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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 13.10.2008
SEC(2008) 2652 final

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

on EAGF expenditure

Early warning system

No 4-7/2008

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1. INTRODUCTION

For the period 16 October 2007 to 31 May 2008, 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 20 of Council Regulation (EC) No 1290/2005¹, is presented in the annexed table.

2. COMMENTS ON THE IMPLEMENTATION OF THE EAGF 2008 BUDGET

A brief commentary on the reasons for which the most significant divergences between the actual and the expected level of implementation for certain sectors of the 2008 budget is presented hereafter:

2.1. Monetary factors

In accordance with Article 21 of Regulation (EC) No 1290/2005, the budget adopted by the Budgetary Authority was drawn up on the basis of the average parity rate for July-September 2007 of EUR 1 = US \$ 1.37. It should be noted that, for the period 1 August 2007 to 31 May 2008, the average parity rate was approximately equal to EUR 1 = US \$ 1.47, i.e. 7.3% above the rate used for the establishment of the 2008 budget.

The expenditure incurred in the aforementioned period takes account of the movement in the EUR/US\$ parity rate. It should be pointed out that fixing export refunds for agricultural products, particularly for sugar, is influenced by the trend in this parity rate.

2.2. Market factors

2.2.1. Cereals (- EUR 49.6 million)

This under-implementation of appropriations, when compared to the level of the indicator, is due to the acceleration of the rhythm of sales of cereals from intervention in combination with the high level of domestic prices at which these sales are realised as opposed to the lower price level retained at the time of establishment of the 2008 budget.

2.2.2. Refunds for non-Annex I products (- EUR 23.8 million)

This under-implementation of appropriations, when compared to the level of the indicator, is primarily due to the overall reduction in the level of export refunds granted as opposed to the refund levels retained at the time of establishment of the 2008 budget.

2.2.3. Sugar (- EUR 100.0 million)

This under-implementation of appropriations, when compared to the level of the indicator, is both due to the reduced quantities of exported sugar and to the overall reduction in the level of export refunds granted as opposed to the quantities and the refund levels retained at the time of establishment of the 2008 budget.

¹ OJ L 209, 11.8.2005, p. 1. Regulation last amended by Regulation (EC) No 320/2006 (JO L 58, 28.2.2006, p. 42).

2.2.4. *Fruits and vegetables (+ EUR 191.1 million)*

This over-implementation is primarily due to the payments made by the Member States for the operational funds for producer organisations compared to the level of the indicator on 31 May 2008.

It should be noted, though, that the nature of this over-execution of the budget's appropriations is technical. Revenue estimated at EUR 467.0 million has been assigned to finance expenditure for the operational funds for producer organisations in the fruits and vegetables sector. The 2008 budgetary appropriations requested and granted by the Budgetary Authority for this sector did not include this revenue. Therefore, the expenditure currently incurred is compared to the indicator which applies to a level of appropriations which is lower by the revenue assigned to this sector. This is the reason for the current over-implementation of the budget at this point in time.

It should be noted that the amount of the revenue assigned to fruits and vegetables should be sufficient to cover the level of expenditure expected to be incurred by Member States in this sector.

2.2.5. *Wine (- EUR 222.4 million)*

This under-implementation of appropriations, when compared to the level of the indicator, is due to:

- the smaller expenditure incurred by Member States for the distillation of wine both because of the lower quantities of by-products of wine-making going to distillation as well as to the lower quantities of wine distilled for the alcohol industry, and
- the lower expenditure incurred by Member States for restructuring and reconversion aids.

2.3. **Direct aids (+ EUR 1 043.8 million)**

This over-implementation resulting from the comparison of the expenditure incurred with the level of the indicator mainly relates to decoupled direct aids and, particularly, to the single payment scheme.

It should be noted that the nature of this over-execution of the budget's appropriations is technical. Revenue estimated at EUR 1 470.0 million has been assigned to finance expenditure for the single payment scheme. The 2008 budgetary appropriations requested and granted by the Budgetary Authority for this scheme did not include this revenue. Therefore, the expenditure currently incurred is compared to the indicator which applies to a level of appropriations which are lower by the revenue assigned to this scheme. This is the reason for the budget's over-execution at this point in time.

It should be noted that the amount of the revenue assigned to direct aids should be sufficient to cover the level of expenditure expected to be incurred by Member States in this sector.

2.4. Audit of agricultural expenditure

2.4.1. Accounting clearance of previous years' accounts (+ EUR 234.2 million)

This over-implementation result from the comparison of the correction claw-backs already carried out with the level of the indicator at this point in time for this sector.

However, all the accounting clearance decisions expected within this budget year have been already taken by the Commission. The net amount expected to be clawed back through these decisions including an estimate of the corrections for payment delays still expected to be made stands, at this point in time, at approximately – EUR 40.0 million. This amount, compared to the amount of – EUR 370.0 million, which was retained by the Budgetary Authority in the 2008 budget, leads to lack of budget's appropriations of approximately EUR 330.0 million. This shortfall in claw backs has to be covered by a transfer of appropriations and it will lead to a corresponding increase in EAGF expenditure.

3. IMPLEMENTATION OF THE REVENUE ASSIGNED TO EAGF

The annexed table shows that assigned revenue amounting to EUR 726.7 million was collected as of 31 May 2008. Specifically:

- The conformity clearance claw-backs amounted to approximately EUR 431.2 million with additional amounts expected by the end of the budget year,
- The receipts from irregularities amounted to approximately EUR 74.8 million with additional amounts also expected by the end of the budget year, and
- From the milk levy an amount of approximately EUR 220.1 million was collected as compared to the initial estimate of EUR 219.0 million.

Contrary to the initially estimated amount of EUR 1 138.0 million, the amount of assigned revenue carried over from 2007 into 2008 eventually amounted to EUR 1 159.5 million.

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

In November 2007, Member States paid the second instalment of the temporary restructuring amounts due for the abandonment of the 2006/07 sugar quotas amounting to approximately EUR 858.1 million. Furthermore, Member States also paid the first instalment of the temporary restructuring amounts due for the abandonment of the 2007/08 sugar quotas amounting to approximately EUR 1 734.7 million. Therefore, total assigned revenue of EUR 2 592.9 million in the form of temporary restructuring amounts has been transferred to the Commission as of 31 May 2008.

Finally, contrary to the initially estimated amount of EUR 530.0 million, the assigned revenue carried over from 2007 into 2008 eventually amounted to EUR 735.8 million. At this point in time, after the aid payments made under the sugar restructuring fund (NB: please see point 5 below), the temporary restructuring amounts present a balance of EUR 1 951.5 million.

5. IMPLEMENTATION OF THE SUGAR RESTRUCTURING FUND

As of the end of May, Member States paid approximately EUR 641.4 million for aids of the 2006/07 marketing year to the restructured sugar industry, for diversification aids as well as for aids to sugar refining. These aids were paid from the aforementioned revenue originating from the temporary restructuring amounts.

6. CONCLUSIONS

The uptake of the EAGF budget's appropriations, for the reimbursement of Member States' expenditure from 16 October 2007 to 31 May 2008, for market measures and direct aids amounted to EUR 37 995.8 million, ie: it involved an over-execution of these appropriations by approximately EUR 946.8 million.

This over-execution is primarily attributed to decoupled direct aids and especially to the single payments scheme as well as to the shortfall in the claw-back corrections with regard to the accounting clearance of EAGF's accounts. With regard to market measures, at this point in time, savings are expected in a number of sectors like wine and sugar.

At this point in time, it should be pointed out that the available level of revenue assigned to EAGF will be sufficient to cover any over-execution of the budget's appropriations. This assigned revenue is composed of an amount of EUR 1 159.5 million carried over from budget year 2007 to 2008 and of an amount of EUR 726.7 million collected as of 31/5/2008 compared to the 2008 budget's foreseen amount of freshly assigned revenue of EUR 799.0 million.

ANNEX

BUDGET YEAR 2008 (*)

PROVISIONAL CONSUMPTION OF THE EAGF APPROPRIATIONS

Situation to the 31/05/2008

in EUR million

	Original appropriations Budget (*)	Consumption from November to May	Utilisation	Consumption profile (**) as at May		Gap between implementation and indicator	
	EUR mio	EUR mio	%	%	EUR mio	%	EUR mio
	A	B	C= B/A	D	E= D*A	F=C-D	G=B-E
Expenditure							
05 01 (1) ADMINISTRATIVE EXPENDITURE FOR EAGF 05010401 and 05010407	9,0	1,8	20,5 %	37,7 %	3,4	-17,2 %	-1,6
Total 05 01 Administrative expenditure for EAGF	9,0	1,8	20,5 %	37,7 %	3,4	-17,2 %	-1,6
05 02 INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01 Cereals	-9,0	-42,5	471,8 %	-79,6 %	7,2	551,4 %	-49,6
05 02 02 Rice	p.m.	0,0	0,0 %				
05 02 03 Refunds on non-Annex 1 products	150,0	77,0	51,4 %	67,2 %	100,9	-15,9 %	-23,8
05 02 04 Food programmes	307,0	110,6	36,0 %	66,8 %	205,1	-30,8 %	-94,5
05 02 05 Sugar	576,0	296,8	51,5 %	68,9 %	396,8	-17,4 %	-100,0
05 02 06 Olive oil	48,0	35,7	74,5 %	84,6 %	40,6	-10,1 %	-4,8
05 02 07 Textile plants	21,0	7,9	37,5 %	32,9 %	6,9	4,6 %	1,0
05 02 08 Fruits and vegetables (estimation of 467 Mio EUR credits coming from revenue)***	728,0	639,8	87,9 %	61,6 %	448,7	26,3 %	191,1
05 02 09 Products of the wine-growing sector	1.412,0	715,6	50,7 %	66,4 %	938,0	-15,7 %	-222,4
05 02 10 Promotion	50,4	32,6	64,7 %	54,4 %	27,4	10,3 %	5,2
05 02 11 Other plant products/measures	372,0	220,6	59,3 %	60,7 %	225,9	-1,4 %	-5,3
05 02 12 Milk and milk products	167,0	106,9	64,0 %	62,9 %	105,0	1,1 %	1,9
05 02 13 Beef and veal	61,0	30,2	49,5 %	69,5 %	42,4	-20,0 %	-12,2
05 02 14 Sheepmeat and goatmeat	p.m.	0,0					
05 02 15 Pigmeat, eggs and poultry, bee-keeping and other animal products	149,0	101,4	68,1 %	55,2 %	82,2	12,9 %	19,2
Total 05 02 Interventions in agricultural markets (excluding 05 02 16)	4.032,4	2.332,7	57,8 %	65,1 %	2.627,0	-7,3 %	-294,3
05 03 DIRECT AIDS							
05 03 01 Decoupled direct aids (estimation of 1470 Mio EUR credits coming from revenue)***	30.494,0	30.364,2	99,6 %	96,7 %	29.472,7	2,9 %	891,5
05 03 02 Other direct aids	5.775,0	4.934,7	85,4 %	82,8 %	4.784,3	2,6 %	150,4
05 03 03 Additional amounts of aid	563,0	109,0	19,4 %	19,0 %	107,1	0,3 %	1,9
Total 05 03 Direct aids	36.832,0	35.407,9	96,1 %	93,3 %	34.364,0	2,8 %	1.043,8
OTHER EXPENDITURE							
05 04 050401 Rural development financed by the EAGGF-Guarantee Section-Programming period 2000-2006	p.m.	-10,4					
05 07 05070106 Accounting clearance of previous years' accounts	-370,0	3,0	-0,8 %	62,5 %	-231,3	-63,3 %	234,2
(3) 05070107 Conformity clearance of previous years' accounts	p.m.	3,3					
Other lines (05070102 and 050702)	27,5	4,7	17,1 %	93,3 %	25,6	-76,2 %	-20,9
05 08 POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA	31,5	15,8	50,3 %	87,6 %	27,6	-37,3 %	-11,7
11 02 (2) FISHERIES MARKETS							
17 01 (1) (2) ADMINISTRATIVE EXPENDITURE OF 'HEALTH AND CONSUMER PROTECTION' POLICY AREA 17010401, 17010404 to 17010406	2,4	0,7	28,6 %	25,0 %	0,6	3,6 %	0,1
17 03 (1) (2) PUBLIC HEALTH 17 03 02 Community tobacco fund - direct payments by the EU	14,3	0,0	0,0 %	0,0 %	0,0	0,0 %	0,0
17 04 (1) (2) FOOD SAFETY, ANIMAL HEALTH, ANIMAL WELFARE AND PLANT HEALTH 170401 to 170405 and 170407	265,0	206,8	78,0 %	84,5 %	223,9	-6,4 %	-17,0
Total Expenditure (excluding 05 02 16)	40.876,5	37.995,8	93,0 %	90,6 %	37.049,0	2,3 %	946,8
Revenue							
6 7 0 1 Clearance of EAGF-accounts (estimation : 500 Mio EUR)	p.m.	431,2					
6 7 0 2 EAGF Irregularities (estimation : 80 Mio EUR)	p.m.	74,8					
6 7 0 3 Superlevy from milk producers (estimation : 219 Mio EUR)	p.m.	220,7					
Total Revenue (excluding 6 8)	p.m.	726,7					
Sugar Restructuring Fund							
05 02 16 Sugar Restructuring Fund (estimation of 1344 Mio EUR credits coming from revenue)***	p.m.	641,4					
6 8 0 1 Temporary restructuring amounts - Assigned revenue (estimation : 2374 Mio EUR)	p.m.	2.592,9					
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	p.m.	1.951,5					

(*) Budget year = 16.10.2007 to 15.10.2008 but direct expenditure possible until 31.12.2008

(**) For direct payments it concerns the commitments

(***) Including use of revenues carried over of last 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