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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

on EAGF expenditure

Early warning system

No 11-12/2010

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ANNEX : PROVISIONAL CONSUMPTION OF EAGF APPROPRIATIONS UP TO 15/10/2010

1. INTRODUCTION

The provisional implementation of the 2010 budget, running from 16 October 2009 to 15 October 2010, is presented in the annexed table and it is expected to amount to EUR 44 062.1 million. This amount includes the amounts clawed back from Member States through the corrections of the accounting clearance of EAGF's accounts and the suspensions and reductions of their monthly reimbursements imposed in the course of the budget year. It further includes an estimate of expenditure amounting to approximately EUR 53.6 million which can be still made directly by the Commission up to 31 December 2010.

The provisional implementation table presented to Member States' delegates in the Funds committee of November 2010 took into consideration the reductions in EAGF appropriations proposed in the Draft Amending Budget (DAB) No 10/2010. However, on 29 November 2010, the Commission submitted Amending Letter No 1 to the DAB No 10/2010 whereby it suppressed the aforementioned reduction of appropriations. Therefore, the report on hand is based on an adapted provisional implementation table which does not include the initially proposed reduction in appropriations.

2. REVENUE ASSIGNED TO EAGF

On the basis of the rules of Article 34 of Council Regulation (EC) No 1290/2005 on the financing of the Common Agricultural Policy, revenue originating from financial corrections under conformity clearance decisions, from irregularities and from the milk levy are designated as revenue assigned to the financing of EAGF expenditure. According to these rules, assigned revenue can be used to cover the financing of EAGF expenditure incurred by the Member States. In the case where part of this revenue is not used, then, this part will be automatically carried over into the following budget year.¹

As already outlined in previous Early Warning System reports, the Commission's estimates for the available assigned revenue in 2010 amounted to EUR 922 million. Specifically:

- The assigned revenue expected to be generated in the course of the 2010 budget year was estimated at EUR 789 million. Amounts of EUR 600 million and EUR 91 million were expected from conformity clearance corrections and from irregularities correspondingly. The receipts from the milk levy were estimated at EUR 98 million.
- The amount of assigned revenue expected to be carried over from the budget year 2009 into 2010 was estimated at EUR 133 million.

¹ Assigned revenue carried over has to be used first, this means before the appropriations voted by the Budgetary Authority or the assigned revenues generated in the year (Art 10 of the Financial Regulation).

The Commission assigned this revenue of EUR 922 million to two schemes. Specifically:

- EUR 222 million was assigned to the operational funds for producer organisations in the fruits and vegetables sector, and
- EUR 700 million to the single payment scheme.

For these two schemes, the Budgetary Authority eventually voted appropriations amounting to EUR 547 million and to EUR 28 480 million respectively in accordance with the Commission's Amending Letter. The sum of the voted appropriations and the assigned revenue mentioned above corresponds to a total estimate of appropriations required of EUR 769 million for the operational funds for producer organisations in the fruits and vegetables sector and EUR 29 180 million for the single payment scheme.

In the annexed table which presents the 2010 budget's provisional execution for the period to 15.10.2010, the voted appropriations for the aforementioned two schemes are included in the original budget appropriations for the fruits and vegetables sector and for the decoupled direct aids sector which amount to EUR 720.1 million and to EUR 33 272 million correspondingly without taking account of the aforementioned assigned revenue. After including the revenue assigned to these sectors, the total appropriations foreseen in the 2010 budget amount to EUR 942.1 million for fruits and vegetables and to EUR 33 972 million for decoupled direct aids.

3. REVENUE ORIGINATING FROM THE TEMPORARY RESTRUCTURING AMOUNTS (SUGAR SECTOR)

The temporary restructuring amounts in the sugar sector are treated as assigned revenue intended to finance the sugar restructuring aid and other aids foreseen in the Sugar Restructuring Fund. As already outlined in previous Early Warning System reports, the estimation of this revenue in 2010 amounted to EUR 606.8 million while an amount of EUR 717.9 million was expected to be carried over from the budget year 2009 into 2010.

4. COMMENTS ON THE PROVISIONAL IMPLEMENTATION OF THE 2010 EAGF BUDGET

A brief commentary on the 2010 budget's provisional implementation for certain sectors is presented hereafter:

4.1. Market measures

The uptake of appropriations for interventions in agricultural markets was lower than the budget's appropriations by - EUR 411.5 million. The most significant under-implementation concerned the refunds on non-Annex I products and the milk and milk products sectors while the appropriations for the cereals sector were over-implemented.

4.1.1. *Cereals (+ EUR 20.0 million)*

The higher uptake of appropriations is primarily due to the higher quantities of cereals which entered public storage and the consequent increase in financing and technical costs incurred by the Member States.

4.1.2. *Refunds on non-Annex I products (-EUR 62.7 million)*

The lower uptake of the budget's appropriations is primarily due to the lower expenditure incurred by Member States for payment of export refunds for dairy products incorporated in the exported processed agricultural products. This is due to the fact that the situation in dairy markets has much improved, compared to the one prevailing at the time when the Amending Letter for the 2010 budget year was established and it resulted in the Commission's discontinuation of payment of export refunds for dairy products in November 2009.

4.1.3. *Food programmes (- EUR 34.6 million)*

This under-execution is due to the fact that certain Member States did not fully implement their approved 2010 plan as they were foreseen in Commission Regulation (EC) No 1111/2009 while Member States have not as yet declared all the administrative, transfer and transport costs relating to the aforementioned 2010 plan.

4.1.4. *Fruits and vegetables (+ EUR 116.6 million in comparison with voted appropriations)*

The main reason for this apparent over-implementation is due to the fact that expenditure incurred for this sector amounted to EUR 836.7 million while the voted appropriations foreseen for this sector amounted to EUR 720.1 million. The part of this total provisional execution which exceeded the sector's voted appropriations by EUR 116.6 million was funded by the revenue assigned to this sector which amounted to EUR 222 million, thus, leading to an under-execution of – EUR 105.4 million of the sector's available appropriations.

This execution pattern is the result of the combined execution pattern of the following schemes which are funded by this sector's appropriations. Member States incurred lower expenditure both for advances for the 2010 plans concerning the operational funds for producer organisations and for the school fruit scheme. On the other hand, Member States incurred higher expenditure for aids for preliminary recognition because a larger number of producer groups claimed such aids compared to the hypothesis retained in the 2010 budget.

4.1.5. *Products of the wine-growing sector (-EUR 29 million)*

This slight under-execution is due to Member States incurring expenditure which was lower than the appropriations foreseen in the budget both for the national support programmes and for the grubbing up scheme.

4.1.6. *Milk and milk products (-EUR 414 million)*

The situation in dairy markets has much improved compared to the one prevailing at the time when the Amending Letter for the 2010 budget year was being established.

As a result, the Commission discontinued the payment of export refunds for dairy products. Furthermore, market prices in the EU have risen substantially, thus stopping the inflow of skimmed milk powder and butter to public storage where the quantity stored for both products has stabilised. The aforementioned factors led to lower expenditure in this sector compared to the budget's eventual appropriations.

4.2. Direct aids

The uptake of appropriations for direct aids exceeded the budget's original appropriations by EUR 403 million. To assess this execution, the revenue assigned to the Single Payment Scheme amounting to EUR 700 million, must be taken into account.

4.2.1. Decoupled direct aids (+ EUR 553 million in comparison with voted appropriations)

The total credit appropriations foreseen for the needs of this sector amount to EUR 33 972 million including the revenue of EUR 700 million assigned to it. (NB: for details, please see point 2 above). Within this article, it is mainly the Single Payment Scheme (SPS) and the Single Area Payment Scheme (SAPS) that are funded.

As regards the Single Payment Scheme (SPS), the expenditure incurred amounted to EUR 29 070.9 million and it was lower than the needs of EUR 29 180 million forecasted in the 2010 budget as a number of Member States did not make full use of their SPS financial envelope. However, their rate of implementation has increased again compared to the one of last year, thus, indicating an improvement in the management of the SPS financial envelopes in most Member States.

Furthermore, as regards the Single Area Payment Scheme (SAPS), some of the Member States concerned did not pay the totality of their corresponding budgetary ceilings which led to an under-execution of the 2010 budget's appropriations by - EUR 35.9 million. This under-execution is due to the fact that, in some Member States, the total eligible area declared by farmers is smaller than the area fixed in the legislation and which is used for the purpose of calculating the maximum rate of aid per hectare.

Since the needs for the Single Payment Scheme are partly funded by assigned revenue (NB: please see point 2 above for details), then, this article's over-execution is more apparent than real and it changes when account is taken of assigned revenue which, while not part of the overall budget appropriations, is actually used in financing part of the SPS expenditure.

4.2.2. Other direct aids (-EUR 147.7 million)

This under-execution pattern is primarily due to the lower expenditure by Member States as claim applications for certain schemes, like animal premia and area aid for cotton, were lodged for smaller numbers of animals and for smaller areas compared to the ones forecasted in the 2010 budget.

4.3. Audit of agricultural expenditure

4.3.1. Accounting clearance of previous years' accounts (+ EUR 255.8 million)

The current implementation level results mostly from the corrections decided by the Commission following the procedure for the accounting clearance of EAGF's accounts and from the corrections imposed to Member States for non-respect of aid payments' deadlines foreseen in the dispositions of the various EAGF schemes. These corrections amounted to – EUR 54.2 million in total. This amount, compared to the amount of – EUR 310 million which was retained by the Budgetary Authority in the 2010 budget, leads to a shortfall of budget appropriations amounting to EUR 255.8 million which the Commission needs to cover in order to close this budget item in 2010.

5. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The total assigned revenue available in 2010 amounted to EUR 1 152.1 million compared to the initially forecasted amount of EUR 922 million, ie: it was higher by EUR 230.1 million.

This difference is partly due to the fact that the amount of assigned revenue carried over from 2009 into 2010 was EUR 8.5 million higher at EUR 141.5 million than the amount of EUR 133 million initially foreseen in the budget. It should be pointed out that the assigned revenue carried over from 2009 into 2010 has been entirely used in financing expenditure of the 2010 budget year in accordance with article 10 of the Financial Regulation.

More importantly, the assigned revenue freshly collected in 2010 amounted to EUR 1 010.5 million, ie. it was higher by an amount of EUR 221.5 million compared to the amount of EUR 789 million foreseen in the budget. Within this amount conformity clearance corrections amounted to EUR 735.1 million, receipts from irregularities amounted to EUR 172.4 million and the milk levy collections amounted to EUR 103 million. A part of the freshly collected assigned revenue in 2010 will not be used in and it will be carried over into the 2011 budget year and it will be used to finance the expenditure incurred in that year.

6. IMPLEMENTATION OF REVENUE ORIGINATING FROM THE TEMPORARY RESTRUCTURING AMOUNTS (SUGAR SECTOR)

The total amount of assigned revenue paid by Member States in 2010 was EUR 606.8 million. In addition, contrary to the initially estimated amount of EUR 717.9 million, the assigned revenue carried over from 2009 into 2010 amounted to EUR 768.3 million. Therefore, the total amount of assigned revenue available to the EU budget in 2010 in the form of temporary restructuring amounts came to EUR 1 375.1 million.

After the aid payments made to the beneficiaries of the sugar restructuring fund (NB: please see point 7 below for details), the temporary restructuring amounts present a balance of EUR 1 044.8 million which will be carried forward into 2011 in order to finance the payment of the aids of that year.

7. IMPLEMENTATION OF SUGAR RESTRUCTURING FUND

The reimbursements to Member States for payments made for aids to the restructured sugar industry, for diversification aids or for aids to sugar refining amounted to EUR 330.3 million in 2010. These aids were paid from the aforementioned assigned revenue originating from the temporary restructuring amounts (NB: please see point 6 above for details).

8. CONCLUSIONS

The provisional execution of the 2010 EAGF budget resulted in an execution of EUR 242.3 million above the budget's voted appropriations which is covered by the available assigned revenue of EUR 1 152.1 million.

Following end-of-year adjustments still to be made, it is currently estimated that the available assigned revenue to be carried over to 2011 would amount to approximately EUR 900 million.

ANNEX

BUDGET YEAR 2010 (*) PROVISIONAL CONSUMPTION ON 15.10.2010 AGAINST APPROPRIATIONS OF EAGF

in EUR million

		Appropriations	Expenditure	Forecasts	Total	Utilisation	Gap between	
		Budget (**)	on 15	direct	expenditure	%	expenditure and	
		EUR mio	October 10	Commission	of		appropriations	
		(1)	(2)	payments(***)	Exercise			
				until 31.12.10	2010	(5)=(4)*100/(1)	(6)=(5)-100%	
					(4)=(2)+(3)		(7)=(4)-(1)	
Expenditure								
05 01	(1) ADMINISTRATIVE EXPENDITURE FOR EAGF 5010401	9,0	5,1	3,9	9,0	100,0%	0,0%	0,0
	Total 05 01 Administrative expenditure for EAGF	9,0	5,1	3,9	9,0	100,0%	0,0%	0,0
05 02	INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01	Cereals	115,1	135,1		135,1	117,3%	17,3%	20,0
05 02 02	Rice	p.m.	0,0					
05 02 03	Refunds on non-Annex 1 products	114,0	51,3		51,3	45,0%	-55,0%	-62,7
05 02 04	Food programmes	500,1	465,5		465,5	93,1%	-6,9%	-34,6
05 02 05	Sugar	1,5	10,0		10,0	665,7%	565,7%	8,5
05 02 06	Olive oil	57,5	53,2		53,2	92,5%	-7,5%	-4,3
05 02 07	Textile plants	30,0	28,8		28,8	96,0%	-4,0%	-1,2
05 02 08	Fruits and vegetables (estimated of 222 Mio EUR credits coming from assigned revenue)(*)(***)	720,1	836,7		836,7	116,2%	16,2%	116,6
05 02 09	Products of the wine-growing sector	1.338,3	1.309,3		1.309,3	97,8%	-2,2%	-29,0
05 02 10	Promotion	57,2	47,2	0,5	47,6	83,2%	-16,8%	-9,6
05 02 11	Other plant products/measures	356,2	356,5		356,5	100,1%	0,1%	0,3
05 02 12	(4)Milk and milk products(**)	943,1	529,1		529,1	56,1%	-43,9%	-414,0
05 02 13	Beef and veal	26,1	24,6		24,6	94,1%	-5,9%	-1,5
05 02 14	Sheepmeat and goatmeat	p.m.	0,0		0,0			
05 02 15	Pigmeat, eggs and poultry, bee-keeping and other animal products	136,1	136,2		136,2	100,1%	0,1%	0,1
	Total 05 02 Interventions in agricultural markets (excluding 05 02 16)	4.395,3	3.983,4	0,5	3.983,8	90,6%	-9,4%	-411,5
05 03	DIRECT AIDS							
05 03 01	Decoupled direct aids (estimated 700 Mio EUR credits coming from assigned revenue)(*)(***)	33.272,0	33.825,0		33.825,0	101,7%	1,7%	553,0
05 03 02	Other direct aids	5.995,0	5.847,3		5.847,3	97,5%	-2,5%	-147,7
05 03 03	Additional amounts of aid	6,0	3,7		3,7	61,2%	-38,8%	-2,3
	Total 05 03 Direct aids	39.273,0	39.676,0	0,0	39.676,0	101,0%	1,0%	403,0
05 04	OTHER EXPENDITURE							
	05040114 Rural development financed by the EAGGF-Guarantee Section-Programming period 2000-2006	p.m.	-7,1		-7,1			
	05040302 Plant and animal genetic resources-Completion of earlier measures	p.m.	0,0		0,0			
05 07	05070106 Accounting clearance of previous years' accounts	-310,0	-54,2		-54,2	17,5%	-82,5%	255,8
	(3) 05070107 Conformity clearance of previous years' accounts	p.m.	5,1		5,1			
	Other lines (05070102 and 050702)	9,5	6,0	0,5	6,5	68,4%	-31,6%	-3,0
05 08	POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA (excl. 050810)	40,6	36,3	4,2	40,6	100,0%	0,0%	0,0
11 02	(2) FISHERIES MARKETS (excl. 11020103)	30,5	30,4	0,1	30,5	100,0%	0,0%	0,0
17 01	(1) (2) ADMINISTRATIVE EXPENDITURE OF 'HEALTH AND CONSUMER PROTECTION' POLICY AREA 17010401, 17010405, 17010407 and 17010431	2,3	1,5	0,8	2,3	100,0%	0,0%	0,0
17 03	(1) (2) PUBLIC HEALTH 17 03 02 Community tobacco fund - direct payments by the EU	16,9	16,9	0,0	16,9	100,0%	0,0%	0,0
17 04	(1) (2) FOOD SAFETY, ANIMAL HEALTH, ANIMAL WELFARE AND PLANT HEALTH 170401 to 170407 (excl. 17040303)	352,7	309,1	43,6	352,7	100,0%	0,0%	0,0
	Total Expenditure (excluding 05 02 16)	43.819,8	44.008,5	53,6	44.062,1	100,6%	0,6%	242,3

Assigned Revenue		taken into account in the budget					
67 01	Clearance of EAGF accounts — Assigned revenue	600,0	735,1		735,1		
67 02	EAGF irregularities — Assigned revenue	91,0	172,4		172,4		
67 03	Superlevy from milk producers — Assigned revenue	98,0	103,0		103,0		
	Assigned revenue carried over from 2009	133,0	141,5		141,5		
	Total Revenue (excluding 6 8)	922,0	1.152,1	0,0	1.152,1		

Sugar Restructuring Fund		taken into account in the budget					
05 02 16	Sugar Restructuring Fund	439,7	330,3		330,3		
68 01	Temporary restructuring amounts — Assigned revenue	606,8	606,8		606,8		
	Assigned revenue carried over from 2009	717,9	768,3		768,3		
68 02	Irregularities concerning the temporary restructuring fund — Assigned revenue	p.m.	0,0		0,0		
68 03	Clearance with regard to the temporary restructuring fund — Assigned revenue	p.m.	0,0		0,0		
	Total Sugar Restructuring Fund	855,0	1044,8	0,0	1.044,8		

(*) For information only: expenditure against original appropriations and estimated assigned revenue							
05 02 08	Fruits and vegetables (including estimated assigned revenue of 222 Mio EUR)(****)	942,1	836,7		836,7	88,8%	-11,2%
05 03 01	Decoupled direct aids (including estimated assigned revenue of 700 Mio EUR)(****)	33972,0	33.825,0		33.825,0	99,6%	-0,4%

(**) Budget year = 16.10.2009 to 15.10.2010 but direct expenditure possible until 31.12.2010.

(***) It concerns the commitments

(****) Including use of assigned revenues carried over from previous year

(1) Chapter not exclusively EAGF

(2) Chapter outside title 05 but included in EAGF

(3) Used only for cases in which Member States are beneficiaries

(4) Of which 300 EUR million were initially in chapter 40 02