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32nd FINANCIAL STATEMENT

concerning

THE EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND

EAGGF, GUARANTEE SECTION

– FINANCIAL YEAR 2002 –

(presented by the Commission)

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The French version of the Annexes to the 32nd Report can be obtained in paper form from the Directorate-General for Agriculture or downloaded from its website.

1. BUDGET PROCEDURE

1.1. Berlin agreement and budgetary discipline

The European Council held in Berlin on 24 and 25 March 1999 reached an overall agreement on Agenda 2000. The Regulation on budgetary discipline was also adopted in 2000, entering into force on 1 October 2000.

It will be recalled that the Berlin European Council, as stated in its conclusions, kept the guideline proposed by the Commission (incorporating rural development measures, veterinary measures, the Special Accession Programme for Agriculture and Rural Development (Sapard) and the amount available under agriculture for accessions) but introduced ceilings on expenditure within the guideline.

There are two annual sub-ceilings for the period 2000 to 2006, one for traditional market expenditure (subheading 1a) and one for rural development expenditure (subheading 1b). These ceilings were set at a level equivalent to the estimate of expenditure that would result from the adoption of the Agenda 2000 proposals. This means that the new ceilings represent estimated expenditure, with no margin for unforeseeable situations that may arise, which has often been the case in the past. These ceilings are shown in the following table:

Financial perspectives for EU 15 (€million at current prices)

	2000	2001	2002	2003	2004	2005 ¹	2006 ¹	Total
Total CAP Agenda 2000	41 738	44 530	46 587	47 378	47 211	46 294	45 996	319 734
(a) markets ² (subceiling 1a)	37 352	40 035	41 992	42 680	42 408	41 480	41 171	287 118
(b) rural development (subceiling 1b)	4 386	4 495	4 595	4 698	4 803	4 814	4 825	32 616

The conclusions of the Berlin Summit were followed by the adoption by Parliament and the Council of the following:

- a new Interinstitutional Agreement on budgetary discipline and the improvement of the budgetary procedure, the financial perspective (ceilings) and the budgetary procedure incorporating these conclusions and formally providing for the Commission to be allowed to present a letter of amendment to the preliminary draft budget (PDB) in the autumn for the following year so that the budget estimates reflect the most recent developments;
- a new Regulation on budgetary discipline [Council Regulation (EC) No 2040/2000 of 26 September 2000, OJ L 244, 29.9.2000, p. 27], which lays down in particular that all legislative measures decided under the common agricultural policy must remain within subceilings 1a and 1b in the financial perspective and that appropriations must be within these ceilings; that, with a view to ensuring that the amounts set for subheading 1a (traditional EAGGF Guarantee expenditure) are complied with, the Council may decide to adjust

¹ At 2004 prices.

² Including veterinary and plant health measures and excluding accompanying measures.

the level of the support measures applicable from the start of the following marketing year in each of the sectors concerned; that the Commission is to present, together with the preliminary draft budget, an analysis of the differences between initial forecasts and actual expenditure for previous financial years and to examine the medium-term situation; that, for the purposes of calculating budget estimates when it draws up the budget, a letter of amendment or a supplementary and amending budget (SAB), the Commission is generally to use the average rate of the dollar over the most recent three-month period; and, lastly, that the monetary reserve is to be cut to €250 million in 2002 and abolished with effect from the 2003 financial year.

1.2. The preliminary draft budget (PDB)

The 2002 PDB was drawn up by the Commission and proposed to the budgetary authority in May 2001. Total appropriations proposed for the EAGGF Guarantee Section amounted to €46 221.8 million, including €41 626.8 million for subheading 1a (which left a margin of €65.2 million under the ceiling of €41 992 million) and €4 595 million for subheading 1b (at the ceiling).

1.3. The draft budget (DB)

The Council adopted the 2002 DB in July 2001. It reduced the appropriations in subheading 1a by €200 million across-the-board and eliminated the proposed special reserve of €1 000 million intended for supplementary market and veterinary measures linked to BSE and FMD. Total EAGGF Guarantee Section appropriations, thus, amounted to €45 021.8 million; this amount comprised €40 426.8 million for subheading 1a and €4 595.0 million for subheading 1b.

1.4. The letter of amendment

At the end of October 2001, the Commission adopted the letter of amendment No 2/2002 to the PDB. It took account of the developments of the agricultural market situation, of the developments in relation to the beef market and the eradication of BSE/FMD and also of recent agricultural legislation. These considerations generated a requirement for €44 250.8 million, resulting in a reduction in requirements amounting to €1 971 million by comparison to the PDB requirements, and involving an amount of €39 655.8 million in subheading 1a which was below the ceiling, and of €4 595.0 million in subheading 1b which was equal to the ceiling.

1.5. Adoption of the 2002 budget

Following conciliation between the three institutions, the 2002 budget is as follows:

- for subheading 1a, in relation to the requirements in the letter of amendment No 2/2002, an increase of €4.5 million was decided comprising €2.5 million for specific aid for bee-keeping and €2 million for enhancing public awareness of the CAP. Appropriations amount to €39 660.08 million, which is €2 331.9 million beneath the sub-ceiling fixed in Berlin,
- for subheading 1b, the appropriations of €4 595.0 million requested by the Commission were granted; these appropriations are equal to the ceiling.

Appropriations of €250 million were also entered in the monetary reserve, which can be used only where there is a variation in the euro/dollar rate as defined in Article 9(1) of Council Regulation (EC) No 2040/2000 on budgetary discipline.

2. CASH POSITION AND MANAGEMENT OF APPROPRIATIONS

A. MANAGEMENT OF APPROPRIATIONS

2.1. Appropriations available for the 2002 financial year

The appropriations finally available for the financial year totalled €44 255.08 million (excluding the monetary reserve of €250 million). The budgetary authority approved a non-automatic appropriation carryover of €9 million from 2001 to 2002 (see 2.2.3).

2.2. Utilisation of appropriations available for the 2002 financial year

2.2.1. Budget operations

The table below details the budget operations over the 2002 financial year:

	€
1. Available appropriations	
– normal appropriations	44 255 080 000.00
– non-automatic carryovers of appropriations	99 000 000.00
2. Details of commitments	
– for Member States' expenditure against normal appropriations	42 858 918 892.28
– for Member States' expenditure against non-automatic carryovers of appropriations	99 000 000.00
– for direct payments	<u>259 039 299.12</u>
Total commitments	43 216 958 191.40
3. Amounts charged	
– for Member States' expenditure against normal appropriations	42 858 918 892.28
– for Member States' expenditure against non-automatic carryovers of appropriations	99 000 000
– for direct payments	<u>27 863 255.39</u>
Total charged	42 985 782 147.67
4. Automatic carryovers	
– for Member States' expenditure against normal appropriations	0.00
– for Member States' expenditure against non-automatic carryovers of appropriations	0.00
– for direct payments	<u>231 176 043.73</u>
Total automatic carryovers	231 176 043.73
5. Non-automatic carryovers	83 892 329.00
6. Appropriations lapsing (= 1 – 2 – 5)	1 053 229 479.60

2.2.2. Automatic carryovers

Automatic carryovers represent the difference between commitments and amounts actually charged. In this financial year they amount to €231.176 million and are the appropriations committed by the Commission for expenditure to be incurred directly by itself but not yet paid at the end of the financial year.

2.2.3. Non-automatic carryovers

In accordance with Articles 9 and 149 of the Financial Regulation (Council Regulation No 1605/2002 of 25 June 2002), the Commission has decided on a non-automatic carryover, from 2002 to 2003, of appropriations totalling €3.89 million comprising:

- €4.576 million for item B01-332 "Emergency fund for veterinary complaints and other animal contaminations which are a risk to public health",
- €4.571 million for item B01-400 "Investments in agricultural holdings";
- €2.256 million for item B01-4050 "Agri-environment (new system)";
- €6.49 million for item B01-4080 "Promoting the adaptation and development of rural areas – Main agriculture-related measures";
- €5.999 million for item B01-4081 "Promoting the adaptation and development of rural areas – Other measures".

2.3. Automatic carryovers from 2001 to 2002

The table below gives an overview of the utilisation of these carryovers during the 2002 financial year:

	€
1. Commitments carried over	
– for Member States' expenditure	–
– for direct payments	<u>585 917 004.50</u>
Total commitments	585 917 004.50
2. Decommitments from carryover	
– for Member States' expenditure	–
– for direct payments	<u>(3 095 719.78)</u>
Total decommitments	(3 095 719.78)
3. Payments	
– for Member States' expenditure	–
– for direct payments	<u>534 771 970.15</u>
Total charged	534 771 970.15
4. Lapsing appropriations (= 1 + 2 – 3)	
– for Member States' expenditure	–
– for direct payments	<u>48 049 314.57</u>
Total carryovers cancelled	48 049 314.57

2.4. Non-automatic carryover of appropriations from the 2001 financial year

In accordance with Article 7(3) of the Financial Regulation of 21 December 1977, the Commission asked the budget authority to allow the non-automatic carryover of a total of €9 million from 2001 to 2002. This breaks down as €2 million for item B01-4050 "Agri-environment (new system)" and €17 million for item B01-4070 "Forestry (new system, Article 31)". These appropriations were fully committed in 2002.

2.5. Transfers of appropriations within the EAGGF Guarantee Section

In 2002 the budgetary authority approved chapter-to-chapter transfer No 56/02:

- from chapters B01-12 Olive oil (–€25.0 million), B01-14 Fibre plants and silkworms (–€20.0 million), B01-15 Fruit and vegetables (–€80.0 million), B01-21 Beef/veal (–€60.0 million), B01-22 Sheepmeat and goatmeat (–€100.0 million), B01-23 Pigmeat, eggs, poultry and other animal product aid measures (–€35.0 million), B01-31 Food programmes (–€42.0 million), B01-39 Other measures (–€100.0 million),
- to chapters B01-10 Arable crops (+€700.0 million), B01-13 Dried fodder and grain legumes (+€7.0 million), B01-18 Other plant sectors or products (+€5.0 million), B1-20 Milk and milk products (+€472.0 million), B1-37 Clearance of previous years' accounts and reduction/suspension of advances under Chapters B1-10 chapters to B1-39 (+€278.0 million).

2.6. Transfers to or from the monetary reserve

The average dollar rate over the financial year was lower than the rate assumed for the 2002 budget and this resulted in additional expenditure estimated at €33 million charged to the EAGGF Guarantee Section for 2002. Since that additional expenditure was less than the €100 million neutral margin referred to in Article 11(2) of Regulation (EC) No 2040/2000, no transfer was made from the monetary reserve. In any case, the additional expenditure can be met from the budget appropriations for Titles 1 to 3 of the EAGGF Guarantee Section for 2002.

B. THE SYSTEM OF ADVANCES AND DIRECT PAYMENTS

2.7. Advances to Member States

2.7.1. The system of monthly advances

Article 7 of Council Regulation (EC) No 1258/1999 of 17 May 1999 on the financing of the common agricultural policy³ lays down that the Commission is to “decide on monthly advances on the provision for expenditure effected by the accredited paying agencies”. The advances are paid to the Member States at the beginning of the second month following that in which the paying agencies effect the expenditure.

These are not strictly speaking advances but rather reimbursements of expenditure already incurred by Member States. Use of the term “advance” stresses the provisional nature of the payments: the advances are determined on the basis of the monthly expenditure declarations forwarded by the Member States; the expenditure will be booked definitively once it has been verified on the spot during subsequent financial years (see Title 4: Clearance of accounts).

The system of advances applies to payments effected by Member States from 16 October 2001 to 15 October 2002. Over 99% is expenditure charged to the EAGGF Guarantee Section. The remainder consists of a limited number of measures for which the Commission makes direct payments.

³ OJ L 160, 26.6.1999, p. 103.

2.7.2. *Decisions on advances for the 2002 financial year*

The Commission adopted 12 decisions on monthly advances for the 2002 financial year (Annex 4 to the Financial Statement).

An additional advance, adjusting those for all the eligible expenditure for the financial year, was adopted in December 2002.

2.7.3. *Reduction and suspension of advances*

In 2002 a correction of –€3.1 million was made on advances paid to the Member States. The various categories of correction are given in the following points.

(a) *Reduction of advances for non-compliance with payment time limits*

In application of Article 14 of Council Regulation (EC) No 2040/2000 on budgetary discipline⁴, EAGGF staff established that some Member States did not always comply with the time limits laid down in the relevant Community rules for payment of aid to beneficiaries.

Payment deadlines were introduced to ensure equal treatment of recipients in all Member States and to avoid situations in which delays in payment resulted in the aid no longer having the desired economic effect. Moreover, leaving it to the individual paying agencies to make payments at their administrative convenience would prevent the proper application of budgetary discipline.

The Commission's decisions on monthly advances on three occasions provided for a reduction for late payment; the total reduction came to –€2.34 million.

(b) *Reduction of advances on account of failure to charge the additional milk levy for 2001/02*

When the expenditure declared for the 2002 financial year was scrutinised, it was concluded that two Member States had not charged the full amount of the additional levy for the 2000/01 marketing year in accordance with Article 5(2) of Regulation (EEC) No 536/93.

Pursuant to Article 14 of Regulation (EC) No 2040/2000 the Commission decided to reduce the advances for the Member States concerned by –€0.733 million.

(c) *Corrections for public storage*

The introduction in 2002 of the new e-Faudit application considerably improved the calculation, declaration and verification of expenditure on public storage by the Member States. Consequently, no correction was necessary in 2002 under these arrangements.

⁴ OJ L 244, 26.9.2000, p. 27.

2.8. Direct payments

In some cases, the Commission makes direct payments to operators. These are payments for veterinary and plant health measures (Chapter 33) and for certain measures which do not come under traditional market management but are designed to expand outlets for products, particularly olive oil and fibre flax, and anti-fraud measures, quality promotion and research connected with tobacco.

Annex 5 gives a breakdown of direct payments.

3. IMPLEMENTATION OF THE BUDGET

A. INTRODUCTION

3.1. The implementation of the budget

The uptake of EAGGF Guarantee Section appropriations for the budget year 2002 was €43 216.8 million, i.e. 97.4% of the budget appropriations under heading B1. Expenditure was approximately €1 137.3 million below the budget appropriations. The annexed Table 6 presents the situation for the utilisation of the 2002 budget appropriations by chapter.

For sub-heading 1a, the budget appropriations amounted to €9 660.1 million while its execution amounted to €8 867.4 million, i.e. 98.0% of the budget's appropriations under this sub-heading. With the exception of the plant products section of the budget which was over-implemented, the sections concerning animal products and ancillary expenditure were under-implemented. For sub-heading 1b, the budget appropriations amounted to €4 694.0 million while its execution amounted to €4 349.4 million, i.e. 92.70% of the budget appropriations under this sub-heading.

3.2. Impact of euro/dollar rate movements

Budget appropriations are in many cases – export refunds for agricultural products, in particular cereals, rice and sugar, and some internal aids such as production aid for starch, aid for sugar used by the chemical industry and aid for cotton – based on the difference between Community prices in euros and anticipated world prices, generally expressed in dollars.

When the preliminary draft budget was drawn up in April 2001, the rate initially used for the budget estimates for 2002 was, in accordance with Article 8(1) of Regulation (EC) No 2040/2000, €1 = \$0.92 (average parity for January, February and March 2001). When, at the end of October 2001, the Commission adopted a letter of amendment to the preliminary draft budget concerning agricultural expenditure, the rate was only €1 = \$0.89 (average for July, August and September 2001). This rate (€1 = \$0.89) became the definitive budgetary rate used for drawing up the budget estimates for 2002.

In the first nine months of the reference period for the determination of the impact of the dollar (August 2001 to April 2002), the average monthly rate did not vary by more than 2.5% in relation to the definitive rate used for establishing the budget estimates for 2002. After April, however, the dollar depreciated considerably, the July 2002 rate reaching an average of €1 = \$0.99, thus exceeding the budgetary rate by about 11%.

Thus, the estimated additional EAGGF Guarantee expenditure for 2002 attributable to the fall of the dollar in relation to the budget rate is €3 million. Since this is below the €100 million neutral margin referred to in Article 11(2) of Regulation (EC) No 2040/2000, no transfer may be made from the monetary reserve. The additional expenditure can at all events be covered by the budget appropriations in Titles 1 to 3 of the EAGGF Guarantee Section for 2002.

3.3. Dual rates

The dual rates made expenditure substantially lower than in previous years. Abolishing the green rates eliminated the dual-rate effect in the countries participating in the euro. For Member States not participating in the euro the impact of the dual rate was an estimated saving of the order of €30 million for 2002.

3.4. Agrimonetary decisions

Since Council Regulation (EC) No 2799/98 provides for compensation only for revaluations prior to 1 January 2002 for currencies not participating in the euro, no new agrimonetary aid was fixed in 2002. The agrimonetary arrangements have expired.

The payments made under the agrimonetary arrangements (Chapter 39) concern aid fixed previously.

B. ANALYSIS OF THE IMPLEMENTATION OF THE BUDGET BY CHAPTER

3.5. Introduction

During the 2002 financial year the Agenda 2000 agricultural reform measures were implemented for the various CAP products.

Arable crops account for a large part of total EAGGF Guarantee Section expenditure. Since the 1992 reform, direct aid for producers has come to predominate. After an initial period when expenditure increased from 1994 with the gradual introduction of the reform, it was relatively stable between 1997 and 1999.

Since then arable crops have undergone another stage in the reform process with the adoption of the agriculture chapter of the Agenda 2000 package. Under the Agenda 2000 decisions, the intervention prices for cereals were severely cut to bring them more into line with world prices. The resulting loss of income suffered by the producer is offset by an area payment. Oilseeds, protein crops and non-fibre linseed and, from 2001, fibre flax and hemp are also part of this direct aid system with, for a transitional period, a different rate of aid according to product type.

There are four categories of aid:

- aid for small-scale producers without compulsory set-aside,
- aid for commercial producers subject to compulsory set-aside,
- additional aid for durum wheat producers,
- set-aside (compulsory or voluntary).

Put briefly, the Agenda 2000 reform of the arable sector for 2001/02 involved the following:

- for cereals the intervention price was progressively cut (€101.31/tonne for the 2001/02 marketing year) concomitantly with the increase in direct area payments;
- for oilseeds the basic amount for the direct area payment was gradually cut to the level of that for cereals and set-aside;
- for durum wheat the fixed-rate additional aid per hectare was unchanged;
- for protein crops the payment per tonne of yield was reduced;

- in the regions where no maize is grown, areas sown to grass for silage also qualified for the area payment;
- the minimum price per tonne of potato starch was reduced;
- for Finland and certain areas of Sweden an additional flat-rate premium was paid for oilseeds and cereals;
- area payments for flax and hemp were aligned on those for linseed;
- compulsory set-aside was set at 10%, resulting in a cereal harvest of about 198 million tonnes.

The milk and milk products sector is the third largest in terms of EAGGF Guarantee Section expenditure. It is one of the sectors which the Berlin European Council (March 1999) decided to make the subject of a reform. The main change is a 15% cut in intervention prices over three marketing years starting in 2005/06, accompanied by the introduction of compensatory aid paid direct to producers from the 2005 calendar year onwards. This reform had no budgetary impact on the 2002 financial year.

In 2002 expenditure on beef and veal, the second largest in budget terms, accounted for 16.4% of the Guarantee Section's total spending. The Agenda 2000 reform increased or introduced direct aid to offset the cut in institutional prices.

In the sections which follow, an analysis of EAGGF Guarantee expenditure incurred is presented and compared to the 2002 budget year's appropriations.

3.6. TITLE B1-1 – Plant products

Introduction

The appropriations for this title of the budget amounted to €27 349.0 million while payments amounted to approximately €27 686.3 million, i.e. an implementation rate of 101.2% of the budget appropriations. This over-implementation was primarily attributable to the payments for arable crops (chapter B1-10 of the budget) while all other chapters were under-implemented (see annexed Table 6 for details).

CHAPTER B1-10 – ARABLE CROPS

€ million

Article	Heading	Appropriation budget (a)	Expenditure (b)	Over -/under-implementation (a) – (b)
B1-100	Refunds on cereals	80.0	99.3	+ 19.3
B1-101	Intervention storage of cereals	283.0	219.2	–63.8
B1-102	Intervention, other than storage, of cereals	292.0	240.7	–51.3
B1-104	Per hectare aid for arable crops (small producers)	3 927.0	3 964.6	+ 37.6
B1-105	Per hectare aid for arable crops (large scale producers)	11 683.0	12 173.2	+ 490.2
B1-106	Set-aside	1 661.0	1 902.0	+ 241.0
B1-109	Other	–10.0	–9.0	+ 1.0
TOTAL CHAPTER B1-10	ARABLE CROPS	17 916.0	18 590.1	+ 674.1

The sector's balance sheet

Total production of cereals for the marketing year 2001/02 amounted to approximately 198 million tonnes versus 213 million tonnes in the previous marketing year. In the budget year 2002, domestic utilisation of cereals was estimated at approximately 189 million tonnes, i.e. an increase of 3 million tonnes when compared to the previous year's level. However, exports fell in the course of the year at approximately 17.5 million tonnes versus 28.6 million tonnes in the previous year while stocks in public storage were higher at approximately 7.9 million tonnes.

Intervention

On the whole, intervention stocks increased in the course of the 2002 budget year, from around 6.7 million tonnes at the start of the year to around 7.9 million tonnes by the end of the year. Underlying this, however, were quite wide variations in changes in the stock levels for individual cereals. While **wheat stocks** were further run down to around 0.43 million tonnes by the end of the year from a level of 0.66 million tonnes at the start of the year, over the same period stocks of **barley** increased from 2.2 to 2.4 million tonnes, and stocks of **rye** continued the rise of previous years, increasing from 3.8 to 5.0 million tonnes. The quantities in stock for maize and sorghum were insignificant.

Purchases into intervention amounted to approximately 4.4 million tonnes while sales amounted to 2.7 million tonnes versus the initial 2002 budget estimates of 8.0 million tonnes and 6.4 million tonnes respectively.

As a consequence, lower payments for **technical costs** for the public storage of cereals accounted for the under-spending of the 2002 budget appropriations by –€4.0 million.

International markets

Developments in international agricultural markets were somewhat mixed in 2002. international prices for most cereals recovered noticeably during the early part of the year but they weakened towards the end of the year, as several countries not traditionally known as exporters took advantage of their recent good harvests and the drop in exportable supplies from traditional exporting countries to make more of their production surpluses available for export.

EU cereals exports fell heavily in 2002. Exports of **soft wheat** were estimated at around 8.0 million tonnes versus 15.0 million tonnes in the 2002 budget, exports of **barley** amounted to 6.0 million tonnes versus 8.5 million tonnes in the 2002 budget and, finally, exports for other cereals amounted to 2.5 million tonnes versus 2.6 million tonnes in the budget. These falls in volume were due to the impact of increased competition from exports by third countries and especially the republics of the former Soviet Union whose overall effect was not only that EU cereals exports fell but EU imports of cereals almost doubled compared to the same period in 2001.

These restraining effects on the volume of EU exports were further accentuated by the rise of the euro against the US dollar. Following on from 2001's historically weak levels against the US dollar, the euro strengthened somewhat over the course of the year and on average for the year it stood at a parity of €1 = \$0.91 compared to the level of €1 = \$0.89 used in the establishment of the 2002 budget. While in the 2002 budget no export refunds were foreseen for soft wheat by the end of the budget year such refunds were introduced, albeit at low levels. At the same time, the refunds in

the 2002 budget for barley were increased from €19.3/t to €26.7/t while the ones for oats were increased from €26.0/t to €34.7/t.

As a consequence, payments for **export refunds** over-spent the 2002 budget appropriations by €19.0 million.

Arable crops and weather conditions

In terms of weather, the 2002 agricultural year got off to a good start with autumn 2001 field preparation and sowing of winter cereals occurring under conditions which were almost optimal and generally much more favourable than for the previous year. While the autumn period ended with unseasonably cold weeks across Europe in December 2001 and in January 2002, raising some concern for frost damage, the subsequent conditions during the winter season were generally favourable, with mainly higher than average temperatures and a favourable spell for spring crop sowing preparations.

During the spring of 2002 the climatic conditions were as a whole satisfactory for crop growth and farming operations. The Iberian Peninsula, the South of Italy (with the exception of the Mezzogiorno, Sicily and Sardinia) and Greece received good levels of rainfall, allowing partial replenishment of water reserves and with a resulting potential impact on durum wheat production. Higher than seasonal temperatures at the end of April and May boosted crop development especially in central and northern countries.

However, in the Mediterranean areas a wave of peak temperatures in June boosted summer crop growth but led to severe drought in Southern Italy. Furthermore, the situation generally worsened in July and August with excessive rain in many central European Member States, especially in Germany and Austria. This resulted in saturated soils and flooding, hampering straw cereals harvesting operations or causing local damage in many areas and leading to loss of harvest and grazing land.

In order to alleviate the plight of farmers in these areas, the Commission decided in late August, via the Commission Regulations (EC) Nos 1519/2002 and 1535/2002, to advance 50% of the area and set-aside payments for arable crops (for the marketing year 2002/03), in certain regions of Germany and Italy, to the 2002 budget year instead of having them paid in the 2003 budget year. This expenditure, which was not foreseen in the 2002 budget, amounted to approximately €47.0 million.

As a consequence, payments for area aids and set-aside amounted to €18.040 million, thus over-spending the budget appropriation by €769 million.

Intervention, other than storage, of cereals

The quantities for which compensatory and premiums for potato starch, production refunds paid for starch as well as the aid to Portuguese producers of cereals were lower than the ones which had been retained in the 2002 budget.

As a consequence, payments for these interventions under-spent the budget appropriations by –€1 million.

This chapter's overall appropriations were over-implemented by approximately €74.0 million.

CHAPTER B1-11 – SUGAR

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under- implementation (a) – (b)
B1-110	Refunds on sugar and isoglucose	1 190.0	1 168.2	-21.8
B1-111	Intervention for sugar	211.0	227.3	+ 16.3
B1-119	Other	0.0	0.4	+ 0.4
TOTAL CHAPTER B1-11	SUGAR	1 401.0	1 395.9	-5.1

The quantities of sugar exported with refunds at approximately 2.5 million tonnes were slightly lower when compared to the level of 2.7 million tonnes retained in the 2002 budget for the marketing year 2001/02.

As a consequence, payments for export refunds under-spent the 2002 budget appropriations by –€2.0 million.

However, the quantities for which refunds for the sugar used by the chemical industry were higher at approximately 0.36 million tonnes for the marketing year 2001/02 as compared to the level of 0.33 million tonnes in the establishment of the 2002 budget.

As a consequence, payments for refunds for the sugar used by the chemical industry over-spent the 2002 budget appropriations by €18.0 million.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately –€5.0 million.

CHAPTER B1-12 – OLIVE OIL

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under- implementation (a) – (b)
B1-120	Refunds on olive oil	0.0	0.0	0.0
B1-121	Production aid and schemes related to production of olive oil	2 330.0	2 295.8	-34.2
B1-123	Storage measures for olive oil	14.0	9.4	-4.6
BI-124	Other intervention for olive oil	24.0	26.6	+ 2.6
BI-129	Other	-2.0	-2.6	-0.6
TOTAL CHAPTER B1-12	OLIVE OIL	2 366.0	2 329.3	-36.7

With regard to the production aid for olive oil, Member States paid approximately €6.0 million for outstanding balances for previous marketing years which were not foreseen in the 2002 budget. At the same time, Member States did not pay the totality of the aids due for the marketing year 2000/01 involving an amount of approximately €9.0 million.

As a consequence, payments for production aid for olive oil under-spent the 2002 budget appropriations by –€4.0 million.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately –€7.0 million.

CHAPTER B1-13 – DRIED FODDER AND GRAIN LEGUMES

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under-implementation (a) – (b)
B1-130	Production aid for dried fodder	313.0	317.2	+ 4.2
B1-131	Production aid for grain legumes	72.0	72.9	+ 0.9
B1-139	Other	0.0	-1.8	-1.8
TOTAL CHAPTER B1-13	DRIED FODDER AND GRAIN LEGUMES	385.0	388.3	+ 3.3

In order to limit budgetary expenditure, production aid for dried fodder is subject to a stabiliser system. The eligible quantities for the aid are subject to a maximum guaranteed quantity of 4 412 million tonnes both for heat-dried fodder and for sun-dried fodder. Where this maximum guaranteed quantity, is exceeded, the aid is correspondingly reduced. The 2002 budget was established on the hypothesis that the quantities to be produced in the marketing year 2001/02 would amount to 4 700 million tonnes involving a 6.2% abatement of the rate of aid. However, the quantities produced in this marketing year were lower at approximately 4 421 million tonnes, thus, lowering the abatement to 0.3% versus the 6.2% in the 2002 budget.

Therefore, the rate of aid paid for the quantities produced in this marketing year was higher than the one in the 2002 budget and, consequently, total expenditure for this scheme was higher by €4.0 million.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were over-implemented by approximately €3.0 million.

CHAPTER B1-14 – FIBRE PLANTS AND SILKWORMS

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under-implementation (a) – (b)
B1-140	Fibre flax and hemp	21.0	12.2	-8.8
B1-141	Aid for cotton	934.0	804.0	-130.0
B1-142	Silkworms	1.0	0.6	-0.4
B1-149	Other	0.0	-0.4	-0.4
TOTAL CHAPTER B1-14	FIBRE PLANTS AND SILKWORMS	956.0	816.4	-139.6

In order to limit the increase in production and the resulting expenditure, aid for cotton is subject to a stabiliser system. Where the maximum guaranteed quantity of 1 031 000 t, fixed at 782 000 t for EL and at 249 000 t for E, is exceeded, the aid is reduced in the country responsible for the over-run.

Overall production for the marketing year 2001/02 at about 1.6 million tonnes was higher than the level on which the 2002 budget was drawn up (1.4 million tonnes). In Spain, actual production of approximately 0.34 million tonnes was slightly over the level of 0.31 million tonnes taken into account when the 2002 budget was drawn up. In Greece, actual production of approximately 1.25 million tonnes was significantly above the level of 1.09 million tonnes taken into account when the 2002 budget was drawn up. These higher production figures led to a more than proportionate increase in the stabiliser abatements applied to the rate of aid. As a result of the stabiliser

system, the overrun of the maximum guaranteed quantity did not give rise to any additional expenditure.

The level of aid for cotton is also determined by the difference between the guide price of cotton (€1 063/t) and the actual world market price (around €185/t) which turned out to be lower than the level allowed for when the 2002 budget was drawn up (around €204/t).

These factors led to fixing the rate of aid for Greece at a level lower than the level retained when the 2002 budget was drawn up. Consequently, the expenditure incurred for the cotton sector in Greece was lower as compared to the appropriations foreseen in the budget.

As a consequence, payments for aid for cotton amounted to €804.0 million, thus under-spending the budget by –€130.0 million.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately –€140.0 million.

CHAPTER B1-15 – FRUITS AND VEGETABLES

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under-implementation (a) – (b)
B1-150	Fresh fruits and vegetables	917.0	804.0	+ 113.0
B1-151	Processed fruits and vegetables	734.0	757.9	–23.9
B1-159	Other	–1.0	–10.4	–9.4
TOTAL CHAPTER B1-15	FRUITS AND VEGETABLES	1 650.0	1 551.4	–98.6

Fresh fruits and vegetables

Early estimates indicate a very marginal increase in fruit production for 2002 (up 0.6% on 2001), while production of vegetables remained essentially unchanged from the levels of the previous year. As regards crop prices, increases were recorded for vegetables (vegetables up 8.5%) and for fruit (up 7.0%).

Due to this favourable market situation, market withdrawals of fruit and vegetables were substantially reduced by comparison to the quantities used when the 2002 budget was established.

As a consequence, payments for financial compensation for the quantities of fruits and vegetables withdrawn from the market amounted to €61.0 million, thus, under-spending the budget appropriations by –€82.0 million.

With regard to bananas, the quantities produced in 2001 were approximately 5% lower than the level retained when the 2002 budget was established. Equally, production for 2002 is forecast to be approximately 7% lower than the level retained when the 2002 budget was established. The resulting high market prices led to a lower rate of aid (–21%) for bananas in 2001 when compared to the rate in the 2002 budget.

As a consequence, payments for aid for bananas amounted to €12.0 million, thus under-spending the budget appropriations by –€90.0 million.

With regard to nuts, aid is paid for quality improvement plans. The Council, in view of adoption of new rules for this sector, decided to extend expiring plans by one further year.

As a consequence, aid payments for nuts amounted to €97.0 million, thus, over-spending the budget appropriations by €52.0 million.

Processed fruits and vegetables

With regard to dried grapes, the aid was paid for lower areas than the ones in the 2002 budget.

As a consequence, aid payments for dried grapes amounted to €13.0 million, thus under-spending the budget appropriations by –€14.0 million.

With regard to **processed citrus fruits**, the processing aid was paid for higher quantities of oranges and clementines of the current marketing year 2001/02 as compared to the quantities retained in the 2002 budget. Furthermore, this budget foresaw that €50.0 million would be paid as balances for the processing aid of previous marketing years. Eventually, such payments amounted to €63.0 million.

As a consequence, processing aid payments for citrus fruit amounted to €65.0 million, thus over-spending the budget appropriations by €4.0 million.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately –€9.0 million.

CHAPTER B1-16 – PRODUCTS OF THE WINE-GROWING SECTOR

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under-implementation (a) – (b)
B1-160	Refunds on products of the vine-growing sector	25.0	23.8	–1.2
B1-161	Intervention for products of the vine-growing sector	493.0	489.2	–3.8
B1-162	Taking-over of alcohol from compulsory distillation	284.0	261.2	–22.8
B1-163	Aid the for use of must	153.0	141.2	–11.8
B1-164	Permanent abandonment premiums in respect of areas under wines	16.0	14.0	–2.0
B1-165	Restructuring and conversion of vineyards	422.0	424.2	+ 2.2
B1-169	Other	–1.0	–4.9	–3.9
TOTAL CHAPTER B1-16	PRODUCTS OF THE WINE-GROWING SECTOR	1 392.0	1 348.7	–43.3

The sector's balance sheet

Total production of wine for the marketing year 2001/02 amounted to approximately 158.0 million hl versus 176.0 million hl in the previous marketing year. In the budget year 2002, domestic consumption of wines stood at approximately 125.0 million hl versus the level of 127.0 million hl in the 2002 budget. Exports amounted to 11.6 million hl, i.e. at approximately the level of 12.0 million hl in the 2002 budget. Industrial, distillations and other uses amounted to 35.0 million hl versus the level of 37.7 million hl in the 2002 budget. Alcohol stocks in public storage at 3.6 million hl

were much higher than the level of approximately 2.2 million hl presumed in the 2002 budget.

Distillations

The reduction in wine production led to decreasing the quantity for potable alcohol distillations to 12.0 million hl instead of 13.0 million hl in the 2002 budget. The quantity subject to crisis distillation set at 8.0 million hl corresponds to the quantity foreseen in the 2002 budget. However, delays in implementing the crisis distillations, notably in France, led to an under-implementation of the budget foreseen for this measure by –€16.0 million and the subsequent displacement of expenditure from the 2002 to the 2003 budget. On the other hand, expenditure for the compulsory distillation of by-products of wine-making was slightly higher due to payments of approximately €7.0 million for the marketing year 2000/01 which were not foreseen when the 2002 budget was established. Finally, the quantity (approximately 15.0 million hl) of wine and grape must under private storage was higher than the initial quantity foreseen in the 2002 budget (13.5 million hl), thus resulting in higher expenditure for intervention storage of wine and grape must of €5.5 million.

In total, payments for intervention for products of the vine-growing sector amounted to €489.0 million, thus under-spending the budget appropriations by –€3.8 million.

Intervention

The reduced volume of distillations led to lower quantities of alcohol entering public storage during the current financial year. For the budget year 2002, opening alcohol stocks amounted to approximately 2.2 million hectolitres while final stocks stood at approximately 3.6 million hectolitres. Purchases and sales for the year were approximately 2.1 and 0.4 million hl respectively and they were lower than the quantities in the 2002 budget. Finally, aids for private storage of alcohol were slightly lower by –€2.7 million because the quantities of alcohol involved were slightly lower at approximately 0.98 million hl versus the quantity of 1.04 million hl in the 2002 budget.

As a consequence, payments for storage of alcohol amounted to €261.0 million, thus under-spending the budget appropriations by –€23.0 million.

Use of must

The quantities of must used were lower than the quantities retained in the 2002 budget.

As a consequence, aid payments for uses of must amounted to €141.0 million, thus under-spending the budget appropriations by –€12.0 million.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately –€43.0 million.

CHAPTER B1-17 – TOBACCO

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under- implementation (a) – (b)
B1-170	Premiums for tobacco	970.0	951.8	-18.2
B1-175	Community funds for research and information	15.0	11.9	-3.1
B1-179	Other	-2.0	-0.5	+ 1.5
TOTAL CHAPTER B1-17	TOBACCO	983.0	963.2	-19.8

In order to bring production under control, the common organisation of the market limits the amount of the premium by means of a system of quotas, established separately by variety and by Member State. For the 2001 harvest, the adjusted quota ceiling was approximately 0.344 million tonnes of raw tobacco. The payments of the tobacco premium for the 2001 harvest are made in the 2002 budget year. The 2002 budget was under-implemented by approximately -€18.0 million because EL, B and P did not pay all the estimated tobacco premiums due by the end of the budget year.

The 2002 budget included appropriations of €15.0 million for the Community fund for research and information for which expenditure amounted to approximately €12.0 million, thus, resulting in an under-spending of -€3.0 million.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately -€20.0 million.

CHAPTER B1-18 – OTHER PLANT SECTORS OR PRODUCTS

€million

Article	Heading	Budget appropriation (a)	Expenditure (b)	Over -/under- implementation (a) – (b)
B1-180	Seeds	110.0	99.0	-11.0
B1-181	Hops	12.0	12.5	+ 0.5
B1-182	Rice	178.0	191.6	+ 13.6
B1-189	Other	0.0	-0,1	-0.1
TOTAL CHAPTER B1-18	OTHER PLANT SECTORS OR PRODUCTS	300.0	303.0	+ 3.0

Seeds

The 2002 budget for seeds was under-implemented by approximately -€1.0 million because DK and FR did not pay all the estimated aids due by the end of the budget year.

Rice

The 2002 budget for export refunds for rice appears to be over-implemented because certain Member States had erroneously declared export refunds for food aid involving rice in this budget chapter instead of declaring it correctly in budget Chapter 32.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were over-implemented by approximately €3.0 million.

3.7. TITLE B1-2 – Animal products

Introduction

The appropriations for this title of the budget amounted to €10 859.6 million while payments amounted to approximately €10 118.7 million, i.e. an implementation rate of 93.2% of the budget appropriations. This under-implementation was primarily attributable to the payments for beef and veal and sheep-meat (chapters B1-21 and B1-22 of the budget) while chapter B1-20 for milk was over-implemented (see annexed Table 6 for details).

CHAPTER B1-20 – MILK AND MILK PRODUCTS

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under- implementation (a) – (b)
B1-200	Refunds on milk and milk products	977.0	1 159.6	+ 182.6
B1-201	Intervention storage of skimmed-milk powder	0.0	85.8	+ 85.8
B1-202	Aid for skimmed milk	451.0	446.0	-5.0
B1-203	Intervention storage of butter and cream	3.0	300.0	+ 297.0
B1-204	Other measures relating to butterfat	450.0	458.9	+ 8.9
B1-205	Intervention for other milk products	74.0	68.5	-5.5
B1-207	Financial contribution by milk producers	-36.0	-150.3	-114.3
B1-209	Other measures	-7.0	-8.3	-1.3
TOTAL CHAPTER B1-20	MILK AND MILK PRODUCTS	1 912.0	2 360.0	+ 448.0

The sector's balance sheet

Total production of butter in 2002 amounted to approximately 1.93 million tonnes versus 1.86 million tonnes in the previous marketing year. In 2002, domestic utilisation of butter was estimated at approximately 1.72 million tonnes, i.e. at the level in the 2002 budget, out of which exports amounted to approximately 0.2 million tonnes equally at approximately the level in the 2002 budget. Butter stocks in public storage at 0.17 million tonnes were much higher than the level of approximately 0.03 million tonnes presumed in the 2002 budget.

On the other hand, total production of skimmed milk powder (SMP) in 2002 amounted to approximately 1.04 million tonnes versus 0.95 million tonnes in the previous marketing year. In 2002, domestic utilisation of SMP was estimated at approximately 0.86 million tonnes, i.e. at the level retained in the 2002 budget, out of which exports amounted to approximately 0.09 million tonnes, which is much lower than the level of 0.21 million tonnes in the 2002 budget. At 0.15 million tonnes SMP stocks in public storage were much higher than the level of approximately 0.01 million tonnes in the 2002 budget.

In the course of 2002, both the internal and external dairy markets deteriorated significantly when compared to the more favourable assumptions used in drawing up the 2002 budget. Following the noticeable drop in prices over the second half of 2001, average EU butter prices stayed relatively depressed throughout 2002, remaining at levels close to 90–92% of the intervention price throughout the year and well below the price levels of recent years. Average EU prices for skimmed milk powder began the year at just above the intervention price. However, the fall in prices experienced at the end of 2001 continued into 2002 in view of the significant rise in

production, with average prices only bottoming out at the end of May at around 2.4% below the intervention price. Prices only showed a sustained improvement from September onwards, with average prices generally moving above the intervention price over the latter part of the year as external demand for EU milk powder increased in reaction to the low, drought-affected production in Australia.

International market

International prices for dairy products fell for most of the year but recovered somewhat in the latter part of 2002. Milk powder prices showed the greatest rise while butter and cheese prices rose less noticeably. Nevertheless, prices of all dairy products remained well below those twelve months earlier.

As a consequence, export refund rates for dairy products had to be increased substantially (with the exception of the ones for cheese) by comparison to the levels, which had been retained in the 2002 budget. This increase offset the downward level of dairy products' export volumes where the ones for skimmed milk powder, cheese and other exports fell while the ones for butter and butter-oil remained more or less stable when compared to the hypotheses in the 2002 budget.

As a consequence, payments for export refunds amounted to €160.0 million, thus, over-spending the budget by €83.0 million.

Intervention

Important increases in intervention stocks for both SMP and butter occurred during 2002.

Intervention stocks of skimmed milk powder, which had been completely run down by October 2000 and remained so during 2001, started up again in March 2002 and increased sharply from then onwards to reach a level of just under 0.15 million tonnes by the end of September 2002. This level of purchases had not been foreseen in the 2002 budget.

As a consequence, payments for public storage of skimmed milk powder amounted to €86.0 million. No appropriations were foreseen in the 2002 budget for this measure.

Intervention purchases of butter also increased substantially in 2002 by about 0.16 million tonnes versus a volume of 0.02 million tonnes foreseen in the 2002 budget. Intervention sales remained at the level foreseen in the 2002 budget, i.e. at approximately 0.03 million tonnes. Consequently, intervention stocks of butter rose from just under 0.03 million tonnes at the start of the year to reach a level of 0.17 million tonnes by the end of the 2002 budget year.

As a consequence, payments for public storage of butter amounted to €300.0 million, thus over-spending the budget appropriations for this scheme by €297.0 million.

The super-levy was collected for a volume of milk amounting to approximately 0.42 million tonnes versus the volume of 0.1 million tonnes in the 2002 budget.

As a consequence, receipts under the milk super-levy amounted to –€150.0 million versus the amount of –€36.0 million in the 2002 budget. The difference between these two amounts is equivalent to a decrease in expenditure of –€114.0 million.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were over-implemented by approximately €448.0 million.

CHAPTER B1-21 – BEEF AND VEAL

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under-implementation (a) – (b)
B1-210	Refunds on beef/veal	488.0	386.7	-101.3
B1-211	Intervention storage of beef/veal	522.0	104.1	-417.9
B1-212	Intervention other than storage of beef/veal	7 093.0	6 610.5	-482.5
B1-219	Other	-8.0	-29.3	-21.3
TOTAL CHAPTER B1- 21	BEEF/VEAL	8 095.0	7 071.9	-1 023.1

The sector's balance sheet

The 2002 agricultural year was mainly characterised by a noticeable recovery in the cattle sector from the recent BSE and foot and mouth disease crises, with a significant improvement in beef and veal consumption, and with prices in the sector increasing by more than 6% on average.

Beef and veal production in 2002 remained strongly influenced by the disturbances of recent years. The low prices which became a feature of the market from autumn 2000 onwards and which persisted for most of 2001, together with an atmosphere of uncertainty linked to weak and volatile demand, seem to have led to a subsequent reduction in production capacity. On top of this, the special measures decided on in June 2001 to stabilise the market had further reduced incentives for production. As a consequence, beef and veal production in 2002 is expected to reach 7.6 million tonnes, an increase of only 2.9% on last year's level and still some 3% down on levels in 1999. In 2002, beef consumption recovered strongly with total domestic utilisation of beef estimated at approximately 7.3 million tonnes, i.e. at a level slightly higher than the 7.0 million tonnes hypothesis in the 2002 budget. Exports amounted to approximately 0.56 million tonnes compared to 0.62 million tonnes retained in the 2002 budget. Beef stocks in public storage at 0.22 million tonnes in carcass equivalent weight were much lower than the level of approximately 0.54 million tonnes in the 2002 budget.

International market

In the international meat markets, overall prices fell in 2002 as a result of rising levels of supply. A very positive development was the recovery in meat exports from the crisis-hit levels of the year before when trade restrictions due to the BSE and foot and mouth disease crises virtually stopped EU exports of meat products.

Against this international background export refund rates were raised. However, the actual quantities exported amounted to approximately 0.56 million tonnes versus the quantity of 0.62 million tonnes in the 2002 budget.

As a consequence, payments for export refunds amounted to €387.0 million, thus, under-spending the budget appropriations by -€101.0 million.

Intervention

The 2002 budget assumed that production of beef for the year would amount to 7.72 million tonnes while the actual level was approximately 7.6 million tonnes. This factor combined with the recovery in consumption led to lower volumes of beef destined for public storage. While opening stocks of beef stood at approximately

0.23 million tonnes in carcass equivalent weight, i.e. approximately at the level foreseen in the 2002 budget, purchases of beef into intervention amounted to only 0.020 million tonnes instead of 0.32 million tonnes foreseen in the budget. Sales from intervention were slightly higher at 0.025 million instead of the 0.018 million foreseen in the budget. Therefore, closing stocks stood at approximately 0.22 million tonnes in carcass equivalent weight, which was much lower than the level of 0.54 million tonnes foreseen in the 2002 budget. As a consequence technical and financial costs for public storage, and in particular depreciation costs, were much lower when compared to the level used in the 2002 budget.

As a consequence, payments for public storage amounted to €100.0 million, thus under-spending the budget appropriations by –€20.0 million.

Premium schemes

The numbers of animals eligible for premium payments in the 2002 budget were based on the actual reduced numbers of animals for which the premium was paid in 2001. Therefore, a lower number of animals for the over 30 months scheme in the UK led to an under-implementation of the 2002 budget by –€148.0 million while payments under the purchase for destruction and special purchase schemes were under-implemented by approximately –€36.0 million. Furthermore, the premium payable on slaughtered adult animals involved payments for only 17 million cattle (about 72% of the ceiling) instead of 20.1 million head used in the 2002 budget, thus leading to an under-implementation of €59.0 million. On the other hand, the reduced number of primable animals led to an increase in payments for the extensification premium because of an increase in the numbers of animals qualifying for the highest rate of premium. As a consequence, payments for the extension premium amounted to €43.0 million versus the amount of €91.0 million retained in the budget.

As a consequence, all premium payments amounted to € 611.0 million, thus under-spending the budget appropriations by –€82.0 million.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately –€ 023.0 million.

CHAPTER B1-22 – SHEEPMEAT AND GOATMEAT

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under- implementation (a) – (b)
B1-221	Intervention in the form of storage of sheepmeat and goatmeat	8.0	0.2	–7.8
B1-222	Intervention other than storage of sheepmeat and goatmeat	665.0	553.8	–111.2
B1-229	Other measures	–1.0	–1.5	–0.5
TOTAL CHAPTER B1- 22	SHEEPMEAT AND GOATMEAT	672.0	552.5	–119.5

Private storage for sheepmeat

The budget assumed that approximately 5 000 tonnes of sheepmeat would be entering private storage in the course of 2002. Eventually the quantity involved was approximately 140 tonnes.

As a consequence, payments for private storage for sheep-meat amounted to €0.2 million, thus under-spending the budget appropriations by –€7.8 million.

Ewe and goat premiums

The ewe premium paid to producers covers the difference between the institutional price and the arithmetic mean of market prices recorded over the marketing year. For the 2001 marketing year, the actual average market price was € 116.8/t as against the amount of € 000/t used when the 2002 budget was established. This led to fixing a lower than otherwise level of premium at €8.949/sheep and €7.159/goat as compared to the rates of €10.779/sheep and €8.623/goat respectively in the 2002 budget. Furthermore, the numbers of ewes and goats eligible for the premium were subject to a slight downward revision to 70.7 million heads as compared to 72.7 million heads in the 2002 budget. The fixed flat-rate ewe and goat premium in less-favoured and mountain areas was fixed at €6.641/sheep and at €6.977/goat for the 2001 marketing year. The numbers of ewes and goats eligible for the fixed flat rate premium were equally revised downward to 56.4 million heads as compared to 57.3 million heads in the 2002 budget.

As a consequence, payments for the ewe and goat premiums amounted to €54.0 million, thus under-spending the budget appropriations by –€11.0 million.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately –€20.0 million.

CHAPTER B1-23 – PIGMEAT, EGGS, POULTRY AND OTHER ANIMAL PRODUCT AID MEASURES

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under-implementation (a) – (b)
B1-230	Pigmeat	70.0	30.1	–39.9
B1-231	Eggs and poultrymeat	78.0	77.0	–1.0
B1-232	Other animal product aid measures	16.5	14.3	–2.2
B1-239	Other	–1.0	–2.3	+ 1.3
TOTAL CHAPTER B1-23	PIGMEAT, EGGS, POULTRY AND OTHER ANIMAL PRODUCT AID MEASURES	163.5	119.2	–44.3

Export refunds for pigmeat

The 2002 budget had initially foreseen an export of approximately 0.27 million tonnes of fresh or frozen pigmeat carcasses or cuts at an average refund rate of €100/t. Market conditions led to setting the refund rate at zero during the 2002 budget year. Furthermore, as regards sausages and conserves, the quantities actually exported with refunds were approximately 0.07 million tonnes compared with 0.17 million tonnes when the 2002 budget was established. The corresponding average refund rate was set at €68/t as compared with the rate of €250/t in the 2002 budget.

As a consequence, payments for export refunds for pigmeat amounted to €27.0 million, thus under-spending the budget appropriations by –€43.0 million.

Export refunds for eggs and poultry-meat

Exports of eggs were smaller at approximately 0.08 million tonnes versus the quantity of 1.0 million tonnes retained in the 2002 budget. The level of the export refund rates for egg products was lower than the corresponding level in the 2002 budget. Equally, exports of chicken were smaller at approximately 0.23 million tonnes versus the quantity of 0.29 million tonnes in the 2002 budget. The level of the export refund rate for the other chicken category of products set at approximately €260/t was higher than the corresponding rate of €245/t in the 2002 budget.

As a consequence, payments for export refunds for eggs and poultrymeat amounted to €77.0 million, thus under-spending the budget appropriations by –€1.0 million.

Specific aid for bee-keeping

Payments for the financing of improvement programmes for the production and commercialisation of honey amounted to €14.3 million versus the amount of €16.5 million foreseen in the 2002 budget.

As a consequence, the budget appropriations were under-implemented by –€2.0 million.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately –€4.0 million.

CHAPTER B1-26 – EUROPEAN FISHERIES GUARANTEE FUNDS

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under-implementation (a) – (b)
B1-260	Intervention for fishery products	17.1	15.5	–1.6
B1-269	Other measures	0.0	0.1	–0.1
TOTAL CHAPTER B1-26	EUROPEAN FISHERIES GUARANTEE FUNDS	17.1	15.4	–1.7

See also comments on the implementation of this chapter in point 3.13.

3.8. TITLE B1-3 – Ancillary expenditure

Introduction

The appropriations for this title of the budget amounted to €1 426.6 million while its implementation resulted to payments amounting to €1 062.4 million, i.e. there was an under-utilisation amounting to –€364.2 million. This under-utilisation was mostly attributable to chapter B1-33 on veterinary and plant-health measures.

**CHAPTER B1-30 – REFUNDS ON CERTAIN GOODS OBTAINED
BY PROCESSING AGRICULTURAL PRODUCTS**

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under- implementation (a) – (b)
B1-300	Refunds on cereals exported in the form of certain spirit drinks	1.0	0.2	-0.8
B1-301	Refunds on certain goods obtained by processing agricultural products	414.0	413.5	-0.5
B1-309	Other	0.0	-4.1	-4.1
TOTAL CHAPTER B1- 30	REFUNDS ON CERTAIN GOODS OBTAINED BY PROCESSING AGRICULTURAL PRODUCTS	415.0	409.6	-5.4

Recovery of unduly paid amounts

The 2002 budget did not foresee any amount in Article B1-309 for recoveries of amounts unduly paid. However, actual collections from these items amounted to -€4.1 million.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately -€5.0 million.

CHAPTER B1-31 – FOOD PROGRAMMES

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under- implementation (a) – (b)
B1-310	Distribution of agricultural products to deprived persons in the Community	200.0	155.7	-44.3
B1-311	Refunds in connection with food aid	16.0	5.6	-10.4
B1-312	School milk	81.0	73.7	-10.4
B1-314	Free distribution of fruits and vegetables	9.0	8.0	-1.0
B1-319	Other	0.0	-0.3	-0.3
TOTAL CHAPTER B1-10	FOOD PROGRAMMES	306.0	242.8	-63.2

This chapter's appropriations have been under-implemented for all the schemes involved.

With regard to the distribution of agricultural products to deprived persons in the Community, the under-run was due to the fact that certain Member States, like EL, P and FIN, did not distribute all the quantities of agricultural products as per the approved plan for 2002. For details with regard to the free distribution of agricultural products, see point 3.11.

With regard to refunds in connection with food aid, the under-run was due to under-spending for rice where exports amounted to approximately 0.002 million tonnes of rice as food aid versus the quantity of 0.06 million t in the 2002 budget. Furthermore, the refunds for food aid exports of rice from IT were erroneously declared in budget item B1-1850.

With regard to school milk, the under-run was due to the fact that approximately 0.32 million t of milk were distributed in schools versus the quantity of 0.35 million t in the 2002 budget.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately –€3.0 million.

**CHAPTER B1-32 – PROGRAMMES FOR THE OUTERMOST REGIONS
AND THE AEGEAN ISLANDS**

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under-implementation (a) – (b)
B1-320	POSEIDOM	45.0	10.2	–4.8
B1-321	POSEIMA	40.0	32.2	–7.8
B1-322	POSEICAN	116.0	88.8	–27.2
B1-323	Aegean Islands	26.0	26.0	0.0
B1-324	Fisheries programme for outermost regions	Token entry.	10.7	+ 10.7
B1-325	Subsidies for the supply of rice to Réunion	12.0	12.7	+ 0.7
B1-329	Other	0.0	–0.5	–0.5
TOTAL CHAPTER B1-32	PROGRAMMES FOR THE OUTERMOST REGIONS AND THE AEGEAN ISLANDS	239.0	210.1	–28.9

All the programmes in favour of the outermost regions were, in varying degrees, under-implemented as compared to the appropriations in the 2002 budget.

For the "Fisheries" programme for the outermost regions, the budgetary authority entered appropriations of €14.9 million in the "provisions" chapter B0-40 of the 2002 budget because the governing Council Regulation (EC) No 1587/98 was due to expire on 31 December 2001. The Commission had, in the meantime, lodged a proposal to extend this scheme for one year. The Council adopted this proposal on 25 March 2002 under Regulation (EC) No 579/2002. When expenditure was incurred under this programme, and considering the under-implementation of the other programmes in this chapter, it was decided not to finance it by transferring the appropriations of chapter B0-40 to the budget article B1-324. Therefore, the expenditure incurred by the Member States under this scheme, amounting to €10.7 million, was financed by transferring the requisite appropriations from other articles of this chapter. This is the reason why this article shows an over-implementation which, however, is not a real one.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately –€9.0 million.

CHAPTER B1-33 – VETERINARY AND PLANT-HEALTH MEASURES*€million*

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under-implementation (a) – (b)
B1-330	Animal disease eradication and monitoring programmes and monitoring of the physical conditions of animals that could pose a public-health risk linked to an external factor	155.0	161.0	+ 6.0
B1-331	Other measures in the veterinary, animal welfare and public-health field	10.5	7.9	-2.6
B1-332	Emergency funds for veterinary complaints and other animal contaminations which are a risk to public health	400.0	50.9	-349.1
B1-333	Plant-health measures	4.0	3.7	-0.3
B1-339	Other measures	0.0	0.0	0.0
TOTAL CHAPTER B1-33	VETERINARY AND PLANT-HEALTH MEASURES	569.5	223.5	-346.0

See also comments on the implementation of this chapter in point 3.12.

CHAPTER B1-36 – MONITORING AND PREVENTATIVE MEASURES CONCERNING THE EAGGF GUARANTEE SECTION*€million*

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under-implementation (a) – (b)
B1-360	Monitoring and preventive measures – Payments by the Member States	45.2	27.5	-17.7
B1-361	Monitoring and preventative measures: direct payments by the European Community	12.1	5.2	-6.9
TOTAL CHAPTER B1-36	MONITORING AND PREVENTATIVE MEASURES CONCERNING THE EAGGF GUARANTEE SECTION	57.3	32.7	-24.6

This chapter includes the measures taken in order to reinforce the means of on-the-spot controls and to improve the systems of verification so as to limit the risk of frauds and irregularities in detriment of the Community budget. All schemes in this chapter were under-implemented.

With regard to payments for these monitoring and preventative measures, the Member States (with the exception of the vineyard register for which the payments were made by the Commission) concerned incurred expenditure amounting to approximately €27.5 million.

As a consequence, Member States payments for monitoring and preventative measures under-spent the 2002 budget appropriations by -€18.0 million.

With regard to direct payments by the European Community for monitoring and preventative measures, the Commission directly financed measures to the tune of €5.2 million versus the amount of €2.1 million in the 2002 budget.

As a consequence, direct payments for monitoring and preventative measures under-spent the 2002 budget appropriations by -€7.0 million.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately -€26.0 million.

See also point 4.

B1-37 – CLEARANCE OF PREVIOUS YEAR'S ACCOUNTS AND REDUCTION/SUSPENSION OF ADVANCES UNDER CHAPTERS

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under-implementation (a) – (b)
B1-370	Clearance of previous years' accounts and reduction/suspension of advances under Chapters B1-10 to B1-39	-500.0	-235.1	+ 264.9
TOTAL CHAPTER B1-37	CLEARANCE OF PREVIOUS YEAR'S ACCOUNTS AND REDUCTION/SUSPENSION OF ADVANCES UNDER CHAPTERS	-500.0	-235.1	+ 264.9

This chapter includes the amounts credited to the EAGGF-Guarantee budget through the clearance of accounts corrections and the reduction/suspension of advances.

With regard to the clearance of previous years' accounts, the amounts with which the Member States have credited the EAGGF-Guarantee section budget corresponded to the financial corrections included in the 4 clearance decisions adopted by the Commission in 2002, namely: Commission decisions 2002/144/EC, 2002/523/EC, 2002/461/EC and 2002/524/EC. The overall amount of corrections was equal to -€182.0 million versus the estimated amount of -€400.0 million retained in the 2002 budget, i.e. approximately €218.0 million under the appropriations foreseen in the budget.

With regard to the reduction/suspension of advances, the amount initially used in the 2002 budget under this item was -€100.0 million. However, in the course of the year, an amount of -€53.0 million was taken away from the Member States advances, i.e. approximately €47.0 million under the credit appropriations foreseen in the budget.

The budgetary appropriations of this chapter were under-implemented by approximately -€265.0 million.

See also point 5.

CHAPTER B1-38 – PROMOTION MEASURES

€million

Article	Heading	Budget appropriations (a)	Expenditure (b)	Over -/under-implementation (a) – (b)
B1-380	Promotion measures	61.0	11.8	-49.2
B1-381	Promotion measures – direct payments by the European Community	9.3	5.1	-4.2
B1-382	Enhancing public awareness of the common agricultural policy	8.5	3.5	-5.0
B1-389	Other	0.0	-0.2	-0.2
TOTAL CHAPTER B1-38	PROMOTION MEASURES	78.8	20,2	-58.6

All of the promotion measures concerned under this chapter were under-implemented.

With regard to **promotion measures paid by the Member States**, payments incurred amounted to approximately €12.0 million versus the €11.0 million in the 2002 budget. This is the result of the fact that, late in 2002, only one new programme was approved under the new rules, thus having only a limited financial impact on the budget. The expenditure incurred involved mainly the old programmes and the transitional programme for beef, which are currently close to expiry.

With regard to **promotion measures paid directly by the European Community**, the Commission directly financed promotion measures to the tune of approximately €5.1 million versus the amount of €4.3 million in the 2002 budget.

With regard to **enhancing public awareness of the common agricultural policy**, the expenditure incurred with regard to these information measures on the CAP amounted to approximately €3.5 million versus the amount of €3.5 million in the 2002 budget.

Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately –€8.5 million.

CHAPTER B1-39 – OTHER MEASURES

€million

Article	Heading	Budget appropriation (a)	Expenditure (b)	Over -/under- implementation (a) – (b)
B1-390	Agrimonetary aids	271.0	165.9	–105.2
B1-391	Direct aid scheme for small producers	0.0	0.0	0.0
B1-392	Genetic resources	0.0	0.0	0.0
B1-399	Other	–10.0	–7.2	+ 2.8
TOTAL CHAPTER B1-39	OTHER MEASURES	261.0	158.6	–102.4

Agri-monetary aids

Agri-monetary aids were under-implemented by –€105.2 million due to the UK's decision not to fully utilise its possibilities to grant agri-monetary aid, notably in respect of the second and third instalments of aid to beef, sheep and milk producers. Taking into consideration the budgetary implementation of the rest of the schemes under this chapter, its overall appropriations were under-implemented by approximately –€102.0 million.

3.9. B1-40 TITLE – Rural development

The EAGGF Guarantee Section, using appropriations from subheading 1b, part-finances (under Regulation (EC) No 1257/1999) rural development programmes, four measures of which (early retirement, compensatory payments, afforestation and agri-environment) cover the entire EU, while six (farm investment, young farmers, training, forestry, processing and marketing, and adjustment and diversification of rural areas) apply outside the Objective 1 regions, where measures are financed by the EAGGF Guidance Section.

For 2000–06 subheading 1b has been given €3 907 million. This sum has been allocated to the Member States which were to establish programmes to implement rural development policy.

Of the total of 89 rural development programmes drawn up by the Member States, 52 were adopted by decision of the Commission in 2000, 35 in 2001 and the remaining two in 2002.

The allocation to the 2002 budget by the budgetary authority was €4 595 million, equivalent to the 2002 ceiling for subheading 1b in the financial perspective for 2000–06.

The amount concerned was increased by carrying over €9 million from 2001 to 2002, making the total available €4 694 million.

Outturn in 2002 was €4 418.9 million, comprising all expenditure actually incurred under the 89 programmes in force, i.e. 94.1% of the amount available. Accordingly, contrary to the forecasts communicated by the Member States as at 30 September 2001, which suggested an overspend of €195 million, there was an underspend of €275.1 million in relation to the appropriations available (€4 694 million).

Scrutiny of the outturn in 2002 by budget heading shows that there was underutilisation of the appropriations available, mainly in connection with the new system of supporting measures, in particular afforestation and agri-environment and, to a lesser extent, the processing and marketing of agricultural products, start-up assistance for new entrants to farming, training, investment in farms, and the promotion of rural development.

In contrast, the measures which greatly exceeded their initial allocation were the former schemes for accompanying measures and, to a lesser extent, compensatory payments. As a result, transfers within the Chapter for adjustment purposes were needed to re-balance budget resources to real implementation needs.

It was accordingly not possible in 2002 to achieve the level of implementation which would have absorbed all the funds available.

In the context of the carryover of unutilised appropriations from 2002 to 2003, €49.3 million was carried over by Commission Decision in accordance with Article 149(3) of the new Financial Regulation.

3.10. Breakdown by type of expenditure

There are two main categories of EAGGF Guarantee expenditure: that connected with refunds, and "intervention" expenditure, i.e. in essence direct aid, storage, withdrawals and the like, and other expenditure. Rural development expenditure, however, does not fall into either category. The various types of expenditure are described in detail in Annexes 14 to 16.

3.10.1. Refunds

Expenditure in connection with refunds totalled €3 432.3 million, i.e. 7.9% of EAGGF Guarantee expenditure in 2002, a figure almost identical to the one recorded the previous financial year.

3.10.2. *Direct aid*

Expenditure relating to "direct aid" totalled €28 800.8 million, i.e. 84% of the €34 275.2 million spent on intervention and 67% of total EAGGF Guarantee Section expenditure. Expenditure under the heading direct aid is defined in the Annex to Regulation (EC) No 1259/1999 of 17 May 1999 (OJ L 160, p. 113). This includes area aid, set-aside for field-scale crops, aid for the production of olive oil, area aid for flax and hemp, dried pulses, rice, raisins, premiums for tobacco, suckler cows, male bovine animals, ewes and goats, and agrimonetary aid.

3.10.3. *Storage*

Expenditure on storage totalled €1 163.1 million, i.e. 3% of intervention expenditure. Between 1 October 2001 and 30 September 2002, the date of closure of the accounts for public storage, the quantities and book value of the products in public intervention storage moved as follows. The book value of stocks went up from €984.08 million at the end of 2001 to €1 419.94 million at the end of 2002.

Stocks of cereals and rice rose from 7.3 to 8.4 million t, those of olive oil fell to nothing, those of skimmed milk powder went from nil to 0.15 million t, whereas those of butter went up from 0.03 to 0.17 million t.

Beef and veal stocks showed little change (from 0.23 to 0.22 million t), while those of alcohol rose from 2.2 to 3.5 million hl in 2002.

The breakdown of the book value of stocks shows that the share of cereals and rice is continuing to fall, these two products now accounting for about 52% of the total value of the products in storage, as against 85% in 2000 and 67% in 2001. The remaining 48% is accounted for by milk products (30%), beef and veal (15%) and alcohol (3%).

As they have done every year since 1988, the Commission departments concerned have carried out a depreciation of the products in public intervention. They did this in two stages: when the products were bought in, by at least 70% of the total foreseeable loss of value. At the end of the financial year the stocks are evaluated and, where necessary, are the subject of a supplementary depreciation to bring the book value of the products into line with the foreseeable selling price. In 2002 the depreciation when the products were bought in totalled €239.924 million and the supplementary depreciation at the end of the financial year was €436.329 million.

3.10.4. *Set-aside and income support*

Expenditure on set-aside and income support totalled €31.9 million, i.e. 2.4% of the intervention total.

3.10.5. *Others*

Other intervention-related expenditure totalled €3 479.4 million, i.e. 10.2% of the total for intervention. This includes mainly expenditure which does not fall in the categories referred to above, i.e. intervention other than storage costs for sugar, production aid for dried fodder, aid for cotton, the operational funds of producers' organisations, production aid and financial compensation for encouraging the processing of citrus in the case of fruit and vegetables, aid for the use of musts in the case of viticulture, aid for the use of skimmed milk powder and measures concerning butterfats.

C. SPECIFIC ACTIVITIES

3.11. Supply of food from intervention stocks for the benefit of the needy in the Community

In the particularly harsh winter of 1986–87 the Community organised an emergency programme for the supply, free of charge, of foodstuffs to the worst-off in the Community for a limited period.

When this emergency programme ended, the Community received many calls for this type of measure to be applied on a permanent basis. The Commission put a proposal to the Council, which adopted it as Regulation (EEC) No 3730/87 laying down general rules for the supply of food from intervention stocks to designated organisations for distribution to the most deprived persons in the Community⁵. The Commission adopted an implementing regulation (Regulation (EEC) No 3149/92⁶, as last amended by Regulation (EC) No 1921/2002⁷).

Since then the Commission has adopted a distribution plan each year specifying the budget resources and quantities of products allocated to the Member States involved in the scheme.

Ten Member States wished to take part in 2002. The appropriations were shared among them according to the number of needy they had. The allocation also reflected a substantial underspend in the previous three years.

The annual plan is established in consultation with the charities on the ground. It is administered at national level by the authorities of the participating Member States. Each Member State designates the organisations that are to distribute food to the needy.

This measure also allows each participating Member State to obtain supplies of products from another Member State where it has no intervention stocks itself of one of the products it is to distribute under the scheme.

Under the 2002 plan (Decision 2001/772/EC⁸) the participating Member States shared €196 million as described in the tables below.

⁵ OJ L 352, 15.12.1987, p. 1.

⁶ OJ L 313, 30.10.1992, p. 50.

⁷ OJ L 293, 29.10.2002, p. 9.

⁸ OJ L 290, 7.11.2001, p. 5.

Member State	Ceiling in €	Rate on 1.10. 2001	Ceiling in national currency
B	3 489 000	–	–
DK	633 000	7.436700	4 707 431.10
EL	14 723 000	–	–
ES	54 938 000	–	–
F	43 403 000	–	–
IRL	2 737 000	–	–
I	56 568 000	–	–
L	44 000	–	–
P	16 581 000	–	–
FIN	2 884 000	–	–
Total allocated	196 000 000	–	–
Transfers	4 000 000	–	–
Total for 2002 plan	200 000 000		

Distribution of the quantities of products by Member State (2002 plan)

Member State	Cereals	Rice	Butter	Beef and veal
Belgium	3 500	500	400	500
Denmark				200
Greece	20 000	15 000	1 031	1 373
Spain	65 000	25 000	7 300	5 000
France	15 815	2 051	7 542	4 769
Ireland			60	
Italy	75 000	15 000	8 259	800
Portugal	10 000	7 500	3 024	5 000
Finland	15 000		374	700
Total	209 315	65 051	27 990	18 342

3.12. Chapter B1-33 – Veterinary and plant-health measures

Background

The uptake of appropriations available under the 2002 budget was only 39.24%; €345 998 799 out of a total of €69 500 000 was not committed. If the appropriations carried over for the emergency fund are taken into account, however, the uptake rises to 45.31% or €258 077 530.

To finance the extra costs incurred as a result of the foot-and-mouth epidemic recorded in 2001, mainly in the United Kingdom, the emergency fund budget (heading B1-3320) was set at €400 million. Because of the poor reliability of the data on compensation for the operational costs of eradicating the disease, the Commission has been unable to adopt a decision on Community funding for the compensation.

In addition, a transfer within Chapter 33 (for details see below) was made during the first half of 2002 to strengthen budget heading B1-330 covering the eradication and monitoring programmes.

Details

Heading B1-330 – Eradication and monitoring programmes

As indicated above, the initial appropriations under this heading were increased by € 556 000 to meet additional requirements arising from the opinion delivered at the Scientific Committee meeting held on 18 and 19 October 2001. The Committee agreed on the need to introduce monitoring of TSEs (transmissible spongiform encephalopathies) in the case of small ruminants. Moreover, following the discovery of TSE in Finland and in Austria, the waiving of tests for healthy animals in these two countries was discontinued. The two changes cost € 146 000 and € 410 000. The appropriations concerned came from heading B1-332 (Emergency fund).

The appropriations available under the heading concerned went up from €155 000 000 to €161 556 000. All told, €161 006 000 was committed, including €120 556 000 for TSE monitoring and €40 450 000 for the eradication programmes.

The latest estimates available put the number of tests part-financed by the European Community in 2002 at about 8 million.

"Programmed" expenditure was increased by transferring the amount referred to in the first paragraph.

Implementation of the payment appropriations totalled €97 384 658 (2001 appropriations).

Heading B1-331 – Other measures in the veterinary field

Altogether, 3/4 of the initial appropriations (€7 946 687 out of a total of €10 500 000) was committed in 2002.

Implementation of the payment appropriations totalled €3 901 369, of which €1 657 176 concerned the appropriations for 2001.

Heading B1-332 – Emergency fund

The initial appropriation, €400 000 000, was aimed at covering compensation payments in connection with the eradication of foot-and-mouth disease in the Netherlands, Ireland, France and the United Kingdom in 2001.

By 2001 more than €400 million had been committed for part-financing of FMD compensation payments; it was paid in 2002 in the form of advances and covered the compulsory slaughter of the animals. In the case of the United Kingdom only compulsory slaughter up to 30 June 2001 was covered by the Decision on the Community contribution.

In 2002, only the Decision on the part-financing of compulsory slaughter in the United Kingdom in the second half of the year was adopted.

Decisions on part-financing the operational costs (disinfection, cleaning, destruction of the carcasses, etc.) incurred in the Netherlands, France and Ireland were presented to the Standing Committee on the Food Chain and Public Health at the end of December 2002. Administrative reasons prevented the Commission from adopting them. A carryover of appropriations to 2003 was obtained for the appropriations in question (€34 756 329).

A decision on part-financing the operational costs incurred in the United Kingdom is expected in 2003.

Thus, only € 854 668 of the €400 million initially available was committed in 2002. In addition, € 556 000 was transferred to heading B1-330 to meet additional requirements in connection with TSE monitoring of small ruminants.

Implementation of the payment appropriations totalled €20 642 846, of which € 564 871 concerned the appropriations for 2001.

Heading B1-333A – Plant-health measures – expenditure on administrative management

The initial appropriation was €1 million. Commitments totalled €65 163, leaving €34 837 which could not be committed in 2002.

Implementation of the payment appropriations totalled €32 100.2, of which €15 950.2 concerned the appropriations for 2001.

Heading B1-333 – Plant-health measures – operational expenditure

The initial appropriation was €3 million. Commitments totalled €2 728 682, leaving €271 318 which could not be committed in 2002.

The payment appropriations totalled €1 456 606, of which €1 423 902 concerned the appropriations for 2001.

Summary table – Chapter B1-33

Line	2001 BUDGET	Initial appropriations	Final appropriations after transfer	Committed before 31.12.2001	Balance commitments – final appropriations
B1-3300	Animal disease eradication and monitoring programmes and monitoring of the physical conditions of animals that could pose a public-health risk linked to an external factor	155 000 000	161 556 000	161 006 000	550 000
B1-3310	Other measures in the veterinary, animal welfare and public-health field	10 500 000	10 500 000	7 946 687	2 553 313
B1-3320	Emergency fund for veterinary complaints and other diseases of animal contaminations which are a risk to public health	400 000 000	393 444 000	50 854 668	342 589 332
B1-3330A	Plant-health measures – Expenditure one administrative management	1 000 000	1 000 000	965 163	34 837
B1-3330B	Plant-health measures – Expenditure on operational management	3 000 000	3 000 000	2 728 682	271 318
	Total without transfer	569 500 000	569 500 000	223 501 201	345 998 799
	Total with transfer to 2003	569 500 000	569 500 000	258 077 530	311 422 470

Lastly, it should be noted that the payment appropriations available under heading B2-519 (Completion of earlier veterinary and plant-health measures - Differentiated appropriations) and earmarked for the Health and Consumer Protection DG were increased by €1 million by transfer within the chapter. They thus totalled €13 287 000, of which €13 187 285 was paid in 2002.

3.13. Fisheries

(a) *Budget heading B1-261*

The budgetary allocation for fisheries was €17.08 million, €15.4 million of which was spent, an underspend of €1.6 million.

The overall budget underspend concerns mainly the operational programme mechanism, for which the Member States may decide not to grant financial compensation to the producer organisations, as was the case in 2002 (–€2.4 million compared to budget forecasts).

By contrast, expenditure on Community withdrawals was higher than forecast (+€1.8 million), in particular as a result of outstanding balances.

There was also limited use of private storage aid (–€0.9 million).

(b) Budget heading B1-3240

Council Regulation (EC) No 579/02 (OJ L 89 of 5.4.2002) extended, for 2002, the period of validity of Regulation (EC) No 1587/98 (OJ L 208 of 24.7.1998) introducing a scheme to compensate for the additional costs incurred in the marketing of certain fishery products from the Azores, Madeira, the Canary Islands and the French departments of French Guiana and Réunion as a result of those regions' remoteness.

The scheme is aimed at maintaining, in relation to the conditions enjoyed by economic operators on the European mainland, the competitiveness of certain fishery products which are disposed of to a significant extent.

The only annual report available at this stage concerns the region of Madeira. The following data was transmitted concerning the quantities covered by the scheme in 2002:

– tuna:	2 767 008 kg,
– black scabbardfish:	944 977 kg,
– mackerel:	0 kg.

3.14. Information measures

Budget heading B1-382 has, since 2000, been earmarked for enhancing public awareness of the CAP and rural development policy. Its legal basis is Council Regulation (EC) No 814/2000 and Commission Regulation (EC) No 2208/02.

Grant applications are submitted by farming organisations for work programmes or specific measures. These have to follow guidelines laid down in a call for proposals published annually.

The rate of financing of work programmes and specific measures is 50%. However, in some cases, particularly measures of exceptional interest based on selection criteria and on certain conditions, the rate may be increased to 75%.

The rules also allow funding of activities implemented on the Commission's initiative.

In 2002 appropriations under heading B1-382 were € 500 000. During the 2002 budget year (16 October 2001 to 15 October 2002) the following awareness-raising activities were financed:

- five annual work programmes for €42 811.83,
- 27 specific measures for €1 123 875.44 and

- 39 actions carried out by the Commission by means of contracts or purchase orders, including 36 under heading B1-382 for € 397 368.40 and three under heading AO3410 for €2 165.13.

3.15. Promotional measures

Articles B1-380 and B1-381 finance information and promotion programmes for agricultural products implemented in the EU and elsewhere. The legal basis comprises Council Regulations (EC) Nos 2702/1999 and 2826/2000 and Commission Regulations (EC) Nos 2879/2000 and 94/02.

The programmes are submitted by trade organisations to the Member States, the latter being responsible for programme management once the Commission has confirmed the selection and agreed to part-finance.

The rate of financing of the action plans is 50%. It is degressive: 60% – 40% in the case of two-year programmes and 60% – 50% – 40% in the case of three-year programmes.

Moreover the rules allow the financing of information measures carried out on the initiative of the Commission (sending trade missions to third countries and providing the latter with information on PDOs/PGIs and organic production).

In 2002, for which the article B1-380 appropriations totalled €56 million, 40 new promotion programmes were approved (Decision C (2002) 3116 final) worth an aggregate €2.1 million.

Payments of €1.81 million were recorded, but related above all to promotion measures decided upon previously, under earlier rules.

The appropriations in article B1-381 (€14.3 million) concern actions and promotion measures administered by the Commission direct. The uptake, of €5.035 million, relates mainly to olive oil.

The uptake of appropriations in respect of each article remained low, owing to the change in the promotional arrangements and to delays in launching the new programmes.

4. CONTROL MEASURES

4.1. Integrated Administration and Control System (IACS)

After intensive discussions with Member States in four expert groups, a new regulation on IACS was adopted in 2001 – Commission Regulation (EC) No 2419/2001. This regulation – which is applicable to marketing years or premium periods starting as of 1 January 2002 – compiles a number of amendments to the previous regulation, assures a more coherent and logical layout and takes the development of electronic tools for the management of the schemes fully into account. The regulation replaces Regulation (EEC) No 3887/92.

Some important advantages of the new regulation are the general option to transmit claims etc. by electronic means, more efficient controls by maximising the use of computerised and remote controls, an "integrated" bovine premium control covering several schemes and a simplification of provisions concerning animal premium sanctions.

Via audit mission and revised instructions for the reporting on administration and control (incl. sanctions) of claims, the Commission has verified the conformity of Member States' control systems and ensured a homogenous application of the new regulation.

Via experts meetings a special effort has been done to promote and communicate the IACS-legislation to Candidate Countries in order to ensure that the necessary adaptations of administration and control systems are made well in advance of the actual adhesion of these countries.

4.2. Compatibility with IACS

It follows from Articles 9a(1) and 13(1)(d) of Council Regulation (EEC) No 3508/92 that a number of aid schemes must be administered and controlled in a way that is compatible with IACS as of 1 January 2003. The provision concerns a total of 12 aid schemes, e.g. tobacco, wine, olive oil, less-favoured-areas etc.

In 2002 the Commission launched an enquiry into this provision, asking Member States to report on the present state of compatibility of the schemes and the date by which compatibility had been or would be reached.

The enquiry showed that all Member States were aware of their obligations in respect of compatibility, and that according to Member States compatibility in many cases had been reached or would be reached by 1 January 2003. Still, in some Member States compatibility concerning a number of aid schemes would not be reached by the deadline; most problems were found in the sectors of wine, olive oil and dried fodder.

As of 1 January 2003 compliance with the compatibility obligation will be integrated into the audits pursuant to Article 7(4) of Regulation (EC) No 1258/1999.

4.3. Olive oil control agencies

Under Council Regulation (EEC) No 2262/84⁹ and Commission Regulation (EEC) No 27/85¹⁰, olive oil control agencies have been established in the main producer Member States, i.e. Italy, Greece, Spain and Portugal (see pp 53 and 54 of the 18th Financial Report on the EAGGF).

The four agencies carried out their work in the 2001/02 marketing year in line with the work programmes and forward estimates approved by the authorities of the Member States and the Commission.

The **Italian** control agency carried out thorough checks on 1 881 mills, shortened checks on 1 263 mills and on-the-spot checks on 298 producers, 15 producer associations and one union in the 2001/02 marketing year. It carried out 2 711 checks on 933 holdings and mills in connection with the regional yields (mills + producers). The agency also undertook 1 588 crosschecks, mainly on mills. The number of mills crosschecked was 453, well above the 10% laid down in Article 30(3) of Regulation (EC) No 2366/98. During the thorough checks at mills, 938 samples of olive oil were taken and 300 (31.9%) were sent to laboratories approved for analysis purposes, which confirmed that the oils were in conformity with point 1 of the Annex to Regulation No 136/66/EEC.

⁹ OJ L 208, 3.8.1984, p. 11.

¹⁰ OJ L 4, 5.1.1985, p. 5.

On the basis of these findings, fines/administrative penalties totalling €445 454 were recommended for 852 mills and withdrawal of approval was proposed for 302 of them. The tax authorities were informed of 261 cases of irregularity, the judicial authority 19, and the authorities responsible for investigating infringement of waste-water treatment rules 141. Following the checks on associations, nine fines and three withdrawals of approval were proposed. A total of 12 reports were transmitted to the tax authorities and one to the judicial authority. The Agency noted that the associations were still applying an inappropriate deduction from the aid paid to producers.

As regards producers, 92 penalties were recommended involving refusal or reduction of the aid for €95 589, and fines totalling €168 269. Other control authorities were notified of a total of ten cases.

On the basis of these findings the competent regional authorities decided on 41 withdrawals of approval and 82 warnings for mills; 40 cases were not followed up and 139 are still being dealt with. It must be pointed out that, of the 382 withdrawals of approval proposed by the Agency, 36 have not yet been processed, mainly in the following regions: Calabria (16), Apulia (9), Liguria (5) and Marches (3).

No penalty has yet been decided upon in the case of the associations.

The irregularities relating to producers have been reported to the paying agency (AGEA) for non-payment of, or reduction in, the aid.

Financial penalties applicable under national law were, until the end of 2001, imposed by the *Repressione Frodi* Directorate of the Ministry of Agriculture. In 2002 these powers were transferred to the regions. To date, of the 839 cases pertaining to 2001/02, only 30 have been scrutinised, six of them resulting in a fine and no action being taken in the remaining 24.

The **Greek** control agency carried out thorough checks on 809 mills and shortened checks on 341 in the 2001/02. This represents 38.1% and 16.1% respectively of the 2 124 mills operating during the marketing year. During the inspections samples were taken at 602 mills and 169 of them were analysed. The Agency also checked 21 associations and 1 751 producer files, four cases of private storage, 48 table olive packing plants and 2 811 producers and carried out 2 064 checks on holdings and mills in connection with regional yields. The agency carried out 102 checks in connection with the setting of yields for the 18 homogeneous areas. In total it carried out 14 204 crosschecks on mills/producers, 726 on table olive producers, 138 on mills/purchasers and 36 on mills/pomace factories.

The agency proposed withdrawing approval for 130 mills, including 113 (for a total of 2 924 516 kg of oil) for doubts about production. A penalty was proposed for 306 mills for failure to comply with the time limits for communicating monthly data.

In the course of the checks the Agency noted that the associations were still applying an inappropriate deduction – estimated at €24 million – from the aid paid.

Irregularities were noted in respect of 3 329 producers who together had declared 2 468 996 kg of oil. The correction concerned 997 531 kg, leading to an aggregate fine of €1 135 581. In the light of checks carried out on 2 811 producers who together had declared 573 291 trees, the agency ascertained that 780 producers had 57 768 fewer trees than declared, resulting in a correction of the cultivation declarations concerned.

In 2002 the competent authorities dealt with 236 cases of irregularities involving mills and imposed fines – ranging from €1 467 to €29 347 and totalling €1 094 564 – on 197 mills. They also withdrew approval in three cases. The remaining cases are still being dealt with.

In the same marketing year the **Portuguese** control agency carried out checks on 1 621 producers, 449 mills and 14 associations. It also carried out 8 735 crosschecks and 20 checks on table olive packing firms. A total of 300 on-the-spot checks were carried out, in connection with the setting of regional yields, on 100 holdings. The checks led the Agency to propose withdrawing approval from 73 mills, rejecting 30 applications for aid and making 168 corrections to amounts payable to producers. These proposals have been fully accepted by the Member State, which has tended to apply the sanction proposed.

The **Spanish** agency carried out 881 thorough checks and 120 shortened checks on mills in 2001/02. It inspected 28 producer organisations, 753 producers, 61 table olive processing undertakings, and carried out 1 174 crosschecks upstream and downstream from the mills.

The agency proposed withdrawing approval from two associations and nine mills and sent warnings to 280 mills, mainly for failure to comply with the time limits for transmitting the monthly declaration and for shortcomings as regards their stock records. Warnings were sent out to 19 table olive packing firms for the same reasons. Withdrawal of approval was proposed for three firms for failure to comply with their accountancy obligations. The Agency proposed rejecting the aid applications of 22 producers – four of them table olive producers – for a total of €1 848 800, and correcting the amounts payable to 148 olive growers (€760 000), including 18 growers of table olives, and suspending aid payments to 24 producers.

The Autonomous Communities informed the agency that, on the basis of the reports transmitted in recent marketing years, they had withdrawn approval from 23 mills in 2001/02, had initiated withdrawal proceedings for seven others and had issued 62 warnings with a view to regularising the situation. The Autonomous Communities reached a final decision in 60 cases which involved producers, asking for the aid paid (€2 226 633) to be returned. Proceedings for recovery have been initiated in a further 37 cases. In the case of table olives the Autonomous Communities have withdrawn approval from two firms and issued a total of 14 warnings.

On the whole, however, except as stated above, the Member States did not adequately follow up the agencies' recommendations on penalties.

4.4. Part-financing to encourage tighter controls

Under Council Regulation (EC) No 723/97 of 22 April 1997, as amended by Regulation (EC) No 2136/2001, the Community is, for a seven-year period, contributing towards the costs incurred by Member States in implementing new action programmes, arising out of new Community obligations, approved by the Commission and in force after 15 October 1996, and aimed at improving the structures or effectiveness of EAGGF Guarantee Section expenditure controls.

Under the same Regulation (Article 4(3)) the Commission may undertake work for the maintenance and development of systems of control and direct electronic information exchange between the Member States and itself. In consultation with the

EAGGF Committee, for each annual instalment the Commission has to set, in euro, the maximum amount of the Community financial contribution, having regard to the available appropriations and on the basis of the programmes presented by the Member States. The level of the Community financial contribution is 50% of Member States' payments of eligible expenditure over the financial year. However, if the total eligible expenditure exceeds the budget resources available, the Community's contribution rate is reduced proportionally.

This sixth year of application confirmed the importance that Member States attach to setting up new control systems. Most of the programmes relate to implementing a geographical information system (GIS) and an agricultural parcel identification system.

Since 2001 most of the Member States have introduced programmes in connection with the Geographical Information and Digital Orthophotography System (GIS) resulting from a new provision of Regulation (EC) No 1593/2000.

Following the publication of Council Regulation (EC) No 2136/2001, Member States had until 31 December 2002 to send in their action plans for 2002.

Commission Regulation (EC) No 2244/2001 amending Regulation (EC) No 1780/97 (laying down detailed rules for the application of Regulation (EC) No 723/97) sets a three-month deadline for the fixing, by the Commission, of the maximum financial contribution by the Community.

On the basis of the information provided by the Member States concerned and after consultation of the Committee of the Fund on 19 April 2002, the expenditure to be charged to the general budget of the Community for this action is €15 million for 2002.

Commission Decision C(2002) 1908 of 14 May 2002 fixes the maximum amount payable to the Member States which have sent in an action plan for 2002 (Germany, Greece, Spain, France, Portugal, United Kingdom, Austria, Finland and Sweden):

2002 – Regulation (EC) No 723/97

Member State	Community contribution in €
Germany	2 110 837
Greece	1 421 000
Spain	3 767 806
France	3 037 080
Portugal	1 210 265
United Kingdom	2 078 002
Austria	753 561
Finland	303 000
Sweden	328 449

For this sixth year of application Belgium, Ireland, Italy, Luxembourg and the Netherlands did not present any programme to be part-financed.

In 2002 Commission departments undertook four audit missions in the Member States (the Netherlands, Ireland, France and Austria) to check the conformity of expenditure declared by the Member States.

4.5. Application of Regulation (EC) No 4045/89 (*ex-post* controls)

Regulation (EC) No 4045/89 foresees the *ex-post* scrutiny of larger beneficiaries by competent services of the Member States. This "4045 scrutiny" should be based on accounting and other documents available at the beneficiary, or at suppliers, customers, transporters, etc. Currently there are some 3 000 companies selected for scrutiny each year.

Following the presentation of a report to the Council in 1999 (doc. VI/7036/98) on the evaluation of the Regulation, the Commission has again visited all Member States once or twice to review the implementation of the Regulation. Overall this is at a satisfactory level. However, in several Member States one or several of the following elements require attention by management (Special Department and/or control body):

- training of scrutineers,
- timely achieving of the minimum rate of control,
- monitoring of the execution of controls compared to the plan,
- follow-up of recommendations,
- quality assurance,
- risk-analysis.

In particular, there is an increasing backlog in performing scrutinies within the time-frame laid down (July – June of the year following the EAGGF year). This is a problem in almost every Member State and is a concern to the Commission.

The mutual assistance provisions set out in Article 7 of the Regulation are functioning satisfactorily but the Commission believes that enhanced joint exercises can be developed. Mutual assistance and up- and down-stream checking has proved to be one of the success factors of 4045 scrutiny. Each year there are some 350 requests sent from one Member State to another to cross-check the reality and legality of transactions.

Changes to the Regulation

In June 2001 the Commission proposed amending the Regulation. After consulting the European Parliament, the Council adopted these amendments in November 2002 (Regulation (EC) No 2154/2002). The main modifications are:

- a decrease in the number of controls by increasing the minimum level of aid per beneficiary, used as a basis for the calculation of the minimum number of controls, from €100 000 to €150 000;
- the possibility for the Commission to accept a reduction in the minimum number of controls where two or more Member States propose joint actions involving extensive mutual assistance to scrutinise the same (multinational) undertaking, trade flow or a particular sector.

Irregularities detected

The selection of companies for scrutiny is based on risk-analysis. The IACS-measures and some similar schemes (Regulation (EC) No 2154/2002) are not subject to 4045 scrutiny.

The total number of irregularities detected during 4045 scrutiny over the past years is as follows (source Member States' annual transfers on the implementation of Regulation (EEC) No 4045/89).

In respect of control-year	Number of companies controlled	Number of irregularities	Total amount reported to date
1998/1999 (EAGGF 98)	3 520	520	€25 million
1999/2000 (EAGGF 1999)	3 660	590	€85 million
2000/01 (EAGGF 2000)	3 650	350	€20 million

Regulation (EEC) No 4045/89 on scrutiny is the prime contributor to the total number of irregularity cases reported to OLAF for EAGGF Guarantee spending under Council Regulation (EEC) No 595/91.

Other developments

The Member States have themselves established a working group for 4045 in which the heads of the special departments for 4045 meet twice a year. They have also established a series of working groups of scrutineers for several sectors. Training seminars for scrutineers and an exchange programme for scrutineers, both part-funded by OLAF, have also been developed. All these initiatives have contributed considerably to the 'success' and quality of *ex-post* scrutiny.

Special exercises have been initiated by the Commission in respect of surveillance companies (2000) and secondary purchasers of milk (2001).

The first enquiry provided evidence that the use of certificates issued by surveillance companies as proofs of arrival is limited but that the quality of the work of the surveillance companies has to improve. In Regulation (EC) No 800/1999 the conditions for approval of surveillance companies were tightened and scrutiny services are still paying extra attention to the work of surveillance companies.

The special exercise on second purchasers of milk provided some evidence of irregularity and showed that the issue requires continued special attention in some Member States.

5. CLEARANCE OF ACCOUNTS

5.1. General

In connection with the rules governing the 2002 clearance of accounts:

- on 11 June 2002 a draft amendment to Commission Regulation (EC) No 1258/1999 was transmitted to the Council whereby the 24-month rule for financial corrections would become a 36-month rule;
- a proposal for a Memorandum to the Commission was drawn up on the basis of doc. AGRI/61495/2002 Rev. 2 on the "recurrence" principle applicable under the accounts clearance procedure;

- on 10 October 2002 the Commission adopted Regulation (EC) No 1884/02 amending Regulation (EC) No 2390/1999 laying down detailed rules as regards the form and content of the accounting information to be transmitted to the Commission ("X" tables);
- a total of 122 audits were carried out in 15 Member States in the context of the audits of the clearance of EAGGF Guarantee accounts.

In 2002 the Commission adopted six decisions on the clearance of EAGGF Guarantee accounts: Decisions 2002/144/EC, 2002/461/EC, 2002/523/EC, 2002/524/EC, 2002/816/EC and 2002/881/EC.

The corrections concerned totalled €301 294 113.28.

A total of 19 meetings, including meetings of *ad hoc* groups of experts, were held with the Member States.

- three Commission Decisions were adopted concerning the closure of expenditure in connection with the vineyard register accounts: 2002/303/EC, 2002/680/EC and 2002/948/EC;
- with a view to assisting the Member States in the setting up of ever more effective control systems, four seminars were held, on the IACS, *ex-post* controls under Regulation (EEC) No 4545/89, rural development and the certification of accounts, on 23 April, 23 May, 19 April and 2 July 2002 respectively;
- in 2002 a large-scale survey was carried out among 49 paying agencies – which together account for 90% of agricultural expenditure – with a view to determining the IT level of their structures. The final report concerned came out on 21 June 2003.

5.2. Clearance of accounts under the new procedure

(€million)	Decision (9) 2002/523/EC of 28.6.2002	Decision (10) 2002/524/EC of 26.6.2002	Decision 2002/816/EC of 14.10.2002	Decision (11) 2002/881/EC of 5.11.2002
Arable crops	0.23	105.57	–	9.54
Fruit and vegetables	4.78	13.40	–	2.51
Refunds	–	–	–	–
Financial audit	16.23	11.40	5.36	10.92
Rural development	9.13	–	–	2.71
Animal premiums	9.75	28.96	–	48.38
Oils and fats	22.68	–	–	15.73
Public storage	4.09	0.83	–	4.66
Milk products	–	–17.44	–	–8.14
TOTAL	66.89	142.72	5.36	86.27

5.3. Clearance of accounts for the 2001 financial year

5.3.1 Introduction

The accounts clearance reform stipulated that paying agencies must be approved and that from the 1996 financial year accounts clearance was to be split into two distinct

procedures: one annual accounts clearance decision verifying the veracity, integrity and accuracy of the accounts sent in (Article 5(2)(b) of Council Regulation (EEC) No 729/70 and, from 1 January 2000, Article 7(3) of Council Regulation (EC) No 1258/1999), and separate decisions excluding from Community financing any expenditure not effected in compliance with Community rules (Articles 5(2)(c) and 7(4) respectively of the above Regulations).

Accounts clearance is based on annual accounts supported by certificates and audit reports produced for each paying agency by independent audit bodies, the certifying bodies (Article 3(1) of Commission Regulation (EC) No 1663/95).

Commission officials examined the annual accounts, certificates and audit reports transmitted by the deadline of 10 February 2002 and also visited some of the paying agencies. The purpose of the visits was to assess the work of the certifying bodies, the extent of the problems reported and the measures taken by the paying agency to solve the problems identified. Problems were not confined to the accuracy of the accounts, they also stemmed from the paying agencies' operational systems. The certifying bodies are required to check that these systems are sound enough to provide reasonable assurance that expenditure complies with Community rules.

5.3.2 *Decisions*

5.3.2.1 Decision 2002/461/EC of 12 June 2002

It was decided to clear those paying agencies' 2001 accounts whose integrity, accuracy and veracity had been confirmed on the basis of the information received. The accounts of the other paying agencies were disjoined from the decision and are the subject of a later decision. The results of the examination may be summarised as follows:

- the accounts of the paying agency *Betaalorgaan van de Vlaamse Gemeenschap* in Belgium were disjoined from the decision;
- the accounts of the paying agencies FEGA and País Basco in Spain were disjoined from the decision;
- the accounts of the paying agency in Greece were also disjoined from the decision.

The reason for the disjunction was non-compliance by the paying agencies with Regulation (EC) No 2390/1999 on the form and content of accounting information.

5.3.2.2. Decision 2002/144/EC of 19 February 2002

It was decided to clear the 2000 accounts of all the Spanish paying agencies which had been disjoined from Decision 2001/474/EC of 8 May 2001.

5.3.3 *Corrections to accounts*

5.3.3.1. Corrections to amounts declared in respect of 2001

Corrections were adopted in the light of the remarks of the certifying bodies or of Commission investigations. The total amount of the corrections is:

- Austria: –€0.006 million,
- Belgium: +€0.151 million,

- Germany: +~~€~~0.887 million,
- Denmark: +DKK1.153 million,
- Spain: –~~€~~0.083 million,
- France: –~~€~~9.986 million,
- Greece: –~~€~~0.421 million,
- Ireland: –~~€~~0.315 million,
- Italy: +~~€~~3.367 million,
- Luxembourg: +~~€~~0.006 million,
- Netherlands: +~~€~~0.024 million,
- Portugal: +€18.890 million,
- United Kingdom: –GBP2.934 million.

5.3.3.2. Corrections to amounts declared in respect of 2000

Corrections were adopted in the light of the remarks of the certifying bodies or of Commission investigations. The total amount of the correction is:

- Spain: –~~€~~0.811 million

5.4. Cases brought before the Court of Justice against clearance decisions

5.4.1. Judgments handed down

Since the establishment of the 31st EAGGF Guarantee Section Financial Report, the Court has handed down 16 judgments in appeals brought by Member States against clearance decisions.

The Court rejected the appeals brought in the following cases:

- Judgment in Case C-377/99 concerning arable crops in Germany;
- Judgment in Case C-332/00 concerning butter for pastrymaking in Belgium;
- Judgment in Case C-132/99 concerning hemp in the Netherlands;
- Judgment in Case C-130/99 concerning arable crops, animal premiums, production aid for olive oil, the permanent abandonment of areas under vines, fibre flax, and compliance with payment limits in Spain;
- Judgment in Case C-147/99 concerning the public storage of cereals, aid for the consumption of olive oil, and ewe/goat premiums in Italy;
- Judgment in Case C-146/99 concerning aid for the processing of tomatoes in Italy;
- Judgment in Case C-373/99 concerning the fruit and vegetables and arable crops in Greece;
- Judgment in Case C-170/00 concerning the special premium for bovine animals in Finland;
- Judgment in Case C-118/99 concerning arable crops in France;
- Judgment in Case C-263/98 concerning export refunds for cereals and beef/veal in Belgium;
- Judgment in Case C-374/99 concerning aid for the consumption of olive oil, and sheep and goats premiums in Spain;

- Judgment in Case C-375/99 concerning the public storage of beef in Spain.

The Court accepted the following appeals:

- the appeal lodged by France in Case C-277/98 concerning the additional levy on milk;
- the appeal lodged by Luxembourg in Case C-158/00 concerning arable crops.

The Court accepted in part the following appeals:

- the appeal lodged by Spain in Case C-130/99 concerning the additional levy on milk and expenditure on production aid for olive oil incurred before 12 March 1996;
- the appeal lodged by the Netherlands in Case C-133/99 concerning aid for skimmed milk for the manufacture of casein and caseinate.

5.4.2. *Appeals pending*

The situation as at 14 October 2002 with regard to appeals pending is shown, together with the amounts concerned, in Annexes 19 to 27

6. RELATIONS WITH PARLIAMENT AND THE EUROPEAN COURT OF AUDITORS

6.1. Relations with Parliament

The European Parliament, one of the branches of the budgetary authority along with the Council, is one of the most important interlocutors of the Commission and therefore of the EAGGF. The natural framework for this interinstitutional relationship is provided by the parliamentary sessions at which all Community budget matters are dealt with.

The European Parliament has three parliamentary committees with a varying interest in agricultural budgetary matters: the Committee on Agriculture and Rural Development, the Committee on Budgets and the Committee on Budgetary Control.

The Committee on Budgetary Control performed its duty of monitoring the correct implementation of the 2000 budget. It was asked to draw up the Parliament Decision by which that body discharged the Commission.

6.2. Relations with the European Court of Auditors

6.2.1. Mission of the European Court of Auditors

The basic task of the Court of Auditors is to audit the Community accounts. The Maastricht Treaty strengthened this role by requiring it to provide a statement of assurance as to the reliability of the Community accounts and the legality and correctness of the underlying transactions. Issuing this statement certifies that the accounts give an accurate picture of the year in question. It is also of prime importance to the budgetary authority in its deliberations on the granting of the discharge.

As part of its work, the Court of Auditors carries out many audits within the Commission. Court officials frequently visit the EAGGF to gather facts and figures needed for Court opinions, sector letters or special reports; in the light of these investigations, the Court frequently makes suggestions and recommendations to the Commission as to how to improve its budgetary management to make Community control measures more effective.

6.2.2. Annual report 2001

The Court of Auditors draws up a general annual report which, over several chapters, scrutinises management of the Community budget for the previous year. One chapter is devoted to the activities of the EAGGF Guarantee Section.

Before the report is published, meetings are held between the Court of Auditors and the Commission, at which the Court's submissions and conclusions and the Commission's replies and explanations can be discussed. The report is the result of audits made by the Court in the Community institutions and inspection visits to the Member States.

In 2002 the annual report for the 2001 financial year included a chapter (Chapter 2) on the EAGGF Guarantee Section. The main submissions advanced by the Court and the replies given by the Commission concerned the following:

- Analysis of budgetary management;
- Specific appraisal in the context of the Statement of Assurance:
 - Control system,
 - Area aid schemes 2.12–2.19,
 - Results of checks performed by Member States 2.18–2.19,
 - Animal premium schemes 2.20–2.26,
 - Control system 2.22,
 - Results of checks performed by Member States 2.26,
 - Olive oil 2.27–2.29,
 - Rural development 2.30–2.33,
 - Aid for cotton 2.35–2.38,
 - Casein 2.39,
 - Deductions 2.41,
 - the CATS database 2.42;
- Clearance of accounts:
 - Conformity decisions 2.65–2.77,
 - Key and ancillary controls 2.66,
 - Analysis of the corrections made in 2001 2.67–2.75,
 - Clearance of accounts decisions since 1991 2.76;
- Follow-up to previous observations:
 - Durum wheat 2.80–2.89,
 - The Commission's management of the CMO for sugar 2.90–2.103;
- Principal observations in special reports:
 - The sound financial management of the common organisation of the markets in the banana sector 2.105–2.117,
 - The Commission's management of the Community oilseed support scheme 2.118–2.123,
 - Extensification premium and payment schemes (EPS) in the CMO for beef and veal 2.124–2.127.

6.2.3. *Special reports of the European Court of Auditors*

In 2002 the Court published three special reports (SR). The reports are as follows:

- SR No 7/2002 on the sound financial management of the common organisation of markets in the banana sector, together with the Commission's replies (OJ C 294 of 28 December 2002);
- SR No 6/2002 on the audit of the Commission's management of the Community oilseeds support scheme, together with the Commission's replies (OJ C 254 of 21 October 2002);

- SR No 5/2002 on extensification and payment schemes in the common organisation of the market for beef and veal, together with the Commission's replies (OJ C 290 of 25 November 2002).

The full texts of the annual report and the special reports, together with the Court of Auditors' comments and the Commission's replies are on the Court's website: <http://www.eca.eu.int>.

7. BASIC RULES GOVERNING THE EAGGF GUARANTEE SECTION AND AMENDMENTS MADE IN 2002

7.1. General/System of advances

- Council Regulation (EEC) No 1258/1999 of 17 May 1999 on the financing of the common agricultural policy (OJ L 160, p. 103),
- Council Regulation (EEC) No 1883/78 of 2 August 1978 laying down general rules for the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee Section (OJ L 216, p. 1),
- Commission Regulation (EC) No 296/96 of 16 February 1996 on data to be forwarded by the Member States and the monthly booking of expenditure financed under the Guarantee Section of the Agricultural Guidance and Guarantee Fund (EAGGF) and repealing Regulation (EEC) No 2776/88 (OJ L 39, p. 5)
amended by Commission Regulation (EC) No 1934/2001 of 1 October 2001 (OJ L 262, p. 8)),
- Council Regulation (EC) No 2040/2000 of 26 September 2000 on budgetary discipline (OJ L 244, p. 27),
- Council Regulation (EC) No 1257/1999 of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain Regulations (OJ L 160, p. 80),
- Commission Regulation (EC) No 445/2002 of 26 February 2002 laying down detailed rules for the application of Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) (OJ L 74, p.1). That Regulation repealed Commission Regulation (EC) No 1750/1999, which was, however, still in application during 2001 (OJ L 214, p. 31).

7.2. Checks

- Council Regulation (EEC) No 4045/89 of 21 December 1989 on scrutiny by Member States of transactions forming part of the system of financing by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund and repealing Directive 77/435/EEC (OJ L 388, p. 18),
amended by Council Regulation (EC) No 2154/2002 of 26 November 2002¹¹,
- Council Regulation (EEC) No 3508/92 of 27 November 1992 establishing an integrated administration and control system for certain Community aid schemes (OJ L 355, p. 1),
amended by Commission Regulation (EC) No 495/2001 (13 March 2001), (OJ L 72, p. 6),
- Commission Regulation (EC) No 2419/2001 of 11 December 2001 laying down detailed rules for applying the integrated administration and control system for certain Community aid schemes established by Council Regulation (EEC) No 3508/92 (OJ L 327, p. 11),

¹¹ OJ L 328, 5.12.2002, p. 4.

- Regulation (EC) No 1760/2000 of the European Parliament and of the Council of 17 July 2000 establishing a system for the identification and registration of bovine animals and regarding the labelling of beef and beef products and repealing Council Regulation (EC) No 820/97 (OJ L 204, p. 1).

7.3. Clearance of accounts

- Commission Regulation (EC) No 1663/95 of 7 July 1995 laying down detailed rules for the application of Council Regulation (EEC) No 729/70 regarding the procedure for the clearance of the accounts of the EAGGF Guarantee Section (OJ L 158, p. 6)
amended by Commission Regulation (EC) No 2025/2001 of 16 October 2001 (OJ L 274, p. 3);
- Commission Regulation (EC) No 2390/1999 of 25 October 1999 laying down detailed rules for the application of Regulation (EC) No 1663/95 as regards the form and content of the accounting information that the Member States must hold at the disposal of the Commission for the purposes of the clearance of the EAGGF Guarantee Section accounts (OJ L 295, p. 1)
amended by Commission Regulation (EC) No 1884/2002¹².

The Commission also adopted a number of decisions on the clearance of accounts of the Member States:

- Decision of 28 June 2002 (2002/523/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 – ninth decision (21 February)¹³,
- Decision of 26 June 2002 (2002/524/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 – tenth decision¹⁴,
- Decision of 14 October 2002 (2002/816/EC) amending Decision 1999/187/EC on the clearance of accounts presented by the Member States in respect of the expenditure for 1995 under Article 5(2)(c) of Regulation (EEC) No 729/70¹⁵,
- Decision of 5 November 2002 (2002/881/EC) under Article 5(2)(c) of Regulation (EEC) No 729/70 and Article 7(4) of Regulation (EC) No 1258/1999 – eleventh decision¹⁶,
- Decision of 12 June 2002 (2002/461/EC) under Article 7(3) of Regulation (EEC) No 1258/1999,
- Decision of 19 February 2002 (2002/144/EC) under Article 5(2)(b) of Regulation (EEC) No 729/70 and Article 7(3) of Regulation (EC) No 1258/1999¹⁷.

¹² OJ L 288, 25.10.2002, p. 1.

¹³ OJ L 170, 29.6.2002, p. 73.

¹⁴ OJ L 170, 29.6.2002, p. 77.

¹⁵ OJ L 280, 18.10.2002, p. 88.

¹⁶ OJ L 306, 8.11.2002, p. 26.

¹⁷ OJ L 48, 20.2.2002, p. 32.

7.4. Public storage

(a) Basic rules

- Commission Regulation (EEC) No 411/88 of 12 February 1988 on the method and the rate of interest to be used for calculating the costs of financing intervention measures comprising buying-in, storage and disposal (OJ L 40, p. 25)
amended by Regulation (EC) No 2623/1999 of 10 December 1999 (OJ L 318, p. 14),
- Commission Regulation (EEC) No 1643/89 of 12 June 1989 defining the standard amounts to be used for financing material operations arising from the public storage of agricultural products (OJ L 162, p. 12),
- Council Regulation (EEC) No 3492/90 of 27 November 1990 laying down the factors to be taken into consideration in the annual accounts for the financing of intervention measures in the form of public storage by the European Agricultural Guidance and Guarantee Fund, Guarantee Section (OJ L 337, p. 3),
- Commission Regulation (EEC) No 3597/90 of 12 December 1990 on the accounting rules for intervention measures involving the buying-in, storage and sale of agricultural products by intervention agencies (OJ L 350, p. 43),
- 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 L 17, p. 9),
- Commission Regulation (EEC) No 3149/92 of 29 October 1992 laying down detailed rules for the supply of food from intervention stocks for the benefit of the most deprived persons in the Community (OJ L 313, p. 50),
- Commission Regulation (EC) No 2148/96 of 8 November 1996 laying down rules for evaluating and monitoring public intervention stocks of agricultural products (OJ L 288, p. 6)
amended by Commission Regulation (EC) No 808/1999 of 16 April 1999 (OJ L 102, p. 70).

(b) Depreciation on buying-in during the financial year 2002

- Commission Regulation (EC) No 2035/2001 of 17 October 2001 fixing depreciation percentages to be applied when agricultural products are bought in, for the financial year 2002 (OJ L 275, pp. 7 and 8).

This Regulation sets the systematic depreciation coefficients to be applied, for the 2002 financial year, when each agricultural product is bought in, and also the coefficients to be applied by the intervention agencies to the monthly buying-in values of the products to enable them to determine the depreciation amounts.

(c) Additional depreciation of end of the 2002 financial year

- Decision C (2002) 3688 of 11 October 2002 (not published) fixing the amounts and detailed rules for the depreciation of stocks of certain agricultural products bought into public intervention during the 2002 financial year.

This decision sets the amounts of additional depreciation at the end of the 2002 financial year.

(d) Uniform interest rate for 2002

- Commission Regulation (EC) No 2012/2001 of 12 October 2001 on the rate of interest to be used for calculating the costs of financing intervention measures comprising buying in, storage and disposal (OJ L 272, p. 23).

Sets interest rates for the 2002 accounting year as required by Articles 3 and 4(1) of Commission Regulation (EEC) No 411/88.

N.B.: Totals or subtotals of expenditure in the following tables sometimes differ by €0.1 million from the amount obtained arithmetically by adding the lines or columns. This difference is due to rounding up and down. The totals are generally expressed in million euros while the calculations are done using amounts in euros.

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