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I

(Information)

COURT OF AUDITORS

SPECIAL REPORT No 2/87

on

THE QUOTA/ADDITIONAL LEVY SYSTEM IN THE MILK SECTOR

accompanied by the

REPLIES OF THE COMMISSION

*(Observations pursuant to Article 206a (4) of the EEC Treaty)**(87/C 266/01)*

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1. Introduction

1.1. The milk sector has been in chronic disequilibrium for many years, with a structural tendency for production to rise at a greater rate than internal consumption and exports. As a whole, the Community reached 100 % self sufficiency in 1974. Between 1973 and 1981 milk deliveries grew at 2,5 % per annum increasing to over 3,5 % in 1983, while internal consumption of milk and milk products grew at only 0,5 % per annum. Production of the intervention products of butter and skimmed milk powder (SMP) over the same period grew at a slightly faster average rate than deliveries. The increasing structural imbalance has led to increasing reliance being placed on sales into intervention, subsidised disposal on the internal market and subsidised export sales in a fluctuating world market. Currently 35 % of the butter and 90 % of the skimmed milk produced in the Community is disposed of with a subsidy from the Community budget.

1.2. The budgetary consequences of oversupply in the milk market are serious. Gross expenditure on export refunds, storage and consumption and producer aids in the dairy sector rose from 3 821 Mio ECU in 1981 to 4 921 Mio ECU in 1983 and 6 571 Mio ECU in 1985, the marginal disposal cost to the EAGGF of 1 Mio tonnes of surplus milk is estimated by the Commission to be 280 Mio ECU⁽¹⁾. Currently the dairy sector accounts for some 30 % of total EAGGF expenditure and 17 % of the total general budget of the Communities.

1.3. Following the agreement of the Heads of Government at Stuttgart in June 1983 that the Common Agricultural Policy must be adapted to the situation facing the Community in the foreseeable future⁽²⁾, the Council of Ministers on 31 March 1984 instituted for the five consecutive 12 month periods from 1 April 1984 to 31 March 1989 a system to control milk production based on a levy⁽³⁾ to be borne by milk producers on quantities in excess of an annual reference quantity (commonly known as a quota). This followed a series of measures, none of which were successful, adopted by the Community from the late 1970's onwards with the objective of re-establishing balance between production and consumption of milk and milk products. It was considered that a levy/quota system would have more immediate effect on production than price reductions, and would have a less serious impact on producer revenues.

1.4. In view of the importance of this policy, the Court of Auditors decided in 1985 to undertake a detailed audit of the quota/levy system. The objectives of the Court's audit were:

(a) to establish whether the quota/levy system:

- (i) provides an effective means of bringing the milk market into balance, in particular in terms of restraining production, thereby enabling the budgetary cost of disposal of surpluses to be reduced;
- (ii) is being implemented in an efficient and economic manner;
- (iii) is being implemented in accordance with Community regulations;

(b) to establish whether adequate machinery exists to ensure collection of, accounting for, and utilisation of levy.

1.5. In this report the Court presents its general observations on the system as it was conceived and operated up to the end of 1986, in relation to the objectives laid down.

1.6. The report shows that the main economic and financial objectives have not been achieved. Although the quota/levy system had an initial effect in braking the rise in production, there were flaws in its initial conception, and it was progressively weakened by amendments adopted by the Council during the first two years of its operation. As a result, the system was incapable of having a significant impact on the problem of milk surpluses. Further, the proceeds from the levy have fallen far short of the amount necessary to finance the disposal of the continuing surpluses, so that the Commission in 1987 had to put forward proposals to finance disposal by unorthodox means, which the Court has criticised in an opinion⁽⁴⁾.

1.7. The ineffectiveness of the arrangements described in this report has to some extent been recognised by the Commission, the Council and the Parliament. During the autumn of 1986 the Commission made proposals⁽⁵⁾ to the Council designed to overcome the main weaknesses of the system, and in December the Council decided on a number of significant amendments as part of a package of measures designed to regain control over the milk sector⁽⁶⁾. It is not possible at this stage to assess fully whether these amendments, which concern the last two years of the current regime, 1987/88 and 1988/89, will be effective. Some comments however are called for, and are incorporated into this report in the appropriate places.

2. The quota/levy system in the milk sector

2.1. The main elements of the system are set out in the following sub-paragraphs:

⁽¹⁾ The footnotes appear together at the end of this report.

- (a) each Member State has a guaranteed total quantity, (hereafter referred to as 'national quantity'). Initially this was equivalent to deliveries to dairies (deliveries) in 1981 plus 1% (except for Ireland and Italy where the basis was 1983 deliveries), with a transitional provision for 1984/85 whereby these quantities were increased by 1% in return for a 1% increase in the linear coresponsibility levy. Following decisions taken by the Council in March 1986 and in December 1986 these quantities were reduced by a total of 6% for 1987/88 and a further 2,5% for 1988/89 by a combination of permanent reductions to be achieved if possible by means of a Community cessation scheme (see (f) below) and temporary suspensions for which compensation is to be paid to producers;
- (b) Member States may choose to allocate quota to each producer (formula A) or to each first purchaser (formula B). The sum of all individual quotas allocated must not exceed the Member State's national quantity;
- (c) basic quota is allocated to purchasers/producers on the basis of their deliveries in a specified reference year; additional quota can be awarded to producers to deal with specified special cases. These allocations of additional quota must also remain within the national quantity for the Member State, and are to be made from a national reserve within that quantity;
- (d) restrictions are placed on the transfer of quotas. Essentially quota is only transferable when land is sold, leased or inherited, buying or leasing of quota without land generally not being permitted;
- (e) for 1984/85, 1985/86 and 1986/87 under formula A, the levy paid by the producers on deliveries over quota is calculated as 75% of the milk target price while under formula B the levy paid by the purchasers is 100% of the target price. The purchaser must then recover the levy from producers delivering to him. Following the Council's decisions of December 1986 the levy for 1987/88 and 1988/89 under both formulas is 100% of the target price, and the way in which it is recovered from producers under formula B is amended;
- (f) Member States are permitted to pay premiums to farmers giving up milk production. The quota thus liberated is transferred to the national reserve and

is available for redistribution. In May 1986 the Council adopted a Community cessation scheme to buy up quota which is not then available for redistribution⁽⁷⁾.

2.2. Similar provisions have been established for direct sales of milk and milk products to final consumers: various provisions are made for transfers of quota between direct sales and deliveries at national and producer level. This report deals with the system as it concerns deliveries, direct sales being referred to only in so far as they affect deliveries.

2.3. Before the Council's decisions of December 1986, the system was amended several times. The most notable of these amendments were adopted in 1985, in response to Member State pressure for relaxations to the system:

- (a) Member States are permitted, within each of the twelve month periods, to reallocate, first within regions and then between regions, the unused quotas of producers/purchasers to those who have exceeded their quotas, thus offsetting their levy liability⁽⁸⁾: this is referred to below as 'quota offsetting'; this relaxation was agreed initially for 1984/85 only, but was subsequently extended to 1985/86 and 1986/87, and, despite the Commission's proposals to cancel this provision, was further extended by the Council as part of the December 1986 decisions to cover 1987/88 and 1988/89;
- (b) Member States are authorised to use the levy collected as a contribution towards the cost of financing national cessation schemes (see paragraph 2.1 (f) above): this may only be done where levy is charged on deliveries within the national quantity, so that all levy on deliveries in excess of the national quantity is paid to the Community⁽⁹⁾: as with (a) above, this provision was originally adopted for 1984/85 only, but has subsequently been extended to the other four twelve-month periods.

3. Observations on the effectiveness of the quota/levy system in restoring balance to the milk sector

THE MARKET SITUATION

Deliveries

3.1. As Table 1 shows, the quota system had an immediate effect on the amount of milk collected by

dairies, as farmers reduced cow numbers and supplementary feeding and increased on-farm consumption of milk. Adverse weather conditions in parts of the Community also contributed to the reduction in deliveries. In 1984/85 there was a 5 % reduction from the peak levels experienced in 1983/84, with five Member States experiencing reductions of more than 5 %. In total EUR 10 deliveries at 99,5 Mio tonnes remained within the overall guaranteed quantity of 99,9 Mio tonnes, as *Table 2* shows.

3.2. However, in 1985/86, deliveries increased to 100,4 Mio tonnes, 1,0 Mio tonnes above the overall guaranteed quantity. Deliveries were particularly high during the second half of 1985/86, and this was carried through into 1986/87. During the first six months of 1986/87 deliveries were 1 % higher than during the first six months of 1985/86. However, towards the end of the twelve-month period deliveries were reduced so that, according to the latest available information, deliveries for the whole of 1986/87 were about 0,2 % higher than those for 1985/86, about 1,1 Mio tonnes above the overall guaranteed quantity.

3.3. The renewed upward trend in milk deliveries has coincided with a weakening of the export market and stagnation in internal consumption. The gap between production and consumption possibilities was evaluated by the Commission in November 1986 at 9,6 Mio tonnes of milk per annum (see *Table 3*). This includes the special disposals at highly subsidised prices of butter from intervention for export to the USSR and the Middle East, and special disposals on the internal market⁽¹⁰⁾. If these are excluded, on the grounds that the only reason for these programmes is to dispose of excessive intervention stocks, then the estimated gap for 1986 is increased by about 4 Mio tonnes, to 13,6 Mio tonnes.

Butter and skimmed milk powder (SMP)

3.4. Butter and SMP production has followed the same pattern as that of deliveries. After declining considerably during 1984 and the first half of 1985, butter and SMP production started to rise again during the latter part of 1985, and has accelerated rapidly in 1986, faster than milk deliveries. Between January and December 1986 milk deliveries rose by 1,4 %, butter production by 7 % and SMP by 9 %. These very large increases in production of the intervention products are largely explained by the reduced effectiveness of the

quota/levy system, but were further reinforced by such factors as improved weather conditions, declining sales opportunities for other milk products, especially on export markets and a temporary drop in consumption of fresh milk products following the Tchernobyl disaster.

3.5. As a consequence, butter and skimmed milk powder stocks have risen to record levels, as shown in *Table 4*. During 1986, the position worsened considerably: between January and December 1986 647 000 tonnes of butter, equivalent to 30 % of production, were bought in. Butter stocks in public stores rose from 1,0 Mio tonnes to 1,3 Mio tonnes, and skimmed milk powder stocks rose from almost 520 000 tonnes in January to a peak of 960 000 tonnes at the end of July, dropping to 772 000 tonnes at the end of the year. Almost 602 000 tonnes were bought into intervention during 1986, equivalent to 28 % of production.

3.6. There is no prospect of significantly reducing these stock levels in the near future by means of the normal disposal schemes. However, in December 1986 the Commission told the Council that it intended to undertake a special butter disposal programme designed to reduce stocks to what it considered to be normal levels. This programme, which will involve the disposal of 1 million tonnes of butter during 1987 and 1988, is only feasible at very high rates of subsidy estimated to cost the Community in total some 3 200 Mio ECU. The Commission has proposed to the Council that the financing of this programme should be spread over four years starting in 1989⁽¹¹⁾. In an opinion adopted on 18 February 1987 the Court of Auditors expressed its disagreement with the financing arrangements put forward by the Commission⁽⁴⁾.

Exports

3.7. The deterioration in the Community's export markets has been marked, and current prospects are unfavourable. Conditions have changed completely since the late 1970's when the Community was able to increase its share of an expanding world market, especially for butter and SMP. Then the EEC was able to respond more quickly than its competitors to the increase in demand from the Eastern European countries and the oil states: production was expanding rapidly, price levels were not depressed by high stock levels overhanging the market, and there was scope to expand market share by offering high export refunds. Currently demand on the world market for dairy products is weak and the EEC's competitors are aggressively seeking to maintain the absolute level of their sales. Prices are severely depressed by the level of stocks

overhanging the market, and are generally close to the GATT minimum levels. Consequently, the EEC's ability to increase its competitiveness by increasing export refunds is severely limited.

3.8. While the Community should actively seek to maintain, and if possible increase, its market share for dairy products it is necessary to be realistic about the likely volume of exports that can be maintained in the medium term. On the basis of the past four years, and in current conditions, about 12 Mio tonnes in milk equivalent can be achieved (see *Table 3*). Even this, however, will be hard to achieve while high stock levels depress the market and should, therefore, be considered a maximum in current market conditions.

Summary of market situation

3.9. In summary, therefore, the introduction of the quota system has not so far achieved the significant improvement in the balance between supply and demand that was hoped for. While some of the factors that have affected this balance since April 1984 are independent of the quota system, for example a decline in real terms in feed prices and the continued weakening of the world market, there are a number of reasons why the quota system has not achieved its objectives. These are set out in the following paragraphs.

THE LEVEL OF QUOTAS

3.10. From the outset the Community guaranteed quantity was set at too high a level. The milk balance figures in *Table 3* show that even the level of 97,2 Mio tonnes set out in the fifth recital to Council Regulation (EEC) No 856/84 as the level at which this quantity should be fixed, 'in the light of internal consumption and current export possibilities' was at least 5 Mio tonnes too high, on the basis of experience of the previous few years and known prospects. In the event, the quantity for the first year 1984/85 was set initially by the Council at 99,4 Mio tonnes, which included an extra 872 000 tonnes for the first year of the system, plus a Community reserve of 393 000 tonnes. The effective total was further increased for 1984/85 to 99,9 Mio tonnes by the approval of net transfers of 500 000 tonnes from direct sales quantities to deliveries.

3.11. In 1985/86 the planned withdrawal of the whole of the extra 872 000 tonnes allowed for 1984/85 was effectively moderated to a reduction of only 445 000 tonnes because of further net transfers of 427 000 tonnes from direct sales quantities to deliveries,

bringing the total to 99,5 Mio tonnes. In addition, contrary to the regulations, the FR of Germany, the Netherlands and Belgium allocated quotas to producers in excess of their guaranteed total quantities. In the FR of Germany more than 1 Mio tonnes was allocated in excess of its national quantity of 23,4 Mio tonnes, in the Netherlands 170 000 tonnes more than the national quantity of 12,3 Mio tonnes was allocated, and in Belgium 55 000 tonnes was allocated in excess of its national quantity of 3,2 Mio tonnes (see paragraphs 4.9-4.12 below). Thus in 1985/86 the total quota effectively allocated was 100,8 Mio tonnes.

3.12. In March 1986 the Council agreed to reduce the Community guaranteed quantity (excluding Community reserve and Spain) for 1987/88 and 1988/89 to 97,1 and 96,1 Mio tonnes respectively. These quantities, however, were soon shown still to be excessive. In December 1986, therefore, the Council decided to suspend temporarily 4 % of quota in 1987/88 and, depending on the market outlook and stock position, a further 1,5 % in 1988/89, with financial compensation for producers for the two years. As a result, the Community guaranteed quantities for 1987/88 and 1988/89, therefore, are effectively 93,1 Mio tonnes and 90,8 Mio tonnes respectively (excluding Community reserve and Spain).

3.13. On the basis of the milk sector balance estimates for 1982 — 1986 prepared by the Commission and set out in the two Communications to the Council of September and November 1986 (see *Table 3*), average internal consumption in the Community is approximately 85 Mio tonnes per annum with exports at the level of 12 Mio tonnes per annum. Both of these figures include the special sales of butter from intervention (see paragraph 3.3 above), as well as the regular programmes for subsidised disposal of SMP and butter both from intervention and market supplies. If imports and direct sales are taken at their 1985 and 1986 levels of 2,4 Mio tonnes and 3,4 Mio tonnes, deliveries need to be reduced to 91 Mio tonnes if the structural disequilibrium is to be eliminated, without further increases in the existing levels of subsidy to boost consumption in the market. If it was desired to remove the need for special subsidised sales of butter from intervention the target level for deliveries would need to drop to about 87 Mio tonnes.

3.14. It remains to be seen whether the reductions in the Community guaranteed quantity agreed in December 1986 will bring actual deliveries down to the level at which structural disequilibrium is eliminated. To a large extent this depends on the features of the quota system considered below in paragraphs 3.15 — 3.26 which influence whether or not deliveries tend to exceed or fall short of quota.

THE DISSUASIVE EFFECT OF THE LEVY

Impact on the individual producer

3.15. The levy on deliveries in excess of quota was intended to be sufficiently high to dissuade producers from exceeding their individual quotas. It was set at 75 % of the target price of milk under formula A, and 100 % under formula B. The reason for setting different rates initially is that under formula A the producer pays the levy directly on his individual overdeliveries, whereas under formula B the purchaser pays in the first instance on an excess which is the net balance of the over and underdeliveries of all producers. Under the arrangements adopted by all the Member States using the B formula (except Denmark), when the levy amount was recovered from the producers who were in excess, the effective levy rate per kilogramme that the producer paid was less than that paid by the purchaser. This is known as levy dilution. The Annex provides an illustrative example of this.

3.16. It was estimated that the higher formula B levy would result in approximately the same effective rate of levy for producers under the two formulas as in the third example of formula B shown in the Annex. At 75 % of the target price of milk it was also anticipated that the levy would have a severely dissuasive effect as it would exceed the marginal revenue from over quota production.

3.17. In the event the effective rate of levy paid by producers exceeding their individual quotas in 1985/86 in most Member States was diluted to an extraordinary extent by two factors:

- (a) the 75/100 % differentiation was totally inadequate as a means of equalising the effective levy rate paid by producers under the two formulas;
- (b) the amendment to the regulations permitting, within a given quota year, Member States to offset overdeliveries and underdeliveries between producers or purchasers has enabled some formula A and formula B Member States to dilute the effective levy rate: indeed this amendment removed much of the rationale for different levy rates under the two formulas.

3.18. Table 5 presents, as far as the available data allow, the impact of levy dilution on the rates of levy

paid by producers who exceeded their individual quotas in 1985/86. This shows that:

- (a) FR of Germany and the Netherlands, both formula A States, did not apply quota offsetting in 1985/86: their producers paid levy at the full 75 % of the target price;
- (b) under formula B the effective rates of levy paid by the producer varied very widely, depending on his particular circumstances and situation: at one extreme, if a purchaser did not exceed his quota, no levy was payable, and overproducers delivering to such purchasers escaped levy completely;
- (c) where purchasers paid levy under formula B the dilution of levy to the producer was much greater than that implied by the 100 %/75 % levy differentiation;
- (d) the combination of formula B and quota offsetting can reduce the levy to a very low rate indeed: within the United Kingdom, producers delivering to the Milk Marketing Board of England and Wales paid levy at an effective rate of 0,1341 p/kg, which is less than 1 % of the target price for milk.

3.19. Thus, where formula B and/or quota offsetting were applied, producers were able to a great extent to avoid the impact of the levy. In these circumstances the disincentive to deliver milk above quota is substantially reduced.

Impact on total production

3.20. The Court sought to analyse the extent of individual producers' overdeliveries in 1985/86 in order to see the extent to which increased dilution of the levy reduces the dissuasive impact on production. Unfortunately under formula B Member States are not required to collect statistics at producer level, and the FR of Germany which applied the formula A levy directly without any dilution does not centralise statistics on quotas and deliveries by producer, despite the requirements of Article 12 of Commission Regulation (EEC) No 1371/84 to do so (see paragraph 5.12 below for observations concerning the adequacy of management information). It is not possible, therefore, to present a complete analysis. However, the data that exist indicate that where the levy was substantially diluted, producers were prepared to exceed their quotas by considerable amounts. In the United Kingdom, Denmark, and Belgium, 32 %, 44 % and 38 % respectively of those

producers who exceeded their quotas did so by 10% or more whereas in the Netherlands, where there was no levy dilution, only 8% did so. There is also some limited evidence from France that, in those regions where in 1985/86 the effective levy rate paid was low, or no levy was paid, producers tended to compensate in 1986/87 and increased production fairly rapidly, whereas in those regions where the levy was higher and farmers' net revenue was substantially hit, production is not increasing so fast.

3.21. So long as formula B and quota offsetting are applicable, producers can anticipate that there will always be underdeliveries to offset, at least in part, their own overdeliveries. This means that formula B and quota offsetting benefit the producer who takes a calculated risk to deliver in excess of his quota, at the expense of those who take steps to remain within quota. It can be argued that, as producers obtain experience under the quota system, more and more of those underdelivering will produce close to their quota, thus reducing the impact of offsetting. This may be so, but it remains unknown at what level underdeliveries will stabilise. There will always be some producers whose deliveries are reduced for personal, animal health, and other reasons, as well as such factors as adverse regional weather conditions. Generally speaking, under formula B, the larger the purchaser, the greater the scope for offsetting under and overdeliveries: thus producers in the United Kingdom, where the centralised Milk Marketing Boards qualify as purchasers, tend to benefit to a greater extent than producers in, for example, France or Luxembourg. Similarly, within a Member State, producers delivering to large purchasers tend to benefit more than those delivering to small purchasers.

3.22. As a result there is a structural tendency for milk producers to produce above the national quantity if the levy rate they pay on their individual overdeliveries remains less than their marginal revenue from milk production.

Amendments to the system of levy liability

3.23. The decision in December 1986 to adopt the Danish system for assessing levy liability is aimed at encouraging production to remain within the national quantity. Under the Danish system, instead of spreading the total levy liability over all producers who have exceeded their quotas, with the dilution of the effective levy rate paid on each kilogram of the producers' over

quota deliveries (see paragraph 3.15 and the Annex), the authorities calculate at the end of the year by how many percentage points they can increase each overproducer's quota by transferring to him on a temporary basis the unutilised quota of underproducers. Only those producers whose deliveries still exceed the adjusted quota allocation pay levy, at the full, undiluted rate on their adjusted over-quota deliveries. Thus in 1985/86 in Denmark there was sufficient unused quota to add 34,3% to each overproducers' initial quota: out of 17 700 producers (62% of Danish milk producers) whose deliveries exceeded their initial quotas for 1985/86 only 326 producers, whose deliveries were more than 34,3% above their initial quotas, paid levy, at 100% of the target price for milk on their adjusted over quota deliveries.

3.24. This system has the advantage that it concentrates the levy on those producers who proportionately exceed their quotas the most, and by aiming to ensure that the levy paid on the adjusted over quota deliveries wipes out the marginal revenue from those deliveries, tends, in principle at least, to limit overall deliveries to the national quantity.

3.25. On the other hand, recovering the levy in this way has other consequences, for example:

(a) because of inevitable individual anomalies which have resulted when allocating quotas to producers in varying circumstances according to a set of criteria with limited flexibility, some producers have been less fortunate than others in the amount of quota they have obtained in relation to their needs: these less fortunate producers, as well as those who have continued to expand production irresponsibly in order to take advantage of the weaknesses in the system, will be heavily penalised;

(b) the vast majority of producers who exceed their individual quota pay no levy at all;

(c) the concept of individual quotas, already weakened by the introduction of quota offsetting, is further undermined, and that of national quotas strengthened.

3.26. The Court is aware that the Member States which have adopted formula B and those which are in

favour of the retention of quota offsetting consider that the flexibility which they provide is essential to permit further restructuring of the dairy sector and to ensure that the quota system does not become too rigid. Moreover, as this section has shown, the flexibility offered can be very variable and uneven both between and within Member States. The necessary degree of flexibility could, however, be operated in a more orientated manner within the context of an exclusively producer-based (i.e. formula A) quota system.

THE LEVY AND THE FINANCING OF SURPLUS DISPOSAL

3.27. Although the levy was not seen primarily as a revenue raising instrument, the first recital of Council Regulation (EEC) No 857/84 provides that the budgetary cost of disposing of above quota deliveries, should be met by levy proceeds. Although this objective remains in the regulation, it has only been partially attained because of the levy dilution under formula B and of the amendments to the regulations in 1985 authorizing, firstly, quota offsetting and, secondly, the allocation within Member States of levy collected to finance national cessation schemes, to the extent that actual deliveries do not exceed the national quantity.

3.28. Both of these amendments mean that most of the levy which it was originally intended should be paid to EAGGF to finance surplus disposal is retained within the Member States. In the case of quota offsetting the levy is, in effect, kept by those overdeliverers who would otherwise have paid it. Where the levy is collected it can be used to finance cessation premiums, thereby transferring the benefit of the levy paid by overproducers to those ceasing production without actually reducing the overall level of production. The Member States were not prevented from redistributing quota bought up in this way.

3.29. In the event, only two Member States, FR of Germany and the Netherlands, have taken advantage of the provision to finance cessation premiums with levy proceeds. In both cases they have allocated quota in excess of their national quantities in contravention of Article 5c (3) of Council Regulation (EEC) No 804/68 (see paragraphs 4.11 — 4.14). They have used the proceeds of the levy to buy up quota from those ceasing production with the aim of bringing the total allocated back within the limits of their national quantities. In both cases, however, the allocated quota remains above these limits.

3.30. Table 6 sets out the budgetary accounts concerning the levy proceeds and its utilisation to finance cessation premiums. This shows that of the levy collected in respect of 1984/85 and 1985/86, 81,2 Mio ECU was used to finance cessation premiums, and only 212,9 Mio ECU was available for surplus disposal. This compares with an estimated cost to the budget of at least 2 688 Mio ECU for the disposal of the 9,6 Mio tonnes surplus milk production in 1986, and total expenditure in 1985 of 6 571 Mio ECU in the milk sector.

3.31. The Commission estimates that the marginal budgetary cost of disposing of surplus milk production is roughly equivalent to the target price of milk, 278,4 ECU/tonne in 1986/87. Within the logic of the Commission's reasoning, therefore, an effective levy rate after adjustments to the producer of 100 % of the target price of milk is needed if the budgetary cost of disposing of above quota deliveries is to be met by levy proceeds. In these circumstances the levy rates applied for 1984/85, 1985/86 and 1986/87, which were supposed to be at 75 % of the target price for both formulas A and B (see paragraphs 3.15 and 3.16 above), were not sufficient to cover the full marginal disposal cost to the budget. In its December 1986 decisions, the Council set the levy rate at 100 % of the target price of milk for both formulas.

3.32. The Court's own calculations show that, at the present time, on the basis of certain assumptions about potential disposal outlets, and the length of time that the surplus has to be stored as butter and SMP, the marginal budgetary cost can rise to above 300 ECU/tonne of milk equivalent.

4. Observations on implementation by Member States

CHOICE OF FORMULA

4.1. All Member States except the FR of Germany, the Netherlands and Belgium have adopted formula B. The choice of formula has not made any fundamental difference to the ways in which Member States have allocated and managed quota: in all Member States, irrespective of the formula chosen, quotas have to be fixed at the level of each producer. This is because:

- (a) the provisions of the Community Regulations concerning allocation of quota relate primarily to producers rather than purchasers;

- (b) under formula B purchasers are required to subdivide their quota amongst their producers so that any levy liability can be recovered from them as required by the regulations.

4.2. Likewise, under both formula A and formula B dairies play an important administrative role in managing the quotas as they have the detailed producer records on deliveries.

4.3. In these circumstances there are no convincing administrative or management reasons why formula A cannot be applied in all Member States.

ADEQUACY OF IMPLEMENTATION BY MEMBER STATES

4.4. The Court's examination has shown that, in general, Member States have devoted considerable resources at national and local level in order to implement the system in accordance with the regulations, and in many respects the arrangements adopted are satisfactory within the terms of the existing regulations. There are exceptions, however, the main ones of which are considered briefly below.

Non-implementation by Italy

4.5. Italy has not yet implemented the quota/levy system on the grounds that it lacks the basic statistical data and the administrative resources necessary for implementation, taking into account the very large number of small producers. The Commission has provisionally estimated that 1984/85 deliveries remained within the national quantity of 8,8 Mio tonnes, but that in 1985/86 deliveries exceeded the national quantity by 33 000 tonnes.

4.6. During 1984 and 1985 the Italian authorities carried out a survey of milk producers as a first step towards defining national implementing measures, but so far no results have been published, and no national implementing measures have been adopted.

4.7. At 8,8 Mio tonnes in 1985/86, Italy's national quantity for deliveries to dairies amounts to about 8 % of the EUR 10 total — it is the Community's fifth largest producer of milk. It has the largest direct sales quota, accounting for 33 % of the Community total at 1 116 000 tonnes. It is therefore most unsatisfactory that national implementing measures have not been adopted in Italy. The Commission has opened infringement proceedings under Article 169 of the EEC Treaty.

Measures weakening the effectiveness of implementation

4.8. In other Member States there have been specific departures from the Community regulations which resulted in a weakening of the effectiveness of the quota system. The most important of these are:

- (a) the overallocation of individual quotas above the national guaranteed quantities by the FR of Germany, the Netherlands, and Belgium;

- (b) arrangements to reduce levy liability by France and Denmark.

Overallocation of quota by FR of Germany, the Netherlands and Belgium

4.9. Table 7 shows that in both 1984/85 and 1985/86 the FR of Germany and the Netherlands allocated quota to individual producers in excess of the national quantities. Belgium also overallocated quota in 1985/86. In the case of the FR of Germany the extent of the overallocation was 1,2 Mio tonnes above a national quantity of 23,5 Mio tonnes (5,0 %) in 1984/85, and 1,1 Mio tonnes above a national quantity of 23,4 Mio tonnes (4,6 %) in 1985/86. In the case of the Netherlands the overallocation was 117 000 tonnes above a national quantity of 12,1 Mio tonnes (1,0 %) in 1984/85 and 170 000 tonnes above the national quantity of 12,0 Mio tonnes (1,4 %) in 1985/86. For Belgium 55 000 tonnes was allocated above the national reference quantity of 3,2 Mio tonnes (1,7 %) in 1985/86. Such overallocation contravenes Article 5c (3) of Council Regulation (EEC) No 804/68 and Article 5 of Council Regulation (EEC) No 857/84.

4.10. In both the FR of Germany and the Netherlands these overallocations have occurred because, after the initial allocation of base quota to producers, there was insufficient reserve left to meet 'special case' allocations under Articles 3 and 4 of Council Regulation (EEC) No 857/84. Instead of restricting these additional allocations, or reducing the basic quota allocations, the Member States concerned allowed allocations to proceed above the guaranteed quantities. In the case of Belgium, the overallocation is of a technical nature, resulting from incorrect treatment by the Belgian authorities of a part of the quota amounts bought up under the cessation scheme.

4.11. In the case of the FR of Germany in 1985/86 one effect of the overallocation is that while total deliveries exceeded the national quantity by 296 000 tonnes, excess deliveries above quota by individuals amount to only 269 000 tonnes. Under the regulations it is the producers who are liable to pay levy on their above quota deliveries, which means that there is no specific individual producer liability for the difference of 27 000 tonnes⁽¹²⁾. The Commission maintains that nevertheless levy in respect of the 27 000 tonnes must be paid.

4.12. In the FR of Germany and the Netherlands cases the Commission has opened infringement proceedings under Article 169 of the EEC Treaty. In March 1987 the Commission decided not to pursue these actions, following undertakings given by the Dutch and FR of Germany authorities in respect of the 1987/88 and 1988/89 quota years. The Court considers, nevertheless, that, as these undertakings enable the two Member States to maintain allocations of quota above their national quantities, the grounds for originally starting infringement proceedings remain valid.

Arrangements to reduce levy liability

4.13. Both Denmark and France have adopted arrangements at variance with the Community regulations with the direct effect of reducing levy liability. In Denmark's case, in June 1984, the Federation of Danish Dairies established with retroactive effect to 1 April 1984 an organisation to act as a single purchaser for all milk deliveries in Denmark, in order to obtain the maximum benefit for producers from the flexibility possible under formula B, including levy dilution. This single purchaser has the entire Danish guaranteed quantity as its quota and can manage the quota between its producers.

4.14. The Court's examination of the functioning of the single purchaser shows that it corresponds neither to the normal concept of a purchaser nor to the definition set out in Article 12 of Council Regulation EEC No 857/84⁽¹³⁾. The Commission's own investigations came to the same conclusion. Although the Commission opened infringement proceedings promptly against Denmark in respect of the single purchaser in January 1985, following the introduction of Article 4a of Council Regulation (EEC) No 857/84 (quota offsetting) it hesitated in continuing the case and in March 1987 decided to pursue it no further as this article was considered to render redundant the device of a single purchaser as a means of levy limitation.

4.15. However, until the end of 1986, Article 4a remained a temporary provision — indeed, the Com-

mission regularly sought its abolition — and if it were abolished, the single purchaser would enable Denmark to continue to limit the levy liability to its producers. The Court considers, therefore, that the grounds for the infringement proceedings remained valid throughout the period.

4.16. In response to the observations of the Court and of the Commission, the Danish authorities have agreed to adjust the functions of the single purchaser so that in the future it plays a genuine role in the commercialisation of milk. The Court considers that the Commission should examine these adjustments to see whether they enable the single purchaser to satisfy the requirements of Article 12 of Council Regulation (EEC) No 857/84, and, if so, whether or not the recognition granted to it by the Danish authorities is in accordance with Article 25 of Council Regulation (EEC) No 804/68, which provides that exclusive purchasing rights may only be granted following authorisation by Council on the basis of criteria laid down in the article.

4.17. France took immediate steps after the end of the 1985/86 quota year to reduce the levy liability to be paid by its producers by changing the period from the twelve calendar months 1 April 1985 to 31 March 1986 to one of 52 weeks⁽¹⁴⁾, thus dropping one day's deliveries, equivalent to about 78 000 tonnes, with 21,7 Mio ECU in levy liability. Total liability for 1985/86 was, therefore, reduced by 30 % from 72,5 Mio ECU to 50,8 Mio ECU. France has justified its action by reference to Article 10 of Commission Regulation (EEC) No 1371/84 of 16 May 1984⁽¹⁵⁾. The Commission has opened infringement proceedings under Article 169 of the EEC Treaty on this matter.

Restrictions on the transfer of quotas between producers

4.18. Under the Community regulations, in particular Article 7 of Council Regulation (EEC) No 857/84 and Article 5 of Commission Regulation (EEC) No 1371/84, quota can normally only be transferred from one producer to another together with the land to which it relates, as part of a land sale, lease, or inheritance arrangement. These restrictions on transfer are intended to prevent a market developing in quota separate from the land.

4.19. The success of Member States in enforcing these provisions and ensuring that they are not circumvented by legal devices has been varied. In those Member States, (such as the United Kingdom, Ireland and the Netherlands), where the pressures for what is in effect trade in quotas is high, the authorities have

tried to ensure that producers seeking to buy or lease additional quota have had to buy or lease appropriate amounts of land with it. Also, they have taken measures to stop devices to circumvent the rules (for example, the attachment of large amounts of quota to very small areas of land). Despite these measures, however, the Court noted that controls on whether or not authorised land deals with quota transfer were genuine (for example, whether or not a lessee actually occupied the land which he had leased with quota) were either limited in extent or non-existent.

4.20. In addition, in the United Kingdom, where producer interests and the authorities have favoured greater flexibility in quota transfer, the Milk Marketing Board has introduced a 'quota leasing' scheme for 1986/87. This is designed to circumvent the restrictions of Article 7 of Council Regulation (EEC) No 857/84. The MMB and the United Kingdom authorities consider that the MMB has authority to manage its purchaser quota amongst its producers under Article 8 of the same regulation. In the Court's view, however, the quota leasing scheme negates the purpose of the Community regulations.

4.21. In summary, there are a number of indications that the restrictions placed upon trading in quotas are being, at least to some extent, circumvented. Quotas have an economic value, and when they are in short supply there is demand for them. For farmers who failed to obtain a satisfactory quota allocation, or those who are producing above their quota for other reasons, leasing or buying quota may appear to them to be the only way to avoid levy payments. As the quota system develops further away from 1983, the base year for quota allocation in most Member States, the pressure for greater flexibility increases for structural reasons. In these circumstances it is likely that the pressures to circumvent the current restrictions on quota transfer separately from land will continue to increase. The Court considers, therefore, that the Commission and the Member States should examine together how this difficult problem should be dealt with.

Control measures adopted by Member States

4.22. Generally, Member States have established adequate control and audit procedures to check that the system is being implemented correctly. At various times since the introduction of the system in April 1984 there have been reports in the press of attempts at fraudulent circumvention of the regulations, such as:

- (a) milk smuggling across the Northern Ireland — Ireland and Belgium — Netherlands borders;
- (b) 'quota bank' in the Netherlands, whereby quotas were to be transferred illegally between producers;
- (c) unrecorded milk sales outside the Milk Marketing Scheme, and also outside the quota system in the United Kingdom;
- (d) transferring milk deliveries from producers over quota to those under quota within the same dairy in order to avoid levy liability (e.g. Denmark).

4.23. The Court has examined these press reports, and the measures taken by Member States to counter them. In each case:

- (a) it seems from the evidence obtained by Member State authorities that the scope of such fraudulent activities is limited;
- (b) in all the cases known to the Court Member State authorities have taken prompt action to investigate and put a stop to such actions, and where appropriate have taken steps to recover sums due.

5. Observations on the effectiveness of the Commission's role in managing the quota/levy system

INTRODUCTION

5.1. As the Community regulations allow the Member States considerable freedom in developing their detailed arrangements for the implementation of the system, it is important that the Commission performs a general role in supervising the implementation of the régime, ensuring that Member States remain within the broad framework of the regulations, advising on implementation problems, and actively working for consistent application of the regulations.

5.2. In summary, the Commission's role in developing and managing the execution of the system has covered the following:

- (a) development of policy proposals;
- (b) monitoring the effect of the system on the milk market;
- (c) drafting Community regulations;
- (d) reviewing Member State regulations;

- (e) advising on implementation difficulties, providing interpretations and clarifications of regulations;
- (f) control of implementation through the clearance of accounts procedure.

The Commission has exercised its role through the normal procedures (e.g. consulting the Management Committee).

5.3. In a number of respects the Court considers that the Commission's general role in supervising the implementation of the régime has been less effective than it should have been. The following paragraphs set out the main examples.

EFFECTIVENESS OF PROCEDURES FOR DEALING WITH PERCEIVED INCORRECT APPLICATION OF MEASURES

5.4. If the Commission is unable to resolve satisfactorily problems of perceived incorrect application of the arrangements in a simple way by exchange of correspondence, it has two sets of formal procedures for taking action: infringement proceedings in accordance with Article 169 of the EEC Treaty or the clearance of accounts procedures. Both of these procedures are slow, and so it is essential that the Commission takes action as quickly as possible and avoids unnecessary delays in stages of the procedure.

5.5. In some instances concerning the implementation of the quota system the Commission moved quickly, for example at the beginning of 1985 when most Member States were not willing to collect advance payments of levy as required under the regulations in force at that time, and, more recently when France changed the period for the 1985/86 year to 52 weeks. However, in other instances the Commission only formally initiated infringement proceedings in July and September 1986 against several Member States on matters which it had first queried in 1984 and 1985.

ADEQUACY OF ON-THE-SPOT SUPERVISION

5.6. The services of the Commission with direct responsibility for the quota system have not undertaken a systematic examination on the spot of Member States' implementation measures. In 1986 a programme of missions was carried out by the clearance of accounts services, however it was noted that only on two of these missions was an official of the market management division present. The Court has also observed that in the preparation of these missions there has been a certain lack of coordination, with the clearance of accounts services not taking full advantage of the documentation and information held by the market management services.

5.7. During its own missions the Court identified a number of implementation problems and differing interpretations of regulations of which the Commission's services were not aware until the Court brought them to their attention. Some examples were:

- (a) Member States have adopted different definitions, each of which may be considered valid in the absence of precise definition in the regulations, of what constitutes an 'eligible producer' for allocation of basic quota: this has resulted in anomalous situations for some producers which could have been avoided if a consistent definition was used;
- (b) France, Belgium and the Netherlands were not applying the provisions of Article 9 (2) of Commission Regulation (EEC) No 1371/84 then in force which provided that the levy should be increased if the fat content of the milk increased by more than a specified amount for reasons other than normal production conditions (i.e. fraudulent manipulation of fat content): in France and Belgium the fat content was not being monitored in relation to the quota system, in the Netherlands the specified level above which the producer had to justify the increase in fat content was higher than that in the regulation;
- (c) the Netherlands, the FR of Germany and Belgium were not applying in the manner prescribed the provisions of Article 11 (2) of Commission Regulation (EEC) No 1371/84 which provides for certain documentation requirements in respect of intra-Community trade in certain milk products, to ensure that milk cannot escape the quota regulations by being sent across a border. In the cases of the FR of Germany and the Netherlands the authorities argued that the regulatory provisions were inappropriate, and they had alternative arrangements for controlling intra-Community trade and ensuring that all milk was correctly accounted for under the quota regulations. In the case of Belgium, however, the authorities have not put into effect any control measures under this Article.

5.8. The Commission should have been aware of these and other problems earlier, and should have taken action to resolve them in a consistent manner.

ROLE OF THE MANAGEMENT COMMITTEE

5.9. Although the Management Committee has performed an important role in scrutinizing and giving opinions on the draft Commission regulations governing the implementation of the quota/levy system, it has not so far provided a satisfactory framework in which officials of the Member States and the Com-

mission involved on a day-to-day basis with the implementation of the system can share experiences and discuss in a practical manner common implementation problems. There is a need for such periodic technical meetings which would help to improve implementation and achieve consistency.

MANAGEMENT INFORMATION

5.10. When the quota system was introduced, the Commission relied to a large extent on existing sources of information about developments in the milk market to assess the impact of the measures taken in Member States. Member States were required by the regulations to notify the Commission of the various measures they took to implement the system, and to maintain certain data on purchasers/producers' delivery positions *vis à vis* their quotas.

5.11. The Commission did not, however, define at the outset a detailed reporting format for Member States to use when submitting details of implementation status, for example at the end of each 12-month period. As a result, when in July 1985 a detailed questionnaire was sent by the Commission to Member States seeking data on the outturn for 1984/85, many Member States were not able to complete it satisfactorily as their data were maintained in different forms from that requested by the Commission.

5.12. There are also some unfortunate gaps in the data which Member States applying formula B are required to collect centrally, which restrict the analyses that can be made of the impact of the quota/levy system on producers. For example during the first three 12-month periods dairies have not been required to provide data on the effective levy rates actually paid by producers on their overdeliveries, despite this being central to the effectiveness of the whole system. Dairies are not required to submit analyses of the extent of overdelivery by individual producers.

5.13. The Court considers, therefore, that the Commission, in consultation with the Member States, should determine management information requirements and establish procedures for the gathering of the necessary data.

EVALUATION OF PROPOSALS

5.14. Following on from the previous point, the Court noted during its audit that the Commission has not always carried out detailed evaluations, using techniques such as simulation or sensitivity analysis, of the potential outcomes of its proposals. For example, only

limited analysis was carried out to determine the differential rates of levy for formulas A and B, which did not test a range of alternative assumptions which would have illustrated more clearly the potential levy dilution effects of formula B.

5.15. Also, no simulations were carried out to illustrate to the Council the potential effect on production and effective levy rates of introducing quota offsetting. While it is recognised that in the first instance this was introduced in 1985 very hurriedly, later, before it was renewed on two occasions, the results of such analysis would have ensured that the Council had the best possible information before it when it took its decisions.

5.16. In view of the serious consequences for the milk market and for the budget of the decisions that are being taken by the Commission and the Council, it is essential that potential outcomes are analysed on the basis of adequate management information and are thoroughly evaluated and tested on a range of different assumptions. This underlines the importance of the recommendation in paragraph 5.13 that the Commission should obtain adequate data from Member States.

ACCOUNTING FOR THE ADDITIONAL LEVY

5.17. In its Annual Report on the financial year 1985⁽¹⁶⁾ the Court criticised the unsatisfactory nature of the way in which the additional levy proceeds and the expenditure of the additional levy on national cessation premiums are presented in the budgets and accounts. Those criticisms are reiterated here.

5.18. Apart from the question of whether or not the additional levy should be booked in the accounts as negative expenditure, a treatment which the Court has criticised on numerous occasions, the key criticism is that, when the Council authorised Member States in certain circumstances to use additional levy proceeds to finance national cessation premiums, no expenditure line was created in the budget: rather, the resultant expenditure is netted directly against the revenue from the levy, in direct contravention of Article 3 (1) of the Financial Regulation⁽¹⁷⁾, and contrary to accepted principles of accounting practice.

6. Summary of conclusions

EFFECTIVENESS OF THE QUOTA/LEVY SYSTEM IN RESTORING BALANCE

6.1. The quota system as implemented between 2 April 1984 and the end of 1986 did not achieve its

objective of improving the balance between supply and demand in the milk sector. During 1986 the situation worsened considerably (paragraphs 3.1 — 3.9).

6.2. Initially, the Community guaranteed quantity was set too high. As a ceiling on production it was significantly weakened by the addition of a Community reserve and by net transfers of guaranteed quantities from direct sales to deliveries to dairies. In December 1986 the Council decided to reduce the effective Community guaranteed quantity for 1987/88 and 1988/89 by means of a combination of permanent cuts and temporary suspension, to 93,1 and 90,8 Mio tonnes respectively (excluding Community reserve and Spain). It remains to be seen whether these decisions will eliminate the structural disequilibrium in the milk sector. Community milk deliveries need to drop to 91 Mio tonnes if balance is to be achieved without increasing existing levels of subsidy, and to 87 Mio tonnes if special sales of butter from intervention on the internal and external markets, which are only being undertaken because of the high level of stocks, are excluded (paragraphs 3.10 — 3.14).

6.3. At producer level quota offsetting and formula B enabled the levy to be so diluted in 1985/86 that it lost much of its dissuasive effect. The Council has agreed changes in the way in which under and overdeliveries can be offset at producer level for 1987/88 and 1988/89 in order to overcome this weakness in the system. It remains to be seen whether they will be effective (paragraphs 3.15 — 3.26).

6.4. The differential levy rates for producers under formula A and formula B have not achieved their objective of equal treatment for all producers. In particular overproducers under formula B delivering to a dairy which did not exceed its total purchaser quota paid no levy at all. The Council's decisions of December 1986 are intended to overcome this problem of unequal treatment. But even under the revised arrangements overproducers within dairies that remain within their purchaser quota under formula B will still escape levy (paragraphs 3.15 — 3.19).

6.5. Inequality of treatment of producers within and between Member States is inherent in the formula B system (paragraphs 3.18 — 3.19).

6.6. Levy dilution under formula B and quota offsetting coupled with the authorization given to Member States in specified circumstances to utilise levy proceeds to finance national cessation premiums meant that, for the first three twelve-month periods, the levy collected

on overdeliveries was much less than was needed to cover the cost of disposing of the excess deliveries. The marginal cost to the budget of disposing of surpluses is estimated to be equivalent to the milk target price of 278,4 ECU/tonne. The rate of the levy therefore, needs to be set at at least this level if it is to cover the marginal budgetary cost of disposal. For 1987/88 and 1988/89 the levy rate under both formulas will be 100 % of the target price (paragraphs 3.27 — 3.32).

IMPLEMENTATION BY MEMBER STATES

6.7. There are no convincing administrative reasons why formula A could not be applied in all Member States (paragraphs 4.1 — 4.3).

6.8. Although Member States have devoted considerable resources to implementing the system, there have been significant departures from the regulations which have undermined the effectiveness of the system. Significant examples are:

- (a) non-implementation by Italy (paragraphs 4.5 — 4.7);
- (b) allocation of quotas above the overall guaranteed quantities by the FR of Germany and the Netherlands, and Belgium (paragraphs 4.8 — 4.12);
- (c) arrangements to reduce levy liability by France and Denmark (paragraphs 4.13 — 4.17).

6.9. In some Member States there are considerable, and growing pressures to circumvent the restrictions on the transfer of quota between producers without land being attached. There is a need to reassess the existing regulatory provisions to determine whether or not they need to be adapted, (paragraphs 4.18 — 4.21).

6.10. Generally Member States have established control procedures and have acted promptly to investigate and deal with cases of fraud or attempted circumvention of the regulations (paragraphs 4.22 — 4.23).

EFFECTIVENESS OF THE COMMISSION'S ROLE

6.11. The effectiveness of the Commission's role has been limited by:

- (a) slowness in some instances and absence of action in others in opening infringement proceedings against Member States on matters where incorrect application of the measures is perceived, (paragraphs 5.4 — 5.5);
- (b) the absence of systematic on-the-spot supervision of Member States' implementation (paragraphs 5.6 — 5.8);

- (c) the failure to organise within the Management Committee a forum in which officials of the Member States and the Commission could share experiences and discuss in a practical manner common implementation problems (paragraph 5.9);
- (d) weaknesses and gaps in the management information available to the Commission (paragraphs 5.10 — 5.13);
- (e) not having carried out sufficient evaluations of the

potential outcomes of its proposals (paragraphs 5.14 — 5.16).

ACCOUNTING FOR THE ADDITIONAL LEVY

6.12 The way in which expenditure of the additional levy on national cessation premiums is netted off directly against levy proceeds in the accounts contravenes Article 3 (1) of the Financial Regulation and is contrary to accepted principles of accounting practice (paragraphs 5.17 — 5.18).

The present report was adopted by the Court of Auditors at Luxembourg at its meeting of 15 July 1987.

For the Court of Auditors

Marcel MART

President

(1) See, for example, Doc. COM(85) 583 final of 5. 11. 1985, paragraph 3.

(2) See Annex 1 of Doc. COM(83) 500 final of 28. 7. 1983, which sets out an Extract from the Declaration adopted by the European Council in Stuttgart on 18. 6. 1983.

(3) Council Regulation (EEC) No 856/84 of 31. 3. 1984, OJ L 90 of 1. 4. 1984, p. 10, which inserted Article 5c into Council Regulation (EEC) No 804/68 of 27 June 1968. OJ L 148 of 28. 6. 1968, p. 13.

Council Regulation (EEC) No 857/84 of 31. 3. 1984, OJ L 90 of 1. 4. 1984, p. 13.

Council Regulation (EEC) No 1371/84 of 16. 5. 1984, OJ L 132 of 18. 5. 1984, p. 11.

(4) OJ C 59 of 7. 3. 1987, p. 5.

(5) Doc. COM(86) 510 final of 11. 9. 1986 and Doc. COM(86) 645 final of 14. 11. 1986.

(6) Decisions of the 1129th Council Meeting — Agriculture of 8. 9. and 10. 12. 1986 and 13, 14, 15 and 16. 12. 1986.

(7) Council Regulation (EEC) No 1336/86 of 6. 5. 1986, OJ L 119 of 8. 5. 1986, p. 21.

(8) Article 4a of Council Regulation (EEC) No 857/84, introduced by Council Regulation (EEC) No 590/85 of 26. 2. 1985, OJ L 68 of 8. 3. 1985, p. 1.

(9) Article 9 (4) of Council Regulation (EEC) No 857/84, introduced by Council Regulation (EEC) No 1305/85 of 23. 5. 1985, OJ L 137 of 27. 5. 1985, p. 12.

(10) For example, concentrated butter, butter for animal feed, Christmas butter.

(11) Doc. COM(87) 6 final of 19. 1. 1987.

(12) The differences between the figures in this paragraph and the gross overallocation of individual quotas is because in 1985/86 not all producers utilised fully their quota allocations.

(13) This states:

'(e) purchaser: an undertaking or grouping which purchases milk or other milk products:

— to treat or process them, or

— to sell them to one or more undertakings treating or processing milk or other milk products.'

(14) *Arrêté* of 15. 5. 1986, *Official Journal of the French Republic*, No 115 of 18. 5. 1986, p. 6502.

(15) This states:

'For the purposes of (collecting the levy), Member States may replace the 12-month period by a 52-week period. Should they do so, the first 52-week period shall begin on the Sunday or Monday following 2 April 1984.'

(16) *Annual report of the Court of Auditors on the financial year 1985*, paragraph 4.4 (d), OJ C 321 of 15.12.1986.

(17) Financial Regulation of 21. 12. 1977 applicable to the general budget of the European Communities, OJ L 356 of 31. 12. 1977.

Table 1: Milk collected, EUR-10⁽¹⁾ 1983/84 — 1986/87

(1 000 t)

Member State	1983/84	1984/85	% 84/85 83/84	1985/86	% 85/86 84/85	1986/87 (provisional)	% 86/87 85/86
Belgium	3 269	3 093	-5,4	3 260	+5,4	3 300 ⁽²⁾	+ 1,2
Denmark	5 280	4 934	-6,6	4 901	-0,7	4 882	-0,4
FR of Germany	25 472	23 543	-7,6	23 719	+0,7	23 981	+1,1
France	26 247	25 618	-2,4	25 710	+0,4	25 589	-0,5
Greece	429	415	-3,3	446	+7,5	451 ⁽²⁾	+1,1
Ireland	5 436	5 600	+3,0	5 588	-0,2	5 539	-0,9
Italy	8 541	8 285	-3,0	8 351 ⁽²⁾	+0,8	8 451 ⁽²⁾	+1,1
Luxembourg	282	292	+3,5	294	+0,7	290	-1,4
Netherlands	12 929	12 138	-6,1	12 266	+1,1	12 199	-0,6
United Kingdom	16 786	15 557	-7,3	15 613	+0,4	15 697 ⁽²⁾	+0,5
Total EUR-10	104 671	99 475	-5,0	100 148	+0,7	100 379	+0,2

⁽¹⁾ Source: Eurostat Cronos.

The data in this table for 1984/85 and 1985/86 differ slightly from those in Table 2 for the following reasons:

(a) minor differences of definition between the data collected by Eurostat for statistical purposes and those collected for the purposes of administering the quota system;

(b) data for 1984/85 in Table 2 cover the period 2. 4. 1986 to 31. 3. 1985 (except for Denmark and the Netherlands, 8. 4. 1984 — 6. 4. 1985) whereas those in Table 1 are for the period 1. 4. 1984 to 31. 3. 1985.

⁽²⁾ Eurostat Cronos data not available for full twelve-month period, Commission estimates used for missing months.Table 2: Deliveries/Quota 1984/85 and 1985/86⁽¹⁾

(1 000 t)

Member State	1984/85 ⁽²⁾			1985/86			1985/86- 1984/85 % change in deliveries
	Guaranteed quantity ⁽²⁾	Deliveries	% Difference	Guaranteed quantity ⁽²⁾	Deliveries ⁽³⁾	% Difference	
Belgium	3 163	3 071	-2,9	3 161	3 223	+2,0	+4,9
Denmark	4 932	4 912	-0,4	4 882	4 884	+0,0	-0,6
FR of Germany	23 487	23 466	-0,1	23 423	23 719	+1,3	+1,1
France	25 583	25 542	-0,2	25 494	25 778 ⁽³⁾	+1,1	+0,9
Greece	472	440	-6,8	467	450	-3,7	+2,3
Ireland	5 583	5 584	+0,0	5 583	5 587	+0,1	-0,0
Italy	8 798	8 760 ⁽⁴⁾	-0,4	8 798	8 831 ⁽⁴⁾	+0,4	+0,8
Luxembourg	293	291	-0,7	290	294	+1,4	+1,0
Netherlands	12 052	12 194	+1,2	11 979	12 254	+2,3	+0,5
United Kingdom	15 552	15 305	-1,6	15 394,574	15 406	+0,1	+0,6
Total EUR-10	99 917	99 565	-0,4	99 471,574	100 426	+1,0	+0,9

⁽¹⁾ Source: Member States (see note to Table 1).⁽²⁾ Before temporary transfers of direct sales reference quantity allowed under Council Regulation (EEC) No 857/84, Article 6a.⁽³⁾ Deliveries 1. 4. 1985 — 31. 3. 1986, i.e. not taking into account the adjustment to 52 weeks made by France (see paragraph 4.17).⁽⁴⁾ No information is available for deliveries relating to the transfer of reference quantity of 475 000 tonnes from direct sales to deliveries (see paragraph 3.10). These deliveries are provisionally estimated to be identical to the transfer.

Table 3: Milk sector balance 1982-1986⁽¹⁾

(1 000 t)

	1982	1983	1984	1985	1986 est.
Milk production	107,7	111,9	109,2	107,3	108,3
A. Deliveries	99,7	103,7	101,4	99,7	100,5
Direct sales	3,9	3,8	3,6	3,4	3,4
Imports	2,6	2,5	2,4	2,4	2,4
Total supply	106,2	110,0	107,4	105,5	106,3
B. Internal consumption	85,4	82,4	88,0	84,8	85,0
Exports	12,4	10,0	12,7	12,2	11,7
Total demand ⁽²⁾	97,8	92,4	100,7	97,0	96,7
Surplus	8,4	17,6	6,7	8,5	9,6

⁽¹⁾ Sources: COM(86) 510 final, 11. 9. 1986 and COM(86) 645 final, 14. 11. 1986.⁽²⁾ Including special sales of butter from intervention.Table 4: Community butter and skimmed milk powder stocks on 31 December 1980-86⁽¹⁾

(1 000 t)

EUR-10	1980 ⁽²⁾	1981	1982	1983	1984	1985	1986
Butter							
— public storage	128	10	113	692	841	996	1 283
— private storage	112	137	193	161	108	128	83
Total	240	147	306	853	949	1 124	1 366
Skimmed milk powder	230	279	576	983	617	519	772

⁽¹⁾ Source: EC Commission.⁽²⁾ EUR-9

Table 5: 1985/86 levy rates as % of milk target price

(% of milk target price)

Formula A States	Levy rates (at level of producer)		
	Official rate	Actual rate paid after quota offsetting	
Belgium	75,0	15,6	
FR of Germany	75,0	75,0	
Netherlands	75,0	75,0	
Formula B States	Levy rates		
	Official rate (at purchaser level)	Rate after quota offsetting (at purchaser level)	Actual rate paid by producers after quota offsetting and formula B
Denmark	100,0	—	(¹)
France:			
Mountain zones	100,0	0,0	0,0
Other zones	100,0	0,0 — 84,3 (²)	0,0 — 30,3 (³)
Ireland	100,0	28,6	0,0 — 10,2
Italy	100,0	n.a.	n.a.
Luxembourg	100,0	—	15,4 — 60,1
United Kingdom:			
England and Wales	100,0	26,4	0,8
Northern Ireland	100,0	26,4	6,0
Scotland	0,0	0,4	0,0

(¹) Denmark did not calculate diluted levy. Instead it calculated that underdeliveries and unused quota could offset overdeliveries up to 34,3 % above quota. Producers with deliveries less than 134,3 % of quota paid no levy, those with deliveries above 134,3 % of quota paid full levy on their excess above the 134,3 % ceiling. In this way only 326 producers out of the 17 700 who exceeded their quotas paid levy. If the Danish authorities had spread the underdeliveries back to overdeliverers in direct proportion to their overdeliveries (i.e. the simple dilution mechanism) the effective levy rate paid by all 17 700 overdeliverers would have been 0,7 % of the target price for milk.

(²) Range of values after operation of quota offsetting: mean levy rate at purchaser level 35,5 % of milk target price.

(³) No complete data available: French authorities arranged quota offsetting so that no producer paid more than 0,60 FF/kg in levy (30,3 % of target price).

Table 6: Additional levy collected, and expenditure on national cessation schemes 1984 to 1986 — EUR-10⁽¹⁾

		(Mio ECU)			
Item/Sub-item		1984 ⁽²⁾	1985	1986	Total 1984 to 1986
2071.01	Item 2071 Additional levy: 1984/85 Receipts within national quota ⁽³⁾	- 49,5			
			- 27,7	- 3,8	- 81,0
2071.02	Additional levy: 1985/86 Receipts within national quota ⁽³⁾		- 0,1	- 58,1	- 58,2
2071.03	Additional levy: 1986/87 Receipts within national quota ⁽³⁾		—	0,0	0,0
2071.11	Expenditure on national cessation schemes (1st programme)		60,6	20,6	81,2
2071.12	Expenditure on national cessation schemes (2nd programme)		—	—	—
2071.51	Additional levy: 1984/85 Receipts above national quota ⁽³⁾		- 30,7	+ 0,6	- 30,1
2071.52	Additional levy: 1985/86 Receipts above national quota ⁽³⁾			- 124,8	- 124,8
2071	Net total	- 49,5	2,1	- 165,5	- 212,9

⁽¹⁾ Source: Accounts, EAGGF.

⁽²⁾ In 1984 there were no sub-items to Item 2071.

⁽³⁾ Receipts are recorded as negative expenditure.

Table 7: Overallocation of national quantities in 1984/85 and 1985/86 by FR of Germany, the Netherlands and Belgium

	FR of Germany ⁽¹⁾		Netherlands ⁽²⁾		Belgium ⁽³⁾
	1984/85	1985/86	1984/85	1985/86	1985/86
National quantity	23 487	23 423	12 052	11 979	3 161
Actual allocation	24 666	24 501	12 168	12 120	3 216
Overallocation	1 179	1 078	117	170	55
As % of national quantity	5,0	4,6	1,0	1,4	1,7

⁽¹⁾ Source: BEF, FR of Germany.

⁽²⁾ Source: PvZ, Ministry of Agriculture, the Netherlands.

⁽³⁾ Source: Office National du Lait, Ministry of Agriculture, Belgium.

ANNEX

Levy dilution: An illustrative example

1. Levy rate 1985/86

target price of milk = 0,2784 ECU/kg

levy (formula A) = 75% × 0,2784 = 0,2088 ECU/kg

levy (formula B) = 100% × 0,2784 = 0,2784 ECU/kg.

2. Dairy under formula A — levy paid directly by producers on individual overdeliveries

10 producers with underdeliveries totalling 100 000 kg

10 producers with overdeliveries totalling 200 000 kg.

Overproducers pay levy on 200 000 kg levy at rate of 0,2088 ECU/kg.

No dilution of effective levy rate paid by overdeliverers.

3. Dairy under formula B — levy paid first by dairy, then recovered from individual overdeliverers

10 producers with underdeliveries totalling 100 000 kg

10 producers with overdeliveries totalling 200 000 kg

Dairy pays levy on *net* overdeliveries of 100 000 kg at rate of 0,2784 ECU/kg = 27 840 ECU.

Dairy recovers levy from overproducers who pay:

$$\frac{27\,840 \text{ ECU}}{200\,000 \text{ kg}} = 0,1392 \text{ ECU/kg}$$

Dilution of effective rate paid by producers to 0,1392 ECU/kg (50% of rate paid by dairy):

— if underdeliveries totalled 150 000 kg (overdeliveries unchanged) effective rate paid by overdeliverers would be:

$$50\,000 \text{ kg} \times 0,2784 \text{ ECU/kg} = 13\,920 \text{ ECU levy paid by dairy}$$

$$\text{Therefore } \frac{13\,920 \text{ ECU}}{200\,000 \text{ kg}} = 0,0644 \text{ ECU/kg} =$$

effective rate paid by overdeliverers (25% of rate paid by dairy),

— if underdeliveries totalled 50 000 kg (overdeliveries unchanged) effective rate paid by overdeliverers would be:

$$150\,000 \text{ kg} \times 0,2784 \text{ ECU/kg} = 41\,760 \text{ ECU levy paid by dairy}$$

$$\frac{41\,760 \text{ ECU}}{200\,000 \text{ kg}} = 0,2088 \text{ ECU/kg} =$$

effective rate paid by overdeliverers (75% of rate paid by the dairy).

In this last example producers pay the same levy as they would have done under formula A during the first three twelve-month periods of the system.

REPLIES OF THE COMMISSION

I. GENERAL

1. The Commission must stress that the quota and levy system for milk and milk products is a new scheme, and that some time for observation and adjustment was needed before it could operate effectively.

The Commission has itself noted some shortcomings and disparities in the system. It has either corrected these, where possible, or proposed the appropriate changes to the Council. A Council agreement on amendment of the regulations was reached on 16 December 1986.

The Commission is continuing to ensure that the Community super-levy on milk and the milk quotas system are applied in full and on a satisfactory basis by all the Member States, and that the levy is shown properly in the accounts.

2. The quota/levy system has not only halted the sharp upward movement in milk deliveries (increases of about 3 to 4 % in the years preceding the inception of the system) but has also brought back milk deliveries in 1984/85 (first 12-month period of the levy system) to a level about 5 % below that for 1983/84. Moreover, although production thereafter did rise a little, deliveries in 1985/86 and 1986/87 remained about 4 % below the 1983/84 level. It is clear that without the quota/levy system or equivalent measures, deliveries would have reached levels a good deal higher than the present ones.

3. In the two years following the start-up of the new system in 1984, the Commission took the necessary action to facilitate gradual adaptation of farmers and purchasers to the new arrangements. The main changes were introduced by the following Regulations:

— Council Regulation (EEC) No 590/85 of 26 February 1985, amending Regulation (EEC) No 857/84:

— facility for the Member States to reallocate, at the end of the 12-month period, reference quantities not used by producers or purchasers to other producers or purchasers (originally valid for the first 12-month period only; subsequently, the Council decided to extend this rule to successive 12-month periods),

— special provisions concerning the reference quantities allocated to producers who both deliver to dairies and make direct sales of milk to consumers,

— treatment of a group of small dairies in a particular geographic region as a single purchaser where formula B is applicable,

— Council Regulation (EEC) No 1305/85 of 23 May 1985, amending Regulation (EEC) No 857/84:

— charging of the levy on an annual basis, replacing quarterly payments on account,

— treatment of certain groups of producers and their associations as single producers, where formula A is applicable,

— Council Regulation (EEC) No 1298/85 of 23 May 1985, amending Regulation (EEC) No 804/68:

— the Member States may, on certain conditions, allocate part of the levy charged to the financing of national incentives to discontinue dairy farming.

While the above changes, adopted in 1985, were designed to facilitate the implementation of the new system, the action taken subsequently was designed to strengthen the effectiveness of the system of additional levies and quotas. For this purpose, the following Regulations were adopted:

— Council Regulation (EEC) No 1224/85 of 6 May 1985, amending Regulation (EEC) No 804/68 and Council Regulation (EEC) No 1343/86 of 6 May 1986, amending Regulation (EEC) No 857/84:

— 2 % reduction in guaranteed overall quantities in respect of deliveries, from 1 April 1987 onwards, and further reduction of 1 % from 1 April 1988 onwards,

— 2 % reduction in the overall quantities for direct sales, from 1 April 1987 onwards, and further reduction of 1 % from 1 April 1988 onwards,

— Council Regulation (EEC) No 1336/86 of 6 May 1986:

— in connection with the abovementioned quantity reductions, introduction of a Community scheme for discontinuing dairy farming,

— Commission Regulation (EEC) No 2969/86 of 26 September 1986, amending Regulation (EEC) No 1371/84:

— tightening up of the rules on the treatment of changes in fat content of milk delivered with a view to the calculation of the levy.

Also, in September 1986, the Commission laid before the Council proposals concerning 'emergency measures relating to milk' (COM(86) 510), and drafted, in November 1986, an interim report on the quota system (COM(86) 645) which proposed a batch of important measures to strengthen the effectiveness of the system and to adapt dairy production more closely to actual

requirements. Although the Council failed to adopt, in December 1986, the Commission's proposals for discontinuing formula B and the facilities for reallocation of unused reference quantities as desired by the Court of Auditors, it nonetheless endorsed action to reduce appreciably quantities of milk produced within the quotas and to strengthen sanctions against deliveries outside the quotas.

4. The Commission agrees with the Court on the shortcomings observed in the application of the system in the Member States. Indeed, in January 1985, it started infringement procedures against all the Member States except Germany, Greece and Italy for failure to charge the additional levy on time. These procedures were discontinued when the EEC Regulations were adapted. Also, as regards the most serious cases, the Commission started infringement procedures, relating to national measures implementing the Community additional levy system, against Germany, the Netherlands, Denmark, the United Kingdom, Luxembourg (two cases), France (three cases), Belgium, Italy and Greece. Some of these cases were abandoned in March 1987, following the agreement in the Council of 16 December 1986 on amendments to the relevant Regulations (Germany, Netherlands, France (one case), Luxembourg (two cases), and Denmark). On the other hand, a number of other infringement procedures (against Belgium, France, the United Kingdom and Italy) are still pending.

The Commission has acted promptly where wrong application of the system by the Member States has jeopardized its effort to control milk production or has had financial implications because levies due have not been charged or not been recovered.

5. The systems of management of the milk quotas and the charging of the levies by the Member States have been reviewed as part of the EAGGF accounts clearance procedures from 1985 onwards, so that any financial consequences can be properly covered.

II. SPECIFIC COMMENTS

THE LEVEL OF QUOTAS

3.10. In its original proposal on the introduction of the quota system, the Commission had proposed guaranteed overall quantities at a level which at the time seemed appropriate. Also, it had proposed a more strict quota system in respect of the producers.

3.11. See general comments, point 4.

3.13. On the basis of available forecasts, the Commission does not take the view that milk deliveries must be reduced to 87 million tonnes to achieve market equilibrium. Allowing for the expected impact of the measures adopted by the Council, one objective of which is to reduce milk production by 9,5 million tonnes over two years, milk supply should match demand, provided consumption is maintained at about 85 million tonnes and exports at about 12 million tonnes. In its report (point 3.8), the Court sees this last figure as a realistic hypothesis, especially if existing stocks could be reduced to reasonable levels. On this assumption, there would be no structural increase in new stocks and special sales of intervention stocks would not be necessary. However, the Commission will bear in mind real conditions on the milk market during and after the abovementioned two-year period and will take any action necessary to ensure the achievement of its production control objective.

THE DISSUASIVE EFFECT OF THE LEVY

3.15 to 3.22. In the light of experience gained in the first two years of the levy system, the Commission concedes that the application of formula B and Article 4a of Regulation (EEC) No 857/84 ('quota offsetting') sharply diluted the impact of the levy as a deterrent for individual farmers.

Although there was justification for the application of Article 4a of Regulation (EEC) No 857/84 as a tideover arrangement in the early years of the system, enabling farmers and dairies to adapt to the reference quantities, the Commission proposed, in its September 1986 proposals on 'emergency action concerning milk' (COM(86) 510) that this facility be discontinued. It again made this proposal when it proposed that formula B be discontinued in its interim report to the Council on the levy system submitted in November 1986 (COM(86) 645). The Commission had worked out that elimination of formula B and of quota offsetting should reduce milk deliveries within the guaranteed global quantities by about 2,5 million tonnes. However, these proposals were not accepted by the Council, which opted for an alternative solution consisting in obtaining further reductions in milk deliveries through temporary suspension of part of the reference quantities allocated within the guaranteed global quantities. The Council accepted, however, the Commission's proposal for the introduction of a standard levy rate set at 100% of the target price for both formula A and formula B.

Amendments to the system of levy liability

3.25 (a) The Court points out that because of anomalies in the allocation of the quotas, the new Danish system of application of formula B of the levy system

will severely penalize producers who have been less fortunate than others as regards quota they have obtained in relation to their needs.

The Commission would point out that this situation does not differ from that of a comparable producer subject to formula A of the system and, also, that this is true only if the Member State does not use the facility provided for under the new arrangements for formula B of reallocating on a priority basis to certain producers the available quantities (cf. the last sentence of the second indent of Article 5c of Regulation (EEC) No 804/68, as amended by Regulation (EEC) No 773/87).

4. Observations on implementation by Member States

4.3 to 4.17. See general comments — point 4.

Arrangements to reduce levy liability

4.15 and 4.16. Article 4a of Regulation (EEC) No 857/84 having rendered the single purchaser superfluous as a means of avoiding the levy, pursuit of the infringement procedure during that period would not have had any practical effect. As early as December 1986, it had become clear that Article 4a would be applicable until 1989.

4.17. See general comments — point 4.

Restrictions on the transfer of quotas between producers

4.21. The Commission is always prepared to consider ways and means of facilitating the reorganization of dairy production. In this connection, it takes the view that adaptation of quota transfer to economic realities must be treated with reserve, for the following reasons:

- the implementation of national plans for ceasing dairy production and for national reserves already provides a means of granting additional quotas to certain producers to accommodate their reorganization needs. The proper operation of these plans could be jeopardized by the introduction of a more flexible arrangement for direct quota transfer between producers,
- the authorization of a quota trading system between producers could inevitably lead to the quota system becoming a permanent aspect of the market organization, which would conflict with the principle that the Council's decisions on the quota system are temporary in character,

- a quota trading system could work to the disadvantage of young farmers and small farmers and of the financially less prosperous regions, entailing serious hardship for those concerned.

5. Observations on the effectiveness of the Commission's role in the management of the quota/levy system

5.3. The Commission has reviewed carefully the Regulations adopted by all the Member States for the implementation of the system, to check that they are in line with Community provisions. It has also used systems audit methods in connection with accounts clearance.

EFFECTIVENESS OF PROCEDURES FOR DEALING WITH PERCEIVED INCORRECT APPLICATION OF MEASURES

5.5. See general comments — point 4.

Among the references made by the Court to the procedures started, those for September 1986 relate to cases of overallocation by Germany and the Netherlands. This question was examined by the Commission with regard to all the Member States as soon as the first period ended, as the final level of quota allocation could not be determined before that. Where overallocation was ascertained, the Commission acted promptly.

ADEQUACY OF ON-THE-SPOT SUPERVISION

5.6. Direct contacts made on the spot between the market management staff and operators are not one of this staff's main tasks. On the other hand, it musters the necessary information concerning the market and implementation of regulations directly from the Member States' staffs through regular discussions in the management committees and the advisory committees. Information on national implementing rules received are regularly checked and placed at the disposal of the Commission's accounts clearance staff.

5.6 to 5.8. Verification on the spot of the implementation and proper application of Community regulations involving expenditure chargeable to the EAGGF is a responsibility of the accounts clearance staff. Already in 1986, the Commission's staff (accounts clearance, market management, and financial control) verified expenditure relating to 1985 and, in this context, reviewed, from the angle of compliance with Community regulations, the management and audit systems set up by the Member States to implement the milk quota scheme.

The results of this verification work, which generally confirm the Court's findings given in points 4.5 to 4.25, have been notified to the Member States. The Commission's staff are reviewing any financial implications of failure to comply with Community regulations.

In view of the foregoing, the Commission cannot accept the criticism expressed in points 5.6 to 5.8.

ROLE OF THE MANAGEMENT COMMITTEE

5.9. The Commission takes the view that the regular meetings held by the Management Committee for Milk and Milk Products and of its statistical panel provide a perfectly appropriate forum for the discussion of shared problems; also, it is always prepared to consider points raised by the delegations either at Management Committee meetings or on a bilateral basis. Further, the Commission gives very ample attention to the distribution of interpretative memoranda on the particular aspects of the Community regulations in respect of which the delegations have asked for guidance or further clarification.

MANAGEMENT INFORMATION

5.11. Whilst it is true, as the Court points out, that the Member States were originally not required to send to the Commission detailed figures relating to the reference quantities and deliveries, it is nonetheless a fact that Article 11 (1) of Regulation (EEC) No 1371/84, adopted on 6 May 1984, requires the purchasers (dairies) to hold at the disposal of the Member State's competent agency all records needed relating to producers' deliveries and reference quantities for the three preceding years. Similarly, Article 13 (1) of the same Regulation requires that corresponding information for direct sales be sent directly to the competent agency appointed by the Member State. If these arrangements are properly applied, the Member States and the Commission therefore have all the information they need.

Subsequently, the Member States were formally called upon, under Regulation (EEC) No 3005/85 of 29 October 1985 amending Regulation (EEC) No 1371/84, to send in to the Commission detailed information on the deliveries of the producers/purchasers.

5.12 and 5.13. The Court suggests that the dairies should be required to submit analyses of the quantities delivered by the producers in excess of their quotas. The Commission concedes that such information could be of value from an analytical angle, but the introduc-

tion of an obligation of this kind would not be in line with the structure of the levy system in its formula B, where it is the purchaser who is legally responsible for any levy which may be due and not the individual producer.

In view of the requirements in the Community regulations and the information which it obtains through the Management Committee or from other sources, the Commission takes the view that it has a satisfactory statistical basis for assessment of the operation of the levy system.

EVALUATION OF PROPOSALS

5.14. The Commission agrees with the Court that detailed simulations or sensitivity analyses can be of value. But the number of relevant variables in such analyses is almost infinite, and whilst it is true that past experience can provide some guidance for the future, the construction of theoretical models designed to 'predict' probable reactions of producers to a given set of policy instruments can yield very uncertain findings.

Thus, for example, the degree of dilution of the levy resulting from formula B or quota offsetting will tend to be higher in the early years of the levy system and will tend to ease down over time as producers adapt their deliveries upwards or downwards in relation with the quota levels. This tendency will, however, itself be influenced, from one year to the next, by changes in the quota levels themselves (either globally or at individual level), but also by certain exogenous factors such as weather, sickness or accidents.

In its November 1986 interim report to the Council, the Commission showed clearly its evaluation of the overall effect of formula B and of quota offsetting.

ACCOUNTING FOR THE ADDITIONAL LEVY

5.17. As the Commission has already had an opportunity to explain in the annual report on 1985 (point 4.4), the concept of negative expenditure is a result of particular provisions introduced for political and practical reasons into the Community regulations: the co-responsibility levy is a scheme ranking as intervention designed to stabilize the markets. Accordingly, its entry in the budget was in fact decided by the budgetary authority.

The disadvantages as regards budgetary 'transparency' have been reduced by the use of a detailed nomenclature enabling the yields from these charges to be ascertained. Also, the Commission publishes each year, in its financial report on the EAGGF Guarantee Section, detailed figures on the co-responsibility levies charged for milk and milk products and on their use (see Annexes 2 and 11).

COMMISSION OF THE EUROPEAN COMMUNITIES

THE SINGLE ACT:

A new frontier

PROGRAMME OF THE COMMISSION FOR 1987:

Statement by Jacques Delors, President of the Commission, to the European Parliament,
Strasbourg, 18 February 1987

Bulletin of the European Commission. Supplement 1/87

The Single Act: A new frontier for Europe

The signing and forthcoming entry into force of the Single European Act and the accession to the Community of Spain and Portugal (following that of Greece in 1981) have brought with them fundamental changes in the structure of the Community and the obligations of the Member States. The Single European Act improves significantly the institutional system and sets new objectives for the Community, notably the completion of the internal market by 1992 and the strengthening of economic and social cohesion.

If it is to succeed in its new responsibilities, the Community must first complete the reforms undertaken, especially since 1984, with the aim of adapting old policies to new conditions: reform of the common agricultural policy, reform of the structural Funds, and reform of the financing system. Once these reforms have been implemented, the Community will have to be given the resources needed to achieve the objectives of the Single act.

By amending the Treaty of Rome in this way, the Member States have set a new frontier for European integration. They have made a qualitative leap forward which must be turned to good account to equip our economies so that they can meet the challenges from abroad and return to more vigorous, job-creating growth.

For this reason, the Commission feels that it should set out the conditions to be met if this great venture is to succeed. This is the thinking behind the proposals it is laying before the Council and Parliament. They are set in a medium-term context, looking towards 1992, the deadline for completion of the large frontier-free market.

Programme of the Commission for 1987

This Supplement also contains the Commission's programme for 1987, as presented to Parliament by Mr Delors in February 1987.

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