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I

(Information)

COURT OF AUDITORS

SPECIAL REPORT No 3/94

on the implementation of the intervention measures provided for by the organization of the market in beef and veal, together with the commission's replies

*(94/C 356/01)**(Observations pursuant to Article 188c (4), second subparagraph, of the EC Treaty)*

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1. INTRODUCTION

1.1. Cattle rearing has a very important, albeit slightly declining, role in European agriculture. Two common organizations of the market (COMs) cover the products resulting from cattle rearing: the COM in milk and milk products and the COM in beef and veal. The COM in milk and milk products was examined in Special Report No 4/93 on the implementation of the quota system intended to control milk production ⁽¹⁾. This report deals with the intervention measures in the beef sector, in particular those concerning public storage of beef.

1.2. Since the early Eighties, the Community market in beef and veal has constantly suffered from surpluses, and this situation has gradually worsened. As early as 1984, the Community's own production (7,4 Mio t) exceeded internal consumption by more than 800 000 tonnes, an imbalance which could be absorbed only by ever-larger amounts of beef being bought into intervention. At the cost of very high budgetary expenditure to off-set the disparity between the selling price and the buying-in price, these intervention stocks were disposed of by exporting them to markets whose solvency, in the case of most of the countries concerned, has become more and more precarious. Furthermore, since 1981, mainly in the context of international agreements, the Community has been importing up to 600 000 t of beef every year, imports which have served only to worsen the internal imbalance described above.

1.3. From 1990 to 1992, because of a combination of various occurrences ('mad cow' disease, or BSE ⁽²⁾, the reunification of Germany, the Gulf War, developments in relations with Eastern Europe, etc.), the Community market underwent an unprecedented crisis, which, as from the financial year 1991, led to soaring Community budgetary expenditure in this sector. The European Parliament has on several occasions expressed its concern about the management of the beef and veal sector ⁽³⁾, in particular during the procedure for giving discharge to the Commission for the financial year 1990.

The Court's earlier audit enquiries

1.4. As part of its Annual Report, the Court examined the premium for maintaining suckler cows ⁽⁴⁾ in 1990 and the special premium for beef and veal producers ⁽⁵⁾ in 1992. In both these reports, the Court highlighted the inadequacy of the information available at the

Commission with regard to the *ex ante* and *ex post* assessment of the impact of these premiums on the producers' incomes and on the equilibrium of the beef and veal market (see paragraphs 4.4 to 4.6).

1.5. Furthermore, in 1988 the Court published a Special Report on management and control of public storage ⁽⁶⁾, in which it emphasized the need to provide for an obligatory annual physical stock-taking, with random spot checks, which could be broken down into partial stock-takings spread over the year, and the need to specify minimum requirements as to quality. The provisions of Commission Regulation (EEC) No 618/90 of 14 March 1990 ⁽⁷⁾ have, for the most part, taken into account the observations made by the Court in its Special Report.

Audit performed by the Court

1.6. The Court conducted its audit enquiries at the Commission and, in five Member States (Germany, France, Ireland, Italy and the United Kingdom), at the national and regional authorities responsible for the management of the COM in beef and veal, and at a number of recipients.

1.7. Whilst this audit examined the COM as a whole, the systems audit focused in particular on the various intervention measures, especially public storage.

2. THE BEEF AND VEAL MARKET

2.1. In 1992 the Community, with a net production of 8,4 Mio t of beef and veal, was the second largest producer in the world after the USA (10,6 Mio t), with the Commonwealth of Independent States ranking third (7,3 Mio t). Community production accounts for 15,8 % of world output of beef and veal.

The trend in production, consumption and prices

2.2. Table 2.1 reviews the situation of the COM in beef and veal since 1980. For years, Community beef and veal production (7,2 Mio t in 1980 compared with 7,7 Mio t in 1990 (7,2 Mio t in 1990 for EUR 10), with an estimated value of 24 600 Mio ECU at Community prices) has shown a slightly upward trend (see Graph 2.2), but less than the production of other types of meat (see Graphs 2.1 and 2.3).

The relative share of beef and veal production in the Community's own production of all types of meat decreased from 29,7 % in 1980 to 24,7 % in 1990. Consumer habits in the Community have also changed. Consumption of beef and veal has tended to stagnate (see Graphs 2.4 and 2.5), whereas the amount of other types of meat consumed (in particular poultrymeat and pigmeat) has increased.

⁽¹⁾ OJ No C 12, 15. 1. 1994.

⁽²⁾ Abbreviation of the term bovine spongiform encephalopathy.

⁽³⁾ Resolution containing the comments which form part of the decision giving discharge to the Commission in respect of the implementation of the general budget of the European Communities for the 1990 financial year, OJ No L 19, 28. 1. 1993, p. 29.

⁽⁴⁾ Annual Report of the Court of Auditors concerning the financial year 1989, OJ No C 313, 12. 12. 1990, paragraph 4.2.

⁽⁵⁾ Annual Report of the Court of Auditors concerning the financial year 1991, OJ No C 330, 15. 12. 1992, paragraphs 3.36 to 3.98.

⁽⁶⁾ Special Report No 5/88 on management and control of public storage, OJ No C 274, 24. 10. 1988, p. 1.

⁽⁷⁾ OJ No L 67, 15. 3. 1990, p. 21.

Table 2.1 — Production, consumption and stocks on the market in beef and veal

('000 tonnes)

	EUR10	EUR10	EUR10	EUR10	EUR10	EUR10	EUR12	EUR12	EUR12	EUR12	EUR12	EUR12	EUR12
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
GIP	7 182	7 014	6 685	6 943	7 535	7 394	8 014	8 066	7 614	7 340	7 736	8 705	8 378
EXAN	364	448	391	391	398	385	443	399	391	390	388		
IMAN	374	381	391	373	365	412	494	474	461	519	634		
NP	7 192	6 947	6 685	6 925	7 502	7 421	8 065	8 141	7 684	7 469	7 982	8 723	8 396
IMBV	1 567	1 439	1 526	1 584	1 555	1 739	1 787	1 839	1 768	1 797	1 834	447	480
EXBV	1 766	1 736	1 577	1 711	1 990	2 096	2 538	2 317	2 173	2 445	2 318	1 244	1 239
NBIT	-199	-297	-51	-127	-435	-357	-751	-478	-405	-648	-484	-797	-759
CONS	7 012	6 751	6 607	6 628	6 701	6 864	7 469	7 573	7 321	7 338	7 159	7 670	7 424
VStocks	-19	-101	27	170	366	200	-155	90	-42	-517	339		
BUYING	410	280	270	445	495	455	580	540	390	170	660	1 030	890
SALES	360	430	250	265	230	395	755	335	750	460	175	770	675
STOCK	360	210	230	410	675	735	575	780	420	130	615	875	1 090
SURPLUS	180	196	78	297	801	557	596	568	363	131	823	1 033	972

GIP: gross internal production of beef and veal

IMAN: imports of live animals

IMBV: imports of beef and veal

NBIT: net balance of international trade

Vstocks: changes in stocks in the Community

SALES: intervention sales

SURPLUS: surplus production

EXAN: exports of live animals

NP: net production

EXBV: exports of beef and veal

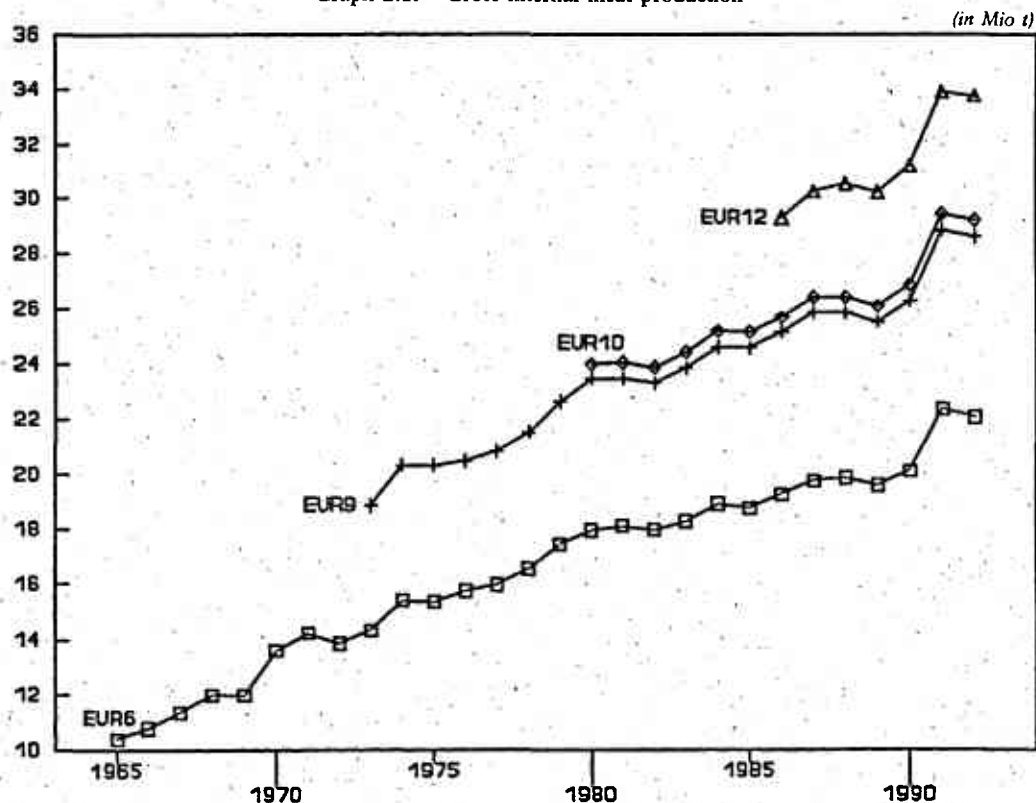
CONS: consumption of beef and veal

BUYING: intervention buying

STOCKS: intervention stocks at the year-end

Source: EUROSTAT – CRONOS and DG VI/A-2 calculations in supply balances – meat 1965-1990 – VI/2643/91 – July 1992 – for intervention: buying, sales and stocks – DG VI-D-2

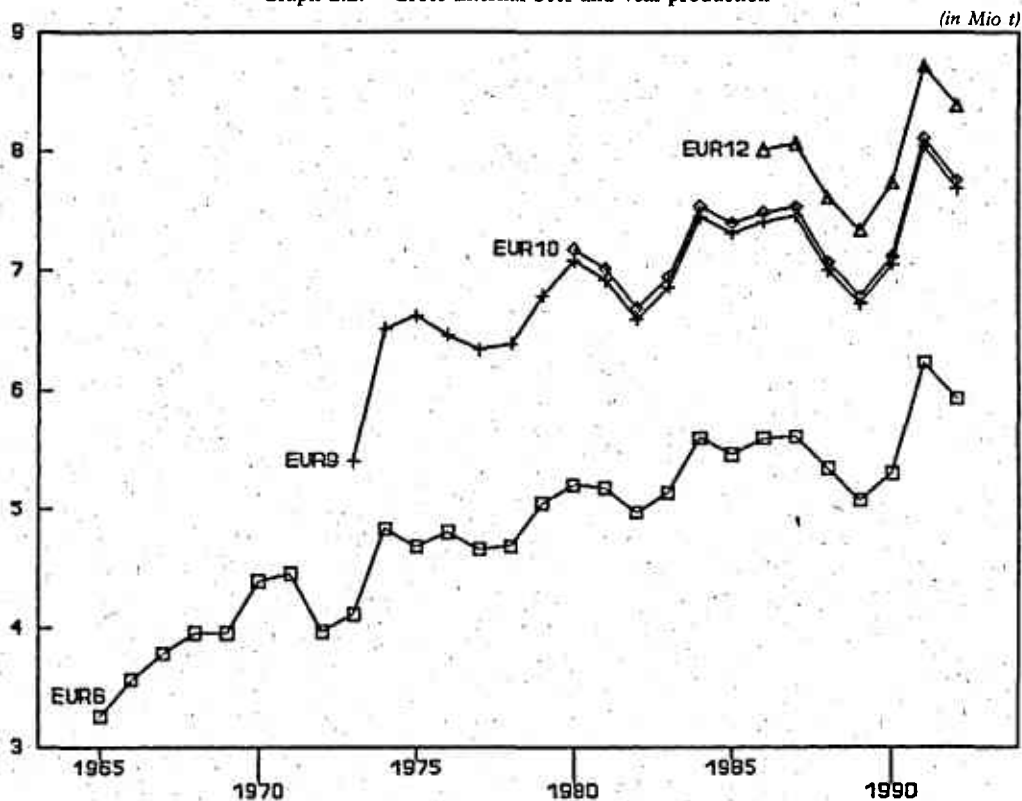
Graph 2.1. – Gross internal meat production



N.B. Since 1990, EUR 12 has included the former GDR.

Source: Supply balances – meat 1965 to 1990 – VI/2643/91 – DG VI/A-2 & CRONOS

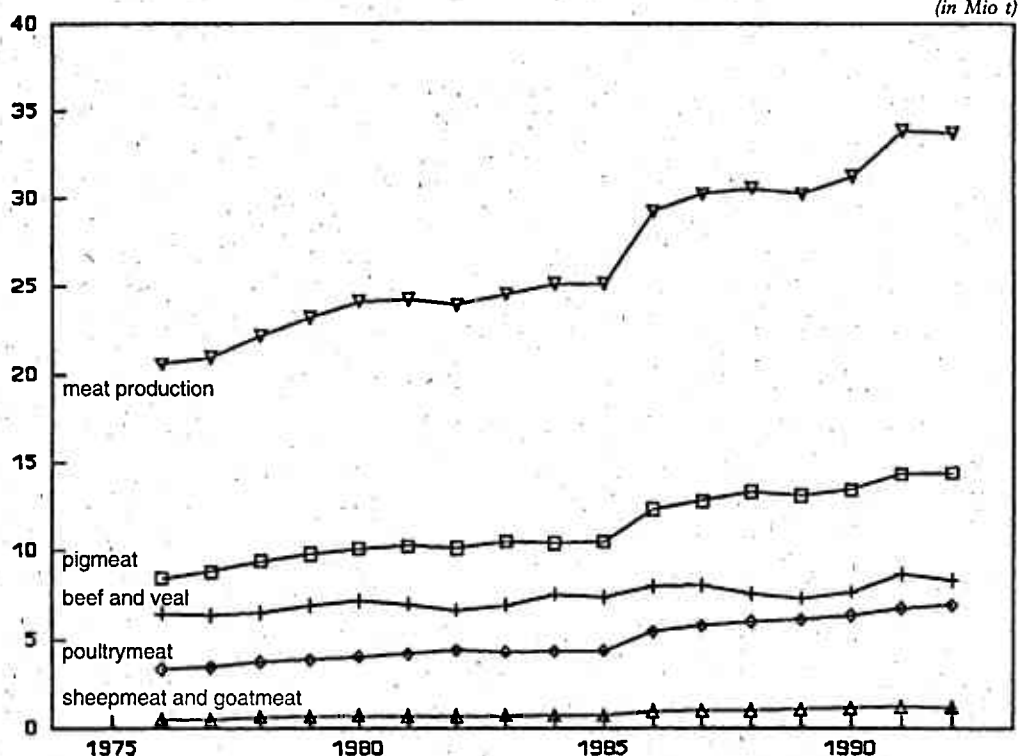
Graph 2.2. – Gross internal beef and veal production



N.B. Since 1990, EUR 12 has included the former GDR.

Source: Supply balances – meat 1965 to 1990 VI/2643/91 – DG VI/A-2 & CRONOS

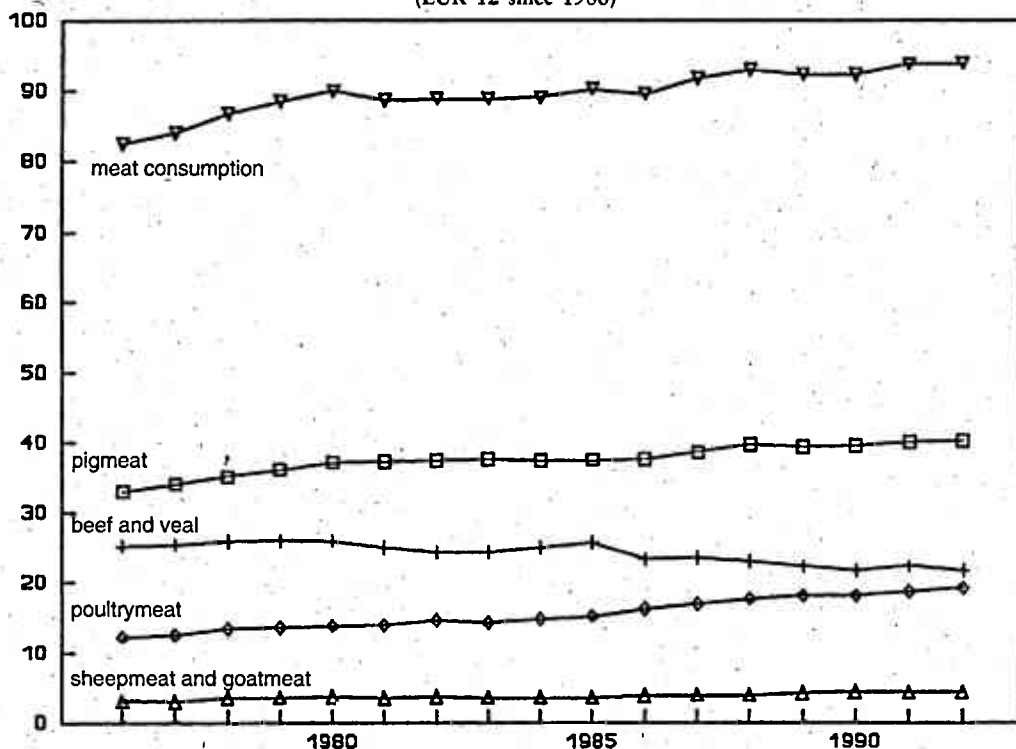
Graph 2.3. – Gross internal production of meat in the Community, by type of meat –
(EUR 12 since 1986)



N.B. Since 1990, EUR 12 has included the former GDR.

Source: Supply balances – meat 1965 to 1990 – VI/2643/91 – DG VI/A-2 & CRONOS

Graph 2.4. – Changes in consumption in the Community, by type of meat, in kg per capita
(EUR 12 since 1986)

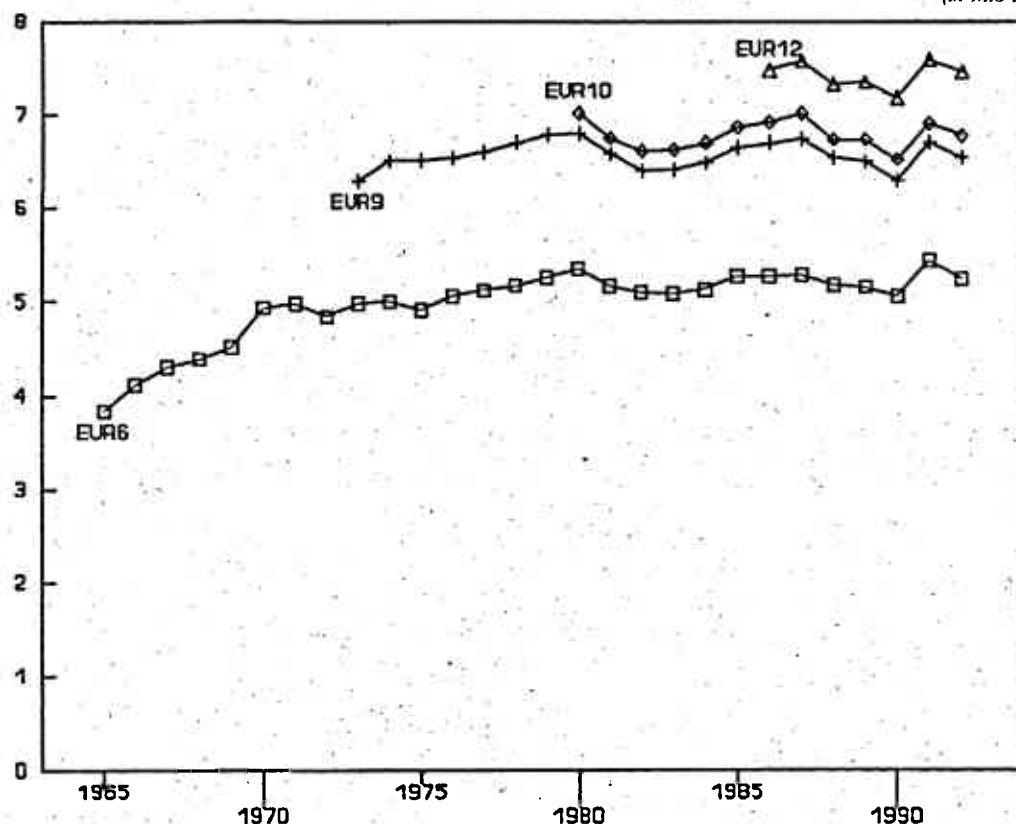


N.B. Since 1990, EUR 12 has included the former GDR.

Source: Supply balances – meat 1965 to 1990 – VI/2643/91 – DG VI/A-2 & CRONOS.

Graph 2.5. – Changes in Community consumption of beef and veal

(in Mio t)



N.B. Since 1990, EUR 12 has included the former GDR.

Source: Supply balances – meat 1965 to 1990 – VI/2643/91 – DG VIA-2 & CRONOS

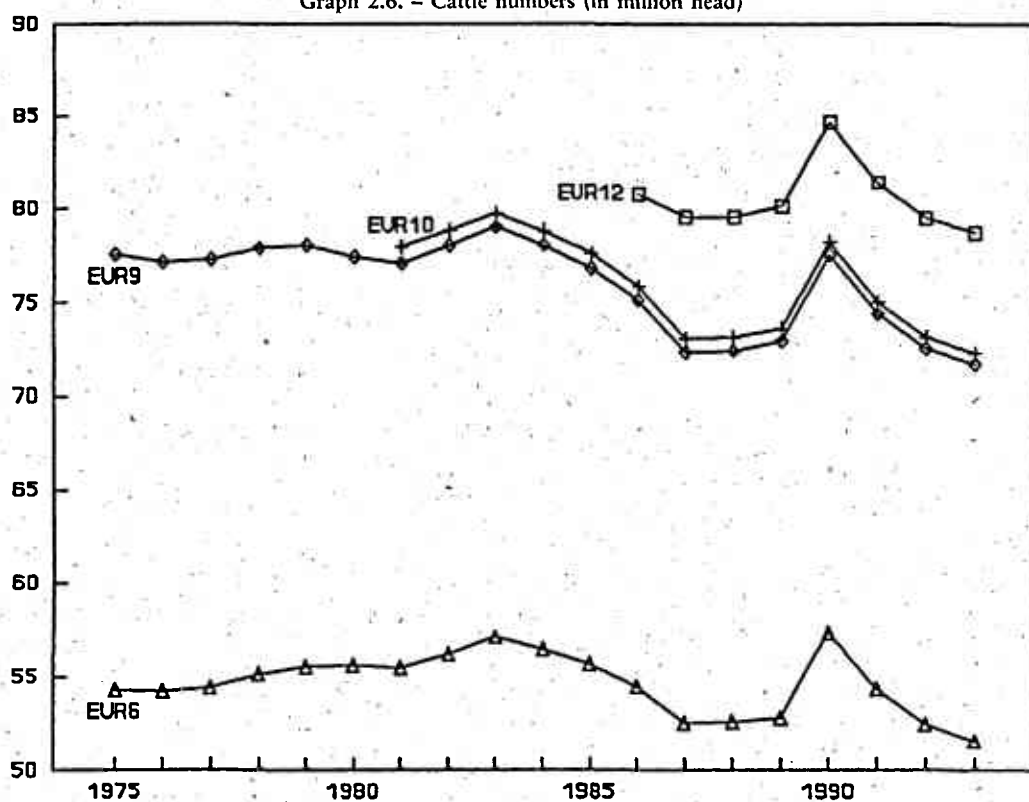
2.3. The importance of cattle farming in the Community's final agricultural production (27 % in 1991, of which 15,8 % for the milk sector and 11,2 % for the meat sector) is far greater in the north of the Community than in the south. France, with 1,9 Mio t (24,7 % of Community production), is the largest producer in the Community, ahead of Germany with 1,7 Mio t. In 1992, there were 76,8 million head of cattle in the Community, consisting of 20,9 million dairy cows, 32,6 million other adult bovine animals and 23,3 million calves (see *Graphs 2.6 to 2.9*). Cattle numbers decreased by 11,6 % between 1983 and 1992, with the reduction applying mainly to dairy cows because of the cut in milk quotas. The average herd size has increased, however, from about 30 to around 41 cattle over the past decade, owing to the approximately 30 % decrease in the number of farms since 1981.

2.4. At present, of the cattle slaughtered for meat production, around 65 % still come from dairy herds (cull cows, pure dairy-breed or crossbreed calves and male cattle), with the rest coming from suckler herds or herds of beef cattle specially bred for meat production. The share of the latter is, however, growing.

2.5. In 10 years the average slaughter weight of adult bovine animals has increased to such an extent⁽¹⁾ that meat production has risen despite the reduction in cattle numbers (see *Graphs 2.6 and 2.7*).

(¹) 292 kg in 1983 and over 310 kg in 1993.

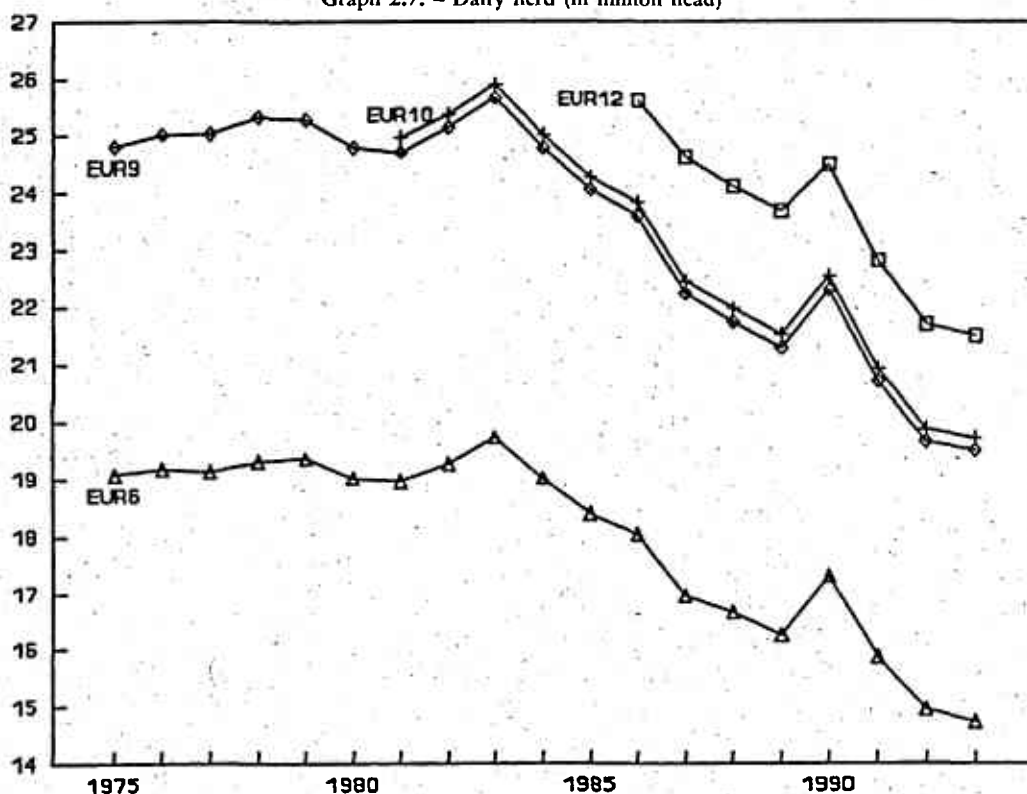
Graph 2.6. - Cattle numbers (in million head)



N.B. Since 1990, EUR 12 has included the former GDR.

Source: EUROSTAT - Cronos

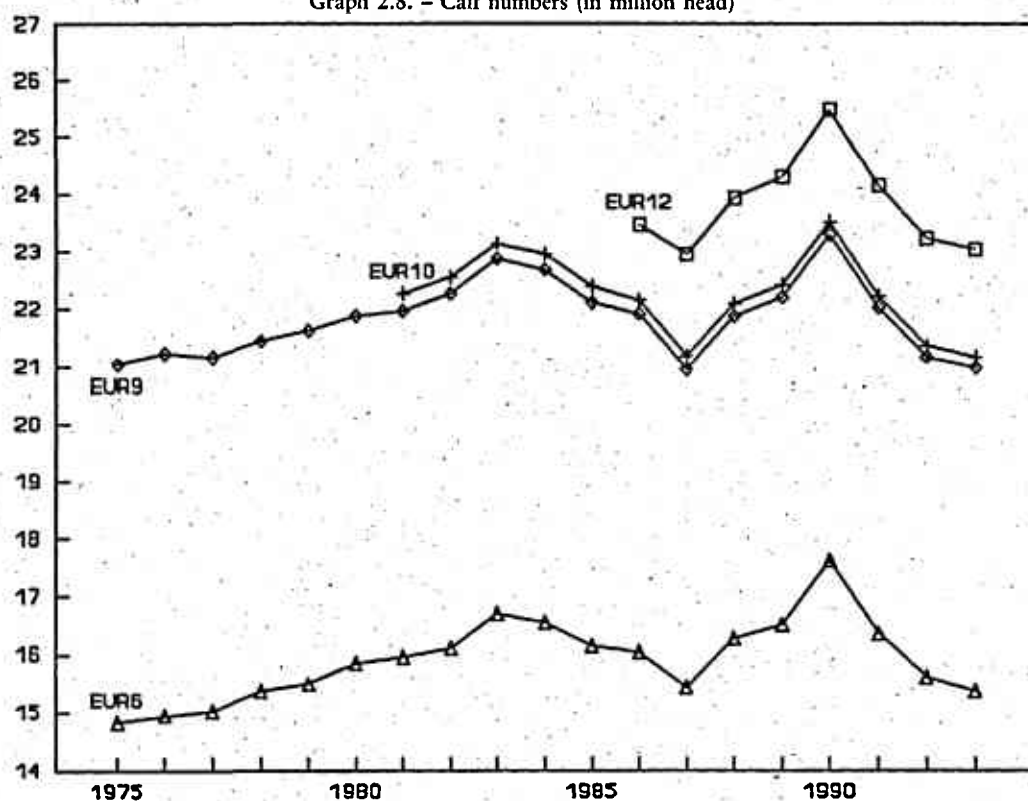
Graph 2.7. - Dairy herd (in million head)



N.B. Since 1990, EUR 12 has included the former GDR.

Source: EUROSTAT - CRONOS

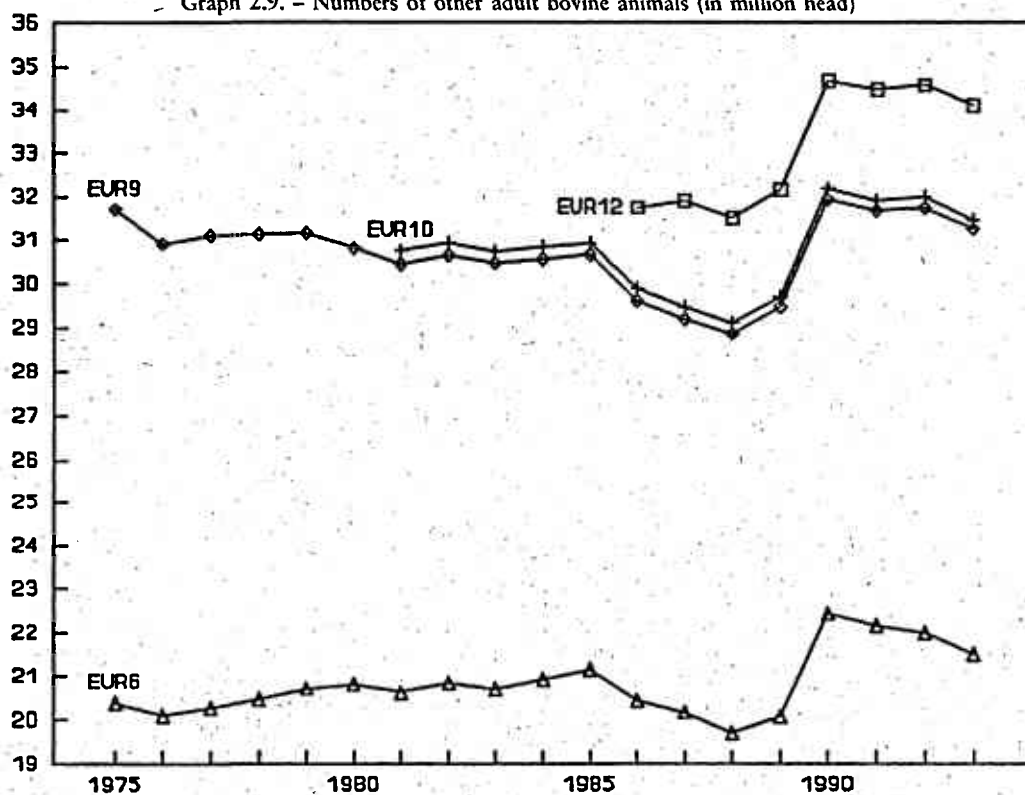
Graph 2.8. - Calf numbers (in million head)



N.B. Since 1990, EUR 12 has included the former GDR.

Source: EUROSTAT - CRONOS

Graph 2.9. - Numbers of other adult bovine animals (in million head)



N.B. Since 1990, EUR 12 has included the former GDR.

Source: EUROSTAT - Cronos

Table 2.2 — Changes in prices (young bull — R3) — (annual average) price per 100 kg carcase weight in ECU

	1985	1986	1987	1988	1989	1990	1991	1992
B	319,6	315,6	315,6	312,5	325,3	305,3	296,6	304,2
DK	352,9	346,9	326,2	333,5	353,9	329,4	311,4	303,9
D	322,3	311,0	317,7	312,3	322,8	310,7	290,4	
GR	369,3	313,3	307,3	319,9	356,1	359,2	363,5	384,2
E		312,3	327,3	343,2	334,1	338,5	337,5	
F	332,1	322,0	316,2	311,6	338,1	318,3	306,3	308,6
IRL ⁽¹⁾	304,1	299,6	296,3	320,7	304,4	293,8	286,7	286,7
I	356,8	357,1	331,6	316,6	360,2	339,3	319,1	321,5
L	338,6	324,2	320,7	315,6	325,7	325,9	313,2	313,7
NL	335,1	322,6	325,7	316,1	332,9	314,2	299,9	311,4
P							380,0	377,9
UK	332,2	291,4	280,3	329,6	327,1	281,4	287,8	275,6

⁽¹⁾ (Annual average) price per 100 kg carcase weight in ECU — beef — R3.

Source: EUROSTAT — CRONOS

2.6. For some years, prices and the disparities between the prices applied in most of the Member States (see Table 2.2) have been decreasing (a range of 10 % to 20 % in relation to the average of the prices recorded). In 1992, the highest annual average price was found in Greece (384,2 ECU/100 kg ⁽¹⁾), a Member State which is not self-sufficient in beef and veal (see paragraph 2.10), and the lowest in the United Kingdom (275,6 ECU/100 kg).

Developments in international trade

2.7. In 1992, the Community, as the second largest exporter of beef and veal in the world after Australia ⁽²⁾, contributed a quarter of the international trade in these products. In order to dispose of its record-level intervention stocks, the Community kept its exports in 1991 and 1992 at 1,2 Mio t, i.e. about 15 % of its net production of beef and veal.

2.8. The level of trade with third countries is largely governed by agreements between the Community and

these countries to allow preferential access to the Community market. For example, imports which are subject to reduced or zero rates of customs duties and import levies are generally made under quota arrangements. These imports, which have been growing over the past decade (+ 57 % since 1981), add to the existing surplus of internal production and end up by swelling the Community stocks, thus resulting in extra intervention expenditure in order to dispose of the surpluses, particularly on the world market. In 1992, the 214 500 young cattle from Hungary, Poland, Yugoslavia and the Czech and Slovak Federal Republic ⁽³⁾ which Italy and Greece imported at reduced levies for fattening led not only to a loss of some 53,5 Mio ECU in uncollected own resources but also to deferred extra costs, for example export refunds for live cattle (a total of 122 Mio ECU in 1992 ⁽⁴⁾). For the financial year 1992, the financial impact of imports at a reduced rate of duty or duty-free has been estimated, in the budget

⁽¹⁾ The prices quoted refer to Category A (young male uncastrated cattle) in conformation class R and at degree of fat cover 3.

⁽²⁾ The GATT Annual Report (1992) on the international markets for meat, in 'Europe' No 5931, 3 March 1993, p. 12.

⁽³⁾ See paragraph 3.8. Commission Regulation (EEC) No 981/92 of 21 April 1992 opened an additional quota of 16 500 head for the period from 1 March to 31 December 1992 to be imported from Hungary, Poland and the Czech and Slovak Federal Republic.

⁽⁴⁾ Annual Report of the Court of Auditors concerning the financial year 1992, OJ No C 309, 16. 11. 1993, p. 1, paragraphs 1.117 to 1.124.

remarks, at 1 030 Mio ECU (890 Mio ECU taking into account the reduced duties collected).

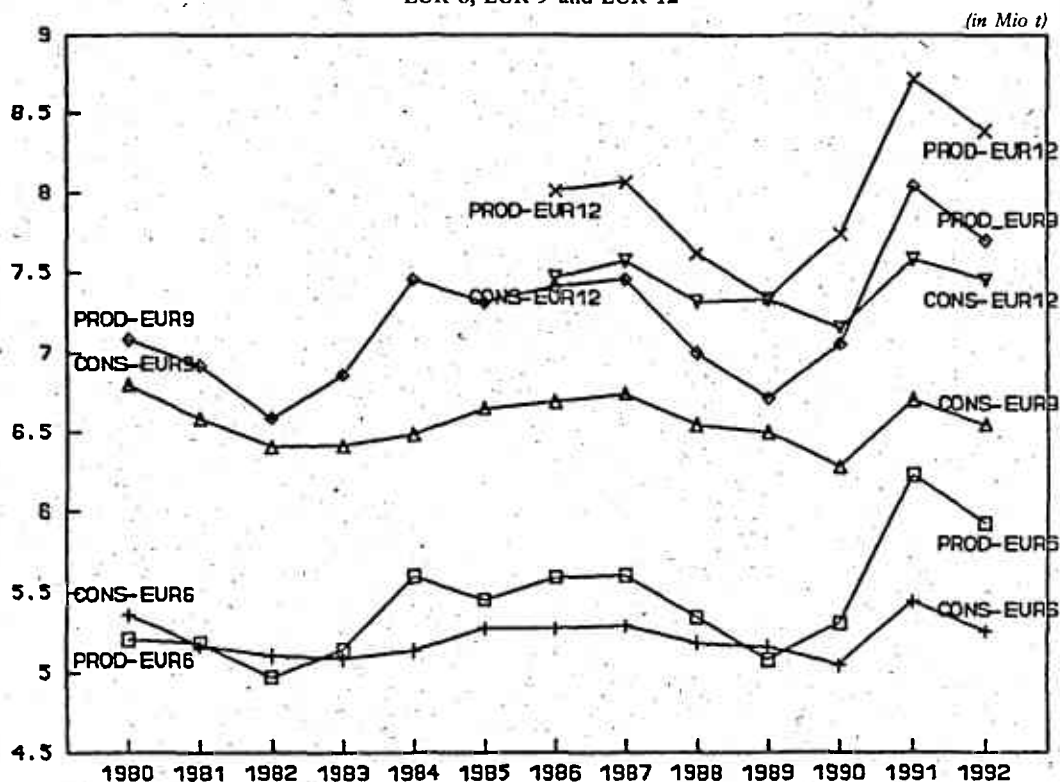
average about 6 % of Community production, which is tending to grow at slightly less than 0,5 % a year.

Imbalance on the beef and veal market

2.9. One of the objectives of the COM in beef and veal is to stabilize the market in the Community (see paragraph 3.1). A look at the trend in consumption and production since 1980 (see Graph 2.10) reveals that Community production, which, admittedly, is cyclical, has always, even at the lowest point of the cycle, exceeded consumption. This structural imbalance, which has persisted for over a decade, is growing worse. The surplus needing to be disposed of every year on the world market has, over the past 10 years, represented on

2.10. An examination of the levels of self-supply in the Community (see Table 2.3) shows that four Member States (Greece, Italy, Portugal and the United Kingdom) are not self-sufficient. The other Member States, except for Spain where consumption and production are in balance, have all produced considerably more than they have consumed. Except for Belgium (159 % in 1990 as against 108 % in 1980) and Ireland (948 % in 1990 compared to 484 % in 1981), the level of self-supply decreased in all the Member States between 1986 and 1989.

Graph 2.10. – Changes in the balance between internal production and consumption – EUR 6, EUR 9 and EUR 12



N.B. Since 1990, EUR12 has included the former GDR.

Source: Supply balances – meat 1965 to 1990 – VI/2643/91 – DG VI/A-2

2.11. Even though the recent situation on the market seems to have improved considerably, stocks, which exceeded 1,1 million tonnes at the beginning of 1993, nevertheless stood at about 450 000 tonnes at the start of 1994. The fundamental imbalance – obscured by temporarily better export performances, the cyclical changes in production and the fact that farmers are deferring slaughter so as to acquire rights to premiums under the new system – will make itself felt very clearly in the years to come, at a time when solvent export markets may well be growing scarce ⁽¹⁾.

⁽¹⁾ 'The future of European agriculture' – Speech given by Mr Steichen, Member of the Commission, to the European People's Party conference on 12 January 1994 and to the 'Commission des affaires économiques et du plan' of the French Senate on 1 February 1994 – RAPID (databank of the Commission's Spokesman's Service). Debates of the European Parliament, Report of proceedings, Sitting of 21 January 1994, pp. 411-417.

Table 2.3 — Level of self-sufficiency (self-sufficiency as a percentage — beef and veal)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B ⁽¹⁾	108	116	103	114	126	127	136	135	149	150	159	178	179	
DK	351	372	413	414	363	328	283	290	249	208	208	231	204	
D	104	109	109	112	119	113	121	118	112	113	120	137	121	
GR	46	57	47	37	37	35	33	27	38	28	29	32	28	
E				95	88	87	99	99	96	96	102	95	100	97
F	111	115	112	113	121	118	118	121	118	108	114	119	122	116
IRL	629	484	476	547	601	692	706	692	776	716	903	977	977	
I	63	60	59	63	67	61	58	59	59	56	62	62	69	
NL	141	156	154	172	196	185	220	182	169	154	160	173	179	
P				99	91	84	86	80	82	83	71	76	70	
UK	84	83	83	86	92	89	81	84	76	81	91	92	85	91
EUR 12				104	111	106	107	107	104	100	108	115	113	
EUR 10	102	104	101	105	112	108	108	107	105	101	109			

⁽¹⁾ The figures for the Belgo-Luxembourg Economic Union are shown under Belgium.

Source: Supply balances — meat 1965 to 1990 — VI/2643/91 — DG VIIA-2

3. COMMON ORGANIZATION OF THE MARKET IN BEEF AND VEAL

3.1. The COM in beef and veal was set up by Council Regulation (EEC) No 805/68 of 27 June 1968 ⁽¹⁾, hereinafter called the basic Regulation. This Regulation lays down the instruments to be implemented, on the basis of the Common Agricultural Policy objectives specified in Article 39 of the Treaty of Rome. Priority is given to the need to stabilize markets, in particular by preventing price fluctuations on the world market from affecting prices ruling within the Community and the need to ensure a fair standard of living for the agricultural community concerned ⁽¹⁾.

Changes in the regulations: the three periods of the COM

3.2. The Community regulations of this COM have gone through the following three chronological phases:

⁽¹⁾ Council Regulation (EEC) No 805/68 of 27 June 1968 on the common organization of the market in beef and veal, OJ L 148, 28. 6. 1968, p. 24. The measures laid down by the basic Regulation concern adult bovine animals, i.e. live animals and the fresh or chilled meat of these animals.

- (a) a period of a shortage of beef and veal, from 1960 to 1973, during which the provisions of the regulations aimed to stimulate production;
- (b) a period of precarious balance, from 1974 to 1981, during which the main purpose of the *ad hoc* measures decided was to support prices on the Community market;
- (c) a period of structural surpluses, since 1981, during which Community regulations have increasingly been moving towards the support of producers' incomes by applying a system of premiums paid direct to the producer, whilst at the same time allowing market prices to drop within certain limits under pressure from the production surpluses.

3.3. The various premiums which were introduced in a somewhat disparate manner at the beginning of the Seventies in response to concerns that seemed transitory have gradually been replaced by premiums of a more lasting nature, which have in the end been incorporated into the basic Regulation of the COM. The Council's response to the market has been to introduce the Community classification scale, which established the shift from a 'live price' system to a 'carcase price' system, to implement a more homogeneous set of premiums, combined with a policy of reducing intervention prices, and to make successive changes to the mechanisms of

purchase by tender. On several occasions, the Council considered that the intervention system in the beef sector had failed to achieve its objective of supporting prices and stabilizing the market and that intervention was tending to become an end in itself, as shown by the appearance of a typical intervention carcass (heavy carcass with good conformation, etc.).

The Community regulations in force

3.4. Following the most recent changes made in May 1992 as part of the 'reform of the Common Agricultural Policy (CAP)', the basic Regulation of the COM⁽¹⁾ contains, as it has from the outset, a prices and intervention system and arrangements governing trade with third countries.

Arrangements governing trade with third countries

3.5. The measures laid down in the basic Regulation comprise a system of export refunds differentiated according to the destination of the goods and a system of customs duties for imports, plus, if need be, a system of levies. Furthermore, one system of exceptions is laid down for the processing industry and another for the importing of animals for fattening.

3.6. Every year, the Council draws up an 'estimate of the meat intended for the processing industry, taking account, on the one hand, of expected Community supplies of meat of a quality and type of cut suitable for industrial use and, on the other, of industrial needs'⁽¹⁾. These successive estimates have in particular taken the changes in Community production into account. Since 1991, import needs, which last reached their highest point in 1990 with 50 000 t, have been fixed at nil by the Council. Nevertheless, in order to fulfil commitments (193 795 t of meat and 472 600 live animals) made under international agreements (GATT, ACP, namely Botswana, Kenya, Madagascar, Namibia (since 1993), Swaziland, Zimbabwe - see Table 3.1), the Community continues to import some 500 000 t of beef per year at preferential rates, including 200 000 t in the form of preparations or preserved meat (tariff heading 16.02) which can be imported at a 26 % rate of customs duties.

3.7. The successive estimates concerning young male bovine animals weighing 300 kg or less intended for fattening in the Community have taken account of the Community surplus of male calves, a surplus which should in future be reduced by the introduction, since 1993, of the premium for the conversion of young male dairy calves (a premium of 100 ECU paid for every

young male dairy calf withdrawn from production before it is 10 days old). This measure, which is optional for the Member States, has not yet been applied. In order to keep up harmonious trade relations with the third countries concerned (Hungary, Poland and Yugoslavia for 1992, the Czech Republic and the Slovak Republic for 1993, Romania), the Council has decided for the past three years to keep the number of young male bovine animals allowed to be imported at preferential rates at 198 000 head, despite a foreseeable surplus of 600 000 head in 1992 and 100 000 head in 1993.

System of premiums

3.8. The various types of premium, namely the special premium, the deseasonalization premium, the suckler-cow premium and the calf conversion premium, are measures whose purpose is to influence the supply of beef and veal, in particular in terms of the quantity available for marketing, the time of marketing or the form in which it is marketed (calves, young male bovine animals, bullocks, etc.) and to support producers' incomes.

The intervention system

3.9. The system of intervention applies to the carcasses of adult bovine animals, i.e. those with a live weight of over 300 kg, and to the fresh or chilled meat of such animals, presented in the form of carcasses, half-carcasses, compensated quarters, forequarters or hindquarters, graded according to the Community classification scale.

3.10. Intervention consists of public storage carried out according to the rules governing the buying in by the intervention agencies of each Member State, and private storage, i.e. aid for the storing of products in a warehouse by persons other than intervention agencies on their own behalf and at their own risk⁽¹⁾. In recent years, however, the budgetary expenditure incurred for private storage has accounted for only an insignificant portion of the costs of intervention in the form of storage (see Table 3.1).

3.11. These measures may be taken either for a Member State or a region or for the whole of the Community, depending on the level of prices recorded on markets in the Member States in relation to an indicator, the intervention price (originally the guide price⁽¹⁾).

Public storage

Buying in

3.12. Intervention buying in may be carried out in two different specific cases depending on the levels, in relation to the intervention price, of the average price on the

⁽¹⁾ Council Regulation (EEC) No 805/68 of 27 June 1968 on the common organization of the market in beef and veal, OJ L 148, 28. 6. 1968, p. 24. The measures laid down by the basic Regulation concern adult bovine animals, i.e. live animals and the fresh or chilled meat of these animals.

Table 3.1 — Import quotas in the beef and veal sector

Regulation	Quota	Origin of products	Rate (CD) & (L)	Quantities tonnes (t) or head (h)	
Coun. 129/94 Comm. 212/94	GATT Hilton beef GATT Hilton beef USA	Argentina, Australia, Uruguay, USA, Canada	20 % (CD) 20 % (CD)	24 300 t 10 000 t	34 300 t
Coun. 131/94 Comm. 212/94	GATT buffalo	Australia	20 % (CD)	2 250 t	
Coun. 132/94 Comm. 139/94	GATT thin skirt GATT thin skirt Argentina	Erga omnes Argentina	4 % (CD) 4 % (CD)	800 t 700 t	1 500 t
Coun. 130/94 Comm. 214/94	GATT frozen meat Situation processed meat	Erga omnes Erga omnes	20 % (CD) 0 %/45 % (L) 20 % (CD)	53 000 t 0 t	
Coun. 715/90	ACP meat	Kenya, Zimbabwe, Swaziland, Botswana, Madagascar, Namibia	10 % (L)	52 100 t	
Comm. 336/94	Situation young bovines	Czech Republic, Slovakia, Poland, Hungary, Romania, Slovenia, Bulgaria	25 %/35 % (L) 16 % (CD)	198 000 h	425 000 traditional level
Comm. 2697/93 Comm. 3558/93	Association agreement (meat)	Poland, Hungary, Czech Republic, Slovakia	40 % (L) 8 % (CD)	14 100 t	
Comm. 358/94	Association agreement (live animals of 160 to 300 kg)	Poland, Hungary, Czech Republic, Slovakia	25 % (L) 16 % (CD)	59 400 h	
Coun. 1157/92 Comm. 3409/93	Calves < 80 kg	Erga omnes	100 % (L) 16 % (CD)	167 600 h	
Coun. 775/94 Comm. 957/94	Compensation (situation) 'high quality meat'	Argentina, Australia, Uruguay, New Zealand, Brazil	20 % (CD)	11 430 t	
Coun. 774/94 Comm. 1001/94	Compensation 'oleaginous products'	Argentina, Uruguay, Brazil	20 % (CD)	18 000 t	
	Mountain breed	Austria, Switzerland	4 % (CD)	47 600 h	
Comm. 266/94	Meat Sweden	Sweden	0 % (CD) 0 % (L)	4 000 t fresh or frozen meat 2 500 t tins	
Comm. 346/94	Meat Bulgaria & Romania	Bulgaria, Rumania	60 % (L) 12 % (CD)	75 t (Bulgaria) 540 t (Romania)	

Source: Commission

Community market and the average market prices in the Member States or regions of a Member State⁽¹⁾. In the first case, buying in is subject to a quantitative limit (see

paragraphs 3.13 and 3.14). In the second case, buying in is carried out according to the arrangements of the 'safety system' or 'safety net' (see paragraph 3.15).

⁽¹⁾ Commission Regulation (EEC) No 859/89 of 29 March 1989 laying down detailed rules for the application of intervention measures in the beef and veal sector, OJ L 91, 4. 4. 1989, p. 5. The territory of the United Kingdom consists of two regions, namely Great Britain and Northern Ireland.

3.13. In the first case, buying in is done by means of a tender procedure, with the buying in prices and the quantities accepted being determined on the basis of tenders received by the Commission. This procedure is opened provided that two conditions are met during a period of two consecutive weeks:

- (a) the average Community market price recorded on the basis of the Community scale for classification of beef carcasses is less than a percentage of the intervention price (84 % (1) since 1992);
- (b) the average market price recorded on the basis of the said scale in the Member State or the region concerned is less than a percentage of the intervention price (80 % (1) since 1992).

3.14. The procedure is suspended where one or other of these conditions is no longer met for two consecutive weeks or where the annual ceiling fixed for buying in under this procedure has been reached. This ceiling, which was set at 750 000 tonnes for 1993, decreases step by step down to 350 000 tonnes in 1997.

3.15. In the second case, products are bought in according to a procedure generally known as the 'safety system or safety net' under which all tenders are accepted. This buying-in procedure is applied in the event of a sharper fall in prices over two consecutive weeks, i.e. where the average Community market price is lower than 78 % of the intervention price and, in a Member State or regions of a Member State, where the average market price of adult bovine animals, recorded on the basis of the Community classification scale for carcasses, is less than 60 % of the intervention price.

3.16. In the two cases described above, the only tenders accepted are those where the price does not exceed the average market price of the Member State or the region, plus an amount which has been fixed by the Commission at 8 ECU. The meat bought in must correspond to the quality for which the price conditions specified in paragraph 3.13 were recorded.

3.17. The system of intervention buying in has undergone considerable changes because of the numerous amendments and improvements to the implementing rules laid down by the Commission. These include:

- (a) the possibility allowed since 1974 to the intervention agencies, in the event of huge amounts being offered for intervention, of restricting buying in to the quantities which they are able to freeze and store (2);
- (b) the authorization granted since 1978 to the intervention agencies to bone the beef which they buy in, within certain limits (3); after various derogations,

these limits were abolished in 1989 (4) and others were again introduced in 1993 (5);

- (c) the ban since 1988 on accepting into intervention products coming from animals treated with certain substances having a hormonal action (6);
- (d) the obligation, imposed since 1989, to refuse products whose classification the intervention agencies do not deem to comply with the Community classification scale (4), with no possibility of making a new classification;
- (e) the possibility retained by the Commission since 1990, where the quantities tendered at a price equal to or below the maximum price exceed the quantities to be bought in, of decreasing these quantities by means of reduction coefficients (see paragraph 4.16);
- (f) the obligation, imposed on the tenderer since 1992, to lodge the security intended to ensure fulfilment of his obligations solely in the form of a cash deposit, so as to reduce any speculation aimed at anticipating the application of reduction coefficients (7) (see paragraph 4.15).

Disposal of stocks

3.18. The aim of the measures implemented for disposing of intervention stocks of meat is to expand demand on the Community market, i.e. sales to the meat-processing industry or distribution free of charge to humanitarian organizations, and to facilitate exports on the world market (8).

3.19. The detailed rules of application (9) stipulate that the purchase application must always include a declaration whereby the applicant waives all claims as to the quality and characteristics of the product which may be assigned to him. The intervention agencies are

(1) Council Regulation (EEC) No 2066/92 of 30 June 1992, OJ L 215, 30. 7. 1992, p. 49.

(2) Commission Regulation (EEC) No 720/74 of 29 March 1974, OJ L 88, 1. 4. 1974, p. 27.

(3) Commission Regulation (EEC) No 2226/78 of 25 September 1978, Article 10, OJ L 261, 26. 9. 1978, p. 5.

(4) Commission Regulation (EEC) No 859/89 of 29 March 1989 laying down detailed rules for the application of intervention measures in the beef and veal sector, OJ L 91, 4. 4. 1989, p. 5. The territory of the United Kingdom consists of two regions, namely Great Britain and Northern Ireland.

(5) Commission Regulation (EEC) No 2456/93 of 1 September 1993, OJ No L 225, 4. 9. 1993, p. 4, Article 17(1).

(6) Commission Regulation (EEC) No 797/88 of 25 March 1988, OJ No L 81, 26. 3. 1988, p. 43.

(7) Commission Regulation (EEC) No 695/92 of 19 March 1992, OJ L 74, 20. 3. 1992, p. 42.

(8) The general rules for the disposal of frozen beef and veal bought in by intervention agencies are laid down by Council Regulation (EEC) No 98/69 of 16 January 1969, OJ L 14, 21. 1. 1969, p. 2, as last amended by Council Regulation (EEC) No 429/77 of 14 February 1977, OJ L 61, 5. 3. 1977, p. 18.

(9) Commission Regulation (EEC) No 2173/79 of 4 October 1979, OJ L 251, 5. 10. 1979, p. 12.

nevertheless supposed to have enabled prospective tenderers to inspect the products for sale before submitting their tender. The intervention agencies must give priority to disposing of the products which have been in store the longest.

Changes in budgetary expenditure

3.20. The budgetary expenditure of the COM (see Table 3.2) in beef and veal has increased from 1 736 Mio ECU in 1983 to 3 894 Mio ECU in 1993 (+ 124 %). This upward trend has been heavily affected by the surpluses bought into intervention: between 1983 and 1993

intervention spending on storage increased from 632 Mio ECU to 1 291 Mio ECU, a rise of 104 %. Export refunds represented the largest item of COM expenditure in 1993, amounting to 1 711 Mio ECU, or 44 % of the COM's total budgetary expenditure. Expenditure on export refunds rose less rapidly than the total expenditure of the COM (+106 % as against +124 %). The various premiums paid direct to beef and veal producers have resulted in budgetary expenditure which has risen by 123 % between 1983 and 1993. According to the forecasts used as a basis when the budget for the financial year 1994 was being drawn up, this expenditure is set to more than triple between 1993 and 1994 (see Table 3.2 and Graph 3.1).

Table 3.2 — Budgetary expenditure — COM in beef and veal

(Mio ECU)														
HEA- DING	TITLE	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 (³)	1994 (⁴)
210	REFUNDS ON BEEF/VEAL	828	1 393	1 339	1 214	878	769	1 343	1 110	1 282	1 333	1 711	902	1 552
2110	PRIVATE STORAGE	14	14	160	102	66	60	102	87	1	0	-93	28	pm
2111	TECHNICAL COSTS OF PUBLIC STORAGE	94	136	198	170	130	175	109	70	256	292	273	296	74
2112	FINANCIAL COSTS OF PUBLIC STORAGE	56	59	128	112	83	104	49	14	77	88	104	80	18
2113	OTHER PUBLIC STORAGE	469	606	608	1 497	771	563	132	-55	81	65	-119	-64	-294
2114	DEPRECIATION OF STOCKS	0	0	0	149	0	344	270	882	1 897	1 747	1 126	1 268	90
211	INTERVENTION STORAGE	632	815	1 094	2 030	1 050	1 246	663	998	2 312	2 192	1 291	1 608	-112
2120	PREMIUMS FOR SUCKLER COWS	91	90	113	91	62	156	182	292	367	437	558	691	891
2121	ADDITIONAL PREMIUMS FOR SUCKLER COWS												52	70
2122	SPECIAL PREMIUMS	0	0	0	0	74	192	158	401	335	454	319	967	671
2123	DESEASONALIZATION PREMIUMS (¹)	82	98	83	74	65	71	41	0	0		0	21	35
2124	PREMIUMS FOR FATTENING YOUNG MALE CALVES (²)	103	152	117	72	19	42	41	32	8		0	59	1

HEADING	TITLE	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 (³)	1994 (⁴)
2125	EXTENSIFICATION PREMIUMS												448	401
2126	PROMOTION AND MARKETING MEASURES											90	10	10
2127	ADDITIONAL PREMIUMS FOR SUCKLER COWS (PORTUGAL)												28	31
2129	OTHER INTERVENTION		0	0	0	0	0	0	0	0	0	6	pm	pm
212	INTERVENTION OTHER THAN STORAGE OF BEEF	276	340	313	237	220	461	422	725	710	891	892	2 276	2 116
B1-21	TOTAL FOR THE CHAPTER (beef/veal)	1 736	2 547	2 746	3 482	2 149	2 476	2 429	2 833	4 304	4 416	3 894	4 786	3 550

(¹) Until 1992 this item was called 'PREMIUMS FOR THE SLAUGHTER OF ADULT CATTLE OTHER THAN COWS'.

(²) Until 1992 item B1-2124 did not exist. The item for premiums for calves (B1-2122) was called 'CALF PREMIUMS'.

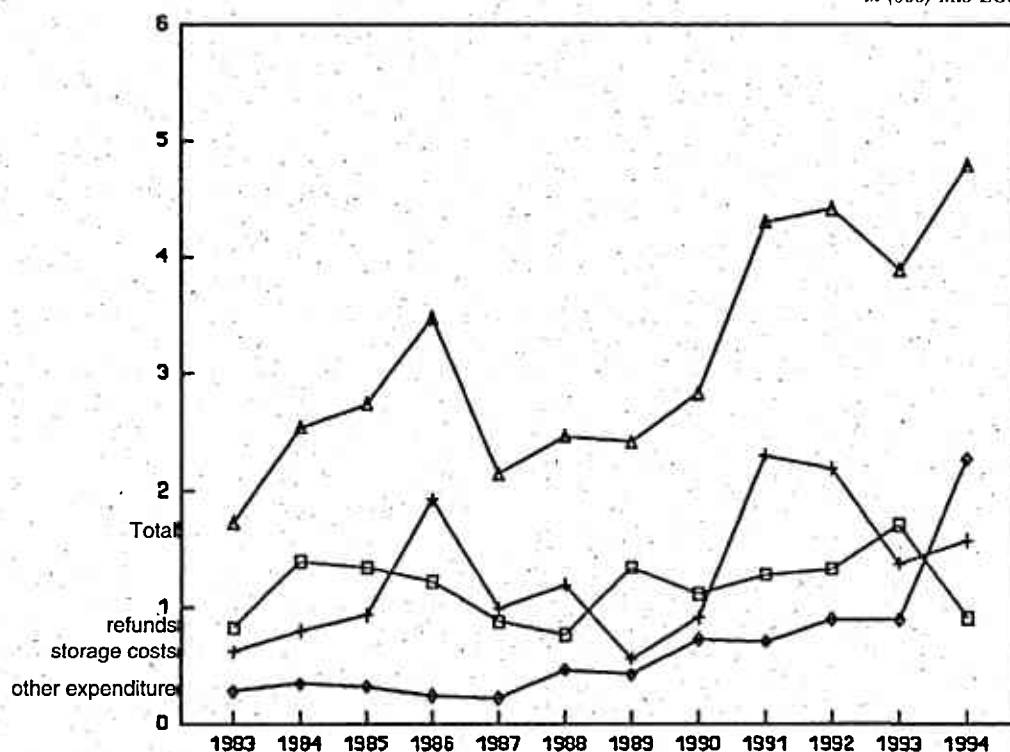
(³) Budgetary appropriations.

(⁴) Cyclical revision of appropriations in June 1994.

Source: Financial reports 1983-91 — SINCOM 92-93 — Budget 1994

Graph 3.1 — Budgetary expenditure — COM in beef and veal

in (000) Mio ECU



Source: Financial reports 1983-91 — SINCOM 92-93 — 1994 budget

4. THE IMPLEMENTATION OF INTERVENTION MEASURES

4.1. For the past decade there have been persistent structural surpluses in the beef market. Approximately one third of the surpluses merely reflects decisions which have been adopted under the COM in milk and milk products. There is a risk that this worrying situation (annual surplus of around one million tonnes of beef in 1991/1992) will persist, despite the 1992 CAP reform ⁽¹⁾.

4.2. Even though the current cyclical downturn in beef and veal production appears to be influenced by the package of measures adopted as part of the reform, there is a risk that the structural surpluses will ultimately return to the levels of 1991 and 1992, unless the Community implements corrective measures of a restrictive nature in the meantime.

4.3. From the aspect of Community finance, the Commission has estimated that by 1996 the introduction of new premiums and the increases in the existing premiums for beef producers will represent an additional annual cost to the budget of some 2 100 Mio ECU ⁽²⁾. If, in the future, the gap between Community prices and world prices narrows as expected, the budgetary cost of refunds will decline, as will that of intervention buying. The Commission has estimated the saving to the Community budget at 778 Mio ECU. The financing of the intervention buying, Community storage and the disposal of surpluses on the world market, which legally is not allowed, however, to exceed the export level (817 000 t in the year 2000) authorized under the GATT, will, nevertheless, continue to impose a significant budgetary burden. In the long term, the structural surpluses will continue to be a problem, one which the 1992 CAP reform has failed to remedy in the slightest and whose extent is hardly likely to diminish either, unless corrective measures, some of which have already been adopted in the meantime (for example, as part of the 1994/95 prices package) are implemented.

The system of premiums and its impact on the incomes of farmers specializing in beef production

4.4. In its Annual Reports concerning the financial years 1989 ⁽³⁾ and 1991 ⁽⁴⁾, the Court examined the implementation of the suckler cow premium and the

special premium for young male bovine animals. It also evaluated the impact of the two premiums, and their impact on the incomes of specialist producers of beef in particular.

4.5. According to this evaluation, the special premium, which was introduced to compensate for any loss of income which might result from the Council's decision to impose an immediate cut on intervention prices, appeared, in the end, to have no impact on producer incomes, as the effect of the premium is ultimately cancelled out by price variation. In fact, payment of the premium produces very little long-term improvement in farmers' incomes as part of the premium is absorbed by the market machinery. If the premium did not exist, the price difference in the producers' favour would equal or even exceed the amount of the premium. As regards the suckler cow premium, its impact on producers' incomes was found to be marginal in the long term.

4.6. One of the priority objectives of the COM in beef and veal is to ensure a fair standard of living for the agricultural population concerned (see paragraph 3.1). Comparison of the farm incomes for specialist beef and veal producers with those for milk producers shows that the average income for the former is approximately 50 % lower than that of the latter ⁽⁵⁾. The decisions which were adopted in 1992 as part of the reform of the CAP aimed to produce a 16 % improvement in the incomes of farmers specializing in beef and veal production, as against 8 % for milk producers. The only case where the target of a 16 % increase in income is higher is that of agricultural holdings which produce less than 92 t of cereals per year, where the improvement sought is 19 % ⁽⁶⁾. The Council has considered the problem of the specialized producers' incomes on a number of occasions. In addition to introducing the premiums already mentioned, it has also given producers the opportunity of diversifying into milk production, by allowing them individual reference amounts or quotas of up to 120 000 kg.

The intervention system

The various roles of intervention

4.7. There are certain slaughterhouses which sell surpluses into intervention and which use the system to sort the carcasses bought from fatteners according to market requirements. Carcasses which do not readily find buyers in the market go into intervention. For some slaughterhouses with a wide range of outlets in a number

⁽¹⁾ CAP reform and the beef market, Siemen van Berkum, Myrna van Leeuwen and Paul Veenendaal, Landbouw-Economisch Instituut (LEI-DLO), The Hague, August 1993.

⁽²⁾ Commission - Evaluation of the financial effects of the decision concerning the reform of the CAP during the financial years 1993-1997 - VI/405/91 rev. 1.

⁽³⁾ OJ No C 313, 12. 12. 1990, paragraph 4.2, p. 67.

⁽⁴⁾ OJ No C 330, 15. 12. 1992, paragraphs 3.36 to 3.98, p. 82.

⁽⁵⁾ The agricultural situation in the Community, Reports 1980 to 1992, Table 3.2.3 - Results by type of farming.

⁽⁶⁾ Community committee on the farm accountancy data network (FADN) - Methodologie et esquisse des résultats de la réforme de la PAC [Methodology and outline of results of the CAP reform]. Commission, DG VI/A/3, RI/CC 1114, 14. 9. 1992.

of Member States, there is no such thing as a typical intervention carcass. For others, more numerous than the first, the typical intervention carcass is a heavy carcass (see paragraph 4.10). In the case of the latter slaughterhouses, which are usually situated in the main areas of production, their outlets tend to be local or regional and the Community intervention system for beef is 'one of their best customers'.

4.8. According to some economic operators whom the Court's auditors met during audit visits to the Member States, intervention was deemed to play a major role in large-scale export business. In their view there were very few enterprises which were large enough to be able to undertake to export tens, or even hundreds, of thousands of tonnes of beef at short notice. Consequently, irrespective of the level of Community prices, intervention should and, in fact, did perform an important function as a focus of supply for large export contracts.

4.9. In the Member States that were visited, some senior staff in the intervention agencies criticized the present system of continuous intervention buying. According to them, intervention buying should revert as soon as possible to the original function of regulating seasonal or occasional surpluses, and should cease to act as a regulator in situations of structural surplus of the kind that has existed within the Community for many years. In the United Kingdom, in 1993, some slaughterhouses already seemed to be resigned to the idea that buying in under the intervention system would be abolished within two years (1).

4.10. One of the disadvantages reported by operators in a number of Member States was that, in a situation of structural over-production, intervention attracted very heavy male beef carcasses and actually encouraged the production of them. The live weight of these animals is more than 340 kg and there are no buyers for them in the market at the intervention price because, after boning and cutting, they do not satisfy consumer requirements. The joints produced after cutting are usually larger and heavier than the standard portions demanded by the market. The Council became aware of this drawback and decided, in response to a Commission initiative, to limit the weight of carcasses eligible for intervention buying to 380 kg with effect from 1 July 1993 (2). This weight was reduced to 360 kg from 1 January 1994 and to 340 kg from 1 July 1994.

(1) AGRA EUROPE, 8 April 1993, p. M/3.

(2) Commission Regulation (EEC) No 685/93 of 24 March 1993 amending Commission Regulation (EEC) No 859/89 of 29 March 1989 laying down detailed rules for the application of intervention measures in the beef and veal sector, OJ No L 73, 26. 3. 1993, p. 9.

The parties involved in management of the COM in beef and veal

4.11. In each Member State one or more national intervention agencies are responsible for the day-to-day management of intervention measures: tendering, buying, stock control and sales. The structure of the agencies involved in intervention measures may be limited to a single ministry, as in the case of Ireland, or it may involve a number of different provincial organizations, as in Italy.

Tendering procedure

4.12. The procedures for recording market prices are laid down in Community regulations and play a key role in triggering the intervention mechanisms. The purchases on which the intervention agencies decide in the course of the open tendering procedures so as to provide reasonable support for the market are established by reference to the prices recorded on the markets for adult bovine animals (3). The conditions for opening the tendering procedures are set out in detail in the basic Regulation (4) (see paragraphs 3.12 to 3.16). Invitations to tender and amendments to them are published in the *Official Journal of the European Communities*.

4.13. Only certain types of beef carcass are eligible for intervention buying, namely carcasses of uncastrated young male animals under the age of two years and castrated male animals; heifers and dairy or other cows are excluded. The carcasses must also meet certain criteria (5), for example, they must originate in the Community, satisfy certain health and hygiene requirements and be classified according to the Community scale.

4.14. Interested parties forward their tenders to the intervention agencies in the Member States. Tenderers must give a written undertaking to comply with all the

(3) In the beginning the Community regulations did not contain a precise definition of the 'bovine animals' to be taken into consideration in order to establish the prices recorded in the market. Regulation (EEC) No 425/77 defined 'adult bovine animals' as 'bovine animals the live weight of which is more than 300 kilograms'.

(4) Council Regulation (EEC) No 805/68 of 27 June 1968 on the common organization of the market in beef and veal, OJ L 148, 28. 6. 1968, p. 24. The measures laid down by the basic Regulation concern adult bovine animals, i.e. live animals and the fresh or chilled meat of these animals.

(5) Commission Regulation (EEC) No 859/89 of 29 March 1989 laying down detailed rules for the application of intervention measures in the beef and veal sector, OJ L 91, 4. 4. 1989, p. 5. The territory of the United Kingdom consists of two regions, namely Great Britain and Northern Ireland.

provisions relating to the tender concerned ⁽¹⁾ and are required to lodge a security of 30 ECU per 100 kg, in cash ⁽²⁾, as a guarantee.

4.15. The cash deposit was introduced in March 1992 to counteract a speculative movement that had been triggered by the increased use of the reduction coefficients introduced by Regulation (EEC) No 1282/90 ⁽³⁾. A cash deposit costs the tenderer around ten times as much as a bank guarantee. In view of the amounts at stake in intervention sales, this additional cost has very little influence on the way traders operate. Nevertheless the Commission's application of reduction coefficients to tenders is a very disturbing factor for traders, because it is arbitrary. Some slaughterhouses sell between 30 % and 50 % of their output into intervention and if the tenders submitted are not accepted, or the amounts bought are too small, they may be obliged to slow down their slaughtering rates temporarily, with immediate repercussions on the operation of the slaughterhouse and indirect repercussions on fatteners' incomes.

4.16. Owing to the way in which the reduction coefficients operate (see paragraph 3.17), only a fraction of the amount offered in the tender is accepted. The system of reduction coefficients for tenders was introduced with the aim of improving market-price support. This device makes it possible to buy certain quantities at a price above the equilibrium price for the market. As long as the reduction coefficient has a value such that almost 100 % of the quantities tendered are bought, the expectations of those involved remain within reasonable limits. Since July 1990, however, the effect of the reduction coefficients has been to reduce the amounts accepted against each tender. In February 1992, traders' expectations were such that, for category A (young male animals), they could expect to be able to deliver no more than 5 % of the quantity tendered. They accordingly submitted tenders for amounts ten to twenty times higher than the quantity they intended to supply. In Germany the record level was reached when 82 465 t were offered for sale in response to the 61st invitation to tender and 1 402 t (1,7 % of the amounts offered) were accepted for intervention after the reduction coefficient had been taken into account. At that time the amounts needing to be bought in in order to stabilize the market in Germany were of the order of 8 000 t to 10 000 t per invitation to tender.

4.17. In the light of the tenders received in response to an invitation to tender and in accordance with the procedure provided for in Article 27 of Regulation (EEC) No 805/68 ⁽⁴⁾, the Commission consults the Management Committee ⁽⁵⁾ and fixes the maximum buying-in price ⁽⁶⁾ per category for quality R3 ⁽¹⁾ (conformation class R and degree of fat cover 3). The intervention agency immediately informs each tenderer of the outcome of his participation in the tendering procedure. Each successful tenderer immediately receives a delivery order from the intervention agency, with details of the quantity to be delivered, the price at which the award is made, the delivery timetable and the intervention centre(s) to which delivery is to be made ⁽¹⁾.

4.18. The successful tenderers are allowed 17 days from the closing date for the submission of tenders within which to deliver the products. Deliveries may be split into several consignments. The rights and obligations arising from a successful tender are not transferable ⁽¹⁾. During audit visits to the Member States, and the United Kingdom (Northern Ireland) in particular, it was found that a number of enterprises had submitted multiple bids by operating through subsidiaries to circumvent the stipulation of only one bid per undertaking ⁽¹⁾. Delivery was effected by the parent company on behalf of the subsidiaries, thus circumventing the prohibition on

(1) Commission Regulation (EEC) No 859/89 of 29 March 1989 laying down detailed rules for the application of intervention measures in the beef and veal sector, OJ L 91, 4. 4. 1989, p. 5. The territory of the United Kingdom consists of two regions, namely Great Britain and Northern Ireland.

(2) Commission Regulation (EEC) No 695/92 of 19 March 1992, OJ L 74, 20. 3. 1992, p. 42.

(3) Commission Regulation (EEC) No 1282/90 of 15 May 1990 amending Commission Regulation (EEC) No 859/89, OJ No L 126, 16. 5. 1990, p. 31.

(4) 1. Where the procedure laid down in this Article is to be followed, the chairman shall refer the matter to the Committee (the Management Committee for Beef and Veal) either on his own initiative or at the request of the representative of a Member State.

2. The representative of the Commission shall submit a draft of the measures to be taken. The Committee shall deliver its opinion on such measures within a time limit to be set by the chairman according to the urgency of the questions under consideration. An opinion shall be adopted by a majority of 54 votes.

3. The Commission shall adopt measures which shall apply immediately. However, if these measures are not in accordance with the opinion of the Committee, they shall forthwith be communicated by the Commission to the Council. In that event the Commission may defer application of the measures which it has adopted for not more than one month from the date of such communication.

The Council, acting in accordance with the voting procedure laid down in Article 43(2) of the Treaty, may take a different decision within one month.

(5) Council Regulation (EEC) No 805/68 of 27 June 1968 on the common organization of the market in beef and veal, OJ L 148, 28. 6. 1968, p. 24. The measures laid down by the basic Regulation concern adult bovine animals, i.e. live animals and the fresh or chilled meat of these animals.

(6) Where special circumstances so require, a different price may be set to reflect the average market prices recorded for a Member State or a region of a Member State. Tenders submitted under the tendering procedure which exceed the reference average market price increased by 3,5 % shall not be taken into consideration.

transferring the rights and obligations arising from a successful tender. Commission Regulation (EEC) No 2456/93 of 1 September 1993 reinforced the prohibition on transferring rights and obligations by requiring the Member States to ensure that tenderers are independent of each other in terms of their management, staffing and operations.

Community buying in

4.19. Community buying in for intervention rose from 540 000 t (carcase equivalent) in 1987 to 1 030 000 t in 1991, an increase of 90,7 % in four years (see Table 2.1). Admittedly, the level of buying in has followed a cyclical

pattern, with a downswing to 170 000 t ⁽¹⁾ in 1989, but, nevertheless, the 1991 buying represents more than 13 % of Community beef and veal production and approximately 30 % of the production of meat from young male bovine animals and adult castrated male animals.

4.20. In 1990/91, 69,8 % (see Table 4.1) of Community purchases were effected under the safety-net system (see paragraph 3.15). In the United Kingdom the percentage was 97,1 %, in Ireland 94,7 % and in Germany 52,9 %. In contrast, the figure for France, the other major beef producer, was only 37,9 %. For the 1992/93 marketing year, purchases under this system, which had been modified in the meantime, accounted for not more than 13,2 % of total Community buying in.

⁽¹⁾ There is a prospect of another cyclical downswing at the end of 1993.

Table 4.1 — Public buying in of beef, broken down according to the tender system or the safety-net system

		1989/90			1990/91			1991/92			1992/93			1993/94		
		T	S	Total	T	S	Total	T	S	Total	T	S	Total	T	S	Total
Belgium	a	10		10	109	2 924	3 033	7 684	1 800	9 484	1 447		1 447			
	b															
	c	10		10	109	2 924	3 033	7 684	1 800	9 484	1 447		1 447			
Denmark	a				16 192	8 989	25 181	40 470	3 215	43 685	39 743		39 743	10 170 ⁽¹⁾		10 170
	b				385	407	792	655	90	745	140	615	745	45		45
	c				16 577	9 396	25 973	41 125	3 305	44 430	39 883	615	40 488	10 215		10 215
Germany	a	66 940		66 940	125 652	130 425	256 077	122 376	66 983	189 359	173 962		173 962	17 959		17 959
	b	8 603		8 603		11 113	11 113		9 255	9 255	3 117	4 536	7 653	82		82
	c	75 543		75 543	125 652	141 538	267 190	122 376	76 238	198 614	177 079	4 536	181 615	18 041		18 041
Greece	c															
Spain	a	3 994		3 994	435		435	551	1 330	1 881	264		264			
	b															
	c	3 994		3 994	435		435	551	1 330	1 881	264		264			
France	a	2 776		2 776	49 062	37 190	86 252	176 368		231 532	137 758		137 758	12 062		12 062
	b				11 876		11 876	55 164			33 506		33 506			
	c	2 776		2 776	60 938	37 190	98 128	231 532		231 532	171 264		171 264	12 062		12 062
Ireland	a				13 062	234 767	247 829	79 560	187 592	267 152	164 512	73 622	238 134	22 342		22 342
	b	84 241		84 241												
	c	84 241		84 241	13 062	234 767	247 829	79 560	187 592	267 152	164 512	73 622	238 134	22 342		22 342
Italy	a				41 255	39 776	81 031	134 016		134 016	54 105		54 105			
	b															
	c				41 255	39 776	81 031	134 016		134 016	54 105		54 105			
Luxembourg	c															
Netherlands	a				426	881	1 307	2 010	414	2 424	664		664			
	b															
	a				426	881	1 307	2 010	414	2 424	664		664			
Portugal	c															
United Kingdom	a				4 230	140 654	144 884	43 211	83 793	127 004	66 261	23 914	90 175	4 565		4 565
	b	11 654		11 654												
	c	11 654		11 654	4 230	140 654	144 884	43 211	83 793	127 004	66 261	23 914	90 175	4 565		4 565
EC	a	73 720		73 720	233 131	220 185	453 316	483 475	73 742	557 217	407 943		407 943	40 191		40 191
	b	104 498		104 498	29 553	386 941	416 494	178 590	280 730	459 320	267 536	102 687	370 223	27 034		27 034
	c	178 218		178 218	262 684	607 126	869 810	662 065	354 472	1 016 537	675 479	102 687	778 166	67 225		67 225

T: Tender — S: Safety-net — a: young male cattle — b: steers — c: total

⁽¹⁾ Including 320 t of carcasses of young bovine animals weighing less than 150 kg.

Sources: for France: 'Le marché des viandes et des produits avicoles' ('The market in meat and poultry products') (OFIVAL); for the Community: Revenue and expenditure accounts and DG VI-D-2.

4.21. During the 1991/92 marketing year, the highest level of buying was in Ireland, where 267 152 t – slightly less than half the national beef production – were bought in. For the 1992/93 marketing year, the amount bought into intervention in Ireland was still 238 134 t.

4.22. The quantity of carcasses bought into intervention in the various Member States is a function of the categories and classes of carcass eligible for intervention buying. Thus in Italy, one of the few Member States which accepted carcasses of category A (young male animals) and conformation class O (Community classification scale) for intervention, a wave of intervention buying started in May 1990 following the increase in imports of beef, especially of category A class O, many of them from the former GDR, and probably from other countries in central and eastern Europe as well. The Community beef market, and the Italian market in particular, was disturbed in consequence. Italy is a country which is far from self-sufficient, but even so it was obliged to apply the safety-net measures until the beginning of March 1991.

4.23. The proportion of category A class O meat from Germany bought into intervention in Italy (68 000 t for the 1990/91 year and 78 000 t for the 1991/92 year) was very high between September 1990 (approximately 70 %) and November 1992 (around 50 %), but traders from other Member States also sold in Italy carcasses which did not qualify for intervention in their countries of origin.

The buying in procedure

4.24. Successful tenderers who have received delivery orders go to the intervention centre stated in the delivery order at the dates and times specified (see paragraph 4.17) to deliver the quantity of carcasses awarded.

4.25. The intervention agencies draw up a list of the intervention centres to which the quantity of carcasses awarded is to be delivered. If the intervention agency in a Member State does not bone the carcasses subsequently, it is logical for cold stores to be designated as intervention centres, as is the case in Germany.

4.26. In France, on the other hand, where a proportion of carcasses are boned (36,1 % in 1992), there is no point in designating cold stores as intervention centres, unless successful tenderers are never required to bone carcasses themselves. That is only so in theory, however. In practice, there were occasions when a successful tenderer took the carcasses to the intervention centre (a cold store), unloaded them, so that they could be bought into intervention by the officials from OFIVAL (the French intervention agency), and then reloaded them onto the same lorry to take them to a cutting plant adjacent to his slaughterhouse.

4.27. In Member States such as the United Kingdom, where all carcasses are boned, and Ireland, where almost

all are, intervention buying took place either at the successful tenderer's slaughterhouses or at cutting plants. In future, for all the Member States, the intervention agency will be required to take over the carcasses for boning at the weighing point situated at the entrance to the intervention centre's cutting plant⁽¹⁾. In the past, in almost every case, successful tenderers who delivered carcasses for intervention would go on to bone the carcasses themselves. With the entry into force of the new implementing Regulation, successful tenderers and cutting plants must be totally independent of each other⁽¹⁾. This has reduced the inherent risks of boning operations, such as substitution between carcasses.

4.28. At the time of buying in, the intervention agencies are required to take certain steps to confirm various things, for example, that the carcasses qualify for intervention⁽²⁾.

4.29. In France, all the data relating to the carcasses were recorded by computer at the time of weighing, although the actual data input was manual. The cold-store representative entered on a portable computer the weight, read from the display of the warehouse balance, and the quality, declared by the OFIVAL representative, of the quarters taken over. This procedure could give rise to a number of errors in view of the speed at which buying takes place. The OFIVAL representative did not make any *ex post* checks on the weighing notes, even by sampling. When the carcass was bought in, a label stating the quality of the carcass and the purchase number was stapled to each quarter. The carcass numbers recorded at the time of weighing were not subsequently used for stock control purposes.

4.30. In Italy, the procedure followed was the same as in France: the Associazione Provinciale Allevatori (APA) representative made out the purchase note for the meat presented for intervention.

4.31 In Germany, all the data were recorded manually on standard forms, which are encoded centrally by the intervention agency (Bundesanstalt für landwirtschaftliche Marktordnung – BALM). At the slaughterhouse exit a copy of the internal carcass weighing document was annexed to the buying-in report. Even though it was not checked by the intervention agency (BALM) representative, this was an additional security factor, as a means of verifying the end result of the actual buying-in session. The electronic weighing system printed a

(1) Commission Regulation (EEC) No 2456/93 of 1 September 1993, OJ No L 225, 4. 9. 1993, p. 4, Article 17(1).

(2) Commission Regulation (EEC) No 859/89 of 29 March 1989 laying down detailed rules for the application of intervention measures in the beef and veal sector, OJ L 91, 4. 4. 1989, p. 5. The territory of the United Kingdom consists of two regions, namely Great Britain and Northern Ireland.

document which showed the weight of each group of quarters weighed together and the total weight of quarters weighed at the buying-in session, thus eliminating possible transcription errors.

4.32. The procedures followed in the United Kingdom and Ireland were similar to those applied in Germany.

4.33. However, the time required for registering the data varies widely from one Member State to another. In France the figures are updated every night by electronic transfer (see paragraph 4.66). In Germany the interval that elapses before the figures are updated is about 15 days. In the United Kingdom there can be delays of several months.

4.34. The Community regulations ⁽¹⁾ provide that if more than 20 % of the products in the batch of carcasses presented for intervention buying in are rejected, the whole batch must be rejected.

4.35. In France, the Court noted that, during the buying-in sessions which its officials attended, carcasses were reclassified by the OFIVAL agent. Strictly speaking, these carcasses should have been rejected under the terms of the Community regulations ⁽¹⁾. Moreover, in order to comply with the Community regulations, there should have been a record of the carcasses which had to be rejected. There were no general arrangements to that effect.

4.36. In Germany, although Part A of the report drawn up following a preliminary inspection of the quality of the meat at the slaughterhouse stated the number of half-carcasses deemed eligible, it did not state the number of halves presented; it was thus impossible to verify whether more than 20 % of the products in the batch presented was rejected and to determine whether the batch could be accepted or not. If the half-carcasses rejected during buying in at the cold store were the only ones taken into account, this splitting of the buying procedure into preliminary inspection at the slaughterhouse and official acceptance at the cold store would result in the omission of a significant part of the rejections, namely the carcasses rejected as a result of the preliminary inspection by the BALM inspector at the slaughterhouse. This splitting of the procedure, as applied in Germany, is now permitted under the new Commission implementing Regulation ⁽²⁾, but it is still necessary to know the total number of rejections.

4.37. In Great Britain, the fatstock officers of the Meat and Livestock Commission (MLC) who buy carcasses for intervention at the slaughterhouses regularly downgrade carcasses so that they can be accepted, or they reject them if they fail to qualify for intervention. These rejections (or downgrading, which must be regarded as the equivalent of rejection) are not recorded anywhere. As a result neither the fatstock officers nor the intervention agency (MLC) itself can check whether the Community provisions in question are applicable.

4.38. In France, even though the Community regulations ⁽¹⁾ governing the buying in of beef for intervention include health rules, no veterinary officers were present at the buying centre when carcasses were being taken over.

4.39. During on-the-spot visits in Italy in December 1992, the presence of bruising on quarters accepted for intervention was brought to the notice of the officiating *valutatore* on several occasions. According to the Community rules, carcasses must not be bloodstained, suffused or bruised ⁽¹⁾. The *valutatore* ought to have been more severe and should, therefore, have rejected the quarters in question.

Boning

4.40. Commission Regulation (EEC) No 859/89 of 29 March 1989 ⁽³⁾ laid down the detailed implementing rules, which were in force until 1 September 1993. It has since been replaced by Commission Regulation (EEC) No 2456/93 of 1 September 1993 (hereinafter called 'the new implementing Regulation').

The proportion of intervention meat subject to boning

4.41. In the period between 1 January and 31 October 1993, 103 146 t of the beef bought into intervention was boned, thus accounting for 64,9 % of the total carcasses bought. As at 31 January 1993, 484 419 t of boned beef was held in Community public intervention stocks. This is the equivalent of 712 381 t of carcass beef ⁽⁴⁾, with a value of 686,9 Mio ECU ⁽⁵⁾. Since 1990, about half the

⁽¹⁾ Commission Regulation (EEC) No 859/89 of 29 March 1989 laying down detailed rules for the application of intervention measures in the beef and veal sector, OJ L 91, 4. 4. 1989, p. 5. The territory of the United Kingdom consists of two regions, namely Great Britain and Northern Ireland.

⁽²⁾ Commission Regulation (EEC) No 2456/93 of 1 September 1993, OJ No L 225, 4. 9. 1993, p. 4, Article 17(1).

⁽³⁾ OJ No L 91, 4. 4. 1989, p. 5.

⁽⁴⁾ One kg of boned meat is the equivalent of approximately 1,45 kg of bone-in meat or carcass meat. The difference is made up of bone and other waste which is removed when the meat is boned.

⁽⁵⁾ Source: EAGGF VI.G.2 – State of intervention stocks at 31 January 1993 – 'unchecked Member States' declarations.

beef bought into intervention has been boned (see Tables 4.2 and 4.3). In only five Member States (Denmark, France, Ireland, Italy and the United Kingdom) is the beef, or a proportion of the beef, bought into intervention boned. In Ireland and the United Kingdom, more than 90 % of intervention beef is boned. In Denmark the percentage of boned meat declined from

100 % in 1989 to 48 % in 1991. In Italy the percentage has fluctuated between 10 % and 60 % in the period between 1988 and 1991. In France, for the same period, the figure was between 0 % and 25 %. In Germany the meat was not boned because, according to the German authorities, the rate paid by the Community covers only about half of the real cost.

Table 4.2 — Quantity of beef boned

(in tonnes)

	1987	1988	1989	1990	1991	1992	1993
DK	19 375	24 896	441	4 331	21 773	29 166	26 622
D		14 352					
F	45 208	41 075	1 225			44 752	30 281
IRL	57 300	64 657	25 539	141 221	256 538	249 440	153 985
I	7 318	19 461	2 487	8 425	39 381	45 058	5 773
UK	31 216	33 767	16 914	40 742	141 547	75 774	39 656
Total	160 416	198 207	46 606	194 719	459 240	444 190	256 318

Source: Commission — Member States' annual declarations.

Table 4.3 — Cost of boning

(in ECU)

	1987	1988	1989	1990	1991	1992	1993
DK	1 322 312	1 699 152	30 122	295 619	1 814 357	2 727 011	2 976 848
D		979 543					
F	3 085 458	2 803 335	83 616			4 184 327	3 385 991
IRL	3 910 730	4 412 816	1 734 047	9 638 342	21 377 338	23 322 618	17 218 640
I	499 447	1 328 221	169 723	574 994	3 281 591	4 212 949	645 572
UK	2 130 469	2 304 570	1 154 359	2 780 636	11 795 153	7 084 904	4 434 379
Total	10 948 417	13 527 638	3 180 867	13 289 591	38 268 439	41 531 809	28 661 430

Source: Commission — Member States' annual declarations.

The sound financial management aspects of boning

4.42. The intervention agency in each Member State is responsible for deciding whether the meat is to be boned ⁽¹⁾. Originally, the decision was required to respect certain limits imposed by the Commission ⁽²⁾. Currently, it is taken mainly in terms of:

- ⁽¹⁾ The intervention agencies lay down in their specifications the terms of the contracts concluded with the cutting plants which meet Community standards. They include the methods for preparing, trimming, packing, freezing and preserving the meat once it has been boned.
- ⁽²⁾ Article 1 of Commission Regulation (EEC) No 1315/74 stated that the intervention agencies were authorized to bone up to 1 000 tonnes of the meat bought in each week and, in addition to that quantity, up to 25 % of the additional amounts bought each week.

- (a) the residual storage capacity of the store, given that, on average, it is possible to store 170 kg of bone-in meat per cubic metre and three times that quantity of boned meat;
- (b) the freezer installations, which, in general, are more suited to storing cartons than storing carcasses;
- (c) buyers' preferences;
- (d) the need to bone the meat for health reasons, as is the case at present in the United Kingdom following the outbreak of 'mad cow disease' (BSE).

4.43. One further criterion, which takes into account the sound financial management of Community expenditure, should be added to the considerations set out in paragraph 4.42. The decision on whether to bone the meat bought into intervention does, in fact, have an impact on budgetary expenditure (see *Table 4.3*). Between 1987 and 1991, budgetary expenditure on boning meat rose from 10,9 Mio ECU to 38,3 Mio ECU.

4.44. The factors which must be taken into account in evaluating this impact are as follows:

- (a) the fact that boning makes it possible to rid meat of parts which are of no interest for storage; between 30 % and 32 % of the weight of the carcasses bought into intervention is eliminated in this way;
- (b) the difference in storage costs between bone-in meat and boned meat; the monthly storage costs are around 17,99 ECU/t for bone-in meat and 12,04 ECU/t for boned meat ⁽¹⁾;
- (c) the costs of boning the meat, for which the Commission has fixed a rate of 169,30 ECU/t of meat for boning; the boning costs also include the costs of taking into storage meat that is to be boned, whereas in the case of unboned meat, the costs of taking the meat into storage (amounting to 75,80 ECU/t) must be added to the purchase cost; the Community thus reimburses a flat amount of 93,5 ECU/t for the boning of carcasses;
- (d) the difference in withdrawal charges between bone-in meat and boned meat; the costs are 7,47 ECU/t for bone-in meat and 6,85 ECU/t for boned meat.

4.45. Given these factors, it is possible to determine the length of storage for which the total cost to the Community budget would be identical, irrespective of whether the meat is boned or not, i.e. the break-even point of the two methods: the length of storage is estimated to be ten months. Beyond that period, it becomes less expensive to store the meat in boned form, as the added cost of boning is offset by the savings achieved from eliminating certain parts of the carcass and

the difference between storage and withdrawal costs per tonne of meat.

4.46. This length of storage has been achieved and even exceeded on several occasions in all the Member States, notably in 1987, at the beginning of 1988 and in 1993, on account of the substantial intervention buying which took place during the second quarter of 1990. In 1988 and 1990 the amount of meat stored as carcasses was 548 661 t and 185 769 t respectively.

Yield on boning

4.47. The implementing rules provide that the yield on boning, calculated for the quantity of boned meat as a percentage of the amount of bone-in meat used, must be at least 68 % ⁽²⁾. The highest yields were obtained in France (70,60 %) and the lowest in Italy (68,10 %) and Ireland (68,71 %). The boning yield depends, firstly, on the care with which the boning work is carried out and, secondly, on the breed of cattle. For beef breeds the yield can be as much as 72 %, or more, in the optimum cases.

4.48. The work of boning the meat is carried out under contract and is paid for at a fixed rate (see paragraph 4.44). The cutting plant receives the carcass from the intervention agency and returns the boned meat to the agency. The boning yield indicates the quantity of meat, bought in carcass form, which enters Community storage. Thus, the lower the yield, the greater the risk that, in addition to the rate for the job, the cutting plant will receive remuneration in kind, i.e. the meat which is not returned to intervention. The importance which the intervention agencies should attach to supervising the boning operations is highlighted by the fact that the rate paid for boning represents between 3 % and 4 % of the value of the carcass.

The conduct of boning operations and the supervision of them by the intervention agencies

4.49. The boning process is carried out in different ways in different Member States. The intervention agency for the Member State is responsible for the supervision of the boning process ⁽³⁾ by means of either permanent physical monitoring or unannounced inspections accompanied by random checks of the cartons of cut meat. The supervision must include a comparison of the quantities used with the quantities produced and the waste. In the case of the random checks on cartons, however, the Community regulations did not include

⁽¹⁾ Commission Regulation (EEC) No 1643/89 of 12 June 1989, OJ No L 162, 13. 6. 1989, p. 12, and the Commission Decision of 31 January 1992, which is addressed to the Member States.

⁽²⁾ Commission Regulation (EEC) No 147/91 of 22 January 1991, Article 2(2), OJ No L 17, 23. 1. 1991, p. 9.

⁽³⁾ Commission Regulation (EEC) No 859/89 of 29 March 1989, laying down detailed rules for the application of intervention measures in the beef and veal sector, Article 20(1), OJ No L 91, 4. 4. 1989, p. 5, replaced by Article 23 of Commission Regulation (EEC) No 2456/93 of 1 September 1993, OJ No L 225, 4. 9. 1993, p. 4.

provision for specific quantity standards, whether directly or by means of instructions to the Member States. Pre-established control standards are an essential requirement if inspectors are to preserve their independence, but it was not until 1993 that the new Commission implementing Regulation stipulated that at least 5 % of the cartons must be checked.

4.50. In France, no special precautions (for example, sealing of lorries) were taken when the quarters bought by the intervention agency were transported between cutting plants and cold stores. The OFIVAL official responsible for supervising the boning did not even make a sample check of the characteristics of the quarters presented against the description on the purchase note before the boning session started. In any case, it would not have been possible to carry out any random-sample check, because the labels attached to the carcasses were, to a large extent, illegible.

4.51. The cuts of meat were packed in cartons, according to the instructions given in the specifications issued by the intervention agencies, which complied with the Community regulations ⁽¹⁾. After packing, the cartons were tied ⁽²⁾ and sealed with one or more labels. The object of this system is to prevent subsequent substitution in the contents of the carton. Details of the weight, cut and, where relevant, number of pieces were written on the box by hand. In France the boning work was carried out under permanent control. At the close of the session, a number of boxes were reopened, so that the contents could be checked. The number of boxes checked in this way and the type of cut were recorded on a form which served as a control report. The latter was signed by the control officer for the OFIVAL regional office. Although the report does not identify the cartons that have been checked, the latter are, nonetheless, marked by the control officer, who performs various OFIVAL duties, including checks in cold stores and cutting plants.

4.52. During checks on stocks of boned meat in France, it was found that the self-adhesive seals for the cartons did not perform satisfactorily, because they could be removed from and reattached to a carton without leaving any trace. In some instances, labels had become detached, without trace, and some cartons were not even tied.

4.53. During the on-the-spot visits in Italy, boning was carried out after the close of the buying-in session, in a plant next to the hall in which the quarters were taken over. A representative of the *Associazione Italiana Allevatori* (AIA) made an unannounced inspection. Despite the fact that an AIA representative was not in continuous attendance, there were no random examinations to check the contents of cartons of boned meat when boning had finished. Labels, in the form of rolls or individual labels, which were not numbered, had been placed at various points in the cutting room. There was no check on the number of labels used, except that in one of the plants visited, the number of labels issued to the cutting room was recorded, in thousands, and there was a periodic check on the plausibility of that number. The previous practice was for the seals which had been attached to be initialled by a person who had been duly authorized by the cutting plant. Although this procedure was slow, it did confer some protection against potential fraud, but had subsequently been abandoned because it was considered irrelevant. In one of the Italian plants visited, an electronic weighing system printed out the labels, with full details of the packaged meat, thus reducing the number of sources of error.

4.54. The inspector representing the AIA was employed on a part-time basis on a one-year contract, which in practice was renewed annually. The contract specified what checks had to be made as part of the duties to be carried out at a particular plant. The same inspector thus carried out his duties for a number of years in the same enterprise. In some of the plants visited, the duties of AIA inspector were carried out by a veterinary officer from the Local Hygiene Unit, who was assigned to the slaughterhouse.

4.55. In Ireland and the United Kingdom, buying in took place at the slaughterhouse. In Ireland the meat was boned at the same time and was subject to permanent physical control by an official representative of the Ministry of Agriculture (Department of Agriculture and Food), who had been assigned to the same enterprise for a number of years. In the United Kingdom a representative of the intervention agency for Great Britain carried out unannounced inspections, whereas in Northern Ireland the work was subject to permanent physical control by an intervention agency representative. In Great Britain the Meat and Livestock Commission (MLC) representative responsible for supervising the boning work usually performed other duties within the enterprise; this placed him in a situation of potential conflict which could adversely affect the quality of the work carried out on behalf of the intervention agency. For example, it was found that a number of inspectors made redundant by the MLC subsequently found employment in enterprises which they had previously been responsible for inspecting. Furthermore, although, in principle, there is provision for a rotation of inspectors, in practice it did not happen. In Northern

(1) Commission Regulation (EEC) No 859/89 of 29 March 1989 laying down detailed rules for the application of intervention measures in the beef and veal sector, OJ L 91, 4. 4. 1989, p. 5. The territory of the United Kingdom consists of two regions, namely Great Britain and Northern Ireland.

(2) The cartons are closed with synthetic twine.

Ireland, the Livestock and Meat Commission (LMC) inspectors were subject to a system of regular rotation and were full-time employees of the intervention agency.

4.56. In Ireland the labels were numbered consecutively and use of the rolls was accounted for in a special ledger, sometimes in a rather summary fashion. However, the number of labels used was not systematically checked against the number of cartons of meat produced.

4.57. In the United Kingdom, the cartons were sealed with two unnumbered intervention-agency labels and a numbered veterinary-service label. Although the veterinary services usually kept a summary account of their numbered labels, there was no cross-check between the number of seals used and the number of cartons produced. At the close of the session a number of cartons were reopened. It was not possible, however, subsequently to reconstruct the checks carried out, nor to determine which cartons had been opened. This inevitably diminishes the extent of intervention agency inspectors' accountability.

4.58. In Ireland, because the Community regulations specify a maximum percentage fat content for forequarter cuts (¹), one carton of each of the corresponding cuts was opened and the fat was removed from the pieces of meat; the percentage fat content was then calculated and, if it proved to be excessive in terms of the Community standards, the Irish authorities declared that the entire output of the quarters in question was to be rejected; at one session attended by the Court auditors, however, it was noted that, although the maximum fat content in the carton inspected was too high, the contents of the carton were reprocessed until they complied with the prescribed maximum. The Court auditors asked the Irish authorities how many cartons of forequarter cuts had been rejected in application of these measures, but were unable to obtain any figures. However, the information forwarded to the Court after the on-the-spot visits indicated that checks on the maximum percentage fat content had since been implemented.

Stocks

4.59. At 1 January 1993, Community stocks of beef (see Table 4.4) stood at 1 089 999 t, of which 408 940 t were carcasses and 681 059 t boned meat (carcase equivalent).

(¹) Commission Regulation (EEC) No 859/89 of 29 March 1989 laying down detailed rules for the application of intervention measures in the beef and veal sector, OJ L 91, 4. 4. 1989, p. 5. The territory of the United Kingdom consists of two regions, namely Great Britain and Northern Ireland.

The book value of these stocks was estimated to be approximately 3 400 Mio ECU. At that time, more than half the beef in Community stores had been bought in the United Kingdom and Ireland. At 31 October 1993 it accounted for 66,7 %.

4.60. In France around 85 % of the beef storage capacity was full at the time of the audit visits (June 1992). In order to remedy the imminent capacity shortage, refrigerated ships were temporarily pressed into service as short-term storage and beef storage contracts were negotiated with companies in other Member States.

4.61. In Italy, where the maximum storage capacity was estimated to be 150 000 t, beef stocks at the time of the audit visits in August 1992, just before the cattle were taken off grass for the autumn, already amounted to 85 000 t. During the period audited, the meat remained in storage for an average of 60 days.

4.62. At the time of the on-the-spot visits (March 1992), of the 137 789 t of beef in the Community stores in the United Kingdom, 28 968 t were difficult to sell. The meat in question was taken into storage at the beginning of 1990, at the time of the BSE outbreak, and there are no buyers for it on the world market. For a long time it has been extremely difficult to sell for export beef that has been bought into intervention in the United Kingdom. Beef stocks have, therefore, been reduced in a number of ways, including sales to the processing industry.

The criteria used for selecting cold stores

4.63. In Italy and Ireland it was possible for one and the same enterprise to buy and sell meat for intervention and to be recognized as a buying-in centre, cutting plant and store. In most cases the meat was stored either in the cold stores directly belonging to the slaughterhouses which had sold the carcasses into intervention or in the stores of the cutting plants which boned the meat for the intervention agency. In many cases, these warehouses were even located alongside the slaughterhouses or cutting plants. In Great Britain, by contrast, the intervention agency did not allow slaughterhouses or cutting plants to store in their own warehouses carcasses that had been sold into intervention or meat that had been boned for intervention.

4.64. In the event of fraudulent intent, or should the intervention agency's controls not be sufficiently strict, the fact that one and the same enterprise has custody of stored intervention products and simultaneously has

access to all the means of identifying such products, namely packaging, stamps, self-adhesive seals, etc, would make it easy for it to substitute products during storage or when they leave the store. The Commission has recognized this risk and its new implementing Regulation requires cutting plants and cold stores to be unconnected with the slaughterhouses and/or successful tenderers⁽¹⁾ (see paragraph 4.27).

Stock management and control

4.65. The computerized system used at buying sessions in France (see paragraph 4.29) assigned two numbers to each carcase, one for the two forequarters and the other for the two hindquarters of the same carcase. In physical storage the quarters were identifiable by the labels bearing the purchase number, but the number was not recorded when the quarters were taken out of stock. The advantage of recording the number would be that it would provide information concerning the composition of stocks at a given time and thus make it possible to use weighing notes as the basis for sample checks.

4.66. During the on-the-spot visit in France, checks on the stock of boned meat in stores showed that the management agency's stock return was not up to date. The listings that were available at the intervention agency's head office in Paris had not taken into account the stock movements from some days earlier, even though the computer system was supposed to provide, every day, without fail, details of the exact state of stocks at the end of the previous day.

4.67. In Ireland the backlog in the computer system which had been installed to control stocks was so great that the data produced by the system were useless for stock control purposes. There were, in fact, some communications from stores to the intervention agency regarding stock movements and inputs or outputs which had still not been entered in the system seven months after they had been received by the intervention agency. The computer system regularly produces a listing which details the availability of stocks in each store. Its practical value was very marginal, however, as the storekeeper was required to confirm the availability, in advance, by telephone, whenever stocks were to be removed. That notwithstanding, the computer system was a key element of the stock control system in Ireland.

4.68. In Italy, each forequarter and each hindquarter was identified by a number which appeared on a label attached to the quarter inside the stockinet. During inspections it was necessary to open the stockinet in

order to find the carcase numbers. The quarters were stored in batches. Each batch comprised the quarters bought in at one buying session. Grouping the quarters in small batches facilitates management of them.

4.69. At the end of each financial year every intervention agency compiles a full inventory of the stocks of agricultural products bought in pursuant to market management measures. According to the Community regulations⁽²⁾, each cold store must verify the accounting inventory during the last two months of the financial year. Verification is to be carried out in the presence of an intervention agency official⁽³⁾, otherwise the official must carry out the check himself at a later date and make a report on the inventory check. The inventory is based on the full monthly inventories received from storekeepers and the inventory check reports⁽⁴⁾. In the case of the financial year 1991, these provisions were not fully complied with in France, as none of the stores visited had in fact been the object of inventory checks of this kind. The situation was little better in Ireland. In the United Kingdom there was indeed a report on the checks carried out, but it had not been countersigned by the storekeeper or his representative, as required by the Community regulations⁽²⁾. In Northern Ireland there were some stores which were not checked regularly. In one case the storage conditions had been substandard for a long time: an entire palette of boned meat was encased in ice. In view of the way in which the batches are made up for storage, it is relatively easy to verify inventories in Italy. On the other hand, the officials who had been delegated by the intervention agency to carry out the verifications did not make any checks and, moreover, had not been given the necessary instructions.

4.70. In certain Member States (Germany, France, Italy), the physical inspection procedures that are required for the intervention agency to draw up the full inventory did not use correct random sampling methods. In many cases batches were selected for inspection by non-random methods, in order to achieve the minimum sampling level laid down in Commission Regulation (EEC) No 618/90 of 14 March 1990⁽⁴⁾. Although this approach is not incompatible with the existing Community legislation, it does affect the confidence with which the sample results can be applied to the full inventory.

(1) Commission Regulation (EEC) No 2456/93 of 1 September 1993, OJ No L 225, 4. 9. 1993, p. 4, Article 17(1).

(2) Commission Regulation (EEC) No 618/90 of 14 March 1990 laying down rules for drawing up the annual inventory of agricultural products in public storage, Article 3, OJ No L 67, 15. 3. 1990, p. 21.

(3) Council Regulation (EEC) No 3247/81 as amended by Regulation (EEC) No 3757/89.

(4) OJ No L 67, 15. 3. 1990, p. 21.

Table 4.4 — Public stocks of beef at 30 September — bone-in and boned meat

(tonnes)

Country	Bone-in meat						Boned meat					
	1988	1989	1990	1991 (1)	1992 (1)	1993 (1)	1988	1989	1990	1991 (1)	1992 (1)	1993 (1)
Belgium	7 139	805	14	5 874	2 666	184	0	0	0	0	0	0
Denmark	841	0	3 983	22 193	18 003	1 558	19 333	1 844	3 130	13 037	21 090	20 573
Germany	218 642	84 219	114 281	102 867	174 492	17 499	5 432	0	0	0	0	0
Greece	0	0	0	0	0	0	0	0	0	0	0	0
Spain	16 368	3 515	14 037	3 882	12 895	0	0	0	0	0	0	0
France	170 379	4 334	35 828	162 112	151 094	6 084	44 888	942	222	1 154	35 285	15 191
Ireland	41 513	15 472	7 968	23 115	15 527	2 617	51 320	12 257	67 935	184 752	226 316	163 807
Italy	49 937	7 808	5 489	40 609	31 178	10 363	19 428	635	5 775	11 338	21 891	10 622
Luxembourg	0	0	0	0	0	0	0	0	0	0	0	0
Netherlands	38 790	1 224	249	2 623	1 774	681	0	0	0	0	0	0
Portugal	0	0	0	0	0	0	0	0	0	0	0	0
United Kingdom	5 052	2 605	3 920	3 315	1 311	0	27 055	6 809	38 755	136 431	158 538	85 614
Total	548 661	119 982	185 769	366 690	408 940	38 986	167 456	22 487	115 827	346 712	463 120	295 807
Total carcase equivalent	548 661	119 982	185 769	366 690	408 940	38 986	246 260	33 069	170 334	509 870	681 059	435 010
Total boned meat and bone-in meat (carcase equivalent)							794 921	153 051	356 103	876 383	1 089 999	473 996

(1) Stocks unsold at 31 December — Source: information supplied pursuant to Article 27 of Regulation (EEC) No 869/89 — DG VLD.2.

Source: Member States' declarations to the EAGGF.

Weight losses

4.71. The tolerance for losses in weight during storage is fixed as a percentage of the actual weight, without packaging, of the quantities entering storage and taken over during the financial year in question, plus the quantities in storage at the start of that year. In the case of beef, the losses for all the quantities of beef held by the intervention agency must not exceed the normal allowable loss of 0,6 % (1).

4.72. The differences in the weight of the meat on entering and leaving storage can be attributed to various causes including: drying out of the goods as a result of bad packing; the balance was not tared when the meat entered and/or left storage; theft; a difference between the actual weight of the packaging and the standard value used to calculate the net weight of the goods.

4.73. In several of the stores that were visited in Italy, the losses in carcase weight as a result of freezing and storage were systematically higher than the prescribed level of 0,6 %. In the case of boned meat, the weight losses due to storage and freezing were not monitored. The net weight of boned meat contained in each carton (30 kg) was reduced by a standard amount of 100 grammes when the meat was packed, in anticipation of these losses. When the net weights of the cartons of boned meat were checked, however, there was found to be a virtually systematic additional weight loss of 100 grammes, thus proving the need for the introduction of weight loss monitoring for boned meat.

4.74. In France there were found to be significant losses in the weight of meat following storage. In one instance, there was a stock deficit of 1 072 kg, or 0,77 % of the initial weight of 139 380 kg. In another instance, a shortfall of 10 215 kg, or 1,10 % of the initial weight of 927 881 kg was noted.

4.75. In Ireland, contrary to the existing Community regulations, the cold stores accepted no responsibility for weight losses in the stored meat. When the meat left the store, the latter's responsibility was limited to ensuring that the number of quarters or cartons of boned meat leaving the store was the same as the number received on entry.

4.76. In Germany, the weight losses shown in the accounts were those declared as losses when a complete batch was taken out of storage. In order to determine the percentage weight loss relative to the tolerance of 0,6 %, the declared losses were calculated as a percentage of the quantities taken into storage during the year plus the quantities in stock at the start of the year.

Disposal of intervention stocks

4.77. The enquiry carried out in the Member States by the Court in 1992 was not designed to deal with the disposal of beef stocks. The Court nevertheless proposes to make some comments concerning the management of the stocks put forward for sale, which have been inspired by the findings made during on-the-spot visits.

4.78. According to the authorities whom the Court's auditors met in the Member States, the ease with which intervention stocks can be sold for export varies according to the destination and whether or not the meat is boned. Moreover, it is easier to export carcasses to Islamic countries, if they have been slaughtered according to Islamic ritual. It is difficult to provide such certification for meat from Community intervention stocks.

4.79. Under certain circumstances Member States are permitted, within certain limits, to draw on Community stocks, at the Community's expense, to support the activities of welfare institutions and organizations. As regards the stocks made available to these organizations, which are responsible for distributing the produce to the needy, attitudes varied according to the Member State concerned (Ireland, Great Britain, France). In one Member State (France), it tended to be the lower-grade cuts which were offered for free distribution. In another Member State (Ireland), the intervention agency responded to the wishes expressed by the organizations in question by giving them the type of meat requested, which included very few lower-grade cuts. In a third Member State (Great Britain), it was the oldest stocks that were given to these organizations.

4.80. For the transfers of meat to welfare organizations (free meat to the most needy), the transport costs could, under certain circumstances, be paid in kind. In one case (Greece), the Commission was obliged to institute enquiries to determine the extent to which the carriers had received payment in kind (460 t and 570 t of beef carcasses) for the cost of transporting the free meat. One Member State (Italy) did, in fact, note that a certain amount of meat from public intervention stocks (approximately 460 t) had caused a temporary disturbance in the prices on this market.

(1) Commission Regulation (EEC) No 147/91 of 22 January 1991 defining and fixing the tolerances for quantity losses of agricultural products in public intervention storage, OJ No L 17, 23. 1. 1991, p. 9.

4.81. In the case of sales of intervention products, the attitudes of Member States' intervention agencies towards complaints about the quality of the meat varied. In the United Kingdom, a successful tenderer ('the supplier') that was at fault was, as far as possible, required to buy back the meat at the price he received at the time of delivery. In Ireland the buyer and the supplier were required to contact each other with a view to reaching an amicable settlement. If it was not possible to reach an amicable settlement, the intervention agency required the supplier to bear the loss in value claimed by the buyer of the meat. This latter solution is particularly advantageous for the supplier, since the beef loses more than half its value between being taken into storage, when the price entered in the accounts is very close to the intervention price, and leaving the store, when the price is close to world prices.

5. CONCLUSION

The COM has been in surplus for more than 10 years

5.1. In terms of consumption within the Community, Community beef production has been in a state of surplus for more than 10 years (see paragraphs 2.9 to 2.11 and *et seq.*). In recent years this surplus has amounted, on average, to around 600 000 t of beef each year, with an estimated value of 2 000 Mio ECU at a Community intervention price of 3 430 ECU/t.

5.2. It appears likely that the imbalance will persist and may even worsen in future (see paragraph 4.1). Nevertheless, the 1992 reform has ultimately done nothing to correct the imbalance, which has expensive implications for the Community's finances. During the preparatory work for the CAP reform, and before any decisions were taken, the Commission was, however, informed of the main aspects of the probable future trend of this imbalance.

5.3. The preferred objective of the recent reform measures was to bring about improvements in the incomes of beef producers, mainly by increasing certain premiums or introducing new premiums. Their long-term impact on producers' incomes has, however, been marginal or, in some cases, nil (see paragraphs 3.8 and 4.4 to 4.6). Consequently, the Commission will inevitably have to put forward proposals for measures to eliminate the persistent structural surpluses in the beef sector, otherwise the intervention costs of buying and storing the surplus will continue to be substantial.

Better adjustment to market situations

5.4. The Commission, with the Member States, should review the intervention procedures with a view to redefining them (see paragraph 4.7 *et seq.*). The latter

should take more account of the aspects which serve to stabilize markets.

5.5. The experience of the recent past has shown that, although the technique of applying coefficients to reduce the quantities taken into intervention when there has been an overwhelming response to an invitation to tender (see paragraph 4.16) may be a contributing factor in maintaining prices at an artificially high level in the short term, it is not an appropriate way of weathering a fundamental market trend. In this case it disturbs the economy of the sector, at least in the short term. In order to prevent speculation, the technique should be employed only in extreme situations and for very short periods of time. This being so, there is no longer any justification for retaining the more complex and more expensive system of cash guarantees, other than for short periods in which it has been decided that reduction coefficients are to be applied (see paragraph 4.15).

Harmonizing the conditions applicable to intervention

5.6. In the past the Commission has begun the process of harmonizing the conditions applicable to Community intervention. It should continue this effort:

- (a) as regards the recording of market prices for carcasses of cattle, classified according to the SEUROP scale, in Member States. The system used is stable but not homogeneous;
- (b) by trying to achieve greater consistency between the Member States as regards the list of categories and conformation classes accepted for intervention (see paragraph 4.22);
- (c) by considering, as a way of improving the internal control system, to what extent (see paragraph 4.29) the reliability of the system for buying meat into intervention could be improved and the management of Community stocks facilitated, by introducing an integrated electronic weighing system with remote recording of data direct from electronic weighers which is also fitted with a device for printing automatically the weight of the quarters that have been accepted;
- (d) by ensuring that in all Member States either the purchase note or the buying-in report simultaneously shows the number of quarters presented, the number of quarters downgraded and the number of quarters accepted, irrespective of whether the procedure is continuous or split into two parts (see paragraphs 4.34 to 4.37);
- (e) by greater insistence on the correct application of the Community rules, especially following changes in certain conditions relating to buying in (see paragraphs 3.17 and 4.39);
- (f) by examining whether procedures for approving the organizations which act as agents of the intervention

system can be put in place quickly, in order to limit, as far as possible, the number of different agencies operating within the same COM (see paragraph 4.11), and thus ensure that the market functions properly.

Defining the sound financial management aspects of boning

5.7. The Commission should take account of the savings to be made by boning meat that is to go into long-term storage, particularly when the economic forecasts indicate that there will be significant increases in the level of Community stocks and that the term of storage is likely to be prolonged. It should take decisions as to the beginning and end of periods in which beef bought into intervention is to be boned for reasons of sound financial management.

5.8. A return journey of 50 km or more between a slaughterhouse and a cold store plus double loading and unloading of beef carcasses are expensive operations which are not even necessary for the sound management of intervention buying (see paragraphs 4.26 and 4.27).

Stock management

5.9. The Commission should lay down criteria to be observed by Member States in order to ensure that stocks are properly managed, with similar criteria for free distributions of beef. In the case of beef stocks for which it is difficult to find a market (see paragraph 4.62), the Commission should examine the various possibilities for disposing of the meat which is in cold stores in Ireland, and especially in the United Kingdom, as storage costs are mounting, with no prospect of liquidating the stocks.

5.10. Delays in recording the entry and withdrawal of stocks were noted in a number of Member States (see paragraphs 4.66 and 4.67). The Commission should adopt more coercive measures in order to encourage Member States to improve the reliability of their stock control and, in particular, should enforce stricter discipline as regards accounting backlogs. In a similar context, it should clarify the rules which apply to weight losses, both when a batch is sold and at the time of the annual inventory (see paragraphs 4.71 to 4.76).

Furthermore, it should examine whether management could be simplified by making batches smaller (see paragraph 4.68).

5.11. The use of self-adhesive labels or prenumbered seals of suitable quality, to be issued by the Member States, as a way of identifying cartons of boned meat, should be generalized. Inspectors in the Member States should verify that such labels or seals have been used correctly whenever meat is boned (see paragraphs 4.51 to 4.57).

5.12. The Commission should put forward proposals for harmonized rules to ensure that complaints about the quality of meat when it is withdrawn from storage are dealt with in a uniform manner. In order to reduce the incentives for fraud, consideration should be given to the possibility of introducing a policy of requiring suppliers to buy back meat at the price received on delivery, plus interest and charges where appropriate (see paragraph 4.81).

The organization of efficient control in the Member States

5.13. All the Member States should introduce conditions which ensure that inspectors in the Member States have the necessary independence to enforce strict control. The controls to be applied by the Member States should be organized in such a way that they can be verified and reproduced during audits by the Community institutions. The inspectors should assume clear responsibility for the control work carried out. Periodic reports, with a statistical annex showing the checks carried out, should be sent to the Commission periodically.

5.14. The Commission should issue detailed, clear and precise implementing rules for carrying out the sample checks provided for in Regulation (EEC) No 618/90 (see paragraph 4.70).

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 6 October 1994.

For the Court of Auditors

André J. MIDDELHOEK

President

RESPONSE FROM THE COMMISSION

to the preliminary observations of the Court of Auditors on the implementation of the intervention measures provided for by the organization of the market in beef and veal

1. INTRODUCTION

The Court's earlier audit inquiries

1.5. As the Court itself notes, Commission Regulation (EEC) No 618/90 of 14 March 1990⁽¹⁾ provides a response, for the most part, to the observations of the Court in its report published in 1988 on the management and control of public storage⁽²⁾. The Commission has also given consideration to, and conducted consultations on, further changes required in the rules for drawing up annual inventories of public stocks provided for in that Regulation.

These consultations and considerations, which are nearing completion, will take account in particular of the guidelines put forward by the Belle Working Party as regards the reform of the clearance of EAGGF Guarantee Section accounts⁽³⁾.

2. THE BEEF AND VEAL MARKET

2.1 to 2.11. As regards the trend in production/consumption and prices, the Commission shares the opinion of the Court of Auditors that this market shows some imbalance between supply and demand. This imbalance worsened in the 1980s as a result of the slaughter of dairy cows following the introduction of, and subsequent reduction in, milk quotas and the large-scale imports in 1990 of calves from the east European countries and cows from the former GDR. In addition, in 1990 a fall in consumption was recorded in the United Kingdom as a result of BSE and a general slump in exports as a result of the Gulf crisis.

However, it should not be forgotten that in 1989 and 1993 production stood at around 100 % self-sufficiency and in mid-1994 intervention stocks dropped to below 300 000 tonnes (as against 1,1 million to 1,2 million tonnes in 1991/92).

Although a cyclical upturn on some scale may be expected in production in 1995 and 1996 (but let us be wary of forecasts on this market!), the Commission is slightly more optimistic than the Court, which foresees (paragraphs 4.1, 4.2 and 4.3) structural surpluses

accumulating once more, the CAP reform having failed, in its view, to provide a remedy.

In the Commission's view, the risk of stocks building up again cannot be ruled out but it should also be borne in mind that all beef starts life as a calf. There are 31,8 million cows in the Union, including 21,3 million dairy cows and 10,5 million suckler cows. Milk production is kept down by the quota system and, thanks to a rise in productivity of around 2 % per year from dairy cows, producers will need fewer cows in the long term. This implies a structural reduction estimated annually at around 400 000 head of calves available on the Community market.

In addition, since 1991 and in particular as a result of the reform, a set of measures to control production of beef and veal has been introduced, comprising:

- a limit to 425 000 head for imports of calves and young bovine animals (in 1990 imports amounted to 850 000 head),
- the introduction of individual quotas per producer for the suckler cow premium, which should bring an end to the rise in the number of suckler cows,
- the introduction of a quota with a premium varying by region for the fattening of male animals. As a regional quota is involved, in itself it has less effect in controlling production but the number of head qualifying for the premium plays an important part in the calculation of holding stocking density,
- the stocking density factor for the granting of premiums; no premiums are granted for animals produced in excess of that limit and present on the holding. This factor takes account of dairy cows, suckler cows, male bovine animals for fattening and animals of the ovine species. The factor, which was 3,5 LU/ha (livestock unit per hectare) in 1993, will be reduced progressively in subsequent years to reach 2 LU/ha in 1996. Although the impact of this factor was still small in 1993, it will be felt increasingly in the following years and should encourage producers to extensify or de-intensify to a greater extent,
- the introduction of a weight limit on carcasses eligible for intervention, which should encourage producers to produce qualities sought after on the market instead of, as is the case at present, heavy carcasses mainly intended for intervention.

⁽¹⁾ Commission Regulation (EEC) No 618/90 of 14 March 1990 laying down rules for drawing up the annual inventory of agricultural products in public storage.

⁽²⁾ Special Report No 5/88 on management and control of public storage together with the Commission's replies, OJ No C 274, 24. 10. 1988, p. 1.

⁽³⁾ Document SEC(93) 306.

Lastly, one very important factor in this industry is the trend in consumption, which is at a standstill and is likely to decline. This trend is affected firstly by prices and in particular the price differential with other types of meat. If that differential is increased, consumption is very likely to be affected. However, some lack of confidence on the part of consumers must also be noted. In this area the Commission has taken steps recently, involving:

- the presentation of proposals banning and combating of the use of certain substances having a hormonal effect,
- the implementation of promotional campaigns (decided by the Council) for the production of products offering quality guarantees. Promotional measures have been undertaken under the 1993 and 1994 budgets at a cost of ECU 10 million per year.

The big question, which cannot be answered at present, is whether the measures to control production introduced under the reform are sufficient to bring total production into line with the economic environment. The latest statistics available (December 1993) do not point to a significant rise in beef/veal production potential in the Union as compared with the present. However, if objective factors show that in the long term production will exceed the targets laid down, the Commission will present suitable proposals for adjustments.

3. COMMON ORGANIZATION OF THE MARKET IN BEEF AND VEAL

Arrangements governing trade with third countries

3.5, 3.6 and 3.7. It should be pointed out that the regulations governing trade stem directly from the situation regarding the supply of beef/veal, as the Court showed in respect of paragraph 3.2. In the period when there was a shortage, from 1960 to 1973, with an annual average beef/veal shortfall of 600 000 to 700 000 tonnes, the Commission attempted, in accordance with the objectives laid down in Article 39 of the Treaty, to assure the availability of supplies by concluding preferential agreements with a large number of third countries under multilateral arrangements bound under GATT. Such concessions were offset by advantages relating to other products in other areas, which explains why, during the period of structural surpluses (from 1981 on), it was not possible to give up the agreements concluded, except through general renegotiations and with the loss of established advantages. The period of shortage ended after 1973, with the accession to the Community of three major beef/veal-producing States, and as a result of the expectations aroused by the premium schemes and the introduction of public storage.

3.6. The supply balance for the industry has been set at between zero and 50 000 tonnes since its introduction. For a long time the Council has agreed to compensation for the third countries concerned where the supply balance is set below 50 000 tonnes. This compensation is granted in the form of preferential imports of a certain quantity of high-quality meat (since 1991, licences have been granted for imports of 11 430 tonnes of high-quality meat).

3.7. The 198 000 head of young male bovine animals imported under the supply balance arrangements fall within the overall ceiling of 425 000 head of calves and young bovine animals which may be imported annually (see remarks in Chapter 2). That ceiling was introduced in 1991 to prevent large-scale imports of calves. The figure 425 000 head is based on traditional imports and reflects the concern for harmonious relations with the relevant third countries in eastern Europe.

Public storage

Buying in

3.12 to 3.17. The reform of the CAP, which encourages extensive rather than intensive production by means of higher premiums paid directly to the producer, has made intervention less attractive not only by setting and progressively lowering the ceilings on quantities which may be bought in from 1993 to 1997 but also by reducing the percentage required to trigger the safety net from 72 % to 60 % of the intervention price. In addition, the intervention price is reduced by 5 % each year between 1 July 1993 and 30 June 1996.

3.16. As regards buying in by invitation to tender (which are not subject to the safety net), the Commission has no obligation to accept 'eligible' bids. Thus on several occasions in 1993 and 1994 the Commission (in accordance with the Management Committee procedure) did not accept 'potentially eligible' bids as the trend on the market did not call for buying in at the price offered.

Changes in budgetary expenditure

3.20. Recent figures point to a complete change in the situation during 1994 as regards expenditure on intervention in the form of storage. As a result of a fall in production, quantities bought in since the beginning of the financial year have not exceeded 12 000 tonnes; public stocks have also been reduced quickly, and stood at less than 300 000 tonnes at the end of May 1994 as compared with 1 100 000 tonnes at the same time in 1993. Quantities removed from stocks were also sold at higher prices than before. At present stocks mainly exist in Ireland and the United Kingdom in the form of boned meat. A combination of these two effects should produce net income of ECU 112 million at the end of the 1994

financial year as the return on quantities removed from storage will be higher than buying in and storage costs.

Lastly, it should be pointed out that the near tripling of premiums paid on this product group between 1993 and 1994 is due to the application of the reform of the CAP; premiums have also been raised for extensive producers to offset the 15 % reduction in prices decided under the reform.

4. THE IMPLEMENTATION OF INTERVENTION MEASURES

4.1 and 4.2. With regard to meat surpluses, the milk quotas introduced in the mid-1980s led to a rise in the production of beef in subsequent years as a result of higher slaughterings of dairy cows and the development of production from the dairy herd on holdings with free space in sheds and meadows and abundant fodder. However, in the longer term, given the lack of calves as a result of the cows slaughtered, beef and veal production fell sharply, resulting in 1989 in a self-sufficiency rate of less than 100 % and ever greater imports of calves from third countries. Imports reached 853 000 head in 1990 and contributed in turn to higher production in following years. In 1991 a record 8,7 million tonnes (+ 5 % in one year) was attained. It should also be borne in mind that the sharp increase in supply (which rose again in 1991 with the cattle slaughtered in the wake of German unification) went hand in hand with a significant fall in demand, thus worsening the imbalance; the appearance of BSE in 1990 led to a sharp drop in consumption and the loss of many external outlets, deepening the depression which the Gulf war brought in international trade. Such a series of events is unlikely to recur in forthcoming years. The Commission thus does not share the pessimism of the Court (see paragraphs 2.1 to 2.11 also).

4.3. The ceiling on subsidized exports to which the European Union committed itself under the GATT is 817 000 tonnes in the year 2000. In 1995 the ceiling is set at 1 118 000 tonnes (with effect on the 1996 budget) and it falls by the same amount each year to reach 817 000 tonnes in the year 2000.

Under the reform of the CAP, the necessary provisions have been adopted to control the situation. The main measure decided reduces buying in by introducing a ceiling on intervention, falling from 750 000 tonnes in 1993 to 350 000 tonnes in 1997. It should bring about a reduction in production. The other measures to control production are the premium for the slaughter of calves,

special measures to buy in bovine animals weighing between 150 and 200 kg and the introduction of conditions on extensive production for the granting of premiums. There is also a limit on the maximum weight of bovine animals bought in and on imports of calves, henceforward subject to a ceiling of 425 000 head per year.

In view of the risks of possible surpluses, under the 1994/95 price review the Commission proposed that the Council exclude young bulls over 22 months old from qualifying for the premium for male bovine animals so that producers are not encouraged to continue fattening with the sole aim of obtaining the premium a second time. However, the Council did not accept this proposal. Furthermore, with a view to maintaining its objective of controlling production and noting that premium applications for male bovine animals in respect of 1992 had increased by 30 % on average as compared with previous years, the Commission also proposed that 1992 should not be used as the base year for establishing the reference herd. The Council adopted provisions which are close to the Commission proposal. As its response to paragraphs 2.1 to 2.11 states, 'if objective factors show that in the long term production will exceed the targets laid down, the Commission will present suitable proposals for adjustments.'

The system of premiums and its impact on the incomes of farmers specializing in beef production

4.5 and 4.6. The intention behind the increase in the premiums decided under the reform was to compensate producers for the reduction in the intervention price and the limit on quantities which may be bought in.

In 1993 and 1994, as the result of better balance between supply and demand (around 100 % self-sufficiency), market prices have been relatively high and very often above the prices activating intervention.

Producers have received the premiums laid down and as a result their incomes have improved in those two years.

The intervention system

The various roles of intervention

4.8. On the one hand, the measures to curb buying in, adopted with the reform of the CAP and entailing lowering the ceilings on quantities bought in to 350 000 tonnes in 1997, will reduce intervention (see paragraph 4.3).

On the other hand, according to the foreseeable export figures for 1994, 800 000 out of 1 400 000 tonnes will be exported from the free market. The function of concentrating supply for large export markets which public intervention might play should therefore be kept in perspective.

4.8 and 4.9. On several occasions the Commission has pointed out that experience in recent decades has shown that the intervention mechanism cannot absorb a structural surplus. At most it may play a part in the case of seasonal or occasional surpluses and only for limited quantities, the objective of intervention being to prevent operators from falling into their old habit of viewing intervention as an easy outlet. In addition, it is difficult to ascertain at what precise point a seasonal or occasional surplus becomes a structural surplus. From this viewpoint, it is certainly not the aim of intervention to operate as an instrument for 'large-scale export business.'

Tendering procedure

4.15 and 4.16 It is true to say that the system of reducing coefficients, which the Commission has attempted to use as little as possible, is not capable of resisting a basic market trend and of supporting prices (see first recital of Regulation (EEC) No 685/93).

As a result of speculation on the part of the operators, the use of such coefficients gives rise to excessive quantities, out of proportion with the need for market support, being offered, in anticipation of a new, even lower, reducing coefficient being fixed. The example selected by the Court of Auditors (61st invitation to tender of 28 January 1991) clearly illustrates this phenomenon. Thus the quantities offered by Germany (82 000 tonnes over a period of 17 days) represented twice the monthly production (annual average) of young bovine animals in that Member State. It was to avoid a repetition of such excesses that the Commission decided some weeks later, by Regulation (EEC) No 695/92 of 12 March 1992, to compel operators to lodge their securities in cash, which did discourage subsequent speculation and curbed the often abusive recourse to buying in. The Commission also shares the opinion of the Court of Auditors that the reducing coefficient system should only be used in extreme cases and for very short periods (see also paragraph 5.5).

4.18. The investigation undertaken by the EAGGF staff showed that certain intervention agencies allowed, at least implicitly, multiple bids to be submitted.

As regards the most obvious cases, the financial consequences will be drawn during the clearance of accounts for 1991.

Community buying in

4.19 to 4.23. The wide disparities between the Member States are due to the fact that the opening of the safety net in 1990 was linked with the appearance (and its adverse effects on consumption) of mad cow disease (BSE), which only affected cattle in the United Kingdom. The resulting speedy closure of external markets

depressed prices in Ireland, a country highly dependent on its trade with third countries.

Prices for young bovine animals, a category not affected by BSE, resisted well overall to the depressive effect of BSE, with falls in consumption being offset by the recovery of sales of young bovine animals on certain external markets where adult animals could no longer be sold. This explains the small percentage of buying in France in 1990.

Until 1 January 1993, when Regulation (EEC) No 3891/92 eliminated young bovine animals of quality O from eligibility for intervention, major differences existed between the Member States as regards qualities eligible, the main difference being the exclusion of quality O in Germany and the Netherlands and acceptance of that quality in Italy. The result was a resurgence of buying in Italy of this quality of carcasses from other Member States where the quality was not eligible. This phenomenon, known and deplored by the Commission staff, was not easy to correct from the legislative viewpoint, on account of the rules governing the single market, which prohibit the restriction of access to intervention in one Member State to national operators only. In addition, this phenomenon was accentuated by the legislation in force in Italy, where acceptance for intervention was at the cold-storage plant door whereas in Germany it took place at the slaughterhouse, which ruled out the presentation of carcasses from another Member State (unless the animals were slaughtered in a German slaughterhouse beforehand).

Nowadays the present regulations no longer permit carcasses of conformation class O to be bought in Italy (Council Regulation (EEC) No 805/68, as amended by Regulation (EEC) No 747/93).

The enquiry conducted in Italy in 1990/91 pointed to the doubtful origin of certain goods bought in. The clearance of accounts procedure is under way, with financial corrections.

The buying in procedure

4.24 to 4.39. As the Court has clearly shown, acceptance for intervention represents the most delicate stage of the buying in procedure, in particular because the degree of reliability surrounding data input, the channels followed by the products taken over, the independence of the various players and the various levels of inspection, and the severity of checks conducted affect the proper conduct of all operations relating to buying in. The rules applicable to such operations, which were very common in 1990, 1991 and 1992, are laid down in Regulation (EEC) No 859/89 of 29 March 1989. On-the-spot checks conducted by the Commission, on the one hand as part of the work of the Community inspection committee for the Community scale for the classification of carcasses introduced by Article 5 of

Council Regulation (EEC) No 120/81, and on the other hand in connection with inspection visits conducted by the EAGGF, have shown that the detailed rules of application relating mainly to take-over and boning were not sufficiently precise and binding and did not offer sufficient guarantees as regards strictness and checks on operations conducted. There was therefore a need for a full redrafting of the regulations, which was undertaken at the end of 1992 and resulted in Regulation (EEC) No 2456/93 of 1 September 1993. Those new provisions provide a response, to a large extent, to the observations of the Court of Auditors and should prevent any further repetitions of certain practices which it rightly denounces, in particular in France, Germany, Italy, the United Kingdom and Ireland.

The Commission also points out that a specific clearance operation is underway, with financial corrections, with regard to those countries.

4.26 and 4.27. Articles 5 (2) and 17 (5) of the new Regulation require a separation between the seller and the boner/storer while Article 17 (1) defines the place of take-over.

4.29. See replies on paragraphs 4.65 and 4.66.

4.31. The intervention sales administrative and verification procedures carried out by BALM were criticized in connection with the procedure for the clearance of accounts for 1992. Specifically, the Commission is not happy with the lack of official checks in cold stores at the time of delivery and with the transcription of data on forms ('Protokoll').

4.33. The Commission concurs with the observations of the Court concerning delays in registering stock data, which vary from one Member State to another. Financial corrections are to be made in respect of Ireland and Italy because the delays resulted in an undue burden on the EAGGF in terms of financial costs in 1991 and 1992. The Commission has demanded greater efficiency in the processing and registration of data with a view to easier clarification of declarations of expenditure and checking of their accuracy.

4.34 and 4.36. Article 13 (3) of Regulation (EEC) No 859/89 provides that, where the quantity of products rejected exceeds 20 % of the batch delivered and unloaded, the whole batch is to be rejected. That provision, which has been incorporated in Article 17 (6) of the new Regulation, was applied in no Member State visited as it was introduced to facilitate the work of buyers. It was made much stricter in Article 17 (4) of the new Regulation, which requires marking of rejected carcasses.

The Commission notes the recommendations of the Court on the matter of the splitting of the buying-in

procedure into two stages, as provided for in the new Regulations, which might mean that the rule on the rejecting of a whole batch where 20 % is rejected can be circumvented. The Commission will consider whether stricter rules on the documents concerning products inspected and rejected (instead of simply marking rejected products as provided for in Article 17 (3) and (4)) may ensure the Community rules are applied more effectively.

In the case criticized in paragraph 4.36, the remarks of the Court will be discussed jointly by the EAGGF and the German authorities.

4.37. The remarks of the Court concerning rejections by the Meat and Livestock Commission (MLC) will be forwarded to the UK authorities and the Intervention Board (IB) will be requested to keep a central register.

The inquiry conducted by the EAGGF showed that the practice of labelling by many slaughterhouses (bone-in meat) does not allow the original classification to be ascertained during *ex post* checks. Article 4 (3) of the new Regulation requires indelible marking, which prevents illicit reclassification by the buyer. The identification number on the carcass will allow it to be traced back to slaughtering records during *ex post* checks. Article 30 (4) of the Regulation requires checks during storage, to be carried out by persons unconnected with the department responsible for buying in.

4.38 and 4.39. The Court's remarks concerning France (veterinary inspection) and Italy (bruising) will be discussed with the competent authorities of those two Member States.

Boning

The sound financial management aspects of boning

4.42, 4.43 and 4.44. The decision, which is the prerogative of the Member States, whether or not to bone meat accepted for intervention is made on the basis of the price. It has generally been observed that the Member States carry out boning where the actual cost of the latter is less than or very close to the flat-rate amount paid by the EAGGF for the operation. Efficient use of labour, the size of the stocks and the lack of storage area available are other factors in reducing the area taken up by the meat.

4.45. In its cost-benefit analysis, the Court should also take account of the fact that:

- at the time of buying in of carcasses, the period of storage, which depends in particular on finding purchasers (mainly on the world market), is an unknown factor. Experience has shown that the rate

at which purchasers come forward is difficult to foresee and cannot be determined by the Commission,

- certain export markets accept boned meat but the east European countries and the countries of the CIS prefer carcasses and are willing to pay a relatively higher price for them as they have cheap labour to carry out boning in their own way (using a saw or a meat cleaver),
- in the case of lengthy storage, the commercial value of boned meat is generally noted to depreciate more quickly than that of carcasses.

Given the fact that the new provisions have substantially altered the rules on boning and its attraction for operators, the Commission prefers to bide its time before taking a decision along the lines recommended, to gain experience with the new rules, which is not on the cards at present as there has luckily been no buying in since last year.

Yield on boning

4.47. To a very large extent, the yield on boning depends on the cutting procedure (instructions followed on the definition of cuts, their number, trimming, the proportion of small pieces recovered by the cutting plant, etc). This is why Regulation (EEC) No 2456/93 defines, for the first time, a Community system of cuts for intervention, which lays down uniform rules on boning and trimming with nine different cuts for hindquarters and four for forequarters.

4.48. In order to combat the practice of certain intervention agencies involving payment in kind of part of the cost of boning, Annex VII to the new Regulation lays down a harmonized system of cuts for intervention meat. In addition to better management of stocks as a result of such harmonization, it permits comparisons between yields obtained in the various Member States.

The conduct of boning operations and the supervision of them by the intervention agencies

The Court's observations concur with those of the Commission. In this respect, the provisions of the new Regulation are much stricter than before, in particular as a result of the inclusion of an annex with provisions applicable to cartons, pallets and convertors.

4.49. Article 23 (1) of the new Regulation lays down requirements for ongoing monitoring of boning. Where responsibility for such checks has been delegated by the intervention agency (United Kingdom and Italy, see

paragraph 4.53), one random check per working day is required. Such checks must be carried out by officials of the intervention agency and must relate to at least 5 % of the boned meat. In order to facilitate such checks, Article 21 (5) specifies the hours during which boning may be carried out.

4.52 to 4.57. Like the Court, the Commission was critical of the self-adhesive seals for cartons in France. The same remark was also made in respect of Denmark.

Article 17 (4) of the new Regulation specifies the qualifications required of persons in charge of checks and lays down conditions regarding their independence. Inspectors must henceforward rotate between several intervention centres.

Article 30 (4) of the new Regulation introduces a check during storage, which must be carried out by personnel not belonging to the body which bought in the meat.

In order to improve identification of boned goods and to curb risks of substitution, the following measures have also been introduced into Annex IX to the new Regulation:

- definition of cartons for intervention, which must not show the names of the slaughterhouse or cutting plant,
- double labelling of boxes using numbered labels,
- a requirement to show the number of cuts in each carton,
- a prohibition on mixing cuts of different designations within the same carton,
- a requirement on intervention agencies to keep records of labels used in order to permit *ex-post* checking by inspectors of the number of labels and the number of cartons in public storage.

Stock management and control

4.65 and 4.66. Stock management and control and registering of carcasses carried out by OFIVAL have been the subject of much criticism from the Commission, which put forward detailed proposals to improve the system. Financial corrections for the clearance of accounts for 1989 have already been made and others are contemplated for the 1991, 1992 and 1993 financial years.

4.67. As regards Ireland, the Commission has ascertained delays in registering stocks which go back several years. Financial corrections were made in 1990 and other corrections are contemplated for 1991 and 1992.

4.69 and 4.70. See reply on paragraph 1.5 as regards inventories.

Clearance of accounts monitoring of the implementation of Regulation (EEC) No 618/90 over the years 1991 to 1993 has given rise to a series of criticisms in all six Member States visited. Germany, France and Ireland have been most severely criticized whereas Denmark and the United Kingdom were found to have made reasonable efforts to comply with the aims of the Regulation.

The lot selection procedures were found to be lacking in all Member States visited. It is noticeable that the three Member States with the worst records are those which do not have a stock management system based on individual lots but instead rely on global accounting, i.e. quarterly in France and monthly in Germany and Ireland.

The first implementation of Regulation (EEC) No 618/90 having been in respect of this year's opening stock (30 September 1991), the EAGGF envisaged financial consequences in several Member States with regard to the 1992 financial year. These corrections will be based on the failure to correctly apply Regulation (EEC) No 618/90 and more generally, Article 1 of Regulation (EEC) No 729/70.

4.73 to 4.76. The Commission confirms the Court's findings in respect of Italy (4.73) and Ireland (4.75) and is presently monitoring on a fortnightly basis the exhaustion of stocks in France. Evidence indicates that some German cold stores declare as removed the quantity initially entering; there being no systematic checks by BALM on removal.

In its current round of audits, the EAGGF is paying special attention to establishing and reporting losses and verifying that all amounts due are credited to the Fund where losses exceed the specified tolerance of 0,6 %. It has been noted that in certain Member States (Ireland), weight losses are much greater than the authorized maximum. In Member States visited as a whole, weight losses are poorly recorded. A proposal to amend Regulation (EEC) No 618/90 is currently being studied by the EAGGF staff. That proposal should also specify the number and type of checks to be carried out.

Disposal of intervention stocks

4.79. To support the work of social welfare establishments and authorities, the Member States can request the Commission to authorize intervention stocks to be made available within a global amount set annually.

As regards beef, the Member State concerned can decide on the quality suitable for the end use itself, taking account of the different values of cuts/quarters. Whatever

the type of meat chosen, the 'first-in/first-out' rule must be observed everywhere on removal from stocks.

4.80. Mindful of the problems raised by payment in kind of transport costs, the Commission adopted Regulation (EEC) No 3149/92 prohibiting this practice and requiring the Member States to pay such costs in cash.

4.81. As complaints concerning the quality of meat are considered a national dispute (contract concluded between the purchaser and the intervention agency) and as it is often difficult to provide absolute proof (e.g. in the case of frozen meat), the matter is generally settled out of court. However, with a view to ensuring equal treatment for all purchasers and to check what complaints involve more precisely the Commission is willing to consider some harmonization of the rules.

The Court's observations on this point and in paragraphs 4.77, 4.78 and 4.79 will be taken into account in connection with the audit covering 1992 and 1993 which the Commission will undertake on intervention sales planned in Denmark, France, Germany, Italy and the United Kingdom.

5. CONCLUSION

The market organization has been in surplus for more than 10 years

5.1, 5.2 and 5.3 As pointed out in respect of paragraphs 2.1 to 2.11, the Commission shares the opinion of the Court on the trend in production/consumption in the Community, which shows an imbalance in supply over demand. This is explained partly by the surplus in Community production and partly by the fall in milk quotas, large-scale imports of calves from the east European countries and of cows from the former GDR, as well as by the drop in consumption since the appearance of BSE in the United Kingdom. At present, stocks have fallen below 300 000 tonnes, less than half the average in recent years.

However, in view of the measures to control production introduced during the reform of the CAP in 1992 and given the increase in the milk yield of dairy cows, which will reduce the potential quantities of veal available, and the fact that the latest statistics do not show any significant increase in production potential, the Commission is not convinced that structural surpluses of around 1 million tonnes are reappearing. Obviously, if objective signs indicate that production is exceeding the targets set, the Commission will put forward suitable proposals.

As stated with regard to paragraphs 4.5 and 4.6, the increase in premiums decided under the reform of the CAP sought to compensate producers for the fall in the intervention prices and the limit on quantities which may

be bought in. Producers' incomes have risen as a result of these higher premiums.

By reducing the role of intervention through the introduction of a ceiling on buying in, which will be 350 000 tonnes in 1997, the reform will bring production down.

The conditions on extensive production for the granting of premiums, the calf slaughter premium, the special buying-in of bovine animals weighing between 150 and 200 kgs, the limit on the maximum weight of bovine animals bought in and the ceiling on imports of calves are all measures to control production.

Better adjustment to market situations

5.4. Since the reform, decided in 1992 and implemented as from 1 January 1993, providing in particular for a limit on quantities which may be bought in under the 'normal' intervention system, the lowering of the safety net to 60 % and a gradual reduction in the intervention price, the Commission in conjunction with the Member States (meeting within the Management Committee) has substantially amended the detailed rules on intervention. Invitations to tender for the buying in of beef have been decided on with a view to stabilizing the market without losing sight of the medium- and long-term trend. The Commission intends continuing along this path.

5.5. It should be noted that:

- the Commission shares the opinion of the Court of Auditors on the use of reducing coefficients, to the effect that they should only be used in extreme cases and for very short periods,
- the Commission accepts the Court's observation that the lodging of contract securities in cash can be substantially more costly to the operators than the deposit of bank guarantees. This was never the primary purpose of the requirement. The aim was not to discourage or penalize normal offers to intervention but to make it more difficult to submit exaggerated offers with the intention of defeating the aim of reducing coefficients. It is well known that financial institutions are willing to give their clients, at little cost, multiple guarantees for tens of millions of ecus in the knowledge that the real risk is limited by the quantities likely to be accepted by the Commission under the tender. The same institutions would, however, for various reasons, be unwilling or unable to advance the same sums in cash for speculative purposes. The measure is therefore seen as — and has proved to be — very effective in limiting speculative offers.

The result could perhaps be achieved, without undermining the system, by:

- maintaining the requirement that the guarantee be initially lodged in cash, but
- providing that *once the award has been made*, the cash guarantee would be released immediately subject to the lodging of a bank guarantee for an amount corresponding to the tonnage actually awarded to the operator concerned under the tender.

This should, in principle, both limit the scope for exaggerated offers and avoid unnecessarily high financing costs for genuine tenders.

Harmonizing the conditions applicable to intervention

5.6(a) The Commission departments have recently begun discussing possible improvements which may be made, in particular in the representativeness of price quotations.

5.6(b) As stated above, a harmonized list of eligible qualities was introduced as from 1 January 1993 by Regulation (EEC) No 3891/92.

5.6(c) Efforts are currently under way in most Member States to computerize and automate data input. This is, however, a long-term process given the cost of the investments required.

5.6(e) The Commission staff has noted that intervention carcasses have been reclassified on many occasions. The ban on reclassification has been restated at regular intervals in the Management Committee and was even the subject of a file note sent to the Member States on 2 April 1992. Furthermore, all the shortcomings noted on the spot regarding the dressing of carcasses (trimming defects, bruising, peeling of skin, etc.) were entered in the reports forwarded to the Member States to stress the importance which the Commission attaches to the quality of products bought in.

5.6(f) The EAGGF is giving consideration to a procedure for approving the organizations which act as agents of the intervention system in order to improve its effectiveness.

Defining the sound financial management aspects of boning

5.7. As in the case of other savings aspects, e.g. the preference for selling carcasses to certain major purchasers, and the fact that boning is a complicated operation entailing various risks, the Commission is not convinced that it should follow the opinion of the Court. In addition, experience is needed with the new rules of

application. It would be better to determine a standard limit, like that provided for in Article 5 (2) of Regulation (EEC) No 2456/93 (100 tonnes bought in per week and, above that quantity, up to 50 % of the additional quantities bought in per week).

5.8. As the Court states in paragraph 4.27, definitive take-over occurs at the entrance to the intervention centre's cutting plant or to the cold store. Transport costs downstream of that point are therefore charged to the successful tenderer and not the Community budget. In addition, such transport involves a single journey and not a return. If the distances between the slaughterhouse and the cutting plant (or cold store) are too great and the expenditure on such carriage too high, Article 5 (2) of Regulation (EEC) No 2456/93 provides for a derogation from the rules on take-over on condition that controls at the time of acceptance are tightened.

Stock management

5.9. The high stocks in the United Kingdom and Ireland are being disposed of but the Commission cannot force the hands of the purchasers or it will risk dumping goods on third countries.

5.10. The EAGGF staff have cross-checked the quantities bought in and sold with accounting declarations of actual quantities entering and leaving stocks. It emerges that the statement of stock movements forwarded to the EAGGF, taking account of the time limits laid down by the regulations as regards withdrawals, accurately reflects buying-in and sales, except as regards Ireland.

5.12. As suggested by the Court, the introduction of rules to take more account of complaints regarding the quality of meat at the time of removal from storage will be considered by the Commission staff.

The organization of efficient control in the Member States

5.13 and 5.14. The Member States in which checks conducted by the EAGGF have revealed anomalies and irregularities and which are affected by the special clearance decision (with financial corrections) which the Commission is contemplating adopting played a constructive part in the drafting of Regulation (EEC) No 2456/93. They also made substantial improvements to their systems of controls to make them more effective.

United Kingdom

- considerable stepping-up of second-stage checks carried out by MAFF/(UK) and DANI (Northern Ireland),
- development of a test to determine the sex of the animal from which boned and frozen meat comes.

Italy

- limit on number of intervention centres,
- introduction of second-stage checks by an external company.

France

- introduction of a system for automatic weighing together with computerized registering of quantities bought in,
- introduction of a second-stage external audit to verify the work of intervention agency buyers.

Ireland

- introduction of an inspection department with the task of verifying, by means of unannounced visits, the work carried out by intervention agency officials.

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