



EUROPEAN COMMISSION

Brussels, 16.2.2012
COM(2012) 62 final

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

on EAGF expenditure

Early Warning System No 11-12/2011

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1. INTRODUCTION

The provisional implementation of the 2011 budget, running from 16 October 2010 to 15 October 2011, is presented in the annexed table and it is expected to amount to EUR 43 978.8 million. This amount includes the amounts corrected under the accounting clearance of EAGF's accounts and the suspensions and reductions of monthly reimbursements imposed in the course of the budget year. It further includes an estimate of expenditure, amounting to approximately EUR 36 million, which can be still made directly by the Commission up to 31 December 2011.

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.¹

As already outlined in previous Early Warning System reports, the Commission's initial estimates for the available assigned revenue in 2011 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 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 budget's provisional execution for 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. As already outlined in previous Early Warning System reports, an amount of EUR 1 015 million was initially 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 2011 budget is presented in the annex. Hereafter, a brief commentary is presented for certain budget sectors, which show the most significant divergences between actual expenditure incurred and the corresponding appropriations included in the 2011 budget.

4.1. Market measures

The uptake of appropriations for interventions in agricultural markets, compared to the level of the budget's voted appropriations, was higher by EUR 379.5 million, but lower by EUR 120.5 million when taking account of the EUR 500 million foreseen as

assigned revenue for this chapter. This divergence results from the composite execution patterns of the different sectors and it is primarily attributed to:

4.1.1. Cereals (-EUR 174.3 million)

The under-execution of this budget article results mainly from the significant sales of cereals out of intervention in the period from December 2010 to May 2011 at prices significantly higher than those forecasted in the 2011 budget. These sales led to realising considerable gains for the 2011 budget which are shown in the budget's execution as negative amounts on the same budget article. However, this budget article's under-execution partly results also from the lower expenditure incurred by Member States for the potato starch aids compared to the one forecasted in the budget.

4.1.2. Refunds on non-Annex 1 products (-EUR 18.3 million)

This under-execution results from the lower payments made by Member States for the export certificates for sugar- and dairy-related products compared to the ones estimated in the budget.

4.1.3. Food programmes (+EUR 14.9 million)

Member States implemented almost fully the 2011 plan for food distribution to the most deprived persons. The resulting over-execution for this budget article is mainly due to higher than usual amounts paid by Member States in 2011 for the previous years' plans.

4.1.4. Fruit and vegetables (+ EUR 636.8 million in comparison with voted appropriations)

This significant over-execution results from comparing the expenditure incurred in this sector with the 2011 budget's voted appropriations, which do not include the revenue assigned to this sector. However, if the revenue of EUR 500 million assigned to this sector is included (please see footnote * at the bottom of the annexed table), then total available appropriations rise to EUR 991.1 million and this over-execution falls to + EUR 136.8 million.

This over-execution is the composite result of the underlying execution patterns of the different schemes funded by this sector's appropriations:

With regard to the operational funds for producers' organisations and to the School Fruit Scheme, Member States incurred expenditure smaller than the one forecasted in the budget.

The exceptional support measures for the fruit and vegetables sector, adopted by the Commission following the E.coli crisis, were partly funded through the operational funds for producers' organisations while the rest was funded through budget item 05 02 08 99 within this budget article. These measures were expected to cost approximately EUR 227 million out of which EUR 215 million were expected to be paid and declared in 2011. Member States incurred expenditure amounting to approximately EUR 178.3 million in 2011. Nevertheless, Member States can still make further payments in the course of the 2012 budget year.

Finally, Member States incurred expenditure for the aids related to the preliminary recognition of producer groups which was significantly higher than the appropriations available for this scheme in the 2011 budget as it has been the case for this scheme's implementation for the last 3 years.

4.1.5. Wine (-EUR 39.3 million)

This under-execution is due to the slightly lower expenditure incurred by Member States for both the wine national support programmes (compared to the budgeted ceiling) and for the grubbing-up scheme.

4.1.6. Milk and milk products (-EUR 94.9 million)

This under-execution is the composite result of the underlying execution patterns of the different schemes funded in this sector.

Specifically, Member States incurred expenditure for the School Milk Scheme which was lower than the appropriations included in the final budget which, in the course of the negotiations for the 2011 budget, were increased by EUR 10 million compared to the initial needs requested by the Commission. Furthermore, skimmed milk powder was sold out of intervention at prices which were higher than originally forecasted in the 2011 budget. These sales resulted in realising gains for the 2011 budget which are shown in the budget's execution as negative amounts on the same budget article.

4.1.7. Beef and veal (+EUR 20.5 million)

This over-execution results from the higher expenditure incurred by Member States for export refunds because of the higher quantities of beef meat and live animals exported with refunds in 2011.

4.1.8. Pig meat, eggs and poultry (+EUR 71.3 million)

This over-execution is primarily attributable to the expenditure incurred by Member States for private storage aids for pig meat which were introduced in January 2011 and for which no appropriations were foreseen in the 2011 budget. It, furthermore, relates to the higher than expected quantities of poultry exported with refunds.

4.2. Direct aids

The uptake of appropriations for direct aids was higher compared to the level of the budget's voted appropriations by EUR 408.8 million, but lower by EUR 338.2 million when taking account of the foreseen assigned revenue of EUR 747 million for this chapter. This divergence results from the decoupled direct aids sector.

4.2.1. Decoupled direct aids (+EUR 507.1 million in comparison with voted appropriations)

This significant over-execution results from comparing the expenditure incurred for decoupled direct aids with the 2011 budget's voted appropriations, which do not include the revenue assigned to this sector. However, if we include the revenue of EUR 747 million assigned to this sector (please see footnote * at the bottom of the

annexed table), then total available appropriations rise to EUR 37 071 million and this over-execution turns to an under-execution of - EUR 239.9 million.

This under-execution is due to the lower expenditure incurred by Member States, primarily, for the single area payment scheme (SAPS) and for the decoupled specific support measures under article 68 of Council Regulation (EC) No 73/2009. However, it should be noted that the single payment scheme (SPS) was executed in 2011 at 99.8% of the budget's available appropriations which was its highest implementation rate up to now.

4.2.2. *Other direct aids (-EUR 98.7 million)*

This under-execution is primarily due to the lower expenditure incurred by Member States for the coupled specific support measures under article 68 of Council Regulation (EC) No 73/2009, for the suckler cow premium, for cotton and for the payments to starch potato producers compared to the one initially forecasted in the 2011 budget.

4.3. **Other expenditure**

4.3.1. *Accounting clearance of previous years' accounts (+EUR 338.4 million)*

The Commission, in its Amending Letter for 2011, had proposed accounting clearance corrections amounting to – EUR 72 million. The final amount for these corrections, decided in the course of the negotiations on the 2011 budget, amounted to – EUR 272 million. Furthermore, on the basis of the accounting clearance decisions taken in the course of 2011, the Commission had to reimburse, i.e. make positive corrections in favour of the Member States, a net amount of EUR 66.4 million. This latter amount added to the aforementioned negative amount of – EUR 272 million makes necessary for the Commission to find positive budget appropriations amounting to approximately EUR 338.4 million in order to close this budget item in 2011. These appropriations will be transferred from items of the budget which presented an under-execution in 2011.

4.3.2. *Food and feed safety, animal health, animal welfare and plant health (- EUR 32.3 million)*

The schemes funded under this article involve direct payments by the Commission. Payments amounting to EUR 29.1 million are forecasted to be still made up to 31.12.2011. However, at this point in time, 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 annexed table shows that the total assigned revenue eventually available in 2011 amounted to EUR 1 571.9 million. It was higher by EUR 324.9 million compared to the initially forecasted amount of EUR 1 247 million.

This difference is partly due to the fact that the amount of assigned revenue carried over from 2010 into 2011 was EUR 365.1 million higher at EUR 905.1 million than the amount of EUR 540 million initially foreseen in the budget. It should be pointed out that the assigned revenue carried over from 2010 into 2011 has been entirely used in financing expenditure of the 2011 budget year in accordance with article 10 of the Financial Regulation.

Furthermore, the assigned revenue freshly collected in 2011 amounted to EUR 712.9 million compared to the amount of EUR 707 million foreseen in the budget. However, this revenue was reduced by approximately EUR 46.1 million, following the correction of a conformity clearance decision from 2010, to EUR 666.8 million. Within this amount conformity clearance corrections amounted to EUR 467.3 million, receipts from irregularities amounted to EUR 177.6 million and the milk levy collections amounted to EUR 21.9 million. The part of the freshly collected assigned revenue, which will not be used in 2011, will be carried over into the 2012 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)

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 to the amount of EUR 1 044.8 million carried over from the budget 2010. After reimbursing Member States the amount of EUR 187.9 million incurred for Sugar Restructuring Fund aids (please, see point 7 below), the balance of approximately EUR 856.9 million will be carried over into the 2012 budget year and it will be used to finance the Sugar Restructuring Fund aids incurred in that year.

7. IMPLEMENTATION OF SUGAR RESTRUCTURING FUND

The reimbursement to Member States for payments made for aids concerning restructuring measures, for diversification aids or for aids to sugar refining amounted to EUR 187.9 million. These aids were reimbursed to Member States from the assigned revenue of EUR 1 044.8 million mentioned in point 6 above.

8. CONCLUSIONS

The provisional execution of the 2011 EAGF budget resulted in an execution of EUR 1 087.6 million above the budget's voted appropriations which is covered by the available assigned revenue of EUR 1 571.9 million.

A number of end-of-year adjustments and transfers of appropriations still have to be made. However, it is currently estimated that the available assigned revenue to be carried over to 2012 for EAGF would amount to approximately EUR 440 million.

ANNEX

BUDGET YEAR 2011 (**)
PROVISIONAL CONSUMPTION ON 15.10.2011
AGAINST APPROPRIATIONS OF EAGF

in EUR million

		Appropriations	Expenditure	Forecasts	Total	Utilisation	Gap between	
		Budget (***)	on 15 October 11	direct Commission payments(***) until 31.12.11	expenditure of Exercise 2011	%	expenditure and appropriations	
		EUR mio	EUR mio	EUR mio	EUR mio	%	%	EUR mio
		(1)	(2)	(3)	(4)=(2)+(3)	(5)=(4)*100/(1)	(6)=(5)-100%	(7)=(4)-(1)
Expenditure								
05 01	(1) ADMINISTRATIVE EXPENDITURE FOR EAGF 05010401	9,1	6,1	3,0	9,1	100,0%	0,0%	0,0
	Total 05 01 Administrative expenditure for EAGF	9,1	6,1	3,0	9,1	100,0%	0,0%	0,0
05 02	INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01	Cereals	18,1	-156,2		-156,2	-863,1%	-963,1%	-174,3
05 02 02	Rice	p.m.	0,0		0,0			
05 02 03	Refunds on non-Annex 1 products	31,0	12,7		12,7	41,1%	-58,9%	-18,3
05 02 04	Food programmes	500,1	515,0		515,0	103,0%	3,0%	14,9
05 02 05	Sugar	1,2	2,2		2,2	183,4%	83,4%	1,0
05 02 06	Olive oil	49,6	44,2		44,2	89,0%	-11,0%	-5,4
05 02 07	Textile plants	30,0	30,3		30,3	100,9%	0,9%	0,3
05 02 08	Fruits and vegetables (excl. 05020813)(estimated 500 Mio EUR from assigned revenue)(*)(***)	491,1	1.127,9		1.127,9	229,7%	129,7%	636,8
05 02 09	Products of the wine-growing sector	1.143,7	1.104,4		1.104,4	96,6%	-3,4%	-39,3
05 02 10	Promotion	59,1	47,1	0,2	47,4	80,1%	-19,9%	-11,7
05 02 11	Other plant products/measures	388,9	367,5		367,5	94,5%	-5,5%	-21,4
05 02 12	Milk and milk products	100,0	5,1		5,1	5,1%	-94,9%	-94,9
05 02 13	Beef and veal	35,1	55,6		55,6	158,5%	58,5%	20,5
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	117,0	188,3		188,3	160,9%	60,9%	71,3
	Total 05 02 Interventions in agricultural markets (excluding 05 02 16)	2.964,9	3.344,2	0,2	3.344,4	112,8%	12,8%	379,5
05 03	DIRECT AIDS							
05 03 01	Decoupled direct aids (estimated 747 Mio EUR credits coming from assigned revenue)(*)(***)	36.324,0	36.831,1		36.831,1	101,4%	1,4%	507,1
05 03 02	Other direct aids	3.447,0	3.348,3		3.348,3	97,1%	-2,9%	-98,7
05 03 03	Additional amounts of aid	0,1	0,6		0,6	597,3%	497,3%	0,5
	Total 05 03 Direct aids	39.771,1	40.179,9	0,0	40.179,9	101,0%	1,0%	408,8
05 04	OTHER EXPENDITURE							
	05040114 Rural development financed by the EAGGF-Guarantee Section-Programming period 2000-2006	p.m.	-6,6		-6,6			
	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	-272,0	66,4		66,4	-24,4%	-124,4%	338,4
	(3) 05070107 Conformity clearance of previous years' accounts	p.m.	3,5		3,5			
	Other lines (05070102 and 050702)	9,5	6,5	0,0	6,5	68,4%	-31,6%	-3,0
05 08	POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA (excl. 050810)	25,7	22,8	2,8	25,6	99,5%	-0,5%	-0,1
11 02	(2) FISHERIES MARKETS (excl. 11020103)	30,0	30,0	0,0	30,0	100,0%	0,0%	0,0
17 01	(1) (2) ADMINISTRATIVE EXPENDITURE OF 'HEALTH AND CONSUMER PROTECTION' POLICY AREA 17010401, 17010405, 17010407 and 17010431	2,8	1,4	0,8	2,2	78,6%	-21,4%	-0,6
17 03	(1) (2) PUBLIC HEALTH	p.m.	0,0	0,0	0,0			
17 04	17 03 02 Community tobacco fund - direct payments by the EU (1) (2) FOOD AND FEED SAFETY, ANIMAL HEALTH, ANIMAL WELFARE AND PLANT HEALTH 170401 to 170407 (excl. 17040303 and 170406)	350,1	288,7	29,1	317,8	90,8%	-9,2%	-32,3
	Total Expenditure (excluding 05 02 16)	42.891,2	43.942,9	36,0	43.978,8	102,5%	2,5%	1.087,6

Assigned Revenue		taken into account in the budget				
67 01	Clearance of EAGF accounts — Assigned revenue	600,0	467,3		467,3	
67 02	EAGF irregularities — Assigned revenue	88,0	177,6		177,6	
67 03	Superlevy from milk producers — Assigned revenue	19,0	21,9		21,9	
	Assigned revenue carried over from 2010	540,0	905,1		905,1	
	Total Revenue (excluding 6 8)	1.247,0	1.571,9	0,0	1.571,9	

Sugar Restructuring Fund		taken into account in the budget				
05 02 16	Sugar Restructuring Fund	195,0	187,9		187,9	
68 01	Temporary restructuring amounts — Assigned revenue	p.m.	0,0		0,0	
	Assigned revenue carried over from 2010	1.015,0	1.044,8		1.044,8	
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	820,0	856,8	0,0	856,8	

(*) 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	1.127,9		1.127,9	113,8%
05 03 01	Decoupled direct aids (including estimated assigned revenue of 747 Mio EUR)(****)	37.071,0	36.831,1		36.831,1	99,4%

(**) 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