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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 15.1.2009
SEC(2009) 39 final

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

on EAGF expenditure

Early warning system

No 9-11/2008

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.....	5
4.	REVENUE ORIGINATING FROM THE TEMPORARY RESTRUCTURING AMOUNTS (SUGAR SECTOR)	5
5.	IMPLEMENTATION OF THE SUGAR RESTRUCTURING FUND.....	6
6.	CONCLUSIONS.....	6
ANNEX	PROVISIONAL CONSUMPTION OF EAGF APPROPRIATIONS UP TO 30/09/2008	

1. INTRODUCTION

For the period 16 October 2007 to 30 September 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 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

2.2.1. Cereals (– EUR 43.8 million)

The current level of implementation of appropriations, when compared to the level of the indicator, is due to the high level of domestic prices at which intervention cereals were sold as opposed to the lower price levels retained at the time of establishment of the 2008 budget.

2.2.2. Refunds for non-Annex I products (– EUR 31.8 million)

The level of implementation of appropriations, when compared to the current level of the indicator, is primarily due to the slower rhythm of export refund payments made by the Member States concerned as well as to the overall reduction in the level of export refunds granted as opposed to the refund level retained at the time of establishment of the 2008 budget. Savings are expected in this sector by the end of the budget year.

2.2.3. Sugar (– EUR 90.3 million)

The current level of implementation of appropriations, when compared to the level of the indicator, is due to the slower rhythm of export refund payments made by the Member States concerned as well as 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

¹ OJ L 209, 11.8.2005, p. 1.

levels retained at the time of establishment of the 2008 budget. Savings are expected in this sector by the end of the budget year.

2.2.4. *Fruits and vegetables (+ EUR 329.3 million)*

The level of implementation of appropriations, when compared to the current level of the indicator, is primarily due to the payments made by the Member States for the operational funds for producer organisations by 30 September 2008.

It should be noted that 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 level of 2008 budgetary appropriations requested and granted by the Budgetary Authority for this sector took account of this revenue. As a consequence, the indicator is lower than what it should be since it is calculated on the basis of a level of appropriations which is lower by the revenue assigned to this sector. This is the reason for which the expenditure currently incurred, when compared to the level of the corresponding indicator, exceeds available appropriations at this point in time.

However, it should be pointed out 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 251.6 million)*

The lower level of implementation of appropriations, when compared to the level pointed out by 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.

Savings are expected in this sector by the end of the budget year.

2.2.6. *Pig meat, eggs and poultry (+ EUR 97.9 million)*

The current level of implementation is mainly due to the payments made by the Member States for export refunds for fresh and frozen pig meat. This scheme was introduced by the Commission at the end of November 2007 in order to counter the difficult market situation in this sector resulting particularly from high feed costs and the sharp drop of the US \$. The 2008 budget did not foresee any appropriations for this scheme. For this reason, the current level of payments made by Member States exceeds the appropriations level pointed out by the indicator. This pattern is expected to continue to the end of the budget year.

2.3. **Direct aids (+ EUR 754.2 million)**

The level of implementation of appropriations, when compared to the current level of the indicator, is primarily due to the payments made by the Member States for the single payment scheme by 30 September 2008.

It should be noted that revenue estimated at EUR 1 470.0 million has been assigned to finance expenditure for this scheme. The level of 2008 budgetary appropriations requested and granted by the Budgetary Authority for this sector took account of this revenue. As a consequence, the indicator is lower than what it should be since it is calculated on the basis of a level of appropriations which is lower by the revenue assigned to this sector. This is the reason for which the expenditure currently incurred, when compared to the level of the corresponding indicator, exceeds available appropriations at this point in time.

However, it should be pointed out 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 320.8 million)

This over-implementation result from the comparison of the correction claw-backs already carried out with the level of the indicator as of 30 September 2008.

However, it should be noted that 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 a lack of budget 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, in the course of the 2008 budget year, assigned revenue amounting to EUR 1 544.9 million was collected as of 30 September 2008. Specifically:

- the conformity clearance claw-backs amounted to approximately EUR 984.6 million,
- the receipts from irregularities amounted to approximately EUR 339.4 million with additional amounts expected by the end of the budget year, and
- from the milk levy an amount of approximately EUR 220.8 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 30 September 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 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

It has to be noted that the EAGF budget appropriations were increased, through Amending Budget N° 3/2008, by EUR 130.0 million in order to finance the veterinary measures needed for fighting the blue tongue disease. The uptake of the EAGF budget's appropriations for the reimbursement of Member States' expenditure from 16 October 2007 to 30 September 2008, mainly for market measures and direct aids, amounted to EUR 41 671.4 million, i.e. it involved a general execution above these appropriations by approximately EUR 988.9 million when compared to the current level of the indicator.

This implementation pattern is mainly due to the payments incurred by the Member States for the operational funds for producer organisations, for the pig meat sector and for 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. These payments which exceed the voted budget's appropriations (NB: please see points 2.2.4, 2.2.6, 2.3 and 2.4 above) are amply covered by the revenue assigned to the 2008 budget (NB: please see point 3 above).

At this point in time, the available revenue assigned to the 2008 budget amounts to EUR 2 704.4 million and it 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 1 544.9 million freshly collected by 30 September 2008. It is foreseen that all the assigned revenue carried over from the budget year 2007 to 2008 will be used within the current budget year while most of the assigned revenue collected in 2008 will be carried over to 2009.

ANNEX

BUDGET YEAR 2008 (*)

PROVISIONAL CONSUMPTION OF THE EAGF APPROPRIATIONS

Situation to the 30/09/2008
in EUR million

	Original appropriations Budget (*)	Consumption from November to September	Utilisation	Consumption profile (**)		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	3,3	36,9 %	57,8 %	5,2	-20,9 %	-1,9
Total 05 01 Administrative expenditure for EAGF	9,0	3,3	36,9 %	57,8 %	5,2	-20,9 %	-1,9
05 02 INTERVENTIONS IN AGRICULTURAL MARKETS							
05 02 01 Cereals	-9,0	-51,4	570,7 %	84,4 %	-7,6	486,3 %	-43,8
05 02 02 Rice	p.m.	0,0	0,0 %				
05 02 03 Refunds on non-Annex 1 products	150,0	112,8	75,2 %	96,3 %	144,5	-21,2 %	-31,8
05 02 04 Food programmes	307,0	343,8	112,0 %	98,4 %	302,1	13,6 %	41,7
05 02 05 Sugar	576,0	453,5	78,7 %	94,4 %	543,7	-15,7 %	-90,3
05 02 06 Olive oil	48,0	45,1	93,9 %	98,2 %	47,2	-4,4 %	-2,1
05 02 07 Textile plants	21,0	16,5	78,7 %	66,1 %	13,9	12,5 %	2,6
05 02 08 Fruits and vegetables (estimation of 467 Mio EUR credits coming from revenue)***	728,0	1.037,6	142,5 %	97,3 %	708,3	45,2 %	329,3
05 02 09 Products of the wine-growing sector	1.412,0	1.096,1	77,6 %	95,4 %	1.347,6	-17,8 %	-251,6
05 02 10 Promotion	50,4	49,0	97,3 %	90,2 %	45,5	7,0 %	3,5
05 02 11 Other plant products/measures	372,0	343,8	92,4 %	95,5 %	355,3	-3,1 %	-11,5
05 02 12 Milk and milk products	167,0	142,4	85,3 %	95,9 %	160,2	-10,7 %	-17,8
05 02 13 Beef and veal	61,0	45,1	73,9 %	96,7 %	59,0	-22,8 %	-13,9
05 02 14 Sheepmeat and goatmeat	p.m.	0,0					
05 02 15 Pigeon, eggs and poultry, bee-keeping and other animal products	149,0	227,9	153,0 %	87,3 %	130,0	65,7 %	97,9
Total 05 02 Interventions in agricultural markets (excluding 05 02 16)	4.032,4	3.862,2	95,8 %	95,5 %	3.849,8	0,3 %	12,4
05 03 DIRECT AIDS							
05 03 01 Decoupled direct aids (estimation of 1470 Mio EUR credits coming from revenue)***	30.494,0	31.374,4	102,9 %	99,8 %	30.439,0	3,1 %	935,3
05 03 02 Other direct aids	5.775,0	5.602,2	97,0 %	99,7 %	5.758,1	-2,7 %	-155,9
05 03 03 Additional amounts of aid	563,0	532,9	94,6 %	99,1 %	558,0	-4,5 %	-25,2
Total 05 03 Direct aids	36.832,0	37.509,4	101,8 %	99,8 %	36.755,2	2,0 %	754,2
OTHER EXPENDITURE							
05 04 050401 Rural development financed by the EAGGF-Guarantee Section-Programming period 2000-2006	p.m.	-12,5					
05 07 05070106 Accounting clearance of previous years' accounts	-370,0	-33,6	9,1 %	95,8 %	-354,5	-86,7 %	320,8
(3) 05070107 Conformity clearance of previous years' accounts	p.m.	3,3					
Other lines (05070102 and 050702)	27,5	6,4	23,2 %	96,1 %	26,4	-72,9 %	-20,0
05 08 POLICY STRATEGY AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT POLICY AREA	31,5	19,5	62,0 %	94,2 %	29,6	-32,1 %	-10,1
11 02 (2) FISHERIES MARKETS	32,5	29,9	92,1 %	50,0 %	16,3	42,1 %	13,7
17 01 (1) (2) ADMINISTRATIVE EXPENDITURE OF 'HEALTH AND CONSUMER PROTECTION' POLICY AREA 17010401, 17010404 to 17010406	2,4	0,7	30,0 %	47,9 %	1,1	-17,9 %	-0,4
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	395,0	282,8	71,6 %	89,5 %	353,4	-17,9 %	-70,6
Total Expenditure (excluding 05 02 16)	41.006,5	41.671,4	101,6 %	99,2 %	40.682,5	2,4 %	988,9
Revenue							
6 7 0 1 Clearance of EAGF-accounts (estimation : 500 Mio EUR)	p.m.	984,6					
6 7 0 2 EAGF Irregularities (estimation : 80 Mio EUR)	p.m.	339,4					
6 7 0 3 Superlevy from milk producers (estimation : 219 Mio EUR)	p.m.	220,8					
Total Revenue (excluding 6 8)	p.m.	1.544,9					
Sugar Restructuring Fund							
05 02 16 Sugar Restructuring Fund (estimation of 1344 Mio EUR credits coming from revenue)***	p.m.	1.284,0					
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.	1.308,9					

(*) 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