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COMMISSION OF THE EUROPEAN COMMUNITIES

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

**on EAGF expenditure**

**Early warning system**

**No 12/2008**

## TABLE OF CONTENTS

1.	INTRODUCTION .....	3
2.	COMMENTS ON THE IMPLEMENTATION OF THE EAGF 2008 BUDGET .....	3
3.	IMPLEMENTATION OF THE REVENUE ASSIGNED TO EAGF .....	6
4.	REVENUE ORIGINATING FROM THE TEMPORARY RESTRUCTURING AMOUNTS (SUGAR SECTOR) .....	6
5.	IMPLEMENTATION OF THE SUGAR RESTRUCTURING FUND .....	7
6.	CONCLUSIONS .....	7
ANNEX	PROVISIONAL CONSUMPTION OF EAGF APPROPRIATIONS UP TO 15/10/2008	

## **1. INTRODUCTION**

The provisional implementation of the 2008 budget year (16 October 2007 to 15 October 2008) is expected to amount to EUR 42 184.5 million, i.e. 102.9% of original appropriations. This amount includes the amounts clawed back from Member States through the corrections of the accounting clearance of EAGF's accounts and the suspensions and reductions of their monthly reimbursements imposed in the course of the year. It further includes an estimate of expenditure amounting to approximately EUR 134.5 million which can be still made directly by the Commission up to 31 December 2008.

This provisional implementation of the budget, which is presented in detail in the annexed table, results in an overall execution of approximately EUR 1 178.1 million above the budget's original appropriations. This apparent 'over-execution' changes when account is taken of assigned revenue which, while not part of the overall budget appropriations, is actually used in financing part of the agricultural expenditure.

## **2. COMMENTS ON THE IMPLEMENTATION OF THE EAGF 2008 BUDGET**

The budget's provisional implementation was influenced by a number of factors which for the most significant areas can be outlined as follows:

### **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 July 2008, the average parity rate was approximately equal to EUR 1 = US\$ 1.49, i.e. 8.8% 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**

The uptake of appropriations for interventions in agricultural markets exceeded the budget's original appropriations by approximately EUR 124.3 million. Appropriations for food programmes for deprived persons and pig-meat showed the most significant over-execution while cereals, refunds for Non-Annex I products, sugar and wine showed the most significant under-execution of original appropriations. For fruits and vegetables please see point 2.2.5 below.

(NB: In parenthesis, the final level of execution over (+) or under (-) original appropriations is presented).

#### **2.2.1. Cereals (- EUR 42.3 million)**

Internal and external conditions continued to be favourable in the cereals market for most of the budget year and resulted in a level of internal and world market prices which was higher than the hypotheses retained at the time of establishing the 2008 budget. The final level of implementation of original appropriations was primarily due to:

- higher net gains realized from selling almost all the stock of cereals in public storage at these high prices (NB: net gains from stock sales are expressed with a negative (-) and they are essentially receipts for the budget); and
- savings because no expenditure was incurred for the production refund for starch which was set at 0 in 2008 again as a result of these high prices.

#### 2.2.2. *Food programs for deprived persons (+ EUR 38.0 million)*

The current level of implementation was primarily due to payments made by Member States both for outstanding balances concerning previous years' programs and for the 2008 program. These factors combined led to incurring expenditure which exceeded the appropriations retained in the 2008 budget.

#### 2.2.3. *Refunds for Non-Annex I products (- EUR 31.9 million)*

This final implementation level of original appropriations was primarily due to the lower expenditure incurred as a result both of the overall reduction of the export refund rates for sugar and of the slowing down of the rhythm of export refund payments by the Member States concerned.

#### 2.2.4. *Sugar (- EUR 100.4 million)*

This final level of implementation of original appropriations was primarily due to the lower expenditure incurred resulting:

- from the slower rhythm of export refund payments made by the Member States as well as to the reduced quantities of exported sugar and to the lower level of the export refunds granted, and
- from the lower quantities of white sugar sold from public storage compared to the ones retained in the budget.

#### 2.2.5. *Fruits and vegetables (+ EUR 425.0 million)*

This final level of implementation of appropriations was primarily due to the payments made by the Member States for the operational funds for producer organisations aimed at financing their production quality improvement, promotion and commercialisation programmes.

For this scheme, the Budgetary Authority granted original appropriations amounting to EUR 105.0 million only because it took account of revenue of EUR 467.0 million, which had been assigned to budget item 05 02 08 03. However, Member States paid EUR 9.6 million more than the available credits for this scheme for a total amount of EUR 581.6 million. Therefore, this total amount was partly covered by the available assigned revenue and by transferring appropriations from other items in this article for which the expenditure incurred was lower than their corresponding original appropriations foreseen in the budget.

Following the explanation presented above, it should be noted that this article's over-execution is more apparent than real as all the expenditure due has been financed by credits already available.

#### 2.2.6. *Wine (- EUR 242.0 million)*

The final level of implementation of appropriations was primarily due to lower expenditure incurred as a result of:

- the lower quantities of wine-making by-products going to distillation as well as to the lower quantities of wine distilled for the potable alcohol industry; and
- the lower payments made by Member States for restructuring and reconversion aids.

#### 2.2.7. *Pig meat, eggs and poultry (+ EUR 109.9 million)*

The current level of implementation was mainly due to the higher expenditure incurred by Member States for export refunds for fresh and frozen pig meat and for the private storage of pig-meat. The 2008 budget did not foresee any appropriations for these schemes since they were introduced by the Commission in the course of the budget year in order to counter the difficult market situation in this sector resulting particularly from high feed costs and the sharp drop of the US \$.

### 2.3. **Direct aids**

The uptake of appropriations for direct aids exceeded the budget's original appropriations by approximately EUR 736.6 million. The decoupled direct aids present an execution level above the budget's original appropriations (NB: please see point 2.3.1 below for details) contrary to the other direct aids and the additional amounts of aid which present an execution level below the budget's original appropriations.

#### 2.3.1. *Decoupled direct aids (+ EUR 920.5 million)*

The final level of implementation of appropriations is primarily due to the payments made by the Member States for the Single Payment Scheme (SPS).

For this scheme, the Budgetary Authority granted original appropriations amounting to EUR 27 220.0 million because it took account of revenue of EUR 1 470.0 million, which had been assigned to budget item 05 03 01 01. However, Member States paid EUR 456.2 million less than the available credits for this scheme for a total amount of EUR 28 233.8 million. This amount was covered by the original appropriations in the budget and by the assigned revenue carried forward from the 2007 budget year into the 2008 budget year amounting to EUR 757.4 million. The balance was covered by transferring appropriations from other items in this and in other articles of the 2008 budget for which the expenditure incurred was lower than their corresponding original appropriations foreseen in this budget.

Following the explanation presented above, it should be noted that this article's over-execution is more apparent than real as all the expenditure due has been financed by credits already available.

#### 2.3.2. *Other direct aids (- EUR 154.6 million)*

The current level of implementation of appropriations is primarily due to the fact that Member States incurred payments for a number of schemes which were lower than the original appropriations retained in the 2008 budget. The schemes involved are mainly the

COP area payments, the sheep and goat premium, the aid for energy crops, the payments for specific types of farming and the area aid for cotton.

## **2.4. Audit of agricultural expenditure**

### **2.4.1. Accounting clearance of previous years' accounts (+ EUR 330.7 million)**

The current level of implementation results from the lower amount of clearance of accounts corrections and corrections for payment delays. This amount, compared to the amount of – EUR 370.0 million, which was retained by the Budgetary Authority in the 2008 budget, leads to a shortfall of budget appropriations amounting to approximately EUR 330.0 million which further leads to a corresponding increase in EAGF expenditure.

## **3. IMPLEMENTATION OF THE REVENUE ASSIGNED TO EAGF**

The assigned revenue carried over from 2007 into 2008, amounted to EUR 1 159.5 million and has been entirely used in financing expenditure of the 2008 budget year in accordance with article 10 of the Financial Regulation.

The annexed table shows that the assigned revenue freshly collected in 2008 amounted to EUR 1 561.6 million. Specifically:

- the conformity clearance claw-backs amounted to approximately EUR 984.6 million,
- the receipts from irregularities amounted to approximately EUR 356.1 million and
- the milk levy collections amounted to approximately EUR 220.9 million.

A part of the freshly collected assigned revenue will be used in order to finance the expenditure incurred in 2008. At this point in time, it is foreseen that approximately EUR 1 476.0 million will be carried over into the 2009 budget.

## **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 EU budget.

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 to the beneficiaries of the sugar restructuring fund (NB: please see point 5 below), the temporary restructuring amounts present a balance of EUR 1 308.9 million which will be carried forward into 2009.

## **5. IMPLEMENTATION OF THE SUGAR RESTRUCTURING FUND**

As of the end of September, total payments made by Member States for aids to the restructured sugar industry, for diversification aids as well as for aids to sugar refining amounted to approximately EUR 1 284.0 million. These aids were paid from the aforementioned revenue originating from the temporary restructuring amounts (NB: please see point 4 above).

## **6. CONCLUSIONS**

The EAGF's 2008 implementation pattern, resulting in an overall execution of approximately EUR 1 178.1 million above the budget's voted appropriations, was mainly influenced by the sectors of fruits and vegetables, pig-meat and decoupled direct aids as well as by the shortfall in the corrections with regard to the accounting clearance of EAGF's accounts. The needs for additional appropriations for fruits and vegetables and for decoupled direct aids ((NB: please see points 2.2.5 and 2.3.1) are more apparent than real because they are amply covered either by the revenue assigned to the 2008 budget or by transfers of appropriations from other articles of the 2008 budget. Finally, the needs for additional appropriations for the pig-meat sector and for the accounting clearance ((NB: please see points 2.2.7 and 2.4.1) are also covered either by the revenue assigned to the 2008 budget or by transfers of appropriations from other articles of the 2008 budget.

At this point in time, the available assigned revenue carried over from the budget year 2007 to 2008 has been totally used while it is foreseen that of the freshly collected in 2008 assigned revenue an amount of EUR 1 476.0 million will be carried over into 2009 in order to cover the credit needs of that year. This carry over is higher by an amount of EUR 142.0 million than the corresponding amount retained in the hypotheses made for the establishment of the 2009 budget (Amending Letter).



**ANNEX**

**BUDGET YEAR 2008**

**PROVISIONAL CONSUMPTION ON 15.10.2008  
AGAINST ORIGINAL APPROPRIATIONS OF EAGF**

in EUR million

		Original appropriations Budget (*)	Expenditure on 15 October 08	Forecasts direct Commission payments(**) until 31.12.08	Total expenditure of Exercice 2008	Utilisation %	Gap between 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)
<b>Expenditure (A)</b>								
05 01	(1) ADMINISTRATIVE EXPENDITURE FOR EAGF 05 01 04 01 and 05 01 04 07	9,0	4,4	3,6	8,0	89,4%	-10,6%	-1,0
	<b>Total 05 01 Administrative expenditure for EAGF</b>	<b>9,0</b>	<b>4,4</b>	<b>3,6</b>	<b>8,0</b>	<b>89,4%</b>	<b>-10,6%</b>	<b>-1,0</b>
05 02	INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01	Cereals	-9,0	-51,3		-51,3	570,0%	470,0%	-42,3
05 02 02	Rice	p.m.	0,0					
05 02 03	Refunds on non-Annex 1 products	150,0	118,1		118,1	78,7%	-21,3%	-31,9
05 02 04	Food programmes	307,0	345,0		345,0	112,4%	12,4%	38,0
05 02 05	Sugar	576,0	475,6		475,6	82,6%	-17,4%	-100,4
05 02 06	Olive oil	48,0	45,1		45,1	94,1%	-5,9%	-2,9
05 02 07	Textile plants	21,0	21,0		21,0	100,0%	0,0%	0,0
05 02 08	Fruit and vegetables (estimation of 467 Mio EUR credits coming from revenue)***	728,0	1.153,0		1.153,0	158,4%	58,4%	425,0
05 02 09	Products of the wine-growing sector	1.412,0	1.170,0		1.170,0	82,9%	-17,1%	-242,0
05 02 10	Promotion	50,4	50,5	0,0	50,5	100,4%	0,4%	0,2
05 02 11	Other plant products/measures	372,0	375,4		375,4	100,9%	0,9%	3,4
05 02 12	Milk and milk products	167,0	148,0		148,0	88,6%	-11,4%	-19,0
05 02 13	Beef and veal	61,0	47,2		47,2	77,4%	-22,6%	-13,8
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	258,9		258,9	173,7%	73,7%	109,9
	<b>Total 0502 Interventions in agricultural markets (excluding 05 02 16)</b>	<b>4.032,4</b>	<b>4.156,7</b>	<b>0,0</b>	<b>4.156,7</b>	<b>103,1%</b>	<b>3,1%</b>	<b>124,3</b>
05 03	DIRECT AIDS							
05 03 01	Decoupled direct aids (estimation of 1470 Mio EUR credits coming from revenue)***	30.494,0	31.414,5		31.414,5	103,0%	3,0%	920,5
05 03 02	Other direct aids	5.775,0	5.620,4		5.620,4	97,3%	-2,7%	-154,6
05 03 03	Additional amounts of aid	563,0	533,7		533,7	94,8%	-5,2%	-29,3
	<b>Total 0503 Direct aids</b>	<b>36.832,0</b>	<b>37.568,6</b>	<b>0,0</b>	<b>37.568,6</b>	<b>102,0%</b>	<b>2,0%</b>	<b>736,6</b>
<b>OTHER EXPENDITURE</b>								
05 04	Rural development financed by EAGGF-Guarantee Section-Programming period 2000-2006	p.m.	-14,1		-14,1			
05 07	05070106 Accounting clearance of previous years' accounts (3) 05070107 Conformity clearance of previous years' accounts Other lines (05070102 and 050702)	-370,0	-39,3		-39,3	10,6%	-89,4%	330,7
		p.m.	3,3		3,3			
		27,5	6,4		6,4			
05 08	POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA	31,5	19,8	11,7	31,4	99,9%	-0,1%	0,0
11 02	(2) (4) FISHERIES MARKETS	32,5	51,8		51,8	159,2%	59,2%	19,3
17 01	(1) (2) ADMINISTRATIVE EXPENDITURE OF POLICY AREA HEALTH AND CONSUMER PROTECTION 17010401, 17010404 to 17010406	2,4	1,7	0,7	2,4	101,2%	1,2%	0,0
17 03	(1) (2) PUBLIC HEALTH 17 03 02 Community tobacco fund - direct payments by the EU	14,3	0,0	14,3	14,3	100,0%	0,0%	0,0
17 04	(1) (2) FOOD SAFETY, ANIMAL HEALTH, ANIMAL WELFARE AND PLANT HEALTH 170401 to 170405 and 170407	395,0	290,7	104,3	395,0	100,0%	0,0%	0,0
	<b>Total Expenditure (excluding 05 02 16)</b>	<b>41006,5</b>	<b>42.050,0</b>	<b>134,5</b>	<b>42184,5</b>	<b>102,9%</b>	<b>2,9%</b>	<b>1178,1</b>
<b>Revenue</b>								
6 7 0 1	Clearance of EAGF-accounts (estimation : 500 Mio EUR)	p.m.	984,6		984,6			
6 7 0 2	EAGF Irregularities (estimation : 80 Mio EUR)	p.m.	356,1		356,1			
6 7 0 3	Superlevy from milk producers (estimation : 219 Mio EUR)	p.m.	220,9		220,9			
	<b>Total Revenue (excluding 6 8)</b>	<b>p.m.</b>	<b>1561,6</b>		<b>1561,6</b>			
<b>Sugar Restructuring Fund</b>								
05 02 16	Sugar Restructuring Fund (estimation of 757 Mio EUR credits coming from revenue)***	p.m.	1284,1		1284,1			
6 8 0 1	Temporary restructuring amounts - Assigned revenue (estimation : 1259 Mio EUR)	p.m.	2592,9		2592,9			
6 8 0 2	Irregularities concerning the temporary restructuring fund - Assigned revenue	p.m.	0,0		0,0			
6 8 0 3	Clearance with regard to the temporary restructuring fund - Assigned revenue	p.m.	0,0		0,0			
	<b>Total Sugar Restructuring Fund</b>	<b>p.m.</b>	<b>1308,8</b>	<b>0,0</b>	<b>1308,8</b>			

(\*) Budget year = 16.10.2007 to 15.10.2008 but direct expenditure possible until 31.12.2008: including AB n°3(17040301: +130 Mio Eur)

(\*\*) 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