



Supervision in dairying

Audit of the appropriateness and legality of supervision by the Federal Office for Agriculture

Key facts

The SFAO performed an announced audit at the Federal Office for Agriculture (FOAG) from 21 June to 23 July 2010 within the scope of its annual programme, based on Art. 6 and 8 of the Federal Auditing Act (SR 614.0). The object of the audit was to establish the appropriateness and legality of supervision in dairying. The work concentrated on the 2009 financial year, including the transition regulations and special measures related to the abolition of milk quotas. In addition, the audit covered the status of the accounts of SwissDairyFood and the Swiss Cheese Union in liquidation as well as the deposit account in the State Account.

Based on its work, the SFAO found that the supervision by the FOAG in dairying is conducted in an appropriate and legally compliant manner. The key findings of the SFAO are outlined below:

The excess quantities approved by the FOAG are compliant with the requirements and transparent.

The procedure for authorising excess quantities is transparent and complies with the 2007 Dispatch on Agricultural Policy. The SFAO did not find any indication of unsubstantiated or inadequate granting of excess quantities. In 2009, and in line with the market situation, the level of excess quantities approved by the FOAG was some 70,000 tons less than the previous year. Overproduction occurred in 2009 as a result of the inertia in production capacity, which takes some time to adapt to declining market opportunities, and the heterogeneity of market participants.

The subsidies for cheese-making milk and silage-free feed are monitored effectively.

The procedure and the selection of audit subjects are risk-based and raise no particular matters of concern. The supervision of payment processes along the chain as far as the processor is appropriate, and so is the evaluation of the milk flow. The findings of the inspection body are noted by the "Animal Products and Breeding" Section of the FOAG. Verification of the contractual obligation as per Art. 36b of the Agriculture Act has been undertaken.

The FOAG faces risks from the increase in intermediary sales, the difficulty in monitoring adherence to contractual conditions and the paying of processors as opposed to the producers. The legislation concerning the forwarding of subsidies for cheese-making milk and silage-free feed proves impractical in implementation. The FOAG runs the risk of subsidies not reaching the producers as set out by law and thus of the Confederation not fulfilling its legally binding obligations. The SFAO therefore recommends that the legal and regulatory provisions should be revised.



Measures designed to relieve the dairy market

- **The withdrawal from the Butter Import Fund complies with the resolutions and was appropriately overseen by the FOAG.**

The high revenues generated until 2007 on the difference between the cost price of imported butter and the wholesale price of domestic butter, amounting to some CHF 201 million, are not the property of the Confederation. These funds were thus paid into the Butter Import Fund (BIF), outside of the federal accounts. The BIF was nonetheless under the FOAG's supervision and power of disposal. CHF 20 million was still available as at the start of 2009.

These funds were released in 2009 and 2010 in association with the special measures brought in to relieve the dairy market. The BIF was subsequently dissolved in May 2010. Now that these import receipts have been discontinued, no further financial resources are available to support the market. The controlling activities and supervision of the BIF by the FOAG appear to be appropriate and effective.

- **The advance financing of butter sales (loan to Cremo SA) complies with the Federal Council Decree. The implementation of offsetting against subsidies results in a credit expansion.**

To finance the capital tied up in large butter stocks, Cremo SA was granted a loan of CHF 8 million in 2009 in accordance with the Federal Council Decree. Repayment is made by offsetting against 2010 subsidies. To prevent this resulting in a credit transfer and the 2010 budget being extended, the SFAO requires that this be booked by way of an earnings accounts.

- **The increase in the loan for price compensation measures (so-called "Schoggigesetz") was made in accordance with the Federal Council Decree and was fully used.**

The supplementary funds approved within the framework of the second package of measures to relieve the dairy market (additional credit of CHF 18 million) to compensate for the price disadvantage of Swiss exporters ("raw materials handicap") were fully used. This loan is placed with the Federal Customs Administration (FCA). The FOAG is not directly involved in the supervision of export subsidies. The processes and control measures provided for by law (applications, operational controls) fall within the remit of the FCA. No audits were carried out within the FCA. Export subsidies paid on account were booked in agreement with the Federal Finance Administration (FFA). The legislation does not provide for any such export subsidies on account. Based on the documents furnished by the FCA, it is not possible to determine whether the payments on account were booked on an accrual basis.

The deposit account from the liquidation of the Swiss Cheese Union in liquidation and of SwissDairyFood is conducted transparently and is supervised.

The financial transactions concerning the dissolution of the Swiss Cheese Union and the liquidation of SwissDairyFood were conducted on an asset account (deposit account) in the State Account. According to a report to the Federal Council, the remaining balance of some CHF 12.4 million should cover all outstanding costs and liabilities. The transactions are likely to be completed in 2011.



In its **statement** of 14 October 2010 (Enclosure 4), the FOAG says that it agrees with the findings of the SFAO. The FOAG is prepared to implement only some of the recommendations, however:

- The legislation and regulations concerning subsidy payments are not to be revised. However, the FOAG intends to verify before end-2011 the extent to which the fulfilment risk could be minimised within the scope of any generally binding agreement on standard milk purchasing contracts from the dairy sector's trade organisation. The SFAO agrees with this procedure.
- The FOAG wishes to delay the implementation of gross booking until similar cases arise in the future. Otherwise, some urgently needed financial resources would be withdrawn from the agricultural sector in 2010. The SFAO did not agree with the FOAG's plans. After discussing the issues with the FFA, it asked the FOAG in a letter dated 4 November 2010 to book the loan repayment on a gross basis in the interests of transparency and, above all, legally compliant accounting and to disclose the related overdraft in the 2010 financial statements. The FOAG agreed to this solution in its reply dated 17 November 2010. The FOAG will report a loan overdraft in accordance with Art. 34 (2) of the Financial Budgeting Act within the scope of the 2010 financial statements.

This matter was dealt with by the **Parliamentary Finance Delegation** in its 6th ordinary session of 24–25 November 2010.

Original text in German