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Contents

I *Information*

Court of Auditors

Special Report on the application of Council Directive 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas 1

II *Preparatory Acts*

Court of Auditors

Opinion of the Court of Auditors of the European Communities on the proposal for a Council Regulation introducing a tax on catches of salmon in the Baltic Sea by Community vessels 31

This issue closes the C series for 1980.

I

(Information)

COURT OF AUDITORS

SPECIAL REPORT

on the application of Council Directive 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas.

(Original language: French)

CONTENTS

Introduction

I.	General objectives — The Directive as an instrument of policy	3
1.1.1.	The provisions of the Treaty	3
1.1.2.	The objectives of Directive 75/268/EEC	3
1.1.3.	The Directive as an instrument of policy	3
II.	The system of aids under Directive 75/268/EEC	4
1.2.1.	Less-favoured areas	4
1.2.2.	Types of aids	4
1.2.3.	The compensatory allowance	4
1.2.4.	Development plans	4
1.2.5.	Joint investment schemes	5
1.2.6.	National aids	5
1.2.7.	Eligible expenditure and reimbursement	5
III.	The implementation of Directive 75/268/EEC	5
1.3.1.	Implementation of the Directive by the Member States	5
1.3.2.	Assistance from the EAGGF	6

Part one: The application of Directive 75/268/EEC

I.	The compensatory allowance	7
2.1.1.	Number of livestock units	7
2.1.2.	Forage areas	8
2.1.3.	Status of farmer	8
2.1.4.	Undertaking to pursue a farming activity for five years	9
2.1.5.	Receipt of a retirement pension	9
II.	Development plans	9
2.2.1.	Calculation of man-work units (MWUs)	9
2.2.2.	Comparable income	10
2.2.3.	Earned income	11
2.2.4.	Financing of the development plan	12

2.2.5.	Anticipated rise in incomes	13
2.2.6.	Implementation of development plans	13
III.	Joint investment schemes	14
2.3.1.	Eligibility	14
2.3.2.	Modes of application	14

Part two: The results of the aid

I.	The objectives	15
3.1.1.	Objectives of the aid according to Directive 75/268/EEC	15
3.1.2.	Suitability of the measures	16
3.1.3.	Supplementary national measures	18
II.	Assessment of the effectiveness of the aid	19
3.2.1.	Studies by the Member States	19
3.2.2.	Development plans and accounting	19
Conclusions		21
Comments of the Commission		23
Annexes		25

INTRODUCTION

GENERAL OBJECTIVES — THE DIRECTIVE AS AN INSTRUMENT OF POLICY

1.1.1. The provisions of the Treaty

Title II of the Treaty establishing the European Economic Community, on agriculture, has laid down the objectives of the common agricultural policy, the methods for its application, and the means by which it is to be achieved.

Article 39 provides that particular objectives of the common policy shall be:

- (a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labour;
- (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture.

The Article also specifies that in working out the common agricultural policy and the special methods for its application, special account is to be taken of the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions.

Article 42 adds that the Council may authorize the granting of aid for the protection of enterprises handicapped by structural or natural conditions.

1.1.2. The objectives of Directive 75/268/EEC

Directive 75/268/EEC is designed to reduce the disparity in agricultural income between the mountain and hill and less-favoured areas and other agricultural areas. The idea is to compensate for the permanent natural handicaps of areas which represent 25 % of the usable agricultural area of the Community, 15 % of all farms and 12 % of Community agricultural production, and thus to ensure the continuation and where possible the modernization, of agriculture in these areas.

The provision of distinct financial incentives within the structures policy was intended to avoid struc-

tural improvements being made primarily in the richer and more dynamic areas.

In the mountain areas, the high altitude means difficult climatic conditions and a shortened growing season; the slopes make mechanization of agriculture more expensive. In the less-favoured areas the soil is often poor, and the effort invested to improve yields may bear no relation to the expected results.

The continuation of farming in such areas thus depends in the end on the on the stubborn determination of the farmer. The aid that is available to him goes beyond the strictly agricultural to encompass conservation of the countryside, protection against erosion, satisfaction of leisure needs and the maintenance of a satisfactory density of population in areas threatened with depopulation.

1.1.3. The Directive as an instrument of policy

While the Regulation was the favoured instrument of the common markets policy, the Directive was chosen to put into practice the common agricultural structures policy.

Use of the Regulation to determine principles and their application leaves little freedom to the Member States, whereas the Directive is a more flexible tool.

It allows for the possibility that structural problems may differ in kind and degree between one area of the Community and another and for disparities in the situation of farms within the same area. These differences call for national and regional solutions, but at the same time they signify that the administration, above all the local administration, must be allowed a sufficient margin of discretion in each individual case. Article 1 of Directive 75/268/EEC states that the application of the measures provided for should take into account the situation and development objectives particular to each region.

Corresponding to this freedom of the Member States, within the framework of the Directives' aims, is the method of Community financing. The Community does not actually participate in the investment expenditure of the individual farmer, but reimburses a fixed percentage of his overall eligible expenditure for a given year.

The freedom of action allowed the Member States does have its limits: it must not lead to the restric-

tion or distortion of the Directives' objectives, but must on the contrary always serve to further those objectives.

II.

THE SYSTEM OF AIDS UNDER DIRECTIVE 75/268/EEC

1.2.1. Less-favoured areas

Article 2 of the Directive provides that the Member States communicate to the Commission the boundaries of the areas eligible for inclusion in the Community list of less-favoured farming areas, and also submit all relevant information concerning the characteristics of these areas and the measures proposed under the special system of aids.

The Directive applies to mountain areas (Article 3 (3)), to areas in danger of depopulation (Article 3 (4)) and to areas affected by specific handicaps (Article 3 (5)), which have adequate infrastructures. If basic amenities are lacking, their provision must be envisaged in the near future in public amenity programmes, for increase in income alone will not ensure the continuation of farming, and the Commission stresses that the socio-cultural aspects of living conditions should not be neglected.

1.2.2. Types of aids

Directive 75/268/EEC provides for four types of measures, which Member States may only apply in part:

1. compensatory allowance paid annually to the farmer whose farm meets the conditions laid down by the Directive;
2. aids for the completion of development plans: plans similar to those required by Directive 72/159/EEC but with less stringent qualifying conditions;
3. aids to joint investment schemes;
4. national aids.

1.2.3. The compensatory allowance

To qualify for this allowance, the farmer in a less-favoured area must have at least three hectares of utilized agricultural area and must undertake to pursue a farming activity in accordance with the aims of the Directive for at least five years.

The farmer is released from this undertaking in cases of *force majeure*, in particular if his property is subject to compulsory purchase or is purchased in the public interest, or when he receives a retirement pension. He may also be released from his undertaking if he ceases farming in the circumstances provided for in Council Directive 72/160/EEC (measures to encourage the cessation of farming and the reallocation of utilized agricultural area for the purposes of structural improvement).

The amount of the compensatory allowance depends both on the quantity of cattle, sheep or goats, calculated in livestock units (LSU) according to a conversion table, and on the area farmed. Cows whose milk is intended for marketing are taken into consideration in mountain areas, and in other areas when dairy products form an important part of farming activity. The Directive defines areas which are not eligible.

1.2.4. Development plans

Directive 75/268/EEC extended the scope of the aids provided for by Council Directive 72/159/EEC (on the modernization of farms) by making the conditions for granting aid more flexible and by extending the aid to new types of investment.

The aids allocated are mainly those laid down by Directive 72/159/EEC (priority to making available the released land, guarantees for the loans contracted and their interest, granting of a premium in the case of conversion to the production of beef and veal and sheepmeat, interest rate subsidy or the payment of the equivalent of this aid in the form of a capital grant or deferred repayments for certain investments required to carry out the development plan) but at more favourable rates.

Under the terms of Directive 72/159/EEC the development plan must show that, upon its completion, the farm will be capable of attaining, for each manwork unit (MWU), a level of earned income comparable to that received for non-agricultural work in the region in question.

Directive 75/268/EEC allows the compensatory allowance to be included in the income from agricultural activities, which, in the mountain and hill areas, must equal at least 70 % of the comparable earned income for one man-work unit.

1.2.5. Joint investment schemes

Aids may be granted to joint investments for fodder production and to improvement and equipment schemes for pasture and hill grazing land which is farmed jointly.

The Community's contribution to such expenditure may not exceed 20 000 u. a. per investment nor 100 u. a. per hectare of pasture or hill grazing land improved or provided with equipment.

1.2.6. National aids

Aids which are not chargeable to the EAGGF may be granted by the Member States to farmers in the less-favoured areas who do not fulfil the conditions of Directives 72/159/EEC and 75/268/EEC because they cannot attain the earned income required for the development plans.

The national aid scheme may never be more favourable than Community aid under Directive 72/159/EEC in the areas not regarded as less-favoured. The selective nature of Community aid for encouraging modernization in less-favoured farming areas must be respected.

Aid to investments for land improvement may not be granted on more favourable terms than aid in the same area and in the same circumstances to farmers who submit a development plan under Directive 75/268/EEC.

1.2.7. Eligible expenditure and reimbursement

The measures adopted by the Member States may only receive a financial contribution from the Community if the legislative and administrative provisions concerning them have been approved by the Commission.

The Community's financial contribution covers the eligible expenditure arising from the aids granted for the years 1975 and following.

Subject to the special conditions set out above, the EAGGF Guidance Section reimburses to the Member States 25 % of the eligible expenditure.

The reimbursement rate of the compensatory allowance was increased to 35 % for Ireland and Italy as from 1 January 1976 (Council Directive 76/400/EEC, OJ No L 108, 26. 4. 1976). The expenditure for the compensatory allowance, however, is not reimbursed where the farmer receives a retirement pension.

III.

THE IMPLEMENTATION OF DIRECTIVE 75/268/EEC

1.3.1. Implementation of the Directive by the Member States

The list of decisions of compliance taken by the Commission and in force in 1979 are given in Annex V of this report.

Belgium has marked off about 350 000 hectares as less-favoured areas threatened with depopulation, i.e. about 11 % of the territory. It applies all three measures of Directive 75/268/EEC, in particular the compensatory allowance at the following rate (in 1978): 40.5 u. a./LSU for the first 10 LSU and 30.4 u. a. for the following 10 for a maximum of 20 LSU per farm.

Denmark has not defined any less-favoured areas. The Directive is therefore not applied in this Member State.

The Federal Republic of Germany has defined about 4 million hectares as less-favoured areas, i.e. about 16 % of its territory, mainly under Article 3 (4) of the Directive. There are, however, mountain and hill areas and a number of areas within the meaning of Article 3 (5) which are relatively large. The total represents a little more than 30 % of the agricultural area of the Member State. The compensatory allowance was paid in 1978 at a rate varying between 26.4 u. a./LSU and 35.2 u. a./LSU according to the region, but only in the mountain and hill areas and 'Kerngebiete' (central areas) of the less-favoured areas. All three measures are being applied.

France has marked off about 10.6 million hectares as less-favoured areas, i.e. 35 % of the total agricultural area. These areas comprise hill areas, areas as referred to in Article 3 (4), and areas with a special

handicap. France granted the three categories of aid laid down by the Directive, the compensatory allowance being paid at a rate equivalent to 34.5 u. a./LSU (1978 rate).

In *Ireland* the less-favoured areas within the meaning of Article 3 (4) cover 3.5 million hectares and represent 50 % of the total agricultural area of the country. All three measures of the Directive are applied and in 1978, the compensatory allowance varied between 18.7 and 27.2 u. a./LSU for a maximum of 30 beef cattle and between 34 and 45.4 u. a./LSU for sheep.

Italy has marked off about 16 million hectares, i.e. 53 % of its territory, mostly mountain and hill areas and areas threatened with depopulation, and also some small areas and islands affected by a special handicap. All three measures are in force. The compensatory allowance (1978 rate) varies between 16 and 52.5 u. a./LSU with a ceiling per hectare but the rates are set by the regional authorities.

For *Luxembourg*, apart from the wine-growing areas and the city itself, the whole country was declared a less-favoured area within the meaning of the Directive, i.e. a little over 90 % of the total surface area of the Member State. The compensatory allowance has been applied since 1976 for a short period. The rest of the provisions are due to enter into force shortly.

The *Netherlands* recently marked off several small areas with specific handicaps representing 13 000 hectares, i.e. about 0.4 % of the country. The compensatory allowance will only be applied following the Commission Decision of 17 April 1979.

In the *United Kingdom* practically all the mountain and hill areas defined prior to its accession to the Community were marked off, i.e. 7.6 million hectares or 40 % of the total farming area. At present there are no areas with a special handicap and the few mountain and hill areas are already included in those of Article 3 (4).

All three measures are applicable and the compensatory allowance was paid in 1978 at a rate of 49.4 u. a./LSU for beef cattle, 40.9 u. a./LSU — 32.4 u. a./LSU for sheep. There are also ceilings for beef cattle and sheep per hectare.

1.3.2. Assistance from the EAGGF

The table below, based on the applications for reimbursement submitted by the Member States up to December 1979, shows, by country, the number of recipients of the compensatory allowance and the total number of joint projects approved at 31 December 1979.

Member State	Recipients of the compensatory allowance in 1979	Joint projects approved at 31. 12. 1979
Belgium	11 696	311
Germany	90 026	244
France	99 199	177
Ireland	105 439	3 674
Italy	31 344	66
Luxembourg	3 820	—
United Kingdom	46 246	72
Total	387 770	4 544

The Member States do not give the number of development plans specifically in mountain and hill areas or less-favoured areas but include them in the total number of development plans approved application of Council Directive 72/159/EEC on the modernization of farms.

The total number of development plans approved for the period 1972 to 1979, including those in normal areas, was 54 149: 3 406 in Belgium, 23 621 in Germany, 4 820 in France, 9 092 in Ireland, 109 in Italy and 13 101 in the United Kingdom.

The distribution by Member State and by type of aid of the reimbursements effected by the EAGGF (Guidance Section) up until 31 December 1979 for the application of Directive 75/268/EEC is as follows:

(in 1 000 u.a./ECU)

Member State	Title II Compensatory allowance	Title III Development plans	Title IV Joint projects	Total	%
Belgium	5 376	114	179	5 669	2.5
Germany	33 746	7 106	282	41 134	18.1
France	53 524	1 927	183	55 634	24.4
Ireland	30 553	1 635	280	32 468	14.3
Italy	2 016	—	321	2 337	1.0
Luxembourg	517	—	—	517	0.2
United Kingdom	35 755	4 204	21	89 980	39.5
Total	211 487	14 986	1 266	227 739	100.0

PART ONE

THE APPLICATION OF DIRECTIVE 75/268/EEC

I.
THE COMPENSATORY ALLOWANCE

2.1.1. Number of livestock units

Checks on the number of livestock units (LSU) vary greatly from one Member State to another.

The Irish authorities made provision for a comprehensive annual physical check of the animals declared. In the case of beef cattle, an inspection is carried out at each farm which submits an application. An on-the-spot visit confirmed that inspection was as to the animal's identity card, the number of this card shown by a stamp attached to the ear and the quality of the cow, which should be a recognized breed. The cards are stamped in a different way each year.

The inspection of sheep is entrusted to mobile inspection centres consisting of a four-man team, whose task is to check all the animals individually in order to prevent the allowance being paid in respect of sheep which do not qualify. The inspection also involves examining the incisor teeth of the yearling sheep and the quality of the wool. The qualified sheep are marked on the ear to prevent them being sent to another inspection centre.

— In the United Kingdom the on-the-spot inspection is annual for beef cattle and approximately every three years for sheep. The checks are mainly on the herd or flock and as a secondary consideration on the actual number of animals. The administration generally takes as a basis the herd or flock as a unit.

Instructions from the national authorities contained the remark that such a practice may prove difficult when beef cattle have been slaughtered following an epidemic and when there is a delay in their replacement. Leaving assessment to the discretion of the local official may lead to payment of the compensatory allowance on the basis of what are called 'ghost cows'. The sheep to be taken into consideration are judged in terms of the development of the flock (births, sales, etc.).

From the examination of 20 files on aid recipients during an on-the-spot audit, it was found that the inspections had excluded in one case replacement heifers, in another, sheep which had not grazed on eligible land and in a third, a cow which had not been replaced within two months. The aim of maintaining the quality and health of the animals also led the departments of the Member State to carry out inspections on several occasions at a producer who was obtaining poor results, in particular an inadequate lamb birth-rate, and to reduce the amount of aid.

The other Member States cross-check by sampling mainly on the basis of veterinary indexes, agricultural surveys and tax statements. It is generally more difficult to inspect the sheep than the cattle due to the greater fluctuation in the number of animals and the lack of vaccination. Checks are thus incomplete. They are often limited to particular cases which show considerable changes from one year to the next. In this connection, it was noted that in France the number of livestock units together with the name of the recipients are not always displayed at the town hall as stipulated by the internal rules.

2.1.2. Forage areas

Forage areas include land farmed by the owner or by a tenant and jointly farmed mountain or summer pastures.

Evidence of the ownership of the land is established by official documents: land registers, title deeds and tax statements are examined.

It is more difficult to make checks on rented land, on the other hand, due to the existence of numerous oral contracts.

In Belgium it was possible to carry out a cross-check on the basis of tax statements: the conflicting aims of declarations for tax and for aid purposes should in principle act to limit the risk of false statements.

The same idea prompted the Directorates of Agriculture of the Départements in France to seek the cooperation of the 'Mutualités sociales agricoles' (agricultural insurance companies) which draw up an index of the areas farmed on the basis of the statements of their members. These are obviously voluntary statements with limited probative value.

During two visits to Germany the practice adopted by the administration of the Länder of Hessen and Bavaria of comparing the recipients' statement on the compensatory allowance with their application for a subsidy for gas oil was noted. Here again the beneficiary's voluntary statement is compared with another made previously.

It was explained that this administrative practice is an adequate safeguard against fraud or errors and that, where need be, additional information is available to the local administrative departments, in particular with regard to the livestock units where, for

example, a check of vaccinations and thus of the number of animals is still possible. This is not to say that these intricate cross-checks are carried out regularly; recourse is had to them rather in cases of doubt.

Attempts by the administrative departments to obtain documentary evidence of the amount of land actually at the recipients' disposal meet with various difficulties. The considerable increase in the value of the land, even in the less-favoured areas, had led owners not to sell what they own, but to make the land available to their neighbours without a formal lease. The recipient may have the use of the land which he claims to farm on a more or less continuous long-term basis, without, however, being able to show documentary proof, and without the situation always being clear at a given time.

Arrangements of this nature were found in Germany and in Luxembourg. It is not without practical consequences: inspection of the files at the head office of the Luxembourg administration revealed 82 cases where recipients had stated that they farmed areas varying between three hectares (minimum area for payment of aid) and four hectares.

There was insufficient proof for the eligible areas of each recipient as to their freehold or leasehold title to the land or as to the length of their leases, if genuine. The national administration stated that there has not up to now been any check on the areas declared. The problem has been successfully dealt with in the United Kingdom where registers of the eligible land within each farm have existed for about thirty years.

The customary practices in respect of mountain pastures or common pasture land pose particular problems from one Member State to another and sometimes from one region or even one valley to another. Generally, a close watch is kept on over-grazing, in particular in the heathland areas of Ireland and the United Kingdom where inspections are carried out to ensure that the required minimum of three hectares of usable agricultural area is maintained and to exclude intensive farming or stock-trading.

2.1.3. Status of farmer

Article 6 of Directive 75/268/EEC requires that the recipients of the compensatory allowance pursue a farming activity.

The purpose of this provision is to bar persons who only have a house in the country or whose professional activity is not of an agricultural nature

(tradesmen for example) from receiving the aid. It does allow the granting of aid to farmers for whom farming is a secondary activity (part-time farmers). It should be noted however that in France the national law grants aid only to farmers who practise farming as their main occupation.

The fact that one is a farmer can generally be verified by cross-checking tax statements of the files of agricultural social insurance companies.

The French overseas departments pose a particular problem by reason of their geographical, demographic and economic situation. The conditions for the application of the compensatory allowance are not suited to the kinds of farm in these areas. The farmers are rarely the same from one year to the next in the same village. It has also proved difficult to identify animals and forage areas.

2.1.4. Undertaking to pursue a farming activity for five years

Monitoring the commitment to pursue a farming activity for five years gives rise to problems in the interpretation of Article 6 of Directive 75/268/EEC. Some Member States (Belgium, Germany) consider that the commitment always takes effect from the first year of the receipt of the allowance whereas others (France, Ireland, United Kingdom) provide for a renewal of the commitment each year for a new period of five years — a considerable difference in the application of the provisions of the Directive.

The obligation also lends itself to other interpretations. Thus, on the examination of the individual files of the recipients, cases were recorded of the leasing out of farm land or where stock-farming but not crop farming had been abandoned. Sometimes interested parties (heirs, relatives) had taken over the obligation to pursue a farming activity for five years.

The commitment is subject to monitoring by the Member States. The administrations with computerized records generally carry out a systematic check on the recipients who have not renewed their application. Mention should be made here of the Irish practice: a form is used covering four cases where

the beneficiary is absent (death, retirement, transfer of ownership, assignment of farm).

It must be recognized that the obligation to pursue a farming activity for five years varies in significance from one region to another, as the population in some of the less-favoured areas show less interest in the prospect of leasing the land, in view of the present lack of jobs in the non-agricultural sectors.

Moreover, problems of monitoring compliance with this condition will mostly arise at a future date, after payment of the compensatory allowance has ceased; these problems will relate to knowledge of the changes in the farmers' situation and also to the effects of any non-compliance with the obligation to pursue a farming activity for five years, since Directive 75/268/EEC does not contain any provisions in this respect.

2.1.5. Receipt of a retirement pension

Article 15 of the Directive provides that '...this expenditure (relating to the compensatory allowance) shall not be eligible for reimbursement where the farmer receives a retirement pension.' During a visit to Ireland it was found that this Member State submitted for reimbursement by the EAGGF aids granted to farmers receiving pensions paid by private or semi-public employers (Aer Lingus, County Councils...).

From the information obtained on this occasion it appears that the Irish retirement pension scheme includes 'old age pensions', 'occupational pensions' and 'service pensions'. The first category actually represents an income supplement for persons who do not have the minimum means of subsistence. The second is universally recognized as a retirement pension scheme; whereas the third, which covers military, naval, customs and police personnel and is paid primarily in consideration of the special nature of such employment, is not considered by the Member State as a retirement pension scheme.

The Commission has not yet adopted a position on this question, which is also likely to arise in other Member States.

II.

DEVELOPMENT PLANS

2.2.1. Calculation of man-work units (MWUs)

The calculation of man-work units (MWUs) per farm is based on two factors: the staff employed on a permanent basis and the number of hours worked declared in a year. Article 4 (5) of Directive 72/159/EEC lays down that upon completion of the plan, the level of income must be attainable by means of an annual working period not exceeding 2 300 hours.

The maximum of 2 300 hours is also used, however, at the beginning of the plan to calculate the number of MWUs. In fact, the average duration of the work in farming is usually considerably higher than 2 300 hours per year. The number of working hours is always determined on the basis of standard figures, at times more detailed and at times less. Experience has shown that in general the actual working time to be taken into consideration at the beginning of the plan exceeded 2 300 hours.

Consequently when the plan is drawn up a person engaged in farmwork is given an MWU value higher than one. The discretionary margin, which is between a single and a double unit, will result in slight adjustments. The level of comparable income per MWU, which then has to be divided by 1.2 or 1.5 or 1.8, will be reduced proportionately and will thus allow farmers whose income is higher than the comparable income to meet the requirements for development plans. Paradoxically, if other adjustments are not made, this provision of the Directive is likely to prevent those farmers who cannot obtain the comparable income with 2 300 hours, but who are prepared to work much longer hours, from benefiting from a development plan.

The difficulty of monitoring the combination of person and hours worked justifies flexibility in the number of MWU, and this in turn allows sufficient reduction in income per MWU at the beginning of the plan and the reverse on its completion. This situation arises in almost all the Member States.

Article 4 (1) of Directive 72/159/EEC, in order to exclude farms with a large work-force, provides that upon completion of the plan the income attained should be 'in principle for either one or two man-work units'. France has fixed the maximum number of MWU at three. The other Member States in general accept horticultural holdings requiring a sizeable work-force, since the wording of the Directive does not contain any compulsory limits.

2.2.2. Comparable income

Comparable income is defined in Article 4 of Directive 72/159/EEC as the average gross wage for a non-agricultural worker. It is the level of earned income per MWU which the development plan, on completion, should make attainable in order to qualify for aid. The comparable earned income is determined on the basis of statistical information and an annual percentage increase in this same income is also laid down so that the comparable income on completion of the development plan can be determined.

Directive 72/159/EEC did not specify how the comparable income was to be calculated. Comparisons are made either on the basis of gross or net incomes.

The comparable income and its estimated annual rate of increase are determined differently in each Member State.

In *Belgium*, the Institute for Agricultural Economics determines the two figures on the basis of data supplied by the National Institute for Statistics, which also appear in the economic reports of the Central Bank and which are updated periodically. These figures are not broken down by region.

In *Ireland*, the Ministry of Finance, on the basis of the latest information available (job survey in 1977 in the national income and expenditure accounts), draws up forecasts and estimates of these two sets of figures, which are updated and broken down by region.

In the *United Kingdom*, the Ministry of Agriculture uses statistical data from the Department of Employment, which it updates by means of an annual percentage increase figure. There are two amounts, one for Great Britain and one for Northern Ireland.

In *France*, the methods used are similar; the average gross salaries are calculated by the National Institute for Statistics and Economic Studies by Département. Here again these are 1974 figures which have been updated by use of a percentage increase. This results in several sets of figures, for the Départements, the regions and the country as a whole, among which the Départements responsible for the approval of the plan may choose. The percentage increase of the comparable income is determined by Département, after hearing the opinion of the Joint Committee. There is thus quite a heavy emphasis on the regional aspect of the income.

In *Germany*, the comparable income is the regional average wage determined in the 1969 job survey and

updated by a single percentage figure for the federal territory through collaboration between the Länder and the Federal Administration.

In *Italy*, the Institute for Statistics provides the comparable income for each of the regions on the basis of the average remuneration figures.

The incomes and percentage increase figures are communicated each year by the Member States to the Commission which approves them in the same way as it does the other national legislation for applying Directives. The Commission is, moreover, in a position to monitor the veracity of these figures to some extent, by means of the statistical information it has at its disposal. It also makes sure that the national methods of calculation do not deviate too much from each other.

The comparable incomes by Member State are as follows:

Ireland:

income for:

Dublin	£ Irl 4 760
Eastern Region	£ Irl 3 883
Western Region	£ Irl 3 340

United Kingdom:

income for:

GB	£ 4 200
Northern Ireland	£ 3 885

France:

the national average of the various departmental, regional and national incomes only, excluding Paris and its outskirts:

FF 43 900

Germany:

the federal income is divided into 31 regional territories of which the national average amounts to:

DM 26 000

Belgium:

the comparable income is not broken down by region:

Bfrs 471 000

Italy:

the income is by region. Example: the income of the Trentino region:

Lit 6 242 000

Luxembourg:

not given.

Emphasis should be made of the wide range of possibilities offered by the methods of determining the comparable incomes and the percentage increase figures; the choice of a high level for the comparable income enables wealthy farmers to benefit from the scheme; whereas the choice of a lower level allows farmers with lower incomes to also submit development plans.

2.2.3. Earned income

Earned income can be easily calculated at the beginning of the plan where the farmer already keeps accounts. From the information obtained by the Court of Auditors, however, 80 to 90 % of the farmers who submit a development plan do not keep any accounts or have only an incomplete and sporadic record of their sales and purchases.

To cope with this situation, the Member States have laid down standards which compensate for the absence of even summary accounts. In so far as they follow technical development quite closely and take into account the particular situation of each farm (isolation, poor location of the farm buildings), the use of these standards has proved relatively useful.

This is not the case, however, for other factors such as the average yields per hectare, the average prices obtained per crop or animal. The only readily recognizable factor is the income arising from the sale of milk, which is obtained from the records kept by the dairies or sent to the farmers. The other factors are virtually 'reconstructed'.

In this respect, it was found during a visit of inspection to the United Kingdom that the recipients had the choice between submitting their certified accounts, which may date back 18 months (if two financial years happen to end within these 18 months, since agricultural accounts do not all begin on 1 January, the recipient could use figures from 2½ years previously) and using the standard data method.

The latter method is preferred by the farmers who state the areas that they farm and the number of animals comprising their livestock. These figures are multiplied by an average rate and the total of the various products is then given a reduction factor, which is also an average figure. The rates and reduction factors are based on the averages of the three previous years.

The calculation of the agricultural income results, under these circumstances, in figures being used which are not up to date and which are lower than reality, particularly during a period of inflation. The figures used in the United Kingdom are based on a representative sample of 2 300 farms (Farm Management Survey) which is not, however, sufficiently detailed or broken down by region.

It was noted that the use in the United Kingdom of certified accounts as were occasionally found in the files, would considerably reduce the number of recipients, by revealing that their income is too high for them to be eligible for the development plan scheme. The use of reduction factors by crop was a first step in 1979 towards a more realistic assessment.

Although certain Member States have taken precautions in this respect, it nevertheless occurs that farmers choose a bad year for harvests (1976 drought and 1978 humidity) upon which to base their starting income.

Here again, the only answer is to request submission of the final accounts of several previous financial years. Since this obligation does not appear in Community legislation it is often left to the discretion of advisers to carry out reasonable cross-checks between the results of the various 'assessed' or 'reconstructed' financial years.

Article 2 (2) of Directive 72/159/EEC recognizes the case of farms whose structure is such as to jeopardize the maintenance of that income at a comparable level, as known at the time the application for a development plan is made. The 'danger' threshold above which so-called 'at-risk' farms may benefit from development plans varies from one Member State to another, and is, for example, 10 % above the comparable national income in France and 20 % in Germany. In most of the plans examined in this category in Germany the reasons for the classification as farms 'at risk', which has the effect of exempting them from the conditions of Article 2 (2) first sentence ('its level of earned income is below that fixed, ... as the modernization objective') of Directive 72/159/EEC, do not appear in the file; some older plans also show a starting income far higher than the comparable income.

In Bavaria there were several cases of development plans where the starting income was 45 % or even 60 % higher than the comparable income.

For two years, however, Germany has made access of this category of farm to the development plan

scheme more difficult by fixing a ceiling of 30 %, which was later lowered to 20 %.

Knowledge of the recipients' earnings from non-agricultural activities is equally poor. In the course of a visit to the autonomous province of Bolzano, it was found that their administration included income from the tourist trade in the agricultural earnings, whereas Commission Decision 78/867/EEC had taken care to specify that the incomes mentioned under Article 10 (5) (agricultural-tourist trade income) are not considered as income earned from work within the meaning of Article 4 (1) of Directive 72/159/EEC. Accurate figures of these incomes, which are exempt from tax, are not available. In fact, the administration continues to apply the more flexible conditions of the former green plan.

2.2.4. Financing of the development plan

The preparation and the experience of the adviser or of the organization which draws up the development plan are obviously of vital importance, particularly with regard to examining the financing of the development plan, and as a general rule the national administrations have based their system of pre-approval examination on the adviser's sound knowledge of his region and of the farms which he has to visit. The administration is, however, often unaware of several basic facts. This is the case, for example, with regard to the indebtedness of the recipient.

In the Alto-Adige region, Article 8 (2) of the Law of 23 December 1976 authorizes the replacement of the interest subsidy by a 'half-yearly aid'. This covers cases where the recipient states that he has borrowed money from a member of his family and on the basis an aid equivalent to an interest subsidy 12 % is paid to him. Further details have been requested from the Italian authorities on the measures taken to ensure that such loans and the interest charges on them are genuine.

Usually the administration is only aware of loans prior to submission of the plan if they have been taken out with an agricultural credit institution which would need to decide whether to accept or to refuse a new financial contribution for the development plan.

Thus in France, alongside the administrative file, the regional offices of Crédit Agricole draw up a financial file containing a study of the investments planned and their financing. The principal financial ratios are examined and, in particular, the difference between the working capital and the fixed assets should always be positive throughout the duration

of the plan and a satisfactory balance between own capital and debts is sought so that on completion of the plan, own capital represents at least 50 % of the working capital. The state of indebtedness prior to the plan is also taken into consideration. The departments of agriculture of the Départements also examine non-agricultural income and debts, since this additional information makes it possible to assess with greater accuracy the likelihood of success of the intended plan.

2.2.5. Anticipated rise in incomes

The projections (areas, yields, prices...) are automatic and anticipated productivity gains greatly exceed increases in the cost of financing over the same period, which makes it possible in theory to achieve the objective of the parity of incomes. The estimates are based on constant figures, of expenditure and of revenue, and the prices of fertilizer and cattle-food remain fixed as does that of output.

Most of the plans envisage more intensive farming, which requires a sound knowledge of the land and of its potential. The expected yields should be reasonable and take into account the farmer's technique, and whether the forage rotation itself is compatible with the possibilities of using the land. These factors are not always examined in detail in the Member States and very optimistic yields have been noted in numerous plans.

When the increases given in the development plans are due to an increase in the cultivated area, the recipient should, in principle, provide some assurance that he will have the additional land. In certain areas of the Community, formal evidence is hard to come by for the reasons already mentioned when dealing with the compensatory allowance. As was found during a visit to the Land of Hessen in Germany an administration will endorse this state of affairs by claiming that it has taken note of the leases — and is then unable to state their length.

2.2.6. Implementation of development plans

The farmer whose development plan has been approved must keep accounts and send in annual statements so that an assessment can be made of his efficiency and of the progress of the plan.

It is thus necessary to examine whether the accounts actually exist, by whom they are kept, whether they are inspected, and whether they occasion a reconsideration, or at least some adjustment to, the plans.

In the Trentino Alto-Adige region, in spite of the existence of development plans, no aid has been given for the keeping of accounts. The national administration did not provide any information about the measures taken to implement this type of aid and to ensure that the recipients fulfil their obligation in this respect.

The accounts are rarely kept by the recipient himself; they are entrusted to various administrative or private organizations who use data-processing methods and the cost ranges from exemption from payment with an adjustment of the premium granted (Belgium) to relatively high amounts (France and Germany).

The intervention of third parties, even if it appears inevitable, involves the risk of deviating from the basic aims of Article 11 of Directive 72/159/EEC, which is to ensure that the farmers are well enough informed about the operation of their farms to be able to decide upon any subsequent course of action on the basis of accounting data.

Furthermore, although Directive 72/159/EEC (Article 11) provides for a follow-up of the accounts, it does not specify the extent of supervision by the Member States, nor the consequences of finding results which do not comply with the plan.

The follow-up of accounts and the implementation of plans has thus been effected by the Member States with all the freedom afforded by the Directive and again a distinction should be made between the official procedure and its actual application.

In France, the supervision is, at present, the responsibility of the Departmental Directorates for Agriculture (DDA). Within the time and resources available these have begun to organize a follow-up of the development plans; for its part, the central administration is currently drawing up a working document on this subject.

Examples of follow-ups that were examined during the audit reveal that they tend to take the form of a regular discussion with the recipient.

In the United Kingdom the 'Agricultural Advisory Officer', the author of the plan, is responsible for looking over the annual statements on uniform documents provided for by the central administration: this agricultural adviser then reports to the Divisional Officer prior to payment of the premium.

In other Member States the problem of the follow-up of accounts has not yet given rise to detailed instructions, although Belgium has made provisions for such a system.

In general, the follow-up of accounts is provided for in administrative circulars but during its on-the-spot audits the Court of Auditors noted that the administration only rarely kept a record of its contacts with recipients who are not progressing according to plan, and to whom it needs to give advice and guidance.

The audits in Great Britain and in Germany have revealed that the circulars and instructions of the Member States do not oblige the administrations to satisfy themselves by official on-the-spot inspections that the plans have actually been carried into effect. In fact, particularly in the case of major projects, the farmers do receive occasional visits from the advisers or officials. Of the 40 files examined in Great Britain, however, only one included an inspection report drawn up in due form, inspection having been carried out in the majority of cases in an informal manner.

III

JOINT INVESTMENT SCHEMES

2.3.1. Eligibility

Directive 75/268/EEC has not laid down any special framework for the aids provided for under Article 11 with regard to joint investments for fodder production and improvement and equipment schemes for pasture and hill grazing land which is farmed jointly, except to set a minimum contribution of 20 000 u. a. per joint investment and 100 u. a. per hectare of improved or equipped grazing land or mountain pasture.

In all the Member States which have granted aids for such investments, a contract of association is required from the recipients in order to establish the collective nature of the investment. The minimum number of members is generally set at three and the duration of the contract must be at least five years.

Community legislation has not provided for any check on the agricultural or collective nature of these projects, nor for a minimum number of participants or minimum duration of the association, nor for any list of investments eligible for EAGGF aid. This lack of a framework means that it is possible to grant aid to short-term associations, to investments which are easily divisible or spread over several farms, to investments which have little effect on fodder production . . . The audit thus aims to check that joint use is or will be made of the investments, that the investments are of sufficient duration and that they do concern the forage sector.

The investments were found to be mainly directed to increasing fodder production, the construction or improvement of the installations required for the harvest and storage of fodder, the purchase of various materials for the cultivation, use and management of forage land as well as the equipment improvement of pasture land which is farmed jointly.

2.3.2. Modes of application

During the on-the-spot visit to Italy, it was found that Law No 62 of the autonomous province of Bolzano, of 23 December 1976, approved by the Commission in application of Directive 75/268/EEC, did not provide for any aid within the meaning of Article 11 of Directive 75/268/EEC. This was explained by the existence of an earlier provincial law providing for the type of aid in question which had not been submitted for the Commission's approval. Nonetheless, the aids paid under that law have been submitted for reimbursement to the EAGGF, which made a payment on account (75 % of the anticipated aid) for operations not provided for by the regulation that it had approved.

The Belgian legislation was approved by a Commission Decision; the latter nonetheless considered, rightly, that the construction of separate silos in each farm, even if it was a joint operation, cannot be considered a joint investment within the meaning of Article 11 of Directive 75/268/EEC.

Some investments for the purposes of tourism, such as barns converted into chalets for excursion parties, also involve a considerable danger of misuse of funds. Others appear more linked to civil engineering work than to the objectives of Article 11 of Directive 75/268/EEC.

On a visit to Ireland, it was found that the follow-up of a fodder producers' group had been somewhat neglected. In Ireland the law has been tightened to prevent aid being granted for investments which are not of a clearly joint nature. Since 1978, at least three members are needed to form a group. It was

also noted that the subsidy had been paid to the secretaries of groups without evidence being required that the funds had been distributed between the members of the group. There are many joint investments in Ireland (2 140 out of a Community total of 2 407).

PART TWO

THE RESULTS OF THE AID

THE OBJECTIVES

3.1.1. Objectives of the aid according to Directive 75/268/EEC

(a) *Specific objectives*

The common agricultural structures policy seeks essentially to assist and guide the process of structural adaptation of agriculture. In this sense, it aims to intervene actively in structural changes, since the natural process of adaptation of production has not proved sufficiently flexible to prevent or limit considerable disparities in income.

For these reasons, some measures encourage the cessation of farming (72/160/EEC: annuity granted on departure), while others seek to increase or improve production factors which, rightly or wrongly, appear inadequate (72/160/EEC: making available of land released, 72/159/EEC: capital, 72/161/EEC: occupational training).

These general objectives favour development of the profitable farms (development plans: Directives 72/159/EEC and 75/268/EEC). A premium for economic growth is granted with pronounced preference being given to farms suitable for development.

Moreover, it is planned to bring agricultural incomes up to the level of non-agricultural incomes. With regard to the less-favoured areas, even higher aid is given to farms suitable for development, since there is the double goal of reaching the level of both non-agricultural incomes and of agricultural incomes in normal areas.

The compensatory allowance for natural handicaps, which is based on surface areas and number of animals, is intended, by granting an additional income to the recipients, to slow down the depopulation of farming and rural areas.

The measures laid down in Article 11 of Directive 75/268/EEC complete the system by opening the way for improved fodder production, which is a basic economic resource in the less-favoured areas. The Directive also aims to encourage the conservation of the countryside. This objective was not clarified by the Council and in fact it appears to a greater extent in the preamble to the Directive than in the provisions themselves. Except in the case of erosion or avalanches, the lack of conservation does not necessarily have an adverse effect on the countryside. It should, moreover, not be forgotten that in nature reserves farmers are required to work the land in such a way as not to lead to its deterioration. A practice of this kind was noticed during an on-the-spot visit in the United Kingdom, where the authorities responsible for preserving a site were granting annual financial compensation to a farmer who had not been authorized to work some 100 hectares.

Conservation of the countryside (and the idea that nature must not be left to itself and that land can suffer in various ways from lying fallow) can encompass a whole range of non-agricultural uses of the land, particularly as forest land, whose implementation would require a combination of measures in all the following fields: regional planning, property, agricultural engineering, protection of the environment and thus of fauna and flora.

The only measures of this kind appearing in Directive 75/268/EEC are those relating to tourism and craft industries (Article 10), which could be linked indirectly with such an objective.

(b) *Relationship between objectives*

The objectives outlined above should complement each other as well as all the other objectives of the common structural policy and those of other Community actions.

1. In this way, the aid given to farms wishing to develop normally has a positive effect on the increase in the production of certain products of which there may be a surplus in the Community. This danger exists in respect of milk production, as the less-favoured areas, particularly on the Continent, are traditionally geared towards milk production which is carried out under particularly difficult conditions, at higher costs than elsewhere. Moreover, in certain Alpine regions the milk produced is processed into relatively expensive high-quality cheeses, which face competition from similar products from areas receiving milk production subsidies by means of intervention measures.

It should be noted that the milk co-responsibility levy is not applied in the less-favoured areas, which illustrates how the objectives are modified to accommodate specific priorities.

2. There is also the question of whether the objectives behind the compensatory allowance and in particular the desire to maintain a minimum population level in certain areas do not run counter to those of Directive 72/160/EEC which aims to encourage the cessation of farming and to release land. In many cases a farm in a less-favoured area would require additional land, especially in order to practice extensive farming.
3. Similar questions arise with regard to the harmonization of the objectives with those pursued in social or regional policy. For example, payment of the compensatory allowance could be concentrated more in areas where there are no outlets in non-agricultural jobs.

It is true that the wide variety of situations necessitates an approach taking into account specific regional or local factors, or even matters peculiar to the farm in question. But it is also the case that the provisions in force do not always provide an order of priority in the objectives to be attained.

3.1.2 *Suitability of the measures*(a) *The compensatory allowance*

The compensatory allowance consists of an annual payment based on the agricultural area utilized and the number of animals held (cattle, sheep, goats). Is a subsidy of this kind a suitable aid to achieving the abovementioned objectives?

1. With regard firstly to conserving the countryside — if it is to be conserved by farmers, they will only be able to fulfil certain limited objectives such as mowing meadows, pruning hedges, clearing ditches and grazing animals on undergrowth. They could, possibly, limit afforestation and prevent brushwood and scrubland from gaining ground. Nevertheless, the compensatory allowance does have the dual disadvantage of not being linked to the performance of a specific service or to identified costs and of resulting in a disproportionate financial burden.
2. The compensatory allowance also aims to slow down the depopulation of farming and rural areas. From this point of view it can have a considerable effect in certain regions of the Community; this effect will depend above all on the age of the recipients and the type of non-agricultural employment offered them.

Thus, payment of the compensatory allowance to relatively old beneficiaries is not likely to affect their decision to leave or stay on the farm, nor that of their families. Checks carried out in the Member States showed that the allowance was paid to beneficiaries at or close to retirement age. It is regrettable that even partial figures are not available on this subject.

The allowance will obviously have a greater or lesser effect depending on the state of the labour market. From this point of view, the Directive's chances of success have improved since the advent of the economic crisis and the increase in unemployment in the Member States. Indeed, the farmers are often the last to leave the less-favoured areas.

3. The most obvious beneficial effect of the compensatory allowance is on the immediate income of the farmer, which often increases appreciably. From this latter point of view, the economic effect of the subsidy is important. Discussions with recipients in Ireland and Bavaria confirmed that

the aid had contributed appreciably to improving living conditions and in certain cases had even increased farmers' incentive to invest.

4. Article 7 of Directive 75/268/EEC states that the Member States may fix the amount of the compensatory allowance within limits currently ranging from 16.5 u.a. to 53.5 u.a. per livestock unit with a maximum of 53.5 per hectare of the forage area (Regulation (EEC) No 937/77, amending the amounts established by Directive 75/268/EEC for 1978). The reference to the forage area makes it possible to avoid paying the allowance to certain categories of producer practising intensive farming or stock trading.

An adjustment in the allowances will contribute, by the very fact it is made on an individual basis, to the more effective use of limited budgetary resources. This adjustment can over:

- the amount;
- the livestock units (LSU) in relation to the forage areas.

The amount of the compensatory allowance varies considerably from one Member State to another and even within each Member State. In general the minimum rate is not applied and the average is between 30 and 40 u.a. per LSU or hectare. Several Member States have, however, recently requested a substantial increase in the maximum amount of the allowance.

For budgetary reasons and to avoid paying large allowances to large-scale producers, some Member States have set a ceiling of LSU or hectares of forage area giving rise to the payment of the aid. Apart from Belgium (20 LSU maximum) and Luxembourg, which favour holders of small herds, in the other Member States it is possible to grant aid for large herds. The United Kingdom has not set any limit on the number of animals per recipient; Ireland has not set any limit on the number of sheep. The limit introduced in Germany (between 112 and 84 LSU per beneficiary) is quite wide. France has limited payments across the board to 40 LSU per beneficiary.

Two Member States have made provision for allowances by category of livestock: under 'cattle headage payments', 'beef cow grants' and 'sheep grants' in Ireland and 'hill livestock compensatory allowances' (sheep and cattle) in the United Kingdom. In Ireland this solution is linked to a reduction in the amount as the number of

animals increases, the allowance per LSU being higher for the first 8 LSU (cattle) or 10 LSU (beef cow).

Variation of the amount according to the quality of the flocks of sheep has been introduced both in Ireland and in the United Kingdom. Increased efficiency is also sought by concentrating the aid in smaller areas. Within the less-favoured areas approved by the Commission, certain Member States have delineated more restricted areas where the compensatory allowance is granted according to criteria:

- of quality of land in the United Kingdom, where farms consist of eligible land (hill-land) and non-eligible land;
- of category of livestock in Ireland, where two distinct areas are specified for granting the 'cattle headage payments' (area suffering from severe natural handicaps) and 'beef cow grants' (less-favoured area);
- and of severity of handicap in Germany: mountain areas and the central area of the less-favoured areas ('Berg- und Kerngebiete').

The criteria governing the handicaps of the farms in the province of Bolzano (Italy) are noteworthy for their effort to attain maximum differentiation. A points system has been established on the basis of criteria such as altitude, the slope, climatic conditions, conditions of access... etc., rising with the extent of the handicap. A maximum number of LSU or hectares giving rise to the payment of the full allowance completes this selection. A solution along these lines is currently being studied in France where a card index of farms is being compiled.

(b) *The development plans*

The aim of the plans is in fact laid down by the Directive itself: on completion of the development plan, the farm should be in a position to attain an income at least comparable with that obtained in the non-agricultural activities in the area.

The success achieved with this objective is two-fold: the farmer's income has caught up with those of the other socio-professional categories, his farm emerges as viable (micro-economic success) and the presence of several viable farms increases the level of economic activity in the area (macro-economic success).

Occupational skill and competence, which is a prerequisite for the success of the development plan is

required only for the head of the undertaking, but obviously the same qualifications in his family or staff will make no less a contribution.

The criterion of a qualification combining both specific professional training, experience, personal commitment and interest in the farm, has been interpreted in different ways by the Member States who have nevertheless adopted concepts of professional training or experience without necessarily combining them as they are authorized to do by the Directive.

Occupational skill and competence as a condition for granting development plans is mentioned with 15 others in the certificate which the Member State draws up en bloc for several hundred recipients and which it attaches to its application for reimbursement. During the on-the-spot visits it was noted that no development plan had been refused due to the lack of this qualification on the part of the farmer.

It is true that it is difficult to measure occupational skill and competence. There is however a method which, albeit indirect, provides an acid test — to consider the results already obtained by the farmer who proposes to embark on a development plan. Proof of success presupposes a detailed accounting system covering a period long enough for proper conclusions to be formed. In the absence of such an accounting system the proof of qualification could be provided at least by means of certificates of technical associations of stock breeders or of cereal or milk producers. It is difficult to compare the average professional qualifications of farmers with those of 'non-agricultural workers' (Article 4 (2) of Directive 72/159/EEC).

The comparable income (even if on a regional basis, when it is much more useful) is not an ideal basis for comparison. On the one hand, the age and training of workers are too dissimilar within the category of non-agricultural jobs, on the other hand, the working population in agriculture is on average older and has longer working hours. Nor is the comparable income an ideal criterion of whether the farm is suitable for development. As was stated in the first part of this report, there are too many possibilities of notional assessment of the different ventures and of the profitability of investments in the development plans.

A far sounder basis for subsidizing farm businesses would be the farm's previous profits and the own capital which it has already accumulated. Here again one may note the usefulness in having avail-

able the results of a number of previous financial years if the farm wishes to continue to develop satisfactorily without fundamentally changing its emphasis.

(c) *Joint measures*

These are measures laid down in Article 11 of Directive 75/268/EEC for fodder production and for improvement and equipment schemes for pasture and hill grazing land which is farmed jointly.

These measures perfectly meet the needs of farms in the less-favoured areas, whose milk or meat production requires high-quality pasture land. They usefully supplement the compensatory allowance and the preferential development plans.

3.1.3. *Supplementary national measures*

(a) *Speed of implementation*

Some Member States have been able to apply the Directive more quickly than others. The speed of implementation is often linked to the structure of their administration and to the fact that they have not had to disrupt the policy of national aid following the entry into force of Directive 75/268/EEC.

(b) *Measures adopted to improve the effectiveness of the aid*

Taking account of the regional disparities in seven Member States, both at administrative and socio-economic and agricultural level, it should be noted that some initiatives taken by national administrations have proved suitable for preparing or prolonging the effect of Directives.

In Belgium a specialized regional body acting in an advisory capacity has been set up to coordinate the various aspects of development in the less-favoured area. In addition, efforts have been made in the field of agronomic research to obtain better forage areas and to arrive at their optimum use (spelt) and at the same time to disseminate new techniques of crop-growing and new varieties of ray-grass.

Belgium has provided for two projects to supplement the aid allocated. One concerns the analysis of forage areas in the South East and the other, which provides for expenditure of Bfrs 1 370 million spread over five years, is to assist young farmers by providing them with individual accommodation, accounting assistance, and maintenance and replacement of stock.

In the same way mention should be made of the efforts of the French Ministry of Agriculture which makes regular tours of the Départements to explain the structure of the development plans to the farmers and their representative bodies. Some Département administrations have also devoted a good deal of time and effort to informing farmers and to stimulating their interest in the possibilities offered them by means of information lectures and even extended periods of in-service training.

In-service training or training seminars have also been organized for the administration of the Départements in France and of the Länder in the Federal Republic of Germany.

Moreover, mention should be made of the great effort Bavaria has made to improve knowledge of agricultural accounting data and also to train and advise farmers. The 'Bayerische Landesanstalt für Betriebswirtschaft und Agrarstruktur' has also established a new planning system to assist in drawing up the plans. It is based on improved accounting data and from the geographical point of view on the quality of the land, the size of the undertaking and the kind of animals bred and crops grown. On the basis of these figures, which are intended as a guide to those responsible for drawing up the plan, the matrix or simulative model offers four alternatives for each farm, which are designed to match both the region and the personal, family and financial situation of the recipient. At the same time, this body is intent on improving knowledge of certain costs and production factors.

Administrative efforts in respect of the recipients themselves are directed towards the provision of training and advice (studying general accounting and the special problems of agricultural accounting, organization of seminars).

Efforts of this nature by the administration will help to engender enthusiasm, basically because they explain the action to be undertaken and make it seem less remote.

II.

ASSESSMENT OF THE EFFECTIVENESS OF THE AID

3.2.1. Studies by the Member States

In view of the usefulness of knowing the impact of Directive 75/268/EEC, the Member States have been asked for information about the existence, methodology and results of any studies that they have undertaken in this connection.

The discussions organized with the national departments and the documents examined provided only a somewhat sketchy initial outline of the work in progress, which in general involves surveys to analyse the influence of the aid on the structural development of farms, classified by size, degree of handicap or other criteria as appropriate. It should nevertheless be pointed out that there are three methodological difficulties in studying the effects of the provisions of Directive 75/268/EEC:

- the first derives from the fact that the Directive has not been in effect for long enough; the Directive entered into force in April 1975 and its application by the Member States was spread over a number of years. The effects of a policy of grants to improve agricultural structures can really only be felt after five to ten years;
- the second obstacle is due to the difficulty in isolating specific causes and effects and finding a convincing link between them, in view of the overlapping nature of numerous developments;
- the last obstacle results from the statistics available which, as a rule, are neither precise, accurate nor reliable enough for use by the administration.

3.2.2. Development plans and accounting

Article 11 of Directive 72/159/EEC stipulates that the farmer receiving aid granted within the framework of a development plan must keep accounts, the content of which is specified in paragraph 2.

These accounts form an essential instrument for measuring the effect of an individual development plan and thus the general effect of this aspect of the Directive.

The keeping of accounts is of interest to the administration since it makes it possible to assess

the return on the farm's business activity as a whole, particularly the income per man-work unit and the income of the farmer, as well as to judge the profitability of the principal investments in the farm.

It is also possible, with the appropriate computer programmes, to sort this information by type of crop or animal, by type of farm, size of undertaking, region (with particular attention to the less-favoured areas) and thus to obtain information on the genuineness of the development plans and on the working of the grants.

Moreover, the beneficiary of a development plan has the most interest in seeing the results of his farm business, in the form of accounts. The tax accounting stage has yet to be passed and for this reason the administrations of the Member States, in accordance with the guidelines from the Commission, impose or suggest the use of certain forms guaranteeing a minimum quality of data and opening the way to management accounting.

Nevertheless, it leads to a variety of different situations: for example, in certain cases, these documents are sent to the recipients by post, but comments or advice may be added by the adviser on his visit to the farmer. The adviser can, of course, increase the number of visits during the year. The systems vary within one and the same Member State.

In Germany, the head of a local computer centre stated that he visited the recipients every month, as well as which they receive a balance-sheet and a number of other documents at the end of the accounting year together with an analysis of their farm business giving the main data on the farm under one hundred headings and indicating the averages of the regional statistical group to which it belongs, the averages of the fifty best farms and the farm's financial results of the past three years. These results are accompanied by a short commentary and mention is also made of which factors may directly influence the farm's income.

The follow-up of accounts varies considerably from one administration to another. Some administrative practices do not favour one of the aims of the Directive which considers the keeping of accounts as an

essential means of correctly assessing the financial and economic situation of farms (¹).

Another consideration is that the beneficiary's interest in a less hit-and-miss management of his farm cannot take a concrete form unless firstly, that interest has been aroused beforehand (cf. professional training within the framework of Title I of Directive 72/159/EEC) and secondly, he has reached a certain level of competence in the management of his farm (Article 3 (2) of Directive 72/159/EEC).

If these conditions are not fulfilled the keeping of accounts will not make the farmer aware of the state of his farm business, just as the development plan will not have made him aware of the options he is choosing.

Lower Saxony has analysed the financial results of farms which received aid within the framework of the scheme to modernize farms. The analysis therefore covered development plans not only in less-favoured areas but also in all agricultural areas in this Land. The plans from 1971 (i.e. prior to the entry into force of Directive 72/159/EEC) to 1975 and the final statements under the compulsory accounting system for the financial years from 1973 onwards were examined.

In this Land, about one farm in five with more than 25 hectares farming land received aid under a development plan. For example, the plans approved in 1974 were primarily submitted by farms practising stock-farming (35.9 %). Moreover, about 50 % of the investments were made in respect of buildings for stock-raising.

Examination of farms with the lowest incomes shows that it is not the production factors which play a decisive role in this situation, but rather deficiencies of management. This can be seen particularly in the different methods of production, i.e. insufficient rationalization, which gives rise to excessive production costs and relatively low prices per product, due to their poor quality.

Moreover, many development plans are based on unrealistic assessments of self-financing, and since family expenditure does not adapt itself to the level of returns, in 30 % of cases the accounts showed a loss of own capital, with the farms failing to produce an adequate income.

(¹) In the United Kingdom it was stated that 'the annual farm accounts are not used to monitor the progress of the income of the business towards the comparable income, since this can be affected by matters extraneous to the development plan itself, e.g. the weather, disease, etc.'

CONCLUSIONS

Almost five years after the adoption of Directive 75/268/EEC, the measures required for its implementation have still not been adopted in all the Member States. This is the first point which should be noted and it explains the incomplete and in some respects provisional nature of the conclusions that can be drawn at present.

The reimbursements taken into account up to now relate almost exclusively to the compensatory allowance, which, moreover, represents to date the largest part of the expenditure for the four Community Directives relating to agricultural matters.

Some 350 000 farmers have benefited from Community financing through this allowance, which is no mean figure, whereas, aid for development plans has been used to a far lesser extent.

Joint investments for fodder production and for the improvement and equipment of pasture land and mountain pastures farmed jointly were not very numerous in most of the Member States, despite the hopes for these measures, given that they were well suited to the utilization of poor or mountainous land and to the development of mechanization.

In the first year of application of the compensatory allowance, several Member States endeavoured to implement a fairly strict system of checking the data which serve as the basis for the calculation of the aid.

In the following years checks have too often been confined to comparison with the previous statements of the recipients and an automatic plausibility check of the grant application, i.e. of the arithmetic compatibility of its elements.

The Member States do therefore take advantage of the possibility of comparing voluntary statements made by the recipients for different or even opposing purposes, but this is only partially satisfactory as a method of ascertaining the truthfulness of the statements and drawing lessons from them.

In order to explain why these controls are so poorly documented, the administrations of the Member States refer to the inspectors' personal knowledge of the regions and farms which they have occasion to visit for various reasons.

This explanation is not very convincing. It is in fact the one most frequently given as a method of control available to the administrations, but no system-

atic use is made of it. In view of the number, variety and complexity of the duties entrusted to them, the staff of the local agricultural departments can only spend a limited amount of time checking the data from which the aid is calculated. Moreover, the compensatory allowance needs to be seen in its context as a socio-structural measure.

The spirit of the Directive and certain considerations of social policy upon which it is based make it difficult in theory (and even more so in practice) to deny the benefits of the aid to those farmers most in need, even if they do not fulfil all the conditions.

Reducing the usable agricultural area on which the aid is based from three to two hectares would only defer the problem. There would still be in most of the least-favoured areas or in areas where agriculture is practised on a part-time basis a number of people farming a smaller area and the problems of inspection would undoubtedly arise again, whereas the most under-privileged fringe of the rural population would still be excluded from the aid. The real question is whether it is advisable to assist such small farms. Would it not be better, in order to promote beef cattle breeding, to concentrate the grant of subsidies on those farms which by reason of the size of their forage area can guarantee not to fall back on milk production supported by large purchases of industrial fodder?

The question remains whether aid of the compensatory allowance type is best suited to the aims of the Directive.

An attempt could be made in this direction by increased selectivity in respect of the recipients, the truly less-favoured areas, the eligible areas, and the number, quality and composition of the herds.

Social or regional measures should at the same time be directed towards a less strictly defined agricultural population and be better distinguished from operations specifically intended to improve structures.

The development plans represent a technical instrument demanding a high level of theoretical and practical knowledge from those putting them into practice. Even if this combination of knowledge is lacking, the development plan remains a means of taking stock of a farm business which, if it is properly drawn up will persuade the farmer to look to the future. The value of the plan depends upon the size and the quality of the administrative and

advisory network placed at the disposal of the farmers concerned.

It should, however, be remembered that this technique was designed to select the farms in a position to develop and to avoid the generalized and indiscriminate payment of grants. Certain practices of the bodies which draw up the plans, which are tolerated by the administration, do not altogether accord with this aim.

The submission of accounts extending over several years should form the basis for the approval of any plan. A scheme to encourage the keeping of accounts is provided for in Article 11 of Directive 72/159/EEC, but it is in fact at present applied mainly to the execution of the development plans.

The Directive makes the granting of aid dependent upon the approval of a development plan in due form and it provides for the compulsory keeping of accounts at least for the duration of the plan. It is up to the Member States to establish the logical connection between these two provisions and to act with a view to monitoring the economic progress of farms within the framework of the plans.

The most obvious form of monitoring would be to compare the statements in the accounts and the forecasts of the development plan. This could lead to improved knowledge of the mechanics of farm development and thus indirectly to improvement of the grant schemes.

In most of the Member States this objective is still a long way off.

The problem of development remains unchanged for farmers with very low incomes, who require

higher investments than in a normal area and find a development plan to be too ambitious a solution.

The Member States thus continue to have recourse to the national temporary aid schemes provided for in Article 14 (2) (a) of Directive 72/159/EEC. This system, which was originally authorized for five years, was extended until 31 December 1979 and its extension until 31 December 1980 is at present under discussion.

The extension of these provisions shows that an increasing number of farmers, in fact too many in a period of economic recession, do not satisfy even the less stringent conditions introduced by Directive 75/268/EEC and are in need of a less demanding system of financing than that which gives rise to reimbursement by the EAGGF.

The work of examining the results of the aid is not pursued with sufficient persistence in all the Member States, even though it is indispensable if better knowledge of the effects of the Directive is to be obtained and well-informed decisions made on the orientation of Community or national measures.

It is regrettable in this connection that so few statistical data are available with regard, for example, to the distribution of recipients of the compensatory allowance according to age groups or farm size. Nor is such information available as to the effect of the aid on the increase in income or the development of production.

It would be advisable in future to have deeper and more systematic research into the effects of the aid, so as to create a sounder basis for decisions as to structural measures.

Comments of the Commission on the Special Report of the Court of Auditors on the application of Council Directive 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas

I. General comments

The Special Report of the Court of Auditors deals with the provisions of Directive 75/268/EEC, with Title III of Directive 72/159/EEC and with the way in which they are applied and monitored in the Member States.

The Court of Auditors rightly states, as did the Commission, in particular in its report of 27 July 1979 on the application of socio-structural directives, that the application of these directives in the Member States has been the subject of delays.

It is also inclined to the view that the provisions of these directives should be more specific, in order to ensure more uniform application and stricter controls. The Commission would point out in this regard that Directive 75/268/EEC deliberately contains provisions allowing flexibility in its application, for two reasons:

- the very idea of this project — to compensate financially for the permanent natural handicap under which certain farmers operate — was new for the Member States, except in the case of the United Kingdom;
- the need to adapt as best as possible to the conditions prevailing in each Member State.

II. Specific comments

1. Relationship between the compensatory aid and the granting of larger aids to investment than in other regions

The Court of Auditors regrets that the special aids to investment are not used to a sufficient extent.

The Commission is of the opinion that the compensatory aid paid to all farmers with at least three hectares of land is of far greater benefit to the farmers than the special investment aid, since the latter only concerns a section of the farmers and needs time to be implemented.

In addition to the opportunities provided by the development plans, these regions may also receive higher national aids under the provisions of Article 12, which relaxes the limits laid down by Article

14(2) of Directive 72/159/EEC for the other regions.

It is therefore to be expected that the special investment aid should be considerably less used than the compensatory aids received by all the farmers of the handicapped areas.

The aid to joint investment schemes provided for under Article 11 is purely a supplementary incentive, which varies in size according to the practice in the different regions.

2. Controls

In the opinion of the Court of Auditors, the national systems of controls are not always adequate since checks are often confined to random sampling or are based in this instance on data relating to previous years.

It should be noted however that a systematic check on several hundred thousand recipients, with the aim of examining each individual case, is hardly possible. On-the-spot investigations are often limited to cases giving rise to doubt by reason of conflicting information. The method used does not preclude the Member States, who bear the bulk of this expenditure (since reimbursement by the Community is partial), from seeking ways to improve it, as a result of the finding of the Court of Auditors.

3. Harmonizing the aims of the Directive with other structural objectives

The compensatory aid aims to compensate those farms in the area in question which have permanent natural handicaps. This does not exclude the areas benefiting from Directive 75/268/EEC from the rest of the common agricultural policy. The directives or regulations which have other structural objectives also apply to these areas.

The compensatory aid is not intended to act as a guideline for production. There are other provisions for this purpose. The same applies for regional policy.

4. *Development plans*

An examination of the problems of drawing up and approving development plans would be more appropriate within the framework of Directive 72/159/EEC, which applies to the Community as a whole, than of the Directive under consideration.

The suggestion that several years' accounts be submitted presupposes a prior obligation whose fulfilment is required for the approval of a plan. This suggestion would have the effect of delaying the approval of the development plans for several years and of slowing down or making it impossible to implement Directive 72/159/EEC, since it would exclude a number of farms, in particular in the most problematic areas.

The Commission has, however, proposed that certain provisions of this Directive be relaxed so that a greater number of farms may benefit from the opportunity for modernization; this proposal is at present being examined by the Council.

With regard to the objective of the development plan, i.e. the Comparable Income, it is true that it is usually lower in the less-favoured areas than in the others. On the other hand, it should be noted that the compensatory aid is added to the farmer's income and that the investment aids are higher.

The results of the application of Directive 72/159/EEC show, in the Commission's view, that in most of the countries the number of development plans in the less-favoured areas is not significantly lower than in the so-called normal areas.

5. *Statistics*

Since the compensatory allowance is granted in the areas concerned to all farmers with more than three hectares, the existing statistics on the age of the farmers, the size of the farms and the interaction between these two factors, remain valid.

6. *Results of the aid*

Even after sufficient experience, it will certainly not be easy to isolate the influence of the compensatory aid from the effect of all the many other factors that influence the situation of agriculture and the development of agricultural structures.

7. *Prior recognition by the Commission of national legislation*

The Court of Auditors criticizes payments made under Article 11 of Directive 75/268/EEC without the national legislation being approved beforehand. This Article is confined to regulating certain specific cases eligible for reimbursement by the EAGGF. On the other hand, it regulates neither the amount nor the conditions for granting the national aids relating thereto.

Accordingly there has been no approval of the national provisions pursuant to Article 11. Before reimbursing this expenditure, the Commission checked whether the criteria of the Directive in question has been observed.

ANNEXES

Annex I: List of Directives delineating the areas referred to in Directive 75/268/EEC

Annex II: Amounts of the compensatory allowance per LSU in the Member States

Annex III: Reimbursements from the EAGGF per financial year under Titles II and IV of Directive 75/268/EEC

Annex IV: Expenditure by the Member States under Directive 75/268/EEC from 1975 to 1978

Annex V: Decisions of compliance in force at 31 December 1979

*ANNEX I***List of Directives delineating the areas referred to in Directive 75/268/EEC**

- Belgium:** Directive 75/269/EEC (OJ No L 128, 19. 5. 1975)
amended by Decision 77/456/EEC (OJ No L 179, 19. 7. 1977)
- Germany:** Directive 75/270/EEC (OJ No L 128, 19. 5. 1975)
amended by Decision 76/162/EEC (OJ No L 31, 5. 2. 1976)
- France:** Directive 75/271/EEC (OJ No L 128, 19. 5. 1975)
amended by the following Directives:
76/401/EEC (OJ No L 108, 28. 4. 1976)
76/631/EEC (OJ No L 223, 16. 8. 1976 and
amending OJ No L 288, 20. 10. 1976)
77/3/EEC (OJ No L 3, 5. 1. 1977)
77/178/EEC (OJ No L 58, 3. 3. 1977)
78/863/EEC (OJ No L 297, 24. 10. 1978)
- Ireland:** Directive 75/272/EEC (OJ No L 128, 19. 5. 1975)
amended by Decision 77/5/EEC (OJ No L 3, 5. 1. 1977)
- Italy:** Directive 75/273/EEC (OJ No L 128, 19. 5. 1975)
amended by Council Decision 76/557/EEC (OJ No L 171, 30. 6. 1976)
treating the communes damaged by earthquakes in
Friuli/Venezia Giulia as mountain areas
- Luxembourg:** Directive 75/274/EEC (OJ No L 128, 19. 5. 1975)
- Netherlands:** Directive 75/275/EEC (OJ No L 128, 19. 5. 1975)
- United Kingdom:** Directive 75/276/EEC (OJ No L 128, 19. 5. 1975)
amended by Decision 76/685/EEC (OJ No L 231, 21. 8. 1976)

ANNEX II

Amounts of the compensatory allowance per LSU in the Member States

Member State	Amounts in national currency	Amounts in agricultural units of account as at 1 January 1978
Germany	between DM 90 and DM 120 maximum: DM 10 000/recipient	26.37 35.16 maximum: 2 930.33
Belgium	from 1 to 10 LSU: Bfrs 2 000/LSU from 11 to 20 LSU: Bfrs 1 500/LSU maximum: Bfrs 35 000/recipient	40.53 30.40 maximum: 709.24
France	FF/LSU 200 maximum: FF 8 000/recipient	34.60 maximum: 1 383.96
Ireland	CATTLE HEADAGE PAYMENTS from 1 to 8 LSU: £ Irl 17/LSU von 9 to 30 LSU: £ Irl 12/LSU maximum: £ Irl 400/recipient BEEF COW GRANTS from 1 to 10 LSU: 17 £ Irl/LSU from 11 to 28 LSU: 12 £ Irl/LSU maximum: £ Irl 386/recipient SHEEP GRANTS mountain hogget ewe: £ Irl 4/head other hogget ewe: £ Irl 3.5/head mountain lamb: £ Irl 3/head no maximum by recipient	22.98 16.22 maximum: 540.76 22.98 16.22 maximum: 521.83 36.05 31.54 27.04 no maximum
Luxembourg	from 1 to 10 LSU: Lfrs 1 500/LSU from 11 to 40 LSU: Lfrs 740/LSU maximum: Lfrs 37 200/recipient	30.40 15 maximum: 753.82
United Kingdom	Cattle: £ 29/LSU Sheep: hardy breeds £ 3.60/head other breeds £ 2.85/head no maximum by recipient	49.43 40.91 32.39 no maximum

ANNEX III

Reimbursement from the EAGGF per financial year under Titles II and IV of Directive 75/268/EEC ⁽¹⁾

(in million u.a./EUA)

Year	Initial appropriations	Final appropriations and after transfers	Appropriations carried over from the previous year	Commitments and payments	Appropriations available for the following year
1976	50.0 u.a.	36.8 u.a.	—	36.0 u.a.	0.8 u.a.
1977	74.3 u.a.	60.7 u.a.	0.8 u.a.	60.0 u.a.	1.5 u.a. ⁽²⁾
1978	100.3 EUA	60.1 EUA	1.2 EUA ⁽²⁾	34.6 EUA	26.7 EUA
1979	99.5 EUA	87.5 EUA	26.7 EUA	82.5 EUA	32.1 EUA
	324.1	245.1	—	212.7	—

⁽¹⁾ As the EAGGF reimbursements under Title III are included in the reimbursements under Directive 72/159/EEC it was not possible to draw up annual figures; the total amounts to approximately 15 million EUA.

⁽²⁾ The appropriations in u.a. which were not used at 31 December 1977 were converted into EUA at 1 January 1978, taking into account the commitments entered into in national currencies.

ANNEX IV

Expenditure by the Member States under Directive 75/268/EEC from 1975 to 1978

Member States	Title II Compensatory allowance	Title III Development plans	Title IV Joint Investment	Total
GERMANY				
1975	DM 98 499 330	DM 10 383	DM 989 260	DM 99 498 973
1976	DM 112 039 317	DM 29 715 218	DM 384 626	DM 142 139 161
1977	DM 103 750 104	DM 34 810 342	DM 573 023	DM 139 133 469
1978	DM 108 687 360	DM 42 124 637	DM 1 225 094	DM 152 037 091
Total	DM 422 976 111	DM 106 660 580	DM 3 172 003	DM 532 808 694
BELGIUM				
1976	Bfrs 336 392 297	—	Bfrs 21 748	Bfrs 336 414 045
1977	Bfrs 336 808 379	Bfrs 5 382 320	Bfrs 3 091 632	Bfrs 345 282 331
1978	Bfrs 318 507 406	Bfrs 19 137 968	Bfrs 34 065 344	Bfrs 371 710 718
Total	Bfrs 991 708 082	Bfrs 24 520 288	Bfrs 37 178 724	Bfrs 1 053 407 094
FRANCE				
1975	FF 304 992 832	—	—	FF 304 992 832
1976	FF 348 933 960	FF 647 338	—	FF 349 581 298
1977	FF 375 034 756	FF 4 006 171	—	FF 379 040 927
1978	FF 384 092 783	FF 54 894 939	FF 5 667 012	FF 444 654 734
Total	FF 1 413 054 331	FF 59 548 448	FF 5 667 012	FF 1 478 269 791
IRELAND				
1975	£ Irl 6 360 647	—	—	£ Irl 6 360 647
1976	£ Irl 12 747 322	£ Irl 7 161	—	£ Irl 12 754 483
1977	£ Irl 18 883 773	£ Irl 2 089 843	£ Irl 570 062	£ Irl 21 543 678
1978	£ Irl 22 091 731	£ Irl 3 051 989	£ Irl 813 480	£ Irl 25 957 200
Total	£ Irl 60 083 473	£ Irl 5 148 993	£ Irl 1 383 542	£ Irl 66 616 008
ITALY				
1976 to 1977	—	—	Lit 230 430 600	Lit 230 430 600
1978	Lit 10 129 239 151	—	Lit 1 237 902 803	Lit 11 367 141 954
Total	Lit 10 129 239 151	—	Lit 1 468 333 403	Lit 11 597 572 554
LUXEMBOURG				
1976	Lfrs 97 856 443	—	—	Lfrs 97 856 443
UNITED KINGDOM				
1975	£ 40 878 230	—	—	£ 40 878 230
1976	£ 51 184 181	£ 202 895	£ 1 070	£ 51 388 146
1977	£ 51 282 491	£ 2 874 161	£ 58 889	£ 54 215 541
1978	£ 51 007 973	£ 10 549 611	£ 51 946	£ 61 609 530
Total	£ 194 352 875	£ 13 626 667	£ 111 905	£ 208 091 447

Note: The expenditure referred to under Title III of Directive 75/268/EEC is declared at the same time as that under Directive 72/159/EEC.

ANNEX V

Decisions of compliance in force at 31 December 1979

- Germany:** Decisions of 3 March 1976 (OJ No L 102, 15. 4. 1976) of 28 November 1977 (OJ No L 328, 21. 12. 1977) and of 9 October 1978 (OJ No L 297, 24. 10. 1978).
- Belgium:** Decisions of 7 December 1976 (OJ No L 364, 31. 12. 1976) of 21 November 1977 (OJ No L 312, 6. 12. 1977) and of 17 April 1979 (OJ No L 106, 28. 4. 1979).
- France:** Decision of 23 November 1977 (OJ No L 320, 15. 12. 1977) Decision of 25 July 1979 (OJ No L 207, 15. 8. 1979).
- Ireland:** Decisions of 23 November 1977 (OJ No L 320, 15. 12. 1977) of 9 October 1978 (OJ No L 297, 24. 10. 1978) of 8 December 1978 (OJ No L 13, 19. 1. 1979) and of 29 May 1979 (OJ No L 143, 12. 6. 1979).
- Italy:** Decisions of:
29 July 1977: region of Tuscany (OJ No L 209, 17. 8. 1977).
13 February 1978: region of Basilicata and independent province of Trento (OJ No L 69, 11. 3. 1978).
24 May 1978: regions of Puglia and Friuli-Venezia Giulia (OJ No L 157, 15. 6. 1978).
9 October 1978: region of Latium and the independent province of Bolzano (OJ No L 297, 24. 10. 1978).
8 December 1978: region of Campania (OJ No L 13, 19. 1. 1979).
19 February 1979: regions of Emilia Romagna and Venezia (OJ No L 55, 6. 3. 1979).
29 May 1979: regions of Calabria and Abruzzi (OJ No L 143, 12. 6. 1979).
5 June 1979: region of Umbria (OJ No L 148, 16. 6. 1979).
13 July 1979: region of Sardinia (OJ No L 186, 13. 7. 1979).
18 October 1979: region of Lombardy (OJ No L 280, 9. 11. 1979).
- Luxembourg:** Decision of 29 May 1979 (OJ No L 143, 12. 6. 1979).
- Netherlands:** Decision of 17 April 1979 (OJ No L 111, 4. 5. 1979).
- United Kingdom:** Decisions of 3 December 1976 (OJ No L 364, 31. 12. 1976) of 11 January 1978 (OJ No L 43, 14. 2. 1978) and of 8 December 1978 (OJ No L 13, 19. 1. 1979).
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II

(Preparatory Acts)

COURT OF AUDITORS

**Opinion of the Court of Auditors of the European Communities on the proposal for a
Council Regulation introducing a tax on catches of salmon in the Baltic Sea by
Community vessels**

**THE COURT OF AUDITORS OF THE EUROPEAN
COMMUNITIES,**

Having regard to the Treaty establishing the European Economic Community, and in particular to Article 209 thereof,

Having regard to the Decision of the Council of 27 October 1980 to consult the Court of Auditors of the European Communities on the proposal for a Council Regulation introducing a tax on catches of salmon in the Baltic Sea by Community vessels,

Whereas it is necessary, when imposing a tax, to draw up a legal instrument that sets out without ambiguity the nature of the tax, the taxable event, the mechanism for its collection and the obligations falling on the taxpayer; whereas it is therefore desirable to introduce greater precision into the proposal for a Regulation, in the interests of avoiding legal disputes and of guaranteeing equal treatment of taxpayers;

Whereas, by virtue of Article 3 (1) of the Financial Regulation of 21 December 1977 ⁽¹⁾, all revenue must be used to cover all expenditure; whereas, therefore, allocation of revenue to particular purposes is not possible;

Whereas revenue accruing to the Community should be collected and paid over to the Commission without undue delay;

Whereas the Article in the Budget to which the revenue is to be credited should permit the proceeds of the tax to be distinguished clearly from other revenue of the Community,

HAS ADOPTED THE FOLLOWING OPINION:

The Court of Auditors

The tax mechanism

- suggests that in Article 1 (1) 'Community vessels' should be further defined, as is done in Article 1 of Regulation 753/80 of 26 March 1980 laying down detailed rules for the recording and transmission of information concerning catches taken by fishing vessels of the Member States ⁽²⁾;
- considers that the Regulation needs to impose a clear obligation on a person to pay the tax, and that to this end Article 1 (2) should be supplemented by a definition of the taxable person; suggests furthermore that to guarantee the fulfilment of this obligation the Regulation should enjoin Member States to adopt appropriate provisions for dealing with cases of failure to pay the tax;
- points out that the time of the declaration referred to in Article 1 (3) is not defined with any precision in Regulation (EEC) No 753/80, and that the application of Article 4 of that Regulation could lead to confusion where the declaration is made from a vessel still at sea; proposes therefore that more precise rules be drawn up to define the tax point in these cases;
- considers that Article 1 (4) should specify the nature of the tax (that is, chargeable as an amount of ECU per kg) and should lay down rules for the conversion of the amount expressed in ECU into national currencies;
- suggests that special rules be incorporated for the determination of the tax rate for 1981, since the deadline of 1 November 1980 cannot be met;

⁽¹⁾ OJ No L 356, 31. 12. 1977.

⁽²⁾ OJ No L 84, 28. 3. 1980.

Allocation of revenue

- considers that the revenue from the proposed tax should accrue to the general budget of the Community, and that the use of the term 'to offset' in the final clause of the preamble is ambiguous, and could be understood as earmarking revenue for a particular purpose, in contravention of Article 3 (1) of the Financial Regulation of 21 December 1977; proposes that to remove this ambiguity the final part of the clause in question, from 'and intended to ...' to the end, be deleted;
- is concerned lest the use of the word 'constitutes' in the English version of Article 1 (5) should imply the earmarking of revenue, and suggests that the words 'is equal to' be used instead;

Transmission of the revenue to the Commission

- considers that there is no reason why the Member States should have the use of the

revenue accruing from the tax for the period laid down in paragraph 6; proposes therefore that '60 days' in Article 1 (6) be replaced by the shortest possible period compatible with accounting procedures in the Member States;

Entry in the Budget

- considers that Article 999 of the Budget is not an appropriate heading for the proceeds from this tax, containing as it does miscellaneous revenue from other sources, and proposes that a new line be created in Title 9 specifically for this tax.

This opinion was adopted by the Court of Auditors at its meeting on 18 December 1980.

Luxembourg, 22 December 1980.

For the Court of Auditors
The President
Michael N. MURPHY