Such changes are therefore proposed before the implementation of the measures for the previous year is confirmed (payments for year n may be made until 30 June $n + 1$); this is naturally too early to assess the effect of the measures for the current year.
- 41.** As in the case of the initial programme, when examining amendments the Commission emphasises compliance and consistency with the law and common policies rather than effectiveness aspects. Recognising the importance of such an exercise, the Commission could have added value to the programmes by actively contributing to improve their effectiveness especially taking account of the fact that it has an overview of best practices in all the Member States.

HAVE THE MEASURES DESIGNED BY THE MEMBER STATES SINCE THE 2006 REFORM BEEN IMPLEMENTED EFFECTIVELY?

- 42.** The criteria for answering this audit question were the existence of relevant objectives and eligibility criteria that were sufficient to ensure that the measures achieved those objectives. The existence of relevant performance indicators was also a factor.
- 43.** In order to answer this audit question, the auditors analysed the objectives and eligibility criteria of the selected measures and discussed their implementation with inter-branch organisations or producer organisations that represent a large number of beneficiaries. In order to become better acquainted with the way the measures were implemented on the ground, the auditors visited a non-representative number of producers. During these on-the-spot visits, the Court's auditors examined measures which have proven to be effective, such as the structuring of cattle farming on Reunion or aid for the production of mastic on the island of Chios. However, other measures were subject to various weaknesses which will be described below. The effectiveness of these measures was also generally confirmed by the consultants, who concluded that in 16 of the 24 sectors covered by their report competitiveness had been improved by financing MLAPs¹⁴.

¹⁴ 'Evaluation of the measures implemented to support the outermost regions (POSEI) and smaller Aegean islands as part of the common agricultural policy', Oréade-Brèche Consultancy, November 2009. Summary, p. 3, paragraph 3.1.

THE WAY SOME MEASURES ARE DESIGNED MAKES IMPLEMENTATION LESS EFFECTIVE

AID FOR OLIVE GROVES ON THE AEGEAN ISLANDS

- 44.** The support programme for the olive-oil sector provides for a flat-rate payment of 145 euro per hectare for olive producers on the smaller Aegean islands, the aim being to retain olive groves in areas where they have always existed, on condition that the groves should be maintained in such a condition as to guarantee healthy production. The amount earmarked in the budget for this aid is 13 084 831 euro, i.e. approximately 70 % of the budget of measures for the Aegean islands.

- 45.** Regulation (EC) No 1782/2003 gives the Member States concerned the option of excluding outermost regions and the smaller Aegean islands from the single payment scheme and of incorporating the corresponding budgetary appropriations into the specific measures. Greece decided not to exclude the smaller islands from the single payment scheme. Olive farmers in the Aegean islands therefore receive payment entitlements that are based on their information as recorded in the olive-cultivation GIS through the single payment scheme and they are therefore required to fulfil cross-compliance conditions.
- 46.** The amounts the beneficiaries receive under the specific measures are generally very small. The average payment is only about 203 euro per beneficiary per year, while the most frequent payment is 58 euro per year. 43 % of the sums distributed are under 100 euro (24 145 beneficiaries), whereas 69 % of beneficiaries receive 200 euro or less per year. Only 2 % of beneficiaries (1 126 farmers) receive more than 1 000 euro per year, while 0,35 % (194 farmers) receive more than 2 000 euro under the scheme.
- 47.** The Court believes that it is difficult to justify that the economic incentive under these circumstances encourages the vast majority of beneficiaries to maintain their traditional olive groves. This measure could have been more effective if Greece had required the maintenance of olive groves in the framework of cross-compliance, as is the case, for example, in Italy.



**AID FOR INNOVATION AND THE QUALITY OF ANIMAL PRODUCTS
IN THE AZORES (PORTUGAL)**

- 48.** This sub-measure aims to improve and create conditions for the reliable quantitative and qualitative monitoring and classification of milk production through the installation of measuring and sampling equipment at reception points for milk collection vehicles. The aid funds milk-sampling work (4 000 cows were concerned in 2007) for producers who have applied in advance. Aid is granted to 70 % of applications at a maximum rate of 35 euro/head. The budget for this sub-measure was 539 000 euro per year in 2007, 2008 and 2010 and 597 900 euro in 2009.
- 49.** This provision of the Azores programme is another example of aid which runs the risk of limited effectiveness because it is not properly defined or subject to appropriate eligibility criteria. The examination of a typical file for this measure revealed a lack of overall information in the programme and file which could have clarified the general context of the activity or sub-measure, in particular the taking of milk samples from producers for subsequent laboratory analysis and the reporting of findings to farmers. As the ultimate goal is to provide information about milk quality for each animal so that the producer concerned can take informed management decisions, it would be pertinent to specify all additional measures (such as laboratory analysis of samples, the forwarding of results, the purchase of milk-collection equipment, etc.) which give sense to and complement the overall measure, and the various sources of funding, whether EU, national or private. Specifications from the appropriate authority listing the nature of the actual services provided, the terms of implementation and estimated costs were also lacking. As a result, the flat-rate aid granted to the beneficiary examined (31 euro per cow in 2007) is not based on objective criteria. Although long lists of milk-analysis results are available, there is no information for establishing whether these results actually resulted in to action which justified the value of the sums invested in the measure. Given the absence of such specifics, there is a risk that the aid may be inefficient and even of limited effectiveness.

AID FOR BANANAS IN SPAIN AND FRANCE

- 50.** In 2007, the banana CMO was reformed and the aid was incorporated into the POSEI programmes by Council Regulation (EC) No 2013/2006 of 19 December 2006. The budget for this aid is 270 200 000 euro for France and Spain. Recital (3) of the Regulation stipulates that 'local banana production is an essential element of the environmental, social and economic balance of the rural areas in those regions'.
- 51.** In order to contribute to the objective of maintaining this social and economic balance, the solution chosen on the basis of the analyses contained in the programmes was to provide aid for producers. The French programme highlights the importance of the sector by pointing out, for example, that the number of direct, indirect and secondary jobs produced by the sector in the Caribbean is approximately 20 000. In Spain, according to the programme, the number is over 17 300. In the Canaries, banana production accounts for about 25 % of total agricultural production. These figures show that aid for banana producers, which helps to support the whole sector, is an important factor in maintaining the economic and social stability of the regions concerned. However, the objective of contributing to environmental equilibrium is less developed in the programme complements that were submitted by the Member States as far as including the banana sector in the specific measures is concerned.
- 52.** The POSEI programme for the banana sector in France, which was approved by Commission Decision C(2007) of 22 August 2007, sets the objective of 'promoting a sustainable management system' using 'banana-growing land that has been set aside' as a monitoring indicator. The expected environmental impacts are 'the management and protection of delicate soil and sloping land', 'the maintenance of the usable agricultural area by stabilising land used to grow bananas', 'making the best use of the UAA by extending set-aside and crop rotation' and 'an active policy of limiting inputs', such as fertilisers. The Spanish programme does not explicitly stipulate an environmental objective.

- 53.** In both programmes, aid was linked only to production. Producers receive aid on the basis of a historical reference tonnage. This aid is reduced if actual production for the year concerned does not reach certain thresholds in relation to the historical reference. There is no other constraint, e.g. as regards production methods.
- 54.** Production-related aid with no constraint on production methods does not encourage producers to employ a production approach that preserves the environment. As the programme contains no provision for achieving this objective, additional arrangements (e.g. the 'sustainable banana plan' in France) are needed so as to ensure that the environmental objective can be achieved.
- 55.** In addition, this objective should be monitored using relevant indicators. However, such indicators are lacking in the Spanish programme and those contained in the French programme are not really relevant. The fact is that the environmental objective of 'promoting a sustainable management system', the various expected impacts of which are mentioned in paragraph 50, must, according to the programme, be measured using only one indicator ('banana-growing land that has been set aside'). Although the 2007 annual implementation report includes another indicator that is not mentioned in the 'non-cultivated fallow land' programmes, it merely refers to these two indicators without establishing a link with the stated objective and without saying to what extent these indicators enable the expected environmental impact to be evaluated. There is a risk that the Member States may not know the real impact of this POSEI measure on the environment and that they cannot therefore take the necessary remedial action to ensure that the measure is fully effective. This weakness was also noted by the evaluation consultants¹⁵.

¹⁵ 'Evaluation of the measures implemented to support the outermost regions (POSEI) and smaller Aegean islands as part of the common agricultural policy', Oréade-Brèche Consultancy, November 2009, Executive summary, p. 31.



THE SUGAR CANE SECTOR ON REUNION

- 56.** The reform of the common organisation of the sugar market led to a fall in the sugar price paid to European producers. However, during the reform process, it was acknowledged that 'the characteristics of sugar production in the outermost regions of the Community distinguish that production from sugar production in the rest of the Community'¹⁶. Consequently, the Council granted the sector financial support in the form of resources for farmers in these regions as part of the specific measures. For the same reason, France was also allowed to allocate its outermost regions a fixed amount of state aid¹⁷.
- 57.** The French authorities noted in the programme approved by the Commission that 'the restructuring of the sugar industry in the overseas departments has been completed: only two units now remain on Réunion (a single unit would not be realistic given the location of the plantations and the distance the cane would have to be transported as a result). The Commission and the Council acknowledged this situation when they dispensed the overseas departments' sugar industries from the restructuring envisaged under the reform of the common organisation of the sugar market as adopted on 22 February 2006'¹⁸. As regards maintaining the two production units located in the north and south of the island, it should be noted that the topography of a volcanic island such as Réunion, with high mountains inland, considerably increases transport times even for short distances.
- 58.** The Court examined the flat-rate aid to help the sugar industry in the French overseas departments adjust to the CMO, the aim being to preserve the sector by enabling the sugar industry and sugar cane farmers to adjust and to offset the impact of the fall in sugar prices on growers' incomes. For the sugar-rum sector in the overseas departments, this aid represented expenditure of 64 308 347 euro in 2007 and 71 165 224 euro in 2008.

¹⁶ Recital (41) of Council Regulation (EC) No 318/2006 of 20 February 2006 on the common organisation of the markets in the sugar sector (OJ L 58, 28.2.2006, p. 1).

¹⁷ Article 41(1) of Council Regulation (EC) No 318/2006.

¹⁸ Chapter V, p. 4, of the French programme approved by Commission Decision C(2006) 4809 of 16 October 2006, pursuant to Regulation (EC) No 247/2006.

- 59.** On the basis of an agreement between producers and growers, the flat-rate aid is theoretically redistributed to growers through the price paid for cane by the two production units on the island. In order to compensate fully for the price reduction resulting from the reform of the sugar CMO introduced by Regulation (EC) No 318/2006 and to guarantee growers a minimum income, the price which growers receive for the cane was set in the 2006-15 sugar cane agreement at 39,09 euro per tonne.
- 60.** However, the cyclone which hit the island in 2007 had a direct effect on the quantity of cane produced. The aid distributed through the purchase price paid by the processing plants was not used up because of the fall in the quantity of cane supplied to the factories. The managers of the production centres therefore decided to use the surplus funds to plant new cane in some areas, thus providing some growers with an interest-free loan to replant their land with more productive and more suitable new varieties of cane if they so wished. If cane production returns to its historical level of around 2 million tonnes, the flat-rate aid will have to be used up in order to guarantee the price level.
- 61.** It should also be noted that there is a relationship of interdependence between stakeholders on Reunion because of the remoteness of the island. As a result, the production units can only be supplied with cane grown on the island and cane growers can only sell their produce to the island's production units. Studies of these two production facilities show that the break-even point is achieved if total cane production reaches 2 million tonnes and each plant receives 1 million tonnes of raw material from which to process approximately 100 000 tonnes of white-sugar equivalent. However, production for 2006 to 2008 varied between 1,6 million and 1,8 million tonnes of cane and 2007 was very difficult because of unexpected climate phenomena on the island.

- 62.** According to the growers whom the auditors met on site, preserving the selling price of sugar cane was the most important factor as far as the sector's survival was concerned. Actually, the costs of maintaining and harvesting the parcels cultivated with sugar cane that farmers are exposed to are such that the slightest increase in any item such as fertiliser, which most growers cited as an example, could very quickly place them in a very difficult position. This was also confirmed by a technical study which showed that aid for specific measures already accounted for 38 % of the turnover of an average sugar cane producer on Réunion in 2009.
- 63.** The fact that adjustment aid for the sugar industry on Réunion takes the form of fixed-budget flat-rate aid generates risks to effectiveness in this fragile environment in the event that external factors such as input prices, including fertiliser, continue to rise. The fact is that if growers cannot absorb such a rise — however small — because of the sale price of their cane, they may go out of business, thus entailing the disappearance of the sugar sector on Réunion. As all the flat-rate aid is already used to guarantee the sale price of adequate production, national aid is therefore essential for dealing with external random factors because it stabilises local production and ensures that EU aid for the programme remains effective. This observation was also made by the consultants, who stressed the relevance of complementary national aid¹⁹.

¹⁹ 'Evaluation of the measures implemented to support the outermost regions (POSEI) and smaller Aegean islands as part of the common agricultural policy', Oréade-Brèche Consultancy, November 2009, Executive summary, p. 32.

THE SPECIFIC SUPPLY ARRANGEMENTS (SSAs)

- 64.** The specific supply arrangements are a system of compensation for the higher costs arising from the insularity and remoteness of the regions concerned. This is achieved through exemption from customs duties for products imported from non-member countries, or by means of aid for the delivery of products of EU origin, with equivalent conditions for final users. This mechanism was introduced in order effectively to achieve the objective of lowering the prices of some EU products in the outermost regions, to mitigate the additional costs resulting from remoteness, insularity and an outlying location, and at the same time to maintain competitiveness. The aid should take account of the additional costs of transport to the outermost regions and export prices to third countries and, in the case of agricultural inputs or products for processing, the additional costs of insularity and an outlying location.
- 65.** Eligible products are listed in Annex I to the Treaty and must be essentially, in outermost regions, for human consumption or the manufacturing of other products or as agricultural inputs. The Member States must draw up a forecast supply balance quantifying the annual requirements for these products. The amounts allocated annually to the SSAs cannot exceed:
- (a) for the French overseas departments: 20 700 000 euro;
 - (b) for the Azores and Madeira: 17 700 000 euro;
 - (c) for the Canary Islands: 72 700 000 euro;
 - (d) for the smaller Aegean islands: 5 470 000 euro.

These sums were calculated by the Commission on the basis of average expenditure in 2001–03, the last years for which data were available at the time of the reform. These amounts reflect use of the ‘aid’ component of the SSAs at the time and do not take account of the ‘exemption from customs duty’ component.

- 66.** Because of the limited resources available for the SSAs, France, Greece and Portugal have concentrated funds on aid for animal feed so as to achieve synergies with measures for local agricultural products. This approach, which complies with the regulations, aims to make efficient use of the limited resources available and increases the effectiveness of the aid, according to the evaluation consultants.
- 67.** However, the Court believes that in view of the financial resources available for the SSAs and their concentration on a single agricultural product in three Member States, the SSA scheme cannot contribute in a substantial way to the objectives described in the regulation, in particular, to mitigate the disadvantages suffered by the outermost regions and the Aegean islands. The budget available cannot have a significant impact on the price of a wide range of agricultural products, which is the ambitious objective of the scheme, since the legislation envisages consumers, processing companies and farmers as the final beneficiaries.

THE CURRENT CONTROL SYSTEMS ARE NOT SUITED TO THE DIVERSE NATURE OF THE MEASURES

- 68.** In order to ensure that aid is effective, not only must eligibility criteria be suited to the objectives of the aid but fulfilment of those criteria must be effectively checked. For this reason, the Court's auditors examined the control procedures for the selected measures and re-performed some checks, in particular area measurements.

CHECKS IN RESPECT OF MLAPs

69. The legislative requirements concerning the management and control system for the specific measures are essentially based on the integrated administration and control system (IACS) for EAGF direct payments. Thus, all aid applications are subject to administrative checks and a 5 % sample is checked on the spot.
70. However, in view of the diverse nature of the various measures contained in the programmes, the conditions for implementing control procedures which are as reliable as those of the IACS are not always stipulated.
71. In Greece for example, aid for honey production is granted to producer organisations that submit a programme containing measures to improve the conditions in which honey is produced and marketed. Aid is paid to producer organisations following an administrative check of the invoices they have submitted. However, there is no control procedure for checking whether the goods or services covered by these invoices were actually provided. The Greek authorities informed the Court that they were going to adopt new control procedures.
72. Aid for olive groves under the single payment scheme is based on a theoretical area recorded in the olive-cultivation GIS; this area is used to calculate and settle single payment entitlements. However, the aid for olive groves granted to the Aegean islands under the specific measures created before the reform of direct payments is based on the actual olive grove area cultivated by the farmer; extra checks are required because the two areas are not the same. However, the farming conditions (mixed crops) and topography of the islands make it very difficult to measure the real area, as was confirmed by the measurements taken during the on-the-spot audit.

- 73.** In Spain and Portugal, the systems for checking areas covered by the specific measures are not reliable. In Spain, the fact that the GIS contains no specific code for banana plots makes it difficult to identify such plots. In Portugal, the GIS was not adjusted to the requirements of the 'aid for plant production' measure. Consequently, neither producers nor national inspectors are familiar with the contents of the GIS. When they set out, with the national auditors and producers involved, to measure the selected parcels using the GPS system, the audit team noticed that the results did not match those in the GIS at all either in outline or area, and there were also doubts about location.

CHECKS IN RESPECT OF SSAs

- 74.** In the case of the SSAs, the Member States are required to check whether the economic advantage derived from the aid for customs-duty introduction or exemption has actually been passed on to final beneficiaries. Each Member State was to develop its own methodology to this end. No guideline or technical support was provided by the Commission in this area. All of the methods used are based on comparisons between the gross margin of a trader introducing goods in receipt of SSA aid, either with a period without aid or with other similar traders who do not receive aid. The effectiveness of these checks essentially depends on the quality of the data to be compared. However, the Court noted that the quality of these data varies considerably. In France, margins are compared with those before the SSAs were introduced. By their very nature, the data for comparison are old and may no longer reflect the current economic situation. In Greece, the data for comparison were unreliable because they had been obtained from an informal survey of traders on the mainland. In Portugal, certain information compiled every six months gives a partial indication of whether or not the advantage derived from the SSAs has been passed on to the final beneficiary. In Spain, although a considerable effort had been made by the *Consejería de Economía de Canarias*, the authorities acknowledged that they had not managed to devise a consistent methodology for establishing whether the SSA advantage had been passed on to the final user.

ARE THE SUPPORT PROGRAMMES DRAWN UP BY THE MEMBER STATES AND APPROVED BY THE COMMISSION MONITORED IN AN EFFECTIVE WAY?

- 75.** The criteria for evaluating this audit question were that the Member States should 'satisfy themselves that actions financed from the budget are actually carried out and to ensure that they are implemented correctly'²⁰ and that the annual implementation report presented by the Member State should indicate 'the progress of the measures and priorities in relation to the specific and general objectives on the date of presentation of the report, using quantified indicators'²¹. As regards the Commission, the criterion is that it should monitor 'achievement of those objectives [...] by performance indicators for each activity'²². In order to answer the audit question, the auditors examined monitoring procedures at the Commission and in the Member States.

THE COMMISSION COULD HAVE MONITORED THE PERFORMANCE OF THE SPECIFIC MEASURES ON A MORE REGULAR BASIS

- 76.** The Financial Regulation makes the Commission responsible for using budgetary appropriations in line with the principle of sound financial management, i.e. with the principles of economy, efficiency and effectiveness. The principle of effectiveness concerns the achievement of the specific objectives set and of the anticipated results. In order to monitor the results, specific, measurable, achievable, relevant and time-bound objectives must be set for all sectors of activity covered by the budget. The achievement of these objectives is checked using performance indicators that are drawn up for each activity, and the Commission is required to provide the budgetary authority each year with information about the expenditure it is responsible for.

²⁰ Article 53b (2)(a) of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002, p. 1).

²¹ Article 48 of Commission Regulation (EC) No 793/2006 of 12 April 2006 laying down certain detailed rules for applying Regulation (EC) No 247/2006 (OJ L 145, 31.5.2006, p. 1).

²² Article 27 of Regulation (EC, Euratom) No 1605/2002 of 25 June 2002.

- 77.** In the implementing rules for POSEI and the smaller Aegean islands, the Commission stipulated that the Member States' annual implementation reports should provide financial and non-financial indicators for each measure, followed by an analysis of the data and, where appropriate, a presentation and analysis of the sector concerned by the measure. It should be expected that this information should help the Commission discharge its obligation to monitor the effectiveness of EU expenditure.
- 78.** However, the Commission takes the view that the measures would be monitored more effectively over a longer period. It believes that the five-year period stipulated in Article 28(3) of Regulation (EC) No 247/2006 for submitting a report on the impact of the scheme to the European Parliament and the Council is reasonable for the purpose of reaching significant conclusions. The Commission prepared this report on the basis, *inter alia*, of the evaluation report mentioned above.
- 79.** Given the requirements of the Financial Regulation, the Court believes that for the purposes of sound financial management the Commission should monitor the performance of the specific measures on an annual basis. As things stand, the Commission mainly confines itself to checking whether the annual implementation reports comply with the regulations. For example, as regards performance indicators, the Commission has confined itself to checking their existence rather than their appropriateness. A first attempt to analyse the reports for 2007 in terms of programme performance was made by DG Agri's co-ordination unit for the specific measures in 2008. It concluded that the performance indicators used in the reports are too varied to provide an overall evaluation of the performance of the specific measures. The Commission intends to propose harmonised indicators in cooperation with the Member States. This initiative is a first step towards a performance information and management system for the specific measures. However, this initiative has come about only in 2010, the fourth full year in which the reform has applied.

CONCLUSIONS AND RECOMMENDATIONS

ARE THE SUPPORT PROGRAMMES DRAWN UP BY THE MEMBER STATES AND APPROVED BY THE COMMISSION DESIGNED IN SUCH A WAY AS TO PROVIDE AN EFFECTIVE RESPONSE TO SPECIFIC NEEDS?

- 80.** The Court concludes that the new bottom-up, decentralised approach introduced by the 2006 reform of the specific measures has not been sufficiently taken advantage of in order to improve the effectiveness of the existing measures. It proved to be a real challenge for the national authorities because the approach was new, the procedure was difficult, the time available (two months) was short and the Commission did not provide sufficient technical or financial support. The Commission gave priority to its role of checking the compliance and consistency of the programmes rather than to its management responsibilities and to actively helping to ensure that the programmes' design optimised their impact. This fact constituted a significant handicap to the new specific measures being launched as effectively as possible.

RECOMMENDATION 1

For future programming of specific measures, the Commission should help the Member States draw up their programmes by promoting best practices and by defining a harmonised framework of indicators for monitoring programme performance. The indicators should at least include information about economic changes (e.g. production value and added value) and social changes (e.g. jobs created or preserved).

- 81.** The 1 August deadline for amending the programmes limits the Member States' ability to propose duly substantiated amendments and may therefore be detrimental to the effectiveness of the programmes. Moreover, the objective of increasing flexibility has not been achieved (see paragraphs 37 to 41).

RECOMMENDATION 2

The Commission should reconsider the 1 August $n - 1$ deadline for formally approving programme amendments so that the Member States possess reliable information on the previous year's expenditure when they are preparing amendments.

HAVE THE MEASURES DESIGNED BY THE MEMBER STATES SINCE THE 2006 REFORM BEEN IMPLEMENTED EFFECTIVELY?

- 82.** In general, the Court concludes that the programmes are implemented effectively and thus meet the needs of the outermost regions and the Aegean islands. However, the Court's audit identified a series of measures whose design limited their implementation as regards effectiveness:
- (a) The objective of maintaining olive groves on the smaller Aegean islands could have been more effective if Greece had required the maintenance of olive groves in the framework of cross-compliance, as is the case, for example, in Italy.
 - (b) The effectiveness of financing aid for innovation and the quality of milk products in the Azores has not been demonstrated.

- (c) Aid for banana producers, although effective in terms of its socio-economic objective, does not really help to maintain environmental equilibrium.
- (d) Flat-rate aid for the sugar industry on Réunion currently ensures that the sector remains operational. However, as it is very fragile, the effectiveness of EU aid depends on additional national aid.
- (e) Lastly, the amounts allocated to the SSAs in Greece, France and Portugal are too small to have an impact on a large range of farm products.

RECOMMENDATION 3

The Member States should modify the measures concerned so as to rectify the weaknesses listed in paragraphs 44 to 67 by implementing the bottom-up approach in consultation with stakeholders on site. The Commission's evaluation report should also serve to identify ineffective measures whose design could be improved.

- 83.** The Member States' control procedures are not always suited to the diverse nature of the specific measures.

RECOMMENDATION 4

The Member States should devise control procedures that are suited to each type of measure. In particular, they must ensure that their system for identifying farmland is regularly updated. For its part, the Commission should ensure that these control procedures work effectively.

ARE THE SUPPORT PROGRAMMES DRAWN UP BY THE MEMBER STATES AND APPROVED BY THE COMMISSION MONITORED IN AN EFFECTIVE WAY?

84. The Court concludes that current programme monitoring is not effective. The Commission laid the foundations of a performance management system by requiring the Member States to provide details of performance indicators in their annual implementation reports. However, the indicators developed by the Member States are too varied for the Commission to be able to draw conclusions about the performance of all the specific measures, although certain information may be used in a more relevant way. The Commission's planned initiative to discuss a common framework with the Member States is a first step towards a performance-management information system for the specific measures. Until such a framework exists, there is no information system based on common performance indicators to enable the Commission as an institution to evaluate in good time the way budgetary appropriations for the specific measures contribute to the CAP's objectives. Recommendation 1 concerning a harmonised framework of indicators for monitoring programme performance also applies to this observation.

RECOMMENDATION 5

The Commission should use the information provided by the Member States to monitor programme performance on an annual basis, including information that already exists and information yet to be provided in full.

This report was adopted by Chamber I, headed by Mr Michel Cretin, Member of the Court of Auditors, in Luxembourg, at its meeting of 6 October 2010.

For the Court of Auditors



Vítor Manuel da SILVA CALDEIRA
President

BUDGETARY IMPLEMENTATION OF THE SPECIFIC MEASURES

Title Chapter Article Item	Heading	Appropriations 2010 (euro)	Appropriations 2009 (euro)	Appropriations 2008 (euro)	Out-turn 2008 (euro)	%	Appropriations 2007 (euro)	Out-turn 2007 (euro)	%
05 02 11 04	POSEI (excluding direct aids and MARE 11 02 03)	231 000 000	235 000 000	220 000 000	232 679 194	105,8	212 000 000	201 226 010	94,9
05 03 02 50	POSEI — EU support programmes	394 000 000	377 000 000	377 000 000	372 255 721	98,7	64 000 000	63 765 532	99,6
05 03 02 51	POSEI — Other direct aids and earlier regimes	22 000 000	22 000 000	22 000 000	21 191 445	96,3	3 000 000	3 791 612	126,4
05 03 02 52	POSEI — Aegean Islands	18 000 000	18 000 000	19 000 000	16 791 929	88,4	13 550 000	13 528 383	99,8
Total		665 000 000	652 000 000	638 000 000	642 918 289	100,8	292 550 000	282 311 537	96,5

LIST OF AUDITED MEASURES

The amounts shown below are the total expenditure for the measures listed. Please note that the regions audited on the spot by the European Court of Auditors were Réunion (France), the Canary Islands (Spain), the island of Chios (Greece) and the Azores (Portugal)

	2008 payments (euro)	2007 payments (euro)	'Implementation' finding	'Monitoring system' finding
France¹ (all overseas departments)				
○ Specific supply arrangements	19 601 176	19 633 602	Paragraphs 64 – 67	Paragraph 74
○ Aid for banana producers	129 100 000	129 052 597	Paragraphs 50 – 55	-
○ Cane-sugar-rum sector (with measures such as flat-rate aid for adjustment to the CMO by the sugar industry in the overseas departments, and aid for cane transport)	71 165 224	64 308 347	Paragraphs 56 – 63	-
○ Structuring of livestock breeding (with measures such as special processing aid for the beef and veal sector and special aid for the management of the local pork market)	19 779 394	18 402 827	-	-
Spain²				
○ Specific supply arrangements	69 151 890	69 541 851	-	Paragraph 74
○ Aid for the sheep and goat sector in the form of direct producer payments	7 485 063	6 978 313	-	-
○ Aid for banana producers	139 706 006	138 836 153	Paragraphs 50 – 55	Paragraph 73
Portugal³				
○ Specific supply arrangements	6 255 681	5 926 618	Paragraphs 64 – 67	Paragraph 74
○ Aid for animal production (with measures such as direct aid for beef and veal production and aid for innovation and the quality of animal products in the Azores)	34 001 000	33 750 370	Paragraphs 48 – 49	
○ Aid for plant production (with measures such as aid for the production of traditional crops and aid for the production of fruit and vegetables, cut flowers and ornamental plants)	7 049 000	6 571 170	-	Paragraph 73
Greece (island of Chios)⁴				
○ Specific supply arrangements	5 050 453	4 781 251	Paragraphs 64 – 67	Paragraph 74
○ Aid for olive groves	11 200 034	11 372 595	Paragraphs 44 – 47	Paragraph 72
○ Aid for mastic production	849 821	885 304	-	-
○ Aid for honey production	1 187 234	1 194 180	-	Paragraph 71

¹ Source: Odeadom, FranceAgriMer annual implementation report for 2008.

² Source: Canary Islands Ministry of Agriculture, Livestock, Fisheries and Food, Report on the implementation of the special supply arrangements for 2008 and 2007.

³ Regional Secretariat of Agriculture and Forestry, Report on the implementation of the sub-programme for the Autonomous Region of the Azores under the overall programme for Portugal.

⁴ The data are based on information currently available in the 2008 annual implementation report and refer to the amounts listed in the total budget available for each measure and for all islands, except for the SSAs which include the overall amounts paid.

REPLY OF THE COMMISSION

EXECUTIVE SUMMARY

V–VII.

In accordance with the regulation following the 2006 reform on specific measures for agriculture in the outermost regions of the Union and the Aegean islands, Member States must define their strategy, the objectives to be pursued and the most suitable measures to support agriculture in their regions. The Commission's role is essentially to ensure that the proposed measures are in line with EU legislation.

At the start of the programming, Member States generally opted for continuity with previous schemes and for gradual improvement involving annual programme amendments. The Commission accepted this approach and supported the national authorities in their programming and administration tasks.

However, it agrees with the Court that the schemes must be monitored to ensure that they are effective. For this reason, the Commission is in effect helping Member States to improve the proposed measures and to seek solutions with them to make the programmes more efficient.

Adapting Member States' monitoring arrangements to the specific measures is one of the aspects taken into account during audits carried out by the Commission.

VIII.

An in-depth global evaluation of the impact of the programmes is, admittedly, carried out only at five-year intervals, as required by the regulation. However, regular monitoring is conducted by means of ongoing contacts with the national authorities and the annual evaluation of implementation reports submitted by Member States.

The Commission agrees with the Court that these reports are not harmonised, and it has worked with the relevant national authorities to define common indicators to be used each year to monitor all programmes from 2011 on (see the Commission's reply to point 36).

REPLY OF THE COMMISSION

INTRODUCTION

15.

Preparation of the report indicating the impact of the measures taken following the 2006 reform of the POSEI¹ programme (the POSEI report) was postponed for a few months in order to take into account not only the evaluation report ordered by the Commission under the Financial Regulation and completed at the end of 2009, but also market developments in 2009 (third year of implementation of the programmes after the reform) and the negotiations on tariff reductions for banana imports from non-member countries (initialled between the end of 2009 and mid-2010), a crucially important matter for all the 'POSEI' Member States.

In addition, the POSEI programmes started only at the end of 2006 or even at the beginning of 2007. A report on the impact of the reform completed in 2009 would not, therefore, have covered a sufficiently long period to allow this impact to be assessed.

¹ Article 28(3) of Council Regulation (EC) No 247/2006.

AUDIT SCOPE AND APPROACH

20(b)

Member States are required to implement arrangements for management, verification and imposing penalties in line with the regulatory principles. The Commission regularly conducts audits to check that these arrangements are compatible with EU legislation and that they are effective.

REPLY OF THE COMMISSION

FINDINGS

27.

The Commission considers that, as regards the initial drafting of the Greek programme, the problem was not the tight deadline imposed on the regional authorities in 2006 to make proposals on the measures to be adopted.

The real problem was the lack of thorough evaluation of the impact of the measures adopted and, consequently, the failure to adapt the programme over the years (the Greek programme was amended only in 2009; a further amendment has just been submitted to the Commission for 2011).

For this reason the Commission sent a letter to the Greek authorities in October 2009 highlighting the inadequacy of the implementation reports submitted for 2007 and 2008, and proposing the introduction of a technical assistance measure in their programme to finance the drafting of annual reports by professional consultants.

This is a good example of the active role played by the Commission in providing assistance to Member States to make programming and programme evaluation more effective.

28.

According to the Commission's information, regular consultations are held between the competent Spanish and Portuguese authorities and the local economic players. These consultations form the basis for the annual programme amendments.

29.

Spain, Portugal and Greece have essentially included in their respective programmes the arrangements dating from before the reform, which allow gradual improvements to be made by means of annual amendments.

This approach is approved in the regulation and accepted by the Commission in order to facilitate the launching of programmes following the 2006 reform.

30–31.

When the POSEI programme was set up for the Canary Islands, Spain decided to continue with the measures in force under the previous arrangements.

However, each year when the implementation of the programme is being evaluated, the Spanish authorities propose amendments to make the programme more effective, sometimes at the request of and with the cooperation of the Commission (for instance, the introduction of a support strategy for the tomato-exporting sector; gradual reduction in individual aid for purchases of products that might compete with local products, etc.).

32.

As in the case of the Canary Islands, the Portuguese authorities decided to continue with the measures in force under the previous arrangements, proposing amendments to the programme each year to make it more effective.

REPLY OF THE COMMISSION

32(d)

At the request of the Commission, the Portuguese authorities carried out an in-depth study on the situation in the sugarbeet production and processing sector in the Azores at the beginning of 2010.

33.

The Azores case is a good example of the gradual improvement of a programme on the basis of continuity.

The POSEI sub-programme for the Azores has been amended each year to make the measures to assist local agricultural products (MLAPs) more consistent with the strategy adopted by the regional government, in particular the incentive to diversify agricultural activities.

In this context, the competent authorities considerably increased the aid for alternative traditional crops, in particular sugarbeet, potatoes, chicory and tea (from 800 to 1 500 euro/ha in three stages in 2007, 2009 and 2011). The aim was to promote diversity of agricultural products compared with high-growth regional sectors such as milk and beef.

34.

The general objective of the Greek programme, whose financial dimension is much smaller than that of the POSEI programmes, is to guarantee the future of certain local products that are at risk of disappearing.

This involves a wide variety of measures mainly aimed at improving the very tough working conditions of farmers scattered over hundreds of small islands.

Given the variety of measures and the relatively small amount of financing available, it is difficult to implement a complex global strategy.

However, the Commission does agree with the Court that the Greek programme could be improved. It has proposed to the Greek authorities that they make use of the financing available as technical assistance (see the Commission's reply to point 27).

35.

The Commission considers that it does not need to micro-manage these programmes. However, it agrees with the Court that there is a need for consistency and effectiveness. The Commission has therefore embarked on consultations with the POSEI Member States in order to define a set of common indicators.

The guidelines for the initial programming were not, admittedly, formally addressed to Greece.

However, close contacts were maintained continuously with the national authorities before and during the preparation of the Greek programme, with the Commission assisting them in drafting their programme.

36.

During the reform, in accordance with the regulatory provisions and within the deadline laid down, the Commission examined the programmes to ensure that they complied with the applicable legislation before approving them.

REPLY OF THE COMMISSION

The Commission did not impose the content of the programmes because responsibility for establishing a programming strategy had been entrusted to the Member States as it was considered that they were in the best position to identify needs and define the most suitable measures to meet them.

As stated above, the Commission opted for continuity in order to facilitate the launching of the new programming process, in the knowledge that regular changes would have to be made afterwards to improve the programmes.

The Commission's definition of harmonised performance indicators was rendered very difficult by the novelty of this programming approach and the extremely different measures in each programme. The Commission therefore asked the Member States to define their own indicators.

Nevertheless, it quickly became aware of the difficulty of evaluating the results of these programmes in a uniform way because of the lack of common indicators. It therefore held consultations with the Member States concerned in order to identify a set of indicators covering the effectiveness of the measures to be used to evaluate all the programmes as of 2011.

38–39.

The programme amendments for 2009 were approved after the beginning of the year of application because there was not enough time to adopt approval decisions, since the deadline for submitting proposals for amendments had been set at 30 September of the previous year.

In the case of Spain, the amendment had been approved only in May 2009 because of the Commission's request to improve the action plan submitted in order to restructure the tomato-exporting sector, for which the Spanish authorities had proposed a very large amount of financing. Following the consultations with the Commission, the Spanish authorities introduced a more relevant and more structured restructuring plan, covering other measures such as the Canary Islands rural development programme.

This is an excellent example of the Commission actively cooperating with national authorities to make the proposed measures more effective.

The Commission agrees with the Court that there is some uncertainty as regards aid applications for measures where amendments to such measures were approved only a few months after the start of the application year.

This did not lead to any serious problems, however, for the following reasons:

- the deadlines for submitting aid applications were later than the dates for approving the amendments;
- producer organisations were aware of the scope of the amendments which had been approved;
- the Commission had asked the Member States concerned to ensure that no amendment which placed beneficiaries at a disadvantage compared with the previous situation should be applied retroactively.

REPLY OF THE COMMISSION

40.

In setting 1 August as the deadline for submitting proposals for amendments, the Commission's intention had been to promote legal certainty and ensure that the programme amendments were approved before the starting date for implementation. This new deadline also allows the Commission to help ensure the definition of more targeted and effective measures (see the reply in the previous point).

The Commission is aware, nevertheless, of the problems which bringing forward the deadline for submitting annual amendments causes for the national authorities.

It therefore intends to propose an amendment to Article 49 of Regulation (EC) No 793/2006 in order to reintroduce 30 September of year $n - 1$ for all the changes which do not require an approval decision.

Only the most important amendments (such as the introduction of new measures in programmes), which will still be approved by a Commission decision, should be submitted to the Commission by 1 August $n - 1$.

41.

Given the current regulation, and in the spirit of the political choice made during the reform, the Commission cannot force Member States to accept substantial changes to the measures they have proposed.

Informal contacts regularly take place, however, between the Commission and the national authorities with a view to discussing the content and the possibility of improving the programmes and measures proposed or to be proposed by the Member States.

43.

During the evaluation, an analysis was carried out to see to what extent the measures introduced to support local agricultural production helped to improve the competitiveness of local products. It transpired that competitiveness had improved or improved considerably in the outermost regions in 16 of the 24 sectors looked at. In the smaller Aegean islands, in the three sectors looked at, the measures played an important part in raising farmers' income and maintaining agricultural activities.

44–47.

The Commission agrees in principle with the Court, but would stress that it is Greece's responsibility to decide whether or not to make use of the options available in the context of conditionality.

Moreover, the recent evaluation of POSEI and of the measures for the small Aegean islands (PIME) confirmed the importance of the supporting role played by this aid, in particular for the many small farmers in the smaller Aegean islands:

'...(the aid) indisputably promotes the continuation of activities on small traditional farms, which account for the majority of olive groves in the PIME, by increasing their profitability and hence their revenue'.²

² Report on 'Evaluation of the measures implemented to support the outermost regions (POSEI) and smaller Aegean islands as part of the common agricultural policy', Oréade-Brèche Consultancy, November 2009, final report (volume 2), page 326, point 3.1.8.1.4.5.

REPLY OF THE COMMISSION

48–49.

The sub-measure 'Aid for innovation and quality of animal products in the Azores' is intended to diversify support for milk production in the Azores.

However, objective criteria concerning this sub-measure are in fact missing in the programme.

The Portuguese authorities explained that these criteria were the subject of specific provisions in local legislation (regulation on comparison of cows' milk (Order No 50/93) adopted by the regional government on 28 October 1993).

However, the Commission agrees with the Court that these criteria must be approved in the context of the POSEI programme. The Portuguese authorities have undertaken to submit the necessary amendments.

51–54.

As for all direct agricultural aid, the main objective of direct payments under POSEI (for banana producers as well) is to underpin farmers' incomes.

The environmental objective is not, therefore, the most important thing in the context of POSEI, which is mainly geared to preserving and developing agriculture in the outermost regions.

The fundamental objective of banana aid under POSEI is hence to preserve this traditional crop which plays a major socio-economic role in the outermost regions concerned and which would otherwise be in danger of disappearing.

This does not mean that environmental protection is not important. However, it is generally pursued through conditionality, which must be applied to all direct aid, and via the rural development programmes (agri-environmental measures).

Moreover, the environmental objective is indirectly supported in the context of POSEI banana aid by continuous funding for producers who have voluntarily undertaken to pursue an environment-friendly quality policy.

Because of the financial security provided by this annual aid, these producers can make improvements through investments and introduce environmental programmes such as the 'sustainable banana plan' established by producer organisations in the French Antilles.

The measures taken after Hurricane Dean, which destroyed most of the banana crop in Guadeloupe and Martinique in August 2007, also contributed to preserving the environment since lowering the production threshold giving rise to the payment of 100 % of the aid has resulted in the creation of fallow land in order to reduce soil pollution.

REPLY OF THE COMMISSION

55.

Under the POSEI programme, which does not provide for a direct link with the environmental objective (which is pursued, as is the case for all direct CAP aid, by means of conditionality and rural development), the definition of specific indicators is neither necessary nor relevant.

In the POSEI programme for France and Spain, the respective national authorities inserted the objective of introducing environment-friendly production methods in order to justify a lower production threshold than 100 % for the granting of aid. The evaluators thus analysed the effectiveness of the support tools chosen in relation to this objective. They concluded that it would be better to insert more indicators in order to monitor more systematically the progress achieved by the sector in this respect.

63.

The national authorities are responsible for choosing the arrangements for providing adjustment aid for the sugar industry on Reunion island. France therefore took the view that fixed-budget flat-rate aid was the most suitable option.

The possibility of paying national aid, in line with the regulatory framework, is an aspect of the POSEI programme which Member States are entitled to make use of.

67.

Mindful of the views expressed by the Member States concerned and the comments by the Court and the evaluators, the Commission intends to propose that the ceiling for the special supply arrangements (SSAs) be raised for France and Portugal, with the overall ceiling remaining unchanged.

Discussions on a possible increase in the SSA ceiling for Greece are in progress.

68.

The Commission's audit services check compliance with eligibility criteria, with the results being sent automatically to the Court. At the moment, the clearance procedures under way for the arrangements established after the reform are still in the bilateral phase, therefore the Commission does not yet have a final position.

69–70.

The integrated administration and control system is in fact one of the main instruments for verifying specific measures, but it is not the only one. For some measures where aid is linked to supplies of products for processing or marketing, other controls are envisaged.

Examples are the transactions between producers and producer organisations (bananas, local products), transport and/or weighing (sugar cane, bananas), veterinary checks (animals) and laboratory tests and analyses (wine).

REPLY OF THE COMMISSION

71.

The control arrangements adopted by Member States are checked by the Commission during on-the-spot audits. Any weaknesses or failures noted which jeopardise EU aid are dealt with during the account clearance procedure.

72.

The Commission audit service already pointed this out in Greece. The Commission took account of this in the investigations already completed and made financial adjustments. It has not yet adopted a final position on the investigations in progress, but this is the subject of one of the complaints made to the Greek authorities.

73.

Shortcomings in the past in terms of checking areas have been or are being dealt with in the account clearance procedure. The situation in Spain and Portugal has nevertheless changed because of the introduction of the geographical information system (GIS) and the fact that local inspectors have become familiar with measurement techniques using GPS.

74.

Methods to check that the economic advantage of SSAs has been passed on to final users have been introduced in all Member States.

However, the problem of measuring this must borne in mind, particularly in the case of raw materials entering the production chain of other products or which are processed before being sold to the final consumers.

The Commission is aware of these problems and knows there is no single method that is absolutely reliable. It therefore preferred to entrust to Member States the task of devising their own methods of checking whether the advantage was passed on. According to the information sent to the Commission, all the POSEI Member States are establishing price watchdogs to check whether the SSA advantage is in fact being passed on to final consumers.

These efforts should lead to an improvement in the information available. The Commission will assist the national authorities where possible.

Furthermore, the accounting and documentary checks carried out during on-the-spot audits have not resulted in any observations casting doubt on EU aid.

76.

The Commission is fully aware of its responsibility under the Financial Regulation, which is why it has worked with the national authorities since the autumn of 2009 (working group and questionnaire sent to Member States) to define common indicators for use in evaluating all the programmes concerned. The POSEI Member States were officially notified of these indicators by letter of 7 September 2010. The Commission will ensure that they are incorporated in all programmes from 2011.

REPLY OF THE COMMISSION

CONCLUSIONS AND RECOMMENDATIONS

79.

The Commission does not agree completely with the Court's comment and reiterates that the performance of a programme can be measured effectively only over a period of several years.

However, this does not mean that the Commission wishes to avoid its role of checking the effectiveness of aid programmes.

It regards the annual amendment process, involving implementation reports submitted each year by the Member States, as an important opportunity to rediscuss measures and their impact.

It will propose common indicators to the Member States to be communicated each year in order to obtain uniform information on the global performance of the POSEI programmes.

80.

The Commission is convinced that the approach introduced by the 2006 reform, involving the transfer of responsibility to the Member States to define programmes, is the best approach in this context, in accordance with the principle of subsidiarity.

The Commission therefore considers that it is not appropriate for it to take on the role of administrator of programmes in this respect.

Because this was a new approach, shortcomings emerged during the first few years of the strategy. The Commission considers, however, that the national programmes can be improved with experience.

It intends to send useful recommendations to the Member States in the report on the impact of the POSEI reform to be adopted in September 2010.

Recommendation 1

The Commission will continue helping Member States by spreading best practices.

In this context, it has proposed a harmonised framework of common indicators to monitor programme performance more effectively.

These common indicators include in particular information on economic developments (change in areas, livestock numbers and crops) and social developments (jobs).

However, the Commission feels that the indicator concerning the added value of crops could lead to the dissemination of data that is not particularly useful, given the variety of measures that have been introduced in the various regions.

REPLY OF THE COMMISSION

81.

The first of August was set as the deadline for submitting proposals for amendments in order to promote legal certainty and ensure that the programme amendments were approved before the starting date for implementation. This deadline also allows the Commission to help ensure the definition of more targeted and effective measures.

The Commission is aware, nevertheless, of the problems which bringing forward the deadline for submitting annual amendments causes for the national authorities.

For this reason, the Commission intends to propose that Article 49 of Commission Regulation (EC) No 793/2006 should be amended to make the annual programme amendments more effective and flexible.

See also the Commission's replies to paragraphs 38 to 41.

Recommendation 2

The Commission intends to propose an amendment to Regulation (EC) No 793/2006 to allow most of the amendments proposed each year by the Member States to be approved without having to adopt a Commission decision. In these cases, the date for submitting amendments can be postponed for two months, to 30 September of the year prior to the entry into force of the amended programme.

82(a)

Under current regulation, decisions on keeping olive trees within the framework of conditionality are the responsibility of the Member States.

82(b)

According to the information received by the Portuguese authorities, the criteria for applying the sub-measure 'aid for innovation and quality of animal products in the Azores', which are the subject of a regional regulation, will be set out in the POSEI programme for Portugal.

82(c)

Environmental protection is not a specific objective of the POSEI programme. Nevertheless it is pursued by means of conditionality, which applies to banana aid and to all direct aid under the common agricultural policy, and in the context of rural development programmes (agri-environmental measures).

82(d)

Flat-rate aid for the sugar industry supplemented by national aid is the actual method envisaged in the POSEI regulation.

82(e)

The Commission intends to propose raising the SSA ceiling for France and Portugal during the recasting of the POSEI regulation currently being adopted.

Discussions are in progress concerning a possible rise in the SSA ceiling for Greece.

Recommendation 3

The report on the impact of the POSEI reform will identify the most effective measures and the ones needing improvement; recommendations will be issued to the Member States.

REPLY OF THE COMMISSION

83.

Adapting Member States' monitoring arrangements to the specific measures is one of the aspects taken into account during audits performed by the Commission which, where necessary, asks for corrective measures by the national authorities concerned.

See also the Commission's replies to paragraphs 68 to 74.

Recommendation 4

The functioning of the control procedures set up by the Member States is checked on the spot by the Commission audit service. Whenever they notice any weaknesses or shortcomings likely to undermine the payment of aid, the Commission takes the appropriate measures during the clearance procedure and proposes suitable improvements.

Are the support programmes drawn up by the Member States and approved by the Commission monitored in an effective way?

The Commission proposed a set of common indicators to the Member States to be used to evaluate all the programmes.

The indicators were drafted in cooperation with the national authorities (working group and questionnaires sent to Member States).

The indicators concern the rate of cover of essential product needs by the special supply arrangements and by local production; a comparison of the prices in the regions concerned and in their Member States; changes in areas, jobs and livestock numbers; local production and processed products, and the added value of the latter.

The Commission will ensure that these indicators are introduced in all the programmes from 2011.

Application of these indicators will form a good basis for evaluating the progress in achieving the specific objectives of the POSEI and PIME programmes in the context of the more general objectives of the common agricultural policy.

Recommendation 5

The performance of the POSEI and PIME programmes, which comprise very different measures, does not lend itself to an in-depth global evaluation every year.

However, the indicators proposed by the Commission to the Member States will make for more effective annual monitoring of programme performance.

European Court of Auditors

Special Report No 10/2010

Specific measures for agriculture in favour of the outermost regions of the Union and the smaller Aegean islands

Luxembourg: Publications Office of the European Union

2010 — 59 pp. — 21 × 29,7 cm

ISBN 978-92-9207-950-5

doi:10.2865/71032

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THE SPECIFIC MEASURES FOR AGRICULTURE IN FAVOUR OF THE OUTERMOST REGIONS OF THE UNION AND THE SMALLER AEGEAN ISLANDS WERE CREATED TO TAKE ACCOUNT OF THE STRUCTURAL SOCIAL AND ECONOMIC SITUATION THEREIN. THE REGIONS' DEVELOPMENT IS SEVERELY RESTRAINED BY THE PERMANENCE AND COMBINATION OF A NUMBER OF FACTORS, IN PARTICULAR REMOTENESS, INSULARITY, SMALL SIZE, DIFFICULT TOPOGRAPHY AND CLIMATE, AND ECONOMIC DEPENDENCE ON A FEW PRODUCTS.

THIS REPORT EMPHASISES THE PROGRAMMING, IMPLEMENTATION AND MONITORING OF THE MEASURES. IT CONTAINS RECOMMENDATIONS INTENDED TO HELP THE COMMISSION AND THE MEMBER STATES CONCERNED IMPROVE THE WAY THE SPECIFIC MEASURES ARE MANAGED.



EUROPEAN COURT OF AUDITORS



Publications Office

ISBN 978-92-9207-950-5



9 789292 079505