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

on EAGF expenditure

Early warning system

No 5-7/2011

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1. INTRODUCTION

For the period 16 October 2010 to 31 May 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 1 247.0 million. Specifically:

- The assigned revenue expected to be generated in the course of the 2011 budget year was estimated at EUR 707.0 million. Amounts of EUR 600.0 million and EUR 88.0 million were expected from conformity clearance corrections and from irregularities respectively. The receipts from the milk levy were estimated at EUR 19.0 million.
- The amount of assigned revenue expected to be carried over from the budget year 2010 into 2011 was estimated at EUR 540.0 million.

In the Budget for 2011, the Commission assigned this revenue of EUR 1 247.0 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 500.0 million was assigned to the operational funds for producer organisations in the fruits and vegetables sector, and
- EUR 747.0 million to the single payment scheme.

For these two schemes, the Budgetary Authority eventually voted appropriations amounting to EUR 292.0 million and to EUR 30 389.0 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 31 136.0 million for the single payment scheme.

In the annex, which presents the 2011 budget's provisional execution for the period to 31 May 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 36 324.0 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 37 071.0 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 1 015.0 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 May 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 dispositions of 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 May 2011, by EUR 63.0 million. This divergence is

primarily attributed to the wine and meat sectors. At the same time, other sectors present in total an under-implementation.

4.1.1. Cereals (-EUR 167.0 million)

The under-execution on this budget line in 2011 is a result of significant sales of cereals out of intervention that started in December 2010. Until 31 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. At this stage, 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 13.6 million)

An under-execution on this budget article as compared to the level of the indicator is caused by a slower rhythm of payment for the export certificates for sugar and dairy related products.

4.1.3. Textile plants (+EUR 6.1 million)

The faster uptake of the appropriations in this budget line is due to cotton restructuring measures, which were implemented for the first time in 2010 when all payments were made in October. The indicator for 2011 is based on 2010 execution. However in 2011 the expenditure on this article has been accruing evenly over the months (with 44% execution until the end of May). This execution pattern does not constitute any risk of exceeding the budgetary appropriations, as these are based on the financial ceilings established by the legislation for these measures.

4.1.4. Fruit and vegetables (+ EUR 165.9 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 May 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 May 2011, been applied to the total appropriations, which are expected to be available in order to fund this sector. As it is pointed out 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 500.0 million. Therefore, had the indicator been applied to the total

funding of EUR 991.1 million expected to be available for this sector, an under-execution of – EUR 69.4 million would appear.

This under-execution is related to operational funds for producers' organisations which have a slightly slower payment rhythm than in the previous years and to School Fruit Scheme, which due to relative novelty of the measure does not follow as yet a defined execution pattern. They are both considered to be of a temporary nature. However, it should be noted that part of exceptional support measures for the fruit and vegetables sector adopted by the Commission following the E.coli crisis in Germany will be funded through the operational funds for producers' organisations.

Furthermore the aid for preliminary recognition of producer groups continues to follow in 2011 a faster payment rhythm than during the last three years.

4.1.5. Products of the wine-growing sector (+EUR 125.0 million)

When compared to the level of budget appropriations and theoretical execution profile pointed out by the indicator on 31 May 2011, current over-execution is due to the acceleration of the rhythm of payments by Member States primarily for the national support programmes for the wine sector. This faster rhythm does not constitute any risk of exceeding the budgetary appropriations, as they are based on the financial ceilings established by the legislation for these measures.

4.1.6. Milk and milk products (-EUR 61.2 million)

When compared to the level of budget appropriations and theoretical execution profile pointed out by the indicator on 31 May 2011, an under-execution is observed. It is mainly related to the School Milk Scheme whose appropriations in the budget were increased by EUR 10 million in the course of the negotiations for the 2011 budget compared to the initial needs requested by the Commission. This increase in the budget has not yet been reflected in Member States' execution at this stage. Moreover the sales of skimmed milk powder (SMP) out of intervention, that started in December 2010, have been made at a level of prices which is higher than originally forecasted in the 2011 budget, thus, leading to gains for the 2011 budget. At this stage, the Commission considers that these gains will lead to an overall under-execution of this sector's appropriations by the end of the 2011 budget year.

4.1.7. Beef and veal (+EUR 14.2 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 till 31 May 2011. Due to the opening of the Turkish market to the EU meat products, the export activity in this market increased considerably in the first half of 2010/11 WTO year. Currently the Commission foresees to issue this year export certificates for a quantity, which is higher than what was forecasted in the 2011 budget. Thus at this stage the Commission considers that this budget article will show an overall over-execution by the end of the 2011 budget year.

4.1.8. *Pig meat, eggs and poultry (+EUR 10.4 million)*

A faster uptake of the appropriations on this budget article compared to the level of the indicator is attributable to a bigger than anticipated quantities of poultry exported with refunds in this budget year. At this stage the Commission foresees this will result in an over-execution on this budget line which will have to be covered by the transfers of appropriations from other budget lines.

Moreover, the Commission expects to pay in 2011 approximately EUR 48 million for the measure of private storage for pig meat, that was introduced in January 2011, following prolonging market pressure in this sector. This expenditure is not foreseen in 2011 budget and will have to be covered by the transfers of appropriations from other budget items.

4.2. **Direct aids**

The uptake of appropriations for direct aids compared to the level pointed out by the indicator on 31 May 2011 was higher by EUR 250.4 million.

4.2.1. *Decoupled direct aids (+EUR 332.5 million in comparison with voted appropriations)*

The total credit appropriations available for the needs of this sector amount to EUR 37 071 million including 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 did 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 May 2011, been applied to the total appropriations which are expected to be available in order to fund this sector. As it is pointed out in point 2 above, the total funding expected to be available for this sector is composed of the budget's voted appropriations of EUR 36 324.0 million and of the revenue assigned to this sector which is estimated to amount to EUR 747.0 million. Therefore, had the indicator been applied to the total funding of EUR 37 071.0 million expected to be available for this sector, then, an under-execution of - EUR 401.8 million would appear.

This scheme after a very fast up-take in the first two months of the 2011 budget year slowed down slightly in the following months. Nevertheless, at this point in time, Member States have already paid approximately 97.9% of the estimated needs in the budget, which is almost identical to the level of aids paid at the same time in 2010 (98.1%).

As for the payments made by the Member States for the single area payment scheme (SAPS), the situation has significantly improved compared to the last report as of the end of February. The execution pattern has recently accelerated and at the end of May the Member States have already paid approximately 97.2% of the estimated needs in the budget, as compared to 95.5% at the same time last year.

At this stage, the Commission expects that the budget for decoupled direct aids will be executed as foreseen in the 2011 budget.

4.2.2. Other direct aids (-EUR 82.6 million)

The other direct aids as at 31 May 2011 show an under-execution by comparison to the corresponding level of the indicator. This mainly is the result of a slower rhythm of payments made by Member States for the coupled specific support measures - Art 68, compared to the applied linear indicator. 2011 is the first year of the application for this scheme, therefore no historical execution pattern can be determined. At this point in time, this situation is expected to be temporary for all the schemes funded under other direct aids.

4.3. Other expenditure

4.3.1. Accounting clearance of previous years' accounts (+EUR 131.7 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 May 2011.

It should be pointed out that the Commission, in its Amending Letter for 2011, had proposed corrections amounting to – EUR 72.0 million. The final amount included in the 2011 budget by the Budgetary Authority amounted to – EUR 272.0 million.

At this point in time the Commission considers that the expected corrections from its accounting clearance decisions and from the non-respect of aid payments' deadlines by the Member States would not be sufficient to cover the extra-ordinary amount of – EUR 200.0 million. The Commission would need to cover the resulting significant shortfall of negative budget appropriations by positive budget appropriations in order to close this budget item in 2011.

5. IMPLEMENTATION OF REVENUE ASSIGNED TO EAGF

The table in the annex shows that assigned revenue amounting to EUR 1 275.9 million was collected as of 31 May 2011. Specifically:

- the revenue from corrections based on conformity clearance decisions amounted to EUR 238.9 million with additional amounts expected by the end of the budget year;
- the revenue from irregularities amounted to approximately EUR 110.9 million exceeding significantly the initial estimate of EUR 88.0 million, and
- at this point in time, most of the revenue from the milk levy has been collected and it amounts to approximately EUR 21.0 million exceeding slightly the initial estimate of EUR 19.0 million;
- finally, contrary to the initially estimated amount of EUR 540.0 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 amounts of assigned revenue are still to be collected both from the clearance of accounts and 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 1 015.0 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 May 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.

8. CONCLUSIONS

The provisional execution of the 2011 EAGF budget's appropriations, for the period up to 31 May 2011, shows that monthly reimbursements to Member States exceeded the profile for budget execution based on the indicator, by approximately EUR 416.7 million. Assigned revenue amounting to EUR 1 275.9 million has been collected and additional amounts are still expected to be collected in 2011.

At this point in time, the Commission expects that the amount of assigned revenue which is available as well as the amount which will become available in the course of the year, will be used to cover the funding of the operational funds for producer organisations and for the single payment scheme as originally expected when the budget was established.

As regards the increase of accounting clearance corrections by – EUR 200.0 million to a total of – EUR 272 million (see point 4.3.1) and the exceptional support measures for the fruit and vegetables sector adopted by the Commission following the E.coli crisis (see point 4.1.4) the Commission will closely follow the evolution of the budget's execution in order to see, if the under-execution in other parts of the budget will allow funding these items.

Annex 1 Provisional consumption of the EAGF appropriations up to 31/05/2011

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

Situation to the 31/05/2011
in EUR million

	Appropriations Budget (***)	Consumption from November to May	Utilisation	Consumption profile as at May		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	2.3	25.9 %	43.6 %	4.0	-17.7 %	-1.6
Total 05 01 Administrative expenditure for EAGF	9.1	2.3	25.9 %	43.6 %	4.0	-17.7 %	-1.6
05 02 INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01 Cereals	18.1	-143.7	-793.8 %	128.7 %	23.3	-922.5 %	-167.0
05 02 02 Rice	p.m.	0.0	0.0 %				
05 02 03 Refunds on non-Annex 1 products	31.0	7.9	25.6 %	69.4 %	21.5	-43.8 %	-13.6
05 02 04 Food programmes	500.1	103.8	20.8 %	20.1 %	100.6	0.6 %	3.2
05 02 05 Sugar	1.2	1.5	123.0 %	72.8 %	0.9	50.2 %	0.6
05 02 06 Olive oil	49.6	40.0	80.6 %	86.2 %	42.8	-5.6 %	-2.8
05 02 07 Textile plants	30.0	13.2	44.0 %	23.7 %	7.1	20.2 %	6.1
05 02 08 Fruits and vegetables (excl. 05020813)(estimated 500 Mio EUR from assigned revenue)(*)(****)	491.1	397.0	80.8 %	47.1 %	231.1	33.8 %	165.9
05 02 09 Products of the wine-growing sector	1,143.7	393.1	34.4 %	23.4 %	268.0	10.9 %	125.0
05 02 10 Promotion	59.1	29.9	50.6 %	64.3 %	38.0	-13.7 %	-8.1
05 02 11 Other plant products/measures	388.9	227.3	58.4 %	60.9 %	236.9	-2.5 %	-9.7
05 02 12 Milk and milk products	100.0	11.1	11.1 %	72.3 %	72.3	-61.2 %	-61.2
05 02 13 Beef and veal	35.1	35.5	101.1 %	60.7 %	21.3	40.3 %	14.2
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	62.9	53.7 %	44.9 %	52.5	8.9 %	10.4
Total 05 02 Interventions in agricultural markets (excluding 05 02 16)	2,964.9	1,179.4	39.8 %	37.7 %	1,116.4	2.1 %	63.0
05 03 DIRECT AIDS							
05 03 01 Decoupled direct aids (estimated 747 Mio EUR credits coming from assigned revenue)(*)(****)	36,324.0	36,040.2	99.2 %	98.3 %	35,707.7	0.9 %	332.5
05 03 02 Other direct aids	3,447.0	2,789.9	80.9 %	83.3 %	2,872.6	-2.4 %	-82.6
05 03 03 Additional amounts of aid	0.1	0.6	551.0 %	40.0 %	0.0	511.0 %	0.5
Total 05 03 Direct aids	39,771.1	38,830.7	97.6 %	97.0 %	38,580.3	0.6 %	250.4
OTHER EXPENDITURE							
05 04 05040114 Rural development financed by the EAGGF-Guarantee Section-Programming period 2000-2006	p.m.	-5.4					
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	-18.2	6.7 %	55.1 %	-149.9	-48.4 %	131.7
(3) 05070107 Conformity clearance of previous years' accounts	p.m.	3.0					
Other lines (05070102 and 050702)	9.5	6.5	68.4 %	84.4 %	8.0	-16.0 %	-1.5
05 08 POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA (excl. 050810)	25.7	9.3	36.0 %	65.7 %	16.9	-29.7 %	-7.6
11 02 (2) FISHERIES MARKETS (excl. 11020103)	30.0	29.8	99.5 %	99.9 %	30.0	-0.4 %	-0.1
17 01 (1) (2) ADMINISTRATIVE EXPENDITURE OF 'HEALTH AND CONSUMER PROTECTION' POLICY AREA 17010401, 17010405, 17010407 and 17010431	2.8	1.1	40.5 %	71.4 %	2.0	-30.9 %	-0.9
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	267.8	76.5 %	80.6 %	282.0	-4.1 %	-14.2
Total Expenditure (excluding 05 02 16)	42,891.2	40,306.4	94.0 %	93.0 %	39,889.7	1.0 %	416.7
Assigned Revenue		taken into account in the budget					
6 7 0 1 Clearance of EAGF accounts — Assigned revenue	600.0	238.9					
6 7 0 2 EAGF irregularities — Assigned revenue	88.0	110.9					
6 7 0 3 Superlevy from milk producers — Assigned revenue	19.0	21.0					
Assigned revenue carried over from 2010	540.0	905.1					
Total Revenue (excluding 6 8)	1,247.0	1,275.9					
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	835.7					
(*) 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	397.0	40.1 %	47.1 %	466.4	-7.0 %	-69.4
05 03 01 Decoupled direct aids (including estimated assigned revenue of 747 Mio EUR)(****)	37,071.0	36,040.2	97.2 %	98.3 %	36,442.0	-1.1 %	-401.8

(**) 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