



COMMISSION OF THE EUROPEAN COMMUNITIES

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

on EAGGF Guarantee Section expenditure

Early warning system

No 1–4/2006

TABLE OF CONTENTS

1.	THE 2006 BUDGETARY PROCEDURE	3
2.	COMMENTS ON THE IMPLEMENTATION OF THE 2006 BUDGET.....	4
3.	CONCLUSIONS	6

1. THE 2006 BUDGETARY PROCEDURE

The 2006 budgetary procedure for heading 1 along with the corresponding amounts of appropriations involved at each stage of the procedure is presented in Annex 1.

The Commission adopted the preliminary draft budget (PDB) on 27 April 2005 involving commitment appropriations amounting to EUR 51 412.3 million and payment appropriations amounting to EUR 51 352.6 million for heading 1. The difference between commitment and payment appropriations amounting to EUR 59.7 million is due to the transitional instrument for the new Member States which is applied through differentiated appropriations as opposed to all other measures of the EAGGF-Guarantee. The amount of forecasted appropriations, included in the 2006 PDB for sub-heading 1a, were based on an evaluation of internal and external market conditions for the various products concerned as well as on the estimated requirements for the numerous other measures. The amount of forecasted appropriations, included in the 2006 PDB for sub-heading 1b were set at the ceiling for this sub-heading.

On 15 July 2005, the Ecofin-Budget Council adopted the Draft Budget (DB) by making an across-the-board reduction by an amount of EUR 150.0 million from the PDB appropriations of all budget lines of sub-heading 1a (agriculture) with appropriations greater than EUR 50.0 million, apart from the three lines related to the CAP reform. In contrast, the European Parliament, after its first reading of the PDB, increased the Commission's requested appropriations as presented in its PDB by approximately EUR 38.1 million for the same sub-heading.

In October 2005, the Commission proposed the Amending Letter No 2/2006 to the 2006 PDB thereby requesting commitment appropriations amounting to EUR 51 050.7 million and payment appropriations amounting to EUR 50 991.0 million for heading 1. The Commission, on the basis of an evaluation of internal and external market conditions for the various products concerned, requested commitment appropriations amounting to EUR 43 279.7 million for heading 1a, thus, reducing its request by approximately EUR 361.6 million compared to the PDB's level. The amounts for sub-heading 1b were left unchanged from the ones included in the 2006 PDB.

On 30 November 2005, the European Parliament, the Council and the Commission agreed on accepting the Amending Letter No 2/2006 concerning agricultural expenditure. The European Parliament adopted the 2006 budget on 15 December 2005.

The 2006 EAGGF-Guarantee budget's commitment appropriations amounted to EUR 51 050.7 million and its payment appropriations amounted to EUR 50 991.0 million for heading 1. Specifically:

- for sub-heading 1a: commitment and payment appropriations amounted to EUR 43 279.7 million. These appropriations relate to all three Commission activities, namely: agriculture (policy area 05), fisheries (policy area 11) and health and consumer protection (policy area 17), included in this sub-heading;

- for sub-heading 1b: commitment appropriations amounted to EUR 7 771.0 million while payment appropriations amounted to EUR 7 711.3 million.

2. COMMENTS ON THE IMPLEMENTATION OF THE 2006 BUDGET

For the period 16 October 2005 to 28 February 2006, the budget's actual implementation level compared to the expenditure profile pointed out by the indicator, established on the basis of the dispositions of Article 7 of Council Regulation (EC) No 2040/2000 of 26 September 2000 on budgetary discipline¹, is presented in Annex 2. Hereafter, a brief commentary on the most significant divergences between the actual and the expected level of implementation for the various sectors of the 2006 budget follows.

2.1. Monetary factors

The dollar/euro rate

The expenditure incurred in the aforementioned period takes account of the movement in the dollar/euro rate. For a large part of export refunds for agricultural products, particularly for cereals and sugar, and of some internal aids such as aid for cotton, expenditure is influenced by the trend in the euro/dollar rate.

In accordance with Article 8(1) of Regulation (EC) No 2040/2000, the budget adopted by the Budgetary Authority was drawn up on the basis of the average parity rate for July–September 2005 of EUR 1 = \$ 1.22. It should be noted that for the period 1 August 2005 to 28 February 2006 the average parity rate was approximately equal to EUR 1 = \$ 1.20, i.e. approximately 1.6% below the rate used for the establishment of the 2006 budget.

2.2. Subheading 1a – Market factors

2.2.1. *Sugar (+ EUR 154.6 million)*

The Commission expects that this over-implementation will continue to the end of the budget year mainly because of the public storage of sugar. Specifically, the quantities of sugar entering public storage are higher while the currently expected volume of sugar sales is lower when compared to the levels retained in the 2006 budget. These two factors would also lead to higher than otherwise final stocks of sugar in public storage. The aforementioned stock movements will result to financial and technical costs which will be higher than the ones included in the 2006 budget.

¹ OJ L 244, 29.9.2000, p. 27.

2.2.2. *Fruit and vegetables (– EUR 88.0 million)*

This under-implementation is mainly due to the lower payments incurred for the aid paid for the processing of tomatoes because of the lower quantities entering the processing plants. Furthermore, it appears that the payments which Member States will make for the operational funds for producer organisations will be lower than the expenditure foreseen in the budget. At this point of time, the Commission expects that the implementation of this measure will result to budget savings in the fruit and vegetables sector.

2.2.3. *Wine (+ EUR 86.9 million)*

The Commission considers that this over-implementation is temporary and that it is mainly due to the payments arising from the crisis distillations which were carried out earlier in the budget year.

2.2.4. *Milk and milk products (– EUR 54.0 million)*

The Commission agrees with the current under-execution shown in this sector by the indicator at this point in time and considers that this under-execution will probably continue to the end of the budget year if the current favourable internal and external market conditions persist in this sector. These favourable conditions have allowed the Commission to reduce the overall level of export refund rates and internal market aids for the different products of this sector, thus, incurring lower than otherwise expenditure.

2.2.5. *Pigmeat (– EUR 22.7 million)*

At this point in time, the discontinuation in the payment of export refunds for fresh and frozen pigmeat would result to lower payments as already pointed out by the indicator. In the absence of other unforeseen factors, the Commission considers that this under-execution might continue to the end of the budget year.

2.2.6. *Direct aids (– EUR 865.4 million)*

Since the majority of these aids were firstly introduced with the 2006 budget, the Commission established the corresponding indicator on the basis of the payment forecasts forwarded by all Member States. However, the current under-execution reflects the fact that the Member States can not entirely respect the payments' rhythm established by themselves. Furthermore, certain Member States have encountered problems in establishing and liquidating the amounts of aid due. The Commission is closely following up and updating the implementation situation on the basis of information provided by the Member States on a regular basis.

2.3. **Sub-heading 1b – Rural Development (+ EUR 263.6 million)**

The appropriations for rural development (EU-15) and for the transitional instrument for the new Member States were set at the ceiling for this sub-heading. The over-execution shown is due to the transitional instrument and it is temporary since the corresponding indicator was established on the basis of the hypothesis that all commitments for this instrument will take place in April 2006. However, the Commission's services were able to start committing these appropriations before that time, thus leading to this temporary over-execution which is expected to be regularised in the following months.

3. CONCLUSIONS

For sub-heading 1a, the uptake of appropriations for the Member States' expenditure from 16 October 2005 to 28 February 2006 amounted to EUR 29 012.8 million, i.e. 67.0% of available appropriations. The overall under-spending of the budget's appropriations when compared to the indicator amounted to approximately – EUR 883.8 million for the same period. This is totally attributable to the implementation of the measures for direct aids while the implementation for market measures was at the level pointed out by the corresponding indicator.

For sub-heading 1b, the uptake of appropriations for the Member States' expenditure from 16 October 2005 to 28 February 2006 amounted to EUR 1 299.3 million, i.e. 16.7% of available appropriations. At this point in time, the Commission expects that this sector's appropriations will be executed as proposed in the 2006 budget.

ANNEX 1

BUDGETARY PROCEDURE FOR 2006 - FEOGA-GARANTIE

		PDB		DB		DB		Letter of amendment		Council second reading		Budget	
		CA	PA	CA	PA	CA	PA	CA	PA	CA	PA	CA	PA
05		POLICY AREA 05 : AGRICULTURE AND RURAL DEVELOPMENT											
05 01		Management and support expenditure of DG AGRI											
05 01 04		Support expenditure for operations of policy area Agriculture											
05 02		Interventions on agricultural markets											
05 02 01		Cereals											
05 02 02		Rice											
05 02 03		Refunds on non-Annex 1 products											
05 02 04		Food programmes											
05 02 05		Sugar											
05 02 06		Olive oil											
05 02 07		Textile plants											
05 02 08		Fruit and vegetables											
05 02 09		Products of wine-growing sector											
05 02 10		Promotion											
05 02 11		Other plant products/measures											
05 02 12		Milk and milk products											
05 02 13		Beef and veal											
05 02 14		Sheepmeat and goatmeat											
05 02 15		Pigmeat, eggs and poultry, bee-keeping and other animal prod.											
05 02 99		Recoveries											
05 03		Direct aids											
05 03 01		Decoupled direct aids											
05 03 02		Other direct aids											
05 03 03		Additional amounts of aid											
05 03 04		Others (reliquats, small producers, agrimonetary aids, etc.)											
05 03 99		Recoveries											
05 07		Audit											
05 07 01		Control of agricultural expenditure											
05 07 02		Settlement of disputes											
05 08		General operational support and coordination											
05 08 06		Enhancing public awareness of the common agricultural											
Total 1a - CAP excluding rural development		43.307,0	43.307,0	43.157,0	43.157,0	43.345,1	43.345,1	42.945,4	42.945,4	42.945,4	42.945,4	42.945,4	42.945,4
Fish (Policy area 11)		33,2	33,2	33,2	33,2	33,2	33,2	33,2	33,2	33,2	33,2	33,2	33,2
Veterinary, phytosanitary and public health (Policy area 17)		301,2	301,2	301,2	301,2	301,2	301,2	301,2	301,2	301,2	301,2	301,2	301,2
Total 1a		43.641,3	43.641,3	43.491,3	43.491,3	43.679,5	43.679,5	43.279,7	43.279,7	43.279,7	43.279,7	43.279,7	43.279,7
05 04 01		Rural development in the EAGGF-Guarantee EUR-15											
05 04 04		Transitional Instrument for the financing of rural development by the EAGGF Guarantee Section for the new Member States											
Total 1b		7.771,0	7.711,3	7.771,0	7.711,3	7.771,0	7.711,3	7.771,0	7.711,3	7.771,0	7.711,3	7.771,0	7.711,3
TOTAL FEOGA- GARANTIE		51.412,3	51.352,6	51.262,3	51.202,6	51.450,5	51.390,8	51.050,7	50.991,0	51.050,7	50.991,0	51.050,7	50.991,0

ANNEX 2 – 15/03/2006
BUDGET YEAR 2006 PROVISIONAL CONSUMPTION OF APPROPRIATIONS
AGAINST ORIGINAL APPROPRIATIONS OF EAGGF-GUARANTEE

Situation 28/02/2006 in EUR million

		Original Approp- riations Budget (**)	Commitments from November to February EUR mio	Utilisation %	Expenditures profile as at February		Gap between implementation and indicator	
					%	EUR mio	%	EUR mio
		a	b	c=(b*100)/a	d	e=(d*a)/100	f=c-d	g=b-e
	Subheading 1a : CAP expenditure (not including rural development)							
05 01	ADMINISTRATIVE EXPENDITURE OF AGRICULTURE AND RURAL DEVELOPMENT POLICY 05010401, 05010406 and 05010407: Monitoring/prevention and pilot projects		0,1	1,4%	0,0%	0,0	1,4%	0,1
	Total 05 01 Administrative expenditure of agriculture and rural development	4,0	0,1	1,4%	0,0%	0,0	1,4%	0,1
05 02	INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01	Cereals	700,0	225,5	32,2 %	30,3 %	211,8	2,0 %	13,8
05 02 02	Rice	4,0	1,4	35,9 %	30,2 %	1,2	5,7 %	0,2
05 02 03	Refunds on non-Annex 1 products	415,0	112,5	27,1 %	38,2 %	158,6	-11,1 %	-46,2
05 02 04	Food programmes	268,0	27,3	10,2 %	10,0 %	26,7	0,2 %	0,6
05 02 05	Sugar	1.376,0	755,6	54,9 %	43,7 %	601,0	11,2 %	154,6
05 02 06	Olive oil	35,0	17,6	50,4 %	71,2 %	24,9	-20,8 %	-7,3
05 02 07	Textile plants	969,0	754,5	77,9 %	77,5 %	751,4	0,3 %	3,1
05 02 08	Fruit and vegetables	1.544,0	619,1	40,1 %	45,8 %	707,1	-5,7 %	-88,0
05 02 09	Products of the wine-growing sector	1.494,0	537,8	36,0 %	30,2 %	450,9	5,8 %	86,9
05 02 10	Promotion	52,0	10,0	19,2 %	22,9 %	11,9	-3,7 %	-1,9
05 02 11	Other plant products/measures	297,6	93,1	31,3 %	40,8 %	121,3	-9,5 %	-28,2
05 02 12	Milk and milk products	858,0	353,7	41,2 %	47,5 %	407,7	-6,3 %	-54,0
05 02 13	Beef and veal	388,0	136,3	35,1 %	39,5 %	153,3	-4,4 %	-17,0
05 02 14	Sheepmeat and goatmeat	0,0	0,0	0,0 %				
05 02 15	Pigmeat, eggs and poultry, bee-keeping and other animal products	164,0	32,8	20,0 %	33,8 %	55,5	-13,9 %	-22,7
05 02 99	Recoveries	-56,0	-18,4	32,8 %	46,8 %	-26,2	-14,0 %	7,8
	Total 05 02 Interventions in agricultural markets	8.508,6	3.658,8	43,0 %	43,0 %	3.657,0	0,0 %	1,7
05 03	DIRECT AIDS							
05 03 01	Decoupled direct aids	16.375,0	11.047,8	67,5 %	69,8 %	11.429,8	-2,3 %	-382,0
05 03 02	Other direct aids	18.105,9	14.082,4	77,8 %	80,3 %	14.539,0	-2,5 %	-456,6
05 03 03	Additional amounts of aid	347,0	42,6	12,3 %	14,5 %	50,3	-2,2 %	-7,7
05 03 04	Ancillary direct aids (reliques, small producers, agrimonetary aids, etc.)	0,0	-0,9	0,0 %				
05 03 99	Recoveries	-11,0	-23,4	212,4 %	46,7 %	-5,1	165,7 %	-18,2
	Total 05 03 Direct aids	34.816,9	25.148,5	72,2%	74,7%	26.014,0	-2,5%	-865,4
05 07	(1) AUDIT OF AGRICULTURAL EXPENDITURE 05070101, 05070102 and 050702: monitoring and preventive measures, settlement of disputes	9,4	0,3	2,8 %	30,5 %	2,9	-27,7 %	-2,6
	Total 05 07 Audit of agricultural expenditure	9,4	0,3	2,8 %	30,5 %	2,9	-27,7 %	-2,6
05 08	(1) POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY 050806: enhancing public awareness of the CAP	6,5	0,1	1,6 %	5,0 %	0,3	-3,4 %	-0,2
	Total 05 08 Policy strategy and coordination of agriculture and rural development policy	6,5	0,1	1,6 %	5,0 %	0,3	-3,4 %	-0,2
11 02	(2) FISHERIES MARKETS	33,2	7,8	23,5 %	25,4 %	8,4	-1,9 %	-0,6
	Total 1102 Fisheries markets	33,2	7,8	23,5 %	25,4 %	8,4	-1,9 %	-0,6
17 01	(1) (2) ADMINISTRATIVE EXPENDITURE OF POLICY AREA HEALTH AND CONSUMER PROTECTION 17010401, 17010404 and 17010405: Plant health meas. – Pilot study – Feed and food safety	8,1	0,0	0,0 %	12,6 %	1,0	-12,6 %	-1,0
	Total 17 01 Administrative expenditure of policy area Health and consumer protection	8,1	0,0	0,0 %	12,6 %	1,0	-12,6 %	-1,0
17 03	(1) (2) PUBLIC HEALTH							
17 03 02	Community tobacco fund – direct payments by the EU	14,6	0,0	0,0 %	61,6 %	9,0	-61,6 %	-9,0
	Total 1703 Public health	14,6	0,0	0,0 %	61,6 %	9,0	-61,6 %	-9,0
17 04	(1) (2) FOOD SAFETY, ANIMAL HEALTH, ANIMAL WELFARE AND PLANT HEALTH 17 04 01 to 07 Veterinary, animal welfare, public health, plant health, feed and food and other measures	278,5	195,0	70,0 %	73,2 %	204,0	-3,2 %	-9,0
	Total 17 04 Food safety, animal health, animal welfare and plant health	278,5	195,0	70,0 %	73,2 %	204,0	-3,2 %	-9,0
	Total 1a (excluding clearance)	43.679,7	29.010,5	66,4 %	68,4 %	29.896,6	-2,0 %	-886,1
05 07	(1) AUDIT OF AGRICULTURAL EXPENDITURE	-400,0	2,3	-0,6 %	0,0 %	0,0	-0,6 %	2,3
05 07 01	Accounting clearance of previous years' accounts and reduction/ suspension of advances for 1a	-70,0	2,3	3,3 %	0,0%	0,0	-3,3 %	2,3
05 07 01	Conformity clearance of previous years' accounts of shared management expenditure under 1b	-330,0	0,0	0,0 %	0,0 %	0,0	0,0 %	0,0
	Total 05 07 Audit of agricultural expenditure	-400,0	2,3	-0,6 %	0,0 %	0,0	-0,6 %	2,3
	Total 1a (including clearance)	43.279,7	29.012,8	67,0 %	69,1 %	29.896,6	-2,0 %	-883,8
	Subheading 1b : Rural development							
05 04 01	Rural development in the EAGGF Guarantee Section – EUR-15	5.675,0	1.022,9	18,0 %	18,3 %	1.036,1	-0,2 %	-13,1
05 04 04	Rural development in the EAGGF Guarantee Section – EUR-10 (3)	2.096,0	276,7	13,2 %	0,0 %	0,0	13,2 %	276,7
	Total 0504 Rural development	7.771,0	1.299,6	16,7 %	13,3 %	1.036,1	3,4 %	263,6
	Total 1b (excluding clearance)	7.771,0	1.299,6	16,7 %	13,3 %	1.036,1	3,4 %	263,6
05 07	(1) AUDIT OF AGRICULTURAL EXPENDITURE	0,0	-0,3	0,0 %				
05 07 01	Accounting clearance of previous years' accounts and reduction/ suspension of advances 1b	0,0	-0,3	0,0 %				
05 07 01	Conformity clearance of previous years' accounts of rural development under heading 1b	1 b0,0	0,0	0,0 %				
	Total 05 07 Audit of agricultural expenditure	0,0	-0,3	0,0 %				
	Total 1b (including clearance)	7.771,0	1.299,3	16,7 %	13,3 %	1.036,1	3,4 %	263,3
	Subheadings 1a and 1b							1
	TOTAL budget EAGGF-Guarantee (excluding clearance)	51.450,7	30.310,1	58,9 %	60,1 %	30.932,7	-1,2 %	-622,6
	TOTAL budget EAGGF-Guarantee (including clearance)	51.050,7	30.312,1	59,4 %	60,6 %	30.932,7	-1,2 %	-620,6

(*) Budget year = 16.10.2005 to 15.10.2006 but direct expenditure possible until 31.12.2006.
(**) Commitments.

(1) Chapter not exclusively EAGGF-G.

(2) Chapter outside title 05 but included in EAGGF-G.

(3) Differentiated appropriations – Chapter not exclusively EAGGF-G.