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THE COUNCIL**

on EAGF expenditure___Early warning system__No 10/2011

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1. INTRODUCTION

For the period 16 October 2010 to 31 August 2011, the budget's actual implementation level compared to the expenditure profile foreseen by the indicator, established on the basis of the dispositions of Article 20 of Council Regulation (EC) No 1290/2005¹, is presented in the Annex 1.

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 forward to the following budget year.²

The 2011 EAGF budget included both: the Commissions' latest estimate on the amount of appropriations, which would be needed in order to finance the expected expenditure for market measures and direct aids, and the estimates of the assigned revenue, which was expected to be collected in the course of the budget year concerned and the carryover of the balance of assigned revenue left available from the previous budget year. In its proposal for the amount of EAGF appropriations for the 2011 budget, the Commission took into consideration total expected assigned revenue and requested in 2011 a level of appropriations calculated by deducting the estimated assigned revenue from its estimated expenditure. The Budgetary Authority adopted the new EAGF budget whose appropriations included the expected assigned revenue.

At the time of establishment of the budget for 2011, the Commission's estimates for the available assigned revenue amounted to EUR 1 247 million. Specifically:

- The assigned revenue expected to be generated in the course of the 2011 budget year was estimated at EUR 707 million. Amounts of EUR 600 million and EUR 88 million were expected from conformity clearance corrections and from irregularities respectively. The receipts from the milk levy were estimated at EUR 19 million.
- The amount of assigned revenue expected to be carried over from the budget year 2010 into 2011 was estimated at EUR 540 million.

In the budget for 2011, the Commission assigned this revenue of EUR 1 247 million to two schemes. Specifically:

¹ OJ L 209, 11.8.2005, p. 1.

² 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).

- EUR 500 million was assigned to the operational funds for producer organisations in the fruits and vegetables sector, and
- EUR 747 million to the single payment scheme.

For these two schemes, the Budgetary Authority eventually voted appropriations amounting to EUR 292 million and to EUR 30 389 million respectively, in accordance with the Commission's proposal. The sum of the voted appropriations and the assigned revenue mentioned above corresponds to a total estimate of appropriations required of EUR 792 million for the operational funds for producer organisations in the fruits and vegetables sector and EUR 31 136 million for the single payment scheme.

In the annex, which presents the 2011 budget's provisional execution for the period to 31 August 2011, the figures of the budget appropriations for the fruits and vegetables sector and for the decoupled direct aids sector present voted appropriations for these two schemes, which amount to EUR 491.1 million and to EUR 36 324 million respectively, excluding the aforementioned assigned revenue. After including the revenue assigned to these sectors, the total appropriations foreseen in the 2011 budget amount to EUR 991.1 million for fruits and vegetables and to EUR 37 071 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. For three marketing years: 2006/07, 2007/08 and 2008/09, these amounts relating to the sugar, inulin syrup and isoglucose quantitative quotas held by operators in each Member State were paid into the Fund. At the time of establishment of the 2011 budget an amount of EUR 1 015 million was expected to be carried over from the budget year 2010 into 2011. The final amount of the assigned revenue carried over to 2011 in the Sugar Restructuring Fund reached EUR 1 044.8 million.

4. COMMENTS ON THE PROVISIONAL IMPLEMENTATION OF THE 2011 EAGF BUDGET

The budget's provisional implementation level for the period 16 October 2010 to 31 August 2011 is presented in Annex 1. It is compared to the expenditure profile based on the indicator, which was established on the basis of the provisions laid down in Article 20 of Council Regulation (EC) No 1290/2005. Below a brief commentary is presented for certain budget articles, which show the most significant divergences between the actual and the expected level of implementation of the 2011 budget:

4.1. Market measures

The uptake of appropriations for interventions in agricultural markets was higher compared to the level of the budget's voted appropriations, as determined by the level of the indicator on 31 August 2011, by EUR 166.0 million. This divergence is

primarily attributed to the fruit and vegetables, food programmes as well as the beef- and pig-meat sectors. At the same time, other sectors present in total an under-implementation.

4.1.1. Cereals (-EUR 146.6 million)

The under-execution on this budget article in 2011 is a result of significant sales of cereals out of intervention in the period from December 2010 to May 2011. The Commission sold in the framework of open tenders 2 551 000 tonnes of barley and 88 000 tonnes of wheat at prices significantly higher than those forecasted in the 2011 budget. These prices contribute to considerable gains for the 2011 budget and are shown in the budget's execution as negative amounts on the same budget article. The Commission considers that these gains will lead to an overall under-execution of this budget article by the end of the 2011 budget year.

4.1.2. Refunds on non-Annex 1 products (-EUR 17.3 million)

The under-execution of this budget article, based on the level of the indicator, is due to lower payments for the export certificates for sugar- and dairy-related products compared to the ones initially estimated in the budget.

4.1.3. Food programmes (+EUR 22.4 million)

The faster uptake of the appropriations is mainly due to higher than usual amounts for the previous years' plans paid in 2011 and changes in the applicable rules for the organisation of the aid distribution in 2011 compared to the previous year. These changes are not reflected by the indicator. Indeed, in 2011, the deadline to withdraw 70% of the allocated stocks to each Member State was advanced from the month of June to the month of May. Moreover, it would appear that, in view of the lower amounts currently foreseen for the 2012 plan, Member States intend to fully implement the 2011 plan. However, at this stage, the Commission considers that the faster uptake of the 2011 plan would not result in a very large, if any, over-execution of the appropriations foreseen by the budget.

4.1.4. Textile plants (+EUR 5.9 million)

The faster uptake of the appropriations available for this budget article is due to cotton restructuring measures, which were implemented for the first time in 2010 when all payments were made in October. This, then, became the basis for setting the indicator for 2011. However, in 2011, the expenditure on this article has been declared by the Member States since the beginning of the year and for this reason an over-execution of the budget's appropriations is currently observed. However, this execution pattern does not constitute any risk of exceeding the budgetary appropriations, as these are based on the quantitative and on the financial ceilings established by the legislation for these measures.

4.1.5. Fruit and vegetables (+ EUR 312.7 million in comparison with voted appropriations)

This implementation level is attributable to the expenditure for the operational funds for producer organisations, which is funded both by the budget's voted appropriations and by the revenue assigned to this scheme in the 2011 budget (NB:

for details please see point 2 above). This implementation level is the result of applying the indicator for the period to 31 August 2011 to the budget's voted appropriations, which do not include the revenue assigned to this sector.

At this point in time, the Commission considers that the total appropriations available for this sector will be sufficient to cover the expenditure expected to be incurred by Member States in 2011.

As from 2010, for the benefit of the reader, the Commission introduced footnote * to the provisional execution table which appears in the annex. This footnote shows what the situation would be, had the indicator, as at 31 August 2011, been applied to the total appropriations, which are expected to be available in order to fund this sector. As mentioned in point 2 above, the total funding expected to be available for this sector is composed of the budget's voted appropriations of EUR 491.1 million and of the revenue assigned to this sector which is estimated to amount to EUR 500 million. Therefore, had the indicator been applied to the total funding of EUR 991.1 million expected to be available, an under-execution of – EUR 70.2 million would appear.

This under-execution is related to the operational funds for producers' organisations which have a slightly slower payment rhythm than in the previous years and to the School Fruit Scheme, which, due to the relative novelty of the measure, does not follow as yet a defined execution pattern. However, it should be noted that a part of exceptional support measures for the fruit and vegetables sector adopted by the Commission following the E.coli crisis will be funded through the operational funds for producers' organisations and the rest of this aid through another budget item within the same article. These measures are expected to cost approximately EUR 227 million and it is currently estimated that Member States will declare expenditure amounting to EUR 215 million by the end of the 2011 budget year. For the period covered by this report, Member States have declared only 10% of the expenditure related to this crisis.

Furthermore the payment of aid for the preliminary recognition of producer groups continues to increase compared to the last 3 years. A significant over-execution of this line is foreseen at the end of the 2011 budget year.

On the basis of all the factors mentioned above, it is expected that the final expenditure to be declared for this sector will exceed the corresponding budget's available appropriations and they will be covered by transfers of appropriations from other budget lines.

4.1.6. Promotion (-EUR 9.4 million)

When compared to the level of implementation pointed out by the indicator on 31 August 2011, an under-execution is observed. Based on the communications from the Member States, the Commission considers that this rhythm of payments will be largely maintained to the end of the budget year, thus, resulting in an under-execution for this article's appropriations.

4.1.7. Milk and milk products (-EUR 61.8 million)

When compared to the level of implementation pointed out by the indicator on 31 August 2011, an under-execution is observed. It is mainly related to the School Milk Scheme for which appropriations in the budget were increased by EUR 10 million in the course of the negotiations on the 2011 budget compared to the initial needs requested by the Commission. This increase in the budget has not been reflected in Member States' execution.

Moreover, the sales of skimmed milk powder (SMP) out of intervention that were carried out in the period from December 2010 to March 2011, have been made at a level of prices which is higher than originally forecasted in the 2011 budget, thus, resulting in gains for the 2011 budget. These gains are shown in the budget's execution as negative amounts on the same budget article. At this stage, the Commission considers that these gains will lead to an overall under-execution of this budget article's appropriations by the end of the 2011 budget year.

4.1.8. Beef and veal (+EUR 19.7 million)

A faster uptake of the appropriations on this budget article compared to the level of the indicator is a result of bigger than expected quantities exported with refunds in the period since 16 October 2010. Due to the opening of the Turkish market to the EU meat products, the export activity in this market increased considerably in 2010/11 WTO year. The Commission issued this year export certificates for a quantity, which was higher than the one forecasted in the 2011 budget. The Commission considers that this budget article will show an overall over-execution by the end of the 2011 budget year, which will have to be covered by transfers of appropriations from other budget lines.

4.1.9. Pig meat, eggs and poultry (+EUR 53.9 million)

A faster uptake of the appropriations available for this budget article compared to the level of the indicator is attributable to bigger than expected quantities of poultry exported with refunds.

Moreover, the Commission at this stage expects to pay in 2011 approximately EUR 50 million for the measure of private storage for pig meat (introduced in January 2011) for which no appropriations were foreseen in the 2011 budget. The Commission expects that these factors will result in an over-execution of this budget article's appropriations which will have to be covered by transfers of appropriations from other budget lines.

4.2. Direct aids

The uptake of appropriations for direct aids compared to the level pointed out by the indicator on 31 August 2011 was higher by EUR 391.2 million.

4.2.1. Decoupled direct aids (+EUR 509.0 million in comparison with voted appropriations)

The total appropriations available for the needs of this sector amount to EUR 37 071 million and they involve the budget's voted appropriations of EUR

36 324 million and the foreseen revenue of EUR 747 million assigned to the Single Payment Scheme. (NB: for details, please see point 2 above).

The single payment scheme (SPS) presents an over-execution as compared to the level of the indicator due to the technical effect of applying it to the level of voted appropriations which do not include assigned revenue. As from 2010, for the benefit of the reader, the Commission introduced footnote * to the provisional execution table which appears in the annex. This footnote shows which would be the situation had the indicator, as at 31 August 2011, been applied to the total appropriations expected to be available in order to fund this sector. Therefore, had the indicator been applied to the total funding of EUR 37 071 million expected to be available for this sector, then, an under-execution of - EUR 237.2 million (or 0,6%) would appear.

At this stage, the Commission expects that the budget for decoupled direct aids will show an under-execution at the end of the budget year as Member States are declaring expenditure for the decoupled specific support measures under Article 68 lower compared to the one initially forecasted in the 2011 budget. However, as regards the SPS, on the basis of Member States' forecasts, an almost full execution is expected by the end of the budget year.

4.2.2. Other direct aids (-EUR 118.3 million)

This sector shows an under-execution, at 31 August 2011, by comparison to the corresponding level of the indicator. Member States are declaring expenditure for the coupled specific support measures under Article 68, for the suckler cow premium and for the payments to starch potato producers which are lower than what was initially forecasted in the 2011 budget. At this stage, the Commission expects that this sector's budget appropriations will show an under-execution by the end of the budget year.

4.3. Other expenditure

4.3.1. Accounting clearance of previous years' accounts (+EUR 321.0 million)

The current implementation level results from the comparison of the clearance of accounts corrections already made with the level of the corresponding indicator as of 31 August 2011.

It should be pointed out that the Commission, in its Amending Letter for 2011, had proposed corrections amounting to – EUR 72 million. The final amount for accounting clearance decided in the course of the negotiations on the 2011 budget amounted to – EUR 272 million.

At this point in time, the Commission considers that the expected corrections from its accounting clearance decisions, all of which have been already taken, and from the non-respect of aid payments' deadlines by the Member States would not be sufficient to cover the negative expenditure of – EUR 272 million resulting from the negotiations on the budget. In fact, as a result of these corrections, the Commission will need to reimburse, i.e. make positive corrections in favour of the Member States, a net amount of approximately EUR 64 million. Furthermore, under the conformity clearance decisions taken by the Commission in 2011, positive

corrections in favour of the Member States of approximately EUR 4 million have to be made.

Therefore, the Commission will need to find positive budget appropriations, not needed for other EAGF budget items, amounting to approximately EUR 335 million in order to close this budget item in 2011.

4.3.2. *Food and feed safety, animal health, animal welfare and plant health (- EUR 32.1 million)*

It is expected that this budget article's appropriations will be under-executed as the costs incurred for bluetongue vaccination are lower than expected as a result of the considerable decline in the disease's appearance due to the recent successful vaccination campaigns. Furthermore, a part of the funds foreseen in the budget for the purchase of emergency vaccines in animal health will not be taken up as there are no new major outbreaks of animal diseases.

5. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The table in the annex shows that assigned revenue amounting to EUR 1 601.1 million was available as of 31 August 2011. Specifically:

- The revenue from corrections based on conformity clearance decisions amounted to EUR 513.4 million. However, this revenue will be eventually reduced by approximately EUR 46.1 million following the Commission's decision on correcting a conformity clearance decision from 2010;
- The revenue from irregularities amounted to approximately EUR 160.9 million, exceeding significantly the initial estimate of EUR 88 million, and
- At this point in time, most of the revenue from the milk levy has been collected and it amounts to approximately EUR 21.7 million, exceeding slightly the initial estimate of EUR 19 million;
- Finally, contrary to the initially estimated amount of EUR 540 million, the amount of assigned revenue eventually carried over from 2010 into 2011 amounted to EUR 905.1 million.

At this point in time, the Commission estimates that additional, but not significant, amounts of assigned revenue are still to be collected from irregularities.

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

In line with the legislation, no new temporary restructuring amounts have been collected from the Member States since November 2009. Therefore, the total assigned revenue available to the Sugar Restructuring Fund equals the amount carried over from the budget 2010, which amounts to EUR 1 044.8 million (higher than the EUR 1 015 million in the 2011 budget due to lower payments than expected made at the end of 2010).

7. IMPLEMENTATION OF SUGAR RESTRUCTURING FUND

As of the end of August 2011, Member States had made payments of EUR 109.1 million for aids concerning restructuring measures, for diversification aids or for aids to sugar refining. Based on the Member States's declarations, significant payments of approximately EUR 60 million are still expected in the month of September.

8. CONCLUSIONS

The provisional execution of the 2011 EAGF budget's appropriations, for the period up to 31 August 2011, shows that monthly reimbursements to Member States exceeded the profile for budget execution, based on the indicator, by EUR 837.8 million. Assigned revenue amounting to EUR 1 601.1 million is currently available including the assigned revenue carried over from the previous year. However, the assigned revenue collected in 2011 will be reduced by the posting correction mentioned in point 5 above. At this point in time, the amount of assigned revenue, which will become eventually available will be used to cover the funding needs of the fruits and vegetables sector, of the pigmeat sector and of the accounting and conformity clearance corrections which are the most important sectors which will need additional funding in 2011. After funding the aforementioned needs, any remaining balance of assigned revenue will be carried over into 2012 in order to cover the funding needs of that budget year.

Annex 1 Provisional consumption of the EAGF appropriations up to 31/08/2011

BUDGET YEAR 2011 (**) PROVISIONAL CONSUMPTION OF THE EAGF APPROPRIATIONS

Situation to the 31/08/2011
in EUR million

	Appropriations Budget (***)	Consumption from November to August	Utilisation	Consumption profile as at August		Gap between implementation and indicator	
	EUR mio A	EUR mio B	% C=B/A	% D	EUR mio E=D*A	% F=C-D	EUR mio G=B-E
Expenditure							
05 01 (1) ADMINISTRATIVE EXPENDITURE FOR EAGF 05010401	9.1	5.3	58.0 %	82.8 %	7.5	-24.8 %	-2.2
Total 05 01 Administrative expenditure for EAGF	9.1	5.3	58.0 %	82.8 %	7.5	-24.8 %	-2.2
05 02 INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01 Cereals	18.1	-125.9	-695.5 %	114.7 %	20.8	-810.2 %	-146.6
05 02 02 Rice	p.m.	0.1	0.0 %				
05 02 03 Refunds on non-Annex 1 products	31.0	10.5	34.0 %	89.6 %	27.8	-55.7 %	-17.3
05 02 04 Food programmes	500.1	305.9	61.2 %	56.7 %	283.5	4.5 %	22.4
05 02 05 Sugar	1.2	2.2	184.3 %	88.5 %	1.1	95.8 %	1.1
05 02 06 Olive oil	49.6	41.8	84.3 %	96.2 %	47.7	-11.9 %	-5.9
05 02 07 Textile plants	30.0	19.0	63.2 %	43.6 %	13.1	19.6 %	5.9
05 02 08 Fruits and vegetables (excl. 05020813)(estimated 500 Mio EUR from assigned revenue)(*)(****)	491.1	688.8	140.3 %	76.6 %	376.1	63.7 %	312.7
05 02 09 Products of the wine-growing sector	1,143.7	663.8	58.0 %	56.8 %	649.8	1.2 %	14.1
05 02 10 Promotion	59.1	42.8	72.3 %	88.2 %	52.2	-15.9 %	-9.4
05 02 11 Other plant products/measures	388.9	305.2	78.5 %	84.4 %	328.2	-5.9 %	-23.0
05 02 12 Milk and milk products	100.0	33.7	33.7 %	95.4 %	95.4	-61.8 %	-61.8
05 02 13 Beef and veal	35.1	49.8	141.8 %	85.6 %	30.1	56.2 %	19.7
05 02 14 Sheepmeat and goatmeat	p.m.	0.0					
05 02 15 Pigmeat, eggs and poultry, bee-keeping and other animal products	117.0	133.6	114.2 %	68.1 %	79.6	46.1 %	53.9
Total 05 02 Interventions in agricultural markets (excluding 05 02 16)	2,964.9	2,171.3	73.2 %	67.6 %	2,005.3	5.6 %	166.0
05 03 DIRECT AIDS							
05 03 01 Decoupled direct aids (estimated 747 Mio EUR credits coming from assigned revenue)(*)(****)	36,324.0	36,792.0	101.3 %	99.9 %	36,283.0	1.4 %	509.0
05 03 02 Other direct aids	3,447.0	3,312.3	96.1 %	99.5 %	3,430.6	-3.4 %	-118.3
05 03 03 Additional amounts of aid	0.1	0.5	532.5 %	55.7 %	0.1	476.8 %	0.5
Total 05 03 Direct aids	39,771.1	40,104.8	100.8 %	99.9 %	39,713.7	1.0 %	391.2
OTHER EXPENDITURE							
05 04 05040114 Rural development financed by the EAGGF-Guarantee Section-Programming period 2000-2006	p.m.	-6.3					
05 04 05040302 Plant and animal genetic resources-Completion of earlier measures	p.m.	0.0					
05 07 05070106 Accounting clearance of previous years' accounts	-272.0	64.5	-23.7 %	94.3 %	-256.5	-118.0 %	321.0
(3) 05070107 Conformity clearance of previous years' accounts	p.m.	3.5					
Other lines (05070102 and 050702)	9.5	6.5	68.4 %	92.9 %	8.8	-24.5 %	-2.3
05 08 POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA (excl. 050810)	25.7	22.0	85.6 %	86.1 %	22.2	-0.5 %	-0.1
11 02 (2) FISHERIES MARKETS (excl. 11020103)	30.0	30.0	99.9 %	99.9 %	30.0	0.0 %	0.0
17 01 (1) (2) ADMINISTRATIVE EXPENDITURE OF 'HEALTH AND CONSUMER PROTECTION' POLICY AREA 17010401, 17010405, 17010407 and 17010431	2.8	1.3	45.2 %	75.0 %	2.1	-29.7 %	-0.8
17 03 (1) (2) PUBLIC HEALTH 17 03 02 Community tobacco fund - direct payments by the EU	p.m.	0.0	0.0 %				
17 04 (1) (2) FOOD AND FEED SAFETY, ANIMAL HEALTH, ANIMAL WELFARE AND PLANT HEALTH 170401 to 170407 (excl. 17040303 and 170406)	350.1	271.9	77.7 %	86.8 %	304.0	-9.2 %	-32.1
Total Expenditure (excluding 05 02 16)	42,891.2	42,674.8	99.5 %	97.5 %	41,837.0	2.0 %	837.8

Assigned Revenue	taken into account in the budget						
6 7 0 1 Clearance of EAGF accounts — Assigned revenue	600.0	513.4					
6 7 0 2 EAGF irregularities — Assigned revenue	88.0	160.9					
6 7 0 3 Superlevy from milk producers — Assigned revenue	19.0	21.7					
Assigned revenue carried over from 2010	540.0	905.1					
Total Revenue (excluding 6 8)	1,247.0	1,601.1					

Sugar Restructuring Fund	taken into account in the budget						
05 02 16 Sugar Restructuring Fund	195.0	109.1					
6 8 0 1 Temporary restructuring amounts — Assigned revenue	p.m.	0.0					
Assigned revenue carried over from 2010	1,015.0	1,044.8					
6 8 0 2 Irregularities concerning the temporary restructuring fund — Assigned revenue	p.m.	0.0					
6 8 0 3 Clearance with regard to the temporary restructuring fund — Assigned revenue	p.m.	0.0					
Total Sugar Restructuring Fund	820.0	935.6					

(*) For information only: expenditure against original appropriations and estimated assigned revenue							
05 02 08 Fruits and vegetables (excl. 05020813)(incl. estimated assigned revenue of 500 Mio EUR)(****)	991.1	688.8	69.5 %	76.6 %	758.9	-7.1 %	-70.2
05 03 01 Decoupled direct aids (including estimated assigned revenue of 747 Mio EUR)(****)	37,071.0	36,792.0	99.2 %	99.9 %	37,029.1	-0.6 %	-237.2

(**) Budget year = 16.10.2010 to 15.10.2011 but direct expenditure possible until 31.12.2011

(****) It concerns the commitments

(*****) Including use of assigned revenues carried over from the 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